British Business Investments

Annual Report and Accounts 2020

Investing to support growth

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"The business has once again delivered on its overall objectives: increasing the volume of finance available to small and medium-sized businesses – with a record year for new commitments – widening diversity of funding, addressing regional imbalances in access to finance and producing a positive return for the taxpayer."

Francis Small
Chair

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Chair's report

Providing a record level of finance for small businesses

British Business Investments made its highest-ever level of new commitments in 2019/20, contributing strongly to the key objectives of its parent company, the British Business Bank group.

Francis Small
Chair

"During the year, we increased our commitments by £547m, taking the total to over £2.5bn."

In taking on the role of Chair of British Business Investments at such a critical time for the UK economy, it is encouraging to see the organisation in a strong position to support businesses as they seek to stabilise, recover and look towards future growth.

Excluding the exceptional impact of Covid-19 on financial returns, the business has once again delivered on its overall objectives: increasing the volume of finance available to small and medium-sized businesses – with a record year for new commitments – widening diversity of funding, addressing regional imbalances in access to finance and producing a positive return for the taxpayer, albeit below our target return rate due to the effects of the Covid-19 pandemic in the fourth quarter.

During the year, we increased our commitments by £547m, taking the total to over £2.5bn with a total of 37,031 businesses supported by our funding as at 31 March 2020.

Responding to the Covid-19 pandemic

The Covid-19 pandemic has had a devastating impact across society and the economy. The UK's small and medium-sized businesses have been particularly hard hit, with many businesses suffering significant losses in revenue, and disruption to their cashflow.

During the pandemic we have worked closely with our delivery partners to support them as they provide essential finance to the UK's small and medium-sized businesses. We have also continued to increase our commitments. As the UK economy moves towards recovery, it is important that this ongoing work continues so that these businesses have access to the funding they need to support their working capital requirements and plans for growth.

£2.5bn

Since inception, British Business Investments has committed more than £2.5bn in the UK

Governance

British Business Investments CEO Catherine Lewis La Torre was appointed CEO of our parent company, the British Business Bank, in June 2020, taking up the role from 1 September.

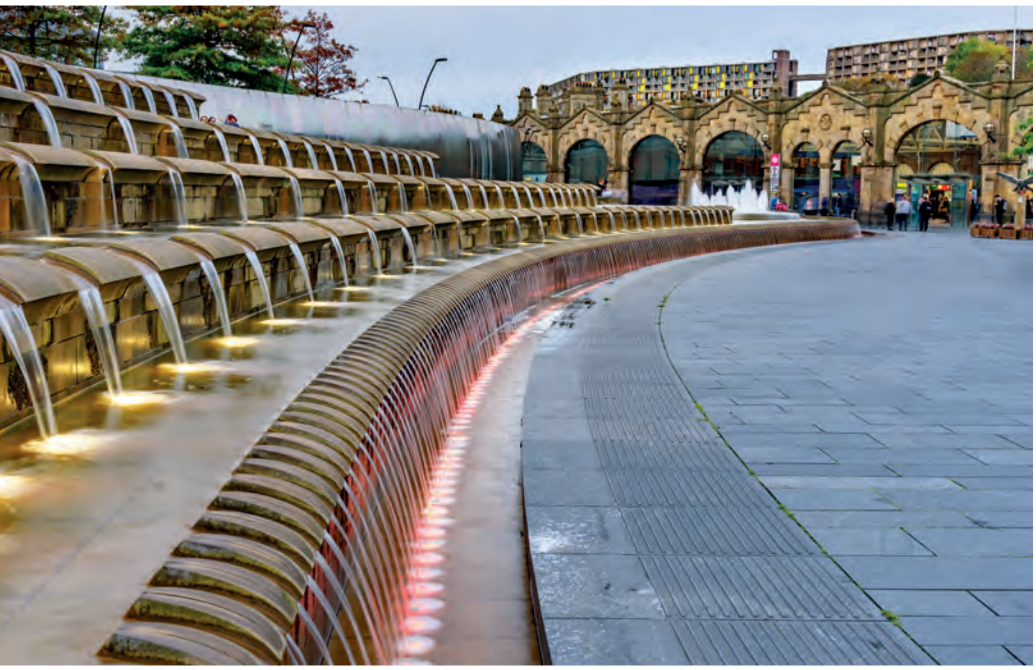
I would like to thank Catherine for her dedicated and skilled leadership since 2016, during which time she has built the business into a significant market investor which has consistently delivered on its commercial and strategic mandate and ahead of its targets.

Judith Hartley's appointment as British Business Investments CEO was announced on 18 August 2020, taking effect from 1 September 2020. Judith joins from her role as Managing Director of the British Business Bank's UK Network, and was previously the Bank's Managing Director for Lending Solutions. I look forward to working with Judith and drawing on her considerable experience and successful track record in both the British Business Bank and commercial finance more widely.

British Business Investments Chair, Keith Morgan, announced in October 2019 that he would be stepping down in 2020, and I would like to thank him for his contribution during his tenure.

I was delighted to be asked to step into the role of Chair from 1 September 2020 at such a crucial time for smaller businesses and the UK economy.

The robustness of our governance structure, and the expertise and experience of our Non-executive Directors and Investment Committee have once again helped deliver a strong performance against our objectives, and I would like to thank everyone involved for their contribution in 2019/20.



An important role in the recovery

As we look ahead, our programmes will be more important than ever in supporting small and medium-sized businesses in the UK. We stand ready to help our delivery partners to provide these businesses with the finance they require as they emerge from the pandemic and look towards achieving their growth potential, in turn contributing towards a wider UK economic recovery. I look forward to working with the team as we help them do so.

Francis Small
Chair

Outgoing Chair's report

Growing and responding to changing circumstances

Since being appointed Chair in July 2014, I have seen British Business Investments achieve impressive growth while carrying out important work to help provide finance to UK businesses.

Keith Morgan
Outgoing Chair

British Business Investments has consistently and strongly contributed to the overall objectives of the British Business Bank over the last six years.

While this year the Covid-19 pandemic has dominated the economic landscape and affected our overall results, it's still important to recognise the progress that British Business Investments has made, not only this year before the pandemic, but since its inception in 2014.

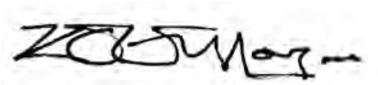
Adapting to changing circumstances and consistently expanding its investments whilst rolling out new programmes has been a feature of the business since it was created. This is illustrated by its increasing diversity of delivery partners and continued growth in annual commitment levels delivered by the team.

Looking to the future

In late 2019, I announced that I would be standing down as both Chair of British Business Investments and CEO of the British Business Bank by the end of 2020. Over the last six years as Chair, it's been a pleasure to work with the Board, Catherine Lewis La Torre, and her dedicated, skilled team of professionals, who have consistently delivered a significant contribution to the overall returns of the Bank.

"Consistently expanding its investments whilst rolling out new programmes has been a feature of British Business Investments since it was created."

I have worked with Francis Small since his appointment as a Non-executive Director in 2016, during which time he has provided invaluable guidance and support. Francis' significant experience in finance and at Board level means he is ideally placed to take on the role of Chair of British Business Investments, and I wish him and the company continued success.



Keith Morgan
Outgoing Chair

Chief Executive's statement

Supporting smaller businesses

We are pleased to report strong growth in our portfolio during 2019/20, though returns have been affected in Quarter 4 by the Covid-19 pandemic.

Judith Hartley
Chief Executive Officer

"We now support more than 37,000 smaller businesses, an increase of 3,000 over 12 months, with 71% of those businesses based outside of London and the South East."

Expanding Our Portfolio

In the year to March 2020, we significantly expanded the size and diversity of our portfolio. We made a record 15 commitments, including increases in two existing investments. This took our total number of portfolio investments to 59, and increased the number of delivery partners we have committed to (both past and present) by more than 20%, to 48.

Whilst continuing to invest into debt-based providers of capital such as direct lending funds, asset finance businesses, challenger banks, FinTech companies and marketplace lenders, we also made our first equity-based investments via our two new equity programmes - the £500m Managed Funds programme and the £100m Regional Angels Programme. This diversification of our portfolio increases access to longer-term patient capital for high-potential businesses.

Our cumulative commitments are up 26% year-on-year, to over £2.5bn. We usually invest on a pari passu basis alongside institutional and other investors, seeking a commercial return commensurate with the commercial risk undertaken. Our funding helps unlock additional capital for our delivery partners, with third parties investing a further £11.8bn alongside to produce total funding of almost £14.4bn.

These latest investments have enabled us to broaden our reach across alternative finance markets and extend the support we provide to growing small and medium-sized businesses across the UK. We now support more than 37,000 smaller businesses, an increase of 3,000 over 12 months, with 71% of those companies based outside of London and the South East.

The Impact of Covid-19

Whilst we have had a record year in terms of new commitments and diversification of our portfolio, the negative impact of the Covid-19 pandemic in the fourth quarter means our overall financial performance in 2019/20 is lower than 2018/19.

Our gross and net returns on capital employed for the period were 2.7% and 1.7% respectively, against benchmark targets of 5.6% and 5.0%. Our income from investments was £35m and we delivered pre-tax profit of £22m, down from £82m and £71m in the prior financial year.

Prior to Q4 2019/20, we were on track to achieve our targeted financial performance.

Certain investments within the Business Finance Partnership (BFP) Programme and the Investment Programme are, however, weighted towards more traditional sectors of the economy with greater exposure to the pandemic's impact. We have made valuation adjustments and additional provisions for expected credit losses. This means our final outturn for the year is, for the first time in our history, below the benchmarks set for us by our Parent, the British Business Bank. Continuing economic uncertainty means that the long-term impact on our investment valuations and credit losses is not yet fully discernible and the final impact on our portfolio will only be understood over time.

Our response to Covid-19

We have maintained a close dialogue with current and prospective delivery partners to understand the implications of the crisis for their businesses and how we can help, taking action as quickly as possible when required.

