BRITISH BUSINESS INVESTMENTS

Annual Report and Accounts 2019

"The sustained increase in the volume of finance and number of businesses we support creates the conditions for more jobs and economic growth."

Contents

In 2018/19, British Business Investments again made a strong contribution to the overall objectives of the British Business Bank group, its parent company.

As at end of March 2019, our funding supported over 34,000 businesses, an increase of more than 7,000 over the year.

Keith Morgan
Chair

The business has been consistent in delivering increased supply and diversity across a wide range of smaller business finance areas. It has also played an important role in helping the Bank to reduce regional imbalances in access to finance and has produced a positive return on taxpayers' investment.

As at end of March 2019, our funding supported over 34,000 businesses, an increase of more than 7,000 over the year.

Patient Capital

British Business Investments' portfolio underwent considerable change in 2018/19, following the conclusion of the Government's Patient Capital Review.

As part of the action recommended by the review, we launched two new programmes to address specific market failures in the provision of equity finance to smaller businesses:

- Our £500m Managed Funds Programme, launched in May 2018, seeks to attract more institutional capital to the UK venture and growth capital markets, while increasing access to longer-term patient capital for ambitious and innovative, high potential companies. The programme announced its first €100m commitment, to Top Tier Capital Partners, in September 2019*.
- Our Regional Angels Programme, launched in October 2018, seeks to increase the supply and awareness of angel and other early-stage equity investments across the country, particularly in areas where this type of finance is less readily available. We made our first £10m commitment under the programme, to Dow Schofield Watts Angels, in September 2019*.

*These commitments are not included in figures and accounts for 2018/19 as they were made after the end of the financial year.

During the year, we also transferred our VC Catalyst portfolio to seed a new commercial subsidiary of the British Business Bank, British Patient Capital, which aims to unlock a total of £7.5bn of long-term finance for UK businesses over the next 10 years.

Governance

I would like to thank our directors for their contribution in 2018/19. The strong performance of the business against its objectives is enabled by a robust governance structure, drawing on the experience of Non-executive Directors and the expertise of its Investment Committee.

The sustained increase in the volume of finance and number of businesses we support creates the conditions for more jobs and economic growth. I look forward to working with the team as we continue to improve smaller business finance markets over the coming year.

Keith Morgan
Chair

Case study: Arapina founder Michaela Pontiki secured finance from British Business Investments delivery partner, Funding Circle.

Delivering for smaller businesses and the taxpayer

Catherine Lewis La Torre
Chief Executive Officer

We are pleased to report strong annual performance once again, in our fifth year of operation.

In 2018/19 we exceeded all of the objectives set by our shareholder, British Business Bank plc.

"In the year to the 31 March 2019, we generated income from our investments of £82m"

A strong portfolio

Our 46 portfolio investments span leasing, venture debt and equity, senior loans, unitranche facilities and mezzanine capital. By working with a broad portfolio of finance providers, we are able to increase the choice of funding options available to a wide range of businesses so they can find the most suitable finance for their needs.

In addition to our invested capital of **£1.1bn**, third parties have invested alongside us, resulting in a total of **£11.4bn** across the UK market. We make our investments on a pari passu basis alongside institutional and other investors that are seeking commercial returns commensurate with the investment risk undertaken.

Returns on investment

In the year to 31 March 2019, we generated income from our investments of £82m, which delivered a pre-tax profit of £71m. These are respective increases of **7.2%** and **4.4%** on 2017/18.

Our gross return on average capital employed for the period was 6.5%, ahead of a benchmark of 5.6%, with a net return of 5.6% exceeding the benchmark of 5.0% set by our shareholder. These demonstrate both the strength of our investment portfolio as well as the efficiency of our operations.

Patient Capital Review

As referred to in the Chair's report, implementing measures stemming from the Government's Patient Capital Review meant a significant part of our work this year was committed to developing and launching new programmes. In addition we facilitated the sale of **£131m** of assets to seed the creation of British Patient Capital, a new commercial subsidiary of the British Business Bank, established to increase the supply of Venture and Venture Growth Capital to high-potential, innovative companies across the UK.

This sale of assets accounts for the reduction in the number of cumulative investments we have made from 58 to **46** as well as a slight reduction in the net asset value of our portfolio to **£1.1bn**.

We have a achieved a great deal this year, both in designing and launching new programmes and sustaining and building on our commitments elsewhere in the portfolio. This has taken considerable effort to achieve, and I would like to thank everyone on the team for their hard work and commitment.

I look forward to continuing that success as we further develop the business.

Catherine Lewis La Torre
Chief Executive Officer

Our Board

We have a Board and governance structure designed to protect our commercial approach which enables us to move quickly in investment decision-making.

Keith Morgan
Chair

Keith led the planning and establishment of the British Business Bank from January 2013, and was appointed Chief Executive Officer in December 2013.

Prior to this, Keith was a Director at UK Financial Investments, joining in 2009 to manage the UK government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US.

He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and served as Chair of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at LEK Consulting, where he was a partner specialising in financial services.

Catherine Lewis La Torre
Chief Executive Officer

Catherine joined British Business Investments as CEO in September 2016.

She was previously Head of Private Equity at Cardano Risk Management where she was responsible for managing a global portfolio of private capital investments with in excess of £1bn of committed capital. Prior to this she was Managing Director with secondaries specialist, Fondinvest Capital, in Paris. Catherine was one of the Founding Partners of Nordic fund-of-funds manager, Proventure and subsequently launched her own consulting business advising institutional investors in the US and Asia on their European private capital strategies.

Catherine began her career as an Analyst with Venture Economics, now part of Thomson Reuters, before joining Cinven, a European Private Equity group, as an investment manager.

Sara Halbard
Non-executive Director

Sara joined as a Non-executive Director in June 2016 and was re-appointed for a further 18 month term with effect from 16 June 2019.

Sara co-founded the Credit Fund Management group at Intermediate Capital Group Plc (ICG) in 1999 and led that business until 2008. At ICG she was a member of the Global Investment Committee and Management Committees. With a 30 year career in financial services, she has an in-depth knowledge of complex financial products, markets and financing options with specialist expertise in financing European leveraged buyouts. She currently acts as an advisor and angel investor to companies spanning entrepreneurial start-ups to multinational companies across a wide range of industry sectors.

Sara was a founding member of the European High Yield Association and served as a Board Director representing the investor community from 2000 to 2007.

Francis Small
Non-executive Director

Francis became a Non-executive Director in June 2016 after spending 36 years at Ernst & Young in a wide variety of roles. Francis and was re-appointed for a further three year term with effect from 16 June 2019.

After initially working with small and medium sized businesses, he became an audit partner in Financial Services for seven years. He then joined the firm's Corporate Finance practice where he specialised in cross-border acquisitions, disposals, IPOs and restructuring. He ran the UK Corporate Finance practice before becoming Global Head of Corporate Finance and a member of the Ernst & Young's Global Board.

Francis lived and worked in the Middle East for two years, advising some of the world's largest sovereign wealth funds. After returning to London in 2010, he co-ordinated services to some of Ernst & Young's largest international clients.

Meet the team

Back row (left to right)

Luke Whitehead
Analyst

Francesca Durante
Manager

Jo Ward
Executive Assistant

Christopher Amory
Analyst

Mark Barry
Senior Manager

Vianney De Leudeville
Director

Front row (left to right)

Karlo Uhlir
Manager

Carol Simon
Finance Business Partner

Catherine Lewis La Torre
Chief Executive Officer

Adam Kelly
Director

Jonathan Marriott
Director

Mark Coggin
Senior Manager

Jianwei Li
Summer Intern

Hala Georgy
Analyst

Nancy Liu
Manager

Peter Garnham
Managing Director

Marilena Ioannidou
Director

Richard Coldwell
Director

Meeting our strategic and commercial objectives

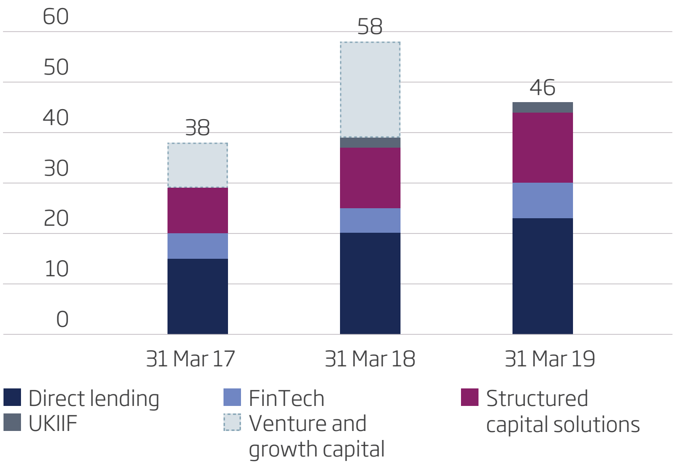
We continually assess our activities to make sure they are delivering against our strategic and commercial objectives.

Our approach

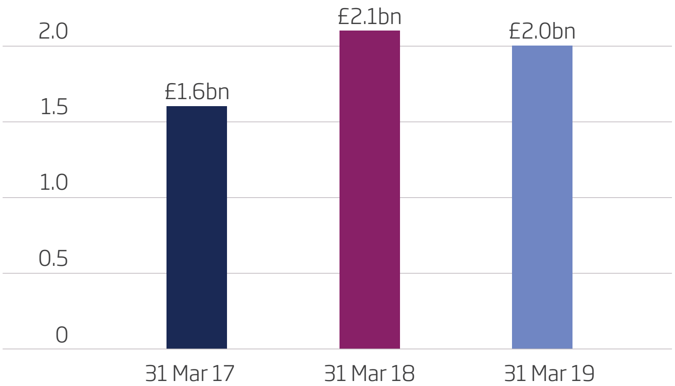
1. Support
the development of diverse debt and equity finance markets

2. Promote
competition and increased supply through new and existing finance providers

Number of portfolio investments



Portfolio commitments (£bn)

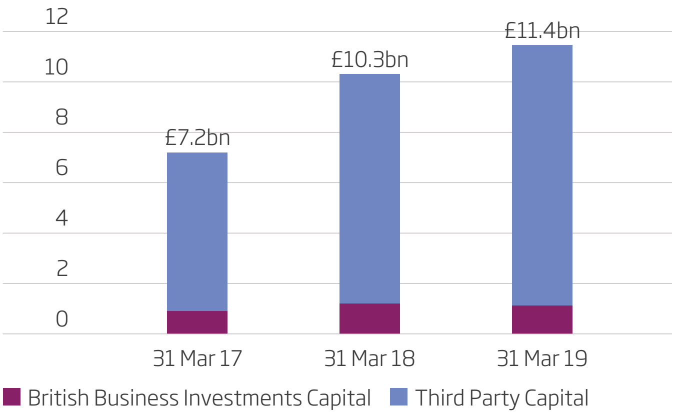


On 1 July 2018, the Venture and Growth Capital Investments were acquired by British Patient Capital, a commercial subsidiary of British Business Bank.

