Supporting sustainable recovery across the UK

Annual Report and Accounts 2022

british-business-bank.co.uk

Our mission is to drive sustainable growth and prosperity across the UK, and to enable the transition to a Net Zero economy, by improving access to finance for smaller businesses

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This is an interactive document

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Chair's statement

Supporting UK businesses, to enable recovery

> Supporting smaller businesses in challenging and uncertain times is absolutely what the British Business Bank is for.

In the financial year 2021/22, the British Business Bank returned to something like business as usual as the country emerged from the Covid-19 pandemic.

Following the extraordinary events of 2020, during which the Bank grew rapidly, stepping up to help safeguard the economy, the last year saw a renewed focus on core activities while consolidating organisational changes made necessary by our pandemic response.

Our lending and investment programmes help underpin and improve finance markets to help smaller UK businesses to grow sustainably. These programmes have had a successful year, continuing to provide large amounts of debt and equity finance. While it is positive to see our portfolio of investments showing significantly increased valuations this year, we are of course aware that these may decrease in future, especially given the current economic outlook.

Positive impact of the Covid-19 schemes

We are beginning to see the first indications of the impact of our work during the pandemic, when we stepped up to administer multiple emergency finance schemes which helped to prevent the UK economy from collapsing. Early estimates are that up to 500,000 businesses could have been forced to cease trading and up to 2.9m jobs could have been lost without the support of these schemes.

Administration of these legacy guarantee schemes, on behalf of the taxpayer, is an important part of our work. It includes cross-governmental activities to monitor and prevent fraud, as well as working with lenders to make sure repayments are managed effectively.

£12.2bn

total finance supported (stock)

More than

96,000

businesses supported through our core finance programmes

A trusted partner

In the 2021 Spending Review, the government gave us the opportunity to build on our track record of success, providing us with additional funding to expand our support across three important areas.

First, we have been allocated a further three years of funding for our well-regarded Start Up Loans programme, which allows people across the UK to fulfil their ambition of starting up and growing their own business, creating jobs in the process. Secondly, a major increase in our funding will enable us to expand our portfolio of investment funds in regions across England and in the Devolved Nations. Thirdly, we were given extra resources to provide more angel finance to support high-growth potential businesses across the UK.

The Board

We had a number of Board changes in the last year. I would like to thank Jonathan Britton, Amanda Rendle and Piers Linney, who stepped down as Non-executive Directors in 2021/22, and Ceri Smith, who stepped down as Shareholder Representative Director. All four contributed greatly to our work over the past few years, especially in steering the Bank through the Covid-19 pandemic.

Joining the Board in 2021/22 were Jamie Carter as Shareholder Representative Director, and James Connelly and Barbara Anderson as Non-executive Directors, all of whom bring a great deal of sector experience and expertise to the organisation.

The experience and the acumen of the people around the Board table at the Bank is vital and positions us well as the UK faces a highly uncertain economic future.

"The experience and the acumen of the people around the Board table at the Bank is vital and positions us well as the UK faces a highly uncertain economic future."

I would also like to welcome our new Chief Executive Officer Louis Taylor, who will be joining us at the start of October 2022. Louis joins us from his current post as CEO at UK Export Finance, which saw the department provide its highest level of support for UK exporters for 30 years. As well as working at the highest level in the public sector, Louis also brings many years of experience in banking and corporate finance, and I look forward to working with him as we develop the Bank and its offer over the coming years.

Catherine Lewis La Torre, who stepped up as acting CEO in September 2020, deserves a great deal of thanks from myself and the Board. Catherine has overseen a period of rapid growth, in terms of both our portfolio and the number of colleagues working here during a challenging period for the UK economy. I am delighted that Catherine will be remaining at the Bank as CEO of British Patient Capital, as well as taking on overall responsibility for the Bank's suite of equity finance programmes.

Standing ready

We know that things remain tough for many smaller businesses as they work to recover from the Covid-19 pandemic. We are seeing high rates of inflation, and increases in the costs of doing business. The Russian invasion of Ukraine has plunged the global economy into further uncertainty.

The importance of both financial and non-financial support for smaller businesses should not be underestimated. In the UK it is smaller businesses, rather than large companies, that employ the most people, accounting for 16.3m jobs – over 60% of private sector employment. Alongside our purely commercial objectives, we remain able to act countercyclically to support access to finance for smaller businesses where required and, especially now, this part of our mandate is increasingly significant.

Supporting smaller businesses in challenging and uncertain times is absolutely what the British Business Bank is for. The flexibility designed into the way we operate means that our role in supporting their access to finance can adapt to the prevailing economic circumstances, and we stand ready to do what is needed in both good times and bad.

"The importance of both financial and non-financial support for smaller businesses should not be underestimated."

Our people

Finally, a heartfelt thanks to our people, who are rightly proud to be involved in what we do to support businesses across the country. It is vital work, and of great value to the economy. I look forward to working with the team as we seek to deliver further for smaller businesses across the whole of the UK.

Lord Smith of Kelvin
Chair

Chief Executive's statement

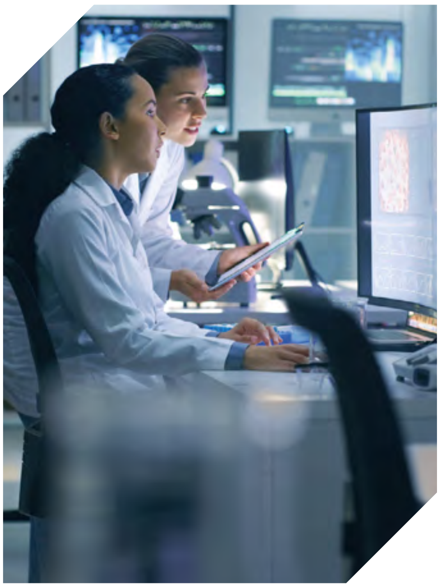
A year of sustained delivery

> We have reimagined the role the Bank should be playing in a radically changed economic landscape.

If our previous financial year was marked by the key role the British Business Bank played in the government's economic response to the pandemic, the 2021/22 financial year was no less intensive for the Bank.

At the start of the year, I set out three priorities:

- Embedding our new mission
- Increasing our market reach and impact
- Consolidating our operations after a year of growth and transformation.



Embedding our new mission

Our revised mission has sustainable growth at its core, and we have begun incorporating this into everything we do. One manifestation of this new focus was our active participation in the UN Climate Change Conference in Glasgow. Ahead of this, we published a crucial piece of research revealing the multiple barriers faced by business owners seeking to transition to lower carbon intensive models, with upfront costs being a major impediment.

The challenges and opportunities of Net Zero transition for smaller businesses are often lost in broader conversations about climate change. However, as the UK's 5.6m smaller businesses account for roughly half of all business emissions in the UK, we will not be able to make the UK a Net Zero economy by 2050 without them.

Increasing our market reach and impact

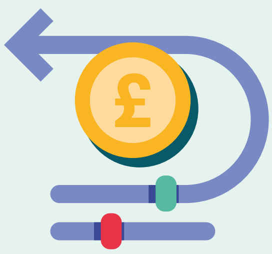
We have made great progress in delivering increased market impact through our programmes. Rather than returning to our pre-Covid-19 way of operating, we have reimagined the role the Bank should be playing in a radically changed economic landscape through the lens of a new Strategic Framework. This is based on three strategic priorities: championing sustainable growth, backing innovation and breaking down barriers to finance.

As a result, we have designed innovative programmes that take the Bank into new territory.

We launched the Life Sciences Investment Programme, our first sector-focused fund, to bring additional firepower into an undercapitalised part of the market where the UK has an opportunity to build a stronger competitive advantage.

In response to the market failure for deep tech investing, where investors are required to inject higher levels of capital and to hold their investments for longer compared with conventional technology investing, we established Future Fund: Breakthrough. This is a direct investment programme, targeting R&D-intensive businesses, where the Bank co-invests alongside venture capital funds in the private sector.

Building on the successes of our existing regional funds in the North, Midlands and South West, the Bank has been allocated new funding of £1.6bn to extend debt and equity investment into other parts of the UK which are underfunded, but where many of our scale-up and potential scale-up businesses are based. As part of this new programme, we will be establishing investment funds in each of the Devolved Nations for the first time.



£545m

Our 2021/22 adjusted return

Consolidating our operations after a year of growth and transformation

In responding at pace and scale to the Covid-19 pandemic, at the request of the government, we had to build capacity quickly.

To strengthen our operations and controls, we launched Project DIOR at the start of the year. This project enhances our capabilities in the areas of data management, IT infrastructure, outsourced provider services and risk management, and one year into this two-year initial transformation programme we are now better prepared to address future challenges.

We have also focused on enhancement of our fraud and financial crime capability, given our role as administrators of the Covid-19 emergency loan guarantee schemes. We have put in place dedicated resources and enhanced governance around recoveries, working closely with the lenders which provided the loans, the government and other relevant agencies.

> "Without our colleagues doing what they do every single day, we wouldn't be able to deliver."

Achieving our strategic and commercial goals

My first full year as acting CEO saw the Bank successfully deliver against the strategic and operational priorities we set at the beginning of the year. I am also proud of the very strong financial performance achieved within our commercial arm, comprised of British Business Investments and British Patient Capital, demonstrating that we can do good and do well for the British taxpayer.

As my secondment as acting CEO comes to an end, I would like to thank everyone across the Bank for their continued commitment, collaboration and creativity whilst I have been in the role. Without our colleagues doing what they do every single day, we wouldn't be able to deliver for our Shareholder, our wider group of stakeholders and, most critically, for the businesses across the UK that we are here to support.

The serious headwinds that the economy is encountering make a national economic development bank an invaluable strategic asset. The British Business Bank is ready and prepared to play its countercyclical role, as we did before in response to the financial crisis and, most recently, in response to a global pandemic. As I return to the commercial arm and the leadership of British Patient Capital, I look forward to continuing to play my part.

Catherine Lewis La Torre
CEO

Why we do what we do

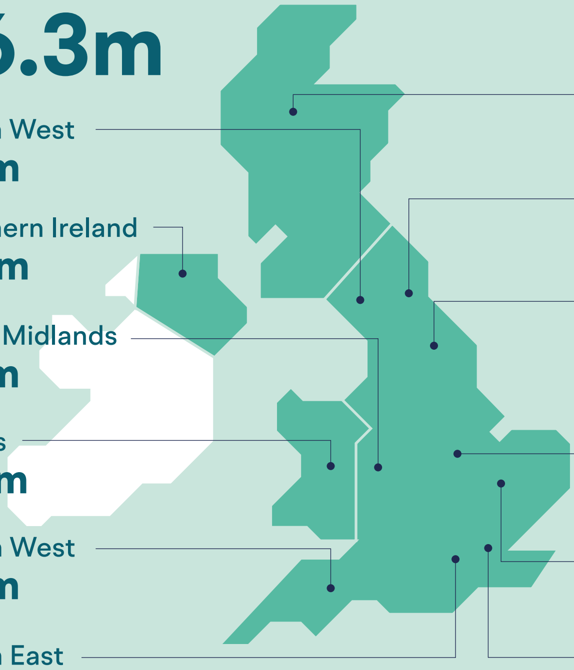
Smaller businesses[1] are vitally important to the UK economy and the UK way of life. They account for more than 60% of all private sector jobs.

They are a key source of the new ideas and innovations that power the rest of the UK economy. As our recent research has shown, they are central to the UK's objective of reaching Net Zero by 2050.

That is why, as the UK's economic development bank, we help smaller businesses across the UK to start up and grow sustainably, by improving their access to finance.

1 Small and Medium Enterprises (SMEs) – businesses with fewer than 250 employees.

Number of people employed by smaller businesses by region



At the start of 2021:

5.6m

smaller businesses operated in the UK – over **99%** of all UK businesses

16.3m

people were employed by smaller businesses – **61%** of all private sector jobs were in smaller businesses

52%

of total turnover from the private sector comes from smaller businesses, with an estimated total turnover of **£2.3 trillion**

The importance of access to finance

Finance is important for businesses at every stage

For a business to grow sustainably, it will need to put in place the appropriate finance to achieve its growth plans. From initial seed funding to multiple rounds of equity to achieve rapid growth, or debt finance for working capital and investment, the right sort of finance at the right time is an essential ingredient for business success.

Why we support debt finance markets

Debt options play an essential role in the operation of most businesses. Debt can be used for both working capital – typically through an overdraft facility – or to fund longer-term investment through products such as hire purchase, loans or leasing facilities.

Why we support equity finance markets

Equity finance often provides the long-term capital that enables a business to scale rapidly, and such high-growth businesses are key to economic success. Equity investors can also bring experience, skills and contacts that the business might not otherwise have.

Impact of the Covid-19 schemes

An initial evaluation of the Covid-19 loan guarantee schemes found that up to 500,000 businesses and up to 2.9m jobs may have been saved by the schemes.

What people used the money for

Most businesses used the funds for working capital or for financial security.

The money raised through the schemes most commonly enabled businesses to adopt new technologies, undertake innovation activities or build business resilience.

Up to 2.9m jobs

Up to 500k businesses

may have been saved by the Covid-19 loan guarantee schemes

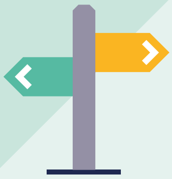
Our impact

The British Business Bank continued to support smaller UK businesses in 2021/22.

We rolled out new products to improve access to finance across the UK, strengthened our own organisation after a period of rapid growth, and administered the legacy of the Covid-19 loan guarantee schemes. Alongside these activities we also continued to deliver our core programmes. Overall, we managed to create a significant return for the UK taxpayer.

Businesses benefitting

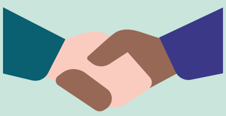
More than
96,000
businesses supported through our core finance programmes



Almost
83,000
businesses supported outside London

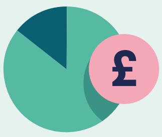
Almost
19,000
number of businesses benefiting from the Recovery Loan Scheme*

Finance supported



18%
Proportion of overall UK smaller business equity deals we supported in 2021

£12.2bn
total finance supported (stock)



£4.6bn
total finance supported – Recovery Loan Scheme*

18.2%
adjusted rate of return

Information provision

Almost
17,000
downloads of our research reports in 2021/22

More than
755,000
visitors to our website in 2021/22*

Sustainability

£505m
equity investment in Clean Tech supported by the Bank (flow)

Breaking down barriers

41%
Proportion of Start Up Loans to women founders in 2021/22

21%
Proportion of Start Up Loans to founders from Black, Asian and other minority ethnic backgrounds in 2021/22

Almost
9,500
jobs created across 1,291 businesses through NPIF, MEIF, and CIOSF

All figures as at 31 March 2022 unless otherwise indicated.

*As at 31 August 2022

2021/22 KPI performance against our objectives

Performance assessment summary

The Board assessed the Bank's progress against its corporate objectives by considering delivery against its key performance indicators (KPIs). KPI outturns against targets are outlined below and, in addition, the Board considered a number of other qualitative measures, including:

- delivery of regional access-to-finance outreach activities
- delivery of risk management activities.

Overall, the Board assessed the Bank's performance as exceeding expectations.

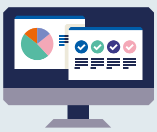
In light of the continuing effect of Covid-19 pandemic during the year, the Board and Shareholder agreed to exclude the Covid-19 emergency finance schemes from the Bank's targets, and to capture the Bank's Covid-19 response work through qualitative assessment.

Objective 1: To increase the supply of finance available to smaller businesses where markets do not work well

	Target	Outturn
KPI: Stock of finance supported by core programmes	£9.4bn	£12.2bn

Commentary: The Bank continued to increase the supply of finance available, significantly exceeding the target set.

Objective 2: To help create a more diverse finance market for smaller businesses, with greater choice of options and provider



	Target	Outturn
KPI: Percentage of stock of finance supported outside the 'Big 5' banks	97.3%	98.4%

Commentary: The Bank continued to deploy the vast majority of finance in its core finance schemes outside of the largest UK banks, exceeding the target set.

Objective 3: To identify and help to reduce regional imbalances in access to finance for smaller businesses across the UK

	Target	Outturn
KPI: Flow of gross deployment outside London	£0.9bn	£0.91bn

Commentary: The Bank exceeded the target through strong deployment of finance across the UK's nations and regions.

Objective 4: To encourage and enable smaller businesses to seek the finance best suited to their needs

	Target	Outturn
KPI: Awareness: Level of prompted awareness of the Bank amongst smaller businesses	25%	22%
KPI: Outcome: How likely small businesses are to recommend the Bank	+5	-20

Commentary: The awareness and outcome KPIs were not achieved. The awareness target was narrowly missed, reflecting the lower profile the Bank had with SMEs after the expiry of the Covid-19 schemes. The wide discrepancy between the target and the outturn metrics for measuring 'Outcome' was driven by methodological and sampling differences, which became evident in Q1 of the financial year but it was not possible to amend the outturn target mid-cycle.

Objective 5: To be the centre of expertise on smaller business finance in the UK, providing advice and support to the government

	Target	Outturn
KPI: Delivery of centre of expertise priorities	This was subject to a qualitative assessment	

Commentary: Based on the Board's assessment of the Bank's performance, informed by a survey of stakeholders within and outside of the government, including an assessment by the Shareholder's representative, the Bank was assessed to have met its objective in deploying its expertise to the government effectively, ranging from engagement on the Spending Review and administering the Covid-19 response schemes to fulfilling priorities on research and market engagement.

Objective 6: To achieve the Bank's other objectives whilst managing taxpayers' money efficiently within a robust risk management framework

	Target	Outturn
KPI: Adjusted return on capital employed	0.06%	18.2%

Commentary: The Bank's adjusted return significantly exceeded the target, driven by the generally strong performance of equity finance markets during the year, whilst operating within its risk management framework in delivering its objectives.

The Bank was given a new objective to support the UK's transition to a Net Zero economy, with a KPI for this year for the Bank to be in a position to set and deliver on an investment allocation target aligned to the Bank's Net Zero strategy from 2022/23. Following discussions with the government, it was agreed that setting an investment allocation target would not be appropriate, as many delivery partners would not be ready for a target.

The Bank instead focused this year on establishing an emissions baseline for its own emissions, an initial delivery plan to target Net Zero in its own operations, and an initial portfolio alignment strategy.

New KPIs will be set and reported on from 2022/23.

How we work

The British Business Bank works with and through the market to provide finance and information to smaller businesses.

Investment, lending, information

Funding and expertise

Since its inception, the Bank has committed billions of pounds of funding under its finance programmes. It also stimulates demand by providing information to both the market and smaller businesses.

Government

Funds

Returns

British Business Bank

Taxpayer value

As investments and loans we support grow and mature, revenue is returned to the Bank, producing attractive returns for the taxpayer.

Return on investment, lending repayments

Finance market

A diverse landscape

We work with a wide variety of finance providers, bringing greater choice to the market.

Business angels

Venture capital funds

Non-bank finance providers

High street banks

Start Up Loans programme

Unlocking finance

By working with and through delivery partners, we unlock additional finance from them and from third parties. This multiplies the benefit to smaller businesses from the public money we commit.

Supporting growth

Through our programmes, smaller businesses can access more finance, and choice of finance type and provider, enabling them to start, thrive and grow.

Smaller business

Grows

Our new strategic direction

Our strategic framework

Using our core tools:

Insight and expertise	Demand support	Supply of finance	Effective delivery

We will base our decision-making on:

Championing sustainable growth

We will make the **debt finance markets** work better for the general population of smaller businesses. We will step in **to support those markets in times of crisis.**

By championing sustainable growth, we will support this population of smaller businesses to transition to **business models with lower emissions.**

Backing innovation

We will improve the **equity finance markets** and back firms whose business model is built on **innovation.**

By backing innovation, we will ensure that the start-up and scale-up capital is available for firms developing the ground-breaking technologies that will shape the economy of the future and **help tackle climate change.**

Breaking down barriers

We will **break down the structural barriers** in small business finance markets faced by entrepreneurs and business owners – barriers they face because of their **geographic location**, their **gender**, or their **ethnicity.**

By breaking down barriers we will enable more entrepreneurs and business owners to contribute to the goal of a **Net Zero economy** by 2050.

So over the next 10 years we will:

Crowd-in private finance into markets so they work better to **support business growth**.	**Increase** the start-up and scale-up capital getting to the UK's most innovative, world-changing businesses.	Help **level the playing field** for entrepreneurs by reducing finance gaps by region, gender and ethnicity.	**Back ground-breaking solutions** to climate change and enable smaller businesses in the transition to a **Net Zero economy**.

Our vision

Lighting the way to the future of finance

Our mission

To drive sustainable growth and prosperity across the UK, and to enable the transition to a Net Zero economy by improving access to finance for smaller businesses

The Bank is now helping over a quarter of the smaller businesses in the UK, and consistently generating profits for the government, while also delivering significant positive benefits for businesses and entrepreneurs.

As we look to the future with a desire to build on our successes to date, we will be guided by a new strategic framework that we developed in the past year. This framework will help us to deliver our mission, setting out for the Bank an ambitious vision of what we want to have achieved in 10 years' time. We have already started taking a number of steps in the direction of our strategic vision in the past year. The framework will guide what the Bank looks to do over the coming years, providing us with a blueprint to deliver the economic changes we want to help catalyse, and the outcomes we want to deliver for people and businesses across the UK.

Our immediate priorities

In 2022/23, we will be incorporating our new strategic framework in all that we do, to help us to meet the Bank's mission, and in doing so, our activities will be informed by our three strategic priorities of:

– Championing sustainable growth

– Backing innovation

– Breaking down barriers.

We will continue to communicate the importance of sustainable growth, and work with smaller businesses to support the transition to Net Zero, including through our #GreenToGrow campaign.

Through programmes such as Future Fund: Breakthrough we will continue to back innovative, R&D-intensive companies, helping to ensure they have access to the finance they need.

We will take forward the next generation of UK and Regional Funds. In doing so, we will work with key stakeholders to determine the best way of delivering this increased support, helping to break down barriers to accessing finance across the UK.

> **"We know that the economy is facing significant headwinds in the coming year which we stand ready to respond to and play a countercyclical role."**

We will manage the new iteration of the Recovery Loan Scheme so that businesses can access the finance they need to invest and grow.

As we continue to consolidate our organisation, we will further develop our operational capabilities.

We will be continuing to administer the Covid-19 emergency loan guarantee schemes and ensure our delivery partners have appropriate controls in place to prevent fraud, so that we protect taxpayers' money as much as possible.

Alongside this, we know that the economy is facing significant headwinds in the coming year which we stand ready to respond to and play a countercyclical role as we have done in the past.

£1.6bn

for the next generation of UK and Regional Funds

Championing sustainable growth

Our mission

To drive sustainable growth and prosperity across the UK, and to enable the transition to a Net Zero economy, by improving access to finance for smaller businesses

Our new objective

To support the transition to a Net Zero economy by 2050

The financial year 2021/22 saw the British Business Bank acting on our growing focus on Environmental, Social and Governance (ESG) issues.

As an economic development bank, we continue to focus on our impact. This means not just committing to enabling the transition to Net Zero, but doing so while supporting other important aspects such as tackling regional imbalances and diversity and inclusion. Our goal is therefore to achieve a 'just transition' – going beyond just sustainable use of the planet's resources to a fully integrated approach which incorporates ESG factors into our decision-making across the Bank.

Our ESG goals are aligned with broader government priorities on sustainability, developing opportunity throughout the UK's nations and regions, and being open and transparent. We are working with our delivery partners and smaller businesses so that the shift towards sustainability goes hand in hand with fairness and economic opportunity across the UK.

Framing the problem

- What Net Zero transition challenges do smaller businesses face?
- To overcome those challenges, what is the role of finance – and access to it – and business support tools such as training and the provision of information?
- How can we use our position in the market to work with, influence and enable our delivery partners and the rest of the finance ecosystem to achieve their Net Zero goals?
- As the UK's economic development bank for smaller businesses, where should we focus our resources and work with the government and the finance market to support smaller businesses on their Net Zero journey?

Our sustainability highlights

Environmental

We are working to support the UK's transition to Net Zero. This covers emissions from both our own operational activities and those of businesses in our diverse investment portfolio.

– Our *Smaller businesses and the transition to net zero* report, published in October 2021, found that the UK's 5.6m smaller businesses, making up 99% of UK businesses, are responsible for 50% of business emissions. They therefore have a key role to play in meeting the country's Net Zero targets.

– We are committed to public targets for our own investment portfolio to reach Net Zero ahead of 2050. The accurate measurement of greenhouse gas emissions is dependent on our network of delivery partners, which range from funds which are themselves smaller businesses to the large high street banks. Consequently, we need to tailor our approach to how we gather data appropriately and proportionately from each of our delivery partners, providing support where necessary. Ultimately, this will allow us to report more accurately on our financed emissions across an increasing percentage of our portfolio.

– We recently appointed a Managing Director of Sustainability – the first time that the Bank has had a dedicated position covering ESG activities at such a senior level, and a reflection of the growing importance of sustainability to our organisation.

– We have been working towards a clearer understanding of climate change and the risks and opportunities it presents:

  – We continue to work on understanding the material physical and transition risks for our own operations and our network of delivery partners as a result of our changing climate.

  – At the same time, we are identifying opportunities to fund both innovative UK companies that are developing solutions to climate change, and the wider transition to more sustainable business models for the whole smaller business community.

Social

We are working to ensure that people in smaller businesses have the same access to finance, no matter who they are or where in the UK they may be. People and communities are at the centre of our work on diversity and inclusion as we contribute to the 'levelling up' of the regions and nations of the UK.

We are taking important steps to ensure our actions on Net Zero are in line with a 'just transition' – striking a balance between our environmental goals and the impact on the communities in which we operate.

Governance

We are promoting openness and transparency in the way we operate, in keeping with our unique position working with both the government and the private sector on access to finance for smaller businesses.

To support this, we have begun taking steps to understand our own emissions impact and are committed to meeting the industry-leading standards recommended by the G20 Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD). The Bank has also begun preparations to become a signatory to the Principles for Responsible Investment in 2023.

Backing innovation

The British Business Bank forms an important part of the innovation funding landscape through its equity programmes, which invest in high-growth, innovative UK businesses, and in supporting UK debt markets, which help firms to innovate both their products and processes.

Life Sciences Investment Programme

In summer 2021, the Bank launched the Life Sciences Investment Programme, a £200m programme targeting the growth-stage funding gap faced by innovative UK life sciences companies via British Patient Capital, one of its commercial subsidiaries. The programme aims to mobilise significant third-party capital alongside the Bank's, attracting at least £400m of extra investment.

Why back innovation?

Boosting business innovation is essential to the UK's future prosperity, and key to the delivery of new jobs, better living standards and long-term economic growth. It is also vital to support the transition to a Net Zero economy and post-pandemic economic recovery.

Business innovation requires financing, however, and a business's ability to access the right type of finance at each stage of development is critical to both idea development and business growth.

The importance of equity

Equity finance from venture capitalist or business angels is widely accepted as an important ingredient for early-stage innovative businesses and for high-growth-potential businesses that are looking to scale. It also brings wider benefits for many such businesses, including additional expertise and funding.

British Business Bank-supported funds are more likely to invest in technology and intellectual property-based businesses than the overall equity market, and our new programmes will enhance this trend – 47% of deals supported by the Bank between 2019 and 2021 are in this sector, compared to 39% of the wider market.[2]

Since 2014, the Bank has grown to become the largest UK-based LP investor in UK venture capital.

£3.8bn

Total commitments

357

Number of equity funds supported

4,770

Number of UK businesses supported by the Bank's equity programmes

Future Fund: Breakthrough

In July 2021, the Bank's subsidiary, British Patient Capital, launched Future Fund: Breakthrough, a new £375m UK-wide programme that directly co-invests alongside private investors in the later funding rounds of high-growth, innovative firms. The programme focuses on R&D-intensive companies and aims to accelerate the deployment of breakthrough technologies which can transform major industries, develop new medicines, and support the UK transition to a Net Zero economy.

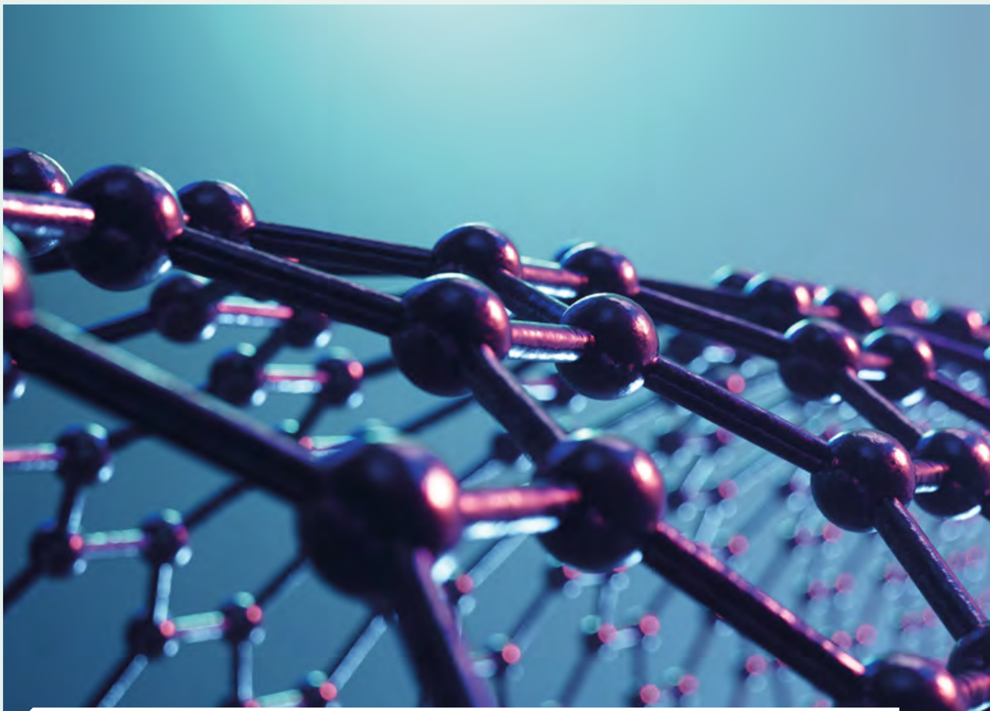
Businesses accessing our equity programmes are also more likely to adopt innovative practices by introducing new or improved products and services or new or improved processes.

Our equity programmes have involvement in over half of all UK unicorn status businesses.[3]

2 British Business Bank analysis of Beauhurst data. See p48 of our Small Business Equity Tracker 2021 report.

3 Businesses which have achieved a valuation of over $1bn.

4 The Bank's 'Backing innovation-led businesses: the role of public investment' report, published in July 2022.



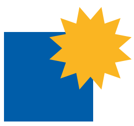
Collaboration across government

Over the last year the Bank has worked closely with partners to identify areas where greater co-ordination could lead to even better outcomes for R&D-led, innovative firms.

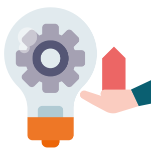
We shared data and published a joint research report with UK Research and Innovation, including Innovate UK, which found that university spin-outs are twice as likely to succeed when funded by UK funding agencies.[4]

We are also working together to develop an online Innovation Hub, unifying information on government-backed innovation funding.

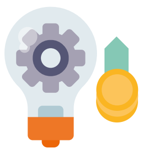
Northern Powerhouse Investment Fund recipients and innovation



68% have introduced new products



93% of equity recipients increased investment in R&D



53% of debt recipients increased investment in R&D

Our private debt programme increases the funding options available for high-growth businesses, especially those that require bespoke financing arrangements:

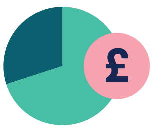
85%

Proportion of funds deployed outside of London

Over

68,000

Number of UK businesses supported



£2.7bn

Total commitments

University spin-outs

A university spin-out is a company created off the back of university research and/or intellectual property, which has been developed and commercialised by the institution's enterprise team, with the institution usually having a significant stake in the company.

The Bank supports university spin-outs across the whole range of our programmes, both debt and equity. So far, we have backed 363 in total.[5]

The importance of Venture Debt

Venture Debt is a valuable form of finance, particularly for high-growth companies which have unconventional structures or which may be pre-profit.

It performs a similar function to equity finance, without diluting the equity the founder and other investors hold in the business. The Bank provides Venture Debt primarily through its British Business Investments commercial subsidiary.

5 Combined data from Beauhurst on spin-outs that have raised equity finance and UKRI data on spin-outs that have emerged from UK education institutions as a result of UKRI grant funding. All of the Bank's programmes are covered excluding SUL and Covid-19 loan guarantee schemes.

Business stories

Paragraf

Delivery partner: IQ Capital, Amadeus, Molten Ventures

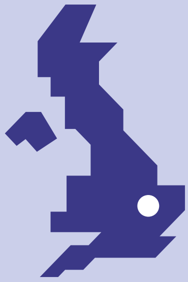
Region: East of England

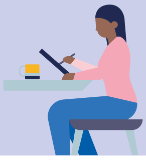
Location: Somersham

Programme: ECF, BPC, Future Fund: Breakthrough

Paragraf is a good example of how public support for financing R&D and innovation-led businesses can enable the translation and commercialisation of frontier research out of the UK's world-leading research base.

