British Business Bank

Annual Report and Accounts 2020

Supporting smaller businesses across the UK

british-business-bank.co.uk

We make finance markets work better so smaller businesses across the UK can prosper and grow.

Contents

Chair's statement

Adapting to deliver more for smaller businesses

The British Business Bank's mission has always been to make finance markets work better so that smaller businesses across the UK can prosper and grow.

For the majority of 2019/20, we continued to build our programmes of support for smaller businesses across the UK, growing as an organisation and putting in place appropriate infrastructure as we did so.

Our focus on smaller businesses – of great importance to the UK economy – continued, and we increased substantially our volume of finance supported while adding a greater diversity of provider to our portfolio.

"The Board is truly appreciative of the team's dedication and hard work under pressure in delivering many billions of pounds of vital emergency loans to UK businesses."

Responding to the Covid-19 pandemic

In mid-March 2020, the economic shock to the UK economy caused by the outbreak of Covid-19 saw the British Business Bank become a key element of the government's response to the crisis, including expanding our remit to support larger companies in certain circumstances. Our people responded swiftly, and with great agility, to address this unprecedented situation, and the Board is truly appreciative of their dedication and hard work under pressure in delivering many billions of pounds of vital emergency loans to UK businesses.

Our market-focused objectives – increasing volume and diversity of finance, responding to regional imbalances, and encouraging and enabling smaller businesses to seek the finance best suited to their needs – remain the same, even though the emphasis within each changed as Covid-19 accelerated.

Because this report is retrospective in nature, covering the 2019/20 financial year, it does not cover in detail our full response to the Covid-19 crisis. We have, however, included an outline of our work during the first few months of 2020/21, to provide some context around what has proved to be one of the most significant events for the country in recent times.

The Board

Keith Morgan, the Bank's Chief Executive Officer, announced in October 2019 that he would be stepping down in late 2020. Keith first became involved in setting up the Bank in 2013, and has been pivotal in making it the success it has become over the intervening years – a fact recognised by the award of a CBE for services to Small Business Finance in the Queen's New Year Honours list 2020. I would like to thank Keith for his exemplary leadership of the organisation.

I was delighted when Catherine Lewis La Torre, the CEO of our commercial arm, agreed to take up the position of CEO of the British Business Bank from 1 September 2020. Catherine has achieved great success as CEO of our two growth-focused and commercially successful subsidiaries, and I look forward to working with her as we drive forward our support for businesses during a period of UK economic recovery.

I would also like to thank Christina McComb, who stepped down as Senior Independent Director this year, for her valuable service and contribution over the last five years. We appointed Neeta Atkar as her successor in November 2019, and Nathaniel Sloane as a new Non-executive Director in March 2020.

Our future role

We expect the British Business Bank to play an increasingly important role as we emerge from the Covid-19 pandemic, flexing our resources to help UK businesses re-establish themselves over the coming months.

There may well be additional responsibilities, and changes to our role, as we work with the government to map out the next phase of the Bank's development. We stand ready, willing and able to do what is needed to help address whatever challenges lie ahead.

Lord Smith of Kelvin
Chair

Chief Executive's statement

Responding with agility, delivering at pace and scale

The British Business Bank is an organisation that has innovation, adaptability and an understanding of smaller businesses at its core. These strengths were brought into sharp focus by our response to the coronavirus pandemic.

It is a tribute to the leadership of Keith Morgan and the hard work and dedication of our people that the Bank was able to respond to the economic challenges of Covid-19 so effectively. In just over four months* we helped deliver more than £51bn of critical support, with over 1.2m facilities provided to businesses at their time of greatest need.

Smaller businesses have shown great strength and resilience to survive and stabilise, and we can be proud of the role we have played in helping them do so. There is more to do, however, and we are now looking forward to how we can support them in the post-crisis recovery period and beyond.

Recovering through growth

As the UK economy shifts its focus from stabilisation to recovery, we need to ensure smaller businesses can manage the many new challenges they face.

It is growth that will ultimately be the key to a thriving post-Covid-19 UK economy.

The British Business Bank is integral to supporting government in leading Britain's recovery and its ambition to make the UK the best place in the world to start and grow a business.

Now is the time for us to build on the great successes of the last six years and to give smaller businesses the confidence to move from recovery to planning for growth.

Leading commercially while providing widely

The Bank and our role within the UK economy has never been under greater scrutiny as we work as a trusted partner of government to create the conditions that will enable smaller businesses to prosper and grow.

The results reported in this set of accounts demonstrate that we continue to make progress in delivering against our objectives in order to address the structural challenges faced by smaller businesses in the marketplace when seeking the finance they need to invest and grow.

"The British Business Bank is integral to supporting government in leading Britain's recovery and its ambition to make the UK the best place in the world to start and grow a business."

The Covid-19 pandemic impacted our financial performance towards the end of the financial year, with the final adjusted return being below our target adjusted return for the first time in our history. As we discuss further in the report, continuing economic uncertainty means that the long-term impact on our investment valuations and credit losses is not yet fully discernible. Nevertheless, our aim always is to provide solid commercial stewardship in deploying public funds irrespective of the macroeconomic context.

The government recognised this capability in 2019, allocating us an additional £200m to invest in high-growth businesses as the UK leaves the EU and further resources to enable up to £600m of funding for the UK's world-leading health tech and life sciences sector.

Alongside commitments through our commercial arm, which reached a record level of £952m in 2019/20, equally important are the subsidised schemes which we deliver on behalf of government.

By addressing persistent market failures in the supply of finance, our programmes help businesses at all stages of development, from providing aspiring entrepreneurs with mentoring and funding to enabling a greater choice of finance options for well-established companies.

Supporting opportunity

We remain committed to increasing opportunity for businesses wherever they are in the UK by levelling up economic activity through regional access to finance across the country. However, if we are truly to help the UK economy to thrive, we need to go further, embracing the best talent regardless of gender, ethnicity, age, location, or other characteristics.

This is critical if we are to help light the way for government, the finance sector and smaller business owners.

I take on the role of Chief Executive of British Business Bank plc at a crucial time for smaller businesses and look forward to supporting them as they come out of the pandemic and thrive once more.

Catherine Lewis La Torre
CEO

* As of 11 August 2020

Outgoing Chief Executive's statement

Enhancing capabilities, delivering effectively

From the start, we built flexibility into the design of the British Business Bank which has served us well over the last year.

The British Business Bank is now in its sixth year of operation, having been founded at the end of 2014 to make finance markets work better for smaller UK businesses. By the end of March 2020, we were supporting 98,000 businesses through a range of programmes that increase both the volume and range of finance available.

While this year the Bank's response to the Covid-19 pandemic has naturally tended to overshadow the work we have undertaken in normal circumstances during 2019/20, it's important still to recognise the progress that came before the emergence of the virus in the UK in March 2020.

Building throughout 2019/20

Our highlights of 2019/20 included the launch of a new ENABLE Build programme to help fund smaller housebuilders, the expansion of our flagship Enterprise Finance Guarantee to asset finance and asset-based lenders, and the publication of valuable research into UK Venture Capital (VC) returns and the case for increased investment into VC by Defined Contribution pension schemes. We also passed a major milestone for our Start Up Loans programme, with £500m lent since 2012.

Our work to level up the regions continued to grow, with extensive outreach from our UK Network colleagues, who held over 1,200 intelligence-gathering meetings with smaller business intermediaries throughout the year, and over 800 businesses receiving funding of £436m from our three regionally focused funds.

In November 2019, we marked the Bank's fifth anniversary, reflecting on the five-fold growth of the organisation since the end of its first year and highlighting many of the successful businesses our funding has supported during that time.

"The British Business Bank is now in its sixth year of operation, having been founded at the end of 2014 to make finance markets work better for smaller UK businesses."

Our response to Covid-19

The British Business Bank was set up to be able to respond with agility to changing market conditions. This and our extensive forward planning for a downturn, meant that when the Covid-19 lockdown began in mid-March 2020 we were able to respond rapidly to the demands of a radically changed finance landscape, operationalising in days interventions that would take months under normal circumstances.

Providing value for money for taxpayers

In a value for money report published by the National Audit Office (NAO) in January this year, the NAO found that "the British Business Bank has performed well against its objectives", enabling additional growth in UK SMEs as a result of our activities.

It also said the Bank "had clear performance metrics and carried out evaluation of its impact on SMEs. Overall, it has been performing well and SMEs have been growing as a result of its activities", providing a welcome and valuable endorsement of our approach over the last six years. This gives the Bank a strong platform on which to build as it addresses the issues smaller businesses will face as the UK emerges from the Covid-19 pandemic.

Looking to the future

I announced in late 2019 that I would be standing down from my position as CEO of the British Business Bank by the end of 2020, having joined to lead its set-up team in 2012. Over the last eight years, it's been a pleasure to work with a host of dedicated professionals, all totally committed to the Bank's mission of supporting finance for smaller businesses across the UK.

I have worked closely with Catherine Lewis La Torre for much of that time, during which she excelled as CEO of British Business Investments and British Patient Capital. Catherine's strong track record means she is ideally placed to take on the role of CEO of British Business Bank plc, and I wish her every success.

Keith Morgan
Chief Executive Officer for 2019/20

Strategic report

Improving finance markets

Our mission

The British Business Bank's mission is to make finance markets work better so smaller businesses across the UK can prosper and grow.

Historically, smaller businesses have encountered persistent barriers to accessing finance, for example:

– Younger businesses with a shorter track record can find it difficult to access finance.

– Owing to the UK's concentrated finance market, there has been a narrow choice of finance type and provider.

– Businesses either lack knowledge of finance choices, or are not confident in applying for them, meaning they are less likely to find the right finance.

– All these issues are amplified in regions outside of London and the South East of England.

These, and related issues, led to the formation of the British Business Bank in late 2014. Since then, we have made strong progress in delivering interventions to address these challenges. Our work over the last six years and the foundations we have built enabled us to respond quickly and positively to the unprecedented economic shock of Covid-19 in March 2020.

The British Business Bank's objectives

Our objectives set out to tackle the most significant market weaknesses, as evidenced by our own and others' research and analysis, with the goal of providing better outcomes for smaller businesses.

We have four market-oriented objectives focused on improving the finance marketplace for smaller businesses.

Two further objectives complement them, driving our delivery approach. One underpins how we execute our market-oriented objectives by balancing risk and return, and the other leverages the knowledge we gain from both running our own programmes, and conducting research, analysis and stakeholder engagement across UK smaller business finance markets.

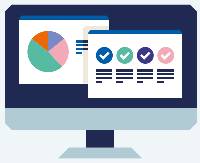
In delivering on these objectives, we seek to be 'additional' – undertaking activities in the market that would not otherwise occur. In doing so, we avoid displacing existing private market activity and so can create a demonstrably net positive impact for the UK economy.

As a government-owned economic development bank, it's also important that we should pursue these strategic objectives throughout the economic cycle. As such, we must remain ready to deliver effectively not only in the periods of good economic growth, but also in times of economic crisis and downturn. This principle has been particularly important towards the end of the 2019/20 financial year.

At moments of economic stress, we act in a countercyclical manner, maintaining and/or increasing our market exposure while other market participants may be disengaging. In this, we recognise our responsibility, as a government-backed entity, to contribute to the financial stability and resilience of the UK, in support of businesses and their employees, as well as the wider economy and society.

Increase the supply of finance

To increase the supply of finance to smaller businesses where markets don't work well.

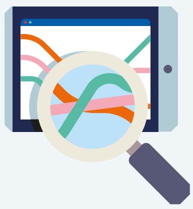


Help increase diversity of finance

To help create a more diverse finance market for smaller businesses, with greater choice of options and providers.

Address regional imbalances in access to finance

To identify and help to reduce regional imbalances in access to finance for smaller businesses across the UK.



Encourage and enable SMEs to find appropriate finance

To encourage and enable smaller businesses to seek the finance best suited to their needs.

To be the centre of expertise on smaller business finance in the UK

providing advice and support to government

To achieve our other objectives whilst managing taxpayers' money efficiently

within a robust risk management framework

Our accountability

For each of our objectives, we agree specific Key Performance Indicators (KPIs) and targets with our Shareholder – the Department for Business, Energy & Industrial Strategy (BEIS) – against which the Bank is held accountable. We have included details of our performance against our 2019/20 KPIs within each of the following sections making up this Strategic Report.*

Our activities and business model

To deliver against our objectives, we undertake a range of finance programmes and non-financial activities for smaller businesses across the UK, at all stages of development.

For our finance programmes, our principal business model is to work indirectly through delivery partners, which are financial services providers for smaller businesses (such as banks, non-bank lenders, equity funds and private debt funds). For most of our programmes, this indirect approach enables us to 'leverage in' third-party funding in addition to our own, maximising the impact of the public funds we deploy.

Our business model provides the flexibility to manage finance programmes on both our own balance sheet and the balance sheets of government departments. In the latter case, we act as an 'agent' on their behalf – primarily for our Shareholder, BEIS, for programmes such as the Enterprise Finance Guarantee and the Northern Powerhouse, Midlands Engine, and Cornwall and Isles of Scilly Investment Funds.

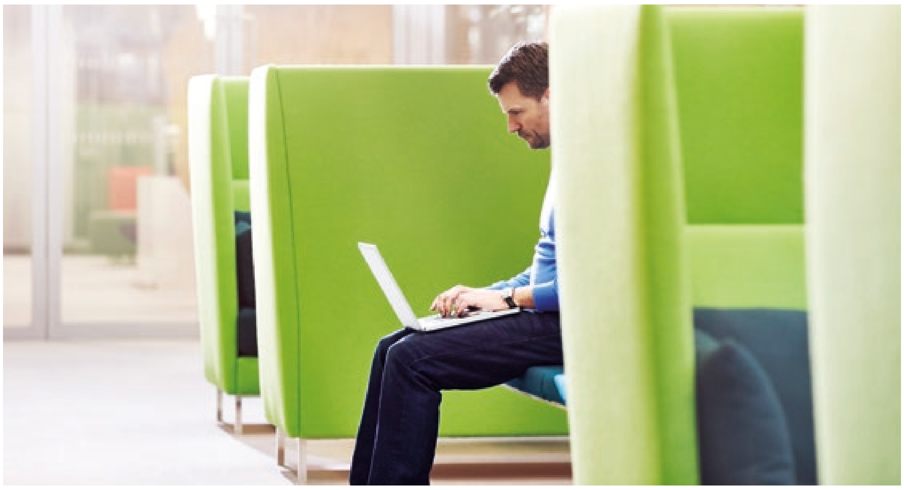
Our Board and Shareholder measure our financial performance against all of the assets we manage, whether on our balance sheet or on the balance sheets of others.

Our non-financial activities are closely integrated with, and complementary to, our finance programmes.

In addition to these programmes which we ran during 2019/20, in the early part of 2020 we introduced four new programmes to support businesses through the Covid-19 pandemic:

- the Coronavirus Business Interruption Loan Scheme (CBILS), launched on 23 March 2020
- the Coronavirus Large Business Interruption Loan Scheme (CLBILS), launched on 20 April 2020
- the Bounce Back Loan Scheme (BBLS), launched on 4 May 2020
- the Future Fund, launched on 18 May 2020.

Fuller descriptions of these schemes are included in the following sections.



* As described on p37, our Shareholder has suspended a number of our underlying KPI targets for 2020/21 due to the outbreak of Covid-19 in March 2020.

Smaller business development journey

Financial activities

Start up	Scale up	Stay ahead
Funds and mentoring to get new business ideas off the ground **Finance type: Debt**	Funds to support scaling businesses **Finance type: Equity**	More funding options, for more-established businesses **Finance type: Debt**

Start up

Start Up Loans
Loans and mentoring to help people start their own businesses or become self-employed.

Loans are unsecured, meaning applicants have no need to put forward any assets or guarantors to support an application.

Scale up

Regional Angels Programme
Support to reduce regional imbalances in access to early stage equity finance.

Angel CoFund
Equity co-investment alongside business angel syndicates to increase the volume of early stage finance available to smaller businesses.

Regional equity funding
Equity finance in the North, Midlands, Cornwall and Isles of Scilly

Enterprise Capital Funds
Funds which increase the supply of early stage venture capital to scaling businesses and lower barriers for fund managers entering the VC market.

British Patient Capital
Investments in long-term venture and growth funds, enabling high potential firms to develop into world-class businesses.

Managed Funds
Investments into Funds of Funds designed to increase institutional funding of long-term patient capital for innovative businesses that are scaling rapidly.

Stay ahead

Enterprise Finance Guarantee
Government-backed debt finance for viable smaller businesses lacking security.

ENABLE Guarantees
Guarantees which reduce the amount of capital that lenders need to hold for their loans to smaller businesses, so that they can provide more lending.

ENABLE Funding
Cost-effective access to funding through the capital markets for smaller lenders, meaning they can provide more finance to businesses.

Regional debt funding
Micro and small business debt finance in the North, Midlands, Cornwall and Isles of Scilly.

Investment Programme
Support to increase the volume and diversity of finance for smaller businesses by enabling the growth of new and alternative lenders.

Non-financial activities: Demand Development

'Digital storefront'
Includes our Finance Hub and Business Finance Guide, providing best-in-class finance information to UK smaller businesses.

UK Network
Our field-based team across the UK, generating local smaller business market insights, as well as undertaking regional partner programmes and regional events.

Non-financial activities: Research

Market reports
Research and analysis that examine the UK's finance provision landscape for smaller businesses, such as our flagship annual 'Small Business Finance Markets' report.

Topic reports
Research and analysis that examine specific aspects of UK smaller business finance markets, such as our ground-breaking 2019 report on 'UK VC & Female Founders'.

Finance programme evaluations
Third-party independent assessments of our portfolio of schemes and programmes to enable best practice, effectiveness and value for money.

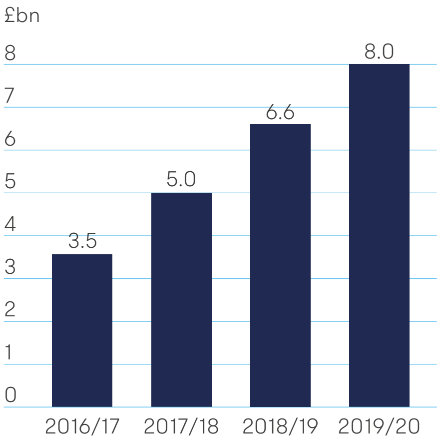
Increase the supply

To increase the supply of finance to smaller businesses where markets don't work well.

The challenge for smaller businesses, and why it matters

In some areas of smaller business finance, there is a lack of volume of provision for certain groups of smaller businesses – particularly those that are the smallest, youngest or are growing quickly. Even if they're viable, such businesses can find it difficult for structural reasons to access finance – a young business, for example, cannot provide a track record of financial performance that providers typically require.

Stock of finance for smaller businesses*



* 2016/17 and 2017/18 figures reflect post year restatements

£8bn

stock of finance supported, at 31 March 2020

98,000

businesses supported at 31 March 2020

£1.1bn

of new commitments to funded programmes in 2019/20

£649m

of new commitments to guarantee programmes in 2019/20

If we help markets address these issues, more UK smaller businesses will be able to unlock their potential – and release wider economic benefits – by accessing a suitable amount of finance of the right type, at the right time. This effort to strengthen provision of finance matters even more when economic conditions are uncertain, with external finance becoming increasingly important for a business's working capital and cashflow support. By increasing the volume of finance to underserved market areas, we often also simultaneously increase the variety of finance on offer – for example, through new market entrants or new types of finance becoming available. This aspect is covered in more detail under the section which follows.

Background and recent trends

In the six years since the British Business Bank's foundation in 2014, there has been significant growth in the volume of finance supplied to smaller businesses outside of traditional bank lending products, enabling support for a wider variety of business models of start-ups and smaller businesses. The value of UK equity investment, for example, more than doubled between 2014 and 2019[1], making the UK Europe's largest venture capital market. This has enabled an increased volume of support for younger, high-growth companies, whether at the initial 'seed' stage or later 'venture' and 'growth' stages.

This increase in provision is important as, for these businesses, mainstream debt finance is generally inappropriate, given that they typically don't yet have a stable income to service loan repayments and may be pre-revenue, or pre-profit. Yet the benefits of addressing this structural challenge are clear: these companies are often highly innovative and are likely to make an important contribution to the UK's future economy. Indeed, some are already doing so – as of October 2019, the UK had 19 equity-funded 'unicorn' businesses with a valuation of £1bn or more, the highest number in Europe.[2] Even so, more remains to be done, as there continues to be an undersupply of equity finance when viewed against the leading global equity markets, such as the US.[3]

We have also seen long-term increases in other important non-bank products, such as marketplace business lending and asset finance. Volumes of these rose five-fold and by more than a third respectively between 2014 and 2019, with marketplace lending emerging from infancy into a genuine funding route for smaller businesses, and asset finance further developing its role as a significant alternative product in the market.[4] These developments again increase the volume of finance in the market, increasing the likelihood that smaller businesses can access the finance they need.

This progress, however, must be offset against both a long-term downward trend in mainstream bank lending (in 2019, gross flows fell to £56.7bn, the lowest level for five years), and data continuing to show – at least prior to the Covid-19 shutdown – ongoing structural challenges. 84% of SMEs, for instance, were offered the finance they sought in 2019, but for businesses trading for less than five years this fell to 73%.[5] First-time applicants and sole traders were also less likely to have their applications for finance approved, with success rates of 69% and 72% respectively compared to an average of 75%.[6]

Given this, the Bank remains committed to working with as many market participants as possible to deliver interventions that target these ongoing issues.

"By increasing the volume of finance to underserved market areas, we often also simultaneously increase the variety of finance on offer."

Details of references can be found in End notes, p186.

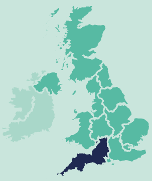
Case study
Clinical Design Technologies

Fund manager: The FSE Group

Region: South West

Location: Truro

Programme: Cornwall and Isles of Scilly Investment Fund



Clinical Design Technologies received equity investment from The FSE Group, through the Cornwall and Isles of Scilly Investment Fund, to promote its Urine Testing System technology.

An estimated 100m urine tests are carried out every year in the UK alone, many of which are still conducted with dipsticks that are colour-matched by eye.

Clinical Design Technologies engineered a digital solution which can be used as point-of-care urine testing for healthcare providers, providing standardised results that can be read on a desktop computer and saved to a patient's electronic healthcare record.

The funding is supporting rollout of the system in the UK and overseas and will allow the business to take on six new staff initially, with further hires planned.

Responding to the challenges, and 2019/20 snapshot

The Bank delivers a suite of finance programmes, across debt and equity, which seek to address the specific challenges within this objective.

For start-ups and younger businesses, our Start Up Loans programme offers loans, business support and mentoring to individuals across the UK looking to start a business, or to grow a recently established business. Although such businesses lack a track record (and often lack collateral), Start Up Loans is designed to accommodate these factors, and addresses a market gap, offering loans outside the risk appetite of commercial finance providers. The programme also plays an important role in providing finance to under-served groups, with the proportion of loans to women, BAME and previously unemployed applicants being significantly higher than in the lending market more generally.

Supporting aspiring businesses

As at the end of March 2020, the Start Up Loans programme had delivered more than 71,500 loans, providing almost £586m of funding since the scheme started in 2012. Government support for Start Up Loans was confirmed when it secured an extension to March 2022 in the March 2020 Budget, allowing up to 10,000 more loans to be made, along with an earlier manifesto promise to extend the programme.

Supporting equity finance at every stage

Young, high-growth businesses – which are typically pre-revenue or pre-profit – are served by our equity programmes, which tackle the range of market failures in this space. The Angel CoFund and the Enterprise Capital Funds (ECF) programmes address the equity gap affecting smaller equity deals. They have channelled significant investment into high potential businesses that would likely otherwise have struggled to obtain funding (delivering £322m and £1.3bn respectively so far, including third-party capital).

Larger high-potential businesses can find it difficult to obtain the significant long-term, or ‘patient’, investment they need to become world-class businesses, as recognised by the government’s 2017 Patient Capital Review.

In response, we established British Patient Capital (BPC) in 2018, with an additional £2.5bn of funding, as well as a £500m Managed Funds programme. Like many of our finance programmes, these schemes aim to attract significant private capital alongside, catalysing the market. For example, BPC has already made £813m of commitments into the market, alongside over £4.8bn from third-party investors.

In addition, the Managed Funds programme also aims to attract significant institutional investment into ‘patient capital’, which has previously been lacking at scale. The volume of this activity means the British Business Bank is the largest domestic investor in venture and venture growth capital in the UK.

Supporting debt finance

For smaller viable businesses which lack sufficient collateral to access finance, we operate our flagship debt programme – the Enterprise Finance Guarantee (EFG). This was established following the financial crisis in early 2009 and has, as of 31 December 2019, supported the provision of almost 33,000 business loans to a value of around £3.5bn. On 24 March 2020, we suspended EFG due to the introduction of the new Covid-19 loan guarantee schemes.

Our Investment Programme, run by our British Business Investments subsidiary, plays a key role in increasing the supply of debt finance through a wide variety of providers. In 2019/20, it made new commitments worth £215m.

We also run two further debt programmes which increase the volume of finance available to address significant structural challenges in the financial infrastructure. Our ENABLE Guarantee encourages lenders to increase their lending to smaller businesses by reducing the high capital costs associated with lending to smaller businesses, particularly for smaller banks. Following product development, in April 2019 we launched a targeted variant of the programme, ENABLE Build, aimed at supporting specialist lenders providing funding to smaller housebuilders.

In addition, ENABLE Funding helps smaller finance providers to access capital markets more cost-effectively than they otherwise could, supporting greater onward lending to smaller businesses. Transactions across both programmes total close to £2bn so far.

2019/20 KPI performance

Our KPI for this objective is 'stock of finance we support' through our finance programmes. This includes both our own and 'leveraged in' third-party funding. In exceeding our 2019/20 KPI target, we maintain the momentum we have built over the past six years to expand the supply of finance in UK smaller business finance markets.

Target

£7,804m stock of finance supported by 31 March 2020

Outturn

As of 31 March, £7,966m stock of finance supported

Interim Covid-19 update on Bank activities

In late March 2020 the Bank responded rapidly, at scale, to the national economic crisis brought about by Covid-19. Our increases in capability and market reach since 2014, and our up-to-date knowledge and analysis of smaller business finance markets enabled us to mobilise swiftly to address what was (and remains) an unprecedented situation. This included expanding our strong network of accredited delivery partners, across all programmes, to over 200.[7]

In last year's Annual Report, we mentioned we were agreeing a framework with government for our approach in a downturn. Alongside this, as part of our forward resilience work, we carried out extensive implementation planning, as highlighted independently in the National Audit Office's January 2020 report on the Bank.[8] This planning was further intensified in 2019/20, and was available to build on when the Bank was asked by the government to consider how we could support smaller businesses impacted by Covid-19.

The overarching aim was – in common with other Covid-19 economic measures – to provide a 'bridge' for businesses through the crisis, safeguarding jobs and the productive capacity of the UK, such that the economy could recover as quickly as possible, once it was safe to do so.

Under the aegis of HM Treasury and our Shareholder, we worked closely with government officials, business organisations and trade associations, financial services stakeholders and others to implement new programmes, all designed to address the major market issues that resulted from the outbreak. These programmes are collectively known as the Bank's Covid-19 response schemes.

Coronavirus Business Interruption Loan Scheme

We suspended the Enterprise Finance Guarantee scheme and replaced it with a new programme, the Coronavirus Business Interruption Loan Scheme (CBILS). The scheme opened on 23 March, providing up to £5m in finance for businesses with a turnover of less than £45m. The government covers the first 12 months of interest and lender-levied fees, and provides an 80% guarantee to lenders. The programme has 97 accredited lenders and has, as of 11 August 2020, provided almost 60,000 facilities worth £13.4bn.

> "Our increases in capability and market reach since 2014, and our up-to-date knowledge and analysis of smaller business finance markets enabled us to mobilise swiftly to address what was (and remains) an unprecedented situation."

Coronavirus Large Business Interruption Loan Scheme

On 2 April 2020, the Chancellor of the Exchequer announced a further scheme that shared many of the elements of CBILS, but with larger facility sizes of up to £50m, called the Coronavirus Large Business Interruption Loan Scheme. CLBILS also provides an 80% guarantee to lenders, and is targeted at larger businesses with a turnover of more than £45m. The maximum amount for term loans and revolving credit facilities available through CLBILS to a borrower has now been increased to £200m, with a maximum amount of £50m for invoice finance and asset finance facilities. With 23 accredited lenders, the scheme has, as of 11 August 2020, delivered nearly 500 facilities worth £3.4bn.

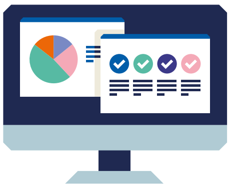
Future Fund

On 20 April, the Chancellor announced the Future Fund, a £250m match-funded, convertible loans programme, targeting equity-funded businesses that would be unlikely to be eligible for CBILS. It supports the UK's innovative businesses currently affected by Covid-19. These businesses have been unable to access other government business support programmes, such as CBILS, because they are either pre-revenue or pre-profit and typically rely on equity investment. The programme can provide investment of between £125k and £5m to eligible businesses. Launched on 20 May, the UK Future Fund received £515m of applications on its first day and due to its popularity, more funding has been made available. It has, as of 11 August 2020, delivered over £560m of funding to 565 high potential businesses.

Bounce Back Loan Scheme

On 4 May, the Chancellor introduced a new Bounce Back Loan Scheme, a demand-led scheme offering lending that targets small and micro businesses, providing loans from £2k up to 25% of the business's turnover, with a maximum loan of £50k. Providing lenders with a 100% government-backed guarantee and standardising the application form led to a faster process with many loans becoming available within days. The scheme provides a six-year term loan at a government set interest rate of 2.5% a year. The government covers interest payable in the first year and businesses benefit from a 12-month repayment holiday. The scheme has, as of 11 August 2020, delivered over 1.1m facilities to businesses, worth £35bn.

Having utilised existing British Business Bank infrastructure and accredited lenders to enable rapid deployment of the first phase of CBILS, we put in place an accelerated accreditation process for new lenders. By early August we had made more than 100 accreditations across these schemes.



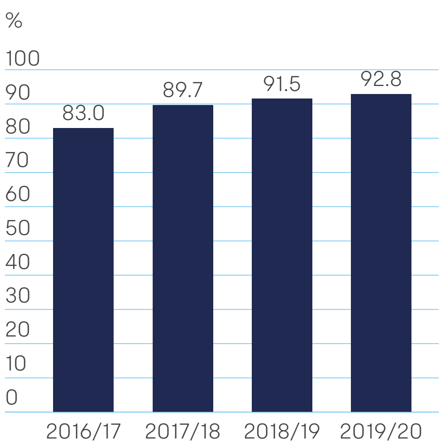
Diversify the market

To help create a more diverse finance market for smaller businesses, with greater choice of options and providers.

The challenge for smaller businesses, and why it matters

Appropriate finance should be available to smaller businesses throughout the economic cycle, particularly when supply is scarce. Continuing to widen the range of finance options available to smaller businesses, by supporting increases in the number, type and capabilities of finance providers and platforms, helps to ensure smaller businesses can access finance on terms that best suit their business challenges.

Percentage through non-Big Five banks*



* 2016/17 data is for non-Big Four banks

£284m

of commitments to new delivery partners in 2019/20

92.8%

stock of finance through non-Big Five banks

£215m

of new commitments to non-bank and challenger bank lenders through our Investment Programme

12

new delivery partners added in 2019/20

Background and recent trends

The increase in volume of finance provision in the market since the Bank's foundation six years ago has been accompanied by increased competition, variety and innovation in small business finance. New providers such as challenger and specialist banks have emerged, accompanying the rise of platforms such as equity crowdfunding and marketplace lenders.

The number of challenger and specialist banks has increased markedly since 2013, with many providing services to SMEs and adding capacity to the market. Between 2013 and 2019 the Prudential Regulation Authority (PRA) granted 46 financial institutions a full or restricted banking licence in the UK.

Around half of those licences have gone to organisations that provide businesses with products and services, with a mix of full-service, digital-only and specialist banks, including micro banks. The range of products and finance provider business models has enriched diversity in SME finance markets.

Independent challenger and specialist banks' share of the asset finance market has been steadily increasing over time. Innovation in asset finance platforms has also seen the development of online portals and apps designed to help streamline applications and transactions.

In equity finance there is a greater range of fund managers in the market – many of them new or emerging fund managers – representing an enhanced variety of investment approaches, again increasing the likelihood that smaller businesses will find the right funding source for them.

The UK private debt market has also grown substantially since its emergence in 2010 in response to tighter bank lending conditions for businesses, and a low interest rate environment for investors. Private debt funds provide bespoke debt financing solutions, offering businesses an alternative source of funding to banks.

Case study
e-Bate

Fund Manager: Mercia Asset Management

Region: East Midlands

Location: Leicester

Programme: Midlands Engine Investment Fund

e-Bate, the UK's first software as a service (SaaS) platform to help companies manage rebate and pricing schemes, secured funding from specialist asset manager Mercia, through the Midlands Engine Investment Fund.

Through their work building bespoke rebate management software, founders Leanne Bonner-Cooke MBE and Colette Wyatt recognised a gap in the market for an affordable off-the-shelf solution. e-Bate is designed for buyers or suppliers which either pay or receive rebates, commissions, bonuses or incentive schemes. The platform allows companies to automate the process, helping to reduce overheads, manage pricing and increase revenue while ensuring compliance.

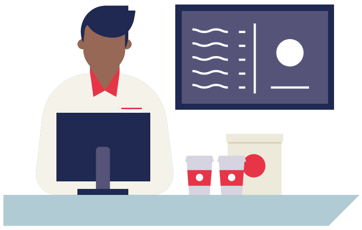
The funding will allow them to expand their sales and marketing activities and roll out e-Bate to a wider audience, creating new jobs at their office in Leicester.

Mainstream bank lending is, however, still the source of most of the finance accessed by smaller businesses, forming roughly two-thirds of the flow of finance in 2019.[9] Work remains to be done to ensure that new entrants to the market since the financial crisis of 2008/9 become fully established and reach sustainable scale, as well as enabling the conditions for further diversity. This will not only bolster SME funding choices, but also enhance the resilience of UK smaller business finance markets by spreading the risk of provision across a greater number of providers.

Responding to the challenges, and 2019/20 snapshot

As well as increasing the volume of early stage equity finance, our Enterprise Capital Funds programme responds to structural challenges in that it broadens and deepens the funding pool by backing emerging fund managers in the market, offsetting the tendency of private investors to prefer deploying money into larger, established funds.

Through our Investment Programme, we supported greater diversity in finance markets by investing in key sectors of alternative provision, outside of large bank lending. This programme's commitments now stand at £1.2bn (as at end of March 2020), supporting 18 debt funds, eight asset finance companies, six FinTech companies and four challenger banks. These providers in turn have been able to use these funds to support businesses, financing 60,000 smaller and mid-sized businesses to date.



60,000

smaller and mid-sized businesses supported to date through our Investment Programme

Our ENABLE programmes regularly support challenger and specialist banks in their transactions, including providers such as OakNorth, Hampshire Trust Bank and Funding Circle in 2019/20. In May 2019, we extended the ENABLE Guarantee programme to accept applications from non-bank lenders, including those providing asset finance and asset-based lending, further diversifying the pool of eligible finance providers.

"Our ENABLE programmes regularly support challenger and specialist banks."

Similarly, we flexed our flagship Enterprise Finance Guarantee programme to offer new product variants, alongside its primary objective of increasing the volume of accessible debt finance in the market. As well as increasing the diversity of finance types available, this also enabled us to increase further the variety of sources of that finance through an ongoing delivery partner accreditation programme in 2019/20.

We now have 140 delivery partners across the Bank, helping to build a diverse finance market that works better for smaller businesses.

2019/20 KPI performance

Our KPI for this objective is 'percentage of finance we support through non-Big Five banks' – NatWest Group (formerly RBS), Lloyds Banking Group, Barclays, HSBC UK and Santander.
In exceeding our 2019/20 target, we continue to drive forward diversity of finance provision.

Target

91.1% of finance supported through non-Big Five banks, by 31 March 2020

Outturn

As of 31 March, 92.8% of finance supported through non-Big Five banks

Interim Covid-19 update on Bank activities

In response to the Covid-19 crisis, we initially leveraged our broad network of accredited Enterprise Finance Guarantee lenders. Additionally, we increased rapidly both the number and type of finance providers accredited to the schemes. Across the three Covid-19 debt guarantee schemes, as of 11 August 2020, the total number of unique delivery partners has grown to 105, including FinTech providers, non-bank lenders and asset finance providers. While diverse types of finance and finance providers have been an important part of delivering emergency schemes during the crisis, they will be even more important in the recovery, when the UK's smaller businesses will still need to be served by a healthy, competitive and diverse finance market.

In line with our countercyclical mandate, the Bank has continued to support a diverse market by maintaining – and enhancing where possible – the diversity and pace of delivery of its existing programmes during the crisis:

- As of 11 August 2020, our Investment Programme has maintained its activities, completing four transactions totalling £81m since the start of April.
- We have been able to enhance equity provision through the Angel CoFund (ACF). In April 2020 a further £30m loan was made available to the ACF to enable it to broaden its scope over the next two years as part of the Covid-19 response.
- Our other national equity programmes have continued to invest to maintain the flow of equity capital to smaller businesses, committing £146m across five funds in 2020/21 so far (as of 11 August 2020), across our Enterprise Capital Funds, British Patient Capital and Managed Funds programmes since the start of April.
- We have also amended the operation of our programmes to support smaller businesses, ensuring forbearance conditions are applied.

Reduce regional imbalances

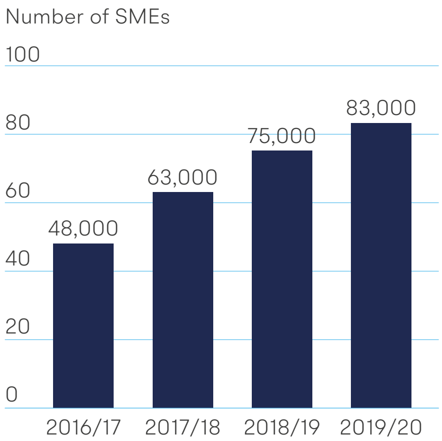
To identify and help to reduce regional imbalances in access to finance for smaller businesses across the UK.

The challenge for smaller businesses, and why it matters

Appropriate finance should be available to smaller businesses wherever they're based, but local and regional imbalances persist across the UK.

The availability and ease of accessing certain types of finance for smaller businesses depends significantly on locality, with differences in awareness and the availability of alternative finance options, particularly those suited to innovative, scale-up businesses.

Total SMEs outside London benefitting from Bank programmes



£330m

of Northern Powerhouse Investment Fund (NPIF) investments

80%

of SMEs who received equity funding from NPIF increased their investment in R&D

£100m

of Midlands Engine Investment Fund investments

1,900

number of UK Network activities with stakeholders across the UK

"We recognise the importance of well-developed entrepreneurial ecosystems, and interaction between public and private intermediaries, in enhancing the development of local finance markets and reducing regional imbalances."

This can affect the ability of smaller businesses located outside of well-established financial hubs to achieve their potential.

We recognise the importance of well-developed entrepreneurial ecosystems, and interaction between public and private intermediaries, in enhancing the development of local finance markets and reducing regional imbalances. If smaller business finance markets work well across the UK, local economies are more likely to develop at pace and scale, more evenly spreading the benefits of economic development.

Background and recent trends

Regional debt markets are working reasonably well, with volumes of debt finance continuing to be relatively closely aligned with the general geographical distribution of the business population. This reflects high levels of awareness for core bank products like overdrafts, loans and credit cards, alongside relatively high confidence in assessing and applying for debt products. Specific local market failures persist, however, in some areas.

Equity finance, on the other hand, continues to be concentrated in London, with 48% of deals and 66% of investment in UK SMEs taking place in London in 2019 – well above its 19% share of smaller businesses and 20% share of high-growth businesses. While this concentration in London is a long-standing feature, in recent years the concentration of equity deals by number – although not by value – has declined a little, possibly reflecting the increase in VC funds with offices outside London.

There have also been signs of equity clusters developing outside of London, with Manchester, Edinburgh and Glasgow sitting alongside seven London boroughs in the top 10 of Local Authority Districts by number of announced equity deals in 2019.

