Annual Report and Accounts 2021

Investing to support recovery and growth

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“We remain poised to support our delivery partners and the UK’s smaller businesses, as the country recovers from the effects of the pandemic”

Francis Small – Chair

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Stepping up to the challenge

As the pandemic tested the UK economy, British Business Investments continued to invest to make sure finance was available to support smaller businesses.

Increasing our support for smaller businesses

British Business Investments' purpose is to increase the supply and choice of finance for smaller businesses across the UK, while generating a commercial rate of return.

Our purpose has been especially important during the last financial year, which has been a year unlike any other in living memory.

The financial year began just as the pandemic and first lockdown commenced. Dislocation ensued within the SME finance market from that point onwards. As the pandemic tested the UK economy, British Business Investments continued to invest, to make sure finance was available to support smaller businesses.

Considering these extraordinary circumstances, I am pleased to confirm that we increased our commitments by £473m during this period, taking British Business Investments' total commitments since establishment in 2014, to more than £3bn. We have also generated a record level of return and were supporting almost 30,000 smaller businesses as at the 31 March 2021 year end.

By remaining alert to the impact of the pandemic on the UK's smaller businesses and our delivery partners, we were able to adapt our response throughout the year. Consequently, we've achieved strong results in extremely challenging circumstances.

Governance

There have been a number of changes to the British Business Investments' board during the year.

Judith Hartley became Chief Executive Officer on 1 September 2020 on an interim basis, and I commenced my own appointment as Chair on the same day. Catherine Lewis La Torre, the former CEO of British Business Investments, became Executive Director on 1 September 2020 also.

After five years as a Non-executive Director, Sara Halbard's term came to an end in September 2021. Sara's expertise has been invaluable to British Business Investments over the years and I would like to thank Sara for her significant contribution.

Alert to new developments

We remain poised to support our delivery partners and the UK's smaller businesses, as the country recovers from the effects of the pandemic. We expect our investments to play a significant role in the recovery, and subsequent growth, of the UK's alternative smaller business finance market.

I look forward to working with the team as we continue to support smaller businesses across the UK to recover and grow.

Francis Small
Chair

£3bn

Since inception, British Business Investments has committed more than £3bn in the UK

> "We've achieved strong results, in extremely challenging circumstances"

> "We've now invested in every UK nation and English region. In addition, more than 85% of the smaller businesses we support are located outside London."

Chief Executive's statement

Delivering strongly for small businesses and the taxpayer

British Business Investments made 18 commitments to new and existing delivery partners, more than in any previous financial year.

A strong performance

During the 12 months to 31 March 2021, British Business Investments made 18 commitments to new and existing delivery partners, more than in any previous financial year.

This has taken the total number of investments in our portfolio to 77 and increased the number of our delivery partners to 50.

The combined value of these new commitments was the second highest we've ever achieved in a single year, at £473m. In addition to our £473m, institutional and other third-party investors have committed £1.23bn alongside us, bringing total funding of more than £1.7bn to the UK market during the last financial year.

During the year, we also made our first commitment in Northern Ireland, meaning that we've now invested in every UK nation and English region.

Our financial performance has been exceptionally strong this year, despite the pandemic and its impact on the economy. Our gross and net returns on capital employed were 9.2% and 8.2% respectively, against benchmark targets of 5.6% and 5%. Our income from investments was £120.5m and we delivered pre-tax profit of £107.4m, compared to £35.4m and £22.2m respectively in the previous financial year.

> "Our financial performance has been exceptionally strong this year, despite the pandemic and its impact on the economy"

A dedicated team

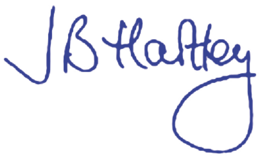
The British Business Investments' team has worked tirelessly alongside our delivery partners throughout the crisis, to manage the impact of the pandemic on underlying businesses within the portfolio. I want to thank everyone for their huge commitment and hard work during the past year.

Transitioning to a sustainable future

Looking ahead, and in recognition of the British Business Bank's new climate change objective, British Business Investments will review its investment strategy, with the aim to more explicitly support sustainable investing. We will also seek to strengthen our commitment to regional investment.

I look forward to working with the Board and the British Business Investments team as we further develop the business towards a net zero and regionally balanced economy.

Judith Hartley
Chief Executive Officer



£107.4m
Pre-Tax Profit

£473m
BBI commitments during the 12 months to 31 March 2021

Our Board

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

Francis Small

Chair

Francis was appointed Chair with effect from 1 September 2020. He became a Non-executive Director in June 2016 after spending 36 years at EY in a wide variety of roles. Francis was reappointed for a further three-year term with effect from 16 June 2019.

After initially working with smaller businesses at EY, Francis 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 EY'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 EY's largest international clients.

Judith Hartley

Chief Executive Officer

Judith was appointed CEO of the British Business Bank's two commercial subsidiaries, British Business Investments and British Patient Capital on 1 September 2020 on an interim basis. She was previously Managing Director of the Bank's UK Network, a team that is physically located within each of the English regions and the three devolved nations.

Prior to that, Judith was the British Business Bank's Managing Director, Lending Solutions, where she was responsible for the delivery of a number of the Bank's debt-based products, including the Enterprise Finance Guarantee, Help to Grow and Start Up Loans. Judith spent 20 years in corporate banking with Barclays and Bank of Scotland before becoming involved in the delivery of publicly funded access to finance programmes.

Catherine Lewis La Torre

Executive Director

Catherine was appointed CEO of the British Business Bank on 1 September 2020 on an interim basis, having led the Bank's commercial arm since 2016 as CEO of British Business Investments and, from October 2018, as CEO of both British Business Investments and British Patient Capital.

Before 2016, Catherine was Head of Private Equity for Cardano Risk Management, managing a global portfolio of private capital investments on behalf of UK pension funds. She was previously Managing Director of Paris-based European private equity investor Fondinvest Capital, a founding partner of Nordic fund of funds manager Proventure, after which she established a consultancy business advising Sovereign Wealth Funds and Institutional Investors in Asia, the Middle East and the US on their European private capital strategies.

Sara Halbard

Outgoing Non-executive Director

Sara joined as a Non-executive Director in June 2016 and was reappointed for a further 18-month term with effect from 16 June 2019. This was extended to September 2021 in July 2020.

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 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 a range of companies, from 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.

Meet the team

Adam Ahmed
Senior Manager

Mealad Alighanbari
Analyst

Christopher Amory
Manager

Mark Barry
Director

Mark Coggin
Senior Manager

Richard Coldwell
Director

Vianney de Leudeville
Director

Jasleen Haer
Analyst

Judith Hartley
CEO

Jacqueline Kaminsky
Analyst

Adam Kelly
Managing Director

Mads Ladefoged
Analyst

Nancy Liu

Senior Manager

Jonathan Marriott

Director

Misodzi Mukungurutse

Manager

Rishi Puri

Senior Manager

Joanne Ward

Executive Assistant

Luke Whitehead

Manager

Geoff Whiteland

Director

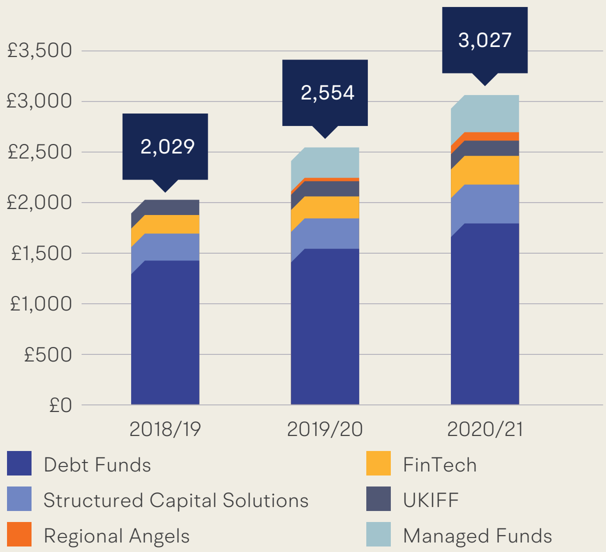
Meeting our strategic and commercial objectives

British Business Investments has four strategic and commercial objectives. We continuously evaluate our performance to make sure we're achieving these objectives.

Supply

Increasing the supply of finance to smaller businesses across the UK

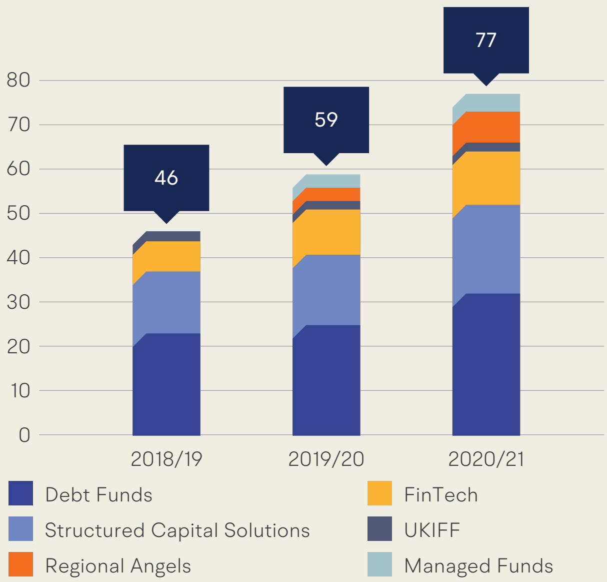
Portfolio commitments (£m)



