BRITISH BUSINESS BANK INVESTMENTS

PROFITABLE. PRODUCTIVE. INNOVATIVE.

Annual Report and Accounts 2016

CONTENTS

"A SECOND SUCCESSFUL SET OF RESULTS DEMONSTRATES OUR ABILITY TO DELIVER ON THE FULL RANGE OF OBJECTIVES SET BY OUR SHAREHOLDER."

Keith Morgan
Chairman

A SUCCESSFUL SECOND YEAR OF GROWTH

British Business Bank Investments Ltd's second successful set of results demonstrates its ability to deliver on the full range of objectives set by its shareholder.

Keith Morgan
Chairman

In the last year we successfully catalysed an increased supply of finance to our target SME and small mid-cap businesses. We've enhanced the diversity of choice in the market while, at the same time earning an attractive, commercial return for the taxpayer.

Delivering on objectives

In year to 31 March 2016, we generated income from our investments of £45.5 million, which delivered a pre-tax profit of £40.0 million.

This represents an excellent result and will support the payment of dividends for the year of £32.0 million (£11 million of which was declared in March) to our shareholder, British Business Bank plc.

Our gross return on average capital for the period was 7.6%, and our return net of costs was 6.7% – both remaining comfortably ahead of the benchmark return targets set for the company.

By the year-end our portfolio had grown to 34 investments, comprising:

- 6 established mid-market direct lending funds
- 8 newer debt funds focusing on smaller companies
- 6 asset finance providers
- 5 peer-to-peer and technology-enabled lenders
- 1 challenger bank
- 8 venture capital funds.

We've invested £0.7 billion alongside a further £4.6 billion of third party capital to provide £5.2 billion to 12,068 UK firms at 31 March 2016.

With commitments totalling £413 million at 31 March 2016, our Investment Programme has exceeded its initial objective of committing £400 million to finance providers who supply smaller business in the UK. With a strong pipeline of investment opportunities, we now embark on the next phase of our business plan which envisages a further £700 million of commitments over the next five years.

Responsive to changing conditions

Our position and activity in the market gives us important information to shape our offering, helping us adapt our approach to maintain our relevance and effectiveness.

During the year we introduced our Expansion Capital offering, giving us the ability to be a lead investor in the market where the commercial case and benefit for smaller businesses is sufficiently strong. This complements our existing pari passu approach.

We continue to evaluate our activities, not just for success and impact, but to consider where our capital can be most usefully and catalytically deployed. Where areas are sufficiently developed and capital is readily available from the private sector, we may consider pulling back or, alternatively, seeking a return of capital from investments to reinvest where we see greater opportunity.

2015–16 has been a year of growth and momentum. As we enter a period of increased uncertainty following the result of the EU referendum, our support for key segments of the finance market becomes even more important. We will continue to deliver against our objectives, in order to enable the UK's smaller businesses to realise their potential.

The following Strategic Report provides more detail on our range of investment activities, and the financial results for the year.

> "OUR FUNDING OF £0.7 BILLION HAS BEEN INVESTED ALONGSIDE A FURTHER £4.6 BILLION OF THIRD PARTY CAPITAL TO PROVIDE £5.2 BILLION TO 12,068 UK FIRMS AT 31 MARCH 2016."

The Board

Over the last year the company has benefited enormously from the commitment and hard work of its Executive team and Board.

Peter Wilson, who stepped down as CEO on 31 March 2016 after successfully leading this initial phase of the business, brought strong leadership and direction to the organisation. I would like to express my thanks to him for all he has achieved for the company.

I would also like to thank Pat Butler, who stepped down as a Non-executive Director and Chair of our Audit and Risk Committee at the end of May 2016. Pat has been an invaluable member of the team over the last three years, helping us shape the business we have today, and providing wise counsel on investment decision making and strategy alike.

Looking forward, it gives me great pleasure to welcome our new CEO, Catherine Lewis La Torre. We are delighted to have appointed such a highly respected industry leader – with over thirty years of fund management experience – to take the business forward.

She will be joined on the Board by two new Non-executive Directors – Sara Halbard and Francis Small – both of whom bring with them a wealth of knowledge and experience. I look forward to working with them all to continue the success of the first two years.

Approval of the Strategic Report

I hope you agree that this has been a second successful year, where the impact of our activities has increased and the benefits have been more widely felt. It's a year of which the team can be rightly proud, and one that gives us an excellent base from which to move forward into the next phase of our plan.

The following Strategic Report was approved by the Board and signed on its behalf by

Keith Morgan
Chairman

MEET THE TEAM[1]

Richard Coldwell

Director

Richard Coldwell joined the team in June 2012 and was previously involved in establishing the Business Finance Partnership Small Company programme. He focuses on the peer-to-peer and market-based lending sector.

Richard is a Chartered Accountant with a background in corporate finance having worked for KPMG, ING and GE Commercial Finance.

Peter Garnham

Director

Peter is chairman of the company's Portfolio Monitoring and Valuation Committee. He joined the British Business Bank set-up team, as a director in the debt team, to work on the development of the Start-up Loans and Business Finance Partnership initiatives. With a background in specialised finance in major commercial and investment banks, Peter worked in corporate finance with accountants Ernst & Young before developing venture capital company YFM Venture Finance as its Managing Director. He acts as a mentor to SME businesses around South Yorkshire and to students at Sheffield Hallam University.

Marilena Ioannidou

Director

Marilena joined in December 2013. She joined from the Shareholder Executive within the Department for Business, Innovation and Skills where she had worked as an assistant director responsible for developing optimal strategies for a range of Government owned state assets since 2010. Her previous career was spent largely in investment banking, having been a Vice President at Citigroup Global Markets where she worked in equity capital markets, FIG M&A and financial strategy teams from 2000 to 2008.

Adam Kelly

Director

Adam joined in October 2013, from the Shareholder Executive within the Department for Business, Innovation and Skills where he had worked since 2010. His previous career was spent in corporate finance at two investment banks, most recently in the Financial Institutions team at J.P. Morgan Cazenove from 2004 to 2010. Prior to that, Adam spent six years at Dresdner Kleinwort Wasserstein working in several sector specific teams.

Rob McElroy

Director

Rob joined in February 2013 as part of the initial team to advise on the design, set-up and implementation of the Business Bank project. Now a director within British Business Bank Investments Ltd, Rob has responsibility for overseeing new investment proposals along with portfolio management.

Prior to joining, Rob spent seven years at Barclays where he was latterly responsible for the management of their corporate banking business in Scotland having previously specialised in Structured and Project Finance. Prior to his time at Barclays, Rob worked for both Allied Irish Bank (GB) and Bank of Scotland in relationship roles across their corporate banking businesses.

[1] Team members that joined before 1 November 2014 were part of the Department for Business, Innovation and Skills or Capital for Enterprise Limited, as part of the British Business Bank set-up team.

Jonathan Marriott

Senior Manager

Jonathan joined in June 2013. He has a wealth of SME lending experience having been employed in banking and finance since 1985. Jonathan previously worked for Yorkshire Bank, Santander plc and more recently RBS Invoice Finance Ltd where he held a Senior Relationship Manager position.

Jonathan is an Associate of the Chartered Institute of Bankers.

Alex Bartolini

Manager

Alex joined in January 2016 from UBFS, a family office engaged in private equity placements in Africa, where he had worked since 2015. Prior to that Alex spent two and half years at GE Capital working in Risk Management and Leveraged Finance on several large and mid-cap sponsored deals across Europe and the United States.

