

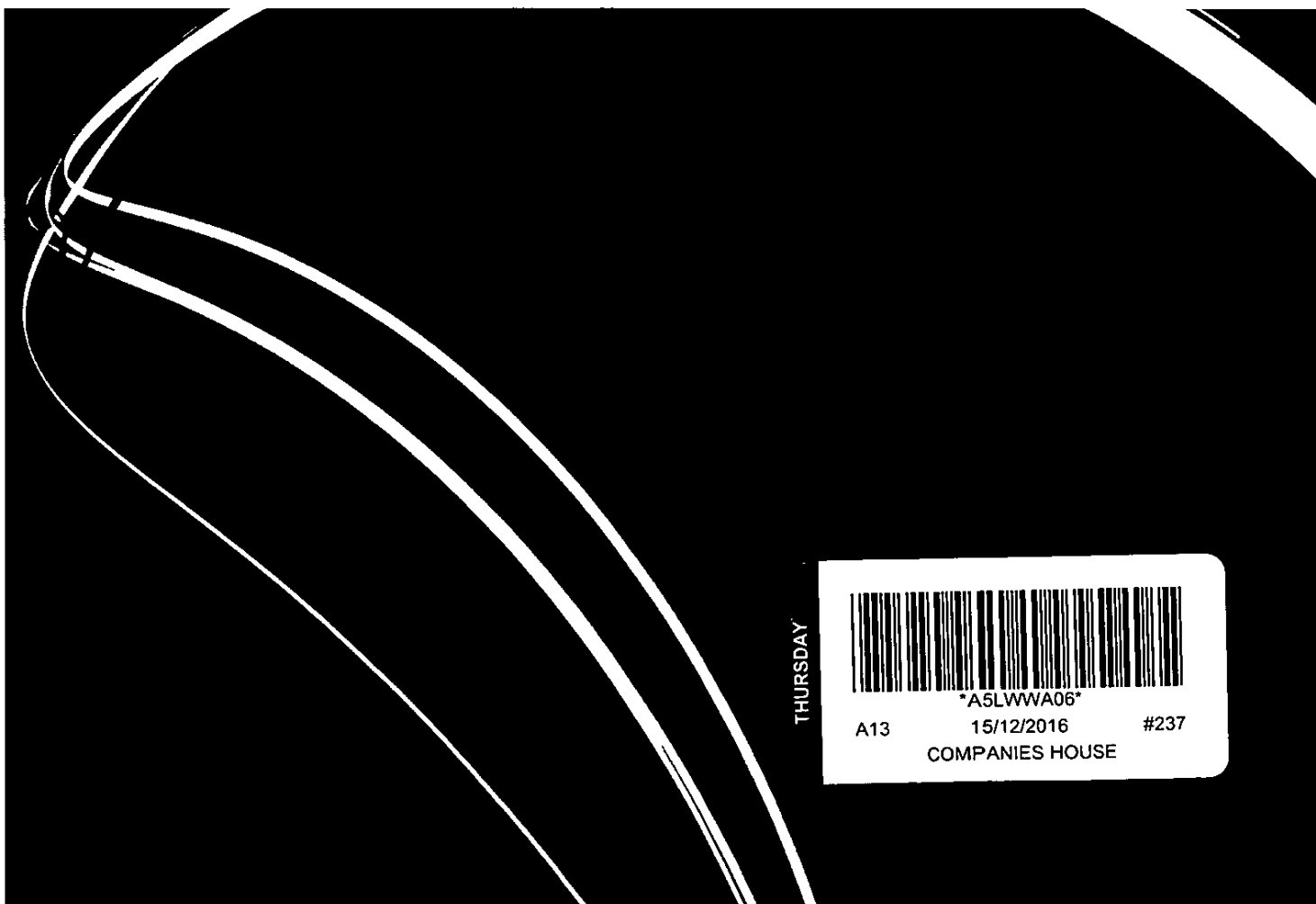
TO BE FILED WITH THE  
ACCOUNTS OF ITS SUBSIDIARY  
BRITISH BUSINESS FINANCE LTD  
COMPANY NUMBER 09091928



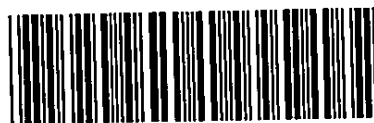
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# Annual Report and Accounts 2016

Enabling growth Driving momentum.



THURSDAY



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## Chairman's statement

### Chairman's statement From start-up to delivery

When first appointed Chairman of the British Business Bank in October 2013, I said that this was an idea of its time - with the potential to be a key catalyst in producing a more effective set of financing options for smaller businesses



**Ron Emerson**  
Chairman  
British Business Bank

As we file our second set of accounts it is clear that we are continuing to make significant progress along the road to fulfilling that aim

In 2015-16, it would be fair to say that we have gone from start-up phase to delivery. While the figures in this report largely speak for

themselves, it is worth reiterating the effort and thought that has gone into making that happen

This kind of success doesn't happen by accident - we've specifically set out to do this in a collaborative way holding two-way conversations with the market, businesses and stakeholders across the range of our work. A recent example of this is the revised version of the Business Finance Guide that we have launched which involved more than twenty partner organisations

The way we formulate our solutions - from our dynamic, iterative process to put in place the Northern Powerhouse Investment Fund to the open nature of our Help to Grow initial phase - helps us build fruitful partnerships that bring to bear our own expertise and money and that of our partners

We have done this by building a powerful and talented platform of people which has the capability to develop a wide range of innovative and relevant solutions. Increasingly we are recognised across government and our stakeholders as agents for change who get things done

But it's not just about commercial partnerships - our public sector partners include the Department for Communities and Local Government, UK Export Finance, the Local Enterprise Partnerships and HM Treasury - in addition to our home Department for Business, Energy and Industrial Strategy - as we work together to bring about real and lasting improvements in markets for smaller business finance



One thing that really shines through about our organisation is the shared sense of purpose and mission that runs through it.



With such success we are being approached to do still more – and while we have had to deal with the many challenges that an increased role brings, we can look back over the past year with a great deal of pride in what we have achieved.

## European Referendum Result

On 23 June the United Kingdom voted to leave the European Union. This generates some uncertainty for the Bank, as some of our programmes rely on EU funding or guarantees, but also creates opportunity for us to respond to the changing environment, building on the platform we have established. We are in close contact with our stakeholders and are monitoring market conditions to ensure that we respond as appropriate.

## People

I've said before that one thing that really shines through about our organisation is the shared sense of purpose and mission that runs

through it. This drive to improve and belief in what we are doing helps us to thrive as we deliver our expanded agenda.

We are taking on new staff to deliver these new priorities, and colleagues across the British Business Bank are being recognised, for example, the annual Fintech Innovation Award for alternative debt finance. In-house innovation award for our Legal team at the British Legal Awards and individual recognition for Shanika Amarasekera our General Counsel and Keith Morgan our Chief Executive.

## The Board

During the year, Maria Turner gave notification of her intention to resign from the Board as she moved to an overseas assignment. One of our non-executives, Teresa Graham, stepped in as the interim Chair of the Risk Committee, and we have recently welcomed Neelza Altar to the role on a permanent basis.

And finally, there will shortly be another change at Board level. Having been Chairman of the British Business

Bank since October 2013 and overseen its setup, I feel this is a good time for me to hand over the reins to a successor to take the business through to the next stage, which I will do in October. It has been a delight to work with Keith Morgan during this very busy and formative time, and the market can be confident that he will continue to develop the capabilities and effectiveness of the bank. I would also like to thank all of the staff for what has been a truly remarkable performance on their part in creating this powerful new platform to support the SME sector.



Ron Emerson  
Chairman

## Chief Executive's statement A year of growth and momentum

As highlighted in the Chairman's report, this year has been a story of being asked to do more, deliver more, and develop more to help scale-ups, as well as continuing to deliver for start-ups and stable and sustainably growing businesses.



Keith Morgan  
Chief Executive  
British Business Bank

During the year, we have developed new finance initiatives which both serve the needs of smaller businesses and support the Government's key priorities – including the new Northern Powerhouse and Midlands Engine Investment Funds and the Help to Grow programme.

Our balance sheet has shown substantial growth – confirming that we ourselves are a fast growing business in scale up mode.

Against our four Key Performance Indicators we have delivered in 2015-16:

- an increase of 45% in the total stock of finance offered through the Bank's programmes;
- increased support for diversity in the market by working overwhelmingly through smaller banks, non banks, alternative lenders and equity investors;
- better information on finance options contributing to an increased awareness of alternative finance options amongst SMEs;
- a 2.0% return on capital deployed exceeding the target set by Government.

The financial statements for British Business Bank plc show a net operating profit of £31.8m. Although we expect to make a positive return on our Enterprise Capital Funds, accounting standards require us to recognise up front provisions on new commitments in this programme.

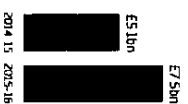
Our balance sheet has shown substantial growth – confirming that we ourselves are a fast-growing business in scale-up mode.

These provisions are unwound as funds are deployed over future years. These are not provisions for bad debts and are expected to unwind over future years.

We've always said that we will adapt to market conditions, flexing our offering to best serve the needs of the UK's smaller businesses. Our Small Business Finance Market report, published this February, indicated that business requirements were changing from working to growth capital. As a result, we dedicated more of our resources to asset finance and growth finance, including early stage venture capital. The report also illustrated that more needs to be done to build a diverse marketplace for finance, offering smaller companies more choice. Through our ENABLE programmes and British Business Bank investments we are now supporting challenger banks, a range of asset finance providers and a growing number of private debt funds, as well as fast growing marketplace lenders.



### 1 Increase the supply of finance



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



### 3 Promote better information in the market



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



Stock of finance

Percentage through non Big Four banks

Awareness of different forms of finance

Return on capital deployed

But larger lenders are important partners also – Lloyds Banking Group has recently led the way on our Help to Grow offering by becoming the first partner under the programme – and we continue to work with the larger banks in providing much needed debt to companies with less collateral or a short track record through the Enterprise Finance Guarantee programme. Recommendations from the programme's recent review will enable us to make it more widely accessible, benefiting smaller businesses, our partners and the wider economy.

Alongside our activities on the supply side, we have been closely involved in delivering measures to increase smaller business demand for and confidence in a wider variety of finance options. In 2015-16, we advised HM Treasury on the designation of new finance platforms that will accept referrals of smaller businesses that have been declined facilities by their bank. The first three platforms were announced at Budget 2016 – a world first for an initiative of this sort. In addition, we provided advice to HM Treasury on the designation of

credit reference agencies that will use increased information from banks to make credit score data more widely available to a broader range of lenders.

We were also pleased to recently update our popular Business Finance Guide, which we publish jointly with ICAEW's Corporate Finance Faculty, with a new digital presence at [thebusinessfinanceguide.co.uk](http://thebusinessfinanceguide.co.uk). The guide is already accessible to more than a million smaller businesses helping them understand and access the type of finance they need.

2015-16 has been a year of growth and momentum. As we enter a period of increased uncertainty following the EU referendum, we will redouble our efforts to support key segments of the small business finance market, helping the UK's smaller businesses realise their potential.

Keith Morgan  
Chief Executive

# Strategic report

The British Business Bank is a national economic development bank with a remit to design, deliver and efficiently manage UK-wide smaller business access to finance programmes for the UK government. Established in November 2014, it is an operationally-independent, wholly government-owned plc.

## Our mission and objectives

The British Business Bank's mission is to make finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.



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



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



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



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

### State of the market

The British Business Bank aims to improve finance markets for smaller businesses.<sup>1</sup> We provide policy advice direct to ministers on access to finance interventions, drawing on our market insight and analysis and leverage our proximity to the market. We work collaboratively across government, to ensure their interventions for smaller businesses are rapid, relevant and effective.

Government funded access to finance programmes are required because finance markets for smaller businesses do not work as well as they should.

This is primarily due to problems with getting the right information to the right decision maker quickly and cost-effectively. As a result, businesses underinvest for lack of

finance, meaning UK economic activity is held back and businesses growth ambitions are not fulfilled based on our market analysis. The British Business Bank intervenes at key points, unblocking finance for viable smaller businesses to support their growth and that of the UK economy. We monitor the development of markets closely responding to changing market conditions and refocus our interventions where they are most appropriate.

### We currently support over

# £3.1bn

of finance to SMEs

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

Access to finance was an acute

problem for smaller UK businesses following the most recent financial crisis and recession, but is now finally improving as credit conditions have eased. Flows of finance to smaller businesses increased over the last year as the UK economy expanded. Net bank lending has now increased for six consecutive quarters, asset finance has continued to grow strongly and equity finance also grew healthily overall in 2015 – although it did show signs of slowing towards the second half of the financial year.

### We participate in a further

# £4.4bn

of finance to small mid-cap businesses

Our 2015 Small Business Finance Markets Report found, however, that structural problems and localised market weaknesses remain. Some viable smaller businesses applying for finance are still rejected – particularly start-ups seeking new loans and ambitious high growth potential scale-ups. Liquidity has returned to the finance markets serving small mid-cap businesses leading to a decreased focus on the segment. Regional patterns are also uneven – despite greater availability of finance nationally – with both debt and equity less easily accessible for smaller businesses in regions outside of London and the South East. In response to our market analysis we continue to develop new programmes – particularly in growth innovation and the regions.

Over

# 48,000

small businesses supported

Another important feature of UK smaller business finance markets is that the four largest UK banks have a combined market share of around 80% for general purpose business loans. The Competition and Markets Authority is conducting a retail banking market investigation to explore further how this market concentration impacts on choice of finance for businesses.

Our research indicates that over half of UK smaller businesses still go only to their own bank and do not shop around for finance. This may be because UK smaller businesses have limited awareness and understanding of their options, or are unwilling to try some of the better-publicised alternatives such as peer to peer lending, that have seen rapid growth in recent years. We are beginning to see impact from some of our measures to address these issues, but much more can be done.

Looking ahead to the coming financial year, while conditions have improved for smaller businesses since the depth of the financial crisis, headwinds are gathering strength. The current UK economic expansion is vulnerable to global slowdown and any shocks to confidence following the result of the EU referendum. We are closely monitoring the situation and will consider taking required action to address any immediate access to finance issues.

## Our business model – how we are set up

We take a targeted approach to making finance markets work better for smaller businesses in the UK, based on our in-depth knowledge of the market.

Firstly, we acknowledge that the UK has a highly developed financial market that already distributes deep pools of private capital. We therefore don't seek to replicate or compete with the private sector, but rather work through existing private sector channels. We don't deal directly with smaller businesses but only indirectly through our partners, meaning we can be a nimble lean but effective organisation with a modest cost base. Each pound of public money we commit unlocks several pounds of finance into the market, and we measure this through our first key performance indicator.

Secondly, we only intervene or continue to intervene, where we can identify a failure in the market that we can measure in scope and size, understand its root cause and robustly assess how well we improve it. As a result, our programmes are subject to eligibility criteria aimed at making sure that only those smaller businesses that really need help get it, and that our programmes are compliant with State aid laws. We maintain a rigorous programme of evidence-based evaluations so our interventions remain as relevant and efficient as possible. We then use this data and latest market conditions to re-allocate our capital to where we can have the biggest impact.

Thirdly, we aim to deliver solutions that are effective both commercially and from a policy point of view. To achieve this, we employ a mix of staff with experience in both the public and the private sector. We also operate through three different legal entities each of which has a different focus – some more returns-driven and some more policy driven. We measure our success in balancing our activities

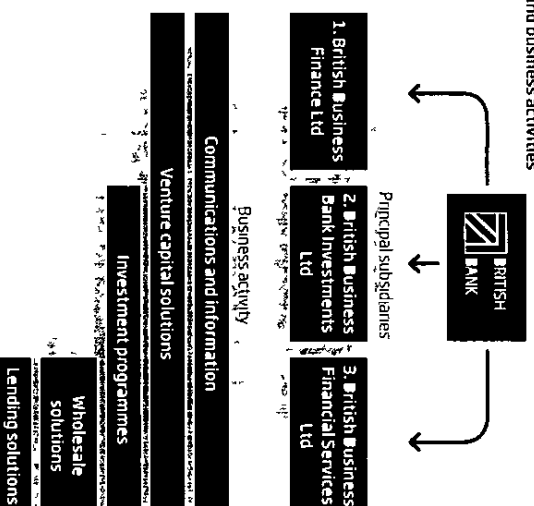
across all three in a way that still achieves a target positive return measured through our fourth key performance indicator: our financial return to the taxpayer. This is deliberately in tension with our more purely policy driven and second and third performance indicators (increasing diversity of choice and awareness of options amongst smaller businesses) and ensures that we constantly seek balance.

We have a commercial arm (British Business Bank Investment Programme), which pursues both policy goals and a market rate of return. Its profits support both the operational costs of the entire Bank and any losses from the Bank's mandated arm (British Business Finance Ltd), which pursues policy goals through delivery of State Aid. We also have a service arm (British Business Financial Services Ltd)

which undertakes policy-driven and service driven activities or government (on a pass-through cost basis) that can at times be loss making. The service arm can work directly with the government's balance sheet as well as purely rendering services.

Finally, we seek to help smaller businesses in the right way and therefore always with a strong set of public service values. We are ultimately funded by HM Government (HMCo) and we operate off both our own balance sheet (which is ultimately consolidated with HMCo) and HMCo's balance sheet as a service provider. This gives us the dual advantages of both the UK's sovereign credit rating and its cost of long term capital. Alongside, we are also obliged to serve the policy goals of HM Government whilst responsibly exercising the rights of our operational independence to find the most efficient ways to deliver policy objectives.

### The British Business Bank plc, principal subsidiaries and business activities



## Performance review

### What we did to achieve our goals in the last year

In 2015-16, against our four Key Performance Indicators we have delivered

- an increase of 45% in the total stock of finance offered through the Bank's programmes
- increased support for diversity in the market by working overwhelmingly through smaller banks, non-banks, alternative lenders and equity investors
- better information on finance options, contributing to an increased awareness of alternative finance options amongst SMEs
- a 2.0% return on capital, exceeding the target set by Government



## £64m

Total value of the 9,170 Start Up Loans drawn in 2015-16 making a total of over 37,000 loans worth over £210m drawn since the programme began

## £527m

Total commitments made across all our programmes in 2015-16



## £255m

Value of our Enterprise Finance Guarantee enabled loans offered in 2015-16

## 90 partners

Total number of British Business Bank's partners now delivering our programmes, having taken on nine new partners in 2015-16

## Our highlights 2015-16



**£85m**

Amount of new investment capacity enabled by our Enterprise Capital Funds programme we announced in 2015-16, bringing its total investment capacity to over £650m



**£151m**

Total finance our ENABLE Funding facilities supported in 2015-16 a £100m facility for Hitachi Capital and a £51m facility for LDF



Over

**48,000**

Small businesses supported

**£150m**

Total funding enabled by the Angel Co-Fund since it began which supports a portfolio of over 65 high growth businesses

We participate in a further

**£4.4bn**

of finance to small mid-cap businesses



We currently support over

**£3.1bn**

of finance to SMEs

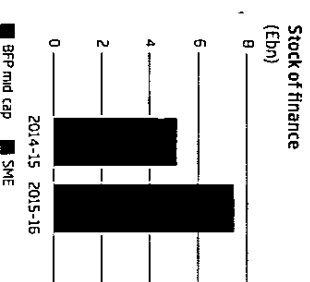
**£185m**

Total commitments made through our commercial arm's Investment Programme in 2015-16 making a total of £413m since it began

## Objective

# 1. Increase supply of finance in the UK

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



Under its first Key Performance Indicator (KPI) the British Business Bank measures itself on the total stock of finance offered by its programmes. This is a combination of funds that we have directly deployed as well as private funds which our participation has unlocked

Within a given year, the Bank will influence this metric by working to commit funding through its programmes. Once the funding is committed our partners will then typically take some time (between one and 10 years) to draw the funding down as they invest in it with smaller businesses. The combined funds become added to the stock of finance. When a borrower repays a loan or an investment is monetised then funds can be returned to the Bank and other investors and will be taken out of the stock of finance measure. Therefore, the net stock figure is subject to several countervailing factors

In order to increase supply we have built up a wide range of delivery partners who can get that finance to the market (see KPI 2 for diversity of supply). Over the past year we have made commitments of £527m

The Bank's total stock of finance grew 45% from £5.1bn to £7.5bn from March 2015 to April 2016. We did this by committing 75% more in 2015-16 as in the previous year. The increase was achieved against a backdrop of improving commercial conditions that resulted in accelerated repayments in our large Business Finance Partnership portfolios combined with lower than expected drawdowns

Much of the increase came from our ENABLE programmes, which added a £100m lease finance facility with Hitachi Capital and a £51m facility for LDF under the ENABLE Funding programme following a £125m guarantee facility for Clydesdale and Yorkshire Banks towards the end of 2014-15. These deals also strongly support our diversity agenda as represented by our second KPI



Bill Dyson Skip hire received finance from Business Enterprise Fund (WGSN Yorks and the NE), a British Business Bank partner

### Start-Up Loans - enabling the successful businesses of the future

The Start-Up Loans programme delivered through the Start-Up Loans Company aims to increase the rate of business creation and to promote entrepreneurship in the UK, with a target of delivering 75 000 Start-Up Loans by 2020.