Diversity of funding

Helping to create a more diverse finance market

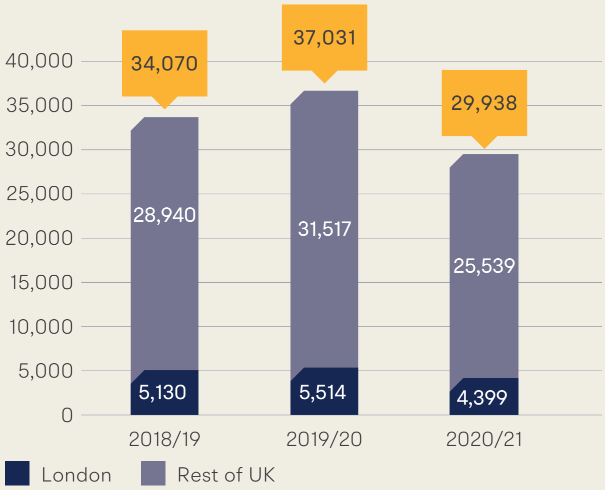
Number of portfolio investments



Regional access

Identifying and helping to address regional imbalances in access to finance

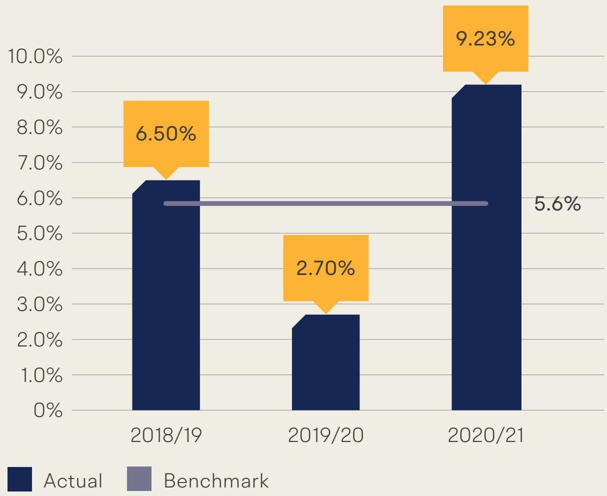
Volume of businesses supported



Returns

Managing taxpayers' money efficiently while generating a commercial rate of return

Gross return on invested capital at 31 March 2021



Supporting smaller businesses through our delivery partners

Economic and working conditions were challenging for many people this year. We were pleased to be able to offer support and flexibility to our delivery partners as we all navigated the pandemic and its consequences together.

Adam Kelly

Managing Director

British Business Investments is a commercial subsidiary of the British Business Bank. We support the Bank to achieve its strategic objectives, while aiming to generate commercial returns by investing alongside private sector investors.

We do not invest in businesses directly. Instead, we make financial commitments to a variety of financial providers we call delivery partners, who then provide financing to smaller businesses.

Our delivery partners vary widely, and include challenger banks, asset finance providers, FinTech lenders, debt funds, angel networks and Venture Capital fund of funds managers.

Each of our programmes supplies either debt finance or equity capital to the market, and by working with our delivery partners, we increase the volume and the diversity of finance available for smaller businesses throughout the UK. We have five programmes in total, three of which are still investing while two are fully invested and in run-off.

When I stepped into the Managing Director role in November 2020, we had already been working from home for several months with no adverse effect on our productivity. Virtual working has allowed our London and Sheffield based colleagues to interact seamlessly over the past year, enabling us to provide an uninterrupted service to our delivery partners and to sustain our investment activity.

> “We have maintained the flow of investment capital to smaller businesses”

	Debt finance programmes	Equity capital programmes
Currently investing	Investment Programme	Managed Funds Programme Regional Angels Programme
Fully invested	Business Finance Partnership (Mid-cap and Small-cap)	UK Innovation Investment Fund

Despite the challenges of the past year, we have maintained the flow of investment capital to smaller businesses, making new commitments in all of our key product areas. Although we have maintained a strong regional presence this year, the absolute number of SMEs supported outside London has reduced due to the planned run-off of some investments in existing delivery partners. We will continue to work closely with our current and new delivery partners, offering support and flexibility where needed, as we build a more diverse portfolio.

Debt finance

Our **Investment Programme** aims to increase the institutional capital available in the alternative lending market for smaller businesses, by encouraging new players to enter the market.

Our Investment Programme consists of three asset classes, each supporting a specific area of this market: Debt Funds, FinTech, and Structured Capital Solutions.

Equity capital

Our **Managed Funds Programme** and **Regional Angels Programme** were both established in 2018 as part of the response to the Government's Patient Capital Review. The Managed Funds Programme makes commitments to established fund of funds managers to increase the supply of later stage Venture Capital finance. The Regional Angels Programme makes commitments to very early stage investors such as angel networks and Enterprise Investment Scheme managers.

Case study

Nova Pangaea Technologies

BBI Programme: Regional Angels
Delivery partner: Par Equity

Nova Pangaea's technology converts wood and crop residues into sustainable biocarbons, biopolymers, biochemicals and advanced biofuels, offering new sources of income for agricultural enterprises. It has the potential to reduce reliance on fossil fuels without taking up land suitable for producing food.

Funding from Regional Angels Programme partner Par Equity, and others, gave Nova Pangaea the working capital it needed to establish new commercial partnerships while advancing its technology.

The finance will allow the Redcar-based company to fund its operations through to IPO. Nova Pangaea expects this to afford it the scale to establish a first-of-a-kind 2G plant in the UK, which will open up opportunities in the sustainable aviation fuel market.

New commitments

By committing capital to new and existing delivery partners, we increase the supply and diversity of finance available to smaller businesses across the UK.

By supporting delivery partners that offer a wide variety of finance products, we help create more competition and choice in the alternative finance market. This means smaller businesses benefit from the availability of more finance options.

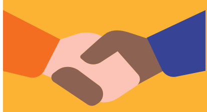
In 2020/21, we made 18 commitments across our three programmes, totalling over £473m. Nine of these commitments were to new delivery partners.

These include:

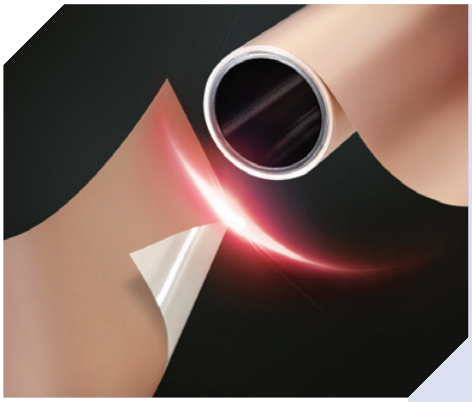
- **Investment Programme:** Apera Asset Management, Compass Business Finance, Frontier Development Capital and MML Growth Capital Partners Ireland
- **Managed Funds Programme:** Isomer Capital
- **Regional Angels Programme:** Newable Ventures, Syndicate Room, Clarendon Fund Managers and Deepbridge Capital

We also made nine commitments to existing delivery partners.

By providing follow-on commitments, we enable our existing delivery partners to scale their own businesses and increase the amount of funding they can supply to smaller UK businesses.



50
BBI Delivery Partners



Case study

GTS Flexible Materials

BBI Programme: Debt Funds
Delivery partner: Growth Capital Partners

GTS specialises in specialist adhesives and flexible materials, one use of which is in electric vehicle battery modules. Growth in demand for electric vehicles has increased production and adoption, rapidly expanding the need for GTS's specialist products.

Equity investment from Growth Capital Partners allowed GTS to capitalise on this opportunity, investing in talent and building a new facility to capture and reuse solvents from its manufacturing process. This makes the Welsh company's manufacturing process more efficient and scalable, as well as reducing emissions.

GTS is now in a position to more than double its manufacturing capacity to meet demand for its products across Europe and Asia.

Our delivery partners at the end of March 2021

admiral leasing & loans	Alcentra	apera asset management	ARES
assetz capital	Atom bank	BEECHBROOK capital	bms finance
BOOST&Co	BOOTSTRAP EUROPE	CLARENDON FUND MANAGERS	CLARET CAPITAL PARTNERS
Columbia Lake Partners	compass BUSINESS FINANCE	CORDET CAPITAL PARTNERS	Deepbridge
DSW Ventures	fdc Frontier Development Capital Business without boundaries	Funding Circle	gcp
HARWOOD PRIVATE CAPITAL	Haydock Finance	HAYFIN	Hermes GPE
ICG	igf INDEPENDENT GROWTH FINANCE	ISOMER CAPITAL	kingsway ASSET FINANCE LTD
LGT Capital Partners your partner for alternative investments	Liberis	M&G INVESTMENTS	MARKET FINANCE
MML RETURN ON IDEAS	Muzinich & Co	Newable	par equity
PCF BANK	Præsidian capital	PGIM PRIVATE CAPITAL	Secure Trust Bank Group
SFC	Shard Credit Partners	SHAWBROOK BANK	SHIRE LEASING
SF	THINCATS	TopTier	TDC TOSCA DEBT CAPITAL
UK FTF	ULTIMATE FINANCE		

Debt finance

Our debt finance programme supports delivery partners to provide many different types of debt products to smaller businesses in the UK. We partner with new market entrants and also help more established alternative lenders to grow. In this way, we increase and diversify the supply of debt finance.

We have one debt finance programme that is currently investing: the **Investment Programme.** This programme is open to finance providers whose investment strategy aligns with the objectives of British Business Investments.

Our Investment Programme has three core asset classes, each supporting a different area of the the UK's small business finance market: Debt Funds, FinTech and Structured Capital Solutions.

Debt: Investment Programme

Equity capital

Our equity capital programmes unlock additional private sector capital to support business growth across the UK, and generate a market rate of return.

We have two equity capital programmes which are currently investing. The **Managed Funds Programme** invests in large-scale, private sector fund of funds managers providing later-stage Venture Capital. The **Regional Angels Programme** invests alongside business angels and other early stage equity investors.

Equity capital programmes

Debt: Investment Programme

Debt Funds

265	25	17	£903m	£210m
businesses supported	portfolio investments	delivery partners	committed (cumulative)	commitments in 2020/21

Please note the above numbers refer to SME funds only and do not include mid-cap funds.

British Business Investments is a significant investor in debt funds that provide capital to smaller businesses across the UK.

It was a strong year for Debt Funds. We made five new commitments to new and existing delivery partners. We also increased two existing commitments to delivery partners. Total commitments for the year were £210m.