Alex holds a BA (Hons) Degree in International Business from University of Westminster in London and a Master's Degree in Project Management from ESCP Europe in Madrid.

Hala Georgy

Analyst

Hala joined in January 2016, having worked for a global firm 'NetApp' where she held an Operations Manager position, managing EMEA Account Receivables, working closely with internal treasury and J.P. Morgan.

Hala is a qualified accountant and holds a BSc degree in Foreign Commerce, Accounting and Business Management from Helwan University Egypt. She is also a member of the Association of Accounting Technicians.

Mark Barry

Manager

Mark joined in November 2015. He is a Chartered Accountant with a background in asset management having joined from PwC.

He holds a BA in Economics from University College Dublin.

Mark Coggin

Manager

Mark joined in June 2016 from Ernst & Young LLP, Manchester, where he had most recently worked as a Corporate Finance Executive specialising in transaction and investment-based support within the Infrastructure, Transport and Government sector, having started as a trainee in 2010.

Mark is a Chartered Accountant, and is a member of the Institute of Chartered Accountants for Scotland (ICAS). He holds a BA (Hons) in Economics from the University of Manchester.

"The team at British Business Bank Investments Ltd has helped us raise awareness, and use, of asset finance, therefore ensuring that more UK small businesses can access the funding they need to grow."

Simon Goldie
Head of Asset Finance, FLA

OUR APPROACH

British Business Bank Investments Ltd is the commercial subsidiary of the British Business Bank plc. We aim to earn a commercial return without receiving any advantage from the Government.

SUPPORT

the development of diverse debt and equity finance markets

INCREASE

the level of finance to SME and small mid-cap businesses

PROMOTE

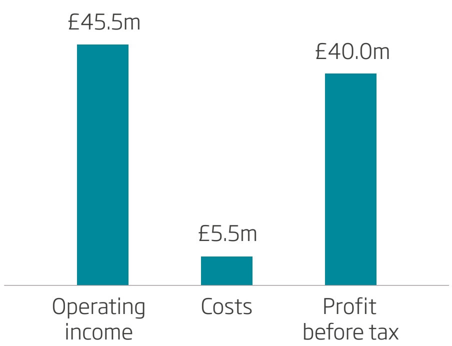
competition and increased supply through new and existing finance providers

PROFITABLE

In the 12 months to 31 March 2016 we have generated income of £45.5 million from our investment portfolio, against average capital of £599.2 million.

Given costs of £5.5 million, the result was a pre-tax profit of £40.0 million. The return on average capital invested was 7.6% before costs and 6.7% net of costs.

2016 results



2016 return on average capital

7.6% gross

6.7% net

PRODUCTIVE

34

investments in our portfolio

£0.7BN

invested alongside £4.6 billion of private sector funding

12,068

distinct UK businesses supported

INNOVATIVE

Supporting innovative approaches to providing finance which expand the reach and choice of funding for smaller UK businesses.

Tier 2 capital investment in a challenger bank

Enabling the UK's first provider of merchant cash advances to expand

First investment under our Expansion Capital initiative

MID MARKET DIRECT LENDING

Mid market direct lending continues to grow, gaining investor acceptance as an alternative asset class.

OVERVIEW

6
portfolio investments

£855m
committed

£472m
invested across 71 businesses as of 31 March 2016

The Business Finance Partnership has been catalytic in developing the asset class in the UK. From 2012, £863[2] million was committed alongside an initial £1.9 billion of private sector capital, to six active participants in the market with the ability to scale. We continue to actively manage this portfolio and allocations of capital across the managers.

Direct lending continues to evolve and is becoming an asset class in its own right. Almost €20 billion of capital was raised by European direct lending funds in 2015 and a further €15 billion is targeted in fundraising over the next 12 months. The UK is the most active direct lending market in Europe with more than a third of the overall deal flow.

Marilena Ioannidou
Director

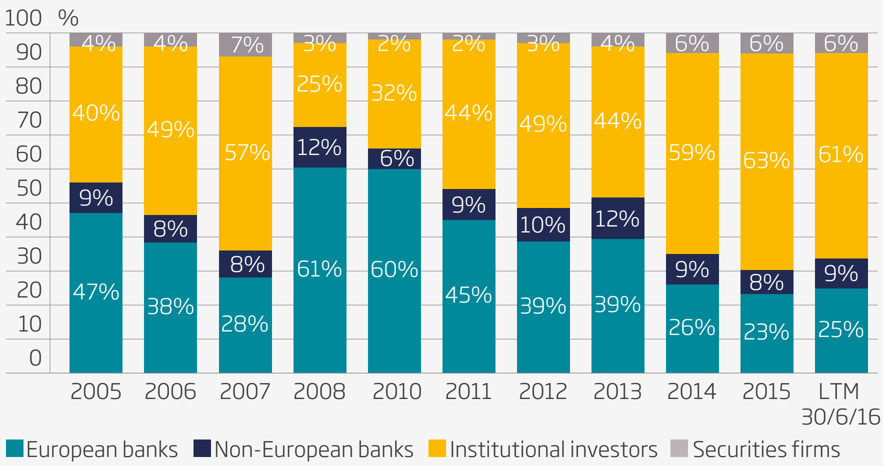
"The asset class is continuously growing in attractiveness to investors as an alternative source of yield and by borrowers as an alternative source of funding. We continue to explore options for building on the success of the portfolio."

Partners

Alentra, ARES, ICG, HAYFIN, M&G Investments, Pricoa Capital Group

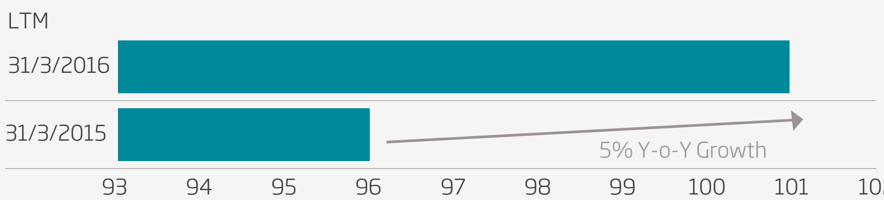
Institutional investors now provide over 60% of European leveraged loans

Market by investor type – Europe



Source: LCD European Leveraged Lending Review 2Q 2016

UK deal count continues to grow



Source: Deloitte Alternative Lender Deal Tracker 1Q 2016

"We really appreciate the support for Alcentra's direct lending activities – it has been catalytic in helping drive increased non-bank lending in the UK."

Graeme Delaney-Smith
Head of European Direct Lending and Mezzanine Investments, Alcentra

"The significant and timely financial commitment to Ares' direct lending fund supported both the needs of the UK economy as well as served to increase recognition and acceptance of direct lenders as an alternative source of capital to UK middle market companies. Today, Ares is lending £500 million pa in the UK."

Michael Dennis
Head of Direct Lending, Ares

[2] £855 million as of 31 March 2016 accounting for the expiry of Pricoa's investment period on 30 June 2015 and the reallocation of capital to Ares and Alcentra over the period.

DEBT FUNDS

OVERVIEW

8
portfolio investments

£250M
committed

£76M
invested across 48 businesses as of 31 March 2016

Developing new debt funds to increase lending to smaller businesses across the UK.

