

Registered number
09091928

British Business Finance Ltd
Directors' Report and Financial Statements
for the year ended 31 March 2017



British Business Finance Ltd
Report and accounts
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British Business Finance Ltd
Company Information

Directors

Neeta Atkar
Jonathan Britton
Christopher Fox
Caroline Green
Patrick Magee
Christina McComb
Keith Morgan
Ceri Smith
Lord Smith of Kelvin

Registered office

Foundry House
3 Millsands
Sheffield
S3 8NH

Registered number

09091928

British Business Finance Ltd

Registered number: 09091928

Directors' Report

The Directors present their report and financial statements for the year ended 31 March 2017.

Principal activities and review of business

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

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

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

The key operational risks the Company is exposed to are: maintaining a suitably qualified investment team to deliver the Company's investment strategy within the State Aid frameworks; and ensuring systems and processes support investment decision making, reporting and portfolio management. The key financial risks the company is exposed to are detailed in note 19(iii) of the accompanying financial statements.

Results and dividend

The total comprehensive loss for the period after taxation was £42,336k (2016: £43,910k). The Company did not pay a dividend.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the financial statements. Further details can be found in the principal accounting policies notes in the financial statements.

Directors

The following persons served as directors during the year:

Neeta Atkar
Jonathan Britton
Ronald Emerson (resigned 30 September 2016)
Christopher Fox
Colin Glass
Teresa Graham
Caroline Green
Patrick Magee
Christina McComb
Keith Morgan
Ceri Smith

Following the year end Colin Glass, Teresa Graham and Caroline Green resigned as directors on 23 June 2017. Also following the year end Lord Smith of Kelvin was appointed as a director on 5 July 2017 and Caroline Green was re-appointed as a director on 20 July 2017.

British Business Finance Ltd

Registered number: 09091928

Directors' Report

Appointment and removal of directors

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

Directors' indemnities

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

This report was approved by the board on 25 October 2017 and signed on its behalf by:



C N Fox
Director

British Business Finance Ltd

Registered number: 09091928

Statement of Directors' Responsibilities

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

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

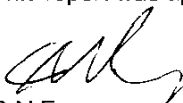
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- 1 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
- 2 the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This report was approved by the board on 25 October 2017 and signed on its behalf by:


C N Fox
Director

British Business Finance Ltd
Statement of Comprehensive Net Income
for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Interest income	7	9,483	8,430
Management fees		120	578
Gross operating income		<u>9,603</u>	<u>9,008</u>
Fair value loss on investment in subsidiaries	6	(537)	(1,088)
Net operating income		<u>9,066</u>	<u>7,920</u>
Administrative expenses		(3,592)	(4,055)
Net operating profit		<u>5,474</u>	<u>3,865</u>
Income from investment in subsidiaries		375	-
Impairment of non-ECF investment assets	7.1	(273)	-
Impairment of ECF investment assets	7.1	(30,755)	(32,643)
Fair value gain on derivatives	7.2	5,408	6,638
Unwind ECF fair value impairment	7.1	12,712	13,083
ECF fair value provision		(38,531)	(36,591)
Loss on ordinary activities before taxation		<u>(45,590)</u>	<u>(45,648)</u>
Tax on loss on ordinary activities	5	2,011	1,738
Loss for the year		<u>(43,579)</u>	<u>(43,910)</u>
Other comprehensive income net of tax			
Net gain on investments recognised in reserves	7.1	1,243	-
Comprehensive net loss for the period		<u>(42,336)</u>	<u>(43,910)</u>

All operations are continuing

The notes on pages 9 to 28 form part of these financial statements

British Business Finance Ltd
Statement of Financial Position
as at 31 March 2017

	Notes	2017 £000	2016 £000
Non-current assets			
Available-for-sale assets	7.1	174,147	144,237
Derivative financial instruments	7.2	24,319	18,911
Investment in subsidiaries	6	1,953	2,490
Total non-current assets		<u>200,419</u>	<u>165,638</u>
Current assets			
Trade and other receivables	8	1,651	1,545
Cash and cash equivalents		2,884	7,677
Total current assets		<u>4,535</u>	<u>9,222</u>
Total assets		<u>204,954</u>	<u>174,860</u>
Current liabilities			
Trade and other payables	9	(896)	(363)
Provisions	12	(29,258)	(26,373)
Total current liabilities		<u>(30,154)</u>	<u>(26,736)</u>
Total assets less current liabilities		<u>174,800</u>	<u>148,124</u>
Non-current liabilities			
Payables: amounts falling due after more than one year	10	(35)	(9)
Deferred taxation	11	(1,243)	(2,903)
Other provisions	12	(117,485)	(81,839)
Total non-current liabilities		<u>(118,763)</u>	<u>(84,751)</u>
Net assets		<u>56,037</u>	<u>63,373</u>
Equity			
Called up share capital	13	166,715	31,692
Other reserves	14	1,243	100,023
Retained loss	16	(111,921)	(68,342)
Total equity		<u>56,037</u>	<u>63,373</u>

