British Business Investments

Annual Report and Accounts 2018

"We are confident of the role we can play going forward, based on the solid investment foundations we have laid in our first four years of operation."

Catherine Lewis La Torre
Chief Executive Officer

Contents

£500m

Managed Funds Programme launched to draw in institutional capital to UK venture and growth markets

More finance and choice for smaller businesses

At the end of 2017/18, British Business Investments has refocused its offering to the market, while continuing to enable increased volume and diversity of finance for smaller businesses.

In this report, we post an impressive set of results for the 2017/18 financial year, as well as highlighting a broadening of British Business Investments' remit, an increase in profits and an expansion of our network of investment partners.

As a wholly-owned commercial subsidiary of the British Business Bank, British Business Investments plays a key role in helping to achieve the group's overall objectives – particularly those aimed at increasing the size and diversity of the finance market and producing positive investment returns for taxpayers.

As of the end of March 2018, we are now supporting a wider variety of providers and finance types than ever before, enabling a greater choice of debt and equity finance for smaller businesses across the UK. The number of businesses benefiting from funding though our programmes increased by over 50% year-on-year, and there was a rise of over 40% in the volume of finance we supported. This means more finance for scaling up more businesses, creating more jobs and providing growth in the economy.

Patient capital

2017/18 also saw significant developments for British Business Investments stemming from the government's response to the recent Patient Capital Review.

We want to increase the volume, diversity and accessibility of longer term finance so that smaller businesses can access the finance they need to realise their growth ambitions.

To help achieve that aim, we have introduced a new Managed Funds Programme to draw in institutional capital to the UK's venture and growth capital markets. This will provide significant investments in a number of large-scale, private sector-managed funds of funds. They will in turn invest in venture and growth funds that provide capital to innovative, high growth potential, ambitious businesses.

Having expanded our Venture Capital Catalyst programme by £400 million last year, in July 2018 we transferred its portfolio to seed a new commercial subsidiary of the British Business Bank, British Patient Capital, which aims to unlock an additional £7.5 billion of long-term finance for UK businesses.

Governance

I would like to thank the directors of the company for their contribution over the last year. Our governance structure, independent Board and independent Investment Committee have enabled us to make investment decisions quickly, flexibly and effectively – as is illustrated by our strong delivery in 2017/18.

Future developments

As well as developing our Managed Funds programme further, we will be introducing the Regional Angels Programme to address widely-reported regional imbalances in equity finance. This will support investment alongside business angels across the regions, particularly in the regions that are currently underrepresented.

I look forward to working with the team at British Business Investments to achieve even more for UK smaller businesses as we develop and adapt our programmes to meet their changing finance needs.

Keith Morgan
Chairman

“We are now supporting a wider variety of providers and finance types than ever before, enabling a greater choice of debt and equity finance for smaller businesses across the UK.”

Delivering for smaller businesses and the taxpayer

We are pleased to be showing strong performance as we complete our fourth year of operation, delivering ahead of target on the objectives set by our shareholder, British Business Bank plc.

During the year we added 16 new investment partners to our portfolio and provided additional capital to three existing partners. Cumulative commitments across our portfolio approached £2.1 billion as of 31 March 2018.

Our latest investments have enabled us to extend our support for innovative and alternative finance in the market and to increase the supply of scale-up and working capital to ambitious small and medium sized businesses. The funding we provide was supporting nearly 27,000 businesses at the end of March 2018 – a year-on-year increase of around 9,000 businesses. We have achieved this whilst at the same time earning an attractive commercial return.

In the year to the 31 March 2018, we generated income from our investments of £76.2 million, which delivered a pre-tax profit of £67.9 million. These are significant increases on the prior financial year – 26% and 23% respectively – which allow for a £56.25 million dividend to be proposed for the year.

Our gross return on average capital employed for the period was 7.0%, and 6.2% net of costs. Both returns are well ahead of the benchmarks set for the business by our shareholder and demonstrate the strength of our investment portfolio as well as the efficiency of our operations.

£2.1bn

Cumulative commitments across our portfolio approached £2.1 billion as of 31 March 2018

A diversified and performing portfolio

During the financial year we further diversified our portfolio. We now work with 58 providers of capital to small and medium sized businesses, including direct lending funds, asset finance businesses, challenger banks, FinTech companies and platforms, and venture and growth capital funds. Together, these deliver a range of financial instruments spanning senior loans, unitranche facilities, mezzanine capital, leasing, venture debt and equity. This means that a broad and diverse group of businesses will be better able to find the appropriate funding they need to meet their capital investment and growth plans.

We invest our capital on a pari passu basis alongside institutional and other investors that are seeking commercial returns commensurate with the investment risk undertaken. The funding we provide also successfully unlocks third party capital for our partners – in addition to our invested capital of £1.2 billion, third parties have invested a further £9.1 billion alongside, resulting in total funding of £10.3 billion across the market.

> "The funding we provide was supporting nearly 27,000 businesses at the end of March 2018 – a year-on-year increase of around 9,000 businesses."

Our commitment to patient capital

The additional funding for venture capital announced in the 2016 Autumn Statement enabled a major expansion of our VC Catalyst programme during the year. In July 2018 this portfolio of around £360 million of venture and growth capital fund commitments transferred to British Patient Capital, a new British Business Bank plc group company established in response to the government's Patient Capital Review.

We established a new Managed Funds business in 2017/18 by transferring the UK Innovation Investment Fund onto British Business Investments' balance sheet. Funding for this programme was increased as a result of the Patient Capital Review, enabling us to launch a new £500 million Managed Funds Programme in May 2018.

An established and relevant role

We continually assess our current activities to make sure that these are delivering on both the strategic and commercial objectives that have been set. We also stand ready to step up our response or to address new areas where we identify that there is an insufficient supply of private capital for small and medium sized UK businesses, recognising their importance to the success of the UK economy. In the Autumn we will launch a new programme to support investment alongside business angels, designed to address the regional equity gap.

We are confident of the role we can play going forward, based on the solid investment foundations we have laid in our first four years of operation.

In the 2017/18 financial year we have again produced tangible, impressive results due to the commitment and hard work of the British Business Investments team. This has been recognised with the team being a recipient of the Public Finance Innovation Award 2018 for Financial Reporting & Accountability. I would like to thank everyone for their efforts and look forward to building on our success further as we address the challenges and opportunities of the year ahead.

Approval of the strategic report

The following strategic report was approved by the Board and signed on its behalf by

Catherine Lewis La Torre
Chief Executive Officer

6 September 2018

Meeting our strategic and commercial objectives

British Business Investments continually assesses its activities to make sure that these are delivering on both our strategic and commercial objectives.

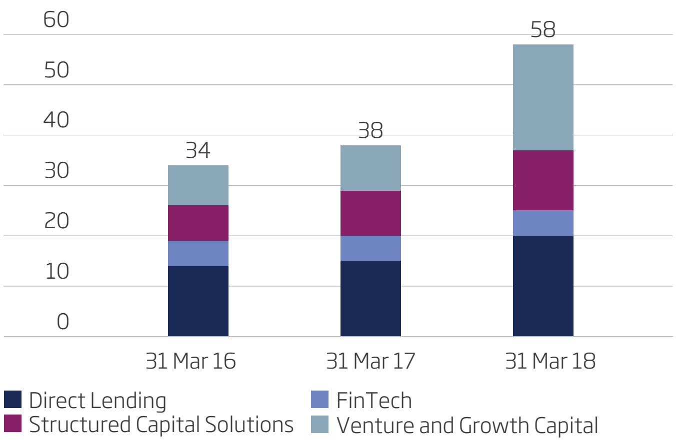
Our approach

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

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

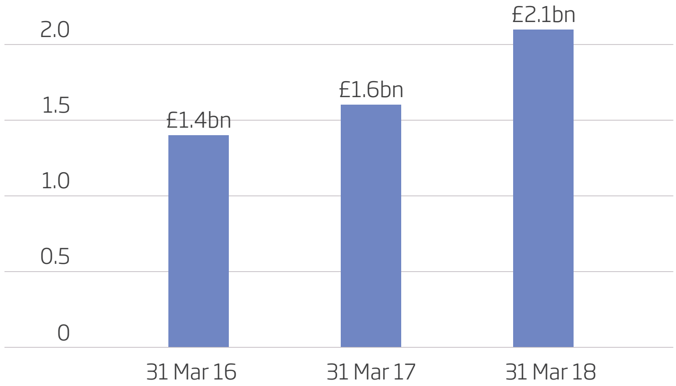
Supporting financial innovation and diversity

Number of investment partners



Promoting a greater supply of finance to the market

Portfolio commitments (£bn)



3. Increase

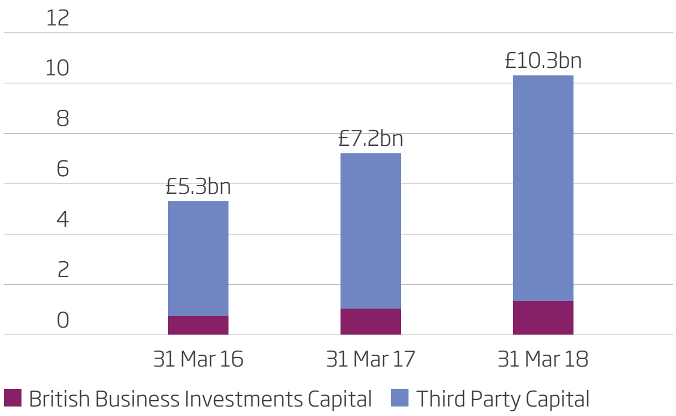
the level of finance to small and medium sized businesses