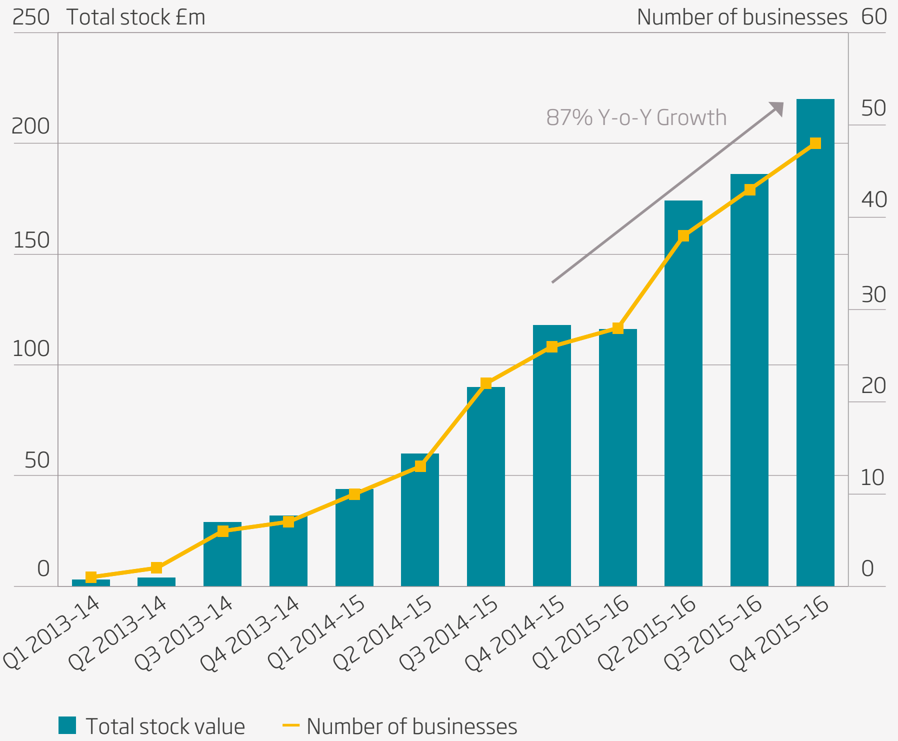
The Investment Programme, following on from the success of the Business Finance Partnership, has continued to invest, alongside institutional investors in funds providing a range of debt products to SMEs and smaller mid-cap companies throughout the UK.

With a portfolio of funds now offering products including direct senior secured loans through to tailored mezzanine and unitranche debt, delivered out of regional offices, borrowers have increased access to growth capital that meets their needs.

Peter Garnham
Director

"Our portfolio of funds is providing a wider range of debt products and delivery partner locations for UK businesses to access."

Direct lending stock evolution



"British Business Bank Investments Ltd's investment has acted as a catalyst for our first UK SME Fund aimed at smaller businesses exclusively in the UK. It typically provides senior debt directly to them."

Paul Shea
Managing Partner, Beechbrook Capital

"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."

George Muzinich
CEO and Chairman, Muzinich & Co

Partners

BOOST&Co
bmsfinance
Præsidian capital
European Capital
BEECHBROOKcapital
CORDET CAPITAL PARTNERS
Muzinich & Co

TECHNOLOGY ENABLED/ PEER-TO-PEER LENDING

This sector continues to evolve rapidly as business models develop and products are adopted by the market. We continue to follow these developments closely, to ensure a strong alignment with our own objectives.

OVERVIEW

5
portfolio investments

£95M
committed

£48M
invested across 8,466 businesses as of 31 March 2016

The support provided during the year to Liberis also sees a broadening of the scope of our investments, providing a further type of finance in the form of a merchant cash advance to smaller businesses in the UK. This innovative approach sees funding advanced in exchange for a share of future card receivables.

Looking forward we continue to engage with the market in order to consider other opportunities in which British Business Bank Investments Ltd may wish to participate.

Jonathan Marriot
Senior Manager

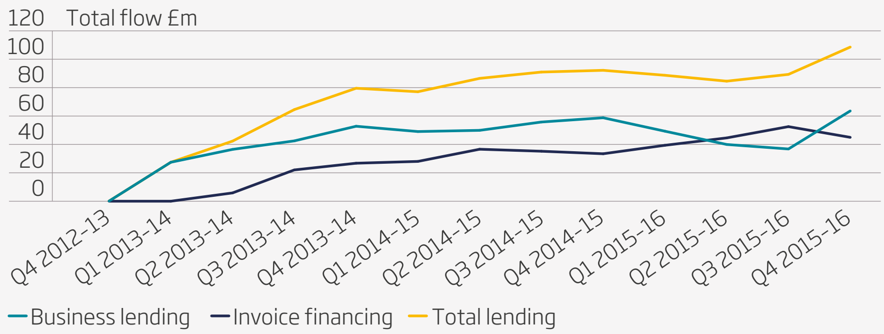
Richard Coldwell
Director

"The platforms we have supported continued to mature during the year and are providing valuable lending to an increasing number of SMEs."

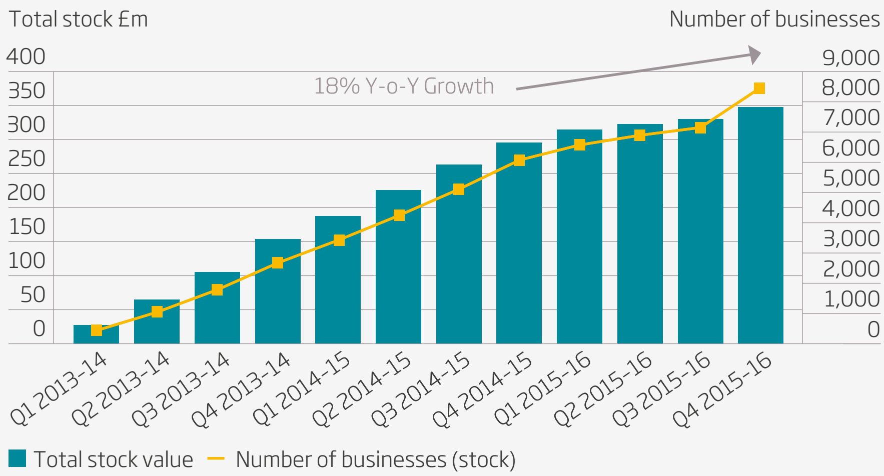
Partners

RateSetter, Liberis, MarketInvoice, URICA, Funding Circle

Quarterly lending



Technology enabled lending stock evolution



"The British Business Bank Investments Ltd team took the time to understand our product and the benefits this brings for the SME. The capital provided will see hundreds of additional SMEs across the UK have access to this vital and flexible funding fuelling their growth."

Paul Mildenstein
CEO, Liberis

"The additional commitment from British Business Bank Investments Ltd is further proof of our ability to quickly and transparently provide much-needed short-term cashflow finance to high growth businesses. We're grateful for their support of our mission."

Anil Stocker
CEO, MarketInvoice

ASSET FINANCE

OVERVIEW

6
portfolio investments

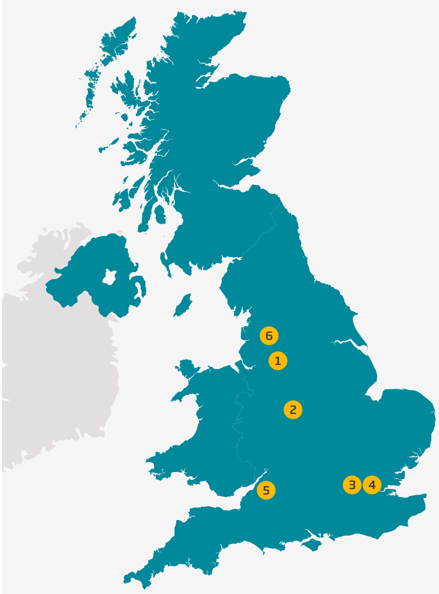
£110M
committed

£36M
invested across 3,555 businesses as of 31 March 2016

Asset finance continues to play a vital role in supporting economic growth, having funded the purchase of almost one-third of the UK investment in machinery, equipment and software on the back of 33 consecutive months of new business growth[3].