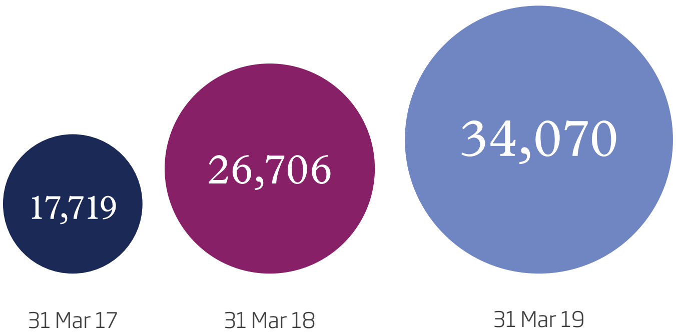
3. Increase

the level of finance to small and medium sized businesses

Funding facilitated (£bn)



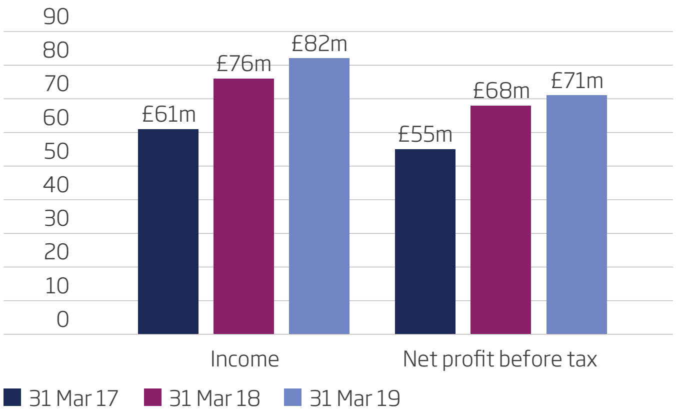
Number of businesses supported



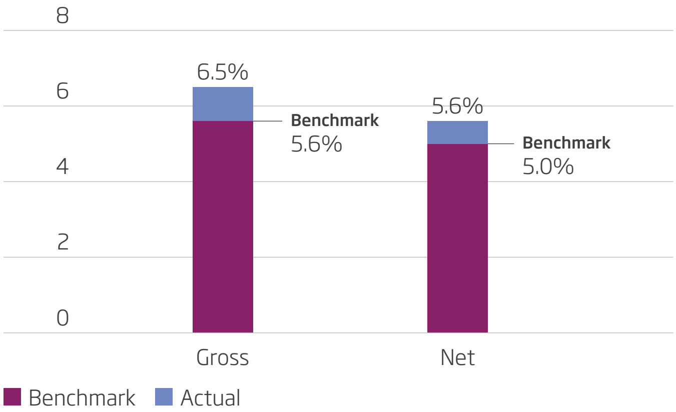
4. Deliver

a commercial return to our shareholder in excess of our benchmark return

Profitability (£m)



Return on invested capital at 31 Mar 19 (%)



The year in numbers

£82m
Income generated

£71m
Pre-tax profit

6.5%
Gross return on average capital invested

5.6%
Return on average capital invested net of costs

Building our offer to increase supply and choice of finance

The continuation of our core debt finance programme, supplemented by new equity programmes, provides more opportunity to work with delivery partners and to reach a broader spectrum of small and medium-sized businesses in the UK.

Peter Garnham
Managing Director

As a commercial subsidiary of the British Business Bank, British Business Investments delivery continues to work with investment partners to help the Bank achieve its key objectives, particularly:

- increasing the supply of finance to smaller businesses
- helping to create a more diverse finance market
- identifying and helping to reduce regional imbalances in access to finance
- managing taxpayers' money efficiently.

We increase the volume and diversity of finance for smaller businesses through our programmes, which support either debt or equity finance.

Our founding **Investment Programme** supports many types of debt finance. This programme aims to encourage new market entrants, aid the development of alternative lenders and facilitate an increase in institutional capital in the market for UK smaller business finance.

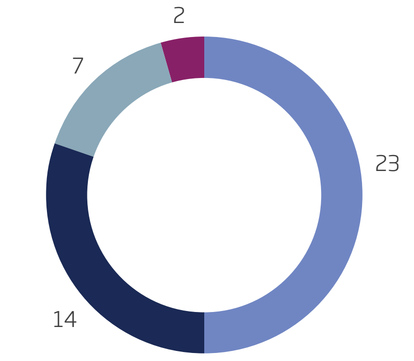
Arising from the Government's Patient Capital Review, we launched two new programmes in 2018:

- Our **Managed Funds Programme**, which invests in fund-of-funds vehicles focused on providing equity finance. Its mandate is to channel institutional capital to innovative, high-growth companies so they may meet their full growth potential.
- Our **Regional Angels Programme**, which develops structures to invest alongside business angels and other early stage investors, focused on the regions and devolved administrations of the UK. This programme aims to increase the supply of capital and expertise in areas where access to finance is more limited, acting as a catalyst to support the next wave of growth businesses across the country.

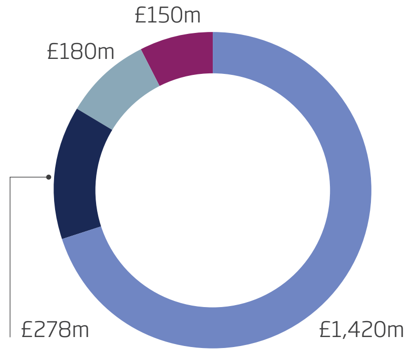
Our business in numbers

Key Direct lending · Structured capital solutions · FinTech · UKIIF

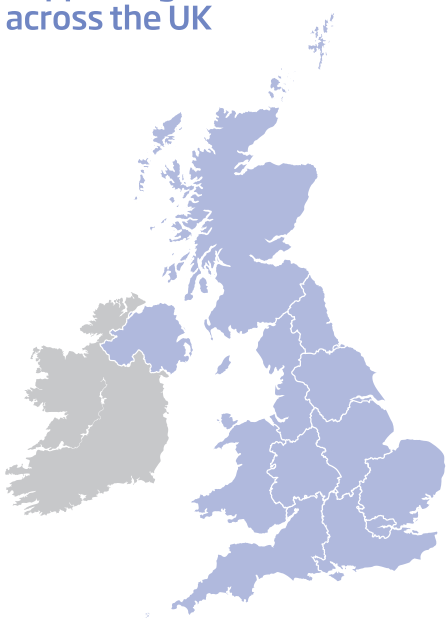
46 portfolio investments (cumulative)



£2.0bn commitments (cumulative)

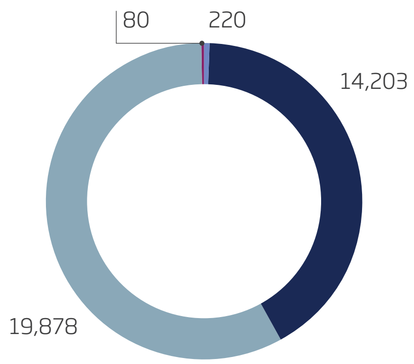


Supporting investments across the UK

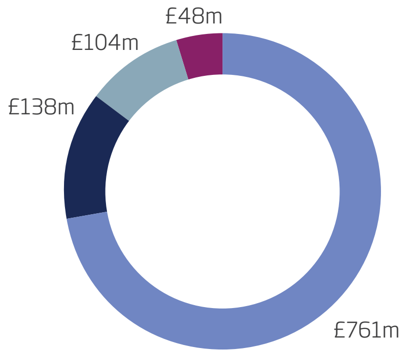


UK Region	Distinct count of number of SMEs
East Midlands	2,522
East of England	3,632
London	5,130
North East	1,054
North West	4,154
Northern Ireland	481
Scotland	2,083
South East	4,584
South West	3,467
Wales	1,456
West Midlands	2,913
Yorkshire and The Humber	2,517
Data Unavailable	77
Grand Total	**34,070**

34,381 underlying investments into SMEs



£1.1bn invested



Throughout our programmes, we work with delivery partners who aim to generate financial returns commensurate with the risks associated with the respective debt or equity instruments they provide to smaller businesses.

We added four new partners to our Investment Programme during the year, as well as continuing our support for existing partners, with three new commitments. In total, the value of these new and follow-on commitments was almost £200m.

We look forward to working with these and other partners as we continue to build our increasingly diversified portfolio. Details of all our programmes and more information on how to partner with us is available on our website at: www.bbinv.co.uk.

New investments in 2018/19

Committing funds to new and existing partners means that we can increase both the supply and diversity of finance available to UK smaller businesses.

£200m

In 2018/19, we made seven commitments totalling almost £200m

In 2018/19, we made seven commitments totalling almost £200m. Four of these were with new partners:

- Bootstrap, an investor in venture debt with a focus on high growth tech companies
- Secure Trust Bank, a fast-growing challenger bank focusing on UK businesses and smaller housebuilders
- ThinCats, FinTech lender for mid-sized SMEs providing business lending, property lending, invoice finance and merchant cash advance
- Universal Leasing Ltd (trading as Admiral Leasing), an independent asset finance specialist providing leasing and commercial loans.

By supporting a wider range of finance products and providers, we help create more choice and competition in the market and encourage the development of innovative approaches to the funding of smaller businesses across the country. This means businesses benefit from more options for finance and better terms.

“British Business Investments has helped the alternative finance sector become firmly established as a major source of funding for smaller businesses.”

John Mould
CEO, Thin Cats

New commitments 2018/19

admiral LEASING & LOANS
Liberis
BEECHBROOK capital
Secure Trust Bank Group
BOOST&Co
THINCATS
BOOTSTRAP EUROPE

Case study
SBL (BOOST&Co)

Based in Leeds, Smart Business Link Ltd is a specialist provider of finance to the vehicle accident repair market. It has experienced 600% growth in the last year, scaling rapidly to meet customer demand.

It received £3.5m of funding from British Business Investments delivery partner BOOST&Co, allowing the business to refurbish its premises, take on four additional staff and increase sales.

We also made three commitments to existing delivery partners:

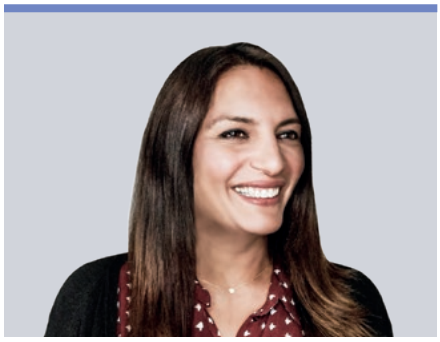
– Beechbrook, a specialist direct lender mainly providing loans to support acquisitions, buy-outs, shareholder re-alignments, refinancings and general expansion plans
– BOOST&Co, an independent asset manager offering growth capital and venture debt with a focus on businesses in the software, business services, FinTech and cleantech sectors
– Liberis, a London-based alternative finance provider of innovative business cash advances.

These follow-on commitments enable our delivery partners to build further the amount of finance they can supply to smaller UK businesses so they can invest and grow, benefiting the UK economy as a whole through the creation of more jobs and economic growth.

