Notes to the consolidated financial statements

FOR THE YEAR ENDED 31 MARCH 2015

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 given on page 90. The nature of the British Business Bank Group's operations and its principal activities are set out in the strategic report on page 10.

2. Significant accounting policies

BASIS OF ACCOUNTING

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

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

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment 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 each year. Control is achieved when the Company:

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

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.

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 cash-flows relating to transitions between the members of the Group are eliminated on consolidation.

GOING CONCERN

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

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

ADOPTION OF NEW AND REVISED STANDARDS

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*	In the current year the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) has also been applied and it deals only with separate financial statements. During the current financial year, the British Business Bank plc acquired 100% ownership interests in British Business Bank Investments Limited, British Business Finance Limited and British Business Financial Services Limited. IFRS 10 has been applied in determining that these subsidiaries should be consolidated and the disclosures in these accounts follow IFRS 12 (see note 21for details).
IAS 36 (amendments)	The IASB issued Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36). The overall effect of the amendments is to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. As the Group does not have any goodwill or intangible assets with indefinite useful lives, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.
IAS 39 (amendments)	The IASB issued Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*). Under the amendments there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided certain criteria are met. The amendments do not apply to the Group and therefore the application of the amendments has had no impact on the disclosures or on the amounts recognised in the consolidated financial statements.
IFRIC Interpretation 21	IFRIC 21 identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation. The Interpretation clarifies that "economic compulsion" and the going concern principle do not create or imply that an obligating event has occurred. The application of IFRIC Interpretation 21 has not had any material impact on the amounts recognised in the consolidated financial statements.

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

- IFRS 9, *Financial Instruments*
- IAS 27 (amendments), *Investment Entities*

The Directors do not expect that the adoption of the Standards and Interpretations listed oposite will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively
- assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

REVENUE RECOGNITION

Revenue 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. Revenue is reduced for estimated rebates and other similar allowances.

DIVIDEND AND INTEREST INCOME

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

TAXATION

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

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

VAT is accounted for in these financial statements, in that amounts are shown net of VAT except:

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

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

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant and equipment

Property, plant and equipment are carried at fair value or depreciated historical cost which is used as a proxy for fair value.

Furniture and equipment and leasehold improvement are stated at cost less accumulated depreciation and any recognised impairment loss.

The Group capitalises property, plant and equipment purchased for a net value of £3,000 or more and which have a useful economic life in excess of one year.

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Fixtures and equipment	2 - 5 years
Leasehold improvement	Shorter of estimated remaining useful life or outstanding lease term
IT equipment	3 - 5 years

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Intangible assets acquired separately

Intangible assets, including IT programs and software licences, with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives on the following basis:

IT programs	3 - 10 years
Software licences	Period of licence

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Impairment of Property, Plant and Equipment and Intangible Assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the Group's 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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, where material, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The fair value of financial instruments is determined by reference to quoted market prices where an active market exists for the trade of these instruments. The fair value of financial instruments which are not traded in an active market is determined using generally accepted valuation techniques, including estimated discounted cash flows.

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss (FVTPL), held-to-maturity investments, available-for-sale (AFS) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are classified as at FVTPL when the financial asset is a derivative financial instrument held for trading or it is designated as at FVTPL. The VC Catalyst investments have been designated as at FVTPL. There are no held for trading financial assets.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Held-to-maturity investments
These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. The Group does not currently hold any held-to-maturity investments.

Available-for-sale (AFS) financial assets
AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

The Group has investments in Limited Partnerships and Venture Capital investments which are classified as being AFS. Fair value is determined in the manner described in note 22. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the financial instrument reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the financial instrument reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments, originated or acquired, that are not quoted in an active market.

Loans and receivables comprise cash and cash equivalents, receivables and loans. After initial recognition they are measured at amortised cost using the effective interest method, less any impairment. Gains and losses are recognised in the profit or loss through the amortisation process. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty
- default or delinquency in interest or principal payments
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies set out above.

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities. The Group does not hold any financial liabilities at FVTPL.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire.

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. Bank overdraft amounts are included within trade and other payables.

PROVISIONS

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

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

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

CONTINGENT LIABILITIES

The Group has contingent liabilities arising through financial guarantees. 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. Contingent liabilities are not recognised but are instead disclosed, unless the possibility of an outflow of economic resources is remote. Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts.

FOREIGN EXCHANGE

The individual financial statements of each Group Company are presented in the currency of the primary economic environment in which it operates (its functional currency) which is pounds sterling.