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

The financial statements (company number 09091928) were approved and authorised for issue by the board on 25 October 2017 and have been signed on its behalf by:


C N Fox
Director

The notes on pages 9 to 28 form part of these financial statements

British Business Finance Ltd
Statement of Changes in Equity
for the year ended 31 March 2017

	Share capital £000	Financial Instruments reserve £000	Capital reserve £000	Retained earnings £000	Total £000
Opening balance at 1 April 2015	18,692	-	100,023	(24,432)	94,283
Loss for the financial year	-	-	-	(43,910)	(43,910)
Shares issued	13,000	-	-	-	13,000
Balance at 31 March 2016	<u>31,692</u>	<u>-</u>	<u>100,023</u>	<u>(68,342)</u>	<u>63,373</u>
Opening balance at 1 April 2016	31,692	-	100,023	(68,342)	63,373
Loss for the financial year	-	-	-	(43,579)	(43,579)
Revaluation	-	1,243	-	-	1,243
Other comprehensive income for the financial year	-	1,243	-	-	1,243
Total comprehensive income for the financial year	-	1,243	-	(43,579)	(42,336)
Shares issued	35,000	-	-	-	35,000
Capital reserve converted to share capital	100,023	-	(100,023)	-	-
Balance at 31 March 2017	<u>166,715</u>	<u>1,243</u>	<u>-</u>	<u>(111,921)</u>	<u>56,037</u>

British Business Finance Ltd
Statement of Cash Flows
for the year ended 31 March 2017

	Notes	2017 £000	2016 £000
Cash flows from operating activities			
Loss before tax		(45,590)	(45,648)
Increase in receivables	8	(134)	(954)
Increase/(decrease) in payables	9	559	(1,976)
		<u>(45,165)</u>	<u>(48,578)</u>
Accrued interest	7.1	(9,483)	(8,429)
Fair value loss on investment in subsidiaries	6	537	1,088
Unwind of ECF impairments	7.1	(12,712)	(13,083)
Impairment of available for sale assets	7.1	31,028	32,643
Fair value gains on derivatives	7.2	(5,408)	(6,639)
Corporation tax paid	5	379	(1,450)
Net provisions	12	38,531	36,591
Net cash used in operating activities		<u>(2,293)</u>	<u>(7,857)</u>
Cash flows from investing activities			
Payments to acquire investments	6	-	(49)
Payments for assets available for sale	7.1	(55,721)	(34,652)
Repayment of available for sale	7.1	18,221	23,962
Net cash used in investing activities		<u>(37,500)</u>	<u>(10,739)</u>
Cash flows from financing activities			
Proceeds from the issue of shares		35,000	13,000
Net cash generated by financing activities		<u>35,000</u>	<u>13,000</u>
Net cash used			
Cash used in operating activities		(2,293)	(7,857)
Cash used in investing activities		(37,500)	(10,739)
Cash generated by financing activities		35,000	13,000
Net cash used		<u>(4,793)</u>	<u>(5,596)</u>
Cash and cash equivalents at 1 April		<u>7,677</u>	<u>13,273</u>
Cash and cash equivalents at 31 March		<u>2,884</u>	<u>7,677</u>
Cash and cash equivalents comprise:			
Cash at bank		<u>2,884</u>	<u>7,677</u>

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

1 General information

British Business Finance Limited (the Company) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 1. The nature of the Company's operations and its principal activities are set out in the Directors' Report on page 2.

2 Summary of significant accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards 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 Company operates. The Company has used the exemption available under s400 of the Companies Act 2006 not to prepare consolidated accounts. As a result, these financial statements reflect the financial position of the Company on an unconsolidated basis. The results of the Company and its subsidiary undertakings have been consolidated within the accounts of its parent, British Business Bank plc.

Going concern

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

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

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

2 Summary of significant accounting policies (continued)

Adoption of new and revised Standards

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

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

- IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions;
- IFRS 9 Financial Instruments
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- IFRS 14 Regulatory Deferral Accounts;
- IFRS 15 Revenue from Contracts with Customers;
- IFRS 16 Leases;
- Annual Improvements to IFRSs 2012-2016 Cycle;
- IAS 7 (amendments) Statement of Cash Flows;
- IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses;
- IAS 40 (amendments) Transfers of Investment Property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration.