The five new commitments were:

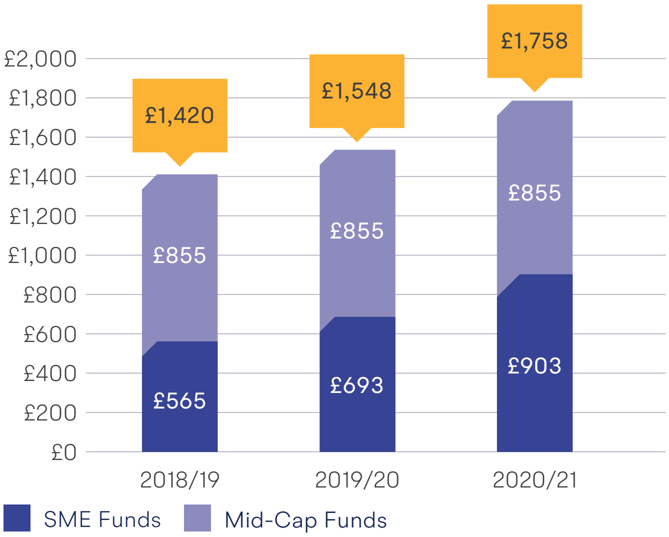
- £60m to Growth Capital Partners' Fund V: GCP's lending helps smaller businesses throughout the UK to scale up
- £50m to Apera Asset Management: this is our first commitment via a Managed Account structure, which allows us to target our investment into UK companies only
- £25m to Frontier Development Capital's Debt Fund: FDC is a relatively early stage manager based in Birmingham
- €40m (£35.6m) to Claret Capital Partners' European Growth Capital Fund III: Claret provides venture debt to early stage, high growth, technology-focused businesses
- €15m (£13.5m) to MML Growth Capital Partners Ireland's Fund II: MML provides growth capital to smaller businesses in Ireland. This commitment will ensure that the fund invests in Northern Ireland.

The two increases in existing commitments were to BOOST ILI and Tosca Debt Capital II. These commitments have provided additional liquidity to support portfolio companies through the pandemic.

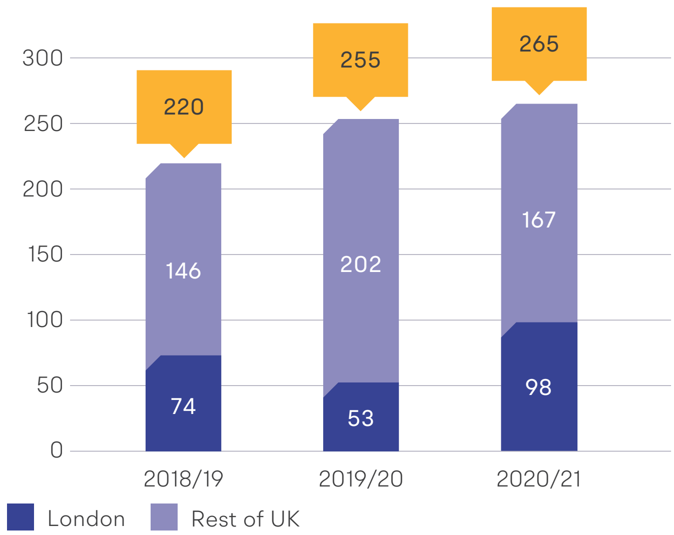
These investments complement our pre-existing £855m mid-cap funds portfolio, consisting of seven commitments across six fund managers.

This year has reinforced the importance and attractiveness of this asset class. We expect significant demand for our capital and the outcomes it can achieve.

Total Debt Funds commitments (£m)



Number of businesses supported



> “This year has reinforced the importance and attractiveness of this asset class”

Case study

Simfoni

BBI Programme: Debt Funds
Delivery partner: BOOST & Co

Simfoni provides digital platforms that give its clients more visibility and control over their procurement activities. Its technology helps blue-chip consultancy firms and other clients to improve their operations and reduce costs.

With loan financing from BOOST & Co, Simfoni has been able to grow. The company made several key hires – including to the leadership team – and added 23 new customers, increasing its monthly recurring revenue by 256%.

Chirag Shah, Executive Chair and Co-Founder of Simfoni, said: “The funding has helped us to increase our sales and marketing presence and to support our investment in artificial intelligence as we seek to extend the scope of our activities.”

Debt: Investment Programme

FinTech

14,444
businesses supported

10
portfolio investments

6
delivery partners

£273m
committed (cumulative)

£45m
commitments in 2020/21

The FinTech alternative lending sector continues to evolve and develop new ways of providing finance to smaller businesses.

Business loans and merchant cash advance products are among the diverse range of flexible financial solutions our delivery partners in this innovative sector offer to smaller businesses.

In 2020/21, we made two new FinTech commitments totalling £45m. The new commitments were:

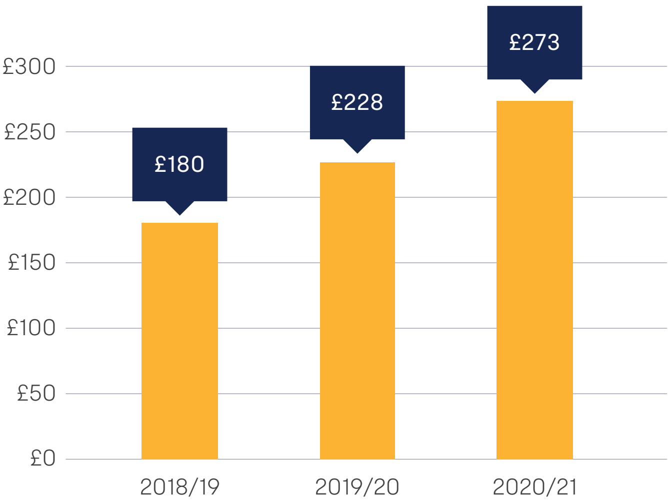
- £25m to Assetz Capital: to help fund property-secured loans and provide development finance to smaller businesses that needed support during the pandemic
- £20m to Liberis: this embedded finance provider offers smaller businesses pre-approved credit lines based on their revenue.

FinTech delivery partners provided loans to more than 14,000 smaller businesses across a diverse range of sectors this financial year.

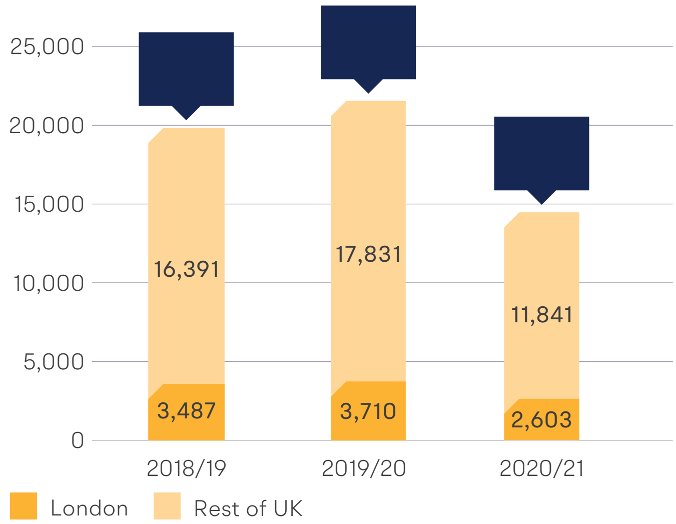
Although we have maintained a strong regional presence this year, the absolute number of SMEs supported outside London has reduced due to the planned run-off of some investments in existing delivery partners.

As we move into 2021/22, our priority is to make further investments to new FinTech delivery partners, to diversify the finance options available to smaller businesses.

Cumulative FinTech commitments (£m)



Number of businesses supported



> “FinTech delivery partners provided loans to more than 14,000 smaller businesses across a diverse range of sectors this financial year”

Case study

AutoLab Car Services

BBI Programme: FinTech
Delivery partner: Liberis

AutoLab is a team of highly skilled mechanics, fully qualified in all areas of vehicle servicing, repair, diagnostics and maintenance, and each with their own individual specialisms.

For several years, AutoLab has made use of embedded finance from Liberis to fund equipment and infrastructure for new services, including diagnostics and tyre servicing, to grow the business. Through Liberis's integrated solution, a percentage of sales goes towards repayment, so repayments are always aligned with AutoLab's revenues.

Most recently, funding from Liberis enabled AutoLab to retain its employees and continue expanding its offerings.

Debt: Investment Programme

Structured Capital Solutions

15,117 businesses supported

19 portfolio investments

13 delivery partners

£396m committed (cumulative)

£100m commitments in 2020/21

British Business Investments supports specialist lenders that provide asset finance and invoice finance, as well as challenger banks.

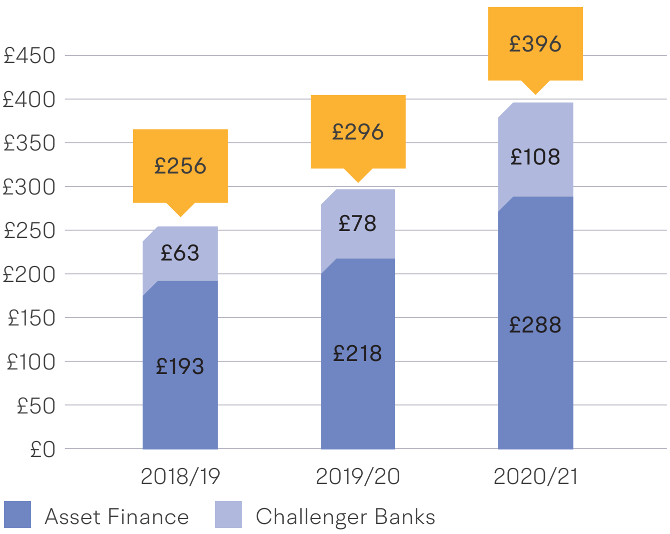
Our Structured Capital Solutions asset class focuses on optimising, strengthening and diversifying these lenders' capital sources. Asset and invoice finance providers and challenger banks use the capital raised to increase lending and grow their businesses.