Evidence suggests a reinforcing effect in the distribution of equity. Venture capital investors are concentrated in London and the South East, and 46% of businesses outside these regions identify a lack of suitable investors in their local area as a barrier to using equity. This compares to just 30% in London and the South East. Smaller businesses outside London and the South East are also more likely to perceive difficulties in putting together a business case. These perceived barriers to using equity could account for disparities in equity use – and highlight the importance of addressing both demand and supply side issues in the UK's regions and nations.

Case study
Seaweed & Co.

Region: North East

Location: North Shields

Programme: Start Up Loans

Craig Rose, a marine biologist, had always been fascinated by the sea and wanted to share his passion by creating a business that was environmentally, commercially and socially sustainable.

Based in North Shields, Seaweed & Co. supplies food and nutrition manufacturers with a range of seaweed products sourced exclusively from the Outer Hebrides. Seaweed & Co's products are sold to global distributors that work with major multinational companies.

Responding to the challenges, and 2019/20 snapshot

We consider regional imbalances in terms of demand, supply and the type of finance available.

In designing and delivering programmes, we have tended – in line with market trends – to focus on equity in addressing regional imbalances. We do, however, include debt provision as part of our regional programmes where local market conditions require it. This reflects our ambition to support greater volume and diversity of finance in specific areas – particularly outside of London and the South East.

We have worked with local partners to launch three regional funds which include debt as well as equity, in response to regional access to finance disparities:

- Northern Powerhouse Investment Fund (NPIF, launched 2017, £400m)
- Midlands Engine Investment Fund (MEIF, 2018, £250m)
- Cornwall and Isles of Scilly Investment Fund (CIOSIF, 2018, £40m).

Another £30m fund, focusing on debt, was launched in 2018 exclusively for businesses in Northern Ireland.

These relatively recently launched funds have already reached significant milestones, with NPIF and MEIF delivering, along with private sector investment, £330m and £100m of funding respectively to local businesses, as at end of March 2020. In July 2019, an independent 'early assessment' evaluation of NPIF found that "NPIF is only two years into a 10-year programme, but to date it has been very successful. The number and value of lending and equity deals are ahead of target and the finance has been distributed widely across the NPIF area." [10]

The Bank's response to the regional equity challenge has focused on building the vital 'grassroots' components of an equity ecosystem, particularly at smaller investment sizes, and for businesses at an early stage. These aims are reflected in the Bank's 2018 £100m Regional Angels Programme, which seeks to develop clusters of angels – who not only provide capital but typically also business experience and expertise – outside of London and the South East. In September 2019, the Bank made its first £10m commitment under the programme to Dow Schofield Watts Angels.

Our response to the demand issues encountered in the regions is described in the next strategic objective.

2019/20 KPI performance

Our KPI for this objective is focused on achieving key strategic milestones to drive delivery of our varied supply and demand activities. We assess this using a 'Red Amber Green' status, where Green indicates met, Amber indicates partially met and Red indicates not met. At year-end, our Board and Shareholder examine an internal report on regional activities and agree an assessment of performance.

In achieving Green for this KPI in 2019/20, we continue to accelerate and expand our work in addressing regional imbalances in finance markets across the UK.

Target

Report describing the Bank's regional activities, and the execution of two strategic milestones:

- **Identification of regional access to finance issues by July 2019**
- **Five-year regional strategy for addressing prioritised issues by December 2019**

Outturn

Green

Interim Covid-19 update on Bank activities

Initial evidence shows that imbalances in smaller business access to finance (and indeed wider economic imbalances) evident in the UK before the Covid-19 crisis will persist or worsen as a result of the pandemic.

This means that our regional programmes are even more relevant, and we have been working with all relevant stakeholders to respond:

- Our regional funds have been responding rapidly, to deploy funding to new and existing local businesses. We've worked with the organisations which fund them, and our regional partners, to support implementation of this approach, which has also included capital repayment holidays and usage of CBILS and the Future Fund. To put this activity into context, deployment for Microfinance and Small Business Loans in the Regional Funds was three times greater in Quarter 1 2020/21 at £5.04m, compared to £1.54m in Quarter 4 of 2019/20.
- We increased our Regional Angels Programme's amount of capital for deployment for 2020/21 from £17.5m-£25m to £50m. This additional funding, from existing programme headroom, increases the pool of early stage equity capital available for investment in high potential businesses across the UK.
- Alongside this, we continue to appoint new delivery partners to the Regional Angels Programme, with £15m committed to Par Equity and £10m committed to Startup Funding Club in April 2020.

£25m

committed to Regional Angels Programme partners so far in 2020/21

"Our regional funds have been responding rapidly, to deploy funding to new and existing local businesses."

Encourage and enable smaller businesses

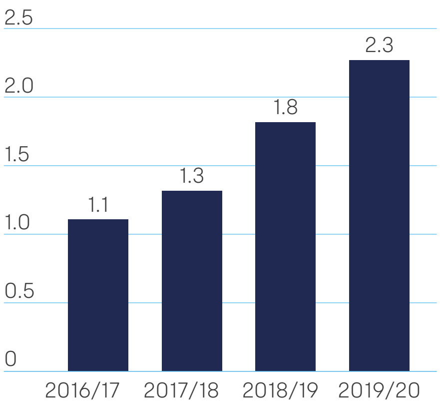
To encourage and enable smaller businesses to seek the finance best suited to their needs.

The challenge for smaller businesses, and why it matters

Improvements to small business finance markets have increased flows of finance and the diversity of products, providers and platforms available over the past five years.

Challenges remain, however, in terms of smaller businesses' awareness of, and willingness to use, finance.

Visitors to our smaller business-facing finance information websites*



* Finance Hub (launched June 2018), Business Finance Guide, regional funds pages and Start Up Loans, NPIF, MEIF, CIOSIF websites

22%

year-on-year increase in number of visitors to the Finance Hub, from 168k in 2018/19, to 205k

130%

year-on-year increase in the number of unprompted website sessions used to search for the Bank

24,000

followers across our Twitter and LinkedIn accounts

23m

average monthly audience reach, through media coverage

"Economic uncertainty throughout 2019 led to an increase in use of short-term finance like overdrafts and credit cards, for working capital and cashflow purposes."

These challenges include:

– The share of smaller businesses using finance has continued to decline over time, with the majority preferring to forgo growth rather than borrow.

– An equity information gap persists, with the majority of businesses saying they don't know anything about equity finance.

– Smaller businesses may not be aware of the full range of finance options available.

As a result, businesses may be missing out on finance that could help them facilitate the day-to-day running of operations, manage through times of uncertainty or fund longer-term expansion. Weak demand for finance is also particularly prevalent outside London and the South East, further reinforcing regional imbalances in access to finance.

If UK smaller companies are to maximise the business benefits that accessing external finance can bring, then barriers to awareness, knowledge and confidence need to be addressed.

Background and recent trends

The share of businesses using external finance has been on a downward trend since the financial crisis, falling from 44% in 2012 to 30% in Q2 2020. The brief pick-up in finance use in 2019 (peaking at 49% in Q2 2019) has not been sustained, although early signs from June 2020 indicate an increased proportion of smaller businesses using finance.

Economic uncertainty throughout 2019 led, in contrast, to an increase in use of short-term finance like overdrafts and credit cards, for working capital and cashflow purposes.

Reluctance to use finance has become more pronounced with only a minority of businesses willing to use finance to fund long-term growth. In the three months to March 2020 just 29% of SMEs were happy to use finance to grow and develop, down from 45% in 2015, reflecting systemic and structural problems on the demand-side that have persisted over time.

Attitudinal barriers to using finance persist, including a lack of awareness of the range of products and providers available and a persisting reluctance to give up control. Uncertainty over future economic conditions and a perceived difficulty in getting finance became more significant barriers to applying in 2019.

Case study
Dale Coaching

Region: London

Location: London

Programme: Start Up Loans

Jacqueline Hall decided to set up her own online mentoring company after being made redundant and then turned down from various job interviews.

Using a £2,500 loan from Start Up Loans, she set up a business offering development and career coaching, which has now grown to include a consortium with other female entrepreneurs that hosts workshops and encourages women into science, technology, engineering and maths (STEM) related careers.

Over a third of businesses relied on their own knowledge and experience of finance when deciding what to apply for and where to apply. The most popular next step after identifying a need for finance was speaking to their main bank, and few businesses consider more than one provider. This could indicate that businesses are not benefitting from the choice of finance options, providers and platforms now available and possibly not getting the most competitive deal for their business.

Responding to the challenges, and 2019/20 snapshot

Through our Demand Development Unit (DDU) we deliver a range of digital and physical activities to address long-term demand challenges.

24%

prompted awareness of the Bank amongst businesses that might seek finance

We group our interventions under four stages of a process aimed at encouraging and enabling demand for finance amongst UK smaller businesses:

- Awareness: building awareness of the Bank as a provider of trusted information on finance options
- Consideration: becoming the information provider of choice for UK smaller businesses
- Usage: ensuring the content we provide is easy to find and understand
- Outcome: seeing changes in how smaller businesses seek and use finance.

We have maintained progress across these stages. Prompted awareness of the Bank amongst businesses that might seek finance was at 24% at the end of March 2020 (an increase of 4 percentage points on last year), and we are increasingly being considered a core source of information, with our smaller business-facing finance information websites seeing visitors increase by a quarter compared to 2018/19. We have continued to refine our main digital information offerings, the Finance Hub and Business Finance Guide, which consistently see high site visitor recommendation ratings of around 80%. These sites aim to offer clear 'customer journeys', with best-in-class user experience and content provision on finance options.

In addition to the Finance Hub and Business Finance Guide, we provide further information to smaller businesses through our corporate and regional fund websites. These are complemented by the activities of our UK Network, a field-based team which is geographically dispersed around the country. The UK Network focuses on interactions with locally-based smaller business finance intermediaries, such as accountants, to build their access to finance ecosystems. Activities include:

- gathering place-specific market intelligence, which is then fed back to enhance the Bank's digitally provided information, as well as informing thinking on future Bank initiatives
- providing relevant information locally, such as sharing best practice identified in other regions, and the latest information on finance options
- convening and linking access to finance players to drive local improvements.

In 2019/20, in its first full year of operation, the UK Network exceeded its activity targets, including attending over 500 regional and local events and making over 215 presentations.

2019/20 KPI performance

Our KPI for this objective is a combination of achieving targets associated with key aspects (awareness, consideration, usage and outcomes), as well as delivering strategic milestones. All are assessed using a 'Red Amber Green' status.

Out of the six KPI elements, for 2019/20 we achieved Green in four areas, and Amber in two. An overall outturn rating of 'Amber' shows progress in addressing demand challenges, but we need to improve performance in certain areas, specifically around usage and outcome.

Target	Outturn
Awareness measure*: 22%	Green: 24%
Consideration measure†: 15,000	Green: 25,000
Usage measure‡: 79%	Amber: 77.5%
Outcome measure§: 73%	Amber: 71.6%
Demand strategy to be presented and approved by 31 March 2020	Green
Outcome measures designed and baselines established by 31 March 2020	Green

* Prompted awareness of the Bank (SME Finance Monitor)

† Organic brand search – number of sessions (Google Analytics)

‡ Net Promoter System score – likelihood to recommend the Finance Hub (Finance Hub Hotjar Survey)

§ Were you able to find the finance information you were looking for? (Finance Hub Hotjar Survey)

Interim Covid-19 update on Bank activities

The market situation has radically changed, with significant increases in demand for finance from UK smaller businesses severely affected by drops in cashflow.

Businesses are urgently seeking out information on their finance options. Our channels have seen significant increases in activity, such as a rise in daily unique visits to the Bank's website from under 1,000 to over 20,000 post-lockdown. This occurred alongside a significant increase in the Bank's media profile, given its national role in delivering these schemes, with articles about the Bank's work rising from 400-500 a month to over 7,000 in March 2020.

We have managed this unprecedented surge in demand for information by rapidly redesigning our websites to provide clear and detailed information on the Covid-19 response schemes for smaller businesses and their advisers, current accredited providers and potential future accredited providers.

Given Covid-19-related social distancing constraints, our UK Network was unable to continue its usual face-to-face activities.

We immediately re-assigned them to the Bank's delivery partner accreditation team, enabling us to respond to greater operational demand by substantially increasing the pace of such accreditations across our Covid-19 response schemes.

We continue to review customer insights to iterate our demand strategy in light of the crisis, and have altered our approach from one of demand generation to demand responsiveness. This includes addressing where regional demand-side imbalances have increased significantly following the Covid-19 pandemic and ensuring our programmes are best placed to support the short- to medium-term priority of businesses to survive, stabilise and then grow.

Because we want smaller businesses to trust our organisation to inform, enable and reassure them through difficult times and beyond, we put in place a new awareness campaign in June 2020, as well as creating British Business Bank-branded information as part of the digital journey on our Finance Hub.

The Finance Hub offers practical guidance and detailed signposting to external business support, information on our own interventions and products, and any events and partner programmes created and managed by our UK Network team. Across these regional activation programmes we are addressing the needs of a much broader business population – all those eligible for loans as part of the Covid-19 response – as well as those looking for information and support through these very uncertain times.

Nevertheless, while demand for finance has significantly increased due to Covid-19, it remains too soon to tell what the long-term impact will be on the attitudinal barriers identified earlier. We will be monitoring this closely as the situation develops.

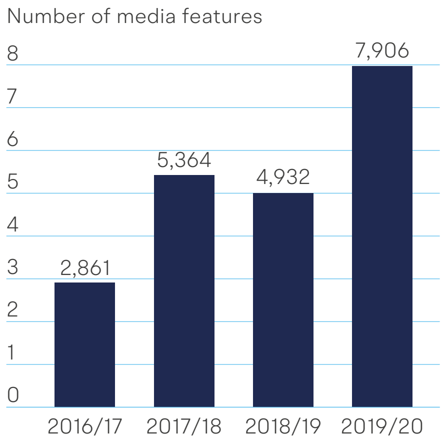
Centre of expertise

To be the centre of expertise on smaller business finance in the UK, providing advice and support to government.

As part of all its activities the Bank strives to build, refine and share its expertise, both to deliver more effective programmes and to advise and shape SME access to finance approaches with important stakeholders. This principally means working closely with the Bank's Shareholder, BEIS, and HM Treasury, but also with wider government stakeholders and significant actors in industry, academia, think tanks and the media.

Through this objective, we track the impact of our research and publications, as well as our involvement in opinion and policy engagement, and cross-government programme development.

Media features*



* Articles mentioning the Bank in all media (printed, broadcast, online).

5
flagship publications

23,000
downloads of our reports

146
times the Bank was mentioned in Parliament

27
one-to-one meetings with Secretaries of State and government Accounting Officers

Responding to the challenges, and 2019/20 snapshot

Research and publications

In addition to our two annual market reports – 'Small Business Finance Markets' and the 'Small Business Equity Tracker' – we published three topic reports on areas of market interest, and where there are knowledge gaps. These were:

– an October 2019 analysis, 'UK Venture Capital Finance Returns', providing the most comprehensive and robust approach to date for assessing the comparative performance of UK VC funds since 2002

– a November 2019 report, 'The Future of DC Pensions: Enabling Access to Venture Capital and Growth Equity', providing an in-depth assessment of the case for defined contribution (DC) pension scheme investment in these asset classes

– a February 2020 report, 'UK SME Exporting Trends in Finance and Trade', where for the first time the Bank co-sponsored a report with three government departments (BEIS, DIT and UKEF).

Our reports received significant media coverage and continue to be a 'go-to' source of market information for the finance industry and policy-makers.

Policy engagement

In 2019/20 we worked with relevant government departments to progress ideas – such as on regional access to finance and post-EU-Exit strategy. Budget 2020 provided the Bank with a further £200m for investment in high-growth businesses as the UK leaves the EU. Additionally, we progressed important initiatives, such as the £600m Life Sciences Investment Programme, working with the Office for Life Sciences, and the DCMS-led Creative Scale Up Programme. These areas remain active in 2020/21.

Opinion engagement

We continued to enhance our reach, both within the media and through important academic and industry partners (with average monthly audience in 2019/20 having increased to 23.3m, compared to 18.7m in 2018/19). The Bank's new Government Relations and Public Affairs (GRPA) unit increased engagement with senior government and parliamentary stakeholders across all political parties. The Bank was positively referenced in manifestos ahead of the December 2019 General Election.

"Budget 2020 provided the Bank with a further £200m for investment in high-growth businesses as the UK leaves the EU."

Case study

Capital Cars

Region: Scotland

Location: Edinburgh

Programme: ENABLE Funding

Capital Cars is an established Edinburgh taxi private hire company that provides a range of services from airport transfers to luxury chauffeur trips and exclusive tours of Scotland.

Looking to add to its green fleet of executive vehicles, Capital Cars received asset-based lending via ENABLE Funding delivery partner Simply Asset Finance to buy two electric Tesla Model S P85 vehicles.

The Teslas have proved popular with the executive market, but also for special occasions where customers like the idea that they are reducing their carbon footprint. Capital Cars hopes to buy more electric cars in the future to extend its fleet in line with customer demand.

Case study
Mitch's Kitchen

Region: South East

Location: Droxford

Programme: Start Up Loans

Chef and vegan cookery teacher, Mitch Lee, co-founded Mitch's Kitchen with his wife Shirin in 2017. The Hampshire-based online shop delivers home-cooked frozen vegan meals across the UK. The venture has also extended its business model to offer vegetable boxes to those self-isolating during Covid-19.

Mitch received a £15,000 Start Up Loan to help launch his business. Despite the difficult economic climate, Mitch's Kitchen saw a 208% increase in sales from March 2019 to March 2020, with sales continuing to grow.

Programme development

Working with government stakeholders we provide expertise for specific programmes and products, assisting with their development or refinement, to support government policy goals. In 2019/20, this included progressing further adjustments to ENABLE Build and the National Security Strategic Investment Fund. The latter secured an increase in its funding from £85m to £135m at Budget 2020.

2019/20 KPI performance

Our KPI for this objective considers both delivery of specific initiatives, as well as contributions through the year on the key aspects of research and publications, policy engagement, opinion engagement and programme development. At year-end, our Board and Shareholder examine an internal report on centre of expertise activities and agree an assessment of performance, using a 'Red Amber Green' status.

While it was recognised that the Bank achieved the agreed outputs in the year, the overall rating of 'Amber' reflected the need to have a greater impact within government, and to be more proactive in our own research and contributions to policy debates.

Target

Report on delivery of specific initiatives (seven for 2019/20) and contribution across key aspects by 31 March 2020

Outturn

Amber

Interim Covid-19 update on Bank activities

We delivered significant volumes of advice and research to help inform, in particular, our Shareholder and HM Treasury on the policy and delivery options for emergency smaller business access to finance interventions. We offered our full resources to government, leveraging our market and product experience, as well as our network of established delivery partners. As highlighted earlier, this helped the rapid delivery of four substantial national programmes across debt and equity.

As well as delivery of Covid-19 response schemes, we are supplementing some of our existing activities to take account of the recent changes to the economic environment and the expected requirements of the recovery phase. A good example of this is in the tempo of our economic monitoring which has, where relevant, accelerated to daily and weekly updates, to complement the usual monthly, quarterly and annual approach that was appropriate pre-crisis.

We have also adapted our research projects, modifying, for instance, the scope of our forthcoming entrepreneur research to include a Covid-19 'impact lens'. This means we will gather the appropriate data to provide a more relevant and timely body of evidence from which to drive our interventions, and effectively inform government policy development.

We maintain intensive engagement as the situation evolves, working closely not only with officials at BEIS and HM Treasury, but also with delivery partner representatives, business and finance groups, and a wide range of other stakeholders.

> "As well as delivery of Covid-19 response schemes, we are supplementing some of our existing activities to take account of the recent changes to the economic environment and the expected requirements of the recovery phase."

Manage risk and returns

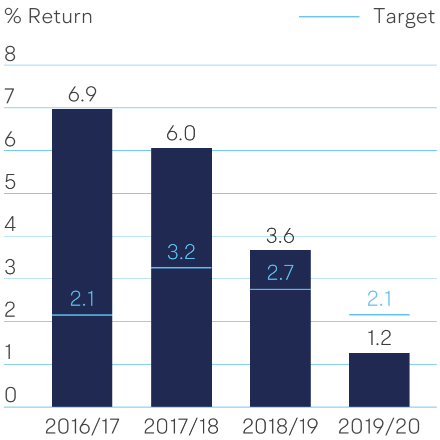
To achieve our other objectives whilst managing taxpayers' money efficiently within a robust risk management framework.

Why it is important

In deploying public funds, we are very mindful of our responsibility to deliver our programmes in accordance with the highest public sector and industry standards, whilst achieving value for money across our portfolio of activities.

We manage our finance programmes carefully, continuously monitoring and, where appropriate, increasing our operational and risk management capabilities. This helps to ensure that we deliver effectively, to required standards and within a clearly defined risk framework. To support this, we follow an annual business planning process in consultation with our Shareholder.

Return on capital employed*



* Return numbers are consistent with the IFRS restatement applicable from 2018/19. Target figures are from each year's business plan. For further information on these figures, see 2019/20 Financial Performance Summary on p38.

£370m*

increase in value of investment assets

99%

of colleagues completing e-learning training

£84.7m*

of adjusted net operating income

£48.5m*

of operating expenditure

* All figures include those assets managed by the Bank on behalf of BEIS and others.

Responding to the challenges, and 2019/20 snapshot

A significant achievement under this objective was the completion of the Bank's first National Audit Office (NAO) value for money study, published in January 2020. This involved nearly 12 months of fieldwork and analysis by the NAO, working closely with Bank colleagues across every department. The NAO's Comptroller and Auditor General was positive in his conclusions, finding that the Bank was "performing well" and that smaller businesses "have been growing as a result of its activities."[11] The report also stated that the Bank's costs were in line with organisations undertaking similar activities.[12]

The NAO's report set out recommendations for the Bank, its Shareholder, and HM Treasury.

We welcomed and accepted these findings and are in the process of responding in detail, including working with the NAO so that our response meets the intent of the recommendations. To this end, and as a first step, we are responding to one of their Bank-oriented recommendations on p148, with a summary of where we have withdrawn finance programmes since our inception, the reasons for this and the effect on our overall portfolio.

In November 2019, the Bank was granted a renewal of its State Aid settlement for a further five years. This enables the Bank to continue to operate within applicable competition law frameworks, as a publicly-funded entity operating in the markets. The renewal decision acknowledges the Bank's activities since 2014 as being compliant with the original State Aid decision, confirming that the Bank's remit and activities can remain along similar lines until 2024.

We commissioned and published independent evaluations of our Northern Powerhouse Investment Fund and Start Up Loans programme. Both confirmed that the programmes were delivering on their objectives and were ultimately value for money, with significantly greater economic benefits than costs commissioned.

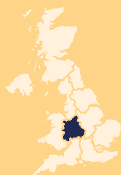
The Bank delivered 17 projects during 2019/20 broadly focused on improving the Bank's control environment and continuous improvement. Notable key projects delivered include the conclusion of the Bank's GDPR programme, implementation of IFRS9 reporting capability, creation of the Portfolio Operations function to support fund portfolio administration and middle-office activities, introduction of a contract management system, migration to a new payroll system and roll-out of a continuous improvement framework.

Case study
40 St Paul's

Region: West Midlands

Location: Birmingham

Programme: Start Up Loans



Amanjot Johal was inspired to create his own intimate and exclusive bar when he found that those in Birmingham didn't quite provide what he and his friends were looking for.

He spotted a gap in the market for a bar that specialised in gin and combined mixology knowledge with table service in a relaxed atmosphere. With support and a £25,000 loan from Start Up Loans, he cleared out an existing building, soundproofed the ceiling and built in a seating area. The venture was awarded 2019 Bar of the Year by Gin Magazine.

Case study
Organise

Region: London

Location: London

Programme: Enterprise Capital Funds

Organise is a 500,000-strong worker-driven online network of people who support each other at work by providing the tools, support and confidence people need to improve their work lives.

Started in 2017, founders Bex Hay and Nat Whalley needed seed finance to upgrade their digital infrastructure and build additional tools to support grassroots campaign action.

Finance from the Ada Ventures' Enterprise Capital Fund has meant Organise has been able to grow rapidly, allowing it to keep up with demand and introduce new ways of supporting its members.

As an indication of our strong compliance culture, following the launch of a new e-learning programme in 2019/20, 99% of colleagues completed their required training. This ensures colleagues are aware of the Bank's key compliance policies and their associated legal and regulatory responsibilities.

2019/20 KPI performance

Our KPI for this objective is 'adjusted return on average capital employed' across our finance programmes.

Prior to Q4 2019/20, we were on track to achieve our targeted adjusted return. However, given the impact of Q4 2019/20 valuation adjustments and additional expected credit loss provisions, as Covid-19 emerged, the final outturn for the year is below the target.

Further detail on financial performance can be found in the 2019/20 financial performance and calculation of adjusted return section.

Target

Adjusted return on average capital employed of 2.13%, by 31 March 2020

Outturn

As of 31 March 2020, adjusted return on average capital employed was 1.20%

Interim Covid-19 update on Bank activities

The Bank's activities were severely affected by Covid-19. During this period we convened regular meetings of the Board, and Board Risk and Audit Committees, to oversee emerging risks and challenges. We invoked our Business Continuity Plan and moved swiftly to enable staff to work from home. We discuss this in more detail in the 'Our People' section.

While the Bank's objectives have remained the same, our Shareholder suspended a number of our underlying KPI targets at the outset of the pandemic, in line with an action plan agreed pre-crisis, to permit complete focus on the Covid-19 response and in recognition that any attempt to enforce the Bank's usual KPIs (such as a specific return target) would constrain it from acting countercyclically in partnership with government.

We will revisit our KPI targets in H2 of 2020/21 to ensure that appropriate accountability frameworks are in place to support the responsible, robust delivery of both the Bank's Covid-19 response schemes and effective management of existing finance programmes and non-financial activities.

We keep ongoing operational delivery of our Covid-19 schemes under constant review. We have scaled our resources – including via outsourced models where appropriate – to meet the management demands of what is now a significant emergency loan guarantee and convertible loan note portfolio.

Since 23 March, our schemes have delivered over £51bn of finance, with more than 1.2m facilities provided to businesses. During this period the Bank has grown the amount of finance it supports to businesses across the UK by a factor of seven and increased the number of businesses it is supporting by more than ten times. Any outsourcing remains under our close oversight and does not diminish our accountability for finance programme management.

We have re-prioritised our 2020/21 business plan to ensure our resources are focused where they're most needed. As the situation develops, we remain operationally positioned to respond as required, to support smaller businesses now and beyond the current pandemic.

2019/20 Financial performance and calculation of adjusted return

The principle of the adjusted return is to provide a measure of financial performance that includes the programmes on both the Bank's and BEIS's balance sheets.

The Bank manages a number of investments on behalf of BEIS under a service agreement; these include three regional funds, the ENABLE Guarantee and ENABLE Funding programmes and EFG. We also administer the assets and liabilities included on BEIS's balance sheet relating to these programmes.

The adjusted return calculation adjusts the Bank's audited profit before tax, interest payable, finance costs and the movements on the ECF loan commitment provision, and includes the net profit from the programmes that are managed by the Bank on behalf of BEIS. The return is also adjusted to eliminate the volatility of ECF valuation movements, which can significantly distort the performance from year to year, and to exclude the performance of the Start Up Loans programme.

As at the reporting date, the first of the four Covid-19 business loan schemes managed by the Bank had been in operation for just eight days with the other three becoming operational in April and May 2020. We are working with the Shareholder to determine what measures of performance for these programmes should be incorporated into the adjusted return calculation in future reporting periods. These schemes are not included in the 2019/20 adjusted return calculation but any impact would have been immaterial due to the timing of their launches.

"The investment portfolio comprises a mix of investments which contribute towards meeting the Bank's overall strategic objectives."

Financial performance and calculation of adjusted return on average capital employed

Year ended 31 March 2020 (£m)	Audited Accounts	Adjustments for SUL*	Adjusted British Business Bank plc*	Programmes managed on behalf of BEIS*	Adjusted Net Assets
Investment assets					
BBI – Investment Programme	617.0	0.0	617.0	0.0	617.0
BBI – Other programmes	622.1	0.0	622.1	0.0	622.1
BPC (Venture/Growth)	325.1	0.0	325.1	0.0	325.1
ECF	253.3	0.0	253.3	0.0	253.3
Other Venture Capital	35.7	0.0	35.7	93.4	129.1
ENABLE Funding	0.0	0.0	0.0	411.3	411.3
Wholesale and Guarantee	3.3	0.0	3.3	21.1	24.4
Start Up Loans	120.9	(69.2)	51.7	0.0	51.7
	1,977.4	**(69.2)**	**1908.2**	**525.8**	**2,434.0**
Investment liabilities					
Wholesale and Guarantee Solutions	0.0	0.0	0.0	(42.7)	(42.7)
ECF	(145.7)	0.0	(145.7)	0.0	(145.7)
	(145.7)	0.0	(145.7)	(42.7)	(188.4)
Net investment assets	**1,831.7**	**(69.2)**	**1,762.5**	**483.1**	**2,245.6**
Other assets and liabilities					
Cash	63.7	(1.5)	62.2	0.0	62.2
Tangible and intangible assets	14.0	(0.8)	13.2	0.0	13.2
Loans and borrowings	(601.1)	69.2	(531.9)	0.0	(531.9)
Net other receivables and payables	230.9	2.7	233.6	0.0	233.6
	(292.5)	69.6	(222.9)	0.0	(222.9)
Total net assets	**1,539.2**	**0.4**	**1,539.6**	**483.1**	**2,022.7**

The column 'Audited Accounts' in the table above analyses the investment assets and liabilities in the Consolidated Statement of Financial Position on p119 by business activity.

* Unaudited

Financial performance and calculation of adjusted return on average capital employed (continued)

Year ended 31 March 2020 (£m)	Audited Accounts	Adjustments for SUL and ECFs*	Adjusted British Business Bank plc*	Programmes managed on behalf of BEIS*	Adjusted Return*
Investment income					
BBI – Investment Programme	15.9	0.0	15.9	0.0	15.9
BBI – Other programmes	3.5	0.0	3.5	0.0	3.5
BPC – Venture/Growth	0.0	0.0	0.0	0.0	0.0
ECF	0.0	11.5	11.5	0.0	11.5
Other Venture Capital	0.5	0.0	0.5	4.9	5.4
ENABLE Funding	0.0	0.0	0.0	23.9	23.9
Wholesale and Guarantee	0.0	0.0	0.0	0.0	0.0
Start Up Loans	31.6	(31.6)	0.0	0.0	0.0
Investment income	**51.5**	**(20.1)**	**31.4**	**28.8**	**60.2**
Management fee and other income	20.8	0.0	20.8	(15.5)	5.3
Grant income	16.7	(16.7)	0.0	0.0	0.0
SUL inter-co interest	0.0	1.0	1.0	0.0	1.0
Gross operating income	**89.0**	**(35.8)**	**53.2**	**13.3**	**66.5**
Net investment costs					
BBI – Investment Programme	3.3	0.0	3.3	0.0	3.3
BBI – Other programmes	11.3	0.0	11.3	0.0	11.3
BPC – Venture/Growth	18.0	0.0	18.0	0.0	18.0
ECF	(8.4)	8.4	0.0	0.0	0.0
Other Venture Capital	(0.8)	0.0	(0.8)	0.0	(0.8)
ENABLE Funding	0.0	0.0	0.0	0.0	0.0
Wholesale and Guarantee	0.0	0.0	0.0	(13.6)	(13.6)
Start Up Loans	(68.4)	68.4	0.0	0.0	0.0
Net investment costs	**(45.0)**	**76.8**	**31.8**	**(13.6)**	**18.2**
Net gain on write down of repayable capital grant	**37.8**	**(37.8)**	**0.0**	**0.0**	**0.0**
Net operating income	**81.8**	**3.2**	**85.0**	**(0.3)**	**84.7**
Other operating costs					
Staff Costs	(30.7)	3.6	(27.1)	0.0	(27.1)
Other Costs	(35.5)	14.1	(21.4)	0.0	(21.4)
Total operating expenditure	**(66.2)**	**17.7**	**(48.5)**	**0.0**	**(48.5)**
Net operating profit before ECF provisions and interest	**15.6**	**20.9**	**36.5**	**(0.3)**	**36.2**
ECF derivative gain (cash)	0.0	0.7	0.7	0.0	0.7
ECF permanent diminution in value	0.0	(11.5)	(11.5)	0.0	(11.5)
Adjusted return	**15.6**	**10.1**	**25.7**	**(0.3)**	**25.5**
Average Capital Employed					**2,026.3**
Adjusted return on average capital employed					1.2%
Cost/income ratio					**57.3%**

The column 'Audited Accounts' in the table above analyses income and expenditure in the Consolidated Statement of Comprehensive Net Income on p118 by business activity.

* Unaudited

Overall results contributing to the adjusted return for 2019/20

- Adjusted net operating income (operating income minus investment costs) was £84.7m.
- We generated an adjusted net operating profit of £36.2m.
- Net assets increased by £71.2m to £2,022.7m.
- We made new commitments of £1,091m to funded programmes and £649m to guarantee programmes.

Key drivers of financial performance

As an investment business focusing on generating appropriate risk adjusted returns on our capital investment, our financial performance is dependent on a number of significant items, including:

- the amount of capital we have committed and the time period over which that funding is deployed
- the underlying performance of our investments and their ability to make interest and debt repayments
- over time, the ability to exit investments successfully and make a capital profit
- events impacting on the macroeconomy. As has been observed in 2019/20, our performance can be impacted by external economic factors.

The investment portfolio comprises a mix of investments which contribute towards meeting the Bank's overall strategic objectives. Some investments earn a commercial return whilst others generate a return which is below the market rate. It is the performance of the commercial investments managed by British Business Investments Limited and British Patient Capital Limited that makes the greatest contribution to the Bank's overall return.

Adjusted return

Our adjusted net operating income for the year was £84.7m despite a challenging final quarter in which performance was affected by the impact of Covid-19. Adjusted operating expenditure was £48.5m, resulting in a 1.2% return on average capital employed, which whilst below the target return of 2.1%, represents an encouraging performance.

The year-on-year increase in operating costs is in the context of an expansion in activities. The cost/income ratio at 57.3% is higher than 2018/19's figure of 43.1%, reflecting both the increased activities of the Bank and the exceptional impact of Covid-19 on our income.

The loss before tax shown in the Consolidated Statement of Comprehensive Net Income is £(2.1m) compared to a profit of £81.3m the previous year. This is primarily driven by three factors:

- a reduction in net gains on investment assets
- increased expected credit loss provisions
- additional provisions in respect of new ECF loan commitments.

The reduced investment gains and increased expected credit losses can largely be attributed to the impact of Covid-19 and are discussed in more detail in the paragraphs below. The additional provisions in respect of new ECF loan commitments reflect the fact that the Group accepts a lower than market rate of return from ECF investments and makes provision for the difference between the expected return and the market return at the time that a commitment is made. In 2018/19 there were no new ECF commitments whereas in 2019/20 two new commitments gave rise to the provision.

"The Bank manages a number of investments on behalf of BEIS under a service agreement; these include three regional funds, the ENABLE Guarantee and ENABLE Funding programmes and EFG."

2019/20 markets, portfolio composition and valuation impacts

Public markets have been volatile since the beginning of the Covid-19-related downturn, initially showing declines, followed by recoveries as they reacted to the stimulus from government interventions. Historically, venture and growth investment valuation movements in the private markets have lagged those in the public markets. This has been observed in previous periods of volatility and is due to the time difference of reporting cycles, with daily market pricing in public markets compared with pricing that reflects quarterly valuation events in the private markets.

The Bank's investment portfolios are diverse in their size, sector and exposure to risk. The nature of the lending within the Amortised Cost portfolio, particularly Start Up Loans and peer-to-peer platform lending (lending to start-ups and micro-businesses often without collateral), are investments that are more vulnerable to the impact of the economic downturn. The Fair Value Through Profit or Loss (FVTPL) investment portfolio is more diversified with a wider spread of investments ranging from early stage start-ups to mid-market corporates. The Venture and Growth investment funds and ECF have significant investments in high-growth, early-stage technology-led businesses that have been relatively resilient to the impact of Covid-19. BFP Mid Cap and the Investment Programme are weighted more towards the traditional sectors of the economy which have been more exposed to the impact of Covid-19.

FVTPL Portfolio

The valuation impact of Covid-19 on the Group's FVTPL investments gave rise to both gains and losses in the final quarter of the year. The net impact which could be attributed to Covid-19 is estimated to be a reduction in value of £(20m) in the final quarter of the financial year. Within this net impact there were gains of £48m and losses of £(68m).

This net impact reflects the nature and characteristics of the portfolios. The Venture and Growth, UKIIF and Enterprise Capital Funds portfolios, which in aggregate have a value of £720.7m, have been relatively resilient to the impact of Covid-19 due to their significant exposures to early-stage investments and technology-led businesses. Investments in the BFP Mid Cap and Investment Programme portfolios, which account for £770m of value, have been more heavily impacted as they are more weighted to traditional sectors of the economy such as retail and hospitality.

Whilst the relative resilience of the FVTPL portfolio has been encouraging, we are aware that there is potential for further significant downward pressure on these valuations. As at the date of our financial year end 31 March 2020, the UK lockdown had only been in place for eight days and the full impact on both the economy and the performance of the Bank's underlying portfolio investments during 2020/21 has yet to be established. It is probable that the full impact will only become discernible over future reporting periods.

Expected Credit Loss provisions

ECLs are derived by applying forward-looking economic forecasts to estimate the future performance of the lending compared with the point-in-time methodology applied in the valuation of the FVTPL investments. Whilst the ECL provisions incorporate the Bank's best estimates of the impact of the downturn on the economy, it is possible that conditions in 2020/21 could worsen more than anticipated, which would give rise to further provisions being required.

Amortised Cost Portfolio

The Covid-19 impact on the Group's Amortised Cost investments has resulted in additional ECL provisions of around £30m out of a total of £42.0m provided in the year. The Group's accumulated ECL provision is £122.7m on a gross amortised cost amount of £594.7m.

In addition, Covid-19 has resulted in a significant increase in ECLs relating to the EFG guarantees, estimated to be around £38.4m, however these are excluded from the adjusted return calculation.

"Our programmes invest in a wide range of products through private sector partners, to enable us to achieve our objective of providing greater volume and choice of finance to smaller businesses."

Funding

We require funding to make investments and run our operations. Depending on our requirements, these can be met from our investment earnings, our Shareholder or an external funder.

To fund our capital investments, we generally issue shares to our Shareholder and utilise available cash from our operations, including asset repayments. At 31 March 2020, the UK government held shares totalling £1,496m in British Business Bank plc, comprising the entire share capital of the company. There was no additional share capital issued during the year. As at 31 March 2020, the Group had outstanding borrowing from the Nuclear Liabilities Fund of £531.8m.

The Group has made two loans to BEIS which at 1 April 2019 had a total balance outstanding of £525m. During the year BEIS repaid £284.6m of that loan which was applied by the Group to meet its capital commitments.

Our operating costs are funded through investment income plus a management fee charged to BEIS for managing assets on its behalf. Income received from this charging mechanism was £15.5m in 2019/20.

At 31 March 2020, British Business Bank plc held £63.7m of cash balances. The Bank maintains sufficient cash balances to fund short-term investments and operational expenditure requirements. Most of these funds, £46.6m, are held within the Government Banking Service to ensure that there is minimal cost to the Exchequer.