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

RETIREMENT BENEFIT COSTS

Payments to defined contribution retirement benefit schemes are recognised as an expense when employees have rendered service entitling them to the contributions. Payments made to State-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

EMPLOYEE BENEFITS

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

LEASES

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

3. Critical accounting judgements and key sources of estimation uncertainty

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

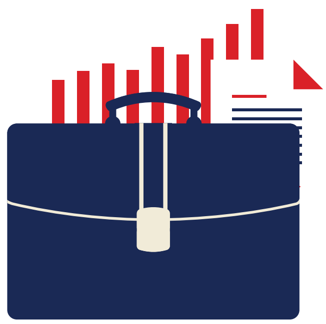
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current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

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

- fluctuations in the fair values of available-for-sale assets, where quoted prices and other valuation models and techniques are used to determine estimated future cash flows, and include a number of other assumptions
- directors' judgements with regard to the impairment of assets
- fluctuations in the fair value of financial liabilities/guarantees measured using modelling techniques.

In addition, there is uncertainty in estimating the effective interest rate for various debt fund investments. The future returns from these investments are not limited to contracted cash flows of interest and principal. Future returns are inherently uncertain and will depend on a range of factors including the manager's success in originating lending opportunities, costs and fees, how the manager exercises discretion in trading off equity against debt components in loan structures, credit performance, and prevailing market conditions.

The Group has estimated effective interest rates for all debt fund investments on a consistent basis. As an indication of sensitivity, a 50 basis points decrease in the effective interest rate would decrease interest income by £0.9m and result in a corresponding increase in revaluation gains recognised through other comprehensive income.



The Directors have had to make judgements on the valuation of Enterprise Capital Funds and on returns from investments in debt funds

4. Income

4.1. INTEREST INCOME

An analysis of the Group's interest income is as follows:

	Note	Year ended 2015 £000	Period ended 2014 £000
Interest from available-for-sale assets	13.2	11,822	-
Interest from loans and receivables	13.1	211	-
Total interest income		12,033	-

4.2 . MANAGEMENT FEE

An analysis of the Group's management fee income is as follows:

	Year ended 2015 £000	Period ended 2014 £000
Management fee earned from:		
Angel Co Fund	142	-
Department for Business, Innovation and Skills	5,026	-
Capital for Enterprise Limited	156	-
Other	7	-
Total management fee income	5,331	-

4.3 . OTHER INCOME

An analysis of the Group's other income is as follows:

	Year ended 2015 £000	Period ended 2014 £000
Grant income before 1 November 2014	315	-
Total other income	315	-

5. Staff numbers and costs

The average monthly number of employees (including Executive Directors) was:

	2015 Number	2014 Number
Permanent staff	69	-
Seconded staff	20	-
Temporary and agency staff	19	-
Total	108	-

The figures in the above table represent the average monthly number of employees since the British Business Bank commenced its operations on 1 November 2014.

When looking at the full financial year 2014-15, the average monthly number of employees (including Executive Directors) for the year split between the above categories would be 29, 8 and 8.

	Year ended 2015 £000	Period ended 2014 £000
Their aggregate remuneration comprised:		
Wages and salaries – Permanent staff	2,448	-
Wages and salaries – Seconded staff	657	-
Wages and salaries – Temporary and agency staff	1,060	-
Non-executive Directors' fees	315	90
Short and Long-Term Incentive Plans and bonus scheme	703	-
Social security costs	378	-
Pension costs	432	-
Total staff costs	5,993	90

6. Operating Costs

6.1. PURCHASE OF GOODS AND SERVICES

	Year ended 2015 £000	Period ended 2014 £000
Consultancy and professional services		
Scheme design and transactions	766	-
Finance	554	-
HR	363	-
Legal	142	-
IT	106	-
Other	22	-
Accommodation and office services	664	-
Marketing	285	-
Auditor's remuneration	160	6
Staff related costs, including training and travel	148	-
Other purchase of goods and services	186	-
Total	3,396	6

A significant proportion of the consultancy and professional services costs relate to the set-up of the British Business Bank as a fully operationally independent organisation. For example, the Bank used advisers to develop its finance capability, including support in building financial models for valuation, accounts production and forecasting which will be maintained by the Bank. Advisers also provided support in the selection and procurement of a pension scheme and life assurance.

Auditor's remuneration relates to fees payable for the audit of the Group's annual accounts. The Group's auditors did not provide any non-audit services.