Case study
Seventeen Group (Beechbrook)

Seventeen Group is a specialist diversified insurance company. The company was seeking to refinance its existing debt and fund the purchase of two additional businesses, but was declined by two high street banks.

Although they had never previously used an alternative finance provider, after being introduced to British Business Investments delivery partner Beechbrook Capital, the company secured £9.5m of senior term debt.



“British Business Investments is a long-standing investor in BOOST&Co, providing the capital for us to grow our business. Its investment has been a key driver of our regional expansion over the past 18 months.”

Sonia Powar
Partner, BOOST&Co

Direct lending

Overview – end of 2018/19

220
businesses supported

23
portfolio investments (cumulative)

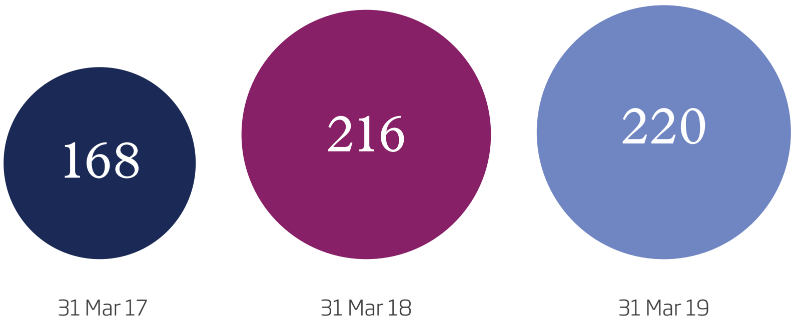
£1.42bn
committed (cumulative)

£761m
invested

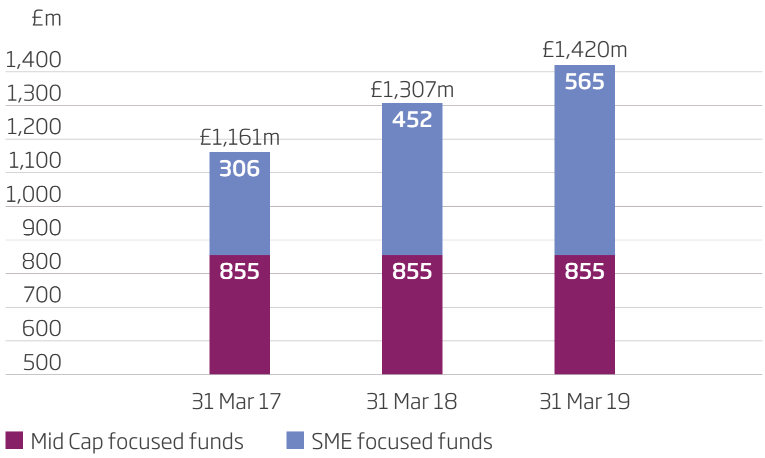
Richard Coldwell
Director

British Business Investments direct lending portfolio

Number of businesses supported

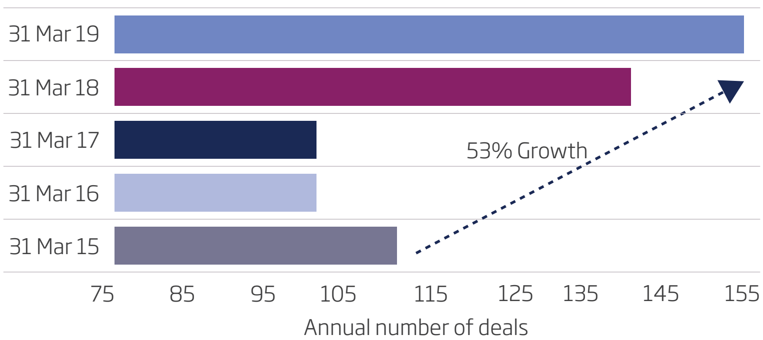


British Business Investments direct lending commitments



Asset class continues to grow

UK direct lending deal count



Source: Deloitte Alternative Lender Deal Tracker

British Business Investments performs a valuable dual role, both providing capital into direct lending funds that invest in growth orientated UK businesses and highlighting the attractions of direct lending as an asset class to other institutional investors.

Direct lending remains the largest part of the British Business Investments portfolio. This reflects the continued attraction of a fund structure to institutional investors.

During 2018/19, we made commitments to three direct lending funds, totalling £113m, and we now have commitments to 23 separate funds.

These new investments were commitments to:

- Beechbrook SME II, which provides capital to non-sponsored businesses
- BOOST&Co's new fund, which focuses on providing growth capital to early stage companies from its newly established regional offices
- Bootstrap, which provides venture debt to technology-enabled businesses in the UK and Europe.

The portfolio continues to perform well and highlights the benefit of direct lending as an asset class, with a large part of the return generated in the form of a regular cash yield.

Our focus continues to be on funds that provide lending to UK businesses with less than £100m of annual turnover.

There continues to be limited awareness amongst institutional investors of the funds focused on UK smaller business lending. We play an important role by making ongoing commitments to support the asset class.

Case study
EDITED (Bootstrap)

EDITED helps retailers drive sales via its retail decision platform, which uses AI to optimise buying and merchandising decisions. It has headquarters in London and an office in New York. Needing investment to fund product innovation and global expansion, it was recommended to use venture debt as a cheaper form of financing than venture capital.

British Business Investments delivery partner, Bootstrap, helped EDITED to raise £1.2m of venture debt. The funding enabled the business to double its revenue, increase its headcount, hire more senior management and expand internationally.

Structured capital solutions

Overview – end of 2018/19

14,203
businesses supported

14
portfolio investments (cumulative)

£278m
committed (cumulative)

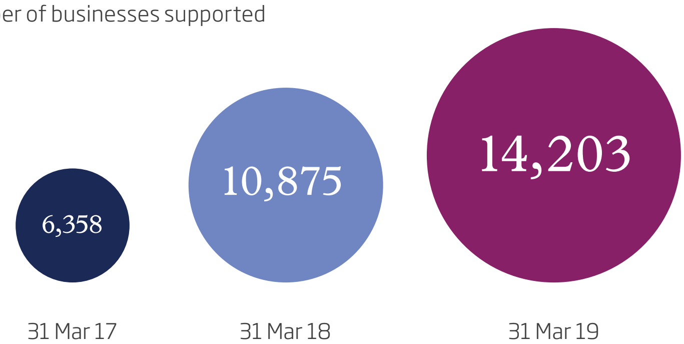
£138m
invested

Asset based finance and the products offered by challenger banks are an increasingly important source of funding for UK smaller businesses.

Adam Kelly
Director

British Business Investments structured capital solutions portfolio

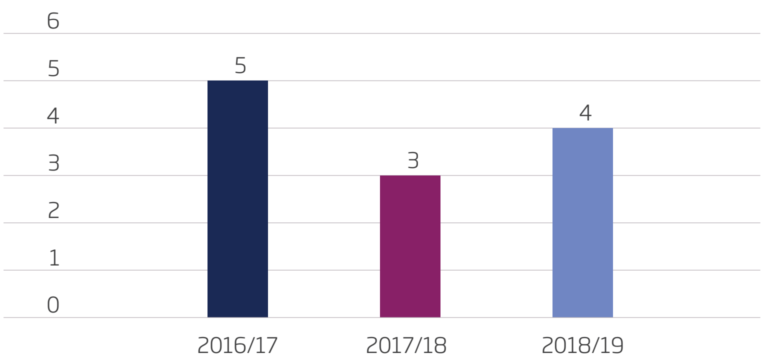
Number of businesses supported



Size of the UK asset finance market – new business

Source: Finance and Leasing Association 2019 Annual Review

Number of new UK banking licences issued



Source: FCA

Since its formation, British Business Investments has actively funded asset finance and asset-based lenders, and the emerging challenger bank sector.

We are in a unique position to support the growth of these lenders and, by doing so, increase the range and supply of funding options for smaller businesses in the UK. A diverse finance market means that smaller businesses benefit from more choice and better terms that increased competition can offer.

We are able to work with finance providers in a bespoke manner, tailoring our approach to enable them to unlock their growth potential and provide increased funding to UK smaller businesses. This has included working with asset finance providers to develop funding structures at both senior and subordinated debt levels.

We have also seen challenger banks become an increasingly important source of UK smaller business funding, and we believe we are a natural investor to support the growth of these providers, and their ability to lend to this part of the finance market.

Asset Finance is an important source of finance for smaller businesses in the UK. In May 2018, we invested £12m into North West-based Universal Leasing Ltd, an independent asset finance specialist which trades under the 'Admiral Leasing' brand. The investment is expected to double Admiral's leasing and commercial loan capacity, allowing it to support more smaller businesses, as part of its growth plan over the next five years.

Likewise, demonstrating our continued commitment to improving access to capital for UK businesses, in October 2018, we made a £25m Tier 2 capital investment in Secure Trust Bank, a fast-growing challenger bank. Funds raised from this Tier 2 issue have enabled Secure Trust Bank to increase its volume of lending, including to smaller businesses, supporting its growth over the medium term.

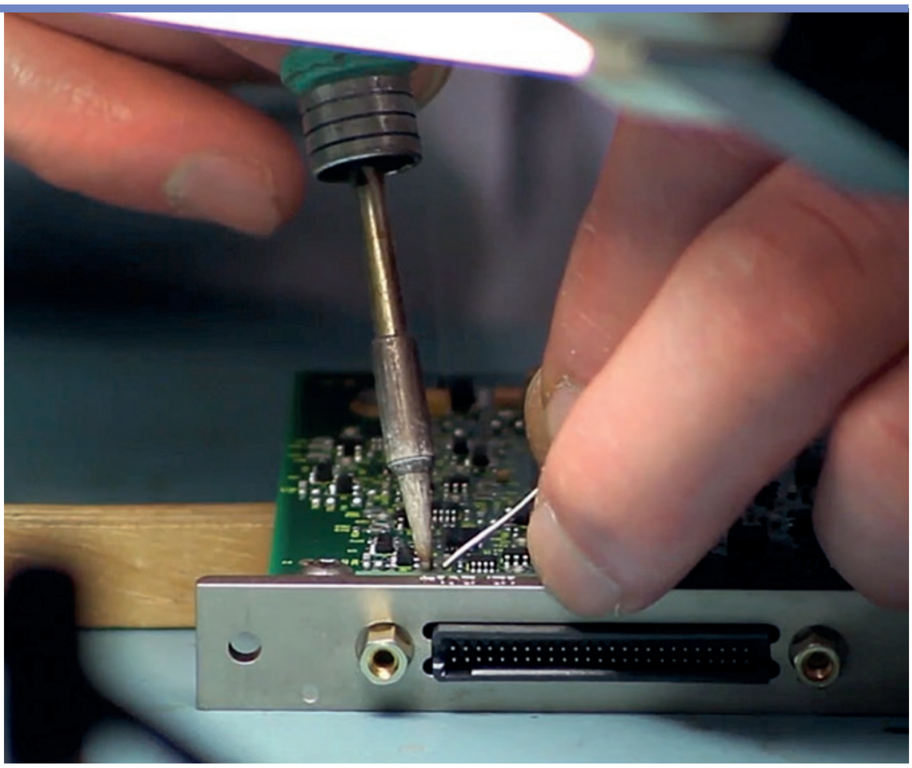
“We are able to work with finance providers in a bespoke manner, tailoring our approach to enable them to unlock their growth potential and provide increased funding to UK smaller businesses.”

