

BRITISH BUSINESS BANK INVESTMENTS LIMITED

ANNUAL REPORT | 2015



KEY FACTS

AS AT 31 MARCH 2015

Delivering against our objectives



Supporting the development of diverse debt and equity finance markets for UK smaller businesses



Promoting competition and increased supply through new and existing finance providers

Profitable, Productive and Innovative



investments in our portfolio



invested alongside £2.8 billion of private sector funding



businesses supported



net profit in first 5 months



Alternative lender of the year, 2015

"WE ARE COMMERCIAL, PROFITABLE AND EFFECTIVE. WE WORK THROUGH THE MARKET, HAVE ALREADY WON AN AWARD FOR INNOVATION AND WE ARE DETERMINED TO DEFY EXPECTATIONS OF THE CAPABILITY OF A PUBLIC SECTOR INVESTMENT FIRM." Peter Wilson, **CEO**

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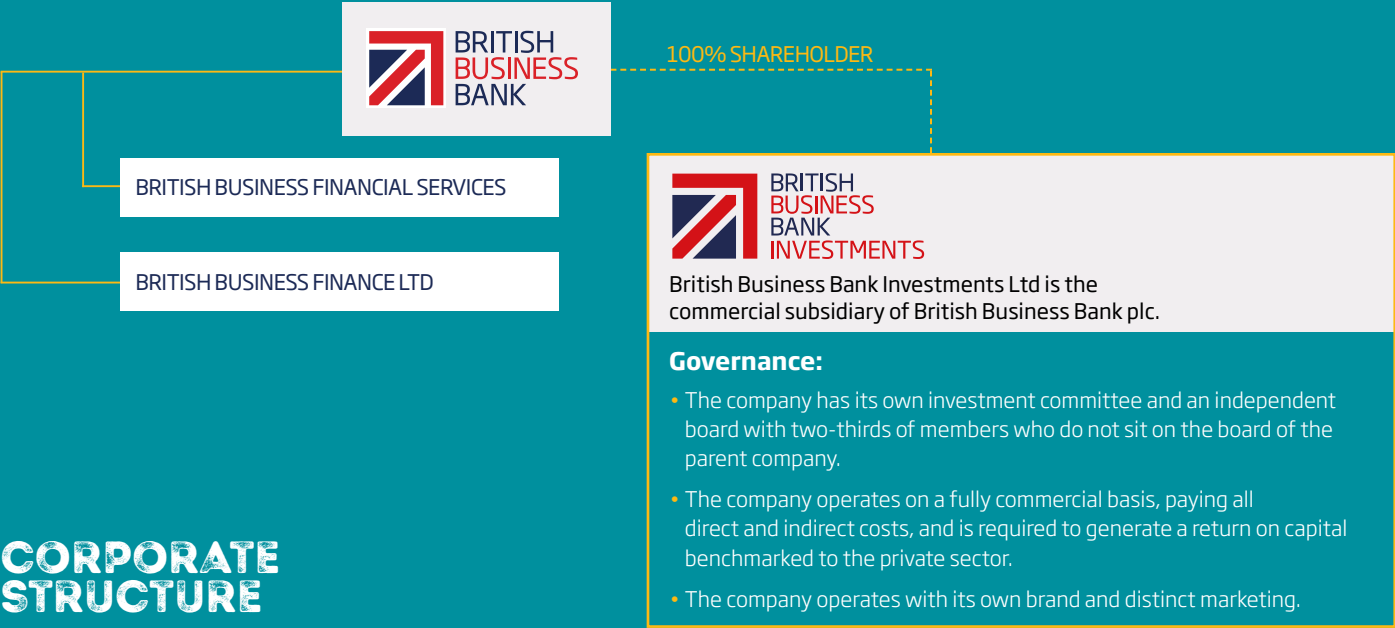
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CORPORATE
STRUCTURE

THE BOARD



KEITH MORGAN
CHAIRMAN

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

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



PETER WILSON
CEO

Peter Wilson joined the British Business Bank team to head its Investment Programme in October 2013. His previous career was spent in private equity, having been a Partner and Managing Director at Warburg Pincus from 2005 until the end of 2012, where he was responsible for European Financial Services investments. Previously he spent nine years at Electra Partners, where he was a founder Director of Electra Partners Europe. Before starting his investment career, Peter was a consultant with the Boston Consulting Group.

Peter has served on the boards of numerous private companies across a range of sectors and two charities: Westway Development Trust and Nyumbani UK.

Peter holds degrees from Oxford and Harvard Universities graduating as an Open Scholar and Baker Scholar.



PAT BUTLER
NON-EXECUTIVE DIRECTOR

Pat Butler joined the British Business Bank Investments Board as a non-executive director in November 2014, having previously been the Independent Chairman of the Investment Advisory Committee for the British Business Bank Investment Programme.

Pat was a Senior Director at McKinsey & Co and led the firm's European Retail Financial Services Practice and its UK Financial Institutions Practice. He was also a partner at the Resolution Group, responsible for developing strategies for acquisitions and for the strategic and operational repositioning of acquired businesses.

Pat is currently a Board member of Bank of Ireland, Hikma Pharmaceutical and the British Film Institute. He is also a qualified Chartered Accountant.



FIONA-JANE MACGREGOR
NON-EXECUTIVE DIRECTOR

Fiona-Jane MacGregor joined the Department for Business, Innovation and Skills' Shareholder Executive in October 2012.

Fiona-Jane is a Chartered Accountant by training. She joined RBS in 1993 in its Specialised Lending Services team in Edinburgh.

Before joining the Shareholder Executive, she spent the last 6 years leading some major European corporate restructurings and headed up the RBS's Strategic Investment Group (SIG) within Global Restructuring Group. SIG are the team that have responsibility for negotiating, managing and realising the Bank's minority equity investments that have been acquired on re-pricing of debt or through a debt for equity swap.

“WE HAVE BEEN ABLE TO ACT - AND REACT - QUICKLY TO TAKE OPPORTUNITIES PRESENTED BY POTENTIAL PARTNERS WHERE THEY HAVE OFFERED ATTRACTIVE RETURNS FOR OUR SHAREHOLDER.”



CHAIRMAN'S REPORT

In its first period of operation, British Business Bank Investments Ltd - the commercial subsidiary of British Business Bank plc - has established itself as a strong supporter of new and diverse finance markets, and has contributed significantly to the group's overall success.

The British Business Bank was set up with the objective of making finance markets for smaller businesses work more effectively. It has clear objectives around increasing the supply and diversity of finance, as well as developing increased awareness of the finance options available to smaller companies. The Bank is wholly owned by the Government so, in meeting these objectives, it is important to manage taxpayer resources efficiently.