Entrepreneurs with a business idea can apply for a Start-Up Loan of up to £25 000 and they also get help and mentoring along the way.

During 2015-16, 9 170 new Start-Up Loans were drawn for over £64m, making a total of 37 077 loans worth over £210m since the programme began.

The British Business Bank advises on the programme's design and funding and oversees its delivery. This year we published a first year evaluation confirming that the programme is meeting its objectives.



Kokoi baby received funding from Start-Up Loans, supported by the British Business Bank.

### Lending Solutions

#### Enterprise Finance Guarantee

The British Business Bank's Enterprise Finance Guarantee (EFG) improves the availability of working capital and investment funding for smaller businesses. It encourages lending institutions including banks to lend to viable smaller businesses that would otherwise be declined for lacking adequate security or a proven track record.

In 2015-16 EFG volumes declined compared to previous years, as demand led programme largely dictated by economic conditions but despite this the current value of loans offered (£235m in 2015-16) demonstrates there is still a need for the programme to correct a structural problem in the market.

We have been reviewing the operation of EFG and are taking forward a number of enhancements to the programme.

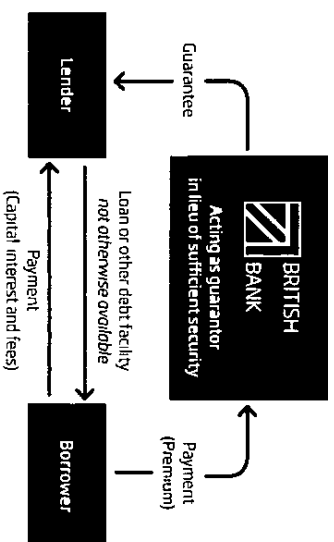
#### Enterprise Finance Guarantee review

In 2015/16 the Board conducted a strategic and operational design review of EFG, covering the effectiveness of the programme and its impact on the UK small business landscape.

The review found that EFG continues to meet a need in the market for smaller business finance and is broadly effective as currently configured.

Following the review's recommendations we will be exploring an asset finance variant, re-opening the programme's lender accreditation process to increase the number and diversity of participating lenders and enhancing our engagement with the advisor community to raise awareness of EFG amongst smaller businesses.

#### How the Enterprise Finance Guarantee enables additional lending



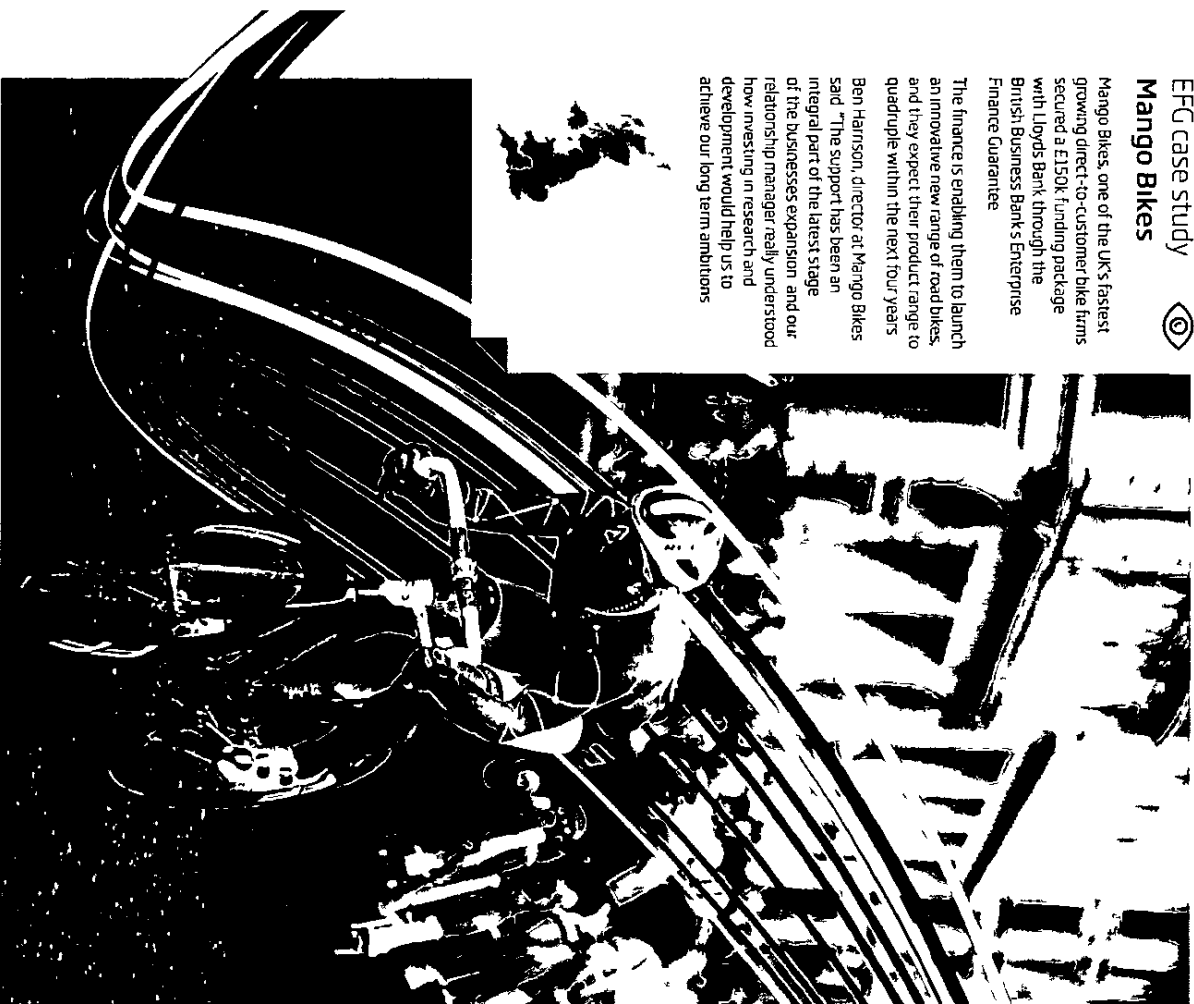
### EFG case study Mango Bikes



Mango Bikes, one of the UK's fastest growing direct-to-customer bike firms secured a £150k funding package with Lloyds Bank through the British Business Bank's Enterprise Finance Guarantee.

The finance is enabling them to launch an innovative new range of road bikes, and they expect their product range to quadruple within the next four years.

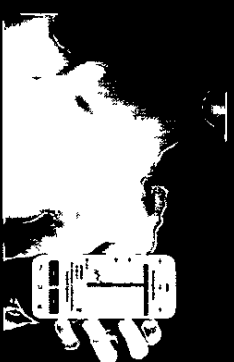
Ben Harrison, director at Mango Bikes said "The support has been an integral part of the latest stage of the businesses expansion and our relationship manager really understood how investing in research and development would help us to achieve our long term ambitions."







## An Angel CoFund case study Fertility Focus



Fertility Focus is a consumer healthcare start-up with groundbreaking women's health products and is currently concentrating on diagnosis and monitoring treatment for the 30% of women who experience ovulatory issues.

When it needed finance to bring its OvuSense product to market and create initial rapid sales growth, they approached the Angel CoFund for funding to match incoming angel investment.

The Angel CoFund was involved in two rounds totalling £2.1m, of which it contributed £700k - including a convertible loan of £185k.

Rob Milnes, CEO of Fertility Focus said:

"The funding provided essential capital for a critical phase of intellectual property and product development, regulatory approvals and initial sales growth."

"Without it, our rounds would have had significantly less momentum and the company would have really struggled to achieve what it has over the past three years."



▲▲ The Angel CoFund's continuing strong performance places it comfortably at the upper end of the range when benchmarked against European Venture Capital for both early stage and later stage funds.

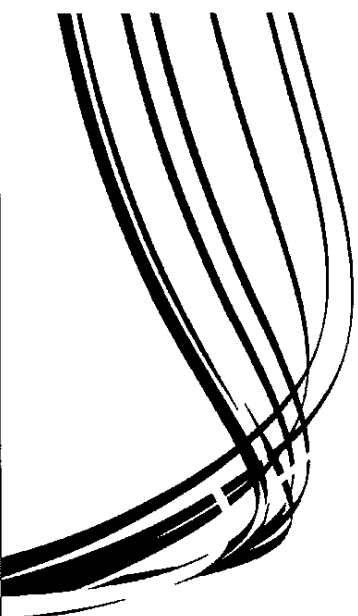
### Venture Capital

On the equity side our Enterprise Capital Funds (ECF) programme committed to two new funds over the year - a £17.5m commitment to the Passion Capital II Fund and a £24m investment into the £40m Edge Creative Enterprise Fund. The ECF programme now has an overall investment capacity of over £650m. We have also continued to invest through the VC Catalyst Fund with around £68m now committed to eight funds. We committed £36m to four funds through the commercial arm during 2015-16 - Notion Capital III, Nautia Capital IV, Atlantic Bridge and Panoramic II.

The British Business Bank-backed Angel CoFund improves the availability of equity investment capital supporting high growth smaller businesses. It works alongside syndicates of private individual investors, business angels and other investors to ensure high potential businesses can efficiently secure funding to drive their growth.

Focused primarily on highly innovative and export orientated early stage businesses, it acts as a catalyst to better practice and increased long term capital in the UK angel market, and as a stepping stone into wider and later-stage venture capital (which is supported by our ECFs and VC Catalyst Fund).

The Angel CoFund's continuing strong performance places it comfortably at the upper end of the range when benchmarked against European Venture Capital for both early stage and later stage funds. In 2015-16 the Angel CoFund took its high growth business portfolio to above 60 with £150m of funding enabled. It secured a partial realisation from one investment during the period, recycling the profits for further investment.





## Enterprise Capital Funds case study

### Heck Foods

Heck Foods, a family-run premium sausage maker, was founded by Yorkshire farmer Andrew and Debbie Keeble in 2012. Heck's brands are sold throughout in UK supermarkets and via their own website.

When Heck needed finance to help them raise their consumer brand awareness, Panopticon Growth Equity – supported by the British Business Bank's ECF programme – invested £1m of equity growth capital.

Andrew Keeble, founder and MD said:

"Securing the funding through the British Business Bank's Enterprise Capital Funds programme has given our business the boost it needed to take us to the next level. We have increased our profits and are able to focus on building a business of some scale."



**Wholesale Solutions – how the British Business Bank's ENABLE Guarantee programme helped Clydesdale Bank launch a new tech start-up investment arm**

Our ENABLE Guarantee programme encourages participating banks to lend more to smaller businesses by reducing the capital they need to hold to support such lending.

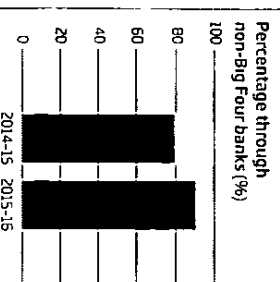
The programme helped Clydesdale set up their new Emerging Capital Funds programme 'Entrepreneur Technology Unit' (ETU) in 2015-16. This focuses on established, fast-growing technology startups providing them with £500k-£1m in debt finance.

A portion of the £125m transaction is expected to go to this or other products and industry segments. Clydesdale and Yorkshire haven't previously covered such as cash flow lending specifically for SMEs automotive tooling finance and introducing a new renewables finance offering.

## Objective

# 2. Increase diversity of SME finance in the UK

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



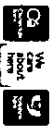
Against its second Key Performance Indicator, the British Business Bank measures itself on the value of its activity which is channelled through finance providers other than the Big Four banks – Barclays, Lloyds Banking Group, HSBC and RBS.

Our objective is to increase the choice of finance for smaller UK businesses – both in terms of supplier and finance type. Our aim is to ensure that more

than 75% of our stock is delivered through providers outside the Big Four banks.

For most new and existing programmes we work exclusively with non-Big Four delivery partners such as challenger banks, asset finance providers, peer-to-peer and other technology based providers. Debts funds and other non-bank finance companies. Enterprise

## Promoting diversity – our support for challenger banks

Enterprise Finance Guarantee	ENABLE Guarantee	Investment Programme
Guarantees for SMEs lacking collateral or a track record'	Reduces capital banks have to hold against SME lending	Invests through new providers of finance
15 accredited challenger banks	 350 SMEs supported	SHAWBROOK 3
600 SMEs supported	350 SMEs supported	£30m transaction
££70m of finance	££125m transaction	££160m of lending supported

## Supporting diversity – our support for Fintech businesses

## Angel Co-Fund

Matching equity investment from business angels\*

**JD** justinvesting

**Ebury**

**ezbob**

**£3m** invested in the businesses

## Venture Capital Solutions

Encourages investments in the early stage VC market

**12** Fintech businesses supported

**£20m**

Over £20m invested

## Investment Programme

Invests through new providers of finance\*

**Rate/Setter**

**Liberts**

**marketinvoice**

**URICA**

**£2** Funding Circle

**£330m**

finance to 7 500 SMEs

## Importance of building partnerships

In 2015-16 we took on nine new partnerships across the business - three in Venture Capital and six through our commercial arms' Investment Programme. One of our main ways of increasing diversity is to support new entrants and increase the capacity of existing lenders across the scope of the finance markets

- Across the bank and its subsidiaries in 2015-16 we partnered with challenger banks including Clydesdale and Yorkshire as part of our ENABLE Guarantee Programme and participated in Shawbrook's tier two debt issuance

- We also supported debt funds - a type of finance well established in the USA but relatively new to the UK marketplace

- We supported asset finance providers through our programmes (ENABLE Funding and the Investment Programme) and are looking at introducing an asset finance variant for Enterprise Finance Guarantee

## Introducing and supporting new types of finance

We also supported some types of finance that are less well established as options in the UK finance markets in 2015-16, including merchant cash advances and private debt. We also increased our commitment to supporting asset finance provision

## ENABLE Funding - two new partners, £151m of funding agreed in 2015-16

In October 2015, we agreed to provide a £100m facility to Hilaich Capital UK to fund a portfolio of newly originated small business asset finance receivables. LDF, a non-bank finance provider, became the second partner under the programme in February 2016

These were the first two transactions of our innovative ENABLE Funding programme, which aims to increase significantly the supply of leasing and asset finance to smaller businesses in the UK

## New equity finance delivery partner case study – a creative solution

In November, we announced that we were committing £24m from our Enterprise Capital Funds programme to the new Edge Creative Enterprise Fund

Edge Investments, a leading creative industries investor, raised a £40m fund to invest in high growth companies in the creative industries. The fund also bringing together private sector funding from leading institutions and high net worth individuals' nurtures and assists creative businesses to grow

The creative and cultural economy is an important and growing part of the global economy and Britain's creative industries sector is thriving. The creative economy accounts for approximately 10% of the entire UK economy and provides 2.55 million jobs with jobs growth four times faster than the economy as a whole

**90**

Total number of British Business Bank partners now delivering our programmes having taken on nine new partners in 2015-16

## Geographical diversity

It's very important to us that businesses located outside London and the South East can access the finance they need to fulfil their growth ambitions. It is concerning for example that regions outside of London received only 5.3% of equity deals in the UK in 2015 despite being home to 79% of the country's high growth businesses

Diversifying the geographical spread of finance and addressing this weakness is therefore important to support these businesses. In 2015-16 the British Business Bank announced

two major initiatives to support this aim. Firstly at Autumn Statement 2015, an agreement was announced between the British Business Bank and Local Enterprise Partnerships in the North West, Yorkshire and the Humber, and Tees Valley to create a Northern Powerhouse Investment Fund of over £400m, subject to meeting European funding requirements

**Northern Powerhouse Investment Fund**



The Fund will produce greater levels of investment, increase the focus on the potential opportunities across the Northern Powerhouse Region and provide increased flexibility in the type of funding provided. Together, these will contribute to better economic outcomes for the regions' businesses growth and jobs

Secondly a new £250m Midlands Engine Investment Fund – again a collaboration between British Business Bank and the region's Local Enterprise Partnerships was announced at Budget 2016 – will further contribute to efforts to rebalance the UK economy across the regions

Focused on the Midlands' 460,000 smaller businesses, this initiative will bring together legacy funding from existing programmes, funding from the British Business Bank and new European funding

Following the results of the EU referendum we are seeking to confirm European commitments but are currently working on the basis that both of these proceed

## British Business Bank Investments Ltd - championing diversity in finance provision

Our commercial subsidiary plays a key role in increasing diversity of lenders and types of finance. It makes loans or investments of between £5m and £200m in finance providers to smaller businesses

In 2015-16, it made commitments totalling £185m through its Investment Programme

These included investments in a challenger bank (Shawbrook), a merchant cash advance provider (Liberts), private debt funds (Cordet, Muznich Beechbrook), and an asset finance provider (Haydock)

Its VC Catalysts Fund committed £36m to four funds during 2015-16 – Motion Capital III, Nautica Capital IV, Atlantic Bridge and Panoamic II

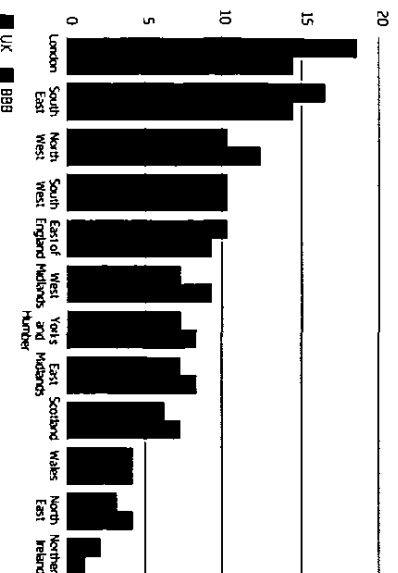
**Midlands Engine Investment Fund**



Going forward, we expect Help to Grow and some variations of ENABLE to be distributed in part through the Big Four banks, in order to rapidly reach nationwide availability

However, we anticipate that the majority of our interventions will remain with challengers and alternative providers given that all other prospective and existing programmes work through smaller debt and equity finance providers

Geographic diversity by number of companies (%)



## Investment Programme case study



Lumenata Lighting Design provides lighting design and installations for both commercial and domestic applications.

When its bank withdrew its funding, British Business Bank partner Ultimate Finance Group saved the company from redundancies or possible closure by quickly providing a new factoring facility of £100,000. This enabled Lumenata Lighting Design to win a number of major contracts, leading to the dramatic increase in turnover.

Director of Lumenata Lighting Design, Paul Hinde said:



"Ultimate Finance quickly understood the business, saw the potential for growth and had no hesitation in coming to my assistance by quickly providing the new facility which saved us."

The company is now expecting to increase turnover from £240,000 to more than £600,000 in 12 months leading to the creation of new jobs.



## Muzinich & Co's new debt fund - based in the North-West developing private debt funding across the UK

In January British Business Bank Investments Ltd our commercial arm, invested £30m in Muzinich's new £350m private debt fund as part of our commitment to develop new and diverse sources of debt finance for smaller and medium-sized UK businesses.

Muzinich & Co expanded into the North West of England with the opening of a Manchester office whose primary purpose is to offer growth capital to mid-sized companies located in the heart of the UK's Northern Powerhouse.

Muzinich Chief Executive and Chairman George Muzinich said:

"Many of the businesses that drive the UK economy lie far beyond the M25. We opened an office in Manchester with a particular remit to establish a private debt fund backed by pension funds and other institutions that reached beyond the South East. The involvement of British Business Bank Investments Ltd at a very early stage in the process made a significant contribution in our success."



# £30m

British Business Bank Investments Ltd our commercial arm, invested £30m in Muzinich's new £350m private debt fund

## 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. This means they are more likely to invest, knowing that they have the right kind of finance for what they need.

Awareness of different forms of finance (%)



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

Efforts to increase finance and diversify sources are one part of the Bank's activity to improve finance markets for smaller businesses. The Bank is keenly aware that to function efficiently markets require good levels of information to allow participants to make informed choices.

The Bank has therefore measured the awareness of different finance options by SMEs through our annual survey where we looked at the average awareness for six different finance products. This was 48% in our November 2015 survey, mirroring other evidence that awareness and use of providers other than their main bank amongst smaller businesses is low.

We know from our research that around 60% of SMEs only contact one provider when looking for finance – generally their own bank – and around a third of these will cancel their plans if they receive a no. We need to make sure that as many businesses as possible become not only aware of, but confident in the wide choice of supplier and finance options available to them.



To increase awareness of finance options for smaller business, we jointly published a Business Finance Guide with ICAEW's Corporate Finance Faculty, with contributions from a further 17 partner organisations representing the finance and business sectors. The guide was updated in August 2015. For the new edition and digital version being published in early summer 2016, we have been working with four additional partners to provide additional input and reach, leveraging our convening capability to bring together an unprecedented spread of organisations for a venture of this nature.

We have maintained distribution of the Business Finance Guide through events, conferences, direct email marketing, media coverage and by engaging with partners – both the signatories to the guide and other channels to smaller businesses.

The digital version enhances the offering, featuring videos about finance choices and making the information more easily accessible. It will also provide an easy filter whereby users will be able to use a simple engine to hone in on the most suitable type of finance for their business stage and future plans.