Paragraf was initiated when a Professor Sir Colin Humphreys' project at the University of Cambridge combined gallium nitride and graphene to create a novel electronic device structure, using research that was supported by the Engineering and Physical Sciences Research Council. Dr Simon Thomas joined Professor Humphreys' group to investigate the possibility of combining semiconductors and graphene in a single process, resulting in the breakthrough development and invention that led to Paragraf.



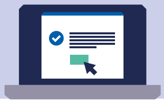


2015

Created from a spin-out
Company created as 2D Technologies (incorporated as Paragraf in 2018, a spin-out from the university).

Sept 2017

First major products
First round of seed capital to help develop first major products. Two British Business Bank-supported Enterprise Capital Funds (ECFs), IQ Capital II and Amadeus IV ECF, contribute to the round.



2018–2020

Enabling exploration
Six Innovate UK awards across multiple competitions, from feasibility studies through to collaborative R&D. Together, these enable exploration of product applications for next-generation graphene across value chains from photonics to electronic sensors and energy generation.

2019

Accelerating delivery
£16.2m of Series A funding, involving existing ECF-backed investors plus BPC-backed Molten Ventures. This enables acceleration of the delivery of its first graphene-based electronics products to market, which starts generating revenue streams.

2022

Scaling internationally
$60m of Series B funding, involving existing ECF and British Patient Capital (BPC) backed investors, plus BPC directly through Future Fund: Breakthrough. This will help the company scale internationally by increasing its sales in the UK, US, EU and Asia, boosting its R&D capabilities to advance its technology and product development capacity, and expanding its manufacturing infrastructure.

Breaking down barriers by place

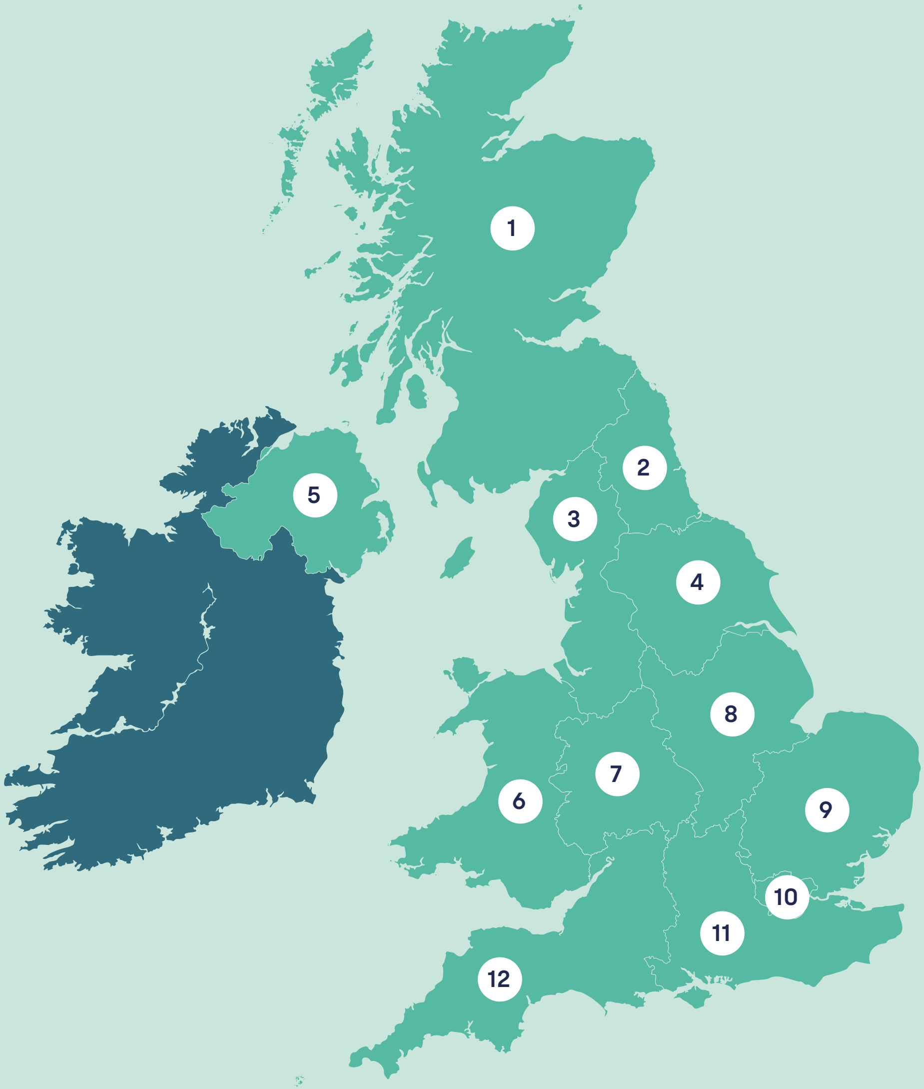
The Bank aims to break down structural barriers that smaller businesses face due to their location, seeking to reduce regional imbalances in access to finance across the UK. We do this by supporting finance across the whole of the UK, supporting more than 96,000 businesses through our core programmes at the end of March 2022.

We also specifically support those regions and nations where there are lower flows of finance. This is something that the Bank has recognised through our UK and Regional Funds, Regional Angels Programme and dedicated regional network team operating across all regions and nations of the UK.

Our Regional Funds bring new fund managers into parts of the UK and invest where finance is lacking, and during the past year £1.6bn has been provided for the next generation of these funds.

Our Regional Angels Programme invests alongside established angel syndicates to boost them and the businesses they support, and £150m has been provided to support the programme in the coming years.

£150m	£1.6bn	83,000
funding for the Regional Angels Programme	funding for the new UK and Regional Funds	number of businesses supported outside of London



1 Scotland

6,400
Number of businesses

£359m
funding

2 North East

3,621
Number of businesses

£239m
funding

3 North West

11,811
Number of businesses

£1,139m
funding

4 Yorkshire and the Humber

8,231
Number of businesses

£660m
funding

5 Northern Ireland

2,699
Number of businesses

£166m
funding

6 Wales

4,917
Number of businesses

£255m
funding

7 West Midlands

8,173
Number of businesses

£492m
funding

8 East Midlands

6,051
Number of businesses

£495m
funding

9 East of England

8,862
Number of businesses

£1,014m
funding

10 London

13,935
Number of businesses

£5,449m
funding

11 South East

12,347
Number of businesses

£1,440m
funding

12 South West

8,837
Number of businesses

£568m
funding

Total for the UK also includes 931 businesses with unspecified region or nation.

People and their businesses are at the heart of everything we do

Our activities help to ensure that funding flows to entrepreneurs with ambitious plans and companies with innovative products and services.

1

Financial activity

We refocused on our core programmes and reimagined how we help smaller businesses to get access to finance.

Read more on p30–39

2

Non-financial activity

As the UK's economic development bank, we provided valuable market insights that help the whole of the UK economy.

Read more on p40–45

3

Our people

We made career development a focus this year, to ensure that our people can grow through their talent and hard work.

Read more on p46–49

4

Operations, controls and risk management

We adapted to the needs of a fast-changing economic situation, and a much bigger organisation.

Read more on p50–55

1

Financial activity

A year of strong delivery

Core finance programmes

£12.2bn
stock of finance supported

More than
96,000
smaller businesses benefitting

18.2%
adjusted rate of return

"The British Business Bank delivers a wide range of finance programmes, each designed to address a specific market failure."

In 2021/22 we were able to refocus on our core finance programmes, and extend further the good work that we do across the UK.

All of our programmes had a very strong year, and our Enterprise Capital Funds, which help to provide early-stage equity, had a record year.

Spending Review 2021

The three-year Spending Review settlement will enable us to make over £4.9bn of financial commitments and loans, including £1.6bn of new funding for a range of investment interventions across the country, as we extend and develop our UK and Regional Funds.

In some parts of the UK it can still be difficult to access finance, and one of our key aims is to break down structural barriers due to location.

Over the coming year we will be providing more equity and debt capital to support more businesses across more of the UK. We already have very successful funds operating in regions of the UK – the Northern Powerhouse, the Midlands Engine and the Cornwall and Isles of Scilly Investment Funds.

While building on the success of these funds, we will also be expanding the coverage of funds in England and, for the first time, setting up new investment funds in Scotland, Wales and Northern Ireland.

Another highlight of the Spending Review settlement was the multi-year support for Start Up Loans. These are often relatively small loans that go mainly to first-time entrepreneurs, who have excellent business ideas but who have difficulty in accessing funding. We will deliver around 11,000 loans each year over the next three years, providing much-needed continuity of funding. Start Up Loans are hugely impactful in helping businesses across the UK, and helping to break down barriers to finance faced by entrepreneurs because of their ethnicity or gender.

The Regional Angels programme has also been expanded, with an additional £150m allocation to invest alongside business angels across the regions. Much of this support goes into fledgling companies, university spin-outs and first-time entrepreneurs that need capital but also, critically, the advice that business angels can provide. We have now seen our first successful exit from the Regional Angels programme.

Our core finance programmes

The British Business Bank delivers a wide range of finance programmes, each designed to address a specific market failure while helping to improve access to finance for smaller businesses. Our finance programmes provide either debt finance, equity finance, guarantees, or a combination of these.

Not all of the programmes we deliver are accounted for on our own balance sheet. In some cases we act as an agent, working on behalf of another organisation to deliver the programme, but the organisation we are acting for, such as the Department for Business, Energy & Industrial Strategy (BEIS), keeps the assets and liabilities on their own balance sheet.

With all of our finance programmes, it is important to bear in mind the difference between realised and unrealised returns. In our equity finance programmes, for example, the value of some of our investments may have gone up over the last financial year, but this can be due to uplifts in valuation rather than realised profits: these valuations can also go down.

Further details on this can be found in the financial performance section of this report, beginning on p66.

Business stories

Kirk Eyewear

Delivery partner: Let's Do Business

Region: South East

Location: Brighton

Programme: Recovery Loan Scheme

Brighton-based eyewear company Kirk & Kirk designs frames and sunglasses for independent opticians in over 40 countries and sells directly to consumers online. The company received funding from British Business Bank delivery partner Let's Do Business to support its recovery from the Covid-19 pandemic. The finance allowed Kirk & Kirk to build its online presence and increase sales, finalise a new collection of eyewear ready for release next season and commit to a first pop-up store in London this autumn.

The table below lays out our core finance programmes in 2021/22.

Portfolio area	Programme	Stock of finance supported (Bank and third-party funding) unless otherwise stated, £m[6]	Number of businesses benefitting unless otherwise stated[7]
Core finance programmes	**Investment Programme** Support to increase the volume and diversity of finance for smaller businesses by enabling the growth of new and alternative finance providers.	3,291.6	23,253
	British Patient Capital Investments in long-term venture and venture growth funds, enabling high-potential firms to develop into world-class businesses.	2,546.2	504
	ENABLE Guarantee Guarantees which reduce the amount of capital that lenders need to hold to cover their loans to smaller businesses, enabling them to provide more lending.	591.2	328
	Enterprise Capital Funds Funds which increase the supply of early-stage venture capital to scaling businesses, and which lower barriers for fund managers entering the venture capital market.	672.3	438
	Managed Funds Investments into funds of funds, designed to increase institutional funding of long-term patient capital for innovative businesses that are scaling rapidly.	2,331	438

Enterprise Capital Funds evaluation

A November 2021 evaluation of the Enterprise Capital Funds (ECF) programme, the Interim Evaluation Report (commissioned by the Bank from Ipsos MORI), estimated that the 388 UK-based firms funded by the ECF programme between 2011 and 2019 created almost 8,000 jobs and generated £2.2bn in additional sales by March 2019. Those companies funded by ECFs saw their annual rates of turnover grow by 76%, and their employment by 48%.

Portfolio area	Programme	Stock of finance supported (Bank and third-party funding) unless otherwise stated, £m[6]	Number of businesses benefitting unless otherwise stated[7]
	UK and Regional Funds Equity and debt finance currently in the North, Midlands, Cornwall and Isles of Scilly, helping to make regional finance markets work better for smaller businesses.	800.4	1,291
	ENABLE Funding Cost-effective access to funding through the capital markets for smaller lenders, meaning that they can provide more finance to businesses.	644.1	42,181
	Angel CoFund Equity co-investment alongside business angel syndicates to increase the volume of early-stage finance available to smaller businesses.	349.1	94
	Start Up Loans Loans and mentoring to help people start their own businesses or become self-employed.	256	32,870
	Regional Angels Programme Support to reduce regional imbalances in access to early-stage equity finance.	440.5	317

New for 2021/22

Future Fund: Breakthrough

A direct investment programme which supports companies that are R&D-intensive and technology-led.

The Life Sciences Investment Programme

A £200m initiative to provide equity finance to high-potential UK life sciences companies.

6 Stock provides a 'snapshot' of the total finance each programme supports in the market at any given time. It includes both the Bank's own commitments and leveraged third-party funding, which varies according to each programme's objectives. Stock changes as finance enters and exits the market as investments are made and produce returns, or as loans are drawn down and repaid over time. The overall stock figure for the Bank includes additional programmes, most of which no longer active (and so are not listed in this table). The total Bank figure will therefore be greater than the sum of the figures listed above.

7 Like stock, this is a snapshot measure which goes up or down as UK businesses receive and return finance supported by the Bank. Please note that these scheme-by-scheme figures are not additive for core finance programmes, as businesses may be benefitting from more than one scheme.

Support across the board

We deliver programmes nationally and regionally and across different finance types, to support businesses at all stages of their development.

Helping new businesses to start and grow

Funding start-ups can be seen as a risky prospect, which can lead to early-stage businesses being unable to access the finance they need. The Start Up Loans programme addresses this market failure by providing loans of up to £25,000 at a fixed 6% interest rate, as well as offering free post-loan support, mentoring and guidance.

This was a good year for our Start Up Loans programme – more than 10,372 new Start Up Loans were provided, and the 2021 Spending Review provided funding for a further three years.

Additionally, this year has also seen the programme take significant steps to increase its accessibility. We announced new partnerships with the RNIB, which is now producing braille and large-print versions of Start Up Loans documents, and with British Sign Live, which is offering a qualified sign language interpreter for contact with our customer service team. We have also translated our free guides into 17 languages, making the programme more accessible to those for whom English is their second language.

The Start Up Loans programme also plays an important part in addressing long-standing imbalances in access to finance for under-represented groups. Since it began in 2012, around 40% of Start Up Loans' recipients have been women and around 20% have been Asian, Black or from other ethnic minorities. Start Up Loans are also regionally inclusive, covering every region and nation across the UK.

Business stories

Aceleron

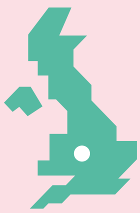
Delivery partner: Mercia Fund Managers

Region: West Midlands

Location: Birmingham

Programme: MEIF

Aceleron is a Birmingham-based sustainable battery manufacturer, which has developed a platform technology that enables lithium batteries to be repaired and reused, thus reducing cost and waste. Aceleron's design allows individual battery cells to be removed and replaced, rather than having to dispose of the entire battery: its flagship product, 'Essential', is the world's first battery that is fully maintainable and designed to last a lifetime. Aceleron raised £2.5m from its most recent funding round from a range of investors, including the Midlands Engine Investment Fund's Proof of Concept & Early Stage Fund, managed by Mercia.



Helping smaller businesses in the recovery

The Recovery Loan Scheme (RLS), introduced in April 2021 following the closure of the Covid-19 emergency loan schemes, was extended by six months in the Autumn Budget 2021 and closed on 30 June 2022. A new iteration of the Recovery Loan Scheme was launched in August 2022.

The scheme, open to businesses with a turnover of up to £45m, supported borrowing of up to £2m for individual businesses and up to £6m across a group, with funds available for any legitimate business purpose, including managing cash flow, growth and investment. Over the course of its operation, the first two phases of RLS offered over £4.6bn of finance to almost 19,000 businesses.

Dedicated support for businesses in the regions

The Bank's existing regional investment funds – the Northern Powerhouse Investment Fund (NPIF), the Midlands Engine Investment Fund (MEIF) and the Cornwall and Isles of Scilly Investment Fund (CIOSIF) – continued to demonstrate their value in 2021/22. An independent evaluation this year provided evidence that we have exceeded the targets we set ourselves. The evaluation also showed that many of the jobs that the regional funds help to create are high-quality and well paid, and that they are especially effective in supporting sustainability and innovation.

The success of our existing funds led to a further £1.6bn allocation in the 2021 Spending Review to extend and expand our regional offer.

As we develop these new funds, we will be working closely with key stakeholders to make sure we have the right investment strategies to meet the finance needs of each region.

The Northern Powerhouse Investment Fund has separately received an additional £100m, and the Midlands Engine Investment Fund an extra £50m of funding until the end of 2022, ensuring their continued operation until the new funds are established.

Supporting high-growth businesses

High-growth businesses typically require equity finance at varying stages of their development, from the earliest seed stage through to the later venture and growth capital stages. Our equity schemes made significant new investments across all stages this year.

NPIF	MEIF	CIOSIF
£515m Stock of finance supported	**£245m** Stock of finance supported	**£40m** Stock of finance supported
801 businesses funded	**451** businesses funded	**39** businesses funded

A new generation of UK and Regional Funds: a vote of confidence

Having built a track record of delivery, especially during the Covid-19 pandemic, the £1.6bn of new money for the UK and Regional Funds shows the government's confidence in the Bank, as it asks us to do more. It builds on the good work that we have already done with the Northern Powerhouse, Midlands Engine and Cornwall and Isles of Scilly Investment Funds, in extending opportunity across all of the UK. Our *Regions and Nations Tracker* report, published in October 2021, showed that there are still stark regional disparities in access to equity finance and private debt, and we expect the new funds to play an important role in tackling these.

Business stories

Velobici

Delivery partner: FSE Group

Region: East Midlands

Location: Hinckley

Programme: MEIF

Leicestershire-based Velobici manufactures and distributes high-end cycling apparel and accessories. It uses sustainably sourced fabrics and has an adaptable manufacturing strategy that helps limit excess production. Velobici received a £500,000 investment from the Midlands Engine Investment Fund (MEIF) – managed by the FSE Group – to fuel expansion and strengthen its position in the global market.

The company will use the funds to create seven full-time jobs over the next three years, increase its stock levels to meet market demand and move to larger premises. This will enable the business to increase production capacity and grow its distribution channels overseas.

Seed and early stage

Our Regional Angels programme is run by British Business Investments (BBI), one of our commercial subsidiaries. The programme commits funds for investment alongside business angels and other equity investors to help reduce regional imbalances in access to seed and early-stage equity finance for smaller businesses across the UK. The programme had a successful year, making six new commitments totalling £45m.

The Enterprise Capital Funds (ECF) programme is run by the Bank's Venture Solutions team. Around £208m was committed through the ECF programme in 2021/22, more than ever before. The programme's ten-year rolling IRR now stands at 27%.

An evaluation in the last financial year showed that this publicly subsidised investment programme continues to deliver a significant return for the taxpayer, while also playing a key role in developing new and emerging fund managers. Not only does it inject money into the equity market, but it also builds capacity in the market. The evaluation also showed that investments made through ECFs generally would not have been made if the programme did not exist.

> "The programme commits funds for investment alongside business angels and other equity investors to help reduce regional imbalances in access to seed and early-stage equity finance for smaller businesses across the UK."

Venture and growth stage

The Managed Funds programme run by British Business Investments (BBI), a commercial subsidiary of the Bank, committed £42.7m to its delivery partners in 2021/22.

British Patient Capital (BPC), another commercial subsidiary of the Bank, manages an investment fund which helps UK companies with high growth potential to access the long-term financing that they need to scale up. The programme invests indirectly via investments in venture and growth capital funds, as well as directly into portfolio companies alongside our portfolio fund managers.

BPC's investment activity this year includes managing two new initiatives:

– The Life Sciences Investment Programme (LSIP), a £200m scheme designed to address the growth equity finance gap faced by high-potential UK life sciences companies. LSIP is expected to attract at least £400m of additional private investment.

– Future Fund: Breakthrough, a new programme aimed at driving investment into the UK's most high-growth, innovative and R&D-intensive firms. This initiative is an example of how the Bank backs innovation. The programme involves BPC co-investing alongside established venture capital investors, helping the UK to fulfil its potential as an innovation-driven economy.

Supporting a wider choice of debt finance

In addition to the programmes described above, the Bank supports a wider choice of both provider and type of debt finance, through two main interventions. The Investment Programme, which is run by BBI, makes up a significant proportion of the Bank's portfolio and supports non-bank and challenger bank lenders. It made £350m of commitments in 2021/22, supporting its goal of increasing the diversity of finance available to smaller businesses.

The ENABLE Guarantees and ENABLE Build programmes both had a very successful 2021/22, making commitments enabling £300m and £250m of smaller business finance respectively. The ENABLE Funding programme made commitments of £216m in 2021/22.

Legacy funds

Finally, the Venture Solutions team also manages the process of running down and closing a number of schemes that the government invested in several years ago. In many cases, this involves recovering money, on behalf of the taxpayer, from legacy funds.

£2.5m

British Patient Capital's stock of finance facilitated

Business stories

Ace Lifestyle

Delivery partner: Barclays

Region: London

Location: London

Programme: BBLS

As the UK started to observe social distancing during the Covid-19 pandemic, health and fitness company Ace Lifestyle saw its customer base decline. Social distancing requirements and people cutting back on outgoings during the pandemic meant personal training services were no longer a priority for many. With its revenue falling dramatically as a result, the business sought financial support via the Bounce Back Loan Scheme (BBLS). Ace Lifestyle received a loan which got it through that difficult period and has given it a much better chance of staying in business in the future.

The Covid-19 schemes – an early indicator of impact

In April 2020, as we began to see the impact of the Covid-19 pandemic on businesses and the economy, the UK government asked the Bank to deliver the first of a series of emergency finance schemes: the Coronavirus Business Interruption Loan Scheme (CBILS), soon followed by the Coronavirus Large Business Interruption Loan Scheme (CLBILS) and the Bounce Back Loan Scheme (BBLS).

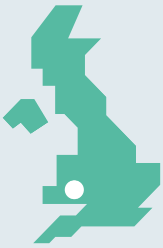
We can now start to see the effects that these interventions had in preventing businesses from going under, safeguarding jobs, and helping businesses on the road to recovery post-Covid.

The Bank commissioned London Economics and Ipsos to undertake a multi-year evaluation of the three loan guarantee schemes, BBLS, CBILS and CLBILS. The first in a series of reports has now provided an early assessment of the schemes, and of their impact.

Among its key findings, the evaluation shows that 10-34% of companies on the BBLS scheme – between 150,000 and 505,000 businesses – might have permanently ceased trading in 2020 without the support of the scheme.

It is also estimated that between 500,000 and 2.9 million jobs could potentially have been lost without the Covid-19 loan guarantee schemes.

We act as administrators of the Covid-19 schemes, which will continue to be an important part of what the Bank does, with loans being repaid over several years. This initial evaluation is the first indication of just how important those schemes have been in saving businesses and hundreds of thousands of jobs. We are proud of the role we played in delivering them.



Business stories

Croeso Pubs

Delivery partner: Barclays

Region: Wales

Location: Cardiff

Programme: CBILS

As owner and operator of several establishments throughout Cardiff, Croeso Pubs was hit hard by the pandemic and the government shutdown that followed, taking away all its income very suddenly. Needing cash flow to save employee jobs and protect its supply chain, the business sought support via the Coronavirus Business Interruption Loan Scheme (CBILS). The financial support Croeso Pubs received via the programme allowed it to keep its employees, creditors and suppliers fully paid, protecting around 120 jobs within the local community.

2

Non-financial activity

Providing market expertise

Almost
17,000
number of downloads of our reports

More than
755,000
visitors to our website

As an economic development bank facing both the finance markets and the government, the British Business Bank occupies a unique position in the UK economic landscape. We can bring influence to bear not just by deploying finance, but also through our non-financial activity.

Our non-financial activity consists of:

- **research** to develop our understanding of smaller business finance markets, identify business needs and market gaps, and gauge the effectiveness of our delivery. We do this through our regular market reports, topic reports on specific areas of interest and evaluations of our programmes
- **building awareness of finance options and other sources of support** that are available to smaller businesses. We do this through both our online channels and our field-based UK Network.

Research

The Bank is unlike other financial institutions. We are a centre of expertise with a distinct role, in informing and advising the government on its priorities for smaller business finance.

Ahead of the Spending Review last year we produced an important piece of strategic analysis. This provided evidence of the importance of the UK and Regional Funds in addressing the scarcity of finance options that smaller businesses can experience in some parts of the UK. The Bank has been collecting evidence of these regional disparities and gaps in the market for several years. Coupled with an evaluation of the effectiveness of the Northern Powerhouse Investment Fund, we made a convincing case for the value of this kind of intervention, and were allocated £1.6bn by the government for the development of new UK and Regional Funds.

Business stories

Tarian Drums

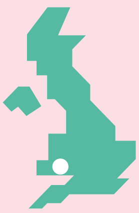
Delivery partner: Business in Focus

Region: Wales

Location: Pontyclun

Programme: Start Up Loans

Tarian Drums, based in Pontyclun, Wales, produces and manufactures bespoke high-end drums for some of the world's most renowned professional drummers, using sustainable and locally sourced materials. The company, the first of its kind in Wales, received a Start Up Loan of £10,000, which it has used to create sustainable drum moulds and to cover the cost of materials.



Another piece of research that had great impact in 2021/22 was our *Smaller businesses and the transition to net zero* report, published in the lead-up to COP26. This highlighted that smaller businesses have a crucial role to play in the UK's goal of reaching Net Zero. While much of the focus around climate change has been on the major greenhouse gas emitters, emissions from the millions of smaller businesses add up to as much as those from large companies. As the research shows, however, smaller businesses also face a range of barriers, including lack of access to helpful information, in working towards Net Zero. Access to external finance can help these businesses reduce emissions.

At the same time, we continued to provide an understanding of the UK smaller business finance market in 2021/22, principally through our flagship *Small Business Finance Markets* report, and our Equity Tracker. These showed that in 2021/22 equity markets were unexpectedly strong, with the year being a record one for smaller businesses raising equity finance.

> **"While much of the focus around climate change has been on the major greenhouse gas emitters, in fact, emissions from the millions of smaller businesses add up to as much as those from large companies."**

Smaller businesses and Net Zero

Our research shows that:

50%

of all UK business-driven emissions are from smaller businesses

76%

of smaller businesses still do not have a decarbonisation strategy

12%

of smaller businesses say that lack of information is a barrier to reducing emissions

22%

of businesses – 1.3m – say they are prepared to access external finance to support their Net Zero actions in the next five years

Business stories

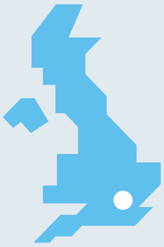
Wild Cosmetics

Delivery partner: JamJar

Region: London

Location: London

Programme: ECF



Wild Cosmetics, based in London, is on a mission to remove single use plastic and create high performing natural formulations that allow customers to switch to more sustainable everyday bathroom products. Since launch, Wild has sold over 3 million deodorant refills, saving over 75,000 kgs of plastic with Wild's unique biodegradable bamboo pulp refills. Wild's innovative refillable deodorant was launched in the week the UK went into lockdown. The business has experienced exponential growth since as consumers increasingly look for ways to reduce plastic in their everyday lives. Wild has raised £7.5 million to help its growth from funds including the Bank's delivery partner JamJar Investments.

Equity Tracker

Our annual Equity Tracker showed that UK equity investment continued to be very strong: 2021 was an exceptional year, with £18.1bn invested into high-growth-potential smaller companies. The Bank's equity programmes had an increased role in UK smaller business equity finance markets, supporting around 18% of all announced equity deals in 2021.

Responding to demand

In the past financial year, the Bank has been supporting businesses in their recovery from the pandemic, and we have been examining the information and resources that we can provide to help them in this. We have been focused on what is relevant to businesses now – issues of managing cash flow, managing business transition and change, and how to manage hybrid working in smaller businesses.

We know that a key aspect of recovery for many smaller businesses is debt management. We have seen a distinct increase in the number of businesses taking out finance options, including among businesses that had previously indicated they were not open to taking external finance. To help support businesses in managing debt, we launched an online interactive Managing Debt Business Guide which provides advice and information. We have shared the guide with our delivery partners and intermediaries for them to use and disseminate.

Reaching smaller businesses

In 2021/22, the Bank continued to develop a dialogue with smaller businesses through its UK Network. The UK Network acts as both the eyes and ears of the Bank within the smaller business community, gathering valuable insights on what smaller businesses may be struggling with and what they need, and as a means for the Bank to pass on information to smaller businesses, through our intermediaries and other stakeholders.

At the end of March 2022, the UK Network had a relationship with

3,500

organisations and

5,800

unique contacts

This includes raising awareness among smaller businesses of the finance options that are available to them. In 2021/22, it also involved a dialogue around Net Zero, and the research that the Bank published on the critical role of smaller businesses in reducing emissions.

The UK Network worked to publicise this research among smaller businesses, presenting it at roundtables in every nation and region. Following the launch of the *Smaller businesses and the transition to net zero* report in the run-up to COP26, we then worked to understand what smaller businesses need in this space, speaking to smaller businesses and their representative organisations. The outcome was our #GreenToGrow campaign, which looked at how we make sustainability as a concept accessible to the smaller businesses which are a vital part of achieving Net Zero.

Supporting businesses online

Through initiatives such as our online Finance Hub, alongside digital and pay-per-click advertising campaigns, we make information about finance choices more available and accessible to smaller businesses.

In 2021/22, we worked to ensure that our online content is accessible to all. This led to us winning the Marketing Week diversity and inclusion champion award, in recognition of the new functions that we have developed for people with sensory impairments. We have worked in partnership with the RNIB on creating accessible content for people with sight loss.

We also make translations available for people who do not have English as their first language: all the key documents on the Start Up Loans site are translated into the top languages that our users speak.

#GreenToGrow

Nearly three-quarters (74%) of smaller businesses do not understand how the term Net Zero applies to them, according to an Opinium survey commissioned by the Bank.

More than half (54%) of small businesses find the language, terminology and information about carbon emissions reduction to be too complex.

Over three in five (61%) say that they would find it helpful to have more information and advice about taking action to measure and reduce their business's carbon emissions.

Nearly half (44%) do not know where to get information on reducing their carbon emissions, or on the opportunities that sustainable business might create for them.

Our #GreenToGrow campaign aims to demystify Net Zero for smaller businesses, and alert them to the commercial benefits of investing in decarbonisation. Resources include a new 'Green Decoder', an online guide co-created with Nottingham Business School, part of Nottingham Trent University, to help smaller businesses decipher the terminology surrounding decarbonisation.

Our online Finance Hub also provides a series of guides and information about sustainability issues and how smaller businesses can start their journey towards Net Zero.

Building awareness of the Bank and the support it provides

With the adoption of our new mission, in 2021 we worked to create a refreshed visual identity for the Bank, as well as to develop clear messaging about our core mandate as an organisation. The aim is to increase recognition of the Bank among our target audiences and raise awareness of what we do.

Taking account of feedback from smaller businesses, we developed products and messaging centred on 'lighting the way' for small businesses, reflecting our purpose to foster greater understanding of the finance landscape.

We know that many smaller businesses find it difficult to find out about their finance options, and difficult to navigate them – often if they are turned down by their main bank provider, they feel that they have run out of options. We also know that many small business owners are entrepreneurs but not finance experts, and many smaller businesses, particularly at the smaller end, do not have a finance lead in place, and so they need help with signposting and navigation.

Our work on developing the Bank's brand led to us winning a silver medal at the 2021 GOV Design Awards.

Tailoring our information for local finance markets

Another important initiative in 2021/22, which relates to our objective of 'breaking down barriers', is the work that the Bank has done in moving from national messaging alone, to messaging that is specifically tailored to the regions and Devolved Nations.

> "Our work on developing the Bank's brand led to us winning a silver medal at the 2021 GOV Design Awards."

A good example of this approach was our Access to Early-stage Finance Awareness campaign in May 2021. Our UK Network had learned from a survey it carried out that businesses in many regions were finding it difficult to access early-stage finance. The resulting workshops, roundtables and training sessions attracted 7,700 small business owners, intermediaries, funding providers and other stakeholders. The information on sources of finance and support was tailored for each event, providing content most relevant to their location.

Business stories

Press on Vinyl

Delivery partner: FW Capital

Region: North East

Location: Middlesbrough

Programme: Northern Powerhouse Investment Fund

Press on Vinyl is a Middlesbrough-based business that makes vinyl records. A relatively young company, it pressed its first piece of vinyl in January 2022. With two pressing machines operating, its team now aims to press as many as 50,000 records per month, with a focus especially on independent artists and labels, small-run releases, and local musicians.