A COMMERCIAL APPROACH

British Business Bank Investments Ltd invests in smaller banks, non-bank lenders and venture capital funds to increase the choice of finance for smaller and mid-sized businesses that are so vital to UK economic growth. By doing this it acts to increase the diversity of the finance market and - as evidenced in this report - produces positive investment returns for taxpayers in doing so.

While the group, as a whole, has a wider remit, including subsidised activities and carrying out programmes on behalf of other parts of the Government, British Business Bank Investments Ltd has the freedom and agility to

make fully commercial decisions on investments where they meet the group's strategic objectives - an important distinction under the EU State aid approval secured in October 2014. This means we have been able to act - and react - quickly to take opportunities presented by potential partners where they have offered attractive returns for our shareholder.

INDEPENDENT BOARD AND GOVERNANCE

British Business Bank Investments Ltd has an independent Board and a governance structure which protects its commercial approach and enables it to move quickly in investment decision-making. With its own investment committee, we have the freedom to flex our approach and deliver rapidly. I would like to thank the directors for their support, commitment and valuable commercial insight during this formative time for the company.

RECOGNISED INNOVATION

Our goal is to play a strong, catalysing role in developing areas of the market, increasing choice and helping to build the credibility of new forms of finance. Our partners include debt funds, a range of technology enabled platforms and peer-to-peer lenders, asset finance suppliers and challenger banks.

We were named 'Alternative Lender of the Year' at the FinTech Innovation Awards 2015 - a real vindication of our approach and, some

might say, an unexpected achievement for a government-sponsored financial institution.

I am sure you will agree that the results contained in this report chart tangible early successes and lay the foundations for further achievement. We look forward to playing a continuing role in improving and developing smaller business finance markets in the future.

Keith Morgan
Chairman

"IN OUR FIRST PERIOD OPERATING AS AN INDEPENDENT COMPANY WE HAVE BEEN PROFITABLE, PRODUCTIVE AND INNOVATIVE."



CEO'S REPORT

"Our funding has been invested alongside £3.3 billion of third party capital to provide £3.9 billion to 8,548 UK firms by 30 June 2015."

The two-year journey pulling together the team and processes that, following EU State aid approval in October 2014, became British Business Bank Investments Ltd has been both challenging and – as I hope this report demonstrates – productive. It has been a whirlwind period for the team and Board, and I am proud of what we have achieved.

In our first period operating as an independent company we have been profitable, productive and innovative.

HOW WE INVEST - A DIFFERENT PATH

When I agreed to head the commercial investment activities of British Business Bank plc and become CEO of British Business Bank Investments Ltd, it was to deliver an investment strategy designed to work with the market, rather than to second-guess it.

We invest taxpayers' money with an investment philosophy which may well confound many people's expectations, given public investment's past associations with nationalised industries and national champions.

Our investment strategy is driven by these key principles:

- We work through the market as partners to the private sector, channelling funding on commercial terms to smaller UK businesses through these partners rather than making direct investments ourselves.
- We allocate taxpayers' capital in response to market demand, through an open process with clear criteria, rather than being driven by top-down supply-driven targets.
- Subject to constraints of investment size, prudence, and fit with our stated investment criteria, we seek to spread our investment across businesses seeking our support, rather than trying to 'pick winners'.

■ Under our EU State aid agreement we are constitutionally set up to operate fully commercially – with an independent board, a separate investment committee, and free from Government control.

OUR PERFORMANCE - CONSTANTLY CLIMBING

In the five-month period between commencing operations on 1 November 2014 and our financial year end of 31 March 2015, we generated an income from our investments of £13.9 million.

Given direct staff costs for the period of £0.6 million, £0.3 million of third party professional services, £0.4 million of fee income and £1.6 million of allocated costs of our parent company we generated a pre-tax profit for the five-month period of £11.8 million.

The positive results for the period have supported the payment of £2.5 million of corporation tax, and enabled us to declare a dividend of £10 million to our shareholder, British Business Bank plc.

Our gross return on average capital for the period was 7.6%, and our net return was 6.5% – both comfortably ahead of the benchmark return targets set for the company during the EU State aid process.

By 30 September 2015 our portfolio had grown to 27 investments, comprising:

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

More recently we added the first UK challenger bank to our portfolio, investing £30 million in a tier 2 note issued by Shawbrook Bank.

Our funding has been invested alongside a further £3.3 billion of third party capital to provide £3.9 billion to 8,548 UK firms by 30 June 2015.

A CONTINUING ASCENT

Given commitments at 30 September 2015 totalling £ 1.24 billion, 83% of the £1.5 billion of capital allocated to the company has now been committed.

In addition to our existing commitments, we have an active pipeline of potential new investments in diligence which would fully commit the Investment Programme over the coming months.

It is, therefore, tempting to think that the summit is in sight.

In mountaineering terms, however, this would be a false peak. Whilst reaching full commitment provides a clear milestone, the ongoing flow of income and capital returns generated by our earlier investments will provide a steady source of funds to recycle, challenging us to build further.

RESPONSIVE TO CHANGING CONDITIONS

Finance markets can evolve rapidly. To stay relevant we need to be responsive to changing conditions and we are conscious that there are markets in which we operate where liquidity has significantly improved.

As custodians – rather than owners – of taxpayers' funds, in areas where private liquidity is returning we will seek to scale back our activities and deploy our time and resources elsewhere. In areas where investors' appetite becomes strong we may have the opportunity to declare victory, monetising some of our

investments to fund undersupplied sectors, or return capital to our parent.

The following Strategic Report provides more detail on the range of our investment activities, and the financial results of our combined efforts. I hope you agree we have made a worthwhile contribution in our short history – this has been our main aim, and I am proud of what the team has achieved.

Finally, thank you for taking the time to read this report – if there are things you feel we should be doing differently, better, or stopping, please get in touch. ■

APPROVAL OF THE STRATEGIC REPORT

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

Peter Wilson
Chief Executive Officer
peter.wilson@bbbinv.co.uk

"The FLA's members finance the heart of the UK economy. Our partnership with British Business Bank Investments is helping that funding reach further, giving jobs and growth a real boost."

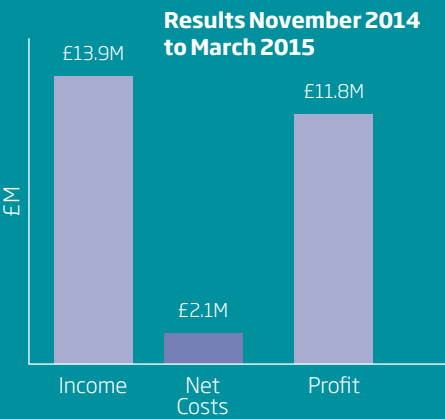
SIMON GOLDIE
HEAD OF ASSET FINANCE
FINANCE & LEASING ASSOCIATION

PROFITABLE

In the five months to 31 March 2015 we generated income of £13.9 million from our investment portfolio which averaged £436 million during the period.