Our assets

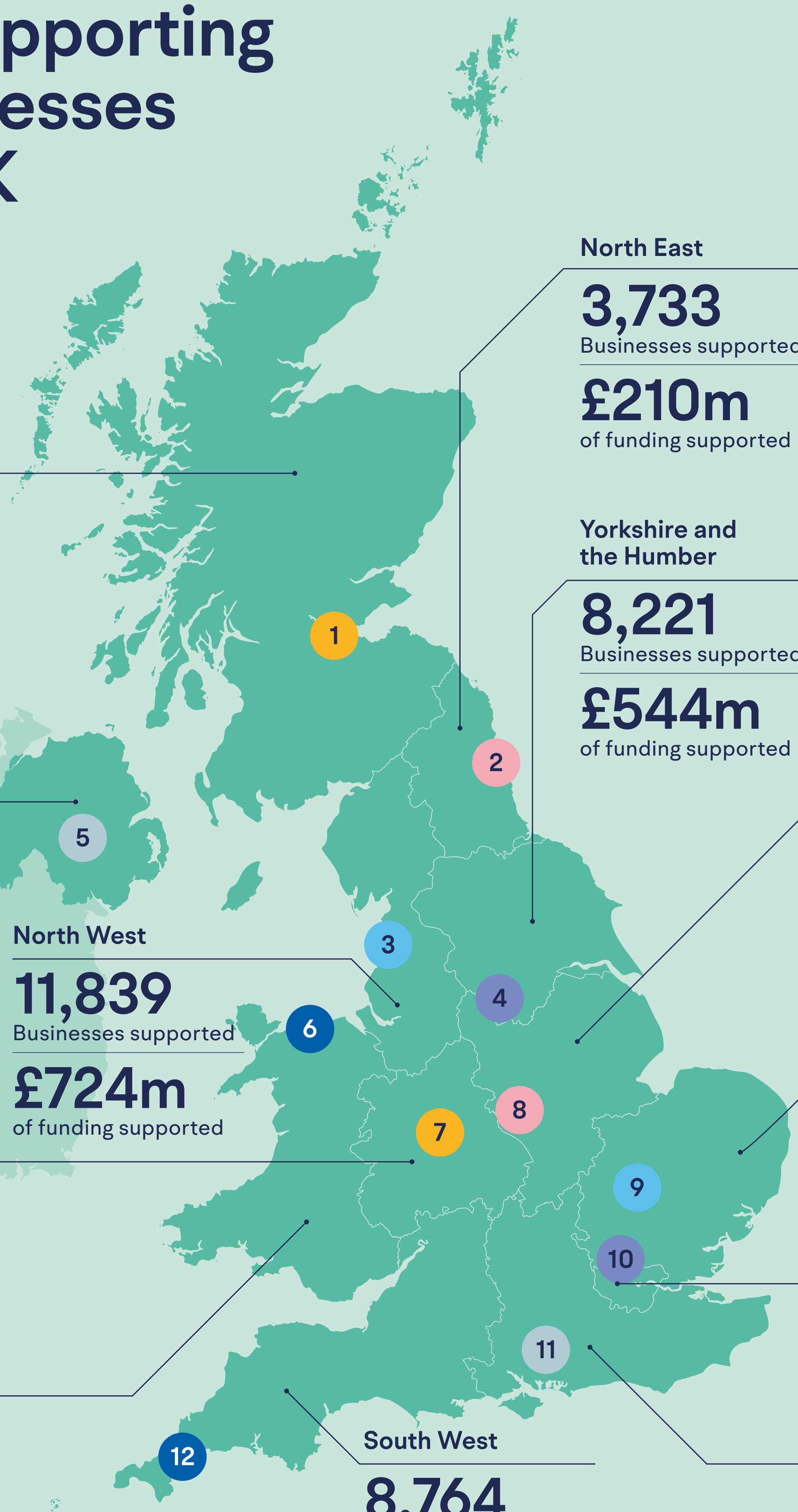
Our programmes invest in a wide range of products through private sector partners, to enable us to achieve our objective of providing greater volume and choice of finance to smaller businesses. In total we had £2,434.0m of adjusted investment assets at 31 March 2020, comprising debt financing to businesses of £1,726.5m provided through BBI, Start Up Loans and the ENABLE programmes, and £707.5m of equity financing provided through BPC, ECF and other venture capital programmes.

During the year to 31 March 2020 we invested £782.8m. This comprised £702.5m from the Group's own resources and £80.3m of funding from BEIS into the ENABLE Asset Finance programme which the Bank manages on its behalf. The investment made by the Group directly included £252.9m from BBI's Investment Programme, £79.8m from its BFP Mid Cap programme, £149.9m in Venture/ Growth and £75.7m in ECF.

We received capital and interest returns on our investments of £422.9m, including £185.6m from the Investment Programme, £91.5m from BFP Mid Cap and £9.8m to BEIS from the ENABLE Asset Finance programme.

For many investments, we make commitments to an investment fund and the fund draws down cash as it is needed. This means that there is, generally, a delay between our investment commitment and capital being drawn. As of 31 March 2020, the British Business Bank Group had further undrawn commitments of £1,601.3m to be invested across its portfolio.

How we're supporting smaller businesses across the UK



Scotland

6,729
Businesses supported

£298m
of funding supported

Northern Ireland

2,128
Businesses supported

£64m
of funding supported

West Midlands

8,428
Businesses supported

£510m
of funding supported

Wales

5,295
Businesses supported

£184m
of funding supported

North West

11,839
Businesses supported

£724m
of funding supported

North East

3,733
Businesses supported

£210m
of funding supported

Yorkshire and the Humber

8,221
Businesses supported

£544m
of funding supported

South West

8,764
Businesses supported

£442m
of funding supported

Excludes those loans and investments for which regional data is not available.

East Midlands

6,566
Businesses supported

£400m
of funding supported

East of England

8,644
Businesses supported

£779m
of funding supported

London

14,415
Businesses supported

£2,661m
of funding supported

South East

12,335
Businesses supported

£948m
of funding supported

Some of the smaller businesses we are supporting across the UK

Scotland

1 **Capital Cars**
Programme: ENABLE Funding
Location: Edinburgh

North East

2 **Seaweed & Co.**
Programme: Start Up Loans
Location: North Shields

North West

3 **Get Work**
Programme: NPIF
Location: Lytham St Annes

Yorkshire and the Humber

4 **Airship Services Ltd**
Programme: NPIF
Location: Sheffield

Northern Ireland

5 **Neurovalens**
Programme: Northern Ireland Growth Finance Fund
Location: Belfast

Wales

6 **Merrion Hotel**
Programme: CBILS
Location: Llandudno

Find out more about these and other case studies by visiting the British Business Bank website.

West Midlands

7 **40 St Paul's**
Programme: Start Up Loans
Location: Birmingham

East Midlands

8 **e-Bate**
Programme: MEIF
Location: Leicester

East of England

9 **Endomag**
Programme: Enterprise Capital Funds and British Patient Capital
Location: Cambridge

London

10 **Organise**
Programme: Enterprise Capital Funds
Location: London

South East

11 **Mitch's Kitchen**
Programme: Start Up Loans
Location: Droxford

South West

12 **Clinical Design Technologies**
Programme: CIOSIF
Location: Truro

Future developments

As the significant economic impacts of the Covid-19 crisis continue to play out, the Bank will continue to act countercyclically.

We will continue to work closely with all relevant public and private stakeholders, maintaining our agile approach, so our programmes remain best placed to:

- **support UK businesses to 'bridge' across the crisis,** so they are in a better position to emerge and thrive post-crisis, as the economy opens up
- **support businesses into the recovery,** carefully targeting our resources to help deal with the specific challenges faced by new and more established businesses across the UK as they rebuild following the pandemic.

These two near-term aims will be central in informing how we deliver against our objectives, while we also work to respond to the exceptionally challenging economic environment and the rapid and substantial expansion of the Bank during the crisis. Alongside this, we are working with the government to map out the next phase of the Bank's development.

We have already begun work in the following key focus areas:

Reviewing our operating model

We are examining options for our future operating model. We will consider and enhance capabilities in response to the expanded set of responsibilities deriving from Covid-19, and any future changes in remit, so that we can be best set up for long-term success.

Navigating the future economic environment

We will continue to monitor complex and uncertain economic conditions, modifying our approach where necessary. These conditions include non-Covid-19 drivers such as the outcome of any trade agreements reached with the EU and other countries. Reflecting our Centre of Expertise role, we will use our market insight to steer appropriate decision-making for our programmes, inform forward planning, and support wider government policy-making.

Scaling our risk management

We have appropriately scaled both the reach and intensity of our tracking of emerging and principal risks, in line with Covid-19 scheme growth, and will continue to do so. Consistent with our existing risk management techniques, this ongoing tracking covers both specific and systemic risks, which could put the Bank's operations or delivery of Covid-19 and existing schemes in jeopardy. As well as the increased risks attached to our Covid-19 schemes, and the deep economic challenges felt by the businesses using them, we are conscious of potential impacts on our delivery partners.

"We will continue to monitor complex and uncertain economic conditions, modifying our approach where necessary."

Risks

The Directors have carried out a robust assessment of the principal risks facing the Bank. We reviewed our risk framework during 2019/20 with a focus on how it operated relative to the Bank's risk appetite.

Material risks: issues that could prevent us from successfully delivering the Bank's objectives

Covid-19 was declared a pandemic as we approached the year-end 2019/20 and the Bank responded by liaising swiftly with the government to develop and implement a range of debt and equity response schemes, which being both delivered at pace and countercyclical will mean that the Bank will deviate from its standard Risk Appetite positions in supporting the government's policy objectives. We continue to monitor and respond to a number of material risks.

Economic downturn

The full short- and long-term impacts of the outbreak of Covid-19 on the UK are currently unclear with the effect still evolving at this time, although it is expected to have a material negative impact on the UK and global economy in the short to medium term. The outbreak and subsequent UK lockdown are negatively impacting almost all sectors of the UK economy and the demand for goods and services. This in turn is impacting UK business performance and confidence. The impact of the pandemic on the UK is likely to materially impact the financial performance of the Bank's portfolio of assets.

The Bank has been actively supporting the government's policy responses on SME access to finance having launched a range of debt guarantee programmes and a further programme to support high-growth companies. These programmes are countercyclical in nature and design and, as such, credit and investment loss expectations are significantly higher than the Bank's standard programmes to date. The Bank will actively monitor the evolving risk profile of the underlying portfolios.

Further external macroeconomic and political factors may affect both the flow of finance to, and demand from smaller businesses. In such cases, the Bank could also experience credit and investment losses, as smaller business end-borrowers have difficulty in meeting their commitments.

EU Exit

The UK's recent withdrawal from the EU, and the eventual outcome of any trade agreements reached with the EU and other countries, may have an impact on the economic environment and the behaviour of smaller businesses in the UK in relation to demand for finance, with the risk of impacting both portfolio performance and the successful delivery of our programmes.

The Bank continues to engage with key stakeholders to consider how government policy impacts smaller business access to finance and how the Bank can support businesses as the transition period ends and as new rules come into place from 1 January 2021.

People skills, wellbeing and capacity

During the Covid-19 outbreak the Bank's employees transitioned to a remote working basis during a period of exceptional growth. This brings with it potential risks to the wellbeing of colleagues, and given the relative complexity of the Bank's operations to its size, there is a risk of 'corporate stretch' in delivering the Covid-19 response schemes.

The Bank supported colleagues with increased use of various online communication channels, assistance with home office equipment, health and wellbeing support including through an Employee Assistance Programme, and flexibility to support caring responsibilities.

The Board and Executive are focused on ensuring we have sufficient skilled resources in place to support the success of the new programmes and other policy initiatives that the Bank is undertaking. An assessment is taking place to review the Bank's operating model so we can better manage and deliver our expanded set of responsibilities.

Internal control, systems and processes

The Bank continues to focus on continual improvements to its operational processes, systems and internal control environment to mitigate the risk that they create excessive operational risks. The growth of the Bank's programmes and portfolio as a result of implementing the Covid-19 response schemes at pace means that further work is being taken to review the internal controls, systems and processes to ensure that they meet the necessary standards.

Effective project management processes are applied across the Bank's change programme, incorporating lessons learnt and best practice from previous project experiences. The Bank also undertakes Risk and Control Self Assessments to identify risks and assess controls in its processes, with action plans put in place to address unacceptable deficiencies.

Over the period of the Covid-19 crisis the Bank successfully implemented its business continuity processes, with colleagues working remotely over the period with a high level of effectiveness.

Delivery partners

The Bank's business model is heavily reliant upon our delivery partners for efficient execution of the Bank's interventions and increasing the diversity of funding for small businesses. The consequent higher level of reputation risk inherent in this model is managed through the Bank's due diligence regimes and regular audit programmes, alongside regular meetings with delivery partners and service level agreements.

The implementation of the Covid-19 response schemes saw a significant increase in the number of the Bank's delivery partners, often through fast-tracked accreditation processes and reduced due diligence. In some circumstances the crisis will have put considerable stresses on some delivery partners.

The Bank will need to continue to monitor the performance of its delivery partners, including the use of audits, and the practical implementation of complex intervention schemes delivered at pace.

"The Bank's business model is heavily reliant upon our delivery partners for efficient execution of the Bank's interventions and increasing the diversity of funding for small businesses."

Suppliers

The Bank uses a number of third parties to support its IT and operational processes and there is a risk that such suppliers do not meet the Bank's requirements. The extent of this support, particularly on operational processes, has increased and is expected to continue to increase through the delivery of the Covid-19 response schemes. It is important to manage actively these suppliers to check that they deliver against the Bank's expectations and the Bank is enhancing its Supplier Relationship Framework to further support this.

Information management and security

As the bar continues to rise, there is a risk that our IT infrastructure is not resilient enough to withstand disruption without loss of data or functionality, or fails to comply with the requirements of the EU General Data Protection Regulations (GDPR). The Bank has undertaken an extensive programme to enhance its internal controls and cyber security protection software. In May 2019, the Bank achieved Cyber Essentials Plus, building on the Cyber Essentials and IASME accreditations achieved in 2016, and continues to improve on its IT infrastructure. We are in the process of joining the National Cyber Security Centre (NCSC) Active Cyber Defence programme.

Stakeholder engagement and delivery on objectives

As a national development bank wholly owned by the UK government, we support government policy objectives in relation to smaller business finance. Given this, while we are operationally independent, there is always a risk that UK government policies or decision-making processes may impact the Bank's ability to manage its business model and/or deliver its Business Plan.

Some processes around decision-making and approvals rely on input from ministers and central government administration. When these structures change (due to a new government, new minister or machinery of government changes, for example), there is a risk of delays in decision-making that could impact the Bank's ability to meet its objectives or to deviate from its designated Risk Appetite.

"As a national development bank wholly owned by the UK government, we support government policy objectives in relation to smaller business finance."

Viability statement

The British Business Bank is 100% funded by the UK government, its sole Shareholder, and its continuation as an entity is ultimately at the discretion of the UK government. In assessing the Bank's prospects, the Board assumes that the Bank has, and will continue to have, government support and that its funding arrangement will remain in place. The Board undertakes a business planning exercise each year to outline the five-year plan for the organisation, which is then approved by the Shareholder. The Board considers this five-year planning horizon an appropriate period over which to assess the Bank's prospects.

Additionally, the Bank has undertaken analysis of stress scenarios of its portfolio and the Board has been given assurance that, in the event of a downturn, the Shareholder will continue to support the Bank's activities in relation to smaller businesses, subject to government policy.

The Board believes it is possible to form a reasonable expectation of the Bank's long-term viability during that planning period of five years, taking into account the principal risks to meeting its objectives.

The Bank has a financial framework in place that allows us to alter the allocation of funding between programmes and years, subject to staying within agreed parameters.

Accordingly and on this basis, the Board has a reasonable expectation that the Bank will be able to continue in operation and meet its liabilities as they fall due.

Our people

If the British Business Bank is to deliver on its mission to make finance markets work better so smaller businesses across the UK can prosper and grow, it needs the right people – committed colleagues with appropriate expertise and experience, and the ability to work collaboratively and creatively to put in place interventions that address market weaknesses.

To attract and retain the right people, our aim is to continue to make the Bank a great place to work, where colleagues bring their whole selves and do the best work of their career. In doing so, they can deliver the best experience for businesses, our delivery partners and other stakeholders.

In 2018/19, we devised a multi-year people strategy to deliver this aim. This was in response to the Bank's rapidly evolving structure, and also in recognition of the Bank as an increasingly mature, sizeable and complex organisation. Even before the Covid-19 pandemic, we were becoming larger and more multi-faceted, so strengthening and building on the essence of what it's like to work for the Bank became more important than ever.

Our people are able to operate in both private and public spheres, and can cross disciplines to respond to the wide range of issues we are asked to address. This dynamic is underpinned by a strong sense of purpose, passion for the work, cross-team working, adaptability, and collaboration with stakeholders.

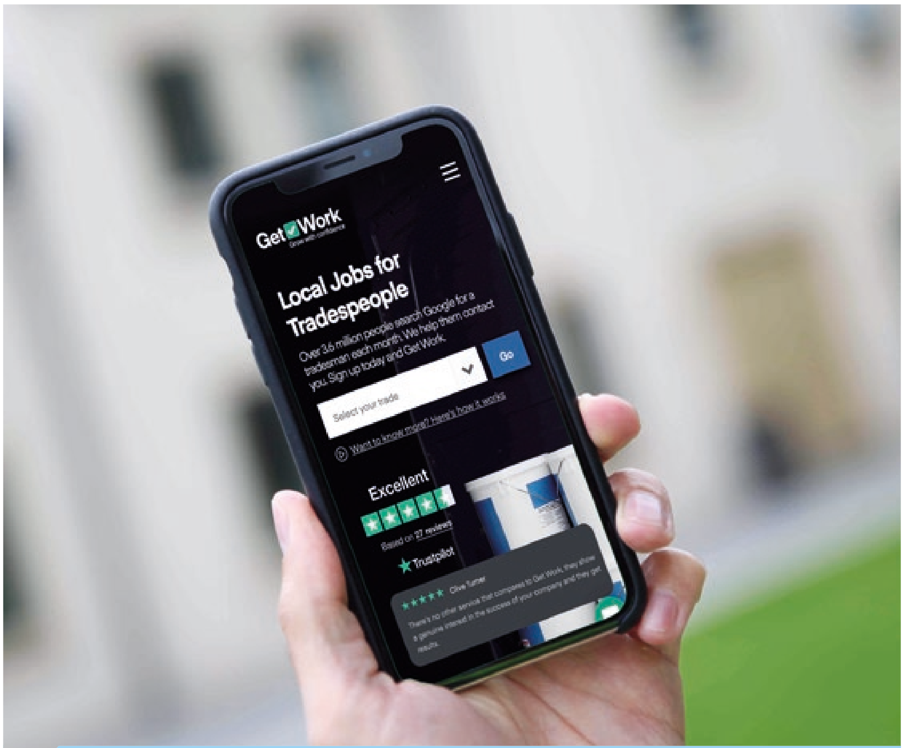
Our people strategy works through three strategic pillars:

- **Culture and engagement:** by enhancing our corporate culture and workforce engagement, we create the right working environment for colleagues to succeed
- **Leadership:** by embedding the behaviours we expect to see, we empower and develop our people, to lead the organisation into the future
- **Reward and recognition:** by valuing our colleagues in the right way, we engender a culture of high performance aligned to our mission and purpose.

These pillars are further supported by our policies and activities under diversity, inclusion and belonging – including corporate social responsibility.

The following section describes the highlights of the initiatives we carried out under the above pillars in 2019/20, during which our people strategy focused on creating a more consistent and common understanding of our values, behaviours and purpose. As Covid-19 emerged, we rapidly shifted our delivery emphasis, ensuring colleagues could work safely and effectively through the crisis.

"Even before the Covid-19 pandemic, we were becoming larger and more multi-faceted."



Case study
Get Work

Fund manager: Business Finance Solutions and Merseyside Special Investment Fund

Region: North West

Location: Lytham St Annes

Programme: Northern Powerhouse Investment Fund

Lancashire-based Get Work helps tradespeople grow their businesses by making web advertising more accessible. Customers sign up to a fully automated platform that takes care of the entire advertising process, from setting up a dedicated landing page and Google Ads account to generating leads, managing calls and monitoring data.

Established in 2018, the company is using a £100,000 loan from the Northern Powerhouse Investment Fund (NPIF) to set up an office for its current five employees. It aims to expand its workforce to 16 people by October 2021.

Get Work will also put the funding towards improving its website and sign-up process, as well as increasing its marketing spend to encourage more tradespeople onto the platform.

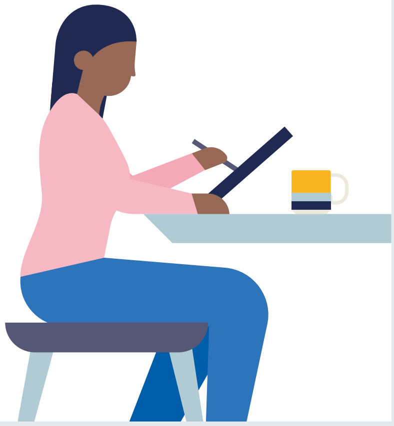
Our activity in 2019/20

7%

year-on-year increase in colleague engagement score

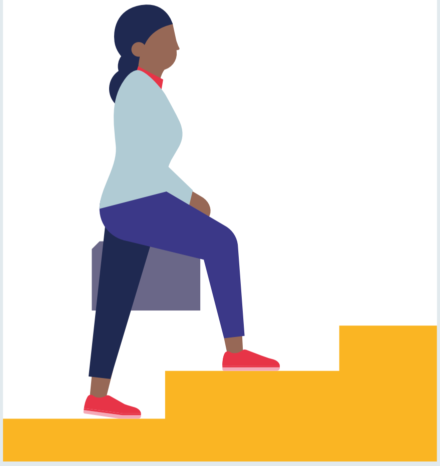
83%

of colleagues took our 2020 engagement survey



32

colleagues promoted in 2019/20



79%

of colleagues feel able to strike the right balance between work and home life

116

new joiners welcomed in 2019, bringing our organisation to 352 colleagues

15

paid internships during summer 2019

Culture and engagement

A stronger culture and more engaged colleagues mean we create the right working environment for colleagues to succeed. Our work under this pillar in 2019/20 focused on four main areas – protecting and strengthening our culture, colleague engagement, health and wellbeing, and performance management.

Protecting and strengthening our culture

It's important that we deliberately foster a strong culture that underpins our mission, purpose and strategy, and that we reinforce and strengthen that culture to support our operational scale-up, the customer experience and external brand. Following a pilot culture assessment and colleague workshops, the Board agreed a cultural engagement plan, focusing on line manager development, brand engagement and refreshing our values.

"If colleagues are engaged, they're more likely to enjoy working for the Bank, and produce their best work."

Colleague engagement

If colleagues are engaged, they're more likely to enjoy working for the Bank, and produce their best work. Following our 2019 engagement survey, we committed to four key areas of action to increase engagement, support collaboration, and optimise career development – purpose and culture, leadership and communication, development, and empowerment. Our quarterly colleague forum, chaired by senior leaders, plays an important role in the Bank's future success by representing, consulting with and gathering feedback from our people across the business. The forum was recently cited as an example of best practice by the Involvement & Participation Association and the Chartered Institute of Personnel and Development.

Health and wellbeing

The health and wellbeing of colleagues is of paramount importance to us. In 2019/20 we increased our focus on mental health. We also ran an enhanced programme of wellbeing events and promoted further sources of support available to colleagues.

Performance management

Stronger performance management helps us build overall organisational success and the productivity and wellbeing of our employees. In 2019/20, we enhanced our performance management cycle, and increased managers' accountability for their teams, while encouraging more regular one-to-ones and coaching. We improved our colleague feedback mechanisms and expanded the scope of development plans to include all colleagues, and defined pay for performance reward principles, reinforced through a Bank-wide ratings calibration to ensure consistency.

Key focus areas for 2020/21

Our key focus areas for 2020/21 include articulating a compelling employee value proposition, cascading a values-based leadership programme to embed the refreshed values, and ensuring our colleague experience delivers a strong employer brand.

Leadership

Helping our people to become better leaders at all levels sustains our business now and into the future. In early 2019/20 we created our new leadership framework, which sets out the behaviours to drive our success, and integrated it into 360º feedback, development planning and recruitment.

Building leadership skills

In 2019/20 we focused on upskilling and equipping line managers, launching a curriculum and on-line toolkit to provide easy access to information and resources.

Supporting our people in their careers

In 2019/20 we filled 18% of vacancies internally, and promoted 32 colleagues to roles with greater responsibility. During the year we welcomed 116 new colleagues to the Bank, increasing our headcount to 352. To grow our leadership pipeline from within, we ran talent reviews to assess the current strengths, potential for senior leadership, and how to meet the development needs of colleagues at director level and above. We also ran a successful internship programme in the summer of 2019, with 15 interns receiving varied placements and one returning to a permanent role.

Key focus areas for 2020/21

In 2020/21 we will be focusing further on career development, leadership and management development, and capability frameworks.

Reward and recognition

Our reward and recognition approach enables the recruitment and retention of the right people so we can deliver successfully on our business objectives. We do this through a fair pay and benefits structure that is aligned with the external market, while at the same time delivering value for money for HM Government.

Reward

In 2019/20 we revised our bonus structures for more junior colleagues to provide greater differentiation around performance. We also introduced a new 'job family' structure and associated salary ranges.

Benefits

We reviewed our benefits offering to support further the health and wellbeing of our people. We now offer all our colleagues an enhanced and competitive benefits package.

Recognition

We recognise outstanding colleague performance through a spot bonus system – with 19 given out in 2019/20 – and awards at our yearly 'One Team' all-colleague meetings.

Key focus areas for 2020/21

In 2020/21 we will focus on enhancing colleague recognition and embedding a total reward approach.

Case study
Healthy Nibbles

Region: Scotland

Location: Edinburgh

Programme: Start Up Loans

Sara Roberts, an ex-branding consultant, launched Healthy Nibbles in 2014 with the help of a £20,000 Start Up Loan.

After returning to the UK from Kenya, Sara noticed there were very few healthy snack options for consumers on the go. Healthy Nibbles offers a subscription snack box service and contactless vending machines nationwide; clients include Transport for London.

During Covid-19, Healthy Nibbles has adapted, focusing on its subscription snack boxes for customers who are working remotely.

Sara's future ambitions are to develop her own range of products to stock in Healthy Nibbles vending machines and snack boxes.

Diversity, inclusion and belonging

It's important to us that the British Business Bank is a welcoming environment which promotes diversity, inclusion and belonging. This helps to bring out the best in our people, promotes creativity and innovation, and increases the depth and breadth of experience and thinking we can draw upon.

Employee involvement

Our equal opportunities, diversity and inclusion policies support managers and colleagues in creating a culture where everyone is welcome. We provide equal opportunities to all colleagues, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation.

Colleagues can raise concerns through our grievance and 'speak up' procedures, our engagement survey, on-line learning modules and a visible HR team in both Sheffield and London.

Our calendar of diversity events includes celebrating various religious festivals and International Women's Day.

Recruiting a diverse and inclusive workforce

To attract the right mix of people, all our external recruitment events and marketing materials support and promote diversity and inclusion. We support our management teams to recruit and assess candidates fairly and ensure our recruitment partners align with our values, behaviours, and diversity and inclusion approach, take care that our candidate pools are gender balanced, and that shortlists for senior roles support our diversity and inclusion agenda.

"We provide equal opportunities to all colleagues, irrespective of age, disability, gender, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex, or sexual orientation."

Gender pay gap

We published our 2019 gender pay gap report, including what the Bank is doing to narrow its pay gap. The mean gender pay gap for the Bank is 11%, which is lower than both the average gender pay gap for all UK employees (17.3%), and for all employees in the Finance and Insurance sector (33.7%).

11%

The mean gender pay gap for the Bank.

Women in finance

We are a signatory of the Women in Finance Charter. By October 2021, our aim is that 50% of our Senior Leadership Team (Bands 1-3) are female (within a 10% tolerance). As at 31 March 2020 our Senior Leadership Team was 67% male and 33% female.

Disability

The Bank works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help them work effectively within the business. We are a disability confident employer as part of the UK government's Disability Confident scheme and belong to the Business Disability Forum.

Championing human rights

We operate in accordance with the Universal Declaration of Human Rights and take account of other internationally accepted human rights standards. We also promote human rights through our employment policies and practices, and through the responsible use of our products and services.

Gender representation by grade

The graphic below sets out the gender diversity of the Board, Executive Committee members, Senior Leadership Team and employees at 31 March 2020.

We recognise that we have more to do to increase the number of women in our senior management positions and we are taking steps to make sure that senior colleagues, when recruited, reflect the characteristics of the diverse and inclusive workforce we seek to create.

Board

Female	2019	3
	2020	2 (-1)
Male	2019	7
	2020	9 (+2)

Executive Committee members

Female	2019	3
	2020	4 (+1)
Male	2019	5
	2020	6 (+1)

Senior management*

	Female	Male
2019	37.2%	62.8%
Change	-1.6%	+1.8%
2020	35.6%	64.4%

All employees†

	Female	Male
2019	43.6%	56.4%
Change	-2.6%	+2.6%
2020	41%	59%

*Managing Directors, Directors and Senior Managers
† Employees as a percentage of headcount at 31 March 2020

Data protection

Across the British Business Bank, we respect and protect the privacy and security of personal information. Our privacy statement governs how we collect, handle, store, share, use and dispose of information about people. We regard sound privacy practices as a key element of corporate governance and accountability.

Ethnic diversity

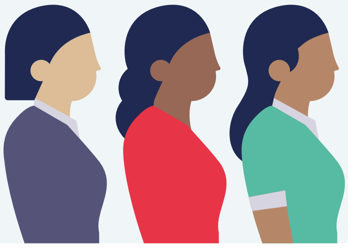
We value people from all backgrounds and have an inclusive approach that celebrates diversity. We believe that our inclusive culture helps us to attract, retain and develop our employees and encourages them to bring their whole selves to work.

In summer 2019, our policy and communications team hosted a masterclass on how to manage an integrated communications campaign for graduate trainees from the Taylor Bennett Foundation, a charity which encourages black, Asian and minority ethnic (BAME) graduates to pursue a career in communications.

18%

of our colleagues disclose that they have a black, Asian or minority ethnic background

Asian/Asian British	**13.4%**
Black/African/Caribbean/Black British	**2.0%**
Mixed	**3.1%**
White	**69.3%**
Undisclosed	**12.2%**



Belonging – Corporate Social Responsibility

We think it's important that colleagues feel not only part of the British Business Bank, but also positively connected with wider society while working here. Colleagues across the Bank worked together on initiatives focused on all three areas of our CSR mandate in 2019 – charity work, environment and volunteering.

Charities we supported included:

- Bluebell Wood Children's Hospice in Sheffield
- Shelter
- The British Heart Foundation
- The Trussell Trust.

Our people took part in fundraising activities throughout the year. This included over 100 colleagues completing over 30,000,000 steps as part of our 'Step-Up September' Challenge. As well as raising funds, this also helped to promote wellbeing and cross-team collaboration, with enough steps to walk between our offices in London and Sheffield 50 times. We also had several colleagues take part in the London to Brighton bike ride to raise money for the British Heart Foundation.

Colleagues can also take a day once a year to undertake voluntary work. They used these days in 2019/20 to support a wide range of causes, which included serving and packing food at local food banks and supporting a local art organisation working with artists that have a variety of learning disabilities and physical disabilities. Many colleagues also give their own time to volunteer with charities or act as trustees.

Colleagues are committed to reducing waste and limiting our impact on the environment at work by supporting local suppliers, reducing packaging, and by recycling more effectively. Under normal circumstances, we also operate a cycle to work scheme and use video conferencing to reduce travel between offices.

Catherine Lewis La Torre
Chief Executive Officer
10 September 2020

Covid-19

Our people-approach during the Covid-19 pandemic has focused on ensuring the wellbeing of all colleagues, who were designated as critical workers due to their responsibility for implementing the government's emergency loan schemes.

During the first phase of the pandemic, we aimed to reduce the risk of infection and protect colleagues' health through clear communication of government advice and taking precautionary measures such as increased cleansing of offices and provision of hand sanitiser.

When the British Business Bank decided that all colleagues would work from home from 17 March, just prior to lockdown on 23 March, our IT pre-planning enabled us to move our entire workforce to homeworking, which we supported by providing working from home advice and additional office equipment where required.

We have taken colleagues' mental health and physical wellbeing very seriously during the pandemic, advising line managers on supporting their teams, encouraging use of our employee assistance programme and signposting to further health and wellness advice and support, including webinars provided through our wellbeing partner. We also shared and put in place ideas for staying connected socially.

From the start of the pandemic up to 11 August 2020 we have had eight colleagues who reported sick due to self-diagnosis of coronavirus, and several colleagues were unable to work due to family care commitments. We continued to pay full contractual sick pay for all colleagues who were unwell and full pay for those self-isolating or who were unable to work due to another Covid-19 reason. We did not put any of our people on the furlough scheme or make anyone redundant due to the pandemic.

We greatly appreciate the increased hours colleagues regularly worked, over and above their normal duties to help put the government's emergency interventions in place, as well as taking on additional responsibilities and stepping in to bridge gaps for absent colleagues. We took the decision to run our engagement survey during the pandemic, to gain full insight into how colleagues were feeling during these challenging times.

"Our IT pre-planning enabled us to move our entire workforce to homeworking, which we supported by providing working from home advice and additional office equipment where required."

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's audit report for the year ended 31 March 2020.

The Corporate Governance Statement is set out on p68 and forms part of this report.

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 Group during the course of this year is included in the strategic report
- Information on our employment disability policies and on our action on colleague engagement is in the 'Our People' section
- Details of the significant events since the balance sheet date are contained in note 29 to the financial statements
- Information about the use of financial instruments by the company and its subsidiaries is given in note 2 to the financial statements

The Bank has chosen to include information regarding future developments within the strategic report because we believe it is better placed there.

Directors

During the year the following individuals served as Directors. The process for appointment and removal of Directors is set out in the Corporate Governance Statement found on p68.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Lord Smith	Non-executive Director	5 July 2017	4 July 2020	5 July 2020	4 July 2021
Neeta Atkar	Non-executive Director	1 July 2016	30 June 2019	1 July 2019	30 June 2022
Jonathan Britton	Non-executive Director	28 April 2014	27 April 2017	28 April 2017	27 July 2021[1]
Piers Linney	Non-executive Director	7 December 2017	6 December 2020	7 December 2020	7 September 2021
Christina McComb	Non-executive Director	29 October 2013	18 November 2016	19 November 2016	15 November 2019
Dharmash Mistry	Non-executive Director	1 May 2019	30 April 2022	N/A	N/A
Amanda Rendle	Non-executive Director	7 December 2017	6 December 2020	7 December 2020	7 September 2021
Nathaniel Sloane	Non-executive Director	1 March 2020	28 February 2023	N/A	N/A
Ceri Smith	Shareholder Representative Director	29 October 2013	13 November 2016	9 August 2019	8 August 2022
Catherine Lewis La Torre	Chief Executive Officer	1 September 2020	30 May 2021	N/A	N/A
Keith Morgan	Chief Executive Officer	10 December 2013	31 August 2020	N/A	N/A
Christopher Fox	Executive Director	13 January 2015	31 March 2020	N/A	N/A
Patrick Magee	Executive Director	10 March 2015	N/A	N/A	N/A

Notes

1. Initial extension to 27 April 2020 which was then further extended to 27 July 2021.

Directors' biographies

Lord Smith of Kelvin
Chair

One of the UK's most experienced Chairs, Lord Smith has led organisations in the private, public and voluntary sectors. He is a chartered accountant by profession and former President of the Institute of Chartered Accountants of Scotland.

He is currently Chair of IMI plc, Forth Ports Ltd, Scottish Enterprise and the Commonwealth Games Federation Partnership. He is also Chancellor of the University of Strathclyde.

Neeta Atkar
Senior Independent Director and Chair of Risk Committee

Neeta has 30 years' experience in financial services, having held a series of positions at both banks and insurance companies in the private and public sectors, working across all aspects of risk.

Neeta is a Non-executive Director of Nomura Europe Holdings plc, Nomura International plc, Nomura Bank International and Nomura Financial Products Europe. She is also a Non-executive Director of Yorkshire Building Society. She chairs the Risk Committees for both firms. She has been a magistrate for over 20 years.

Jonathan Britton
Independent Non-executive Director and Chair of Audit Committee

Jonathan Britton has over 35 years' experience in banking, spanning corporate, SME and investment banking businesses.

A qualified chartered accountant, he was Divisional Finance Director and Head of Strategy for the Wholesale Division at Lloyds Banking Group from 2009 to 2013, and a Non-executive Director and Chair of the Audit Committee of ICIC Bank UK Ltd from 2011 to 2017. Jonathan is currently a Non-executive Director of Nomura Europe Holdings plc, Nomura Bank International plc and Nomura International plc. He is a also Non-executive Director of Richmills Ltd and The Salcombe Boatstore Ltd.

Piers Linney
Independent Non-executive Director

Piers Linney is an entrepreneur and investor with a professional background in the City in both law and investment banking.

A qualified lawyer, Piers has founded several technology and communication businesses and has won a range of entrepreneurship awards, as well as appearing as an investor on Dragons' Den. He sat on the Cabinet Office SME Panel and the Board of TechUK.

Christina McComb OBE
Senior Independent Director until 15 November 2019

Christina McComb has held a range of senior private and public sector roles and has a track record in private equity and venture capital investment as well as advising small and medium-sized businesses.

Christina is currently Chair of OneFamily, a modern financial mutual organisation, and Chair of Standard Life Private Equity Trust plc. She is Senior Independent Director of Big Society Capital, a trustee of NESTA, and a Non-executive Director of Nexeon Ltd.

Dharmash Mistry
Independent Non-executive Director

Dharmash Mistry is an experienced venture capitalist, entrepreneur and Non-executive Director.

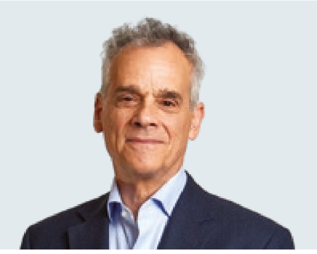
He is currently a partner at LGT Lightstone and prior to this was a partner at Balderton Capital and Lakestar. Prior to this, he was Group MD of Emap Consumer Media, where he co-led the delisting of Emap plc from the FTSE 100 and sold the consumer business.

Dharmash sits as a Non-executive Director on the Board of BBC Commercial Holdings Ltd and is Chair of blow Ltd.

Amanda Rendle
Independent Non-executive Director and Chair of Remuneration Committee

Amanda has over 30 years of marketing and communications experience in agencies and clients across numerous sectors including financial services, professional service and FMCG. She was HSBC's Global Head of Marketing for Commercial Banking and Global Banking and Markets.

Amanda is a Non-executive Director for Tesco Bank, Countrywide plc and Jaren Consulting plc. She is a Fellow of the Marketing Society and a member of Women in Advertising & Communications London.



Nathaniel Sloane
Independent
Non-executive Director
(since 1 March 2020)

Nat worked in the private sector for 25 years as an entrepreneur, as management consultant at Bain and Company, and venture capitalist at Accenture Technology Ventures. He remains an active investor in alternative assets.

Since 2002 Nat has been active in the social impact market. He co-founded Impetus Trust, the first UK venture philanthropy trust fund, and is a founder trustee of the Education Endowment Foundation, the UK's largest What Works Centre, chairing its Finance and Endowment Committee.

He is founder chair of Social and Sustainable Capital, one of the UK's largest impact investment funds, chairs Pause, a charity that supports women to reduce the number of children taken into care, and was previously chair of The National Lottery Community Fund in England.

Ceri Smith
Shareholder
Representative Director

Ceri Smith is a Director at UK Government Investments whose responsibilities include overseeing the British Business Bank on behalf of its Shareholder, the Secretary of State for Business, Energy and Industrial Strategy.

He previously worked in HM Treasury, the Department for Business and the Foreign Office. Responsibilities have included advising on business finance, employment law, SME taxation and developing the government's Enterprise Capital Funds programme.

Catherine Lewis La Torre
Chief Executive Officer
from 1 September 2020

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

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

Keith Morgan CBE
Chief Executive Officer until 31 August 2020

Keith led the establishment of the British Business Bank from January 2013, being appointed Chief Executive Officer in December 2013. He joined the Bank from UK Financial Investments, where he managed the government's shareholdings in Bradford & Bingley and Northern Rock.

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

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

Christopher Fox
Chief Financial Officer until 1 December 2019
Executive Director until 31 March 2020

As CFO, Christopher's remit also included Policy and Communications, and Strategy, Economics and Business Development. Prior to joining the Bank in 2015, Christopher was Head of Banking at UK Financial Investments (UKFI), overseeing HM Government's shareholdings in Lloyds Banking Group, RBS and UK Asset Resolution (UKAR). He also served as a Non-executive Director on UKAR's Board.

Previously, Christopher spent almost 20 years at UBS, providing capital markets and investment banking advice to governments and financial institutions globally.

Patrick Magee
Chief Commercial Officer

Patrick joined the British Business Bank as Chief Operating Officer in October 2014, becoming CCO in October 2017, with responsibility for Guarantee and Wholesale, Start Up Loans and Venture Solutions business areas. As a member of the government's Shareholder Executive, Patrick had previously led the team working on the Bank's set-up and governance and represented the government's Shareholder interests on its Board. Previously, Patrick spent 18 years in investment banking, including as a managing director of corporate finance at JP Morgan Cazenove. In May 2020, Patrick became a Non-executive Director of International Biotechnology Trust plc.

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. The Company provides Directors' and Officers' liability insurance.