Press on Vinyl received a £350,000 investment from the Northern Powerhouse Investment Fund, through fund manager FW Capital, which will enable it to grow and to create as many as 46 new jobs in the region over the next three years.

3

Our people

Supporting colleagues

58

increase in number of colleagues

508

total number of colleagues

56%

of our Executive Committee are female

Our people make the Bank what it is. Like many other organisations – both in the financial sector and elsewhere – attracting and retaining talent remains a priority.

From a renewed focus on career development, work on employee health and wellbeing, and our focus on diversity and inclusion, we have undertaken a range of activities to make sure that the British Business Bank continues to be a great place in which to work.

73%

Our employee engagement survey for 2021/22 saw an overall positive engagement score of 73%

Employee engagement survey

Our employee engagement survey for 2021/22 saw an overall positive engagement score of 73%. A key theme to emerge from the survey is that our employees are increasingly looking for opportunities to progress within the Bank.

Career progression and development

We know that we are at an inflection point as an organisation, and so our people need to be ready for change, to be agile and willing to learn. Responding to the feedback that we had received about career development, we evolved our learning and development strategy to encompass leadership development and coaching. We also provided access to a range of online programmes, and targeted programmes to build strategic capabilities, as well as providing technical training and support with professional qualifications.

Locate for your day

'Locate for your day' empowers colleagues to make the right decisions about where, when and how we approach our work, optimising the use of workplaces and technology.

Better ways of working

Another key theme to have emerged in our employee engagement survey is that work-life balance continues to score well among Bank employees. Over the course of 2021/22, as we began to transition out of the pandemic and our offices reopened, we put in place a new hybrid working arrangement, 'Locate for your day'. This built on what we had learned during the pandemic about the benefits of working remotely and the positives of being in the office.

Currently, the Bank has no minimum or maximum requirement for working on-site, where many other organisations do. We will continue to review how this is working, in terms of our delivery and value for money, and to seek colleagues' views through our colleague forum, pulse surveys and town halls. Our ambition is to remain flexible in comparison to our financial services peers.

Health and wellbeing

Health and wellbeing also scores well in employee surveys – in the most recent, 78% agreed that the Bank 'does enough to support my health and wellbeing at work'. In 2021/22, we continued with our series of sessions helping our employees to look after their wellbeing while Covid-19 restrictions were in place, and when restrictions were lifted we ran specific workshops covering 'return anxiety', helping employees to feel comfortable in being in our workspace again. Our Wellbeing Week in May 2021 was attended by 190 people.

Business stories

NQ64

Delivery partner: IMBIBA

Region: North West

Location: Manchester

Programme: ECF

NQ64 is a chain of arcade bars operating across the country. They offer a range of specialist beers and cocktails which customers can enjoy while playing a range of retro arcade games and consoles, such as Super Nintendo and PlayStation 2. In early 2020 the company received funding from IMBIBA through the Enterprise Capital Funds programme: this funding has been instrumental in NQ64's expansion throughout the UK, helping the company to open venues in Manchester, Edinburgh, Cardiff and Glasgow.

Recruitment

Despite increased competition for talent in the finance sector, the Bank continued to recruit in large numbers in 2021/22. Whereas in the previous year we had been recruiting at pace for the Covid-19 programmes, this year saw the Bank recruiting for a future more aligned to our longer-term business priorities.

Internal communications

As our organisation has changed, from being mostly office-based to fully remote, to a hybrid working environment, our internal communications team has continued to play a vital role, ensuring that each new way of working does not become a barrier to communication and collaboration. From surveys of colleagues to organising celebration events and town halls to onboarding new colleagues, the Bank's internal communications have continued to knit the organisation together in 2021/22.

Colleague Forum

The Bank's Colleague Forum is an internal body that represents colleagues and acts as a constructive ally to the Bank's senior leadership. Made up of 12 representatives elected from across the business, it engages with colleagues and keeps leaders informed about their views, needs and priorities.

As well as playing a major role in establishing the Stronger Together group, the Colleague Forum has developed an Analysts Network to create better connections across the Bank, and provides important colleague feedback to help shape the Bank's future ways of working.

> "Where in the previous year we had been recruiting at pace for the Covid-19 programmes, this year saw the Bank recruiting for a future more aligned to our longer-term business priorities."

Business stories

The Whisky Chairmen

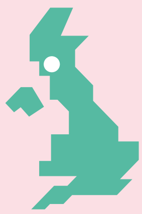
Delivery partner: Transmit

Region: Scotland

Location: Inverclyde

Programme: Start Up Loans

The Whisky Chairmen is a social enterprise based in Inverclyde, Scotland, which makes bespoke furniture from obsolete whisky barrels. Each piece is hand-carved from a whisky barrel, some of which are over 100 years old when they are 'retired'. Unique and tailored to each customer, The Whisky Chairmen takes 'bespoke' to a new level, being able to source barrels that held a customer's favourite malt, from the year that they were born. In August 2018, The Whisky Chairmen received a Start Up Loan of £13,000 through delivery partner Transmit, which helped to provide the essential tooling, materials, rent and insurances needed to establish the business.



4

Operations, controls and risk management

Scaling up our operations

In our internal operations, our key goals are to be agile, to be resilient, and to deliver value for the taxpayer. The rapid growth of our organisation during the Covid-19 pandemic has been a challenge, combined with the fact that, as the Bank has expanded its remit over the years, it has diversified across product areas.

To address the challenges brought about by this rapid growth, in April 2021 we commenced our DIOR programme, prioritising four 'spotlight' areas – Data Management, IT Infrastructure, Outsourcing & Supplier Management and Risk Management. The overall focus and objectives for the two-year programme is to ensure that the Bank's people, processes and systems are fit for purpose in the context of a post-pandemic operating environment and in light of its increased liabilities.

Technological challenges include the need to integrate what we do both internally and with our delivery partners. Overall, we have successfully transitioned from crisis intervention to steady-state operation, and we have achieved that while at the same time realising efficiencies. We have reduced costs across our major Covid-19 debt operations, and reduced the cost per user of our IT, even though we have grown in absolute terms.

In the past financial year we have been working to ensure that our upgraded technology beds in, and is secure and stable. For example, our guarantees platform, which we use to administer our Covid-19 loans and guarantees, exchanges a huge amount of data with over 130 delivery partners, on over a million loans. As this could be a target of cybercrime, we have worked continually to keep it secure, liaising with other government organisations, including the National Cyber Security Centre and BEIS's security team, to identify active threats and ensure that we have a joined-up approach to tackling cyber risk. There were no significant lapses of our protective security during the year.

Internally, we are exploring ways of creating efficiencies in our processes – for example, between the systems that we use to do our jobs, to process our day-to-day payments to delivery partners, to accredit new partners, or to process transactions. We are in the process of integrating these different systems across the Bank to avoid the need for manual interventions.

As we scaled rapidly to meet demand during the Covid-19 pandemic, we outsourced aspects of our operations. In 2021/22, we have begun to bring some of those outsourced operations in-house, in order to control cost and to improve knowledge transfer and resilience. This has involved extensive training of Bank employees.

Our internal priorities for the past financial year have included continuing to enhance and evidence the Bank's control environment, enabling the Bank to improve efficiencies and better control costs. To do that we have developed three new capabilities within our central functions:

– putting in place a team providing product operational support across our guarantee products and our funds products

– building out our fraud and financial crime capability, moving from being focused very much on our Covid-19 loans to being a Bank-wide capability providing expertise and support to the product teams

– building out an operational control function, to support our business units with process and control mapping, business continuity and business resilience, and GDPR freedom of information processing/data sharing activities.

Business stories

ARC Marine

Delivery partner: FSE Group

Region: South West

Location: Torquay

Programme: CIOSIF

Cornwall-based ARC Marine provides sustainable solutions to combat the effect of climate change under the sea. Since 2015, ARC Marine has been developing and creating products that support marine ecology, and that are made using recycled materials. The company's first product – Reef Cubes – is the only carbon-neutral, plastic-free solution for marine habitat restoration in the world, and is highly sought-after for global marine projects. ARC Marine received £1m in equity investment from the Cornwall and Isles of Scilly Investment Fund (CIOSIF) in a deal led by the FSE Group, enabling the company to create at least six new positions over the next three years.

Risk management

One of our key objectives in the Bank is to manage taxpayers' money efficiently within a robust risk management framework. Our obligation to taxpayers is something that we are very conscious of, and we work every day to manage our activities as efficiently and effectively as possible. Managing risk does not mean eradicating risk entirely – the Bank occupies a space which other providers of finance are often reluctant to enter.

Our risk appetite, which is approved by our Board, is necessarily different from that of financial services companies. This is the whole purpose of our existence – to intervene where there are failures in financial markets.

Principal Risk	Example challenges 2021/22	Example mitigations 2021/22
Strategic and Business Risk	Bank's ability to meet all its corporate objectives against a backdrop of significant growth and corporate stretch	Ongoing triage and prioritisation of change projects and resource allocations across the Bank
Financial Risk	Potential impact on returns due to macroeconomic uncertainty, with particular concern on a range of SME sectors	Stress testing and regular monitoring of portfolio performance and close engagement with delivery partners to inform any action required
Operational Risk	The need to further operationalise and embed processes and controls across its programmes and functions following a period of significant growth	Range of 'Operationalisation of key processes' projects rolled out and delivered across the Covid-19 schemes, including significant outsourcing management and enhanced delivery partner monitoring
People Risk	Hiring and retaining colleagues to meet the Bank's needs on both capacity and capability as it continues to scale to meet its objectives	Significant hiring of additional people into the business, both permanent and interim, along with strategic outsourcing where appropriate
Fraud and Financial Crime Risk	Some characteristics of the Covid-19 emergency finance schemes increased the potential for greater exposure to fraud and financial crime	Significant collaboration across government and the delivery partner network alongside the embedding of a dedicated fraud and financial crime unit
Information Risk	Significant increase in the volume and complexity of data that the Bank is now handling with the need to ensure its confidentiality, integrity and availability	Significant transformation programmes underway across both data management and IT infrastructure
Legal and Compliance Risk	In delivering its objectives, the Bank must adhere to all applicable UK laws, regulations, standards and legal obligations. The challenge is with an increased and a broad range of delivery partners and stakeholders, with differing underlying maturity of processes, supporting the delivery of the Bank's various programmes	Risk-based programme of delivery partner audits in place, with a monitoring forum reviewing outcomes and agreeing remediation plans
Reputational Risk	Significant growth in the Bank's profile across all media channels, with much greater interest in our operations	Proactive engagement across all our key stakeholders both within government and across media channels

> **One of our key objectives in the Bank is to manage taxpayers' money efficiently within a robust risk management framework.**

The Bank considers many different kinds of risk. To counter the risk in our programmes, in 2021/22 we worked with stakeholders across Whitehall and with UK Finance, to bring in new controls and monitoring systems at pace: see 'Fraud and Financial Crime Risk', on the previous page.

As sustainability increasingly becomes a focus for the Bank, so we have begun to give it greater emphasis in risk management. In 2021/22, for example, we have added climate risk stress testing into our stress testing framework.

The people risks that we face continue to evolve. In particular, we are seeing a fight for talent in recruitment, which affects us as it does other financial organisations. As our ability to attract and retain talent becomes more challenging, we are looking at all possible actions to mitigate this risk.

Over the year we were also managing operational risk – when any organisation grows at the pace that we have, it is a stretch both for the organisation as a whole and for its people.

At the same time as we have returned to more normal operations, where during the pandemic we had been operating outside of our approved risk appetite levels, we have scaled-up and skilled-up the organisation to deal with the greater complexity of the programmes under our management.

Employee engagement survey: responses on risk

Our most recent employee engagement survey shows that risk management continues to score highly. Several questions in the survey have a risk focus, and our results covering risk culture, willingness to learn in relation to risk and reporting of risk issues and incidents are all positive. Responses to questions such as 'If I had a concern about an error (or near miss), I know how to escalate it' (94% favourability) and 'If I raised a concern about how something is being done I believe it would be taken seriously' (83% favourability) compare very well with the financial sector in general. We also continue to move in the right direction in this regard, demonstrating our robust approach to risk management. Managing risk is a dynamic process, and our risk profile changes as new threats and opportunities arise, driven by both external and internal factors.

Administration of the Covid-19 schemes

In early 2020, following a direction from the government, the British Business Bank stepped up to deliver critical support to businesses during the Covid-19 pandemic. The Covid-19 emergency loan programmes, developed rapidly by the government, delivered £79bn of support.

An initial evaluation of their impact estimates they may have saved between 150,000 and 500,000 businesses, and between 500,000 and 2.9m jobs. Since this is only the first of three annual evaluations, the range of these estimates is inherently wide and will be refined over the next three years.

£79bn

The Covid-19 emergency loan programmes delivered over £79bn of support

Business stories

Pure Pet Food

Delivery partner: Mercia

Region: Yorkshire and Humber

Location: Cleckheaton near Leeds

Programme: NPIF

Yorkshire-based Pure Pet Food manufactures personalised pet food using only natural ingredients. To accelerate its growth, Pure Pet Food raised a multi-million-pound investment from Mercia and the Northern Powerhouse Investment Fund.

The latest funding round follows a £2m investment by Mercia's Northern VCT funds in 2019, and will enable the company to continue to pursue its ambitious growth plans and development of a bespoke subscription e-commerce platform and data capabilities.

The design of the Bounce Back Loan Scheme (BBLS) and the speed of its implementation did, however, introduce unprecedented fraud and financial crime risks. In normal circumstances, the British Business Bank's risk appetite is significantly lower than in the exceptional circumstances of 2020.

Having flagged these risks and received a Ministerial Direction to proceed, we worked with lenders and other industry bodies to put in place fraud and financial crime checks. The risks inherent in the scheme design have meant, however, that we have continued to face challenges in its administration.

In the financial year 2021/22, the Bank has focused on communication, co-operation and collaboration as the foundations of strengthening our approach to fraud and financial crime. As we primarily operate our programmes through delivery partners, one of our key roles is to make sure that our partners put appropriate controls in place to detect, measure and monitor fraud.

> “We also learned valuable lessons from our experience of scaling rapidly to deliver the Covid-19 emergency programmes.”

We have been working closely with lenders, providing them with information and analysis of scheme data generated from within our systems and across government, which informs and supports anti-fraud activity. This analytics programme is the largest data sharing programme that the government has delivered to the UK Financial Sector.

We have also put in place a new governance structure, including a forum which involves representatives from the Cabinet Office, and other anti-fraud experts from outside of the Bank. We have recruited throughout the year to expand our anti-fraud capabilities, both in our front-line product teams and in our Bank-wide Fraud and Financial Crime team.

While policing and enforcement of fraud and financial crime is carried out by other agencies, we have been working to support key stakeholders in this area, sharing data and insight with the Cabinet Office, BEIS, HM Treasury and other fraud prevention and monitoring agencies across government. We continue to engage particularly closely with BEIS, our Shareholder, as it develops a broader counter-fraud strategy, which includes investigatory authorities addressing fraud and prosecuting it.

We have also continued to run lender fraud forums, which bring the industry together with UK Finance to share data and ideas to improve fraud prevention.

Learning from recent experience

In drawing out the lessons of the Covid-19 loan guarantee schemes, we are seeking to ensure that lessons learned are applied to any future programmes launched in similar circumstances. This includes developing fuller fraud risk assessments and action plans, and working with our delivery partners to see where additional controls and preventative measures could be put in place.

We also learned valuable lessons from our experience of scaling rapidly to deliver the Covid-19 emergency programmes – lessons about the importance of investment in robust and scalable systems, and especially about the importance of sharing insights and collaborating across government, businesses and lenders.

A changing environment

Our fraud policies are continually being reviewed and adapted as fraud itself changes. The government announced the formation of a new Public Sector Fraud Authority in the 2022 Spring Statement. This joint HM Treasury and Cabinet Office initiative brings together collective intelligence across government to counter fraud on a more consistent basis, and the Bank will feed into this.

Future outlook – areas of economic uncertainty

Alongside our principal risks, we take into account key areas of economic uncertainty which could affect our ability to deliver against our priorities and objectives.

Economic uncertainty

Rising interest rates, rising inflation, and pre-existing problems with supply chains mean the economic environment post-Covid-19 will remain uncertain for some time. We may be entering a situation in which there is reasonably high employment, but with many people feeling worse off in real terms. Demand may also be weak, as businesses are still responding to supply challenges.

The Russian invasion of Ukraine in February 2022 also adds significantly to general economic and geopolitical headwinds, complicating the outlook when it comes to risk, and particularly financial risk.

At the Bank we will need to consider how global economic uncertainty is likely to affect the smaller business population. For many, the coming years are likely to be challenging.

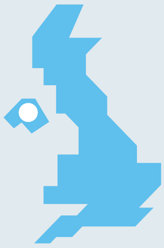
As an economic development bank, however, it is an inherent part of our role to intervene and act countercyclically where required.

Valuations and defaults

Although the valuations in our equity programmes have shown significant increases this year, it is important to emphasise that the vast majority are unrealised returns. The ongoing economic uncertainty gives rise to additional uncertainty around investment valuations. The impact on investments will vary depending on individual business models and any mitigating market interventions.

Owing to the volatile nature of equity markets in particular, it may be that these gains are unsustainable, and a potential market correction would mean these valuations going down in future years. The nature of our lending within our larger debt portfolios, in particular Start Up Loans and peer-to-peer platform lending, which is lending to start-ups and micro-businesses often without collateral, makes this lending more vulnerable to any impact of economic uncertainty. This could lead to an increase in credit losses within these portfolios.

There is a danger that credit and investment losses, including a large write-down of individual investments, could have a material impact on the Bank's ability to meet its return target in 2022/23, and/or its other objectives.



Business stories

Mama Claudia

Delivery partner: Enterprise Northern Ireland

Region: Northern Ireland

Location: Portadown

Programme: Start Up Loans

Mama Claudia is a children's accessories business based in Portadown, Northern Ireland. Company founder Claudia Mariza Rosado e Costa initially ran the business from her home, having received a Start Up Loan. Mama Claudia now brings quality baby essentials at best value to parents worldwide.

Similarly, while indications are that around 85% of Covid-19 loan repayments are either fully repaid or meeting monthly repayments as scheduled, should an economic downturn occur, there would likely be an increase in defaults on loans under these schemes.

People

In common with many other organisations we face retention challenges, and we realise we are not immune from the 'great resignation' faced by many industries. The continuing prevalence of Covid-19 variants also has the potential to disrupt the Bank and its people, in common with other workplaces.

In response, we have introduced a number of new measures to improve career development and progression.

Our response

Having come through the Covid-19 pandemic, as an organisation we have learned a great deal to prepare us for what lies ahead. We have shown that we can be innovative and creative in responding to radical uncertainty. The smaller business community can be reassured that we are an enduring institution that will continue to support smaller businesses across the UK.

Against this backdrop of uncertainty we will focus on what our role needs to be, including where we may need to intervene, and where we may need to do things differently.

As we work to overcome the uncertainties that we face, we will also keep focused on where we want to be in the long term – supporting innovation, promoting sustainable development, breaking down barriers and ensuring that opportunities exist throughout the UK's regions and nations.

Environmental, social and governance factors

Integration of ESG factors into our decision making is integral to our long-term strategy as an organisation.

"Our ambition is to reach Net Zero in emissions from our own operations and from our financing activities before 2050."

As the UK's economic development bank, we are aware of how important ESG issues are to our economic future. Indeed, meeting Net Zero will require the establishment of a different economy – one where natural resources are constrained and the market externalities from exploiting these resources, including carbon emissions, are properly priced, accounted for, and incorporated in investment and business decision-making.

Responsibilities in the areas of sustainability, diversity and inclusion, and openness and transparency should be taken seriously by every organisation involved in investment and lending.

Smaller businesses that do not consider whether their business models are sustainable, for example, and do not take steps to show they are reducing their carbon footprint, may soon find themselves being left out of the market. Increasingly, ESG performance is what smaller businesses need in order to be investment-ready – there is a strong business case for focusing on ESG issues.

What sustainability means for us

With a new mission, which involves embedding sustainability into economic growth, sustainability was a clear focus for the Bank in 2021/22.

In 2021/22 we began work relating to our new corporate objective: to support the transition to a Net Zero economy by 2050.

Our ambition is to reach Net Zero in emissions from our own operations and from our financing activities before 2050.

Ahead of the 2021 United Nations Climate Change Conference in Glasgow (COP26) we also took a further step by signing up to Business Ambition 1.5°C – a UN Global Compact campaign, which commits us to science-based emissions reduction targets, and the disclosure of our progress towards them.

Our aim, though, is not just to meet targets, but to embed sustainability in its broadest sense across the Bank; we are therefore integrating ESG factors throughout the investment lifecycle and across all our funding programmes.

A just transition

A 'just transition' means not focusing on the transition to Net Zero to the exclusion of everything else. We need to strike a balance between our environmental goals and the impact on the communities in which we operate.

This includes our goals centred on tackling regional imbalances, diversity and inclusion, openness and transparency to ensure, for example, that the economic opportunities that come from more sustainable ways of working are spread fairly throughout the UK.

Our role

Working with smaller businesses

In the lead-up to the COP26, the Bank published an important piece of research, highlighting the crucial role that smaller businesses will play in the UK's transition to a Net Zero economy.

The report, *Smaller businesses and the transition to net zero*, showed that smaller businesses account for around half of all greenhouse gas emissions from UK businesses. The research also looked at the barriers that smaller businesses face in the transition to Net Zero, what support they might need, and how access to finance is an important part of the solution. The Bank presented the report at COP26, and continues to develop the research and understand its implications.

#GreenToGrow

Reaching Net Zero by 2050 might feel like a distant challenge, but if smaller businesses do not start to address it now, they may soon be at a disadvantage. In 2021/22, the Bank lost no time in acting on our research about the importance of smaller businesses in reducing UK greenhouse gas emissions, and the barriers that they face in doing so.

March 2022 saw the launch of our #GreenToGrow campaign. A fuller description of this campaign, aimed at demystifying the transition to Net Zero and alerting smaller businesses to the benefits of investing in decarbonisation, can be found on p43.

The Bank is a founding member of the new OECD Collaboration Platform on Financing SMEs for Sustainability which was launched at COP26. The platform brings together development banks, private sector banks and small business representatives around the world to share insights and best practice in supporting smaller businesses through the transition to Net Zero.

Our emissions in 2021/22

We estimate that the Bank's own operations in 2021/22 resulted in carbon emissions of

197.1 tCO_2e

Further explanation of the method of calculating our emissions can be found on p81.

> "As a first step on our journey to Net Zero we have commissioned a review of emissions from our own operations."

74%

A survey commissioned by the Bank found that almost three in four (74%) smaller businesses do not understand how the term Net Zero applies to them

The Bank is seeking to reduce its own emissions, and we also have increased reporting requirements. COP26 has refocused attention on new accounting standards specifically for financial institutions transitioning to Net Zero. The financial services regulators, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA), now require large portions of the industry to report on emissions reduction and to make transition plans.

Against this background, it is important that we have a robust and consistent methodology that we can apply across the many different funds and schemes that we support, for setting and meeting science-based targets for greenhouse gas emissions reductions.

As a first step on our journey to Net Zero we have commissioned a review of emissions from our own operations. We are also developing a comprehensive strategy to understand and manage the emissions from our investment portfolio. Our intention is to create a more accurate, rigorous and sophisticated set of reporting baselines, so that we can then develop a transition plan with clear metrics and targets.

Given the crucial role of our delivery partners in small business finance markets, we will work closely with them on emissions reporting and measurement. We are committed to help the smallest delivery partners in order to retain diversity in the small business finance market.

Among the things that the new baselines will enable us to do is to focus much more on areas where the Bank can make a difference. As tenants, we do not have 'operational control' over our buildings, for example. The way we make investments, however, is something which is very much under our control, and we will be aiming to provide a comprehensive view of our equity-based investment portfolio, and the emissions that derive from it.

We are continuing to work to reduce the Bank's exposure to emissions-intensive activities in our portfolio, as well as reducing emissions from our own operations. In 2021/22, we made a start to updating our investment decision-making processes, ultimately so that ESG and sustainability-related factors can be considered and incorporated in our Investment Committee discussions.

Going forward, these considerations will now be hard-wired into decisions that we make about the allocation of resources.

We have also begun to consider ESG and sustainability in the questions that we ask of our delivery partners, as part of the due diligence process, as well as in our procurement and supplier decisions.

Key features of the Bank's smaller business personas and their attitudes to finance for Net Zero actions

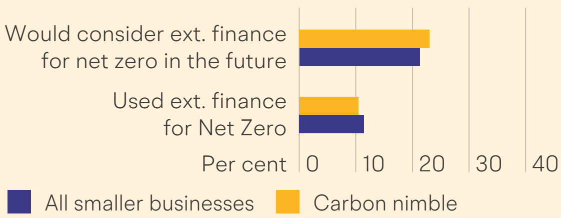
Transition maturity – low to high

Emissions intensity – low to high

Carbon nimble

38% of UK smaller businesses

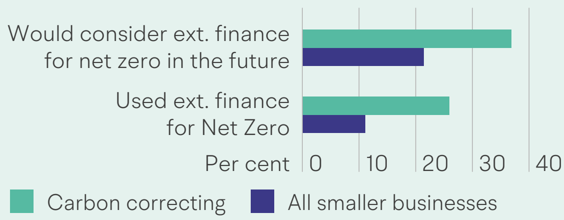
- Services
- Lower emissions
- Small size
- High transition maturity
- Proactive
- Cost and feasibility equally important barriers



Carbon correcting

9% of UK smaller businesses

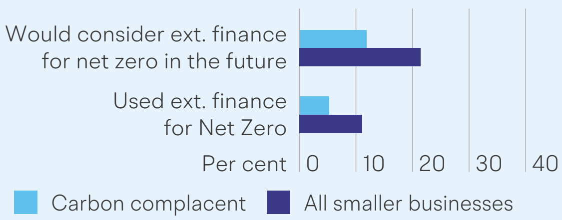
- Primary/industry/transport/commerce
- Higher emissions
- Relatively large size
- High transition maturity
- Proactive
- Cost greatest barrier



Carbon complacent

34% of UK smaller businesses

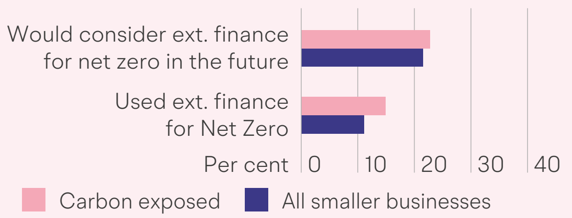
- Services
- Lower emissions
- Small size
- Low transition maturity
- Emissions not a priority
- Frequently report no barrier/ barriers unknown



Carbon exposed

18% of UK smaller businesses

- Primary/industry/transport/commerce
- Higher emissions
- Relatively large size
- High transition maturity
- Proactive
- Cost greatest barrier



Source: British Business Bank Net Zero SME Survey, 2021, n=1,200 for all smaller businesses; n=339-458 for carbon nimble; n=97-111 for carbon correcting; n=227-409 for carbon complacent; n=166-222 for carbon exposed.

Diversity and inclusion

'Diversity and inclusion' means many things for the Bank. Through the funds and schemes that we manage, it means ensuring that talented entrepreneurs have access to finance regardless of personal characteristics including social background, gender, ethnicity, disability or age. Across the UK, it means ensuring that the funding needs of very different businesses, in different locations, are being met.

To improve accessibility in our recruitment processes, the Bank has become one of the first organisations to become a 'Visibly Better Employer', working with the RNIB to become more inclusive and increase the number of people with sight loss who apply for job opportunities with us. We have also worked with British Sign Live, which is offering a qualified sign language interpreter for contact with our Start Up Loans Customer Service team.

We are well placed in the market to be champions of diversity and inclusion. This is both through our ability to influence others, and through the way that we manage ourselves. As an institution, we want to break down particular barriers to finance so that access to finance is a level playing field for all entrepreneurs.

Business stories

Valiant Lingerie

Delivery partner: Virgin Start Ups

Region: East of England

Location: King's Lynn

Programme: Start Up Loans

Valiant Lingerie, based in the East of England, provides empowering lingerie for women who have been impacted by breast cancer or risk-reducing mastectomies. When Valiant Lingerie owner Eleanor underwent such a mastectomy herself at just 24, she found that the available post-surgery underwear was only beige and clinical, which had a real impact on her self-esteem. To do something about this, Eleanor took out a £6,500 loan through Start Up Loans delivery partner Virgin Start Ups to start her business. Valiant Lingerie manufactures its products locally, using only sustainable and recyclable fabric.

We have translated the free guides available through our Start Up Loans programme into 17 languages, improving accessibility for those with English as their second language.

In the wider market, we deliver the Investing in Women Code for venture capital firms, alongside other industry partners, giving the market the tools for transparency and showcasing the actions that increase investment in diverse entrepreneurs and business owners.

Our research continues to shape debate and inform actions that increase access to finance for those underserved by the markets in which we work. We believe that increasing the diversity of those who access finance is not only the right thing to do, but also an enormous growth opportunity for the UK to capitalise on the latent potential and exceptional talent that our diverse population has to offer.

Internally, we have continued to work to create a diverse community in which talent is recognised and nurtured. Among our initiatives aimed at increasing diversity and inclusion are:

– training our recruitment managers in ways of making the recruitment process inclusive
– ensuring, where possible, our roles are open to flexible and family-friendly working
– having an Equality and Diversity Policy which guides colleagues during the recruitment and selection process
– posting vacancies on diverse job boards, including those aimed at women and members of LGBTQ+ communities.

Ethnic diversity

We value people from all backgrounds and work to create an inclusive culture that helps us to attract, retain and develop talented employees.

Stronger Together

Stronger Together is a colleague-led open forum which provides a safe and supportive environment in which to discuss issues specifically relating to inclusion and diversity in the Bank.

Ethnic diversity 2021/22
Self reported by colleagues[8]

11%
Asian/Asian British

3%
Black/African/Caribbean/Black British

4%
Mixed ethnicity

70%
White

8 12% preferred not to say.

Gender diversity and the gender pay gap

As part of our commitment to support diversity and inclusion, we publish data on the Bank's gender balance and gender pay gap each year. Our most recent data, reported on 5 April 2021, showed that the 2021 median gender pay gap was 16.8%, an improvement of 1.5 percentage points on 2020, with the mean gender pay gap having continually improved since 2018.

Women in Finance Charter

The Bank is a signatory of the Women in Finance Charter, which is a pledge for gender balance across the financial services sector.

56%

In 2021, we exceeded our headline target of ensuring that 50% of our Executive Committee was female

We are continuing to work to ensure that our employment practices are fair, and that there is no bias in recruitment processes across the Bank. We work closely with hiring managers and external recruitment agencies to create gender-balanced candidate pools, and to have diverse shortlists and interview panels when recruiting for senior roles. We monitor our job adverts and job descriptions to balance the use of gender-coded language.

As at 31 March 2022: 508 colleagues

	Female	Male
All BBB	44.7% (227)	55.3% (281)
Executive Committee	56% (5)	44% (4)
Senior Leadership Team (SLT) (Bands 1-3)	38.1% (8)	61.9% (13)
Senior management (Band 3, Band 4 and Band 5)	37.3% (93)	62.7% (156)

People with disabilities

The Bank works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help everyone to work effectively and progress their careers within our organisation. In 2021, we increased our accreditation under the government's Disability Confident scheme, to Level 2: Disability Confident Employer.

This means that we commit ourselves, among other things, to having an inclusive and accessible recruitment process, supporting employees with disabilities and making any adjustments that they need to help them do their jobs, ensuring that there are mechanisms in place to discuss the needs of colleagues with disabilities, and taking action to raise disability awareness within the Bank.

As part of our onboarding process and manager training, we support awareness of neurodiversity, both to bring different perspectives to the business and to create a safe environment in which employees and job applicants feel confident to disclose their condition with the knowledge that they will be fully supported.

Governance and transparency

As a wholly owned government institution, we aim, through our work, to ensure that we follow, promote and support positive governance practices.

Although not a listed company, the Bank is committed to maintaining the highest standards of corporate governance in line with best practice. More information on how we do that is set out in our corporate governance statement on p84.

34%

Investing in Women Code signatories make 34% of investments (deals) in teams with at least one female founder, compared with **24%** for the market

> "The Bank works with colleagues, including those with disabilities, to adapt work practices where necessary in order to help everyone to work effectively and progress their careers within our organisation."

2021/22 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 British Business Bank's and BEIS's balance sheets.

The Bank administers a number of programmes on behalf of BEIS under a service agreement; these include three regional funds, the ENABLE Guarantee and ENABLE Funding programmes, EFG, BBLS, CBILS, CLBILS, RLS and the Future Fund.

The adjusted return calculation takes 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 with the exception of the three Coronavirus emergency response loan guarantee schemes, RLS and Future Fund. The return is then 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.