Given costs of £2.5 million and £0.4 million of fee income, the result was a pre tax profit of £11.8 million.

The return on average capital invested was 7.6% before costs and 6.5% net of costs.

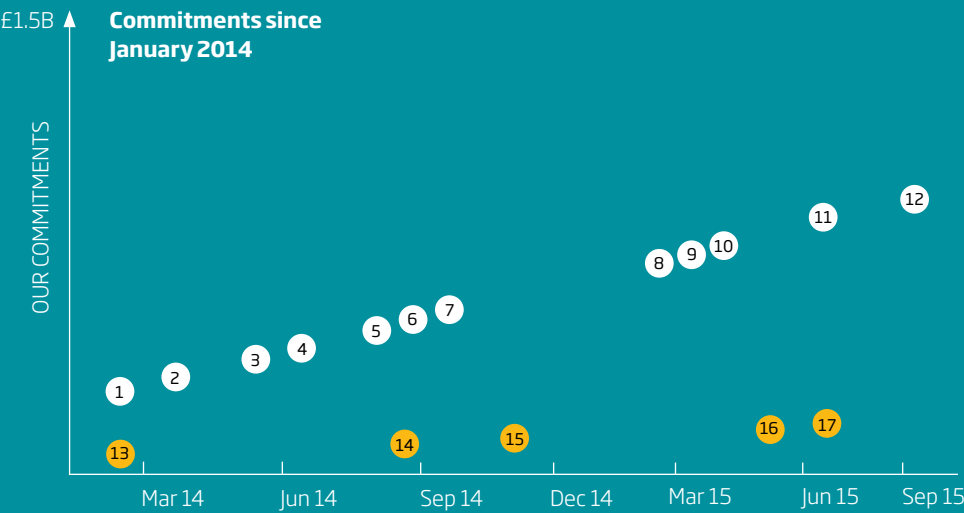


PRODUCTIVE

By 30 September 2015 our commitments had grown to £1.24 billion, which is 83% of the £1.5 billion currently allocated to the company.

- Our portfolio included:
- 6 established mid market direct lending funds
 - 5 newer debt funds focusing on smaller loans
 - 5 asset finance companies
 - 5 peer to-peer and technology enabled lenders
 - 6 venture capital funds

In October 2015 the first investment in a challenger bank was completed with £30 million invested in a tier 2 note issued by Shawbrook Bank.



- Investment Programme
- 1. Funding Circle
 - 2. Praesidian
 - 3. Beechbrook
 - 4. Ratesetter
 - 5. BMS
 - 6. European Capital
 - 7. Shire Leasing
 - 8. Kingsway
 - 9. UFG
 - 10. PCF
 - 11. Market Invoice
 - 12. Shawbrook
- VC Catalyst
- 13. WHEB Fund
 - 14. MVM IV LP
 - 15. Frog Capital
 - 16. Notion Capital
 - 17. Nauta Capital

INNOVATIVE

British Business Bank Investments was pleased to be named "Alternative Lender of the Year" in the 2015 FinTech Innovation Awards.



This recognised our range of activities, including our role as an early investor in the emerging peer to peer lending sector.



MEET THE TEAM

1. JONATHAN MARRIOTT - SNR MANAGER

Jonathan Marriott joined the British Business Bank Investment Programme team in June 2013. He has a wealth of SME lending experience having been employed in banking and finance since 1985.

Jonathan previously worked for Yorkshire Bank, Santander plc and more recently RBS Invoice Finance Ltd where he held a Senior Relationship Manager position.

Jonathan is an Associate of the Chartered Institute of Bankers.

2. ANDREW LEONG SON - MANAGER

Andrew Leong Son joined the British Business Bank to work within the Investment Programme team in January 2014. He trained as a Chartered Accountant at KPMG, spending 3 years auditing and understanding entities (mostly SMEs) across various industries. Andrew then moved to Financial Services Audit, where he was responsible for the delivery of the audit of a major US bank, with the main focus being the audit of the loan portfolio of the bank.

3. ADAM KELLY - DIRECTOR

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

4. ROB McELROY - DIRECTOR

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

Prior to joining, Rob spent 7 years at Barclays where he was latterly responsible for the management of their Corporate Banking business in Scotland having previously specialised in Structured and Project Finance. Prior to his time at Barclays Rob worked for both Allied Irish Bank (GB) and Bank of Scotland in relationship roles across their corporate banking businesses.

5. PETER WILSON - CEO

(See Board p.4)

6. PETER GARNHAM - DIRECTOR

Peter Garnham is chairman of the company's Portfolio Monitoring and Valuation committee.

He joined the British Business Bank, as a director in the debt team, to work on the development of the Start-up Loans and Business Finance Partnership initiatives.

With a background in specialised finance in major commercial and investment banks, Peter worked in corporate finance with accountants Ernst & Young before developing venture capital company YFM Venture Finance as its Managing Director. He acts as a mentor to SME businesses around South Yorkshire and to students at Sheffield Hallam University.

7. RICHARD COLDWELL - DIRECTOR

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

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

8. MARILENA IOANNIDOU - DIRECTOR

Marilena Ioannidou joined the British Business Bank Investment Programme team in December 2013.

Marilena joined from the Shareholder Executive team at the Department of Business, Innovation & Skills where she worked as an assistant director responsible for developing optimal strategies for a range of Government owned state assets since 2010.

Her previous career was spent largely in investment banking, having been a Vice President at Citigroup Global Markets where she worked in equity capital markets, FIG M&A and financial strategy teams from 2000 to 2008.

9. SANDRA EGBON - EXECUTIVE ASSISTANT

Sandra Egbon joined the team in September 2015 and is responsible for providing executive administrative support to the CEO and senior directors. Sandra has 7 years of Executive Assistant experience managing projects and supporting senior management teams.

Sandra formerly spent 2 years as back office administrator at Lloyds TSB bank. ■

MID MARKET DIRECT LENDING

The direct lending market has developed rapidly in recent years, with institutions now providing the majority of European leveraged loans.

The Business Finance Partnership has been catalytic in developing the asset class in the UK. From 2012, £863 million was committed alongside an initial £1.9 billion of private sector capital, to six active participants in the market with the ability to scale.

The direct lending asset class has grown significantly, with an estimated €50 billion of capital now committed to European direct lending funds and a further €15 billion targeted in fundraising over the next twelve months. The UK is the most active direct lending market in Europe with more than a third of overall deal flow.