6.2. NET LOSSES ON INVESTMENT ASSETS

	Notes	Year ended 2015 £000	Period ended 2014 £000
Impairment of investments in associates	11	2	-
Bad debt allowance on loans and receivables	13.1	124	-
Foreign exchange losses on available-for-sale financial assets	13.2	1,174	-
Impairment of available-for-sale financial assets	13.2	2,262	-
Fair value losses on assets held at fair value through profit and loss	13.3	370	-
Fair value gains on asset derivatives	13.4	(3,601)	-
Total		331	-

6.3. DEPRECIATION AND AMORTISATION

	Notes	Year ended 2015 £000	Period ended 2014 £000
Property, plant and equipment depreciation	9	92	-
Intangible assets amortisation	10	40	-
Total		132	-

7. Tax

	Year ended 2015 £000	Period ended 2014 £000
Current corporation tax:		
Acquired on 31 October 2014	(1,242)	-
Charge in year	(3,160)	-
	(4,402)	
Deferred corporation tax		
Opening	(8)	-
Change in year	(4,766)	-
Total	(4,774)	-

Corporation tax is calculated at 21% (2014: 20%) of the estimated taxable profit for the year. Deferred tax primarily relates to the British Business Bank's investments in Enterprise Capital Funds. It is calculated at 20% 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. Of the deferred tax liability of £4.8m, we estimate that approximately £2.9m relates to unrealised gains at the time that the Bank acquired the assets from the Department for Business, Innovation and Skills.

The table below reconciles the tax charge for the year:

	Profit / (loss) before tax £000	Current Tax £000
Loss before tax	(13,958)	(2,931)
Net gain on investments recognised in reserves	5,735	1,204
Permanent disallowances relating to:		
ECF provision expense	26,055	5,471
Unwind of ECF fair value impairment	(4,270)	(897)
Other permanent disallowances	153	32
Timing differences relating to:		
ECF derivative fair value movement	(3,601)	(756)
ECF accrued return	(3,214)	(675)
ECF impairment	2,262	475
ECF realised gains	5,500	1,155
Long-Term Incentive Plan accrued expenditure	534	112
Other timing differences	(45)	(9)
Losses brought forward	(99)	(21)
Profits chargeable to current tax	15,052	3,160

	Unrealised gains £000	Deferred Tax £000
Value of ECF investments	148,312	29,662
Less tax base of ECF investments	(124,743)	(24,949)
Unrealised gains on ECF investments	23,569	4,714
Other unrealised gains	261	52
Unrealised gains subject to deferred tax	23,830	4,766

8. 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 Business Bank Investments Ltd (BBBIL) and the overall Group results.
- Programmes administered on behalf of BIS – In addition to its own operations, the British Business Bank also through its subsidary British Business Finance Service Ltd, (BBFSL) administers assets on behalf of the Department for Business, Innovation and Skills. 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. Further information on the performance of each of the business units is included in the Strategic Report.

BBFL and BBBIL were acquired and commenced trading during the year ended 31 March 2015 and therefore no comparable prior year information is available. Prior year British Business Bank plc Group results are provided in the primary statements.

Profit and loss for the year ending 31 March 2015	**BBFL £000**	**BBBIL £000**	**BBFSL & Company plc £000**	**Intra-Group eliminations £000**	**Total Group £000**
Income					
Investment Programmes	-	8,819	-	-	8,819
Venture Capital Solutions	3,214	-	-	-	3,214
Other income	262	400	11,244	(6,260)	5,646
	3,476	9,219	11,244	(6,260)	17,679
Net investment costs					
Investment Programmes	-	(1,668)	-	-	(1,668)
Venture Capital Solutions	1,337	-	-	-	1,337
	1,337	(1,668)	-	-	(331)
Operational Costs					
Staff costs	(317)	(560)	(5,116)	-	(5,993)
Professional services	(59)	(65)	(1,829)	-	(1,953)
General operations	(1,496)	(1,862)	(4,477)	6,260	(1,575)
	(1,872)	(2,487)	(11,422)	6,260	(9,521)
Net operating income	**2,941**	**5,064**	**(178)**	**-**	**7,827**
ECF fair value provision expense	(26,055)	-	-	-	(26,055)
Unwind of ECF fair value impairment	4,270	-	-	-	4,270
Pre-tax earnings on an IFRS basis	**(18,844)**	**5,064**	**(178)**	**-**	**(13,958)**

Balance sheet as at 31 March 2015	BBFL £000	BBBIL £000	Company plc £000	Total Group £000
Investment Assets				
Investment Programme				
BFP Mid Cap	-	426,029	-	426,029
Investment Programme	-	38,465	-	38,465
BFP Small Cap	-	28,643	-	28,643
Venture Capital Solutions				
Enterprise Capital Fund (ECF)	148,312	-	-	148,312
VC Catalyst	-	5,313	-	5,313
Other venture capital investments	12,229	-	-	12,229
Total Investment Assets	160,541	498,450	-	658,991
ECF fair value provision	(71,621)	-	-	(71,621)
Net Investment Assets	88,920	498,450	-	587,370
Other Assets/(Liabilities)				
Cash	13,837	16,043	41,168	71,048
Tangible and intangible assets	-	-	768	768
Net other (payables) / receivables	(8,431)	(5,806)	3,132	(11,105)
Total Net Assets	94,326	508,687	45,068	648,081