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

Revenue recognition

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

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

2 Summary of significant accounting policies (continued)

Interest income

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

Taxation

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

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

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

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

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

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

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

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

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

2 Summary of significant accounting policies (continued)

Financial Instruments

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

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

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

Financial assets

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

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

Financial assets are classified as at FVTPL when the financial asset is a derivative financial instrument, held for trading or it is designated as at FVTPL. The company's derivative financial instruments have been designated as at FVTPL.

Available-for-sale (AFS) financial assets

Available for sale 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 and loss. The company has investments in venture capital investments which are classified as AFS. Fair value is determined in the manner described in note 19. 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 and dividends received are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the financial instrument reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Company's right to receive the dividends is established.

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

2 Summary of significant accounting policies (continued)

Impairment of financial assets

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

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

- significant financial difficulty of the issuer or counterparty, or
- default or delinquency in interest or principal payments, or
- it becomes probable that the borrower will enter bankruptcy or financial reorganisation.

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

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

De-recognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The Company does not currently hold any financial liabilities.

Cash and cash equivalents

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

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

2 Summary of significant accounting policies (continued)

Provisions

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

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

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

3 Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. This applies in particular to the valuation of Enterprise Capital Funds. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the 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.

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

- Fluctuations in the fair values of assets designated as at fair value through profit or loss, where quoted prices and other valuation models and techniques are used to determine estimated future cash flows, and include a number of other assumptions.
- Directors' judgements with regard to the impairment of assets

In addition, there is uncertainty in estimating the effective interest rate for various fund investments classified as debt. 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 investment 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.

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

4 Staff costs

The Company has no employees other than the Directors. The Directors did not receive any emoluments for their roles in the Company.

5 Taxation

	2017	2016
	£000	£000
Analysis of charge in period		
Current tax:		
UK corporation tax on profits of the period	886	125
Adjustments in respect of previous periods	(1,237)	-
	<u>(351)</u>	<u>125</u>
Deferred tax:		
Origination and reversal of timing differences	(1,660)	(1,863)
	<u>(2,011)</u>	<u>(1,738)</u>
Tax on loss on ordinary activities	<u>(2,011)</u>	<u>(1,738)</u>

Factors affecting tax charge for period

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

	2017	2016
	£000	£000
Loss on ordinary activities before tax	<u>(45,590)</u>	<u>(45,648)</u>
Standard rate of corporation tax in the UK	20%	20%
	£000	£000
Loss on ordinary activities multiplied by the standard rate of corporation tax	(9,118)	(9,130)
Effects of:		
Expenses not deductible for tax purposes	9,718	7,808
Short term timing differences	286	1,447
Adjustments to tax charge in respect of previous periods	(1,237)	-
Current tax charge for period	<u>(351)</u>	<u>125</u>

Corporation tax payable

	2017	2016
	£000	£000
Corporation tax payable at 1 April 2016	(505)	820
Current tax charge for the period	(351)	125
Corporation tax paid	379	(1,450)
Corporation tax (receivable)/payable at 31 March 2017	<u>(477)</u>	<u>(505)</u>

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

6 Investment in subsidiaries

	Shares in subsidiary undertakings	
	2017	2016
Cost or valuation	£000	£000
As at 1 April	2,490	3,529
Additions	-	49
Fair value movement	(537)	(1,088)
	<u>1,953</u>	<u>2,490</u>

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

Company	Country of Incorporation	Shareholding percentage	Description
Aspire Holdco Limited	UK	100	Investment company
Capital for Enterprise Fund Managers Ltd*	UK	100	Fund manager
Capital for Enterprise (GP) Ltd*	UK	100	General partner of a limited partnership
Capital for Enterprise Ltd	UK	100	Holding company

* Indicates investment is not held directly in these companies.

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

7 Investments

The Company's investments have been designated as either available for sale or fair value through the profit or loss. This note provides further details on each investment and its value at the balance sheet date.

Enterprise Capital Funds

The Company runs Enterprise Capital Funds. Enterprise Capital Funds are commercially focused funds that bring together private and public money to make equity investments in high growth businesses. The Company invests into funds on terms that improve the outcome for private sector investors when those funds are successful. It does this by taking an agreed prioritised return of 3 to 4.5% which is paid regardless of a fund's performance. In return the Company is entitled to less of the remaining upside gain, in excess of the agreed return, if a fund is successful.