4. Deliver

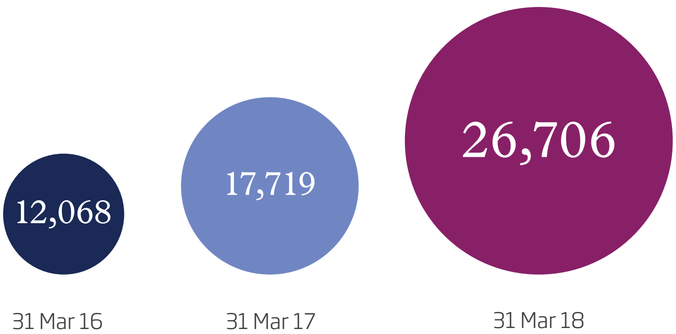
a commercial return to our shareholder in excess of our benchmark return

Increasing financing options for UK SMEs

Finance facilitated (£bn)

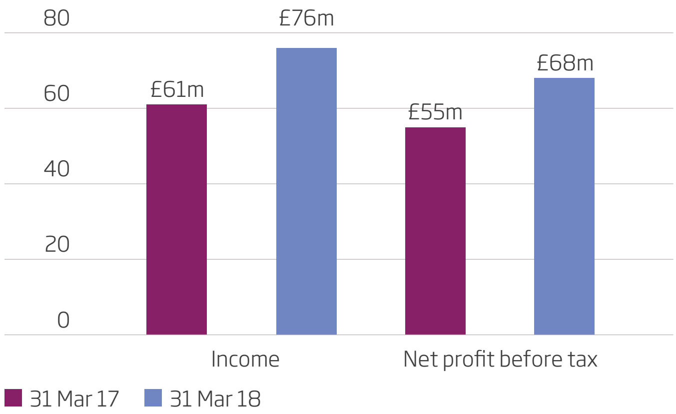


Number of businesses supported

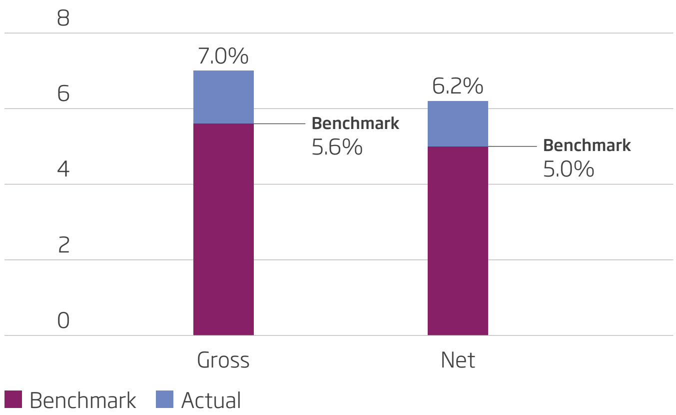


Delivering in excess of our benchmark return

Financial performance (£m)



Return on capital invested at 31 Mar 18 (%)



The year in numbers

£76.2m
income generated

£67.9m
pre-tax profit

7.0%
gross return on average capital invested

6.2%
return on average capital invested net of costs

Our Board

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

Keith Morgan
Chair

Keith led the planning and establishment of the British Business Bank from January 2013, and was appointed Chief Executive Officer in December 2013. Prior to this, Keith was a Director at UK Financial Investments, joining in 2009 to manage the UK government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management. Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US. He was previously Director of Strategy and Planning at Abbey National and a member of the Executive Committee, and served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at LEK Consulting, where he was a partner specialising in financial services.

Catherine Lewis La Torre
Chief Executive Officer

Catherine joined British Business Investments as CEO in September 2016.

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

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

Sara Halbard
Independent Non-executive Director

Sara joined as a Non-executive Director in June 2016.

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

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

Francis Small
Independent Non-executive Director

Francis became a Non-executive Director in June 2016 after spending 36 years at Ernst & Young in a wide variety of roles.

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

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

Meet the team

We have again produced tangible, impressive results due to the commitment and hard work of the British Business Investments team.

Mark Barry
Senior Manager

Mark joined in November 2015. He focuses on all aspects of the deal process as well as monitoring existing portfolio companies.

Prior to joining, Mark spent three years at PwC, Dublin, where he was a Senior Associate in the asset management division.

Mark Coggin
Manager

Mark joined in June 2016 and is responsible for supporting the management of the portfolio, as well as new investments.

Mark previously worked for Ernst & Young as a Corporate Finance Executive specialising in transaction and investment-based support for both public and private sector clients, having started as a trainee in 2010.

Vianney De Leudeville
Senior Manager

Vianney joined in May 2018 to focus on the Managed Funds Programme. He transferred from the British Business Bank Strategy team, where he spent nearly two years working on British Business Investment related projects.

Previously, Vianney spent seven years at RBS in the strategic equity team, originating and structuring large equity backed loans and derivatives. He also co-founded a start-up selling French wine in the UK.

Alexandre Bartolini
Manager

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

Richard Coldwell
Director

Richard is a founder member of the team, joining Capital for Enterprise in 2012 to help develop the debt finance initiatives. He manages and originates investments in direct lending funds.

He started his career with KPMG working in audit and corporate finance. He then worked in the corporate finance teams for two European PLC's dealing with acquisitions. More recently, he worked for 10 years in the risk management team for GE Commercial Finance as part of a structured finance team.

Peter Garnham
Managing Director

Peter is a founding member of the team, having joined in 2012 to help develop debt finance initiatives. He supports the CEO in managing across the business and is chair of the company's Portfolio Monitoring and Valuation Committee.

Peter has a background in specialised lending and corporate finance gained in major investment banks and accountants Ernst & Young. More recently, Peter developed venture capital company YFM Venture Finance as its Managing Director and was a Non-executive Director for two VCT funds and the investment fund of the Waste and Resources Action Programme charity.

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

Hala Georgy
Analyst

Hala joined in January 2016, having worked for a global firm 'NetApp' where she held an Operations Manager position.

Hala is a qualified accountant and also a member of the Association of Accounting Technicians.

Jacqueline Kaminsky
Summer Analyst

Jacqueline joined in June 2018 as a summer analyst.

She has a BSc Economics degree from the University of Sheffield where she graduated with First Class honours. While at university Jacqueline spent three years managing an income fund for the university's investment society and was a member of the UK's first student VC team.

Carol Simon
Senior Manager, Finance Business Partner

Carol is British Business Investment's Senior Business Partner in the finance team of the British Business Bank. She is a professionally qualified accountant with over 20 years' experience in financial services.

Carol joined the British Business Bank from RBS where she worked as Head of Reporting in the restructuring team. This followed nearly 10 years at JP Morgan Cazenove Investment Bank, where she was Deputy Head of Accounting.

Marilena Ioannidou
Director

Marilena joined in December 2013 and she is the team lead on FinTech and regional angel investments.

Her previous career was spent largely in corporate finance and investment banking, having been an assistant director at the Shareholder Executive in BEIS and a Vice President at Citigroup Global Markets where she worked in financial strategy, equity capital markets and financial institutions M&A.

Adam Kelly
Director

Adam joined in October 2013, from the Shareholder Executive, and focuses on structured capital solutions.

His previous career was spent in corporate finance at two investment banks, most recently in the financial institutions team at JP Morgan Cazenove from 2004 to 2010. Prior to that, Adam spent six years at Dresdner Kleinwort Wasserstein working in several sector specific teams.

Karlo Uhlir
Analyst

Karlo joined in August 2017. He focuses on overall investment process as well as portfolio reporting. Karlo previously worked in the index department at Deutsche Boerse Group.

Jonathan Marriott
Senior Manager

Jonathan joined in June 2013 and specialises in asset finance. He has a wealth of SME lending experience, having been employed in banking and finance since 1985.

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

Joanne Ward
Executive Assistant

Joanne joined in December 2016 and is responsible for providing executive administrative support to the CEO and the investment team. Joanne has over 15 years' experience supporting senior management teams and coordinating projects.

Joanne is EFL-qualified with three years teaching experience internationally.

Direct Lending

Overview

20
portfolio investments

£1.3bn
committed

£762m
invested

216
businesses supported

Richard Coldwell
Director

Direct lending continues to be the largest part of our portfolio, with our ongoing investment focus being on funds that provide capital to businesses with revenues of up to £100 million. We have now made commitments to 20 direct lending funds and have constructed a diversified portfolio across different investment strategies including senior loans, unitranche facilities, mezzanine capital, preferred equity and venture debt. We carefully monitor the commitments made, and the portfolio continues to generate attractive returns with a significant cash yield.

Case study

Arrow Business Communications Ltd

Arrow Business Communications Ltd is an independent telephony, data, IT and energy solutions provider. It's headquartered in Surrey and has seven other regional offices in England and Scotland.

The business needed funding to fast track a buy-and-build strategy for 'transformative' acquisitions in the IT and telecoms sectors. It also wanted to provide return on investment to their original shareholders and extend equity to other staff. They secured £32 million, a combination of debt and equity, from British Business Investments programme partner Growth Capital Partners, enabling them to increase their staff to 191 and acquire 5 new businesses.

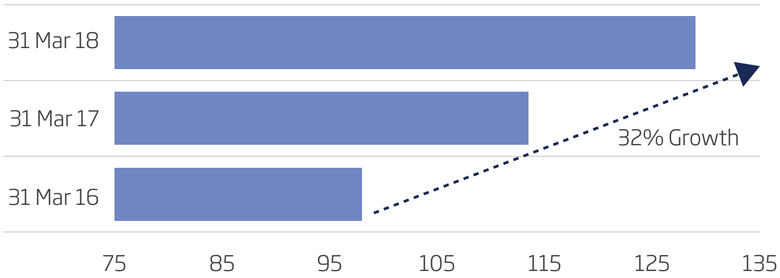
During the financial year we made five new commitments to direct lending funds increasing the diversity and range of funding options available for smaller businesses. One of these commitments allowed a fund manager to launch its first debt fund. We have recognised the importance of supporting lending in the regions and have made our first commitment to a fund focused on lending to companies in the North of England and the Midlands. Another new investment in the year was to a fund that purchases minority equity positions in addition to providing debt. We also made a commitment to a venture debt manager that provides capital to early stage, high growth companies and increased our commitment to an existing fund that provides mezzanine capital to growth orientated businesses.