Independent asset finance providers continue to find the lack of available capital as the major factor constraining their growth and ability to meet the funding needs of UK businesses. The nature of this capital restriction has, however, changed over the course of the year as the supply of senior funding to the sector has increased.

What is now most commonly holding back growth in this sector is the level of subordinated capital available – as either equity or junior debt. It is with this in mind that, while adding to our investment portfolio and providing senior funding, we have also looked to provide some structured funding solutions that unlock the growth for asset finance providers using our Expansion Capital offering.



Providers:

1. Kingsway
   Wilmslow
2. Shire
   Tamworth
3. Private and Commercial Finance
   London
4. Credit Asset Management Limited
   London
5. UFG
   Bristol
6. Haydock
   Blackburn

"As an independent company, Haydock Finance are delighted to be working in conjunction with British Business Bank Investments Ltd. The team have a detailed understanding of the market and used their expertise to structure a flexible solution to meet the needs of our asset finance business and support our strategic growth plans. With the availability of a £25 million incremental line, British Business Bank Investments Ltd will become a significant source of funding for Haydock, with our SME customers nationwide ultimately enjoying the benefits."

Steve Worrall
Managing Director, Haydock Finance

Partners

Haydock Finance
CAML
kingsway Asset Finance Ltd
Shire Leasing Part of Shire Business Group
Private & Commercial Finance
ultimate finance group

Rob McElroy
Director

"This year we have become a clearly established participant in the market, and are now a significant provider of capital. More than that we have been able to deliver flexible tailored solutions that unlock real growth for the companies and significant additional potential funding for smaller business in the UK."

[3] Source: FLA

CHALLENGER BANKS

OVERVIEW

1
portfolio investment

£30M
committed

£30M
invested

One of our key objectives has been to help support diversity in the smaller business lending markets, and a key element of this is our support for the growth of challenger banks.

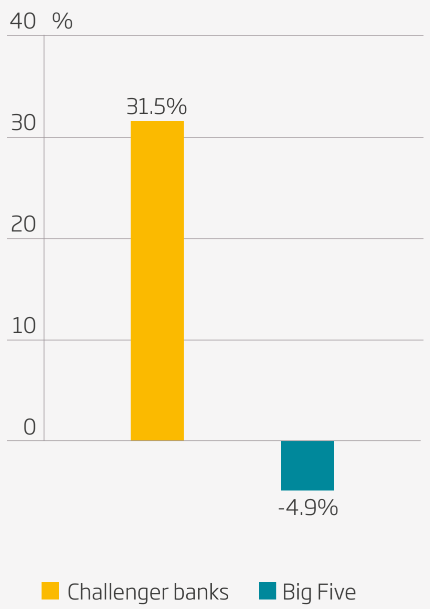
In October 2015, British Business Bank Investments Ltd made its first investment in a challenger bank by committing £30 million in Shawbrook Group plc's £75 million Tier 2 note issuance. Funds raised from the issue will enable Shawbrook Bank to increase its volume of lending to smaller businesses, supporting the bank's growth over the medium term.

We have developed a strong understanding of the market dynamics and challenges faced through our continued engagement with many market participants. The Shawbrook investment is an example of our ability to consider opportunities that fit our mandate of supporting the increased volume and diversity of lending to smaller businesses in the UK.

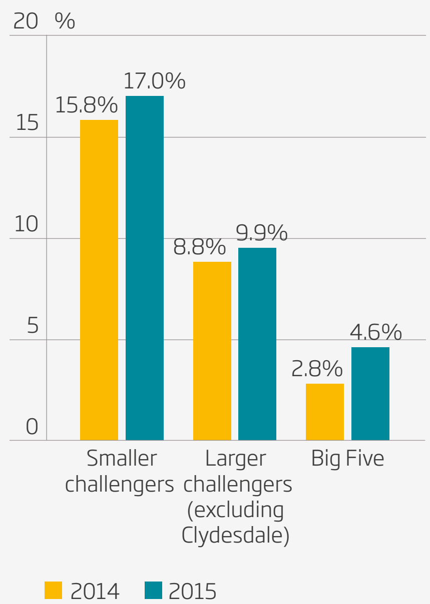
Adam Kelly
Director

"We are a natural investor in subordinated debt in challenger banks and we are committed to increasing the diversity of small business financial markets by supporting important and fast growing specialist lenders."

2015 growth in lending assets



Average return on equity



Source: KPMG, A new landscape – Challenger banking annual results May 2016

"Challenger Banks are an increasingly important source of funding for UK SMEs, delivering net lending growth of 31.5% in 2015."

Warren Mead
Global Co-Head Fintech and UK Head of Challenger Banks, KPMG

Partners

SHAWBROOK BANK

VENTURE CAPITAL CATALYST FUND

The VC Catalyst Fund was established during 2013 to address a gap in the venture capital investor base which emerged after the financial crisis.

OVERVIEW

8
portfolio investments

£70M
committed capital

£15M
invested

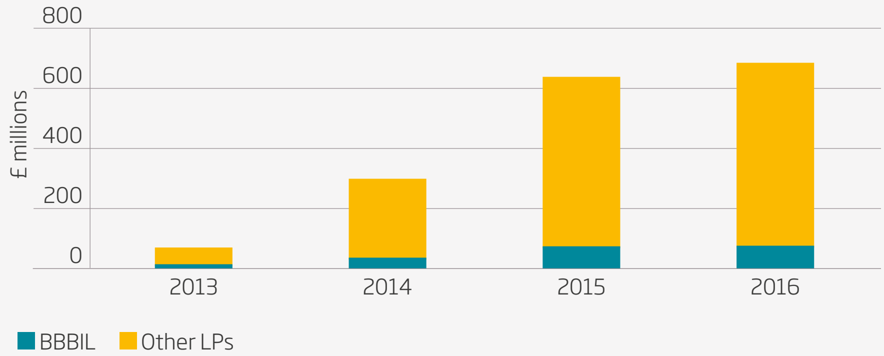
Investors have sought more liquid asset classes after the financial crisis leading to a reduction in institutional capital available for venture capital. Investors previously active in the market moved on and have not been replaced by enough new market participants.

The VC Catalyst Fund supports funds that invest primarily in venture capital and are near to launch but require additional investment to secure a satisfactory first close. The British Business Bank Investments Ltd VC Catalyst Fund is supported by the British Business Bank's venture capital solutions team, who are responsible for conducting due diligence, making recommendations for new VC investments, and ongoing portfolio management.

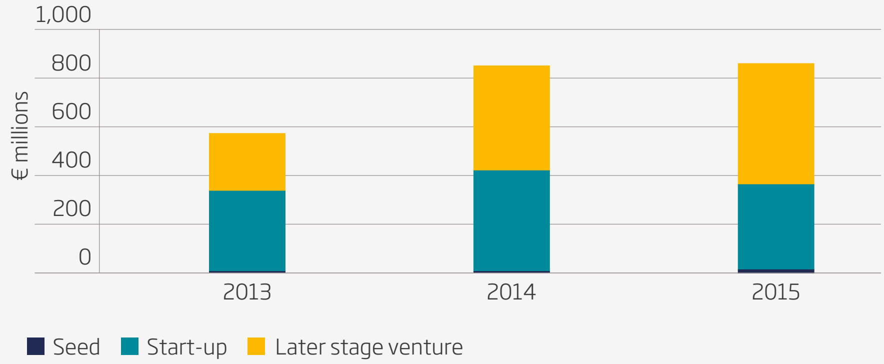
We have built a diversified portfolio including life sciences, energy and resource efficiency across early and growth-stage technology businesses. The Fund has leveraged more than twice its drawn capital for the benefit of fast-growing UK businesses.