The Start Up Loans programme helps applicants with writing their business plans, and once the recipient has drawn down their loan, they are offered one year of mentoring to help their business succeed.

### Researching our markets

Our unique position enables us to work with a range of partners to gather better information about the market. Our flagship publication the annual Small Business Finance Markets report 2015–16, highlighted the fundamental importance of start-ups and scale-ups to the UK economy, showing the continued growth in those markets and drawing out the implications for the future direction of our activities.

Our other reports provide more detailed analysis. For example, the Small Business Equity Tracker analysed the continued growth in volume of equity finance, but also drew attention to regional imbalances, with London-based small businesses receiving the largest share of equity finance.

We work with a range of research partners, including this year Goldman Sachs and the Enterprise Research Centre on Unlocking Productivity Internationalisation and Innovation in SMEs, which highlighted the important role that SMEs can play in closing the UK's productivity gap.

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.

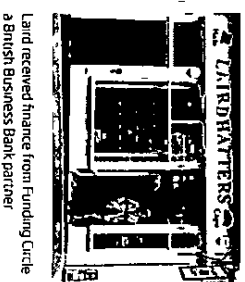
We take regular opportunities to present at conferences and seminars ensuring that our understanding of small business finance is communicated to finance providers, small businesses and the research community.

### Improving finance markets

To help overcome information asymmetries faced by smaller lenders, we have advised HM Treasury on the designation of Credit Reference Agencies (CRAs) which can share SME credit data for the benefit of a wide range of banks and lenders. HM Treasury announced the three designated CRAs at Autumn Statement and the system went live in April 2016.

We have also advised HM Treasury on the designation of Finance Platforms to refer SMEs who get rejected by the larger banks. The finance platforms seek to match alternative sources of finance from a broader range of lender partners, including this year Goldman Sachs and the Enterprise Research Centre on Unlocking Productivity Internationalisation and Innovation in SMEs, which highlighted the important role that SMEs can play in closing the UK's productivity gap.

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.

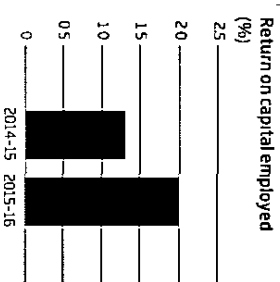


Laird received finance from Funding Circle, a British Business Bank partner.

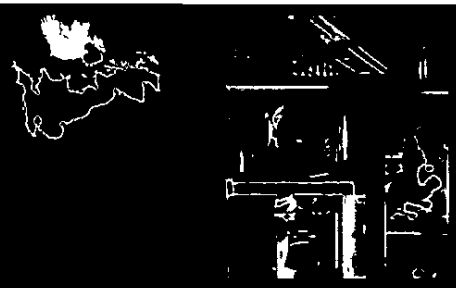
## Objective

# 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 outcomes with the least amount of Government resources.



## Enterprise Capital Funds case study



In November 2015, Mimecast, one of the businesses supported by funding through the British Business Bank's Enterprise Capital Funds programme, listed on NASDAQ.

The company received £3m funding from British Business Bank partner, Dawn Capital in 2008 – a difficult time for the economy during which such early-stage investment was hard to come by. Their investment helped them to expand internationally, most importantly in the US, to develop the core platform further and to add a number of new products.

At listing, Mimecast's 7.75 million share IPO was priced at \$10, making the company's total share value \$540m.

## Summary of finance performance and position

Financial performance  
For the period ended 31 March 2016

	British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total £m
<b>Investment income</b>			
Investment Programmes	31.0	1.3	32.3
Lending Solutions	-	15.6	15.6
Venture Capital Solutions	8.4	-	8.4
Wholesale Solutions	-	0.7	0.7
Management fee income	39.5	17.6	57.1
	11.6	(10.7)	0.9
<b>Total operating income</b>	<b>51.1</b>	<b>6.9</b>	<b>58.0</b>
<b>Net investment costs</b>			
Investment Programmes	1.5	-	1.5
Lending Solutions	-	(5.0)	(5.0)
Venture Capital Solutions	(1.0)	-	(1.0)
Wholesale Solutions	-	-	0.0
	0.5	(5.0)	(4.5)
<b>Other operating costs</b>			
Staff Costs	-	-	(12.2)
Other operating expenditure	(12.2)	-	(12.2)
Depreciation and amortisation	(7.2)	-	(7.2)
	(0.3)	-	(0.3)
<b>Total operating expenditure</b>	<b>(19.7)</b>	<b>0.0</b>	<b>(19.7)</b>
<b>Net operating profit</b>	<b>31.8</b>	<b>2.0</b>	<b>33.8</b>
Add ECF fair value derivative gains	6.6	-	6.6
Less Impairment of ECF investment assets	(32.6)	-	(32.6)
Add back impairment on new ECF drawdowns	10.2	-	10.2
<b>Adjusted return</b>	<b>16.0</b>	<b>2.0</b>	<b>18.0</b>
Average capital employed	-	-	910.6
Adjusted return on average capital employed	-	-	2.0%



# 2.0%

The British Business Bank  
achieved a 2.0% return on capital



Financial position  
As at 31 March 2016

	British Business Bank plc	Programmes managed on behalf of BEIS (unaudited)	Total
<b>Investment assets</b>			
Investment Programmes	702.0	-	702.0
Lending Solutions	-	45.0	45.0
Venture Capital Solutions	165.6	175.8	341.4
Enable Funding	-	93.2	93.2
	867.6	314.0	1,181.6
<b>Investment liabilities</b>			
Lending Solutions	-	(59.9)	(59.9)
Venture Capital Solutions	(108.2)	-	(108.2)
	(108.2)	(59.9)	(168.1)
<b>Net investment assets</b>	<b>759.4</b>	<b>254.0</b>	<b>1,013.5</b>
<b>Other assets liabilities</b>			
Cash	58.4	-	58.4
Tangible and intangible assets	0.5	-	0.5
Net other payables	(6.1)	-	(6.1)
	52.8	-	52.8
<b>Total net assets</b>	<b>812.2</b>	<b>254.0</b>	<b>1,066.2</b>

The Bank manages a number of programmes on behalf of BEIS our Shareholder. These include UK Innovation Investment Fund, Angel Co-fund, Start-up Loans, ENABLE funding and EFG. We also administer the assets and liabilities included on BEIS balance sheet relating to these programmes and their performance is taken into account in our performance measures.

## Overall results for British Business Bank plc group 2015–16

- The Bank generated a net operating profit of £31.8m
- The value of our investments increased by £20.9m
- We made new commitments of £52.7m
- Net assets increased by £16.4m to £812m

## 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
- Our net operating profit was mainly driven by £31.8m of income from the investment programme, cost control over our operating costs and the management fees earned from a number of our products including the assets we manage on behalf of BEIS

Although the Bank generated net operating profit of £31.8m, it made an overall loss of £9.3m before tax. This is as a result of the required accounting treatment for Enterprise Capital Funds (ECF).

ECFs are funds that combine public and private money to make investments in businesses. The British Business Bank accepts a lower return from ECF in order to encourage private sector investment in SMEs. The Bank takes a prioritised return which is due regardless of performance and in return the private investor receives a bigger share of any upside returns.

This means that although the Bank expects ECFs to make a positive return to us, the return is less than typically sought by a private investor and this difference in return is recognised as an impairment. The impairment then reverses over the life of the ECF. The Bank has therefore recognised a provision totalling £37m in the year ended 31 March 2016. This provision doesn't relate to an underlying loss on our investments and is therefore excluded from the calculation of adjusted national return on equity (as is the reversal over time of the associated impairment).

## Funding

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

To fund our capital investments we issue shares to our shareholder and utilise available cash from our operations, including asset repayments. At 31 March 2016 UK Government held shares totalling £838m in British Business Bank plc comprising the entire share capital of the Company.

Our operating costs are funded through investment income plus a management fee that BEIS pays us for managing assets on their behalf (£10.7m in 2015-16).

At 31 March 2016 British Business Bank plc held £58.4m in cash 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 (£55.8m) 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 financial instruments through private sector partners to enable us to achieve our objective of providing greater volume and choice of finance to SMEs and small mid-caps.

This is reflected in the split of these investments:

- loans and receivables £72.9m
- held to maturity assets £31.1m
- available for sale assets £729.7m
- assets designated at fair value through the profit and loss £15m
- derivative financial instruments £18.9m

For many investments we make commitments to a fund and the fund draws down cash as it is needed. This means there is generally a delay between our investment commitment and capital being drawn.

During the period to 31 March 2016 we invested £288m in assets included on our balance sheet. This included the acquisition of £36m of peer to peer investments from BEIS plus additional investment of £25m from the Bank, £30m in Shawbrook (a specialist Challenger Bank), £11m in the existing mid-cap portfolio, £30m in the Investment Programme and £35m in ECFs. As at 31 March 2016 British Business Bank plc had further undrawn commitments of £800m to be invested across its portfolio.



Midway received finance from BSB, Business Finance (Central Scotland), a British Business Bank partner

# Strategic risks

Issues that could prevent us from successfully delivering our future plans

Our future plans represent an ambitious growth agenda for the British Business Bank

Over the course of 2016-17 we will increase the amount of finance that we facilitate for smaller businesses while still delivering policy objectives for our Shareholder in an efficient way within a strong risk management framework.

The Directors confirm that they have carried out a robust assessment of the principal risks facing the company. We reviewed our risk framework in 2015 to improve upon it further. Given our strategy we see a number of critical risks that we are maintaining a close watch upon going forward.

## Macro-economic environment

We see headwinds in the coming financial year. In addition the current UK economic expansion is vulnerable to global slowdown and uncertainty. Further shocks to consumer and investor confidence could affect both the flow of finance to and demand from smaller businesses.

In such case the Bank could experience losses from credit and investment risk as end borrowers struggle and potential losses from market risk factors such as interest rate or foreign exchange movements that would affect our rate of return. Simultaneously the Bank might need resources to meet shifts in policy priorities as new market gaps open up.

## European Union Referendum

The macro-economic environment may be further affected by the result of the United Kingdom's decision to leave the European Union. The Bank is monitoring the changing market need and will respond as needed.

## People and processes

In order to both deliver on existing commitments and responsibly develop actions to address new requirements we need to have the right staff with the right capabilities, in the right roles, managed by the right leadership. The growth required to achieve this carries significant operational risk as well as business risk if a delay in adding resources causes the Bank to miss delivery deadlines for core programmes and policies, particularly where significant new features must be developed and implemented. The Bank also faces the challenge of delivering a number of key initiatives in parallel within ambitious timelines that in turn places a strain on Bank resources and also relies on the Bank's internal processes and controls being sufficiently robust.

We will increase the amount of finance that we facilitate for smaller businesses in an efficient way within a strong risk management framework

## Delivery partners

The British Business Bank's business model is reliant upon our delivery partners for efficient execution of the Bank's interventions. Notably, our target capital deployment volumes depend upon the success of our delivery partners as we do not seek to operate through a direct financing relationship with end beneficiaries. We also take reputational risks linked to choosing appropriate partners that consistently operate in a way that meets our stakeholders' expectations. Although we have many strong mitigating factors in place, we delegate credit and investment decisions to our delivery partners within agreed frameworks.

## Compliance with State aid and other regulation

The UK remains a member of the European Union, whilst it negotiates the terms of its exit and therefore it currently remains subject to the laws governing State aid. As we modify existing programmes such as the Enterprise Finance Guarantee, as well as design new programmes such as Help to Grow, the Bank must constantly review its policies to ensure that we and our partners continue to be 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 the Bank will collect, collate and control will rise as the Bank's operations grow to encompass both new and existing programmes. We are conscious that this increases our information and data risk and have moved to strengthen our systems and protections to match.

## Stakeholder engagement and delivery on objectives

As a national development Bank wholly owned by the UK Government, the British Business Bank has a requirement to deliver on a number of initiatives to meet government policy objectives in relation to small business financing. The British Business Bank must engage with government and, despite being operationally independent, does rely on government interaction and approvals on a number of programmes, both existing and new. This raises a risk that there may be delays in decision making that impact on the British Business Bank being able to operate efficiently and effectively. Given the use of taxpayer funds in the delivery of our programmes we also face the risk that the UK taxpayer may not view the interventions that we take as being good value for money.

The British Business Bank operates a Risk and Control Assessment process to identify and register key and emerging risks within each functional area and across the organisation at a more strategic level. Risk Registers are also in place in line with appropriate governance for significant projects.

The overall Strategic Risk Register is reviewed in detail by senior management and the Board.

This enables them to carry out a robust assessment of the principal risks facing the Company. A summary of the key risks that the British Business Bank is facing and monitoring closely is outlined within the Directors' Report.

In 2015-16, the Board managed and monitored governance and risk and internal control matters through:

- the Board Risk Committee
- the Board Audit Committee
- the Risk and Compliance Finance, HR, IT and Legal functions
- policies for risk management
- the independent review of proposed investments by the Investment Committee

During the year, the Board reviewed the effectiveness of the company's risk management and internal control systems.

## Viability statement

The British Business Bank Board undertakes a business planning exercise each year to outline the five year plan for the organisation. The Board believes it possible to form a reasonable expectation of the British Business 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. It should be noted that the British Business Bank is 100% funded by the UK Government and the Board assumes that this funding arrangement will continue. We have 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 British Business Bank has undertaken a stress scenario analysis of its portfolio and the Board assumes that in the event of a downturn that the shareholder will continue to support the British Business Bank in delivering its policy objectives in relation to smaller businesses.

# Our people

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



The HR strategy reflects the size and needs of the organisation, and demonstrates value for money. The Bank offers a unique employment proposition and a strong purpose - an opportunity to transform the finance landscape for SMEs - and 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 and 85% felt they could personally make a real difference to the success of the business and its overall purpose.

The survey showed that overall employee engagement is significantly higher than comparable financial services and public sector organisations.

### Our strategy

Change the structure of finance markets for smaller business, so markets work more effectively and dynamically

### Our differentiators

#### The employee experience

- Strong purpose
- Commercial FS and public sector mix
- Interesting work
- Values based culture
- Make a major impact
- Transform UK economy
- Broad roles
- Senior stakeholders
- Accountability
- Flexibility
- Exposure to government

### Our goal

An inspiring culture where employees flourish

Increased business investment, growth and jobs across the UK



## Alignment with business priorities

- The HR strategy supports the British Business Bank's four core business goals
- We will support the achievement of these objectives by
  - Attracting and retaining the right skills and diversity: demonstrating leadership, having the right organisational design in place and executing a robust performance and remuneration strategy
  - Developing an efficient and effective business model with the correct structure, resource, skills mix and succession plans in place. We are moving from a start-up operating model to a steady workforce that is agile enough to respond to future requirements
  - Establishing the British Business Bank as a credible organisation by measuring our performance against our goals and objectives
- Ensuring we have a culture that makes the British Business Bank a great place to work
  - The culture gives the organisation and its staff a clear identity and reinforces the strong purpose and social benefit of the bank both internally and externally
  - We take the best elements from public and private sectors to make the British Business Bank both successful and a great culture in which to work
  - Whilst staying true to our values, we promote diversity and recognise that people work at their best in different ways: encourage them to express alternative points of view and adapt working practices to accommodate people's needs where possible
  - Values are role modelled and recognised across all levels and teams in the organisation

- Supporting ongoing learning and development to empower colleagues to have real accountability and provide timely and relevant expertise based on market requirements

In addition to supporting existing colleagues with their learning and development, and offering broad and interesting roles from this summer, the British Business Bank will launch its summer internship programme with an aim to developing young people's skills and experience to succeed in their future careers

## Our values

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

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

The Bank's Colleague Forum meets monthly to discuss our values with colleagues from Sheffield and London representing teams across the business.



### Integrity

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



### Delivering

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

## Enabling



### Improving

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



### Connecting

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



### Commercially minded

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

## Our people

We recruit a diverse workforce to ensure we make the most of the talents available from all parts of society. We live and reflect those values through our existing staff. We are proud that our General Counsel Shantika Amarasekera, is a recognised champion of diversity. In 2016 she was recognised in the top 100 ethnic minority leaders by the Sunday Times and as one of Financial Times' 'Upstanding', top 100 ethnic-minority executives.

**Our Managing Diversity and Equal Opportunities** policy lays out the need to promote and implement equality of opportunity and to manage diversity in such a manner that people are able to maximise both their potential and their contribution.

## 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 operated on an entirely voluntary basis by our staff across our four areas of action: environment, procurement and suppliers, charity work, and education outreach.

### Environment

We act responsibly to manage our impact on the environment. We are also working towards an environmental audit and operating a formal Environment Management System (EMS).

## Procurement and our suppliers

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

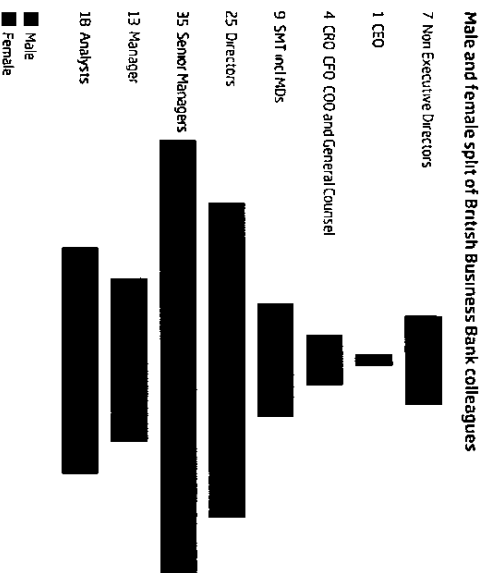
### Charity work

Colleagues at the British Business Bank regularly give their time and money for good causes. Our official nominated charity for 2016 is the Prince's Trust. The trust works with young people to advise first time entrepreneurs and support young people back into work. The Prince's Trust is also a delivery partner for our successful Start Up Loans programme, which provides loans to individuals looking to start a business.

To further support our activities, colleagues are offered 1 day's paid leave per year or equivalent for voluntary work. We also operate a Give As You Earn scheme for tax efficient financial donations.

### Education

Our teams work in their local communities to increase financial literacy and entrepreneurial awareness through presentations to secondary schools. Many of our staff are formally enrolled volunteers on the Mosaic Mentoring education outreach, which provides young people a package of opportunities to raise their aspirations and close the gap between those aspirations and their attainment.



# Future developments

What we will do to achieve our goals in the coming year and beyond

The British Business Bank will continue to build on the strong momentum of our first full year and continue to increase our impact. We will seek to resolve access to finance issues for smaller businesses, with some short term (over the coming year) and medium term (over the next five years) strategic realignment to respond to our latest assessments of the state of the market and shifts in political priorities. This includes assessing the best path forward for our interventions following the UK's referendum on European Union membership. Although most of our programmes are unaffected a number do include European funds and guarantees and may require evaluation and adjustment.

The British Business Bank remains committed to supporting the Start Up Loans Company so that it can expand the number of loans provided and continue to address the structural disadvantage that some of the UK's newest businesses face in securing finance. However, we also intend to focus more of our attention and resources towards finding effective financing solutions for scale-ups (smaller businesses with material growth potential).

In particular, an important milestone for 2016-17 is the launch of phase 1 of the Help to Grow scheme targeted towards high growth smaller businesses - a manifesto commitment for the Government. There will also be further medium term work to evaluate the needs of smaller, first time exporters, smaller intensive innovators and smaller intellectual property rich businesses.

All of these segments have specific needs - we aim to unlock their access to finance with a simple, streamlined and interlocking set of interventions.

Likewise, because we continue to see evidence of long standing structural gaps in the finance market, for smaller businesses seeking to stay ahead, the British Business Bank will continue to deliver as well as refine those of our programmes designed to address these. For example, we will be deploying updates over 2016-17 to our long running Enterprise Finance Guarantee programme which helps viable smaller businesses that lack sufficient collateral to borrow. We will continue to maintain and grow other programmes that address the equity gap for smaller businesses such as the Angel Co-Fund, Enterprise Capital Funds and the Venture Capital Catalyst Fund.

We will add resources to addressing the structurally driven regional disparities in access to finance in the immediate term by executing the Northern Powerhouse Investment Fund and Midlands Engine Investment Fund subject to confirmation of EU funding commitments.

▲ All of these segments have specific needs - we aim to unlock their access to finance with a simple, streamlined and interlocking set of interventions. ▲

Similarly, we will promote diversity in finance markets by continuing to expand our support for challenger banks and innovative financial providers such as marketplace lenders, invoice discounters and asset finance providers. Our ENABLE programme has now committed over £300m and we are investigating how to develop the programme still further.

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

Finally, better and increased information - for smaller businesses in making more informed choices about their finance options, for finance providers in making credit decisions and in terms of research into finance markets overall - has a pivotal role in improving how these markets work. We therefore remain committed to delivering improved information through collaboration with partners to develop and distribute educational guides, with HM Treasury on credit reference agency data and referral of rejected smaller business applicants to finance platforms, and with our research partners to increase knowledge about the markets.