Case study
Jaltek Systems (IGF)

Jaltek Systems is a designer and manufacturer of complex electronics assemblies, based in Luton. It works with customers to engineer products that operate in extreme environments.

Previously financed by an overdraft facility from a high street bank, Jaltek wanted more flexibility to maximise its working capital, and support its rapid growth and expansion. It secured a £1m invoice finance funding facility from British Business Investments delivery partner Independent Growth Finance.

Jaltek has used the additional working capital to invest in the design side of its operations, enabling engagement with early stage companies and the provision of design services for cutting edge technology.



FinTech

Overview – end of 2018/19

19,878
businesses supported

7
portfolio investments (cumulative)

£180m
committed (cumulative)

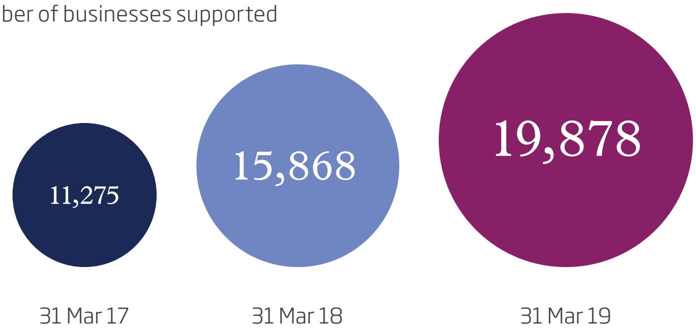
£104m
invested

The FinTech sector provides a deeper and a more diversified pool of funding sources for smaller businesses.

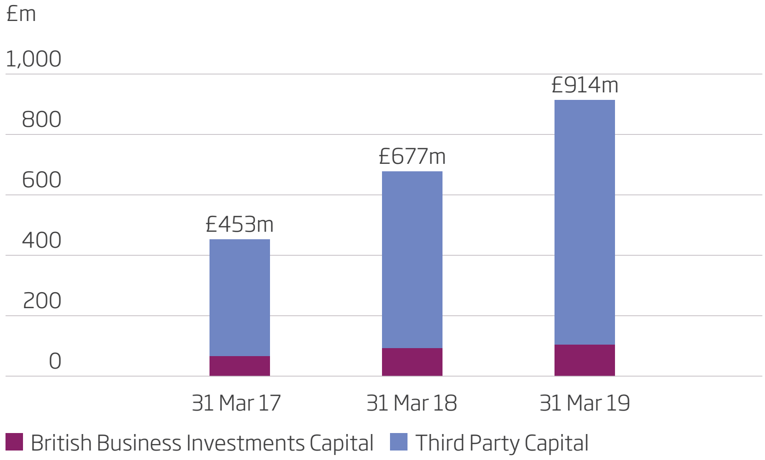
Marilena Ioannidou
Director

British Business Investments FinTech portfolio

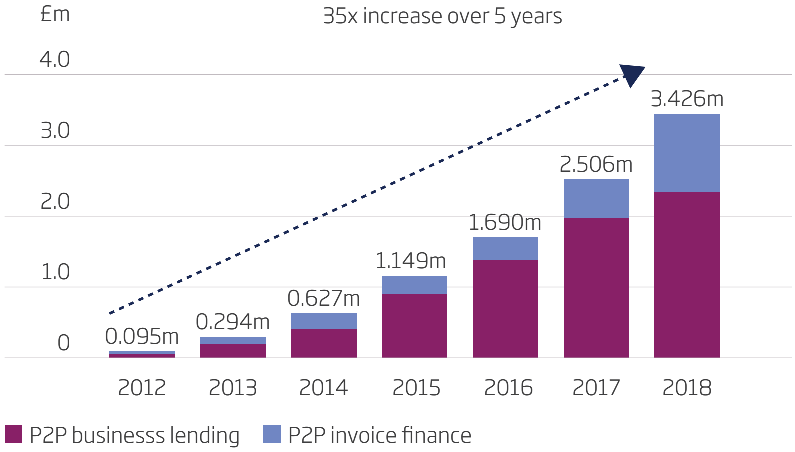
Number of businesses supported



Funding supported through our FinTech partners



Growth in UK P2P business lending and invoice finance



Source: British Business Bank Small Business Finance Markets 2018 Report; AltFi Data

The increased flow of investment to UK FinTech, and the ongoing growth of its lending capacity are signs of a maturing sector. FinTech is changing the lending landscape for smaller businesses, combining data analytics and technology to provide invaluable innovation in financial services and products.

Marketplace business lending and invoice financing grew significantly over the last six years, from less than £100m in 2012 to £3.4bn in 2018, at a time when gross bank lending to small and medium sized enterprises has remained stable. These alternative sources of finance are gaining increasing awareness and acceptance, supporting the ongoing growth of smaller businesses.

We continue to see strong alignment with our own objectives in supporting the ongoing development of FinTech, which provides a deeper and a more diversified pool of funding sources for smaller businesses.

In 2018/19, we made a new £20m commitment to ThinCats, a marketplace lender based in Ashby-De-La-Zouch, Leicestershire. This enabled the ongoing expansion of its loan product offering, to support the growth of smaller businesses across the UK.

Continuing to build on our existing partnerships, over the period we have also provided a new £25m commitment to Liberis, a London-based alternative finance provider of business cash advance, to expand its product offering.

We continued to manage our ongoing commitments to our existing delivery partners, supporting their growth as the FinTech sector and alternative lending market, evolve further.

Case study
The Potting Shed (Liberis)

The Potting Shed is a restaurant that bases its menu on fresh produce and garden grown ingredients sourced within a 30 mile radius. Based in Whitchurch, it's owned and run by Shelley and Paul Walker. In 2012, after working in the gardening trade for most of her career, Shelley was looking for something new and decided to open a seasonal garden centre and café with chef husband Paul. Proving successful with local customers, they outgrew their original location, a formerly derelict shed in a car park, and expanded.

Aiming to maximise their potential growth, they secured a £5,000 Business Cash Advance from Liberis, a British Business Investments delivery partner. Since then, they've taken a further six advances, using the funding to make new investments for marketing, and developing their current premises, a 19th century barn.

Equity capital for growth

Overview – end of 2018/19

80
businesses supported

2
portfolio investments (cumulative)

£150m
committed (cumulative)

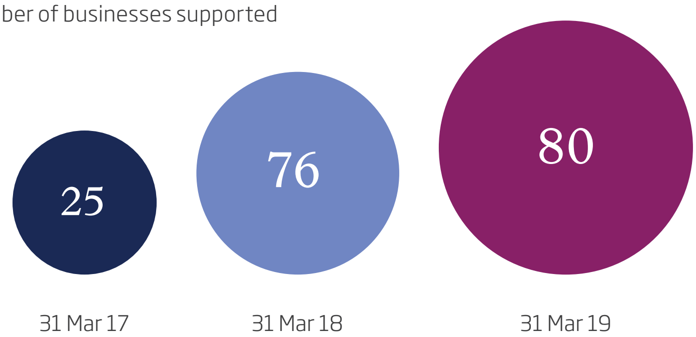
£124m
drawn capital

Vianney De Leudeville
Director

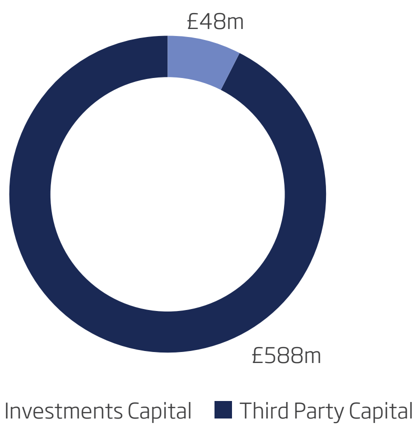
2018/19 has been a year of expansion for British Business Investments' approach to venture capital. We started the process for making investments under our new Managed Funds Programme, which was designed to provide access to venture capital opportunities for institutional investors.

British Business Investments equity capital portfolio

Number of businesses supported



Funding supported through our Equity partners



Venture and growth capital is now an important part of our investment strategy.

During the year, our VC catalyst portfolio, totalling £131m, was sold to the newly-created British Patient Capital subsidiary, of the British Business Bank.

At the end of 2018/19, our portfolio consisted of commitments of £150m to two fund of funds, the UK Future Technology Fund and the Environmental Innovation Fund. These two funds have in turn invested in 23 venture and growth capital funds.

Given British Business Investments' appetite to support the venture capital market, we have launched a new £500m Managed Funds Programme. This is designed to catalyse institutional capital into venture and growth capital. Through this programme, we expect to become a significant, cornerstone investor in funds of funds with a patient capital mandate.

We announced our first commitment under our new Managed Funds Programme in September 2019, and are progressing due diligence on further opportunities. The £500m initial allocation will represent a significant commitment from our balance sheet in the years ahead.

> "Given the success of these investments in supporting innovative companies, we have launched a new £500m Managed Funds Programme and a new Regional Angels programme."

Case study

ELeather (Hermes GPE/Bootstrap)

ELeather makes environmentally responsible, engineered leather material for use on buses, trains, planes, and footwear. Headquartered in Peterborough, its patented technology uses unused leather destined for landfill to create high-performance, customised leather solutions for customers in over 40 countries.

In 2017, the company was seeking finance to build a new factory and expand into new markets. It raised a combination of equity and debt finance, through British Business Investments delivery partners Hermes, manager of the Environmental Innovation Fund, as well as Bootstrap.

ELeather used the funding to create a new, state of the art, technology and manufacturing facility that increased capacity four times over and allowed it to expand into consumer and automotive markets.

Regional Angels Programme

Our Regional Angels Programme is designed to address regional imbalances in the availability of early stage equity finance, and to increase the amount of capital available to smaller businesses with high growth potential through angel networks of investors.

The programme was launched in October 2018 following the Government's Patient Capital Review. It made its first commitment in September 2019.

Mark Barry
Senior Manager

Our partners at end of March 2019

- Admiral Leasing & Loans
- Alcentra
- Ares
- Atom bank
- Beechbrook Capital
- bmfinance
- Boost&Co
- Bootstrap Europe
- Cordet Capital Partners
- Funding Circle
- UK FTF Future Technologies Fund
- gcp
- Harbert Management Corporation (HMC)
- Haydock Finance
- Hayfin
- Hermes GPE
- ICG
- igf Independent Growth Finance
- Kingsway Asset Finance Ltd
- LGT
- Liberis
- M&G Investments
- MarketInvoice
- Muzinich & Co
- Præsidian capital
- Pricoa Capital Group
- Secure Trust Bank Group
- Shard Credit Partners
- Shawbrook Bank
- Shire Leasing
- Thincats
- TDC Tosca Debt Capital
- Ultimate Finance

Managing our risks and corporate governance

British Business Investments operates within the Risk Management and Governance Framework of the British Business Bank and has its own Investment Committee.