In agreement with our Shareholder, the performances of the three Covid-19 loan guarantee schemes, RLS and Future Fund that are managed by the Bank have not been included in the 2021/22 adjusted return calculation. We have and will continue to work with our Shareholder to determine what measures of performance for these programmes should or should not be incorporated into the adjusted return calculation in future reporting periods.

The table opposite lays out our active programmes in 2021/22. It shows whether they are held on the Bank's balance sheet and if they contribute to the Bank's financial performance measurement.

Reporting	British Business Bank – active finance programmes in 2021/22[1]			Included on the Bank's balance sheet
	Commercial activity: programmes required to make a commercial rate of return on capital employed	Mandated activity: programmes funded by HM Government on a subsidised basis	Service activity: programmes conducted on behalf of HM Government which remain on the balance sheet of HM Government	
Contributes to our financial performance measurement	Investment Programme – British Business Investments (debt)	Enterprise Capital Funds (equity)[2]		Yes
	Managed Funds (equity)			
	Regional Angels Programme (equity)			
	British Patient Capital[3] (equity)			
	Future Fund: Breakthrough (equity)			
	Life Sciences Investment Programme (equity)			
			Angel Co-Fund (equity)	No
			Regional Funds: Midlands Engine, Northern Powerhouse, Cornwall and Isles of Scilly Funds (debt and equity)	
			ENABLE Guarantee (debt)	
			ENABLE Funding (debt)	
Does not contribute to our financial performance measurement		Start Up Loans (debt)		Yes
			Recovery Loan Scheme (debt)	No

1 Active finance programmes are those where the Bank has committed or supported finance in 2021/22, and/or (as of end March 2022) has the potential to undertake further activity in future. This table does not include the Bank's legacy programmes or the Coronavirus emergency response loan guarantee schemes or Future Fund, which were closed to new activity either prior to, or at the outset of the 2021/22 financial year. Where they are on the Bank's balance sheet, details of these legacy programmes can be found in the financial statements, beginning on p132. Details of where the Bank has newly withdrawn from finance programmes in 2021/22 can be found on p162.

2 In calculating the financial performance measurement, appropriate adjustments are made to Enterprise Capital Funds' financial performance figures (see p154 for further information).

3 In the financial statements in this Annual Report, British Patient Capital is referred to via its constituent parts, called 'Venture', 'Venture Growth' and 'Co-Investment' respectively – see p160 for these details.

Year ended 31 March 2022 (£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	718.3	0.0	718.3	0.0	718.3
BBI – Other programmes	753.5	0.0	753.5	0.0	753.5
BPC – Venture/Venture Growth/ Co-Investment/FF:B/LSIP	1,253.4	0.0	1,253.4	0.0	1,253.4
ECF	435.8	0.0	435.8	0.0	435.8
Other Venture Capital	82.2	0.0	82.2	126.4	208.6
ENABLE Funding	0.0	0.0	0.0	633.1	633.1
Wholesale & Guarantee	7.1	0.0	7.1	9.0	16.1
Start Up Loans	178.8	(53.8)	125.0	0.0	125.0
	3,429.1	**(53.8)**	**3,375.3**	**768.5**	**4,143.8**
Investment liabilities					
Wholesale and Guarantee Solutions	0.0	0.0	0.0	(47.0)	(47.0)
ECF	(192.4)	0.0	(192.4)	0.0	(192.4)
	(192.4)	0.0	(192.4)	(47.0)	(239.4)
Net investment assets	**3,236.7**	**(53.8)**	**3,182.9**	**721.5**	**3,904.4**
Other assets/liabilities					
Cash	101.6	(8.3)	93.3	0.0	93.3
Tangible and intangible assets	8.7	0.0	8.6	0.0	8.6
Loans and borrowings	(218.5)	53.8	(164.6)	0.0	(164.6)
Net other payables	(235.0)	8.1	(226.9)	0.0	(226.9)
	(343.3)	53.7	(281.6)	0.0	(289.6)
Total net assets	**2,893.5**	**(0.2)**	**2,893.3**	**721.5**	**3,614.8**

The column 'Audited Accounts' in the table above analyses the investment assets and liabilities in the Consolidated Statement of Financial Position on p133 by business activity.

* Unaudited.

Year ended 31 March 2022 (£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	12.7	0.0	12.7	0.0	12.7
BBI – Other programmes	5.2	0.0	5.2	0.0	5.2
BPC – Venture/Venture Growth/ Co-Investment/FF:B/LSIP	0.0	0.0	0.0	0.0	0.0
ECF	0.0	13.6	13.6	0.0	13.6
Other Venture Capital	1.2	0.0	1.2	0.0	1.2
ENABLE Funding	0.0	0.0	0.0	22.0	22.0
Wholesale & Guarantee	0.0	0.0	0.0	0.0	0.0
Start Up Loans	28.6	(28.6)	0.0	0.0	0.0
Investment income	**47.7**	**(15.0)**	**32.7**	**22.0**	**54.7**
Management fee & other income	63.7	0.0	63.7	(57.8)	5.9
Grant income	4.2	(4.2)	0.0	0.0	0.0
SUL inter-co interest	0.0	1.3	1.3	0.0	1.3
Gross operating income	**115.5**	**(17.9)**	**97.6**	**(35.8)**	**61.8**
Net investment costs					
BBI – Investment Programme	65.6	0.0	65.6	0.0	65.6
BBI – Other programmes	119.5	0.0	119.5	0.0	119.5
BPC – Venture/Venture Growth	354.1	0.0	354.1	0.0	354.1
ECF	144.8	(144.8)	0.0	0.0	0.0
Other Venture Capital	0.1	0.0	0.1	0.0	0.1
ENABLE Funding	0.0	0.0	0.0	0.0	0.0
Wholesale & Guarantee	0.0	0.0	0.0	(15.6)	(15.6)
Start Up Loans	(35.6)	35.6	0.0	0.0	0.0
Net investment costs	**648.4**	**(109.2)**	**539.3**	**(15.6)**	**523.7**
Net gain on write down of repayable capital grant	**22.6**	**(22.6)**	**0.0**	**0.0**	**0.0**
Net operating income	**786.6**	**(149.7)**	**636.9**	**(51.4)**	**585.5**
Other operating costs					
Staff costs	(49.9)	3.1	(46.8)	7.2	(39.6)
Other costs	(78.6)	15.5	(63.1)	43.4	(19.7)
Total operating expenditure	**(128.5)**	**18.6**	**(109.9)**	**50.6**	**(59.3)**
Net operating profit before ECF provisions & interest	**658.1**	**(131.1)**	**527.0**	**(0.8)**	**526.2**
ECF derivative gain (cash)	0.0	10.6	10.6	0.0	10.6
ECF permanent diminution in value	0.0	8.7	8.7	0.0	8.7
Adjusted return	658.1	(111.8)	546.3	(0.8)	545.5
Average capital employed					**2,989.7**
Adjusted return on average capital employed					**18.2%**

The column 'Audited Accounts' in the table above analyses income and expenditure in the Consolidated Statement of Comprehensive Net Income on p132 by business activity.

* Unaudited.

Overall results contributing to the adjusted return for 2021/22

– Adjusted net operating income (operating income minus investment costs) was £585.5m.

– We generated an adjusted net operating profit of £526.2m.

– Net assets increased by £920.3m to £3,614.8m.

£3.6bn

Net assets increased by £920.3m to £3,614.8m

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, and the ability to exit investments successfully and make a capital profit

– events impacting on the macroeconomy. As has been observed in 2021/22, 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 income for the year was £585.5m and our net operating profit was positive following a strong performance of investments throughout the year. Adjusted operating expenditure was £59.3m, resulting in an 18.2% return on average capital employed, which is significantly above the target return of 0.06%.

The year-on-year increase in operating costs is in the context of a continued expansion of activities driven by administering the Coronavirus emergency response loan guarantee schemes.

The profit before tax shown in the Consolidated Statement of Comprehensive Net Income is £604.8m compared to a profit before tax of £293.5m in the previous year. This is primarily driven by an increase in net gains on investment assets.

> "Our adjusted net income for the year was £585.5m and our net operating profit was positive following a strong performance of investments throughout the year."

2021/22 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), is investments that are more vulnerable to the impact of an 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 Venture Growth investment funds and ECFs have significant investments in high-growth, early-stage technology-led businesses that have been more positively impacted by 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.

The total net fair value movements for the year were £727.8m, compared to the year to 31 March 2021 when total net fair value movements were £352.5m.

This net impact reflects the nature and characteristics of the portfolios. The Venture and Venture Growth, UKIIF and Enterprise Capital Funds portfolios, which in aggregate have a value of £1,815m, have been more positively impacted by Covid-19 owing 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 £790m of value, have been more impacted as they are more weighted to traditional sectors of the economy such as retail and hospitality. Notwithstanding this, there have been net fair value increases across all of the portfolios across the Group.

Whilst the continued net fair value increases across the FVTPL portfolio have been encouraging, we are aware that there is potential for future downward pressure on these valuations. As at the date of this Annual Report, with changes in the macroeconomic environment already being seen, and a deteriorating future economic outlook, only in future reporting periods will the extent of these impacts be known.

Expected Credit Loss provisions

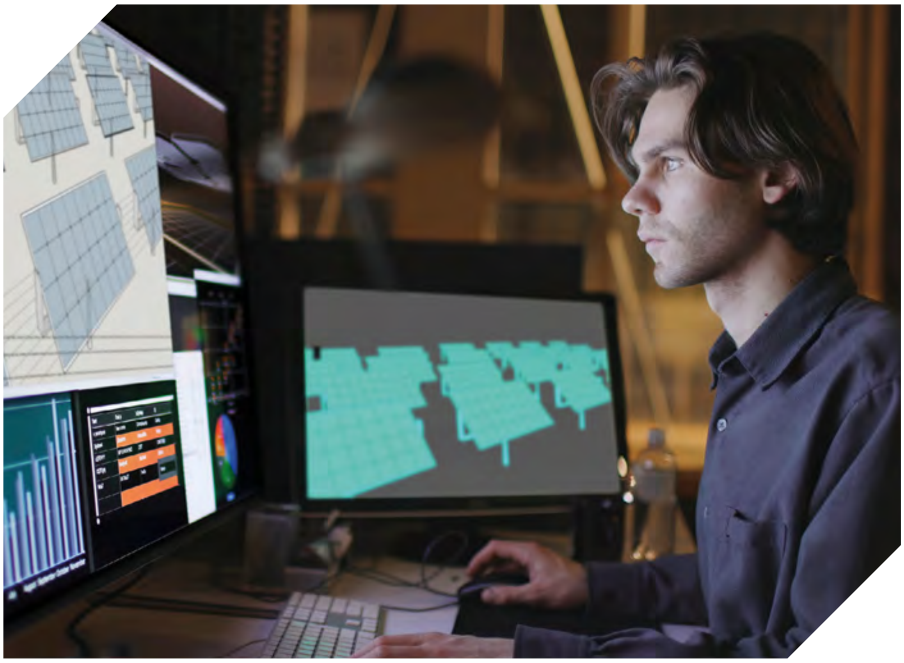
ECLs are derived by applying forward-looking economic forecasts to estimate the future performance of the lending compared with the point-in-time methodology applied in the valuation of the FVTPL investments. The ECL provisions incorporate the Bank's best estimates of the impact of the macroeconomic uncertainty on the economy where relevant to specific investments.

Amortised Cost portfolio

The Group's Amortised Cost investments have seen an overall decrease in the ECL provisions during the year of £29.3m. This has been due to the continued amortisation of the underlying loan books as well as the derecognition of certain loans during the year. The Group's accumulated ECL provision is £48.5m on a gross amortised cost amount of £575.1m.

£1.2bn

During the year to 31 March 2022 we invested £1,165.6m



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 2022, the UK Government held shares totalling £2,156m in British Business Bank plc, comprising the entire share capital of the company. During the year, British Business Bank plc issued £296m of additional share capital to the company's sole Shareholder. As at 31 March 2022, the Group had outstanding borrowing from the Nuclear Liabilities Fund of £88.4m.

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 £62.5m in 2021/22.

At 31 March 2022, British Business Bank plc held £101.6m of cash balances. The Bank maintains sufficient cash balances to fund short-term investments and operational expenditure requirements. Most of these funds, £73.8m, 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 £4,143.8m of assets under management at 31 March 2022, comprising debt financing to businesses of £2,246.0m provided through BBI, Start Up Loans and the ENABLE programmes, and £1,897.8m of equity financing provided through BPC, ECFs and other venture capital programmes.

During the year to 31 March 2022 we invested £1,165.6m. This comprised £1,025.7m from the Group's own resources and £139.9m 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 £246.9m from BBI's Investment Programme, £66.5m from its Managed Funds programme, £272.8m in Venture/Venture Growth, £146.8m in ECFs and £130.8m in Start Up Loans.

> "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."

We received capital and interest returns on our investments of £729.4m, including £225.6m from the Investment Programme, £151.5m from ECFs, £118.2m from BFP Mid Cap and £102.3m from Start Up Loans.

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 2022, the British Business Bank Group had further undrawn commitments of £1,948.3m to be invested across its portfolio.

The Strategic Report which includes, Future outlook – areas of economic uncertainty, Environmental, social and governance factors, and 2021/22 Financial performance and calculation of adjusted return on p28 to p73 has been approved by the Board of Directors and signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer
15 September 2022

Directors' report

The Directors present their annual report on the affairs of the Group, together with the financial statements and independent auditor's report for the year ended 31 March 2022.

The Corporate Governance Statement is set out on p84 and forms part of the Directors' Report. The following information required by the Companies Act 2006, and referenced in this section, can be found in the following sections:

- 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, gender pay gap, and our actions on colleague engagement is in the 'Our people' section
- details of significant post-balance sheet events are contained in note 25 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 activities within the Strategic Report as we believe it is better placed there.

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. There are no pension scheme indemnity provisions to be disclosed.

Going concern

The Directors have assessed the viability of British Business Bank plc and Group, up to the year ending 31 March 2027, taking account of its current positions and the potential impact of various scenarios on its principal risks and financial viabilities. The Directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the course of the next year. 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.

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 p84.

Director	Position	Initial appointment date	Initial appointment expiry	Reappointment effective date	Reappointment expiry
Lord Smith	Independent Non-executive Director and Chair	5 July 2017	4 July 2020	5 July 2020	4 July 2023
Neeta Atkar	Independent Non-executive Director and Senior Independent Director	1 July 2016	30 June 2019	1 July 2022	30 June 2025
Ceri Smith	Shareholder Representative Director	29 October 2013	13 November 2016	9 August 2019	18 April 2021[1]
Jonathan Britton	Independent Non-executive Director	28 April 2014	27 April 2017	28 April 2017	27 July 2021[2]
Amanda Rendle	Independent Non-executive Director; Workforce Engagement Director	7 December 2017	6 December 2020	7 December 2020	7 September 2021
Piers Linney	Independent Non-executive Director	7 December 2017	6 December 2020	7 December 2020	7 September 2021
Dharmash Mistry	Independent Non-executive Director	1 May 2019	30 April 2022[3]	N/A	N/A
Nathaniel Sloane	Independent Non-executive Director and Workforce Engagement Director (from September 2021)	1 March 2020	28 February 2023	N/A	N/A
Jenny Knott	Independent Non-executive Director	14 December 2020	13 December 2023	N/A	N/A
Jamie Carter	Shareholder Representative Director	19 April 2021[4]	18 April 2024	N/A	N/A
Barbara Anderson	Independent Non-executive Director	11 October 2021	10 October 2024	N/A	N/A
James Connelly	Independent Non-executive Director	4 January 2022	3 January 2025	N/A	N/A
Catherine Lewis La Torre	Chief Executive Officer	1 September 2020	30 May 2021[5]	N/A	N/A
Patrick Magee	Executive Director	10 March 2015[6]	N/A	N/A	N/A
Philip Piers	Executive Director	1 May 2021[7]	N/A	N/A	N/A

1 Ceri Smith stood down as Shareholder Representative Director on 18 April 2021

2 Jonathan Britton's reappointment expiry was extended from from 27 April 2021 to 27 July 2021

3 Dharmash Mistry stood down as a Independent Non-executive Director following the year end on 30 April 2022

4 Jamie Carter was appointed as Shareholder Representative Director on 19 April 2021

5 Catherine Lewis La Torre's reappointment date was 30 May 2021 or until such time as a permanent CEO is appointed

6 Patrick Magee stood down as an Executive Director following the year end on 1 July 2022

7 Philip Piers was appointed as CFO on 1 December 2019 and as an Executive Director on 1 May 2021

Directors' biographies

Lord Smith of Kelvin

Chair of the Board and Chair of Nomination Committee

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 and the Commonwealth Games Federation Partnership. He is also Chancellor of the University of Strathclyde.

Neeta Atkar, MBE

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 and Chair of the Risk Committee of Nomura Europe Holdings plc and Nomura Financial Products Europe. She is also a Non-executive Director of Nomura International plc and Nomura Bank International. She is a Non-executive Director of Quilter plc and is Chair-elect of its Risk Committee. She has been a Magistrate for almost 25 years.

Barbara Anderson

Independent Non-executive Director and Chair of the Remuneration Committee

Barbara is an experienced Non-executive Director and Chair who has worked extensively with SMEs, third sector organisations and PLCs in regulated sectors, international private companies and venture capital specialists.

Amongst other roles, Barbara is currently Non-executive Director and Chair of Audit & Risk at Sovereign Housing Association, an Independent Board Member and Chair of Audit & Risk at SmartDCC Ltd and Non-executive Director at BSC 2 VCT. Her expertise includes innovation for growth and sustainability, including ESG, strategic planning, start-up acceleration and business transformation.

Jamie Carter

Shareholder Representative Director

Jamie is a Director at UK Government Investments (UKGI) where he has worked since October 2016, where he also leads the Corporate Governance practice and management of the portfolio, and until July 2021 was a Non-executive Director on the Board of the Royal Mint. Prior to joining UKGI, he spent 10 years at HM Treasury where he specialised in public spending, including being involved in several spending reviews and major infrastructure policy. During this period, Jamie took a two-year career break to work as a Governance Specialist at the World Bank based in Jakarta.

James Connelly

Independent Non-executive Director

James started his first company Fetch, a digital growth agency that grew across three continents, surpassing £250m in turnover. At Fetch, James personally advised some of the world's most successful internet companies including Apple, Facebook and Expedia Group before successfully exiting the business to Dentsu Inc. in 2018. James is an active investor in early-stage companies and in 2020 co-founded Charlie Oscar, a digital brands group that invests in and scales breakout digital brands, powered by data science.

Jenny Knott

Independent Non-executive Director and Chair of Audit Committee

Jenny has extensive Board experience having served on the Boards of global investment banks, corporates and charitable organisations for over 25 years. As an investment banker, Jenny has served as CEO, CFO and COO for UK and global investment banks.

Jenny is an NED and a Trustee of various companies which include OCA, a scientific research charity for female cancers; an independent NED and Chair of the Risk and Capital Committee for Simply Health; and an independent NED and the Chair of the Remuneration Committee of Gresham Technology plc.

Jenny is a co-founder of FinTech Strategic Advisors, assisting clients with their FinTech growth, investment and adoption strategies.

Dharmash Mistry

Independent Non-executive Director

Dharmash Mistry is an experienced venture capitalist, entrepreneur and Non-executive Director. He was previously a Partner at Balderton Capital and Lakestar, involved in $1bn+ fund raising & investments including Revolut, Infarm, MessageBird, Lovefilm & Blockchain.com amongst others. Prior to this, he was Group MD of Emap Consumer Media, where he co-led the delisting of Emap plc from the FTSE 100.

Dharmash sits as a Non-executive Director on the Board of Halma PLC, BBC Commercial Holdings Ltd (BBC Worldwide) and is Chair of blow Ltd. Dharmash stood down from the Board in April 2022.

Nathaniel Sloane

Independent Non-executive Director and Director for Workforce Engagement

Nat worked in the private sector as an entrepreneur, consultant and venture capitalist. 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. He is a founding trustee of Education Endowment Foundation. He is the founding chair of Social and Sustainable Capital, the largest social impact investing fund in the UK.

Catherine Lewis La Torre

Chief Executive Officer

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

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

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. Patrick left the British Business Bank in June 2022.

Philip Piers

Chief Financial Officer

Philip joined the Bank in December 2019. He has more than 25 years' experience working in corporate and investment banking businesses, leading multi-disciplined finance teams both in the UK and globally.

A chartered accountant, Philip was previously CFO for Lloyds Bank Corporate Markets and started his career in Valuations and Product Control with Morgan Stanley, Lehman Brothers and Barclays Capital.

Elizabeth O'Neill

General Counsel and Company Secretary

Elizabeth joined the Bank in February 2021 as General Counsel and Company Secretary to the plc Board, and General Counsel to British Business Bank. Prior to this she was Head Legal Adviser for the Medicines and Healthcare products Regulatory Agency (MHRA). Elizabeth previously served as General Counsel and Member of the Executive Committee for UK Government Investments Ltd, and Head of State Aid and Commercial Law for the Department of Business, Innovation and Skills.

Biographies are for those who were in post at 31 March 2022.

Diversity and inclusion

We want to reflect the diversity of our customers and the population as a whole by making sure the workforce within the Bank is truly representative of all members of society. We are committed to attracting and developing people from a wide range of backgrounds and ensuring there are equal opportunities within BBB for everyone, without any form of discrimination. Our Equality and Diversity policy helps us ensure there is no unlawful discrimination, as well as promoting equality, fairness, dignity and respect for all within the employment of BBB.

In relation to Non-executive Director and Executive level recruitment, we look to promote positions in a way which reaches the broadest range of candidates and most diverse talent pools. We maintain a Board skills matrix to identify the level of relevant experience in key areas including Diversity and Inclusion. We ask all new members of staff including Board members to provide diversity data, which helps provide visibility of the overall make-up of the organisation including the Board at any given time, to identify opportunities to ensure diversity over time.

More information on what diversity and inclusion means for the Bank can be found on p62–65.

Succession

The Board's Nomination Committee monitors the balance and composition of the Board and its Committees and Board members' skills and experience. We maintain a Board skills matrix to identify the level of relevant experience in key areas. This helps identify where gaps may exist in order to inform future recruitment and appointments and identify any areas for continuous professional development. More widely, we have developed a talent and succession framework to help identify and foster a pipeline of talent through the organisation.

Speak Up Policy

Speaking up is essential for us to maintain our reputation and success. Our Speak Up Policy seeks to ensure that all colleagues feel empowered to raise concerns, also known as whistle blowing, about improper, unethical, dangerous, underhand or illegal practices in the workplace, at the earliest opportunity and in confidence. Colleagues can raise concerns with their line manager or one of our Speak Up Champions: the Managing Director, Internal Audit or the Chair of the Board's Audit Committee. We also provide a full list of prescribed persons if a colleague wishes to raise their concerns externally.

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.

Greenhouse gas emission reporting

Scope of Disclosure

Since 2015/16 we have followed Streamlined Energy and Carbon Reporting Regulations in disclosing our greenhouse gas emissions relating to the Bank's operations (i.e. the running of our office estate, business travel by our employees etc.). As such, we have historically reported on our Scope 1 (Gas) and Scope 2 (Electricity) emissions from our leased office space (we occupy four floors in two multi-tenant buildings in London and Sheffield, spanning a total of 3,751m^2), and Scope 3 (Travel) emissions based on employees' rail and air business travel.

This year, however, we are enhancing our disclosure and reporting approach. In line with our mission and commitment to support the UK's transition to a Net Zero economy, in Q1 2022 we commissioned an external review of our greenhouse gas emissions footprint for our operations. This was based on a more thorough and detailed assessment and in line with the Greenhouse Gas Protocol, a globally recognised greenhouse gas accounting standard. This moves the Bank beyond minimum reporting standards, enhances our transparency and accountability, and allows us to develop a more comprehensive picture of our baseline footprint to inform our plans to reach Net Zero for the Bank.

For ease of comparison, we have applied this updated methodology to previous years' emissions, and so have provided below revised figures for 2019/20 and 2020/21 alongside the latest figures for 2021/22 (which likewise follow the updated methodology).

There are a few key differences in approach that merit explanation at this stage, and given that 2019/20 will be our baseline year for emissions reductions targets going forwards:

– We no longer categorise any emissions within Scope 1 due to lack of operational control. This is because the only fuels consumed on site in our estate is the gas used in our London office, and this centrally controlled for the whole building by our landlord.

– Electricity largely remains under Scope 2, but for the first time we also capture well-to-tank electricity generation and electricity transmission and distribution under Scope 3.

– We continue to disclose business travel under Scope 3, but now also disclose emissions related to waste and water.

– For 2022/23 we will report on our Scope 3 footprint across the relevant categories from 1-14 of the Greenhouse Gas Protocol, including purchased goods and services, and while this work is not yet complete, we do report on our purchase of energy from gas here.

– This means that from 2022/23 we will start reporting on the whole of what we term 'own operations' emissions of the Bank, which are those emissions that directly stem from the operations of the business, such as offices, business travel and commuting.

– We are at an earlier stage in sizing emissions under Category 15 of Scope 3, which we refer to as 'financed emissions'. This is a complex undertaking which requires close collaboration with a range of stakeholders, including our delivery partners. Given the nature and size of the Bank's financing activities, it will dominate the rest of our footprint in scale. We have committed to setting science-based targets for all our emissions in 2023 as part of the Business Ambition for 1.5°C campaign.

Results are summarised in the Greenhouse gas emission assessment parameters table.

Greenhouse gas emission assessment parameters

Baseline year for total reported CO_2 emissions	2019/20
Consolidation approach	Operational control
Boundary summary	All facilities under operational control
Emission factor data source	BEIS (2019–2012)
Assessment methodology	Greenhouse Gas Protocol revised edition (2004)
Intensity ratio	Emissions per full-time employee

Greenhouse gas emissions

	2019/20 tCO_2e (original disclosure)	2019/20 tCO_2e (revised)	2020/21 tCO_2e (original disclosure)	2020/21 tCO_2e (revised)	2021/22 tCO_2e	Trend comparison 2019/20 to 2021/22 (updated methodology) (%)
Electricity (Scope 2 in original disclosures, Scope 2 and 3 in revised and latest disclosures)	138	114.3 (Scope 2) 27 (Scope 3)	91	57.7 (Scope 2) 13.6 (Scope 3)	65.7 (Scope 2) 24.4 (Scope 3)	-36%
Natural gas (Scope 1 in original disclosures, Scope 3 in revised and latest disclosures)	31	39.2	28	36.9	31.7	-19%
Water (Scope 3)		1.5		0.4	0.2	-88%
Waste (Scope 3)		0.3		0	0.1	-62%
Business travel (Scope 3)	120	182	36	46.7	75	-59%
Total (updated methodology only)		**364.4**		**155.4**	**197.1**	**-46%**
Total per average number of full-time employees (updated methodology only)		**1.11**		**0.4**	**0.4**	**-63%**

Commentary

Based on the updated methodology, there is a significant downward trend for the absolute total of emissions from our 2019/20 baseline to 2021/22 for the emissions sources we currently report against. In common with many office-based companies, this reflects a shift to remote working amid the Covid-19 pandemic. Fuller trends will be discernible as we continue to enhance category 1-14 emissions reporting.

As we emerge from the Covid-19 pandemic, we need to re-assess the best configuration of our assets. With the increased prevalence of working from home, we need to better understand the emissions-related trade-offs between working from home and commuting to, and working within, the office. This also gives rise to cost implications and considerations regarding our leases and engagement with landlords.

We no longer categorise any emissions within Scope 1 due to lack of operational control. This is because the only Scope 1 fuel consumed on site (gas in our London office) is centrally controlled by our landlord. This marks a change of methodological approach from our previous disclosures and is reflected throughout the Greenhouse gas emissions table. Electricity largely remains under Scope 2, but we also capture well-to-tank electricity generation and electricity transmission and distribution under Scope 3.

We are working on establishing our Scope 3 footprint right across the relevant categories from 1-14, moving beyond business travel and including goods and services such as energy from gas. This year, we continue to disclose business travel under Scope 3, reflecting journeys undertaken by colleagues using rail and air travel that have been booked through our corporate travel agent. We also disclose emissions related to waste and water. We are at an earlier stage in sizing emissions under Category 15, financed emissions. This is a complex undertaking which, given the nature of the Bank, will dominate the rest of our footprint in scale. Results are summarised in the Greenhouse gas emissions table.

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
15 September 2022

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 & Industrial Strategy (BEIS).

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

The UK Corporate Governance Code is available from the Financial Reporting Council. The 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 1 April 2021 to 31 March 2022 insofar as it applies to the British Business Bank.

Our Section 172(1) statement is on p86.

Our principal decisions

We describe below how the Directors had regard to key stakeholders when making principal decisions which were material in the financial, business, and operational context of the Group.

Many key decisions this year were in response to the longer-term impact of the Covid-19 response schemes on the Bank and the rollout of new schemes including the Recovery Loan Scheme, Future Fund: Breakthrough and Life Sciences Investment Programme to help support the UK's sustainable recovery.

There was also a focus on how the Bank could be developed now and in the future to help achieve its mission, including a review of the current operating model to help transition Covid-related activities to 'business as usual', continue to enhance the control environment and to increase efficiency and identify cost optimisation opportunities.

The Board made important decisions about its composition which included beginning the recruitment process for the permanent CEO role and appointing new Non-executive Directors to replace those whose terms had come to an end during the year, including a Remuneration Committee Chair.

Our Board remained focused on its governance, its objectives, and risks to the Group's business throughout the year. Various key frameworks, control documents and core processes were reviewed and approved. Given the delivery of the Covid-19 emergency finance schemes, there was a strong focus on risk including the Group's Risk Management Framework and Risk Appetite Statement. In addition, the operations of the business were a focal point so the Bank could respond to government instructions in delivering the additional schemes.

Principal decisions	Key stakeholders	More information
Approval of a new mission statement to reflect the prioritisation of the transition to a Net Zero economy. To recognise the Bank's commitment to sustainable growth and prosperity across the UK.	The mission statement was created with all stakeholders in mind.	We engaged extensively with BEIS/HM Treasury to ensure our revised mission statement reflected our new Climate Change Objective.
Creation of a new strategic framework for the Bank to help build on successes to date and deliver the Bank's mission over the next 10 years. We also revised the three pillars of our Strategic Plan to help guide our future activities.	The strategic framework was created with all stakeholders in mind.	The Board and Executive team engaged with our people to establish the new strategic framework.
Following a period of large-scale change to support the rollout of the Covid-19 response schemes, the Board approved a review of the Bank's Operating Model to ensure the appropriate structures and capabilities are in place in future to ensure the Bank can achieve its objectives and new mission.	All our stakeholders would be impacted if the Bank is unable to deliver its mission. Particular consideration was given to the potential impact on our people – particularly any directly affected by the changes.	The Board agreed the sequencing of any changes to begin in the second half of 2021/22 subject to consultation with colleagues at Senior Leadership Team and Director level on the proposed implementation plan.
Approval of the Recovery Loan Scheme (and subsequent extension to June 2022), Future Fund: Breakthrough, and Life Sciences Investment Programme.	These decisions were made with all our key stakeholders in mind.	During the design phase for each scheme we held regular meetings with BEIS/HM Treasury to agree the objectives and eligibility criteria for the schemes and tested those with relevant stakeholders such as fund managers to ensure they were appropriate. We also considered the impact on our people in relation to the recruitment and onboarding of new teams to support the schemes.
The Board took a number of key decisions in relation to Board and Executive Team membership. These included starting the recruitment process for a new permanent CEO, and appointing new Non-executive Directors.	These decisions on high level leadership impacted all our stakeholders including our relationships with government, colleagues, delivery partners, and the smaller businesses we support across the country.	Barbara Anderson and James Connelly were appointed as Non-executive Directors in 2021/22. The recruitment processes were assisted by executive search consultants, Audelis and Odgers Berndtson respectively. The search firm appointed for the CEO recruitment was Ridgeway Partners. The Bank's Board appointments were approved by Ministers in accordance with the Shareholder Framework Document.

Our key stakeholders

Our Section 172(1) statement highlights our six key stakeholders and why we engaged with them, our priorities for engagement, and our actions during the year.

Smaller businesses

Why we engage

By supporting smaller businesses in gaining access to finance and information about finance options, we help drive sustainable growth and prosperity across the UK.

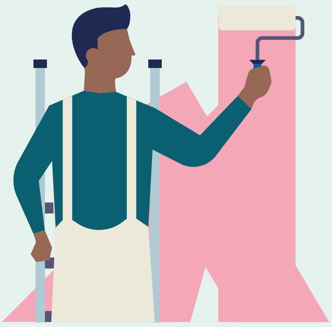
Priorities

– Help smaller businesses to access the right opportunities to succeed and support them as they recover from the pandemic.

– Advise on the best finance options.

– Gather information on current priorities for smaller businesses within the economy.

– Help to enable the transition to a Net Zero economy by improving access to finance for smaller businesses.