Approved by the Board of Directors

*Keith Morgan*

Keith Morgan  
Chief Executive Officer

# Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31 March 2016

The Corporate Governance Statement is set out on pages 40 to 44 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, an indication of the future developments in the business and boardroom diversity matters
- the narrative on financial risk management is contained in the risk management report on pages 45 to 50 and forms part of this report
- details of the significant events since the balance sheet date are contained in note 24 to the financial statements
- information about the use of financial instruments by the Company and its subsidiaries is given in note 22 to the financial statements

## Directors

During 1 April 2015 - 31 March 2016 the directors were as follows

- Ronald Emerson
- Jonathan Britton
- Colin Glass
- Teresa Graham
- Caroline Green
- Christina McComb
- Gen Smith

- Keith Morgan
- Christopher Fox
- Patrick Magee
- Maria Turner (resigned in May 2015)

## Appointment and removal of Directors

The appointment and removal of directors is set out in the Corporate Governance Statement found on page 40

## 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. It should be noted that the British Business Bank is 100% funded by the UK Government and the Board assumes that this funding arrangement will continue. Thus they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the principal accounting policies notes in the financial statements

## Greenhouse gas emission reporting

### Scope of disclosure

The British Business Bank reports its Scope 1 and Scope 2 emissions based on its property portfolio. The British Business Bank plc occupies two floors of office space and is able to provide emission reporting for 2015-16 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 below. Currently we do not report on any other Scope 3 emissions

### GHG Emissions 2015-16

Scope	CO <sub>2</sub> (tonnes)
Scope 1 (Gas)	4
Scope 2 (Electricity)	106
Scope 3 (Travel)	9
Total	119
Total per average number of employees	1.1

## Sustainability principles

The British Business Bank is committed to promoting sustainability. Concern for the environment and promoting a broader sustainability agenda are integral to our professional activities and the management of the organisation. We aim to follow and to promote good sustainability practice, to reduce the environmental impacts of all our activities and to help our clients and partners to do the same

## Modern Slavery Act 2015

The British Business Bank plc welcomes the new legislation, the Modern Slavery Act 2015, to combat slavery and human trafficking. We are obliged to produce a public statement under this Act for the reporting year 2016 and we are identifying the steps necessary to ensure that there is no modern slavery within our supply chain

## Our shareholder

On 14 July 2016, following a machinery of Government change it was announced that the British Business Bank's shareholder, the Department for Business, Innovation and Skills (BIS), is having its responsibilities changed. Our shareholder is now the Department for Business, Energy and Industrial Strategy (BEIS).

## 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*

Keith Morgan  
Chief Executive Officer  
20th July 2016

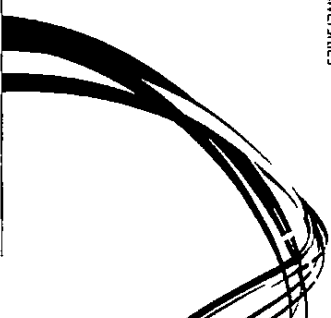
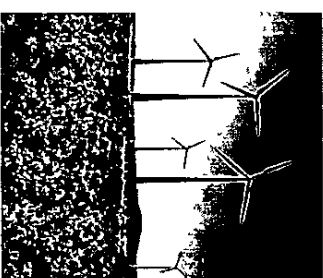
## Directors' biographies



### Ron Emerson Non-executive Chair

Ron brings a broad range of business skills and experience to the board. He spent his early career in international banking where he held a number of senior management positions with Bank of America and Standard Chartered Bank, where he was a member of the group management committee and Group Head of Corporate Banking. Since 1996 he has divided his time between Non-executive Directorships, business advisory work and as an active member of the Faculty of Management Studies at Oxford University where he was an Associate Fellow

As a non-executive he has served on a variety of boards ranging across listed (main board and AIF), private equity funded large high impact subsidiaries private family owned and regulated and unregulated sectors. He has also acted as a Senior Advisor at the Bank of England and the Financial Services Authority. Ron holds degrees from Manchester, Durham and Oxford universities





**Jonathan Britton**  
Independent Non-executive  
Director - Audit Committee  
Chair

Jonathan has extensive experience in banking spanning corporate, SME and investment banking businesses. Jonathan is currently a Non-executive Director and Chair of the Audit Committee of ICI Bank UK Limited and a Non-executive Director for Nomura European Holdings Limited whose Audit Committee he also chairs. Since 2006, he has also been a Director of Sparks a leading children's medical research charity, becoming Chairman in 2012. Most recently, he was Divisional Finance Director and Head of Strategy for the Wholesale Division at Lloyds Banking Group 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 Business, Jonathan holds an MA in Engineering Science from Keele College, Oxford and is a qualified chartered accountant.



**Colin Glass**  
Independent Non-executive  
Director

Colin is a Chartered Accountant with his own practice, Winburn Glass, Norfolk (WGN). He is or has been a Non-executive Director of several companies, some of which are quoted on AIM and which came out of the WGN portfolio. He has always been passionately interested in helping small businesses develop to their full potential. He was a Non-executive Director of Partnership Investment Finance (PIF), a fund set up with funding from Europe and Barclays Bank to support SMEs and social achievement in the areas of Yorkshire and The Humber. He acts as a mentor to early stage SMEs with high growth potential. Through his deep interest and experience in SMEs, he was awarded the Star in Practice Award in 2006 from the West Yorkshire Society of Chartered Accountants and also was awarded Business Adviser of the Year in 2007 and Non-executive Director of the year in 2008 both by the Institute of Directors Yorkshire and Humber. In January 2011, he was awarded Non-executive Director of the Year in the Grant Thornton sponsored Quoted Company Awards for his work with AIM-quoted SMEs. In 2016, he was included in the Maserati 100 which was established to recognise those who are helping to support the next generation of young entrepreneurs in the country.



**Teresa Graham**  
Independent Non-executive  
Director and Intern Risk  
Committee Chair

Teresa graduated from Newcastle University. During her time working in a Big Four accounting practice, she was seconded to the UK Government's Enterprise and Deregulation Unit. In March 1988, she was appointed to the Government's Deregulation Advisory Panel for a two year term and served through two decades of administrations. She was the first female winner of the Young Accountant of the Year Award for 1988 in recognition of her contribution to the small firms sector, her profession and work with Government.

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



**Caroline Green**  
Independent Non-executive  
Director

Caroline is COO and CFO of ProLabs Limited, the global leader in the supply of compatible network infrastructure and connectivity products. She was formerly CFO and Head of Shared Services for the security and risk mitigation company PGI Limited. Caroline has experience of working in VC-backed businesses as well as having eight years in private equity initially at 3i plc. She started her career at Xerox Corp where she spent nine years in a variety of roles including supply chain, manufacturing and finance. Previously Caroline spent five years as a trustee of the MS Society and currently sits on the board of unseen (UK), the charity dedicated to eradication of human trafficking and slavery.



**Christina McComb**  
Senior Independent Director

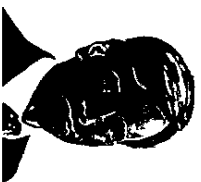
Christina has held a number of senior roles in public and private sector organisations and has a successful track record in private equity and Venture Capital investment. Supporting and advising growth businesses is at the heart of Christina's career. She is a former director of 3i plc and was a founding director in the Shareholder Executive. Christina currently holds a number of non-executive Board positions. She is Chairman of Engage Mutual Assurance Senior Independent Director of Standard Life European Private Equity Trust plc and a Non-executive Director of Batonsmead VCT2 plc and Nexxon Limited. Christina has a BA Hons from London School of Economics and an MBA from London Business School.



**Ceri Smith**  
Shareholder Representative  
Director

Ceri Smith is the Director at UK Government Investments for overseeing the British Business Bank on behalf of its Shareholder, the Secretary of State for Business, Innovation and Skills. He was responsible for the successful delivery of the project that created the British Business Bank.

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 and Head of Wholly-Owned Investments at UK Financial Investments, joining in 2009 to manage the UK Governments' 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, focusing on retail and SME strategy and the integration of Sovereign into Santander. He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and also served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at LEK Consulting where he was a partner specialising in financial services.



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

Christopher is Chief Financial Officer and is also responsible for central functions including HR, IT and Admin. Prior to joining the British Business Bank, Christopher was Head of Banking at UK Financial Investments where he was responsible for overseeing HM Governments' shareholdings in Lloyds Banking Group, Royal Bank of Scotland and UK Asset Resolution. He was also a Non executive Director at UK Asset Resolution, Bradford & Bingley and NRAM. Christopher joined UKFI from UBS, where he gained extensive experience of financial services over nearly 20 years, having provided capital markets and investment banking advice to a range of governments and financial institutions around the world. He joined UBS in 1993 and is a qualified accountant.



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

Patrick joined the British Business Bank as Chief Operating Officer in October 2014. He had previously represented the Government's shareholder interests on its Board before joining the Shareholder Executive in June 2012. Patrick was a Managing Director of Corporate Finance at JP Morgan Cazenove, having worked at the predecessor firms for almost 18 years. During his career, Patrick has advised on a broad range of M&A, capital markets and corporate broking assignments for a range of clients in the General Industrial, Energy/Utility, Support Services and Financial Services areas. Patrick also spent two years on secondment to the Panel for Takeovers and Mergers during his time at the Shareholder Executive. Patrick was involved in assisting with the establishment of The Green Deal Finance Company, the set-up and governance of the British Business Bank as well as work on a range of the companies in the Shareholder Executive portfolio.

## Corporate governance statement

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

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

- Our Non executive Directors scrutinise the performance of management in meeting agreed goals and objectives
- As part of their Remuneration Committee membership they are responsible for setting appropriate levels of remuneration for executive directors and staff in consultation with our Shareholder. This is further explained in the Directors' Remuneration Report at page 51
- The Chairman is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive is the Accounting Officer and leads the Executive in the day to day running of the business and the implementation of strategy and is supported in this by the Senior Management Team (SMT)
- The Senior Independent Director is Christina McComb whose 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

British Business Bank plc's constitution consists of its Articles of Association and a Shareholder Relationship Framework Document which requires that the British Business Bank plc operates so far as practicable a corporate governance framework that accords with best practice and to comply with the provisions of the UK Corporate Governance Code 2012 (other than Section E Relations with Shareholders) or to specify and explain any non-compliance in its Annual Report. The 2012 Corporate Governance Code is freely available from the Financial Reporting Council.

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

Apart from as 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 2015 insofar as it applies to the British Business Bank plc.

## Appointment and removal of Directors

Appointments to the Board are made in accordance with the UK Corporate Governance Code guidelines for Nomination Committees in accordance with the Bank's constitutional documents. 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 Board comprises the following directors who served throughout the period 1 April 2015 – 31 March 2016 except as noted:

- Mr Donald Emerson (Chairman)
- Mr Jonathan Britton (Non executive Director)
- Mr Colin Glass (Non executive Director)
- Mrs Teresa Graham (Non-executive Director)
- Mrs Caroline Green (Non executive Director)
- Ms Christina McComb (Senior Independent Director)
- Mr Can Smith (Shareholder Representative Director)
- Mr Keith Morgan (Chief Executive Officer)
- Mr Christopher Fox (Executive Director)
- Mr Patrick Magee (Executive Director)
- Ms Maria Turner (Non executive Director until May 2015)

In April 2015, Maria Turner gave notification of her intention to resign from the Board with effect from May 2015 and Teresa Graham was appointed by the Board as interim Chair of the Risk Committee in place of Maria Turner.

In September 2015, Ridgeway Partners were appointed by the Board in respect of the recruitment of a new Chair of the Risk Committee. Pursuant to the process carried out by Ridgeway, Neeta Atkar has been appointed as a Director with effect from 1 July 2016. She has taken over the role as the Chair of the Risk Committee and Teresa Graham has stepped down from her position as interim Chair of the Risk Committee.

In addition, as described in the Chairman's statement on page 2 Ron Emerson is not intending to extend his term as Chairman of the British Business Bank and plans to step down from the role in October 2016. The process for appointment of a new Chairman will involve a commissioner from the Office of Public Appointments and will be managed by the Shareholder.

The names and biographical details of our Directors can be found on pages 36 to 39.

### Annual Director election

All Non-Executive Directors were appointed for a three year term at their original appointment and there was no re election which was required during the year ended 31 March 2016.



Browse (trading as Wastewise) received finance from Yorkshire Bank, a British Business Bank partner

## Board information

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

### Executive committees

British Business Bank plc has a number of Executive Committees, namely Investment Committees for each subsidiary and the Product Development Committees. Each of these consists of various members of British Business Bank's senior management together with Board members when it is required for particular investment decisions.

The Board, the Board Committees and the Executive Committees have been structured to provide a strong governance framework. Each committee has 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 diversity of contribution, experience and required skills, irrespective of gender.

## Board committees

The Board has a number of committees all of which are governed by the principles and remit set out in the UK Corporate Governance Code and whose terms of reference can be found on the British Business Bank website.

### Audit Committee

Under the Chairmanship of Jonathan Britton, the Audit Committee also comprises further independent Non executive Directors. Teresa Graham and Caroline Green. Maria Turner was a member until her resignation in May 2015.

The Chief Executive, Chief Financial Officer, Chief Risk Officer, General Counsel and Head of Internal Audit attend Committee meetings along with the external auditors who are invited to attend and report at all meetings. The Committee also meets privately with both internal and external audit.

The Committee met five times during the year (in May 2015, June 2015, September 2015, December 2015 and March 2016) and attendance can be found on page 44.

### Role

The Committee's role is to review, monitor and make recommendations to the Board relating to the going concern nature of the British Business 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 British Business Bank's external auditor. The Committee also has oversight of the Internal Audit and Audit Planning process of the British Business Bank.

During the financial year 2015-16, the Audit Committee considered and approved the following matters:

- the oversight of the British Business Bank's financial reporting process and the process for preparation of the consolidated accounts
- reviewed the accounting policies adopted to ensure the British Business Bank as a whole complies with the applicable Accounting Standards and presents consolidated accounts that are true and fair, reviewed methods used to account for significant or unusual transactions where different approaches are possible
- assessed and approved the process for preparing the consolidated accounts
- assessed the extent to which the British Business Bank has complied with Shareholder financial reporting requirements, the annual internal audit programme and an evaluation to assess the effectiveness of both the internal and external audit processes and approaches as part of its agenda during 2016-17 to ensure they are both adequate and appropriate for the organisation

As required by our Shareholder, 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, the significant accounting policies, decisions and judgments, the contents of the Annual Report and Accounts of the Company and resourcing plans for the finance team. The Committee also considered the Internal Audit Planning and the interaction with the External Auditor of the Bank.

The Committee will undertake an evaluation to assess the effectiveness of both the internal and external audit processes and approaches as part of its agenda during 2016 to ensure they are both adequate and appropriate for the organisation. In assessing the effectiveness of the External Auditor the Audit Committee will have regard to the scope of the audit work planned and executed, standards of communication and reporting, quality of insights on the internal control environment and independence.



### Remuneration Committee

Under the Chairmanship of the Senior Independent Director Christina McComb, the Remuneration Committee also comprises the Chairman Ron Emerson, Teresa Graham and Gen Smith. The Committee met four times during the year in May 2015, July 2015, November 2015 and March 2016.

#### Role

The Committee's role is to set the remuneration policy for all executive directors, the Chairman and all other senior management including pension rights and any compensation payments and to set the terms of the Long and Short Term Incentive Plans and any incentive schemes British Business Bank plc and its subsidiaries may operate.

During the financial year 2015-16, the Remuneration Committee considered and approved the structure of all compensation payments to directors and all other senior management, the setting up of the Long Term Incentive Plan of the Company and reviewed market benchmarks for remuneration and the performance evaluation of senior management.

Further information on the role the remuneration committee performed during the year is contained in the Directors Remuneration Report on page 51.

### Risk Committee

Under the chairmanship of Teresa Graham in an interim capacity, the Risk Committee also comprises Independent Non executive Directors Christina McComb, Colin Glass, Gen Smith and Jonathan Britton. The Committee met four times during the year in May 2015, July 2015, October 2015 and February 2016 and attendance can be found on page 44.

#### Role

The Committee's role is to advise the Board on the key risks to the Bank in the pursuit of its objectives, the appropriateness of the Bank's risk management framework and to undertake a full review of the Bank's appetite for risk as defined in the Bank's risk appetite statement and according to the Bank's business plan. It reviews the risk management framework benchmarked against financial services companies in the private sector.

During the financial year 2015-16, the Risk Committee considered and approved the Bank's strategic risk register looked into conduct and reputational risks associated with individual delivery partners as well as credit performance across a whole range of programmes, reviewed and approved policies on Financial Crime, Information Risk Management and Business Continuity and assessed the wider macro economic environment for risks specific to the Bank and the fulfilment of its objectives.

### Nomination Committee

Under the Chairmanship of Ron Emerson the Nomination Committee also comprises Non executive Directors Christina McComb and Gen Smith.

#### Role

The Committee met during November 2015 and attendance details can be found on page 44. At the Committee meeting nominations of potential Directors were considered and recommended to the Board.

During the financial year 2015-16, the Nomination Committee considered and approved the succession planning for Executive Directors and the SMT, appointment of further Non Executive Directors to the Board and the board evaluation process. It also followed the Bank's policy on diversity and equality. As highlighted in the corporate statement the Bank used the services of Ridgeway Partners to appoint Non-executive Directors. The Bank has no other connection with Ridgeway Partners.



Solo Building Supplies received finance from SWIG Finance a British Business Bank partner

### Board and committee attendance

This table sets out the attendance of Directors since 1 April 2015 who attended each Board and Committee

	Total number of meetings	Date of appointment	Board	Audit	Risk	Remuneration	Nomination
<b>Chair</b>							
Ron Emerson		29 October 2013	9/9	-	-	4/4	1/1
<b>Non-executive Directors</b>							
Jonathan Britton		28 April 2014	9/9	5/5	4/4	-	-
Colin Glass		24 June 2014	9/9	-	4/4	-	-
Teresa Graham		24 June 2014	8/9	5/5	4/4	4/4	-
Caroline Green		24 June 2014	9/9	4/5	-	-	-
Christina McComb		29 October 2013	9/9	-	4/4	4/4	1/1
Gen Smith		29 October 2013	9/9	-	4/4	4/4	1/1
<b>Executive Directors</b>							
Keith Morgan		10 December 2013	9/9				
Christopher Fox		13 January 2015	9/9				
Patrick Magee		10 March 2015	9/9				

### Board performance

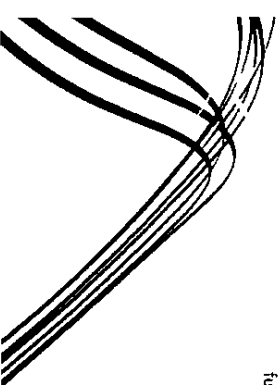
The British Business Bank is committed to ensuring that the Board and its Committees operate effectively and are continually improving. During the year the Chairman conducted an internal Board evaluation to monitor their effective operation. All Directors and the Company Secretary participated in the annual review to ensure a rigorous and full evaluation of the operation of the Board and its Committees. This process was composed of questionnaires that asked for the Directors' views on a number of matters including Board effectiveness and process. Committees interaction and roles effectiveness of the Chairman and governance function and Board composition. The outcome of the exercise showed no areas of concern and the feedback received will be reviewed by the Board and Chairman as part of our commitment to maintain ongoing improvement.

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

#### 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.

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



# Risk management and internal control

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 Board has overall accountability and responsibility for the management of risk within the British Business Bank. The British Business Bank is not a FCA/PRA regulated entity, though a subsidiary representing approximately 1% of the portfolio. Capital for Enterprise Fund Management is regulated by the FCA for controlling but not holding client money. We have policies and procedures in place to ensure compliance with applicable laws and regulations and we aspire to follow best practice where appropriate and applicable.

A discussion of how the Bank handles its risks in relation to financial instruments is set out in note 22 of the financial statements.

The Risk Management Framework describes the overall strategy towards the acceptance, avoidance, management and control of risks, as well as the development of risk capabilities aligned to the business goals and objectives.

- 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 yearly external review of the Risk Management Framework is undertaken to assess the effectiveness of risk management within the British Business Bank. This review carried out by third party advisers was last completed in July 2015. It benchmarked the target operating model of the risk function and outlined the key development actions for the function in 2015-16. The findings of this review were presented to the Board Risk Committee and the Board. The next review of the Risk Management Framework will take place in the third quarter of 2016.
- Key elements of our Risk Management Framework include Risk Appetite and Risk Governance.