In 2020/21, we made four new commitments totalling £100m:

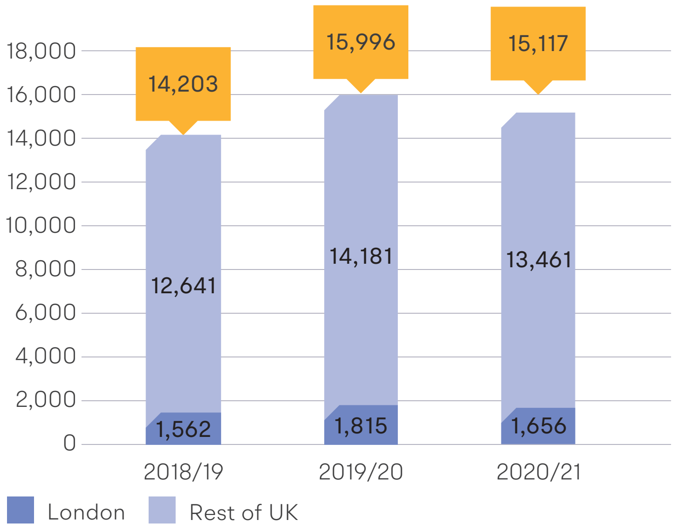
- £15m to Compass Business Finance: this asset finance provider specialises in engineering, construction and digital print equipment
- £25m to Haydock Finance: this Blackburn-based asset finance specialist continued supporting a range of smaller businesses during the pandemic, both with asset finance and as an accredited Coronavirus Business Interruption Loan Scheme lender
- £30m to Independent Growth Finance: this was a follow-on commitment to this new asset finance specialist
- £30m to Shawbrook Bank: this will enable this challenger bank to maintain an optimised capital structure as it grows into its chosen smaller business finance markets.

Looking ahead, our priority in this area is to identify and invest in high quality lenders who support smaller businesses in under-served parts of the market.

Structured Capital Solutions cumulative commitments (£m)



Number of businesses supported



> “Our priority is to invest in high quality lenders who support smaller businesses in under-served parts of the market”

Case study

3-SIXTY

BBI Programme:
Structured Capital Solutions
Delivery partner:
Compass Business Finance

3-SIXTY designs, produces and installs high quality graphics for retail and event spaces, using innovative ultraviolet/LED and dye sublimating technology.

With help from Compass Business Finance, 3-SIXTY was able to boost its evolution with a range of new machinery. The new assets helped the Welsh company become carbon neutral and send zero waste to landfill.

They also opened up a new market, which 3-SIXTY had seen potential in but previously couldn’t make commercially viable.

The Coronavirus Business Interruption Loan Scheme was the first step. Compass then helped 3-SIXTY restructure its existing asset finance into a more efficient lending structure, creating the headroom the business needed to continue investing in its future.

Our equity capital programmes

Managed Funds Programme

236	5	4	£365m	£68m
businesses supported	portfolio investments	delivery partners	committed (cumulative)	commitments in 2020/21

Please note, the above numbers refer to the Managed Funds Programme only and do not include commitments made under the UKIIF Programme.

Institutional investors in the UK have lower allocations to the Venture Capital asset class than their counterparts in the US.

British Business Investments addresses this imbalance by making cornerstone investments in a number of large-scale, private sector managed funds of funds. These invest in venture and growth capital funds that back innovative, high-growth businesses, with a significant focus on the UK.

Through this £500m programme, we are becoming a significant cornerstone investor with a patient capital mandate. We typically commit 25–30% of each fund of funds, with the balance coming from other private investors. In this way, capital committed through this programme unlocks more than twice the amount in private sector investment.

In 2020/21, we made one new commitment. €75m (£68m) to Isomer Capital's second fund of funds, Isomer Capital II: this fund of funds targets UK and European Venture Capital managers who invest mainly in early stage tech companies. It also co-invests alongside its fund managers in the most promising high growth companies.

This was the Managed Funds Programme's second full year of operation. After making several significant initial commitments in the first year, 2020/21 saw the programme settling into the steady rhythm expected of a cornerstone investor.

The programme's underlying portfolio built up this year, with all our delivery partners continuing to deploy our capital as expected. Two of our funds of funds reached their target size and are now closed to investors, and others are making further progress on fundraising.

Most investments bypassed the period of negative returns (the 'J-curve') we'd normally expect and progressed to making fair value gains, benefiting from the strong performance of the European Venture Capital market. The Managed Funds Programme complements our pre-existing £150m fund of funds portfolio, consisting of two commitments to mature funds – the UK Future Technology Fund and the Environmental Innovation Fund (made under the UKIIF Programme).

Although our managers navigated the pandemic cautiously, they continued to commit capital to Venture Capital funds and companies. Accordingly, they were able to fully benefit from the acceleration in the digitalisation of our economy and the boom in the life sciences sector, leading to significant valuation increases across the board.

Looking ahead, we expect to maintain a steady pace of one or two large cornerstone investments a year in funds of funds launched by best-in-class, innovative managers. These investments will continue to support the UK Venture Capital and Growth ecosystem, while complementing a diverse portfolio that generates a commercial rate of return.

> "Through this £500m programme, we are becoming a significant cornerstone investor with a patient capital mandate"

Case study

Cazoo

BBI Programme:
Managed Funds
Delivery partner:
LGT Capital Partners

Cazoo wants to transform the way people buy cars. Its innovative approach offers transparency, convenience and peace of mind.

The company is growing fast with the aim of becoming the market leader in the UK and Europe. A new Venture Capital investment, made possible by the fund of funds managed by LGT CP, is helping Cazoo to continue this fast growth by hiring more people, building up its inventory and setting up more service centres.

In August 2021, Cazoo was listed on the New York Stock Exchange.

The funding will also help Cazoo explore ways to expand its business on the European continent – supporting its goal of leading the European market.

Our equity capital programmes

Regional Angels Programme

123	7	7	£85m	£50m
businesses supported	portfolio investments	delivery partners	committed (cumulative)	commitments in 2020/21

The Regional Angels Programme is designed to address regional imbalances in the availability of very early stage equity finance.

It also increases the amount of capital available to businesses with high growth potential by investing alongside networks of angel investors.

Building more sophisticated angel networks across the UK will attract additional private sector capital, making more funding available for the most promising start-ups and early stage businesses in all regions and devolved nations.

This programme, now in its second full year of operation, partners with early stage investors by using innovative funding structures, which allows British Business Investments to invest alongside angel networks and other early stage investors.

In 2020/21, we made four new commitments totalling £50m:

- £10m to Newable Ventures: with its angel investor partner, Bristol Private Equity Club (BPEC). Our capital will be invested alongside Newable's fund and angel network, as well as BPEC's angel network, which focuses on opportunities in the South West of England
- £15m to Syndicate Room: this Cambridge-based partner invests a fund alongside its super angel network, a panel of high performing business angels. Syndicate Room built the network by analysing which angels invested in the UK's fastest growing companies

- £10m to Clarendon Fund Managers: this partner co-invests in deals led by business angels in Northern Ireland. Invest Northern Ireland, the nation's economic development agency, invests alongside British Business Investments through Clarendon
- £15m to Deepbridge Capital: based in the North West, an Enterprise Investment Scheme fund manager with an angel syndicate that invests into both technology and life sciences opportunities across the UK.

Having committed £35m in its first full year and £50m in its second, the Regional Angels Programme is about two years ahead of its original targets, in terms of both commitments and underlying investments.

Our delivery partners have invested an increasingly significant amount of our capital into a hugely diversified portfolio, covering every English region and devolved nation, making the programme one of the most active early stage investors in the UK.

We welcome the innovation we're seeing in the early stage equity space. We expect to see this level of innovation continuing into the next financial year and beyond.

> “The Regional Angels Programme is about two years ahead of its original targets, in terms of both commitments and underlying investments”

Case study

Elasmogen

BBI Programme:
Regional Angels
Delivery partner:
Deepbridge Capital

Part of a cluster of biotech companies in Aberdeen, Elasmogen uses its bespoke technology platform to isolate innovative drugs for treating cancers and auto-immune diseases.

With a strong foundation of intellectual property and a healthy pipeline of new programmes, Elasmogen had progressed several innovative drugs to the late pre-clinical stage. Finance is vital at this early research and development stage.

Funding from Regional Angels Programme delivery partner Deepbridge has added value to the company's platform, processes and products – and helped to retain its talented team. Elasmogen is now in a position to consider its next major milestone: entering clinical trials.

“It has transformed our ability to demonstrate the advantages of our technology over the competition.”
Caroline Barelle, CEO

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

British Business Investments does not hold regulatory capital and is not regulated by the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA). However, British Business Investments Ltd is registered with the FCA (FRN 930734) and supervised for anti-money laundering purposes. Registration was completed on 11 November 2020. Whilst registration with the FCA does not require an entity to comply with the FCA Senior Management Arrangements, Systems and Controls (SYSC), British Business Investments is, however, subject to other applicable laws and regulations and is committed to ensuring high standards of corporate governance.

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

A full description of the Risk Management and Governance 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 that support British Business Investments in identifying, assessing, monitoring and controlling the risks it faces in delivery of its strategic objectives
- 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 15.3 of the accompanying financial statements.

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 2021.

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 15 to the financial statements
- information regarding how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year, can be found on p32–34. This also demonstrates how the directors have had regard to their duties to promote the success of the company.

Dividends and reserves

Note 17 to the financial statements details that on 27 September 2020 a dividend of £130.7m (12.32p per share) (2020:nil) was declared and paid to the ordinary shareholders. No further dividend is proposed for the year ended 31 March 2021.

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, BBB Group CEO and Chair (to 31 August 2020)
- Francis Small, Chair (from 1 September 2020)
- Judith Hartley (appointed 1 September 2020) Chief Executive Officer on an interim basis
- Catherine Lewis La Torre, Chief Executive Officer to 31 August 2020. Appointed 1 September 2020 Executive Director
- Sara Halbard, Non-executive Director (to 15 September 2021).

Catherine Lewis La Torre was appointed CEO of the British Business Bank Group on an interim basis with effect from 1 September 2020. Catherine remains on the Board of British Business Investments and Judith Hartley has assumed the role of CEO on an interim basis with effect from the same date. In addition, Francis Small was appointed Chair, with effect from 1 September 2020, following the resignation of Keith Morgan on 31 August 2020.

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

Attendance at Board meetings	
Keith Morgan	2/2
Francis Small	8/8
Judith Hartley	6/6
Catherine Lewis La Torre	8/8
Sara Halbard	8/8

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 and 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 and 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.

Judith Hartley
Chief Executive Officer

11 November 2021

Statement of Director's 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 (IFRS), interpretations issued by the IFRS Interpretations Committee and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, 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 IFRS is 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.

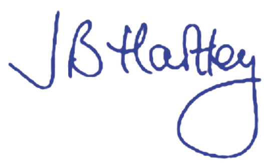
Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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.