9. Property, plant and equipment

	Leasehold improvement £000	IT equipment £000	Total £000
Cost or valuation			
At incorporation on 18 July 2013	-	-	-
At 31 March 2014	-	-	-
Additions	140	520	660
At 31 March 2015	140	520	660
Accumulated depreciation and impairment			
At incorporation on 18 July 2013	-	-	-
At 31 March 2014	-	-	-
Charge for the year	(11)	(81)	(92)
At 31 March 2015	(11)	(81)	(92)
Carrying amount			
At 31 March 2015	129	439	568
At 31 March 2014	-	-	-

10. Intangible assets

	IT £000	Software licences £000	Total £000
Cost or valuation			
At incorporation on 18 July 2013	-	-	-
At 31 March 2014	-	-	-
Additions	213	27	240
At 31 March 2015	213	27	240
Accumulated depreciation and impairment			
At incorporation on 18 July 2013	-	-	-
At 31 March 2014	-	-	-
Charge for the year	(26)	(14)	(40)
At 31 March 2015	(26)	(14)	(40)
Carrying amount			
At 31 March 2015	187	13	200
At 31 March 2014	-	-	-

11. Associates

Capital for Enterprise Ltd (CfEL), a subsidiary of British Business Finance Limited, has one associate which arises out of its investment in a French Fund Management Company (SAS Athena). This investment transferred to the British Business Bank Group when it purchased CfEL. The carrying value of the investment as at 31 March 2015 is £14,000 and Group's share of losses arising in the year is £2,000.

12. Investments

BUSINESS FINANCE PARTNERSHIP

British Business Bank Investments Limited manages the Business Finance Partnership programme.

The Business Finance Partnership (BFP) has two strands. The first strand is the BFP Mid Cap which invests in fund managers who lend to medium-sized businesses with turnover of up to £500m. All of the BFP Mid Cap investments are classified as available-for-sale assets. See note 13.2 for details.

The second strand is the BFP Small Cap which invests in debt funds and non-bank lenders that provide an alternative source of lending for small businesses with turnover up to £75m. Its investments attract matching private sector investment.

The majority of the BFP Small Caps investments are classified as available-for-sale assets. See note 13.2 for details.

During 2014-15 the BFP Small Cap also invested in MarketInvoice. Through MarketInvoice, British Business Bank Investments Limited purchases invoices from investors, releasing money that would otherwise be tied up for between 30 and 120 days. The investment is classified as loans and receivables. See note 13.1 for details.

INVESTMENT PROGRAMME

British Business Bank Investments Limited manages the Investment Programme. It makes commercial investments that stimulate at least the same amount of investment from the private sector, encouraging new lenders into the market and the growth of smaller lenders. British Business Bank Investments Limited investments through the Investment Programme are classified as available-for-sale assets.

VC CATALYST

VC Catalyst Fund investments are funded by British Business Bank Investments Limited. The VC Catalyst Fund invests in commercially viable Venture Capital funds that might otherwise fail to reach a satisfactory first close – the point at which a fund has raised enough money to begin making investments in businesses. It enables private sector investment already committed to those funds to be unlocked and invested in growth companies.

The British Business Bank has chosen to account for all of its new Venture Capital investments at fair value through profit or loss as explained in the accounting policies in note 2. See note 13.3 for details.

ENTERPRISE CAPITAL FUNDS

British Business Finance Limited runs Enterprise Capital Funds. Enterprise Capital Funds are commercially focused funds that bring together private and public money to make equity investments in high growth businesses. British Business Finance Limited 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% which is paid regardless of a fund's performance. In return British Business Finance Limited is entitled to less of the remaining upside gain, in excess of the agreed return, if a fund is successful.

British Business Finance Limited intentionally makes a trade-off between the prioritised return and upside gains. Overall, the terms mean that British Business Finance Limited expects the Enterprise Capital Funds to provide a positive return to Government, but that this return will be lower than that typically sought by a private sector investor. This is in line with the Group's strategic objectives.

The investments which British Business Finance Limited make in Enterprise Capital Funds meet the accounting definition of a loan and are classified as available-for-sale assets. Any upside returns which the funds generate are separately accounted for as derivatives.

Accounting standards require that available-for-sale assets are held at fair value. In effect, this corresponds to the amount that a private sector investor would pay for the investment. This means that every ECF investment is impaired 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. The impairment then reverses over the life of the asset to top-up the prioritised return and provide a commercial rate of return in the accounts. See note 13.2 for details.