Actions

- Introduced new schemes to support smaller businesses and larger companies recover and grow following the pandemic.
- Increased the supply and diversity of finance options for UK smaller businesses by delivering an expanded programme of activity.
- Raised awareness of available support through campaigns, including on digital and social media channels – for example, the launch of our '#GreenToGrow' campaign.

> "By supporting smaller businesses in gaining access to finance and information about finance options, we help drive sustainable growth and prosperity across the UK."

Delivery partners

Why we engage

Our delivery partners (DPs) are the bridge between us and the smaller businesses, and have a central role in our business success. We rely on their performance and conduct to encourage private sector investment as well as helping address regional imbalances across the UK.

Priorities

- Ensure we have the right mix of DPs offering a range of financial products.
- Ensure DPs are fit for purpose with the right mix of capabilities and capacities to be a trusted partner.

Actions

- Evolved engagement with DPs to work with them more strategically following feedback from an external research project.
- Launched our *Guide to Managing Business Debt* for delivery partners to reach small businesses in need of support.
- Provided greater clarity on our requirements for DPs in relation to fraud risk management.
- Created a marketing toolkit for our DPs to enable them to amplify and share new sustainability content under our '#GreenToGrow' campaign.

More information can be found on our website.

Government and Parliament

Why we engage

We are owned by the government and as a state-owned institution are accountable to Parliament through the Department for Business, Energy & Industrial Strategy (BEIS).

Priorities

- Maintain the highest standards of probity in administering public funds.
- Contribute to national economic development.
- Ensure our objectives, services and products are consistent with government policy and strategy.

Actions

- Our policy and product teams worked with government officials to agree how we would deliver ongoing support to smaller businesses following the pandemic.
- Our public affairs team engaged with Parliament, including by supporting responses to Parliamentary Questions, Public Accounts Committees, Select Committees and with Ministers on delivery of government priorities.

Bank colleagues

Why we engage

Our colleagues are essential to delivering our vision, mission and strategy. Without their knowledge and expertise we would not be effective in what we do.

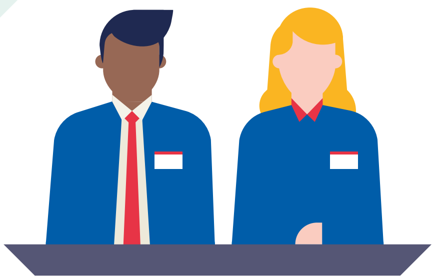
Priorities

- Support colleagues transitioning from home working during the pandemic to returning to the office once government guidelines were lifted.
- Foster an inclusive culture in which all colleagues know they are valued and supported.
- Support their work/life balance, wellbeing and individual needs.
- Retain the skills and expertise we need to deliver our business activities.

Actions

- We continued to offer flexible home working to support colleagues during the pandemic, including providing additional equipment.
- Colleagues had access to a wide range of wellbeing support and activities, including the creation of a 'Wellbeing Wednesday'.
- As we began to transition out of the pandemic and our offices reopened, we put in place a new hybrid working arrangement, 'Locate for your day', which put in place what we had learned during the pandemic about the benefits of working remotely and the positives about being in the office.
- We continued to seek colleagues' views by adopting a Test-and-Learn approach, working with colleagues across the Bank to continue to improve 'Locate for your day' based on feedback.
- 'Locate for your day' empowers colleagues to make the right decisions about where, when and how we approach our work, optimising the use of workplaces and technology.
- We provided more opportunities for training and development to upskill colleagues and managers and support their professional growth.
- We introduced the Bank's leadership development programme and expanded the range of targeted options available.

More information can be found on p46 on our engagement with colleagues.



Suppliers

Why we engage

Suppliers help us deliver our services on time and to good quality. This helps to maintain value for money and can bring innovative solutions that create additional value.

Priorities

– Develop relationships with suppliers that enable us to effectively support new programmes and increased volumes.
– Ensure our suppliers are aligned to our policies, including on modern slavery and environmental priorities.

Actions

– We established a Supplier Relationship Management Team and a supplier ecosystem to build deeper and more effective relationships, drive innovation and identify collaboration opportunities.
– Our Supplier Management Policy and Standards were reviewed and updated in respect to the management, relationship and oversight of contracts with external third-party suppliers.

Business intermediaries

Why we engage

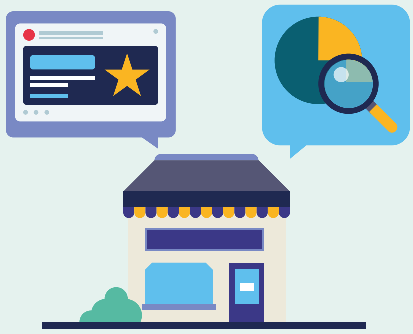
Business intermediaries such as accountants, lawyers and business/finance representative organisations provide valuable feedback on policy issues and proposals, while also offering a means of reaching a high number of their members/customers.

Priorities

– Ensure the role and value of the Bank and its programmes are understood and welcomed by business/finance representative organisations in order to gain useful insights and feedback.
– Ensure that business/finance representative organisations receive regular and relevant information about Bank programmes and publications in order to mitigate reputational risk and support the Bank's role as a centre of expertise.
– Ensure engagement with a wide spread of business/finance representative organisations that covers the full breadth of sectors and policy spheres in which the Bank operates.
– Further develop relationships with national and regional intermediaries to enable us to reach more smaller businesses to help inform, support and guide them on their access to finance journey.

Actions

– Held numerous high-level roundtables and events with senior stakeholders in business/finance representative organisations to explore and gain feedback on the Bank's programmes and purpose.
– Engaged closely with key business/finance representative organisations in the lead-up to key policy events such as the Spending Review.
– Organised a programme of engagement with business/finance representative organisations at COP26 to progress the Bank's mission on supporting the transition to Net Zero.
– Raised awareness of finance options and available support for smaller businesses via indirect marketing campaigns such as #GreenToGrow, *Guide to Managing Business Debt* and the Access to Early Stage Finance campaign with bespoke regionalised content.



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 development of the economy. The Board is responsible for setting the company's strategy and values to ensure the company delivers its mission.

The Board's responsibilities include understanding the views of the company's other key stakeholders. Nathaniel Sloane, an Independent Non-executive Director, has been appointed to be the Director 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 must make up the majority of the Board.

Directors ensure that the 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 the Shareholder Representative Director, are independent as described under provision 10 of the Corporate Governance Code. Jamie Carter was appointed as Shareholder Representative Director on 19 April 2021.

Although several Non-executive Directors have made declarations of interest during the year, 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. These 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 advisers, 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 on p104.

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. In this role her 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 each year.

Appointment and removal of Directors

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. The Shareholder Representative is appointed by the Secretary of State. All other Non-executive Directors are appointed by the Board.

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

Catherine Lewis La Torre held the position of CEO during the reporting period and will remain in post until October 2022.

Board committees

The Board has established four Board committees to ensure robust and effective decision making within the Group structure, these are the Audit, Remuneration, Risk, and Nomination Committees. The British Business Bank Board has approved terms of reference for each committee which detail their relevant roles and responsibilities. Attendance at committees can be found on p95.

Board and committee attendance

The table on p95 sets out the attendance of Directors since 1 April 2021 at each Board and Board committee.

Audit Committee

The Audit Committee was chaired by Jenny Knott. Neeta Atkar and Dharmash Mistry were members of the Committee during the year. 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 of the Board attends the Committee regularly. The Committee also meets privately with both internal and external audit.

Role

The Committee's role is to review, monitor and make recommendations to the Board. This includes the status of the 'going concern' nature of the Bank, the integrity of its financial reporting, the financial statements, issues and judgements, the effectiveness of controls, and overseeing the Bank's relationship with the external auditor.

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

During the financial year 2021/22, the Committee considered:

- the Bank's financial reporting processes including the preparation of the consolidated accounts
- the accounting policies adopted so that the Bank complies with the applicable accounting standards and presents consolidated accounts that are true and fair
- the methods used to account for significant or unusual transactions where different approaches were possible
- the extent to which the Bank has complied with the Shareholder's financial reporting requirements.

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

- the internal audit plan and review of progress against this plan
- the findings of internal audit reviews
- Group and subsidiary audit exemptions
- the external audit management letter
- reviewing the effectiveness of the National Audit Office's (NAO) audit process relating to the quality of the audit, the handling of key judgements and the responses to questions from the Committee
- reviewing the effectiveness of the Internal Audit function to satisfy itself that the quality, experience and expertise of the function is appropriate for the business by assessing the quality of audits, delivery against key timescales, feedback scores from questionnaires and how the implementation of actions is monitored and the responses to questions from the Committee.

The UK Corporate Governance Code requires the Audit Committee to make a recommendation on the appointment of the external auditor. However, the Shareholder Relationship Framework Document specifies that the Bank is audited by the Comptroller and Auditor General through the National Audit Office (NAO). The NAO did not provide any non-audit services during the year. The Bank's Head of Internal Audit reports directly to the Chief Executive Officer and Chair of the Audit Committee to ensure independence of the Bank's Internal Audit function. The Internal Audit function carries out its work in accordance with appropriate professional auditing practice and has regard to both Treasury and the Chartered Institute of Internal Auditors' standards.

The significant issues considered by the Committee during Financial Year 2021/22, with input from the external auditor, during the year included:

- methodologies and procedures for determining asset valuations and provisions, including the Covid-19 response schemes and Future Fund
- significant accounting policies
- monitoring the integrity of the financial statements
- reviewing significant financial reporting judgements contained within the financial statements
- decisions and judgements
- the contents of the Annual Report and Accounts.

The external auditors brought three matters to the Audit Committee's attention in their 2020/21 management letter relating to:

- the completeness and accuracy of legacy loan data used as input to one of the Group's Expected Credit Loss models
- the aggregation and review of financial instruments disclosures in the notes of the Annual Report and Accounts
- disclosures relating to the valuation methodology for new investment programmes.

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

Signed for and on behalf of the Audit Committee

Jenny Knott
Chair of the Audit Committee

Remuneration Committee

The Remuneration Committee was chaired by Amanda Rendle until September 2021. Barbara Anderson was appointed chair of the Committee from October 2021. The other members of the Committee were Ceri Smith (until 18 April 2021), Jamie Carter (from 19 April 2021) and Nathaniel Sloane.

The Committee's role is to set the remuneration policy for all Executive Directors, the Chair, and other members of the Executive Committee. This includes pension rights and any compensation payments. The Committee aims to ensure that reward packages offered by the Bank are fair and balanced so as to enable the Bank to deliver its strategy whilst ensuring value for money. The Committee sets the terms of the Long-Term Incentive Plans and any incentive schemes that the Bank and its subsidiaries may run in line with the Shareholder Relationship Framework Document.

During the financial year 2021/22, key items considered by the Remuneration Committee, included the:

- Annual pay review (agreeing that in line with the public sector there would be a salary freeze for all staff other than our most junior colleagues during 2021/22)
- Annual confirmation to the Shareholder as to how the Bank satisfies the terms of the Shareholder Relationship Framework Document
- Committee's terms of reference
- Annual market benchmarking of remuneration
- Annual corporate performance ratings and bonus proposal
- Long-Term Incentive Plan awards
- Approach to remuneration at British Patient Capital
- Annual gender pay gap data
- Annual objectives for each of the Executive Directors
- Salary proposals for Executive Committee members
- Salary proposals for three newly-created roles above the HM Treasury Senior Pay Threshold.

Signed for and on behalf of the Remuneration Committee

Barbara Anderson
Chair of the Remuneration Committee

Risk Committee

The Risk Committee was chaired by Neeta Atkar. The other members of the Committee during the year were Jonathan Britton (until July 2021), Piers Linney (until 7 September 2021), Jenny Knott (from September 2021), James Connelly (from March 2022), Ceri Smith (until 18 April 2021) and Jamie Carter (from 19 April 2021).

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

During the financial year 2021/22, the Risk Committee considered the following matters:

– ongoing appropriateness of the RMF, 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 Bank, British Business Investments and British Patient Capital

– approach to and updates on Strategic & Business Risk, Operational Risk, Financial Risk, Information Risk, Reputational Risk, Legal and Compliance Risk, Fraud and Financial Crime Risk and People Risk

– regular updates on the key risks faced by our product areas and plans to bring any areas operating outside risk appetite levels back to within tolerance

– the annual Money Laundering Reporting Officer's report

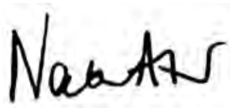
– approval of a revised Business Impact Analysis and Business Continuity Plan

– approval of an updated Information Risk and Fraud and Financial Crime RMF

– a review of an enhanced RMF for managing our increased number of delivery partners

– a review and update of the Risk Committee's Terms of Reference.

Signed for and on behalf of the Risk Committee



Neeta Atkar
Chair of the Risk Committee

Nomination Committee

The Nomination Committee was chaired by Lord Smith. Neeta Atkar and Ceri Smith (until 18 April 2021) and Jamie Carter (from 19 April 2021) were members of the Committee throughout the year.

The UK Corporate Governance Code requires that a majority of the Nomination Committee are Independent Non-executive Directors in order to safeguard the interests of shareholders.

Our Nomination Committee does not comply with this as the Chair is considered independent only on appointment and Ceri Smith and subsequently Jamie Carter were appointed by the Shareholder and therefore not independent. However, we believe our 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 2021/22, the Committee considered:

- succession planning for Executive and Non-executive Directors and for members of the Senior Leadership Team including the recruitment of a permanent Chief Executive Officer
- the appointment of Non-executive Directors including a Chair of the Remuneration Committee
- taking forward and embedding the recommendations from the 2020 external Board Effectiveness review, including an evaluation of the Board's skills matrix.

The Shareholder Relationship Framework Document requires the prior written consent of the Shareholder in the appointment or removal of a Director; appropriate consent was given in each case.

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 the recruitment process, the Committee evaluates the balance of skills, knowledge, experience and diversity and identifies any gaps. Currently, there are four women out of 10 Directors on our Board. This represents 40% which is above the government's target of 33%.

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, a Product Development Committee and an Executive Valuation Committee.

Board performance

We carry out regular evaluations of Board and committee performance. An external evaluation was last conducted in March 2020 by Parsons Talent Consulting. The focus was on the role and accountability of the Board, its relationship with management, the Board culture, its performance, and Board development. The review concluded that the Board and its committees were operating effectively and made a number of recommendations to enhance the arrangements further. The report was accepted by the Board and an action plan was implemented during 2020/21. The action plan addressed enhancements in relation to processes, culture and connectivity, and skills and development. Examples of actions taken included a review of Board papers to encourage more discussion and debate and less time on presentation, increased Board visibility in the business, the development of a skills matrix and opportunities identified for ongoing Board training and development.

An evaluation was not carried out in 2021/22 to allow time for the actions to be fully embedded, and to reflect the timing of new Non-executive Director appointments to the Board and an expected/evolving recruitment timetable for a permanent Chief Executive Officer.

A further evaluation of Board performance is planned to take place during 2022/23. In addition to Board evaluations, the Chair has carried out regular reviews of Directors' performance, with the Senior Independent Director carrying out a review of the Chair's performance.

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' conflicts of interest. This requires written disclosure of any actual or potential conflicts of interest for all Directors and staff. The procedure requires Directors formally to notify the Chair or the Company Secretary as soon as they become aware of any actual operating processes, executive selection and succession, strategy, or potential conflicts of interest with their duties to the Bank.

In addition, they are required to notify of any material changes to existing or potential conflicts that may have been authorised by the Board. Directors and Executives are reminded to declare any additional or arising conflicts of interest at the beginning of each meeting.

Political donations

As a government-owned body, political donations are not permitted. Therefore the Bank has not made any political donations or incurred any political expenditure in 2021/22.

Attendance at meetings and committees

The table below sets out the attendance of Directors at Board and Committee meetings in 2021/22 given as a share of the number of meetings for when they were in post during the year.

	Board	Audit	Risk	Remuneration	Nomination
Total number of meetings	12	7	4	7	1
Chair					
Lord Smith of Kelvin	12/12	–	–	–	1/1
Non-executive Directors					
Neeta Atkar	12/12	7/7	4/4	–	1/1
Barbara Anderson	4/4	–	–	4/4	–
Jonathan Britton*	4/4	2/2	0/1	–	–
Jamie Carter	11/11	–	4/4	6/7	–
James Connelly	2/2	–	1/1	–	–
Jenny Knott	12/12	7/7	4/4	–	–
Piers Linney*	3/7	–	1/2	–	–
Dharmash Mistry	9/12	5/7	–	–	–
Amanda Rendle*	7/7	–	–	3/3	–
Nathaniel Sloane	8/12	–	–	7/7	–
Ceri Smith*	1/1	–	–	–	1/1
Executive Directors					
Catherine Lewis La Torre	12/12	–	–	–	–
Patrick Magee	12/12	–	–	–	–
Philip Piers	8/11	–	–	–	–
General Counsel and Company Secretary					
Elizabeth O'Neill	10/12	–	–	–	–

* Jonathan Britton, Piers Linney, Amanda Rendle and Ceri Smith stood down as Directors during the year as detailed on p75.

Risk management and internal control

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

This includes executive level investment committees for each subsidiary that makes investment decisions, and valuation committees in respect of investments held on the Bank's Statement of Financial Position, as well as in respect of investments held on the Department for Business, Energy & Industrial Strategy (BEIS) balance sheet where the Bank is acting as agent for and on behalf of the BEIS.

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 with 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). However, two of British Business Bank's commercial entities, namely British Business Investments Ltd (BBI) and British Patient Capital Ltd (BPC), are registered with the FCA for the purposes of supervision under the money laundering regulations.

Whilst registration with the FCA does not require an entity to comply with the FCA Senior Management Arrangements, Systems and Controls (SYSC), the Bank is, however, subject to other applicable laws and regulations and has policies and procedures in place designed to ensure compliance with applicable laws and regulations, including anti money laundering, data protection and freedom of information. The Bank aspires to follow good practice where appropriate and applicable.

Risk Management Framework

Our Risk Management Framework is a collection of tools, processes and methodologies that support the British Business Bank in identifying, assessing, monitoring and controlling the risks it faces in delivery of its strategic objectives.

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 23 of the financial statements.

The Risk Management Framework is subject to regular review to assess its effectiveness within the British Business Bank, including an external review every two to three years.

Following an external review in January 2021, an internal review was carried out by the Risk & Compliance function in January 2022. This found that throughout 2021/22 a focus on the operationalisation of the Risk Management Framework and upgrading of the Bank's control environment had led to significant developments to the underpinning frameworks, policies and standards which had allowed for clearer guidance and principles. There had also been further evolution of the Bank's 'three lines of defence' risk governance model.

The findings of this review were presented to the Risk Committee in March 2022 along with some proposed changes to the Risk Management Framework to be taken forward in 2022/23. The next review of the Risk Management Framework will take place in the fourth quarter of the 2022/23 financial year.

Key elements of the Risk Management Framework include risk definition and categorisation, risk appetite and risk governance.

Risk definition and categorisation

The Risk Management Framework contains a clearly defined and categorised set of risks that ensures a consistent application of our risk management methodologies and processes and a common risk language across the business. It provides a clear definition and categorisation of our principal risks and a number of underpinning risks that aggregate to them.

As part of the annual review, this Risk Taxonomy has been reviewed for coverage and structure and amended to ensure it is fit for purpose for the 2022/23 financial year. It takes account of the Bank's responsibilities as our Covid-19 response products evolve, and our new Net Zero objective. The revised Risk Taxonomy was approved by the Board in March 2022.

Risk appetite

The British Business 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 British Business 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 strategic objectives.

The Board uses the Risk Taxonomy to set appetite against our eight principal risks and the 31 underpinning risk types in our Risk Appetite Statement. As part of the annual review, we have made some changes to reflect changes within the business in the last year. This includes a change to our reputational risk appetite from low-medium to medium to reflect a higher profile since the Bank introduced the Covid-19 response schemes, and the introduction of sustainability as a level 2 risk category.

The Bank has been operating outside of risk appetite across a number of its principal risk categories following the implementation of the Covid-19 response schemes. Management have developed a number of action plans to address gaps and agree timebound milestones to return to within the Board's risk appetite. These plans have been discussed and agreed through the Board Risk Committee.

The Risk Appetite Statement is as follows:

Principal Risk	Definition	Example categories	Example mitigants
Strategic and Business Risk **Risk appetite:** Medium	The (residual) risks of direct or indirect financial losses arising from a suboptimal 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. – Risk that the Bank does not meet its internal and external commitments on the environmental and social agenda.	– 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. – Establishing and embedding BBB's ESG strategy to meet its commitments, including sustainability considerations in due diligence.
Financial 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 or that arise from fluctuations in values of, or income from, assets or in movements in interest or exchange rates or credit spreads.	– 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. – The Bank makes material losses due to foreign exchange movements through its investments. – The Bank investments are subject to interest rate fluctuations.	– 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 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.

Principal Risk	Definition	Example categories	Example mitigants
Operational Risk **Risk appetite:** Low – Medium	The risk of direct or indirect losses resulting from inadequate or failed internal processes, technology, supplier management, or from external events.	– Errors in execution, delivery, and processing. – Failure of internal controls or processes. – IT & communication system(s) failure including compromise through malicious activity such as a cyber attack. – Damage to physical assets or utilities disruption. – 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. – IT security controls. – Cyber Essentials Plus accreditation. – Information technology systems disaster recovery testing. – Operational Incidents management process in place. – Business Continuity plans and incident scenario exercises. – Change function and Change Programme Boards to manage the growth of the organisation. – Procurement and Finance contract and invoice oversight.
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 the 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 recruitment processes in place to attract talent aligned to its values. – 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 is in place for the Senior Leadership Team. – The Bank has an established Code of Conduct to support its culture and values.

The Risk Appetite Statement (continued)

Principal Risk	Definition	Example categories	Example mitigants
Information Risk **Risk appetite:** Low	Information Risk encompasses any compromise to the information or data BBB handles during its creation, storage, processing, transfer or disposal (the information lifecycle).	– Breach of legal requirements relating to safe-keeping and disclosure of information. – 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. – 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, data protection, and freedom of information. – Model governance processes to ensure data integrity.
Fraud and Financial Crime **Risk Appetite** Very Low – Low	The risk that BBB and BBB schemes (including those delivered through external delivery partners) do not have effective systems and controls to prevent, detect, report and deter internal or external fraud and/or financial crime.	– External fraud perpetrated against BBB or BBB schemes. – The Bank or its delivery partners and suppliers are used to facilitate financial crime, e.g. money laundering, terrorist financing or contravention of sanctions. – Internal fraud by employees at the BBB.	– Customer Due Diligence at onboarding, e.g. KYC/KYB – Risk assessment during Scheme design/launch and throughout the lifecycle – Delivery partner accreditation and periodic reviews. – Suspicious activity reporting procedure. – Close liaison with BEIS and Cabinet Office counter fraud network. – Regular interaction with other fraud prevention organisations, e.g. CIFAS, NCIS, NCA etc. – Close liaison with Covid-19 scheme delivery partners on counter fraud measures. – Fraud & Financial Crime Risk Forum and other Governance Fora providing oversight, monitoring and control – All Bank employees are subject to mandatory employee training on AML, Sanctions and Fraud risk, a Code of Conduct and annual Compliance Declaration covering conflict of interest and market abuse.

Principal Risk	Definition	Example categories	Example mitigants
Legal and Compliance Risk Risk appetite: Low	The risk of breaching applicable UK law (or other relevant law), regulation, standards or legal obligations, which exposes BBB to fines, penalties or claims as well as other associated financial losses and non-financial consequences.	– 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 State aid rules. – 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 appropriate 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. – 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.
Reputational Risk Risk appetite: Medium	The potential for negative publicity, public or stakeholder perception or uncontrollable economic, political, public policy, regulatory, and operational events and issues to have an adverse impact on the Bank's reputation, thereby resulting in potential damage to internal and external stakeholder relationships, financial loss and market credibility.	– The corporate actions of the Bank fall short of the expectations of our Shareholder and/or staff. – The corporate actions of the Bank or its delivery partners create a negative impression of the Bank for the general public or SMEs.	– 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 and Service Level Agreements. – The Bank has a robust Complaints Policy in place. – Social Media Guidelines are in place for colleagues.

Separately, through our Business Planning process the Board reviewed an assessment of the quantification of the monetary value of potential downside risks of a severe downturn against our Business Plan excluding the Covid-19 schemes. This assessed the unlikely but plausible losses on our portfolio assuming a 1-in-20-year downside scenario or macroeconomic downside scenario across the various programmes.

For the financial year 2021/22, we utilised forecasts and reports from Oxford Economics in addition to the Bank of England Stress Test for the Bank's programmes excluding the Covid-19 schemes. We also assessed the unlikely but plausible financial losses arising from negative fluctuations in foreign exchange currency prices and UK interest rates. All stress test loss outcomes were shared with our Shareholder/BEIS.

Financial reporting risk management systems and internal controls

The Bank maintains risk management systems and internal controls relating to the financial reporting process which are designed to:

– ensure that accounting policies are appropriately and consistently applied, transactions are recorded accurately, and undertaken in accordance with delegated authorities, that assets are safeguarded and liabilities are properly stated

Risk governance

The British Business Bank's risk governance structure is shown below:

– enable the calculation, preparation and reporting of financial and tax outcomes in accordance with applicable International Financial Reporting Standards, statutory and regulatory requirements

– enable certifications by the Senior Accounting Officer relating to maintenance of appropriate tax accounting and in accordance with the 2009 Finance Act

– ensure ongoing monitoring to assess the impact of emerging regulation and legislation on financial, prudential regulatory and tax reporting

– ensure an accurate view of the Bank's performance to allow the Board and senior management to appropriately manage the affairs and strategy of the Bank as a whole and each of its sub-groups.

The key principles of this model, as illustrated by the diagram opposite, are:

– 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 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 and Executive Audit and Risk Committee and is also supported by the Risk and Compliance function in the delivery of their responsibilities

– the Risk and Compliance function works collaboratively with the product teams and other central control functions

– the Internal Audit function operates independently of both the business and the Risk and Compliance function, reporting directly to the Audit Committee, highlighting key areas of weakness relating to governance, risk management or internal control.

The effective execution of the risk management roles and responsibilities within the British Business Bank is enabled through the adoption of the three lines of defence risk governance model, where:

– the first line of defence is responsible for day-to-day management of risk and control. Function heads have primary accountability for the performance, operation, compliance and effective control of risks affecting their business area

– the second line of defence is made up of an independent risk management capability that provides objective independent review, monitoring, and appropriate challenge of the operation of the first line of defence, including the effectiveness of functions in managing risk, and the controls in place to mitigate any risks

– the third line of defence provides independent assurance of the overall system of internal control through a programme of risk-based audits covering all aspects of both first and second lines of defence risk management and control activity.

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
15 September 2022

Chair's foreword

Directors' remuneration report

On behalf of the Board, I am pleased to present the Remuneration Report for the British Business Bank for the year ended 31 March 2022.

The Remuneration Committee's overriding aim is to ensure that the reward packages that the Bank offers are competitive and balanced. The Bank needs to be able to effectively hire and retain talent to deliver its mission while exercising the restraint expected of a publicly owned body. The Remuneration Committee considers this reward in its broadest sense in the context of the Employee Value Proposition (EVP).

This is a particularly critical and challenging time to get this balance right. The Bank has grown and broadened its offer significantly while the pandemic, cost of living and more recent global political events have impacted both the UK economy and the priorities of the workforce. For example, a buoyant external job market combined with inflationary pressures has meant a workforce focused increasingly on compensation and career progression but also on work-life balance. Although the Bank's EVP is strong, this has nonetheless meant increased staff turnover.

The British Business Bank is not alone in experiencing this pressure. However, we are seeking to deliver the expanded and exciting range of capital programmes agreed with BEIS and HM Treasury as part of the 2021 Spending Review as well as integrating our Covid-19 interventions with business-as-usual activity, and this will require additional skills.

Last year's pay freeze, together with the recent economic pressures mean that we have had work to do to ensure our reward package continues to be competitive. Identifying and prioritising critical roles and functions and developing our broader EVP will be critical to our ability to bring experienced people into the organisation to deliver these objectives.

In summary, the Bank recognises its key people challenge is to attract and retain talented and experienced individuals who might otherwise work within the private sector. To enable us to respond constructively to this challenge in the coming months, we are exploring, in consultation with the Board, ways of expanding the Committee's line-of-sight of the broader people strategy. We have also introduced a greater degree of rigour into the Committee's forward planning processes to ensure we can respond more effectively to the changing environment. Looking ahead to 2022/23, we will keep the remuneration strategy under review to ensure that the Bank is able to maximise the value of its existing reward arrangements.

Key decisions taken by the Committee this year

Base pay

The public sector pause on pay for 2021/22 meant that no annual salary increases were awarded last year, with the exception of our most junior colleagues. For reference, our median CEO pay ratio for 2021/22 is 6:1, very much at the lower end of the range of ratios reported by other organisations.

The pay pause also meant that the Bank's ability to make changes to remuneration structures was limited, and as a result there were no major changes to remuneration policy during the year.

Long-Term Incentive Plan

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 2022. Based on the performance of the Bank against its Key Performance Indicators (KPIs) and taking into account various other considerations, the Committee concluded an award of 80% of the maximum was appropriate. Further details of awards for the Senior Executives are set out later in this report.

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

- pay-out level determined for the Bank's Performance Bonus Plan (year ended 31 March 2022)
- awards under the Personal element of the Bank's Long-Term Incentive Plan (LTIP) agreed for members of the Bank's Executive Committee (year ended 31 March 2022)
- corporate performance targets and participants agreed for the LTIP Cycle 8 plus a change in the approach to assessing corporate performance against KPIs for this LTIP cycle to ensure greater transparency year-on-year
- hiring plans and individual packages agreed for new senior hires
- good leaver terms agreed for two former employees.

Barbara Anderson

Barbara Anderson
Chair of the Remuneration Committee

"The Bank needs to be able to effectively hire and retain talent to deliver its mission while exercising the restraint expected of a publicly owned body."

Overview

The remainder of the Remuneration Report is divided into two parts:

1. Remuneration policy, including the Bank's approach to pay for Executive and Non-executive Directors.
2. Annual report on remuneration. This section outlines how the policy has been applied and includes details of remuneration for the senior team.

Those sections of the report that have been audited by the National Audit Office have been identified as such.

Membership of the Remuneration Committee

Barbara Anderson	Chair since October 2021
Jamie Carter	Member since April 2021
Amanda Rendle	Chair (resigned September 2021)
Nathaniel Sloane	Member since March 2020
Ceri Smith	Member (resigned April 2021)

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.

The Chief Executive, the Chief Financial Officer, the General Counsel, the HR Director and the Reward Director have been invited to join meetings, but not where their own remuneration is the subject of discussion.

The Deputy Company Secretary acts as Secretary to the Committee.

The role of the Remuneration Committee

The Committee's primary role is to provide robust, independent governance for executive remuneration, to ensure the overall reward strategy:

- 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, and
- links executive reward to the Bank's performance against its long-term business plan.

Remuneration Policy

Table 1: Remuneration policy

The table below sets out the Bank's remuneration policy for 2022/23:

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 executives are eligible to participate in a Long-Term Incentive Plan (LTIP). The LTIP operates as a series of three-year cycles. Awards are comprised of two elements: Group and Personal. The weighting between these elements may be varied over time, at the discretion of the Committee, considering the requirements of the business and any relevant external factors. Targets for the Group element are set separately for each of the three years of the LTIP cycle, aligned with the business plan targets agreed by the Board. At the end of each year, the Board determines the corporate performance factor (the percentage of the maximum Group award that will vest) for the year. The overall corporate performance factor is then determined as the average of the three individual years of the cycle. However, the Committee retains the discretion to recommend to the Board a corporate performance factor that is higher or lower than the calculated average, to reflect any circumstances which in its judgement have had a significant impact on the Bank's performance during the three-year performance period. Targets for the Personal element are set for the first year of each LTIP cycle, and are designed to consider the specific responsibilities of individual senior leaders in the Bank.

Table 1: Remuneration policy (continued)

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 the Personal element may be paid after two years and the Group 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.

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%. Colleagues below Executive Director level who have reached their 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.
Colleague recognition	
Objective To celebrate and reinforce actions and behaviours aligned to the Bank's values	MyRecognition is an online recognition platform that facilitates recognition between colleagues for actions and behaviours that typify the Bank's Values: Collaborative, Committed, and Creative. A nominal financial recognition can be awarded in exceptional cases, delivered in the form of e-vouchers. All nominations are subject to line manager approval.

Table 2: Scenarios chart: ranges for Executive Director remuneration

The following chart shows how Executive Directors' 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.

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. During the year, Patrick Magee served as a Non-executive Director at International Biotechnology Trust plc and received a fee of £28,000.

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 the 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	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	The Chair's fee will be reviewed from time to time by the Remuneration Committee.
Basic fee – Non-executive Directors	
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 and Risk, and Remuneration Committees, in recognition of the additional time spent on their committee activities. This is in line with UK practice generally.