Approved by the Board of Directors.

Judith Hartley
Chief Executive Officer



11 November 2021

Our key stakeholders

The graphic below highlights our key stakeholders, and why and how we engage with them.

British Business Investments

- British Business Bank and Shareholder
- Smaller businesses
- Delivery partners
- Colleagues

In accordance with Section 172, the following pages outline **who** our stakeholders are, **why** they are important to our long-term success, **how** we engage with them and understand their issues and **where** you can find further information about them.

British Business Bank and Shareholder

Why?

British Business Investments Ltd is a wholly owned subsidiary of British Business Bank plc.

The Secretary of State for Business, Energy and Industrial Strategy ('BEIS') is the sole shareholder of British Business Bank plc, and therefore is vital to British Business Investments' operations and funding. Effective engagement with BEIS, alongside British Business Bank plc, helps enable British Business Investments to achieve its strategic objectives, as a commercially focused subsidiary.

> “Aligned with the position outlined in British Business Bank plc’s Annual Report and Accounts, colleagues are our most valuable asset”

How?

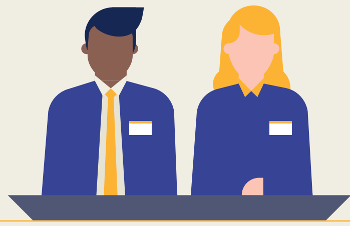
– British Business Bank plc holds regular meetings with BEIS, including quarterly shareholder and policy meetings

– A BEIS representative director is on the Board of British Business Bank plc

– A BEIS representative attends British Business Investments’ quarterly portfolio monitoring and valuation meetings.

Where?

See the latest Annual Report and Accounts for British Business Bank plc which provides detail on decisions being made in consultation with BEIS.



Colleagues

Why?

Aligned with the position outlined in British Business Bank plc’s Annual Report and Accounts, colleagues are our most valuable asset: without their knowledge and expertise we could not operate or achieve our aims.

How?

– Quarterly town halls

– Annual engagement survey leading to action plans which are followed up and monitored with colleagues

– Colleague Forum on operational change, business updates and wellbeing.

Where?

See the latest Annual Report and Accounts for British Business Bank plc which details our overall engagement with our colleagues across the British Business Bank Group, in addition to further information on engagement in response to the Covid-19 crisis and measures to enable colleagues to work flexibly and safely, and support their wellbeing.

Delivery partners

Why?

We support the provision of both debt and equity finance to small and medium-sized businesses through a network of UK-based delivery partners across five separate programmes.

The delivery partner model allows British Business Investments to reach significant scale whilst utilising the private sector's expertise to increase the supply of finance and generate a commercial rate of return for British Business Investments.

Existing programmes have proved to be successful in providing a commercial rate of return and are a major profit contributor to British Business Bank plc's overall performance.

How?

Ongoing relationship management:

- Product and portfolio teams maintain close working relationships with all delivery partners.
- British Business Investments conducts extensive due diligence on each delivery partner prior to making a commitment to ensure they will enable us to deliver on our objectives.

Performance and risk monitoring via quarterly review meetings, analysis of performance data and reporting, attendance at annual general meetings and Limited Partner Advisory Committees and general communication with delivery partners.

Where?

Our website (www.bbinv.co.uk/our-portfolio).

We operate under the Risk Management Framework of British Business Bank plc. Its Annual Report and Accounts includes details of risk management related to our delivery partners.

Smaller businesses

Why?

SMEs are the underlying recipients of our capital investments which enable them to grow.

We operate through a delivery partner model and as such, we do not directly interact with SMEs ourselves.

How?

- Feedback from delivery partners
- Supporting British Business Bank plc in its wider marketing and support activities for SMEs
- Undertaking evaluations of programmes
- Monitoring the impact our investments have had on SMEs such as increase in turnover

Where?

See the Annual Report and Accounts for British Business Bank plc which provides further detail of SMEs engagement provided by the Group.

For the latest Bank research and programme evaluations, see: www.british-business-bank.co.uk/research

Independent Auditor's report

To the members of British Business Investments Limited

Opinion on financial statements

I have audited the financial statements of British Business Investments Limited for the year ended 31 March 2021 which comprise the Statement of Comprehensive Net Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2021 and of the profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for 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 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the British Business Investments Limited in accordance with the ethical requirements that are relevant to my audit of 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.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the British Business Investments Limited use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the British Business Investments Limited's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

My responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other Information

The other information comprises information included in the annual report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information. My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, 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 in my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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, based on the work undertaken in the course of the audit:

- 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
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

In light of the knowledge and understanding of the British Business Investments Limited and its environment obtained in the course of the audit, I have not identified material misstatements in the Strategic report or the Directors' Report.

I have nothing to report in respect of the following matters in relation to which 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 director's remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit;
- 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 in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view.
- internal control as the directors determine is necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the British Business Investments Limited ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity 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 report on the financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK).

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. 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.

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulation, including fraud.

My procedures included the following:

- Inquiring of management, the head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the British Business Investments Limited policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the British Business Investments Limited controls relating to the Companies Act 2006.

- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud. As part of this discussion, I identified potential for fraud in the following areas: reasonableness of the interest income recognised and the posting of unusual journals and bias in management's estimates;
- obtaining an understanding of British Business Investments Limited framework of authority as well as other legal and regulatory frameworks that the British Business Investments Limited operates in, focusing on those laws and regulations that had a direct effect on the financial statements or that had a fundamental effect on the operations of the British Business Investments Limited. The key laws and regulations I considered in this context included the Companies Act 2006, Employment Law and tax legislation.
- evaluating significant estimates made by management in the production of the financial statements, in particular the measurement of expected credit losses and the fair value measurement of financial instruments.

In addition to the above, my procedures to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing these against supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading minutes of meetings of those charged with governance and the Board;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business and;
- in addressing the risk of fraud through revenue recognition of interest income, assessing the reasonableness of the Effective Interest Rate estimated; and assessing the accuracy of the interest income calculated by the models by testing the reasonableness of the assumptions used, and the reliability of the data inputs.

I also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

A further description of my responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of my report.

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.

Susan Clark
Senior Statutory Auditor

11 November 2021

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

Statement of comprehensive net income

For the year ended 31 March 2021

	Note	2021 £000	2020 £000
Income			
Interest income	9.1	18,045	19,367
Arrangement and other fees		406	1,308
Gross operating income		**18,451**	**20,675**
Net gains on investment assets			
– Expected credit loss on amortised cost assets	9.1	(216)	(10,630)
– Fair value gains on assets held at fair value through profit or loss	9.2	102,237	25,260
– Recoveries on amortised cost assets		54	52
Net operating income		**120,526**	**35,357**
Expenditure			
Staff costs	4	(1,687)	(1,815)
Other operating expenditure	5.1	(1,204)	(1,165)
Management fee	5.2	(10,234)	(10,162)
Operating expenditure		**(13,125)**	**(13,142)**
Profit before tax		**107,401**	**22,215**
Tax	6.1	(20,345)	(5,951)
Profit for the year after tax		**87,056**	**16,264**
Other comprehensive income		**-**	**-**
Total comprehensive income for the year		**87,056**	**16,264**

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 43 to 64 form an integral part of the financial statements.

Statement of financial position

As at 31 March 2021

	Note	2021 £000	2020 £000
Assets			
Cash and cash equivalents	7	84,435	27,644
Trade and other receivables	8	52,204	130,812
Amortised cost investments	9.1	269,423	316,044
Investments held at fair value through profit or loss	9.2	971,525	923,112
Deferred tax asset	6.3	-	14
Corporation tax	6.2	7,263	4,666
Total assets		**1,384,850**	**1,402,292**
Liabilities			
Trade and other payables	10	(2,180)	(53,883)
Deferred tax liability	6.3	(22,928)	-
Total liabilities		**(25,108)**	**(53,883)**
Net assets		**1,359,742**	**1,348,409**
Equity			
Issued share capital	12	1,061,286	1,006,286
Retained earnings		298,456	342,123
Total equity		**1,359,742**	**1,348,409**

The financial statements of the Company (company number 09091930) were approved by the Board of Directors and authorised for issue on 11 November 2021. They were signed on its behalf by:

JB Hartley

Judith Hartley
Chief Executive Officer

The notes on pages 43 to 64 form an integral part of the financial statements.

Statement of changes in equity

As at 31 March 2021

	Notes	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2019		**1,006,286**	**325,859**	**1,332,145**
Net income after tax		-	16,264	16,264
Total comprehensive income		**-**	**16,264**	**16,264**
Balance as at 31 March 2020		**1,006,286**	**342,123**	**1,348,409**
Balance as at 1 April 2020		**1,006,286**	**342,123**	**1,348,409**
Net income after tax		-	87,056	87,056
Total comprehensive income		**-**	**87,056**	**87,056**
Issue of ordinary shares	12	55,000	-	55,000
Dividends	17	-	(130,723)	(130,723)
Balance as at 31 March 2021		**1,061,286**	**298,456**	**1,359,742**

The notes on pages 43 to 64 form an integral part of the financial statements.

Cash flow statement

For the year ended 31 March 2021

	Notes	2021 £000	2020 £000
Profit before tax		**107,401**	**22,215**
Cash flows from operating activities			
Changes in operating assets and liabilities:			
Net decrease/(increase) in amortised cost investments	9.1	46,621	(27,068)
Net increase in assets at fair value through profit or loss	9.2	(48,413)	(66,328)
Decrease in trade and other receivables	8	14	24
(Decrease)/increase in amounts due from group companies	8/10	27,056	(49)
(Decrease)/increase in trade and other payables	10	(165)	51,424
Payment of corporation tax	6.2	-	(12,125)
Net cash used in operating activities		**132,514**	**(31,907)**
Cash flows from financing activities			
Issue of new shares	12	55,000	-
Dividends paid to shareholder[1]	17	(130,723)	-
Net cash from financing activities		**(75,723)**	**-**
Net increase/(decrease) in cash and cash equivalents		**56,791**	**(31,907)**
Cash and cash equivalents at beginning of the year		27,644	59,551
Cash and cash equivalents at end of the year		**84,435**	**27,644**

[1] The payment of a dividend of £130,724,000 was paid by the cancelling of an amount owed from the Company with these two transactions being settled on a net basis.