OUR VIEW

"We have a blue chip portfolio providing attractive risk-adjusted returns. The asset class is increasingly gaining acceptance with investors as an alternative source of yield. Given market liquidity we are currently exploring options for building on the success of the portfolio."

MARILENA IOANNIDOU
DIRECTOR

PARTNERS

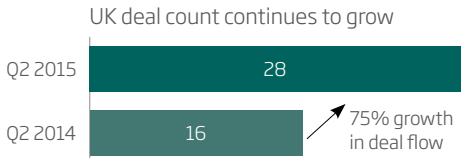


IN NUMBERS		
6	£863	£467
portfolio investments	million committed	million invested
As of 30 September 2015 across 69 UK businesses		

"The £900 million committed under the UK's Business Finance Partnership is recognised in the industry as having played a meaningful role in accelerating investment in direct lending funds."

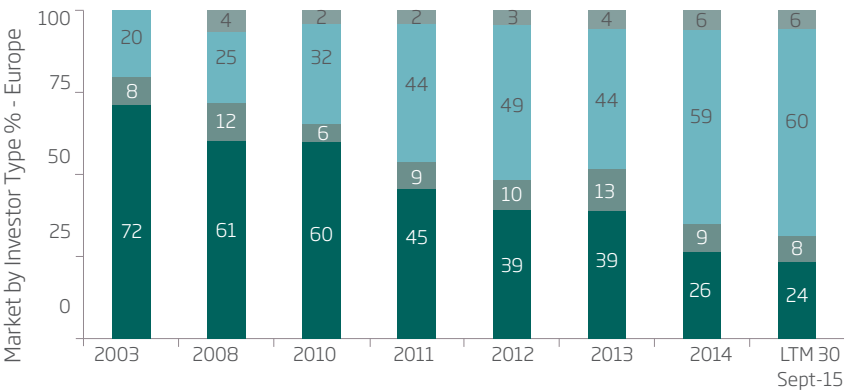
MAX MITCHELL
HEAD OF DIRECT LENDING, ICG

Growing acceptance as alternative asset class



Source: Deloitte Alternative Lender Deal Tracker 2Q 2015

Institutional investors now provide over 60% of European leveraged loans



Source: LCD European Leveraged Lending Review 3Q 2015

DEVELOPING NEW DEBT FUNDS

The Investment Programme, following on from the success of the Business Finance Partnership, has been instrumental in supporting the emergence of new fund managers adding diversity and capacity in the sub £20m loan market.

With a portfolio of managers offering products ranging from senior secured loans to mezzanine and unitranche debt, borrowers are able to access growth capital that is appropriate to their needs.



OUR VIEW

"We are now an early port of call for managers seeking to launch or expand funds offering all types of debt products to SMEs."

PETER GARNHAM
DIRECTOR

PARTNERS



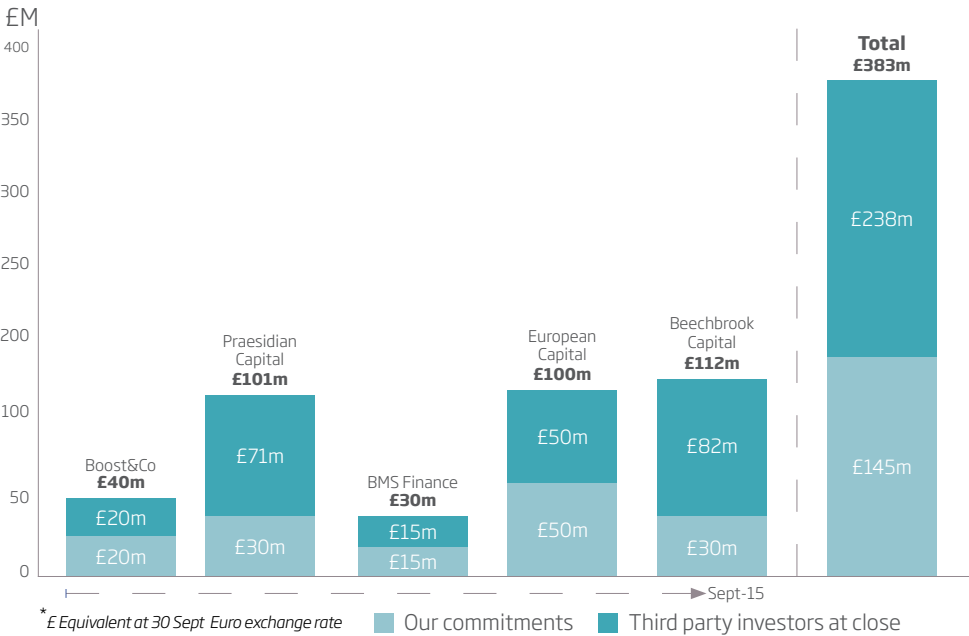
IN NUMBERS		
5	£145	£62
portfolio investments	million committed	million invested
As of 30 September 2015 across 40 UK businesses		

"Their willingness to participate in the first close of our fund allowed us to launch at a relevant size and attract additional investors into the UK market."

PAUL SHEA
MANAGING PARTNER
BEECHBROOK CAPITAL

"Their investment has allowed us to continue to increase our lending to smaller UK businesses and grow our activity, particularly in under-supported regions of the UK."

MARTIN LING
DIRECTOR, BMS FINANCE



ASSET FINANCE

Asset finance is the third most common source of finance for businesses, after bank overdrafts and loans¹. Renewed confidence is supporting year on year growth in lease financed investment.

Independent asset finance providers found themselves starved of funding following the large scale withdrawal of bank support following the financial crisis, leaving many SMEs struggling to obtain lease finance for capital expenditure.

Our investments, initially under the Business Finance Partnership and continuing through the Investment Programme, support a growing range of asset financiers, including lease finance and invoice discount firms. Our partners fund a wide range of asset types from trucks to computers and office equipment to livestock. Asset finance is a vital source of finance which we will continue to support as renewed confidence is seeing increased investment by UK SMEs. ■



OUR VIEW

"We have built a substantial and growing block line lending business from scratch, developing a strong capability and commercial approach to structure finance solutions, helping independent asset finance firms grow their loan book."

ROB McELROY
DIRECTOR

"The team impressed from the start with their commercial approach, quickly getting up to speed with our business and delivering an innovative solution that supports our continued growth plans. The whole experience was a pleasant surprise and dispelled any fears we had in dealing with a government backed entity."

MARK PICKEN
MANAGING DIRECTOR, SHIRE LEASING

PARTNERS

Kingsway
Wilmslow

Shire Leasing
Tamworth

Private & Commercial Finance
London

Credit Asset Management Limited
London

Ultimate Finance Group
Bristol



¹Source: Finance & Leasing Association

IN NUMBERS		
5	£85	£30
portfolio investments	million committed	million invested

As of 30 September 2015 across 2,858 UK businesses

TECHNOLOGY ENABLED LENDING / PEER-TO-PEER LENDING

Our ongoing support for the emerging peer-to-peer lending sector goes back to 2013 when the sector was in its infancy. The sector's progress since then has demonstrated the validity of our approach.