In addition, British Business Finance Limited signs ECF agreements committing to the prioritised return and reduced upside gain in advance of drawdowns. At the point that British Business Finance Limited enters into a new commitment it becomes probable that it will incur accounting losses through recognition of a fair value impairment. Consequently British Business Finance Limited has to recognise a provision for the liability it is taking on at the point of commitment and this provision is utilised to cover the impairment when a drawdown is made. See note 17 for details.

Where a fund performs well enough to more than repay British Business Finance Limited's prioritised return and capital the remaining return is accounted for as a derivative. These are detailed in note 13.4.

OTHER VENTURE CAPITAL INVESTMENTS

British Business Finance Limited also has three other smaller Venture Capital schemes: Bridges, Aspire and the Capital for Enterprise Fund. These are detailed in note 13.2.

13. Investment Assets

13.1. LOANS AND RECEIVABLES

At 31 March 2015

	Acquired on 31 October 2014	Additions	Repayments	Accrued Return	Bad debt allowance	Closing
	£000	£000	£000	£000	£000	£000
Private companies						
BFP Peer-to-peer	3,493	-	(171)	199	(124)	3,397
Investment Programme Peer-to-peer	-	15,052	-	12	-	15,064
Total	3,493	15,052	(171)	211	(124)	18,461

The carrying value of the loans and receivable assets approximates to their fair value.

13.2. AVAILABLE-FOR-SALE ASSETS

At 31 March 2015

	Acquired on 31 October 2014	Additions	Repayments	Accrued interest	Revaluation	Unwind of fair value impairment	Foreign exchange losses	Impairment	Closing
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Limited Partnership Investments									
BFP Mid Cap	339,208	117,146	(42,752)	7,384	5,043	-	-	-	426,029
BFP Small Cap	19,160	5,281	(216)	698	990	-	(667)	-	25,246
Investment Programme	8,532	15,188	-	526	(338)	-	(507)	-	23,401
Total	**366,900**	**137,615**	**(42,968)**	**8,608**	**5,695**	**-**	**(1,174)**	**-**	**474,676**
Venture Capital Investments									
Enterprise Capital Funds	121,870	17,062	(8,115)	3,214	-	4,270	-	(2,262)	136,039
Bridges	1,514	5	(126)	-	-	-	-	-	1,393
Aspire	3,529	-	-	-	40	-	-	-	3,569
Capital for Enterprise Fund	11,960	146	(4,853)	-	-	-	-	-	7,253
Total	**138,873**	**17,213**	**(13,094)**	**3,214**	**40**	**4,270**		**(2,262)**	**148,254**
Total available for sale assets	**505,773**	**154,828**	**(56,062)**	**11,822**	**5,735**	**4,270**	**(1,174)**	**(2,262)**	**622,930**

The total impairment includes £5.6m of impairments on investment additions in the year (which have been offset against the provision release). In addition it includes £3.4m of net impairment reversal on existing investments.

13.3. ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	Acquired on 31 October 2014	Additions	Repayments	Revaluation	Closing
	£000	£000	£000	£000	£000
VC Catalyst	3,181	3,065	(563)	(370)	5,313
Total	3,181	3,065	(563)	(370)	5,313

13.4. DERIVATIVES

	Acquired on 31 October 2014	Repayments	Revaluation	Closing
	£000	£000	£000	£000
Enterprise Capital Funds	9,882	(1,210)	3,601	12,273
Total	9,882	(1,210)	3,601	12,273

14. Trade and other receivables

	2015 £000	2014 £000
Amounts receivable within one year		
Trade receivables	1,192	-
Accrued income	3,835	-
Other receivables	35	50
Total	5,062	50

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.
Of the amount above, £1m of trade receivables and £3.8m of accrued income are receivable from the Department for Business, Innovation and Skills.

15. Cash and cash equivalents

The following balances were held at year end:

	2015 £000	2014 £000
Government Banking Service	68,118	-
Commercial banks	2,930	-
Total	71,048	-

The British Business Bank generally maintains a cash balance of at least £50m to fund investments. As at 31 March 2015 the cash balance was £71m due to additional drawdowns to fund investments of £62.4m in April and May 2015. As the majority of cash is held in the Government Banking Service there is minimal cost to the Exchequer.

16. Trade and other payables

	2015 £000	2014 £000
Amounts falling due within one year		
Trade payables	14	83
VAT and social security	346	-
Accrued expenditure	2,597	13
Other payables	3,608	-
Total	6,565	96
Amounts falling due after more than one year		
Accrued expenditure	426	-
Total	426	-

Of the amount above, £0.4m of other payables relate to amounts payable in relation to the acquisition of the CfEL Group and £2.1m relate to the Shareholder loan from the Department for Business, Innovation and Skills. All Shareholder loans are subsequently converted to share capital. Accrued expenditure also includes £0.1m of staff costs payable to BIS.
The Directors consider that the carrying amount of trade payables approximates to their fair value.

