

BritishBusinessBank 
Unlocking finance for smaller businesses

STRATEGIC PLAN JUNE 2014

PERFORMANCE HIGHLIGHTS

£782 m

of new lending and investment was generated by British Business Bank programmes in financial year 2013/14 - more than double the level supported in 2012/13.

61%

of this was supported through new, emerging or smaller finance providers; in total we work with more than 80 partners.

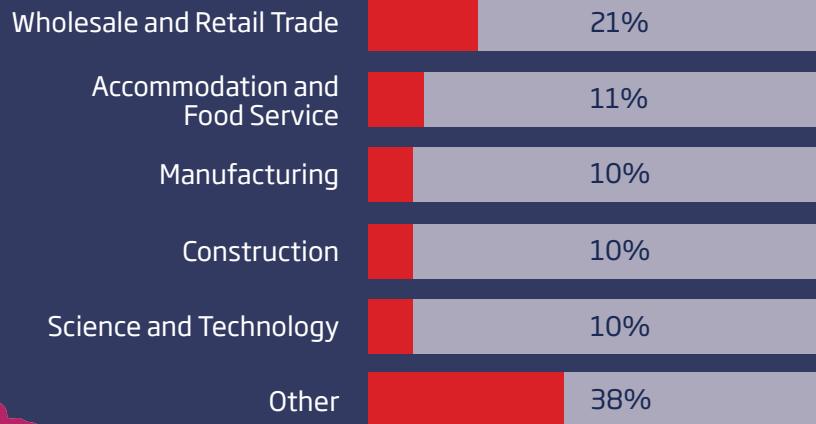
+30,000 businesses

were benefitting from finance through our programmes as of 31st March 2014.

1.56 bn

of total lending and investment in the market, supporting UK businesses.

We operate across all sectors, but the top five supported are:



The British Business Bank is focused on unlocking finance for smaller businesses: the average size of loans through our programmes is £68,000 and the typical equity investment is £600,000.

We operate across the UK

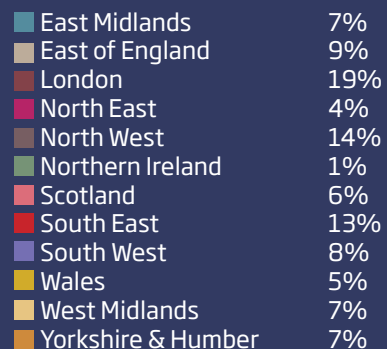


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FOREWORD

BY THE SECRETARY OF STATE FOR BUSINESS INNOVATION AND SKILLS



“The British Business Bank is already making a real difference, with over 30,000 smaller businesses benefitting from its programmes”

I am very pleased to see how far the establishment of the British Business Bank has progressed. The need for an institution to ensure that markets for long term business finance work well was identified by John Maynard Keynes in the 1930s. For many years, ICFC and later 3i, performed this role. But for many decades, the UK has lacked such an important body to support medium scale and smaller companies.

When I announced my intention to create the British Business Bank, I outlined that Government would be building for the long-term. After all, this is a key initiative in our Industrial Strategy. We cannot fix business finance markets overnight - the legacy of the banking crisis and the many years preceding it have left us with a market which is deeply flawed.

Lending to smaller businesses is still too concentrated, and lenders have been incentivised to cross-sell products rather than support companies in their local communities.

Thankfully things are changing. The British Business Bank is already playing a significant role in accelerating this change. This plan

shows how the British Business Bank is looking to the future, with clear, measurable objectives and solutions to address the issues affecting smaller businesses.

The British Business Bank is already making a real difference, with over 30,000 smaller businesses benefitting from its programmes. And there are exciting plans for further action to boost long-term finance and encourage diversity of supply.

I have faith that the Board and executive of the British Business Bank have the ambition, ability and resources to make a real difference to long-term economic growth in the UK.

A simple, handwritten signature in black ink, consisting of a curved line and a small vertical stroke at the end.

Vince Cable
Secretary of State
Department for Business Innovation and Skills

// Our programmes are already delivering significant results – a total of £782 million reached smaller businesses in the last fiscal year alone”

CHAIRMAN'S STATEMENT

Helping smaller businesses access the finance they need to grow is vital to our continuing economic recovery and sustainable growth thereafter. For too long, smaller businesses in the UK have found their options constrained when seeking funding, due to overly concentrated, inefficient finance markets.