In recent years the UK has emerged as a global centre for FinTech companies through a compelling combination of skills, investors, supportive regulation and London's position as a world financial centre. The growing community of entrepreneurs has already built a number of "Unicorn" companies valued at above \$1 billion.

Through the Business Finance Partnership and the Investment Programme, our willingness to invest public money alongside private investors is recognised by market leaders as having played a key role in this UK success story. ■

"Their commitment is helping to catalyse the emergence of peer-to-peer lending as a competitive force in the UK."

RHYDIAN LEWIS
CEO, RATESETTER

"British Business Bank Investments has played a vital role in providing institutional capital to the peer-to-peer lending sector. We very much value their contribution."

CHRISTINE FARNISH
CHAIR, PEER-TO-PEER FINANCE ASSOCIATION



JONATHAN MARRIOTT
SENIOR MANAGER

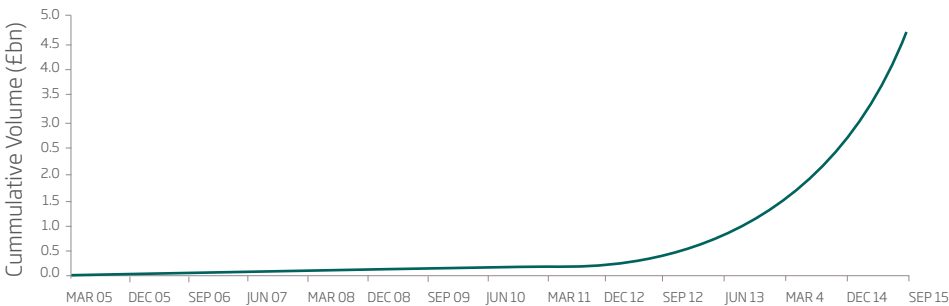


RICHARD COLDWELL
DIRECTOR

OUR VIEW

"When we made the first commitment to a platform, this type of lending was not widely understood. The platforms are maturing rapidly and institutions are starting to recognise the attractive returns in this asset class with increased capital now being provided by institutions in addition to retail investors."

Liberum AltFi Volume Index



Source: AltFi

PARTNERS

URICA

Rate%Setter

Funding Circle

zopa

marketinvoice

IN NUMBERS		
5	£100	£46
portfolio investments	million committed	million invested

As of 30 September 2015 across 8,158 UK businesses

VENTURE CAPITAL CATALYST FUND

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

The challenge faced by venture capital managers seeking to raise early funding increased markedly post the financial crisis as a combination of mixed returns, tightening regulation, and retrenching institutions reduced investment. The VC Catalyst Fund supports funds that invest primarily in venture capital and are near to launch but require additional investment to secure a

commercially viable first close. The British Business Bank Investments Ltd VC Catalyst Fund is supported by the British Business Bank plc's venture capital solutions team, who are responsible for conducting due diligence, making recommendations for new VC investments, and ongoing portfolio management. ■



KEN COOPER
MANAGING DIRECTOR
VENTURE CAPITAL
SOLUTIONS



IAN CONNATTY
DIRECTOR
VENTURE CAPITAL
SOLUTIONS

OUR VIEW

"We have built a diversified portfolio across life sciences, energy and resource efficiency across early and growth-stage technology businesses. The Fund has leveraged more than twice its drawn capital for the benefit of fast-growing UK businesses. The UK start-up scene remains energetic providing a rich hunting ground for VC investors."

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

CARLES FERRER
GENERAL PARTNER, NAUTA CAPITAL

PARTNERS



IN NUMBERS		
6	£48	£8
portfolio investments	million committed	million invested

As of 30 September 2015 across 6 UK businesses

EXPANDING OUR ACTIVITIES AND MANAGING OUR RISKS

Our long-term committed funding and flexible investment mandate have enabled us to deploy capital creatively to deliver our goals.

Structured capital

TIER 2 CAPITAL

Capital markets preference for large-scale "flow" names, and established market pricing can make it challenging for first time and modest scale issuers to reliably raise capital. With our goals and risk appetite, we are natural investors supporting such fund raising. In October 2015, we made our first investment in a UK challenger bank by investing £30 million in Shawbrook Group plc's £75 million Tier 2 note issuance. Funds raised from the issue will support Shawbrook Bank's continued growth with a core part of their strategy being lending to smaller businesses.

EXPANSION CAPITAL

Recognising the greater leverage and impact our investment can deliver through more equity oriented investments, the Expansion Capital initiative was added to the Investment Programme in January 2015. Expansion Capital investments support the growth of finance firms lending to UK SMEs by providing second loss capital enabling a firm to expand without the legal and governance complexity associated with raising ordinary equity, which helps the firm to support even more smaller UK businesses that need finance to grow.

PARTNERS



IN NUMBERS (completed in October 2015)		
1	£30	£30
portfolio investments	million committed	million invested

"We're pleased that British Business Bank Investments is supporting our continued profitable growth as we remain focused on improving access to capital for high quality smaller UK businesses."

TOM WOOD
CEO, SHAWBROOK BANK



OUR VIEW

"We are a natural investor in structured capital in challenger banks and specialty finance firms. Our investment in Shawbrook Bank demonstrates our commitment to increasing volume and the diversity of financing options for smaller UK businesses by supporting challenger banks and fast growing specialist lenders."

ADAM KELLY
DIRECTOR

Managing our risks

British Business Bank Investments Ltd operates within the Risk Management Framework of British Business Bank plc and the board has a separate Audit and Risk sub-committee.

The key operational risks the company is exposed to are:

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

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



OPPORTUNITIES FOR PARTNERING

We are actively seeking new partners who fit our investment criteria.

THE INVESTMENT PROGRAMME

Focuses on providers of all types of debt finance to smaller businesses in the UK investing alongside private capital, to add volume and diversity of supply.

THE VC CATALYST FUND

Supports fund managers requiring investment to achieve a satisfactory “first close” on a commercially viable venture capital fund.

Details of each programme, and how to apply are available on our website:

**[www.bbinv.co.uk/about us/
opportunities for partnering](http://www.bbinv.co.uk/about-us/opportunities-for-partnering)**



**“ We are keen to get the
message out that we are open
for business.”**

Contact us at: help@bbbinv.co.uk

FINANCIAL ACCOUNTS FOR THE PERIOD ENDED 31 MARCH 2015

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 2015.

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

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

DIVIDENDS AND RESERVES

The company paid dividends during the period of £26.4 million.