Our actions have included extending commitment periods, amending or waiving financial covenants to provide greater flexibility for delivery partners to support businesses and becoming a cornerstone investor in fund and capital raises where investor appetite was subdued. We have also amended contracts so that our delivery partners could offer Coronavirus Business Interruption Loans, as this was one of the UK Government's key economic response measures to the pandemic.

A strong and committed organisation

The commitment and hard work of the British Business Investments team has produced an impressive increase in the size and diversity of the portfolio this year. The team has also worked tirelessly and at pace to help our delivery partners manage the impact of Covid-19 on portfolio businesses. I would like to thank everyone for their efforts during 2019/20.

Catherine Lewis La Torre has been an exceptional leader of the organisation over the past four years. As I take over as CEO from Catherine, I look forward to working with the Board and the whole team, as we take the business forward and address the challenges and opportunities of the year ahead.

J B Hartley

Judith Hartley
Chief Executive Officer

Outgoing Chief Executive's statement

Increasing volume, diversity and access

Since I was appointed as CEO of British Business Investments in 2016, our cumulative commitments have grown from £700m to more than £2.5 billion, allowing British Business Investments to increase the number of businesses it supports from 12,000 to over 37,000.

Catherine Lewis La Torre
Executive Director
Outgoing Chief Executive Officer

Over the last four years, we have worked alongside our delivery partners to increase funding substantially, and are now supporting over three times the level of finance as well as the number of businesses.

In building British Business Investments, we have adapted to many new demands of the market to provide more diverse finance options, increasing our number of delivery partners and commitments every year, with record commitments over 2019/20.

In addition, we launched two new programmes in response to 2017's Patient Capital Review – a £500m Managed Funds Programme and a £100m Regional Angels Programme – with the aim of increasing the volume and diversity of finance so that smaller businesses can access the longer-term equity finance they need to achieve their growth ambitions.

The achievements of the Board and the team over the last four years are testament to their dedication, hard work and professionalism, and I would like to thank them for their contribution in building the business to what it is today.

I have worked alongside Judith Hartley, our new CEO, for several years and during that time she has made a considerable contribution to the work of the British Business Bank, including successfully establishing and leading its UK Network team and, more recently, its lender accreditation team during the Covid-19 response.

Judith is a highly respected leader, with more than 30 years' corporate banking experience and a strong track record of commercial success. I am delighted that she has agreed to take on the role of CEO and look forward to working with her as we support the UK's economic recovery.

Catherine Lewis La Torre
Executive Director
Outgoing Chief Executive Officer

Our Board

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

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 Ernst & Young in a wide variety of roles. Francis was re-appointed for a further three year term with effect from 16 June 2019.

After initially working with small and medium sized businesses, he became an audit partner in Financial Services for seven years. He then joined the firm's Corporate Finance practice where he specialised in cross-border acquisitions, disposals, IPOs and restructuring. He ran the UK Corporate Finance practice before becoming Global Head of Corporate Finance and a member of the Ernst & Young's Global Board. Francis lived and worked in the Middle East for two years, advising some of the world's largest sovereign wealth funds. After returning to London in 2010, he co-ordinated services to some of Ernst & Young's largest international clients.

Keith Morgan
Outgoing Chair

In late 2019, Keith announced that he would be standing down as Chair of British Business Investments. Keith led the establishment of the British Business Bank from January 2013, before being appointed Chief Executive Officer in December 2013. He joined the Bank from UK Financial Investments, where he managed the government's shareholdings in Bradford & Bingley and Northern Rock.

Previously, Keith held senior roles at Santander (Sovereign Bancorp US and Abbey National UK). Before joining Abbey, Keith spent 17 years at LEK Consulting, where he was a partner specialising in financial services.

Keith is a Non-executive Director of UK Asset Resolution Limited, Bradford & Bingley plc and NRAM Limited (Northern Rock Asset Management) and serves on the Board and Technical Committee of the ICAEW Corporate Finance Faculty. He is also a trustee of Jephcott Charitable Trust and The Design Council.

Judith Hartley
Chief Executive Officer

Judith is Chief Executive Officer of the British Business Bank's two commercial subsidiaries, British Business Investments and British Patient Capital, and took up the role on 1 September 2020. Judith previously held the position of 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.

Judith built a career in corporate banking with Barclays and Bank of Scotland before becoming involved in the delivery of publicly funded access to finance products. Judith was previously 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 joined the Bank from Capital for Enterprise where she was Managing Director, Debt Markets.

Catherine Lewis La Torre
Executive Director
Outgoing Chief Executive Officer

Catherine was appointed CEO of the British Business Bank in September 2020, having led the Bank's commercial arm since 2016 as CEO of British Business Investments (BBI) and, from October 2018, CEO of both BBI and British Patient Capital.

Prior to 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
Non-executive Director

Sara joined as a Non-executive Director in June 2016 and was re-appointed for a further 18-month term with effect from 16 June 2019. This was further extended to 15 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 an in-depth knowledge of complex financial products, markets and financing options with specialist expertise in financing European leveraged buyouts. She currently acts as an advisor and angel investor to companies spanning entrepreneurial start-ups to multinational companies across a wide range of industry sectors. Sara was a founding member of the European High Yield Association and served as a Board Director representing the investor community from 2000 to 2007.

Meet the team

Mealad Alighanbari
Analyst

Christopher Amory
Analyst

Daniel Baker
Business Partnering & Portfolio Operations Manager

Mark Barry
Director

Mark Coggin
Senior Manager

Richard Coldwell
Director

Vianney De Leudeville
Director

Francesca Durante
Manager

Peter Garnham
Managing Director

Judith Hartley
Chief Executive Officer

Rebecca Hicklin
Business Partnering Senior Manager

Marilena Ioannidou
Director

Jacqueline Kaminsky
Analyst

Adam Kelly
Director

Nancy Liu
Manager

Jonathan Marriott
Director

Karlo Uhlir
Manager

Jo Ward
Executive Assistant

Luke Whitehead
Analyst

Meeting our strategic and commercial objectives

We continuously evaluate our performance to ensure we are delivering our strategic and commercial objectives.

British Business Investments has four key objectives aimed at increasing the supply and diversity of funding available to small and medium-sized businesses and addressing regional imbalances in access to finance, while managing taxpayers' money efficiently.

Supply

increasing the supply and choice of finance to small and medium-sized businesses across the UK

Diversity of funding

helping to create a more diverse finance market

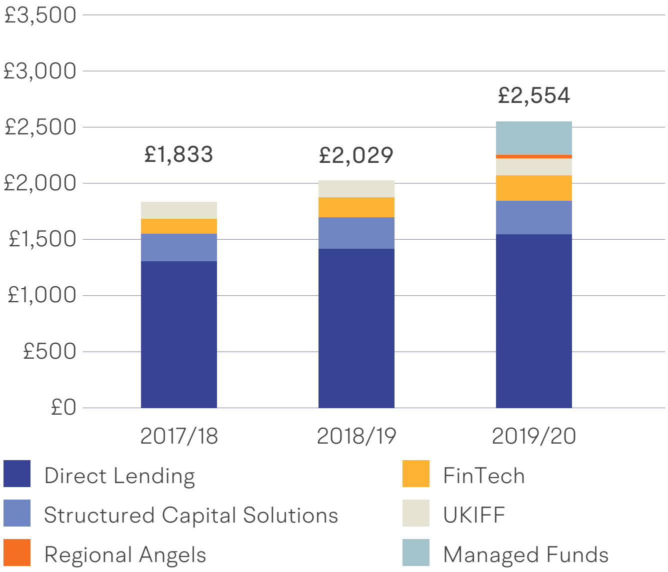
Regional access

identifying and helping to address regional imbalances in access to finance

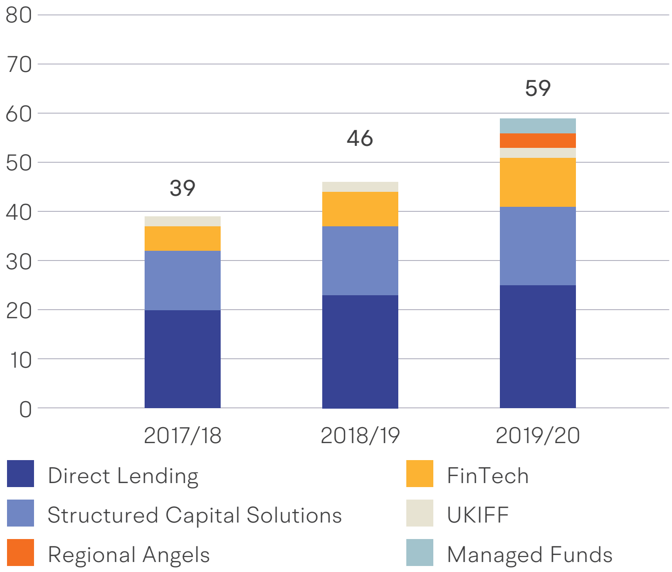
Returns

managing taxpayers' money efficiently, whilst generating a commercial rate of return

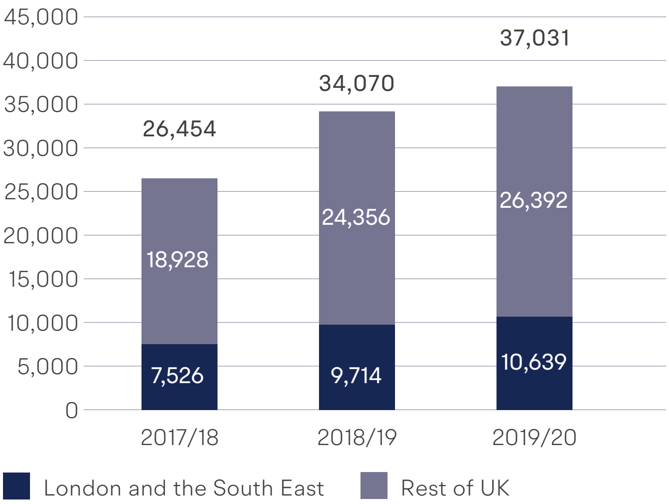
Supply – Portfolio commitments (£m)