The Company intentionally makes a trade-off between the prioritised return and upside gains. Overall, the terms mean that the Company expects the Enterprise Capital Funds to provide a positive return, 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 the Company make in Enterprise Capital Funds 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. In effect, this corresponds to the amount that a private sector investor would pay for the investment. 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 7.1 for details.

In addition, the Company signs ECF agreements committing to the prioritised return and reduced upside gain in advance of drawdowns. At the point that the Company enters into a new commitment it becomes probable that it will incur accounting losses through recognition of a fair value impairment. Consequently the Company 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 12 for details.

Where a fund performs well enough to more than repay the Company's prioritised return and capital the remaining return is accounted for as a derivative. These are detailed in note 7.2.

British Business Finance Ltd
Notes to the Financial Statements
for the year ended 31 March 2017

7 Investments (continued)

Other Venture Capital Investments

The Company also has two other smaller Venture Capital schemes: Bridges Community Development Venture Fund (CDVF) and the Capital for Enterprise Fund. These are detailed in note 7.1.

7.1 Assets designated as available for sale

The designation of financial assets as available for sale is consistent with the Company's documented risk management and investment strategy. The Company's investment assets portfolio is managed and its performance is evaluated by the Company's key management personnel on a fair value basis.

At 31 March 2017	Bridges CDVF £000	Capital for Enterprise Fund £000	Enterprise Capital Funds £000	Total £000
At 1 April 2016	1,311	6,614	136,312	144,237
Additions	17	-	55,704	55,721
Repayments	-	(5,992)	(12,229)	(18,221)
Accrued interest	-	-	9,483	9,483
Unwind of impairment	-	-	12,712	12,712
Revaluation	-	1,243	-	1,243
Impairment	(273)	-	(30,755)	(31,028)
At 31 March 2017	1,055	1,865	171,227	174,147

At 31 March 2016	Bridges CDVF	Capital for Enterprise Fund	Enterprise Capital Funds	Total
At 1 April 2015	1,393	7,253	136,032	144,678
Additions	-	265	34,387	34,652
Repayments	(82)	(904)	(22,977)	(23,963)
Accrued interest	-	-	8,430	8,430
Unwind of impairment	-	-	13,083	13,083
Impairment	-	-	(32,643)	(32,643)
At 31 March 2016	1,311	6,614	136,312	144,237

7.2 Derivatives - Enterprise Capital Funds

	2017 £000	2016 £000
At 1 April	18,911	12,272
Revaluation	5,408	6,639
At 31 March	24,319	18,911

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8 Trade and other receivables	2017 £000	2016 £000
Trade receivables	1	5
Amounts owed by group undertakings	1,173	1,033
Other receivables	-	2
Corporation tax	477	505
	<u>1,651</u>	<u>1,545</u>

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

There were no amounts which are past due at the reporting date. No impairment was recognised against the trade and other receivables as at the reporting date.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value

9 Trade and other payables	2017 £000	2016 £000
Trade payables	-	34
Amounts owed to group undertakings	637	-
Other taxes and social security costs	-	2
Other payables	242	229
Accruals and deferred income	17	98
	<u>896</u>	<u>363</u>

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

10 Payables: amounts falling due after one year	2017 £000	2016 £000
Other payables	<u>35</u>	<u>9</u>

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11 Deferred taxation	2017	2016
	£000	£000
Timing differences on ECF investments	<u>1,243</u>	<u>2,903</u>
	2017	2016
	£000	£000
At 1 April	2,903	4,766
Credited to the income statement	(1,660)	(1,863)
At 31 March	<u>1,243</u>	<u>2,903</u>

Deferred tax relates to the Company's investments in Enterprise Capital Funds. It is calculated at 17% (2015: 20%) 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.

12 Provisions

	2017	2016
	£000	£000
At 1 April	108,212	71,621
Provided in year	60,959	48,875
Provision released in year	(2,821)	(2,042)
Provision utilised in year	(19,607)	(10,242)
At 31 March	<u>146,743</u>	<u>108,212</u>
Of which:		
Current	29,258	26,373
Non-current	<u>117,485</u>	<u>81,839</u>
	<u>146,743</u>	<u>108,212</u>

All provisions relate to loan investments.