GOING CONCERN

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

DIRECTORS

The directors who held office during the period were as follows:

- Keith Morgan (appointed 23 July 2014) – Chairman;
- Patrick Magee (appointed 23 July 2014 and resigned 30 October 2014);
- Ceri Smith (appointed 23 July 2014 and resigned 30 October 2014);
- Peter Wilson (appointed 30 October 2014) – Chief Executive Officer;
- Fiona MacGregor (appointed 30 October 2014); and
- Patrick Butler (appointed 13 November 2014).

APPOINTMENT AND REMOVAL OF DIRECTORS

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

DIRECTORS' INDEMNITIES

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

DIRECTORS' CONFIRMATIONS IN RELATION TO THE AUDIT

Each of the persons who is a director at the date of approval of this annual report confirms that:

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

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

Approved by the Board of Directors
18 December 2015



Peter Wilson
Chief Executive Officer

DIRECTORS' RESPONSIBILITIES

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Under company law the directors are required to prepare the financial statements in accordance with recognised accounting standards.

The directors have chosen to adopt International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation which is consistent with the accounting treatment adopted by the parent company. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

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

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

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:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole;
2. 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; and
3. the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board
18 December 2015



Peter Wilson
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF BRITISH BUSINESS BANK INVESTMENTS LIMITED

I have audited the financial statements of British Business Bank Investments Limited for the period ended 31 March 2015 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITOR

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

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

OPINION ON FINANCIAL STATEMENTS

In my opinion:

■ the financial statements give a true and fair view of the state of company’s affairs as at 31 March 2015 and of the profit for the period then ended; and

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

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

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In my opinion the information given in the Directors’ Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH I REPORT BY EXCEPTION

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors’ remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Hilary Lower
(Senior Statutory Auditor)
18 December 2015

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

INCOME STATEMENT

For the period ended 31 March 2015

INCOME	Notes	Period to 31 Oct 2014 £000	Period between 01 Nov 2014 and 31 March 2015 £000	Total period ended 31 March 2015 £000
Fair value gain on investment assets designated at fair value through profit or loss	7.2	6,122	13,877	19,999
Management fee		-	400	400
Gross operating income		6,122	14,277	20,399
EXPENDITURE				
Staff costs	4	-	(560)	(560)
Purchase of goods and services		-	(287)	(287)
Management fee	5.1	-	(1,640)	(1,640)
Finance expense	5.2	(4,114)	-	(4,114)
Operating expenditure		(4,114)	(2,487)	(6,601)
Net operating profit before tax		2,008	11,790	13,798
Tax	6	(1,286)	(2,476)	(3,762)
Profit for the period		722	9,314	10,036

All operations are continuing.

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

A dividend of £10,036k in respect of the period ended 31 March 2015 was declared on the 17 December 2015. This dividend has not been recognised in these accounts.

The company was incorporated on 18 June 2014; however, its operations only commenced from 1 November 2014 and in the period to 31 October 2014 the transactions of the company related solely to the acquisition of investment assets. The Income Statement therefore analyses the company’s transactions between the two periods before and after 1 November 2014.

STATEMENT OF FINANCIAL POSITION

As at 31 March 2015

	Notes	31 October 2014 £000	31 March 2015 £000
ASSETS			
Non-current assets			
Assets designated at fair value through profit or loss	7	373,083	498,349
Total non-current assets		373,083	498,349
Current assets			
Trade and other receivables	8	-	768
Deferred tax asset	6	-	17
Cash and cash equivalents	9	1,290	16,043
Total current assets		1,290	16,828
Total Assets		374,373	515,177
LIABILITIES			
Current liabilities			
Trade and other payables	10	-	(2,407)
Corporation tax	6	(1,286)	(3,779)
Total current liabilities		(1,286)	(6,186)
Total assets less current liabilities		373,087	508,991
Non-current liabilities			
Trade and other payables	10	-	(59)
Total Liabilities		(1,286)	(6,245)
Net assets		373,087	508,932
Equity			
Issued share capital	12	363,588	490,119
Capital contribution reserve	7.1	8,777	8,777
Retained earnings	13	722	10,036
Total Equity		373,087	508,932

The company was incorporated on 18 June 2014; however, its operations only commenced from 1 November 2014 and in the period to 31 October 2014 the transactions of the company related solely to the acquisition of investment assets. The Statement of Financial Position shows the company's position at 31 October 2014 and 31 March 2015.

The financial statements of the company (company number 09091930) were approved by the Board of Directors and authorised for issue on 18

December 2015. They were signed on its behalf by:

Peter Wilson
Chief Executive Officer

STATEMENT OF CHANGES IN EQUITY

As at 31 March 2015

	Notes	Issued capital £000	Capital contribution reserve £000	Retained earnings £000	Total £000
Opening balance as at 18 June 2014					
		-	-	-	-
Net income after tax					
		-	-	10,036	10,036
Total comprehensive income				10,036	10,036
Issue of ordinary shares					
	12	490,119	-	-	490,119
Capital contribution					
		-	35,198	-	35,198
Transfer to retained earnings					
			(26,421)	26,421	-
Dividends					
	17	-	-	(26,421)	(26,421)
Balance at 31 March 2015		490,119	8,777	10,036	508,932

The capital contribution reserve initially arose as a result of fair value adjustments on the date of transfer of the BFP mid cap and small cap assets amounting to £7,741k and £1,036k respectively and was subsequently increased following a £26,421k contribution of assets into the company by the Department of Business, Innovation & Skills (BIS).

More information on these transactions can be found in note 7.1. Subsequently £26,421k was transferred to retained earnings following the disposal of the associated assets. An equivalent amount was then distributed by way of dividend.

CASH FLOW STATEMENT

For the period ended 31 March 2015

	Notes	For the period ended 31 March 2015 £000
Profit before tax		13,798
Cash flows from operating activities		
Adjustments for:		
Net gain on investment assets	7	(19,999)
Finance expense		4,114
Increase in trade receivables	8	(768)
Increase in trade payables	10	2,466
Net cash used in operating activities		(389)
Cash flows from investing activities		
Financial assets transferred from HMG		(356,791)
Financial assets acquired		(179,999)
Sale of assets		27,555
Repayment of assets designated at fair value through profit or loss	7.2	61,969
Net cash used in investing activities		(447,266)
Cash flows from financing activities		
Issue of new shares	12	490,119
Dividend paid to shareholder	17	(26,421)
Net cash from financing activities		463,698
Net increase in cash and cash equivalents		16,043
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at end of period		16,043

The transactions relating to the transfer of assets to the company from Her Majesty's Government prior to 31 October 2014 (note 7.2) and the dividend (note 17) were settled on a net basis by way of the issuance of shares and the settlement of loan account balances. These transactions have been included in the Cash Flow Statement.