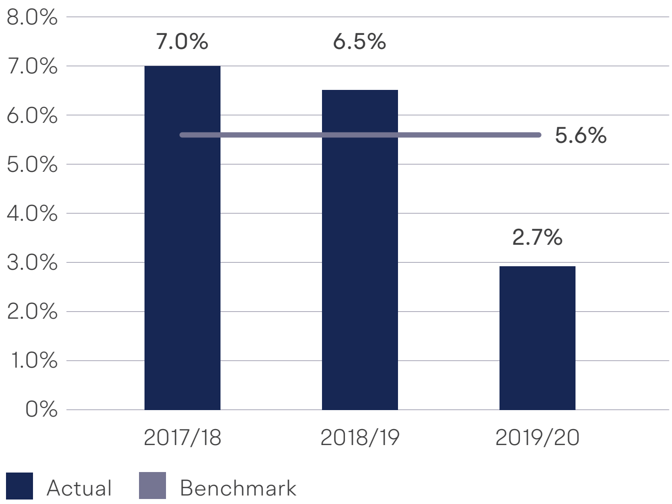
Diversity of funding – Number of portfolio investments



Regional access – Volume of businesses supported outside of London and the South East



Returns – Gross return on invested capital at 31 March 2020



Increasing supply and choice of finance across the UK

Peter Garnham
Managing Director

Rolling out our new equity programmes, whilst continuing our core debt finance programme, has enabled us to work with more delivery partners to reach a broader spectrum of smaller and medium-sized businesses.[1]

"We look forward to working with our delivery partners as we continue to build an increasingly diversified portfolio."

As a commercial subsidiary of the British Business Bank, British Business Investments continues to support the Bank towards achieving its strategic objectives.

We do not invest in businesses directly, but instead work with the market to provide funding through our delivery partners. We increase the volume and diversity of finance for small and medium-sized businesses through our programmes, which supply either debt or equity finance.

We have five programmes in total within British Business Investments, two of which are fully invested and in run off and three of which are still investing.

Our original debt programme, the Business Finance Partnership (BFP) now has just one strand, BFP Mid Cap, which invested in debt funds that lend to medium-size businesses with turnover of up to £500m. This programme is being managed down, as is our UK Innovation Investment Fund (UKIIF) equity programme.

Our three current programmes – the Investment Programme, Managed Funds Programme and Regional Angels Programme – have provided our highest level of new commitments in 2019/20. Since inception we have worked with a range of delivery partners, making 59 separate investments to 48 delivery partners. Our objective is to generate financial returns commensurate with the risks associated with the respective debt or equity instruments provided to businesses.

We look forward to working with our present and new delivery partners as we continue to build an increasingly diversified portfolio.

Debt Finance

The Investment Programme focuses on three main areas of the UK's alternative debt finance market – Direct Lending (shown to include the BFP Mid Cap), FinTech and Structured Capital Solutions – and continues to support many types of debt finance through our delivery partners. The programme is intended to encourage new market entrants and facilitate increased institutional capital in the alternative lending market for small and medium-sized businesses.

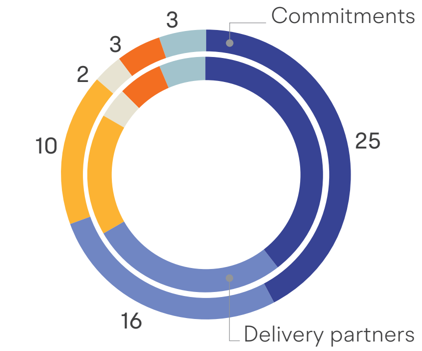
Equity Capital

Our two current equity programmes, the Managed Funds Programme and Regional Angels Programme, were both established as part of the government's response to the Patient Capital Review. The overall aim of these programmes is to increase the volume, diversity and accessibility of longer-term finance, so that the UK's small and medium-sized businesses can access the finance they need to achieve their growth ambitions.

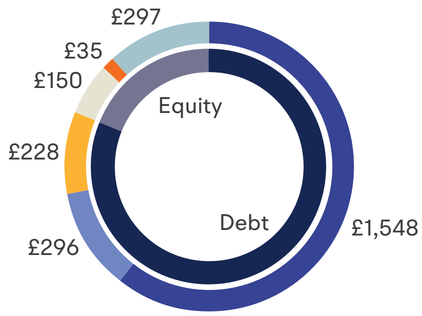
1 British Business Investments has a focus on delivery partners that provide capital to small and medium-sized businesses, which we define as those with consolidated annual global turnover below £100m.

Our business in numbers

Since inception – 59 commitments across 48 delivery partners*



£2.5bn commitments (£m)

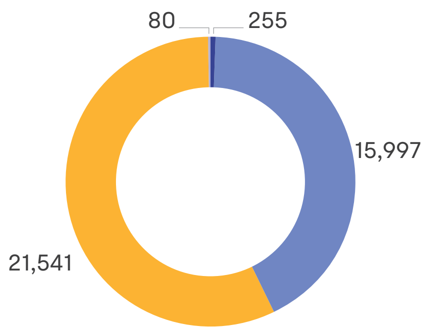


Debt
- Direct lending
- Structured Capital Solutions
- FinTech

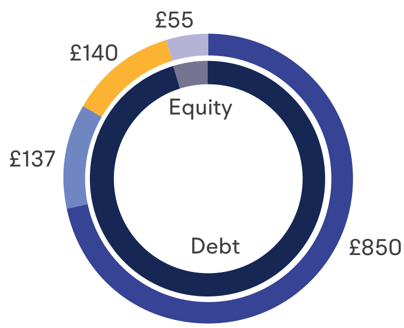
* Includes expired commitments

Equity
- UKIFF
- Regional Angels
- Managed funds

37,873 investments across 37,031 businesses



£1.2bn invested (£m)



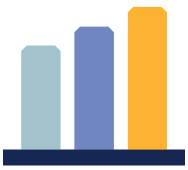
- Direct lending
- Structured Capital Solutions
- FinTech
- Equity programmes

New commitments

By committing capital to new and existing delivery partners, we can increase the supply and diversity of finance available to small and medium-sized businesses across the UK.

In 2019/20 we made 15 commitments across our three programmes, totalling over £547m. Nine of these commitments were to new delivery partners. These include:

- **Investment Programme:** Assetz Capital, Columbia Lake Partners (CLP), Harwood Private Capital and PCF Bank
- **Managed Funds Programme:** LGT European Capital and Top Tier Capital Partners
- **Regional Angels Programme:** DSW Angels, Par Equity and SFC



£547m

In 2019/20, we made 15 commitments totalling over £547m

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

We also made six commitments to existing delivery partners:

- **Investment Programme:** Bootstrap Venture Partners, Funding Circle, Kingsway Asset Finance, Liberis Finance and Tosca Debt Capital
- **Managed Funds Programme:** Hermes GPE

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

> "We help create more competition and choice in the alternative finance market."

Case study

One Utility Bill

Delivery partner: DSW Angels

One Utility Bill is a utility bills management service based in Ouseburn, Newcastle upon Tyne that allows customers to bundle all their bills for energy, water, broadband and TV into one fixed monthly payment.

The company sought finance to help implement its growth strategy to drive the business forward, grow its customer base and increase headcount.

With funding from British Business Investments delivery partner DSW Angels and other investors, One Utility Bill has been able to hire an additional 28 members of staff. This will enable the business to service more customers and support its plans for rapid growth over the coming years.

Our current delivery partners at end of March 2020

- admiral
- Alcentra
- ARES
- assetz capital
- Atom bank
- BEECHBROOKcapital
- bmsfinance
- BOOST&Co
- BOOTSTRAP EUROPE
- Columbia Lake Partners
- CORDET CAPITAL PARTNERS
- DSW Angels
- Funding Circle
- UK FTF Future Technologies Fund
- gcp
- Harbert Management Corporation
- HARWOOD PRIVATE CAPITAL
- Haydock Finance
- HAYFIN
- Hermes GPE
- ICG
- igf INDEPENDENT GROWTH FINANCE
- kingsway ASSET FINANCE LTD
- LGT Capital Partners
- Liberis
- M&G INVESTMENTS
- MARKET FINANCE
- Muzinich & Co
- par equity
- PCF BANK
- Præsidian capital
- PGIM PRIVATE CAPITAL
- Secure Trust Bank Group
- SFC
- Shard Credit Partners
- SHAWBROOK BANK
- SHIRE LEASING
- THINCATS
- TopTier
- TDC TOSCA DEBT CAPITAL
- ULTIMATE FINANCE

Our programmes

Debt Finance

The Investment Programme supports delivery partners to provide many different types of debt products to small and medium-sized businesses in the UK, thereby increasing and diversifying the supply of debt finance. We partner with new market entrants and also support the growth of more established alternative lenders.

Our Investment Programme is open to finance providers that are best able to meet our supply, diversity of funding, regional and return objectives.

There are three areas of this market we support through our Investment Programme – Direct Lending, FinTech and Structured Capital Solutions.

Debt Finance areas

Direct Lending	p20
FinTech	p22
Structured Capital Solutions	p24

Our programmes

Equity Capital

Our equity programmes invest in two areas of the market: in large-scale, private sector managed funds of funds providing later-stage capital (our Managed Funds Programme) and also alongside business angels and other early-stage equity investors (our Regional Angels Programme). These programmes unlock additional private sector capital supporting business growth across the UK, generating a market rate of return.

Managed Funds Programme

In the UK, institutional investors have lower allocations to the Venture Capital asset class compared with their counterparts in the US. Through our £500m Managed Funds Programme, we are addressing this imbalance by making additional 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.

Regional Angels Programme

The 2017 Patient Capital Review identified regional imbalances in access to early-stage equity finance for businesses across the UK. Our £100m Regional Angels Programme seeks to increase the overall amount of early-stage equity capital that is available to businesses with high growth potential. It aims to raise the profile of angel investing activity and attract more third-party capital alongside business angels.

Equity Capital programmes

Managed Funds Programme p26

Regional Angels Programme p28

Our Debt Finance areas

Direct Lending

British Business Investments is now recognised as a significant investor in direct lending funds that provide capital to small and medium-sized businesses across the UK.