Partners

Total venture funding capacity unlocked via VC Catalyst Fund



Annual UK venture funding is increasing



Source: Invest Europe

"The VC Catalyst Fund's investment has been pivotal in enabling us to increase our presence in the UK and capitalise on the opportunity to bring our experience in growing multinational companies to early stage UK technology businesses."

Carles Ferrer
General Partner, Nauta Capital

"British Business Bank Investments Ltd is a very professional institutional investor. As a limited partner in our fund they have been extremely good for us and I would recommend other people to approach them for investment too."

Haakon Overli
General Partner, Dawn Capital

EXPANDING OUR ACTIVITIES AND MANAGING OUR RISKS

We are committed to improving access to capital to UK SMEs through diverse and innovative forms of investment.

Expansion Capital

Recognising the greater leverage and impact our investment can deliver through more equity oriented investments, the Expansion Capital initiative was added to the Investment Programme in January 2015. The initiative provides development capital to speciality lenders serving smaller businesses without the governance complexities associated with raising ordinary equity, provided the lenders can demonstrate the funding will leverage additional lending or otherwise be assessed as having a strong fit with the Investment Programme's overall aims.

The greater freedom and flexibility we gain from acting as a sole investor will enable us to make an even bigger impact on finance markets serving smaller businesses across the UK.

In July 2016 we announced the first investment under the above initiative with a £16.5 million revolving credit facility for Kingsway, a Cheshire-based asset finance specialist. This is expected to increase Kingsway's leasing capacity by up to £25 million supporting investment in plant and machinery across the UK.

"I am delighted that Kingsway is the first UK asset finance company to benefit from the British Business Bank Investments Ltd new Expansion Capital initiative. From our North West base, Kingsway has been supporting UK small businesses for almost 20 years and this new facility will enable Kingsway to significantly increase our lending to small businesses across the UK."

Adrian Anthon
Managing Director, Kingsway

Managing our risks

British Business Bank Investments Ltd operates within the Risk Management Framework of British Business Bank plc and the Board has a separate Audit and Risk Subcommittee. The key operational risks the company is exposed to are:

- maintaining a suitably qualified investment team and Board to deliver the company's investment strategy
- ensuring systems and processes support investment decision making, reporting and portfolio management
- procuring appropriate support across a range of services from British Business Bank plc including: finance, legal, risk, IT and marketing.

The key financial risks the company is exposed to are detailed in note 14(iii) of the accompanying financial accounts.

OPPORTUNITIES FOR PARTNERING

We are actively seeking new partners who fit our investment criteria and objectives. We make investments focused on providers of debt finance as well as on venture capital funds making equity investments in UK smaller businesses.

The Investment Programme supporting debt lending

We support providers of all types of debt finance to smaller businesses in the UK with the main aim to promote volume and diversity of lending to SMEs by encouraging new entrants and supporting the growth of smaller lenders in the market.

The Investment Programme invests in applicants that are best able to meet the following four primary objectives:

- support the development of diverse debt finance markets available to SMEs ('Diversification')
- mobilise additional funding from private sector sources in order to support lending to SMEs ('Leverage')
- channel finance to SMEs in an effective, appropriate and responsible manner ('Effective Deployment')
- expand the aggregate amount and/or types of debt funding available to SMEs ('Additionality').

The VC Catalyst Fund supporting venture capital funds

We support funds that invest primarily in venture capital and are near to launch but require additional investment to secure a commercially viable first close. By doing this we unlock the private sector investment already committed to those funds, as well as potentially attract additional private sector investment, which may not otherwise have been invested in growth companies.

Getting in touch

Details of each programme and how to partner with us are available on our website: www.bbbinv.co.uk/partner-with-us

You can also contact us at: help@bbbinv.co.uk

DIRECTORS' REPORT

The directors present their Annual Report on the affairs of the company, together with the financial statements and auditor's report, for the period ended 31 March 2016.

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 company during the course of the period, an indication of likely future developments in the business and the key operational and financial risks the company is exposed to are all included in the Strategic Report.
- Details of significant events since the balance sheet date are contained in note 18 to the financial statements.
- Information about the use of financial instruments by the company is given in note 14 to the financial statements.

Dividends and reserves

The company paid dividends during the period of £21.0m. A further dividend of £21.0m is proposed but not yet recognised in the accounts for the year ended 31 March 2016.

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 directors who held office during the period were as follows:

- Keith Morgan (appointed 23 July 2014) – Chairman
- Peter Wilson (appointed 30 October 2014 and resigned 31 March 2016) – Chief Executive Officer
- Fiona MacGregor (appointed 30 October 2014)
- Paula Crofts (appointed as alternate to Fiona MacGregor for the period of 15 December 2015 to 20 June 2016)
- Patrick Butler (appointed 13 November 2014 and resigned 31 May 2016).

Post 31 March 2016 new appointments were made to the Board as described in the Chairman's report section on page 3.

Appointment and removal of directors

The Board of directors is responsible for the appointments to the Board and Committees.

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.

Directors' confirmations in relation to the audit

Each of the persons who is 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 confirmation 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
Chairman

6 September 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the 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
- 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.

Directors' responsibility statement

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 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, together with a description of the principal risks and uncertainties that it faces
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

Keith Morgan
Chairman

6 September 2016

INDEPENDENT AUDITOR'S REPORT

To the shareholders of British Business Bank Investments Ltd

I have audited the financial statements of British Business Bank Investments Ltd for the year ended 31 March 2016 which comprise the Income statement, Statement of financial position, Statement of changes in equity and Cash flow statement and the related notes. 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.

Respective responsibilities of the directors and the auditor

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

Scope of the audit of the financial statements

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: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial 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.

Opinion on financial statements

In my opinion:

– the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2016 and of the profit for the year then ended; and

– the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and

the financial statements have been prepared in accordance with the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

– the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters where the Companies Act 2006 requires me to report to you if, in my opinion:

– adequate accounting records have not been kept by the company, or returns adequate for my audit have not been received from branches not visited by my staff; or

– the financial statements are not in agreement with the accounting records and returns; or

– certain disclosures of directors' remuneration specified by law are not made; or

– I have not received all of the information and explanations I require for my audit.

Hilary Lower
(Senior Statutory Auditor)

6 September 2016

For and on behalf of the
Comptroller and Auditor General
(Statutory Auditor)
National Audit Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 MARCH 2016

Income statement
For the period ended 31 March 2016

	Note	2016 £000	2015 £000
INCOME			
Fair value gain on investment assets designated at fair value through profit or loss	7	45,145	19,999
Management fee		336	400
Gross operating income		**45,481**	**20,399**
EXPENDITURE			
Staff costs	4	(970)	(560)
Purchase of goods and services	5.1	(1,092)	(287)
Management fee	5.1	(3,408)	(1,640)
Finance expense	5.2	–	(4,114)
Operating expenditure		**(5,470)**	**(6,601)**
Net operating profit before tax		**40,011**	**13,798**
Tax	6.1	(8,002)	(3,762)
Profit for the period		**32,009**	**10,036**

All operations are continuing.