17. Provisions

At 31 March 2015

	Total £000
Opening balance	-
Acquired on purchase of ECF investments	45,566
Provided in year	31,696
Provision utilised in year	(5,641)
Closing Balance	71,621
Of which:	
Current	19,866
Non-current	51,755
Total	71,621

All provisions relate to loan commitments.

The net provision expense for Enterprise Capital Fund (ECF) investments is £26.1m. The British Business Bank accepts a lower return from ECF investments in order to encourage private sector investors to invest. Although the Bank expects to make a positive return from these investments, this return is less than that required by the private sector. Accounting standards require the Bank to recognise a liability when it makes a commitment to a fund. The Bank records this liability as a provision. When a commitment is drawn the Bank impairs the resulting investment and utilises the provision by a corresponding amount. This results in significant upfront expenditure when new ECF commitments are entered into. This expenditure gradually reverses over the lifetime of the investment as the impairment is reversed. The expenditure doesn't relate to an underlying loss on ECF investments and is therefore excluded from the Group's financial target. There were no provisions in the previous year.

18. Contingent liabilities and indemnities

The Group has taken advantage of the exemption available under section 479A *Subsidiary companies: conditions for exemption from audit* of the Companies Act which exempts qualifying companies from the audit of their individual accounts for a financial year. The exemption is in respect of British Business Finance Limited and British Business Financial Sevices Limited, and their respective subsidiaries. As required by the Act, the British Business Bank plc therefore:

- 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.

19. Capital and other commitments

19.1. CAPITAL COMMITMENTS

The British Business Bank plc had the following commitments at the balance sheet date in relation to its existing investment portfolio:

	2015 £000	2014 £000
BFP Small Cap	27,836	-
BFP Mid Cap	457,537	-
Investment Programme	136,453	-
VC Catalyst Fund	24,400	-
Enterprise Capital Funds	195,090	-
Bridges Venture Fund	899	
Capital for Enterprise Fund	7,086	-
Total	849,301	-

19.2. OPERATING LEASE COMMITMENTS

The Bank's occupation of its registered office at Foundry House, 3 Millsands, Riverside Exchange, Sheffield S3 8NH is governed by a Memorandum of Terms of Occupation (MOTO) covering the period from 17 December 2012 to 30 June 2017. For the year ended 31 March 2015, lease payments of £62,000 were recognised as an expense in the year.

The lease commitments as at the balance sheet date are as follows:

	<1yr £000	1-5yrs £000	>5 yrs £000	Total £000
Operating lease	62	77	-	139

The Bank is in the process of signing a new MOTO to cover its occupation of office space at Fleetbank House, 2- 6 Salisbury Square, London, EC4Y 8JX. The MOTO is expected to permit the Bank to occupy the space to 1 April 2019 with an option to break the agreement effective from 1 May 2016, upon serving six months' notice. The Bank will pay £215,244 per annum subject to a fixed annual uplift of 2.25%.

For the year ended 31 March 2015, the Bank paid £197,000 in expenses in relation to occupying the offices. Once the MOTO is signed, the Bank is expected to incur £220,000 of expenses in 2015-16 covering the period to the first break point.

20. Share capital

	2015 £000	2014 £000
Authorised:		
ordinary shares of £1 each	5,000,000	50
Issued and not fully paid ordinary shares of £1 each	-	50
Issued and fully paid ordinary shares of £1 each	664,326	-

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

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 United Kingdom.

The principal subsidiary undertakings of the Company are shown below. The capital of each entity depends on its nature and consists of ordinary shares.

Subsidiary	Country of Incorporation	Nature of Business	Shares held by
British Business Bank Investments Limited (BBBIL)	UK	Makes commercial investments into providers of finance to smaller businesses plus Venture Capital fund investments	100%
British Business Finance Limited (BBFL)	UK	Manages and invests on behalf of the Group	100%
British Business Financial Services Limited (BBFSL)	UK	Administers investments on behalf of the Department for Business, Innovation and Skills	100%

All shares in the subsidiaries were acquired on 31 October 2014 for fair value and were funded through issuing shares to the Department of Business, Innovation and Skills. British Business Financial Sevices Limited did not hold any assets or liabilities when it was acquired and was therefore acquired at nil cost.

In addition to the principal subsidiaries shown above, British Business Bank plc additionally has the following subsidiary undertakings: Capital for Enterprise Limited, Capital for Enterprise Fund Managers Limited, Capital for Enterprise (GP) Limited and British Business Bank Aspire Hold Co Limited.