## Risk appetite

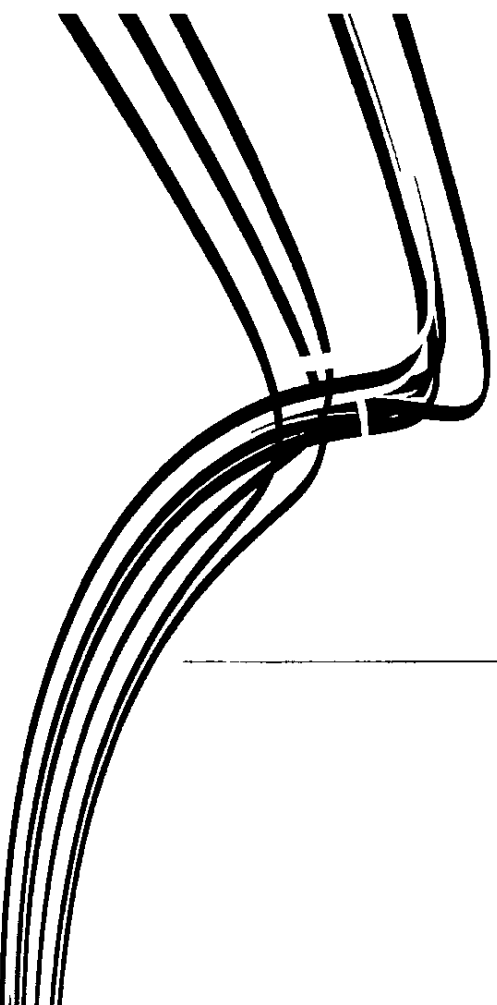
Risk appetite is the level of risk the Board of the British Business Bank is willing to accept in order to deliver its public policy objectives. The British Business Bank's Risk Appetite Policy acts as the link between overall business strategy, the risk strategy and the Risk Management Framework by 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 allows the Board to articulate the appetite for risks that are specific to their concerns such as risks to the reputation of the British Business Bank.

The Board undertook a review of the British Business Bank's Risk Appetite Statement in March 2016.

This 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. The Risk Appetite Statement can be found on page 47.

The British Business Bank also 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 the outcomes were considered by both the Board Risk Committee and the Board.





## Risk appetite statement

Level 1 risk	Risk appetite	Definition
Credit and investment risk	Medium-High	The risk of direct or indirect losses in on and off balance sheet positions as a result of the failure of a borrower or counterparty to meet its obligations in accordance with agreed terms or loss of value in equity investments.
Market risk	Low-Medium	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
Operational risk	Low-Medium	The risk of direct losses resulting from inadequate or failed internal processes, people and systems or indirect losses resulting from relationships with third parties or from external events
Information and data risk	Low	Information risk encompasses all the challenges that result from the our need to control and protect our information
Compliance and conduct risk	Low-Medium	Risk of breaching UK or EU regulations, internal policies or conduct standards, which exposes us to regulatory fines and penalties, financial losses and reputational risk
Strategic and business risk	Low-Medium	The risks arising from a suboptimal business strategy or business model that may lead to financial loss, inappropriate management of public money, reputational damage or failure to meet internal and/or public policy objectives
Reputational risk	Low-Medium	The risk that the firm will act in a way which falls short of stakeholder expectations

### Risk governance

The British Business Bank Risk and Compliance Function is based upon a three lines of defence model as outlined in our Risk Management Framework where the

- first line of defence is responsible for the day to day identification, reporting and management of their own risks
- second line of defence is responsible for designing risk policies and methodologies, monitoring performance and compliance, identifying and reporting risks and providing independent and 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 British Business Bank encourages a strong culture of risk awareness and transparency which is supported through regular intranet updates and in house training

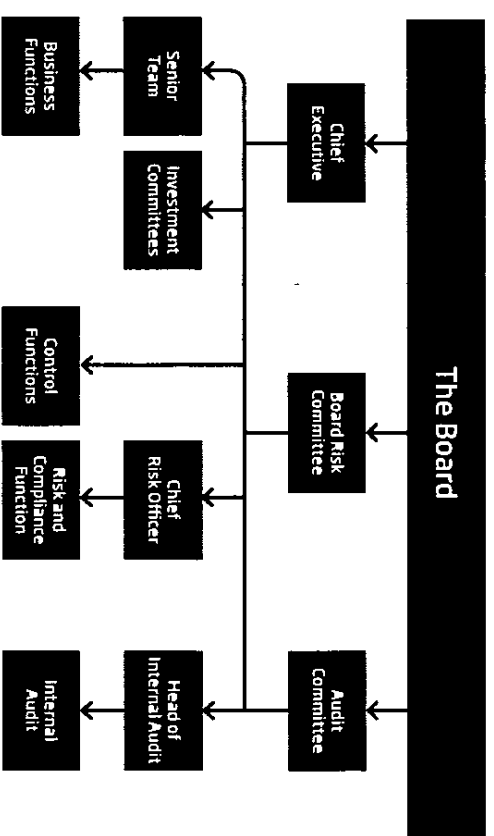
Policies form an integral part of managing risk within British Business Bank. They outline how we intend to function, taking account of regulatory or legal requirements and industry best practice. Policies are approved by the appropriate committees and communicated to staff. We have in place an enterprise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

The key principles of this model as demonstrated by the diagram below are

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

### Three lines of defence model

First line of defence	Second line of defence	Third line of defence
Day to day management and risk control	Risk policies, methodologies and independent oversight and challenge	Independent assurance



## Principal risks and uncertainties

Risk	Definition	Categories	Example mitigants
<b>Compliance and conduct risk</b>	Risk of breaching UK or EU regulations internal policies or conduct standards, which exposes the British Business Bank to regulatory fines and penalties, financial losses and reputational risk	<ul style="list-style-type: none"> <li>– Risk that British Business Bank's regulated entity breaches regulatory requirements</li> <li>– Breach of applicable laws</li> <li>– Risk that British Business Bank enters into regulated activities within its programmes without being regulated</li> <li>– British Business Bank employees breach compliance standards</li> </ul>	<ul style="list-style-type: none"> <li>– The British Business Bank is not regulated except for its subsidiary Capital for Enterprise Fund Managers</li> <li>– New products and programmes are assessed against the UK and EU regulatory environments</li> <li>– All new investments are subject to Know Your Customer and anti-money laundering reviews</li> <li>– British Business Bank has a Compliance Risk Management Framework and a suite of Compliance related policies</li> <li>– Employees are subject to a Code of Conduct and annual Compliance Declaration</li> <li>– Delivery partner selection process includes robust due diligence assessment of underwriting and sanctioning processes and thereafter is subject to portfolio monitoring and regular review</li> <li>– The credit quality of exposures is monitored closely</li> <li>– The British Business Bank aims to continue to invest throughout the economic cycle therefore minimising the vintage risk</li> <li>– The portfolio is monitored closely for concentration risk</li> </ul>
<b>Credit and investment risk</b>	The risk of direct or indirect losses in on and off-balance sheet positions as a result of the failure of a borrower or counterparty to meet its obligations in accordance with agreed terms or loss of value in equity investments	<ul style="list-style-type: none"> <li>– Whilst the majority of individual exposures to end borrowers are small, exposures to mid cap companies are typically larger</li> <li>– Delivery partner default or closure</li> <li>– Venture Capital is subject to vintage risk with the year the investment was made the largest single risk driver</li> <li>– Concentration within one industry or location creates a portfolio that is subject to greater risk than a more evenly balanced one</li> </ul>	<ul style="list-style-type: none"> <li>– Information Security and Information Assurance policies are in place to manage information risk</li> <li>– The Data Protection Policy ensures that the British Business Bank complies with the Data Protection Act</li> <li>– The British Business Bank realises the threats of cyber attacks and is developing a robust incident response plan</li> </ul>
<b>Information and data risk</b>	Information risk encompasses all the challenges that result from the our need to control and protect our information		<ul style="list-style-type: none"> <li>– Breach of legal requirements relating to safe keeping and disclosure of information</li> <li>– Risk of business sensitive information being leaked or accidentally made available in public domain</li> <li>– Threats of cyber attacks that steal sensitive data relating to the British Business Bank or its delivery partners as well as disrupt the British Business Bank's functionality</li> </ul>

## Principal risks and uncertainties

Risk	Definition	Categories	Example mitigants
<b>Market risk</b>	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	<ul style="list-style-type: none"> <li>– The British Business Bank makes material losses due to foreign exchange movements through its investments</li> <li>– The British Business Bank investments are subject to interest rate fluctuations</li> </ul>	<ul style="list-style-type: none"> <li>– The British Business Bank has minor foreign exchange exposure less than 4% of its portfolio and does not hedge these exposures. This is in line with government policy</li> <li>– British Business Bank conducts scenario testing of exposures sensitive to interest rate market valuation movements</li> <li>– We require some delivery partners to manage market risk directly within the terms of the investment</li> <li>– Risk and Control Assessments with functional teams are held to assess risks and associated internal controls</li> <li>– Operational incidents management process in place</li> <li>– Close liaison with BEIS counter fraud network and regular interaction with key business partners</li> </ul>
<b>Operational risk</b>	The risk of direct losses resulting from inadequate or failed internal processes people and systems or indirect losses resulting from relationships with third parties or from external events	<ul style="list-style-type: none"> <li>– Errors in execution delivery and processing</li> <li>– Failure of internal controls</li> <li>– External or internal frauds</li> <li>– Damage to physical assets, utilities disruption or systems failure</li> </ul>	<ul style="list-style-type: none"> <li>– Risk and Control Assessments with functional teams are held to assess risks and associated internal controls</li> <li>– Operational incidents management process in place</li> <li>– Close liaison with BEIS counter fraud network and regular interaction with key business partners</li> </ul>
<b>Reputational risk</b>	The risk that the firm will act in a way which falls short of stakeholder expectations	<ul style="list-style-type: none"> <li>– The British Business Bank operates a business model which is subject to Delivery Partner conduct and performance</li> </ul>	<ul style="list-style-type: none"> <li>– A Reputational Risk Policy is in place</li> <li>– The British Business Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners</li> <li>– Service Level Agreements are in place with Delivery Partners</li> <li>– The British Business Bank has a Complaints Policy in place</li> <li>– A clearly defined set of objectives and a robust governance model are in place</li> <li>– New products are subject to market assessment and a new product approval process</li> <li>– Regular review of the Strategic Risk Register by the senior team and Board members</li> <li>– Regular review of market conditions, impact on SMEs and ongoing communication with stakeholders</li> </ul>
<b>Strategic and business risk</b>	The risks arising from a suboptimal business strategy or business model that may lead to financial loss inappropriate management of public money, reputational damage or failure to meet internal and/or public policy objectives	<ul style="list-style-type: none"> <li>– Risk that the British Business Bank's current and planned products may not be fit for purpose</li> <li>– Risk that the British Business Bank does not meet its deployment or commitment targets</li> <li>– The British Business Bank is not effective in meeting its objectives</li> <li>– Risk that the British Business Bank is impacted by the implementation of the result of the EU Referendum</li> </ul>	<ul style="list-style-type: none"> <li>– A clearly defined set of objectives and a robust governance model are in place</li> <li>– New products are subject to market assessment and a new product approval process</li> <li>– Regular review of the Strategic Risk Register by the senior team and Board members</li> <li>– Regular review of market conditions, impact on SMEs and ongoing communication with stakeholders</li> </ul>

# Chair's foreword Directors' remuneration report


On behalf of the Board, I am pleased to present the Remuneration Report for the British Business Bank for the year ended 31 March 2016. 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 2015-16, its first full year of operation the Bank made significant progress as outlined in the Chairman'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	The Remuneration Committee has continued to take an interest in broader market trends and carried out benchmarking of salaries and other reward mechanisms in 2015. 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 2016-17 the Committee will be reviewing the business targets for the next period and setting stretching business and personal targets for the executive in particular in the context of any new policy initiatives which the Bank has been asked to undertake
<ul style="list-style-type: none"> <li>- agreeing the annual pay review for 2016</li> <li>- reviewing the long term incentive plan (LTIP) appropriate to the particular circumstances of the Bank</li> <li>- measuring corporate and individual performance targets for 2015-16 and the first cycle LTIP</li> <li>- reviewing the overall remuneration policy and strategy for the Bank</li> </ul>	<p><b>Christina McComb</b> Chair of the Remuneration Committee</p> 

# Remuneration policy report

## Policy overview

The Remuneration Committee determines, on behalf of the Board the Bank's policy on the remuneration of the Chairman, 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 in order to ensure that the Bank adopts leading practice with respect to its remuneration policy and can respond to the business priorities

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

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

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

## The remuneration policy for directors and the senior team

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

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

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

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

Under the remuneration policy the total remuneration for each Executive Director depends on their own and the Bank's performance

Table 1 Remuneration policy

Element	Operation, opportunity and performance framework
<b>Base salary</b>	
<b>Objective</b> To attract and retain high-calibre senior leaders	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.
<b>Long Term Incentive Plan (LTIP)</b>	
<b>Objective</b> To reward performance over the longer term	Executive Directors and certain members of the senior team are eligible to participate in the 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 2015-16 LTIP 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 most recent LTIP and the threshold levels are set out in Annual Report on Remuneration. 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 first cycle LTIP in August 2017, in the case of other members of the LTIP any awards in respect of personal objectives may be paid after two years. There is no annual bonus award for Executive Directors and the senior team.  Although the Company is not governed by the Financial Conduct Authority or Prudential Regulation Authority, the Committee has determined that the 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 mis statement, 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 for participants categorised as good leavers.  The Remuneration Committee has ultimate discretion over the levels and payment of any awards taking into account factors it considers relevant including the overall performance of the Bank.

Table 1 continued Remuneration policy

Element	Operation, opportunity and performance framework
<b>Pension and other benefits</b>	
<b>Objective</b> To provide an attractive and cost effective package	The Bank contributes up to 15% of base salary to its defined contribution scheme or an approved personal pension scheme subject to a minimum employee contribution of 3%. The CEO receives a cash in lieu allowance of 10%.  Current benefits provided are private medical insurance (commencing in September 2016), illness income protection and life assurance. These are subject to review on an annual basis.
<b>Loss of office payments</b>	
<b>Objective</b> 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 interests 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.
<b>New Executive Director remuneration</b>	
<b>Objective</b> 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



- Notes
1. Minimum = fixed pay only (salary and current cost of benefits and pension)
  2. Target = fixed pay and 75% vesting of the LTP
  3. Maximum = fixed pay and 100% vesting of the LTP

## 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 £65,000.

## Non-executive Directors

The Chairman 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. There is no provision for compensation for loss of office. The dates of the current letters of appointment of the Non executive Directors are shown in the Annual Report on Remuneration. Further details on nomination and appointment of Non executive Directors is set out in the corporate Governance Statement.

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 having regard to best UK practice.

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.

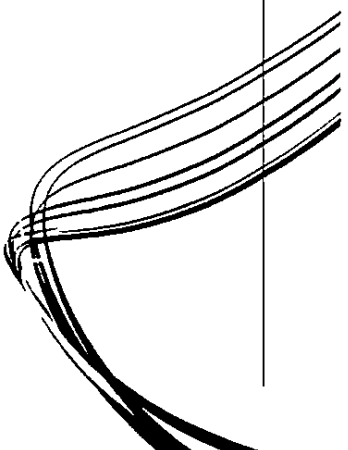
Table 3 sets out the key elements of the Bank's remuneration policy for the Chair and other Non-executive Directors.

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. Any increases in fees are subject to shareholder approval.

Table 3 Remuneration policy for Non-executive Directors

Element	Operation, opportunity and performance framework
<b>Basic fee - Chair</b>	
Remuneration is in the form of an annual cash fee in line with practice in the UK.	The Chair fee will be reviewed from time to time by the Board.
<b>Basic fee - Non executive Directors</b>	
Remuneration is in the form of an annual cash fee in line with practice in the UK.	Non executive Director remuneration is reviewed annually by the Chair and the Executive Directors. Any recommendations are subject to Board approval, with Non executive Directors not voting on their own remuneration.
<b>Bank wide remuneration and incentive plans</b>	
The Bank aims to apply its remuneration policy in a consistent way for all staff.	
Staff receive pension contributions, life assurance, illness income protection and private health insurance (commencing in September 2016) as well as their basic salary. 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 Innovation and Skills) and does not issue shares to staff.	
	<b>Short Term Incentive Plan (STIP)</b>
Senior employees who are not eligible for the Long Term Incentive Plan are eligible to participate in the STIP. The purpose of this plan is to reward senior managers for their performance over the year as assessed against both their personal objectives (currently 40% of award) and the Bank's objectives (currently 60% of award). The maximum annual award is 30% of base salary. 50% of any award is paid after the relevant year end, with 25% deferred for one year and a further 25% deferred for two years.	<b>Annual bonus</b>
	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.
	The STIP rules incorporate withholding and recovery provisions in line with good practice and such provisions apply for a period of seven years from the start of the performance period.

# Annual report on remuneration



This part of the report has been prepared in accordance with Part 3 of Schedule B 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.

**Table 4 Executive Director remuneration (audited)**

	Year ended March 2016					Year ended March 2015				
	Salary	Taxable benefits	Annual incentive	Long term incentives	Pension payments (incl cash supplements)	Total	Salary	Taxable benefits	Annual incentive	Pension payments (incl cash supplements)
Keith Morgan <sup>1</sup>	299	0	0	0	30	329	125	0	0	12
Christopher Fox <sup>2</sup>	210	0	0	0	0	210	49	0	0	0
Patrick Magee <sup>3</sup>	210	0	0	0	21	231	13	0	0	1
<b>Total</b>	<b>719</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>51</b>	<b>770</b>	<b>187</b>	<b>0</b>	<b>0</b>	<b>13</b>

As the Bank commenced operations on 1 November 2014, prior year comparatives for the remuneration of Executive Directors and the senior team are for a five month period.

## Notes

- The Company has not made pension contributions for Keith Morgan but has instead paid a cash alternative to him. The amount shown for 2015-16 was paid in the year and the amount shown for 2014-15 was accrued in that year but not paid until 2015-16.
- Christopher Fox joined the British Business Bank as Chief Financial Officer on 8 January 2015. The amounts shown for the 2014-15 year are the amounts payable in respect of service from this date to 31 March 2015.
- Patrick Magee became an Executive Director of the Bank on 10 March 2015. The amounts shown for the 2014-15 year are the amounts payable in respect of service from this date to 31 March 2015.
- The Executive Directors receive death in service and illness income protection benefits which are non-taxable.
- No Executive Director received taxable benefits, annual incentive payments or long term incentive payments in either 2015-16 or 2014-15.
- The Remuneration Committee has reviewed preliminary performance of individuals for 2015-16 and has made provisional assessments ranging from 75-90% for the senior team (2014-15 75-95%). Subject to continued performance, these awards are payable when the relevant LTR vests.
- Taxable benefits, annual incentive and long term benefits were £0 in 2014-15.

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

With respect to 2014-15 the amounts above are in respect of service on the Board for the period 1 November 2014 (the date the Bank commenced operations) to 31 March 2015.

	Total revenue (£k)	Total remuneration (£k)	%
2015-16	51,077	12,192	24%
2014-15 <sup>1</sup>	17,679	5,993	34%

<sup>1</sup> Represents a five month period.

## Relative importance of spend on pay

No dividends have been paid from British Business Bank meaning that the comparison of total remuneration to dividends does not provide useful information. As a result, we have set out below the percentage of revenue represented by total remuneration compared to 2014-15 to illustrate the relative importance of spend on pay.

## Changes in CEO/colleague pay and median comparison

The median salary of British Business Bank employees for 2015-16 was £63,000 (2014-15 £59,000). 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 2015-16 performance year. No general pay increase was awarded to colleagues in the 2015-16 performance year, although some British Business Bank colleagues did receive a salary increase in 2015-16 linked to moving to British Business Bank terms and conditions.

**Table 5 Senior team remuneration (audited)**

	Year ended March 2016					Year ended March 2015				
	Salary	Taxable benefits	Annual incentive	Personal performance element of LTIP (accrued in 2014-15 payable in August 16)	Pension payments (incl cash supplements)	Total	Salary	Taxable benefits	Annual incentive	Pension payments (incl cash supplements)
Shanika Amarasakara <sup>3</sup>	200	0	0	27	31	231	73	0	0	14
Mark Gray <sup>6</sup>	200	0	0	30	30	230	83	0	0	14
<b>Total</b>	<b>400</b>	<b>0</b>	<b>0</b>	<b>57</b>	<b>61</b>	<b>451</b>	<b>156</b>	<b>0</b>	<b>0</b>	<b>28</b>

## Notes

- The individuals above receive death in service and illness income protection benefits which are non-taxable.
- Salaries quoted are gross salaries pre salary sacrifice but colleagues pay individual pension contributions via a salary sacrifice arrangement.
- The Remuneration Committee has reviewed preliminary performance of individuals for 2015-16 and has made provisional personal awards of 75% for the senior team (2014-15 75%). Subject to continued performance, these personal awards are payable in August 2016.
- For 2014-15 the amounts above are in respect of service as a member of the senior team for the period 1 November 2014 (the date of the inception of the Bank) to 31 March 2015. Members of the senior team have received no signing on payments, no leaving payments and no annual bonus payments.
- Shanika Amarasakara, General Counsel and Company Secretary.
- Mark Gray, Chief Risk Officer.
- Taxable benefits, annual incentive and long term benefits were £0 in 2014-15.

As the Bank commenced operations on 1 November 2014, prior year comparatives for the remuneration of Executive Directors and the senior team are for a five month period.