The company has no other recognised gains and losses therefore no separate statement of other comprehensive income has been presented.

A dividend of £10,036k in respect of the period ended 31 March 2015 was declared and paid on 17 December 2015. An interim dividend of £11,000k in respect of the period ended 31 March 2016 was declared and paid on 3 March 2016 and a final dividend of £21,009k in respect of that year is proposed and is not recognised in these accounts.

The company was incorporated on 18 June 2014 and commenced trading on 1 November 2014. As a result comparative figures for the period ending 31 March 2015 reflect five months of operating activity.

Statement of financial position
As at 31 March 2016

	Note	2016 £000	2015 £000
ASSETS			
Non-current assets			
Assets designated at fair value through profit or loss	7	702,914	498,349
Deferred tax asset	6.3	1	17
Total non-current assets		**702,915**	**498,366**
Current assets			
Trade and other receivables	8	13 ,902	768
Cash and cash equivalents	9	3,388	16,043
Total current assets		**17,290**	**16,811**
Total assets		**720,205**	**515,177**
LIABILITIES			
Current liabilities			
Trade and other payables	10	(5,389)	(2,407)
Corporation tax	6.2	(5,911)	(3,779)
Total current liabilities		**(11,300)**	**(6,186)**
Total assets less current liabilities		**708,905**	**508,991**
Non-current liabilities			
Trade and other payables	10	–	(59)
Total liabilities		**(11,300)**	**(6,245)**
Net assets		**708,905**	**508,932**
Equity			
Issued share capital	12	687,896	490,119
Capital contribution reserve	13	–	8,777
Retained earnings	13	21,009	10,036
Total equity		**708,905**	**508,932**

The financial statements of the company (company number 09091930) were approved by the Board of directors and authorised for issue on 6 September 2016. They were signed on its behalf by:

Keith Morgan
Chairman

Statement of changes in equity
For the period ended 31 March 2016

	Notes	Issued capital £000	Capital contribution reserve £000	Retained earnings £000	Total £000
Opening balance as at 18 June 2014		**-**	**-**	**-**	**-**
Net income after tax		–	–	10,036	10,036
Total comprehensive income		**-**	**-**	**10,036**	**10,036**
Issue of ordinary shares		490,119	–	–	490,119
Capital contribution		–	35,198	–	35,198
Transfer to retained earnings		–	(26,421)	26,421	–
Dividends		–	–	(26,421)	(26,421)
Balance at 31 March 2015		**490,119**	**8,777**	**10,036**	**508,932**
Balance at 31 March 2015		**490,119**	**8,777**	**10,036**	**508,932**
Net income after tax		–	–	32,009	32,009
Total comprehensive income		**-**	**-**	**32,009**	**32,009**
Issue of ordinary shares	12	197,777	–	–	197,777
Capital contribution converted to share capital	13	–	(8,777)	–	(8,777)
Dividends	17	–	–	(21,036)	(21,036)
Balance at 31 March 2016		**687,896**	**-**	**21,009**	**708,905**

Cash flow statement
For the period ended 31 March 2016

	Note	2016 £000	2015 £000
Profit before tax		**40,001**	**13,798**
Cash flows from operating activities			
Adjustments for:			
Net gain on investment assets	7	(45,145)	(19,999)
Finance expense		–	4,114
Corporation tax paid	6.2	(5,854)	–
Increase in trade and other receivables	8	(13,134)	(768)
Increase in trade and other payables	10	2,923	2,466
Net cash used in operating activities		**(21,209)**	**(389)**
Cash flows from investing activities			
Financial assets transferred from HMG	7	(36,437)	(356,791)
Financial assets acquired	7	(216,931)	(179,999)
Sale of assets		–	27,555
Repayment of assets designated at fair value through profit or loss	7	93,948	61,969
Net cash used in investing activities		**(159,420)**	**(447,266)**
Cash flows from financing activities			
Issue of new shares	12	189,000	490,119
Dividends paid to shareholder	17	(21,036)	(26,421)
Net cash from financing activities		**167,964**	**463,698**
Net increase in cash and cash equivalents		**(12,655)**	**16,043**
Cash and cash equivalents at beginning of year		**16,043**	**-**
Cash and cash equivalents at end of year		**3,388**	**16,043**

In 2014–15 the transactions relating to the transfer of assets to the company from Her Majesty's Government and the dividend were settled on a net basis by way of the issuance of shares and the settlement of loan account balances.

Notes to the financial statements
As at 31 March 2016

1. General information

British Business Bank Investments Ltd (the company) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Foundry House, 3 Millsands, Sheffield, S3 8NH. The nature of the company's operations and its principal activities are set out in the Strategic Report on pages 6 to 15.

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.

The company is classified as an investment company under IFRS 10 and shows investments at fair value through profit and loss (FVTPL). The directors have decided that this is the correct classification having determined that it meets the three criteria required under IFRS 10 in that the company:

- obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services
- its aim is to earn a commercial return through its investments
- it measures the performance of substantially all of its investments on a fair value basis.

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

Going concern

The company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 6 to 15.

The directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. In arriving at that view they have assumed that in the event of a downturn the parent company and the ultimate controlling party, the Secretary of State for the Department for Business, 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.

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.

- *IAS 19 (amendments): Defined Benefit Plans: Employee Contributions*. 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.

  British Business Bank Investments Ltd is not the principal employer in any defined benefit scheme and therefore the above changes will not have any impact.
- *Annual Improvements to IFRSs 2010–2012 Cycle and 2011–2013 Cycle*. 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 company.

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 9 Financial Instruments*
- *IFRS 10, IFRS 12 and IAS 28 (amendments) Investment Entities: Applying the Consolidation Exception*
- *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- *IFRS 11 (amendments) Accounting for Acquisitions of Interests in Joint Operations*
- *IFRS 14 Regulatory Deferral Accounts*
- *IFRS 15 Revenue from Contracts with Customers*
- *IFRS 16 Leases*
- *Annual Improvements to IFRSs 2012–2014 Cycle*
- *IAS 1 (amendments) Presentation of Financial Statements*
- *IAS 7 (amendments) Statement of Cash Flows*
- *IAS 12 (amendments) Recognition of Deferred Tax Assets for Unrealised Losses*
- *IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation*
- *IAS 16 and IAS 41 (amendments) Bearer Plants*
- *IAS 27 (amendments) Equity Method in Separate Financial Statements*.

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. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS9 until a detailed review has been completed.

Income recognition

Income is measured as the change in fair value of the investment portfolio, adjusted for any additional investments or disposals plus any consideration received or receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales-related taxes.

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 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 results, in that amounts are shown net of VAT except:

- irrecoverable VAT is charged to the Income statement, 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.

Financial instruments

(i) Classification

The company has designated its investments on initial recognition as financial assets at fair value through profit or loss.

Financial assets that are not at fair value through profit or loss include cash and cash equivalents and other receivables. Financial liabilities that are not at fair value through profit or loss include short-term financing and other payables.

(ii) Recognition

The company initially recognises financial assets or liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument. From this date, any gains and losses arising from changes in fair value of the instruments are recognised in the Statement of comprehensive income.

(iii) Measurement

Financial instruments are measured initially at cost. For financial assets acquired, cost is the fair value of the consideration paid, while for financial liabilities cost is the fair value of consideration received. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Derecognition 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 only financial liabilities held by the company are trade and other payables.