Further approval

The approval of or material variation to the remuneration, the terms and conditions on which such remuneration is to be paid, or the terms of employment or engagement of any Director of BBB or any Non-executive Director of any other member of the BBB Group requires the prior written consent of the BEIS Secretary of State.

Consideration of employment conditions elsewhere in the company

The Remuneration Committee has responsibility for the remuneration policy for all employees of the Bank. As a general rule, employment conditions for Directors are no more favourable than for other employees, although where appropriate to the scope and nature of their responsibilities, or to prevailing practice in the external market, elements of the reward package or other employment terms may be different. For example, the LTIP structure in place for Directors and other members of the Executive Committee, or the longer notice periods for Directors. With the exception of pension arrangements, the Bank does not formally consult with its employees on remuneration or employment conditions.

Annual report on remuneration

This part of the report sets out how the Bank's remuneration policy has been implemented during 2021/22, and 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.

Single total figure of remuneration

Details of the total remuneration of Executive Directors for each of the years 2020/21 and 2021/22 are shown in separate tables below.

Table 4: Executive Director remuneration (audited)

	Year ended 31 March 2022					
	Salary £000	Taxable Benefits £000	Pension Payments (including cash supplements) £000	Total Fixed Pay £000	Long-Term incentive £000	Total £000
Catherine Lewis La Torre	297.0	0.8	29.7	327.5	64.8	392.3
Patrick Magee	213.8	0.8	21.4	236.0	89.8	325.8
Philip Piers	247.5	0.1	13.2	260.8	0.0	260.8
Total	**758.3**	**1.8**	**64.3**	**824.4**	**154.6**	**979.0**

Table 4: Executive Director remuneration (audited) (continued)

	Year ended 31 March 2021					
	Salary £000	Taxable Benefits £000	Pension Payments (including cash supplements) £000	Total Fixed Pay £000	Long-Term incentive £000	Total £000
Catherine Lewis La Torre	173.3	0.4	17.3	191.0	104.4	295.4
Keith Morgan	126.8	0.1	12.7	139.6	69.9	209.5
Patrick Magee	213.8	0.8	21.4	236.0	87.2	323.1
Total	**513.9**	**1.3**	**51.4**	**566.5**	**261.5**	**828.0**

Notes

1. Philip Piers's salary, pension and taxable benefits as shown in the table show pay received for the period for which he was an Executive Director of the Bank, 1 May 2021 – 31 March 2022.
2. Executive Directors are not eligible for annual incentive payments.
3. The Executive Directors receive death in service and illness income protection benefits which are non-taxable.
4. A health cash plan benefit was introduced on 1 July 2020 and is included under taxable benefits.
5. LTIP payments relate to the three-year period ending 31 March of the year being reported on. Phil Piers was not eligible for the LTIP cycle that vested on 31 March 2022.

Total pension entitlements

The pension payments shown in Table 4 are the total employer contributions made on behalf of each Director during the year. All Directors are eligible for the Bank's defined contribution pension plan. The maximum employer contribution is set individually for each Director, and is no higher than the maximum employer contribution available to employees below Board level. On leaving the Bank's service for any reason, Directors are eligible to retain their accrued benefits within the scheme on the same basis as all other employees.

The company did not make pension contributions for Keith Morgan but instead paid a cash alternative to him.

Performance assessment

LTIP Cycle 6 vested on 31 March 2022, covering the three-year period from 1 April 2019 to 31 March 2022. Awards under the scheme were 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), the BBB Board has determined that a Corporate performance pay-out of 80% of the maximum award is appropriate.

The table below provides a breakdown of the LTIP awards included in the single total figure of remuneration for the year ended 31 March 2022.

Table 5: Executive Director LTIP Cycle 6 awards

	Potential Award £000	Performance Award	Amount £000
Catherine Lewis La Torre			
Max amount: £000	**81.0**		
Personal Performance	–	–	–
Corporate Performance	81.0	80%	64.8
Total Award	**81.0**		**64.8**
Patrick Magee			
Max amount: £000	**106.9**		
Personal Performance	42.8	90%	38.5
Corporate Performance	64.1	80%	51.3
Total Award	**106.9**		**89.8**

Notes

1. Patrick Magee's personal award is from LTIP Cycle 6 and relates to the 2019/20 performance year. The Committee concluded that Patrick's personal performance was ahead of target for this year at 90% of the maximum.
2. Catherine Lewis La Torre's personal award of £48,600 (90% of the maximum) under LTIP Cycle 6 vested and was reported in 2021, as she was subject to shorter deferral requirements at the time of the original award. Her personal award under LTIP Cycle 7 will not vest fully until 31 March 2023.
3. In both cases, the Corporate LTIP award that vested during 2021/22 is from LTIP Cycle 6 and relates to the three-year period ending 31 March 2022.

LTIP Cycle 6: assessment against Corporate performance measures

The table below sets out the targets for the three-year period ending 31 March 2022, together with the Board's assessment of the Bank's performance against those targets. This assessment formed the basis of the Board's determination of the Corporate element for this LTIP cycle.

LTIP Cycle 6 quantitative KPI targets are set at three different levels: lower threshold, stretch (considered to be the on-target measure), and challenge. The quantitative KPI targets for LTIP Cycle 6 were determined using the third year of the 19/20 Business Plan with the exception of the Regional and Encourage & Enable KPIs where performance was aggregated over the three years for an overall assessment.

Of the five quantitative KPIs, the Bank exceeded challenge in three, and exceeded stretch in one. The awareness and outcome KPIs were not achieved. The awareness target was narrowly missed, reflecting the lower profile the Bank had with SMEs after the expiry of the Covid schemes. The wide discrepancy between the target and the outturn metrics for measuring 'Outcome' was driven by methodological and sampling differences, which became evident in Q1 of the financial year but it was not possible to amend the outturn target mid-cycle.

There was positive feedback for the one qualitative KPI being assessed in 21/22 Centre of Expertise, for which the Bank gathers feedback from a range of sources and surveys.

The approach to measuring performance against some of the KPIs changed considerably over the three-year performance period for this LTIP cycle, so that in some cases the measures used to assess performance in 2021/22 differ from those envisaged when the targets were originally set.

Table 6: Original KPI targets and actual outcomes (LTIP Cycle 6 Corporate performance)

Strategic Objective	Key Performance Indicator	LTIP 6 Targets	FY 21/22 Outturn
1 Increase supply	Value (£bn) of stock of finance supported through the Bank's programmes by end March 2022. **Single target set for the 3-year cycle**	3-year target £10.0 bn (Threshold £8.0bn/ Challenge £11.0bn)	**£12.2bn** **Exceeded challenge**
2 More diverse finance market	% of finance supported through smaller providers (non-'big 5' banks) by end March 2022. **Single target set for the 3-year cycle**	3-year target 90% (Threshold 85%/ Challenge 94%)	**98.4%** **Exceeded challenge**
3 Regional	Measured against regional activities including comparison to the key milestones set out in the business plan (qualitative measure not used for 21/22). A quantitative measure (Flow of Gross Deployment outside of London) was added in 20/21. **Performance assessed individually for each year of the 3-year cycle**	FY 21/22 target £901.1m FY 19/20 achieved target FY 20/21 achieved target	**£906.5m** **Exceeded stretch**

Table 6: Original KPI targets and actual outcomes (LTIP Cycle 6 Corporate performance) (continued)

Strategic Objective	Key Performance Indicator	LTIP 6 Targets	FY 21/22 Outturn
4 Encourage & Enable SMEs to seek the finance they need	Balanced scorecard measures of awareness and outcomes. **Performance assessed individually for each year of the 3-year cycle**	FY21/22 target Awareness: 25% (Threshold 23%/ Challenge 27%) FY21/22 target Outcome: +5 (No Threshold/ Challenge set) FY 19/20 achieved target FY 20/21 missed target	**Awareness: 22%** **Outcome: -20** **Missed target**
5 Centre of Expertise	The results of the Bank Reputation Survey will be presented to the Board. UKGI will also author a report. **Performance assessed individually for each year of the 3-year cycle**	FY 19/20 target Outcome: partially achieved FY 20/21 achieved target	**Achieved target**
6 Manage taxpayers' resources efficiently	Adjusted return on capital employed (net of temporary fair value discounts) by end March 2022. **Single target set for the 3-year cycle**	3-year target 1.9% (Threshold 1.5%/ Challenge 2.5%)	**18.2%** **Exceeded challenge**

Non-executive Director remuneration

Non-executive Directors receive remuneration in the form of a fee. Details for each of the years 2020/21 and 2021/22 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. However, Non-executive Directors are reimbursed expenses incurred in performing their role, and where applicable these amounts are included as fees in the table opposite.

Table 7: Non-executive Director remuneration (audited)

	Total Fees 2021/22 £000	Total Fees 2020/21 £000
Lord Smith (Chair)	120.0	120.0
Neeta Atkar (Senior Independent Director)	45.6	45.0
Barbara Anderson	14.2	n/a
Jonathan Britton	10.0	30.0
Jamie Carter	nil	n/a
James Connelly	6.1	
Jennifer Knott	30.0	7.6
Piers Linney	10.9	25.0
Dharmash Mistry	25.0	25.0
Amanda Rendle	13.1	30.0
Nathaniel Sloane	25.0	25.0
Ceri Smith	nil	nil

Scheme interests awarded during the financial year

Executive Directors and other senior colleagues are invited to participate in the BBB Long-Term Incentive Plan. There is no annual bonus plan for this group. The table below shows interests awarded to Executive Directors during 2021/22. 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 2021/22 performance year, with payment deferred for 24 months. The Corporate element will be assessed over the three-year period ending 31 March 2024.

For Executive Directors, the Personal and Corporate elements of this award will both normally be paid in August 2024, subject to vesting conditions being satisfied.

Table 8: LTIP Cycle 8 awards

	Year ended 31 March 2022						
	Type of interest	Total face value of award (% of salary)	Total face value of personal award £000	Total face value of corporate award £000	Total face value of award £000	Percentage of corporate award for reaching threshold targets	End of corporate performance period
Catherine Lewis La Torre	Cash LTIP	50%	74.3	74.3	148.5	50%	31 March 2024
Patrick Magee	Cash LTIP	50%	53.4	53.4	106.9	50%	31 March 2024
Philip Piers	Cash LTIP	50%	61.9	65.6	127.5	50%	31 March 2024

Group targets for LTIP Cycle 8 (April 2021 – March 2024)

To ensure that targets for the Group element of LTIP Cycle 8 remain relevant and challenging throughout the three-year business plan cycle, the Board's agreed stretch targets for each of the Bank's seven KPIs from the 2021/22 Business Plan form the basis of the targets set for the first year of the three-year corporate performance period for this LTIP cycle. Targets for the second and third years of this LTIP cycle will be set at the beginning of each of these years.

Payments to past Directors

Keith Morgan received a payment of £91,314, and Chris Fox £52,537, under LTIP Cycle 6. In both cases, these payments represent part of the original maximum awards reported under payments for loss of office, in (respectively) the 2021 and 2020 Annual Report and Accounts.

Payments for loss of office

There were no payments for loss of office during the reporting period.

Percentage changes in CEO/colleague pay

The CEO did not receive a salary increase in 2021/22. The Bank was within the scope of the public sector pause on pay throughout 2021/22 and, as a result, only a small number of junior colleagues received an increase within the parameters of the pay pause.

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 2022, 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
2022	Option A	9:1	6:1	4:1
2021	Option A	12:1	8:1	5:1
2020	Option A	10:1	6:1	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 2022
- total bonus awarded or total LTIP awards payable in respect of the year ended 31 March 2022
- total employer pension contribution (calculated as the % in payment as at 1/1/22 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 combined single total figure of remuneration for the year ended 31 March 2022.

The ratio of median pay ratio of 6:1 is low compared to other organisations, consistent with the Bank's obligation to deliver 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 2020/21, to illustrate the relative importance of spend on pay.

The year-on-year fall in remuneration as a percentage of total revenues is due to the significant increase in total revenues in 2021/22. This increase is explained in detail elsewhere in this report.

Implementation of the remuneration policy for 2021/22

The Committee used its delegated powers under the Bank's LTIP rules to change the approach to the way targets are set for the Corporate element of the LTIP, so that targets are set and assessed annually for each year of the three-year cycle. It is anticipated that the change will result in targets that are relevant and challenging throughout the term of the LTIP cycle, as well as more easily understood by participants.

Year	Total revenue (£k)	Total remuneration (£k)	%
2021/22	786,562	49,924	6%
2020/21	413,514	36,931	9%

The Committee also exercised its discretion under the LTIP rules to grant 'good leaver' status to two departing Senior Executives.

For 2021/22, the Bank observed the public sector pause on pay, announced by the Chancellor in December 2020. No general salary increases were awarded to colleagues in respect of 2021/22, with the exception of the increases to colleagues paid £24,000 or less permitted within the terms of the pay pause.

The Bank's performance-related bonus and LTIP arrangements accrued as normal in respect of the year 2021/22.

The Committee discussed future hiring requirements with the Bank, with a view to ensuring that there was a clear line-of-sight over executive hiring plans and that these plans were affordable and appropriate.

External advisers

The Remuneration Committee uses advisers for the provision of remuneration advice. During the year, Mercer provided advice to the Committee on remuneration matters for a fee of £23,970. Aon McLagan provided benchmarking data for fees of £42,600. Neither of these advisers has 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).

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 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 Shareholder to assess the Company's performance, business model and strategy.

By order of the Board

Catherine Lewis La Torre
Chief Executive Officer

Philip Piers
Chief Financial Officer
15 September 2022

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 2022 which comprise the:

– Consolidated Statement of Financial Position as at 31 March 2022;

– Consolidated Statement of Comprehensive Net Income, the Consolidated Cash Flow Statement and Consolidated Statement of Changes in Equity for the year then ended; and

– the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards, and as regards the parent company financial statements, 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 2022 and of the profit for the year then ended;

– have been properly prepared in accordance with UK adopted International Accounting Standards; and

– have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK). My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the British Business Bank plc group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the British Business Bank Plc group’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

My evaluation of the directors’ assessment of the entity’s ability to continue to adopt the going concern basis of accounting included:

- considering the group’s Business Plan for 2022–23 relevant to its operating expenditure;
- reviewing letters of comfort issued by the Department for Business, Energy and Industrial Strategy to the group in support of the group’s activities and the provision of funding; and
- considering if any other events or conditions have occurred which may cast doubt on the British Business Bank Plc group’s ability to continue as a going concern.

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

In relation to the entities reporting on how they have applied the UK Corporate Governance Code, I have nothing material to add or draw attention to in relation to the directors’ statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Overview of my audit approach

Key audit matters

Key audit matters are those matters that, in my professional judgment, were of most significance in the 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) identified by the auditor, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon. I do not provide a separate opinion on these matters.

This is not a complete list of all risks identified through the course of 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, for example, 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 measurement of expected credit losses and fair value measurement of financial assets as set out below; or fraud in revenue recognition, in 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 p91–92.

Key audit matter: 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 using methods which are subjective and rely on a range of unobservable inputs. These investments are held in the significant components British Business Finance Limited (BBF), British Business Investments Limited (BBI), British Patient Capital Limited (BPC) and the Start-up Loans Company (SUL).

The assumptions and judgements applied by management are disclosed in Note 2 to the financial statements (under the heading *Fair at initial recognition – SUL*) and in Note 3 to the financial statements (under the headings *Judgements and Estimates*).

There continues to be a high level of estimation uncertainty inherent in the fair value measurement of the group's investments due to significant and persisting economic uncertainty. In the context of the fair value measurement of BBB's investment in external funds, there is most estimation uncertainty attaching to the equity investment funds in the Venture/Venture Growth, Managed Funds and UK Innovation Investment Fund programmes. Together these funds are valued at £1.4bn, approximately 51% of the total investments held by the group.

The investments held in SUL are loans to entrepreneurs provided on non-commercial terms, where losses of 30% to 40% are expected across the scheme. Investments in Enterprise Capital Funds (ECFs), held in BBF, are also provided on non-commercial terms and valued using complex models and subjective inputs where a reasonable variation has a material impact on the valuation derived. 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.

Investments held at fair value had a total estimated fair value of £2.9bn at 31 March 2022 (£2.0bn at 31 March 2021). The increase in fair value over the year comprises estimated fair value gains of £0.7bn and new investments of £0.7bn, offset by recoveries of £0.5bn. Having previously invested solely through delivery partners, BPC is increasingly entering into direct investments. At 31 March 2022 the subsidiary directly held private equity investments with a total fair value of £80.4m (£12.1m at 31 March 2021).

How the scope of my audit responded to the risk

In auditing the fair value measurement of financial assets I have performed the following procedures:

- I have tested the design and implementation of the controls applied by the group 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 models 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 the 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.

Key audit matter: Fair value measurement of financial instruments (continued)

How the scope of my audit responded to the risk (continued)

- Where management uses models to estimate the value of its loans and investments, I considered the selection and application of methods applied, 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 estimates 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 SUL model I engaged an economic expert 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 reviewed the due diligence performed by BPC in respect of new direct investments. I reviewed publicly available information about the performance of each of the companies BPC has invested in and compared this to the information used in valuing the investments to consider whether the best available information had been used in forming the fair value. I reviewed the group's methodology for valuing direct investments against International Private Equity and Venture Capital Valuation (IPEV) guidelines. For co-investments, where BPC invested alongside with one of its delivery partners, I confirmed that the valuation applied by BPC was consistent with the valuation applied by the delivery partner (fund manager).
- 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 quarterly investment valuations provided by fund managers are a reliable basis for estimating the fair value of the groups' investments in funds.

My work over the direct investments held by BBB found that they were valued in line with the requirements of IFRS 13.

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.

The economic environment remains uncertain and there continues to be high levels of estimation uncertainty inherent in the fair value measurement of investments, especially for investments held in externally managed debt and equity funds. Note 12 to the financial statements (under the heading *Impact of economic uncertainty and Covid-19 on Investment Valuations*) adequately discloses the additional uncertainty in these fair values.

Key audit matter: Measurement of Expected Credit Losses

Description of risk

For investments held at amortised cost, the determination of expected credit losses (ECL) continues to be an area of significant estimation. The assumptions and judgements applied by management are disclosed in Note 2 to the financial statements (under the heading Impairment of financial assets) and in Note 3 to the financial statements (under the headings Economic scenarios and associated probability weightings and post-model overlays). This includes assumption and judgement in respect of: the application of IFRS 9 staging criteria; calculation of probability of default; and the use of forward looking macroeconomic forecasts.

BBB calculates ECLs using models developed by independent analytics and risk management experts. Additional overlays were made by management to reflect the underlying behaviours of the respective investment schemes.

The forward-looking macroeconomic scenarios are generated from key economic indicators provided by independent forecasters, comprising different economic outlooks. There is a high level of estimation uncertainty in the base case scenarios due to the inherent complexities in forecasting future economic outcomes, which are impacted by ongoing economic uncertainty. BBB run regression analysis on these variables to determine multipliers to apply to probabilities of default. These outlooks are weighted based on analysis and reviewed quarterly by management. Note 2 to the financial statements sets out the approach to calculating PD for each loan under the heading The calculation of probability of default (PD). This is broadly based on credit ratings determined on inception and estimation of behaviour of loans over their lives.

The allowance for ECL at 31 March 2022 is £48.5m (£77.7m at 31 March 2021). The decrease is mainly due to reduced BBI exposures as a result of interest repayments and debt sales, and improved performance of Start Up Loans. Although improved economic outlook has resulted in a reduced level of estimation uncertainty in the provision as compared to the prior year, a significant level of uncertainty continues to exist. Management have presented additional quantitative and qualitative disclosure (Note 23.3 – Financial Risk Management) regarding this estimation uncertainty in BBB's financial statements.

Key audit matter: 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 assessed the methodology for determining the Significant Increase in Credit Risk (SICR) criteria and independently tested the staging allocation by reperforming this across BBB's amortised cost loan portfolios.
- 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.
- I reviewed the sensitivity analysis undertaken by management to identify the most sensitive assumptions used in the models to focus our testing, and to evaluate how management had addressed estimation uncertainty in producing the accounting estimate. I evaluated the reasonableness of those assumptions and performed additional sensitivity analysis as appropriate.
- I tested significant post-model adjustments to confirm that management's judgements in determining the need for these was appropriate and that the assumptions underpinning the adjustments were reasonable.

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.

There remains significant estimation uncertainty in the measurement of loss allowances due to continued uncertainty in the UK economy. The financial statements (Note 23.3 – Financial risk management) describe the uncertainty in the measurement of the ECL and its sensitivity to key assumptions, which I am content is adequately disclosed.

Application of materiality

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 or irregularity. 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 British Business Bank Plc group's financial statements as a whole as follows:

	Group
Materiality	£33m
Basis for determining materiality	1% of net investment assets
Rationale for the benchmark applied	BBB develops and manages finance programmes that are intended to enhance the working of financial markets and improve access to finance for smaller businesses. These programmes involve the making of debt and equity investments, (through partner organisations and directly). I therefore chose net investment assets as the benchmark for determining materiality 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 factors that would influence the decisions of users of the financial statements.

Performance Materiality

I set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 75% of Group materiality for the 2021–22 audit (2020–21: 75%). In determining performance materiality, I have also considered the uncorrected misstatements identified in the previous period.

Other Materiality Considerations

As well as quantitative materiality there are certain matters that, by their very nature, would if not corrected influence the decisions of users, for example, any errors reported in the Accountability Report. 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.

Error Reporting Threshold

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. I also report to the Audit Committee on disclosure matters that I identified when assessing the overall presentation of the financial statements.

Total unadjusted audit differences reported to the Audit Committee would have increased net assets by £2,879k.

Audit scope

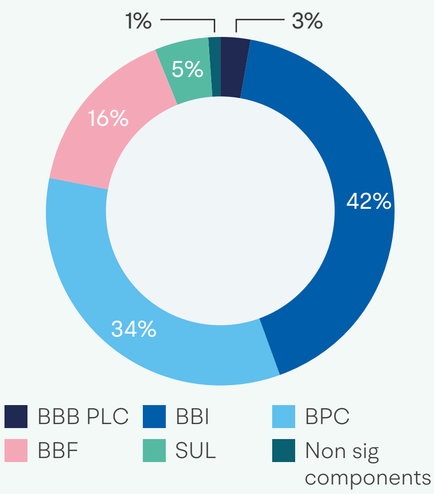
The scope of my British Business Bank plc group audit was determined by obtaining an understanding of the Group and its environment, including the group-wide controls, and assessing the risks of material misstatement at the Group level.

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 The Start-Up Loans Company (a subsidiary of British Business Finance Limited). The group engagement team separately audits the individual financial statements of British Business Bank plc, British Business Investments Limited, British Patient Capital Limited, and performs specific audit procedures on British Business Finance Limited and The Start-Up Loans Company for which (as disclosed in Note 21) the Group has taken an audit exemption.

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 was sufficient for my opinion on the group financial statements as a whole.

Total assets of the British Business Bank plc group (as at 31 March 2022)



Other Information

The other information comprises information included in the annual report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements;
- the information about internal control and risk management systems in relation to financial reporting processes, and about share capital structures, in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the group's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules
- I have reported separately, on p185–188, on the Parent Company Financial Statements of British Business Bank plc for the year ended 31 March 2022 and on the information in the Directors' Remuneration Report that is described as having been audited.

Matters on which I report by exception

In the light of the knowledge and understanding of the British Business Bank plc group and its environment obtained in the course of the audit, I have not identified material misstatements in:

- the Strategic Report or the Directors' Report;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit.

Corporate governance statement

The Listing Rules require me to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the British Business Bank plc group's compliance with the provisions of the UK Corporate Governance Statement specified for my review.

Based on the work undertaken as part of my audit, I have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or my knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on p74;
- Directors' explanation as to its assessment of the entity's prospects, the period this assessment covers and why the period is appropriate set out on p74;
- Directors' statement on fair, balanced and understandable set out on p120;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on p96–103;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on p96–103; and
- The section describing the work of the audit committee set out on p91–92.

Responsibilities of the Directors for the financial statements

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

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine are necessary to enable the preparation of financial statements to be free from material misstatement, whether due to fraud or error;
- assessing the British Business Bank plc group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the entity or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the British Business Bank Plc's group's accounting policies;
- Inquiring of management, the head of internal audit, partner organisations responsible for the making of investments and those charged with governance, including obtaining and reviewing supporting documentation relating to the British Business Bank Plc's group's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the group's controls relating to the compliance with the Companies Act 2006;
- discussing among the engagement team including significant component audit teams and internal specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the Group for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimates. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the British Business Bank plc group's framework of authorities as well as other legal and regulatory frameworks in which the group operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the British Business Bank plc group. The key laws and regulations I considered in this context included the Companies Act 2006, employment law and tax legislation.

In addition, I considered the significant estimates made by management in the production of the financial statement, in particular the measurement of expected credit losses and fair value measurement of financial instruments.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- addressing the risk of fraud through management override of controls by testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

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

Other auditor's responsibilities

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

Susan Clark
Senior Statutory Auditor
20 September 2022

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

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

Consolidated financial statements

Consolidated statement of comprehensive net income

For the year ended 31 March 2022

	Note	2022 £000	2021 £000
Income			
Interest income	4.1	47,651	45,429
Grant income	4.2	4,224	6,861
Management fee income	4.3	62,507	63,331
Other income		1,166	452
Gross operating income		**115,548**	**116,073**
Expected credit loss on amortised cost assets	12.1	29,283	45,076
Net gains on investment assets	5	619,123	222,684
Net gain on write down of repayable capital grant	6	22,608	29,681
Net operating income		**786,562**	**413,514**
Expenditure			
Staff costs	7.1	(49,924)	(36,931)
Other operating expenditure	7.2	(76,070)	(78,546)
Depreciation and amortisation		(2,474)	(2,919)
Operating expenditure		**(128,468)**	**(118,396)**
Net operating profit before ECF loan commitment financial liability, interest payable and finance costs		**658,094**	**295,118**
ECF loan commitment financial liability			
Provided in the year on new commitments	15	(110,003)	(35,989)
Released in the year	15	58,571	40,674
Finance costs on lease liabilities		(274)	(304)
Interest payable	16	(1,600)	(6,000)
Profit before tax		**604,788**	**293,499**
Tax	8.1	(151,895)	(52,007)
Profit for the year after tax		**452,893**	**241,492**
Other comprehensive income		-	-
Total comprehensive income for the year		**452,893**	**241,492**

All operations are continuing.

The notes on p136–184 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 2022

	Note	2022 £000	2021 £000
Assets			
Cash and cash equivalents	10	101,553	138,322
Trade and other receivables	11	17,669	15,183
Amortised cost investments	12.1	526,625	462,296
Investments held at fair value through profit or loss	12.2	2,902,510	1,981,545
Property, plant and equipment		671	1,587
Right-of-use assets	13	7,967	9,317
Intangible assets		12	220
Corporation Tax receivable		-	25,659
Total assets		**3,557,007**	**2,634,129**
Liabilities			
Trade and other payables	14	(35,408)	(29,391)
Corporation Tax payable		(7,957)	-
ECF loan commitment financial liability	15	(192,411)	(140,979)
Loans and other borrowings	16	(232,459)	(253,563)
Lease liabilities	17	(10,371)	(11,995)
Deferred tax liability	8.2	(184,881)	(53,174)
Total liabilities		**(663,487)**	**(489,102)**
Net assets		**2,893,520**	**2,145,027**
Equity			
Issued share capital	20.2	2,156,311	1,860,711
Retained earnings		737,209	284,316
Total equity		**2,893,520**	**2,145,027**

The financial statements of the Group (parent company number 08616013) were approved by the Board of Directors on 15 September 2022 and authorised for issue on the date of the independent auditor's report. They were signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer

The notes on p136–184 form an integral part of the financial statements.

Consolidated statement of changes in equity

As at 31 March 2022

	Note	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2020		**1,496,408**	**42,824**	**1,539,232**
Net income after tax		-	241,492	241,492
Total comprehensive income		**-**	**241,492**	**241,492**
Issue of ordinary shares	20.2	364,303	-	364,303
Balance at 31 March 2021		**1,860,711**	**284,316**	**2,145,027**
Balance as at 1 April 2021		**1,860,711**	**284,316**	**2,145,027**
Net income after tax		-	452,893	452,893
Total comprehensive income		**-**	**452,893**	**452,893**
Issue of ordinary shares	20.2	295,600	-	295,600
Balance at 31 March 2022		**2,156,311**	**737,209**	**2,893,520**

Consolidated cash flow statement

As at 31 March 2022

	Note	2022 £000	2021 £000
Profit before tax		**604,788**	**293,499**
Cashflows from operating activities			
Adjustments for non-cash items:			
Net gain on write down of repayable capital grant	6	(22,608)	(29,681)
Depreciation and amortisation		2,474	2,919
Interest payable		1,600	6,000
ECF loan commitment financial liability	15	51,432	(4,685)
Changes in operating assets and liabilities:			
Net (increase)/decrease in amortised cost investments	12.1	(64,329)	9,697
Net increase in assets at fair value through profit or loss	12.2	(920,965)	(476,023)
Increase in trade and other receivables	11	(2,486)	(5,346)
Increase in trade and other payables	14	6,017	7,939
Receipt/(payment) of Corporation Tax		13,428	(9,700)
Payment of interest payable		(1,600)	(6,000)
Net cash used in operating activities		**(332,249)**	**(211,381)**
Cashflows from financing activities			
Issue of new shares	20.2	295,600	364,303
Capital grants received	16	60,000	68,000
Payments of lease liabilities	17	(1,898)	(1,176)
Finance costs on lease liabilities	17	274	304
Net (decrease)/increase in shareholder funding	16	(10,494)	250,000
Net decrease in loans from Nuclear Liabilities Fund	16	(48,002)	(395,433)
Net cash from financing activities		**295,480**	**285,998**
Net (decrease)/increase in cash and cash equivalents		**(37,769)**	**74,617**
Cash and cash equivalents at beginning of the year		138,322	63,705
Cash and cash equivalents at end of the year		**101,553**	**138,322**

Interest received was £86.2m (2021: £66.4m).

The notes on p136–184 form an integral part of the financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2022

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 p28–73.

2. Significant accounting policies

Basis of preparation

The Group financial statements have been prepared in accordance with UK-adopted international accounting standards and International Financial Reporting Standards (IFRS). The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 2022.

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 judgement 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 Company and the Group have undertaken an assessment up to the year ending 31 March 2027. The basis of this assessment takes into account the outcome of the three year Spending Review for the period between 1 April 2022 to 31 March 2025 as announced in November 2021. Post the Spending Review period the Company and Group have used similar assumptions in its assessment for the period between 1 April 2026 and 31 March 2027. In addition 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

There were no 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 Directors do not expect that the adoption of Standards and Interpretations in issue but not yet effective will have a material impact on the financial statements of the Group in future years.

Income recognition – Management income and Other income

Under IFRS 15 'Revenue from contracts with customers', income is recognised when a recipient obtains control of goods 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.

The Group provides services to BEIS and other entities (as detailed in note 4.3). These services include managing the initial issuance and ongoing administration of assets held by those entities, along with performing certain central administrative functions where those entities do not have their own capabilities. The amount of income is typically based on the costs incurred by the Group in performing those services whether externally incurred or an allocation of internal costs; as such, these can be dependent on length of time or linked to specific activities.

The income related to these services is recognised when a recipient obtains control of the service and thus has the ability to direct the use and obtain benefits from 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 and expense on all financial instruments are recognised on an effective interest rate basis.

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 resource grant income and has been included in Trade and other payables 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 Consolidated Statement of Financial Position 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.

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, or fair value through profit or loss (FVTPL) depending on the Group's business model 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. 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 cashflows 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.

Individual investment programmes are detailed further in note 12.

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' if 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'.

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

Financial assets are included in 'stage 3' when there is objective evidence that the asset is credit impaired, with expected credit losses still calculated on a lifetime basis. 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.

ECLs are calculated using three main components, probability of default (PD), loss given default (LGD) and exposure at default (EAD). The LGD represents losses expected on default, taking into account the mitigating effect of collateral, its expected value when realised and the time value of money. The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default. Discounting of the expected cashflows is performed using the Effective Interest Rate (EIR).

The calculation of probability of default (PD)

The PD of each underlying loan or credit facility provided by the 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.

Changes in the carrying amount of assets arising as a result of impairment are recognised in the Consolidated Statement of Comprehensive Net Income. Loans remain on the Consolidated Statement of Financial Position, net of associated provisions, until they are deemed to have no reasonable expectation of recovery. Loans are generally fully written off where the offering of any forbearance measures has proved unsuccessful in the borrower being able to meet the revised repayment schedule, there is a continued pattern of non-payment and it is assessed that there is no realistic prospect of any further recovery. Loans are partially written off from an accounting perspective where the borrower is unable to repay the loan in full and the loan has been subject to forbearance such that the original amounts due are no longer expected to be fully recovered. 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.

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 21.

Cash and cash equivalents

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

Trade and other receivables

Trade and other receivables are measured at amortised cost.

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.