That's why the Government is setting up the British Business Bank: to make finance markets for smaller businesses work better, enabling the sector to prosper, grow and build economic activity.

The setting up of the British Business Bank has made major progress in the last year. We've built a strong management team, incorporating expertise from the private and public sectors, and have appointed a full Board of Directors to advise and oversee the Bank's activities going forward. Our programmes are already delivering significant results – a total of £782 million reached smaller businesses in the last fiscal year alone. We're also playing an important role in widening the finance options available to small companies by funding innovative providers of finance, such as peer-to-peer lenders, and will shortly start to guarantee some of the lending of smaller challenger banks. Currently we are working with over 80 different suppliers of finance.

But there's still much more to do. This strategic plan lays out our vision for the



Bank: setting out the market failures we are targeting and the critical groups of smaller businesses we are aiming to support, explaining the Bank's objectives, structure and values, and the standards we will assess our performance against.

We are fully focussed in making this new organisation a success, and I am confident that we will play a critical role in improving the financing options available to small businesses in the UK, helping to make a real difference to their success and growth in the wider economy.

A handwritten signature in black ink, appearing to read 'Ron Emerson'.

Ron Emerson
Chairman
British Business Bank

WHAT

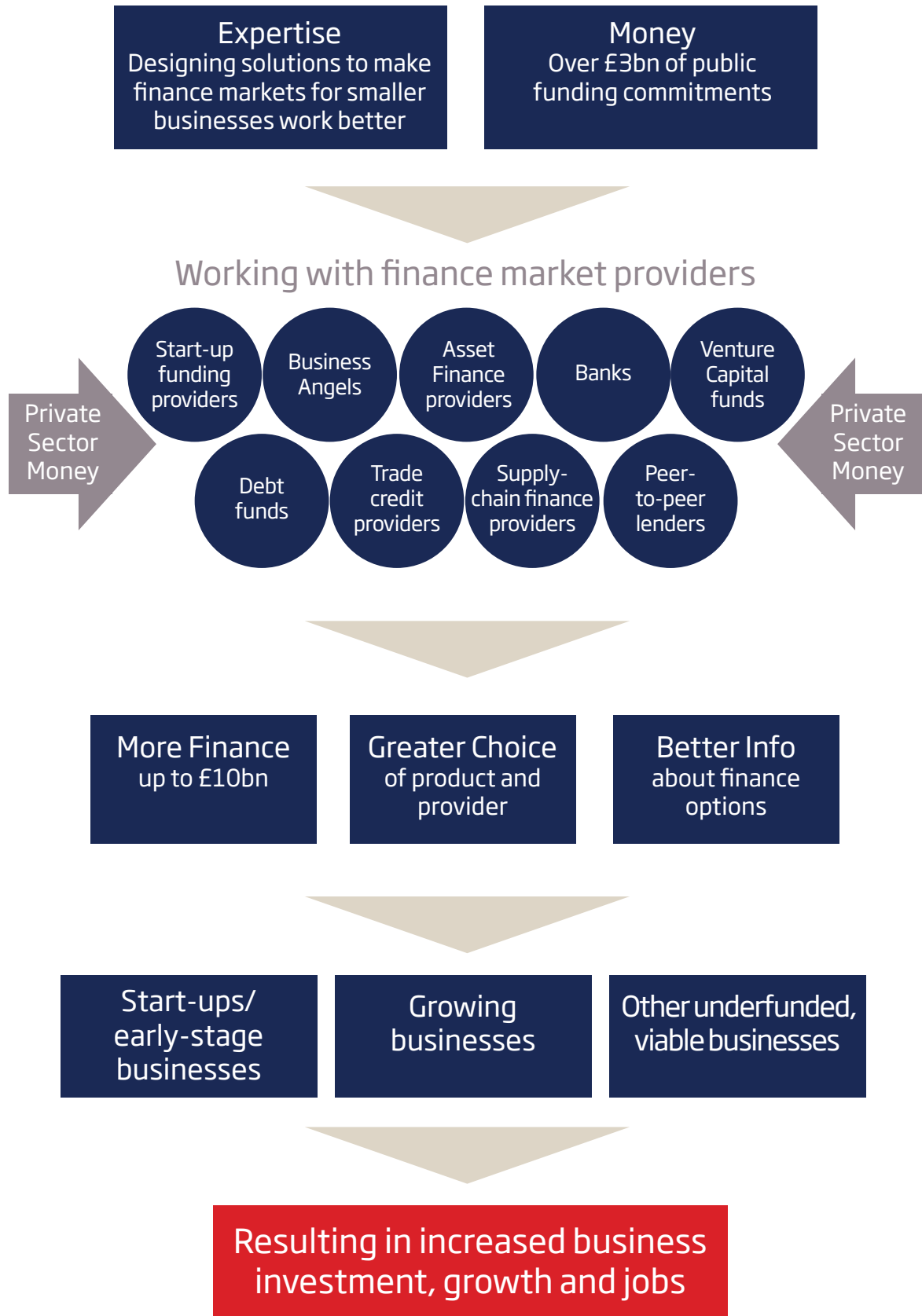
WE

DO

The British Business Bank programme is currently run directly by the Department for Business, Innovation and Skills and is not authorised or regulated by the Financial Conduct Authority. Once HM Government has received European Commission State aid clearance, which is expected later in 2014, programmes will be transferred to the British Business Bank plc, which will operate as a Government-owned financial institution. Any references to the British Business Bank in this document refer to the British Business Bank programme within the Department for Business, Innovation and Skills.

- Our **goal** is to change the structure of finance markets for smaller businesses, so these markets work more effectively and dynamically. This will help businesses prosper and build economic activity in the UK.