Cash and cash equivalents

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

Foreign exchange

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

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Employee benefits

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

3. Critical accounting judgements and key sources of estimation uncertainty

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. The estimates and associated assumptions are based on historical experience, industry standard practice 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 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 reported net asset values 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.

4. Staff numbers, staff costs and directors' remuneration

4.1 Staff numbers and staff costs

The average monthly number of employees (including executive directors) was:

	2016 Number	2015 Number
Permanent staff	10	9
Temporary and agency staff	–	1
Total	**10**	**10**

The figures in the above table for 2014–15 represent the average monthly number of employees since the company started operating on 1 November 2014. In the full period since the company's incorporation to 31 March 2015, the average monthly number of employees split between the above categories is 5 and 0, respectively.

	2016 £000	2015 £000
Aggregate remuneration comprised		
Wages and salaries – permanent staff	726	339
Wages and salaries – temporary and agency staff	6	11
Short- and Long-Term Incentive Plans and bonus scheme	54	100
Social security costs	104	56
Pension costs	80	54
Total staff costs	**970**	**560**

The company's three incentive plans (Long-Term Incentive Plan, the Short-Term Incentive Plan and the annual bonus scheme) are managed on a group-wide basis by the British Business Bank plc. Further details are set out in the British Business Bank's annual report and accounts.

4.2 Directors' remuneration

This note refers to the directors of the company who have been appointed at Companies House.

Directors' remuneration during the year was £165,000. Remuneration for the highest paid director during the year was £140,000. No pensions were accrued for any of the directors who are paid through British Business Bank Investments Ltd.

P Butler is paid a fee equivalent to £20,000 per annum for his services as a director of the company and member of the company's Investment Committee, plus a fee of £5,000 per annum as Chair of the company's Audit and Risk Committee.

P Wilson has declined the majority of his offered potential remuneration and instead receives a fixed salary equivalent to £140,000 per annum.

K Morgan is paid directly from the company's parent company, British Business Bank plc, and his emoluments are disclosed within the directors' remuneration disclosures in the financial statements of British Business Bank plc. His emoluments for the services to British Business Bank Investments Ltd are recharged to the company as part of a management charge, although the amount is not separately identified within that charge.

F MacGregor and P Crofts are paid by the Department of Business, Energy and Industrial Strategy (BEIS). Their salaries are not recharged to the company.

No post-employment benefits, termination benefits, short-term employee benefits, other long-term benefits or share-based payments were made to directors in the year (2015: none).

5. Operating costs

5.1 Purchase of goods and services

Auditor's remuneration of £49k (2015: £47k), which is included within 'Purchase of goods and services' relates to fees payable for the audit of the company's annual accounts. The company's auditors did not provide any non-audit services.

	2016 £000	2015 £000
Management fee		
Allocated staff costs	2,364	1,031
Allocated purchase of goods and services	1,044	609
Total	**3,408**	**1,640**

Allocated staff costs and purchase of goods and services relates to recharges paid by the company to its parent, the British Business Bank plc for the shared services provided. Allocated staff costs include an allocation of the parent company's legal, financial, IT, risk management, corporate services, communications, and senior management costs.

5.2 Finance expense

The finance expense 2014–15 relates to the shareholder loan used to finance the investment assets during the period prior to operational commencement on 1 November 2014. It was agreed with Department for Business Innovation and Skills (BIS), who was the shareholder at that time, that all cash interest received up to that date would be paid to BIS as interest on the loan.

6. Taxation

6.1 Tax expense

	2016 £000	2015 £000
Current tax expense		
Current period	7,986	3,779
Total current tax expense	7,986	3,779
Deferred tax expense (income)		
Current period	16	(17)
Total deferred tax expense	16	(17)
Total tax expense	**8,002**	**3,762**

Current corporation tax

Corporation tax is calculated at 20% (2015: 20%) of the estimated taxable profit for the year. The table below reconciles the current tax expense for the year:

	2016 £000	2015 £000
Net operating profit before tax	40,011	13,798
Tax at standard rate of corporation tax in the UK of 20% (2015: 21%)	8,002	2,898
Permanent disallowances relating to the non-deductibility of interest expense	–	864
Short-term timing differences relating to profit-related pay	(16)	17
Total current tax expense	**7,986**	**3,779**

Deferred corporation tax

A deferred tax rate of 18% has been used for 2016 (2015: 21%). This is on the basis that the timing differences are likely to unwind when the rate of corporation tax is due to have fallen to this level.

The deferred tax income (2015: expense) is entirely due to short-term timing differences.

6.2 Corporation tax payable

	2016 £000	2015 £000
Corporation tax payable at 31 March 2015	3,779	–
Tax expense for the period	7,986	3,779
Tax paid	(5,854)	–
Corporation tax payable at 31 March 2016	**5,911**	**3,779**

6.3 Deferred tax asset

	2016 £000	2015 £000
Deferred tax asset at 31 March 2015	17	–
Movement in the year	(16)	17
Deferred tax asset at 31 March 2016	**1**	**17**

7. Investments

All of the company's investments have been designated at fair value through profit and loss. This note provides further details on each investment and its value at the balance sheet date.

Business Finance Partnership

The company manages the Business Finance Partnership (BFP) programme.

The Business Finance Partnership has two strands. The first strand is the BFP Mid Cap which invests on commercial terms alongside private sector investors in direct lending funds which are focussed on lending to medium-sized businesses operating in the UK with turnover of up to £500m.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders on commercial terms alongside private sector investors that provide an alternative source of lending for small businesses operating in the UK with turnover up to £75m.

Through an invoice discount firm, British Business Bank Investments Ltd purchases invoices from investors, releasing money that would otherwise be tied up for between 30 and 120 days. It also provides funding through peer-to-peer lending platforms making small part-loans to borrowers alongside other platform lenders.

Investment Programme

The company manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders in to the SME finance market and the growth of smaller lenders. 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, British Business Bank Investments Ltd 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 28 October 2015.

VC Catalyst

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

Assets designated at fair value through profit or loss

The designation of financial assets as at fair value through profit or loss is consistent with the company's documented risk management and investment strategy. The company's investment asset portfolio is managed and its performance is evaluated by the company's key management personnel on a fair value basis.

Transactions and movements 2014-15

	Transfers/ acquisitions from HM Government[1] £000	Additions £000	Repayments £000	Revaluation £000	Interest £000	Balance at 31 March 2015 £000
BFP Mid Cap	328,178	140,736	(60,921)	21,893	(3,857)	426,029
BFP Small Cap	23,403	5,881	(482)	(76)	(257)	28,469
Investment Programme	9,251	30,240	(3)	(1,001)	–	38,487
VC Catalyst	3,602	3,142	(563)	(817)	–	5,364
Total	**364,434**	**179,999**	**(61,969)**	**19,999**	**(4,114)**	**498,349**

Transactions and movements 2015-16

	Balance at 31 March 2015 £000	Additions £000	Acquisitions from HM Government[2] £000	Repayment £000	Revaluation £000	Balance at 31 March 2016 £000
BFP Mid Cap	426,029	112,837	–	(72,040)	32,815	499,641
BFP Small Cap	28,469	10,775	8,289	(11,735)	3,943	39,741
Investment Programme	38,487	83,530	28,148	(9,774)	8,112	148,503
VC Catalyst	5,364	9,789	–	(399)	275	15,029
Total	**498,349**	**216,931**	**36,437**	**(93,948)**	**45,145**	**702,914**

[1] In 2014-15 prior to the commencement of trading the company acquired investment assets from Infrastructure Finance Limited which is a company controlled by HM Treasury and from the Department for Business Innovation and Skills at fair value.