Risk management and internal control

A full description of the Risk Management Framework of the British Business Bank is included within its Annual Report. The main aspects of the framework are:

- a collection of tools, processes and methodologies to identify, assess, monitor and control risks
- a Risk Appetite Policy which British Business Investments is subject to, however the British Business Investments Board approves the company's own Risk Appetite Statement
- risk governance based on the 'three lines of defence' model
- a wide range of policies, frameworks and procedures which take account of regulatory or legal requirements and industry best practice.

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 communications.

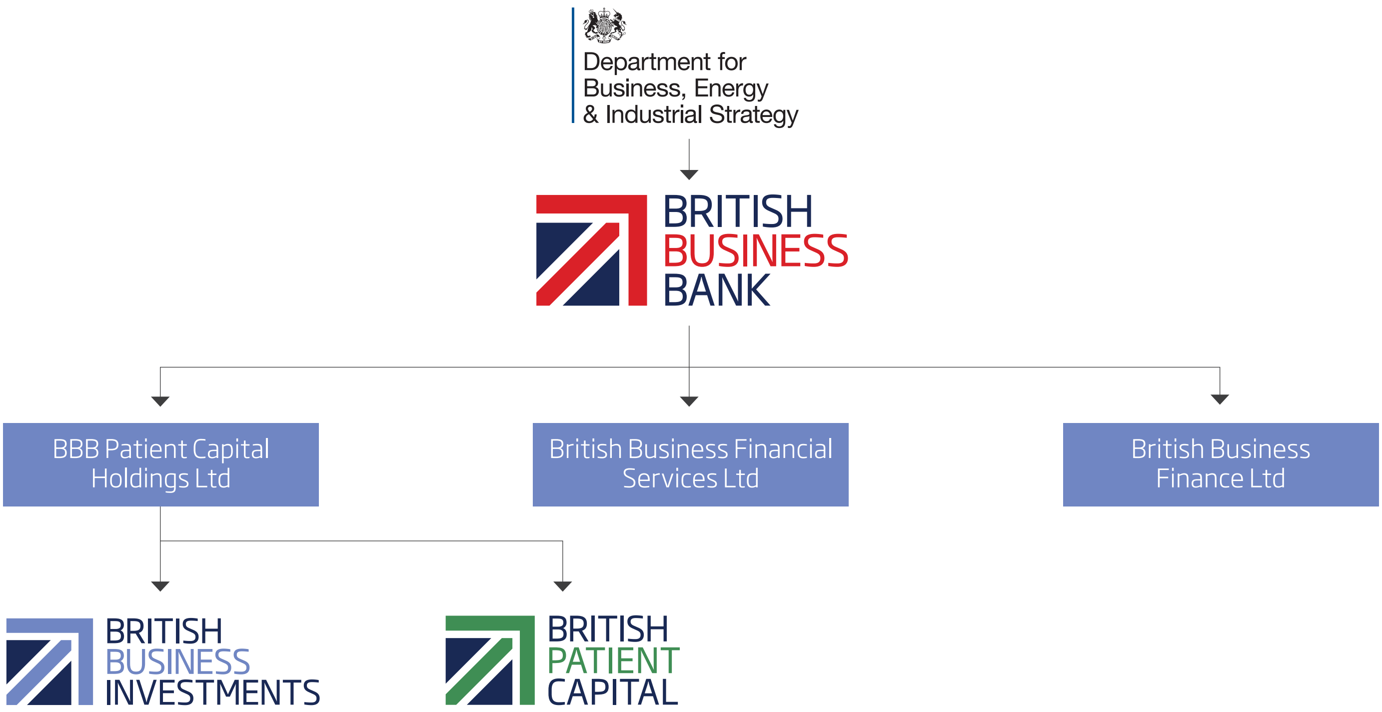
The key financial risks the company is exposed to are detailed in note 14(iii) of the accompanying financial statements.

Corporate governance

The Company is part of the British Business Bank plc Group. The policies that apply to the British Business Bank plc Group also apply to British Business Investments Ltd.

British Business Investments' constitution consists of its articles of association and a shareholder relationship framework document between the British Business Bank and British Business Investments which sets out, among other things, British Business Investments' role within the group, including the responsibilities of the Board and the relationship between the British Business Bank and British Business Investments.

Group structure from June 2018



The Board of Directors of the Company

The composition of the Board is set out in the Directors' Report on page 27. The Company's articles of association require that no more than one third of the Board may consist of members of the British Business Bank plc Board. The articles of association also provide that the consent of the shareholder is required prior to the appointment of a director and consent of the Secretary of State for Business, Energy and Industrial Strategy (BEIS) is required prior to the appointment of a director who is not already an employee of the British Business Bank group.

The CEO of the British Business Bank (who is the Accounting Officer of the British Business Bank group for the purposes of HM Treasury's 'Managing Public Money' handbook) is the Chair of the Board of British Business Investments. He has direct accountability to British Business Investments' ultimate shareholder, BEIS. The responsibilities of an Accounting Officer include the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding the British Business Bank's assets.

Audit and Risk

A designated Non-executive director of British Business Investments Ltd serves as Audit and Risk Champion, attending meetings of the Audit and Risk Committees of British Business Bank plc as needed to discuss relevant matters. The current Audit and Risk Champion is Francis Small.

Investment Committee

The members of the Investment Committee are the Chair and the CEO of British Business Investments. The Chief Risk Officer, the Chief Financial Officer and the General Counsel of the British Business Bank (or their delegates) attend all meetings of the Investment Committee. Certain investments also require the approval of the Board and/or the Board of British Business Bank plc.

The Strategic Report was approved by the Board of Directors and signed on their behalf.

Catherine Lewis La Torre
Chief Executive Officer

1 October 2019

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 2019.

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 19 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

A dividend of £56.2 million has been paid, the details set out in note 18 to the financial statements.

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) – Chair
- Catherine Lewis La Torre (appointed 15 September 2016) – Chief Executive Officer
- Sara Halbard (appointed 16 June 2016 and was re-appointed for a further 18 month term with effect from 16 June 2019)
- Francis Small (appointed 16 June 2016 and was re-appointed for a further 3 year term with effect from 16 June 2019).

British Business Investments has not made any political donations or incurred any political expenditure during the financial year.

Appointment and removal of directors

The Articles of Association provide that any appointment of a director to the Board of British Business Investments requires the prior consent of the shareholder. Additionally, where the appointee is not already an employee of the group, the prior written consent of the Secretary of State for Business, Energy & Industrial Strategy is required. No person may be removed as a director without the prior written consent of the Secretary of State for Business, Energy & Industrial Strategy.

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 they ought to have taken as a director in order to make themselves 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

Catherine Lewis La Torre
Chief Executive Officer

1 October 2019

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 which is consistent with the accounting treatment adopted by the British Business Bank plc Group, of which the Company is a wholly owned subsidiary. 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, the directors are required to:

- 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.

Catherine Lewis La Torre
Chief Executive Officer

1 October 2019

Independent Auditor's report

To the members of British Business Investments Ltd

Opinion on financial statements

I have audited the financial statements of British Business Investments Ltd for the year ended 31 March 2019 which comprise the Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2019 and of the profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- have been prepared in accordance with the Companies Act 2006.

Basis of opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of British Business Investments Ltd in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for:

- the preparation of the financial statements and for being satisfied that they give a true and fair view.
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
- assessing the Company's ability to continue as a going concern, disclosing, if applicable, matters relating to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of British Business Investments Ltd's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on British Business Investments Ltd's ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Information

The Directors are responsible for the other information. The other information comprises information included in the annual report, other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

- in light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, I have not identified any material misstatements in the Strategic Report or the Directors' Report; and
- the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

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

- adequate accounting records have not been kept, 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 the 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)

1 October 2019

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 year ended 31 March 2019

Income statement
For the year ended 31 March 2019

	Note	2019 £000	2018 £000
INCOME			
Interest income	10.1	19,175	–
Fair value gain on investment assets designated as fair value through profit or loss	10.3	–	74,914
Arrangement and other fees		1,724	1,322
Gross operating income		**20,899**	**76,236**
Expected credit loss on amortised cost assets	10.1	(2,867)	–
Net gains on investment assets	10.2	63,726	–
Net operating Income		**81,758**	**76,236**
EXPENDITURE			
Staff costs	5	(1,581)	(1,371)
Purchase of goods and services		(894)	(1,446)
Management fee	6	(8,403)	(5,554)
Operating expenditure		**(10,878)**	**(8,371)**
Profit before tax		**70,880**	**67,865**
Tax	7.1	(11,878)	(11,620)
Profit for the year after tax		**59,002**	**56,245**

All operations are continuing.

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

The notes on pages 37 to 60 form an integral part of the financial statements. Where applicable balances for the year to 31 March 2019 are under IFRS9, and those for the year to 31 March 2018 are under IAS 39. Further details of the impact of this change are provided in the transition table in note 3.

Statement of financial position
As at 31 March 2019

	Note	2019 £000	2018 £000
ASSETS			
Cash and cash equivalents	8	59,551	13,580
Trade and other receivables	9	130,787	421
Amortised costs investments	10.1	288,976	–
Investments held at fair value through profit or loss under IFRS 9	10.2	856,784	–
Assets designated at fair value through profit or loss under IAS 39	10.3	–	1,263,620
Deferred tax asset	7.3	14	14
Total assets		**1,336,112**	**1,277,635**
LIABILITIES			
Trade and other payables	11	(2,459)	(11,976)
Corporation tax	7.2	(1,508)	(6,296)
Total liabilities		**(3,967)**	**(18,272)**
Net assets		**1,332,145**	**1,259,363**
EQUITY			
Issued share capital	13	1,006,286	1,203,118
Retained earnings		325,859	56,245
Total equity		**1,332,145**	**1,259,363**

The financial statements of the Company (company number 09091930) were approved by the Board of Directors and authorised for issue on 1 October 2019. They were signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer

The notes on pages 37 to 60 form an integral part of the financial statements.