- That's why
 - We will increase the supply of finance available to smaller businesses where markets don't work well.
 - We will create a more diverse and vibrant finance market for smaller businesses, with a greater choice of options and providers.
 - We will build confidence in the market by increasing smaller businesses' understanding of the options available to them.
 - We will achieve this whilst managing taxpayer resources efficiently and within a robust risk management framework.
- The British Business Bank brings **expertise** and Government **money** to the smaller business finance markets.
- Understanding markets and smaller businesses' finance needs allows us to design programmes to make finance markets work better.
- Investing alongside private sector investors maximises our impact and allows us to reach the full range of finance providers such as banks, leasing companies, venture capital funds and web-based platforms.
- We do not lend to or invest directly in smaller businesses, with the exception of the Aspire Fund.
- In addition to finance, we also use **guarantees** to share risk with the private sector and so create stronger incentives for lenders to extend credit to smaller or growing companies.
- Our route to market is through established or newly emerging **finance market providers**. In total we work through more than 80 finance partners in the market.
- We will unlock up to **£10 billion** of new finance and bring **greater choice and information** on finance options to smaller businesses.
- Our programmes are designed to bring benefits to smaller businesses that are **start-ups, high growth, or simply viable but underfunded**.
- We are creating the opportunity for smaller businesses to **invest and grow**, creating additional jobs and economic activity.

HOW WE OPERATE



OUR VALUES

We have been created to enable change in the market.
Our key values are:

INTEGRITY

Acting with a shared sense of purpose, an abiding duty of care, and serving our market, stakeholders and employees with fairness, honesty and transparency.

ENABL

CONNECTING

Collaborating across the organisation, engaging with stakeholders, Government, and markets to better understand the challenges faced by smaller businesses.



IMPROVING

Challenging and innovating to create effective solutions that meet the objectives of our stakeholders and ensuring that finance markets for smaller businesses work effectively.