The amount paid to Christina McComb in 2014-15 was higher than her entitlement because there was an underpayment to her in the previous year

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

## Pension entitlements

The Bank does not offer a defined benefit pension scheme for new staff however staff that transferred into the Bank from BEIS are able to continue to participate in BEIS defined benefit scheme. No Executive Directors have participated in a defined benefit scheme in 2015-16 and only one British Business Bank colleague who transferred from BEIS 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 Corporate Governance Statement on page 40

## Membership of the Remuneration Committee

The details of membership of the Remuneration Committee and attendance are included in the Corporate Governance Statement on page 40

## External advisers

During the year the Remuneration Committee did not use advisers for the provision of remuneration advice although it did review benchmarking data provided by Aon McLagan

## Implementation of the Remuneration Policy for 2016-17

For 2016-17 the Remuneration Committee will continue to implement the policy on a similar basis to 2015-16. The British Business Bank will seek approval from the Shareholder for any changes to the policy

## Approval of the Directors' Remuneration Report

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

Signed on behalf of the Board of Directors

Yours sincerely  
*Christina McComb*

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

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

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

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

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

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

We confirm that to the best of our knowledge

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

- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole together with a description of the principal risks and uncertainties that they face

- The annual report and financial statements taken as a whole are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy

By order of the Board

*Keith Morgan*

Keith Morgan  
Chief Executive Officer  
20th July 2016

*Christopher Fox*

Christopher Fox  
Chief Financial Officer  
20th July 2016



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

## Opinion on financial statements

In my opinion the financial statements – give a true and fair view of the state of Group's and the parent company's affairs as at 31 March 2016 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 have audited the financial statements of British Business Bank plc for the year ended 31 March 2016 which comprise

– the Consolidated Statement of Comprehensive Net Income the Consolidated Statement of Financial Position the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement,

– the notes to the consolidated financial statements,

– the Company Statement of Financial Position, the Company Statement of Changes in Equity and the Company Cash Flow Statement, and

– the notes to the company financial statements

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited

## Overview of my audit approach

### Risks significant to my audit

In arriving at my opinion on the financial statements, I assessed the risks of material misstatement in the financial statements. Those risks that had the greatest effect on the audit strategy, the allocation of resources in the audit, and the direction of the efforts of the engagement team are outlined in the table below

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

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 page 42

## Risk

### Management override of controls

Under International Standards on Auditing there is a presumed risk of management override of controls in all organisations. We are required to assess the risk of material misstatement arising from management override, in particular in relation to significant or unusual transactions, bias in accounting estimates and journals

### My response

My audit focussed on testing those balances and transactions which would be mostly likely to be affected if controls were to be overridden, including journals accounting estimates and significant or unusual transactions. The most significant estimates in the accounts relate to the valuation of investments, and in respect of these I have performed the following procedures

– I have undertaken a detailed 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,

– where management relies on valuations provided by fund managers to estimate the value of its investments, I have performed detailed procedures to enable me to gain assurance from the work of the fund managers. I considered the overall competence, capability and objectivity of the fund managers, as well as the scope of their work and its relevance to the accounts and my opinion

– where management uses models to estimate the value of its investments, I considered the design of the valuation models, the validity of the data inputs to those models and the appropriateness of the key assumptions on which the models were based. I sought confirmation that management had reassessed the assumptions made in the prior year which underpin the valuation models to confirm that they remain appropriate at year end, and

– I have assessed the accuracy and completeness of the review for potential impairments that management has performed in relation to its investments

The results of my audit procedures enabled me to conclude that there is no material misstatement of the accounts arising from management override of controls

We reviewed the dry run BBB performed using the accounts model during the year to confirm that the finance team were confident using the model

We maintained regular liaison with the Audit Committee, Chief Finance Officer, and finance team throughout the year with a focus on whether appropriate staffing and review processes were in place to enable the production of a robust set of draft 2015-16 financial statements. I have made recommendations to management where I have identified areas where processes could be strengthened

Where my audit identified the need for adjustments these have been made by management, other than unadjusted non-trivial differences of £290k which I do not consider to be material. The results of my audit procedures enabled me to conclude that there is no material misstatement in the financial statements

### Accounts preparation

This was the group's second full set of accounts and there has been a significant level of change within the finance team during the year. I identified a risk that the level of change could result in corporate memory being lost regarding the working of the accounts preparation model, the accounts production process, and the accounting treatment of investments and the related provision. This gave rise to a consequential risk that the accounts may not be properly prepared and significant items may not be accounted for correctly leading to material misstatement within the accounts

Application of materiality	As well as qualitative materiality, there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example any errors reported in 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	Scope of my audit	Group audit approach	Other matters on which I report under the Companies Act	Matters on which I report by exception
<p>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.</p> <p>Based on my professional judgement, I determined materiality for the group's financial statements at £18.9m for the Statement of Financial Position, which is approximately 2% of total group assets. BB8 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.</p> <p>I have determined that for transactions within the Consolidated Income Statement, misstatements of a lesser amount than overall materiality could influence the decisions of users of the accounts given the disproportionate size of the Consolidated Statement of Financial Position and the Consolidated Income Statement. I have therefore determined that the level to be applied to these transactions is £1.02m on the basis that this represents approximately 2% of current year income.</p>	<p>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 reported in 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.</p> <p>I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £378k for the Consolidated Statement of Financial Position and £20k for the Consolidated Statement of Comprehensive Net Income, as well as differences below this threshold that, in my view, warranted reporting on qualitative grounds.</p> <p>Total unadjusted audit differences reported to the Audit Committee would have decreased net assets by £290k.</p>	<p>An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:</p> <ul style="list-style-type: none"> <li>whether the accounting policies are appropriate to the group and parent company's circumstances and have been consistently applied and adequately disclosed</li> <li>the reasonableness of significant accounting estimates made by the directors, and</li> <li>the overall presentation of the financial statements.</li> </ul> <p>In addition I read all the information and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.</p>	<p><b>Group audit approach</b></p> <p>My group audit scope focussed on those balances assessed as being of the greatest significance to the group financial statements and their users. I considered how the subsidiaries should be aggregated to form the components of my group audit approach in line with International Standards of Auditing. I gave particular consideration to the size and risk characteristics of the consolidated entities, how they are managed, and the audit exemptions taken by the British Business Bank plc. British Business Bank Investments Ltd, which is the largest subsidiary and holds £709m of the group's £812m net assets at 31 March 2015, is subject to separate governance processes and has its own ledger. I have therefore treated this as a single component. The parent company and remaining subsidiaries are subject to common governance processes and share a ledger and so I have aggregated these to form a single component for the purposes of my audit. Both components are significant to the group in terms of value and risk. I have taken assurance from work performed by the auditors of the British Business Bank Investments Ltd and have performed additional procedures to obtain assurance over the financial information of the parent and other subsidiaries.</p>	<p><b>Directors' remuneration</b></p> <p>In my opinion, the part of the part of the Remuneration Report to be audited has been properly prepared in accordance with the Companies Act.</p> <p>I also report to you if, in my opinion certain disclosures of directors' remuneration required have not been made. I have nothing to report arising from this duty.</p> <p><b>The strategic and directors' reports</b></p> <p>In my opinion, based on the work undertaken in the course of the audit, the information given in the strategic and directors' reports for the financial year are consistent with the financial statements and have been prepared in accordance with applicable law.</p> <p>Based on my knowledge and understanding of the Group and Parent company and their environments obtained during the course of the audit, I have identified no material misstatements in these reports.</p> <p><b>The corporate governance statement</b></p> <p>In my opinion, based on the work undertaken in the course of the audit, the information given in the corporate governance statement in respect of internal control and risk management systems in relation to financial reporting processes and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable law.</p> <p>Based on my knowledge and understanding of the Group and Parent and their environment obtained during the course of the audit, I have identified no material misstatements in this information.</p>	<p><b>Adequacy of accounting records information and explanations received</b></p> <p>I report to you if, in my opinion</p> <ul style="list-style-type: none"> <li>adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;</li> <li>the financial statements and the part of the Remuneration report to be audited are not in agreement with the accounting records and returns; or</li> <li>I have not received all of the information and explanations I require for my audit.</li> </ul> <p>I have nothing to report arising from this duty.</p>

**Consistency of information in the Annual Report**

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

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, the knowledge of the Group and Parent company that I acquired in the course of performing my audit; or

– otherwise misleading

In particular, I am required to consider

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

I have nothing to report arising from this duty

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

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

- confirming that they have carried out a robust assessment of principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity
- describing those risks and explaining how they are being managed or mitigated

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

- explaining how they have assessed the prospects of the entity over what period they have done so and why they consider that period to be appropriate; and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

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

**Respective responsibilities of the directors and the auditor**

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

**Hilary Lower**

Senior Statutory Auditor

20th July 2016

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

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

**Consolidated financial statements****Consolidated statement of comprehensive net income for the year ended 31 March 2016**

	Note	2016 £000	2015 £000
<b>INCOME</b>			
Interest income	4.1	39,459	12,033
Management fee	4.2	11,377	5,331
Other income	4.3	241	315
<b>Gross operating income</b>		51,077	17,679
Net gains (losses) on investment assets	6	457	(1,670)
<b>Net operating income</b>		<b>51,534</b>	<b>16,009</b>
<b>EXPENDITURE</b>			
Staff costs	7.1	(12,192)	(5,993)
Other operating expenditure	7.2	(7,243)	(3,396)
Depreciations and amortisation	7.3	(304)	(132)
<b>Operating expenditure</b>		<b>(19,739)</b>	<b>(9,521)</b>
<b>Net operating profit/(loss)</b>		<b>31,795</b>	<b>6,488</b>
<b>ECF fair value adjustments</b>			
Impairment of ECF investment assets	9	(32,643)	(2,262)
Fair value gain on derivatives	13.5	6,638	3,601
Unwind of ECF fair value impairment	13.3	13,083	4,270
ECF fair value provision	17	(36,591)	(26,055)
<b>Net ECF fair value adjustments</b>		<b>(49,513)</b>	<b>(20,446)</b>
Proceeds of warranty claim	5	2,900	-
<b>Profit/(loss) before tax</b>		<b>(14,818)</b>	<b>(13,958)</b>
Tax expense	8.1	(8,518)	(3,160)
<b>Profit/(loss) for the period</b>		<b>(23,336)</b>	<b>(17,118)</b>
<b>Other comprehensive income for the period net of tax</b>			
Net gain on investments recognised in reserves	-	12,273	5,735
Deferred tax relating to ECF investments	8.1	1,804	(4,766)
<b>Total comprehensive income/(loss) for the period</b>		<b>(9,259)</b>	<b>(16,149)</b>

All operations are continuing

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


Comparative figures: the Bank commenced trading on 1 November 2014. As a result, figures for the year ending 31 March 2015 reflect five months of operating activity.

## Consolidated statement of financial position

as at 31 March 2016

	Note	2016 £000	2015 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Loans and receivables	13.1	72,887	18,461
Held to maturity investments	13.2	31,090	-
Available-for-sale financial assets	13.3	729,735	622,930
Assets designated at fair value through profit or loss	13.4	15,029	5,313
Derivative financial instruments	13.5	18,911	12,273
Property, plant and equipment	10	361	558
Intangible assets	11	119	200
Investment in associates	12	-	14
<b>Total non-current assets</b>		<b>868,132</b>	<b>659,759</b>
<b>Current assets</b>			
Trade and other receivables	14	18,101	5,062
Cash and cash equivalents	15	58,382	71,048
<b>Total current assets</b>		<b>76,483</b>	<b>76,110</b>
<b>Total assets</b>		<b>944,615</b>	<b>735,869</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	16	(15,787)	(6,565)
Corporation tax	8.2	(5,710)	(4,402)
Provisions	17	(26,373)	(19,866)
<b>Total current liabilities</b>		<b>(47,870)</b>	<b>(30,833)</b>
<b>Total assets less current liabilities</b>		<b>896,745</b>	<b>705,036</b>
<b>Non-current liabilities</b>			
Trade and other payables	16	(88)	(426)
Deferred tax	8.3	(2,796)	(4,774)
Provisions	17	(81,839)	(51,755)
<b>Total liabilities</b>		<b>(132,593)</b>	<b>(87,788)</b>
<b>Net assets/(liabilities)</b>		<b>812,022</b>	<b>648,081</b>
<b>Equity</b>			
Issued share capital	20	837,526	664,326
Financial instruments reserve		15,046	969
Retained earnings		(40,550)	(17,214)
<b>Total equity</b>		<b>812,022</b>	<b>648,081</b>

The financial statements of the group (parent company number 08616013) were approved by the Board of Directors and authorised for issue on 20th July 2016. They were signed on its behalf by

 **Keith Morgan**  
Chief Executive Officer

## Consolidated statement of changes in equity

as at 31 March 2016

	Notes	Issued capital £000	Financial instrument reserve £000	Retained earnings £000	Total £000
<b>Opening balance as at 1 April 2014</b>		<b>50</b>	<b>-</b>	<b>(95)</b>	<b>(46)</b>
Net income after tax		-	-	(17,118)	(17,118)
Other comprehensive income, net of tax		-	969	-	969
<b>Total comprehensive income</b>		<b>-</b>	<b>969</b>	<b>(17,118)</b>	<b>(16,149)</b>
Issue of ordinary shares	20	664,276	-	-	664,276
<b>Balance at 31 March 2015</b>		<b>664,326</b>	<b>969</b>	<b>(17,214)</b>	<b>648,081</b>
<b>Opening balance as at 1 April 2015</b>		<b>664,326</b>	<b>969</b>	<b>(17,214)</b>	<b>648,081</b>
Net income after tax		-	-	(23,336)	(23,336)
Other comprehensive income, net of tax		-	14,077	-	14,077
<b>Total comprehensive income</b>		<b>-</b>	<b>14,077</b>	<b>(23,336)</b>	<b>(9,259)</b>
Issue of ordinary shares	20	173,200	-	-	173,200
<b>Balance at 31 March 2016</b>		<b>837,526</b>	<b>15,046</b>	<b>(40,550)</b>	<b>812,022</b>

## Consolidated cash flow statement

### As at 31 March 2016

	Note	2016 £000	2015 £000
<b>Loss before tax</b>		<b>(14,818)</b>	<b>(13,956)</b>
<b>Cash flows from operating activities</b>			
Adjustments for:			
Unrealised net (gains) losses on investment assets	6	(457)	1,670
Depreciation and amortisation	73	304	132
Movement in accrued interest		(39,459)	(12,033)
Impairment of ECF investment assets	133	32,643	2,262
Unrealised fair value gain on derivatives	135	(6,638)	(3,601)
Unwind of ECF fair value impairment	133	(13,083)	(4,270)
ECF provision expense	17	36,591	26,055
Payment of corporation tax	8	(7,384)	-
Movement in trade and other receivables	14	(13,039)	(5,012)
Movement in trade and other payables	16	8,884	6,895
Loss on disposal of intangible assets	11	14	0
<b>Net cash received used for operating activities</b>		<b>(16,442)</b>	<b>(1,860)</b>
<b>Cash flows from investing activities</b>			
Net financial assets acquired on 31 October 2014 <sup>1</sup>	131	-	(475,529)
Purchase of loan and receivable assets	131	(25,329)	(15,052)
Loan and receivable assets transferred	131	(36,437)	-
Repayment of loan and receivable assets	131	10,263	171
Purchase of held to maturity assets	132	(30,000)	-
Purchase of available-for-sale assets	133	(186,499)	(154,826)
Repayment of available-for-sale assets	133	107,982	56,062
Purchase of assets designated at fair value through profit or loss	134	(9,791)	(3,065)
Repayment of assets designated at fair value through profit or loss	134	409	563
Cash received from derivative financial instruments	135	-	1,210
Proceeds of disposal of investment in associate	12	8	-
Purchase of property, plant and equipment	10	(21)	(660)
Purchase of intangible assets	11	(9)	(240)
<b>Net cash used in investing activities</b>		<b>(169,424)</b>	<b>(591,366)</b>
<b>Cash flows from financing activities</b>			
Issue of new shares	20	173,200	664,276
<b>Net cash from financing activities</b>		<b>173,200</b>	<b>664,276</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(12,666)</b>	<b>71,048</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>71,048</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>		<b>58,382</b>	<b>71,048</b>

<sup>1</sup> The purchase of financial assets on 31 October 2014 was funded by the issue of new shares and these two transactions were settled on a net basis

## Notes to the consolidated financial statements

### For the year ended 31 March 2016

#### 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 given on page 109. 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 34.

#### 2. Significant accounting policies

##### Basis of accounting

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

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the 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 2016. 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 affect its returns.

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

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed in full to the owners of the Company in the absence of non-controlling interests.

Total comprehensive income of the subsidiaries is also attributed in full to the owners of the Company in the absence of non-controlling interests.

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

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

##### Giving concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. In arriving at that view they have assumed that in the event of a downturn the shareholder will continue to support the Group in delivering its policy objectives in relation to smaller businesses. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

##### Adoption of new and revised Standards

The following new and revised Standards and interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

## Notes to the consolidated financial statements

<ul style="list-style-type: none"> <li>- <b>IAS 19 (amendments) Defined Benefit Plans Employee Contributions</b> The amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary.</li> <li>- <b>The British Business Bank</b> contributes to a State-managed retirement benefit scheme which is dealt with as a payment to a defined contribution scheme where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit scheme. It is not the principal employer in any defined benefit scheme and therefore the above changes will not have any impact.</li> <li>- <b>Annual Improvements to IFRSs 2010 - 2012 Cycle and 2011 2013 Cycle</b> As part of its annual improvements cycles the International Accounting Standards Board amended various standards primarily with a view to removing inconsistencies and clarifying wording. The adoption of these amendments did not have any material impact on the Group.</li> </ul> <p>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)</p> <ul style="list-style-type: none"> <li>- <b>IFRS 9 Financial Instruments</b></li> <li>- <b>IFRS 10 IFRS 12 and IAS 28 (amendments) Investment Entities Applying the Consolidation Exception</b></li> </ul>	<ul style="list-style-type: none"> <li>- <b>IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</b></li> <li>- <b>IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations</b></li> <li>- <b>IFRS 14 Regulatory Deferral Accounts</b></li> <li>- <b>IFRS 15 Revenue from Contracts with Customers</b></li> <li>- <b>IFRS 16 Leases</b></li> <li>- <b>Annual Improvements to IFRSs 2012 - 2014 Cycle</b></li> <li>- <b>IAS 1 (amendments) Presentation of Financial Statements</b></li> <li>- <b>IAS 7 (amendments) Statement of Cash Flows</b></li> <li>- <b>IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses</b></li> <li>- <b>IAS 16 and IAS 38 (amendments) Classification of Acceptable Methods of Depreciation and Amortisation</b></li> <li>- <b>IAS 16 and IAS 41 (amendments) Bearer Plants</b></li> <li>- <b>IAS 27 (amendments) Equity Method in Separate Financial Statements</b></li> </ul> <p>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 periods except that IFRS 9 will impact both the measurement and disclosures of financial instruments. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.</p>
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### Revenue recognition

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

### Dividend and interest income

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

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

### Taxation

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

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

## Notes to the consolidated financial statements

<p>Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.</p> <p>Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.</p> <p>VAT is accounted for in the accounts in that amounts are shown net of VAT except:</p> <ul style="list-style-type: none"> <li>- Irrecoverable VAT is charged to the Consolidated Statement of Comprehensive Net Income, and included under the relevant expenditure heading.</li> <li>- Irrecoverable VAT on the purchase of an asset is included in additions to the net amount due to or from, HM Revenue and Customs in respect of VAT is included within payables and receivables on the consolidated statement of financial position.</li> </ul>	<p>Property, plant and equipment</p> <p>Property, plant and equipment are carried at fair value or depreciated historical cost which is used as a proxy for fair value.</p> <p>Furniture and equipment and leasehold improvement are stated at cost less accumulated depreciation and any recognised impairment loss.</p> <p>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.</p> <p>Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:</p> <table> <tr> <th>Fixtures and equipment</th><th>3 - 10 years</th></tr> <tr> <th>Leasehold improvement</th><th>3 - 5 years</th></tr> <tr> <th>IT equipment</th><th>3 - 5 years</th></tr> </table> <p>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.</p> <p>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 scrap of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income separately.</p>	Fixtures and equipment	3 - 10 years	Leasehold improvement	3 - 5 years	IT equipment	3 - 5 years
Fixtures and equipment	3 - 10 years						
Leasehold improvement	3 - 5 years						
IT equipment	3 - 5 years						
<p>Intangible assets acquired separately</p> <p>Intangible assets including IT programs and software licences, with finite useful lives that are acquired separately, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives on the following bases:</p> <table> <tr> <th>IT programs</th><th>3 - 10 years</th></tr> <tr> <th>Software licences</th><th>Period of licence</th></tr> </table> <p>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.</p> <p>An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.</p>	IT programs	3 - 10 years	Software licences	Period of licence	<p>Impairment of property, plant and equipment and intangible assets</p> <p>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</p>		
IT programs	3 - 10 years						
Software licences	Period of licence						