NOTES TO THE FINANCIAL STATEMENTS

As at 31 March 2015

1. General information

British Business Bank Investments Limited (the company) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on the back of the Annual Report. The nature of the company's operations and its principal activities are set out in the Annual Report on pages 2 to 16.

2. Significant accounting policies

Basis of accounting

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

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

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

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

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

Going concern

The company's business activities, together with the factors likely to affect its future development and position are set out in the Annual Report on pages 2 to 16.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised Standards

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

IFRIC Interpretation 21

IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that 'economic compulsion' and the going concern principle do not create or imply that an obligating event has occurred.

The application of IFRIC Interpretation 21 has not had any material impact on the amounts recognised in the financial statements.

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

IFRS 9	Financial Instruments
IAS 27 (amendments)	Investment Entities

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the company in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments.

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

Income recognition

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

Taxation

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

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

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

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

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

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

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

Financial instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Measurement

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

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

De-recognition of financial assets

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

Financial liabilities and equity

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

Cash and cash equivalents

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

Foreign exchange

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

Retirement benefit costs

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

Employee benefits

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

In the period the company entered into transactions to acquire investment assets where there was a difference between carrying value and the fair value of the assets acquired resulting in the creation of a capital contributions reserve. Further details relating to the transactions are given in Note 7.

4. Staff numbers, staff costs and directors' remuneration

4.1 Staff numbers and staff costs

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

	2015 Number
Permanent staff	9
Temporary and agency staff	1
Total	10

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

	Period ended 2015 £000
Aggregate remuneration comprised:	
Wages and salaries – Permanent staff	339
Wages and salaries – Temporary and agency staff	11
Short and Long-Term Incentive Plans and bonus scheme	100
Social security costs	56
Pension costs	54
Total staff costs	560

4.2 Directors' remuneration

Directors' remuneration during the year was £68,750. Remuneration for the highest paid director during the year was £58,333. No pensions were accrued for any of the directors who are paid through British Business Bank Investments Limited.

P Butler is paid a fee equivalent to £20,000 per annum for his services as a Director of the company and member of the company's investment committee, plus a fee of £5,000 per annum as chair of the company's audit and risk committee.

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

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

F MacGregor and C Smith are paid by the Department of Business, Innovation and Skills (BIS). Their salaries are not recharged to the company.

5. Operating costs

5.1 Purchase of goods and services

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

	Period ended 2015 £000
Management fee:	
Allocated staff costs	1,031
Other purchase of goods and services	609
Total	1,640

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

5.2 Finance expense

The finance expense relates to the shareholder loan used to finance the investment assets during the period prior to operational commencement on 1 November 2014. It was agreed with BIS that all cash interest received up to that date would be paid to BIS as interest on the loan. Refer to Note 7.1 for further details on the acquisition of the investments during the period prior to 1 November 2014.

6. Tax

	Period ended 2015 £000
Current corporation tax:	
Opening balance as at 18 June 2014	-
Charge for period to 31 October 2014	(1,286)
Charge between 01 November 2014 and 31 March 2015	(2,493)
Total	(3,779)
Deferred corporation tax:	
Opening balance as at 18 June 2014	-
Charge in period	17
Balance at 31 March 2015	17
Total corporation tax	(3,762)

Corporation tax is calculated at 21 per cent of the estimated taxable profit for the year.

The table below reconciles the tax charge for the year:

	Profit / (Loss before tax £000	Current tax £000
Profit before tax	13,798	2,898
Permanent disallowances relating to the non-deductibility of interest expense	4,114	864
Short term timing differences relating to profit related pay	81	17
Tax losses claimed from group companies	(3)	-
Profits chargeable to current tax	17,990	3,779
	Amount charged in income statement £000	Deferred tax asset £000
Timing differences relating to: Short-term timing differences	81	17
At 31 March 2015	81	17

7. Investments

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

Business Finance Partnership

The company manages the Business Finance Partnership (BFP) programme. The Business Finance Partnership has two strands. The first strand is the BFP Mid Cap which invests on commercial terms alongside private sector investors in direct lending funds which are focussed on lending to medium-sized businesses operating in the UK with turnover of up to £500 million. The second strand is the BFP Small Company Tranche which invests in debt funds and non-bank lenders on commercial terms alongside private sector investors that provide an alternative source of lending for small businesses operating in the UK with turnover up to £75 million.

Investment Programme

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

VC Catalyst

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

7.1 Transactions prior to 31 October 2014

The company was incorporated on 18 June 2014. However, its operations only commenced from 1 November 2014. This note describes the key transactions of the company in relation to its acquisition of investments during the period to 31 October 2014.

Transactions and movements prior to 31 October 2014:

	Transfers/ acquisitions from HM Government £000	Additions £000	Repayments £000	Revaluations £000	Interest £000	Balance at 31 Oct 2014 £000
BFP Mid cap	328,178 ¹	23,590	(17,502)	8,687	(3,857)	339,096
BFP Small Cap	23,403	600	(116)	(1,117)	(257)	22,513
Investment Programme	9,251	-	-	(872)	-	8,379
VC Catalyst	3,602	69	-	(576)	-	3,095
Total	364,434	24,259	(17,618)	6,122	(4,114)	373,083

Subsequent movements:

As at 31 March 2015

	Balance at 1 Nov 2014 £000	Additions £000	Repayments £000	Revaluation £000	Balance at 31 March 2015 £000
BFP Mid Cap	339,096	117,146	(43,419)	13,206	426,029
BFP Small Cap	22,513	5,281	(366)	1,041	28,469
Investment Programme	8,379	30,240	(3)	(129)	38,487
VC Catalyst	3,095	3,073	(563)	(241)	5,364
Total	373,083	155,740	(44,351)	13,877	498,349

¹ This total is made up of the nominal value of the assets transferred from IFUL for £320.44m and an adjustment of £7.74m to bring them to their fair value of £328.18m

8. Trade and other receivables

	2015 £000
Amounts receivable within one year:	
Trade receivables	61
Interest receivable	667
Amounts owed by group undertakings	40
	768

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost. There were no amounts which are past due at the reporting date. No impairment was recognised against the trade and other receivables as at the reporting date. The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

9. Cash and cash equivalents

	2015 £000
Held with the Government Banking Service	13,676
Held in commercial bank accounts	2,367
	16,043

At 31 October 2014 the company’s cash and cash equivalents balance of £1,290k represented amounts deposited at a commercial bank and available for lending through one of the BFP funding platforms.