In 2019/20, we made new commitments to three direct lending funds, totalling £125m.

These new commitments were to:

- CLP Growth II, which focuses on providing venture debt to fast growing, technology-enabled businesses, both in the UK and Europe.
- Harwood Growth Capital Fund I, which will provide flexible capital to small and medium-sized businesses in the UK.
- Tosca Debt Capital III, which provides capital, primarily to businesses in the Midlands and North of England.

We also increased our commitment to an existing fund managed by Bootstrap Venture Partners.

British Business Investments is invested in 25 separate funds. The income from these funds is an important source of our overall return.

Looking forward, we have an active pipeline of new opportunities and we expect direct lending to continue to be an important source of capital for growth-focused small and medium-sized businesses.

255
businesses supported

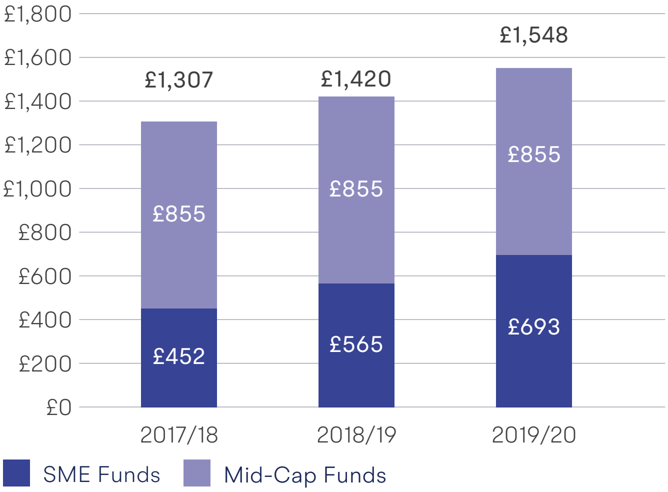
25
portfolio investments

19
delivery partners

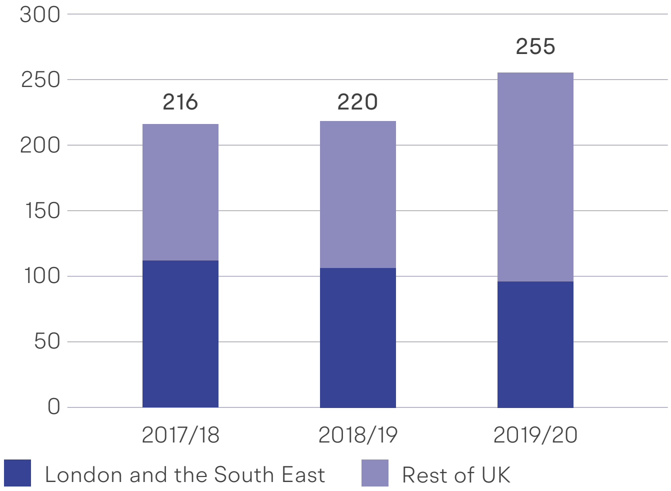
£1,548m
committed (cumulative)

£850m
invested

Total Direct Lending commitments (£m)



Number of businesses supported



> "We expect direct lending to continue to be an important source of capital for growth-focused small and medium-sized businesses."

Case study

Alexander Technologies

Delivery partner:
Shard Credit Partners

Alexander Technologies Europe Limited designs and manufactures custom Lithium Ion battery packs and proprietary chargers for powered air-purifying respirators, portable medical devices and other applications.

The company used funding from Shard Credit Partners to facilitate a management buy-out and then successfully expand its manufacturing facilities from 16,000 to 56,000 square feet. This included tripling the number of new assembly lines, making a significant investment in new manufacturing equipment, and additional engineering and quality labs for product development.

The expansion also meant the company was well placed to meet unprecedented, increased customer demand related to the Covid-19 pandemic. The company plans to invest further in the future to continue its growth, in order to establish its position as a global leader in custom battery packs for the portable medical equipment sector.

Our Debt Finance areas

FinTech

Through our commitments to FinTech providers, over 21,000 small and medium-sized businesses have been supported across a broad range of regional locations.

A wide variety of small and medium-sized businesses benefit from the funding made available by FinTech providers. Through our commitments to providers, over 21,000 small and medium-sized businesses have been supported across a broad range of regional locations. By supporting the on-going development of the FinTech sector, we also continue to see a strong alignment with our own objectives.

Within the FinTech sector, marketplace lending continues to grow, although at a slower pace as the sector matures. Small and medium-sized businesses are, however, becoming increasingly aware and accepting of these alternative sources of finance, thereby supporting the ongoing growth of businesses.

We expanded our range of delivery partners in 2019/20 with a £15m commitment to Assetz Capital, a property-focused marketplace lender based in Manchester. Our commitment will support new lending to smaller housebuilders, helping them to fulfil their growth plans and fuelling the development of new homes across the UK.

Continuing to build on our existing partnerships, we have also provided a £30m commitment to Funding Circle, to support its UK-only direct lending activity. This also supports a new route for institutional investors to lend directly to small and medium-sized businesses originated through its digital platform.

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

21,541
businesses supported

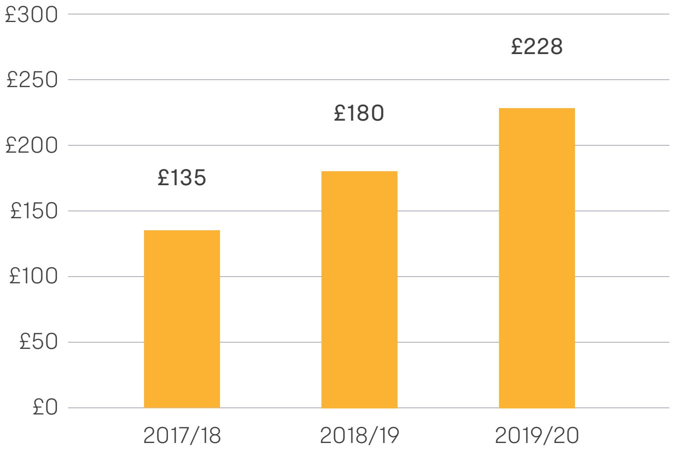
10
portfolio investments

8
delivery partners

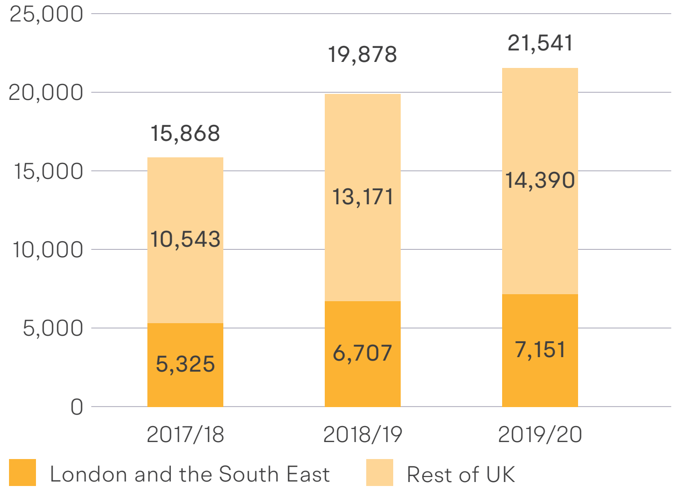
£228m
committed (cumulative)

£140m
invested

Cumulative FinTech Commitments (£m)



Number of businesses supported



> "A wide variety of small and medium-sized businesses benefit from the funding made available by FinTech providers."

Case study

The Technology Group

Delivery partner: ThinCats

The Technology Group is a managed communications provider, helping businesses and organisations to better communicate with their customers and teams. It provides telephone and VoIP systems, hosted telephony systems, internet connectivity and other telecommunications services to businesses across the UK.

To achieve its vision and growth strategy, the Leeds-based company was looking for a flexible debt facility to enable organic growth and acquisitions.

With support from British Business Investments delivery partner ThinCats in place, the company aims to continue to grow and carry out their target of one acquisition per year, with the aim of trebling their revenues by 2022.

Our Debt Finance areas

Structured Capital Solutions

British Business Investments is committed to increasing the diversity of small and medium-sized business financial markets by supporting dynamic and fast-growing specialist lenders and challenger banks.

From the outset, British Business Investments has actively sought to increase the funding options available to UK small and medium-sized businesses by working closely with asset finance and asset-based lenders, as well as the challenger bank sector. We provide Structured Capital Solutions that optimise, strengthen and diversify Challenger Banks' capital sources and allow them to use the capital raised to support planned business growth.

Demonstrating our continued commitment to the challenger bank sector, this year British Business Investments provided a £15m Tier 2 capital facility to PCF Bank. The facility enables PCF Bank to draw on additional capital as required, allowing it to utilise capital in an efficient and earnings enhancing manner as it grows, supporting significant new lending to UK small and medium-sized businesses. This commitment is alongside existing investments in other challenger banks including Secure Trust Bank, Atom Bank and Shawbrook Bank.

Asset Finance is an established source of finance for small and medium-sized businesses in the UK. This is evidenced through figures released by the Finance & Leasing Association that show total new asset finance business grew by 6% in 2019 reaching a record annual total of £35.7bn. Within this total, over "£20bn went to SMEs to fund investment in machinery and equipment, 4% higher than in 2018". Industry sectors which benefitted from using asset finance last year were construction and manufacturing, which saw double-digit growth in finance provided.

British Business Investments announced a £25m commitment to Cheshire-based asset finance specialist, Kingsway Finance Ltd, to support its growth plans. The facility provides asset finance, commercial loans and professions loans to small and medium-sized businesses in the UK and follows a previous British Business Investments commitment provided to Kingsway Finance Ltd in 2016.