Loan commitments at below market rate

The Group accepts a lower than market rate of return from Enterprise Capital Fund (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 FVTPL. This group of 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.

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.

Foreign exchange

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. 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.

Leases

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.

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.

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.

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.

3. Critical accounting judgements and key sources of estimation uncertainty

In preparing the Consolidated 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

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 Group is provided with NAVs on a quarterly basis from the managers of the funds. These NAVs are reviewed with particular scrutiny given to the valuation methodologies adopted by the fund managers, ensuring that they are appropriate and consistent with IFRS, IPEV or other relevant valuation guidelines, as well as taking into account known items in respect of the underlying portfolio companies. Furthermore the funds are audited on an annual basis by independent auditors with the Group being provided with copies of these audited accounts.

The Group's investments in Co-investment, Future Fund: Breakthrough, and Enterprise Capital Funds – Direct Investments are not considered fund investments and therefore not based on fund NAVs. Further details of the valuation of these investments are shown in notes 12 and 23.2.

The ongoing economic uncertainty, and to a lesser extent than the prior year the Covid-19 pandemic have given rise to significant additional uncertainty as to investment valuations. The impact on investments will vary depending on individual business models and the success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.

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 profile of expected cashflows generated by the ECFs is derived from the current NAV of the individual funds. The key assumptions which involve a significant degree of management estimate are:

- the risk-adjusted discount rate used in the valuation of expected future cashflows
- the volatility percentage, which is a benchmark for the volatility of the market price of comparable investments over time.

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. The weighted average discount rates applied to the investments and commitments as at year-end were 15.4% and 17.2%, respectively. This is due to a larger number of funds being classified as high risk compared to those classified as low risk.

As an indication of sensitivity on the drawn investments, if all the funds had a 2% increase in discount rate applied this would decrease the fair value of the investments by £16.3m. Alternatively, if all the funds had a 2% decrease in discount rate applied this would increase the fair value of the portfolio by £15.9m.

As an indication of sensitivity on the commitments, if all the funds had a 2% increase in discount rate applied this would increase the loan commitment provision by £16.3m. Alternatively, if all the funds had a 2% decrease in discount rate applied this would decrease the loan commitment provision by £18.3m.

As a further indication of sensitivity on the drawn investments and commitments, if all the funds were treated as high risk with a 17.5% discount rate applied this would decrease the fair value of the investments by £11.0m.

Alternatively, if all the funds were treated as low risk with an 11% discount rate applied this would increase the fair value of the portfolio by £51.5m. If all the funds were treated as high risk with a 17.5% discount rate applied this would increase the loan commitment provision by £2.3m. Alternatively, if all the funds were treated as low risk with an 11% discount rate applied this would decrease the loan commitment provision by £64.6m.

Volatility percentage

The volatility assumptions are based on equity indices that are considered most closely aligned to the ECF portfolio companies, and consider the sector-specific focus and maturity of each fund. The volatility assumptions used in the model vary from 11.5% to 83.2%.

A 10% relative decrease in the volatility percentage used across the ECF portfolio would lead to a £4.0m decrease in the fair value of the investments. Likewise, a 10% relative increase in the volatility percentage used across the ECF portfolio would increase the value of the investments by £4.0m.

b. The assessment of fair value on initial recognition for SUL

There is uncertainty in both the expected cashflows and the discount rate 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 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 SONIA would lead to an approximate £1.2m decrease in the fair value recognised at inception for the loans newly originated during the year.

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.

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 ongoing behavioural modelling is not available, a fixed percentage of the performing portfolio is assumed to be in 'stage 2' based on historical grade transitions where available.

Where historical 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. This has been incorporated into the post-model overlay process.

Economic scenarios and associated probability weightings

IFRS 9 requires the calculation of ECLs to account for multiple forward-looking macroeconomic scenarios that are plausible. The ECL model adopted by the Group uses a range of forward-looking projections of UK liquidation rates generated by a macroeconomic regression model based on third party base case forecasts of Consumer Price Index growth rates, interest rates, and unemployment rates, and then under two better and three worse scenarios. The selection of variables was reviewed in 2021–22 to ensure their continued suitability as independent variables within the regression model.

To account for the volatile nature of the UK economic environment, the Group has continued to engage with our third party forecaster throughout the year to provide independent economic forecasts for use within the IFRS 9 ECL models. They provide six economic scenarios of varying severity as input to the macroeconomic regression model, and the weightings associated with each are reviewed, challenged and adjusted on a quarterly basis. As at 31 March 2022, adjustments to the scenario weightings have been applied to increase the probability of a downside scenario.

Post-model overlays

The Group uses models in the calculation of its expected credit loss provisions and as in prior years has applied post-model overlays to reflect the increase in credit risk that is not accounted for due to the rigidity of model recovery assumptions.

The most significant post model overlay that the Group makes is in relation to loss given defaults (LGD) to account for lower expected recoveries on defaulted loans. LGD overlays are applied to the BBI and SUL portfolios, and within the peer to peer portfolio. The overlays have resulted in an overall increase in the ECL provision of £5.4m which is 1% of total exposure.

4. Income

4.1 Interest income

	Note	2022 £000	2021 £000
Contractual Interest from amortised cost investments	12.1	31,274	26,582
Amortisation of fair value adjustment on initial recognition	12.1	16,377	18,847
Total interest income		**47,651**	**45,429**

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

	2022 £000	2021 £000
Grant received from Shareholder	4,224	6,861
Total grant income	**4,224**	**6,861**

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

	2022 £000	2021 £000
Management fee income earned from:		
Department for Business, Energy & Industrial Strategy	59,741	59,097
Northern Powerhouse Investments Limited	4	937
Midlands Engine Investments Limited	556	1,000
Cornwall and Isles of Scilly Investments Limited	117	122
Innovate UK	-	41
Nuclear Liabilities Fund	1,490	1,436
Other	599	698
Total management fee income	**62,507**	**63,331**

During the prior year, the Group began managing the Covid-19 emergency finance schemes on behalf of BEIS. The management fee income relating to Covid-19 emergency finance schemes recharge is £50.6m (2021: £49.1m) and the costs are reflected in note 7.3.

Management fee income from the Regional Funds as detailed in the above table, is in some instances, capped to the available resource grant of the chargeable company.

5. Net gains/(losses) on investment assets

	Note	2022 £000	2021 £000
Fair value adjustment on initial recognition of amortised cost assets	12.1	(31,002)	(32,905)
Derecognition of amortised cost assets	12.1	(27,690)	(56,317)
Recovery of previously derecognised amortised cost assets		42	55
Fair value adjustment on initial recognition of assets held at fair value through profit or loss	12.2	(49,997)	(40,674)
Fair value gains on assets held at fair value through profit or loss	12.2	727,770	352,525
Total net gains on investment assets		**619,123**	**222,684**

6. Net gain on write down of repayable capital grant

	2022 £000	2021 £000
Write down of repayable capital grant received	22,608	29,681
Total net gain on write down of repayable capital grant	**22,608**	**29,681**

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 16). On expiry of the grant period (31 March 2027), 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 Directors was:

	2022	2021
On payroll	508	391
Secondees and agency staff	30	6
Non-executive Directors	8	9
Total staff numbers	**546**	**406**

Aggregate remuneration comprised:

	2022 £000	2021 £000
Wages and salaries:		
On payroll including Executive Directors	28,479	23,582
Secondees and agency staff	6,360	737
Non-executive Directors' fees	442	398
Short- and long-term incentive plans and bonus scheme	6,581	5,537
Social security costs	4,047	3,362
Pension costs	4,015	3,315
Total staff costs	**49,924**	**36,931**

The above staff costs include an amount of £7.2m (2021: £2.7m) that has been recharged to BEIS in relation to the Covid-19 emergency finance schemes as detailed in note 7.3.

The details of the highest paid Director are included in the Directors' remuneration report on p104-111.

7.2 Other operating expenditure

	Note	2022 £000	2021 £000
Professional fees:			
Investment scheme design and transactions		3,633	1,948
Operational fees		2,463	7,255
Accommodation and office services		1,565	1,561
Information technology		8,268	5,289
Marketing		4,993	4,184
SUL delivery partner fees		8,282	8,666
Auditor's remuneration		465	440
Staff related costs, including training and travel		2,029	1,057
Other purchase of goods and services		948	1,719
Covid-19 emergency finance schemes direct operating expenditure	7.3	43,424	46,427
Total other operating expenditure		**76,070**	**78,546**

The above operating expenditure includes an amount of £43.4m (2021: £46.4m) that has been recharged to BEIS in relation to the Covid-19 emergency finance schemes as detailed in note 7.3.

Auditor's remuneration is stated net of VAT and represents the total fee payable by the Group for all statutory audit services. A fee of £265,000 plus VAT was charged for the audit of the Group's Annual Report and Accounts.

During the year, the method for reporting agency staff was updated and as a result an amount of £6.0m has been recorded against Secondees and agency staff in note 7.1 that would have previously been recorded against Operational fees in note 7.2. This has also led to an increase of 28 Secondees and agency staff in the average number of employees disclosed above. Given this change has been made in year the prior year comparatives have not been updated.

7.3 Covid-19 scheme direct expenditure

	Note	2022 £000	2021 £000
Staff costs	7.1	7,150	2,722
Covid-19 emergency finance schemes direct operating expenditure	7.2	43,424	46,427
Total Covid-19 scheme expenditure		**50,574**	**49,149**

During the prior year the Company began managing the Covid-19 emergency finance schemes on behalf of BEIS and as such incurred direct costs on their behalf as shown in note 7.2. In addition, there was a recharge of staff costs attributable to the Covid-19 emergency finance schemes of £7.2m (2021 £2.7m) included within note 7.1. The direct expenditure was fully recharged to BEIS and staff costs were recharged on a proportional basis, with the total recharged being included in the management fee income note 4.3.

8. Tax

8.1 Tax on profit on continuing activities

	2022 £000	2021 £000
Current tax		
Current year	1,089	127
Adjustment in respect of prior years	19,099	(10,587)
Total current tax	**20,188**	**(10,460)**
Deferred tax		
Current year	131,413	44,840
Adjustment in respect of prior years	294	17,627
Total deferred tax	**131,707**	**62,467**
Total tax recognised through comprehensive income	**151,895**	**52,007**

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 2022.

Deferred tax primarily relates to the Group's investments. It is calculated at 25% (2021: 19%) 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 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.

8. Tax (continued)

The tables below reconcile the tax charge for the year:

	2022 £000	2021 £000
Profit/(loss) before tax	604,788	293,499
Tax on profit/(loss) at standard UK tax rate 19% (2021: 19%)	114,910	55,765
Effects of:		
Permanent disallowances relating to:		
Other permanent disallowances	102	1,992
Timing differences relating to:		
Tax effects of fair value movements	(25,132)	(12,782)
Adjustments in respect of prior periods	19,085	7,040
Effects of rate change	44,371	-
Movement in unrecognised deferred tax	(1,649)	-
Other timing differences	208	(9)
Total tax charge	**151,895**	**52,006**

	Unrealised losses		Deferred tax	
	2022 £000	2021 £000	2022 £000	2021 £000
Unrealised losses	(50,644)	(25,842)	(12,661)	(4,910)
Other timing differences*	790,168	354,616	197,542	67,377
Other timing differences subject to deferred tax	**739,524**	**328,774**	**184,881**	**62,467**

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

8. Tax (continued)

8.2 Deferred tax liability

	2022 £000	2021 £000
Deferred tax liability/(asset) at 1 April	53,174	(9,293)
Movement in the year	131,707	62,467
Deferred tax liability at 31 March	**184,881**	**53,174**

In the March 2021 UK Budget, it was announced that the UK rate of Corporation Tax will increase from 19% to 25% effective from 1 April 2023. The change was enacted on 10 June 2021, and as a result the closing deferred tax assets and liabilities have been measured at a rate of 25%. The impact on the change in tax rate is expected to occur when the deferred tax balances unwind.

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 Loans 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 Net Income for the year ending 31 March 2022

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income							
Investment Programmes	-	17,865	-	-	-	-	17,865
Venture Solutions	2,471	-	-	-	-	(1,270)	1,201
Start Up Loans	-	-	-	28,585	-	-	28,585
Management fee and other income	403	430	1,490	-	106,387	(45,037)	63,673
Grant income	-	-	-	4,224	-	-	4,224
	2,874	18,295	1,490	32,809	106,387	(46,307)	115,548
Net gains/(losses) on investment assets							
Investment Programmes	-	185,101	-	-	-	-	185,101
Venture Solutions	144,851	-	354,046	-	-	-	498,897
Start Up Loans	-	-	-	(35,592)	-	-	(35,592)
	144,851	185,101	354,046	(35,592)	-	-	648,406
Net gain on write down of repayable capital grant	-	-	-	**22,608**	-	-	**22,608**
Operational expenditure							
Staff costs	(1,688)	(1,782)	(2,717)	(3,088)	(40,649)	-	(49,924)
Professional services	(328)	(1,478)	(787)	(557)	(40,014)	-	(43,164)
General operations	(18,106)	(10,718)	(12,783)	(14,960)	(23,850)	45,037	(35,380)
	(20,122)	(13,978)	(16,287)	(18,605)	(104,513)	45,037	(128,468)
Net operating profit before ECF loan commitment financial liability and interest payable	**127,603**	**189,418**	**339,249**	**1,220**	**1,874**	**(1,270)**	**658,094**
ECF fair value provision expense	58,571	-	-	-	-	-	58,571
ECF fair value provision on new commitments	(110,003)	-	-	-	-	-	(110,003)
Finance costs	-	-	-	-	(274)	-	(274)
Interest payable	-	-	-	(1,270)	(1,600)	1,270	(1,600)
Profit/(loss) before tax	**76,171**	**189,418**	**339,249**	**(50)**	**-**	**-**	**604,788**

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 Net Income for the year ending 31 March 2021

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Intra-group eliminations £000	Total Group £000
Income							
Investment Programmes	-	18,045	-	-	-	-	18,045
Venture Solutions	2,431	-	-	-	-	(1,270)	1,161
Start Up Loans	-	-	-	26,223	-	-	26,223
Management fee and other income	29	406	1,435	-	106,685	(44,772)	63,783
Grant income	-	-	-	6,861	-	-	6,861
	2,460	18,451	1,435	33,084	106,685	(46,042)	116,073
Net gains/(losses) on investment assets							
Investment Programmes	-	102,075	-	-	-	-	102,075
Venture Solutions	14,360	-	195,752	-	-	-	210,112
Start Up Loans	-	-	-	(44,427)	-	-	(44,427)
	14,360	102,075	195,752	(44,427)	-	-	267,760
Net gain on write down of repayable capital grant	**-**	**-**	**-**	**29,681**	**-**	**-**	**29,681**
Operational expenditure							
Staff costs	(1,184)	(1,687)	(1,842)	(2,782)	(29,436)	-	(36,931)
Professional services	(30)	(1,049)	(423)	(77)	(8,457)	-	(10,036)
General operations	(18,172)	(10,389)	(10,983)	(14,169)	(62,488)	44,772	(71,429)
	(19,386)	(13,125)	(13,248)	(17,028)	(100,381)	44,772	(118,396)
Net operating profit before ECF loan commitment financial liability and interest payable	**(2,566)**	**107,401**	**183,939**	**1,310**	**6,304**	**(1,270)**	**295,118**
ECF fair value provision expense	40,674	-	-	-	-	-	40,674
ECF fair value provision on new commitments	(35,989)	-	-	-	-	-	(35,989)
Finance costs	-	-	-	-	(304)	-	(304)
Interest payable	-	-	-	(1,270)	(6,000)	1,270	(6,000)
Profit/(loss) before tax	**2,119**	**107,401**	**183,939**	**40**	**-**	**-**	**293,499**

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, which is part of 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 before tax in the Consolidated Statement of Comprehensive Net Income.

	Note	2022 £000	2021 £000
Fair value adjustment on initial recognition	12.2	(49,997)	(40,674)
Fair valuation movements	12.2	202,110	52,345
Provision released in year	15	58,571	40,674
Net gain on Enterprise Capital Funds		**210,684**	**52,345**

Start Up Loans

The Group accepts a lower than market rate of return from Start Up Loans to entrepreneurs as explained 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.

	Note	2022 £000	2021 £000
Gross lending advanced in the year	12.1	130,748	137,385
Fair value adjustment on initial recognition	12.1	(31,002)	(32,905)
Fair value on initial recognition		**99,746**	**104,480**

9. Operating segments (continued)

Consolidated statement of financial position as at 31 March 2022

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Total Group £000
Investment assets						
Amortised cost						
BFP Mid Cap	-	131,081	-	-	-	131,081
Investment Programme	-	176,122	-	-	-	176,122
Loan to Midlands Engine Investments	14,958	-	-	-	-	14,958
Start Up Loans	-	-	-	178,831	-	178,831
Loan to Northern Powerhouse Investments	25,633	-	-	-	-	25,633
Assets held at FVTPL						
BFP Mid Cap	-	247,735	-	-	-	247,735
Investment Programme	-	542,243	-	-	-	542,243
Enterprise Capital Funds	435,826	-	-	-	-	435,826
Enterprise Capital Funds – Direct Investment	40,627	-	-	-	-	40,627
Venture/Venture Growth	-	-	1,171,009	-	-	1,171,009
Co-Investment	-	-	55,159	-	-	55,159
UKIIF	-	153,328	-	-	-	153,328
Managed Funds	-	164,129	-	-	-	164,129
Future Fund: Breakthrough	-	-	25,307	-	-	25,307
Life Sciences Investment Programme	-	-	1,914	-	-	1,914
Other Venture Capital Investments	8,015	57,221	-	-	-	65,236
Total investment assets	**525,059**	**1,471,859**	**1,253,389**	**178,831**	**-**	**3,429,138**
ECF loan commitments financial liability	(192,411)	-	-	-	-	(192,411)
Net investment assets	**332,648**	**1,471,859**	**1,253,389**	**178,831**	**-**	**3,236,727**
Other assets/(liabilities)						
Other assets	4,068	29,065	14,765	8,522	54,825	111,245
Loans and other borrowings	-	-	-	(130,054)	(102,405)	(232,459)
Amounts owed from Group undertakings	52,306	71,494	(65,569)	(54,798)	(3,433)	-
Other liabilities	-	(71,504)	(131,301)	(2,335)	(16,853)	(221,993)
Total net assets	**389,022**	**1,500,914**	**1,071,284**	**166**	**(67,866)**	**2,893,520**

At 31 March 2022 the Company held investments in subsidiaries of £2,271.6m which are eliminated in full on consolidation.

9. Operating segments (continued)

Consolidated statement of financial position as at 31 March 2021

	BBFL £000	BBI £000	BPC £000	SUL £000	Company plc and BBFSL £000	Total Group £000
Investment assets						
Amortised cost						
BFP Mid Cap	-	92,609	-	-	-	92,609
Investment Programme	-	176,813	-	-	-	176,813
Loan to Midlands Engine Investments	14,923	-	-	-	-	14,923
Start Up Loans	-	-	-	157,366	-	157,366
Loan to Northern Powerhouse Investments	20,585	-	-	-	-	20,585
Assets held at FVTPL						
BFP Mid Cap	-	312,190	-	-	-	312,190
Investment Programme	-	441,906	-	-	-	441,906
Enterprise Capital Funds	334,536	-	-	-	-	334,536
Venture/Venture Growth	-	-	640,933	-	-	640,933
Co-Investment	-	-	12,149	-	-	12,149
UKIIF	-	141,725	-	-	-	141,725
Managed Funds	-	59,640	-	-	-	59,640
Other Venture Capital Investments	9,539	16,065	12,862	-	-	38,466
Total investment assets	**379,583**	**1,240,948**	**665,944**	**157,366**	**-**	**2,443,841**
ECF loan commitments financial liability	(140,979)	-	-	-	-	(140,979)
Net investment assets	**238,604**	**1,240,948**	**665,944**	**157,366**	**-**	**2,302,862**
Other assets/(liabilities)						
Other assets	20,206	91,699	14,855	4,550	56,094	187,404
Loans and other borrowings	-	-	-	(107,556)	(146,007)	(253,563)
Amounts owed from Group undertakings	44,574	50,946	(23,381)	(52,568)	(19,571)	-
Other liabilities	(276)	(23,850)	(43,121)	(1,631)	(22,798)	(91,676)
Total net assets	**303,108**	**1,359,743**	**614,297**	**161**	**(132,282)**	**2,145,027**

At 31 March 2021 the Company held investments in subsidiaries of £2,036.7m which are eliminated in full on consolidation.

10. Cash and cash equivalents

	2022 £000	2021 £000
Government Banking Service	73,814	116,665
Commercial banks	27,739	21,657
Total cash and cash equivalents	**101,553**	**138,322**

As the majority of cash is held in the Government Banking Service there is minimal cost to the Exchequer.

11. Trade and other receivables

	2022 £000	2021 £000
Amounts receivable within one year		
Trade receivables	7,618	5,815
Accrued income	7,976	7,385
Prepayments and other receivables	2,075	1,983
Total trade and other receivables	**17,669**	**15,183**

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

12. Investments

12.1 Amortised cost investments

As at 31 March 2022

	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[1] £000	Expected credit loss allowance £000	Closing balance £000
BFP Mid Cap	92,609	56,959	–	(24,159)	5,161	–	–	511	131,081
Investment Programme	176,813	106,948	–	(125,933)	12,704	–	(6,836)	12,426	176,122
Start Up Loans	157,366	130,748	(31,002)	(102,275)	12,208	16,377	(20,854)	16,263	178,831
Loan to Northern Powerhouse Investments	20,585	5,000	–	(731)	731	–	–	48	25,633
Loan to Midlands Engine Investments	14,923	–	–	(470)	470	–	–	35	14,958
Total	**462,296**	**299,655**	**(31,002)**	**(253,568)**	**31,274**	**16,377**	**(27,690)**	**29,283**	**526,625**

As at 31 March 2021

	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[1] £000	Expected credit loss allowance £000	Closing balance £000
BFP Mid Cap	89,876	14,093	–	(16,934)	4,267	–	–	1,307	92,609
Investment Programme	226,168	150,952	–	(212,562)	13,778	–	–	(1,523)	176,813
Start Up Loans	120,937	137,385	(32,905)	(82,753)	7,376	18,847	(56,317)	44,796	157,366
Loan to Northern Powerhouse Investments	20,288	–	–	(679)	679	–	–	297	20,585
Loan to Midlands Engine Investments	14,724	–	–	(482)	482	–	–	199	14,923
Total	**471,993**	**302,430**	**(32,905)**	**(313,410)**	**26,582**	**18,847**	**(56,317)**	**45,076**	**462,296**

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.

[1] Derecognition relates to closures and write-offs.

12. Investments (continued)

12.2 Investments held at fair value through profit or loss

As at 31 March 2022

	Opening balance £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Fair value movements £000	Closing balance £000
BFP Mid Cap	312,190	5,008	-	(94,063)	24,600	247,735
Investment Programme	441,906	139,976	-	(99,621)	59,982	542,243
UKIIF	141,725	3,084	-	(37,232)	45,751	153,328
Managed Funds	59,640	66,457	-	(2,408)	40,440	164,129
Regional Angels	16,065	34,884	-	(1,916)	8,186	57,219
Venture/Venture Growth	653,795	257,513	-	(66,789)	326,490	1,171,009
Co-Investment	12,149	15,293	-	-	27,717	55,159
Future Fund: Breakthrough	-	25,330	-	-	(23)	25,307
Life Sciences Investment Programme	-	2,055	-	(4)	(138)	1,913
Enterprise Capital Funds	334,536	100,644	(49,997)	(151,467)	202,110	435,826
Enterprise Capital Funds – Direct Investments	-	46,151	-	-	(5,524)	40,627
Legacy Venture Capital Investments	9,539	2,056	-	(1,759)	(1,821)	8,015
Total	1,981,545	698,451	(49,997)	(455,259)	727,770	2,902,510

As at 31 March 2021

	Opening balance £000	Additions £000	Fair value adjustment on initial recognition £000	Repayments £000	Fair value movements £000	Closing balance £000
BFP Mid Cap	379,196	5,000	-	(86,882)	14,876	312,190
Investment Programme	390,866	89,690	-	(87,738)	49,088	441,906
UKIIF	142,253	5,869	-	(35,940)	29,543	141,725
Managed Funds	10,243	43,569	-	(2,473)	8,301	59,640
Regional Angels	548	15,342	-	(254)	429	16,065
Venture/Venture Growth	325,075	158,116	-	(22,999)	193,603	653,795
Co-Investment	-	10,000	-	-	2,149	12,149
Enterprise Capital Funds	253,344	82,258	(40,674)	(12,737)	52,345	334,536
Legacy Venture Capital Investments	3,997	3,448	-	(97)	2,191	9,539
Total	1,505,522	413,292	(40,674)	(249,120)	352,525	1,981,545

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.

Repayments received during the year of £46.2m (2021: £nil) from Enterprise Capital Funds have been used to acquire the Enterprise Capital Funds – Direct Investments.

12. Investments (continued)

Business Finance Partnership

British Business Investments Limited (BBI) manages the Business Finance Partnership programme.

The Business Finance Partnership (BFP) invested in funds which lend to medium-sized businesses with turnover of up to £500m. Under IFRS 9 the BFP portfolio was classified as FVTPL except for one fund that is classified as amortised cost. M&G manages a portfolio of loans which pass the SPPI test.

Investment Programme

BBI manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of private sector investment, encouraging new providers 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, invoice discount finance, asset finance and other credit facilities. This lending is classified as amortised cost under IFRS 9.

Through the Investment Programme, BBI is a participant in Tier 2 fixed rate reset callable subordinated loan notes by Shawbrook Bank plc with an initial semi-annual coupon of 9%, Atom Bank with a fixed coupon of 10% p.a., Secure Trust Bank with an interest rate of 6.75% p.a., and PCF Bank Ltd with a fixed coupon of 8% p.a.

These investments are classified as amortised cost under IFRS 9.

Venture/Venture Growth

Through the Venture/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.

Co-investment

BPC will also invest in Co-investment opportunities arising through its portfolio.

Through Co-Investment BPC invests in late-stage UK scale-up companies. Currently it co-invests alongside BPC fund General Partners into their existing portfolio companies. This allows BPC to increase its exposure to the best portfolio companies in its best funds.

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 upside gain in excess of the agreed return.

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 in ECFs are classified as FVTPL under IFRS 9.

Accounting standards require that financial assets are recognised 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.

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 15 for further commitment details.

Enterprise Capital Fund – Direct Investment

During the year, one of the ECF investments was disposed for listed shares as part of the fund being listed. The two new investments held are still considered to form part of the ECF programme but are distinctly different in their accounting treatment. These investments are Level 1 investments and measured at FVTPL under IFRS 9 based on the listed share price.

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 investments in Managed Funds are classified as FVTPL under IFRS 9.

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. These investments are accounted for and measured at FVTPL under IFRS 9.

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 disclosed 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.

Life Sciences Investment Programme

Through the LSIP programme BPC invests in commercially viable later-stage life sciences venture growth funds, to support UK life sciences companies with high growth potential to access the long-term finance they need to scale up. These investments are accounted for and measured at FVTPL under IFRS 9.

Future Fund: Breakthrough

Through the Future Fund: Breakthrough programme BPC directly invests alongside private sector investors in growth-stage R&D intensive UK companies operating in breakthrough technology sectors. These investments are accounted for and measured at FVTPL under IFRS 9.

Legacy Venture Capital Investments

BBFL also has three other smaller schemes: Help to Grow funds, Aspire and Direct Investments.

Impact of economic uncertainty and Covid-19 on investment valuations

As reported in the prior year, we have seen further recovery in economic activity following the initial Covid-19 impact in FY 2019-20 as reflected in the Group's investment valuations at the reporting date.

The Covid-19 impact on the Amortised Cost investments had been proportionally greater than on the FVTPL investments, and management's estimate of the component of the 2021–22 ECL provision which is Covid-19 related is around £5.4m out of a total ECL provision of £48.5m. The Covid-19 amount has reduced year on year by £2.8m, reflecting the improved economic outlook. The forward-looking nature of the approach to calculating ECL provisioning under IFRS 9 means that future losses are recognised at an earlier stage and take account of forecast future economic scenarios. The nature of the lending within the larger portfolios within the Amortised Cost portfolio, in particular Start Up Loans and the peer-to-peer platform lending (which is lending to start-ups and micro-businesses often without collateral), makes these investments more vulnerable to any impact of an economic downturn.

The 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 more positively impacted by 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 ongoing economic uncertainty, and to a lesser extent the Covid-19 pandemic have given rise to additional uncertainty around investment valuations. The impact on investments will vary depending on individual business models and the success of any mitigating market interventions. Valuation methodologies include market multiples, industry benchmarks and discounted cashflows, all of which are inherently more uncertain as marketplaces change and so forecasts and historical reference points become less reliable.

Withdrawal from programmes*

As reported in the prior years, in this, and future Annual Reports, to maintain transparency on this topic, we commit to reporting on any material changes to the summary statements previously reported (such as withdrawal completing, or conversely, if programmes are refinanced).

There is nothing of this nature to report in the year ending 31 March 2022.

* 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.

13. Right-of-use assets

	Right-of-use Property £000
Cost or valuation	
At 1 April 2021	13,377
At 31 March 2022	**13,377**
Accumulated depreciation and impairment	
At 1 April 2021	(4,060)
Charge for the year	(1,350)
At 31 March 2022	**(5,410)**
Carrying amount	
At 31 March 2022	**7,967**
At 31 March 2021	9,317

Right-of-use Property is the value of the leased property recognised upon implementation of IFRS 16.

The corresponding lease liability is disclosed in note 17.

14. Trade and other payables

	2022 £000	2021 £000
Amounts falling due within one year		
Trade payables	5,824	1,700
VAT and social security	1,025	2,152
Accrued expenditure	21,239	23,858
Other payables	6,346	1,483
Deferred resource grant income	974	198
Total trade and other payables	**35,408**	**29,391**

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

15. ECF loan commitment financial liability

	2022 £000	2021 £000
Balance at 1 April	140,979	145,664
Provided in year on new ECFs	110,003	35,989
Released in year	(58,571)	(40,674)
Balance at 31 March	**192,411**	**140,979**
Of which:		
Current	46,420	38,426
Non-current	145,991	102,553
	192,411	**140,979**

Non-current amounts relate to undrawn loan commitments where, based on historical and forecast information, it is not anticipated the commitments will be utilised within 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 Consolidated Statement of Financial Position date.

As permitted under IFRS 9, an election has been made to measure the financial liability arising from the undrawn loan commitments at FVTPL.

Included within the £58.6m released in year value in the table above is an amount of £8.4m relating to a release of provision following de-commitment as a result of an investment disposal. The remaining value relates to release on drawdown of the commitment (2021: £40.7m release on drawdown of commitment only).

16. Loans and other borrowings

	2022 £000	2021 £000
Repayable within one year		
Unsecured loans provided by BEIS	14,000	24,494
Unsecured loans provided by the Nuclear Liabilities Fund	88,405	-
Repayable capital grants	130,054	92,662
	232,459	**117,156**
Repayable after one year		
Unsecured loans provided by the Nuclear Liabilities Fund	-	136,407
Total loans and other borrowings	**232,459**	**253,563**

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 £60m (2021: £68m) and wrote down the value of capital grants by £22.6m (2021: £29.7m).

The Company has received further loans of £300.0m from BEIS, of which £295.6m was settled by share issue. The balance of £14.0m (2021: £9.6m) is repayable on demand and carries a zero-interest rate.

BEIS had provided two term loan facilities to SUL. The first facility of £12.0m was provided on 24 February 2014 and was repaid in the year. The balance of this loan facility at 31 March 2022 was £nil (2021: £7.9m). A further term facility of £10.0m was provided on 17 December 2015 and was also repaid in the year. The balance of this facility at 31 March 2022 was £nil (2021: £7m).

On 28 December 2018 the Group received a 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 up to and including 31 March 2021, then decreasing to 1.5% for the remaining life of the loan. £1.6m (2021: £3.1m) of interest was accrued in the year. During the year repayments of £48.0m (2021: £34.1m) were made against the unsecured loans and interest of £1.6m (2021: £3.1m) was repaid. The balance of this loan at 31 March 2022 was £88.4m (2021: £136.4m).

BEIS is a party to the Nuclear Liabilities Fund loan agreement, 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 loan including any interest or costs accrued.

17. Lease liabilities

	2022 £000	2021 £000
Maturity analysis – contractual undiscounted cashflow		
Less than one year	1,898	1,898
One to five years	7,591	7,590
More than five years	1,653	3,551
Total undiscounted lease liabilities at 31 March	**11,142**	**13,039**

Lease liabilities included in the Consolidated Statement of Financial Position at 31 March	**10,371**	**11,995**
Current	1,664	1,624
Non-current	8,707	10,371

During the year the Group made lease payments of £1.9m (2021: £1.2m) and recognised interest of £0.3m (2021: £0.3m) on the lease liability.