Net Assets acquired on 31 October 2014 through purchase of subsidiaries	BBBIL £000	BBFL £000
Assets		
Investments	374,863	148,751
Total	374,863	148,751
Liabilities		
Corporation tax liability	(1,242)	-
Provisions	-	(45,566)
Total	(1,242)	(45,566)
Net Assets	373,621	103,185

The net assets acquired by British Business Bank plc included £1,277,000 of cash held within a client account for an invoice discounter. Net financial assets acquired on 31 October 2014 were £475,529,000.

Details of the subsidiaries results including their net assets as at the balance sheet date and their profit or loss for the period ended 31 March 2015, are provided in the segmental reporting note 8.

The British Business Bank Group also has the following significant holdings in undertakings other than subsidiaries.

Name	Country in which it is incorporated	Class of share held by the British Business Bank	Proportion held by the British Business Bank
BMS Finance S.A.R.L.	Luxembourg	Ordinary shares	49.8%
Industrial Lending 1 (Boost Fund)	Luxembourg	Ordinary shares	44.1%
Liquid Accounts[1]	UK	Ordinary shares	35.6%
Pricoa Sterling Corporate Bond Fund[2]	Ireland	Ordinary shares	66.7%
Urica Capital Limited[3]	Jersey	Ordinary shares	50%
VRG Ventures[4]	UK	Ordinary shares	26.5%

[1]Liquid Accounts produces abbreviated unaudited accounts, making use of exemptions available to small companies. It has not yet published its accounts as at 31 March 2015. As at 31 March 2014 it had capital and reserves of £198,803 and during 2013-14 it made a loss of £393,533.

[2]Pricoa's latest financial year end was 30 June 2014. The fund does not produce separate accounts and therefore figures for the fund are not available.

[3]Urica's latest financial year end was for the 18 months to June 2014. As at that date, its aggregate amount of capital and reserves was £2,055,988 and during its financial year it made a loss of £171,518.

[4]VRG Ventures Limited produces abbreviated unaudited accounts, making use of exemptions available to small companies. It has not yet published its accounts as at 31 December 2014. As at 31 December 2013 it had capital and reserves of £22,624 and during 2014 it made a loss of £221,416.

22. Financial Instruments

22.1. CATEGORIES OF FINANCIAL INSTRUMENTS

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

At 31 March 2015	Note	Assets held at FVTPL	Loans and receivables	Available-for-sale assets	Liabilities held at amortised cost	Non-financial assets and liabilities	Total
			£000	£000	£000	£000	£000
Assets							
Property, plant and equipment	9	-	-	-	-	568	568
Intangible assets	10	-	-	-	-	200	200
Loans and receivables	13.1	-	18,461	-	-	-	18,461
Available-for-sale financial assets	13.2	-	-	622,930	-	-	622,930
Designated at FVTPL	13.3	5,313	-	-	-	-	5,313
Derivatives	13.4	12,273	-	-	-	-	12,273
Investment in associate	11	-	-	-	-	14	14
Trade and other receivables	14	-	5,052	-	-	-	5,052
Prepayments	14	-	-	-	-	10	10
Cash and cash equivalents	15	-	71,048	-	-	-	71,048
Total		**17,586**	**94,561**	**622,930**	**-**	**792**	**735,869**
Liabilities							
Trade and other payables	16	-	-	-	(6,645)	(346)	(6,991)
Corporation tax	7					(4,402)	(4,402)
Deferred tax	7	-	-	-	-	(4,774)	(4,774)
Provisions	17					(71,621)	(71,621)
Total		**-**	**-**	**-**	**(6,645)**	**(81,143)**	**(87,788)**
Net Assets		**17,586**	**94,561**	**622,930**	**(6,645)**	**(80,351)**	**648,081**

22.2. FAIR VALUE MEASUREMENTS

The information set out below provides information about how the Group determines fair values of various financial assets and financial liabilities.

The investment portfolio consists of assets carried at amortised cost (loans and receivables) and fair value (available-for-sale assets, assets designated at fair value through profit or loss, and derivatives). 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.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Available-for-sale assets

For all Available For Sale assets, except for the Enterprise Capital Funds, the investment valuation, a net asset valuation (NAV), is determined by investment managers on a regular basis (monthly or quarterly).

The Directors review the investment valuation reports periodically and are satisfied with the year-end valuations presented in the financial statements.

Enterprise Capital Funds, Assets designated at fair value through profit or loss, and derivatives

The primary valuation methodology used for the debt element of investments is the discounted cash flow method. Fair value is estimated by deriving the present value of the investment using reasonable assumptions of expected future cash flows 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 a periodically updated model, which for each valuation assessment is updated for actual asset performance and key assumption and input changes.