Going concern

The Directors who served during the year have a reasonable expectation that the Company and the Group have 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 significant accounting policies notes in the financial statements.

"We aim to follow and to promote good sustainability practice, to reduce the environmental impacts of all our activities and to help our clients and partners to do the same."

Sustainability principles

The British Business Bank is committed to promoting sustainability. Concern for the environment and promoting a broader sustainability agenda are integral to our professional activities and the management of the organisation. We aim to follow and to promote good sustainability practice, to reduce the environmental impacts of all our activities and to help our clients and partners to do the same.

Legal requirements

The methodologies used to calculate the emissions are under paragraph 15 of Schedule 7, Large and Medium-sized Regulations:

- At least one ratio which expresses the quoted company's annual emissions in relation to a quantifiable factor associated with the company's activities.
- With the exception of the first mandatory reporting year, a repeat of the emissions data disclosed in the previous year's directors' report alongside information on emissions from the present year.
- A statement of whether the period for which it is reporting the information required by paragraph 15 (2) and (3) is different to the period in respect of which the directors' report is prepared.

Greenhouse gas emission reporting

Scope of Disclosure

The British Business Bank reports its Scope 1 (Gas) and Scope 2 (Electricity) emissions based on its property portfolio, and Scope 3 (Travel) emissions based on employees' rail and air business travel.

The Bank can provide emission reporting from 2015/16 to date in respect of its premises and company travel activities.

The British Business Bank occupies four floors of office space. Reported Scope 1 emissions cover those generated from the gas and oil used in all buildings from which the Group operates, with Scope 2 covering emissions from electricity. The figures provided in Scope 1 and Scope 2 in the table opposite are estimated emissions relating to energy consumed in properties where the landlord controls the supply and re-charges the British Business Bank.

Reported Scope 3 emissions relate to business travel undertaken by all colleagues using rail and air travel which has been booked through our corporate travel agent. These results are summarised in the table opposite. Currently we do not report on any other Scope 3 emissions.

Greenhouse gas emission assessment parameters

Baseline year for total reported CO_2 Emissions	2016
Consolidation Approach	Operational control
Boundary Summary	All facilities under operational control
Emission factor data source	DEFRA (2016)
Assessment Methodology	The Greenhouse Gas Protocol revised edition (2004)
Intensity Ratio	Emissions per full-time employee (FTE)

Greenhouse gas emissions

	2018/19 Scope CO_2 (tonnes)	2019/20 Scope CO_2 (tonnes)	Comparison 2018/19 to 2019/20 (%)
Scope 1 (Gas)	39	31	-20%
Scope 2 (Electricity)	241	138	-41%
Scope 3 (Travel)	83	120	+44%
Total	363	289	
Total per average number of employees	1.21	1.56	

Directors' disclosure to auditors

Each of the persons who are 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 information 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
10 September 2020

Corporate governance statement

The British Business Bank constitution consists of its Articles of Association and a Shareholder Relationship Framework Document between the British Business Bank and the Department for Business, Energy and Industrial Strategy (BEIS).

The British Business Bank plc operates, so far as is practicable, a best practice corporate governance framework, and complies with the UK Corporate Governance Code other than certain provisions connected to relations with Shareholders which are covered by the Shareholder Framework Document, or specifies and explains any non-compliance in its Annual Report.

The UK Corporate Governance Code is freely available from the Financial Reporting Council. The UK Corporate Governance Code acts as a guide to a range of key issues to ensure effective Board practice.

Apart from those set out in this Annual Report, the Board is not aware of any deviations from the relevant aspects of the Code in the period since 1 April 2019 insofar as it applies to the British Business Bank.

Our Section 172(1) statement is set out on p70.

Our principal decisions

We describe below how the directors had regard to key stakeholders when making principal decisions during the year which were material in the financial context of the Group.

The Board also made important decisions about its composition, reporting Keith Morgan's announcement that he would be standing down from his role as Chief Executive and appointing new Non-executive Directors, and (as below) relating to the Group's engagement with its key stakeholders.

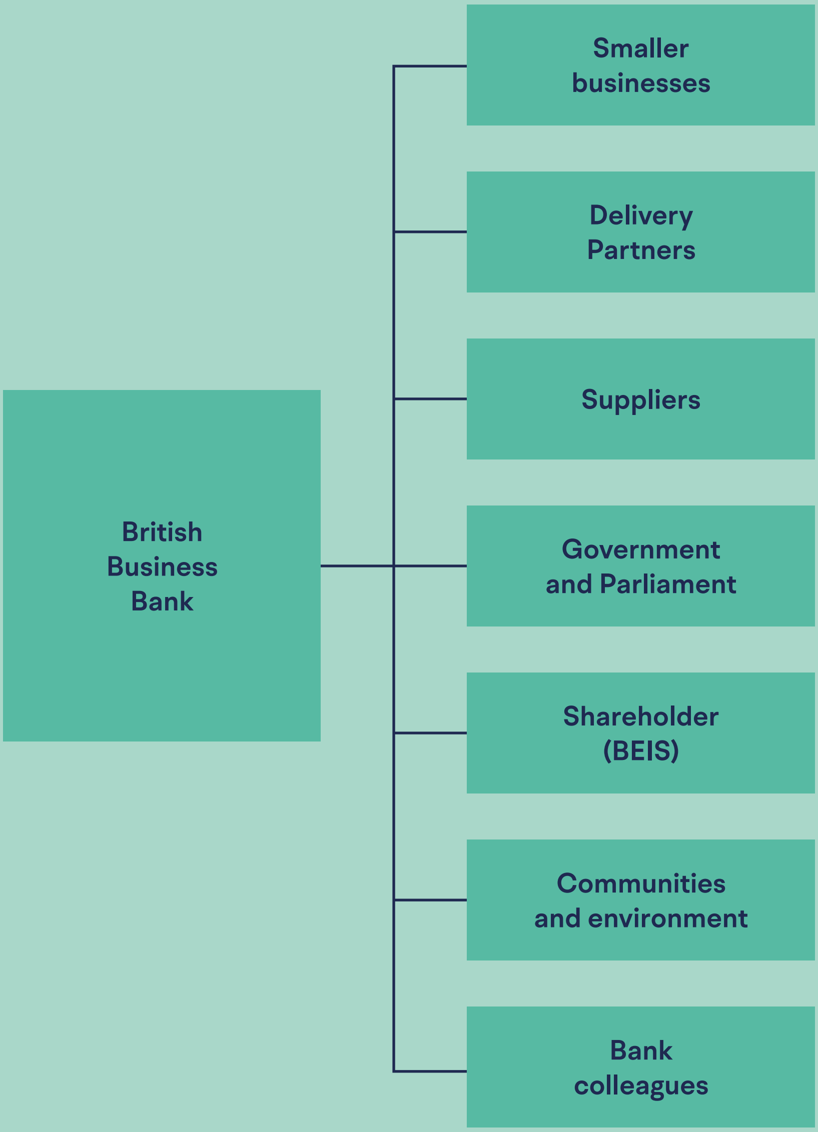
Our Board remained focused on our governance, objectives and risks to the Group's business throughout the year. Various key frameworks, control documents and core processes were reviewed and approved, including the schedule of matters reserved for the Board as described on p74. These included the Group's risk appetite framework and risk appetite statement, business plans for British Business Investments and British Patient Capital, and the Group's Policy Governance Framework.

"Our Board remained focused on our governance, objectives and risks to the Group's business throughout the year."

Principal decisions	Key stakeholders	More information
In April 2019, our Board approved our participation in the launch of ENABLE Build to make available up to £1bn in guarantees provided by the Ministry of Housing, Communities and Local Government (MHCLG) to support finance for smaller housebuilders. We are working alongside Homes England to deliver this programme.	The Board considered how to expand its support to SMEs and the wider community by working alongside BEIS to tackle access to finance and the UK housing shortage.	Details of our Risk Management Framework for these types of decisions are included on p81. This decision was taken in the context of the Bank's credit and investment risk appetite being medium to high; with robust due diligence being undertaken on Homes England as our Delivery Partner.
In May 2019, our Board approved a £450m ENABLE Guarantee to Barclays to launch a new cash back scheme for term loans to eligible SME borrowers, the largest of its kind launched in the UK.	The Board considered that the guarantee would improve an existing finance solution available to SMEs.	We explain the impact of our ENABLE Guarantees and other such programmes on p20 of the report.
In March 2020, our Board approved the arrangements for the Coronavirus Business Interruption Loan Scheme (CBILS) delivered by the Bank through (initially) more than 40 accredited lenders and partners to support the continued provision of finance to UK SMEs during the Covid-19 pandemic.	This decision was essential in aligning our objectives with the government's policy and to help eligible SMEs experiencing cashflow issues due to the pandemic, for the benefit of them, the economy and wider community.	More information on the CBILS can be found on p16.

Our key stakeholders

Our Section 172(1) statement highlights our seven key stakeholders, and why and how we engage with them.



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

Smaller businesses

Why?

To deliver products that customers value, we must engage with SMEs in building new solutions and improving existing ones.

How?

- Face-to-face interactions
- Use of digital channels such as the Finance Hub, social media, email campaigns and newsletters
- Attendance at and hosting events
- Intelligence gathering and research on relevant topics on both a regular and ad-hoc basis, via (for example) surveys and focus panels, often resulting in publications
- Gaining feedback on programmes via evaluations

Where?

See p28 for detail of SME engagement measures including our Demand Development Unit interventions and use of our Finance Hub and Business Finance Guide.

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

Delivery Partners

Why?
Our overall success largely depends on their performance and conduct, which encourages private sector investment whilst helping address regional imbalances in the UK.

How?

- Origination and market engagement (events, meetings)
- Onboarding, including iterative programme application support with potential Delivery Partners (DPs)
- Marketing and brand alignment, building working relationships with new and existing DP marketing and branding counterparts
- Ongoing relationship management:
  - Dedicated contact managers for accredited DPs, to resolve issues and manage change/ performance
  - Performance and risk monitoring, for example via quarterly reviews, through fora such as Limited Partner Advisory Committees, as well as independent audits of DPs
  - Networking and community-building events for accredited DPs, to build best practice and share experiences, such as the quarterly DP fora for SUL and annual British Patient Capital GP/LP forum

Where?
British Business Bank website: british-business-bank.co.uk/ ourpartners

and SUL's website: startuploans.co.uk/ delivery-partners

P48 includes details of risk management related to our delivery partners.

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

Suppliers

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

How?

- Operating an enhancing supplier relationship management framework

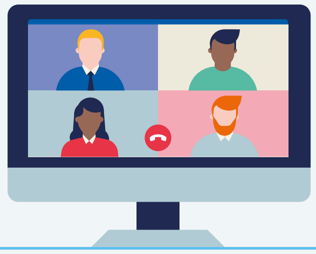
Where?
See p49 for information on the Bank's engagement with suppliers.

Government and Parliament

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

How?
- Regular events, roundtables and meetings
- Monitoring key issues across government departments, including through the Dod's Parliamentary monitoring service
- Programme of meetings with the BEIS and other ministers and other government officials
- National Audit Office Value for Money Study

Where?
Further information on the Bank's engagement with government is included at p49 in 'Stakeholder engagement and delivery on objectives'.



Shareholder (BEIS)

Why?

BEIS is vital to our operation and funding. Effective engagement with BEIS helps enable us to achieve our objectives in line with government policy priorities.

How?

- Regular meetings with BEIS, including quarterly Shareholder and policy meetings
- BEIS representative director on the Board

Where?

P68 provides some detail on decisions being made in consultation with BEIS.

> "Colleagues are our most valuable asset: without their knowledge and expertise we could not operate or achieve our aims."

Communities and environment

Why?

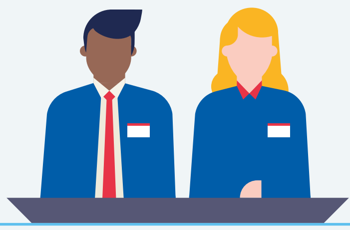
Our long-term success is tied inextricably to the progress of our communities and the preservation of our environment.

How?

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

Where?

Further information on our Corporate Social Responsibility initiatives can be found on p58.



Bank colleagues

Why?

Colleagues are our most valuable asset: without their knowledge and expertise we could not operate or achieve our aims.

How?

- Quarterly Town Halls and Annual All Colleague conference
- Annual engagement survey leading to action plans which are followed up with colleagues
- Colleague forum on business change, updates and wellbeing
- NED with a designated workforce engagement role

Where?

A separate report on p80 details our engagement with our colleagues. Further information on engagement in response to the Covid-19 crisis and measures to enable colleagues to work flexibly, safely and support their wellbeing can be found on p59.

Role and responsibility of the Board of Directors of the company

British Business Bank plc is led by its Board of Directors which is collectively responsible for the long-term sustainable success of the Bank, generating value for its Shareholder and contributing to the wider society. The Board is also responsible for establishing the company's purpose, values and strategy, and satisfying itself that these and its culture are aligned.

The Board's responsibilities include understanding the views of the company's other key stakeholders and considering the matters set out in section 172 of the Companies Act 2006 when making decisions. Amanda Rendle, an independent Non-executive Director, has been appointed to be responsible for workforce engagement.

As set out in the Shareholder Relationship Framework Document, the Board must have no fewer than eight Directors including six Non-executive Directors. Independent Non-executive Directors are to make up the majority of the Board.

Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively. The Board considers that the Chair was independent on appointment and that all Non-executive Directors other than Ceri Smith are independent for the purposes of the Code. Ceri Smith is the Shareholder Representative Director.

Although several Non-executive Directors have declared potential conflicts of interest, the Board considers them to be independent in character and judgement and therefore independent.

The Board reviewed the schedule of matters reserved for the Board in October 2018. The matters reserved for the Board include strategy and management, company structure and capital, financial reporting and controls, risk management and internal controls, approval of major projects and contracts, communications with our Shareholder, Board membership and other appointments, remuneration, delegation of authority, corporate governance, appointment of professional advisors, litigation and approval of overall levels of insurance.

Our Non-executive Directors scrutinise the performance of management against agreed objectives. The Remuneration Committee is responsible for setting appropriate levels of remuneration for Executive Directors and other Bank colleagues in consultation with our Shareholder. This is further explained in the Directors' Remuneration Report at p90.

"Our Board and Committees have the appropriate balance of skills, experience and independence to enable them to discharge their duties and responsibilities effectively."

The Chair is responsible for leading the Board and its discussions and for encouraging open debate and challenge. The Chief Executive leads the executive in the day to day running of the business and the implementation of strategy and is supported in this by the Executive Committee and the Senior Leadership Team.

As an organisation funded by taxpayers' money, the Bank is required to comply with the principles set out in managing public money (www.gov.uk/government/publications/managing-public-money).

The Chief Executive is the Accounting Officer. The responsibilities of the Accounting Officer include responsibility for the stewardship of the Bank's resources.

The Senior Independent Director is Neeta Atkar. The Senior Independent Director's responsibilities are to work closely with the Chair, act as an intermediary for other Directors as and when necessary and meet with other Non-executive Directors to review the Chair's performance following the Board evaluation exercise.

Appointment and removal of directors

The Shareholder Relationship Framework Document provides that no appointment or removal of a director of the Bank, or appointment or removal of any such director to or from an executive position, can be made without the prior written consent of the Shareholder. The Chair and the Senior Independent Director are appointed in a process chaired by a commissioner from the Office of the Commissioner for Public Appointments in line with the Shareholder Relationship Framework Document.

All newly appointed Non-executive Directors undergo a tailor-made induction programme. In addition, regular continuous education sessions are held covering topical issues.

The composition of the Board during the year is set out on p61 of the Directors' report.

In November 2019, Christina McComb stepped down as Senior Independent Director and Neeta Atkar was appointed to this position. In addition, Odgers Berndtson was appointed as an independent search consultant for the appointment of a new Board Member for the British Business Bank, and in March 2020 Nathaniel Sloane was appointed as Non-executive Director for a term of three years.

Keith Morgan stepped down as CEO on 31 August 2020. Catherine Lewis La Torre assumed duties as CEO on 1 September 2020.

The full biographies of all Board members can be found at: www.british-business-bank.co.uk/our-people

Annual Director election

At the 2019 Annual General Meeting (AGM) Dharmash Mistry was elected and all other Directors were re-elected.

Information to the Board

All Directors are provided with updates on corporate governance developments, legislative and regulatory changes, and relevant industry and technical information. The Board is supplied in a timely manner with the appropriate information to enable it to discharge its duties and any further information is readily available to all Directors. Since 2015 the Board has received board papers and information electronically, to increase efficiency, confidentiality and sustainability.

Board committees

The Board has established four Board Committees to ensure robust and effective decision making within the Group structure, namely Audit, Remuneration, Risk and Nomination committees. The British Business Bank Board has approved terms of reference for each committee.

Audit Committee

The Audit Committee is chaired by Jonathan Britton. Neeta Atkar and Dharmash Mistry were members of the Committee during the year, with Dharmash Mistry being appointed in May 2019 following his appointment to the Board. All members of the Audit Committee are independent Non-executive Directors. The Chief Executive Officer, Chief Financial Officer, Chief Risk Officer, General Counsel, Head of Internal Audit and a Shareholder Representative attend Committee meetings along with the external auditors who are invited to attend and report at all meetings. The Chair has the right to attend all meetings, and does so regularly.

Christopher Fox ceased being the Chief Financial Officer (CFO) on 1 December 2019. Phil Piers took over the role on that date, on an interim basis.

The Committee also meets privately with both internal and external audit. Attendance can be found on p80.

Role

The Committee's role is to review, monitor and make recommendations to the Board relating to:

- the 'going concern' nature of the Bank
- the integrity of financial reporting
- the financial statements and any issues and judgements they contain
- the adequacy and effectiveness of the internal and external controls
- overseeing the relationship with the Bank's external auditor.

The Committee also has oversight of the internal audit and audit planning process of the Bank.

During the financial year 2019/20, the Audit Committee considered and approved:

– the oversight of the Bank's financial reporting process and the process for preparation of the consolidated accounts

– the accounting policies adopted so the Bank as a whole complies with the applicable accounting standards and presents consolidated accounts that are true and fair

– methods used to account for significant or unusual transactions where different approaches are possible

– the assessment of, and process for preparing, the consolidated accounts

– the extent to which the Bank has complied with Shareholder financial reporting requirements

– IFRS 16 accounting implications.

In relation to internal and external audit, the Audit Committee considered and approved:

– the internal audit plan and review of progress against this plan

– the findings of internal audit reviews

– group and subsidiary audit exemptions

– the review of external audit planning and progress

– the external audit management letter.

In relation to governance and other matters, the Audit Committee considered and approved:

– interest rate risk

– controls relating to the 'procure to pay' process and the management of budgetary pressures in respect of Departmental Expenditure Limits

– the governance statement to BEIS

– the response to the National Audit Office Review of the Bank.

The Corporate Governance Code requires that the Audit Committee should make a recommendation on the appointment of the auditor. However, the Shareholder Relationship Framework document specifies that we are audited by the Comptroller and Auditor General, which we believe provides appropriate safeguards for our Shareholder. The National Audit Office (NAO) carries out the external audit for and on behalf of the Comptroller and Auditor General. The Senior Statutory Auditor is in her sixth year of auditing the Bank which conflicts with the Corporate Governance Code. This was considered by the Audit Committee which satisfied itself of the independence of the Senior Statutory Auditor. The external auditors have not conducted any non-audit services during the financial year and the Committee considers that the external auditor is both objective and independent.

The significant issues considered by the Committee, with input from the external auditor, during the year included:

– methodologies and procedures for determining asset valuations and provisions

– significant accounting policies

– decisions and judgements

– the contents of the Annual Report and Accounts

– IFRS 16 accounting implications.

The external auditors brought six matters to the Audit Committee's attention in their 2018/19 management letter relating to:

- the timing of the recognition of ECF loan commitment financial liabilities and the underlying assumptions
- the timing of the receipt of audited accounts from fund managers in order to provide independent assurance over investment valuations
- IFRS 9 governance in relation to the Expected Credit Loss models
- the completeness and accuracy of data used as input to one of the Group's Expected Credit Loss models
- access to underlying contractual agreements in relation to loans made through one of the Group's Delivery Partners
- earlier engagement with the auditors to resolve disclosure issues ahead of the audit fieldwork.

All of these issues were addressed, and their resolution discussed and agreed by the Committee.

Signed for and on behalf of the Audit Committee

Jonathan Britton
Chair of the Audit Committee

Remuneration Committee

The Remuneration Committee was chaired by Amanda Rendle. The other members of the Committee were Ceri Smith and Christina McComb until she stepped down from the Board in November. T he Chair was then appointed a member of the Committee until the appointment of Nathaniel Sloane in March 2020 when the Chair stepped down from the Committee. Attendance can be found on p80.

Role

The Committee's role is to set the remuneration policy for all Executive Directors, the Chair and other members of the Executive Committee, including pension rights and any compensation payments. It also sets the terms of the Long- and Short-Term Incentive Plans and any incentive schemes the British Business Bank plc and its subsidiaries may run in line with the Shareholder Relationship Framework Document.

During the financial year 2019/20, the Remuneration Committee considered:

- the Remuneration Framework of the Bank
- annual confirmation to the Shareholder on remuneration commitments made in the Shareholder Framework document
- a review of the objectives for Executive Directors and members of the Senior Leadership Team
- the annual pay review
- corporate performance ratings and annual bonus
- Short-Term Incentive Plan and Long-Term Incentive Plan awards
- a review of the redesign of the Long-Term Incentive Plan
- the annual remuneration and reward strategy review
- a review of market benchmarks for remuneration
- publication of gender pay gap data
- the equal pay audit
- the Women in Finance Charter and gender diversity target
- exemptions from public sector pay guidelines
- the approach to remuneration at British Patient Capital
- ad-hoc salary proposals for Executive Committee members
- a review of the Committee's terms of reference.

Signed for and on behalf of the Remuneration Committee

Amanda Rendle
Chair of the Remuneration Committee

Risk Committee

The Risk Committee is chaired by Neeta Atkar. The other members of the Committee during the year were Jonathan Britton, Piers Linney, Ceri Smith and Christina McComb until she stepped down from the Board in November 2019. Attendance can be found on p80.

Role

The Committee's role is to advise the Board on the key risks to the Bank in the pursuit of its objectives, including whether the Bank is operating within its risk appetite and the appropriateness of the Bank's Risk Management Framework. It reviews the Risk Management Framework, taking account of the fact that the Bank is in the public sector and not regulated by the FCA/PRA.

During the financial year 2019/20, the Risk Committee considered and approved the following matters:

- ongoing appropriateness of the Risk Management Framework, the Risk Taxonomy and Risk Strategy
- identification and mitigation of material, emerging and horizon risks
- continued applicability of the Risk Appetite Policy and Risk Appetite Statements for the British Business Bank, British Business Investments and British Patient Capital
- risks relating to execution of the business plan, including output of stress tests
- inception of a policy compliance monitoring programme
- approach to and updates on Operational Risk, Credit and Investment Risk, Information Risk, Reputational Risk, Change Risk and Market Risk
- regular updates on the key risks faced by our product areas
- annual Money Laundering Officer's report
- position in relation to State aid
- risk sections within the Annual Report
- implementation of and compliance with GDPR
- the creation of and terms of Reference for the Executive Audit and Risk Committee
- fraud prevention.

Signed for and on behalf of the Risk Committee

Neeta Atkar
Chair of the Risk Committee

Nomination Committee

The Nomination Committee is chaired by Lord Smith. Ceri Smith was a member of the Committee throughout the year, Neeta Atkar was appointed to the Committee in June 2019 and Christina McComb stepped down in November 2019. Attendance can be found on p80.

The Corporate Governance Code requires that a majority of the Nomination Committee be independent Non-executive Directors in order to safeguard the interests of the Shareholder when making appointments. Our Nomination Committee does not comply with this as the Chair is considered independent only on appointment and Ceri Smith is appointed by the Shareholder and therefore not independent. However, we believe the Shareholder's interests are safeguarded as both the Shareholder Representative and the Chair are appointed by the Shareholder.

Role

The role of the Nomination Committee is to review the leadership needs of the organisation, consider succession planning, and identify and nominate Board members.

During the financial year 2019/20 the Committee discussed and considered:

- succession planning for Executive and Non-executive Directors and for members of the Senior Leadership Team
- the appointment of Non-executive Directors
- a review of membership of the Board's Committees.

The Shareholder Relationship Framework Document provides that no appointment or removal of a Director of the Bank or appointment or removal of any such Director to or from an executive position, can be made without the prior written consent of the Shareholder and appropriate consent to each directorship was obtained from the Shareholder.

The Board is committed to ensuring the diversity of its membership. The Nomination Committee's duties include regularly reviewing the structure, size and composition (including diversity) of the Board and making recommendations to the Board about any changes. Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board.

Signed for and on behalf of the Nomination Committee

Lord Smith of Kelvin
Chair of the Nomination Committee

Other committees

The Bank has a number of management committees including an Executive Committee, an Executive Audit and Risk Committee, Investment Committees and a Product Development Committee.

The Board, the Board Committees, and the Executive Committees have been structured to provide robust governance. The Board Committees and Investment Committees each have Terms of Reference which set out their respective duties and responsibilities. All appointments to the Board, the Board Committees and the Executive Committees are based on the diversity of contribution, experience and required skills, irrespective of gender, race or any other irrelevant criteria.

Board and committee attendance

The table on p80 sets out the attendance of Directors since 1 April 2019 at each Board and Board Committee.

Board performance

The Bank is committed to ensuring that the Board and its committees operate effectively and that they continue to improve. The actions from the internal self-evaluation which took place last year have all been successfully completed. An external evaluation of the Board and its committees was conducted in March 2020. The focus of this was role and accountability of the Board, operating processes, executive selection and succession, strategy, relationship with management, Board culture, performance and Board development.

The report has been accepted by the Board and an action plan is being developed for implementing key recommendations during 2020/21.

The review concluded that the Board and its committees operate effectively.

Conflicts of interest

Each Director has a duty under the Companies Act 2006 to avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests. As part of our Conflicts of Interest Policy, the Bank has adopted a formal procedure for disclosure, review and authorisation of Directors' conflict of interest, which requires written disclosure of any actual or potential conflicts of interest for all Directors and staff. The procedure requires Directors to notify formally the Chair or the Company Secretary as soon as they become aware of any actual or potential conflicts of interest with their duties to the Bank, or of any material change in existing or potential conflicts that may have been authorised by the Board.

The Board believes that outside interests can be beneficial for both the Executive and Company and has authorised the outside interest of the Chief Executive Officer in his role as a Non-executive Director at UK Asset Resolution. The Bank has not made any political donations or incurred any political expenditure during the financial year.

Attendance at meetings and committees

The table below sets out the attendance of Directors at Board and Committee meetings in 2019/20:

	Board	Audit	Risk	Remuneration	Nomination
Total Number of Meetings	8	5	4	5	5
Chair					
Lord Smith of Kelvin	7/8	–	–	2/2	5/5
Non-executive Directors					
Neeta Atkar	8/8	5/5	4/4	–	2/3
Jonathan Britton	7/8	5/5	4/4	–	–
Piers Linney	8/8	–	4/4	–	–
Christina McComb (resigned 15 November 2019)	4/5	–	2/2	3/3	3/3
Dharmash Mistry	6/8	2/4	–	–	–
Amanda Rendle	7/8	–	–	5/5	–
Nathaniel Sloane (appointed 1 March 2020)	1/1	–	–	–	–
Ceri Smith	8/8	–	3/4	5/5	5/5
Executive Directors					
Keith Morgan	8/8	–	–	–	–
Patrick Magee	8/8	–	–	–	–
Christopher Fox	8/8	–	–	–	–

Risk management and internal control

British Business Bank plc is committed to ensuring the best standards of corporate governance and is supported in this by the Board of Directors and Board Committees.

The Board has overall accountability and responsibility for the management of risk within the British Business Bank. Our Risk Management Framework has been designed to align to the size, scale and complexity of the British Business Bank and has been benchmarked against other financial services institutions.

The British Business Bank does not hold regulatory capital and is not regulated by the Financial Conduct Authority (FCA) or the Prudential Regulation Authority (PRA). The Bank is, however, subject to other applicable laws and regulations and aspires to meet standards of good practice.

We have policies and procedures in place designed to ensure compliance with applicable laws and regulations, including Anti Money Laundering, Data Protection and Freedom of Information, and aspire to follow best practice where appropriate and applicable.

To enable robust and effective decision-making within the Bank, it has approved terms of reference for each executive level investment committee, for each subsidiary which makes investment decisions.

Risk Management Framework

Our Risk Management Framework comprises a set of tools, processes and methodologies that support the British Business Bank in identifying, assessing, monitoring and controlling the risks it faces.

The Risk Management Framework:

- demonstrates a clear link to the overall strategy and business plan of the British Business Bank
- outlines the risk management vision and objectives, and the approach for evolving the risk management capability of the British Business Bank
- is reviewed on an annual basis and, if required, more frequently to reflect any significant material changes to the business, economic or regulatory outlook.

A discussion of how the Bank handles its risks in relation to financial instruments is set out in note 27 of the financial statements.

The Risk Management Framework is subject to regular review to assess its effectiveness within the British Business Bank and has been updated over the last year to reflect the evolving operating model. This year's review concluded that the design of the Risk Management Framework remains appropriate to enable the Bank to identify, assess, control and monitor the risk profile against the Risk Appetite Statement.

The findings of this review were presented to the Risk Committee in March 2020. The next review of the Risk Management Framework is scheduled to take place in the fourth quarter of 2020/21 financial year. This may be brought forward, however, to consider findings from the Bank's operating model review.

Key elements of our Risk Management Framework include risk appetite and risk governance.

Risk appetite

The Bank's Risk Appetite Policy acts as the link between overall business strategy, the risk strategy and the Risk Management Framework by bringing strategic context to identified risks, adopting clear escalation criteria, and informing the processes for the identification, assessment, control and monitoring of risk exposures.

The Risk Appetite Policy of the Bank is based on the high-level design principle that risk appetite represents the level of risk the Board of the British Business Bank is willing to accept to deliver its objectives.

The Board undertook a review of the Bank's risk appetite in March 2020 in conjunction with setting its business plan for 2020/21. Following this review the Bank has since implemented a range of Covid-19 response schemes, which have altered the prevailing risk profile of the Bank. The Board approved and acknowledged in May 2020 that the Bank was deviating from its designated Risk Appetite and that a full review of the impact of implementing and embedding the various Covid-19 response schemes would be completed and presented to the Risk Committee in September 2020.

The Risk Appetite Statement summarises the Board's appetite for the principal risks that the Bank is exposed to. It is tied to the risk taxonomy detailed in the Risk Management Framework which outlines eight broad categories of Level 1 risks and 30 sub-categories of Level 2 risks. These include People Risk which was added as a standalone Level 1 risk category following a review of the risk taxonomy in September 2019.

"The Risk Appetite Policy of the Bank is based on the high-level design principle that risk appetite represents the level of risk the Board of the British Business Bank is willing to accept to deliver its objectives."

The Risk Appetite Statement

Risk	Definition	Example categories	Example mitigants
Strategic and Business Risk **Risk appetite:** Low – Medium	The (residual) risks of direct or indirect financial losses arising from a sub-optimal business strategy or business model and the risk of failure to meet internal and/or public policy objectives.	– Risk that the Bank has an inadequate governance structure. – Risk that the Bank's current and planned products may not meet business case expectations. – Risk that the Bank does not meet its deployment or commitment targets. – Risk that the Bank is not effective in meeting its objectives.	– Both a clearly defined set of objectives and a robust governance model are in place. – New products are subject to market assessment and new product approval process. – Regular review of our Key Risks to Objectives by the senior team and Board members. – Assessing the risks and mitigants to meeting our objectives during the business planning process.
Credit and Investment Risk **Risk appetite:** Medium – High	The risk of direct or indirect financial losses in on- and off-balance sheet positions as a result of the failure of an end-borrower or counterparty to meet its obligations in accordance with agreed terms.	– Risk of end-borrower default, for example due to poor trading, or defects in the delivery process. – Whilst the majority of individual exposures to end-borrowers are small, exposures to mid-cap companies are typically larger. – Delivery Partner default or closure. – Venture Capital is subject to vintage risk, with the year the investment was made being a significant risk factor. – Concentration within one industry or location creates a portfolio that is subject to greater risk than a more evenly balanced one.	– Delivery partner selection process includes robust due diligence, assessment of underwriting and sanctioning processes, and thereafter is subject to portfolio monitoring and regular review. – The credit quality of exposures is monitored closely. – The Bank aims to continue to invest throughout the economic cycle, therefore minimising the vintage risk. – The portfolio is monitored closely for concentration risk.

The Risk Appetite Statement

Risk	Definition	Example categories	Example mitigants
Market Risk **Risk appetite:** Medium	The risk of direct or indirect financial losses that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads.	– The Bank can make material losses due to foreign exchange movements through its investments. – The Bank's investments are subject to interest rate fluctuations.	– The Bank has a small foreign exchange exposure and does not hedge this exposure. This is in line with government policy. – The Bank conducts scenario testing of exposures sensitive to interest rate market valuation or foreign exchange movements. – The Bank requires some delivery partners to manage market risk directly within the terms of the investment.
Operational Risk **Risk appetite:** Low – Medium	The risk of direct or indirect losses resulting from inadequate or failed internal processes, technology, supplier management, fraud or from external events.	– Errors in execution, delivery, and processing. – Failure of internal controls or processes. – External or internal frauds. – Damage to physical assets, utilities disruption or systems failure. – The risk that the business takes on too much change or inadequately manages current change programmes. – Risk that the Bank does not procure, contract with or manage its third-party base effectively.	– Risk and Control Assessments with functional teams are held to assess risks and associated internal controls. – Operational Incidents management process in place. – Close liaison with BEIS counter fraud network and regular interaction with key business partners. – Change function and Change Board to manage the growth of the organisation. – Procurement and Finance contract and invoice oversight.

Risk	Definition	Example categories	Example mitigants
People Risk **Risk appetite:** Low – Medium	The risk that the Bank does not attract, develop and retain adequate human resources to meet its objectives and/or does not create a working environment and culture to motivate and retain an effective workforce.	– Risk that Bank does not recruit, develop or retain the right staff, skills and talent to meet its objectives. – Risk that the Bank does not have a culture that supports and drives appropriate colleague behaviours and decision-making.	– The Bank has a robust recruitment process to attract talent. – The Bank has an established reward strategy with the aim to attract and retain talent. – The Bank invests in ongoing training and development for its staff. – Succession planning in place for the senior team. – The Bank has an established Code of Conduct to support its Culture and Values.
Information Risk **Risk appetite:** Low	Information Risk encompasses any compromise, malicious acts or otherwise, to the information the Bank handles during its creation, storage, processing, transfer or disposal (the information lifecycle).	– Breach of legal requirements relating to safe-keeping and disclosure of information. – Cyber-attacks that steal sensitive data relating to the Bank or its delivery partners as well as disrupt the Bank's functionality. – Risk of business sensitive information being leaked or accidentally made available in the public domain. – Risk of inaccurate or incomplete data processed within the Bank's operations. – Information owned by the Bank is not available to meet its business objectives or fulfil its legal and regulatory obligations when requested by external stakeholders.	– Implementation of Business Information systems and data governance across the Bank, including GDPR. – Cyber Essentials Plus accreditation. – Information Risk Management Framework in place supported by policies and procedures covering information security, data protection, freedom of information, information classification and handling, and IT acceptable use. – Mandatory staff training programme covering information security, cyber-crime, data protection, and freedom of information. – Information technology systems disaster recovery testing.

The Risk Appetite Statement

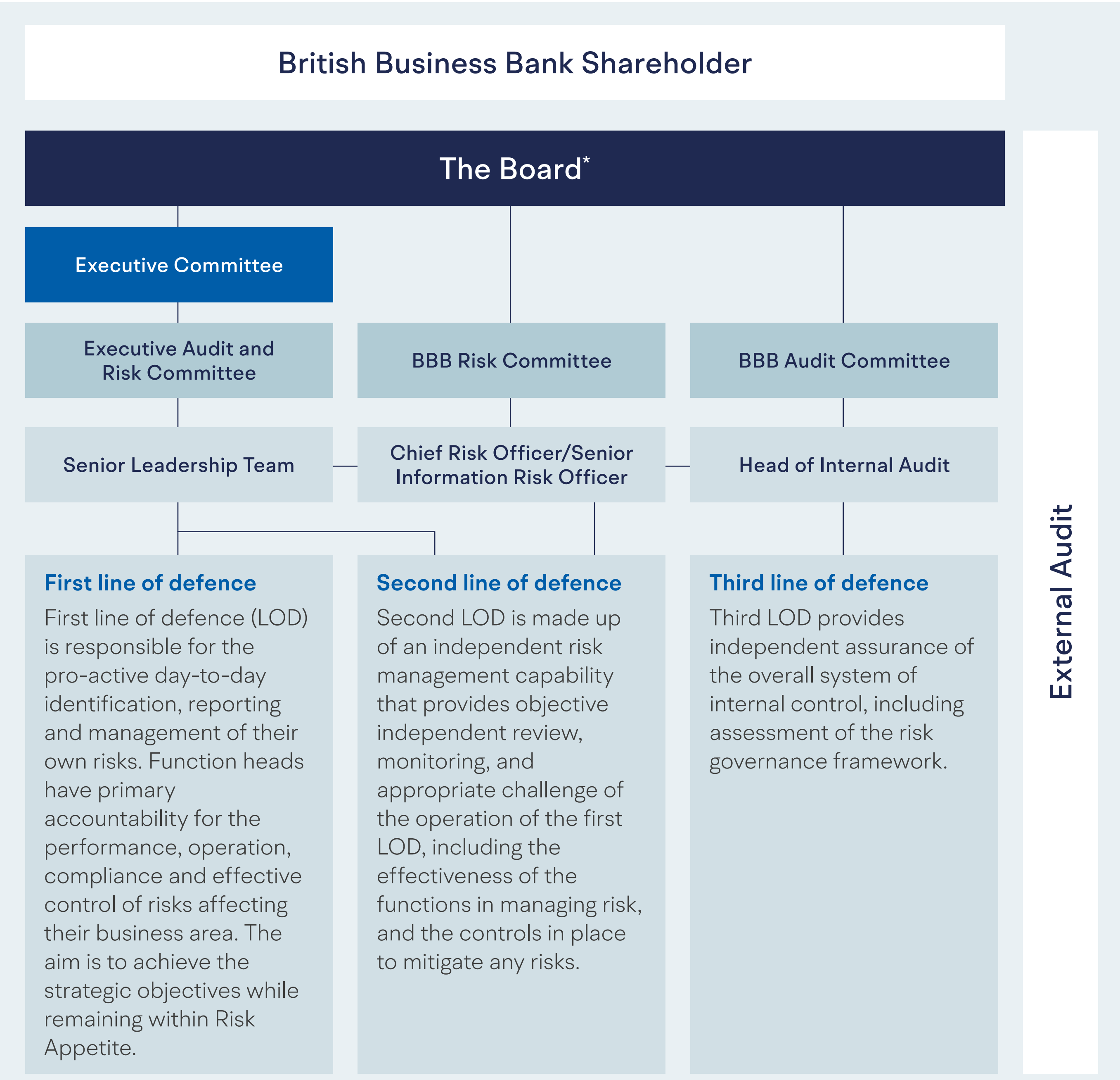
Risk	Definition	Example categories	Example mitigants
Legal and Compliance Risk **Risk appetite:** Low	Risk of breaching all applicable UK and EU law, regulation, or standards relating to delivery partners and products which exposes the Bank to fines and penalties as well as other associated financial losses.	– Breaches of legal requirements in relation to public law or breach of government guidelines appropriate to a non-departmental public body. – Risk that the Bank is not compliant with European Commission State aid rules. – The risk that the Bank operates in breach of applicable UK and EU laws and regulations, or the law of any other jurisdiction that is binding in the UK. – Risk that delivery partners breach legal or regulatory requirements.	– New products and programmes are assessed against the UK and EU regulatory environments. – The Bank has a suite of policies to direct governance, e.g. Tax Policy, Procurement How to Buy Guide. – Regular dialogue with the Shareholder State aid teams. – Legal Team review of transaction structuring. – Bank employees are subject to a Code of Conduct, annual Compliance Declaration and mandatory e-Learning. – The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners and their performance against contractual requirements or Service Level Agreements.