Sources: https://www.fla.org.uk/media/news/asset-finance-market-reports-record-new-business-level-in-2019/

15,997
businesses supported

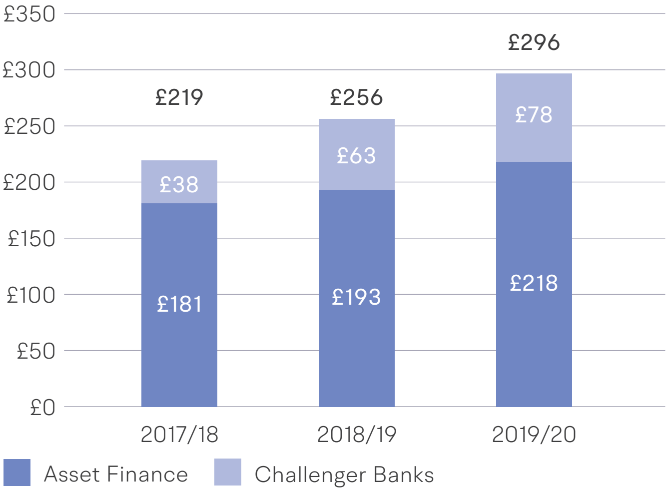
16
portfolio investments

13
delivery partners

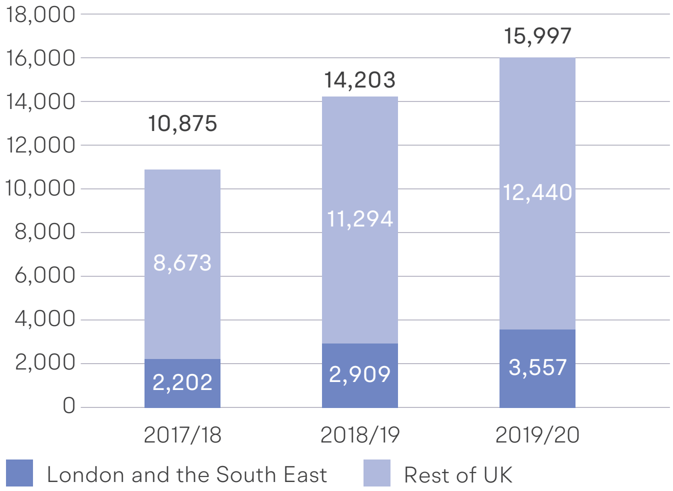
£296m
committed (cumulative)

£137m
invested

Structured Capital Solutions cumulative commitments (£m)



Number of businesses supported



"We provide Structured Capital Solutions that optimise, strengthen and diversify Challenger Banks' capital sources and allow them to use the capital raised to support planned business growth."

Case study

Shawbrook Bank

London-based Shawbrook Bank is a specialist savings and lending bank founded in 2011 for SMEs and consumer customers in the UK with a range of lending and saving products.

Shawbrook sought finance from British Business Investments through participation in a new Tier 2 note issue. This gave Shawbrook the flexibility needed to manage its capital structure, build on its existing track record and help achieve its strategic intent to become the UK's specialist SME lender of choice.

The finance provided by British Business Investments allows Shawbrook to provide continued support to smaller businesses across the UK; companies like the Bolney Wine Estate, based in Sussex. It received a £3.5m asset-based lending facility from Shawbrook, to support the development of its estate and provide a more flexible working capital facility. The finance provided by Shawbrook meant they could expand their production facilities and will help them reach their goal of producing 300,000 bottles of premium still and sparkling wines by 2022.

Our Equity Capital programmes

Managed Funds Programme

The programme provides access to venture and growth capital opportunities for institutional investors. This was the first full year of operation for the Managed Funds Programme, with new commitments of nearly £300m.

Venture and growth capital investing broadens our investment strategy. We launched the Managed Funds Programme in 2018 with £500m to be invested in large-scale funds of funds, designed to catalyse institutional capital into the venture and growth asset class.

Through this programme we are becoming a significant cornerstone investor with a patient capital mandate.

This £500m allocation represents significant commitment to this asset class in the coming years.

In 2019/20, British Business Investments committed £297m into funds of funds managed by three different delivery partners:

- Hermes GPE: £100m commitment to their Innovation Fund, focused on later-stage opportunities in technology-enabled businesses across Europe;
- LGT Capital Partners: commitment of up to €120m, split across two funds representing their first investment vehicles dedicated solely to venture and growth capital in Europe, and;
- Top Tier Capital Partners: €100m commitment to their first European fund of funds, targeting technology and healthcare sectors.

While these new commitments have started being deployed, they provide our managers with large amounts of available capital to help them implement their investment strategy and support the venture and growth ecosystem over the next few years.

These investments complement 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.

We also maintain a strong pipeline of future investment opportunities and expect to make several further commitments to best-in-class fund of funds managers in the years to come. These investments will support the UK venture and growth ecosystem, whilst building a diversified portfolio to generate commercial returns.

3
delivery partners

Delivery partners

LGT Capital Partners   Hermes GPE   TopTier

£297m
committed (cumulative)

Case study

Unily

Delivery partner: Hermes GPE

Unily is an award-winning employee experience platform that empowers modern businesses with the best tools to communicate, collaborate and innovate. It uses digital platforms to support internal teams or external stakeholders and is already used by several well-known global brands to support internal communications, productivity, employee engagement, and organisational culture.

Unily sought investment to provide scalability and to capture a larger market share from more established competitors. With funding from Hermes GPE and other investors, Unily is investing in AI innovation that is expected to be the focus of the next wave of growth in digital workplaces.

Now benefitting from a set of experienced investors, the business is ready to expand further in anticipation of further growth in market demand.

Our Equity Capital programmes

Regional Angels Programme

The Regional Angels Programme is designed to address regional imbalances in the availability of 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.

This programme focuses on investments at the pre-seed, seed and post-seed stages of a small business's funding journey and partners with angel networks leading the way in developing the market. By committing capital to such partners, it enables them to increase their firepower to make more investments which further diversifies their portfolios and helps to provide follow-on capital in future funding rounds.

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 the regions.

The programme has £100m available to invest and we are actively looking to commit more investment capital, to provide support to both businesses and business angels through the current economic environment.

To date, British Business Investments has made new commitments totalling £35m to three new delivery partners:

- Dow Schofield Watts (DSW) Angels: £10m commitment, to be invested alongside their angel network. Their focus will be on investing in early-stage technology businesses seeking to scale up across the North of England, Midlands and the South West.
- Par Equity: £15m commitment, to be invested alongside their angel network and EIS Fund. Par Equity will target scale-up businesses primarily in Scotland, the North of England and Northern Ireland.
- SFC Capital (SFC): £10m commitment, to be invested alongside their SEIS/EIS Funds and their angel network. SFC will target early-stage businesses across the UK, in sectors ranging from healthcare and life sciences to consumer goods and digital tech.

The first underlying investments took place in March 2020, and we have now invested over £3.7m into over 40 businesses across 11 of the 12 regions, including devolved nations.

3

delivery partners

Delivery partners

DSW Angels

par equity

SFC

£35m

committed (cumulative)

Case study

Transcend Packaging Ltd

Delivery partner: SFC Capital

Wales-based Transcend Packaging Ltd manufactures food and beverage packaging aimed at reducing use of single use plastic and is the leading manufacturer of paper straws and sustainable packaging for the food service industry in the UK.

It sought finance to buy new equipment to increase its manufacturing capacity and develop new product lines. British Business Investments delivery partner SFC Capital participated in a £7.5m fundraise originally planned prior to Covid-19 and Transcend plans to use this funding to acquire new state of the art equipment to support its growth.

It will also enable the company to grow its operations into mainland Europe, and to continue removing plastic from packaging for the food service sector.

Managing our risks and corporate governance

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

Risk management and internal control

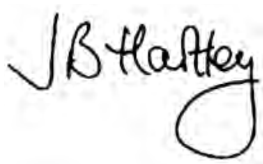
A full description of the Risk Management Framework of the British Business Bank is included within its Annual Report. The main aspects of the framework are:

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

The key operational risks the company is exposed to are:

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

The key financial risks the company is exposed to are detailed in note 15.3 of the accompanying financial statements.



Judith Hartley
Chief Executive Officer

28 October 2020

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 2020.

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 pages 34–37. 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 no dividend is proposed for the year ended 31 March 2020.

Going concern

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

Directors

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

- Keith Morgan (appointed 23 July 2014) – Chair
- Catherine Lewis La Torre (appointed 15 September 2016) – Chief Executive Officer
- Sara Halbard (appointed 16 June 2016 and was re-appointed for a further 18-month term with effect from 16 June 2019)
- Francis Small (appointed 16 June 2016 and was re-appointed for a further 3-year term with effect from 16 June 2019).

With effect from 31 August 2020 Keith Morgan resigned from his position within the British Business Bank group, including from British Business Investments. Catherine Lewis La Torre was appointed CEO of the group with effect from 1 September 2020. Catherine remains on the Board of British Business Investments and Judith Hartley has assumed the role of CEO with effect from the same date. In addition, Francis Small has been appointed Chair, with effect from 1 September 2020.

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

Appointment and removal of directors

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

Directors' indemnities

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

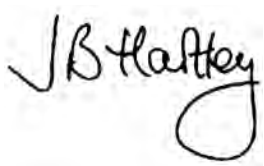
Directors' confirmations in relation to the audit

Each of the persons who is a director at the date of approval of this Annual Report confirms that:

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

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

Approved by the Board of Directors



Judith Hartley
Chief Executive Officer

28 October 2020

Statement of Directors' responsibilities

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

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

The directors have chosen to adopt International Financial Reporting Standards (IFRSs) as adopted by the European Union which is consistent with the accounting treatment adopted by the British Business Bank plc Group, of which the Company is a wholly owned subsidiary.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- provide additional disclosures when compliance with the specific requirements in IFRSs 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.

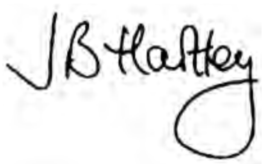
Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole
- the Strategic Report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that it faces
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance.