Our current pipeline is strong, and we expect to make further commitments in the new financial year. Despite liquidity returning to the mid-market, there continues to be limited awareness amongst institutional investors of the potential of SME focused, direct lending funds as an asset class, and we consider there is an important role for British Business Investments to play in highlighting this opportunity.

"British Business Investments is a significant investor in private debt funds, supporting both new entrants and more established managers providing capital to growing businesses across the UK."

Asset class continues to grow

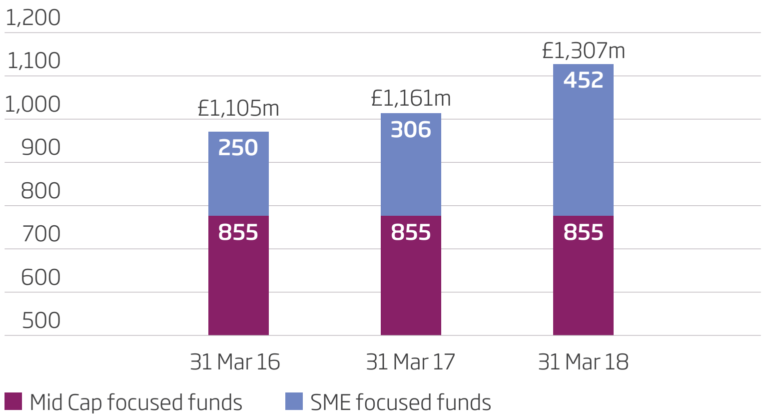
UK direct lending deal count continues to grow



Source: Deloitte Alternative Lender Deal Tracker

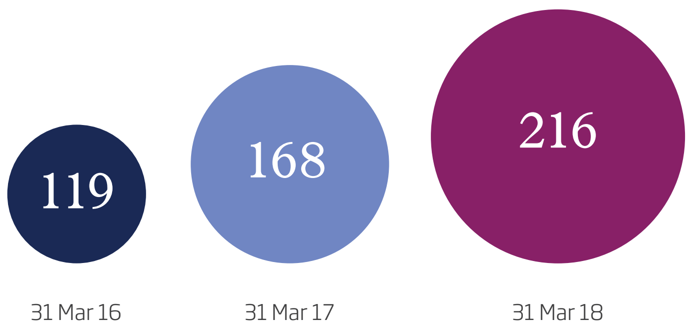
British Business Investments growing commitments

Total British Business Investments direct lending commitments (£m)



British Business Investments Direct Lending portfolio

Number of businesses supported



Structured Capital Solutions

Overview

12
portfolio investments

£241m
committed

£170m
invested

10,875
businesses supported

Adam Kelly
Director

From the outset, one of British Business Investment's key objectives has been to help improve diversity in the smaller business lending markets. A key element of this is our support for the growth of asset finance providers and challenger banks. Working with our investment partners we have been able to deliver flexible, tailored solutions that address the funding challenges these finance providers face, therefore unlocking their growth potential and increasing their ability to offer funding for smaller businesses in the UK. This helps unlock their growth potential and increase their ability to offer funding for smaller business in the UK.

Case study

HPI Racing Ltd and Ripmax Ltd

Ripmax Ltd is a global distributor of radio-controlled models. HPI Racing Ltd, is a leading designer and manufacturer of radio-controlled cars.

Following Ripmax's takeover of the HPI Racing brand in 2016, refinancing facilities from British Business Investments partner Independent Growth Finance (IGF) enabled the companies to demerge from their group structure, while providing tailored finance to meet each company's needs.

IGF facilities have helped both companies to fulfil demand for their products more quickly, manage their international trade and supply chains more effectively, and have provided capital to enable growth.

We have seen challenger banks become an increasingly important source of UK SME funding. Our support for recently licensed and ambitious challenger banks can significantly increase the diversity of small business finance available in the UK.

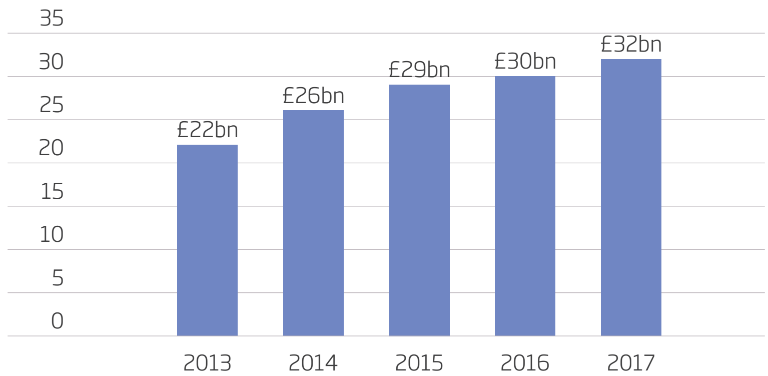
The Finance and Leasing Association, the UK industry trade body, indicated growth of 6% to £32bn of new asset finance funding approved for businesses and the public sector in 2017. Of this £18.6 billion went to SMEs, which was 12% higher than in 2016. This was the seventh consecutive year of growth and the highest level of annual new business recorded since 2008. However, independent asset finance providers continue to find the lack of available capital as the major factor constraining their growth.

We, therefore, work with asset finance providers to develop funding structures to support their growth potential. British Business Investments has developed its Expansion Capital variant for this sector which provides partners with valuable additional funding capacity to enable a higher volume of financings for SMEs.

During 2017/18 we provided a £6 million commitment into an existing partner by way of a mezzanine expansion capital facility to be deployed in support of the company's senior funding facility. A £30 million commitment was also approved during the year to an emerging specialist provider of asset based lending products.

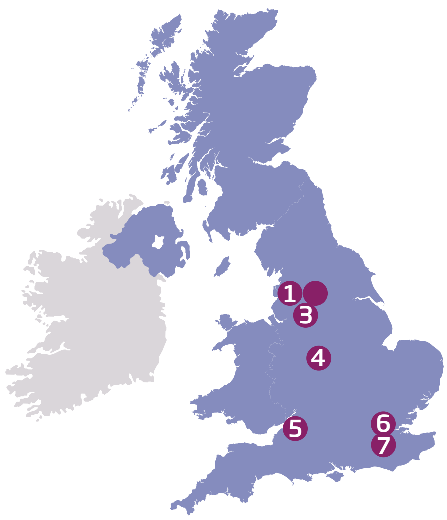
"Working with finance partners we have been able to deliver flexible, tailored solutions that address the funding challenges they face."

Asset Finance new business written by FLA members



Source: Finance & Leasing Association 2018 Annual Review

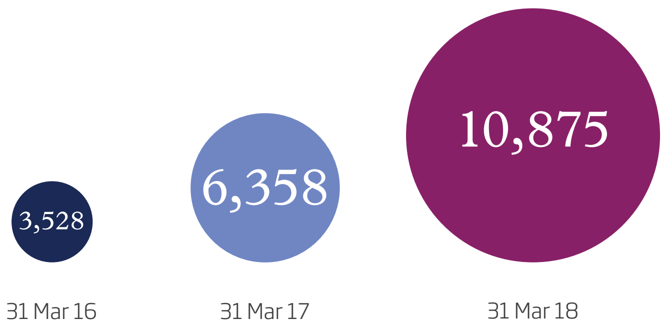
Asset Finance and Asset Based Lending



1. Haydock
   Blackburn
2. Praetura
   Blackburn
3. Kingsway
   Wilmslow
4. Shire
   Tamworth
5. UFG
   Bristol
6. Credit Asset Management Limited
   London
7. Independent Growth Finance
   Tonbridge

British Business Investments Structured Capital Solutions portfolio

Number of businesses supported



FinTech

Overview

5
portfolio investments

£135m
committed

£92m
invested

15,868
businesses supported

Marilena Ioannidou
Director

FinTech is revolutionising lending for smaller businesses, becoming an increasingly influential force in the development of new financial products and services. FinTech has flourished by offering businesses a service based on three propositions: speed of access; simplicity of use; and a range of options in terms of the financial products on offer.

Market place business lending and invoice finance grew significantly over the last five years, from less than £100 million in 2012 to £2.4 billion in 2017 with the above source of finance gaining increasing awareness and acceptance as an alternative source of finance.

Case study

Hannah Woodgates Hair Design

Hannah Woodgates Hair Design is a salon based in Bude, Cornwall. The business attracted attention by using social media to advertise their contemporary hair styling, unique in the area.

In 2016 the business secured £4,500 in funding and then a second round of £9,000 in 2017 from British Business Investments partner Liberis' Business Cash Advance Programme. Hannah found that the FinTech-enabled automatic repayments made the funding facility easy to manage.

Thanks to this additional finance, the business now looks forward to expanding its premises, hiring more stylists and opening a new outlet in Plymouth.

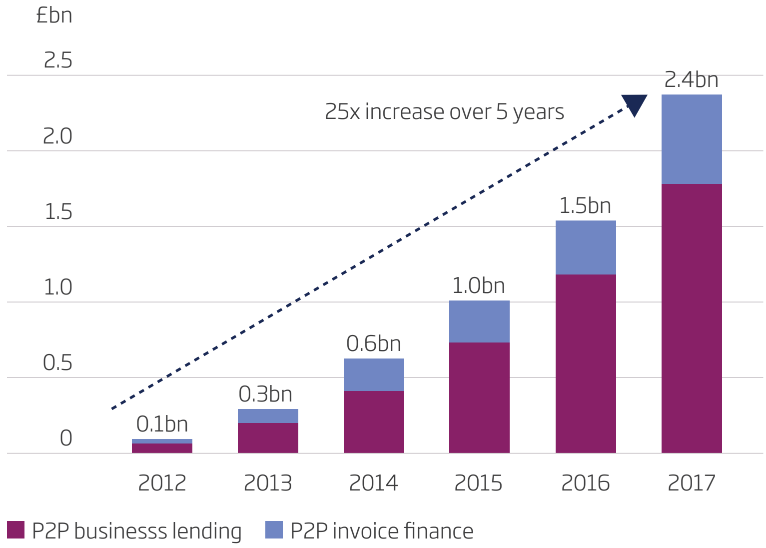
There is significant opportunity for the sector, as the sources of funding still remain a relatively small proportion of the overall market at 3%.