Risk	Definition	Example categories	Example mitigants
Reputational Risk **Risk appetite:** Low – Medium	The risk that the Bank will act in a way which falls short of external stakeholder expectations and causes reputational damage.	– The corporate actions of the Bank fall short of the expectations of our Shareholder and/or staff. – The Bank operates an outsourcing model which is subject to delivery partner conduct and performance.	– A Reputational Risk Management Policy is in place. – Active engagement with external stakeholders, continuous monitoring and service agreements. – The Bank undertakes extensive due diligence on new delivery partners and monitors existing delivery partners and their performance against contractual requirements or Service Level Agreements. – The Bank has a robust Complaints Policy in place. – Social Media Guidelines in place for colleagues.

Separately, the Board and Risk Committee review an assessment of the quantification of the monetary value of potential downside risks of a severe downturn against our Business Plan. This assesses the likely impact on our portfolio assuming a 1 in 20 year scenario across the various programmes, and further scenarios including those based upon Bank of England guidelines and scenario analysis based on financial impacts arising from Market Risk (Foreign Exchange and Interest Rate risks). The outcomes were shared with our Shareholder.

Risk governance

The British Business Bank risk governance structure is shown below:



* The BBB Board also acts as a third line of defence in its supervision of the first and second lines of defence.

The Bank's Risk Management Framework is based upon a 'three lines of defence' (LOD) model, where the:

- first line of defence is responsible for the pro-active day-to-day identification, reporting and management of their own risks
- second line of defence is responsible for designing risk policies and methodologies, monitoring performance and compliance, identifying and reporting risks and providing independent and objective challenge to the first line of defence
- third line of defence provides independent assurance of the overall system of internal control including assessment of the risk governance framework.

The key principles of this model, as illustrated by the diagram on p88, are that:

- the Board has overall accountability and responsibility for the management of risk within the Bank
- the Board delegates specific risk management roles and responsibilities to the Risk Committee, the Audit Committee, CEO, and the Chief Risk Officer (CRO)
- the CEO is supported in delivery of these responsibilities through direct reports from the Executive Committee, and the Executive Audit and Risk Committee
- the CRO is a member of the Executive Committee, the Executive Audit and Risk Committee, the Investment Committee, and the Senior Leadership Team. He is also supported by the Risk and Compliance function in the delivery of his responsibilities
- the Risk and Compliance function works collaboratively with the product teams and other central control functions
- the Internal Audit function operates independently of management, reporting directly to the Board Audit Committee and highlighting key areas of weakness relating to governance, risk management or internal control
- the product teams engage constructively and openly with Internal Audit, Risk and Compliance and other control functions.

The Bank encourages a strong culture of risk awareness and transparency through robust risk governance, clear accountabilities, regular intranet updates and in-house live and computer-based training.

Policies form an integral part of managing risk within the British Business Bank. We have in place an enterprise-wide set of policies, frameworks and procedures covering the major parts of our business.

They outline how we intend to function, taking account of regulatory or legal requirements and industry best practice. Policies are approved by the appropriate committees and communicated to staff. Colleagues are also subject to the British Business Bank Code of Conduct and annual compliance declarations.

Approved by the Board of Directors

Catherine Lewis La Torre
Chief Executive Officer
10 September 2020

Directors' remuneration report

Chair's foreword

On behalf of the Board, I am pleased to present the Remuneration Report for the British Business Bank for the year ended 31 March 2020. Those sections of the report that have been audited by the National Audit Office have been identified as such.

In my role as Non-executive Director with responsibility for workforce engagement, I was fortunate to have the opportunity of meeting informally with small groups of colleagues during the year, to hear first-hand how they view working for the Bank. I was struck by the high level of engagement overall – colleagues enjoy working for the Bank and are very committed to its mission and purpose.

There are opportunities for improvement of course, many of which are linked in some way to the Bank's rapid growth over the last few years. As outlined elsewhere in the Annual Report, the Bank has launched a number of initiatives under its people strategy with a view to building on the positives.

In keeping with the Bank's role in supporting all regions of the UK, the Bank has focused on driving its expansion by locating roles outside London as far as possible. This can be seen in the rapid growth of the Bank's Sheffield-based Start Up Loans team for example. A key challenge for the Remuneration Committee has been to reflect the requirements of this growing regional diversity, as well as the continuing complexity of the skills needed to deliver against the Bank's strategic objectives, within its approach to colleague remuneration.

Role of the Committee

The Committee's primary role is to provide robust, independent governance for executive remuneration, to ensure that reward for the Bank's Executive Team:

- supports the Bank's long-term business strategy and values
- enables the Bank to recruit, motivate and retain talented individuals with appropriate skills and experience
- links executive reward to the Bank's performance against its long-term business plan.

Structure of the Report

The Remuneration Report is divided into two parts:

1. Policy on Executive Directors' and senior management remuneration.
2. Annual report on remuneration. This section outlines how the policy has been applied and includes details of remuneration for the senior team.

Key decisions taken by the Committee this year

During the financial year 2019/20, the Committee has continued to focus on the Bank's remuneration strategy, adopting a holistic approach to colleague reward. Our overriding aim is to ensure that our reward package is competitive in the commercial environment in which the Bank competes for talent, while remaining appropriate to our responsibilities as a publicly owned body.

In accordance with the rules of the LTIP, awards were assessed for the corporate performance element of the scheme over the three-year cycle ending 31 March 2020. Based on the performance of the Bank against its Key Performance Indicators and taking into account various other considerations, the Committee concluded an award of 65% of the maximum was appropriate. Further details of awards of the Senior Executives are set out later in this report.

> **"During the first few months of 2020/21, the Committee has been focused on monitoring the unfolding Covid-19 crisis, and in ensuring that its decisions on remuneration represent an appropriate response in the context of the crisis."**

Other key decisions made by the Committee and recommended to the Board during the year were:

- agreeing the annual pay review for 2019
- determining pay-out level for the corporate element of the Bank's Performance Bonus Plan for the year ended 31 March 2020
- agreeing the pay-out level for the personal element of the Bank's Long-Term Incentive Plan (LTIP) awards for all members of the Bank's Executive Committee for the year ended 31 March 2020, and the aggregate pay-out level for all other colleagues
- setting corporate performance targets and agreeing participants for the sixth-cycle LTIP.*

The CEO pay ratio – describing the ratio between the total remuneration of the CEO and the lower quartile, median and upper quartile total remuneration for all colleagues – is published on p104 for the first time. The median CEO pay ratio for 2019/20 is 6.4:1. This ratio is very much at the lower end of the range of ratios reported by other private sector organisations over the same period.

During the first few months of 2020/21, the Committee has been focused on monitoring the unfolding Covid-19 crisis, and in ensuring that its decisions on remuneration represent an appropriate response in the context of the crisis. In particular, the Committee has been mindful of the way in which the crisis has impacted all of the Bank's stakeholders, including colleagues, delivery partners, and businesses.

Setting stretching business and personal targets for the Executive remains as important as ever, albeit it is especially challenging this year as the Bank concentrates on the various short- and medium-term initiatives it has been asked to deliver to support UK businesses through the worst of the Covid-19 crisis. The Committee's work continues in 2020/21 and we will ensure we monitor the impact of the crisis on remuneration policies more widely and keep the strategy for remuneration under review in light of the changing environment in which we operate.

Amanda Rendle
Chair of the Remuneration Committee

* Also referred to as Cycle 4 LTIP

Remuneration policy report

Table 1: Remuneration policy

Element	Operation, opportunity and performance framework
Base salary	
Objective To provide a competitive level of pay sufficient to attract and retain talent, and reflecting the skills and experience required for the role	Base salaries are reviewed annually considering the nature of the role and responsibilities. Roles are benchmarked against relevant comparator organisations in the public and private sectors. The Remuneration Committee also considers the external environment and views of the Shareholder. Any Executive Director salary increases in percentage terms will normally be in line with increases awarded to other colleagues but may be higher in certain circumstances, such as where: – there has been an increase in the scope or responsibility of an Executive Director's role – a salary has fallen significantly below market positioning given the size and scale of the Bank.
Long-Term Incentive Plan (LTIP)	
Objective To reward colleagues in leadership roles for their personal performance against objectives and our values, as well as their shared accountability for the Bank's sustained performance against its strategic goals	Executive Directors and certain other senior colleagues are eligible to participate in a Long-Term Incentive Plan (LTIP). The LTIP operates as a series of three-year cycles. Objectives are set at the beginning of each cycle and progress is reviewed by the Committee on an annual basis. Objectives are set in two categories: corporate and personal. The weighting between these categories may be varied over time, at the discretion of the Committee, considering the requirements of the business and any relevant external factors. For the LTIP cycle beginning April 2020, the weighting is 50% to corporate targets and 50% to personal targets. For earlier in-flight LTIP cycles, the weighting is 60% corporate and 40% personal targets. Corporate targets cover rolling three-year periods and will generally be in line with the Bank's business plan objectives. The current targets for the LTIP awards granted during the year and the threshold levels are set out in the Annual Report on Remuneration and have no specific weightings. Personal targets are designed to consider the specific responsibilities of individual senior leaders in the Bank.

Element	Operation, opportunity and performance framework
Long-Term Incentive Plan (LTIP) (continued)	
	The current incentive is a maximum cash award of 50% of base salary. In the case of Executive Directors, awards are paid at the end of the relevant three-year cycle. In the case of other recipients of the LTIP, any awards in respect of personal objectives may be paid after two years and the corporate element after three years. Recovery and withholding provisions apply for a period of seven years from the start of the performance period. The provisions apply in a range of adverse circumstances, at the Committee's discretion, including financial accounts misstatement, significant failure of risk management, regulatory censure or breach of policy and procedures. If a participant's employment within the Group ends before an award is paid, the award opportunity is normally forfeit and lapses in full, although there are exceptions that may be agreed by the Committee for participants categorised as 'good leavers'. The Remuneration Committee has ultimate discretion over the payment of any awards, taking into account factors it considers relevant including the overall performance of the Bank.
Annual bonus	
Objective To reward colleagues for their personal performance against objectives and our values, and to enable all colleagues to share in the Bank's success	All permanent colleagues who are not members of the LTIP participate in the British Business Bank Performance Bonus Plan. The plan provides an opportunity for eligible colleagues to be rewarded for their personal contribution during the bonus year, as well as to participate in the Bank's corporate success over the same period. Bonus payments are made up of a personal and a corporate element, and are calculated as follows: – The personal element reflects personal contribution during the year and is determined by the performance rating agreed as part of the year-end performance review – The corporate element is based on an assessment by the Board of the Bank's achievement against its strategic objectives during the bonus year. This element represents a recognition of the commitment and effort that colleagues collectively have put into delivering the Bank's objectives – Individual award levels are calculated by reference to salary and vary according to seniority. Colleagues must have worked for at least three months of the bonus year.

Table 1: Remuneration policy (continued)

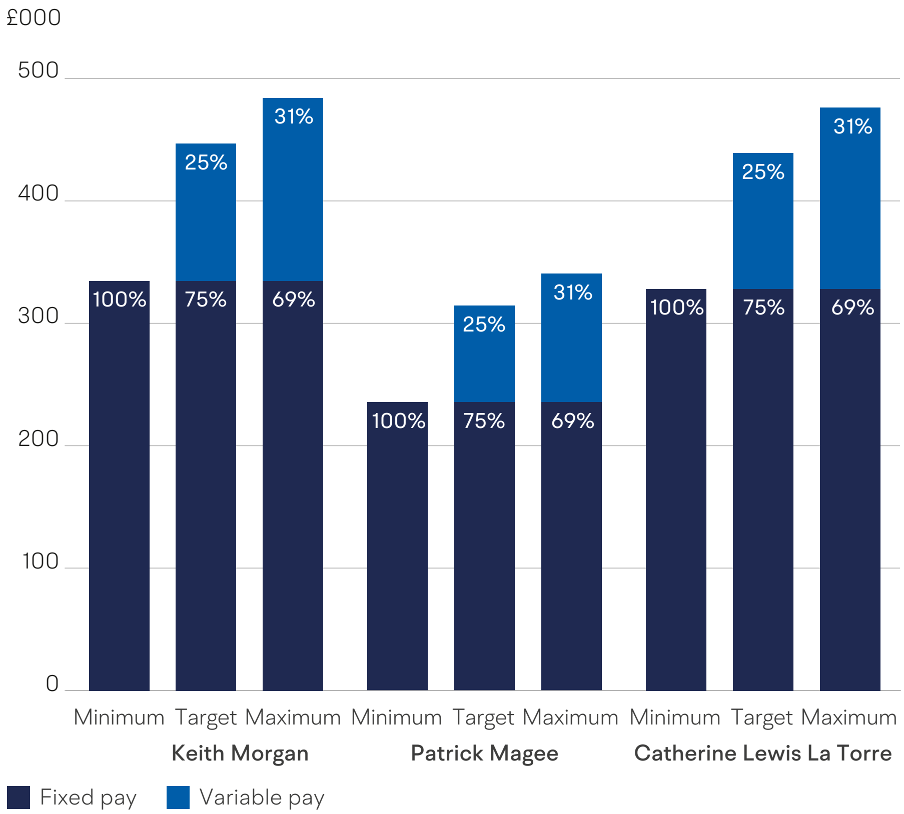
Element	Operation, opportunity and performance framework
Pension and other benefits	
Objective To provide a range of flexible and market competitive benefits that are valued and support colleague wellbeing To encourage planning for retirement and long-term savings	The Bank contributes up to a maximum 15% of base salary to its defined contribution scheme or an approved personal pension scheme, subject to a minimum colleague contribution of 3%. The CEO receives a cash-in-lieu allowance of 10%. Any other colleague below Executive Director level who has reached his or her pension Lifetime Allowance may also receive a cash-in-lieu allowance of 10%. All colleagues benefit from health and wellbeing support through a healthcare cash plan, income protection and an employee assistance programme. Colleagues are able to buy or sell up to five days' holiday, and can select from a range of benefits including childcare vouchers and cycle to work through the Bank's 'mylifestyle' flexible benefits portal. Benefits are reviewed annually to ensure they remain appropriate in light of the Bank's public ownership and competitiveness in relation to the market.
Loss of office payments	
Objective To provide fair but not excessive contract features	The Bank does not offer any terms other than, where applicable, statutory redundancy for loss of office within service contracts. Executive Directors and the senior team are on six months' notice either side. Provision may be made for payment in lieu of notice, where this is deemed to be in the interest of the business. Any situation will be considered by the Committee on its merits. Should an individual be considered a 'good leaver' under the LTIP rules, an appropriate portion of their LTIPs may, at the discretion of the Remuneration Committee, be retained. All termination payments are subject to Cabinet Office Guidance.
New Executive Director remuneration	
Objective To attract and retain high-calibre senior leaders	Remuneration for any new appointments is determined in accordance with the policy set out in this table. The same approach will be taken with respect to any internal appointments. The Bank does not offer any sign-on payments.

Table 2: Scenarios chart: ranges for Executive Director remuneration

The following chart shows how Executives' remuneration could vary according to performance and assumes that the Directors are employed by the Bank for a whole financial year. The variable pay element is measured over a three-year period and is paid out after the end of the third year, subject to continued employment or good leaver status.

Notes

1. Minimum = fixed pay only (salary and current cost of benefits and pension).
2. Target = fixed pay and 75% vesting of the LTIP.
3. Maximum = fixed pay and 100% vesting of the LTIP.
4. Keith Morgan stood down as CEO on 31 August, and Catherine Lewis La Torre took over as Interim CEO with effect from 1 September 2020. The illustrations here show their remuneration on an annualised basis.



External appointments

Executive Directors may be invited to become Non-executive Directors in other companies. These appointments can enhance their knowledge and experience to the benefit of the Bank. It is the Bank's policy that Board approval is required before any external appointment may be accepted by an Executive Director. The Bank's policy on whether Executive Directors are permitted to retain any fees paid for such services is currently under review. During the year, Keith Morgan served as a Non-executive Director at UK Asset Resolution Ltd and received a fee of £80,000.

Non-executive Directors

The Chair and the Non-executive Directors do not have service agreements with the Bank. Non-executive Directors are appointed under letters of appointment which provide for an initial term of service of three years. The appointment of a Non-executive Director can be terminated, by either party, giving written notice. Any increases in fees are subject to Shareholder approval. There is no provision for compensation for loss of office. The current dates of appointment for the Non-executive Directors are shown in the Directors' report.

The terms and conditions of appointment of the Non-executive Directors are available for inspection at the Bank's registered office.

The fee levels paid to Non-executive Directors reflect the time commitment and responsibilities and are approved by the Shareholder.

The Board reviews the amount of each component of the fees on a periodic basis to assess whether they remain competitive and appropriate in light of changes in roles, responsibilities or time commitment of the Non-executive Directors. In accordance with common practice, Non-executive Directors are reimbursed expenses incurred in performing their role.

Table 3 sets out the key elements of the Bank's remuneration policy for the Chair and other Non-executive Directors.

Table 3: Remuneration policy for Non-executive Directors

Element	Operation, opportunity and performance framework
Basic fee – Chair	
Objective Remuneration is in the form of an annual cash fee, in line with practice in the UK	The Chair fee will be reviewed from time to time by the Remuneration Committee.
Basic fee – Non-executive Directors	
Objective Remuneration is in the form of an annual cash fee, in line with practice in the UK	Non-executive Director remuneration is reviewed annually by the Chair and the Executive Directors. Any recommendations are subject to Board approval, with Non-executive Directors not voting on their own remuneration. Additional fees are paid to the Senior Independent Director and Chairs of the Audit, Risk and Remuneration Committees, in recognition of the additional time spent on their committee activities. This is in line with UK practice generally.

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Amendment Regulations 2013.

Disclosures are also made in accordance with the Companies Act 2006. The Bank has complied with the regulations where it believes it is appropriate to do so.

Although the Bank is not subject to the variable pay cap introduced under the European Union Capital Requirements Directive, it does comply with the cap.

Single Total Figure of Remuneration

Details of the total remuneration paid to Executive Directors for each of the years 2018/19 and 2019/20 are shown in separate tables below.

Table 4: Executive Director remuneration (audited)

Year ended 31 March 2020

	Salary £000	Taxable Benefits £000	Long-term incentive £000	Pension Payments (including cash supplements) £000	Total £000
Keith Morgan	304.4	0.0	85.2	30.4	420.0
Christopher Fox	235.0	0.7	61.7	0.0	297.4
Patrick Magee	213.8	0.7	73.5	21.4	309.4
Total	**753.2**	**1.4**	**220.4**	**51.8**	**1,026.8**

Year ended 31 March 2019

	Salary £000	Taxable Benefits £000	Long-term incentive £000	Pension Payments (including cash supplements) £000	Total £000
Keith Morgan	299.0	0.0	116.6	29.9	445.5
Christopher Fox	224.4	0.7	79.8	0.0	304.9
Patrick Magee	210.0	0.7	78.8	21.0	310.4
Total	**733.4**	**1.4**	**275.2**	**50.9**	**1,060.8**

Notes

1. The Company has not made pension contributions for Keith Morgan but has instead paid a cash alternative to him.
2. The Executive Directors receive death in service and illness income protection benefits which are non-taxable.
3. Executive Directors were not eligible for annual incentive payments in 2019/20.
4. Long-term incentive payments relate to fourth-cycle LTIP, applicable for the three years from 1 April 2017 to 31 March 2020.
5. Christopher Fox received an additional payment of £6,588.98 in March 2020 in lieu of unused annual leave. This payment is included above under his salary for the year. See also p103, where payments in connection with the termination of Christopher Fox's employment are listed.

Performance assessment

Awards under the third-cycle LTIP, covering the period 2016/17 to 2018/19, were paid in August 2019. The fourth-cycle LTIP matured on 31 March 2020, covering the three-year period 1 April 2017 to 31 March 2020. Awards under the scheme are based on both corporate performance (60% of the total potential award) and personal performance (40% of the total potential award).

Considering performance against KPIs (shown in table 6 opposite), the Remuneration Committee has determined that a corporate performance pay-out of 65% of the maximum award is appropriate.

The table below provides a breakdown of the Long-Term Incentive Plan (LTIP) payments included in the single total figure of remuneration for the year ended 31 March 2020.

Table 5: Fourth-cycle LTIP awards made to Executive Directors

	Potential Award £000	Performance Awarded	Actual Award £000
Keith Morgan			
Max amount: £000	149.5		
Personal performance Y1	29.9	90%	26.9
Personal performance Y2	29.9	0%	0.0
Corporate performance	89.7	65%	58.3
Total Award	**149.5**		**85.2**
Christopher Fox			
Max amount: £000	112.2		
Personal performance Y1	22.4	80%	17.9
Personal performance Y2	22.4	0%	0.0
Corporate performance	67.3	65%	43.7
Total Award	**112.1**		**61.7**
Patrick Magee			
Max amount: £000	105.0		
Personal performance Y1	21.0	75%	15.8
Personal performance Y2	21.0	80%	16.8
Corporate performance	63.0	65%	41.0
Total Award	**105.0**		**73.5**

Notes

1. Only the first two years of the fourth-cycle LTIP count towards personal performance for this cycle.

Fourth-cycle LTIP: assessment against corporate performance measures

The table below sets out the targets for the three-year period ending 31 March 2020, together with the Board's assessment of the Bank's performance against those targets. This assessment formed the basis of the Remuneration Committee's determination of the corporate element of the fourth-cycle LTIP.

Table 6: Original KPI targets, revised targets and actual outcomes (fourth-cycle LTIP corporate performance)

			2019/20 target from new business plan		
Objective	**KPI per Go Live Strategic Plan**	**Actual**	**Lower threshold**	**Stretch**	**Challenge**
Increase supply	1. Up to £10bn stock of finance facilitated through our programmes over 5 years	£17.09bn	£8.3bn	**£10.4bn**	£11.4bn
	– of which SME	£7.97bn	£6.2bn	**£7.8bn**	£8.6bn
More diverse finance market	2. Over 50% of our finance facilitated through providers other than the four largest banks over 5 years	92.8%	85%	**90%**	94%
Better provision of information	3. Balanced scorecard measure, showing an average of green across each year in the plan (score in brackets)	Amber	Amber/ Green (2)	**Green (4)**	Green (6)
Manage taxpayers' resources efficiently	4. To earn greater than the government's medium-term cost of capital over the next 5 years measured by the 5 year gilt rate at the beginning of the plan	1.2%	2.3%	**2.9%**	3.2%

Notes

1. The 'Better provision of information' objective is assessed annually against measures on a balanced scorecard, and a RAG status of Red, Amber or Green is assigned to each measure and the overall outcome. The scores in brackets after the 'Lower threshold', 'Stretch' and 'Challenge' targets represent the scores out of a maximum possible score of 8. The outcome shown in the 'Actual' column is the average RAG status and score for the three years of the fourth-cycle LTIP.
2. In reaching its decision on the overall Corporate Performance outcome for the fourth-cycle LTIP, the Remuneration Committee also considered aspects of the Bank's performance during the cycle that are not reflected in the outcomes against the KPI targets.
3. The targets in the table above represent the original targets approved by the Remuneration Committee and communicated to LTIP participants at the time. They differ from the LTIP Cycle 4 targets reported in the 2018 Annual Report and Accounts, which included proposed revisions at the time of going to print. These were not subsequently agreed, and the original LTIP targets therefore continued to apply.
4. Targets for LTIP Cycle 4 were set in 2017. Once set, targets for a given LTIP cycle are generally not changed. As such, there may be minor differences in some cases between the Cycle 4 LTIP targets and those set each year as part of the annual Business Planning process (which are reported on in earlier sections of the Strategic Report).

Fourth-cycle LTIP: assessment against personal performance measures

The personal element of the fourth-cycle LTIP was assessed by the Remuneration Committee against personal performance for the performance years 2017/18 and 2018/19, as set out below. While not assessed for fourth-cycle LTIP, personal performance assessments for 2019/20 have also been included below for completeness.

Keith Morgan

For 2017/18, the Committee assessed personal performance as ahead of target and awarded 90%.

For 2018/19, the Chair, the Committee and Keith agreed that a personal performance award would not be made. For 2019/20 the Committee assessed personal performance as 'exceeded objectives' and awarded 80%.

Christopher Fox

In 2017/18, the Committee concluded that Christopher's personal performance was ahead of target and awarded 80%. For 2018/19, the Committee agreed that no personal performance award would be made. For 2019/20, the Committee assessed personal performance as 'on target' and awarded 75%.

Patrick Magee

For 2017/18, the Committee assessed personal performance as on-target and awarded 75%. For 2018/19, the Committee concluded that Patrick's personal performance was ahead of target and awarded 80%. For 2019/20 the Committee assessed personal performance as 'exceeded objectives' and awarded 90%.

Table 7: Non-executive Director remuneration (audited)

	Total Fees 2019/20 £000	Total Fees 2018/19 £000
Neeta Atkar (Senior Independent Director)	35.6	30.0
Jonathan Britton	30.0	30.0
Caroline Green	0.0	20.1
Piers Linney	25.0	25.0
Christina McComb	25.0	43.7
Dharmash Mistry	22.9	nil
Amanda Rendle	30.0	26.2
Nathaniel Sloane	2.1	nil
Ceri Smith	nil	nil
Lord Smith (Chair)	120.0	120.0

Notes

1. Ceri Smith is the Shareholder Representative and therefore does not receive a fee.
2. Christina McComb was Chair of the Remuneration Committee until 31 December 2018. Her second three-year term ended on 15 November 2019.
3. Amanda Rendle replaced Christina McComb as Chair of the Remuneration Committee with effect from 1 January 2019.
4. Neeta Atkar replaced Christina McComb as Senior Independent Director with effect from 15 November 2019.
5. Dharmash Mistry was appointed with effect from 1 May 2019.
6. Nathaniel Sloane was appointed with effect from 1 March 2020.
7. Caroline Green resigned with effect from 19 January 2019.

Non-executive Director remuneration

Non-executive Directors receive remuneration in the form of a fee. Details for each of the years 2018/19 and 2019/20 are shown in table 7.

The base fee for Non-executive Directors is £25,000 and the base fee for the Senior Independent Director is £40,000. Individuals receive an allowance of £4,995 for chairing a committee. There are no additional fees payable for individual committee membership.

Scheme interests awarded during the financial year

Executive Directors and other senior colleagues are invited to participate in a Long-Term Incentive Plan. The table below shows interests awarded to Executive Directors during 2019/20. Awards are worth up to a maximum of 50% of salary. Any pay-outs are in the form of cash, and are subject to performance and other conditions. The personal element of the award was assessed over the 2019/20 performance year, and the corporate element will be assessed over the three-year period ending 31 March 2022.

Table 8: Sixth-cycle LTIP awards to Executive Directors

	Year ended 31 March 2020						
	Type of interest	Total face value of award (% of salary)	Total face value of personal award	Total face value of corporate award	Total face value of award	Percentage of corporate award for reaching threshold targets	End of corporate performance period
Keith Morgan	Cash LTIP	50%	60.9	91.3	152.2	50%	31 March 2022
Christopher Fox	Cash LTIP	50%	45.7	68.5	114.2	50%	31 March 2022
Patrick Magee	Cash LTIP	50%	42.8	64.1	106.9	50%	31 March 2022

Table 9: Group targets for the sixth-cycle LTIP (March 2022)

Objective	Key Performance Indicator	Lower threshold	Stretch	Challenge
Increase supply	Value (£bn) of stock of finance supported through the Bank's programmes by end of March 2022.	£8.0bn	**£10.0bn**	£11.0bn
More diverse finance market	% of finance supported through smaller providers (non-'Big Five' banks) by end of March 2022.	85%	**90%**	94%
Encourage and enable SMEs to seek the finance they need	Balanced scorecard measure, showing an average of Green across each year in the plan. 2019/20 to be measured against the following four elements:			
	a) Prompted awareness of the Bank	20%	**22%**	24%
	b) Organic brand search (no. of sessions)	13,500	**15,000**	16,500
	c) Net promoter score for Finance Hub	72%	**79%**	84%
	d) Were you able to find the information you were looking for?	67%	**73%**	78%
	In addition, the Bank's Demand Strategy is expected to be approved at the September 2019 Board meeting (this is a lower threshold condition) and relevant outcome measures to be defined, allowing a baseline to be established during H2 2018/19.			
Manage taxpayers' resources efficiently	Adjusted return on capital employed (excluding temporary fair value discounts) by end of March 2022.	1.5%	**1.9%**	2.5%
Centre of Expertise	Performance over 2019/20 will be measured against a qualitative report provided by the Executive which assesses performance against seven key deliverables and four broader areas of work set out in the business plan. This will be reviewed by UKGI with input from relevant stakeholders. The precise process underlying this review will be agreed with UKGI during 2019/20 which will then be applied to subsequent years.	Performance against these KPIs will be assessed by the Remuneration Committee at the end of each financial year and aggregated over the three years to give an overall score.		
Regional	Performance over 2019/20 will be measured against a qualitative report of regional activities provided by the Executive that includes comparison to the key milestones set out in the business plan. Key regional issues are expected to be identified by July 2019 and a regional strategy agreed by December 2019 (this is a lower threshold condition), including relevant measures of outcomes. Using these outcome measures, appropriate long-term targets will be set for future years.			

Notes

1. The sixth-cycle LTIP started on 1 April 2019, and will complete on 31 March 2022.
2. The group targets for the sixth-cycle LTIP were set by the Remuneration Committee in June 2019. As noted on p10 and p37 of the Strategic Report, several of the Bank's KPI targets were suspended during 2020/21, through the Board. The Remuneration Committee will consider the impact of this, if any, on LTIP targets as part of the Committee's normal LTIP assessment process.

Payments to past Directors

No payments to former directors were made during the year.

Payments for loss of office

Christopher Fox's role was restructured and as a result he ceased to be an employee with effect from 31 March 2020. In line with the Bank's policy on payments for loss of office, he has received or will receive the following payments:

- Termination payments of £4,825, comprising a statutory redundancy payment of £4,725 and a consideration of £100 in respect of the employee's obligations under the terms of termination of his employment
- Reasonable cost of outplacement support incurred within six months of the termination of employment
- Up to £1,500 + VAT in respect of the employee's legal costs, paid directly by the Bank to the adviser
- Subject to meeting his objectives for the year up to his termination date, and to the malus and clawback provisions of the LTIP, the Committee agreed that Christopher Fox will be treated as a 'good leaver' in respect of his outstanding LTIP awards. His award under the fourth-cycle LTIP is disclosed above, and will be paid at the same time as awards for other LTIP participants. In addition, he is eligible for awards under the fifth and sixth-cycle LTIP to a maximum value of £101,981. The corporate element of his awards under the fifth and sixth LTIP cycles have been pro-rated to reflect the portion of the respective performance periods for which he was an employee of the Bank, and the value shown above assumes that the maximum corporate award is paid for each of these cycles. Final pay-outs will be determined based on actual performance over the three-year period. Awards will be paid out on the normal payment dates.

Percentage changes in CEO/ colleague pay

The CEO received a salary increase of 1.8% with effect from April 2019. At the same time, a 1.8% general pay increase was awarded to colleagues below Executive Director, with individual increases of up to 5% awarded to a proportion of colleagues on a discretionary basis. Colleagues of Start Up Loans, who are subject to Civil Service Pay Guidance, also received a general pay increase of 1.8%, backdated to 1 April 2019, with individual increases of up to 3% awarded on a discretionary basis.

Pay ratio of the CEO's total remuneration compared to other colleagues

The table and accompanying notes below set out, for the year ended 31 March 2020, the ratio between the CEO's total single figure of remuneration and total remuneration for all colleagues at the lower quartile, median and upper quartile.

Year	Method	Lower quartile pay ratio	Median pay ratio	Upper quartile pay ratio
2020	Option A	10.1:1	6.4:1	4.4:1

Option A has been used to calculate the lower quartile, median and upper quartile total remuneration for all colleagues excluding the CEO. The elements of remuneration used for this calculation were as follows:

- Full-time-equivalent (FTE) salary as at 1 January 2020
- Total bonus awarded or total LTIP awards payable in respect of the year ended 31 March 2020
- Total employer pension contribution (calculated as the % in payment as at 1/1/20 and applied to FTE salary)
- Taxable value of the private medical insurance benefit for eligible colleagues.

CEO total remuneration has been calculated by reference to the single total figure of remuneration for the year ended 31 March 2020.

The Remuneration Committee believes that the ratio of median pay ratio of 6.4:1 is appropriate and proportionate, striking a balance between the Bank's need to recruit and retain staff who might otherwise work in financial services, while at the same time delivering value-for-money as a public sector body.

Relative importance of spend on pay

No dividends have been paid by the Bank, so we have set out below the percentage of total net operating income represented by total remuneration compared to 2018/19, to illustrate the relative importance of spend on pay.

Year	Total net operating income (£k)	Total remuneration (£k)	%
2019/20	81,787	30,743	38%
2018/19	106,424	27,765	26%

Implementation of the remuneration policy for 2020/21

For 2020/21, the Remuneration Committee has agreed that the weighting of corporate and personal measures in the LTIP should be set as 50% corporate and 50% personal, to provide a more balanced emphasis between shared accountability for corporate goals and individual responsibility for delivering against personal goals.

In addition, the Committee agreed to increase the maximum employer pension contribution for its most junior colleagues to the same level (15%) as all other colleagues. The Committee also agreed two changes designed to enhance colleague health and wellbeing, specifically the introduction of a healthcare cash plan as a new core benefit, and the reopening of its group income protection plan to all colleagues. All changes will take effect during the 2020/21 financial year.

In the context of the wider economic uncertainty brought about by the Covid-19 crisis, no member of the Bank's Executive Committee has received a salary increase in the 2020 annual salary review process.

Membership of the Remuneration Committee

The Remuneration Committee comprises Amanda Rendle, Nathaniel Sloane and Ceri Smith (representing the Shareholder). Amanda Rendle has been Chair of the Committee since 1 January 2019. Nathaniel Sloane was appointed in March 2020. Christina McComb was a member of the Committee until she resigned from the Board in November 2019. Lord Smith was appointed as an interim member of the Committee for the period November 2019 – February 2020.

The Committee members bring with them a range of expertise from diverse backgrounds designed both to support the Bank in its governance framework and to facilitate the relationship with the Shareholder. Informal discussion between Committee members and the Executive has also added value to the Bank's remuneration policy and practice. Only members of the Committee and the Chair of the Board have the right to attend Committee meetings.

The Chief Executive, the Chief Financial Officer, the General Counsel and Company Secretary, and the Chief People Officer have been invited to join meetings, but not where their own remuneration is the subject of discussion. The Company Secretary or her delegate acts as Secretary to the Committee.

External advisers

The Remuneration Committee used advisers during the year for the provision of remuneration advice. During the year Mercer provided advice to the Committee on remuneration matters for a fee of £9,840. Aon McLagan provided benchmarking data for fees of £59,760. Neither of these advisers have any connection with the Bank.

Directors' responsibilities

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

In accordance with UK Company Law, the Directors have elected to prepare both the Group financial statements and the parent Company financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union.

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 group and of the profit or loss of the company and group for that period. In preparing these financial statements, the Companies Act 2006 requires that Directors:

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

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 and the undertakings included in the consolidation 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 and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Catherine Lewis La Torre
Chief Executive Officer
10 September 2020

Phil Piers
Chief Financial Officer
10 September 2020

Independent auditor's report to the members of British Business Bank plc

Opinion on financial statements

I have audited the financial statements of British Business Bank plc group (BBB) for the year ended 31 March 2020 which comprise:

- the Consolidated Statement of Comprehensive Net Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related notes, including the significant accounting policies.

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 and as applied in accordance with the provisions of the Companies Act 2006.

In my opinion the financial statements:

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

Conclusions relating to principal risks, going concern and viability statement

I have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require me to report to you whether I have anything material to add or draw attention to:

– the disclosures in the annual report that describe the principal risks and explain how they are being managed or mitigated;

– the directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;

– the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;

– whether the directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with my knowledge obtained in the audit; or

– the directors' explanation in the annual report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Basis of opinion

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

Emphasis of matter

I draw attention to the Impact of Covid-19 on Investment Valuations section of note 13, which summarises the potential macroeconomic consequences of the pandemic. This section describes the extent of estimation uncertainty in measuring the fair value of investments as a result of the resulting volatility of financial markets at 31 March 2020. It also highlights the uncertainty in calculating the expected credit loss of the group's financial assets held at amortised cost and the subjectivity of the associated considerations such as assessing the probability of default, loss-given default and in determining whether there has been a significant increase in credit risk. My opinion is not modified in this respect.

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that I identified.

I consider the following areas of particular audit focus to be those areas that had the greatest effect on my overall audit strategy, the allocation of resources in my audit and directing the efforts of the audit team in the current year. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by my audit but only those areas that had the greatest effect on my overall audit strategy, allocation of resources and direction of effort. I have not included information relating to the work I have performed around management override of controls, other than to the extent where this was part of my work on the fair value measurement of financial assets as set out below; or fraud in revenue recognition, with specific regard to investment income, where my work has not identified any matters to report.

The areas of focus were discussed with the Audit Committee; their report on matters that they considered to be significant to the financial statements is set out on p75-77.

In this year's report the following changes to the risks identified have been made compared to my prior year report:

- I have not identified a significant risk around the implementation of a new finance system for the Start-Up Loans Company, as this took place in the previous year.
- The focus of the significant risk and key audit matter resulting from the implementation of IFRS 9 has remained on the complex considerations and high level of management judgement required in the measurement of expected credit loss allowances. I have not however identified a significant risk or key audit matter around the significant requirements surrounding the classification of financial instruments.

Measurement of expected credit losses

Description of risk

The measurement of Expected Credit Losses (ECLs) is a highly subjective area due to the level of judgement involved in determining assumptions used in the accounting estimate and as such is a key area of focus and significant risk of material misstatement for the audit.

Under IFRS 9, BBB investments that meet the Business Model and contractual cash flow criteria of the standard are measured at amortised cost. Therefore, a loss allowance based on 12 month expected credit losses is recognised with movements recognised in profit or loss.

BBB's ECL models were developed and built by an independent specialist analytics and risk management firm. During the year, management, in conjunction with the independent developers, have made improvements to their existing ECL models and have brought these in-house to form part of Business As Usual (BAU). BBB use the models to calculate impairment provisions each quarter using underlying loan and investment data and assumptions.

The models incorporate forward-looking economic assumptions across five scenarios. These scenarios are derived from a forecast commissioned for May 2020 from an independent specialist analytics firm to reflect the expected economic impact of the Covid-19 pandemic. Additional overlays were made by management to reflect the underlying behaviours of the respective investment schemes.

BBB determine there to be a significant increase in credit risk since initial recognition when accounts are more than 30 days past due. As a result, a lifetime ECL is recognised against such assets in accordance with IFRS 9.

The impairment allowance shown in the Consolidated Statement of Comprehensive Net Income for the year ended 31 March 2020 is £42m. The increase compared to the prior year is due to model overlays that reflect uncertainty in the outlook due to potential economic implications of the Covid-19 pandemic. The impact of Covid-19 within the current year allowance is £29.7m.

The Covid-19 pandemic has resulted in an increased level of estimation uncertainty in the provision, and management have presented additional quantitative and qualitative disclosure (note 13 (Impact of Covid-19 on Investment Valuations)) regarding this estimation uncertainty in BBB's financial statements.

Measurement of expected credit losses (continued)

How the scope of my audit responded to the risk

I have understood and evaluated the design and implementation of key controls, including the governance in place, in relation to the measurement of expected credit losses.

I also performed the following procedures:

– I assessed the design of the ECL models and assessed management's rationale for the assumptions and methods used to confirm that these would produce estimates which are appropriate to the underlying financial instruments and compliant with the requirements of IFRS 9.

– I obtained assurance over the completeness and accuracy of the input data used in the ECL models by testing a sample of loan balances and verifying investment data against underlying contractual documentation and other information.

– I reviewed the reasonableness of key assumptions, including comparison of economic assumptions to relevant publicly available information and to the scenarios provided by BBB's independent risk specialists. I assessed the specialists as management's experts under ISA 500 using economics specialist members of my team.

– I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the model to focus our testing, and to evaluate how management had addressed estimation uncertainty in making the accounting estimate. I evaluated the reasonableness of those assumptions and performed additional sensitivity analysis.

– I tested significant post-model adjustments to confirm that the management judgements made in determining the need for these was appropriate and that the adjustments had been calculated using appropriate and supportable assumptions.

Key observations

Based on the evidence I obtained I found that the methodology, input data and assumptions used to calculate the ECLs were supported by appropriate evidence and were in line with the requirements of IFRS 9.

As a result of the uncertainty in the future economic outlook due to the Covid-19 pandemic there is increased estimation uncertainty in the measurement of loss allowances. The financial statements (note 13 (Impact of Covid-19 on Investment Valuations)) describe the additional uncertainty in the measurement of the ECL, which I am content is adequately disclosed, however, I have included an emphasis of matter paragraph above to draw attention to this estimation uncertainty.