DELIVERING

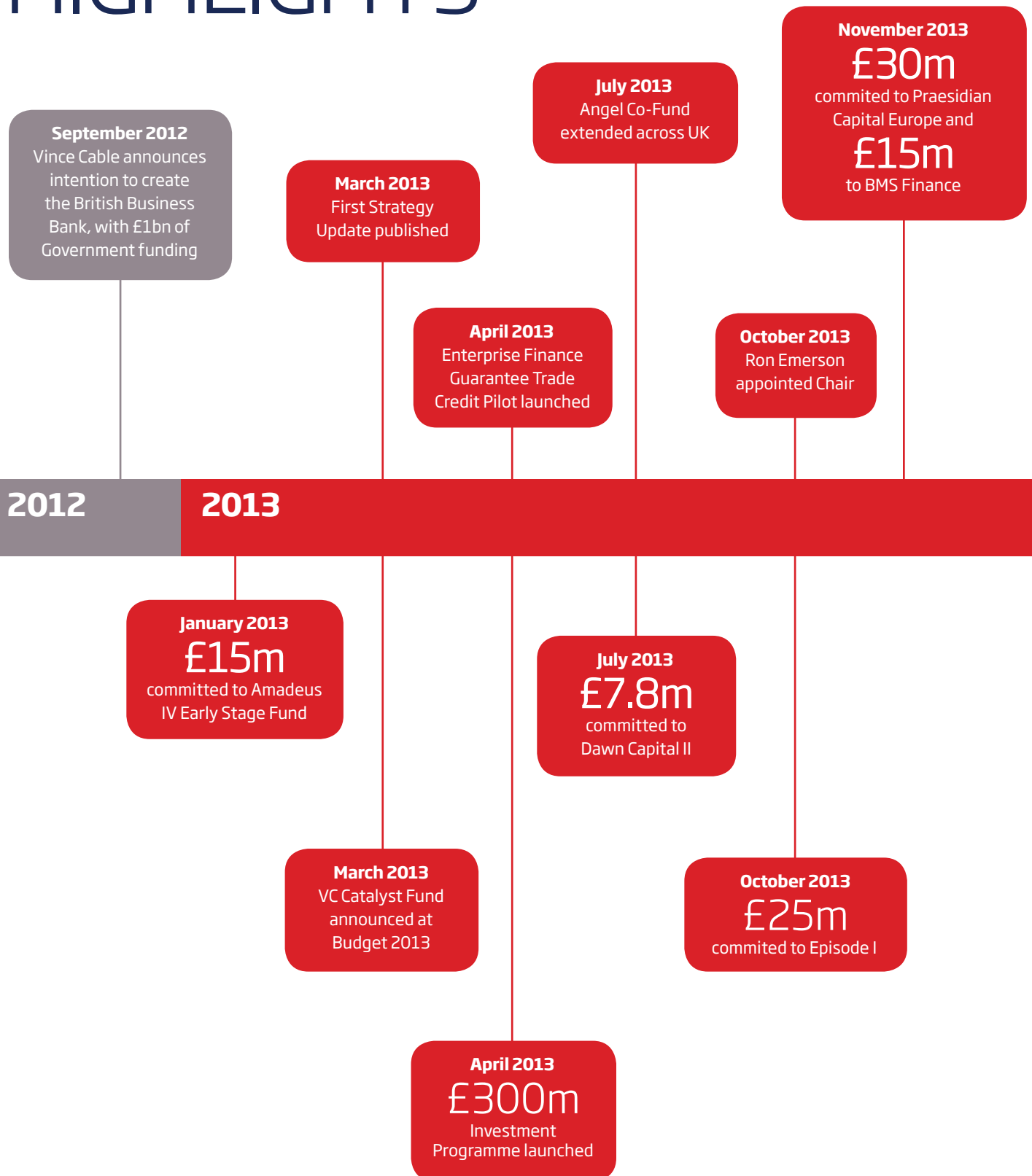
Commitment to delivering a professional, quality service to all our stakeholders and colleagues, whilst employing taxpayer resources responsibly to provide solutions.

COMMERCIALLY MINDED

Exercising good commercial judgement to meet the needs of our market while also staying focused on the need to drive economic benefit.