Approved by the Board of Directors

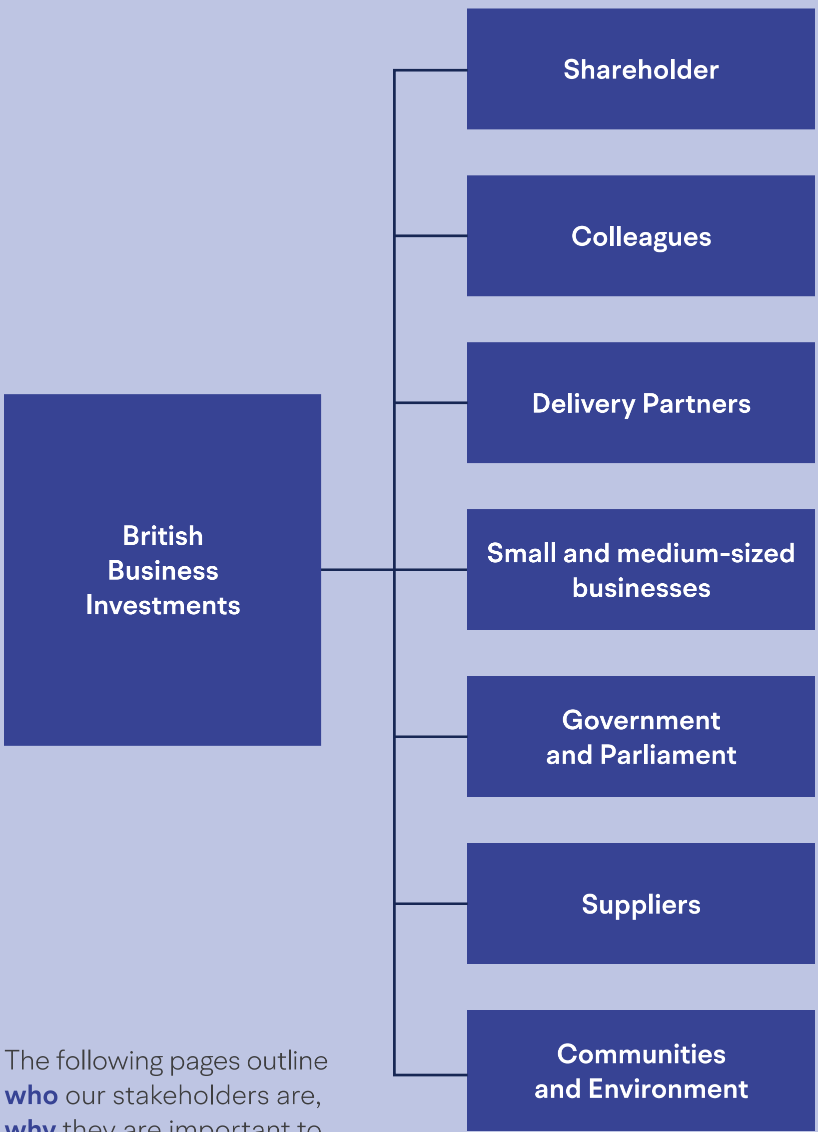


Judith Hartley
Chief Executive Officer

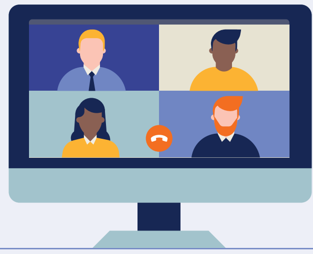
28 October 2020

Our key stakeholders

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



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



Shareholder (Department for Business, Energy & Industrial Strategy ('BEIS'))

Why?

British Business Investments Ltd ('BBI', 'we' or 'our') is a wholly owned subsidiary of BBB Patient Capital Holdings Ltd which is in turn a wholly owned subsidiary of BBB plc (our 'Parent', collectively the 'BBB Group').

BEIS is the principal shareholder and parent of BBB plc, and therefore is vital to our operation and funding. Effective engagement with BEIS, through our Parent, helps enable us to achieve our strategic objectives, as a commercially focused subsidiary.

How?

- Our Parent holds regular meetings with BEIS, including quarterly shareholder and policy meetings
- BEIS representative director is on the Board of our Parent
- BEIS representative attends BBI's quarterly Portfolio Monitoring and Valuation meetings

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which provides some detail on decisions being made in consultation with BEIS.

Colleagues

Why?

Aligned with the position outlined in our Parent'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 and Annual All Colleague conference
- Annual engagement survey leading to action plans which are followed up with colleagues
- Colleague forum on business change, updates and wellbeing
- NED with a designated workforce engagement role

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which details our overall engagement with our colleagues across the BBB group, in addition to further information on engagement in response to 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 encourages private sector investment to maximise the provision of finance whilst helping to address regional imbalances in the UK.

All existing programmes have proven to be successful in providing a commercial rate of return and are a major contributor to our Parent's balance sheet.

How?

Ongoing relationship management:

- Product and Portfolio teams maintain close working relationships with all delivery partner.
- A Director or Senior Manager from BBI is assigned to each delivery partner to lead the relationship. However, an arm's length relationship means that BBI cannot influence financing decisions, although close monitoring and oversight ensures that delivery partner are adequately scrutinised and challenged where necessary.
- Performance and risk monitoring via monthly/quarterly review meetings, attendance at AGMs and Limited Partner Advisory Committees, informal calls with senior management, e-mails, video conferences and office visits as required.

Where?

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

Furthermore, we operate under the Risk Management Framework of BBB plc, therefore please see the latest Annual Report and Accounts for our Parent (BBB plc), which includes details of risk management related to our delivery partners.

> "All existing programmes have proven to be successful in providing a commercial rate of return and are a major contributor to our Parent's balance sheet."

Small and medium-sized businesses

Why?

We operate through a delivery partner model and as such are not directly exposed to small and medium-sized businesses themselves.

However, small and medium-sized businesses remain extremely important to our long-term success, as demand from small and medium-sized businesses for the products offered by the delivery partners, is critical in our ability to provide a commercial rate of return.

How?

- Feedback from delivery partners
- Supporting our Parent in its wider marketing and support activities for small and medium-sized businesses
- Gaining feedback on programmes via evaluations

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which provides further detail of small and medium-sized businesses engagement measures provided by the Group.

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

Government and Parliament

Why?

Maintaining the government's support and trust in our ability to deliver is key to our success and future and to align our objectives with Government policy.

How?

- Regular events, roundtables and meetings
- Programme of meetings with the BEIS, ministers and other government officials
- National Audit Office Value for Money Study
- Investment Programme Interim Evaluation Report

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which provides further information on the BBB Group's engagement with government.

Suppliers

Why?

We rely on suppliers to deliver our goods and services on time and to good quality. This helps maintain value for money and can bring innovative solutions that create shared value.

How?

- Developing a best practice supplier relationship management framework

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which provides further information on the BBB Group's engagement with suppliers.

"We rely on suppliers to deliver our goods and services on time and to good quality."

Communities and environment

Why?

Our long-term success is tied inextricably to the progress of our communities and the preservation of our environment.

How?

- Fundraising. As part of the BBB Group, we currently support the Trussell Trust and the Bluebell Wood Children's Hospice
- Supporting local suppliers, reducing packaging, and recycling
- Cycle to work scheme, bike lockers, use of video-conferences and displays of CO_2 impact of travel plans
- Zero tolerance of modern slavery in our businesses and supply chains

Where?

See latest Annual Report and Accounts for our Parent (BBB plc), which provides further information on the BBB Group's Corporate Social Responsibility initiatives.

Independent Auditor's report

To the members of British Business Investments Ltd.

Opinion on financial statements

I have audited the financial statements of British Business Investments Ltd for the year ended 31 March 2020 which comprise the Statement of Comprehensive Net Income, Statement of Financial Position, Statement of Changes in Equity, 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 Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2020 and result for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the Companies Act 2006.

Emphasis of matter

I draw attention to the 'Impact of Covid-19 on investment valuations' section of note 9, which summarises the potential macroeconomic consequences of the pandemic. This section describes the extent of estimation uncertainty in measuring the fair value of investments at 31 March 2020. It also highlights the uncertainty in calculating the expected credit loss of the group's financial assets held at amortised cost and the subjectivity of the associated considerations such as assessing the probability of default, loss given default and in determining whether there has been a significant increase in credit risk. My opinion is not modified in this respect.

Basis of opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of British Business Investments Ltd in accordance with the ethical requirements that are relevant to my audit 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

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- British Business Investments Ltd's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- British Business Investments Ltd have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about British Business Investments Ltd's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

– identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of British Business Investments Ltd's internal control.

– evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

– conclude on the appropriateness of the British Business Investments Ltd's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the British Business Investments Ltd's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause British Business Investments Ltd to cease to continue as a going concern.

– evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Information

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

Opinion on other matters prescribed by the Companies Act 2006

In my opinion:

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

Matters on which I report by exception

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

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

Hilary Lower
Senior Statutory Auditor

29 October 2020

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 2020

	Note	2020 £000	2019 £000
Income			
Interest income	9.1	19,367	19,175
Arrangement and other fees		1,308	1,724
Gross operating income		**20,675**	**20,887**
Expected credit loss on amortised cost assets	9.1	(10,630)	(2,867)
Net gains on investment assets			
– Fair value gains on assets held at fair value through profit or loss	9.2	25,260	63,726
– Recoveries on amortised cost assets	9.1	52	-
Net operating Income		**35,357**	**81,758**
Expenditure			
Staff costs	4	(1,815)	(1,581)
Other operating expenditure	5.1	(1,165)	(894)
Management fee	5.2	(10,162)	(8,403)
Operating expenditure		**(13,142)**	**(10,878)**
Profit before tax		**22,215**	**70,880**
Tax	6.1	(5,951)	(11,878)
Profit for the year after tax		**16,264**	**59,002**

All operations are continuing.

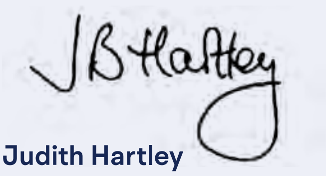
The notes on pages 46 to 68 form an integral part of the financial statements.