Fair value measurement of financial instruments

Description of risk

The most significant balance in the financial statements of the British Business Bank plc group is investments. The majority of these investments are measured at fair value based on valuation techniques including inputs not based on observable market data. The investments are held in the significant components British Business Finance Limited (BBFL), British Business Investments Limited (BBI), British Patient Capital Limited (BPC) and the Start-up Loans Company (SUlCo).

The valuation of Enterprise Capital Fund (ECF) investments held in BBFL are determined by management using models, based on inputs and assumptions, and are therefore subject to a degree of management judgement and estimate.

The investments held in BBI and BPC are in funds valued by fund managers who are independent of management so the level of management judgement or estimate is limited. The greatest level of estimation uncertainty for these funds is within the equity investment funds in the Venture/Growth and UKIIF programmes which are valued at £467m, which is approximately 23% of the investments held by the group.

The investments held in SUlCo are loans to entrepreneurs provided on non-commercial terms and losses of 30% to 40% are expected across the scheme. As required by IFRS 9, SUlCo recognises its loans at fair value on inception and subsequently measures these at amortised cost. The level of write down required to account for these non-commercial terms is highly material and is subject to a significant estimate based on management's judgement, which is derived from a number of non-observable inputs.

Financial assets held at fair value amount to £1,505m at 31 March 2020 (£1,248m at 1 April 2019). The increase in fair value is primarily due to an increase in investment balances and activity, which is reflective of the ongoing growth of the business. The Covid-19 pandemic and resulting disruption in financial markets has increased the level of estimation uncertainty in the fair value at the reporting date as set in note 13 (Impact of Covid-19 on Investment Valuations).

Fair value measurement of financial instruments (continued)

How the scope of my audit responded to the risk

In auditing the financial asset valuations I have performed the following procedures:

- I have tested the operating effectiveness of the controls applied by British Business Bank plc over the valuation processes for financial assets. This included attendance at key internal meetings where I observed management's review and challenge of valuations provided by fund managers. Where valuations are produced through models, I have tested the design and implementation of controls over the fair value model used.
- Where management relies on valuations provided by fund managers to estimate the value of its investments, I have considered the governance arrangements in place and process undertaken by management to review and challenge the valuations prior to their inclusion in the accounts. I have performed detailed procedures to enable me to gain assurance from the work of the fund managers. This has included comparison of the most recent audited accounts of the fund against the fund manager valuation report for the same period and consideration of additional evidence where the accounting period of the fund and BBB are not coterminous. I considered the overall competence, capability and objectivity of the fund managers, as well as the scope of their work and its relevance to the accounts and my opinion.
- Where management uses models to estimate the value of its loans and investments, I considered the design of the valuation models, the validity of the data inputs to those models, and the appropriateness of the key assumptions on which the models were based. For the ECF valuation model I sought confirmation that management had reassessed the assumptions made in the prior year which underpin the valuation model to confirm that they remain appropriate at year end and challenged management on how it has addressed estimation uncertainty. For the SulCo model I used auditors' experts to support my assessment of the key assumptions used, and obtained assurance over the completeness and accuracy of the input data used in the model by testing a sample of loan balances.
- I have assessed the accuracy and completeness of the review for potential impairments that management have performed in relation to their loans and investments.
- I have undertaken a review of a sample of loans and investments and considered whether management's judgements on appropriate accounting treatments are consistent with the relevant accounting standards and the underlying substance and form of legal agreements.

Key observations

Based on the evidence I obtained I found that the valuations provided by fund managers were IFRS 13 compliant values.

Where the fair values were outputs from models I found that these outputs, and the underlying models' design, were in line with the requirements of IFRS 13.

As a result of the volatility of financial markets at 31 March 2020 due to the Covid-19 pandemic there is increased estimation uncertainty in the measurement of fair value, especially for investments held in externally managed debt and equity funds. The financial statements (note 13 (Impact of Covid-19 on Investment Valuations)) disclose the additional uncertainty in these fair values which I am content is adequately disclosed, however, I have included an emphasis of matter paragraph above to draw attention to this estimation uncertainty.

Application of materiality

I applied the concept of materiality in both planning and performing my audit, and in evaluating the effect of misstatements on my audit and on the financial statements. This approach recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement. A matter is material if its omission or misstatement would, in the judgement of the auditor, reasonably influence the decisions of users of the financial statements.

Based on my professional judgement, I determined overall materiality for the group's financial statements at £18.9m, which is approximately 1% of net investment assets. BBB develops and manages finance programmes designed to enhance the working of finance markets which it delivers through investments in partner organisations. I therefore chose net investment assets as the benchmark because I consider it to be the principal consideration for users in assessing the financial performance of the group. I determined that this was more appropriate than using revenue or net profit as a benchmark as these are not the main drivers of the decision making within the business. I have revised my materiality basis from total assets in the prior year, as net investment assets more accurately represent the core activities of the group.

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users. Assessment of such matters would need to have regard to the nature of the misstatement and the applicable legal and reporting framework, as well as the size of the misstatement.

I agreed with the Audit Committee that I would report to it all uncorrected misstatements identified through my audit in excess of £300,000, as well as differences below this threshold that in my view warranted reporting on qualitative grounds.

Total unadjusted audit differences reported to the Audit Committee have decreased net assets by £3.3m.

Responsibilities of the Directors for the financial statements

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

– the preparation of the group 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 group'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 group 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 the group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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.

I also provide those charged with governance with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Audit scope

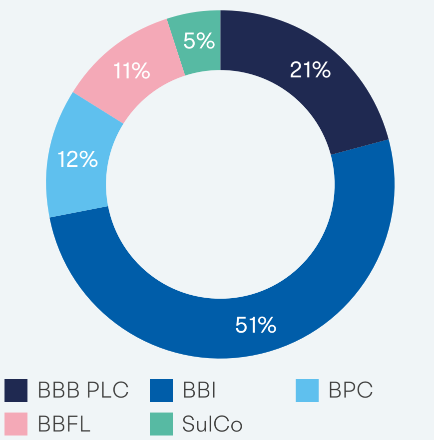
The scope of my audit of the British Business Bank plc group was determined by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The group comprises British Business Bank plc, BBB Patient Capital Holdings Limited, British Business Financial Services Limited, British Business Finance Limited and the subsidiaries of these companies: British Business Investments Limited, British Patient Capital Limited, The Start-Up Loans Company, British Business Aspire Holdco Limited, Capital for Enterprise Limited, Capital for Enterprise Fund Managers Limited and Capital for Enterprise (GP) Limited. The group financial statements are a consolidation of these companies.

I identified the following as significant components of the group: British Business Bank plc, British Business Investments Limited, British Patient Capital Limited, British Business Finance Limited and Start-Up Loans Company (a subsidiary of British Business Finance Limited). British Business Investments Limited and British Patient Capital Limited require statutory audits and the work in this respect is carried out separately. The work on the other significant components is performed by the group audit engagement team.

This work, together with additional procedures performed on balances arising as a result of the group's consolidation process, gave me the evidence I needed for my opinion on the group financial statements as a whole. The significant components of the group account for over 99% of the group's assets. Together with the procedures performed at group level this gave me the evidence I needed for my opinion on the group financial statements as a whole.

Total assets of individual components of the BBB plc group (as at 31 March 2020)



Other Information

Directors are responsible for the other information. The other information comprises information included in the annual report, but does not include the parts of the Directors' Remuneration Report described in that report as having been audited, and 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.

I am specifically required to address the following items and to report uncorrected material misstatements in the other information, where I conclude that those items meet the following conditions:

– Fair, balanced and understandable: the statement given by the directors that the annual report and accounts taken as a whole are fair, balanced and understandable and provide the necessary information to enable users to assess the entity's performance, business model and strategy, is materially inconsistent with my knowledge obtained in the audit; or

– Audit Committee reporting: the section describing the work of the group Audit Committee does not appropriately address matters communicated by me to the Audit Committee.

I also have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act

The strategic and directors' reports

In my opinion, based on the work undertaken in the course of the audit, the information given in the Strategic and Directors' Reports for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and 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.

The corporate governance statement

In my opinion, based on the work undertaken in the course of the audit:

– the information given in the corporate governance statement, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by Financial Conduct Authority (the FCA Rules), in respect of internal control and risk management systems in relation to financial reporting processes, and about share capital structures, is consistent with the accounts and has been prepared in accordance with applicable legal requirements.

Based on my knowledge and understanding of the group and its environment obtained during the course of the audit, I have identified no material misstatements in this information.

Matters on which I report by exception

Adequacy of accounting records information and explanations received

I report to you if, in my opinion:

– adequate accounting records have not been kept, or returns adequate for my audit have not been received from branches not visited by my staff;

– the financial statements are not in agreement with the accounting records and returns; or

– I have not received all of the information and explanations I require for my audit; or

– a corporate governance statement has not been prepared by the parent company.

I have nothing to report arising from this duty.

Other matter

I have reported separately, on p177-179, on the Parent Company Financial Statements of British Business Bank plc for the year ended 31 March 2020 and on the information in the Directors' Remuneration Report that is described as having been audited.

Hilary Lower
Senior Statutory Auditor
10 September 2020

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Consolidated financial statements

Consolidated statement of comprehensive net income

For the year ended 31 March 2020

	Note	2020 £000	2019 £000
Income			
Interest income	4.1	51,535	43,437
Grant income	4.2	16,685	17,461
Management fee income	4.3	19,296	20,575
Other income	4.4	1,472	1,837
Gross operating income		**88,988**	**83,310**
Expected credit loss on amortised cost assets	13.1	(42,012)	(12,846)
Net gains/(losses) on investment assets	5	(2,971)	28,669
Net gain on write down of repayable capital grant	6	37,782	7,291
Net operating income		**81,787**	**106,424**
Expenditure			
Staff costs	7.1	(30,743)	(27,765)
Other operating expenditure	7.2	(32,354)	(34,775)
Depreciation and amortisation	7.3	(3,114)	(1,443)
Operating expenditure		**(66,211)**	**(63,983)**
Net operating profit before ECF loan commitment financial liability, interest payable and finance costs		**15,576**	**42,441**
ECF loan commitment financial liability			
Provided in the year on new commitments	19	(44,941)	-
Released in the year	19	38,654	44,364
Finance costs	15	(314)	-
Interest payable	20	(11,113)	(5,552)
Profit/(loss) before tax		**(2,138)**	**81,253**
Tax	8.1	(6,594)	(9,933)
Profit/(loss) for the year after tax		**(8,732)**	**71,320**
Other comprehensive income		-	-
Total comprehensive income for the year		**(8,732)**	**71,320**

All operations are continuing.

The notes on p122-176 form an integral part of the financial statements.

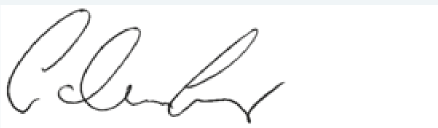
The results by operating segment are shown in note 9 to the financial statements.

Consolidated statement of financial position

As at 31 March 2020

	Note	2020 £000	2019 £000
Assets			
Cash and cash equivalents	10	63,705	152,117
Amounts owed by Shareholder	11	240,400	525,000
Trade and other receivables	12	9,837	9,746
Amortised cost investments	13.1	471,993	431,126
Investments held at fair value through profit or loss	13.2	1,505,522	1,248,184
Assets held for sale	13.2	-	40,610
Property, plant and equipment	14	2,596	3,708
Right-of-use assets	15	10,669	-
Intangible assets	16	778	1,358
Corporation tax receivable	8.2	5,499	-
Deferred tax asset	8.3	9,293	8,894
Total assets		**2,320,292**	**2,420,743**
Liabilities			
Trade and other payables	17	(21,151)	(18,149)
Corporation Tax payable	8.2	-	(3,936)
Provisions	18	(300)	(300)
ECF loan commitment financial liability	19	(145,664)	(139,377)
Loans and other borrowings	20	(601,078)	(711,285)
Lease liabilities	21	(12,867)	-
Total liabilities		**(781,060)**	**(873,047)**
Net assets		**1,539,232**	**1,547,696**
Equity			
Issued share capital	24.2	1,496,408	1,496,408
Retained earnings		42,824	51,288
Total equity		**1,539,232**	**1,547,696**

The financial statements of the Group (parent company number 08616013) were approved by the Board of Directors and authorised for issue on 10 September 2020. They were signed on its behalf by:



Catherine Lewis La Torre
Chief Executive Officer

The notes on p122-176 form an integral part of the financial statements.

Consolidated statement of changes in equity

As at 31 March 2020

	Note	Issued capital £000	Financial instrument reserve £000	Retained earnings £000	Total £000
Balance as at 1 April 2019		**1,496,408**	**-**	**51,288**	**1,547,696**
Other opening adjustments *		-	-	1,355	1,355
Adjustment due to IFRS 16 †		-	-	(1,087)	(1,087)
Balance under IFRS 16 as at 1 April 2019		**1,496,408**	**-**	**51,556**	**1,547,964**
Net income after tax		-	-	(8,732)	(8,732)
Total comprehensive income		**-**	**-**	**(8,732)**	**(8,732)**
Issue of ordinary shares	24.2	-	-	-	-
Balance at 31 March 2020		**1,496,408**	**-**	**42,824**	**1,539,232**
Balance as at 1 April 2018		**1,371,408**	**-**	**(20,032)**	**1,351,376**
Net income after tax		-	-	71,320	71,320
Total comprehensive income		**-**	**-**	**71,320**	**71,320**
Issue of ordinary shares	24.2	125,000	-	-	125,000
Balance at 31 March 2019		**1,496,408**	**-**	**51,288**	**1,547,696**

* Other opening adjustments relate to the impact of reversing the rent-free provision, previously recognised under IAS17 on two of the three leases. Under IAS 17 the rent-free provision would have been spread over the life of the leases and unwound as rent charges commenced.

† The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in 'Other expenses' and an increase in depreciation and interest expense.

Consolidated cash flow statement

As at 31 March 2020

	Note	2020 £000	2019 £000
Profit before tax		**(2,138)**	**81,253**
Cashflows from operating activities			
Adjustments for non-cash items:			
Net gain on write down of repayable capital grant	6	(37,782)	(7,291)
Depreciation and amortisation		3,114	1,443
Interest payable		11,113	5,552
ECF loan commitment financial liability/provision	19	6,287	(44,364)
Other provision expense	18	-	180
Changes in operating assets and liabilities:			
Net increase in amortised cost investments	13.1	(40,867)	(2,573)
Net increase in assets at fair value through profit or loss	13.2	(216,728)	(123,755)
Increase in trade and other receivables	12	(91)	(3,964)
Increase in trade and other payables		4,351	4,431
Payment of Corporation Tax	8.2	(16,490)	(22,291)
Payment of interest payable		(3,932)	(1,288)
Net cash used in operating activities		**(293,163)**	**(112,667)**
Cashflows from investing activities			
Purchases of property, plant and equipment	14	(72)	(2,814)
Purchase of intangible assets		-	(143)
Net cash used in investing activities		**(72)**	**(2,957)**
Cashflows from financing activities			
Issue of new shares	24.2	-	125,000
Capital grants received	20	-	4,100
Payments of lease liabilities	15	(491)	-
Finance charge	15	314	-
Net (increase)/decrease in amounts owed by shareholder	11	284,600	(525,000)
Net increase/(decrease) in loans from Nuclear Liabilities Fund	20	(79,600)	600,000
Net cash from financing activities		**204,823**	**204,100**
Net (decrease)/increase in cash and cash equivalents		**(88,412)**	**88,476**
Cash and cash equivalents at beginning of the year		152,117	63,641
Cash and cash equivalents at end of the year		**63,705**	**152,117**

Interest received was £84.1m (2019: £68.2m).

The notes on p122-176 form an integral part of the financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2020

1. General information

The British Business Bank plc (the 'Company' or 'Group') is incorporated in the United Kingdom under the Companies Act. The address of the registered office is Steel City House, West Street, Sheffield, S1 2GQ. The nature of the British Business Bank Group's operations and its principal activities are set out in the Strategic Report on p8-59.

2. Significant accounting policies

Basis of preparation

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

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March 2020. Control is achieved when the Company:

- has the power over the investee
- is exposed, or has rights, to variable returns from its involvement with the investee
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Determining whether a Company has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over relevant activities. This judgment may involve assessing the purpose and design of the entity.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Net Income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cashflows relating to transactions between the members of the Group are eliminated on consolidation.

Profit or loss and each component of other comprehensive income are attributed in full to the owners of the Company in the absence of non-controlling interests. Total comprehensive income of the subsidiaries is also attributed in full to the owners of the Company in the absence of non-controlling interests.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Group has received a letter of support from the Secretary of State for BEIS stating it will provide sufficient funding to enable the Group to meet its liabilities as and when they fall due for a period of not less than 12 months from the date of approval of these financial statements. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Adoption of new and revised standards

Leases

The Group has applied IFRS 16 using the modified retrospective approach, with the cumulative effect of adopting IFRS 16 being recognised in equity as an adjustment to the opening balance of retained earnings for the current period and therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed in note 15.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involved the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, the asset is not identified
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
  - the Group has the right to operate the asset
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to all contracts in existence as at 1 January 2019 in addition to contracts entered into, or changed, on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocated the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

On transition to IFRS 16, the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 2.525%.

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

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

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

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

Income recognition – management income and other income

Following the adoption of IFRS 15 ‘Revenue from contracts with customers’, income is recognised when a recipient obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the goods or service. Management fee income and Other income are recognised when a recipient obtains control of the service.

Income is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, Value Added Tax (VAT) and other sales-related taxes.

Interest income

Interest income is recognised under IFRS 9 on financial assets measured at amortised cost when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding using the effective interest method.

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

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

Grant income

Grant income is recognised under IAS 20 and relates to a Resource Grant and represents funding from the Company’s Shareholder to cover the operating costs of The Start Up Loans Company (SUL). Any grant income in excess of operating cost is treated as deferred income and has been included as a liability in the Consolidated Statement of Financial Position.

Tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Net Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’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 in future years will be available against which deductible temporary differences can be utilised.

Current and deferred tax are recognised in the Consolidated Statement of Comprehensive Net Income.

VAT

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

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

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

Property, plant and equipment

Fixtures and fittings, IT equipment and leasehold improvements are stated at cost less accumulated depreciation and any recognised impairment loss.

The Group capitalises property, plant and equipment purchased for a net value of £3,000 or more and which have a useful economic life in excess of one year.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvement	**Shorter of estimated remaining useful life or outstanding lease term**
Fixtures and fittings	**5 years**
IT equipment	**3 – 5 years**
Right-of-use property	**Term of lease recognised under IFRS 16**

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated Statement of Comprehensive Net Income.

Intangible assets

Intangible assets including internally developed software with a finite useful life and IT programs and software licences, with finite useful lives that are acquired separately, are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over the estimated useful life on the following bases:

Internally developed software and IT programs	**3 – 10 years**
Software licences	**Period of licence**

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected to arise from continued use. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in the Consolidated Statement of Comprehensive Net Income when the asset is derecognised.

Financial assets and liabilities

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

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

Classification of financial instruments

Financial assets are classified under IFRS 9 as amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI) depending on the Group's business model for that asset category and the contractual cashflow characteristics of the instruments.

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

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

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

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

Individual investment programmes are detailed further in note 13.

Fair value at initial recognition – SUL

Loans originated through the Group's Start Up Loans (SUL) programme have been classified as amortised cost financial instruments. The Group charges a single rate of interest (6%) to SUL customers that is independent of the credit quality of the customer. This interest rate is not sufficient to compensate for the expected losses for the SUL scheme which are forecast to be between 30% and 40%, reflecting the non-commercial nature of the scheme. Therefore, the transaction value of a Start Up Loan will not equal its fair value.

The future expected cashflows are risk adjusted and discounted using an appropriate discount rate, which has been calculated by taking the average five-year median corporate debt rate for Caa/C rated loans, in order to calculate the fair value.

In accordance with IFRS 9 the fair value adjustment at initial recognition, which is the difference between the transaction value of the loans and their fair value, would usually be deferred and either amortised or recognised when a gain or loss was crystallised. However, the Directors have determined that it is appropriate in this circumstance to apply a true and fair override, and consequently any fair value adjustment arising on the SUL loan book will be recognised immediately through the Consolidated Statement of Comprehensive Net Income because this reflects the commercial position more appropriately.

Impairment of financial assets

The Group assesses on a forward-looking basis, the expected credit losses (ECL) associated with its debt instrument assets carried at amortised cost and with exposures arising from loan commitments and financial guarantee contracts.

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

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

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

Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. Accounts which are more than 90 days past due are considered to be in default and credit impaired. Once an account is recognised as being in 'stage 3', interest income is recognised by applying the effective interest rate to the amortised cost carrying amount.

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

Assets held for sale

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, the asset is available for immediate sale in its present condition and the asset is actively marketed for sale. Management must be committed to the sale which should be expected to qualify as recognition as a completed sale within one year from the date of classification. Assets held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Investments in Associates

IAS 28 Investments in Associates applies to all investments in which the Group has significant influence but not control. A holding of 20% or more of the voting power of an investment would normally indicate significant influence and require these investments to be accounted for as associates using the equity method of accounting. Where the Group holds greater than 20% of the ordinary share capital of an entity but there is no significant influence, these entities are not accounted for as associates. Instead these entities are classified and accounted for as a financial asset in accordance with IFRS 9 Financial Instruments. These investments are held at FVTPL and initially recorded at cost and subsequently re-valued based on fund net asset values (NAVs). Details of the Group's significant holdings are shown in note 25.

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.

Amounts owed by Shareholder

These loans are classified as FVTPL under IFRS 9 because the contractual terms do not give rise to cashflows on specified dates and do not include any payment of interest.

Trade and other receivables

Trade receivables are measured at amortised cost.

Financial liabilities

In both the current and prior period, financial liabilities are classified at initial recognition and subsequently measured at amortised cost, except for:

– financial liabilities at fair value through profit or loss: this classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated as FVTPL are presented in the Consolidated Statement of Comprehensive Net Income

– financial liabilities arising from the transfer of financial assets not qualifying for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability.

Loan commitments at below market rate

The Group accepts a lower than market rate of return from ECF investments in order to encourage private sector investors to invest alongside. Although the Group expects to make a positive return from these investments, this return is less than that required by the private sector. The Group has loan commitments for each of these investments and at initial recognition elected to irrevocably designate the liability related to these loan commitments as measured at fair value through profit or loss. Group financial assets and financial liabilities is managed, and its performance is evaluated on a fair value basis, in accordance with a documented investment strategy, and information about these assets and liabilities is provided internally on that basis to the Group's key management personnel.

When a commitment is drawn, the loan commitment is released and a separate fair value adjustment on the resulting investment is recognised in net losses on investments in the Consolidated Statement of Comprehensive Net Income, to reflect the difference between the fair value and the amount drawn.

Loans and other borrowings

The Group has loan facilities from the Secretary of State for BEIS and the Nuclear Liabilities Fund which are classified and measured as amortised cost financial liabilities.

In addition, it has received a capital grant in respect of the SUL scheme. The agreement does not have a maturity date and carries an interest rate of zero. The capital grant is repayable on demand, in whole or in part, if at the absolute discretion of BEIS certain conditions arise that affect the scheme adversely. The Group classifies and initially measures the capital grant as an amortised cost financial liability. Subsequently, the Group measures the liability as amortised cost but adjusts the carrying value by any amounts it believes will not be recoverable from the loans made to entrepreneurs under the scheme. Further details relating to the capital grant are shown in note 6.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event; it is probable that the Group 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 cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows when the effect of the time value of money is material.

Contingent liabilities

The Group has contingent liabilities arising through financial guarantees issued to counterparties. A contingent liability is a possible obligation depending on whether some uncertain future event occurs, or a present obligation but payment is not probable, or the amount cannot be measured reliably.

The Group may at times enter into financial guarantee contracts which are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the impairment loss allowance
- the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15.

For financial guarantee contracts, the loss allowance is measured as a financial liability.

Foreign exchange

The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency) which is pounds sterling.

The Group 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 re-translated at the rates of exchange ruling at that date. Translation differences are recognised in the Consolidated Statement of Comprehensive Net Income.

Retirement costs

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

Employee benefits

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group assesses whether a contract is, or contains, a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Group would have to borrow at over a similar term and with a similar security the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. A corresponding right of-use asset is also recognised.

Please refer to adoption of new and revised standards for the current year accounting policy (p123).

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing the Financial Statements, the Directors are required to make judgements and estimates. Judgements involve an interpretation of requirements to decide how to allocate, value or recognise an item. Estimates arise from using assumptions which result in a range of possible outcomes. The most important judgements and estimates used in preparing these Financial Statements are described below. Actual results may differ from these estimates.

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

Judgements

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

The future returns from FVTPL fund investments are inherently uncertain and will depend on a range of factors including the manager's success in originating lending and investment opportunities, costs and fees, how the manager exercises discretion in trading off equity against debt components in loan structures, credit and warrant/ equity performance, and prevailing market conditions.

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

The Covid-19 pandemic has given rise to significant additional uncertainty as to investment valuations and the Group has taken account of this in its assessment of the March 2020 valuations by giving particular scrutiny to the valuation methodologies adopted by its fund managers, ensuring that they are appropriate and consistent with IFRS, IPEV or other relevant guidelines.

b. Classification of financial assets

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

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

– Hold to collect contractual cashflows – Amortised cost or FVTPL

– Hold to collect and sell – FVOCI

– Neither Hold to collect nor sell FVTPL.

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

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

Estimates

a. Inputs to the Enterprise Capital Funds valuation models

The Group has modelled the estimated future cashflows generated from its Enterprise Capital Funds (ECF) in order to derive the fair value of its investments, and financial liabilities relating to its loan commitments. The models use inputs, some of which rely on estimates and assumptions made by management that risk causing a material adjustment to the carrying amounts of the assets and liabilities.

Within the ECF investment calculation the Group uses multiple inputs and assumptions to determine the four components (Accrued Return, Loan, Option and Additional Upside) that comprise the fair value. The key global assumptions used are:

– the risk-adjusted discount rate used in the valuation expected future cashflows

– the volatility percentage, which is a benchmark for the volatility of the market price of comparable investments over time

– the profiles of expected cash flows generated by the ECF funds throughout their lives.

The key input into the calculation is the NAV of the individual funds. The risk-adjusted discount rate and the volatility percentage are the global assumptions which involve a significant degree of management estimate.

As an indication of sensitivity, a 200 basis points increase in the risk-adjusted discount rate across the ECF portfolio would decrease the fair value of the investment in the Consolidated Statement of Financial Position by around £13.4m. This sensitivity approximates to a 5.3% change in the asset value. Likewise, a 200 basis points decrease in the risk-adjusted discount rate across the Enterprise Capital Funds portfolio would increase the fair value of the portfolio by around £15.2m, which approximates to a 6.0% change in the asset value.

A 400 basis points decrease in the volatility percentage used across the Enterprise Capital Funds portfolio would decrease the fair value gain on investments included in the Consolidated Statement of Comprehensive Net Income by around £3.0m over a one-year period and result in a corresponding decrease in the fair value of the derivatives by the same amount. This sensitivity approximates to a 1.2% change in the asset value. Likewise, a 400 basis points increase in the volatility percentage used across the Enterprise Capital Funds portfolio would increase the fair value gain on derivatives by around £3.0m which approximates to a 1.2% change in the asset value.

The key input assumption that impacts on the value of the ECF loan commitments is the market return rate. As an indication of sensitivity, a 200 basis points increase in the market return rate across the ECF portfolio would increase the loan commitment provision in the Consolidated Statement of Financial Position by around £13.2m, which approximates to a 9.1% change in the provision value. Likewise, a 200 basis points decrease in the market rate across the Enterprise Capital Funds portfolio would decrease the loan commitment provision by around £14.8m, which approximates to a 10.2% change in the provision value.

Risk adjusted discount rate and market return rate

The ECF discount rates used in the model are as follows:

– ECFs classified as low risk: 11%

– ECFs classified as medium risk: 13.5%

– ECFs classified as high risk: 17.5%.

The discount rates are reviewed annually and in practice have remained at constant levels in recent years. Against this context a 2% sensitivity is considered appropriate.

Volatility percentage

Recent spikes in the volatility indices used to calculate the volatility assumption led to an increase in the option value for the ECF portfolio that was considered unrealistic. Therefore, a review was undertaken and a new methodology was implemented for March 2020. The new methodology uses indices that are considered more closely aligned to the ECF portfolio companies, considers the sector-specific focus and maturity of each fund and reduces the impact of short-term volatility on the option value. The volatility assumptions used in the model vary from 15.0% to 43.1% and against this context, a 4% sensitivity is considered appropriate. We applied the new methodology to the March 2019 portfolio and the difference in option value was immaterial. Therefore, no re-statement of the March 2019 accounts was considered necessary.

b. The assessment of fair value on initial recognition for SUL

There is uncertainty in both the expected cashflows and the Effective Interest Rate (EIR) used to calculate the fair value at initial recognition for SUL. The EIR is subsequently used in the calculation of interest income recognised in the Consolidated Statement of Comprehensive Net Income as the fair value adjustment amortises.

The cashflows comprise four main components: principal, interest, expected loss on principal and expected loss on interest. For each individual account and for each period, the expected loss on principal and the expected loss on interest are assessed by taking the outstanding contractual amounts and adjusting for the marginal probability of default and loss given default.

EIR is calculated using the risk-adjusted cashflows discounted using a derived market rate which references to the five-year median yield for Caa/C rated corporate debt applicable at the year of origination.

The fair value of SUL is sensitive to changes in the discount rate and to changes in expected cash flows arising from the actual and future expected performance of the loans. A 2% increase in the discount rate as a result of movements in corporate debt rates for Caa/C rated loans or LIBOR could lead to an approximate £9.2m decrease in fair value.

c. The assessment of ECL impairment allowances against amortised cost financial assets

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

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

At initial recognition, financial assets are categorised as 'stage 1' and an impairment provision is made for ECLs resulting from default events projected within the next 12 months (12-month ECL). Subsequently, and at each reporting date, a judgement is made as to whether the financial asset has been subject to a significant increase in credit risk. Where that is judged to be the case, financial assets are considered to be in 'stage 2', at which point it is considered appropriate to recognise lifetime ECL.

The Group assesses assets to be in stage 2 using a combination of non-statistical, qualitative information, as well as quantitative, statistical information. It applies a presumption that when accounts are more than 30 days past due (late), there has been a significant increase in credit risk and such assets are assessed as being in 'stage 2'. Examples of the qualitative indicators that might be used in assessing a significant increase in credit risk are:

- changes in market measures of credit quality
- changes in economic outlook that may affect a customer's ability to repay (for example an interest rate increase)
- changes to the borrower's intrinsic credit worthiness
- any covenant breaches
- legal or regulatory changes that may adversely affect the borrower
- changes in the credit quality of another exposure to the borrower
- changes to the quality of any guarantees or parental support.

Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. Assets which are more than 90 days past maturity are in default and fully provided for by the Group.

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

Where there has been a significant relative increase in the probability of default (PD) compared to initial recognition, based on the customer's credit quality, the account is assessed as being in 'stage 2'. Where current PD is measurable, a significant relative increase in the PD is judged to have occurred where there has been an increase in PD from origination to the reporting date equivalent to a 3-notch downgrade on a granular external credit rating scale. In addition, assets with a PD equivalent to external credit rating grade A (Standard & Poor's/Fitch) or A2 (Moody's) are considered to be low risk and are always classed as Stage 1 under the IFRS 9 low credit risk exemption. For assets which are not re-rated and where on-going behavioural modelling is not available, a fixed percentage of the performing portfolio is assumed to be in Stage 2 based on historic grade transitions where available. Where historic grade transitions are not available the percentage is defined in line with European Banking Authority (EBA) guidance. In the ECL calculations, a scalar based on the observed performance of each respective cohort is applied to the fixed percentage.

The impact of the Covid-19 pandemic has raised further matters for consideration in assessing the Group's amortised cost financial assets. Guidance has been issued by the Prudential Regulation Authority (PRA) with respect to accounting for ECL in context of Covid-19. This has been incorporated into the post-model overlay process described on p133.

Economic scenarios and associated probability weightings

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

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

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

Covid-19 post-model overlays

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

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

The overlays have resulted in an overall increase in the ECL provision of £23.5m which is 4% of total exposure. Overlays required to reflect increases in PD due to an expected deterioration in the credit quality of lending post-Covid-19 amounting to £8.9m have been applied, as have overlays of £13.4m to account for worsening LGDs due to lower expected recoveries on defaulted loans. In addition, ECL provisions have been increased by £1.2m due to the increase in default risk within the portfolio, which also causes an increase in the proportion of performing accounts assigned to stage 2.

The calculation of probability of default (PD)

The PD of each underlying loan or credit facility provided by the Group is a key assumption for the IFRS 9 ECL calculation and this is reliant on rating assessments undertaken by external and internal PD models. Where account level ratings are not available the average PD derived from the same cohort of lending is applied.

The calculation of loss given default (LGD)

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

The calculation of exposure at default (EAD)

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

The Group has undertaken sensitivity analysis on these key inputs to ECL impairment provision calculation which is disclosed in note 27.2 and 27.3.

4. Income

4.1 Interest income

	Note	2020 £000	2019 £000
Contractual Interest from amortised cost investments	13.1	30,815	29,919
Amortisation of fair value adjustment on initial recognition of investments	13.1	20,720	13,518
Total interest income		**51,535**	**43,437**

The amortisation of the fair value adjustment on initial recognition represents the difference between the contractual interest rate and the effective interest rate applicable for the financial asset.

4.2 Grant income

	2020 £000	2019 £000
Grant received from Shareholder	16,685	17,461
Total grant income	**16,685**	**17,461**

Grant income relates to the Resource Grant received from BEIS under the terms of the 'Grant Offer Letter' between BEIS and SUL. The grant income funds the operating expenses of SUL and any amount in excess is recorded as deferred scheme income in the Consolidated Statement of Financial Position.

4.3 Management fee income

	2020 £000	2019 £000
Management fee income earned from:		
Angel Co Fund	-	30
Department for Business, Energy and Industrial Strategy	15,502	15,302
Northern Powerhouse Investments Limited	899	2,691
Midlands Engine Investments Limited	1,088	1,774
Cornwall and Isles of Scilly Investments Limited	80	310
Innovate UK	71	309
Nuclear Decommissioning Authority	-	80
Nuclear Liabilities Fund	1,612	-
East Midlands Early Growth Fund Limited	-	49
Other	44	30
Total management fee income	**19,296**	**20,575**

4.4 Other income

	2020 £000	2019 £000
Arrangement and other fees	1,472	1,837
Total other income	**1,472**	**1,837**

5. Net gains/(losses) on investment assets

	Note	2020 £000	2019 £000
Fair value adjustment on initial recognition of amortised cost assets	13.1	(19,394)	(18,419)
Derecognition of amortised cost assets	13.1	(18,193)	(2,364)
Fair value adjustment on initial recognition of assets held at fair value through profit or loss	13.2	(38,654)	(45,870)
Fair value gains on assets held at fair value through profit or loss	13.2	73,270	95,322
Total net gains/(losses) on investment assets		**(2,971)**	**28,669**

6. Net gain on write down of repayable capital grant

	2020 £000	2019 £000
Write down of repayable capital grant received	37,782	7,291
Total net gain on write down of repayable capital grant	**37,782**	**7,291**

The Group receives a Capital Grant from BEIS under the terms of the 'Grant Offer Letter' between BEIS and SUL for the purpose of extending loans to entrepreneurs at below market rate (see note 20). On expiry of the grant period (31 March 2025), SUL will repay to BEIS the amount of cash held in its bank accounts representing capital and interest repayments from entrepreneurs. The repayable capital grant will be reduced by any unrecovered amounts from the beneficiaries of the loans. The gain on write down of repayable capital grant represents the reduction in the capital grant liability for the write-offs and impairment losses incurred on the loans to entrepreneurs in the period as well as the reduction/increase in the capital grant liability for the fair value adjustment on initial recognition and the subsequent amortisation of this adjustment.

7. Operating expenditure

7.1 Staff numbers and staff costs

The average monthly number of employees including Executive Directors was:

	2020	2019
On payroll	346	264
Secondees	1	3
Agency staff	3	21
Non-executive Directors	10	9
Total staff numbers	**360**	**297**

Aggregate remuneration comprised:

	2020 £000	2019 £000
Wages and salaries:		
On payroll including Executive Directors	20,043	16,722
Secondees	142	541
Agency staff	470	2,392
Non-executive Directors' fees	353	357
Short- and long-term incentive plans and bonus scheme	4,152	3,179
Social security costs	2,859	2,367
Pension costs	2,724	2,207
Total staff costs	**30,743**	**27,765**

7.2 Other operating expenditure

	2020 £000	2019 £000
Professional fees:		
Investment scheme design and transactions	2,793	2,636
Operational fees	6,844	6,808
Accommodation and office services	2,273	4,971
Information technology	7,630	6,216
Marketing	3,429	3,267
SUL delivery partner fees	6,860	7,677
Auditor's remuneration	387	432
Staff related costs, including training and travel	2,101	2,494
Other purchase of goods and services	37	274
Total other operating expenditure	**32,354**	**34,775**

Auditor's remuneration is stated net of VAT and relates to fees payable for the audit of the Group's annual accounts. The Group's auditor did not provide any non-audit services.

7. Operating expenditure (continued)

7.3 Depreciation and amortisation

	Note	2020 £000	2019 £000
Property, plant and equipment	14	1,182	776
Right-of-use assets	15	1,350	-
Intangible assets		582	667
Total depreciation and amortisation		**3,114**	**1,443**

8. Tax

8.1 Tax on profit on continuing activities

	2020 £000	2019 £000
Current tax		
Current year	6,380	18,584
Adjustment in respect of prior years	613	(3,710)
Total current tax	**6,993**	**14,874**
Deferred tax		
Current year	(399)	(4,941)
Total deferred tax	**(399)**	**(4,941)**
Total tax on continuing activities	**6,594**	**9,933**
Recognised through Net Comprehensive Income	6,594	9,933
Total tax on continuing activities	**6,594**	**9,933**

Factors affecting the tax expense for the period

The tax expense for the period is different from the standard rate of Corporation Tax in the UK as explained in the table, overleaf. The Corporation Tax rate used is based on the enacted Corporation Tax rate for the year commencing 1 April 2019.

Deferred tax primarily relates to the Group's investments in ECFs. It is calculated at 19% (2019: 17%) of the estimated unrealised gains within the funds. This is a temporary timing difference and the tax will become payable once the gains are realised in the underlying funds, for example through investment exits.

The Group's investments in ECFs comprise interests in Limited Partnerships. Temporary accounting movements in relation to these investments are either added back or deducted from the taxable profit or loss. The Group is subject to tax on estimated realised gains or losses arising in the individual Limited Partnerships. The reconciliation, overleaf takes account of these adjustments.

8. Tax (continued)

The tables below reconcile the tax charge for the year:

	2020 £000	2019 £000
Profit/(loss) before tax	(2,138)	81,253
Tax on profit/(loss) at standard UK tax rate 19% (2019: 19%)	(406)	15,438
Effects of:		
Net gain on disposal of investments	948	-
Permanent disallowances relating to:		
ECF loan commitments financial liability/provision	1,195	(8,429)
Other permanent disallowances	-	37
Timing differences relating to:		
ECF fair value adjustment on initial recognition	7,344	11,426
ECF realised gains	2,925	7,284
ECF fair value movements	(5,758)	(7,541)
Long-Term Incentive Plan accrued expenditure	201	214
Other timing differences	(69)	155
Total tax charge	**6,380**	**18,584**

	Unrealised losses		Deferred tax	
	2020 £000	2019 £000	2020 £000	2019 £000
Unrealised losses on ECF investments	(1,700)	(28,090)	(323)	(4,775)
Other unrealised losses	(400)	(976)	(76)	(166)
Unrealised losses subject to deferred tax	**(2,100)**	**(29,066)**	**(399)**	**(4,941)**

8. Tax (continued)

8.2 Corporation Tax payable

	2020 £000	2019 £000
Corporation Tax payable at 1 April	3,936	11,353
Tax expense for the year	6,993	14,874
IFRS 16 transition	62	-
Tax paid	(16,490)	(22,291)
Corporation Tax (receivable)/payable at 31 March	**(5,499)**	**3,936**

8.3 Deferred tax asset

	2020 £000	2019 £000
Deferred tax (asset)/liability at 1 April	(8,894)	(3,953)
Movement in the year	(399)	(4,941)
Deferred Tax (asset) at 31 March	**(9,293)**	**(8,894)**

9. Operating segments

The Group's performance and results are managed internally as follows:

– British Business Bank entities: these are split into British Business Finance Limited (BBFL), British Patient Capital Limited (BPC), British Business Investments Ltd (BBI), The Start Up Loan Company (SUL) and the overall Group results

– Programmes administered on behalf of BEIS: In addition to its own operations, the British Business Bank, through its subsidiary British Business Financial Services Ltd (BBFSL), administers assets on behalf of BEIS. These assets do not form part of the British Business Bank plc Group financial statements but are reported to management. The financial performance and position of these programmes is included within the Strategic Report. These figures are not part of the audited financial statements

– Business units: The Group's business units span the different subsidiaries to pool expertise.