ING

SET UP OF THE BRITISH BUSINESS BANK HIGHLIGHTS



December 2013

Keith Morgan
appointed CEO

March 2014

Wholesales Guarantees
programme launched

June 2014

Full Board appointed

February 2014

£40m
committed to
Funding Circle

April 2014

£20m
committed to Sussex
Place Ventures

2014

December 2013

Treasury announces
£250m
of additional funding for
new programmes

April 2014

Our main programme for
Venture Capital reformed
and made more flexible

February 2014

Start Up Loans
programme is made
available across the UK

31 March 2014

£782m
of finance facilitated by
British Business Bank
reaches smaller businesses

WHO WE ARE THE BOARD



Ron Emerson
Non-Executive Chair

Ron has held a number of senior management positions with Bank of America, Nomura Bank International and Standard Chartered Bank, where he was a member of the group management committee and Group Head of Corporate Banking. Since 1996 he has divided his time between non-executive directorships, business advisory work and as an active member of the Faculty of Management Studies at Oxford University, where he is an Associate Fellow.



Christina McComb
Senior Independent Director

Christina has held a range of senior private and public sector roles and has a successful track record in private equity and venture capital investment as well as advising small and medium-sized businesses. Christina is a former director of 3i plc and is currently a Senior Independent Director at Standard Life European Private Equity Trust and a non-executive director of several other investment companies and private companies.

A full Board of non-executive Directors has been appointed to advise the creation of British Business Bank and will be the permanent Board once the Bank becomes an operationally independent organisation.



Keith Morgan
CEO

Keith has been leading the planning and establishment of the British Business Bank since January 2013. Prior to this, Keith was formerly a Director and Head of wholly-owned investments at UKFI, joining in 2009 to manage the UK Government's shareholdings in Bradford & Bingley, Northern Rock and Northern Rock Asset Management.

Keith joined UKFI from Banco Santander where he was a Director of Sovereign Bancorp in the US, focusing on Bank's retail and SME strategy and the integration of Sovereign into Santander. He was previously Director of Strategy & Planning at Abbey National and a member of the Executive Committee, and also served as Chairman of Santander's Asset Management and Credit Card businesses in the UK. Before joining Abbey in 2004, Keith spent 18 years at L.E.K. Consulting, where he was a partner specialising in financial services.



Jonathan Britton
Non-Executive Director -
Audit Committee Chair

Jonathan has 35 years of experience in banking, spanning corporate, smaller businesses and investment banking businesses. Jonathan is currently a Non-Executive Director of ICICI Bank UK Limited, and also chairs its Audit Committee. Since 2006, he has also been a Director of Sparks, a leading children's medical research charity, becoming Chairman in 2012.



Colin Glass
Non-Executive Director

Colin is a Chartered Accountant with his own Practice, Winburn Glass Norfolk ('WGN') which he founded, with two partners, in 1975. He is also a non-executive director of several companies, all of which are quoted on AIM. Colin has always been passionately interested in assisting small businesses develop to their full potential, and has been involved in a significant number of diverse businesses. Colin was awarded the Star in Practice Award in 2006 from the West Yorkshire Society of Chartered Accountants, and also was awarded Business Advisor of the Year in 2007 and Non-Executive Director of the year in 2008 by the Institute of Directors Yorkshire and Humber. In January 2011 he was awarded Non-Executive Director of the Year in the Grant Thornton sponsored Quoted Company Awards for his work with AIM-quoted smaller businesses.

WHO WE ARE THE BOARD



Teresa Graham
Non-Executive Director

Having worked alongside smaller firms in the public and private sectors for many years, Teresa now works independently providing strategic advice to ambitious, growing businesses and liberating these businesses from unnecessary regulation. She holds a number of non-executive directorships and has a variety of mentoring and advisory roles in other growth businesses.

Teresa was Deputy Chair of the Government's Better Regulation Commission having worked for twenty years in the deregulation and better regulation arena. She is Chairman of the Administrative Burdens Advisory Board of HMRC and a member of the Treasury's Office for Tax Simplification, and has recently returned from number 11 Downing Street where she was honoured for her work with HMRC.



Caroline Green
Non-Executive Director

Caroline is Finance Director of the VC-backed engineering group Arc Specialist Engineering Limited and previously spent eight years in private equity, initially at 3i plc. She started her career at Xerox Corp where she spent nine years in a variety of roles including supply chain, manufacturing and finance. Caroline is also a non-executive director and chair of audit committee for Protection Group International Limited, a fast growth risk mitigation and security company.