The UK FinTech sector has blossomed over the last few years, with a record level of equity raised in 2017 amounting to £1.3bn. Our first capital commitments to marketplace lending date back to 2013 when the sector was in its infancy. We continue to see strong alignment with our own objectives in supporting the ongoing development of the FinTech sector, which provides a deeper and a more diversified pool of funding sources for smaller businesses. Lenders continue to evolve rapidly as business models develop and products are adopted by the market, providing smaller businesses with a wider variety of flexible, affordable and more tailored financial solutions.

In the financial year we increased our commitment to an existing partner which provides cash advances primarily to retail businesses, allowing the expansion of its product offering throughout the UK. In addition to the £135 million committed to FinTech partners through the Investment Programme, a further £52 million has been invested in 29 FinTech companies via our venture and growth capital fund partners.

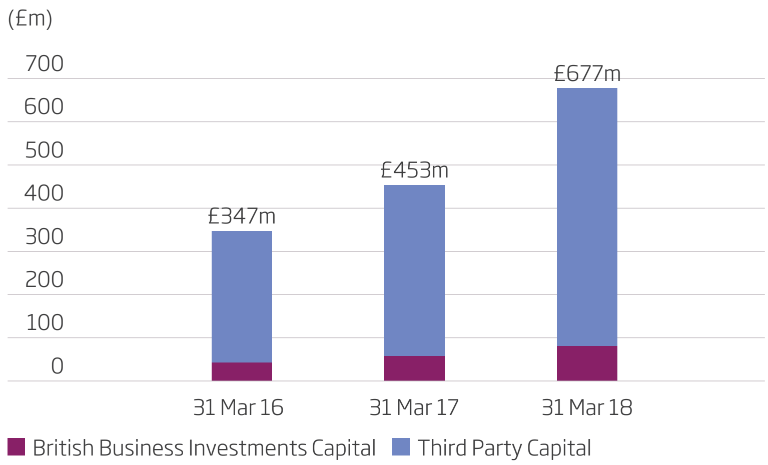
"Technology enabled finance providers continue to grow and mature, providing a deeper and more diversified pool of funding for smaller businesses."

Growth in UK P2P business lending and invoice finance



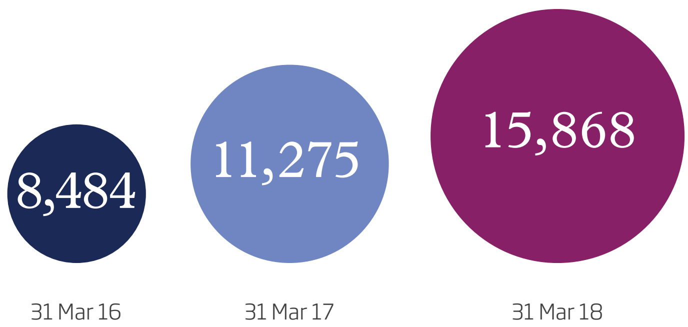
Source: British Business Bank Small Business Finance Markets 2018 Report; AltFi Data

Funding supported through our FinTech partners



British Business Investments FinTech portfolio

Number of businesses supported



Venture and Growth Capital

Overview

21
portfolio investments

£412m
committed

£149m
invested

163
UK businesses supported

Vianney De Leudeville
Senior Manager

Our venture and growth capital portfolio increased significantly during the year as highlighted by the significant increase in businesses supported from 2016/17. This is due to the expansion of the VC Catalyst programme and the transfer of the UK Innovation Investment Fund to British Business Investments from the Department for Business, Energy and Industrial Strategy in July 2017.

Case study

Revolut

London-based mobile bank Revolut's two million customers can set up an app-based current account, spend in over 150 currencies with no fees and send free domestic and international money transfers using the interbank exchange rate.

They secured $250m of Venture Capital in April 2018, including investment from British Business Investments-supported Balderton Capital, enabling them to launch new offices in five countries, increase their workforce and move their London team into a new facility in Canary Wharf.

The funding brought Revolut's valuation to over $1bn, giving it 'unicorn' status, with further global expansion planned.

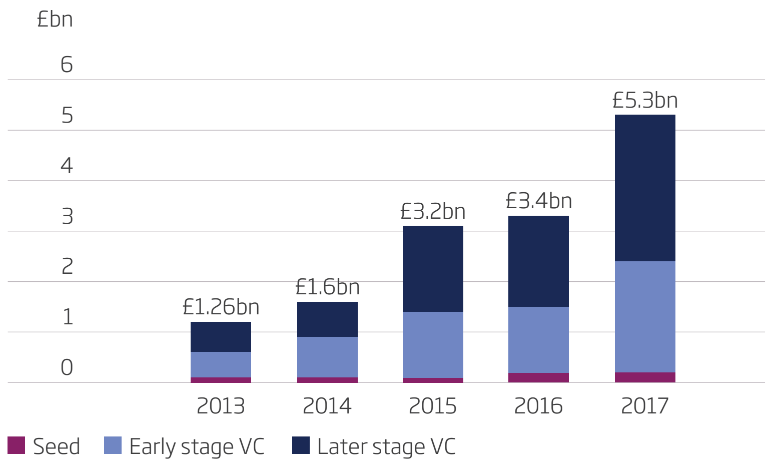
By the end of the financial year we had made total commitments of £262 million to 19 venture and growth capital funds. These funds collectively raised over £1.9 billion of total capital that is now being invested across a broad range of technologies encompassing enterprise software, Deep Tech, FinTech, and cyber security as well as life sciences and resource efficiency.

The UK Innovation Investment Fund was established in 2010 and has made commitments of £150 million to two funds of funds; the UK Future Technology Fund and the Environmental Innovation Fund. These two funds of funds have in turn invested in 23 venture and growth capital funds, constituting a diversified portfolio of high growth technology businesses.

Building on this experience we launched a new £500 million Managed Funds Programme in May 2018. In the UK, institutional investors have lower allocations to the venture capital asset class compared with their counterparts in the US. The programme is designed to channel institutional capital into long term venture and growth capital for innovative, high growth potential, ambitious companies in the UK. British Business Investments will seek to be a significant cornerstone investor in large-scale, private sector-managed funds of funds, with a patient capital mandate.

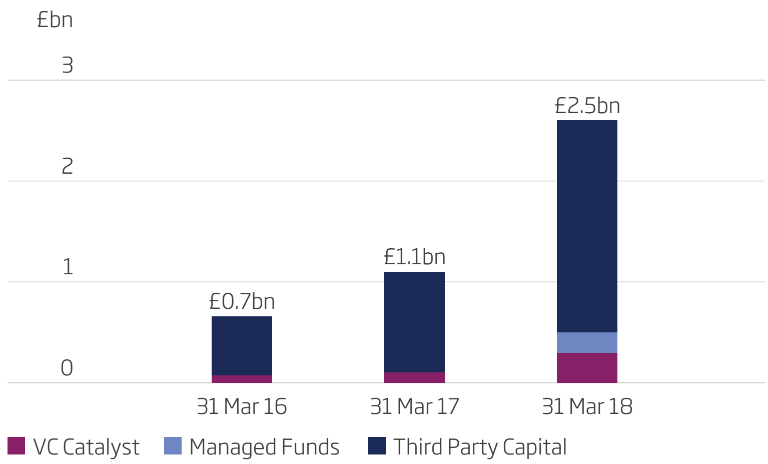
"We seek to boost the amount of institutional funding to the UK's venture and growth capital markets, channelling capital to innovative, high-growth businesses."

UK venture capital investment by stage of investment



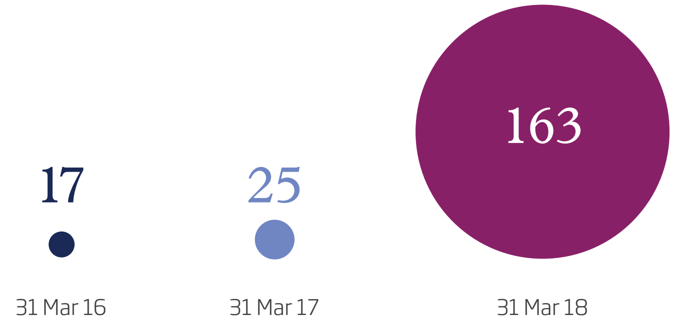
Source: Pitchbook

Total amount raised by Venture and Growth Capital partners



British Business Investments growing Venture and Growth Capital portfolio

Number of businesses supported



Opportunities for partnering

Peter Garnham
Managing Director

"We continue to build on our programmes, and expand the range of potential debt and equity investment partners promoting a wider volume and diversity of finance for smaller businesses."

Through our programmes we support a broad range of investment partners who provide finance to smaller businesses in the UK. We aim to promote greater volume and diversity of funding to SMEs by encouraging new entrants and supporting the growth of alternative finance providers in the market.

Our programmes are built on the following core objectives:

- support the development of diverse finance markets for small and medium sized businesses
- mobilise additional funding from private sector sources to support the financing of small and medium sized businesses
- channel finance to small and medium sized businesses in an effective, appropriate and responsible manner
- expand the aggregate amount of, and types of funding available to small and medium sized businesses
- generate a market rate of return.

There is an increased number of opportunities to partner with British Business Investments.

The Investment Programme for alternative providers of debt finance

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

The Managed Funds Programme for fund of funds investing in venture and growth capital

The new programme launched in May 2018, will provide significant cornerstone investment in a number of large-scale, private sector-managed funds of funds. The programme's overarching mandate is to channel institutional capital to innovative, high-growth companies so they may achieve their full growth potential.

The Regional Angels Programme for providers of early stage equity

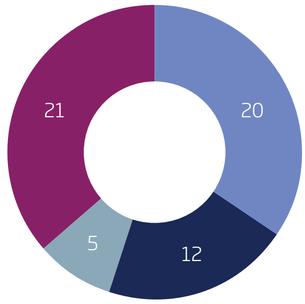
The programme, due to be launched in Autumn 2018, will invest alongside business angels and other early stage investors focused on investing in the regions. The aim is to increase the supply of capital in areas where access to capital is more limited and to act as a catalyst in attracting capital and expertise to support the next wave of growth of businesses across the UK.