9. Operating segments (continued)

Consolidated statement of comprehensive income for the year ending 31 March 2020

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income							
Investment Programmes	-	19,367	-	-	-	-	19,367
Venture Capital Solutions	1,526	-	-	-	-	(996)	530
Start Up Loans	-	-	-	31,638	-	-	31,638
Management fee and other income	88	1,308	1,612	-	61,422	(43,662)	20,768
Grant income	-	-	-	16,685	-	-	16,685
	1,614	20,675	1,612	48,323	61,422	(44,658)	88,988
Net gains/(losses) on investment assets							
Investment Programmes	-	14,682	-	-	-	-	14,682
Venture Capital Solutions	(9,194)	-	17,952	-	-	-	8,758
Start Up Loans	-	-	-	(68,423)	-	-	(68,423)
	(9,194)	14,682	17,952	(68,423)	-	-	(44,983)
Net gain on write down of repayable capital grant	-	-	-	37,782	-	-	37,782
Operational expenditure							
Staff costs	(1,036)	(1,815)	(1,482)	(3,560)	(22,850)	-	(30,743)
Professional services	(28)	(893)	(966)	(668)	(7,082)	-	(9,637)
General operations	(16,494)	(10,434)	(10,164)	(12,339)	(20,061)	43,662	(25,830)
	(17,558)	(13,142)	(12,612)	(16,567)	(49,993)	43,662	(66,210)
Net operating profit before ECF loan commitment financial liability and interest payable	**(25,138)**	**22,215**	**6,952**	**1,115**	**11,429**	**(996)**	**15,577**
ECF fair value provision expense	38,654	-	-	-	-	-	38,654
ECF fair value provision on new commitments	(44,941)	-	-	-	-	-	(44,941)
Finance costs	-	-	-	-	(314)	-	(314)
Interest payable	-	-	-	(996)	(11,114)	996	(11,114)
Profit/(loss) before tax	**(31,425)**	**22,215**	**6,952**	**119**	**1**	**-**	**(2,138)**

All transactions between Group companies take place on an arm's length basis. There are no differences between the entities' reportable profit or loss and the results in the note above.

9. Operating segments (continued)

Consolidated statement of comprehensive income for the year ending 31 March 2019

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income							
Investment Programmes	-	19,187	-	-	-	-	19,187
Venture Capital Solutions	840	-	-	-	-	(688)	152
Start Up Loans	-	-	-	24,098	-	-	24,098
Management fee and other income	52	1,837	-	-	60,769	(40,246)	22,412
Grant income	-	-	-	17,461	-	-	17,461
	892	21,024	-	41,559	60,769	(40,934)	83,310
Net gains/(losses) on investment assets							
Investment Programmes	-	60,859	-	-	-	-	60,859
Venture Capital Solutions	(23,782)	-	9,447	-	-	-	(14,335)
Start Up Loans	-	-	-	(30,701)	-	-	(30,701)
	(23,782)	60,859	9,447	(30,701)	-	-	15,823
Net gain on write down of repayable capital grant	-	-	-	7,291	-	-	7,291
Operational expenditure							
Staff costs	(1,031)	(1,626)	(827)	(3,924)	(20,357)	-	(27,765)
Professional services	(174)	(682)	(418)	(454)	(7,716)	-	(9,444)
General operations	(11,433)	(8,694)	(6,665)	(13,083)	(27,145)	40,246	(26,774)
	(12,638)	(11,002)	(7,910)	(17,461)	(55,218)	40,246	(63,983)
Net operating profit before ECF loan commitment financial liability and interest payable	**(35,528)**	**70,881**	**1,537**	**688**	**5,551**	**(688)**	**42,441**
ECF fair value provision expense	44,364	-	-	-	-	-	44,364
ECF fair value provision on new commitments	-	-	-	-	-	-	-
Interest payable	-	-	-	(688)	(5,552)	688	(5,552)
Profit/(loss) before tax	**8,836**	**70,881**	**1,537**	**-**	**(1)**	**-**	**81,253**

All transactions between Group companies take place on an arm's length basis. There are no differences between the entities' reportable profit or loss and the results in the note above.

9. Operating segments (continued)

The ECF portfolio is classified as FVTPL. For the measurement of the Group's financial target interest income, the fair value movement is included, and all other accounting impacts as shown in the table below are excluded.

The table summarises the amounts relating to the ECFs that have been recognised in arriving at the Group profit/(loss) before tax in the Consolidated Statement of Comprehensive Net Income.

	Note	2020 £000	2019 £000
Fair value adjustment on initial recognition		(38,654)	(45,870)
Fair valuation movements		30,304	39,692
Provision released in year	19	38,654	44,364
Net gain/(loss) on Enterprise Capital Funds		**30,304**	**38,186**

SUL

The Group accepts a lower than market rate of return from Start Up Loans to entrepreneurs as discussed in note 2 to the financial statements. Accounting standards require the Group to recognise a fair value adjustment on initial recognition when it makes a Start Up Loan.

	2020 £000	2019 £000
Gross lending advanced in the year	95,589	81,153
Fair value adjustment on initial recognition	(19,394)	(18,419)
Fair value on initial recognition	**76,195**	**62,734**

9. Operating segments (continued)

Consolidated statement of financial position as at 31 March 2020

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Total Group £000
Investment assets						
Amortised cost						
BFP Mid Cap	-	89,876	-	-	-	89,876
Investment Programme	-	226,168	-	-	-	226,168
Loan to Midlands Engine Investments	14,724	-	-	-	-	14,724
Start Up Loans	-	-	-	120,937	-	120,937
Loan to Northern Powerhouse Investments	20,288	-	-	-	-	20,288
Assets held at FVTPL						
BFP Mid Cap	-	379,196	-	-	-	379,196
Investment Programme	-	390,866	-	-	-	390,866
Enterprise Capital Funds	253,344	-	-	-	-	253,344
Venture/Growth	-	-	318,600	-	-	318,600
UKIIF	-	142,253	-	-	-	142,253
Other venture capital investments	3,997	10,791	6,475	-	-	21,263
Total investment assets	**292,353**	**1,239,150**	**325,075**	**120,937**	**-**	**1,977,515**
ECF loan commitments financial liability	(145,664)	-	-	-	-	(145,664)
Net investment assets	**146,689**	**1,239,150**	**325,075**	**120,937**	**-**	**1,831,851**
Other assets/(liabilities)						
Cash	10,838	27,645	13,201	1,523	10,498	63,705
Property, plant and equipment, right-of-use and Intangible assets	-	-	-	839	13,204	14,043
Corporation Tax	3,717	4,666	(2,517)	(85)	(282)	5,499
Provisions	-	-	-	-	(300)	(300)
Deferred tax	8,897	14	14	80	288	9,293
Loans and other borrowings	-	-	-	(69,238)	(531,840)	(601,078)
Lease liabilities	-	-	-	-	(12,867)	(12,867)
Amounts owed from Group undertakings	(68,032)	78,002	(134,014)	(51,845)	175,889	-
Amounts owed by Shareholder	-	-	-	-	240,400	240,400
Net other payables	(220)	(1,073)	(51)	(2,088)	(7,882)	(11,314)
Total net assets	**101,889**	**1,348,404**	**201,708**	**123**	**(112,892)**	**1,539,232**

At 31 March 2020 the Company held investments in subsidiaries of £1,575.7m which are eliminated in full on consolidation.

9. Operating segments (continued)

Consolidated statement of financial position as at 31 March 2019

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Total Group £000
Investment assets						
Amortised cost						
BFP Small Cap	-	2	-	-	-	2
BFP Mid Cap	-	55,432	-	-	-	55,432
Investment Programme	-	233,542	-	-	-	233,542
Start Up Loans	-	-	-	137,241	-	137,241
Loan to Northern Powerhouse Investments	4,909	-	-	-	-	4,909
Assets held at FVTPL						
BFP Mid Cap	-	436,058	-	-	-	436,058
Investment Programme	-	296,961	-	-	-	296,961
Enterprise Capital Funds	226,611	-	-	-	-	226,611
Venture/Growth	-	-	203,049	-	-	203,049
UKIIF	-	123,765	-	-	-	123,765
Other venture capital investments	2,350	-	-	-	-	2,350
Total investment assets	**233,870**	**1,145,760**	**203,049**	**137,241**	**-**	**1,719,920**
ECF loan commitments financial liability	(139,377)	-	-	-	-	(139,377)
Net investment assets	**94,493**	**1,145,760**	**203,049**	**137,241**	**-**	**1,580,543**
Other assets/(liabilities)						
Cash	192	59,551	2,856	3,409	86,109	152,117
Property, plant and equipment and Intangible assets	-	-	-	1,468	3,598	5,066
Corporation Tax	(1,841)	(1,508)	(325)	-	(262)	(3,936)
Provisions	-	-	-	-	(300)	(300)
Deferred tax	8,566	14	-	-	314	8,894
Loans and other borrowings	-	-	-	(107,021)	(604,264)	(711,285)
Amounts owed from Group undertakings	30,554	129,073	(8,213)	(32,800)	(118,614)	-
Amounts owed by Shareholder	-	-	-	-	525,000	525,000
Net other payables	(270)	(746)	(433)	(2,228)	(4,726)	(8,403)
Total net assets	**131,694**	**1,332,144**	**196,934**	**68**	**(113,145)**	**1,547,696**

At 31 March 2019 the Company held investments in subsidiaries of £1,589.0m which are eliminated in full on consolidation.

10. Cash and cash equivalents

	2020 £000	2019 £000
Government Banking Service	46,566	134,746
Commercial banks	17,139	17,371
Total cash and cash equivalents	**63,705**	**152,117**

As the majority of the cash is held in the Government Banking Service there is minimal cost to the Exchequer.

11. Amounts owed by Shareholder

	2020 £000	2019 £000
Amounts owed by Shareholder	**240,400**	**525,000**

BBB loaned £350m in August 2018 and a further £250m in January 2019 to BEIS, its shareholder, under the terms of two Loan Agreements. The amounts lent are repayable on demand and have a zero-interest rate. In the year ending 31 March 2020 £284.6m was repaid (2019 £75.0m).

12. Trade and other receivables

	2020 £000	2019 £000
Amounts receivable within one year		
Trade receivables	2,671	340
Accrued income	5,193	7,859
Prepayments	1,043	706
Other receivables	930	841
Total trade and other receivables	**9,837**	**9,746**

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

13. Investments

Business Finance Partnership

British Business Investments Limited (BBI) manages the Business Finance Partnership programme.

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

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

Investment Programme

BBI manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders into the market and the growth of smaller lenders. BBI's investments in Limited Partnerships through the Investment Programme are classified as FVTPL.

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

Through the Investment Programme, BBI participated in a public issue of Tier 2 fixed rate reset callable subordinated loan notes by Shawbrook Bank plc with an initial semi-annual coupon of 8½%. The issue was listed on the London Stock Exchange on 28 October 2015. BBI also participated in loan notes by Atom Bank with fixed coupon of 10% p.a., Secure Trust Bank with interest rate of 6.75% p.a., and PCF Bank Ltd with fixed coupon of 8% p.a. These three loan notes are not listed on the London Stock Exchange. These investments are classified as a amortised cost financial under IFRS 9.

Venture/Growth

Through the Venture/Growth programme, BPC invests in commercially viable venture and venture growth capital funds, including evergreen structures, to support UK companies with high-growth potential to access the long-term financing they need to scale up. BPC will also invest in co-investment opportunities arising through its portfolio.

These investments are accounted for and measured at FVTPL under IFRS 9.

UK Innovation Investment Fund

The UK Innovation Investment Fund (UKIIF) is funded by BBI and supports the creation of viable investment funds targeting UK high-growth technology-based businesses. It has invested through two underlying funds of funds, the UK Future Technology Fund, which has now ceased making new investments, and the Hermes Environmental Impact Fund.

The UKIIF investments are accounted for and measured at FVTPL under IFRS 9.

Enterprise Capital Funds

British Business Finance Limited (BBFL) invests in Enterprise Capital Funds (ECFs). ECFs are commercially-focused funds that bring together private and public money to make equity investments in high-growth businesses. BBFL invests into funds on terms that improve the outcome for private sector investors when those funds are successful. It does this by taking an agreed prioritised return of 3%-4.5%. In return BBFL is entitled to less of any remaining upside gain in excess of the agreed return, if a fund is successful.

BBFL intentionally makes a trade-off between the prioritised return and potential upside gains. Overall, the terms mean that BBFL expects the ECFs to provide a positive return to government, but this return will be lower than that typically sought by a private sector investor. This is in line with the Group's strategic objectives.

The investments which BBFL makes in ECFs are classified as FVTPL under IFRS 9.

Accounting standards require that these financial assets are held at fair value, which is the amount that a private sector investor would pay for the investments. This means that for every ECF investment a fair value adjustment on initial recognition is recorded to reflect the fact that it will not provide the level of return sought by a private sector investor, even if it is providing a positive return. ECF investments are measured at fair value on an ongoing basis. See note 13.2 for details.

In addition, BBFL signs ECF agreements committing to the prioritised return and reduced upside gain in advance of drawdowns. At the point that BBFL enters into a new commitment to provide a loan at below market rate it recognises a provision which it accounts for as a FVTPL financial liability. The provision is released when a commitment is drawn to recognise a reduction in the liability. The provision is measured as the NPV of the commitment using a combination of the expected market return, minus prioritised return and the weighted average life of the portfolio. See note 19 for further commitment details.

Managed Funds

The BBI Managed Funds programme's mandate is to channel institutional capital to innovative, high-growth companies so they might meet their full growth potential. Through this programme, the Group expects to become a significant, cornerstone investor in funds of funds with a patient capital mandate. The £500m initial allocation which has been made to the programme represents a significant commitment in the years ahead. The first commitment under the programme was made in September 2019.

Regional Angels Programme

The Regional Angels Programme, managed by BBI, is designed to address regional imbalances in the availability of angel finance, and to increase the amount of capital available to smaller businesses with high-growth potential through angel networks, particularly in areas where this type of finance is less readily available. The first commitment under the programme was made in September 2019.

Other Venture Capital Investments

BBFL also has three other smaller schemes: Help to Grow funds, Aspire and the Direct Investments. These are detailed in note 13.2.

Start Up Loans

SUL lends to entrepreneurs via a number of delivery partners at an interest rate of 6%. Losses on these loans are expected to be between 30% and 40% of the total loans advanced, reflecting the non-commercial nature of the scheme. This lending is classified as amortised cost under IFRS 9.

Accounting standards require that these loans are measured at fair value on initial recognition and subsequently measured at amortised cost. The fair value adjustment on initial recognition represents the difference between the face value of loans written and the present value of future expected cashflows discounted using an appropriate discount rate.

Accrued interest income and amortisation of the fair value adjustment on initial recognition are calculated for each individual loan. For presentation purposes these are presented separately as the accrued interest income is the contractual interest that will be collected whilst the fair value adjustment on initial recognition will be amortised over the life of the loans.

Impact of Covid-19 on Investment Valuations

The Covid-19 pandemic caused a significant slow-down in economic activity in the final quarter of 2019-20 which in turn had an impact on the Group's investment valuations at the reporting date. In assessing the impact, the Group has closely followed the guidance issued by the Financial Conduct Authority, the Financial Reporting Council and the Prudential Regulation Authority regarding the approach to assessing valuations and ECL provisions under IFRS 9.

The impact on the Amortised Cost investments has been proportionally greater than on the FVTPL investments, and management's estimate of the component of the 2019-20 ECL provision increase which is Covid-19 related is around £29.7m out of a total of £42.0m. The forward-looking nature of the approach to calculating ECL provisioning under IFRS 9 means that future losses are recognised at an earlier stage and take account of forecast future economic scenarios. The nature of the lending within the larger portfolios within the Amortised Cost portfolio, in particular Start Up Loans and the peer-to-peer platform lending (which is lending to start-ups and micro-businesses often without collateral), has made these investments more vulnerable to the impact of the economic downturn.

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

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

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

The net impact on the FVTPL valuations, which could be attributed to Covid-19, is estimated by management to be a reduction of around £21.4m in the final quarter, largely within the BFP Mid Cap and the Investment Programme portfolios.

Withdrawal from programmes

As indicated above on p35, we are currently responding to the NAO's recommendations, as put forward in their January 2020 value for money study on the Bank. Specifically, with this note, we are responding to their recommendation to "report more clearly where the Bank has withdrawn from activities because the market failure is addressed, or the intervention is not delivering the outcomes expected."

The following information addresses this by reporting clearly – for the first time, and to date since the Bank's founding in 2014 – where we have withdrawn, or are engaged in withdrawal, from finance programmes on the Bank's balance sheet. For the avoidance of doubt, this includes live schemes inherited upon the Bank's foundation, where the decision has subsequently been taken to withdraw; or schemes set up since foundation, again where the decision has subsequently been to withdraw. The reporting does not cover inherited schemes that were already deemed in run-off prior to the Bank's foundation (principally the legacy venture funds) and/or are not on the Bank's balance sheet, in line with the financial reporting in the Bank's Annual Report and Accounts.

Since the Bank's founding, the decision has been taken to withdraw from the following schemes. A summary statement for each includes:

- the rationale for withdrawing
- current status of withdrawal, whether in train or complete
- commentary on portfolio impact.

In future Annual Reports, to maintain transparency on this topic, we commit to reporting on any material changes to the summary statements below (such as withdrawal completing, or conversely, if programmes are refinanced). Moreover, if the Bank decides to withdraw from other programmes, it will report on them in future Annual Reports in a similar manner.

Business Finance Partnership (BFP), incorporating Small Cap and Mid Cap

This programme was established post-2008/9 financial crisis, and announced by government in 2011. Its aim was to provide finance to large SMEs and mid-sized businesses, through non-bank debt providers, catalysing a market outside the large banks. The intervention has been successful, and as the economy recovered post-2008/9, private capital returned to the large SME/mid-cap sector. Through our market analysis and monitoring, we recognised this improvement and therefore took the decision to withdraw from this part of the market. From 2016, no further commitments from the BFP Small/Mid Cap portfolio have been made. The portfolio remains in managed run-off, seeking to maximise value for money from the existing commitments in the portfolio, while appropriately reducing our exposure. As this process remains contingent on market conditions, there is no formal fixed end-date when run-off will complete.

In terms of the impact of this withdrawal decision, as shown in these accounts, the BFP Small Cap portfolio represents £nil value as at 31 March 2020. The Mid Cap portfolio represents £469.1m of value as at 31 March 2020 (original commitments into these funds totalled £892.5m) and this represents 13.3% of the Bank's total assets under management as at 31 March 2020.*

* In this withdrawal from programmes section, assets under management is defined as the combined total of the fair value of funded commitments, and the notional (stock of finance supported) value of guarantee commitments.

Help to Grow, Funding and Guarantees

The Help to Grow (H2G) scheme was launched in May 2016, with the aim of both supporting banks to fund the growth of innovative small businesses (through guarantees), as well as enabling such companies to access the debt they needed to fund their growth opportunities (through a funding approach). £30m was made available in an initial phase.

Following launch, it became apparent through our product monitoring that demand across both strands of the programme was limited. This resulted in the Bank closing the scheme to new proposals. Existing commitments under the two strands are undergoing managed run-off. The commitments are:

- A total of four facilities issued under H2G Guarantees, of which two are outstanding. The value of these two facilities amounts to £1.5m
- On H2G Funding, two deals which were signed with delivery partners to provide lending into the market. A total of £17.5m was committed to the delivery partners, of which a single £10.5m commitment remains live.

As such, in total the H2G programme forms less than 0.3% of the Bank's total assets under management as at 31 March 2020 (where H2G Guarantees are included on a notional basis).

13. Investments (continued)

13.1 Amortised cost investments

As at 31 March 2020

	Opening balance £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued Interest £000	Amortisation of fair value adjustment on initial recognition £000	Derecognition £000	Expected credit loss allowance £000	Closing balance £000
BFP Small Cap	2	-	-	(54)	-	-	52	-	-
BFP Mid Cap	55,432	46,772	-	(12,974)	3,460	-	-	(2,814)	89,876
Investment Programme	233,542	98,337	-	(113,802)	15,907	-	-	(7,816)	226,168
Start Up Loans	137,241	95,589	(19,394)	(75,107)	10,918	20,720	(18,245)	(30,785)	120,937
Loan to Northern Powerhouse Investments	4,909	15,700	-	(378)	378	-	-	(321)	20,288
Loan to Midlands Engine Investments Limited	-	15,000	-	(152)	152	-	-	(276)	14,724
Total	**431,126**	**271,398**	**(19,394)**	**(202,467)**	**30,815**	**20,720**	**(18,193)**	**(42,012)**	**471,993**

As at 31 March 2019

	Opening balance £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Accrued Interest £000	Amortisation of fair value adjustment on initial recognition £000	Derecognition £000	Expected credit loss allowance £000	Closing balance £000
BFP Small Cap	635	-	-	(745)	18	-	-	94	2
BFP Mid Cap	60,200	22,491	-	(30,135)	2,957	-	-	(81)	55,432
Investment Programme	238,508	114,478	-	(132,764)	16,200	-	-	(2,880)	233,542
Start Up Loans	129,210	81,153	(18,419)	(66,560)	10,591	13,518	(2,364)	(9,888)	137,241
Loan to Northern Powerhouse Investments	-	5,000	-	(153)	153	-	-	(91)	4,909
Total	**428,553**	**223,122**	**(18,419)**	**(230,357)**	**29,919**	**13,518**	**(2,364)**	**(12,846)**	**431,126**

The amortisation of the fair value adjustment on initial recognition represents the difference between the contractual interest rate and the effective interest rate applicable for the financial asset.

13. Investments (continued)

13.2 Investments held at fair value through profit or loss

As at 31 March 2020

	Opening balance £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Fair value movements £000	Closing balance £000
BFP Mid Cap	436,058	-	33,000	-	(78,487)	(11,375)	379,196
Investment Programme	296,961	-	154,563	-	(71,816)	11,158	390,866
UKIIF	123,765	-	5,830	-	(11,940)	24,598	142,253
Managed Funds	-	-	9,364	-	-	879	10,243
Regional Angels	-	-	548	-	-	-	548
Venture/Growth	203,049	(38,326)	149,914	-	(7,514)	17,952	325,075
Enterprise Capital Funds	226,611	-	75,695	(38,654)	(40,612)	30,304	253,344
Help to Grow Funds	1,368	-	2,153	-	(260)	-	3,261
Aspire	528	-	-	-	-	(27)	501
Capital for Enterprise Fund	395	(536)	-	-	-	163	22
CfE Direct Investment	-	536	-	-	-	(336)	200
Direct investments	59	-	-	-	-	(46)	13
Total	**1,288,794**	**(38,326)**	**431,067**	**(38,654)**	**(210,629)**	**73,270**	**1,505,522**

As at 31 March 2019

	Opening balance £000	Transfers £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Fair value movements £000	Closing balance £000
BFP Mid Cap	494,922	-	28,415	-	(114,705)	27,426	436,058
BFP Small Cap	14,114	(12,891)	129	-	(1,857)	505	-
Investment Programme	242,038	12,816	80,700	-	(46,239)	7,646	296,961
UKIIF	131,986	-	8,569	-	(35,320)	18,530	123,765
Venture/Growth	76,243	75	119,980	-	(12,284)	19,035	203,049
Enterprise Capital Funds	204,041	-	92,060	(45,870)	(63,312)	39,692	226,611
Help to Grow Funds	-	-	1,368	-	-	-	1,368
Aspire	903	-	-	-	-	(375)	528
Capital for Enterprise Fund	792	-	-	-	(360)	(37)	395
Direct investments	-	-	17,159	-	-	(17,100)	59
Total	**1,165,039**	**-**	**348,380**	**(45,870)**	**(274,077)**	**95,322**	**1,288,794**

Repayments are received when a fund has exited or partially exited an underlying investment and the Group receives its share of the proceeds due to the contractual obligations of the fund.

On 1 April 2019, the Group disposed of 20% of its holding in Venture/Growth to the Nuclear Liabilities Fund, which was held in the Consolidated Statement of Financial Position at £40.6m.

14. Property, plant and equipment

As at 31 March 2020

	Leasehold improvement £000	IT equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 April 2019	2,874	2,581	78	5,533
Additions	12	40	18	70
Disposals	-	-	-	-
At 31 March 2020	2,886	2,621	96	5,603
Accumulated depreciation and impairment				
At 1 April 2019	(555)	(1,206)	(64)	(1,825)
Charge for the year	(543)	(624)	(15)	(1,182)
Disposals	-	-	-	-
At 31 March 2020	(1,098)	(1,830)	(79)	(3,007)
Carrying amount				
At 31 March 2020	**1,788**	**791**	**17**	**2,596**
At 31 March 2019	2,319	1,375	14	3,708

As at 31 March 2019

	Leasehold improvement £000	IT equipment £000	Fixtures & Fittings £000	Total £000
Cost or valuation				
At 1 April 2018	1,149	1,538	78	2,765
Additions	1,771	1,043	-	2,814
Disposals	(46)	-	-	(46)
At 31 March 2019	2,874	2,581	78	5,533
Accumulated depreciation and impairment				
At 1 April 2018	(268)	(782)	(45)	(1,095)
Charge for the year	(333)	(424)	(19)	(776)
Disposals	46	-	-	46
At 31 March 2019	**(555)**	**(1,206)**	**(64)**	**(1,825)**
Carrying amount				
At 31 March 2019	**2,319**	**1,375**	**14**	**3,708**
At 31 March 2018	881	756	33	1,670

15. Right-of-use assets

As at 31 March 2020

	Right-of-use Property £000
Cost or valuation	
At 1 April 2019	-
IFRS 16 initial application	13,377
Additions	-
Disposals	-
At 31 March 2020	13,377
Accumulated depreciation and impairment	
At 1 April 2019	-
IFRS 16 initial application	(1,358)
Charge for the year	(1,350)
Disposals	-
At 31 March 2020	(2,708)
Carrying amount	
At 31 March 2020	**10,669**
At 31 March 2019	-

Right-of-use Property is the value of the leased property recognised upon implementation of IFRS16. The corresponding lease liability is disclosed in note 21.

	2020 £000
Impact on consolidated statement of net comprehensive income	
Increase in depreciation and amortisation	(1,350)
Increase in finance charge	(314)
Decrease in other operating expenditure	491
Increase/(Decrease) in profit for the year	(1,173)

The table below shows the adjustment for each financial statement line item affected by the application of IFRS 16 as at 1 April 2019.

	Impact percentage £000	IFRS 16 adjustments £000	As presented £000
Impact on consolidated statement of financial position			
Right-of-use assets	100%	12,019	12,019
Net impact on total assets	0.5%	12,019	2,420,743
Lease liabilities	100%	(13,043)	(13,043)
Net impact on total liabilities	1.5%	(13,043)	(873,047)
Retained earnings	2.0%	1,024	(51,288)

16. Intangible assets

Intangible assets comprise purchased software.

17. Trade and other payables

	2020 £000	2019 £000
Amounts falling due within one year		
Trade payables	1,510	1,508
VAT and social security	1,145	604
Accrued expenditure	16,299	12,387
Other payables	638	1,739
Deferred scheme income	1,559	743
	21,151	**16,981**
Amounts falling due after more than one year		
Other payables	–	1,168
	-	**1,168**
Total trade and other payables	**21,151**	**18,149**

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

18. Provisions

Year ended 31 March 2020

	Dilapidation provision £000	Total £000
Balance at 31 March 2019	**300**	**300**
Provided in year	–	–
Released in year	–	–
Balance at 31 March 2020	**300**	**300**
Of which:		
Current	–	–
Non-current	300	300

Year ended 31 March 2019

	Dilapidation provision £000	Total £000
Balance at 31 March 2018	**120**	**120**
Provided in year	300	300
Released in year	(120)	(120)
Balance at 31 March 2019	**300**	**300**
Of which:		
Current	–	–
Non-current	300	300

19. ECF loan commitment

	2020 £000	2019 £000
Balance at 1 April	139,377	183,741
Provided in year on new ECFs	44,941	-
Released in year	(38,654)	(44,364)
Balance at 31 March	**145,664**	**139,377**
Of which:		
Current	39,036	35,877
Non-current	106,628	103,500
	145,664	**139,377**

Non-current amounts relate to undrawn loan commitments where, based on historic and forecast information, it is not anticipated the commitments will be utilised with the next 12 months. Given the uncertain nature of timings of the drawdowns from ECFs the Directors believe this is the best estimate at the balance sheet date.

20. Loans and other borrowings

	2020 £000	2019 £000
Repayable within one year		
Unsecured loans provided by BEIS	14,894	-
Unsecured loans provided by the Nuclear Liabilities Fund	361,440	-
Repayable capital grants	54,344	92,127
	430,678	92,127
Repayable after one year		
Unsecured loans provided by BEIS	-	14,894
Unsecured loans provided by the Nuclear Liabilities Fund	170,400	604,264
	170,400	619,158
Total loans and other borrowings	**601,078**	**711,285**

The capital grants have been classified as a current liability as they are repayable on demand, in whole or in part, under certain conditions.

During the year the Group received capital grants of £nil (2019: £4.1m) and wrote down the value of capital grants by £37.8m (2019: £7.3m).

BEIS has provided two term loan facilities to SUL. The first facility of £12.0m was provided on 24 February 2014 and is repayable on 17 December 2020. The balance of this loan facility at 31 March 2020 was £7.9m (2019: £7.9m). A further term facility of £10.0m was provided on 17 December 2015 and is also repayable on 17 December 2020. The balance of this facility at 31 March 2020 was £7m (2019: £7m).

On 23 August 2018 the Group received a loan of £350m from the Nuclear Liabilities Fund to be used for general corporate purposes, which is repayable in full on 23 August 2020. This loan accrues interest at a rate of 2% per annum and £7.2m (2019: £4.2m) of interest accrued in the year. The balance of this loan at 31 March 2020 was £361.4m (2019: £354.2m).

On 28 December 2018 the Group received a second loan of £250m from the Nuclear Liabilities Fund which is used for making investments on behalf of the Nuclear Liabilities Fund after 1 April 2019. The term of this loan is 4 years with the value reducing in £5m tranches as the Group makes investment payments on behalf of the Nuclear Liabilities Fund. Any amount unutilised at 28 December 2022 will be repaid on this date. This loan accrues interest at a rate of 2% per annum for the first 2 years decreasing to 1.5% for the remaining life of the loan and £3.9m (2019: £1.3m) of interest accrued in the year. During the year repayments of £79.6m (2019: nil) were made against the unsecured loans and interest of £3.9m (2019: £1.3m) was repaid. The balance of this loan at 31 March 2020 was £170.4m (2019: £250m).

20. Loans and other borrowings (continued)

Total interest payable in the year on the two Nuclear Liabilities Fund loans was £11.1m (2019: £5.5m).

BEIS is a party to both of the Nuclear Liabilities Fund loan agreements, under the terms of which it has undertaken at the repayment dates, to provide funding to the Group to enable it to discharge its obligations to repay the loans including any interest or costs accrued.

21. Lease liabilities

Maturity analysis – contractual undiscounted cashflow

Less than one year	1,176
One to five years	7,590
More than five years	5,449
Total undiscounted lease liabilities at 31 March 2020	**14,215**

Lease liabilities included in the statement of financial position at 31 March 2020	**12,867**
Current	870
Non-current	11,997

The comparative operating lease payments were as follows:

	<1 year £000	1–5 years £000	>5 years £000	Total £000
At 31 March 2019	**1,656**	**6,623**	**6,553**	**14,832**

The operating lease commitment as at 31 March 2019 was £14.8m and the corresponding lease liability was £13.0m. The variance of £1.8m relates to discounting.

The Bank's occupation of the 5th and 6th floors at its registered office at Steel City House, West Street, Sheffield S1 2GQ is governed by a 10-year lease agreement covering the period from 9 October 2017 to 8 October 2027 for an annual rental cost of £224,000 with an option to break the agreement after five years.

The Bank entered into a lease from 1 June 2018 to 8 October 2027 to rent the 4th floor of Steel City House, West Street, Sheffield, S1 2GQ for an annual rental cost of £199,000 and including a rent-free period of 14 months.

The Bank entered into a 10-year lease from 11 May 2018 to rent the 2nd floor of Salisbury Square House, 8 Salisbury Square, London, EC4 for an annual rental cost of £1,232,725 and including a rent-free period of 30 months.

22. Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities can be classified as follows:

	Long-term borrowings £000	Short-term borrowings £000	Lease Liabilities £000	ECF loan commitments £000	Total £000
Balance at 1 April 2019	619,158	92,127	-	139,377	850,662
Cashflows:					
Repayments	(84,437)	-	(490)	-	(84,927)
Proceeds	-	-	-	-	-
Non-cash:					
IFRS 16 adoption	-	-	13,043	-	13,043
Transfers	(369,127)	369,127	-	-	-
Interest	4,806	7,200	314	-	12,320
Provision movement	-	-	-	6,287	6,287
Write off	-	(37,782)	-	-	(37,782)
Balance at 31 March 2020	**170,400**	**430,672**	**12,867**	**145,664**	**759,603**

22. Reconciliation of liabilities arising from financing activities (continued)

	Long-term borrowings £000	Short-term borrowings £000	ECF loan commitments £000	Total £000
Balance at 1 April 2018	14,900	101,266	183,741	299,907
Cashflows:				
Repayments	-	-	-	-
Proceeds	600,000	4,100	-	604,100
Non-cash:				
Interest	4,258	-	-	4,258
Provision movement	-	-	(44,364)	(44,364)
Write off	-	(13,239)	-	(13,239)
Balance at 31 March 2019	**619,158**	**92,127**	**139,377**	**850,662**

23. Contingent liabilities and indemnities

The Group has taken advantage of the exemption available under section 479A Subsidiary companies: conditions for exemption from audit of the Companies Act 2006 which exempts qualifying companies from the audit of their individual accounts for a financial year. The exemption is in respect of the following subsidiaries:

Subsidiary name	Registered No.
British Business Finance Limited	09091928
British Business Financial Services Limited	09174621
Capital for Enterprise Limited	06179047
Capital for Enterprise Fund Managers Limited	06826072
Capital for Enterprise (GP) Limited	SC354499
British Business Aspire Holdco Limited	09263859
The Start Up Loans Company	08117656

As required by the Act, the British Business Bank plc:

– guarantees all outstanding liabilities to which the subsidiary companies are subject at the end of the financial year to which the guarantee relates, and until they are satisfied in full

– asserts that the guarantee is enforceable against the British Business Bank plc by any person to whom the subsidiary companies are liable in respect of those liabilities.

Under the Bank's Help to Grow financial guarantee programme, the Bank has entered into financial guarantee agreements of £10.5m (2019: £30m). The Bank has guaranteed 75% of eligible lending to SMEs under these agreements and a counter guarantee is in place that guarantees 50% of the Bank's 75% of eligible lending. As at 31 March 2020 the amount lent under these financial guarantee agreements was £3m (2019: £3m). During the year ending 31 March 2020 the remaining guarantee agreement originally totalling £30m was reduced to £10.5m, with no further amounts being lent under it.

24. Capital and other commitments

24.1 Capital commitments

The British Business Bank plc had the following undrawn commitments at the balance sheet date in relation to its existing investment portfolio:

	2020 £000	2019 £000
British Business Investments Limited		
BFP Mid Cap	122,915	143,968
Investment Programme	313,179	285,080
UKIIF	20,970	24,721
Regional Angels	34,452	-
Managed Funds	285,199	-
British Patient Capital Limited		
Growth Capital	147,345	158,083
Venture	322,947	202,792
Co-Investment	22,987	52,631
Venture Capital Solutions		
Enterprise Capital Funds	284,552	265,108
Other		
Northern Powerhouse Investments Ltd	29,300	45,000
Midlands Engine Investments Ltd	17,500	32,500
	1,601,346	**1,209,883**

BPC disposed of 20% of its prior year investments for the sum of £38.3m on 1 April 2019, as such the undrawn commitment on those investments has been deducted from the current year value.

In the prior year, the BPC capital commitment was disclosed under a single programme “Venture/Growth”. This financial year, the disclosure has been updated to split the commitment into three separate components and the comparative has been updated accordingly.

24.2 Share capital

	2020	2019
Issued and fully paid ordinary shares of £1 each:	1,496,407,924	1,496,407,924

	£000	£000
Brought forward	1,496,408	1,371,408
Shares issued for cash	-	125,000
Carried forward	**1,496,408**	**1,496,408**

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

25. Subsidiaries and other significant undertakings

The Group consists of a parent company, British Business Bank plc, incorporated in the UK, and a number of subsidiaries held directly by the British Business Bank plc, which operate and are incorporated in the UK.

The subsidiary undertakings of the parent company are shown below. The capital of each entity depends on its nature and consists of ordinary shares. All the subsidiary undertakings have the same registered address being, Steel City House, West Street, Sheffield S1 2GQ with the exception of The Start Up Loans Company whose registered office is 71-75 Shelton Street, Covent Garden, London WC2H 9JQ.

Subsidiary	Country of Incorporation	Nature of Business	Shares held by the Group
British Business Investments Limited*	UK	Makes commercial investments into providers of finance to smaller businesses plus venture capital fund investments	100%
BBB Patient Capital Holdings Limited	UK	Holding company	100%
British Patient Capital Limited*	UK	Makes commercial investments into venture and growth capital	100%
British Business Finance Limited	UK	Manages and invests into schemes on behalf of the Group	100%
British Business Financial Services Limited	UK	Administers investment schemes on behalf of the Department for Business, Energy and Industrial Strategy	100%
Capital for Enterprise Limited*	UK	Holding company	100%
Capital for Enterprise Fund Managers Limited*	UK	Acts as fund manager of Capital for Enterprise L.P.	100%
Capital for Enterprise (GP) Limited*	UK	Acts as general partner to Capital for Enterprise L.P.	100%
British Business Aspire Holdco Limited*	UK	Provides equity investments to women-led SMEs	100%
The Start Up Loans Company*	UK	Provides loans to entrepreneurs	N/A

* Indicates investments are not directly held in these companies.

The Start Up Loans Company is a company limited by guarantee of which British Business Finance Limited is the sole member.

Details of the subsidiaries' results either individually or as part of a consolidated group, including their net assets as at the balance sheet date and their profit or loss for the year ended 31 March 2020, are provided in the segmental reporting note 9.

25. Subsidiaries and other significant undertakings (continued)

The British Business Bank Group also has the following significant holdings in undertakings other than subsidiaries.

Name	Country in which it is incorporated	Class of share held by the Group	Proportion held by the Group
BMS Finance S.A.R.L. Registered address: 55 Avenue Pasteur, L-2311, Luxembourg	Luxembourg	Not classified	49.8%
Industrial Lending 1 (Boost Fund) Registered address: 6 Rue Adolphe, L-1116, Luxembourg	Luxembourg	Class A shares	46.6%
Pricoa Sterling Corporate Bond Fund * Registered address: 70 Sir John Rogerson's Quay, Dublin, Ireland	Ireland	Not classified	67.7%
VRG Ventures Limited Registered address: Cardiff House, Tilling Road, London, NW2 1LJ	UK	Ordinary shares	28.4%
Pyropure Limited Registered address: Vestry House, Laurence Pountney Hill, London, EC4R 0EH	UK	Class A shares	25.9%
Muzinich UK Private Debt Fund Registered address: 49 Avenue J.F.K, L-1855, Luxembourg	Luxembourg	Not classified	20.7%

* Pricoa's latest financial year end was 30 June 2020. The fund does not produce separate accounts and therefore figures for the fund are not available.

26. 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 Group. Such interests include debt and equity investments and investment management agreements.

Depending on the Group's power over the activities of the entity and its exposure to, and ability to influence, its own returns, it may consolidate the entity. In other cases, it may sponsor or have exposure to such an entity but not consolidate it. As at 31 March 2020 and 31 March 2019 the Group does not consolidate any interests in structured entities as the Group is not considered to have control or significant influence over these entities due to the way these entities are structured.