Patrick Magee
Shareholder Representative
Director

Patrick joined the Government's Shareholder Executive in June 2012. He has been involved in assisting with the establishment of The Green Deal Finance Company, the set-up and governance of the British Business Bank as well as work on a range of the companies in the Shareholder Executive portfolio.

Before joining the Shareholder Executive, Patrick was a Managing Director of corporate finance at JP Morgan Cazenove, having worked at its predecessor firms for almost eighteen years.



Ceri Smith
Shareholder Representative
Director

Ceri heads the Business Bank and Public Data Group team in the Government's Shareholder Executive, and is responsible for the successful delivery of the British Business Bank. He has held a number of senior positions in the Department for Business, Innovation and Skills advising the Secretary of State on a range of issues including business finance, industrial strategy, infrastructure and the UK's employment law framework.



Maria Turner
Non Executive Director -
Risk Committee Chair

Maria has over 27 years of risk management experience, managing risk in wholesale, retail, commercial, and in investment banking businesses.

Maria is currently Chief Risk Officer at Mizuho International Plc bank in London. She is a senior Managing Director and a member of the company's Executive Committee.

WHO WE ARE THE EXECUTIVE

We are organised into eight teams, four of which provide central functions and four of which are market-facing:

Strategy and Markets	Finance
Venture Capital Solutions	Lending Solutions
Risk & Compliance	General Counsel/ central functions
Investment Programme/ British Business Bank Investments	Wholesale Solutions

Our senior management team comprises expertise from the public and private sectors, and includes specialists in product development, finance and risk management.



Shanika Amarasekara
General Counsel & Company Secretary

Shanika is the General Counsel & Company Secretary at the British Business Bank. In this role she is responsible for ensuring that the legal interests of the bank and its stakeholders are protected and ensuring that the governance aspects of the institution function smoothly.

Shanika joined the bank in June 2014. Prior to this she worked as General Counsel at an institution established by a number of central banks to promote financial stability and economic development. Shanika has previously worked at RBS as a Director in their structured finance team and prior to this was a senior associate in the capital markets team at Allen & Overy.



Ken Cooper
Managing Director, Venture Capital Solutions

Heading up our Venture Capital Solutions team, Ken is responsible for the design and delivery of a range of programmes that support the flow of venture capital based investment into smaller businesses. Ken has a wealth of experience in venture capital and access to finance. As part of the senior management team at Capital for Enterprise, he led on the design and management of a range of Government-backed equity support programmes.

Prior to that, Ken spent six years with the Government's Small Business Service where he was responsible for finance policy for smaller businesses. Ken is a Director of the UK Business Angels Association.



Reinald de Monchy
Managing Director, Wholesale
Solutions

As Managing Director of the Wholesale Solutions team, Reinald is responsible for the design and delivery of funding and capital programmes to help increase the flow of finance to smaller businesses.

Prior to joining the Business Bank, Reinald worked for over 12 years securitising a wide variety of asset classes including loans to smaller businesses, corporates, private finance initiatives, leveraged finance, registered social landlords and emerging markets borrowers. Between 2005 and 2013, he worked for Lloyds Bank as Head of SME and Corporate Loan Securitisation. Prior to joining Lloyds, Reinald worked for MeesPierson (later Fortis Bank) and for Rabobank.



Mark Gray
Managing Director, Risk
and Compliance

Mark heads up our Risk and Compliance department, providing the Board, shareholder and key stakeholders with assurance that the Bank is operating with integrity, to high standards and within its risk appetite.

Mark joined the British Business Bank in November 2013. He was previously Chief Risk Officer at Shawbrook for two years. He spent ten years at General Motors Acceptance Corporation (GMAC), as Chief Risk Officer in two different international divisions, and also worked as Director of Structured Finance. Previously Mark worked in Investment Banking for Banque Nationale de Paris, Swiss Bank Corporation, Credit Suisse First Boston and Morgan Stanley.



Judith Ozcan
Managing Director,
Lending Solutions

As head of the Lending Solutions team, Judith manages a range of programmes that support the flow of debt-based finance into smaller businesses, helping them to prosper, grow and build UK economic activity. Judith has worked in a variety of senior finance roles in Government and the private sector. Judith was previously a Director of Real Estate at HBOS, before which she held a number of roles in corporate banking.