## Notes to the consolidated financial statements

<p>recoverable amount of the cash-generating unit to which the asset belongs</p> <p>Recoverable amount is the higher of fair value less costs to sell and value in use</p> <p>If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease</p> <p>Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase</p>	<p>financial liabilities at fair value through profit or loss are recognised immediately in profit or loss</p> <p>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</p> <p><b>Financial assets</b></p> <p>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</p> <p><b>Effective interest method</b></p> <p>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</p> <p>Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL</p> <p><b>Financial assets at fair value through profit or loss (FVTPL)</b></p> <p>Financial assets are classified as at FVTPL when the financial asset is a derivative financial instrument held for trading or it is designated as at FVTPL. The VC Catalyst investments</p>
<p>have been designated as at FVTPL. There are no held-for trading financial assets</p> <p>Financial assets at FVTPL are stated at fair value with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset</p> <p><b>Held-to-maturity investments</b></p> <p>These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis</p> <p><b>Available for sale (AFS) financial assets</b></p> <p>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</p> <p>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 22. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial instrument reserve with the exception of impairment losses. Interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss where the investment is disposed of or is determined to be impaired. The cumulative gain or loss previously recognised in the financial instrument reserve is reclassified to profit or loss</p>	<p>Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established</p> <p>The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset</p> <p>Other foreign exchange gains and losses are recognised in other comprehensive income</p> <p><b>Loans and receivables</b></p> <p>Loans and receivables are non-derivative financial assets with fixed or determinable payments originated or acquired that are not quoted in an active market</p> <p>Loans and receivables comprise cash and cash equivalents, receivables and loans. After initial recognition they are measured at amortised cost using the effective interest method less any impairment. Gains and losses are recognised in the profit or loss through the amortisation process. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial</p>

## Notes to the consolidated financial statements

<p>For all other assets, objective evidence of impairment could include</p> <ul style="list-style-type: none"> <li>– significant financial difficulty of the issuer or counterparty or</li> <li>– default or delinquency in interest or principal payments, or</li> <li>– it becoming probable that the borrower will enter bankruptcy or financial re-organisation</li> </ul> <p>For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio as well as observable changes in national or local economic conditions that correlate with default on receivables</p> <p>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</p> <p>The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss</p>	<p>When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period</p> <p>If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised</p> <p><b>De-recognition of financial assets</b></p> <p>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</p> <p><b>Financial liabilities and equity</b></p> <p>Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement</p>
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<p><b>Financial guarantee contract liabilities</b></p> <p>Financial guarantee contract liabilities are measured initially at their fair values and if not designated as at FVTPL, are subsequently measured at the higher of</p> <ul style="list-style-type: none"> <li>– the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and</li> <li>– the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above</li> </ul> <p><b>Financial liabilities</b></p> <p>Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. The Group does not hold any financial liabilities at FVTPL.</p> <p>Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.</p> <p>Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.</p> <p><b>De-recognition of financial liabilities</b></p> <p>The Group derecognises financial liabilities when and only when its obligations are discharged, cancelled or they expire.</p>	<p><b>Cash and cash equivalents</b></p> <p>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.</p> <p><b>Provisions</b></p> <p>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.</p> <p>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).</p> <p>When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset, if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.</p>	<p><b>Contingent liabilities</b></p> <p>The Group has contingent liabilities arising through financial guarantees. 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.</p> <p><b>Foreign exchange</b></p> <p>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.</p> <p>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.</p> <p>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.</p>
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<p><b>Retirement benefit costs</b></p> <p>Payments to defined contribution retirement benefit 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 benefit scheme.</p> <p><b>Employee benefits</b></p> <p>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.</p> <p><b>Leases</b></p> <p>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.</p> <p>Rentals payable under operating leases are charged to income on a straight line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.</p>	<p><b>3 Critical accounting judgements and key sources of estimation uncertainty</b></p> <p>In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. This applies in particular to the valuation of Enterprise Capital Funds. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.</p> <p>The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.</p> <p>The estimates and assumptions that risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:</p> <ul style="list-style-type: none"> <li>– Fluctuations in the fair values of available for sale assets, where quoted prices and other valuation models and techniques are used to determine estimated future cash flows and include a number of other assumptions.</li> <li>– Directors' judgements with regard to the impairment of assets.</li> <li>– Fluctuations in the fair value of financial liabilities/guarantees measured using modelling techniques.</li> </ul> <p>In addition, there is uncertainty in estimating the effective interest rate for various debt fund investments. The future returns from these investments are not limited to contracted cash flows of interest and principal. Future returns are inherently uncertain and will depend on a range of factors including the manager's success in originating lending opportunities, costs and fees, how the manager exercises discretion in trading off equity against debt components in loan structures, credit performance, and prevailing market conditions.</p> <p>The Group has estimated effective interest rates for all debt fund investments on a consistent basis. As an indication of sensitivity, a 25 basis points decrease in the effective interest rate would decrease interest income by around £2 million over a one year period and result in a corresponding increase in revaluation gains recognised through other comprehensive income.</p>
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## Notes to the consolidated financial statements

### 4. Income

#### 4.1 Interest income

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

	2016 £000	2015 £000
Interest from loans and receivables	131	211
Interest from held to maturity investments	132	-
Interest from available-for-sale assets	133	-
Total interest income	39 459	12 033

#### 4.2 Management fee

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

	2016 £000	2015 £000
Management fee earned from		
Angel Co-Fund	340	142
Department for Business, Energy and Industrial Strategy	10 650	5 026
Capital for Enterprise Fund LP	369	156
Other	18	7
Total management fee income	11 377	5 331

#### 4.3 Other income

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

	2016 £000	2015 £000
Grant income before 1 November 2014	-	315
Arrangement fees	241	-
Total other income	241	315

### 5. Proceeds of warranty claim

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

In 2015, 15 a re assessment of the BBFL deferred tax liability as at 1 November 2014 was made by the Group's tax advisers who determined that the liability included within the fair value of the net assets of BBFL at that date was understated by £2.9m. Consequently the Group sought, and BEIS agreed to payment of that amount under the terms of a tax covenant within the share purchase agreement. The amount was subsequently settled by BEIS.

## Notes to the consolidated financial statements

### 6 Net gains (losses) on investment assets

	Notes	2016 £000	2015 £000
Impairment of investments in associates	12	(6)	(2)
Bad debt allowance on loans and receivables	13.1	(143)	(124)
Impairment of available for sale assets	13.3	(170)	-
Impairment of non-ECF available for sale financial assets	13.3	(1 082)	-
Foreign exchange (gains) losses on available for sale financial assets	13.3	1,524	(1,174)
Fair value (gains) losses on assets held at fair value through profit and loss	13.4	334	(370)
		457	(1,670)

### 7 Operating expenditure

#### 7.1 Staff numbers and staff costs

The average monthly number of employees including executive directors was

	2016 £000	2015 £000
Permanent staff	81	69
Seconded staff	11	20
Temporary and agency staff	15	19
	107	108

Their aggregate remuneration comprised

	2016 £000	2015 £000
Wages and salaries - permanent staff including executive directors	6 270	2 448
Wages and salaries - seconded staff	1 018	657
Wages and salaries - temporary and agency staff	1 796	1,060
Non executive Directors fees	302	315
Short and long term incentive plans and bonus scheme	908	703
Social security costs	915	378
Pension costs	983	432
Total staff costs	12 192	5,993

The figures in the above table for 2015 represent the average monthly number of employees since the British Business Bank commenced its operations on 1 November 2014. When looking at the full financial year 2014-15, the average monthly number of employees (including executive directors) for the year split between the above categories would be 29, 8 and 8 respectively.

## Notes to the consolidated financial statements

### 7.2 Other operating expenditure

	2016 £000	2015 £000
Professional fees - investment scheme design and transactions	2,404	766
- operational fees	658	1,187
Accommodation and office services	1,887	664
Marketing	766	285
Auditor's remuneration	116	160
Staff related costs including training and travel	518	148
Other purchase of goods and services	894	186
	7,243	3,396

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

### 7.3 Depreciation and amortisation

	Notes	2016 £000	2015 £000
Property, plant and equipment depreciation	10	228	92
Intangible assets amortisation	11	76	40
		304	132

## 8. Taxation

### 8.1 Tax expense

	2016 £000	2015 £000
Current tax expense	9,218	3,160
Adjustment in respect of prior years	(526)	-
Total current tax expense	8,692	3,160
Deferred tax (income) expense	(1,961)	4,766
Current year	(17)	-
Adjustment in respect of prior years	(1,978)	4,766
Total deferred tax (income) expense	6,714	7,926
Total tax expense	8,518	3,160
Recognised through profit and loss	(1,804)	4,766
Recognised through other comprehensive income	6,714	7,926

Corporation tax is calculated at 20% (2015: 21%) of the estimated taxable profit for the year. Deferred tax primarily relates to the Group's investments in Enterprise Capital Funds. It is calculated at 18% (2015: 18%) of the estimated unrealised gains within the funds. This is a temporary timing difference and the tax will become payable once the gains are realised in the underlying funds, for example through investment exits.

## Notes to the consolidated financial statements

The tables below reconcile the tax charge for the year:

	Profit/(loss) before tax	Current tax
	2016 £000	2015 £000
Net operating profit before tax	(14,818)	(13,958)
Net gain on investments recognised in reserves	12,273	5,735
Permanent disallowances relating to ECF provision expense	36,591	26,055
Unwind of ECF fair value impairment	(13,083)	(4,270)
Other permanent disallowances	(1,844)	153
Timing differences relating to ECF derivative fair value movement	(6,638)	(3,601)
ECF accrued return	(8,430)	(3,214)
ECF impairment	32,643	2,262
ECF realised gains	9,097	5,500
Long-Term Incentive Plan accrued expenditure	112	534
Other timing differences	1,082	(45)
Losses brought forward	(896)	(99)
Profits chargeable to current tax	46,089	15,052
		9,218
		3,160

	Unrealised (losses) gains	Deferred tax
	2016 £000	2015 £000
Unrealised (losses) gains on ECF investments	(10,022)	23,569
Other unrealised gains	(872)	261
Unrealised gains subject to deferred tax	(10,894)	23,830
		(1,961)
		4,766

### 8.2 Corporation tax payable

	2016 £000	2015 £000
Corporation tax payable at 31 March 2015	-	-
Arising on acquisition of investment assets	4,402	-
Tax expense for the period	8,692	1,242
Tax paid	(7,384)	3,160
Corporation tax payable at 31 March 2016	5,710	4,402

### 8.3 Deferred tax liability

	2016 £000	2015 £000
Deferred tax liability at 31 March 2015	4,774	8
Movement in the year	(1,978)	4,766
Deferred tax liability at 31 March 2016	2,796	4,774

## Notes to the consolidated financial statements

### 9 Operating segments

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

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

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

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

## Notes to the consolidated financial statements

#### Group profit and loss for the year ending 31 March 2015

	BBFL £000	BBIL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
<b>Income</b>					
Investment programmes		8,819			8,819
Venture Capital Solutions	3,214				3,214
Other income	262	400	11,244	(6,260)	5,646
	3,476	9,219	11,244	(6,260)	17,679
<b>Net investment income (costs)</b>		(1,668)			(1,668)
Investment programmes	(2)				(2)
Venture Capital Solutions (ex ECF)	(2)	(1,668)			(1,670)
<b>Operational Costs</b>					
Staff costs	(317)	(560)	(5,116)		(5,993)
Professional services	(59)	(65)	(1,829)		(1,953)
General operations	(1,496)	(1,862)	(4,477)	6,260	(1,575)
	(1,872)	(2,487)	(11,422)	6,260	(9,521)
<b>Net operating profit</b>	<b>1,602</b>	<b>5,064</b>	<b>(178)</b>	<b>-</b>	<b>6,488</b>
<b>Impairment of ECF investment assets</b>	<b>(2,262)</b>				<b>(2,262)</b>
Fair value gain on derivatives	3,601				3,601
ECF fair value provision expense	(26,055)				(26,055)
Unwind of ECF fair value					
Impairment	4,270				4,270
<b>Earnings on an IFRS basis</b>	<b>(18,844)</b>	<b>5,064</b>	<b>(178)</b>	<b>-</b>	<b>(13,958)</b>

## Notes to the consolidated financial statements

### ECFs

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

	2016 £000	2015 £000
Interest income	8,430	3,214
Fair value gains on derivatives	6,538	3,601
Impairment	(32,643)	(2,262)
Unwind of impairment	13,083	4,270
Provision utilised in year (note 17)	12,284	5,641
	7,792	14,464
Provision against future commitments (note 17)	(48,875)	(31,696)
Net loss on Enterprise Capital Funds	(41,083)	(17,232)

## Notes to the consolidated financial statements

### Group balance sheet as at 31 March 2016

	BBFL £000	BBBL £000	Company plc £000	Total Group £000
<b>Investment assets</b>				
Investment Programme	-	499,641	-	499,641
BFP Mid Cap	-	147,771	-	147,771
Investment Programme	-	39,572	-	39,572
BFP Small Cap	-	-	-	-
Venture Capital Solutions	-	-	-	-
Enterprise Capital Fund	155,224	-	-	155,224
VC Catalyst	-	15,029	-	15,029
Other venture capital investments	10,415	-	-	10,415
<b>Total investment assets</b>	<b>155,639</b>	<b>702,013</b>	<b>-</b>	<b>857,652</b>
ECF fair value provision	(108,212)	-	-	(108,212)
<b>Net investment assets</b>	<b>57,427</b>	<b>702,013</b>	<b>-</b>	<b>759,440</b>
<b>Other assets/(liabilities)</b>				
Cash	8,157	3,389	46,836	58,382
Tangible and intangible assets	-	-	480	480
Net other payables	(2,140)	3,911	(8,051)	(6,280)
<b>Total net assets</b>	<b>63,444</b>	<b>709,313</b>	<b>39,265</b>	<b>812,022</b>

### Group balance sheet as at 31 March 2015

	BBFL £000	BBBL £000	Company plc £000	Total Group £000
<b>Investment assets</b>				
Investment Programme	-	426,029	-	426,029
BFP Mid Cap	-	38,465	-	38,465
Investment Programme	-	28,643	-	28,643
BFP Small Cap	-	-	-	-
Venture Capital Solutions	-	-	-	-
Enterprise Capital Fund	148,312	-	-	148,312
VC Catalyst	-	5,313	-	5,313
Other venture capital investments	12,229	-	-	12,229
<b>Total investment assets</b>	<b>160,541</b>	<b>498,450</b>	<b>-</b>	<b>658,991</b>
ECF fair value provision	(71,621)	-	-	(71,621)
<b>Net investment assets</b>	<b>88,920</b>	<b>498,450</b>	<b>-</b>	<b>587,370</b>
<b>Other assets/(liabilities)</b>				
Cash	13,837	16,043	41,168	71,048
Tangible and intangible assets	-	-	768	768
Net other payables	(8,431)	(5,806)	3,132	(11,105)
<b>Total net assets</b>	<b>94,326</b>	<b>508,687</b>	<b>45,068</b>	<b>648,081</b>

## 10 Property, plant and equipment

As at 31 March 2016

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

As at 31 March 2015

	Leasehold improvement £000	IT equipment £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2014	-	-	-
Additions	140	520	660
At 31 March 2015	140	520	660
<b>Accumulated depreciation and impairment</b>			
At 31 March 2014	-	-	-
Charge for the year	(11)	(81)	(92)
At 31 March 2015	(11)	(81)	(92)
<b>Carrying amount</b>			
At 31 March 2015	129	439	568
At 31 March 2014	-	-	-

## 11 Intangible assets

As at 31 March 2016

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

As at 31 March 2015

	IT £000	Software licences £000	Total £000
<b>Cost or valuation</b>			
At 31 March 2014	-	-	-
Additions	213	27	240
At 31 March 2015	213	27	240
<b>Accumulated depreciation and impairment</b>			
At 31 March 2014	-	-	-
Charge for the year	(26)	(14)	(40)
At 31 March 2015	(26)	(14)	(40)
<b>Carrying amount</b>			
At 31 March 2015	187	13	200
At 31 March 2014	-	-	-

## 12 Associates

Capital for Enterprise Ltd disposed of its investment in its associate (SAS Athena) during the year incurring a loss of £5,819. The carrying value of the investment as at 31 March 2015 was £14,000 and the sale proceeds were £8,181.

### 13 Investments

#### Business Finance Partnership

British Business Bank Investments Limited (BBBL) 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 fund managers who lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments are classified as available for sale assets. See note 13.3 for details.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders that provide an alternative source of lending for small businesses with turnover up to £75m. The majority of the BFP Small Caps investments are classified as available for sale assets. See note 13.3 for details.

Through an invoice discount firm, BBBL purchases invoices from investors, releasing money that would otherwise be tied up for between 30 and 120 days. The investment is classified as loans and receivables. It also provides funding through peer to peer lending platforms making small part-loans to borrowers alongside other platform lenders. This lending is also classified as loans and receivables. See note 13.1 for details.

#### Investment Programme

BBBL manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector encouraging new lenders into the market and the growth of smaller lenders. Most of BBBL's investments through the Investment Programme are classified as available-for-sale assets.

However as with the BFP Small Cap this programme has provided invoice discount finance and participated in peer to peer lending.

In addition in 2015/16 through the Investment Programme BBBL participated in a public issue of Tier 2 capital by Shawbrook Bank plc which issued fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28th October 2015. See note 13.2 for details.

#### VC Catalyst

The VC Catalyst Fund investments are funded by BBBL. 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 investors already committed to those funds to be unlocked and invested in growth companies.

The British Business Bank has chosen to account for all of its new VC Catalyst investments at fair value through profit or loss as explained in the accounting policies in note 2. See note 13.4 for details.

#### Enterprise Capital Funds

British Business Finance Limited (BBFL) runs 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 upside gains. Overall, the terms mean that BBFL expects the ECFs to provide a positive return to government, but that this return will be lower than that typically sought by a private sector investor. This is in line with the group's strategic objectives.

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

Accounting standards require that available for sale assets are held at fair value, which is defined as the amount that a private sector investor would pay for the investments. This means that every ECF investment is impaired to reflect the fact that it will not provide the level of return sought by a private sector investor even if it is providing a positive return. The impairment then reverses over the life of the asset to 'top-up' the prioritised return and provide a commercial rate of return in the accounts. See note 13.3 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 it becomes probable that it will incur accounting losses through recognition of a fair value impairment. Consequently BBFL has to recognise a provision for the liability. It is taking on at the point of commitment, and this provision is utilised to cover the impairment when a drawdown is made. See note 17 for details. Where a fund performs well enough to more than repay BBFL's prioritised return and capital the remaining return is accounted for as a derivative. These are detailed in note 13.5.

### 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 13.3.

### 13.1 Loans and receivables

As at 31 March 2016

	Opening £000	Transfers £000	Additions £000	Repayments £000	Accrued Return allowance £000	Bad debt/ allowance £000	Closing £000
<b>Private companies</b>							
BFP Small Business	3,397	0,289	1,308	(7,600)	554	161	6,209
Investment Programme	15,064	28,148	24,021	(2,563)	2,412	(304)	66,678
<b>Total</b>	<b>18,461</b>	<b>36,437</b>	<b>25,329</b>	<b>(10,263)</b>	<b>3,066</b>	<b>(143)</b>	<b>72,887</b>

As at 31 March 2015

	Acquired on 31 Oct 2014 £000	Transfers £000	Additions £000	Repayments £000	Accrued Return allowance £000	Bad debt/ allowance £000	Closing £000
<b>Private companies</b>							
BFP Small Business	3,493	-	-	-	199	(124)	3,397
Investment Programme	-	-	15,052	-	12	-	15,064
<b>Total</b>	<b>3,493</b>	<b>-</b>	<b>15,052</b>	<b>(171)</b>	<b>211</b>	<b>(124)</b>	<b>18,461</b>

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

### 13.2 Held to maturity investments

As at 31 March 2016

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

The IP Banking loan represent 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.