10. Trade and other payables

	2015 £000
Amounts falling due within one year	
Trade payables	5
VAT and social security	19
Accrued expenditure	142
Amounts owed to group undertakings	2,108
Other payables	133
	2,407

Amounts falling due after more than one year

Accrued expenditure	59
	59

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

11. Capital commitments

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

	2015 £000
BFP Small Business	27,836
BFP Mid Cap	457,537
Investment Programme	136,453
VC Catalyst	24,400
	646,226

12. Share capital

	2015 No.
Authorised: ordinary shares of £1 each	490,119,000

	2015 No.
Issued and fully paid ordinary shares of £1 each:	
Issued on incorporation, 18 June 2014	1
Issued to fund the acquisition of investment assets	363,587,511

Issued and fully paid ordinary shares at 31 October 2014	363,587,512
Issued 31 March 2015	126,531,396
Issued and fully paid ordinary shares at 31 March 2015	490,118,908

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

13. Reserves

	Capital contribution reserve £000	Retained earnings £000
Opening balance as at 18 June 2014	-	-
Capital contribution reserve arising on the transfer of investment assets from Her Majesty’s Government	35,198	-
Transfer to retained earnings	(26,421)	26,421
Dividend paid	-	(26,421)
Profit for the period 18 June to 31 October 2014	-	722
Balance at 31 October 2014	8,777	722
Profit for the period to 31 October 2014 to 31 March 2015	-	9,314
Balance at 31 March 2015	8,777	10,036

14. Financial Instruments

(i) Categories of financial instruments

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

		Assets held at FVTPL	Loans and receivables	Liabilities held at amortised cost	Non-financial assets and liabilities	Total
At 31 March 2015	Note	£000	£000	£000	£000	£000
Assets						
Designated at FVTPL	7	498,349	-	-	-	498,349
Trade and other receivables	8	-	768	-	-	768
Deferred tax	6	-	-	-	17	17
Cash and cash equivalents		-	16,043	-	-	16,043
Total assets		498,349	16,811	-	17	515,177
Liabilities						
Trade and other payables	10	-	-	(2,466)	-	(2,466)
Corporation tax	6	-	-	-	(3,779)	(3,779)
Total liabilities		-	-	(2,466)	(3,779)	(6,245)
Net Assets		498,349	16,811	(2,466)	(3,762)	508,932

(ii) Fair value measurements

The investment portfolio consists of assets designated at fair value through profit or loss where fair value is measured on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

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

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

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

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1** - fair value measurements are those derived from quoted prices (unadjusted) in active markets;
- Level 2** - fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); 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 level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined by the lowest level input that is significant to the fair value measurement in its entirety.

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

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

(iii) Financial risk management

The company has exposure to a number of financial risks through the conduct of its operations.

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

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

- Credit risk
- Market risk
- Liquidity risk is not deemed relevant for the company.

Credit risk

Credit risk is the risk of a loss due to the failure of a counterparty of a financial instrument to meet its obligations to pay the company in accordance with agreed terms, or due to the risk of loss due to inappropriate investment decisions. Credit risk also includes settlement risk when a 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 the investments with a contractual repayment.

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

The concentration of credit risk is limited due to the investment base being large and spread across the company's activities. Accordingly, the directors believe that there is no further credit provision required.

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.

The ageing of financial instruments at the reporting date was as follows:

	Not overdue	Overdue by less than 90 days	Overdue by longer than 90 days	Total
	£000	£000	£000	£000
Designated at FVTPL	497,718	434	197	498,349
Trade receivables	101	-	-	101
Total	497,819	434	197	498,450

Overdue amounts relate solely to receivables purchased through an invoice discounter. The company provides for all debts which are overdue by 90 days at a rate of 50% of the average overdue balance over the last three months. In determining the recoverability of the amounts receivable, the company considers past performance of recoveries.

The investment assets designated as at fair value through the profit or loss include loans and receivables with a fair value of £18.53 million. The fair value of these assets since their acquisition has decreased by £0.14 million principally due to impairment losses.

Market risk

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

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

Interest rate risk

The company's investments include a combination of fixed and variable rate loans. Interest rate risk is regularly monitored to ensure that the mix of variable and fixed rate borrowing is appropriate. The company does not use derivatives to hedge interest rate risk.

LIBOR sensitivity of the Investment Programme is as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to company investments would be an approximate increase in income of £5 million over a one year period.
- The impact of a 0.25 percentage point decrease in the interest rate applicable to company investments would be an approximate decrease in income of £1 million over a one year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

Currency risk

The company does not have material exposure to currency risk as the company primarily invests in its functional currency, GBP. There are some investments in funds which have a Europe wide investment mandate, and are denominated in Euros. A prerequisite of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Less than 4% of the company's portfolio is in non-GBP denominated investments. There is currently no policy to hedge this currency risk.

Liquidity risk

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

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

15. Related party transactions

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

	2015 £000
Income	
British Business Financial Services Limited	40
	40
	2015 £000
Expenditure	
British Business Bank plc	2,010
Capital for Enterprise Limited	10
British Business Financial Services Limited	40
British Business Finance Limited	48
	2,108

Amounts outstanding at year end

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

	Receivable £000	Payable £000
British Business Bank plc	-	2,010
Capital for Enterprise Limited	-	10
British Business Financial Services Limited	40	40
British Business Finance Limited	-	48
	40	2,108

16. Significant undertakings

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

Name	Country in which it is incorporated	Class of shares held by British Business Bank Investments	Proportion held by British Business Bank Investments
BMS Finance S.A.R.L	Luxembourg	Ordinary shares	49.8%
Industrial Lending 1 (Boost Fund)	Luxembourg	Ordinary shares	44.1%
Pricoa Sterling Corporate Bond Fund	Ireland	Ordinary shares	66.7%
Urica Capital Limited	Jersey	Ordinary shares	50%

Pricoa’s latest financial year end was 30 June 2015. The fund does not produce separate accounts and therefore figures for the fund are not available.

Urica’s latest financial year end was 30 June 2015. As at that date, its aggregate amount of capital and reserves was £4,428,650 and during its financial year it made a profit of £1,178.

17. Dividends

On 22 October 2014 a dividend for the year ended 31 March 2015 amounting to £26,420,824 was declared and paid to the ordinary shareholder. At the date that the dividend was paid there was one £1 ordinary share in issue (£26,420,824 per share).

On the 17 December 2015 a dividend of £10,036,000 (1.782217p per share) was proposed by the directors. The dividend has not been recognised in the accounts for the period ended 31 March 2015.

18. Events after the balance sheet date

On 15 October 2015 the company issued a further 73,000,000 ordinary shares of £1 each at par.

On 17 December 2015 the capital contribution reserve was converted to share capital by way of an issue of 8,877,036 ordinary shares to the Company’s shareholder.

As at the date of these annual report and accounts, there have been no other post balance sheet events which require disclosure.

19. Controlling party

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

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