Statement of financial position

As at 31 March 2020

	Note	2020 £000	2019 £000
Assets			
Cash and cash equivalents	7	27,644	59,551
Trade and other receivables	8	130,812	130,787
Amortised costs investments	9.1	316,044	288,976
Investments held at fair value through profit or loss	9.2	923,112	856,784
Deferred tax asset	6.3	14	14
Corporation tax	6.2	4,666	-
Total assets		**1,402,292**	**1,336,112**
Liabilities			
Trade and other payables	10	(53,883)	(2,459)
Corporation tax	6.2	-	(1,508)
Total liabilities		**(53,883)**	**(3,967)**
Net assets		**1,348,409**	**1,332,145**
Equity			
Issued share capital	12	1,006,286	1,006,286
Retained earnings		342,123	325,859
Total equity		**1,348,409**	**1,332,145**

The financial statements of the Company (company number 09091930) were approved by the Board of Directors and authorised for issue on 28 October 2020. They were signed on its behalf by:



Judith Hartley
Chief Executive Officer

The notes on pages 46 to 68 form an integral part of the financial statements.

Statement of changes in equity

As at 31 March 2020

	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 2018		**1,203,118**	**56,245**	**1,259,363**
Adjustment due to IFRS 9 transition		-	(4,975)	(4,975)
Balance under IFRS 9 as at 1 April 2018		**1,203,118**	**51,270**	**1,254,388**
Net income after tax		-	59,002	59,002
Total comprehensive income		**-**	**59,002**	**59,002**
Issue of ordinary shares	12	75,000	-	75,000
Capital reduction	12	(271,832)	271,832	-
Dividends	17	-	(56,245)	(56,245)
Balance as at 31 March 2019		**1,006,286**	**325,859**	**1,332,145**

Cash flow statement

For the year ended 31 March 2020

	Notes	2020 £000	2019 £000
Profit before tax		**22,215**	**70,880**
Cash flows from operating activities			
Changes in operating assets and liabilities:			
Net (decrease) increase in amortised cost investments	9.1	(27,068)	10,367
Net increase in assets at fair value through profit or loss	9.2	(66,328)	102,518
Decrease in trade and other receivables	8	24	235
(Increase) in amounts due from group companies	8	(49)	(130,601)
Increase (decrease) in trade and other payables	10	51,424	(9,517)
Payment of corporation tax	6.2	(12,125)	(16,666)
Net cash used in operating activities		**(31,907)**	**27,216**
Cash flows from financing activities			
Issue of new shares	12	-	75,000
Dividends paid to shareholder	17	-	(56,245)
Net cash from financing activities		**-**	**18,755**
Net increase in cash and cash equivalents		**(31,907)**	**45,971**
Cash and cash equivalents at beginning of the year		59,551	13,580
Cash and cash equivalents at end of the year		**27,644**	**59,551**

Interest received was £62.9m (2019: £61.6m).

The notes on pages 46 to 68 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2020

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 12 to 30.

2. Significant accounting policies

Basis of preparation

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

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

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

Except for IFRS 16, which was adopted for the first time in the current year, but does not have an impact on the financial statements as the Company is not party to any leases, there were no new or amended standards applied for the first time and therefore no restatements of the previous financial statements required.

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

- IFRS 17 Insurance Contracts
- IAS 1 (amendments) Presentation of Financial Statements
- Amendments to IFRS 3, 'Business combinations', definition of a business
- Amendments to the Conceptual framework.

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Company in future years.

Income recognition

Income is measured as the change in fair value of the investments plus any gain or loss arising on disposal and consideration received or receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales-related taxes. Income is reduced for estimated rebates and other similar allowances.

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

VAT

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

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

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

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.

The Company currently has no financial instruments recognised as FVOCI according to IFRS 9 classification.

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

Impairment of financial assets

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'.

The 'Through the Cycle' (TTC) proportion of the performing book that has suffered from a significant increase in credit risk was taken as 10% in line with the European Banking Authority (EBA) benchmarks. EBA guidance published for small financial institutions was taken as an anchor point in the 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.

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 classified and subsequently measured at amortised cost.

Foreign exchange

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

Retirement costs

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

Employee benefits

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

3. Critical accounting judgements and key sources of estimation uncertainty

In 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

a. 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 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 2020 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.

b. Classification of financial assets

In accordance with IFRS 9, the Company makes an assessment as to the classification of its financial assets depending on the its business model in relation to groups of assets and the contractual cashflow characteristics of individual instruments.

Business models are assessed in respect of groups of financial assets according to how they are collectively managed both in order to achieve a particular business objective, and in order to generate cashflows. The assessments are to determine whether cashflows generated by the assets result from contractual collections, the sale of financial assets or both. The business model assessment determines how the Company classifies its financial instruments as follows:

– Hold to collect contractual cashflows – Amortised cost or FVTPL

– Hold to collect and sell – FVTOCI

– Neither Hold to collect nor sell – FVTPL.

For financial assets that have a business model which is one of hold to collect contractual cashflows, the Company then makes an assessment as to the classification between amortised cost or FVTPL based on a detailed review of the contractual documentation in relation to the individual instrument. Financial assets are classified as amortised cost if the contractual cashflows are solely payments of principal and interest (SPPI) on the principal amount outstanding, consistent with a basic lending arrangement.

In making its assessment the Company applies judgement as to whether there are contractual terms which can give rise to modification of the time value of money element of the contractual cash flows, or to changes in the timing or amount of contractual cash flows, which could result in significantly different cashflows arising.

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.

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, and at each reporting date, a judgement is made as to whether the financial asset has been subject to a significant increase in credit risk. Where that is judged to be the case, financial assets are considered to be in 'Stage 2', 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, as well as quantitative, statistical information. It applies a presumption that when accounts are more than 30 days past due (late), there has been a significant increase in credit risk and such assets are assessed as being in 'Stage 2'. Examples of the qualitative indicators that might be used in assessing a significant increase in credit risk are:

– changes in market measures of credit quality

– changes in economic outlook that may affect a customer's ability to repay (for example an interest rate increase)

– changes to the borrower's credit intrinsic credit worthiness

– any covenant breaches

– legal or regulatory changes that may adversely affect the borrower

– changes in the credit quality of another exposure to the borrower

– changes to the quality of any guarantees or parental support.

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 maturity are in default and are fully provided for by the Company.

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 EIR.

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. Guidance has been issued by the Prudential Regulation Authority (PRA) with respect to accounting for ECL in the context of Covid-19. This has been incorporated into the post-model overlay process described on page 57.

Economic scenarios and associated probability weightings

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

The model uses publicly available data on default rates as a basis for the CI and generates a base case scenario (determined by a regression model utilising base case forecasts of Consumer Price Index growth rates, interest rates and unemployment rates published by the Bank of England), then two better and two worse scenarios generated by considering a distribution of possible scenarios around the base case scenario. In the instance where suitable publicly available data is not available or is outdated, additional third party forecasts may be sought, or post-model overlays applied.

In previous years, the base case scenario for the Company's IFRS 9 models was sourced from the annual Bank of England stress testing publications; however, the production of these scenarios is delayed due to Covid-19 priorities. The Company has therefore engaged with Oxford Economics to source updated independent economic forecasts for use in the IFRS 9 ECL models which incorporates the Covid-19 impact on model variables. Oxford Economics provided five economic forecasts of varying severity for the Company to select from as the base case input into the IFRS 9 ECL models. The Company took the decision to use the most pessimistic of these to reflect the high level of uncertainty over the economic climate as of 31 March 2020.

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 and economic scenarios 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 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 accounts 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 to 90% LGD.

The overlays have resulted in an overall increase in the ECL provision of £7.7m, which is 2.3% 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 £2.7m have been applied, as have overlays of £4.7m to account for worsening LGDs due to lower expected recoveries on defaulted loans. In addition, ECL provisions have been increased by £0.3m due to the increase in default risk within the portfolio, which also causes an increase in the proportion of performing accounts assigned to Stage 2.

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

4. Staff numbers, staff costs and directors' remuneration

4.1 Staff numbers and staff costs

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

	2020	2019
Permanent staff	17	13
Non-executive directors	3	3
Total	**20**	**16**

Aggregate remuneration comprised:	**2020 £000**	**2019 £000**
Wages and salaries		
– Permanent staff	1,206	1,000
Non-executive directors' fees	45	45
Short and Long-Term Incentive Plans and bonus scheme	224	235
Social security costs	177	159
Pension costs	163	142
Total	**1,815**	**1,581**

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

4.2 Directors' remuneration

Directors' remuneration during the year was £233,000 (2019: £215,000). Remuneration for the highest paid director during the year is covered under Executive Directors' remuneration below.

Executive Directors' remuneration

Catherine Lewis La Torre received a salary of £135,000 (2019: £118,500), a payment under the Long Term Incentive Plan (LTIP) for the period ended 31 March 2020 of £39,472 (2019: £39,000), company pension contributions of £13,500 (2019: £11,850) and £337 (2019: £350) taxable benefits. She participates in the British Business Bank plc LTIP and in the year under review was granted awards with a maximum potential value of £67,500 (2019: £54,728). Any payments made under the LTIP will be determined by the Remuneration Committee at their discretion and were dependent on personal and corporate performance over a three-year period ending 31 March 2020. 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.

Non-executive Directors' remuneration

Non-executive Directors' remuneration for 2020 and 2019 is made up as follows:

	2020		2019	
	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.

Keith Morgan is paid directly by British Business Bank plc and this is 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 (2019: none).

5. Operating costs

5.1 Other operating expenditure

	2020 £000	2019 £000
Audit fee	97	97
Investment costs	697	320
Other operating expenditure	352	477
Total	**1,165**	**894**

Auditor's remuneration (stated exclusive of VAT) of £97,000 (2019: £97,000) relates to fees payable for the audit of the Company's financial statements. The Company's auditors did not provide any non-audit services.

5. Operating costs (continued)

5.2 Management fee expense

	2020 £000	2019 £000
Allocated staff costs	3,805	3,502
Allocated other operating expenditure	6,357	4,901
Total	**10,162**	**8,403**

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

6. Tax

6.1 Tax on profit on continuing activities

	2020 £000	2019 £000
Current tax		
Current year	4,219	13,237
Adjustment in respect of prior year	1,732	(1,359)
Total current tax	**5,951**	**11,878**
Deferred tax		
Current period	-	-
Total deferred tax	**-**	**-**
Total tax expense	**5,951**	**11,878**

Factors affecting the tax expense for the period

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 2019.