[2] On 31 October 2015 the company acquired certain investment assets from the Department for Business Innovation and Skills at fair value.

8. Trade and other receivables

	2016 £000	2015 £000
Amounts receivable within one year		
Trade receivables	13,802	61
Interest receivable	–	667
Amounts owed by group undertakings	100	40
	13,902	**768**

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. The trade receivables balance includes £12.3m 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.

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. Cash and cash equivalents

	2016 £000	2015 £000
Held with the Government Banking Service	1,286	13,676
Held in commercial bank accounts	2,102	2,367
	3,388	**16,043**

10. Trade and other payables

	2016 £000	2015 £000
Amounts falling due within one year		
Trade payables	4	5
VAT and social security	410	19
Accrued expenditure	343	142
Amounts owed to group undertakings	4,158	2,108
Other payables	474	133
	5,389	**2,407**
Amounts falling due after more than one year		
Accrued expenditure	–	59
	-	**59**

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

11. Capital commitments

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

	2016 £000	2015 £000
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
	545,813	**646,226**

12. Share capital

	2016 Number
Authorised: ordinary shares of £1 each	**687,895,944**

	2016 Number
Issued and fully paid ordinary shares of £1 each:	
Shares issued on incorporation, 18 June 2014	1
Shares issued to fund the acquisition of investment assets	363,587,511
Shares issued for cash	126,531,396
At 31 March 2015	**490,118,908**
Shares issued for cash	189,000,000
Capital contribution reserve converted to share capital	8,777,036
At 31 March 2016	**687,895,944**

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

13. Reserves

2015-16

	Capital contribution reserve £000	Retained earnings £000
Opening balance 31 March 2015	8,777	10,036
Capital contribution reserve converted to share capital	(8,777)	–
Dividends paid	–	(21,036)
Profit for the year	–	32,009
Balance at 31 March 2016	**-**	**21,009**

2014-15

	Capital contribution reserve £000	Retained earnings £000
Capital contribution reserve arising on the transfer of investment assets from Her Majesty's Government	35,198	–
Transfer to retained earnings	(26,421)	26,421
Dividend paid	–	(26,421)
Profit for the period	–	10,036
Balance at 31 March 2015	**8,777**	**10,036**

14. 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.

As at 31 March 2016

	Note	Assets held at FVTPL £000	Loans and receivables £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Designated at FVTPL	7	702,914	–	–	–	702,914
Trade and other receivables	8	–	13,902	–	–	13,902
Deferred tax	6	–	–	–	1	1
Cash and cash equivalents	9	–	3,388	–	–	3,388
Total assets		**702,914**	**17,290**	**-**	**1**	**720,205**
Liabilities						
Trade and other payables	10	–	–	(5,389)	–	(5,389)
Corporation tax	6	–	–	–	(5,911)	(5,911)
Total liabilities		–	–	(5,389)	(5,911)	(11,300)
Net assets		**702,914**	**17,290**	**(5,389)**	**(5,910)**	**708,905**

(ii) Fair value measurements

The investment portfolio consists of assets designated at fair value through profit or loss 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.

For all investment assets, the investment valuation, a net asset valuation (NAV), is determined by investment managers on a regular (quarterly) basis.

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

Subsequent to initial recognition, all instruments classified at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

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)

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 level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined by the lowest level input that is significant to the fair value measurement in its entirety.

The company has one Investment Programme investment that is considered to be Level 1. This is an investment in fixed rate reset callable subordinated loan notes with an initial semi-annual coupon of 8½% issued by Shawbrook Bank plc.

For the period covered by these accounts all other financial investments are considered Level 3. Financial instruments classified within Level 3 have significant unobservable inputs and include term loans and investments in private funds. As observable prices are not available for these financial instruments, the company has applied the following valuations:

- investments in third party private debt funds and venture capital funds are valued based on the net asset value reported by the fund manager for the relevant date provided the valuation approach is recognised as industry standard
- loans are valued at their par value, plus any accrued but unpaid interest, less any adjustments deemed appropriate.

(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.

Credit risk

Credit 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 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.

For some debt investments appropriate collateral is held. The nature of collateral may change over time depending on the investments which the company holds in any given period. 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 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 company's portfolio management process.

In determining fair value the company has made provision against the value of certain of its loans and receivables, those being receivables purchased through an invoice discounter 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 company considers past performance of recoveries.

With respect to receivables purchased through an invoice discounter the company 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 discounter 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 company 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 company's financial instruments were overdue at the balance sheet date.

Market risk

Market risk is the risk of a loss of earnings or economic value due to adverse changes in financial market prices, such as interest rates, foreign exchange rates or equity prices.

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

Interest rate risk

The company'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 company 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 company investments would be an approximate increase in income of £6.5m over a one year period.
- The impact of a 0.25 percentage point decrease in the interest reference rate applicable to investments would be an approximate decrease in income of £1.6m over a one year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

Currency risk

The company does not have material exposure to currency risk as the company primarily invests 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. Less than 5.5% of the company'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 company as it 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.

15. Related party transactions

During the period, the main transactions with related parties included the purchase of investment assets, which is detailed in note 7. There were no operational transactions with related parties during the year other than companies within the British Business Bank plc group. British Business Bank Investments Ltd entered into transactions with the following group companies:

	2016 £000	2015 £000
Income		
British Business Financial Services Limited	100	40
	100	**40**

Expenditure		
British Business Bank plc	3,408	2,010
Capital for Enterprise Limited	–	10
British Business Financial Services Limited	–	40
British Business Finance Limited	125	48
	3,533	**2,108**

Amounts outstanding at year-end

As at the balance sheet date, British Business Bank Investments Ltd had debts outstanding and receivable with the following group companies:

	2016 £000	2015 £000
Receivable		
British Business Financial Services Limited	100	40
	100	**40**

	2016 £000	2015 £000
Payable		
British Business Bank plc	4,148	2,010
Capital for Enterprise Limited	–	10
British Business Financial Services Limited	–	40
British Business Finance Limited	10	48
	4,158	**2,108**

16. Significant undertakings

British Business Bank Investments Ltd has the following significant holdings in undertakings.

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.	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund)	Luxembourg	Class A shares	44.1%
Pricoa Sterling Corporate Bond Fund[1]	Ireland	Not classified	67.7%
Urica Capital Limited[2]	Jersey	Not classified	50.0%

[1]Pricoa'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.

[2]Urica'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.

17. Dividends

On 17 December 2015 a dividend of £10,036,000 (1.782217p per share) was declared and paid to the ordinary shareholders.

On 3 March 2016 an interim dividend of £11,000,000 (1.656886p per share) was declared and paid.

A final dividend of £21,009,000 (3.054096p per share) is proposed but not recognised in the accounts for the year ended 31 March 2016.

18. Events after the balance sheet 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 company 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 Banks's sponsoring department, the Department for Business, Innovation and Skills, is having its responsibilities changed. The sponsor department for the British Business Bank is now the Department for Business, Energy and Industrial Strategy.

As at the date of these Annual Report and Accounts, there have been no other post-reporting-date events that require disclosure.

19. 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, Skills and Innovation. On the 14 July 2016, following a machine of Government change it was announced that the Department for Business Skills and Innovation (BIS) is having its responsibilities changed to 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.

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BRITISH BUSINESS BANK INVESTMENTS

All figures source British Business Bank Investments Ltd 31 March 2016 unless otherwise stated.

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