Contacting us

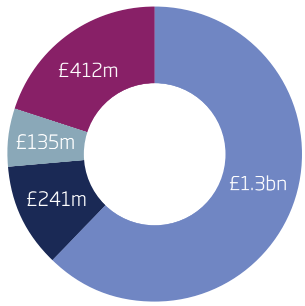
Details of each of the above programmes and more information on how to partner with us is available on our website www.bbinv.co.uk.

Investment partners

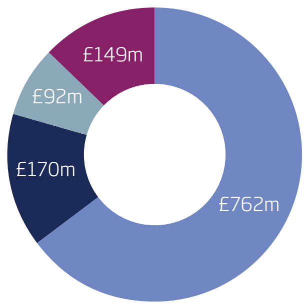
58 investment partners



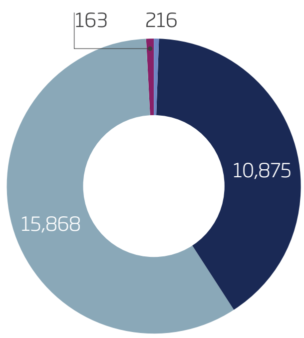
£2.1bn commitments



£1.2bn invested



26,706 businesses supported (1)



(1) Individual businesses

- Direct Lending
- Structured Capital Solutions
- FinTech
- Venture and Growth Capital

Managing our risks and corporate governance

British Business Investments operates within the Risk Management and Governance Framework of the British Business Bank and the Board 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 Investment's 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 requirement and industry best practice.

The key operational risks the company is exposed to are:

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

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

Corporate governance

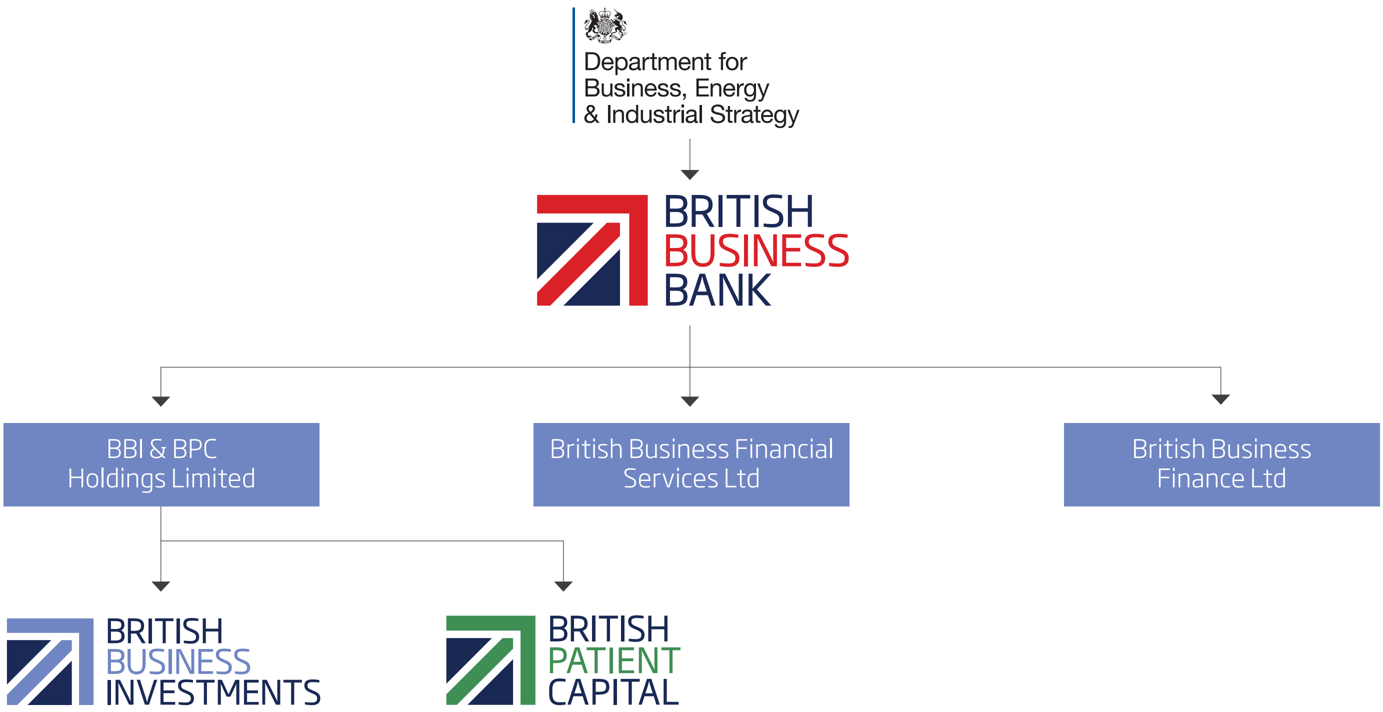
British Business Bank plc is the ultimate parent of British Business Investments Ltd and the policies and procedures that apply to the British Business Bank also apply to British Business Investments.

British Business Investment's constitution consists of its Articles of Association and a shareholder relationship framework document between British Business Investments and the British Business Bank (the 'Framework Document'). It sets out, among other things, British Business Investment's role within the group including the responsibilities of the Board of Directors and the relationship between British Business Investments and the British Business Bank.

The Board of Directors of the Company

The composition of the Board is set out in the Directors' Report on page 26. The Framework Document requires that no more than one-third of the Board may consist of members of the British Business Bank Board. It also provides that the consents of both the British Business Bank and Department for Business, Energy and Industrial Strategy (BEIS) are required prior to the appointment of any new directors to the Board where the appointee is external.

Group structure from June 2018



The CEO of the British Business Bank, who is the accounting officer, is the Chair of the Board of British Business Investments. He has direct accountability to British Business Investments' ultimate shareholder, BEIS. The responsibilities of an Accounting Officer include responsibility for the propriety and regularity of the public finances for which the Accounting Officer is answerable, keeping proper records and safeguarding British Business Investments' assets.

Board committees

During the period, British Business Investments' Audit and Risk Committee and Nomination and Remuneration Committee met as needed to discuss relevant matters. British Business Investments also has an Investment Committee.

Audit and Risk Committee

The Chair of the Audit and Risk Committee is Francis Small. The Chief Executive Officer of British Business Investments and Chief Financial Officer, Chief Risk Officer, General Counsel and Head of Internal Audit of the British Business Bank attended Committee meetings. During the period the Committee also met privately with both internal and external audit.

Nomination and Remuneration Committee

The Chair of the Nomination and Remuneration Committee is Keith Morgan. The other member is Sara Halbard. During the period the Committee met to consider remuneration, staffing and nomination matters.

Investment Committee

The Chair of the Investment Committee is Keith Morgan. During the period, the other members of the Committee were Catherine Lewis La Torre, Francis Small and Sara Halbard. The Chief Risk Officer, the Chief Financial Officer and the General Counsel of the British Business Bank acting in their capacity as approvers on behalf of British Business Investments continue to be required to attend all meetings.

Catherine Lewis La Torre
Chief Executive Officer

6 September 2018

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 2018.

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

- a description of the principal activities of the company during the course of the period, an indication of likely future developments in the business and the key operational and financial risks the company is exposed to are all included in the Strategic Report
- details of significant events since the balance sheet date are contained in note 19 to the financial statements
- information about the use of financial instruments by the company is given in note 14 to the financial statements.

Dividends and reserves

A dividend of £56.25 million is proposed but not yet recognised in the accounts for the year ended 31 March 2018.

Going concern

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

Further details can be found in the principal accounting policies notes in the financial statements.

Directors

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

- Keith Morgan (appointed 23 July 2014) – Chairman
- Catherine Lewis La Torre (appointed 15 September 2016) – Chief Executive Officer
- Francis Small (appointed 16 June 2016)
- Sara Halbard (appointed 16 June 2016)
- Fiona-Jane MacGregor (appointed 30 October 2014 and resigned 30 October 2017)

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 and shareholder relationship framework document between British Business Investments Ltd and the British Business Bank plc provide that any appointment of a director to the Board of British Business Investments requires the prior consent of British Business Bank plc. Additionally, where the appointee is external to 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 he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

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

Approved by the Board of Directors

Catherine Lewis La Torre
Chief Executive Officer

6 September 2018

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

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

Catherine Lewis La Torre
Chief Executive Officer

6 September 2018

Independent Auditor's Report

To the members of British Business Investments Limited

I have audited the financial statements of British Business Investments Limited for the year ended 31 March 2018 which comprise the Income Statement, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In my opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2018 and of the profit for the year then ended; and
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006.

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 Limited in accordance with the ethical requirements that are relevant to my audit and the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, 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 Limited internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on British Business Investments Limited's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Other Information

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 the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and these reports have been prepared in accordance with the 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 by the company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- I have not received all of the information and explanations I require for my audit.

Hilary Lower
(Senior Statutory Auditor)

6 September 2018

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

Financial statements

For the year ended 31 March 2018

Income statement
For the year ended 31 March 2018

	Note	2018 £000	2017 £000
INCOME			
Fair value gain on investment assets designated at fair value through profit or loss	9	74,914	59,184
Arrangement and other fees		1,322	1,324
Gross operating income		**76,236**	**60,508**
EXPENDITURE			
Staff costs	4	(1,371)	(1,099)
Purchase of goods and services		(1,446)	(1,043)
Management fee	5	(5,554)	(3,275)
Operating expenditure		**(8,371)**	**(5,417)**
Net income before tax		**67,865**	**55,091**
Tax	6.1	(11,620)	(11,481)
Net income for the year		**56,245**	**43,610**

All operations are continuing.

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

No interim dividend was declared in respect of the period ended 31 March 2018 and a final dividend of £56.25m in respect of that year was proposed on 6 September 2018 and is not recognised in these financial statements (note 18).