WHO WE ARE THE EXECUTIVE



Andrew van der Lem Managing Director, Strategy & Markets

As Managing Director of Strategy & Markets, Andrew is responsible for setting the Bank's strategy going forward, through business planning, product development, market analysis and programme evaluation.

Andrew has worked on the Business Bank project within the Department for Business, Innovation and Skills from its inception, and was previously responsible for access to finance policy for smaller businesses.

An economist by background, Andrew has worked on a range of policy issues in Government, including competition policy, regulatory reform, intellectual property rights and trade policy. He spent four years from 2002 to 2006 seconded to the Foreign and Commonwealth Office representing the UK in EU negotiations, and has also worked in the Cabinet Office and the European Commission.



Peter Wilson Managing Director, Investment Programme

Peter is Managing Director of the Investment Programme, which addresses long-standing gaps in the finance market for smaller business and promotes greater choice in their supply of lending.

Before joining the British Business Bank, Peter's previous career was spent largely in private equity. As Partner and Managing Director at Warburg Pincus, he was responsible for European Financial Services investments. Prior to joining Warburg Pincus, Peter spent nine years at Electra Partners, where he was a founder Director of Electra Partners Europe. Before starting his investment career, Peter spent five years with the Boston Consulting Group.



Neil Wood Interim Chief Financial Officer and Managing Director, Central Services

Neil is responsible for the development of the Bank's financial management and reporting strategy, capability, framework and systems and processes. Neil joined the Bank in May 2014 on secondment from Deloitte where he is a partner in the programme management practice. Neil has over seventeen years of experience in audit. From 2005 until 2013 he was seconded to The London Organising Committee of the Olympic Games and Paralympic Games Ltd (LOCOG) as its Chief Financial Officer, and was at the heart of the financing, planning and delivery of the Olympic and Paralympic Games.

WHY WE ARE NEEDED

Smaller businesses are crucial to economic growth

Smaller businesses are a crucial part of the UK economy. At the start of 2013, there were around 4.9 million smaller businesses in the UK, employing over 14 million people, and contributing 48% of the economy's private sector turnover. (There is no standardised definition of a smaller business, but we mean companies with fewer than 250 employees. For some programmes, we also often apply an EU definition which comprises businesses with annual turnover of £43 million or less.)

Well-functioning markets for finance ensure a dynamic small business sector, producing new and improved goods and services and so raising productivity and the UK's international competitiveness. One of the

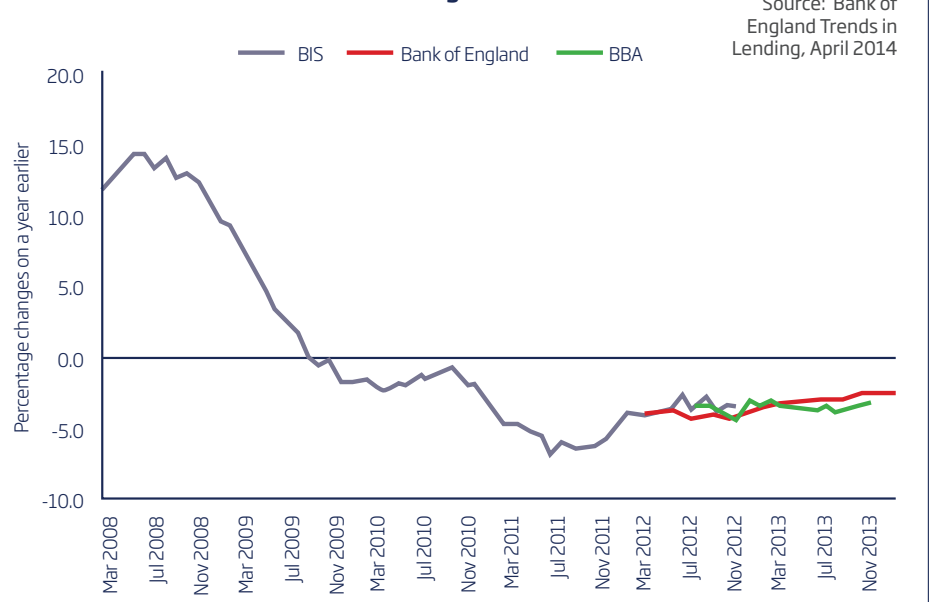
Government's priorities is to rebalance the UK economy away from Government spending and consumption towards more business investment and sustainable growth.