Statement of changes in equity
For the year ended 31 March 2019

	Notes	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2018		**1,203,118**	**56,245**	**1,259,363**
Adjustment due to IFRS 9 transition		–	(4,975)	(4,975)
Balance under IFRS 9 as at 1 April 2018		**1,203,118**	**51,270**	**1,254,388**
Net income after tax		–	59,002	59,002
Total comprehensive income		**–**	**59,002**	**59,002**
Issue of ordinary shares	13	75,000	–	75,000
Capital reduction	13	(271,832)	271,832	–
Dividends	18	–	(56,245)	(56,245)
Balance as at 31 March 2019		**1,006,286**	**325,859**	**1,332,145**
Balance as at 1 April 2017		**920,764**	**24,610**	**945,374**
Net income after tax		–	56,245	56,245
Total comprehensive income		**–**	**56,245**	**56,245**
Issue of ordinary shares	13	282,354	–	282,354
Dividends		–	(24,610)	(24,610)
Balance as at 31 March 2018		**1,203,118**	**56,245**	**1,259,363**

Cash flow statement
For the year ended 31 March 2019

	Notes	2019 £000	2018 £000
Profit before tax		70,880	67,865
Cash flows from operating activities			
Changes in operating assets and liabilities:			
Net decrease in amortised cost investments	10.1	10,367	–
Net decrease in assets at fair value through profit or loss under IFRS 9	10.2	102,518	–
Net increase in assets designated at fair value through profit or loss under IAS 39	10.3	–	(317,522)
Decrease/(increase) in trade and other receivables	9	235	(252)
Increase in amounts due from group companies	9	(130,601)	–
(Decrease)/increase in trade and other payables	11	(9,517)	7,817
Payment of corporation tax	7.2	(16,666)	(11,651)
Net cash used in operating activities		**27,216**	**(253,743)**
Cash flows from financing activities			
Issue of new shares	13	75,000	282,354
Dividends paid to shareholder	18	(56,245)	(24,610)
Net cash from financing activities		**18,755**	**257,744**
Net increase in cash and cash equivalents		**45,971**	**4,001**
Cash and cash equivalents at beginning of the year		13,580	9,579
Cash and cash equivalents at end of the year		**59,551**	**13,580**

Interest received was £61.6m (2018: £59.7m).

The notes on pages 37 to 60 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2019

1. General information

British Business Investments Ltd (the Company) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Steel City House, West Street, Sheffield, S1 2GQ. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 6 to 26.

2. Significant accounting policies

Basis of accounting

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

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

In the previous year the Company was classified as an investment company under IFRS 10 *Consolidated Financial Statements* and showed investments at fair value through profit and loss (FVTPL). The Directors had decided that this was the correct classification having determined that the Company met the three criteria required under IFRS 10 in that the Company:

- Obtained 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 measured the performance of substantially all of its investments on a fair value basis.

On transition to IFRS 9 on 1 April 2018 the Directors have reassessed the Company's investment entity status on the basis that investments are now classified based on the business model for managing those investments and the associated contractual cashflows. A number of the Company's investments will now be classified as at Amortised Cost with the Company unable to measure these investments at fair value through profit or loss. Following this assessment, the Directors have concluded that the Company is no longer an investment entity under IFRS 10 from 1 April 2018 and the provisions of this standard have not been applied in these accounts from this date.

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

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. The Company has received a letter of support from the Secretary of State for BEIS stating it will provide sufficient funding to enable the Company to meet its liabilities as and when they fall due for a period of not less than twelve months from the date of approval of these financial statements. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

2. Significant accounting policies (continued)

Adoption of new and revised Standards

The Company has adopted IFRS 9 as issued by the International Accounting Standards Board in July 2014. The Company did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions, the Company has elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition have been recognised in the opening retained earnings and other reserves in the current period. Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes to the accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial instruments: Disclosures'. Where there is a difference in the Company's principal accounting policies between the current and the previous years as a consequence of the adoption of IFRS 9, the accounting policies relevant to both years have been disclosed in this note.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with recipients. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service. The standard is effective for annual periods beginning on or after 1 January 2018 and has been adopted by the Company at the start of the current period. The Standard is only relevant to the Company with respect to 'Arrangement and other fees'. Given the nature of this type of income there has been no impact on the Company at the point of transition, nor on Arrangement and other fee income recognised during the period.

There were no other new or amended standards applied for the first time and therefore no restatements of the previous financial statements 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 3 (amendments) Business Combinations;*
- *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRS 16 Leases;*
- *IFRS 17 Insurance Contracts;*
- *Annual Improvements to IFRSs 2015–2017 Cycle;*
- *IAS 1 (amendments) Presentation of Financial Statements;*
- *IAS 8 (amendments) Accounting Policies, Changes in Accounting Estimates and Errors;*
- *IAS 19 (amendments) Employee Benefits;*
- *IAS 28 (amendments) Investments in Associates and Joint Ventures;*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

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 years.

Income recognition

Income is measured as the change in fair value of the investments plus any gain or loss arising on disposal and 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. Income is reduced for estimated rebates and other similar allowances.

Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts future contractual cash payments or receipts over the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of the financial liability. The calculation does not consider expected credit losses and includes transaction costs, and premiums or discounts that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in the Statement of Comprehensive Net Income.'

Tax

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 at 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 in future years against which deductible temporary differences can be utilised.

Current and deferred tax is recognised in the Income Statement, 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 that irrecoverable VAT is charged to the Income Statement, and included under the relevant expenditure heading.

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 assets and liabilities

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

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

Classification of financial instruments – 2019 Accounting Policy

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

The Company's financial assets comprise debt instruments, classified as such under IAS 32, which are subsequently measured at amortised cost where the business model related to that instrument is to collect the contractual cash flows and those cash flows represent solely payments of principal and interest ('SPPI'). If the cash flows fail the SPPI test, the instrument is subsequently measured at FVTPL.

Financial assets that are held for collection of contractual cash flows and for selling where the assets' cash flows represent SPPI, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through Other Comprehensive Income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains or losses on the instrument's amortised cost which are recognised in the Income Statement. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

The Company may irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases.

Impairment of financial assets - 2019 Accounting Policy

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

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

Subsequently, financial assets are considered to be in 'stage 2' when their credit risk has increased significantly since initial recognition, so that it is appropriate to recognise lifetime ECL. The Company assesses assets to be in stage 2 using a combination of non-statistical, qualitative information as well as quantitative, statistical information, including when accounts are more than 30 days past due or there has been a significant relative increase in the lifetime probability of default (PD) compared to initial recognition, and where the PD is derived based on the customer's credit quality, including analysis of behaviour score and other account characteristics.

Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. Assets which are more than 90 days past due are in default and are considered by the Company to be credit impaired.

The measurement of ECL reflects an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

ECLs are calculated using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD'). The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default. Discounting of the expected cashflows is performed using the effective interest rate of the loan.

Impairment was £nil in the previous year as all the Companies assets were designated at FVTPL.

Changes in the carrying amount of assets arising as a result of impairment are recognised in the Income Statement. If a loan has no realistic prospect of recovery, any loss incurred by the Company on extinguishing the debt is written off against the provision for loan impairment. Any subsequent recoveries of amounts previously written off are recognised through the Income Statement.

Classification of financial assets – 2018 Accounting Policy

Financial instruments are measured initially at fair value. For financial assets acquired, fair value is the consideration paid, while for financial liabilities fair value is 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 Income Statement. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

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. Translation differences are recognised in the Consolidated Statement of Comprehensive Net Income.

Trade and other receivables

Trade and other receivables are classified and subsequently measured at amortised cost.

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. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

Reconciliation of IAS 39 to IFRS 9

The following table provides the reclassification and remeasurement impact arising from the transition to IFRS 9 on the Statement of Financial Position at 1 April 2018, the date IFRS 9 was adopted by the Company.

Reclassification

These adjustments reflect the movement of balances between categories on the Statement of Financial Position with no impact to shareholders' equity. There is no change to the carrying value of the balances as a result of the reclassification.

Remeasurement

These adjustments, which include expected credit loss, result in a change to the carrying value of the investments on the Statement of Financial Position with an impact to shareholders' equity net of tax.

	Measurement basis (IAS 39)	Carrying amount 31 March 2018 (IAS 39) £000	Remeasurement £000
Assets			
Cash and cash equivalents	Amortised cost	13,580	–
Trade and other receivables	Amortised cost	421	–
Assets designated at FVTPL (IAS 39)	FVTPL (IAS 39)	1,263,620	–
–	N/A	–	(4,975)
–	N/A	–	–
Deferred tax asset	N/A	14	–
Total Assets		**1,277,635**	**(4,975)**
Liabilities			
Trade and other payables	Amortised cost	(11,975)	–
VAT and social security	N/A	(1)	–
Corporation tax	N/A	(6,296)	–
Total liabilities		**(18,272)**	**-**
Net assets		**1,259,363**	**(4,975)**
Equity			
Issued share capital		1,203,118	–
Retained earnings		56,245	(4,975)
Total equity		**1,259,363**	**(4,975)**

Reclassification £000	Carrying amount 1 April 2018 (IFRS 9) £000	Measurement basis (IFRS 9)	
			Assets
–	13,580	Amortised cost	Cash and cash equivalents
–	421	Amortised cost	Trade and other receivables
(1,263,620)	–	N/A	–
304,317	299,342	Amortised cost	Amortised cost
959,303	959,303	FVTPL (IFRS 9)	Assets at FVTPL (IFRS 9)
–	14	N/A	Deferred tax asset
–	**1,272,660**		**Total assets**
			Liabilities
–	(11,975)	Amortised cost	Trade and other payables
–	(1)	N/A	VAT and social security
–	(6,296)	N/A	Corporation tax
–	**(18,272)**		**Total liabilities**
–	**1,254,388**		**Net assets**
			Equity
–	1,203,118		Issued share capital
–	51,270		Retained earnings
–	**1,254,388**		**Total equity**

3. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 (continued)

Cash and cash equivalents and Trade and other receivables that were classified as 'loans and receivables' are now measured at 'amortised cost'. There are no changes in terms of measurement for these assets upon transition.

Assets that were designated as 'fair value through profit or loss' under IAS 39 which meet the solely payments of principal and interest test for cash flow characteristics are classified as 'amortised cost' under IFRS 9.

Assets that were designated as 'fair value through profit or loss' under IAS 39 which are holdings in standard investment funds with either a limited life or redeemable units, are measured at FVTPL as they are debt instruments that do not meet the solely payments of principal and interest test.

4. Critical accounting judgements and key sources of estimation uncertainty

In applying 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 year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects current and future years.

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

- The inputs to valuation models and techniques used to determine estimated future cash flows to calculate the fair values of assets held at FVTPL and amortised cost;

The future returns from FVTPL debt fund investments are not limited to contracted cash flows of interest and principal. Returns are inherently uncertain and will depend on a range of factors including the manager's success in originating lending opportunities, costs and fees, how the manager exercises discretion in trading off equity against debt components in loan structures, credit and warrant/equity performance, and prevailing market conditions.

Impairment of Financial Assets

The calculation of impairment provisions is inherently uncertain and requires the Company to make a number of judgements, assumptions and estimates. The most critical sources of estimation uncertainty are:

Economic scenarios and associated probability weightings

IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macro-economic scenarios. The ECL model adopted by the Company uses a Cyclicality Index (CI), which can be considered as a measure of where the economy sits in the credit cycle at any time.

The model uses publicly available data on default rates as a basis for the CI and generates a base case scenario (determined by a regression model utilising base case forecasts of Consumer Price Index growth rates, interest rates and unemployment rates published by the Bank of England), then two better and two worse scenarios generated by considering a distribution of possible scenarios around the base case scenario.

The calculation of probability of default (PD)

The PD of each underlying loan or credit facility provided by the Company is a key assumption for the IFRS 9 ECL calculation and this is reliant on rating assessments undertaken by external and internal PD models.