The notes on pages 35 to 54 form an integral part of the financial statements.

Statement of financial position
As at 31 March 2018

	Note	2018 £000	2017 £000
ASSETS			
Cash and cash equivalents	7	13,580	9,579
Trade and other receivables	8	421	169
Assets designated at fair value through profit or loss	9	1,263,620	946,098
Deferred tax asset	6.3	14	1
Total assets		**1,277,635**	**955,847**
LIABILITIES			
Trade and other payables	10	(11,976)	(4,159)
Corporation tax	6.2	(6,296)	(6,314)
Total liabilities		**(18,272)**	**(10,473)**
Net assets		**1,259,363**	**945,374**
Equity			
Issued share capital	12	1,203,118	920,764
Retained earnings	13	56,245	24,610
Total equity		**1,259,363**	**945,374**

The financial statements of the Company (company number 09091930) were approved by the Board of Directors and authorised for issue on 6 September 2018. They were signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer

The notes on pages 35 to 54 form an integral part of the financial statements.

Statement of changes in equity
For the year ended 31 March 2018

	Note	Issued capital £000	Retained earnings £000	Total £000
Balance as at 31 March 2016		687,896	21,009	708,905
Net income after tax		–	43,610	43,610
Total comprehensive income		–	43,610	43,610
Issue of ordinary shares	12	232,868	–	232,868
Dividends		–	(40,009)	(40,009)
Balance at 31 March 2017		**920,764**	**24,610**	**945,374**
Balance at 31 March 2017		**920,764**	**24,610**	**945,374**
Net income after tax		–	56,245	56,245
Total comprehensive income		–	56,245	56,245
Issue of ordinary shares	12	282,354	–	282,354
Dividends	18	–	(24,610)	(24,610)
Balance at 31 March 2018		**1,203,118**	**56,245**	**1,259,363**

The notes on pages 35 to 54 form an integral part of the financial statements.

Cash flow statement
For the year ended 31 March 2018

	Note	2018 £000	2017 £000
Net income before tax		**67,865**	**55,091**
Cash flows from operating activities			
Changes in operating assets and liabilities:			
Net increase in assets designated at fair value through profit or loss[1]	9	(317,522)	(243,184)
(Increase)/decrease in trade and other receivables	8	(252)	13,733
Increase/(decrease) in trade and other payables	10	7,817	(1,230)
Corporation tax paid	6.2	(11,651)	(11,078)
Net cash used in operating activities		**(253,743)**	**(186,668)**
Cash flows from financing activities			
Issue of new shares[2]	12	282,354	232,868
Dividends paid to shareholder[2]	18	(24,610)	(40,009)
Net cash from financing activities		**257,744**	**192,859**
Net increase in cash and cash equivalents		**4,001**	**6,191**
Cash and cash equivalents at beginning of the year		9,579	3,388
Cash and cash equivalents at end of the year	7	**13,580**	**9,579**

[1] The acquisition of investment assets designated at fair value through profit or loss for £134,743,000 was funded by the issue of new shares and these two transactions were settled on a net basis.

[2] The payment of dividends to the shareholder was funded by the issue of new shares and these two transactions were settled on a net basis.

Interest received was £59,717,000 (31 March 2017: £47,001,000) and interest paid was nil (2017: nil).

The notes on pages 35 to 54 form an integral part of the financial statements.

Notes to the financial statements

For the year ended 31 March 2018

1. General information

British Business Investments Limited (the Company) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is Steel City House, West Street, Sheffield, S1 2GQ. The nature of the Company's operations and its principal activities are set out in the Strategic Report on pages 6 to 25.

2. Significant accounting policies

Basis of accounting

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

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

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

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

As the Company is classified as an investment entity, it does not apply the consolidation requirements of IFRS 10.

The Directors will reassess the Company's investment entity status on adopting IFRS 9 which impacts the classification and measurement of the Company's financial assets. Further details are provided in note 20 to the financial statements.

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

Going concern

The Company's business activities, together with the factors likely to affect its future development and position are set out in the Strategic Report on pages 6 to 25.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. In arriving at that view they have assumed that in the event of a downturn the parent company and the ultimate controlling party, the Secretary of State for Business, Energy and Industrial Strategy, will continue to support the Company. Thus they continue to adopt the going concern basis of accounting in preparing these financial statements.

2. Significant accounting policies (continued)

Adoption of new and revised Standards

There were no new or amended standards applied for the first time and therefore no restatements of the previous financial statements is 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 2 (amendments) Classification and Measurement of Share-based Payment Transactions;*
- *IFRS 9 Financial Instruments;*
- *IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;*
- *IFRS 15 Revenue from Contracts with Customers;*
- *IFRS 16 Leases;*
- *Annual Improvements to IFRSs 2015 – 2017 Cycle;*
- *IAS 19 (amendments) Employee Benefits;*
- *IAS 40 (amendments) Transfers of Investment Property;*
- *IFRIC 22 Foreign Currency Transactions and Advance Consideration;*
- *IFRIC 23 Uncertainty over Income Tax Treatments.*

Other than IFRS 9 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 Group in future years. IFRS 9 will impact both the classification and measurement of financial instruments. Further details about the impact on the Company from the implementation of IFRS 9 can be found in note 20.

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.

Taxation

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

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

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

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

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

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

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

Financial instruments

(i) Classification

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

Financial assets that are not at fair value through profit or loss include cash and cash equivalents and other receivables which are accounted for as loans and receivables. Financial liabilities that are not at fair value through profit or loss include short term financing and other payables which are accounted for as liabilities held at amortised cost.

(ii) Recognition

The Company initially recognises financial assets or liabilities on the trade date at which it becomes a party to the contractual provisions of the instrument.

(iii) Measurement

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

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

De-recognition of financial assets

The Company de-recognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. The only financial liabilities held by the Company are trade and other payables.

Cash and cash equivalents

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

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.

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Retirement benefit costs

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

Employee benefits

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

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:

	2018 Number	2017 Number
Permanent staff	14	11
Total	**14**	**11**

	2018 £000	2017 £000
Aggregate remuneration comprised		
Wages and salaries – Permanent staff	904	770
Wages and salaries – Temporary and agency staff	17	8
Short and Long-Term Incentive Plans and bonus scheme	197	109
Social security costs	129	106
Pension costs	124	106
Total	**1,371**	**1,099**

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.

4.2 Directors' remuneration

This note refers to the Directors of the Company who have been appointed at Companies House.

Directors' remuneration during the year was £309,000 (2017: £174,000). Remuneration for the highest paid director during the year was £264,000 (2017: £134,000).

Executive Directors' remuneration

Catherine Lewis La Torre received a salary of £214,000 (2017: £122,000), a payment under the British Business Bank plc Long Term Incentive Plan (LTIP) for the period ended 31 March 2018 of £29,000 (2017: nil), company pension contributions of £21,000 (2017: £12,000) and £430 (2017: nil) taxable benefits. In the year under review she was also granted awards under the LTIP with a maximum potential value of £107,000 (2017: £87,000). Any payments made under the LTIP will be determined by the Remuneration Committee at their discretion and are dependent on personal and corporate performance over a three-year period ending 31 March 2020.

Non-executive Directors' remuneration

Non-executive Directors' remuneration for 2017 and 2018 (£000) is made up as follows:

	2018		2017	
	Total fees £000	Annual equivalent £000	Total Fees £000	Annual equivalent £000
Keith Morgan	–	–	–	–
Fiona MacGregor (resigned 30 October 2017)	–	–	–	–
Patrick Butler (resigned 31 May 2016)	–	–	4	25
Sara Halbard (appointed 16 June 2016)	20	20	16	20
Francis Small (appointed 16 June 2016)	25	25	20	25
Total	**45**	**45**	**40**	**70**

Fees for services as Non-executive Directors of the Company are £20,000 per annum. In addition a fee of £5,000 per annum is paid to the chair of the Company's audit and risk committee.

Keith Morgan is paid directly by the Company's parent company and costs of services provided by British Business Bank plc are recharged to the Company in the form of a management charge.

Fiona MacGregor (resigned 30 October 2017) is paid by the Department for Business, Energy and Industrial Strategy (BEIS). The cost of services are not recharged to the Company.

No post-employment benefits, termination benefits or share based payments were made to Non-executive Directors in the year (2017: none).

5. Operating costs

Purchase of goods and services

Auditor's remuneration of £53,000 (2017: £42,000), which is included within 'Purchase of goods and services' relates to fees payable for the audit of the Company's annual financial statements. The Company's auditors did not provide any non-audit services.

	2018 £000	2017 £000
Management Fee		
Allocated staff costs	5,389	2,338
Allocated purchase of goods and services	165	937
Total	**5,554**	**3,275**

Allocated staff costs and allocated purchase of goods and services relates to recharges paid by the Company to its parent, the British Business Bank plc for the shared services provided. Allocated staff costs include an allocation of the parent company's legal, financial, IT, risk management, corporate services, communications, and senior management costs. The increase in allocated staff costs is due to investment by the British Business Bank plc in its central functions and in particular, information technology, to support the growth of the business.

6. Taxation

6.1 Tax expense

	2018 £000	2017 £000
Current tax expense		
Current year	12,894	11,018
Adjustment in respect of prior year	(1,261)	463
Total current tax expense	**11,633**	**11,481**
Deferred tax benefit		
Current period	(13)	–
Total deferred tax benefit	**(13)**	**-**
Total tax expense	**11,620**	**11,481**

Current corporation tax

Corporation tax is calculated at 19% (2017: 20%) of the estimated taxable profit for the year. The table below reconciles the current tax expense for the year:

	2018 £000	2017 £000
Net income before tax	67,865	55,091
Tax at standard rate of corporation tax in the UK of 19% (2017: 20%)	12,894	11,018
Adjustment in respect of prior year	(1,261)	463
Total current tax expense	**11,633**	**11,481**

Deferred corporation tax

A deferred tax rate of 17% has been used for 2018 (2017: 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.