Interest received was £43.4m (2020: £62.9m).

The notes on pages 43 to 64 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2021

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 10 to 28.

2. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), 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.

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 British Business Bank plc 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 12 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.

Adoption of new and revised standards

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

At the date of authorisation of these financial statements, the Directors do not expect that the adoption of Standards and Interpretations in issue but not yet effective 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.

Following the adoption of IFRS 15 'Revenue from contracts with customers', income is recognised when a recipient obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the goods or service. Arrangement and other fees income is recognised when a recipient obtains control of the service.

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 Statement of comprehensive net income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted 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 Statement of Comprehensive Net Income.

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 Statement of Comprehensive Net Income.

Classification of financial instruments

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 has undertaken an assessment of the business model in respect of each group of its financial assets and has determined that in all cases the business model is one of 'Hold to Collect' as none of its business models has an objective of sale.

The Company's financial assets comprise debt and equity instruments, classified as such under IAS 32. Debt instruments are classified both at initial recognition and subsequently, as amortised cost instruments, where the contractual cash flows represent solely payments of principal and interest ('SPPI'). If the cash flows do not represent SPPI, the instrument is measured at FVTPL.

All of the Company's equity instruments are measured at FVTPL both on initial recognition and subsequently.

Impairment of financial assets

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

At initial recognition, financial assets are categorised as 'Stage 1' and an impairment provision is made 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, at which point it is considered appropriate to recognise lifetime ECL. The Company assesses assets to be in Stage 2 using a combination of non-statistical, qualitative information, such as changes to the borrower's intrinsic credit worthiness, as well as quantitative, statistical information. It applies a presumption that when accounts are more than 30 days past due, there has been a significant increase in credit risk and such assets are assessed as being in 'Stage 2'.

For portfolios where there is no recent borrower specific credit information, the proportion of the performing book deemed to have suffered from a significant increase in credit risk is 10% based on industry analysis.

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 considered to be in default and credit impaired. Once an account is recognised as being in 'Stage 3', interest income is recognised by applying the effective interest rate to the amortised cost carrying amount.

ECLs are calculated using three main components, probability of default (PD), loss given default (LGD) and 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 (EIR).

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. Where account level ratings are not available, the average PD derived from the same cohort of lending is applied.

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 benchmarks or internally observed data for similar portfolios or types of assets.

Changes in the carrying amount of assets arising as a result of impairment are recognised in the Statement of Comprehensive Net Income. 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 Statement of Comprehensive Net Income.

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.

Trade and other receivables

Trade and other receivables are 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. Translation differences are recognised in the Statement of Comprehensive Net Income.

3. 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.

Judgements

Debt and equity fund net asset values used in the assessment of FVTPL investment valuations

The future returns from FVTPL fund investments are inherently uncertain and will depend on a range of factors including the manager's success in originating lending and investment 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.

The values of the Company's investments in FVTPL debt and equity funds are based on the fund net asset values (NAVs). In general, the fund's investments in underlying portfolio companies do not have observable market inputs which can be used for the purposes of measuring fair value and are therefore valued using Level 3 inputs as defined by IFRS 13. The managers of the funds apply valuation methodologies in compliance with IFRS or other recognised accounting standards such as UKGAAP. Most of the Company's investment funds apply IFRS valuation methodologies or apply the International Private Equity and Venture Capital (IPEV) Valuation Guidelines.

The ongoing Covid-19 pandemic has given rise to significant additional uncertainty as to investment valuations and the Company has taken account of this in its assessment of the March 2021 valuations by giving particular scrutiny to the valuation methodologies adopted by its fund managers, ensuring that they are appropriate and consistent with IFRS, IPEV or other relevant guidelines.

Estimates

The assessment of ECL impairment allowances against amortised cost financial assets

The calculation of impairment provisions is inherently uncertain and requires the Company to make a number of assumptions and estimates.

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.

Where there has been a significant relative increase in the probability of default (PD) compared to initial recognition, based on the customer's credit quality, the account is assessed as being in 'Stage 2'.

Where current PD is measurable, a significant relative increase in the PD is judged to have occurred where there has been an increase in PD from origination to the reporting date equivalent to a 3-notch downgrade on a granular external credit rating scale. In addition, assets with a PD equivalent to external credit rating grade A (Standard & Poor's/Fitch) or A2 (Moody's) are considered to be low risk and are always classed as Stage 1 under the IFRS 9 low credit risk exemption.

For assets which are not re-rated and where on-going behavioural modelling is not available, a fixed percentage of the performing portfolio is assumed to be in Stage 2 based on historic grade transitions where available. Where historic grade transitions are not available the percentage is defined in line with European Banking Authority (EBA) guidance. In the ECL calculations, a scalar based on the observed performance of each respective cohort is applied to the fixed percentage.

The impact of the Covid-19 pandemic has raised further matters for consideration in assessing the Company's amortised cost financial assets.

Economic scenarios and associated probability weightings

IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macroeconomic scenarios that are plausible. The ECL model adopted by the Company uses a range of forward-looking projections of UK liquidation rates generated by a macroeconomic regression model based on third-party base case forecasts of Consumer Price Index growth rates, interest rates, and unemployment rates, and then under two better and two worse scenarios. The selection of variables was reviewed in 2020–21 to ensure their continued suitability as independent variables within the regression model.

To account for the volatile nature of the UK economic environment, the Company has continued to engage with our third-party forecaster throughout the year to provide independent economic forecasts for use within the IFRS 9 ECL models. They provide five economic scenarios of varying severity as input to the macroeconomic regression model, and the weightings associated with each are reviewed, challenged and adjusted on a quarterly basis. As at 31 March 2021, adjustments to the scenario weightings have been applied to increase the probability of a downside scenario.

Covid-19 post-model overlays

The Company has applied post-model overlays to reflect the increase in credit risk that is not accounted for due to the lack of behavioural credit scores that reflect the pre-Covid-19 pandemic base case view. The post-model overlays are calculated using a percentage of the model output ECL for each portfolio and are based on the expected impact of the Covid-19 pandemic and known sensitivities of the portfolios to prescribed stresses.

The PD overlays across the Company's portfolios fall between a 1 to 2 notch downgrade for PD on a Moody's granular rating scale. This reflects the expected impact of Covid-19 on each of the portfolios and takes into account the ability of the model inputs to reflect any increase in risk. The LGD overlay is based on a 40% decrease in recovery rates in a stress period, with a further conservative adjustment for peer-to-peer lending to 90% LGD.

The overlays have resulted in an overall increase in the ECL provision of £5.6m which is 1.7% of total exposure. Overlays required to reflect increases in PD due to an expected deterioration in the credit quality of lending post-Covid-19 amounting to £0.6m have been applied, as have overlays of £5.0m to account for worsening LGDs due to lower expected recoveries on defaulted loans.

In addition, ECL provisions have been decreased by £0.4m due to the introduction of CBILS guarantees against the loans within a Company investment lending portfolio.

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:

	2021	2020
Permanent staff	15	17
Non-executive Directors	3	3
Total	**18**	**20**

Aggregate remuneration comprised:	2021 £000	2020 £000
Wages and salaries		
Permanent staff	1,117	1,206
Non-executive Directors' fees	45	45
Short and Long-Term Incentive Plans and bonus scheme	217	224
Social security costs	159	177
Pension costs	149	163
Total	**1,687**	**1,815**

The Company's two incentive plans (Long-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 within the Directors' Remuneration Report.

4.2 Directors' remuneration

Directors' remuneration during the year was £205,900 (2020: £233,000). Remuneration for the highest paid director during the year is covered under Executive Directors' remuneration below.

Executive Directors' remuneration

On 1 September 2020, Catherine Lewis La Torre stepped down from the role of Chief Executive Officer and became an Executive Director. From 1 September 2020, Catherine Lewis La Torre was paid directly by British Business Bank plc which is recharged to the Company within the management charge as disclosed in note 5.2.

In the five months to 1 September 2020, Catherine Lewis La Torre received a salary of £56,250 (2020: £135,000), a payment under the Long-Term Incentive Plan (LTIP) for the period ended 31 March 2021 of £104,442 (2020: £39,472), company pension contributions of £5,625 (2020: £13,500) and £145 (2020: £337) taxable benefits. Catherine participates in the British Business Bank plc LTIP and in the year under review was granted awards with a maximum potential value of £148,500 (2020: £67,500). The LTIP granted and paid for year ended 31 March 2021 as disclosed above is the full value for Catherine's three roles in British Business Bank plc, British Business Investments Limited and British Patient Capital Limited. It is not possible to split this element of remuneration and therefore it is not directly comparable with the 31 March 2020 values. Any payments made under the LTIP will be determined by the British Business Bank plc Remuneration Committee at their discretion and were dependent on personal and corporate performance over a three-year period ending 31 March 2021. With the exception of LTIP, Catherine's remuneration is split on a 50:50 basis with British Patient Capital Limited and disclosure of her remuneration in that role is dealt with in the Directors' remuneration note of British Patient Capital Limited.

In the seven months from 1 September 2020, Judith Hartley was appointed to the role of Chief Executive Officer. Judith received a salary of £49,583 (2020: £nil), a payment under the British Business Bank plc Performance Bonus Plan for the period ended 31 March 2021 of £18,346 (2020: £nil), company pension contributions of £7,438 (2020: £nil) and £204 (2020: £nil) taxable benefits. Judith also received a payment under the British Business Bank plc LTIP for the three-year period ended 31 March 2021 of £32,218 (2020: nil). Judith did not participate in any new long-term incentive arrangement for the year 2020/21, however she continues to be eligible for an LTIP award for the three-year period ending 31 March 2022 to a maximum value of £39,425 . Judith's remuneration is split on a 50:50 basis with British Patient Capital Limited and disclosure of her remuneration in that role is dealt with in the Directors' remuneration note of British Patient Capital Limited.

4. Staff numbers, staff costs and Directors' remuneration (continued)

Non-executive Directors' remuneration

Non-executive Directors' remuneration for 2021 and 2020 is made up as follows:

	2021		2020	
	Total fees £000	Annual equivalent £000	Total fees £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 £4,995 per annum is paid to the Company's audit and risk champion.

