

AUDITOR'S REPORT

OPINION ON FINANCIAL STATEMENTS

In my opinion the financial statements:

- give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 March 2015 and of the Group's loss for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union
- have been prepared in accordance with the Companies Act 2006.

BASIS OF OPINIONS

I have audited the financial statements of the British Business Bank plc for the year ended 31 March 2015 which comprise:

- the Consolidated Statement of Comprehensive Net Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity and the Consolidated Cash Flow Statement
- the notes to the consolidated financial statements
- the Company Statement of Financial Position, the Company Statement of Changes in Equity and the Company Cash Flow Statement
- the notes to the Company financial statements.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union and as regards the

parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. I have also audited the information in the Directors' Remuneration Report that is described in that report as having been audited.

MY AUDIT APPROACH

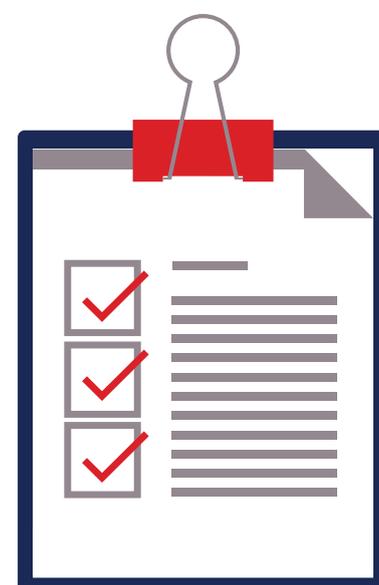
The sections below explain the areas of particular audit focus together with my responses to them, my approach to materiality and an explanation of the scope of my audit.

RISKS SIGNIFICANT TO MY AUDIT

In arriving at my opinion on the financial statements, I assessed the risks of material misstatement in the financial statements. Those risks that had the greatest effect on the audit strategy, the allocation of resources in the audit, and the direction of the efforts of the engagement team are outlined in the table overleaf.

I have also set out how my audit addressed these specific areas in order to support the opinion on the financial statements as a whole, and any comments I make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by my audit.

The areas of focus were discussed with the Audit Committee; their report on those matters that they considered to be significant issues in relation to the financial statements is set out on page 39.



Risk**Allocation of assets to the British Business Bank plc and its subsidiaries**

The British Business Bank plc's initial portfolio of investments, worth £477m at 31 October 2014, was acquired by Group companies from the Department of Business, Innovation and Skills (BIS) and from Her Majesty's Treasury (HMT). In addition to these, certain assets worth a further £133m at 31 March 2015, remain on BIS' balance sheet but are administered by the British Business Bank plc Group.

The transfer of assets to the British Business Bank plc Group gave rise to risks that:

- the assets which transferred may not be completely reflected in the Group's accounts, or assets may be reflected which did not transfer
- assets may not be allocated to the correct Company accounts following transfer
- if the British Business Bank plc Group's responsibilities for administering BIS' assets exposes the Group to the risks and rewards associated with those assets, the Group may need to recognise some or all of those assets in its accounts.

Accounting Treatment and Valuation of Assets and Liabilities

British Business Bank plc assessed the accounting treatment and associated valuation of the investments it acquired, to ensure that these are appropriate for the British Business Bank plc accounts. To support their assessment, management engaged expert advisers to advise on the accounting treatments and to provide valuations of assets at 31 October 2014 and 31 March 2015.

British Business Bank identified that, for certain assets, different accounting treatments are required within the British Business Bank plc accounts compared with those applied by the bodies which previously held the assets, which have resulted in material adjustments being made to the valuation of those assets.

The assessments made of accounting treatment and valuation models are based on a number of assumptions which could have a material effect on the accounts. British Business Bank will continue to make these judgements for any new investments.

Response

I reviewed legal documentation and board minutes, and circularised the auditors of BIS and HMT, to confirm which assets were due to transfer. I confirmed that all investments identified through this process are correctly reflected in the accounts of the British Business Bank plc Group.