The deferred tax income is entirely due to short term timing differences.

6.2 Corporation tax payable

	2018 £000	2017 £000
Corporation tax payable at 31 March 2017	6,314	5,911
Tax expense for the year	11,633	11,481
Tax paid	(11,651)	(11,078)
Corporation tax payable at 31 March 2018	**6,296**	**6,314**

6.3 Deferred tax asset

	2018 £000	2017 £000
Deferred tax asset at 31 March 2017	1	1
Movement in the year	13	–
Deferred tax asset at 31 March 2018	**14**	**1**

7. Cash and cash equivalents

	2018 £000	2017 £000
Held with the Government Banking Service	4,847	3,298
Held in commercial bank accounts	8,733	6,281
Total	**13,580**	**9,579**

8. Trade and other receivables

	2018 £000	2017 £000
Amounts receivable within one year		
Trade receivables	235	25
Other receivables	64	–
Amounts owed by group undertakings	122	144
Total	**421**	**169**

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

There were no amounts which are past due at the reporting date. No impairment was recognised against the trade and other receivables as at the reporting date.

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

9. Investments

All of the Company's investments have been designated at fair value through profit and loss. This note provides further details on the investments under each of the Programmes and their collective value at the balance sheet date.

9.1 Direct Lending, Structured Capital Solutions and FinTech

All the of the Company's commitments to our Direct Lending, Structured Capital Solutions and FinTech investment partners form part of the Business Finance Partnership and the Investment Programme.

Business Finance Partnership

The Company manages the Business Finance Partnership (BFP) programme, which has two strands. The first strand is the BFP Mid Cap which invested in funds managed by fund managers on commercial terms alongside private sector investors which are focused on lending to medium-sized businesses operating in the UK with turnover of up to £500 million.

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

The BFP is now closed to new investment partners.

Investment Programme

The Company manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders in to the SME finance market (defined as businesses with turnover up to £100 million) and the growth of smaller lenders.

The Company has invested as a Limited Partner in direct lending funds, provided invoice discount finance, participated in peer to peer lending and in addition provided other credit and Structured capital facilities to challengers banks, asset finance and business cash advance providers.

The Investment Programme is open to new investment partners, and all new Direct Lending, Structured Capital Solutions and FinTech commitments are through this programme.

9. Investments (continued)

9.2 Venture and Growth Capital

All of the Company's commitments to Venture and Growth Capital investment partners to date has been through the VC Catalyst Programme and Managed Funds.

VC Catalyst

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

Subsequent to the year end, this Programme has been replaced by the British Patient Capital Programme.

Managed Funds

The UK Innovation Investment Fund (UKIIF) is managed by British Business Investments Limited following the acquisition of HM Government's investment in the Fund on 14 July 2017 on an arm's length basis at a market value of £134,743,000. 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 has formed the basis of the Company's new Managed Funds Programme launched in May 2018.

Assets designated at fair value through profit or loss

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

Transactions and movements 2017/18

	Balance at 31 March 2017 £000	Additions £000	Transfers £000	Acquisitions From HM Government £000	Repayment £000	Fair Value Movement £000	Balance at 31 March 2018 £000
BFP Mid Cap	587,072	50,746	–	–	(114,976)	32,716	555,558
BFP Small Cap	40,148	–	(19,874)	–	(7,777)	2,252	14,749
Investment Programme	289,356	252,536	19,874	–	(99,395)	22,713	485,084
Direct Lending, Structured Capital Solutions and FinTech	**916,576**	**303,282**	**-**	**-**	**(222,148)**	**57,681**	**1,055,391**
Managed Funds	–	7,014	–	134,743	(22,598)	12,827	131,986
VC Catalyst	29,522	43,324	–	–	(1,009)	4,406	76,243
Venture and Growth Capital	**29,522**	**50,338**	**-**	**134,743**	**(23,607)**	**17,233**	**208,229**
Total	**946,098**	**353,620**	**-**	**134,743**	**(245,755)**	**74,914**	**1,263,620**

On 14 July 2017 the Company purchased the UKIIF investment assets from the Department for Business, Energy and Industrial Strategy on an arms length basis at a market value of £134,743,000. These investments assets were funded by the issue of new shares and these two transactions were settled on a net basis. These assets form the basis of the Company's new Managed Funds programme.

Capital repayments expected within one year at 31 March 2018 were £240.1m.

Transactions and movements 2016/17

	Balance at 31 March 2016 £000	Additions £000	Transfers £000	Acquisitions From HM Government £000	Repayment £000	Fair Value Movement £000	Balance at 31 March 2017 £000
BFP Mid Cap	499,641	124,716	–	–	(71,233)	33,948	587,072
BFP Small Cap	39,741	8,214	–	–	(11,060)	3,253	40,148
Investment Programme	148,503	151,327	–	–	(27,375)	16,901	289,356
Direct Lending, Structured Capital Solutions and Fintech	**687,885**	**284,257**	**-**	**-**	**(109,668)**	**54,102**	**916,576**
VC Catalyst	15,029	9,470	–	–	(59)	5,082	29,522
Venture and Growth Capital	**15,029**	**9,470**	**-**	**-**	**(59)**	**5,082**	**29,522**
Total	**702,914**	**293,727**	**-**	**-**	**(109,727)**	**59,184**	**946,098**

10. Trade and other payables

	2018 £000	2017 £000
Amounts falling due within one year		
Trade payables	11	3
VAT and social security	1	24
Accrued expenditure	505	391
Amounts owed to group undertakings	11,219	3,572
Other payables	178	148
Total	**11,914**	**4,138**
Amounts falling due after more than one year		
Accrued expenditure	62	21
Total	**62**	**21**
Total Payables	**11,976**	**4,159**

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:

	2018 £000	2017 £000
BFP Mid Cap	211,778	283,885
BFP Small Cap	–	9,786
Investment Programme	242,108	282,236
Direct Lending, Structured Capital Solutions and Fintech	**453,886**	**575,907**
Managed Funds	34,346	–
VC Catalyst	198,648	58,874
Total	**686,880**	**634,781**

12. Share capital

	2018 No.
Authorised: ordinary shares of £1 each	**1,203,117,521**

	2018 £000
Issued and fully paid ordinary shares of £1 each:	
At 31 March 2016	687,896
Shares issued for cash	232,868
At 31 March 2017	**920,764**
Shares issued for cash	282,354
At 31 March 2018	**1,203,118**

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

13. Reserves

2017/18	Retained earnings £000
Opening balance 31 March 2017	24,610
Dividends paid	(24,610)
Profit for the year	56,245
Balance at 31 March 2018	**56,245**

2016/17	Retained earnings £000
Opening balance 31 March 2016	21,009
Dividends paid	(40,009)
Profit for the year	43,610
Balance at 31 March 2017	**24,610**

14. Financial Instruments

(i) Categories of financial instruments

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

At 31 March 2018

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

At 31 March 2017

	Note	Assets held at FVTPL £000	Loans and receivables £000	Liabilities held at amortised cost £000	Non-financial assets and liabilities £000	Total £000
Assets						
Designated at FVTPL	9	946,098	–	–	–	946,098
Trade and other receivables	8	–	169	–	–	169
Deferred tax	6	–	–	–	1	1
Cash and cash equivalents	7	–	9,579	–	–	9,579
Total assets		**946,098**	**9,748**	**-**	**1**	**955,847**
Liabilities						
Trade and other payables	10	–	–	(4,159)	–	(4,159)
Corporation tax	6	–	–	–	(6,314)	(6,314)
Total liabilities		**-**	**-**	**(4,159)**	**(6,314)**	**(10,473)**
Net Assets		**946,098**	**9,748**	**(4,159)**	**(6,314)**	**945,374**

14. Financial Instruments (continued)

(ii) Fair value measurements

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

For all investment assets that are not loans and receivables designated at fair value through profit or loss, 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.

For investment assets that meet the definition of loans and receivables but are designated at fair value through profit or loss, fair value is determined by the loans par value, plus any accrued but unpaid interest, less any adjustments deemed appropriate.

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

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

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

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

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

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

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

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

- Investments in third party private debt funds and venture capital funds are valued based on the net asset value reported by the fund manager for the relevant date provided the valuation approach is recognised as industry standard for example IPEVCA guidelines;
- Loans are valued at their par value, plus any accrued but unpaid interest, less any adjustments deemed appropriate. The Directors have assessed that the changes in interest rates and in credit spreads and the associated impact on the fair value of these assets since they were originated is not material to the Company's results. The Directors consider the valuation methodology detailed above to be a reasonable representation of the fair value of these assets.

(iii) Financial risk management

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

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

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

- Credit risk
- Market risk

Liquidity risk is not deemed relevant for the Company.

Credit risk

Credit risk is the risk of a loss due to the failure of 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 also includes settlement risk when a counter party fails to settle their side of a transaction and concentration risk. The Company's credit risk is also influenced by general macroeconomic conditions.

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

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.

	2018			2017		
	Maximum Exposure £000	Collateral	Net Exposure	Maximum Exposure £000	Collateral £000	Net Exposure £000
Cash and cash equivalents	13,580	–	13,580	9,579	–	9,579
Trade and other receivables	421	–	421	169	–	169
Loans and receivables designated at FVTPL	210,402	121,370	89,032	137,405	81,943	55,462
Other financial assets designated at FVTPL	1,053,218	–	1,053,218	808,643	–	808,643
Total	**1,277,621**	**121,370**	**1,156,251**	**955,796**	**81,943**	**873,853**

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.