The calculation of loss given default (LGD)

LGD assesses the loss potential in case of a default and is reliant on the collateral residual value acting as security reported against each loan or the reported seniority ranking of the Company's facility compared to other investors. LGD is estimated using internal models which consider observed loss data or using external benchmarks where appropriate.

The calculation of exposure at default (EAD)

Exposure at default (EAD) is estimated for each month for the contractual lifetime of each financial instrument. This is either the contractual maturity profile of the investment or an internal estimate of the exposure value based on expected repayment profiles based on historical information. A credit conversion factor is applied to undrawn irrevocable commitments based on external benchmark or internally observed data for similar portfolios or types of assets.

5. Staff numbers, staff costs and directors' remuneration

5.1 Staff numbers and staff costs

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

	2019	2018
Permanent staff	13	14
Non-executive directors	3	4
Total	**16**	**18**

Aggregate remuneration comprised:	2019 £000	2018 £000
Wages and salaries		
– Permanent staff	1,000	859
– Temporary and agency staff	–	17
Non-executive directors' fees	45	45
Short and Long-Term Incentive Plans and bonus scheme	235	197
Social security costs	159	129
Pension costs	142	124
Total	**1,581**	**1,371**

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 plc's annual report and accounts.

5.2 Directors' remuneration

Directors' remuneration during the year was £45,000 (2018: £45,000).

Executive Directors' remuneration

Catherine Lewis La Torre (Chief Executive Officer) is paid directly by the British Business Bank plc, and this is recharged to the Company in the form of a management charge. Full disclosure of her remuneration is dealt within the Remuneration Report of British Business Bank plc.

5. Staff numbers, staff costs and directors' remuneration (continued)

Non-executive Directors' remuneration

Non-executive Directors' remuneration for 2019 and 2018 is made up as follows:

	2019		2018	
	Total fees £000	Annual £000	Total fees equivalent £000	Annual equivalent £000
Keith Morgan	–	–	–	–
Sara Halbard	20	20	20	20
Francis Small	25	25	25	25
Total	**45**	**45**	**45**	**45**

Fees for services as Director of the Company are £20,000 per annum. In addition a fee of £5,000 per annum is paid to the Audit and Risk Champion of the company.

Keith Morgan is paid directly by British Business Bank plc and this is recharged to the Company in the form of a management charge.

No post-employment benefits, termination benefits or share based payments were made to Directors in the year (2018: none).

6. Operating costs

Purchase of goods and services

Auditor's remuneration of £97,000 (2018: £53,000), which is included within Purchase of goods and services relates to fees payable for the audit of the Company's financial statements. The Company's auditors did not provide any non-audit services.

Management Fee	2019 £000	2018 £000
Allocated staff costs	3,502	3,525
Allocated purchase of goods and services	4,901	2,029
Total	**8,403**	**5,554**

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

7. Tax

7.1 Tax on profit on continuing activities

	2019 £000	2018 £000
Current tax		
Current year	13,237	12,894
Adjustment in respect of prior year	(1,359)	(1,261)
Total current tax	**11,878**	**11,633**
Deferred tax		
Current period	–	(13)
Total deferred tax	–	**(13)**
Total tax expense	**11,878**	**11,620**

Factors affecting the tax expense for the period

The tax expense for the period is different from the standard rate of corporation tax in the UK as explained in the table below. The corporation tax rate used is based on the enacted corporation tax rate for the year commencing 6 April 2018. The Finance Act 2015 which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 to 31 March 2020 and 18% effective from 1 April 2020, was substantively enacted on 18 November 2015.

The table below reconciles the tax charge for the year:

	2019 £000	2018 £000
Profit before tax	70,880	67,865
Tax on tax at standard UK tax rate 19% (2018 19%)	13,467	12,894
Adjustment in respect of prior year	(1,359)	(1,261)
Short term timing differences	(230)	–
Total tax charge	**11,878**	**11,633**

Deferred corporation tax

A deferred tax rate of 17% has been used for 2019 (2018: 17%). 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.

7.2 Corporation tax payable

	2019 £000	2018 £000
Corporation tax payable at 1 April	6,296	6,314
Tax expense for the year	11,878	11,633
Tax paid	(16,666)	(11,651)
Corporation tax payable at 31 March	**1,508**	**6,296**

7.3 Deferred tax asset

	2019 £000	2018 £000
Deferred tax asset at 1 April	14	1
Movement in the year	–	13
Deferred tax asset at 31 March	**14**	**14**

8. Cash and cash equivalents

	2019 £000	2018 £000
Government Banking Service	42,486	4,847
Commercial bank accounts	17,065	8,733
Total	**59,551**	**13,580**

9. Trade and other receivables

	2019 £000	2018 £000
Amounts receivable within one year		
Trade receivables	45	235
Other receivables	19	64
Amounts due from Group companies	130,723	122
Total	**130,787**	**421**

Trade receivables disclosed above are measured at amortised cost. The amounts due from Group Companies represent amounts receivable by British Business Investments Ltd arising from the sale of the venture and growth capital fund investments to British Patient Capital Limited, the transaction being made on an arm's length basis.

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

10. Investments

Business Finance Partnership

The Business Finance Partnership (BFP) has two strands. The first strand is the BFP Mid Cap which invests in funds which lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments were previously designated as FVTPL financial assets under IAS 39. Upon adoption of IFRS 9 by the Company, the holding in one investment asset was classified as an amortised cost asset. The value of this asset at 1 April 2018 was £60.2m. See note 10.1 for details. The remainder of the BFP Mid Cap portfolio was classified as FVTPL upon adoption of IFRS 9. See note 10.2 for details.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders that provide an alternative source of lending for small businesses with turnover up to £75m. All of the BFP Small Cap's investments were previously designated as FVTPL financial assets under IAS 39. Upon adoption of IFRS 9 by the Company, all but one of these assets have been classified as FVTPL. See note 10.2 for details. The remaining asset was reclassified as an amortised cost financial asset. See note 10.1 for details.

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 into the market and the growth of smaller lenders. British Business Investments in Limited Partnerships through the Investment Programme were designated as FVTPL financial assets under IAS 39. Upon adoption of IFRS 9 by the Company, these assets have been classified as FVTPL. See note 10.2 for details.

This programme has participated in invoice discount finance, in peer to peer lending, asset finance and other credit facilities. This lending was designated as FVTPL under IAS 39 and has been classified as amortised cost financial assets under IFRS 9. See note 10.1 for details.

Through the Investment Programme, BBI participated in a public issue of Tier 2 fixed rate reset callable subordinated loan notes by Shawbrook Bank plc with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28 October 2015. This investment was designated as FVTPL under IAS 39 and has been classified as an amortised cost financial asset under IFRS 9. See note 10.1 for details.

Venture/Growth

The Venture/Growth portfolio consists of investments in commercially viable venture and venture growth capital funds, to support UK companies with high growth potential to access the long-term financing they need to scale up. Venture/Growth investments were designated as FVTPL under IAS 39. Upon adoption of IFRS 9 by the Company these investments were classified as FVTPL. See note 10.2 details.

On 1 July 2018 the Company disposed of its entire holding of Venture and Growth funds to British Patient Capital Ltd, a company within the British Business Bank plc Group. The transaction was undertaken on an arms length basis.

UK Innovation Investment Fund

The UK Innovation Investment Fund (UKIIF) is funded by British Business Investments following its acquisition of HM Government's investment in the Fund on 14 July 2017. UKIIF supports the creation of viable investment funds targeting UK high growth technology-based businesses. It has invested through two underlying fund of funds, the UK Future Technology Fund, which has now ceased making new investments, and the Hermes Environmental Impact Fund.

The UKIIF investments were designated as FVTPL under IAS 39. Upon adoption of IFRS 9 by the Company these investments were classified as FVTPL. See note 10.2 for details.

10.1 Amortised cost investments

As at 31 March 2019	Opening balance under IFRS 9 £000	Transfers £000	Additions £000	Repayments £000	Accrued Interest £000	Expected credit loss allowance £000	Closing balance £000
BFP Small Cap	635	–	–	(745)	18	94	2
BFP Mid Cap	60,200	–	22,491	(30,135)	2,957	(81)	55,432
Investment Programme	238,508	–	114,478	(132,764)	16,200	(2,880)	233,542
Total	**299,343**	**-**	**136,969**	**(163,644)**	**19,175**	**(2,867)**	**288,976**

10.2 Investments held at fair value through profit or loss under IFRS 9

As at 31 March 2019	Opening balance under IFRS 9 £000	Transfers £000	Additions £000	Repayments £000	Fair value movement £000	Disposals £000	Closing balance £000
BFP Small Cap	14,114	(12,891)	129	(1,857)	505	–	–
BFP Mid Cap	494,921	–	28,416	(114,705)	27,426	–	436,058
Investment Programme	242,038	12,816	80,700	(46,239)	7,646	–	296,961
UKIIF	131,986	–	8,569	(35,320)	18,530	–	123,765
Venture/Growth	76,243	75	47,044	(2,258)	9,619	(130,723)	–
Total	**959,302**	**-**	**164,858**	**(200,379)**	**63,726**	**(130,723)**	**856,784**

10.3 Investments designated at fair value through profit or loss under IAS 39

As at 31 March 2018	Opening balance £000	Additions £000	Transfers £000	Repayments £000	Fair Value Movement £000	Closing balance £000
BFP Mid Cap	587,072	50,746	–	(114,976)	32,716	555,558
BFP Small Cap	40,148	–	(19,874)	(7,777)	2,252	14,749
UKIIF	–	141,757	–	(22,598)	12,827	131,986
Investment Programme	289,356	252,536	19,874	(99,395)	22,713	485,084
Venture/Growth	29,522	43,324	–	(1,009)	4,406	76,243
Total	**946,098**	**488,363**	**-**	**(245,755)**	**74,914**	**1,263,620**

10.4 Reconciliation of opening 2019 amortised cost assets balances under IFRS 9 with closing 2018 IAS 39 balances designated as FVTPL

	Closing balance 31 March 2018 (designated as FVTPL under IAS39) £000	Opening balance 1 April 2018 (classified as FVTPL under IFRS 9) £000	Remaining opening balance £000	Remeasurement on adoption of IFRS 9 £000	Opening balance 1 April 2018 (classified as amortised cost under IFRS 9) £000
BFP Small Cap	14,749	14,114	635	–	635
BFP Mid Cap	555,558	494,921	60,637	(437)	60,200
UKIIF	131,986	131,986	–	–	–
Investment Programme	485,084	242,038	243,046	(4,538)	238,508
Venture/Growth	76,243	76,243	–	–	–
	1,263,620	**959,302**	**304,318**	**(4,975)**	**299,343**

11. Trade and other payables

	2019 £000	2018 £000
Amounts falling due within one year		
Trade payables	1	11
VAT and social security	–	1
Accrued expenditure	355	505
Amounts due to Group companies	1,650	11,219
Other payables	339	178
Total	**2,345**	**11,914**
Amounts falling due after more than one year		
Accrued expenditure	114	62
Total	**114**	**62**
Total	**2,459**	**11,976**

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

12. Capital commitments

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

	2019 £000	2018 £000
BFP Mid Cap	143,968	211,778
UKIIF	24,721	34,346
Investment Programme	285,080	242,108
Venture/Growth	–	198,648
Total	**453,769**	**686,880**

13. Share capital

	2019	2018
Issued and fully paid ordinary shares of £1 each:	1,006,285,731	1,203,117,522

	2019 £000	2018 £000
Brought forward	1,203,118	920,764
Shares issued for cash	75,000	282,354
Capital reduction	(271,832)	–
Carried forward	**1,006,286**	**1,203,118**

On 13 February 2019 the Board authorised a capital reduction of the Company's share capital of £271.8m. This amount has been transferred to Retained earnings on this date. The Company has one class of ordinary shares which carry no right to fixed income.