Up until his resignation on 31 August 2020, Keith Morgan was paid directly by British Business Bank plc which was recharged to the Company within the management charge.

No post-employment benefits, termination benefits or share-based payments were made to Directors in the year (2020: none).

5. Operating costs

5.1 Other operating expenditure

	2021 £000	2020 £000
Audit fee	90	97
Investment costs	1,046	697
Other operating expenditure	68	371
Total	**1,204**	**1,165**

A fee of £90,000 (2020: £97,000) plus VAT was charged for the audit of the Company's financial statements. The Company's auditors did not provide any non-audit services.

5.2 Management fee expense

	2021 £000	2020 £000
Allocated staff costs	4,164	3,805
Allocated other operating expenditure	6,070	6,357
Total	**10,234**	**10,162**

Allocated staff costs and allocated other operating expenditure relate 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.

6. Tax

6.1 Tax on profit on continuing activities

	2021 £000	2020 £000
Current tax		
Current year	229	4,219
Adjustment in respect of prior year	(2,826)	1,732
Total current tax	**(2,597)**	**5,951**
Deferred tax		
Current year	8,167	-
Adjustment in respect of prior year	14,775	-
Total deferred tax	**22,942**	**-**
Total tax expense	**20,345**	**5,951**

Factors affecting the tax expense for the year

The tax expense for the year 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 2020.

The table below reconciles the tax charge for the year:

	2021 £000	2020 £000
Profit before tax	107,401	22,215
Tax on profit at standard UK tax rate 19% (2020 – 19%)	20,406	4,221
Adjustment in respect of prior year	11,949	1,732
Tax effects of FV movements	(12,041)	-
Short-term timing differences	31	(2)
Total tax charge	**20,345**	**5,951**

Deferred Corporation Tax

	Unrealised losses		Deferred tax	
	2021 £000	2020 £000	2021 £000	2020 £000
Other timing differences*	(120,895)	0	(22,970)	0
Short-term temporary differences	147	74	28	14
Other timing differences subject to deferred tax	**(120,748)**	**74**	**(22,942)**	**14**

* Other timing differences arise principally in relation to fair value adjustments to the carrying value of investments recorded in the Statement of Comprehensive Net Income for which chargeable gains/allowable losses will arise on a subsequent disposal of the underlying investments.

6.2 Corporation Tax (receivable)/payable

	2021 £000	2020 £000
Corporation Tax (receivable)/payable at 1 April	(4,666)	1,508
Tax expense for the year	(2,597)	5,951
Tax paid	-	(12,125)
Corporation Tax receivable at 31 March	**(7,263)**	**(4,666)**

6. Tax (continued)

6.3 Deferred tax asset/(liability)

	2021 £000	2020 £000
Deferred tax asset at 1 April	14	14
Movement in the year	(22,942)	-
Deferred tax asset at 31 March	**(22,928)**	**14**

On 22 July 2020, the Finance Act 2020 received Royal Assent, confirming that the UK Corporation Tax rate will remain at 19% from 1 April 2020 onwards instead of reducing to 17%, the previously enacted rate.

In the March 2021 UK Budget, it was announced that the UK rate of Corporation Tax will increase from 19% to 25% effective 1 April 2023. The change was enacted on 10 June 2021. The change was not substantively enacted or enacted at the Statement of Financial Position date, as a result the closing deferred tax assets and liabilities have been measured at a rate of 19%. The impact on the change in tax rate is expected to occur when the deferred tax balances unwind. Assessing the impact of the change in rate on its deferred tax assets and liabilities, the impact would be to increase the net deferred tax liability at the balance sheet date by £7.2m.

7. Cash and cash equivalents

	2021 £000	2020 £000
Government Banking Service	62,778	10,589
Commercial bank accounts	21,657	17,055
Total	**84,435**	**27,644**

8. Trade and other receivables

	2021 £000	2020 £000
Amounts receivable within one year		
Trade receivables	26	40
Amounts due from Group companies	52,178	130,772
Total	**52,204**	**130,812**

Trade receivables disclosed above are measured at amortised cost. The amounts due from Group Companies are repayable on demand with the individual balances being show in note 16.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value as they are short term in nature.

9. Investments

Business Finance Partnership

The Company manages the Business Finance Partnership programme.

The Business Finance Partnership has one strand: BFP Mid Cap, which invested in funds who lend to medium-sized businesses with turnover of up to £500m. Under IFRS 9 the BFP Mid Cap portfolio was classified as FVTPL except for one fund.

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. The Company's investments in Limited Partnerships through the Investment Programme are classified as FVTPL.

This programme has participated in peer-to-peer lending and has provided invoice discount finance, asset finance and other credit facilities. This lending is classified as amortised cost under IFRS 9.

Through the Investment Programme, the Company 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 8.5%. The issue was listed on the London Stock Exchange on 28 October 2015. The Company also participated in loan notes by Atom Bank with fixed coupon of 10% p.a., Secure Trust Bank with interest rate 6.75% p.a., and PCF Bank Ltd with fixed coupon 8% p.a. These three loan notes are not listed on the London Stock Exchange. These investments are classified as an amortised cost financial asset under IFRS 9.

UK Innovation Investment Fund

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 are accounted for and measured at FVTPL under IFRS 9.

Managed Funds Programme

The Company's Managed Funds Programme's mandate is to channel institutional capital to innovative, high-growth companies so they might meet their full growth potential. Through this programme, the Company expects to become a significant, cornerstone investor in funds of funds with a patient capital mandate. The £500m initial allocation which has been made to the programme represents a significant commitment in the years ahead.

The Managed Funds Programme investments are accounted for and measured at FVTPL under IFRS 9.

Regional Angels Programme

The Regional Angels Programme, managed by the Company, is designed to address regional imbalances in the availability of angel finance, and to increase the amount of capital available to smaller businesses with high growth potential through angel networks, particularly in areas where this type of finance is less readily available.

The Regional Angels Programme investments are accounted for and measured at FVTPL under IFRS 9.

Impact of Covid-19 on investment valuations

As reported in the prior year, the Covid-19 pandemic caused a significant slow-down in economic activity in the final quarter of 2019–20. During the year ended 31 March 2021 we have seen a recovery in economic activity compared to the 2019–20 final quarter which in turn has had an impact on the Company's investment valuations at the reporting date.

The Covid-19 impact on the Amortised Cost investments has been proportionally greater than on the FVTPL investments, and management's estimate of the component of the 2020–21 ECL provision which is Covid-19 related is around £5.4m out of a total ECL provision of £22.3m. The Covid-19 amount has reduced year on year by £4.4m, reflecting the improved economic outlook. The forward-looking nature of the approach to calculating ECL provisioning under IFRS 9 means that future losses are recognised at an earlier stage and take account of forecast future economic scenarios. The nature of the lending within the larger portfolios within the Amortised Cost portfolio, in particular the peer-to-peer platform lending (which is lending to start-ups and micro-businesses often without collateral), makes these investments more vulnerable to any impact of an economic downturn.

The uncertainty resulting from Covid-19 mainly arises from the uncertainty in the UK economic recovery path that is yet to unfold and how it will impact the magnitude and timing of the stress uplift to PD, LGD and the stress transition from Stage 1 to Stage 2. As detailed in note 3, this has been considered via the adoption of a revised economic base case together with post-model overlays to estimate the impact on PD, LGD and Staging transition model inputs.

The FVTPL investment portfolio is more diversified with a wider spread of investments ranging from early stage start-ups to mid-market corporates. BFP Mid Cap and the Investment Programme are weighted towards the traditional sectors of the economy which have been more exposed to the impact of Covid-19. The UKIIF portfolio has benefited from significant upward valuations in life sciences and healthcare focused funds.

The Covid-19 pandemic has given rise to additional uncertainty around investment valuations as the extent of the impact of Covid-19 is still not clear. The impact on investments will vary depending on individual business models, the length and form of lockdown measures and the success of Government interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.

9. Investments (continued)

9.1 Amortised cost investments

As at 31 March 2021

	Opening balance £000	Additions £000	Repayments £000	Accrued Interest £000	Recoveries £000	Expected credit loss allowance £000	Closing balance £000
BFP Mid Cap	89,876	14,093	(16,934)	4,267	-	1,307	92,609
Investment Programme	226,168	150,952	(212,561)	13,778	-	(1,523)	176,814
Total	**316,044**	**165,045**	**(229,495)**	**18,045**	**-**	**(216)**	**269,423**

As at 31 March 2020

	Opening balance £000	Additions £000	Repayments £000	Accrued Interest £000	Recoveries £000	Expected credit loss allowance £000	Closing balance £000
BFP Small Cap	2	-	(54)	-	52	-	-
BFP Mid Cap	55,432	46,772	(12,974)	3,460	-	(2,814)	89,876
Investment Programme	233,542	98,337	(113,802)	15,907	-	(7,816)	226,168
Total	**288,976**	**145,109**	**(126,830)**	**19,367**	**52**	**(10,630)**	**316,044**

9.2 Investments held at fair value through profit or loss

As at 31 March 2021

	Opening balance £000	Additions £000	Repayments £000	Fair value movement £000	Closing balance £000
BFP Mid Cap	379,196	5,000	(86,882)	14,876	312,190
Investment Programme	390,866	89,690	(87,740)	49,088	441,904
UKIIF	142,259	5,869	(35,940)	29,543	141,731
Managed Funds	10,243	43,569	(2,474)	8,301	59,639
Regional Angels	548	15,342	(258)	429	16,061
Total	**923,112**	**159,470**	**(213,294)**	**102,237**	**971,525**

As at 31 March 2020

	Opening balance £000	Additions £000	Repayments £000	Fair value movement £000	Closing balance £000
BFP Mid Cap	436,058	33,000	(78,487)	(11,375)	379,196
Investment Programme	296,961	154,563	(71,816)	11,158	390,866
UKIIF	123,765	5,830	(11,934)	24,598	142,259
Managed Funds	-	9,364	-	879	10,243
Regional Angels	-	548	-	-	548
Total	**856,784**	**203,305**	**(162,237)**	**25,260**	**923,112**

10. Trade and other payables

	2021 £000	2020 £000
Amounts falling due within one year		
Trade payables	4	81
Accrued expenditure	523	562
Amounts due to Group companies	1,232	52,770
Other payables	384	395
Total	**2,143**	**53,808**
Amounts falling due after more than one year		
Accrued expenditure	37	75
	37	**75**
Total	**2,180**	**53,883**

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:

	2021 £000	2020 £000
BFP Mid Cap	16,001	122,915
UKIIF	15,102	20,970
Investment Programme	445,088	313,179
Regional Angels	69,369	34,452
Managed Funds	319,917	285,199
Total	**865,477**	**776,715**

12. Share capital

	2021	2020
Issued and fully paid ordinary shares of £1 each:	1,061,285,731	1,006,285,731

	2021 £000	2020 £000
Brought forward	1,006,286	1,006,286
Shares issued for cash	55,000	-
Carried forward	**1,061,286**	**1,006,286**

The Company has one class of ordinary shares which carry no right to fixed income. During the year the company issued 55,000,000 ordinary £1 shares at par value.