14. Financial Instruments (continued)

An analysis of loans and receivables designated as fair through profit and loss is summarised below:

Assets designated at FVTPL – gross values

As at 31 March 2018

	Gross assets with no fair value movements attributable to changes in credit risk £000	Gross assets with fair value movements attributable to changes in credit risk £000
Loans and receivables designated at FVTPL – BFP Small Cap	576	834
Loans and receivables designated at FVTPL – Investment Programme	203,857	4,937
Total	**204,433**	**5,771**

Assets designated at FVTPL – gross values

As at 31 March 2017

	Gross assets with no fair value movements attributable to changes in credit risk £000	Gross assets with fair value movements attributable to changes in credit risk £000
Loans and receivables designated at FVTPL – BFP Small Cap	2,230	890
Loans and receivables designated at FVTPL – Investment Programme	131,472	1,927
Total	**133,702**	**2,817**

In determining fair value, the Company has made an impairment allowance against the value of certain investments, those being receivables purchased through an invoice discounter and part-loans to borrowers that are made alongside other platform lenders, in accordance with its provisioning policy. The basis of provisioning is different for the different categories of investments. In determining the recoverability of the amounts receivable, the Company considers past performance of recoveries.

With respect to receivables purchased through invoice discounting the Company provides for all debts which are overdue by 30 days at a rate of 100%. In addition it makes 100% provision for all receivables in respect of which there is a known or expected problem in collection even if payment is not overdue by 30 days. At 31 March 2018 the gross value of receivables purchased through an invoice discounter was £3.1m of which £340,000 was overdue and fully provided.

The Company makes provision for all part-loans made to borrowers made alongside other platform lenders which are overdue by 30 days at a rate of 100%. At 31 March 2018 the gross value of such receivables was £77.5m of which £5,431,000 was overdue by 30 days and fully provided.

No other repayments in respect of the Company's financial instruments were overdue at the balance sheet date.

For loans and receivables designated at fair value through profit or loss the amount of charge during the period and cumulatively in the fair value of the loan or receivable that is attributable to changes in credit risk is disclosed below.

As at 31 March 2018

	At the beginning of the year £000	Charged to the income statement £000	Balance at 31 March £000
Loans and receivables – BFP Small Cap	890	(56)	834
Loans and receivables – Investment Programme	1,927	3,010	4,937
Total	**2,817**	**2,954**	**5,771**

As at 31 March 2017

	At the beginning of the year £000	Charged to the income statement £000	Balance at 31 March £000
Loans and receivables – BFP Small Cap	816	74	890
Loans and receivables – Investment Programme	607	1,320	1,927
Total	**1,423**	**1,394**	**2,817**

Market risk

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

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

Interest rate risk

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

LIBOR sensitivity of the investments is as follows:

– The impact of a 2 percentage point increase in LIBOR would decrease the fair value of assets designated at fair value through profit or loss by approximately £13 million.

Currency risk

The Company does not have material exposure to currency risk as the Company primarily invests in its functional currency, pounds sterling. There are some investments in funds which have a Europe-wide investment mandate, and are denominated in Euros. A prerequisite of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 6% of the Company's portfolio is in non-GBP denominated investments. There is currently no policy to hedge this currency risk.

Liquidity risk

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

Liquidity risk is not deemed 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 as there are no borrowings or financing arrangements in place.

15. Related party transactions

The Department for Business, Energy and Industrial Strategy (BEIS) is the ultimate controlling party and principal shareholder of the Company's parent company, the British Business Bank plc. British Business Investments Limited entered into transactions with BEIS and the following British Business Bank plc group companies:

	2018 £000	2017 £000
Expenditure		
British Business Bank plc	5,389	3,154
British Business Finance Limited	165	121
Total	**5,554**	**3,275**
Investment transactions		
Purchase of UKIIF investment assets from BEIS	134,743	–
Total	**134,743**	**-**

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:

Receivable	2018 £000	2017 £000
British Business Financial Services Limited	–	100
British Business Bank plc	–	44
Total	**-**	**144**

Payable	2018 £000	2017 £000
British Business Bank plc	11,219	2,503
British Business Finance Limited	–	1,069
Total	**11,219**	**3,572**

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

16. Significant undertakings

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

Name	Country in which it is incorporated	Class of share held by the British Business Investments	Proportion held by the British Business Investments
BMS Finance S.A.R.L. Registered address: 55 Avenue Pasteur, L-2311, Luxembourg	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund) Registered address: 6 Rue Adolphe, L-1116, Luxembourg	Luxembourg	Class A shares	46.6%
Pricoa Sterling Corporate Bond Fund[1] Registered address: 70 Sir John Rogerson's Quay, Dublin 2,Ireland	Ireland	Not classified	67.7%
Urica Capital Limited[2] Registered address: PO Box 1075, 9 Castle Street, St Helier, Jersey, Channel Islands, JE4 2QP	Jersey	Not classified	50.0%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%

[1]Pricoa's latest financial year end was 30 June 2017. The fund does not produce separate accounts and therefore figures for the fund are not available.

[2]Urica's latest financial year end was 30 June 2017. As at 30 June 2017, its aggregate amount of capital and reserves was £692,652 and during its financial year it made a profit of £105,643.

17. Structured entities

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

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

As the Company is considered to be an investment entity as defined by IFRS 10 it would not be required to consolidate a structured entity even if it was considered to have control or significant influence over that entity. Therefore as at 31 March 2018 and 31 March 2017 the Company has not consolidated any interests in structured entities.

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

	Interest in Limited Partnerships 2018 £000	Interest in Limited Partnerships 2017 £000
Assets at fair value through profit or loss	959,303	740,731
Total assets	**959,303**	**740,731**

18. Dividends

On 6 September 2017 a dividend of £24,610,000 (2.672780p per share) was declared and paid to the ordinary shareholders.

A final dividend of £56,245,000 (4.674938p per share) is proposed but not recognised in the accounts for the year ended 31 March 2018.

19. Events after the reporting date

Following the year end BBI & BPC Holdings Limited acquired 100% of the ordinary share capital of British Business Investments Limited on 7 June 2018 from British Business Bank Plc as part of a group restructure*.

On 1 July 2018 the Company sold its entire holding in the VC Catalyst investments to British Patient Capital Limited, a related party, and subsidiary of the British Business Bank plc Group. The transaction was completed on an arms length basis at market value.

20. Impact of the implementation of IFRS 9

IFRS 9 'Financial Instruments' was issued in July 2014 and replaces IAS 39 *'Financial Instruments: Recognition and Measurement'*. It is effective for financial periods beginning on or after 1 January 2018 and the Company will adopt the standard for the first time in the year ended 31 March 2019. IFRS 9 will be applied retrospectively on adoption on 1 April 2018. However, the Company will not restate comparatives on initial application on 1 April 2018.

Classification

IFRS 9 requires financial assets to be classified into one of three measurement categories, fair value through profit or loss, fair value through other comprehensive income or amortised cost. Classification is based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets will be measured at amortised cost if they are held within a business model the objective of which is to hold financial assets in order to collect contractual cash flows, and their contractual cash flows represent solely payments of principal and interest. Financial assets will be measured at fair value through other comprehensive income if they are held within a business model the objective of which is achieved by both collecting contractual cash flows and selling financial assets and their contractual cash flows represent solely payments of principal and interest. Financial assets not meeting either of these two business models; and all equity instruments (unless designated at inception as at fair value through other comprehensive income); and all derivatives are measured at fair value through profit or loss. An entity may, at initial recognition, designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

Assessment

The Company has made an assessment of the business model for its financial assets for the purpose of classification under IFRS 9. Based on the assessment the Company has initially determined that the contractual cash flows from its loans and receivables to be held at fair value through profit or loss are managed under a business model the objective of which is achieved by collecting contractual cash flows that represent solely payments of principal and interest. These assets are proposed to be measured as at amortised cost under IFRS 9. No assets are managed under a business model the objective of which is to collect contractual cash flows and sell financial assets. All other assets will be measured as at fair value through profit and loss.

As the Company will no longer have the ability as it does under IAS 39 to elect to fair value assets through profit and loss, the Directors will reassess the investment entity status of the Company accordingly.

*Pending final registration of share transfers

Impairment

IFRS 9 introduces a revised impairment model which requires entities to recognise expected credit losses based on unbiased forward-looking information including reasonable and supportable forecasts of future economic conditions. The IFRS 9 impairment model will be applicable to all financial assets at amortised cost, debt instruments measured at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantees not measured at fair value through profit or loss. IFRS 9 replaces the existing 'incurred loss' impairment approach with an expected credit loss ('ECL') model resulting in earlier recognition of credit losses compared with IAS 39.

The impairment requirements are complex and require management judgements, estimates and assumptions. Key judgements include determining whether a significant increase in credit risk has occurred since initial recognition. IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events expected within 12 months of the reporting date) if credit risk has not increased significantly since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3). Stage 3 requires objective evidence of credit impairment which is similar to the guidance for incurred losses under IAS 39. The Company will assess when a significant increase in credit risk or a credit impairment has occurred based on quantitative and qualitative assessments. Forward looking information will also be used in determining expected credit losses which are calculated as the unbiased probability weighted average credit losses across a range of possible outcomes and future economic conditions.

The Company has undertaken ECL calculations in respect of its financial assets to be measured at amortised cost under IFRS 9. The approach taken in the ECL calculation is to assess the risk of defaults occurring, taking account of the existence and quality of collateral and applying discount factors to future cash flows where appropriate. It estimates that the new impairment methodology will result in a lower carrying amount at the date of adoption of IFRS 9 for financial assets measured at amortised cost. Impairment provisions are expected to be higher by approximately £3.5m gross of tax and the carrying value of financial assets is expected to be lower by approximately £3.5m gross of tax. The total net of tax impact on shareholders' equity is a reduction of approximately £2.8m.

20. Impact of the implementation of IFRS 9 (continued)

The Company's financial assets are provisionally expected to be classified as follows under IFRS 9:

	IAS 39 Classification 2018 £000	IFRS 9 Classification 2018 £000
Assets at amortised cost	–	304,317
Assets designated at fair value through profit or loss	1,263,620	959,303
Total	**1,263,620**	**1,263,620**

The values presented in the IFRS 9 column are the carrying values under IAS 39.

21. Controlling party

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

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All figures source British Business Investments Ltd 31 March 2018 unless otherwise stated.

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Any enquiries regarding this publication should be sent to:
British Business Investments Ltd
Steel City House
West Street
Sheffield S1 2GQ