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 IFRS 9. Prior year comparatives have been provided as classified under IAS 39.

At 31 March 2019	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Cash and cash equivalents	8	–	59,551	–	–	59,551
Trade and other receivables	9	–	130,787	–	–	130,787
Amortised cost investments	10	–	288,976	–	–	288,976
Investments held at FVTPL	10	856,784	–	–	–	856,784
Deferred tax	7	–	–	–	14	14
Total assets		**856,784**	**479,314**	**-**	**14**	**1,336,112**
Liabilities						
Trade and other payables	11	–	–	(2,459)	–	(2,459)
Corporation tax	7	–	–	–	(1,508)	(1,508)
Total liabilities		–	–	**(2,459)**	**(1,508)**	**(3,967)**
Net Assets		**856,784**	**479,314**	**(2,459)**	**(1,494)**	**1,332,145**

At 31 March 2018	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Cash and cash equivalents	8	–	13,580	–	–	13,580
Trade and other receivables	9	–	421	–	–	421
Designated at FVTPL	10	1,263,620	–	–	–	1,263,620
Deferred tax	7	–	–	–	14	14
Total assets		**1,263,620**	**14,001**	**-**	**14**	**1,277,635**
Liabilities						
Trade and other payables	11	–	–	(11,976)	–	(11,976)
Corporation tax	7	–	–	–	(6,296)	(6,296)
Total liabilities		**-**	**-**	**(11,976)**	**(6,296)**	**(18,272)**
Net Assets		**1,263,620**	**14,001**	**(11,976)**	**(6,282)**	**1,259,363**

14. Financial Instruments (continued)

(ii) Fair value measurements

The investment portfolio consists of amortised cost assets and assets classified as 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 that are not amortised cost, the valuation is a net asset valuation (NAV) determined by investment managers on a fair value basis or by quoted prices in an active market.

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

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 Income Statement. 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); 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 had one Investment Programme investment that was 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. On transition to IFRS 9 this investment has been reclassified to amortised cost and no longer falls into the fair value measurement requirements.

For the year covered by these financial statements all other fair value through profit or loss financial investments are considered Level 3 assets. 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 valuation.

– 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 for example International Private Equity and Venture Capital Association (IPEVCA) guidelines.

14. Financial Instruments (continued)

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

Set out below is a comparison by class of carrying amounts and fair values of the Group's financial assets and financial liabilities measured at amortised cost.

	Carrying Value 2019 £000	Fair Value 2019 £000
Financial assets at amortised cost		
BFP Small Cap	2	2
BFP Mid Cap	55,432	49,849
Investment Programme	233,542	237,099
	288,976	**286,950**

BFP Small Cap, BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Small Cap, the BFP MidCap and the Investment Programme comprise both fixed rate and floating rate investments with an average duration of not more than five years. The Directors have assessed that the changes in interest rates and in credit spreads and the associated impact on the fair value of these assets since they were originated is not material to the Company's results. The Directors consider the carrying value of the investments measured at amortised cost to be a reasonable representation of the fair value of these assets at 31 March 2019 and 31 March 2018. BFP Small Cap, BFP Mid Cap and Investment Programme amortised cost assets are classed as Level 3 assets in the fair value hierarchy.

(iii) Financial risk management

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

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

- Credit and investment risk
- Market risk
- Liquidity risk

Credit and investment risk

Credit and investment risk is the risk of a loss due to the failure of counterparties to fully honour their obligations to the Company, including the whole and timely payment of principal, interest, collateral or other receivables and the risk of loss due to adverse credit spread movements. Credit risk includes settlement risk, when a counter party 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 any 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.

14. Financial Instruments (continued)

(iii) Financial Risk Management (continued)

Maximum credit risk exposure

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.

	Maximum Exposure 2019 £000	Collateral 2019 £000	Net Exposure 2019 £000	Maximum Exposure 2018 £000	Collateral 2018 £000	Net Exposure 2018 £000
Cash and cash equivalents	59,551	–	59,551	13,580	–	13,580
Trade and other receivables	130,787	–	130,787	421	–	421
Amortised cost investments	288,976	93,770	195,206	–	–	–
Assets classified as FVTPL	856,784	–	856,784	–	–	–
Loans and receivables designated at FVTPL	–	–	–	210,402	121,370	89,032
Assets designated at FVTPL	–	–	–	1,053,218	–	1,053,218
Total	**1,336,098**	**93,770**	**1,242,328**	**1,277,621**	**121,370**	**1,156,251**

The Company through its applicable delivery partners has the ability to call on collateral in the event of a default of the counterparty by way of calling on the asset for which the finance has been provided. The collateral disclosed in the table above relates in full to loans provided in relation to asset backed finance.

The concentration of credit risk is limited due to the investment base being large and spread across a number of asset classes. 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.

Credit risk rating and loss allowance

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

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

Trade receivables

An expected credit loss on trade and other receivables has not been recognised in the accounts as it is not material.

Assets held at amortised cost

The Company's investments are assessed by the Valuation Committee. The Company produces credit risk ratings for its investments based upon the estimated Probability of Default or Loss Given Default of that investment.

The following table presents an analysis of credit quality of assets held at amortised cost, which were previously designated as fair value through profit or loss. It indicates whether assets were subject to a 12-month ECL or lifetime ECL allowance, and whether they were credit-impaired.

14. Financial Instruments (continued)

(iii) Financial Risk Management (continued)

As at 31 March 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Medium risk	223,558	–	–	223,558
High risk	67,871	1,514	–	69,385
Defaulted financial assets	–	–	7,128	7,128
Total gross carrying amounts	291,429	1,514	7,128	300,071
Loss allowance	(3,819)	(1,160)	(6,116)	(11,095)
Carrying amount	**287,610**	**354**	**1,012**	**288,976**

The movement in the allowance for assets held at amortised cost during the year was as follows.

As at 31 March 2019	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 31 March 2018 per IAS 39				5,593
Adjustment on initial application of IFRS 9	1,450	195	990	2,635
Balance at 1 April 2018 per IFRS 9	3,730	1,290	3,208	8,228
Remeasurement[1]	(655)	437	2,046	1,828
Transfer between staging	(402)	(466)	868	–
Financial assets repaid	(459)	(101)	(6)	(566)
New financial assets acquired	1,605	–	–	1,605
Balance at 31 March 2019	**3,819**	**1,160**	**6,116**	**11,095**

1. Remeasurement includes credit risk changes as a result of significant increases in credit risk and changes in model inputs and assumptions.'

Cash and cash equivalents

The Company held cash and cash equivalents of £59.6m as at 31 March 2019 (2018: £13.6m). The cash and cash equivalents are held with banks and financial institutions which are rated AA- to AA+ based on S&P ratings.

The Company considers that cash and cash equivalents have a low credit risk based on the external credit ratings of the holding parties. As such, an expected credit loss has not been recognised in the accounts.

Market risk

Market Risk is the risk of direct or indirect losses that arise from fluctuations in the values of, or income from, assets or in movements in interest or exchange rates or credit spreads. The Company recognises 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 investments 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 £7m 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 £1m over a one year period.

14. Financial Instruments (continued)

(iii) Financial Risk Management (continued)

Currency risk

The Company does not have material exposure to currency risk as the Company primarily invests in its functional currency, pounds sterling. There are some investments in funds which have a Europe-wide investment mandate, and are denominated in Euros. A condition of investment in these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 6% of the Company's portfolio is in non-pounds sterling 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 significant 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

BEIS is the ultimate controlling party and sole shareholder of the British Business Bank plc, of which the Company is a wholly owned subsidiary. British Business Investments Ltd entered into transactions with BEIS and the following British Business Bank plc Group companies:

	2019 £000	2018 £000
Income		
British Patient Capital	124	–
Total	**124**	–
Expenditure		
British Business Bank plc	8,377	5,389
British Business Finance Limited	–	165
British Business Financial Services Limited	150	–
Total	**8,527**	**5,554**
Investment transactions		
Purchase of UKIIF investment assets from BEIS	–	134,743
Disposal of Venture/Growth assets to BPC	(131,128)	–
Total	**(131,128)**	**134,743**

Amounts outstanding at year end

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

	2019 £000	2018 £000
Receivable		
BBB Patient Capital Holdings Limited	130,723	–
Total	**130,723**	**-**
Payable		
British Business Bank plc	1,624	11,219
British Business Financial Services Limited	26	–
Total	**1,650**	**11,219**

Compensation paid to key management personnel is disclosed in note 5.2.

16. Significant undertakings

British Business Investments Ltd (BBI) has the following significant holdings in undertakings.

Name	Country in which it is incorporated	Class of share held by BBI	Proportion held by BBI
BMS Finance S.A.R.L. Registered address: 55 Avenue Pasteur, L-2311, Luxembourg	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund) Registered address: 6 Rue Adolphe, L-1116, Luxembourg	Luxembourg	Class A shares	46.6%
Pricoa Sterling Corporate Bond Fund[1] Registered address: 70 Sir John Rogerson's Quay, Dublin 2, Ireland	Ireland	Not classified	67.7%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%

1 Pricoa's latest financial year end was 30 June 2019. The fund does not produce separate accounts and therefore figures for the fund are not available.

17. Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Company. Such interests include debt and equity investments and investment management agreements.

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

Interest in Limited Partnerships	2019 £000	2018 £000
Assets at fair value through profit or loss	856,784	959,303
Total assets	**856,784**	**959,303**

18. Dividends

On 13 February 2019 a dividend of £56.2m (5.589356p per share) was declared and paid to the ordinary shareholders. No further dividend is proposed for the year ended 31 March 2019.

19. Events after the reporting date

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

20. Controlling party

The Company's parent company is BBB Patient Capital Holdings Limited, which in turn is a wholly owned subsidiary of the British Business Bank plc. In the opinion of the Directors, the Company's ultimate controlling party is the British Business Bank plc's shareholder, the Secretary of State for BEIS. The consolidated financial statements of BEIS are available from the government departments' website at GOV.UK. Copies of the Group consolidated financial statements of the British Business Bank plc are available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

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BRITISH BUSINESS INVESTMENTS

All figures source British Business Investments Ltd 31 March 2019 unless otherwise stated.

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