13 Share capital

	2017	2016
	No.	No.
Authorised: ordinary shares of £1 each	<u>166,715,000</u>	<u>31,692,000</u>
	2017	2016
Issued and fully paid ordinary shares of £1 each		
At 1 April	31,692	18,692
Shares issued	135,023	13,000

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

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14 Capital reserve	2017 £000	2016 £000
At 1 April	100,023	100,023
Capital reserve converted to Share Capital	(100,023)	-
Movement in the year	-	-
At 31 March	<u>-</u>	<u>100,023</u>

15 Financial instruments reserve	2017 £000	2016 £000
At 1 April	-	-
Movement in the year	1,243	-
At 31 March	<u>1,243</u>	<u>-</u>

16 Retained loss reserve	2017 £000	2016 £000
At 1 April	(68,342)	(24,432)
Loss for the financial year	(43,579)	(43,910)
At 31 March	<u>(111,921)</u>	<u>(68,342)</u>

17 Events after the reporting date

Following the year end, on 1 April 2017 the Company through British Business Finance Limited took control of The Start-Up Loans Company. As this transaction did not take place until after the reporting date the financial statements and accompanying notes do not include any amounts in respect of The Start-Up Loans Company.

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

18 Capital commitments

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

	2017 £000	2016 £000
Enterprise Capital Funds	324,762	253,594
Bridges Community Development Venture Fund	577	577
Capital for Enterprise Fund	-	-
Amounts contracted for but not provided in the accounts	<u>325,339</u>	<u>254,171</u>

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19 Financial Instruments

(i) Categories of financial instruments

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

At 31 March 2017	Note	Assets held at FVTPL £000	Available-for-sale- assets £000	Loans and receivables £000	Liabilities held at amortised costs £000	Non- financial assets and liabilities £000	Total £000
Assets							
Designated as AFS	7.1	-	174,147	-	-	-	174,147
Derivatives	7.2	24,319	-	-	-	-	24,319
Investment in subsidiaries	6	-	-	-	-	1,953	1,953
Trade and other receivables	8	-	-	1,651	-	-	1,651
Cash and cash equivalents		-	-	2,884	-	-	2,884
Total assets		24,319	174,147	4,535	-	1,953	204,954
Liabilities							
Trade and other payables	9	-	-	-	(931)	-	(931)
Corporation tax	5	-	-	-	-	-	-
Deferred tax	11	-	-	-	-	(1,243)	(1,243)
Provisions	12	-	-	-	-	(146,743)	(146,743)
Total Liabilities		-	-	-	(931)	(147,986)	(148,917)
Net Assets		24,319	174,147	4,535	(931)	(146,033)	56,037

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19 Financial Instruments (continued)

(ii) Fair value measurements

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

The investment portfolio consists of assets designated as available for sale where fair value is measured on a recurring basis. 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.

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 risk adjusted premium.

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

The derivatives are valued using the Black-Scholes model. The key inputs used in the derivative valuation are outlined in the table below:

Input	Assumption in determining the input
Net amount drawn and fund valuation as at 31 March 2017	Reported by fund managers
Time to fund exit - ranging from 0 to 10 years	Assessed separately for each fund based on remaining investment period and estimated timetable for fund exits.
Volatility - ranging from 19% to 20%	The VIX and VXN indexes have been used as a proxy for the expected volatility for non-sector specific and technology specific funds respectively.
Dividend yield - ranging from 3% 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

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19 Financial Instruments (continued)

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 (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's financial assets classed as available for sale are classified as Level 3 assets.

At 31 March 2017, the net fair value loss on the investment assets was £(26.0) million (2016: £1.3m gain) taken to the Statement of Comprehensive Net Income.

(iii) Financial risk management

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

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

- Credit risk
- Market risk

Liquidity risk is not deemed relevant for the Company.

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19 Financial Instruments (continued)

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

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

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

The concentration of credit risk is limited due to the investment base being large and spread across the Company's operating segments. Accordingly, the Directors believe that there is no further credit provision required in excess of the provision for impairment losses as shown in note 7.1.

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

Market risk

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

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

Interest rate risk

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

Currency risk

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

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19 *Financial Instruments (continued)*

Liquidity risk

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

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

20 *Contingent liabilities and indemnities*

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

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

British Business Finance Ltd
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21 Related party transactions

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

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

	2017	2016
	£000	£000
Income		
British Business Bank Investments Limited	121	125
British Business Financial Services Limited	-	75
	<u>121</u>	<u>200</u>
Expenditure		
British Business Bank PLC	2,603	3,050
	<u>2,603</u>	<u>3,050</u>

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

Amounts outstanding at the year end

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

	Receivable	
	2017	2016
	£000	£000
British Business Bank PLC	-	814
British Business Bank Investments Ltd	1,069	9
British Business Financial Services Limited	103	107
Aspire Holdco Limited	-	103
	<u>1,172</u>	<u>1,033</u>
	Payable	
	2017	2016
	£000	£000
British Business Bank PLC	457	-
Aspire Holdco Limited	178	-
	<u>635</u>	<u>-</u>

British Business Finance Ltd
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22 Ultimate Controlling party

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