18. 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 2021	136,407	117,156	11,995	140,979	406,537
Cashflows:					
Repayments	-	(360,099)	(1,898)	-	(361,997)
Proceeds	-	360,000	-	-	360,000
Non-cash:					
Transfers	(136,407)	136,407	-	-	-
Interest	-	1,602	274	-	1,876
Provision movement	-	-	-	51,432	51,432
Write off	-	(22,607)	-	-	(22,607)
Balance at 31 March 2022	**-**	**232,459**	**10,371**	**192,411**	**435,241**

18. Reconciliation of liabilities arising from financing activities (continued)

	Long-term borrowings £000	Short-term borrowings £000	Lease Liabilities £000	ECF loan commitments £000	Total £000
Balance at 1 April 2020	170,400	430,672	12,867	145,664	759,603
Cashflows:					
Repayments	(37,130)	(364,304)	(1,176)	-	(402,610)
Proceeds	-	77,600	-	-	77,600
Non-cash:					
Interest	3,137	2,870	304	-	6,311
Provision movement	-	-	-	(4,685)	(4,685)
Write off	-	(29,682)	-	-	(29,682)
Balance at 31 March 2021	**136,407**	**117,156**	**11,995**	**140,979**	**406,537**

19. Contingent liabilities and indemnities

Under the Bank's Help to Grow financial guarantee programme, the Bank has entered into financial guarantee agreements of £nil (2021: £nil). 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 2022 the amount lent under these financial guarantee agreements was £3m (2021: £3m). The programme is now closed and there will be no further lending.

20. Capital and other commitments

20.1 Capital commitments

The British Business Bank plc had the following undrawn commitments at the balance sheet date in relation to its existing investment portfolio:

	2022 £000	2021 £000
British Business Investments Limited		
BFP Mid Cap	114,809	158,298
Investment Programme	479,182	452,950
UKIIF	9,938	15,102
Regional Angels	79,692	69,369
Managed Funds	281,740	303,502
British Patient Capital Limited		
Venture Growth	279,446	250,590
Venture	257,424	267,534
Future Fund: Breakthrough	-	-
Life Sciences Investment Programme	27,625	-
Venture Solutions		
Enterprise Capital Funds	376,688	280,461
Other		
Northern Powerhouse Investments Ltd	24,300	29,300
Midlands Engine Investments Ltd	17,500	17,500
Total	**1,948,344**	**1,844,606**

During the year it was discovered that the BFP Mid Cap and Managed Funds capital commitments were incorrect. These capital commitments have been restated as at March 2021 by increasing the BFP Mid Cap capital commitment by £107.8m and reducing the Managed Funds capital commitment by £15.7m. Note 23.3 has also been updated to reflect this restatement.

20.2 Share capital

	2022	2021
Issued and fully paid ordinary shares of £1 each:	2,156,311,268	1,860,711,268

	£000	£000
Brought forward	1,860,711	1,496,408
Shares issued for cash	295,600	364,303
Carried forward	**2,156,311**	**1,860,711**

The Company has one class of ordinary shares which carry no right to fixed income. During the year the company issued 295,600,000 ordinary £1 shares at par value (2021: 364,303,344).

21. 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	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 & Industrial Strategy	100%
Capital for Enterprise Limited*	UK	Holding company	100%
Capital for Enterprise Fund Managers Limited*	UK	Acted as fund manager of Capital for Enterprise L.P.	100%
Capital for Enterprise (GP) Limited*	UK	Acted 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	100%

* 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 2022, are provided in the segmental reporting note 9. All Group subsidiaries have co-terminus year-ends.

As required by the Companies Act 2006, 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.

21. Subsidiaries and other significant undertakings (continued)

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

The British Business Bank Group also has the following significant holdings in undertakings other than subsidiaries.

Subsidiary	Country of Incorporation	Nature of Business	Shares 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%
Crown Growth Europe Expansion S.C.S. Registered address: 8 Rue Lou Hemmer, L-1748 Senningerberg, Luxembourg	Luxembourg	Class A and Class O-P shares	33.3%
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%

22. 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 2022 and 31 March 2021 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 Group has £2,786m (2021: £1,933m) of interests in limited partnerships considered to be structured entities that were measured at fair value through P&L.

23. Financial instruments

23.1 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 2022

	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	12.1	-	526,625	-	-	526,625
Investment assets held at FVTPL	12.2	2,902,510	-	-	-	2,902,510
Trade and other receivables	11	-	16,441	-	-	16,441
Cash and cash equivalents	10	-	101,553	-	-	101,553
Total assets		**2,902,510**	**644,619**	**-**	**-**	**3,547,129**
Liabilities						
Trade and other payables	14	-	-	(34,083)	-	(34,083)
Loans and other borrowings	16	-	-	(88,405)	(144,054)	(232,459)
ECF loan commitments	15	-	-	-	(192,411)	(192,411)
Lease liabilities	17	-	-	(10,371)	-	(10,371)
Total liabilities		**-**	**-**	**(132,859)**	**(336,465)**	**(469,324)**
Net assets		**2,902,510**	**644,619**	**(132,859)**	**(336,465)**	**3,077,805**

At 31 March 2021

	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	12.1	-	462,296	-	-	462,296
Investment assets held at FVTPL	12.2	1,981,545	-	-	-	1,981,545
Trade and other receivables	11	-	13,958	-	-	13,958
Cash and cash equivalents	10	-	138,322	-	-	138,322
Total assets		**1,981,545**	**614,576**	**-**	**-**	**2,596,121**
Liabilities						
Trade and other payables	14	-	-	(26,937)	-	(26,937)
Loans and other borrowings	16	-	-	(151,301)	(102,262)	(253,563)
ECF loan commitments	15	-	-	-	(140,979)	(140,979)
Lease liabilities	17	-	-	(11,995)	-	(11,995)
Total liabilities		**-**	**-**	**(190,233)**	**(243,241)**	**(433,474)**
Net assets		**1,981,845**	**614,576**	**(190,233)**	**(243,241)**	**2,162,647**

23.2 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 three FVTPL investments which are classified as Level 1 assets.

During the year ending 31 March 2022 the fair value of investment assets held at fair value through profit or loss increased by £727.8m (2021: £352.5m) taken to the Consolidated Statement of Comprehensive Net Income. A large proportion of the overall fair value increase is driven by increases on a small number of investment assets. In addition, there was a fair value decrease of £50.0m (2021: £40.7m) as a result of fair value on initial recognition taken to the Consolidated Statement of Comprehensive Net Income. Fair value adjustments on initial recognition of amortised cost investments of £31.0m (2021: £32.9m) 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, Co-Investment and Future Fund: Breakthrough, 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 Executive Valuation Committee also review and approve all investment valuations at a programme level.

Enterprise Capital Funds

Although accounted for as a single instrument, for valuation purposes, the Enterprise Capital Funds investments are bifurcated into a debt and a derivative element. 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.

Future Fund: Breakthrough

The fair value of these investments is determined internally using valuation methods aligned to IPEV guidelines. As at the 2021/22 year-end, these investments had all been made in the last five months and were valued consistently with the investee's latest equity funding round and BPC's acquisition cost. Given the nature of these investments there is an inherent uncertainty in their valuation.

23.2 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 2022	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 11.5% to 83.2%	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 2022 £000	Fair Value 2022 £000	Carrying Value 2021 £000	Fair Value 2021 £000
Financial assets at amortised cost				
Amortised cost				
BFP Mid Cap	131,081	131,190	92,609	92,609
Investment Programme	176,122	182,251	176,813	190,851
Start Up Loans	178,831	192,266	157,366	168,886
Midlands Engine Investments	14,958	15,000	14,923	15,000
Northern Powerhouse Investments	25,633	25,700	20,585	20,700
	526,625	**546,407**	**462,296**	**488,046**
Financial liabilities at amortised cost				
Unsecured loans	88,405	88,405	151,301	151,301
Capital grants	130,054	130,054	92,662	92,662
	218,459	**218,459**	**243,963**	**243,963**

Financial assets at amortised cost are classed as Level 3 assets except for two investments that are publicly listed. Unsecured loans and capital grants are classed as Level 3 liabilities.

23.2 Fair value measurements (continued)

Start Up Loans

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 SONIA would have led to an approximately £1.2m decrease in the fair value recognised at inception for the loans newly originated during the year.

BFP Mid Cap and Investment Programme

Loans at amortised cost provided through the BFP Mid Cap and the Investment Programme comprise both fixed rate and floating rate investments with an average duration of not more than five years. The Directors have assessed that the changes in interest rates and in credit spreads and the associated impact on the fair value of these assets since they were originated 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 2022 and 31 March 2021. 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.

23.3 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 risk is the risk of loss to the Group from the failure of delivery partners or underlying borrowers to meet their transactional facility repayment obligations according to our expectations. This includes concentration risk which may arise from a lack of portfolio diversification, either in a sector, geographic area or type of security, notwithstanding a desire to address market failures. Investment risk is the risk of loss due to a fall in the fair value of equity investments.

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 Chief Risk Officer 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, Key Risk Indicators (KRIs) have been expanded to provide greater visibility of fraud and delivery partner risk. These form part of a wider suite of KRIs which are reviewed and discussed on a monthly basis with SUL Management.

As part of the annual Business Planning process, the Group undertakes stress testing on its portfolio. This was completed by analysing which UK macroeconomic variables would have an impact on the Bank's credit and investment risk exposures. Ahead of the financial year 2021–22, the Group undertook a macroeconomic downside stress test which assessed the unlikely but plausible losses on our portfolio over a five-year time horizon. The revised stress tests utilised the March 2022 macroeconomic downside scenarios from our third party forecaster which are updated on a quarterly basis to take into account the actual economic conditions in 2021. Under the macroeconomic downside scenario, it was assessed that the Group could incur additional credit and investment losses of £623m (12% of BBB's adjusted average capital deployed) on the Group's programmes excluding Covid-19 schemes. The macroeconomic downside scenario considers an increase in defaults and a fall in equity valuation occurring in Year 1 of the Plan, which reflect the risk undertaken by the Group operating in under-served finance markets. The Bank also assesses unlikely but plausible losses assuming a severe 1 in 20 year downside (i.e. the worst year in the past 20 years). All stress test losses are considered by the Board and communicated to our stakeholders.

The Group has undertaken sensitivity analysis on the key inputs to ECL impairment provision models. Owing 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 on BBB balance sheet assets:

- The potential impact of ascribing 100% probability to the worst-case economic scenario could increase provisions by £4.0m
- 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 £5.0m
- 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 5% to 40% depending on the portfolio, could increase provisions by £3.7m.

23.3 Financial risk management (continued)

Maximum credit risk exposure

	Maximum Exposure to loss 2022 £000	Collateral 2022 £000	Net Exposure 2022 £000	Maximum Exposure to loss 2021 £000	Collateral 2021 £000	Net Exposure 2021 £000
Cash and cash equivalents	101,553	-	101,553	138,322	-	138,322
Trade and other receivables	17,669	-	17,669	15,183	-	15,183
Amortised cost investments	575,091	97,345	477,746	540,045	86,501	453,544
Investments held at FVTPL	2,902,510	-	2,902,510	1,981,545	-	1,981,545
Total	**3,596,823**	**97,345**	**3,499,478**	**2,675,095**	**86,501**	**2,588,594**

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 to loss is the gross 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 23.3 of this note and in note 12.

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 PD and LGD of that investment.

The following table presents an analysis of credit quality of assets held at amortised cost.

23.3 Financial risk management (continued)

As at 31 March 2022

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Low	-	-	-	-
Medium	300,368	26,943	-	327,311
High	174,814	45,398	-	220,212
Defaulted financial assets	-	-	27,568	27,568
Total gross carrying amounts	475,182	72,341	27,568	575,091
Loss allowance	(13,225)	(11,417)	(23,824)	(48,466)
Carrying amount	**461,957**	**60,924**	**3,744**	**526,625**

As at 31 March 2021

	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Low	5,247	-	-	5,247
Medium	259,510	12,999	-	272,509
High	165,251	46,968	-	212,219
Defaulted financial assets	-	-	50,070	50,070
Total gross carrying amounts	430,008	59,967	50,070	540,045
Loss allowance	(13,297)	(17,730)	(46,722)	(77,749)
Carrying amount	**416,711**	**42,237**	**3,348**	**462,296**

23.3 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 2021	**430,008**	**(13,297)**	**59,967**	**(17,730)**	**50,070**	**(46,722)**	**540,045**	**(77,749)**
Transfer to 12-month ECL	8,625	(4,275)	(6,394)	2,681	(2,231)	1,594	-	-
Transfer to lifetime ECL	(42,305)	5,234	46,414	(6,598)	(4,109)	1,364	-	-
Transfer to credit-impaired financial asset	(6,138)	599	(4,104)	2,322	10,242	(2,921)	-	-
New financial assets originated or purchased	299,656	(11,256)	-	-	-	-	299,656	(11,256)
Fair value adjustment on initial recognition (new lending)	(31,002)	-	-	-	-	-	(31,002)	-
Financial assets that have been derecognised[1] during the period (including write-off)	(196,242)	439	(26,310)	788	(27,433)	8,728	(249,985)	9,955
Changes to risk parameters	-	9,331	-	7,120	-	14,133	-	30,584
Amortisation	12,580	-	2,768	-	1,029	-	16,377	-
As at 31 March 2022	**475,182**	**(13,225)**	**72,341**	**(11,417)**	**27,568**	**(23,824)**	**575,091**	**(48,466)**
Carrying amount as at 31 March 2022		**461,957**		**60,924**		**3,744**		**526,625**

[1] Derecognition relates to net repayments, closures and write-offs.

23.3 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 2020	**421,591**	**(26,714)**	**90,323**	**(15,227)**	**82,743**	**(80,723)**	**594,657**	**(122,664)**
Transfer to 12-month ECL	14,250	(2,302)	(14,047)	1,755	(203)	547	-	-
Transfer to lifetime ECL	(34,797)	7,090	35,036	(8,013)	(239)	923	-	-
Transfer to credit-impaired financial asset	(22,504)	8,963	(10,243)	4,597	32,747	(13,560)	-	-
New financial assets originated or purchased	302,430	(21,018)	-	-	-	-	302,430	(21,018)
Fair value adjustment on initial recognition (new lending)	(32,905)	-	-	-	-	-	(32,905)	-
Financial assets that have been derecognised[1] during the period (including write-off)	(232,101)	2,101	(43,190)	2,603	(67,693)	41,747	(342,984)	46,451
Changes to risk parameters	-	18,583	-	(3,445)	-	4,344	-	19,482
Amortisation	14,044	-	2,088	-	2,715	-	18,847	-
As at 31 March 2021	**430,008**	**(13,297)**	**59,967**	**(17,730)**	**50,070**	**(46,722)**	**540,045**	**(77,749)**
Carrying amount as at 31 March 2021		**416,711**		**42,237**		**3,348**		**462,296**

[1] Derecognition relates to net repayments, closures and write-offs.

23.3 Financial risk management (continued)

Cash and cash equivalents

The Group held cash and cash equivalents of £101.6m as at 31 March 2022 (2021: £138.3m). 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 disclosed due to it being an insignificant amount.

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.

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 is understood and managed within Risk Appetite. The Group does not use derivatives to hedge interest rate risk.

SONIA 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 £8m over a one-year period
- The impact of a 0.25 percentage point decrease in the interest rate applicable to investments would be an approximate decrease in income of £2m over a one-year period. Some of the decrease is mitigated by SONIA 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 18.3% of the Group's portfolio is in non-pounds sterling denominated investments in the BBI and BPC portfolios. There is currently no policy to hedge this currency risk, however there is natural vintage diversification as the fund investments are made over different years. The sensitivity of currency risk losses from the Group's non-sterling investments is estimated with a scenario assuming GBP-EUR and GBP-USD exchange rate prices moved at the 75th percentile of its historical one-year volatility distribution. The impact of this would be an approximate loss of £26m over a one-year period.

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.

During the year ended 31 March 2019 the Group entered a term facility with the NLF, the repayment terms of which are set out in note 16.

Should there be a shortfall at the repayment point of the remaining term facility, 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.

23.3 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 Statement Of Financial Position items and due to the inclusion of contractual lending commitments.

As at 31 March 2022

	Within 1 year £000	2–5 years £000	5yrs+ £000	Total £000
Financial liabilities				
Loans and other borrowings	102,405	130,054	-	232,459
Lease liabilities	1,898	7,591	1,653	11,142
Other liabilities	34,434	-	-	34,434
Total financial liabilities	**138,737**	**137,645**	**1,653**	**278,035**

	Within 1 year £000	2–5 years £000	5yrs+ £000	Undrawn £000	Total £000
Off balance sheet					
Contractual lending commitments	497,208	788,451	44,564	241,433	1,571,656
ECF loan commitments	90,487	220,704	28,706	36,791	376,688
Total off balance sheet	**587,695**	**1,009,155**	**73,270**	**278,224**	**1,948,344**

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'.

As at 31 March 2021

	Within 1 year £000	2–5 years £000	5yrs+ £000	Total £000
Financial liabilities				
Loans and other borrowings	63,487	190,076	-	253,563
Lease liabilities	1,898	7,590	3,551	13,039
Other liabilities	26,739	-	-	26,739
Total financial liabilities	**92,124**	**197,666**	**3,551**	**293,341**

	Within 1 year £000	2–5 years £000	5yrs+ £000	Undrawn £000	Total £000
Off balance sheet					
Contractual lending commitments	492,903	853,282	45,558	172,402	1,564,145
ECF loan commitments	90,579	189,882	-	-	280,461
Total off balance sheet	**583,482**	**1,043,164**	**45,558**	**172,402**	**1,844,606**

Capital

The British Business Bank plc's share capital comprises 2,156,311,268 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 18.2% was achieved for the financial year ending 31 March 2022. The target Adjusted Return on Capital Employed which has been agreed with the shareholder is 0.1%. The Bank monitors its performance against this indicator as part of its monthly performance management and for the financial year ending 31 March 2022 performance was ahead of target throughout. This was driven largely by strong valuation gains as detailed in note 12. Further details on the Adjusted Return on Capital Employed are disclosed in the 2021/22 Financial performance and calculation of adjusted return section.

24. 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 refers to the Executive Committee of the Group and Non-executive Directors.

	2022 £000	2021 £000
Compensation		
Salaries and other short-term benefits	1,313	1,123
Long-term benefits	186	298
Post-employment benefits	90	78
	1,589	**1,499**

Aggregated contributions in respect of Key Management Personnel to defined contribution pension schemes for the year ending 31 March 2022 were £89,793 (2021: £77,511). The Key Management Personnel comparative values disclosed in the 31 March 2021 financial statements have been updated in the above table to be comparable with the current year.

Trading transactions

The Department for Business, Energy & 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 (CIOSIL) 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:

24. Related party transactions (continued)

	2022 £000	2021 £000
Income		
Management fee		
BEIS	59,741	59,097
NPIL	4	937
MEIL	556	1,000
CIOSIL	117	122
Innovate UK	-	41
Nuclear Decommissioning Authority	317	-
NLF	1,490	1,436
East Midlands Early Growth Fund Limited	58	-
Grant income – BEIS	4,224	6,861
Write down of repayable grant received – BEIS	22,607	29,682
	89,114	**99,176**
Expenditure		
Staff seconded from BEIS	-	86
	-	**86**
Capital Transactions		
Shares issued to BEIS	295,600	364,303
Grants received from BEIS	60,000	68,000
Loans issued from BEIS	14,000	9,600
Repayment of loans from BEIS	14,894	-
Repayments received on loans issued to BEIS	-	240,400
	384,494	**682,303**

BPC is acting as agent for the NLF portion of investments and the above management charge reflects its charge for the year.

24. Related party transactions (continued)

Amounts outstanding at year-end

As at 31 March 2022, the Group was owed £4.9m from BEIS relating to the management fee (2021: £5.0m) and owed BEIS £nil (2021: £0.2m).

As at 31 March 2022, the Group was owed £nil from NPIL (2021: £0.8m), £0.6m from MEIL (2021: £1.0m), and £0.1m from CIOSIL (2021: £0.1m) relating to the management fee.

The Group owed £130.1m (2021: £92.7m) in capital grants to BEIS and owed £14.0m (2021: £9.6m) in unsecured loans to BEIS.

As at 31 March 2022, the Group owed £88.4m (2021: £136.4m) in unsecured loans to NLF.

As at 31 March 2022, the Group has made loan commitments to NPIL of £50m (2021: £50m) and MEIL of £32.5m (2021: £32.5m). During the year ending 31 March 2022, NPIL had drawn down a further £5.0m (2021: £nil) of its loan commitment.

25. Events after the reporting date

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

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 2022, which comprise the:

- Company Statement of Financial Position as at 31 March 2022;
- Company Statement of Cash Flows and Company Statement of Changes in Equity for the year then ended; and
- the related notes including the significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the UK adopted International Accounting Standards as applied in accordance with the provisions of the Companies Act 2006.

I have also audited the information in the Remuneration Report that is described in that report 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 2022 and its loss for the year then ended; and
- have been properly prepared in accordance with UK adopted international accounting standards and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs) (UK) and applicable law. My responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of my report.

Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2019. I have also elected to apply the ethical standards relevant to listed entities. I am independent of the British Business Bank plc in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

In auditing the financial statements, I have concluded that the British Business Bank plc's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

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

Other Information

The other information comprises information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The directors are responsible for the other information.

My opinion on the financial statements does not cover the other information and except to the extent otherwise explicitly stated in my report, I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact.

I have nothing to report in this regard.

Opinion on other matters prescribed by the Companies Act 2006

In my opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the Strategic Report and the Directors' Report been prepared in accordance with applicable legal requirements; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

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

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

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the parts of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of director's remuneration specified by law are not made; or
- a corporate governance statement has not been prepared by the parent company; or
- I have not received all of the information and explanations I require for my audit;

Responsibilities of the directors for the financial statements

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

- the preparation of the financial statements in accordance with the applicable financial reporting framework and for being satisfied that they give a true and fair view;
- internal controls as directors determine are necessary to enable the preparation of financial statement to be free from material misstatement, whether due to fraud or error.
- assessing the British Business Bank plc's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit was considered capable of detecting non-compliance with laws and regulations including fraud

I design procedures in line with my responsibilities, outlined above, to detect material misstatements in respect of non-compliance with laws and regulations, including fraud. The extent to which my procedures are capable of detecting non-compliance with laws and regulations, including fraud is detailed below.

Identifying and assessing potential risks related to non-compliance with laws and regulations, including fraud

In identifying and assessing risks of material misstatement in respect of non-compliance with laws and regulations, including fraud, we considered the following:

- the nature of the sector, control environment and operational performance including the design of the British Business Bank plc's accounting policies, key performance indicators and performance incentives.
- Inquiring of management, the head of internal audit and those charged with governance, including obtaining and reviewing supporting documentation relating to the British Business Bank plc's policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations including the British Business Bank plc's controls relating to the compliance with the Companies Act 2006;
- discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, I considered the opportunities and incentives that may exist within the British Business Bank plc for fraud and identified the greatest potential for fraud in the following areas: revenue recognition, posting of unusual journals, complex transactions, bias in management estimate. In common with all audits under ISAs (UK), I am also required to perform specific procedures to respond to the risk of management override of controls.

I also obtained an understanding of the British Business Bank plc's framework of authority as well as other legal and regulatory frameworks in which the British Business Bank plc operates, focusing on those laws and regulations that had a direct effect on material amounts and disclosures in the financial statements or that had a fundamental effect on the operations of the British Business Bank plc. The key laws and regulations I considered in this context included Companies Act 2006, employment law and tax Legislation.

Audit response to identified risk

As a result of performing the above, the procedures I implemented to respond to identified risks included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described above as having direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- reading and reviewing minutes of meetings of those charged with governance and the Board and internal audit reports;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business; and

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

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

Other auditor's responsibilities

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

Susan Clark
Senior Statutory Auditor
20 September 2022

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

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

Company financial statements

Company statement of financial position

As at 31 March 2022

	Note	2022 £000	2021 £000
Assets			
Cash and cash equivalents		40,433	18,993
Trade and other receivables	2	71,103	55,049
Investments	3	2,271,625	2,036,725
Property, plant and equipment		669	1,561
Right-of-use assets		7,966	9,317
Corporation Tax receivable		7,118	13,500
Deferred tax		64	596
Total assets		**2,398,978**	**2,135,741**
Liabilities			
Trade and other payables	4	(33,196)	(15,245)
Lease liabilities		(10,371)	(11,995)
Loans and other borrowings	5	(102,405)	(146,007)
Provisions		(300)	(300)
Total liabilities		**(146,272)**	**(173,547)**
Net assets		**2,252,706**	**1,962,194**
Equity			
Issued share capital		2,156,311	1,860,711
Retained earnings		96,395	101,483
Total equity		**2,252,706**	**1,962,194**

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 profit of the parent company for the financial period amounted to £nil (2021: £135.1m).

The financial statements of the Company were approved by the Board of Directors on 15 September 2022 and authorised for issue on the date of the independent auditor's report. They were signed on its behalf by:

Catherine Lewis La Torre
Chief Executive Officer

The notes on p192–194 form an integral part of the financial statements.
Company number 08616013

Company statement of changes in equity

As at 31 March 2022

	Issued capital £000	Retained earnings £000	Total £000
Balance as at 1 April 2020	**1,496,408**	**(33,649)**	**1,462,759**
Net income after tax	-	135,132	135,132
Total comprehensive income	**-**	**135,132**	**135,132**
Issue of ordinary shares	364,303	-	364,303
Balance at 31 March 2021	**1,860,711**	**101,483**	**1,962,194**
Balance as at 1 April 2021	**1,860,711**	**101,483**	**1,962,194**
Net income after tax	-	(5,088)	(5,088)
Total comprehensive income	**-**	**(5,088)**	**(5,088)**
Issue of ordinary shares	295,600	-	295,600
Balance at 31 March 2022	**2,156,311**	**96,395**	**2,252,706**

Company cash flow statement

As at 31 March 2022

	Note	2022 £000	2021 £000
Profit before tax[1]		-	**130,724**
Cashflows from operating activities			
Adjustments for:			
Depreciation, bad debt and impairments		2,242	2,325
Interest expense		1,602	6,000
Purchase of investments in subsidiary undertakings	3	(234,900)	(461,000)
Interest paid		(1,602)	(6,000)
Movement in trade receivables[1]	2	(16,054)	256,576
Movement in trade payables		17,951	(127,261)
Corporation Tax received/(paid)		1,827	(9,700)
Net cash used in operating activities		**(228,934)**	**(208,336)**
Cashflows from financing activities			
Issue of new shares		295,600	364,303
Payments of lease liabilities		(1,898)	(1,173)
Finance costs on lease liabilities		274	304
Net decrease in loan from Shareholder	5	4,400	250,000
Net decrease in loan from Nuclear Liabilities Fund	5	(48,002)	(395,433)
Net cash from financing activities		**250,374**	**218,001**
Net increase in cash and cash equivalents		**21,440**	**9,665**
Cash and cash equivalents at beginning of year		**18,993**	**9,328**
Cash and cash equivalents at end of year		**40,433**	**18,993**

1 The receipt of a prior year dividend of £130,722,539 was received by the cancelling of an amount owed to the Company with these two transactions being settled on a net basis.

The notes on p192–194 form an integral part of the financial statements.

Notes to the Company financial statements

As at 31 March 2022

1. Significant accounting policies

Basis of accounting

The Company financial statements have been prepared in accordance with UK-adopted international accounting standards as applied in conformity with section 408 of the Companies Act 2006. The financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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 21).

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. Trade and other receivables

	2022 £000	2021 £000
Amounts receivable within one year		
Trade receivables	268	20
Prepayments	749	1,115
Amounts due from Group companies	70,060	53,881
Other receivables	26	33
Total trade and other receivables	**71,103**	**55,049**

3. 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 & Industrial Strategy

All subsidiary undertakings are wholly-owned and incorporated in the UK, all shareholdings are in the name of British Business Bank plc.

See note 21 of the consolidated financial statements for details of all subsidiary holdings of the Company.

At 31 March 2022

Investment in	Holdings £000	BBFL £000	Total £000
Opening balance	1,737,839	298,886	2,036,725
Investment in year	213,800	21,100	234,900
Closing Balance	**1,951,639**	**319,986**	**2,271,625**

At 31 March 2021

Investment in	Holdings £000	BBFL £000	Total £000
Opening balance	1,473,839	101,886	1,575,725
Investment in year	264,000	197,000	461,000
Closing Balance	**1,737,839**	**298,886**	**2,036,725**

The Company received no dividends in the year (2021: £130,722,539.25 from BBB Patient Capital Holdings Limited).

4. Trade and other payables

	2022 £000	2021 £000
Amounts falling due within one year		
Trade payables	2,692	1,046
VAT and social security	964	2,087
Accrued expenditure	9,409	8,886
Amounts due to Group companies	16,964	2,413
Other payables	3,167	813
Total	**33,196**	**15,245**

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

5. Loans and other borrowings

	2022 £000	2021 £000
Unsecured loans	102,405	146,007
Total loans and other borrowings	**102,405**	**146,007**

During the year the Company has borrowed £14.0m (2021: £9.6m) from BEIS which is repayable on demand and has a zero-interest rate.

On 28 December 2018 the Group received a 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 up to and including 31 March 2021, then decreasing to 1.5% for the remaining life of the loan. £1.6m (2021: £3.1m) of interest accrued in the year. During the year repayments of £48.0m (2021: £34.1m) were made against the unsecured loans and interest of £1.6m (2021: £3.1m) was repaid. The balance of this loan at 31 March 2022 was £88.4m (2021: £136.4m).

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.

6. 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 & 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 24 of the consolidated financial statements. The Company made charges to its principal subsidiary undertakings in respect of services provided on their behalf amounting to £45.0m (2021: £44.8m).

7. 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 & Industrial Strategy. The consolidated financial statements of the Department for Business, Energy & 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

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- There are 5.9m smaller businesses in the UK – 99% of all UK businesses
- Smaller businesses employ 16.3m people with 61% of all private sector jobs were in smaller businesses
- 52% of total turnover from the private sector came from smaller businesses, with an estimated total turnover of £2.3 trillion

  Please see: https://www.gov.uk/government/statistics/business-population-estimates-2021/business-population-estimates-for-the-uk-and-regions-2021-statistical-release-html

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- An initial evaluation of the Covid-19 loan guarantee schemes found that up to 500,000 businesses and up to £2.89m jobs may have been saved by the schemes
- Most businesses used the funds for working capital or for financial security. The money raised through the schemes most commonly enabled businesses to adopt new technologies, undertake innovation activities or build business resilience

  Please see: British Business Bank, Evaluation of the Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme, and Coronavirus Large Business Interruption Scheme, https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/Evaluation_of_BBLS_CBILS_and_CLBILS___Yr1_Report__accessible_.pdf

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- 18% of overall UK smaller business equity deals we supported in 2021, up from 6% in 2011

  Please see: British Business Bank, Small Business Equity Tracker 2022, https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/small-business-equity-tracker-2022.pdf

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- Since 2014, the Bank has grown to become thew largest UK-based LP investor in UK venture capital
- £3.836bn Total commitments
- 357 Number of equity funds supported
- 4,770 Number of UK businesses supported by the Bank's equity programmes

  Please see: British Business Bank, Small Business Equity Tracker 2022, https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/small-business-equity-tracker-2022.pdf

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- The three-year Spending Review settlement enabled us to make over £4.9bn of financial commitments and loans, including £1.6bn of new funding for a range of investment interventions across the country, as we extend and develop our UK and Regional Funds

  Please see: British Business Bank, press notice, https://www.british-business-bank.co.uk/press-release/autumn-budget-and-spending-review-2021/

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- the 388 UK-based firms funded by the ECF programme between 2011 and 2019 created almost 8,000 jobs and generated £2.2bn in additional sales by March 2019. Those companies funded by ECFs saw their annual rates of turnover grow by 76%, and their employment by 48%

  Please see: British Business Bank, Enterprise Capital Funds interim evaluation report 2021, https://www.british-business-bank.co.uk/enterprise-capital-funds-interim-evaluation-report-2021/

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- Smaller businesses account for around 50% of all UK business-driven emissions
- 76% of smaller businesses still do not have a decarbonisation strategy
- 12% of small businesses say that lack of information is a barrier in reducing emissions
- 22% of businesses – 1.3m – say they are prepared to access external finance to support their Net Zero actions in the next five years

  Please see: British Business Bank, Smaller businesses and the transition to net zero report, https://www.british-business-bank.co.uk/wp-content/uploads/2021/10/J0026_Net_Zero_Report_AW.pdf

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- 2021 was an exceptional year, with £18.1bn invested into high-growth-potential smaller companies
- The Bank's equity programmes had an increased role in UK smaller business equity finance markets, supporting around 18% of all announced equity deals in 2021

  Please see: British Business Bank, Small Business Equity Tracker, https://www.british-business-bank.co.uk/wp-content/uploads/2022/06/small-business-equity-tracker-2022.pdf

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All figures source British Business Bank 31 March 2022 unless otherwise stated.