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

Interest in Limited Partnerships

	2020 £000	2019 £000
Assets at fair value through profit or loss	1,505,509	1,288,735
Total assets	**1,505,509**	**1,288,735**

27. Financial instruments categories of financial instruments

27.1 Categories of financial instruments

The following table analyses the Group's financial assets and liabilities in accordance with the categories of financial instruments in IFRS 9.

At 31 March 2020

	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Liabilities held at FVTPL £000	Total £000
Assets						
Amortised cost investment assets	13.1	-	471,993	-	-	471,993
Investment assets held at FVTPL	13.2	1,505,522	-	-	-	1,505,522
Trade and other receivables	11/12	240,400	8,794	-	-	249,194
Cash and cash equivalents	10	-	63,705	-	-	63,705
Total assets		**1,745,922**	**544,492**	**-**	**-**	**2,290,414**
Liabilities						
Trade and other payables	17	-	-	(20,006)	-	(20,006)
Loans and other borrowings	20	-	-	(546,733)	(54,345)	(601,078)
ECF loan commitments	19	-	-	-	(145,664)	(145,664)
Lease liabilities	21	-	-	(12,867)	-	(12,867)
Total liabilities		**-**	**-**	**(579,606)**	**(200,009)**	**(779,615)**
Net assets		**1,745,922**	**544,492**	**(579,606)**	**(200,009)**	**1,510,799**

At 31 March 2019

	Note	Assets held at FVTPL £000	Assets held at amortised cost £000	Liabilities held at amortised cost £000	Liabilities held at FVTPL £000	Total £000
Assets						
Amortised cost investment assets	13.1	-	431,126	-	-	431,126
Investment assets held at FVTPL	13.2	1,288,794	-	-	-	1,288,794
Trade and other receivables	11/12	525,000	9,040	-	-	534,040
Cash and cash equivalents	10	-	152,117	-	-	152,117
Total assets		**1,813,794**	**592,283**	**-**	**-**	**2,406,077**
Liabilities						
Trade and other payables	17	-	-	(17,545)	-	(17,545)
Loans and other borrowings	20	-	-	(619,158)	(92,127)	(711,285)
ECF loan commitments	19	-	-	-	(139,377)	(139,377)
Total liabilities		**-**	**-**	**(636,703)**	**(231,504)**	**(868,207)**
Net assets		**1,813,794**	**592,283**	**(636,703)**	**(231,504)**	**1,537,870**

27.2 Fair value measurements

The note set out below provides information about how the Group determines the fair values of various financial assets and financial liabilities. 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 financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's investment portfolio consists of assets carried at amortised cost and fair value.

The Group's financial assets are all classified as Level 3 assets, except for two amortised cost investments and one FVTPL investment which are classified as Level 1 assets.

During the year ending 31 March 2020 the fair value of investment assets held at fair value through profit or loss increased by £73.3m (2019: £95.3m) taken to the Consolidated Statement of Comprehensive Net Income. Fair value impairments on initial recognition of amortised cost investments of £19.4m (2019: £18.4m) were taken to the Consolidated Statement of Comprehensive Net Income.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Investments held at fair value through profit or loss (FVTPL)

For all FVTPL assets, except for the Enterprise Capital Funds, the investment valuation, a net asset valuation (NAV) which is determined on a fair value basis, is determined by investment managers on a regular basis (monthly or quarterly).

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

The Group has also provided two loans to its Shareholder which at 31 March 2020 had a total value of £240.4m (2019 £525.0m). These loans have been classified as FVTPL. The loans are repayable on demand and have a zero-interest rate. The Directors consider that the credit risk for these loans is minimal given the credit rating of the borrower and that the value of the principal outstanding represents the fair value.

Enterprise Capital Funds

For the purposes of valuation, the Enterprise Capital Funds investments are bifurcated into a debt and a derivative element, which are disclosed together. The primary valuation methodology used for the debt element of investments is the discounted cashflow method. Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cashflows and the estimated repayment value and date, discounted at the appropriate risk-adjusted discount rate. The discount rate is estimated with reference to the market risk-free rate and a risk-adjusted premium.

Each investment has an annually reviewed model, which for each valuation assessment is updated for actual asset performance and key assumption and input changes.

27.2 Fair value measurements (continued)

Enterprise Capital Funds also contain an equity derivative. The derivatives are valued using the Black-Scholes model. The key inputs used in the derivative valuation are:

Input	Assumptions in determining the input
Net amount drawn and fund valuation as at 31 March 2020	Net amounts drawn are cashflows from the business. Fund valuations are reported by fund managers.
Time to fund exit – ranging from 0–10 years	Assessed separately for each fund based on remaining investment period and estimated timescale for fund exits.
Volatility – ranging from 15% to 43%	The FTSE AIM All Shares sector indices have been used as a source for calculating volatility. The volatility applied to each fund varies according to the sector focus of the fund and its expected maturity.
Prioritised return – ranging from 3.0% to 4.5%	Set to equal the contractual return which funds must pay before any upside on the option is realised.
Risk free rate	Derived from UK Government bonds.

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

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

	Carrying Value 2020 £000	Fair Value 2020 £000	Carrying Value 2019 £000	Fair Value 2019 £000
Financial assets at amortised cost				
Amortised cost				
BFP Small Cap	-	-	2	2
BFP Mid Cap	89,876	89,876	55,432	49,849
Investment Programme	226,168	236,847	233,542	237,099
SUL	120,937	157,594	137,241	144,731
Northern Powerhouse Investments	14,724	15,000	4,909	5,000
Midlands Engine Investments	20,288	20,000	-	-
	471,993	**519,317**	**431,126**	**436,681**
Financial liabilities at amortised cost				
Unsecured loans	546,733	546,733	619,158	619,158
Capital grants	54,345	54,345	92,127	92,127
	601,078	**601,078**	**711,285**	**711,285**

Financial assets at amortised cost are classed as Level 3 assets except for one investment that is publicly listed. Unsecured loans and capital grants are classed as Level 3 liabilities.

SUL

Loans to entrepreneurs are financial assets with fixed or determinable payments and are not quoted in an active market. Loans are recognised when cash is advanced and initially recognised at fair value and subsequently measured at amortised cost over the term of the loan.

For the estimation of fair value at the reporting date, the Group has utilised a future expected cash flow model which is based on the recent past performance for similar loans.

The future expected cashflows derived from the model are discounted using an appropriate discount rate which has been calculated by taking the 5-year median corporate debt rates for Caa/C rated loans. This information has been sourced from Moody's market analysis. SUL are classed as Level 3 assets based on the valuation techniques used to determine the fair value at the reporting date. The fair value of SUL is sensitive to changes in the discount rate and to changes in expected cashflows arising from the actual and future expected performance of the loans. A 2% increase in the discount rate as a result of movements in corporate debt rates for Caa/C rated loans or LIBOR could lead to an approximately £9.2m decrease in fair value.

BFP Small Cap, BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Small Cap, the BFP Mid Cap and the Investment Programme comprise both fixed rate and floating rate investments with an average duration of not more than five years. The Directors have assessed that the changes in interest rates and in credit spreads and the associated impact on the fair value of these assets since they were originated are not material to the Group's results. The previous table shows the Director's estimates of the fair value of these assets at 31 March 2020 and 31 March 2019. BFP Small Cap, BFP Mid Cap and Investment Programme amortised cost assets are classed as Level 3 assets in the fair value hierarchy except for two amortised cost investments which are classified as Level 1 assets.

Unsecured loans and capital grants

The carrying value and fair value of unsecured loans reflect the amount at which the Group expects to settle its liabilities with BEIS and the Nuclear Liabilities Fund respectively. The carrying value and fair value of the BEIS capital grant are equivalent because the grant has no maturity and is repayable on demand, in whole or in part, under certain conditions.

Liabilities held at FVTPL

The ECF loan commitments are part of a group of financial assets and financial liabilities that are managed, and their performance evaluated on a fair value basis, and information about the group is provided internally on that basis to the entity's key management personnel. As permitted under IFRS 9, an election has been made to measure the financial liability arising from the loan commitments at FVTPL. The fair value of each commitment is calculated by discounting future cashflows using a discount rate which is adjusted to take account of the credit risk.

27.3 Financial risk management

The Group has exposure to a number of financial risks through the conduct of its operations. Details of the Group's risk management structure are provided in the Risk Management section of the Strategic Report. This note presents information about the nature and extent of risks arising from the financial instruments. There have been no changes to the principal types of risks faced by the Group.

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

- Credit and Investment risk
- Market risk
- Liquidity risk.

Credit risk and investment risk

Credit and investment risk is the risk of loss to the Group from the failure of clients, customers or counterparties to fully honour their obligations to the Group, including the whole and timely payment of principal, interest, collateral and other receivables and the risk of loss due to a fall in the value of equity investments or adverse credit spread movements. Credit risk includes settlement risk, when a counterparty fails to settle their side of a transaction, and concentration risk. Credit risk may arise in any of the Group's assets where there is the potential for default including loans and receivables and available for sale investments with a contractual repayment.

Assessment of credit and investment risk is carried out as part of the investment approval process and is revisited on an ongoing basis as part of the Group's portfolio management process. With respect to SUL, all loans to entrepreneurs are on an unsecured basis and the credit risk is the risk that an entrepreneur will default on their contractual obligations to make repayments, resulting in financial loss to the Group. To manage this, the Executive Committee approves all material changes to the lending policy for SUL. All loan applications are assessed with reference to the lending policy in force at the time. Subsequently loans are regularly reviewed for any factors that may indicate that the likelihood of repayment has changed. During the year there have been no noteworthy changes in the credit risk management procedures.

As part of the annual business planning process, the Group undertakes stress testing on its portfolio. Severe but plausible stressed scenarios featuring significant asset value corrections on the fair value of investments and heightened portfolio defaults are applied to forecast deployment and stock levels in each Programme within the Bank. The general approach is that these scenarios are chosen on the basis that they are as severe as a 1 in 20-year downside scenario (i.e. the worst year in the past 20 years). The output of this exercise reflects the risk undertaken by the Group operating in underserved finance markets and demonstrates that the Group would suffer significant losses if such a scenario were to materialise.

The Group also undertook a stress test based upon the Bank of England (BOE) Annual Cyclical Scenario Stress Testing guidelines. This was undertaken by analysing which UK macroeconomic variables suggested by the BOE would have an impact on the Bank's credit and investment risk exposures and then evaluating how changes in these variables over a five-year time horizon would impact on credit and market value losses in the Group's portfolio.

The findings of this exercise showed that if the UK economy were to go through a macroeconomic downside scenario as prescribed by the BOE's Annual Cyclical Scenario within the next financial year, the Bank could incur additional credit and investment losses of £246m (equivalent to c.10% of the Bank's average capital deployed between 2020 and 2024) over the next five years.

These stress testing outcomes were considered by the Board and also communicated to our stakeholders.

Maximum credit risk exposure

	Maximum Exposure 2020 £000	Collateral 2020 £000	Net Exposure 2020 £000	Maximum Exposure 2019 £000	Collateral 2019 £000	Net Exposure 2019 £000
Cash and cash equivalents	63,705	-	63,705	152,117	-	152,117
Amounts owed by Shareholder	240,400	-	240,400	525,000	-	525,000
Trade and other receivables	9,837	-	9,837	9,746	-	9,746
Amortised cost investments	471,993	95,150	376,843	431,126	93,770	337,356
Investments held at FVTPL	1,505,522	-	1,505,522	1,288,794	-	1,288,794
Total	**2,291,457**	**95,150**	**2,196,307**	**2,406,783**	**93,770**	**2,313,013**

The Group 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 relates in full to loans provided in relation to asset-backed finance.

The maximum exposure is the carrying value of the financial assets in the Consolidated Statement of Financial Position. The carrying value of the investments in each class of financial asset is detailed in section 27.2 of this note and in note 13.

Credit risk rating and loss allowance

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

– Trade receivables

– Assets held at amortised cost

– Cash and cash equivalents.

Trade and other receivables

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

Assets held at amortised cost

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

The following table presents an analysis of credit quality of assets held at amortised cost, which were previously classified as Loans and receivables, Available-for-sale, or Held to maturity. It indicates whether assets were subject to a 12-month ECL or lifetime ECL allowance, and whether they were credit-impaired.

27.3 Financial risk management (continued)

As at 31 March 2020

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Low	-	-	-	-
Medium	242,501	51,932	-	294,433
High	179,090	38,391	-	217,481
Defaulted financial assets	-	-	82,743	82,743
Total gross carrying amounts	421,591	90,323	82,743	594,657
Loss allowance	(26,714)	(15,227)	(80,723)	(80,723)
Carrying amount	**394,877**	**75,096**	**2,020**	**471,993**

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

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 1 April 2019	10,901	8,671	61,080	80,652
Remeasurement	6,243	14,201	18,490	38,934
Transfer between staging	(3,150)	(7,317)	10,467	-
Financial assets derecognised	(793)	(328)	(9,314)	(10,435)
New financial assets acquired	13,513	-	-	13,513
Balance at 31 March 2020	**26,714**	**15,227**	**80,723**	**122,664**

27.3 Financial risk management (continued)

As at 31 March 2019

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Low	5,000	-	-	5,000
Medium	223,559	-	-	223,559
High	201,738	15,313	-	217,051
Defaulted financial assets	-	-	66,168	66,168
Total gross carrying amounts	430,297	15,313	66,168	511,778
Loss allowance	(10,901)	(8,671)	(61,080)	(122,664)
Carrying amount	**419,396**	**6,642**	**5,088**	**431,126**

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

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Balance at 1 April 2018	10,673	10,445	46,688	67,806
Remeasurement	(10,308)	3,163	11,542	4,397
Transfer between staging	(1,594)	(3,162)	4,756	-
Financial assets derecognised	(672)	(1,775)	(1,906)	(4,353)
New financial assets acquired	12,802	-	-	12,802
Balance at 31 March 2019	**10,901**	**8,671**	**61,080**	**80,652**

27.3 Financial risk management (continued)

	Not credit-impaired				Credit impaired			
	Subject to 12-month ECL		Subject to lifetime ECL		Subject to lifetime ECL		Total	
	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000	Gross carrying amount £'000	Allowance for ECL £'000
As at 1 April 2019	**430,297**	**(10,901)**	**15,313**	**(8,671)**	**66,168**	**(61,080)**	**511,778**	**(80,652)**
Transfer to 12 month ECL	2,463	(7,629)	(2,258)	5,450	(205)	2,179	-	-
Transfer to lifetime ECL	(106,964)	8,167	106,964	(8,167)	-	-	-	-
Transfer to credit-impaired financial asset	(14,643)	2,612	(17,235)	10,034	31,878	(12,646)	-	-
New financial assets originated or purchased	271,398	(13,513)	-	-	-	-	271,938	(13,513)
Fair value adjustment on initial recognition (new lending)	(19,394)	-	-	-	-	-	(19,394)	-
Financial assets that have been derecognised during the period (including write-off)	(158,957)	793	(17,859)	328	(13,029)	9,314	(189,845)	10,435
Changes to risk parameters	-	(6,243)	-	(14,201)	-	(18,490)	-	(38,934)
Amortisation	17,391	-	5,398	-	(2,069)	-	20,720	-
As at 31 March 2020	**421,591**	**(26,714)**	**90,323**	**(15,227)**	**82,743**	**(80,723)**	**594,657**	**(122,664)**
Carrying amount as at 31 March 2020		**394,877**		**75,096**		**2,020**		**471,993**

27.3 Financial risk management (continued)

The Group has undertaken sensitivity analysis of the key inputs to ECL impairment provision models. Due to the previously benign economic environment and the recent deterioration in economic conditions, this analysis has concentrated on the downside impact on ECL provision levels:

- The potential impact of ascribing 100% probability to the worst-case economic scenario could increase provisions by £39.7m.
- The potential impact of a deteriorated PD input with a sensitivity of a 1-notch downgrade on a granular PD rating scale, equating to 1.5x multiple on all the performing loan PD inputs, could increase provisions by £20.6m.
- The potential impact of inaccurately modelled LGD input for the ECL calculations with a sensitivity of a 1-notch downgrade on a granular LGD rating scale, equating to a range of LGD input increases from 2% to 30% depending on the portfolio, could increase provisions by £26.8m.

Cash and cash equivalents

The Group held cash and cash equivalents of £63.7m as at 31 March 2020 (2019: £152.1m). The cash and cash equivalents are held with banks and financial institutions which are rated AA- to AA+ based on S&P ratings.

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

Market risk

Market risk is the risk of direct or indirect losses that arise from fluctuations in the values of, or income from, assets or in movements in interest or exchange rates or credit spreads. The Group recognises market risk arising from an inability to exit an investment within the intended timeframe.

Interest rate risk

The Group's investments include a combination of fixed and variable rate loans. Interest rate risk is monitored to ensure that the sensitivity of the Group's returns to market interest rate movements are understood and managed within Risk Appetite. The Group does not use derivatives to hedge interest rate risk.

LIBOR sensitivity of the Group's investments is estimated as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to investments would be an approximate increase in income of £5m over a one-year period.
- The impact of a 0.65 percentage point decrease in the interest rate applicable to investments would be an approximate decrease in income of £3m over a one-year period. Larger decreases are significantly mitigated by LIBOR floors.

Currency risk

The Group does not have material exposure to currency risk as the Group primarily invests in its functional currency, pounds sterling. There are some investments in funds which have an international investment mandate and are denominated in Euros or US Dollars. A condition of investment in these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Approximately 6.8% of the Group's portfolio is in non-pounds sterling denominated investments. There is currently no policy to hedge this currency risk. Due to the small amount of investments currently held in foreign currency, no currency sensitivity analysis has been performed.

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.

The Group manages its liquidity risk management as part of its cash and operational risk management processes and ensures that sufficient funds in liquid form are maintained at all times to meet liabilities as they fall due.

In relation to the capital grants provided to the Group, they may become repayable on demand, in whole or in part, if at the absolute discretion of BEIS, certain conditions arise that affect the Start Up Loans Company adversely. The Group is dependent on continuing support from BEIS that the grants will not be recalled for a period of at least 12 months from the date of approval of these financial statements.

The Group has also entered into term facilities with BEIS, the repayment of which is managed as part of the Start Up Loans Company's cashflow forecasting, business planning and liquidity management processes which ensure that any mismatches between maturing assets and liabilities are smoothed and a degree of protection is provided against any unexpected developments that may arise.

During the prior year the Group entered into term facilities with the NLF, the repayment terms of which are set out in note 20. Should there be a shortfall at the repayment point of these term facilities, the Group's Shareholder has confirmed it will provide the necessary cash by way of capital investment.

Other than the capital grants and term facilities, liquidity risk is not deemed significant to the Group as it is 100% government funded, with all programmes pre-approved and committed to, and it does not have a leveraged balance sheet.

27.3 Financial risk management (continued)

Liquidity risk analysis

The tables below show cashflows payable up to a period of 10 years on an undiscounted basis.

These differ from the Consolidated Statement of Financial Position values due to the effects of discounting on certain SOFP items and due to the inclusion of contractual lending commitments.

As at 31 March 2020

	Within 1 year £000	2-5 years £000	5yrs+ £000	Total £000
Financial liabilities				
Loans and other borrowings	350,000	251,078	-	601,078
Lease liabilities	1,176	7,590	5,449	14,215
Other liabilities	18,447	-	-	18,447
Total financial liabilities	**369,623**	**258,668**	**5,449**	**633,740**

	Within 1 year £000	2-5 years £000	5yrs+ £000	Undrawn £000	Total £000
Off balance sheet					
Contractual lending commitments	383,196	774,251	49,561	109,786	1,316,794
ECF loan commitments	79,998	204,554	-	-	284,552
Total off balance sheet	**463,194**	**978,805**	**49,561**	**109,786**	**1,601,346**

In relation to our contractual lending commitments, it is not anticipated that these will be drawn in full. The above table reflects the anticipated drawdown based on cashflow forecast and also reflects the element of the total commitment that is expected to expire without being drawn 'Undrawn'.

	Within 1 year £000	2-5 years £000	5yrs+ £000	Total £000
Financial liabilities				
Loans and other borrowings	-	614,900	-	614,900
Other liabilities	15,634	1,168	-	16,802
Total financial liabilities	**15,634**	**616,068**	**-**	**631,702**

As at 31 March 2019

	Within 1 year £000	2-5 years £000	5yrs+ £000	Undrawn £000	Total £000
Off balance sheet					
Contractual lending commitments	298,326	414,476	88,006	143,967	944,775
ECF loan commitments	75,695	189,413	-	-	265,108
Total off balance sheet	**374,021**	**603,889**	**88,006**	**143,967**	**1,209,883**

Capital

The British Business Bank plc's share capital comprises 1,496,407,924 of issued and fully paid ordinary shares of £1. The Bank is not subject to external regulatory capital requirements under the Basel III regulatory capital framework and therefore does not manage its capital according to the Pillar 1 and Pillar 2 requirements set out in that framework. Where appropriate the Bank uses internal models for measuring economic capital in the assessment of new investment transactions. The Bank's Adjusted Return on Capital employed is governed by BEIS and defined in a Shareholder Framework Document. The Adjusted Return on Capital Employed is a key performance indicator that is set for the Bank by its Shareholder as part of the annual planning cycle and a figure of 1.2% was achieved for the financial year ending 31 March 2020. The target Adjusted Return on Capital Employed which has been agreed with the shareholder is 2.1%. The Bank monitors its performance against this indicator as part of its monthly performance management and for the first 11 months of the financial year ending 31 March 2020 performance was above the target. However, the Covid-19 pandemic which impacted in March 2020 resulted in a significant reduction in the Return in that month. Further details on the Adjusted Return on Capital Employed are given in Objective 6 to the Annual Report.

28. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its related parties are disclosed below.

Key Management Personnel

Key Management Personnel refer to the Executive Committee of the Group and Non-executive Directors.

	2020 £000	2019 £000
Compensation		
Salaries and other short-term benefits	1,594	1,965
Long-term benefits	364	600
Post-employment benefits	71	134
	2,029	**2,699**

Aggregated contributions in respect of Key Management Personnel to defined contribution pension schemes for the year ending 31 March 2020 were £70,961 (2019: £134,000).

Trading transactions

The Department for Business, Energy and Industrial Strategy (BEIS) is the principal shareholder and parent of the British Business Bank plc. BBB plc provides services to BEIS in relation to some financial assets held by BEIS. In return, BBB plc recognises management fee income in relation to the services provided. In addition, BEIS provided temporary staff to the BBB Group for which there are recharges. Nuclear Liabilities Fund Limited (NLF) is a related party by virtue of being controlled by the Group's ultimate shareholder. All entities under the BEIS group are considered to be related parties.

Northern Powerhouse Investments Limited (NPIL), Midlands Engine Investments Limited (MEIL) and Cornwall and Isles of Scilly Investments Limited (CIoS) are related parties by virtue of having directors who are also directors of BBB plc and because they are companies owned by the ultimate shareholder. The Group has provided services in the year to these companies and recognises management fee income in relation to the services provided.

During the year, Group companies entered into the following transactions with related parties:

	2020 £000	2019 £000
Income		
Management fee		
BEIS	15,502	15,302
NPIL	899	2,691
MEIL	1,088	1,774
CIoS	80	310
Innovate UK	71	309
NLF	1,612	-
Nuclear Decommissioning Authority	-	80
East Midlands Early Growth Fund Limited	17	49
Grant income – BEIS	16,685	17,461
Write down of repayable grant received – BEIS	37,782	7,291
	73,736	**45,267**
Expenditure		
Staff seconded from BEIS	142	199
Rent payable to BEIS	207	621
Other amounts payable to BEIS	-	54
	349	**874**
Investment transactions		
Transfer of investments to NLF	38,326	-
	38,326	**-**
Capital Transactions		
Shares issued to BEIS	-	125,000
Grants received from BEIS	-	4,100
Loans issued to BEIS	-	(600,000)
Repayments received on loans issued to BEIS	284,600	75,000
	284,600	**(395,900)**

On 1 April 2019, the Group disposed of 20% of its holding in Venture/Growth to the Nuclear Liabilities Fund, which was held in the Consolidated Statement of Financial Position at £40.6m. The proceeds of disposal were £38.3m. One fund did not transfer and as such £2.3m has been transferred back into FVTPL Investments under Venture/Growth, there was no gain/(loss) on disposal.

BPC is acting as agent for the NLF portion of investments and the above management charge reflects its charge for the year.

28. Related party transactions (continued)

Amounts outstanding at year end

As at 31 March 2020, the Group was owed £3.3m from BEIS relating to the management fee (2019: £2.8m) and owed BEIS £0.2m (2019: £0.4m).

As at 31 March 2020, the Group was owed £0.9m from NPIL (2019: £2.6m), £1.1m from MEIL (2019: £1.8m), and £0.1m from CIoS (2019: £0.7m) relating to the management fee.

As at 31 March 2020 the Group was owed £240.4m (2019: £525.0m) in unsecured loans by BEIS and owed £54.3m (2019: £92.1m) in capital grants to BEIS.

As at 31 March 2020 the Group owed £534.9m (2019: £600.0m) in unsecured loans to NLF.

As at 31 March 2020, the Group has made loan commitments to NPIL of £50m (2019: £50m) and MEIL of £32.5m (2019: £32.5m). During the year ending 31 March 2020 NPIL had drawn down a further £15.7m of its loan commitment. MEIL had drawn down £15m of its loan commitment.

29. Events after the reporting date

In response to the economic shock to the UK caused by the Covid-19 pandemic, following the reporting date the Bank continued to launch significant new schemes to assist UK businesses, beyond CBILS (launched 23 March). At the time of writing, these included:

– CLBILS (launched 20 April)

– BBLS (launched 4 May)

– Future Fund (launched 20 May).

As these schemes sit on the government's balance sheet there are no specific transactions under these schemes for the Bank to report. They have however driven a significant and material increase in the Bank's operations, with the Covid-19 schemes contributing £51.8bn at 11 August 2020 (compared to £7.7bn stock of finance supported at 31 December 2019, pre-crisis).

At the time of writing, it is not possible to form a reasonable estimate of the final size of these schemes, given the inherent uncertainty due to Covid-19, and the fact that these schemes are largely demand-led. However, regular delivery data on these schemes is published by the Bank.

The Bank has maintained operational capacity to deliver the above Covid-19 schemes in addition to its existing programmes, by re-prioritising its existing activities, re-deploying personnel and extending its resources through recruitment and outsourcing arrangements.

On 10 June, the Bank appointed Catherine Lewis La Torre as Interim CEO, effective 1 September.

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

Independent auditor's report to the members of British Business Bank plc

Opinion on financial statements

I have audited the financial statements of British Business Bank plc for the year ended 31 March 2020 which comprise the Company Statement of Financial Position, the Company Statement of Changes in Equity, the Company Cash Flow Statement and the related notes, including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the International Financial Reporting Standards as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described as having been audited.

In my opinion the financial statements:

– give a true and fair view of the state of the parent company's affairs as at 31 March 2020

– have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union

– have been prepared in accordance with the Companies Act 2006.

Basis of opinion

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

Conclusions relating to going concern

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

– the British Business Bank plc's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

– the British Business Bank plc have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the British Business Bank plc's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the directors for the financial statements

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

- the preparation of the financial statements and for being satisfied that they give a true and fair view
- such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error
- assessing the parent 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 parent 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 the British Business Bank plc's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- 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
- conclude on the appropriateness of the British Business Bank plc's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the British Business Bank plc's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my report. However, future events or conditions may cause British Business Bank plc's to cease to continue as a going concern.

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, but does not include the parts of the Directors' Remuneration Report described in that report as having been audited, 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:

– the parts of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 2006

– in light of the knowledge and understanding of the parent 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

– the information given in the Strategic and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements.

Matters on which I report by exception

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

– adequate accounting records have not been kept by the parent company, or returns adequate for my audit have not been received from branches not visited by my staff; or

– the financial statements and the part of the directors' remuneration report to be audited 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; or

– a corporate governance statement has not been prepared by the parent company.

Hilary Lower
Senior Statutory Auditor
10 September 2020

For and on behalf of the Comptroller and Auditor General (Statutory Auditor)

National Audit Office
157-197 Buckingham Palace Road
London SW1W 9SP

Company financial statements

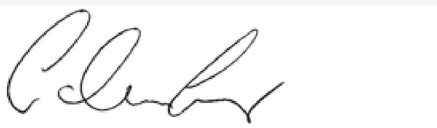
Company statement of financial position

as at 31 March 2020

	Note	2020 £000	2019 £000
Assets			
Cash and cash equivalents		9,328	84,677
Amounts owed by Shareholder	2	240,400	525,000
Trade and other receivables	3	311,625	17,860
Investments	4	1,575,725	1,588,982
Property, plant and equipment		2,535	3,595
Right-of-use assets		10,669	-
Intangible assets		-	4
Deferred tax		270	283
Total assets		**2,150,552**	**2,220,401**
Liabilities			
Trade and other payables	5	(142,504)	(139,859)
Corporation Tax payable		(282)	(262)
Lease liabilities		(12,867)	
Loans and other borrowings	6	(531,840)	(604,264)
Provisions		(300)	(300)
Total liabilities		**(687,793)**	**(744,685)**
Net assets		**1,462,759**	**1,475,716**
Equity			
Issued share capital		1,496,408	1,496,408
Retained earnings		(33,649)	(20,692)
Total equity		**1,462,759**	**1,475,716**

The Company has taken advantage of section 408 of the Companies Act 2006 and consequently the statement of comprehensive income (including the profit and loss account) of the parent company is not presented as part of these financial statements. The (loss)/profit of the parent company for the financial period amounted to £13.2m (loss) (2019: £56.2m profit).

The financial statements of the Company were approved by the Board of Directors and authorised on 10 September 2020. They were signed on its behalf by:



Catherine Lewis La Torre
Chief Executive Officer

The notes on p183-186 form an integral part of the financial statements.
Company number 08616013

Company financial statements

Company statement of changes in equity

as at 31 March 2020

	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2019	**1,496,408**	**(20,692)**	**1,475,716**
Other opening adjustments *	-	1,355	1,355
Adjustment due to IFRS 16 †	-	(1,087)	(1,087)
Balance under IFRS 16 as at 1 April 2019	**1,496,408**	**(20,424)**	**1,475,984**
Net income after tax	-	(13,225)	(13,225)
Total comprehensive income	-	(13,225)	(13,225)
Issue of ordinary shares	-	-	-
Balance at 31 March 2020	**1,496,408**	**(33,649)**	**1,462,759**
Balance as at 1 April 2018	**1,371,408**	**(76,839)**	**1,294,569**
Net income after tax	-	56,147	56,147
Total comprehensive income	-	56,147	56,147
Issue of ordinary shares	125,000	-	125,000
Balance at 31 March 2019	**1,496,408**	**(20,692)**	**1,475,716**

* Other opening adjustments relate to the impact of reversing the rent-free provision, previously recognised under IAS17 on two of the three leases. Under IAS17 the rent-free provision would have been spread over the life of the leases and unwound as rent charges commenced.

† The application of IFRS 16 to leases previously classified as operating leases under IAS17 resulted in the recognition of right-of-use assets and lease liabilities. It resulted in a decrease in `Other expenses' and an increase in depreciation and interest expense.

Company cash flow statement

as at 31 March 2020

	Note	2020 £000	2019 £000
Profit/(loss) before tax		**(13,257)**	**56,244**
Cashflows from operating activities			
Adjustments for:			
Depreciation, bad debt and impairments		2,485	699
Interest expense		11,113	5,552
Finance charge		314	-
Impairment of investments in subsidiary undertakings	4	13,257	-
Purchase of investments in subsidiary undertakings	4	-	(1,547,839)
Disposal of investments in subsidiary undertakings	4	-	1,203,117
Interest paid		(3,936)	(1,288)
Other provision expense		-	180
Movement in trade receivables	3	(293,765)	356
Movement in trade payables	5	4,002	132,459
Net cash used in operating activities		**(279,787)**	**(150,520)**
Cashflows from investing activities			
Purchases of property, plant and equipment		(71)	(2,730)
Net cash used in investing activities		**(71)**	**(2,730)**
Cashflows from financing activities			
Issue of new shares		-	125,000
Payments of lease liabilities		(491)	
Net (increase)/decrease in amounts owed by Shareholder	2	284,600	(525,000)
Net increase/(decrease) in loans from Nuclear Liabilities Fund	6	(79,600)	600,000
Net cash from financing activities		**204,509**	**200,000**
Net increase/(decrease) in cash and cash equivalents		**(75,349)**	**46,750**
Cash and cash equivalents at beginning of year		**84,677**	**37,927**
Cash and cash equivalents at end of year		**9,328**	**84,677**

The notes on p183-186 form an integral part of the financial statements.

Notes to the Company financial statements

as at 31 March 2020

1. Significant accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006 ('the Act').

The Company's financial accounting policies are consistent with those described in the consolidated accounts of the British Business Bank plc. Disclosures in relation to share capital have not been repeated here as there are no differences to those provided in the consolidated accounts (note 24).

Investments in subsidiary undertakings are measured at cost less impairment in accordance with IAS 27.

These financial statements have been prepared on the going concern basis as described in the consolidated financial statements of the British Business Bank plc, and under the historical cost convention. The financial statements are presented in pounds sterling, which is the Company's functional currency.

2. Amounts owed by Shareholder

	2020 £000	2019 £000
Amounts owed by Shareholder	240,400	525,000

On 31 August 2018 the Company lent £350m to BEIS, its shareholder, under the terms of a Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2020 £284.6m (2019: £75m) was repaid under this Loan Agreement.

On 15 January 2019 the Company lent a further £250m to BEIS under the terms of a separate Loan Agreement. The amount lent is repayable on demand and has a zero-interest rate. In the year ending 31 March 2020, £nil (2019 £nil) was repaid under this Loan Agreement.

3. Trade and other receivables

	2020 £000	2019 £000
Amounts receivable within one year		
Trade receivables	77	182
Accrued Income	798	375
Prepayments	857	541
Amounts due from Group companies	309,863	16,748
Other receivables	30	14
Total trade and other receivables	**311,625**	**17,860**

4. Investments

The Company acts as a holding company for the Group and has the following principal subsidiary undertakings which affected the Group's results or net assets:

Subsidiary	Nature of Business
BBB Patient Capital Holdings Limited	Holding company
British Business Finance Limited (BBFL)	Manages investment schemes on behalf of the Group. The Start Up Loans Company (SUL) which provides loans to entrepreneurs is a subsidiary of BBFL
British Business Financial Services Limited (BBFSL)	Manages investment schemes on behalf of the Department for Business, Energy and Industrial Strategy

All subsidiary undertakings are wholly-owned and incorporated in the UK, all shareholdings are in the name of British Business Bank plc.

During the year ended 31 March 2019 the company disposed of its 100% shareholding in British Business Investments Limited (BBI) to BBB Patient Capital Holdings Limited, which is a 100% owned subsidiary of the Company. British Business Investments Limited and British Patient Capital Limited are 100% owned subsidiaries of BBB Patient Capital Holdings Limited.

See note 25 of the consolidated financial statements for details of all subsidiary holdings of the Company.

At 31 March 2020

Investment in	BBI £000	Holdings £000	BBFL £000	Total £000
Opening balance	-	1,473,839	115,143	1,588,982
Investment in year	-	-	-	-
Impairment in year	-	-	(13,257)	(13,257)
Disposal in year	-	-	-	-
Closing Balance	**-**	**1,473,839**	**101,886**	**1,575,725**

At 31 March 2019

Investment in	BBI £000	Holdings £000	BBFL £000	Total £000
Opening balance	1,203,117	-	41,143	1,244,260
Investment in year	-	1,473,839	74,000	1,547,839
Disposal in year	(1,203,117)	-	-	(1,203,117)
Closing Balance	**-**	**1,473,839**	**115,143**	**1,588,982**

5. Trade and other payables

	2020 £000	2019 £000
Amounts falling due within one year		
Trade payables	840	1,181
VAT and social security	1,087	542
Accrued expenditure	8,697	7,896
Amounts due to Group companies	131,339	127,709
Other payables	541	1,686
	142,504	**139,014**
Amounts after more than one year		
Accrued expenditure	-	845
	142,504	**139,859**

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

6. Loans and other borrowings

	2020 £000	2019 £000
Unsecured loans	531,840	604,264
Total loans and other borrowings	**531,840**	**604,264**

On 23 August 2018 the Group received a loan of £350m from the Nuclear Liabilities Fund to be used for general corporate purposes, which is repayable in full on 23 August 2020. This loan accrues interest at a rate of 2% per annum and £7.2m (2019: £4.2m) of interest accrued in the year. The balance of this loan at 31 March 2020 was £361.4m (2019: £354.2m).

On 28 December 2018 the Group received a second loan of £250m from the Nuclear Liabilities Fund which is used for making investments on behalf of the Nuclear Liabilities Fund after 1 April 2019. The term of this loan is 4 years with the value reducing in £5m tranches as the Group makes investment payments on behalf of the Nuclear Liabilities Fund. Any amount unutilised at 28 December 2022 will be repaid on this date. This loan accrues interest at a rate of 2% per annum for the first 2 years decreasing to 1.5% for the remaining life of the loan and £3.9m (2019: £1.3ml) of interest accrued in the year. During the year repayments of £79.6m (2019: nil) were made against the unsecured loans and interest of £3.9m (2019: £1.3m) was repaid. The balance of this loan at 31 March 2020 was £170.4m (2019: £250m).

Total interest payable in the year on the two Nuclear Liabilities Fund loans was £11.1m (2019: £5.5m).

BEIS is a party to both of the Nuclear Liabilities Fund loan agreements, under the terms of which it has undertaken at the repayment dates, to provide funding to the Group to enable it to discharge its obligations to repay the loans including any interest or costs accrued.

7. Related party transactions

During the year under review British Business Bank plc was 100% owned by the UK Government, with the shareholder being the Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS). The Company has elected to take the exemption under IAS 24 regarding disclosure of transactions with related parties because the UK Government has control over both the Company and other related entities. Compensation paid to key management personnel is disclosed in the Directors' Remuneration Report.

The Company trades with Government bodies on an arm's length basis on commercial terms in line with contractual agreements. The main Government bodies transacted with are BEIS and the Company's principal subsidiary undertakings BBB Patient Capital Holdings Limited, British Business Finance Limited (BBFL) and British Business Financial Services Limited (BBFSL).

The Group's trading and other capital transactions with BEIS were all effected through the Company and are disclosed in note 28 of the consolidated financial statements. The Company made charges to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £43.7m (2019: £40.1m).

8. Controlling party

In the opinion of the Directors, the Company's ultimate controlling party is 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.

End notes

[1] British Business Bank, Smaller Business Finance Markets 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/Small-Business-Finance-Markets-2019-20-report-FINAL.pdf

[2] British Business Bank analysis of PitchBook, Beauhurst and other third party data as at June 2020

[3] British Business Bank, Smaller Business Finance Markets 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/Small-Business-Finance-Markets-2019-20-report-FINAL.pdf

[4] British Business Bank, Smaller Business Finance Markets 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/Small-Business-Finance-Markets-2019-20-report-FINAL.pdf

[5] British Business Bank, Business Finance Survey 2019, https://www.british-business-bank.co.uk/wp-content/uploads/2020/03/2019-Business-Finance-Survey.pdf

[6] BVA BDRC, SME Finance Monitor, YE Q4 2019

[7] As of 14 August 2020. All references to the number of Covid-19 scheme delivery partners in the strategic report, whether on an aggregate or per-scheme basis, are as of this date. All other Covid-19 scheme delivery data is as published by government on 11 August 2020

[8] National Audit Office, British Business Bank, 2020, https://www.nao.org.uk/wp-content/uploads/2020/01/British-Business-Bank.pdf

[9] British Business Bank, Smaller Business Finance Markets 2020, https://www.british-business-bank.co.uk/wp-content/uploads/2020/02/Small-Business-Finance-Markets-2019-20-report-FINAL.pdf

[10] SQW Ltd., Northern Powerhouse Investment Fund – Early Assessment Report 2019, https://www.british-business-bank.co.uk/wp-content/uploads/2019/07/NPIF-early-assessment-report-FINAL_24-July-2019.pdf

[11] NAO, British Business Bank 2020, press notice, https://www.nao.org.uk/press-release/governments-support-to-business/

[12] National Audit Office, British Business Bank, 2020, https://www.nao.org.uk/wp-content/uploads/2020/01/British-Business-Bank.pdf

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

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All figures source British Business Bank 31 March 2020 unless otherwise stated.