The table below reconciles the tax charge for the year:

	2019 £000	2019 £000
Profit before tax	22,215	70,880
Tax on profit at standard UK tax rate 19% (2019 - 19%)	4,221	13,467
Adjustment in respect of prior year	1,732	(1,359)
Short term timing differences	(2)	(230)
Total tax charge	**5,951**	**11,878**

Deferred corporation tax

A deferred tax rate of 19% has been used for 2020 (2019: 17%). This is on the basis that the timing differences are likely to unwind when the rate of corporation tax is due to have fallen to this level.

6. Tax (continued)

6.2 Corporation tax payable

	2020 £000	2019 £000
Corporation tax payable at 1 April	1,508	6,296
Tax expense for the year	5,951	11,878
Tax paid	(12,125)	(16,666)
Corporation tax (receivable)/payable at 31 March	**(4,666)**	**1,508**

6.3 Deferred tax asset

	2020 £000	2019 £000
Deferred tax asset at 1 April	14	14
Movement in the year	–	–
Deferred tax asset at 31 March	**14**	**14**

7. Cash and cash equivalents

	2020 £000	2019 £000
Government Banking Service	10,589	42,486
Commercial bank accounts	17,055	17,065
Total	**27,644**	**59,551**

8. Trade and other receivables

	2020 £000	2019 £000
Amounts receivable within one year		
Trade receivables	40	45
Other receivables	–	19
Amounts due from Group companies	130,772	130,723
Total	**130,812**	**130,787**

Trade receivables disclosed above are measured at amortised cost. The amounts due from Group Companies represent amounts receivable from BBB Patient Capital Holdings Limited (£130,722,539) in lieu of the disposal of Venture/ Growth investments to that company in 2018/19, the transaction being made on an arm's length basis.

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

9. Investments

Business Finance Partnership

The Company manages the Business Finance Partnership programme.

The Business Finance Partnership (BFP) now has just 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.

The second strand was the BFP Small Cap which has no investment value as at 31 March 2020 (2019 value: £2,000).

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

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 first commitment under the programme was made in August 2019.

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 first commitment under the programme was made in September 2019.

Impact of Covid-19 on investment valuations

The Covid-19 pandemic caused a significant slow-down in economic activity in the final quarter of 2019/20, which in turn had an impact on the Company's investment valuations at the reporting date. In assessing the impact, the Company has closely followed the guidance issued by the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulatory Authority regarding the approach to assessing valuations.

The impact on the Amortised Cost investments has been proportionally greater than on the FVTPL investments, and management's estimate of the 2019/20 ECL provision increase which is Covid-19 related is around £9.8m out of a total of £10.6m. 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 Amortised Cost portfolio, in particular the peer-to-peer platform lending, has made these investments more vulnerable to the impact of the economic downturn.

As detailed in note 3, the uncertainty resulting from Covid-19 has been considered via the adoption of a revised economic base case together with post-model overlays to estimate the impact on model inputs, namely increased PDs and LGDs and an increase in the proportion of assets assigned to Stage 2. The uncertainty arising from Covid-19 reflects the inherent inability to predict the accuracy of the modelled economic forecasts.

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 net impact on the FVTPL valuations, which could be attributed to Covid-19, is estimated by management to be a reduction of around £20.4m in the final quarter, largely within the BFP Mid Cap and the Investment Programme portfolios.

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 significant 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 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**

As at 31 March 2019

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

9.2 Investments held at fair value through profit or loss

As at 31 March 2020

	Opening balance £000	Transfers £000	Additions £000	Repayments £000	Fair value movement £000	Disposals £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**

As at 31 March 2019

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

10. Trade and other payables

	2020 £000	2019 £000
Amounts falling due within one year		
Trade payables	81	1
Accrued expenditure	562	355
Amounts due to Group companies	52,770	1,650
Other payables	395	339
Total	**53,808**	**2,345**
Amounts falling due after more than one year		
Accrued expenditure	75	114
Total	**75**	**114**
Total	**53,883**	**2,459**

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:

	2020 £000	2019 £000
BFP Mid Cap	122,915	143,968
UKIIF	20,970	24,721
Investment Programme	313,179	285,080
Regional Angels	34,452	-
Managed Funds	285,199	-
Total	**776,715**	**453,769**

12. Share capital

	2020	2019
Issued and fully paid ordinary shares of £1 each:	1,006,285,731	1,006,285,731

	2020 £000	2019 £000
Brought forward	1,006,286	1,203,118
Shares issued for cash	-	75,000
Capital reduction	-	(271,832)
Carried forward	**1,006,286**	**1,006,286**

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

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%

* Pricoa's latest financial year end was 30 June 2020. 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	2020 £000	2019 £000
Assets at fair value through profit or loss	923,112	856,784
Total assets	**923,112**	**856,784**

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 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**

At 31 March 2019

	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	-	59,551	-	59,551
Trade and other receivables	8	-	130,787	-	130,787
Amortised cost investments	9	-	288,976	-	288,976
Investments held at FVTPL	9	856,784	-	-	856,784
Total assets		**856,784**	**479,314**	**-**	**1,336,098**
Liabilities					
Trade and other payables	10	-	-	(2,459)	(2,459)
Total liabilities		**-**	**-**	**(2,459)**	**(2,459)**
Net Assets		**856,784**	**479,314**	**(2,459)**	**1,333,639**

Non-financial assets and liabilities are no longer disclosed in the above table, as this is not a disclosure requirement. For the year ended 31 March 2019 a Deferred tax asset of £14,000 and a Corporation tax liability of £1,508,000 were previously disclosed.

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 Group's financial assets and financial liabilities measured at amortised cost.

	Carrying Value 2020 £000	Fair Value 2020 £000	Carrying Value 2019 £000	Fair Value 2019 £000
Financial assets at amortised cost				
BFP Small Cap	-	-	2	2
BFP Mid Cap	89,876	89,876	55,432	49,849
Investment Programme	226,168	236,847	233,542	237,099
	316,044	**326,723**	**288,976**	**286,950**

BFP Small Cap, BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Small Cap, the BFP 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 Small Cap, 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 counter party fails to settle their side of a transaction, and concentration risk. The Company's credit risk is also influenced by general macroeconomic conditions.

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

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

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 2020 £000	Collateral 2020 £000	Net Exposure 2020 £000	Maximum Exposure 2019 £000	Collateral 2019 £000	Net Exposure 2019 £000
Cash and cash equivalents	27,644	-	27,644	59,551	-	59,551
Trade and other receivables	130,812	-	130,812	130,787	-	130,787
Amortised cost investments	316,044	95,150	220,894	288,976	93,770	195,206
Assets classified as FVTPL	923,112	-	923,112	856,784	-	856,784
Total	**1,397,612**	**95,150**	**1,302,462**	**1,336,098**	**93,770**	**1,242,328**

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

The concentration of credit risk is limited due to the investment base being large and spread across a number of asset classes. Credit risk assessment is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Company's portfolio management process.

Credit risk rating and loss allowance

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

– Trade receivables

– Assets held at amortised cost

– Cash and cash equivalents.

Trade 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)

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.

	Not credit-impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		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 1 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**

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**

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

As at 31 March 2020

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 31 March 2019	3,819	1,160	6,116	11,095
Remeasurement	3,533	4,034	2,790	10,357
Transfer between staging	(904)	(1,061)	1,965	-
Financial assets derecognised	(466)	(113)	(531)	(1,110)
New financial assets acquired	1,383	-	-	1,383
Balance at 31 March 2020	**7,365**	**4,020**	**10,340**	**21,725**

15.3 Financial risk management (continued)

As at 31 March 2019

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

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

As at 31 March 2019

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 1 April 2018 per IFRS 9	3,730	1,290	3,208	8,228
Remeasurement	(655)	437	2,046	1,828
Transfer between staging	(402)	(466)	868	-
Financial assets derecognised	(459)	(101)	(6)	(566)
New financial assets acquired	1,605	-	-	1,605
Balance at 31 March 2019	**3,819**	**1,160**	**6,116**	**11,095**

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

Cash and cash equivalents

The Company held cash and cash equivalents of £27.6m as at 31 March 2020 (2019: £59.6m). 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 0.65 percentage point decrease in the interest reference rate applicable to investments would be an approximate decrease in income of £2.5m over a one-year period.

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 16% 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 1,006,285,731 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 Executives statement on page 6.

16. Related party transactions

The Company is a wholly owned subsidiary of BBB Patient Capital Holdings Ltd, which in turn is wholly owned by British Business Bank plc. 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:

	2020 £000	2019 £000
Income		
British Patient Capital Ltd (BPC)	-	124
Total	**-**	**124**
Expenditure		
British Business Bank plc	9,507	8,377
British Patient Capital Ltd	3	-
British Business Financial Services Limited	655	150
Total	**10,165**	**8,527**
Investment transactions		
Disposal of Venture/Growth assets to BPC	-	(131,128)
Total	**-**	**(131,128)**

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:

	2020 £000	2019 £000
Receivable		
BBB Patient Capital Holdings Limited	130,723	130,723
British Business Bank plc	49	-
Total	**130,772**	**130,723**
Payable		
British Business Bank plc	21,673	1,624
BBB Patient Capital Holdings Limited	31,000	-
British Business Financial Services Limited	97	26
Total	**52,770**	**1,650**

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

17. Dividends

No dividend is proposed for the year ended 31 March 2020 (2019: £56.2m).

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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Design: red-stone.com
Photography (excluding front cover, case studies and pages 3, 5, 6, 10 (Mealad Alighanbari), 14, 35 and 36): Tom Donald, Shaun Flannery and Oliver Goodrich

Some stock photography has had to be used in this year's report due to Covid-19 restrictions.

British Business Investments
Steel City House
West Street
Sheffield S1 2GQ

t. 0114 206 2131
www.bbinv.co.uk

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