Notes to the consolidated financial statements

13.3 Available for sale assets

At 31 March 2016

	Opening £000	Additions £000	Repayments £000	Accrued Interest £000	Revaluation £000	Unrealised gain/loss £000	Impairment £000	Closing £000
<b>Limited partnership investments</b>								
BFP Mid Cap	426,029	112,838	(72,733)	22,781	10,726	-	-	499,641
BFP Small Business	25,246	9,468	(4,298)	1,251	1,043	-	823	33,363
Investment Programme	23,401	29,504	(6,988)	2,841	544	-	701	50,003
<b>Total</b>	<b>474,676</b>	<b>151,810</b>	<b>(84,019)</b>	<b>26,873</b>	<b>12,313</b>	<b>-</b>	<b>1,524</b>	<b>583,007</b>

**Venture capital investments**

Enterprise Capital Funds	136,039	34,381	(22,977)	8,430	-	13,083	(32,643)	136,313
Bridges	1,393	-	(82)	-	-	-	-	1,311
Aspire	3,569	43	-	-	(40)	-	(1,082)	2,490
Capital for Enterprise Fund	7,253	265	(904)	-	-	-	-	6,614
<b>Total</b>	<b>148,254</b>	<b>34,689</b>	<b>(23,963)</b>	<b>8,430</b>	<b>(40)</b>	<b>13,083</b>	<b>(33,725)</b>	<b>146,728</b>

<b>Total available for sale assets</b>	<b>622,930</b>	<b>186,499</b>	<b>(107,982)</b>	<b>35,303</b>	<b>12,273</b>	<b>13,083</b>	<b>1,524</b>	<b>(33,895)</b>	<b>729,735</b>
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At 31 March 2015

	Acquired on 31 Oct 2014 £000	Additions £000	Repayments £000	Accrued Interest £000	Revaluation £000	Unrealised gain/loss £000	Impairment £000	Closing £000
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**Limited partnership investments**

BFP Mid Cap	339,208	117,146	(42,752)	7,364	5,043	-	-	426,029
BFP Small Business	19,160	5,281	(216)	698	990	-	(667)	25,246
Investment Programme	8,532	15,188	-	526	(138)	-	(507)	23,401
<b>Total</b>	<b>366,900</b>	<b>137,615</b>	<b>(42,968)</b>	<b>8,508</b>	<b>5,695</b>	<b>-</b>	<b>(1,174)</b>	<b>474,676</b>

**Venture capital investments**

Enterprise Capital Funds	121,870	17,062	(8,115)	3,214	-	4,270	(2,262)	136,039
Bridges	1,514	5	(126)	-	-	-	-	1,393
Aspire	3,529	-	-	-	40	-	-	3,569
Capital for Enterprise Fund	11,960	146	(4,053)	-	-	-	-	7,253
<b>Total</b>	<b>138,873</b>	<b>17,213</b>	<b>(13,094)</b>	<b>3,214</b>	<b>40</b>	<b>4,270</b>	<b>(2,262)</b>	<b>146,254</b>

<b>Total available for sale assets</b>	<b>505,773</b>	<b>154,828</b>	<b>(56,062)</b>	<b>11,822</b>	<b>5,735</b>	<b>4,270</b>	<b>(1,174)</b>	<b>(2,262)</b>	<b>622,930</b>
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Notes to the consolidated financial statements

13.4 Assets designated at fair value through profit or loss

At 31 March 2016

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

At 31 March 2015

	Acquired on 31 Oct 2014 £000	Additions £000	Repayments £000	Revaluation £000	Closing £000
VC Catalyst	3,181	3,065	(563)	(370)	5,313
<b>Total</b>	<b>3,181</b>	<b>3,065</b>	<b>(563)</b>	<b>(370)</b>	<b>5,313</b>

13.5 Derivatives

At 31 March 2016

	At 31 March 2015 £000	Repayments £000	Revaluation £000	At 31 March 2016 £000
Enterprise Capital Funds	12,273	-	6,638	18,911
<b>Total</b>	<b>12,273</b>	<b>-</b>	<b>6,638</b>	<b>18,911</b>

At 31 March 2015

	Acquired on 31 Oct 2014 £000	Repayments £000	Revaluation £000	At 31 March 2015 £000
Enterprise Capital Funds	9,882	(1,210)	3,601	12,273
<b>Total</b>	<b>9,882</b>	<b>(1,210)</b>	<b>3,601</b>	<b>12,273</b>

## 14 Trade and other receivables

### Amounts receivable within one year

	2016 £000	2015 £000
Trade receivables	15,982	1,192
Accrued income	1,761	3,835
Prepayments	130	-
Other receivables	228	35
	18,101	5,062

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. Of the amount above £2.1m (2015 £1.0 million) of trade receivables and £1.8 million (2015 £3.8 million) of accrued income are receivable from the Department for Business, Energy and Industrial Strategy. The trade receivables balance includes £12.2m of cash in transit at 31 March 2016 that has been paid to acquire assets but where the cash has not been received by the counterparty.

## 15 Cash and cash equivalents

The following balances were held at year end

	2016 £000	2015 £000
Government Banking Service	55,800	68,118
Commercial banks	2,582	2,930
Total	58,382	71,048

The British Business Bank generally maintains a cash balance of at least £50m to fund investments. As at 31 March 2016 the cash balance was £58.3m of which £41.6m was used to fund investments in April and May 2016. As the majority of the cash is held in the Government Banking Service there is minimal cost to the Exchequer.

## 16 Trade and other payables

### Amounts falling due within one year

	2016 £000	2015 £000
Trade payables	347	14
VAT and social security	1,686	346
Shareholder loan	9,862	2,081
Accrued expenditure	2,892	2,597
Other payables	1,980	1,527
	15,767	6,565

### Amounts falling due after more than one year

	2016 £000	2015 £000
Accrued expenditure	88	426
	88	426

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

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

## 17 PROVISIONS

	2016 £000	2015 £000
Opening balance	71,621	-
Acquired on purchase of ECF investments	-	45,566
Provided in year	48,875	31,696
Provision utilised in year	(10,242)	(5,641)
Provision released in year	(2,042)	-
Closing balance	108,212	71,621
<i>Of which</i>		
Current	25,373	19,866
Non-current	81,839	51,755
	108,212	71,621

All provisions relate to loan commitments.



## 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 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	090911928
British Business Financial Services Limited	09174621
Capital for Enterprise Limited	06179047
Capital for Enterprise Fund Managers Limited	06626072
Capital for Enterprise (CFP) Limited	SC354499
Aspire Holdco Limited	09263859

As required by the Act the British Business Bank plc

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

## 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

	2016 £000	2015 £000
<b>British Business Bank Investments Ltd</b>		
BFP Small Business	11,971	27,836
BFP Mid Cap	222,451	457,537
Investment Programme	256,782	136,453
VC Catalyst	54,609	24,400
<b>Venture Capital Solutions</b>		
Enterprise Capital Funds	253,594	195,090
Bridges Venture Fund	577	899
Capital for Enterprise Fund	-	7,086
	799,984	849,301

## 19.2 Operating lease commitments

The Bank's occupation of its registered office at Foundry House, 3 Millsands, Riverside Exchange, Sheffield S3 8NH is governed by a Memorandum of Terms of Occupation (MOTO) covering the period from 17 December 2012 to 30 June 2017. For the year ended 31 March 2016, lease payments of £77,870 were recognised as an expense in the year.

The lease commitments as at the balance sheet date are as follows:

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

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

For the year ended 31 March 2016, the Bank paid £350,000 in expenses in relation to occupying the offices (including service charges, rates and utilities).

## 20. Share capital

	2016 No	2015 No
Authorised ordinary shares of £1 each	5,000,000	5,000,000
Issued and fully paid ordinary shares of £1 each		
Brought forward	664,326	50
Shares issued for cash	173,200	664,276
Carried forward	837,526	664,326

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.

The principal subsidiary undertakings of the Company are shown below. The capital of each entity depends on its nature and consists of ordinary shares.

Subsidiary	Country of incorporation	Nature of Business	Shares held by the Company
British Business Bank Investments Limited	UK	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments	100%
British Business Finance Limited	UK	Manages and invests into schemes 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%

Details of the subsidiaries results, including their net assets as at the balance sheet date and their profit or loss for the period ended 31 March 2016, are provided in the segmental reporting note 9.

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

Name	Country in which it is incorporated	Class of share held by the British Business Bank	Proportion held by the British Business Bank
BMS Finance S.A.R.L. (Boost Fund)	Luxembourg	Not classified	49.8%
Industrial Lending 1	Luxembourg	Class A shares	44.1%
Priceo Sterling Corporate Bond Fund <sup>1</sup>	Ireland	Not classified	67.7%
Unica Capital Limited <sup>2</sup>	Jersey	Not classified	50.0%
VRG Ventures	UK	Ordinary shares	26.5%

<sup>1</sup>Priceo's latest financial year end was 30 June 2016. The fund does not produce separate accounts and therefore figures for the fund are not available.

<sup>2</sup>Unica's latest financial year end was 30 June 2016. At the balance sheet date it had not published accounts in respect of that year. As at 30 June 2015, its aggregate amount of capital and reserves was £4,428,650 and during its financial year it made a profit of £1,178.

## 22. Financial Instruments

### 22.1 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.

As at 31 March 2016

	Assets held at FVTPL	Loans and receivables	Held to maturity	Available for sale	Liabilities held at amortised cost	Non-financial assets and liabilities	Total
	Note	£000	£000	£000	£000	£000	£000
<b>Assets</b>							
Property, plant and equipment	10	-	-	-	-	361	361
Intangible assets	11	-	-	-	-	119	119
Loans and receivables	13.1	-	72,887	-	-	-	72,887
Held to maturity investments	13.2	-	-	31,090	-	-	31,090
Available for sale financial assets	13.3	-	-	-	729,735	-	729,735
Designated at FVTPL	13.4	15,029	-	-	-	-	15,029
Derivatives	13.5	18,911	-	-	-	-	18,911
Trade and other receivables	14	-	17,971	-	-	-	17,971
Prepayments	14	-	-	-	-	130	130
Cash and cash equivalents	15	-	58,382	-	-	-	58,382
<b>Total assets</b>		<b>33,940</b>	<b>149,240</b>	<b>31,090</b>	<b>729,735</b>	<b>-</b>	<b>944,615</b>
<b>Liabilities</b>							
Trade and other payables	16	-	-	-	-	(14,189)	(14,189)
Corporation tax	8.2	-	-	-	-	(5,710)	(5,710)
Deferred tax	8.3	-	-	-	-	(2,796)	(2,796)
Provisions	17	-	-	-	-	(108,212)	(108,212)
<b>Total liabilities</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(120,907)</b>	<b>(120,907)</b>
<b>Net Assets</b>		<b>33,940</b>	<b>149,240</b>	<b>31,090</b>	<b>729,735</b>	<b>(120,907)</b>	<b>823,708</b>

## 22.2 Fair value measurements

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

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

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 2016	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 29% to 32%	The VIX and the VIXN 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

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

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

The directors review the investment valuation reports periodically and are satisfied with the year end valuations presented in the financial statements

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

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

Each investment has a periodically updated model, which for each valuation assessment is updated for actual asset performance and key assumption and input changes

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

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

In addition, 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 (ie as prices) or indirectly (ie derived from prices) and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

At 31 March 2016, based on the valuation assessment available for sale assets were increased by £12.3 million (2015: £5.7 million) taken to Other Comprehensive Income

In addition, the fair value of derivative assets held was increased by £6.6 million (2015: £3.5 million) taken to the Income Statement

## 22.3 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

BBB has exposure to the following risks from its use of financial instruments

- Credit risk
- Market risk

Liquidity risk is not deemed relevant for the Group

### Credit risk

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

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

The degree to which the Group is exposed to this credit risk depends on the individual characteristics of the contract counterparty and the nature of the investment

The amount of exposure, before taking into account any collateral or security in each class of financial asset is limited to the amount invested at any given point in time

### As part of the Risk Appetite process

BBB undertakes stress scenario modelling on its portfolio. Severe but plausible stressed scenarios featuring significant asset value corrections on fair value of investments and heightened portfolio details were applied to planned deployment and stock levels in each Programme within BBB. 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 (ie the worst year in the past 20 years). The output of this exercise reflects the risk undertaken by BBB operating in underdeveloped finance markets and demonstrates that BBB would suffer significant losses if such a scenario was to materialise. The findings of this exercise was considered by the Board and also communicated to key stakeholders

The value of the investments in each class of financial asset is detailed in section (i) of this note and in notes 13 to 17 which also give details of total impairment losses during the year

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

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

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

With respect to receivables purchased through an invoice discountor the Group provides for all debts which are overdue by 90 days at a rate of 100% of the average overdue balance over the previous three months. In addition it makes 100% provision for all receivables in respect of which there is a known or expected problem in collection even if payment is not overdue by 90 days. At 31 March 2016 the gross value of receivables purchased through an invoice discountor was £4.7m of which £185.111 was overdue and fully provided. In addition a further £66.314 was provided in respect of receivables where there was a known or expected collection problem

The Group makes provision for all part loans made to borrowers made alongside other platform lenders which are overdue by 90 days at a rate of 100%. At 31 March 2016 the gross value of such receivables was £32.9m of which £1.593.154 was overdue by 90 days and fully provided

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

#### Market risk

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

#### Interest rate risk

BBB'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 Investment Programme 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 £2m 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 GBP. There are some investments in funds which have a Europe wide investment mandate, and are denominated in Euros. A prerequisite of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 6% of the Group's portfolio is in non GBP denominated investments. There is currently no policy to hedge this currency risk

#### Liquidity risk

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

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

## 23 Related party transactions

Balances and transactions between the company and its subsidiaries which are related parties have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. 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 of the financial assets held within BEIS and not yet novated 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

### Trading transactions

During the year Group companies entered into the following transactions with BEIS

Income	2016 £000	2015 £000
Grant-in-aid	-	295
Management fee	10,650	5,026
Proceeds of warranty claim	2,900	-
<b>Expenditure</b>		
Staff seconded from BEIS	673	450
Rent	350	158
<b>Capital transactions</b>		
Shares issued	173,200	664,276
Shareholder loan	8,882	2,081
	196,555	672,286

### Amounts outstanding at year end

As at the balance sheet date, the Group was owed £3.9m from BEIS relating to the management fee (2015: £4.8m) and owed BEIS £10m of which £0.7m relates to seconded staff, £0.4m rent and a shareholder loan of £8.9m (2015: £2.6m)

## 24 Events after the reporting date

The result of the referendum held on 23 June 2016 was in favour of the UK leaving the European Union. A reasonable estimate of the financial effect of this event on the Group cannot be made. This is a non-adjusting event

On 14 July 2016, following a machinery of Government change it was announced that the British Business Bank's shareholder, the Department for Business, Innovation and Skills (BIS), is having its responsibilities changed. Our shareholder is now the Department for Business, Energy and Industrial Strategy (BEIS)

As at the date of these annual report and accounts, there have been no other post reporting date events that require disclosure

## 25 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

## Company statement of financial position as at 31 March 2016

	Note	2016 £000	2015 £000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		361	568
Intangible assets		119	200
Investments	2	750,611	618,868
<b>Total non-current assets</b>		<b>751,091</b>	<b>619,636</b>
<b>Current assets</b>			
Trade and other receivables	4	8,795	9,256
Deferred tax		93	-
Cash and cash equivalents	3	46,837	41,168
<b>Total current assets</b>		<b>55,715</b>	<b>50,424</b>
<b>Total assets</b>		<b>806,806</b>	<b>670,060</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5	(15,491)	(5,409)
Corporation tax		(56)	(116)
<b>Total current liabilities</b>		<b>(15,547)</b>	<b>(5,524)</b>
<b>Total assets less current liabilities</b>		<b>791,259</b>	<b>664,536</b>
<b>Non-current liabilities</b>			
Trade and other payables	5	(47)	(274)
<b>Total non-current liabilities</b>		<b>(47)</b>	<b>(274)</b>
<b>Total liabilities</b>		<b>(15,594)</b>	<b>(5,798)</b>
<b>Net assets/(liabilities)</b>		<b>791,212</b>	<b>664,262</b>
<b>Equity</b>			
Issued share capital		837,526	664,326
Retained earnings		(46,314)	(64)
<b>Total equity</b>		<b>791,212</b>	<b>664,262</b>

The financial statements of the group (company number 08616013) were approved by the Board of Directors and authorised for issue on 20th July 2016. They were signed on its behalf by



Keith Morgan  
Chief Executive Officer

## Company statement of changes in equity as at 31 March 2016

	Issued capital £000	Retained earnings £000	Total £000
<b>Opening balance as at 1 April 2014</b>			
Net income after tax	50	(95)	(46)
<b>Total comprehensive income</b>	-	32	32
Issue of ordinary shares	664,276	-	664,276
<b>Balance at 31 March 2015</b>	<b>664,326</b>	<b>(64)</b>	<b>664,262</b>
<b>Opening balance as at 1 April 2015</b>			
Net income after tax	664,326	(64)	664,262
<b>Total comprehensive income</b>	-	(46,250)	(46,250)
Issue of ordinary shares	173,200	-	173,200
<b>Balance at 31 March 2016</b>	<b>837,526</b>	<b>(46,314)</b>	<b>791,212</b>

## Company cash flow statement as at 31 March 2016

	Note	2016 £000	2015 £000
<b>Profit before tax</b>		(46,323)	148
<b>Cash flows from operating activities</b>			
Adjustments for			
Depreciation, bad debt and impairments	2	304	132
Impairment of investments in subsidiary undertakings		70,257	-
Loss on disposal of intangible assets		14	-
Corporation tax paid		(80)	-
Movement in trade receivables	4	471	(9,206)
Movement in trade payables	5	9,856	5,586
<b>Net cash received from/(used for) operating activities</b>		<b>34,499</b>	<b>(3,340)</b>
<b>Cash flows from investing activities</b>			
Purchase of available for-sale assets	2	(202,000)	(618,866)
Purchases of property, plant and equipment		(21)	(650)
Purchase of intangible assets		(9)	(240)
<b>Net cash used in investing activities</b>		<b>(202,030)</b>	<b>(619,756)</b>
<b>Cash flows from financing activities</b>			
Issue of new shares		173,200	664,276
<b>Net cash from financing activities</b>		<b>173,200</b>	<b>664,276</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>5,669</b>	<b>41,168</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>41,168</b>	-
<b>Cash and cash equivalents at end of year</b>		<b>46,837</b>	<b>41,168</b>

## 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 accounting policies are consistent with those described in the consolidated accounts of the British Business Bank plc. Disclosures in relation to property, plant and equipment (note 10), intangible assets (note 11) and share capital (note 20) have not been repeated here as there are no differences to those provided in the consolidated accounts

Investments in subsidiary undertakings are accounted for at cost in accordance with IAS 27 and are measured at the lower of their carrying amount and fair value less costs to sell

These financial statements have been prepared on the going concern basis as described in the consolidated accounts of the British Business Bank plc, and under the historical cost convention. The financial statements are presented in pounds sterling, which is the Company's functional currency

### Profit of the parent company

The Company has taken advantage of section 408 of the Act and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these accounts. The loss of the parent company for the financial period amounted to £46,250,000 (2015: profit £32,000)

## 2 Investments

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

Subsidiary	Nature of Business
British Business Bank Investments Limited (BBIL)	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments
British Business Finance Limited (BBFL)	Manages investment schemes on behalf of the Group
British Business Financial Services Limited (BBFSL)	Manages investment schemes on behalf of the Department for Business, Energy and Industrial Strategy

All subsidiary undertakings are wholly-owned and incorporated in the UK; all shareholdings are in the name of the British Business Bank plc

## Notes to the Company financial statements

At 31 March 2016

	Investment in BBBL £000	Investment in BBFL £000	Investment in BBFSL £000	Total £000
Opening balance	500,153	118,715	-	618,868
Investment in year	189,000	13,000	-	202,000
Impairment	(1,257)	(69,000)	-	(70,257)
<b>Closing balance</b>	<b>687,896</b>	<b>62,715</b>	<b>-</b>	<b>750,611</b>

	Investment in BBBL £000	Investment in BBFL £000	Investment in BBFSL £000	Total £000
At 31 March 2015	-	-	-	-
Opening balance	-	-	-	-
Investment in year	500,153	118,715	-	618,868
<b>Closing balance</b>	<b>500,153</b>	<b>118,715</b>	<b>-</b>	<b>618,868</b>

The Company has impaired its investments in BBBL and BBFL as the fair values have been assessed as being lower than the carrying amount would be measured at cost

### 3. Cash and cash equivalents

The cash and cash equivalents balance represents cash held within the Government Banking Service

### 4 Trade and other receivables

	2016 £000	2015 £000
<b>Amounts receivable within one year</b>		
Trade receivables	2,176	1,125
Prepayments	130	8
Intra Group	6,286	6,100
Other receivables	193	23
	<b>8,785</b>	<b>9,256</b>

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

## Notes to the Company financial statements

### 5. Trade and other payables

	2016 £000	2015 £000
<b>Amounts falling due within one year</b>		
Trade payables	310	-
VAT and social security	1,258	323
Accrued expenditure	1,886	1,523
Intra Group	2,359	881
Other payables	9,678	2,681
	<b>15,491</b>	<b>5,408</b>

	2016 £000	2015 £000
<b>Amounts falling due after more than one year</b>		
Accrued expenditure	47	274
	<b>47</b>	<b>274</b>

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

### 6 Related party transactions

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

The Company trades with Government bodies on an arm's length basis on commercial terms in line with contractual agreements. The main Government bodies transacted with are the Department for Business, Energy and Industrial Strategy and the Company's principal subsidiary undertakings British Business Bank Investments Limited (BBBL), British Business Finance Limited (BBFL), and British Business Financial Services Limited (BBFSL)

The Group's trading and capital other transactions with BIS were all effected through the Company and are disclosed on note 23 of the consolidated financial statements

The Company provided capital to BBBL and BBFL as shown in note 2. In addition it made changes to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £12.7m (2015: £6.3m)

### 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, Mandy, Cardiff CF14 3UZ

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All figures source British Business Bank 31st March 2016 unless otherwise stated

This publication is available from [british-business-bank.co.uk](http://british-business-bank.co.uk)

Any enquires regarding this publication should be sent to

British Business Bank plc

Foundry House

3 Millsands

Sheffield S3 8NH



British Business Bank plc is a public limited company registered in England and Wales (registration number 08616013) registered office at Foundry House 3 Millsands, Sheffield S3 8NH. As the trading Company of the Group operating under the trading name of British Business Bank, it is a development bank wholly owned by the 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. A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at [www.british-business-bank.co.uk](http://www.british-business-bank.co.uk)