I reviewed the Memorandum of Understanding between the British Business Bank plc Group and BIS and confirmed that the scope of the British Business Bank plc Group's responsibilities in respect of those assets remaining on the BIS balance sheet indicates it is acting as an agent, and therefore is not exposed to the risks and rewards associated with the investments.

Accounting Treatment: I gained an understanding of the nature of the investments within each class of assets to assess if the accounting treatments were appropriate and consistent for those assets with a similar underlying transaction structure. I performed a detailed review of a sample of investments and considered whether management's judgements on appropriate accounting treatments applied are consistent with the relevant accounting standards and the underlying substance and form of legal agreements.

Valuation: In line with auditing standards, I performed detailed procedures to enable me to gain assurance from the work of management's experts. In assessing whether their work provides a sound basis for valuation I considered the overall competence, capability and objectivity of management's experts, as well as the scope of their work and its relevance to the accounts and my opinion. In particular, I considered the design of the valuation models they created, the validity of the data inputs to those models, and the appropriateness of the key assumptions on which the models were based. I sought confirmation that management had reassessed the assumptions which underpin the valuation models to confirm that they remain appropriate at year end.

APPLICATION OF MATERIALITY

I applied the concept of materiality both in 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.

The choice of materiality requires professional judgement and for the Group financial statements as a whole was set at £7.35m, which is approximately 1% of Group total assets, a benchmark that I consider to be the principal consideration for users in assessing the financial performance of the Group.

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

I agreed with the Audit Committee that I would report to it all corrected and uncorrected misstatements identified through my audit in excess of £124,000, as well as differences below that threshold that in my view, warranted reporting on qualitative grounds.

SCOPE OF MY AUDIT

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material

misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group and the parent Company's circumstances and have been consistently applied and adequately disclosed
- the reasonableness of significant accounting estimates made by the Directors
- the overall presentation of the financial statements.

In addition, I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies, I consider the implications for my report.

My audit approach is risk-based, informed by a good understanding of the operations of the British Business Bank plc and an assessment of the risks associated with the financial statements. This approach focuses audit effort towards higher risk areas, such as management judgements and estimates and those that are considered significant based upon size, complexity and risk.

GROUP AUDIT APPROACH

My Group audit scope focused on those balances assessed as being of the greatest significance to the Group financial statements and their users. I considered how the subsidiaries should be aggregated to form the components of my Group audit approach in line with International Standards of Auditing. I gave particular consideration to the size and risk characteristics of the consolidated

entities; how they are managed; and the audit exemptions taken by the British Business Bank plc. British Business Bank Investments Ltd, which is the largest subsidiary and holds £509m of the Group's £648m net assets at 31 March 2015, is subject to separate governance processes and has its own ledger; I have therefore treated this as a single component. The parent Company and remaining subsidiaries are subject to common governance processes and share a ledger and so I have aggregated these to form a single component for the purposes of my audit. Both components are significant to the Group in terms of value and risk. I have taken assurance from work performed by the auditors of British Business Bank Investments Ltd and have performed additional procedures to obtain assurance over the financial information of the parent and other subsidiaries.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In my opinion:

- the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements
- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Matters on which I am required to report by exception.

ADEQUACY OF ACCOUNTING RECORDS AND EXPLANATIONS RECEIVED

Under the Companies Act 2006 I am required to report to you if, in my opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for my audit have not been received from branches not visited by my staff; or
- the consolidated financial statements are not in agreement with the accounting records and returns; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

DIRECTORS' REMUNERATION

Under the Companies Act 2006 I am also required to report if in my opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. I have nothing to report arising from these matters or my review.

MY DUTY TO READ OTHER INFORMATION IN THE ANNUAL REPORT

Under the ISAs (UK and Ireland), I am required to report to you if, in my opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit
- otherwise misleading.

In particular, I am required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that we communicated to the

audit committee which we consider should have been disclosed. I confirm that I have not identified any such inconsistencies or misleading statements.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE AUDITOR

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. My audit work has been undertaken so that we might state to the Company's members those matters I am either required to state to them in an auditor's report and/or those further matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, I do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for my audit work, for this report, or for the opinions I have formed.

Hilary Lower
Senior Statutory Auditor
14 July 2015

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