Enterprise Capital Funds also contain a separately identified equity derivative. The derivatives are valued using the Black-Scholes model. The key inputs used in the derivative valuation are outlined in the table below:

Input	Assumptions in determining the input
Net amount drawn and fund valuation as at 31 March 2015	Reported by fund managers
Time to fund exit – ranging from 0 to 5 years	Assessed separately for each fund based on remaining investment period and estimated timetable for fund exits
Volatility – ranging from 10% to 40%	Benchmarked against technology funds and other companies listed on the London Stock Exchange's market for smaller companies (AIM)
Dividend yield – ranging from 3% 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 but for which fair value disclosures are required
The Directors consider that the carrying amounts of the loans and receivables financial assets recorded at amortised cost in the financial statements approximate their fair values.

In addition, 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 financial assets at fair value through the profit and loss, available-for-sale assets and loans and receivables are all classified as Level 3 assets.

At 31 March 2015, based on the valuation assessment available-for-sale assets were increased by £5.7m, taken to Other Comprehensive Income. In addition, the fair value of derivative assets held was increased by £3.6m, taken to the Income Statement.

22.3. 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.

British Business Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- market risk

Credit risk
Credit risk is the risk of a loss due to the failure of a counterparty of a financial instrument to meet its obligations to pay the Group in accordance with agreed terms, or due to the risk of loss due to inappropriate investment decisions. Credit risk also includes settlement risk when a counterparty fails to settle their side of a transaction and concentration risk. The Group's credit risk is also influenced by general macroeconomic conditions.

Credit risk may arise in any of the Group's assets where there is the potential for default including loans and receivables and available-for-sale investments with a contractual repayment.

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

The value of the investments in each class of financial asset is detailed in notes 22.1 and 13 to 16 which also give details of total impairment losses during the year.

The concentration of credit risk is limited due to the investment base being large and spread across the Group's operating segments. Accordingly, the Directors believe that there is no further credit provision required in excess of the provision for impairment losses and the specific provision for credit losses detailed below.

Credit risk assessment 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. Overdue amounts relate solely to

The ageing of financial instruments at the reporting date was as follows:

	Not overdue	Overdue by less than 90 days	Overdue by longer than 90 days	Total
	£000	£000	£000	£000
Loans and receivables	17,830	434	197	18,461
Available-for-sale financial assets	622,930	-	-	622,930
Trade receivables	1,192	-	-	1,192
Total	641,952	434	197	642,583

receivables purchased through an invoice discounter. The Group provides for all debts which are overdue by 90 days at a rate of 50% of the average overdue balance over the last three months. In determining the recoverability of the amounts receivable, the Group considers past performance of recoveries.

As at the reporting date, all overdue receivables had been provided for in line with this policy.

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

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

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

LIBOR sensitivity of the Investment Programme is as follows:

- The impact of a 1 percentage point increase in the interest rate applicable to British Business Bank Investments Limited investments would be an approximate increase in income of £5m over a one year period.
- The impact of a 0.25 percentage point decrease in the interest rate applicable to British Business Bank Investments Limited investments would be an approximate decrease in income of £1m over a one year period. Larger decreases would be mitigated by a significant element of LIBOR floors.

Currency risk
The Group does not have material exposure to currency risk as the Group primarily invests pounds sterling in its functional currency, GBP. There are some investments in funds which have a Europe wide investment mandate, and are denominated in Euros. A prerequisite of these funds is that they invest into the UK at a fund level a larger amount than our financial investment. Less than 4% of the Group's portfolio is in non-GBP denominated investments. There is currently no policy to hedge this currency risk.

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

Liquidity risk is not deemed material 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. 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 associates are disclosed below.

The Department for Business, Innovation & Skills (BIS) is the principal shareholder and parent of the British Business Bank plc. British Business Bank plc provides services to BIS in relation to some of the financial assets held within BIS and not yet novated. In return, British Business Bank recognises income in relation to the services provided. In addition, BIS provided loans and secondees to the British Business Bank Group for which there are recharges.

TRADING TRANSACTIONS

During the year, Group companies entered into the following transactions with BIS (2014: £nil):

	Year ended 2015 £000
Income	
Grant-in-aid	295
Management fee	5,026
Expenditure	
Staff seconded from BIS	450
Capital transactions	
Shares issued	664,276
Shareholder loan	2,081
	672,128

AMOUNTS OUTSTANDING AT YEAR END

As at the balance sheet date, the Group was owed £4.8m from BIS relating to the management fee (2014: £nil) and owed BIS £2.6m for seconded staff, transfer of assets on acquisition and the shareholder loan (2014: £nil).

24. Events after the balance sheet date

As at the date of this annual report and accounts, there have been no post balance sheet events which require disclosure.