13. 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* Registered address: 70 Sir John Rogerson's Quay, Dublin 2, Ireland	Ireland	Not classified	66.7%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%
Crown Growth Europe Expansion S.C.S. Registered address: 8 Rue Lou Hemmer, L-1748 Senningerberg	Luxembourg	Class A and Class O-P shares	33.3%

* Pricoa's latest financial year-end was 30 June 2021. The fund does not produce separate accounts and therefore figures for the fund are not available.

14. 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	2021 £000	2020 £000
Assets at fair value through profit or loss	971,525	923,112
Total assets	**971,525**	**923,112**

15. Financial instruments

15.1 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.

At 31 March 2021

	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Total £000
Assets					
Cash and cash equivalents	7	-	84,435	-	84,435
Trade and other receivables	8	-	52,204	-	52,204
Amortised cost investments	9	-	269,423	-	269,423
Investments held at FVTPL	9	971,525	-	-	971,525
Total assets		**971,525**	**406,062**	**-**	**1,377,587**
Liabilities					
Trade and other payables	10	-	-	(2,180)	(2,180)
Total liabilities		**-**	**-**	**(2,180)**	**(2,180)**
Net assets		**971,525**	**406,062**	**(2,180)**	**1,375,407**

At 31 March 2020

	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Total £000
Assets					
Cash and cash equivalents	7	-	27,644	-	27,644
Trade and other receivables	8	-	130,812	-	130,812
Amortised cost investments	9	-	316,044	-	316,044
Investments held at FVTPL	9	923,112	-	-	923,112
Total assets		**923,112**	**474,500**	**-**	**1,397,612**
Liabilities					
Trade and other payables	10	-	-	(53,883)	(53,883)
Total liabilities		**-**	**-**	**(53,883)**	**(53,883)**
Net assets		**923,112**	**474,500**	**(53,883)**	**1,343,729**

15. Financial instruments (continued)

15.2 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 Statement of Comprehensive Net Income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

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

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

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

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.

15.2 Fair value measurements (continued)

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

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

	Carrying Value 2021 £000	Fair Value 2021 £000	Carrying Value 2020 £000	Fair Value 2020 £000
Financial assets at amortised cost				
BFP Mid Cap	92,609	92,609	89,876	89,876
Investment Programme	176,814	190,851	226,168	236,847
	269,423	**283,460**	**316,044**	**326,723**

BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Mid Cap 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. BFP Mid Cap and Investment Programme amortised cost assets are classed as Level 3 assets in the fair value hierarchy, except for two amortised cost investments which are classified as Level 1 assets.

15.3 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 counterparty fails to settle their side of a transaction, and concentration risk. The Company's credit risk is also influenced by general macroeconomic conditions.

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

15.3 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 to loss 2021 £000	Collateral 2021 £000	Net Exposure 2021 £000	Maximum Exposure to loss 2020 £000	Collateral 2020 £000	Net Exposure 2020 £000
Cash and cash equivalents	84,435	-	84,435	27,644	-	27,644
Trade and other receivables	52,204	-	52,204	130,812	-	130,812
Amortised cost investments	291,679	86,501	205,178	337,769	95,150	242,619
Assets classified as FVTPL	971,525	-	971,525	923,112	-	923,112
Total	**1,399,843**	**86,501**	**1,313,342**	**1,419,337**	**95,150**	**1,324,187**

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 and other receivables

– Assets held at amortised cost

– Cash and cash equivalents.

Trade and other receivables

Impairment on trade and other receivables has been measured on the 12-month expected loss basis and reflects the short maturities of the exposures. An expected credit loss has not been recognised in the accounts as it would be immaterial.

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.

15.3 Financial risk management (continued)

	Not credit-impaired				Credit impaired			
	Subject to 12-month ECL Stage 1		Subject to lifetime ECL Stage 2		Subject to lifetime ECL Stage 3		Total	
	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000
As at 01 April 2020	**268,161**	**(7,365)**	**58,785**	**(4,020)**	**10,823**	**(10,340)**	**337,769**	**(21,725)**
Transfer to 12-month ECL	13,562	(1,810)	(13,562)	1,810	-	-	-	-
Transfer to lifetime ECL	(11,088)	433	11,088	(433)	-	-	-	-
Transfer to credit-impaired financial asset	(48)	15	(4,039)	1,214	4,087	(1,229)	-	-
New financial assets originated or purchased	165,045	(811)	-	-	-	-	165,045	(811)
Financial assets that have been derecognised during the period (including write off)	(181,509)	511	(29,080)	1,535	(546)	546	(211,135)	2,592
Changes to risk parameters	-	5,872	-	(4,843)	-	(3,341)	-	(2,312)
Amortisation	-	-	-	-	-	-	-	-
As at 31 March 2021	**254,123**	**(3,155)**	**23,192**	**(4,737)**	**14,364**	**(14,364)**	**291,679**	**(22,256)**
Carrying amount as at 31 March 2021		**250,968**		**18,455**		**-**		**269,423**

	Not credit-impaired				Credit impaired			
	Subject to 12-month ECL Stage 1		Subject to lifetime ECL Stage 2		Subject to lifetime ECL Stage 3		Total	
	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000
As at 01 April 2019	**291,429**	**(3,819)**	**1,514**	**(1,160)**	**7,128**	**(6,116)**	**300,071**	**(11,095)**
Transfer to 12-month ECL	-	-	-	-	-	-	-	-
Transfer to lifetime ECL	(60,839)	829	60,839	(829)	-	-	-	-
Transfer to credit-impaired financial asset	(1,414)	75	(3,036)	1,890	4,450	(1,965)	-	-
New financial assets originated or purchased	145,108	(1,383)	-	-	-	-	145,108	(1,383)
Financial assets that have been derecognised during the period (including write off)	(106,123)	466	(532)	113	(755)	531	(107,410)	1,110
Changes to risk parameters	-	(3,533)	-	(4,034)	-	(2,790)	-	(10,357)
Amortisation	-	-	-	-	-	-	-	-
As at 31 March 2020	**268,161**	**(7,365)**	**58,785**	**(4,020)**	**10,823**	**(10,340)**	**337,769**	**(21,725)**
Carrying amount as at 31 March 2020		**260,796**		**54,765**		**483**		**316,044**

15.3 Financial risk management (continued)

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.

As at 31 March 2021

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Medium risk	223,436	12,998	-	236,434
High risk	30,687	10,194	-	40,881
Defaulted financial assets	-	-	14,364	14,364
Total gross carrying amounts	**254,123**	**23,192**	**14,364**	**291,679**
Loss allowance	(3,155)	(4,737)	(14,364)	(22,256)
Carrying amount	**250,968**	**18,455**	**-**	**269,423**

As at 31 March 2020

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Medium risk	206,891	51,932	-	258,823
High risk	61,270	6,853	-	68,123
Defaulted financial assets	-	-	10,823	10,823
Total gross carrying amounts	**268,161**	**58,785**	**10,823**	**337,769**
Loss allowance	(7,365)	(4,020)	(10,340)	(21,725)
Carrying amount	**260,796**	**54,765**	**483**	**316,044**

Cash and cash equivalents

The Company held cash and cash equivalents of £84.4m as at 31 March 2021 (2020: £27.6m). 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 £4m over a one-year period.
- The impact of a 0.25 percentage point decrease in the interest rate applicable to investments would be an approximate decrease in income of £1.0m over a one-year period. Some of the decrease is mitigated by LIBOR floors.

15.3 Financial risk management (continued)

Currency risk

The Company primarily invests in its functional currency, pounds sterling. However, the Company does have an exposure to currency risk as 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 12.1% 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.

Capital

The Company's share capital comprises 1,061,285,731 of issued and fully paid ordinary shares of £1. The Company is not subject to external regulatory capital requirements. Where appropriate, the Company uses internal models for measuring economic capital in the assessment of new investment transactions. Gross return on capital employed is a key performance indicator that is set for the Company by its Shareholder and further details are given in the Chief Executive's statement on page 5.

16. Related party transactions

The Company is a wholly owned subsidiary of British Patient Capital Holdings Ltd, which in turn is wholly owned by British Business Bank plc. The Secretary of State for BEIS is the ultimate controlling party and sole shareholder of the British Business Bank plc. British Business Investments Ltd entered into transactions with BEIS and the following British Business Bank plc Group companies:

	2021 £000	2020 £000
Expenditure		
British Business Bank plc	9,044	9,507
BBB Patient Capital Holdings Ltd	-	3
British Business Financial Services Limited	1,189	655
Total	**10,233**	**10,165**

16. Related party transactions (continued)

Amounts outstanding at year-end

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

	2021 £000	2020 £000
Receivable		
BBB Patient Capital Holdings Limited	52,000	130,723
British Business Bank plc	40	49
British Business Financial Services Limited	138	-
Total	**52,178**	**130,772**
Payable		
British Business Bank plc	1,136	21,673
BBB Patient Capital Holdings Limited	-	31,000
British Business Financial Services Limited	96	97
Total	**1,232**	**52,770**

Compensation paid to key management personnel is disclosed in note 4.2.

17. Dividends

On 17 September 2020 a dividend of £130.7m (12.317375p per share) (2020:£nil) was declared and paid to the ordinary shareholders. No further dividend is proposed for the year ended 31 March 2021.

18. Events after the reporting date

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

19. 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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