However, the UK has the lowest level of business investment of all the OECD countries. The ratio of UK business investment to GDP is 8% compared to over 10% for the USA, Germany and France (OECD 2011 figures on Private Non-Residential Gross Fixed Capital Formation). Although the economy is expanding and employment rates are rising, business investment remains relatively static, due in part to business uncertainty over future economic conditions and funding constraints affecting smaller businesses.

Smaller businesses cannot always obtain the finance they need

Finance is required to increase investment and to help companies grow. The Federation for Small Businesses' Voice of Small Business Index (Quarter 1 2014) shows that smaller businesses performed strongly in 2013 and the first quarter of 2014 - with a positive net balance in the number of businesses reporting growth in revenue. Expectations amongst businesses on the future outlook of the economy also remained strong with 26.6% of businesses reporting that they intended to increase investment in the next 12 months, the highest level since the survey began. Yet despite these encouraging signs the stock of bank lending for smaller businesses continues to decline.

Rate of decline in the stock of SME lending



Source: Bank of England Trends in Lending, April 2014

WHY WE ARE NEEDED

Demand for finance from smaller businesses also remains subdued. Only 16% sought or renewed external funding in Quarter 1 2014, a decrease from levels seen in the preceding years.

Proportion of smaller businesses seeking finance in last 12 months

Small firms who wanted to apply but didn't	5%	273,000 small firms
Small firms that applied for new finance, or renewed facilities, including automatic renewals	16%	728,000 small firms
Did not apply, but did not feel anything stopped them	78%	3.5 million small firms

Source: BDRC SME Finance Monitor, Q1 2014

Success rates for smaller businesses seeking external finance also continue to deteriorate. In the first quarter of 2011, around 70% of smaller businesses seeking finance were able to obtain funding but this has dropped to 65% in the same period of 2013.

Success rates for smaller business seeking bank finance

	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q3 13	Q4 13
Offered what wanted or took facility after issues	70%	72%	69%	70%	67%	68%	68%	75%	64%	60%	65%	65%
Got funding elsewhere	8%	7%	4%	6%	4%	3%	6%	4%	7%	6%	4%	4%
No facility	22%	21%	27%	24%	28%	29%	26%	21%	30%	34%	31%	31%

Source: BDRC SME Finance Monitor, Q1 2014

Structural issues in the market for business finance

At present the largest four banks account for over 80% of UK smaller businesses' main banking relationships. Whilst the Government is working hard to improve competition in the banking sector, there is a range of challenges faced by new banks trying to enter the market. These include regulatory barriers, low rates of switching by consumers and reduced access to information to assess creditworthiness of lending applicants compared to existing finance providers. This concentration and the challenges to enter the banking market results in credit rationing, a lack of product diversity and higher costs. In addition, when large incumbent banks pull back from the market, smaller business borrowers are often left without sufficient alternative sources of finance.

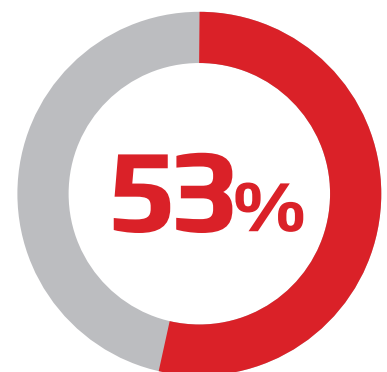
The high concentration of the UK banking market also means that smaller businesses are less aware of alternative financing options outside of the largest banks, including challenger banks and alternative finance providers. Businesses may also lack information on how to present themselves as viable propositions, resulting in some potentially viable businesses not getting the finance they need.

Lending to smaller businesses is particularly capital intensive, and hence less profitable for banks compared to other types of lending. This is reflected in higher rejection rates for smaller businesses - 53% of sole trader businesses who applied for a loan were declined funding, compared to 9% of businesses with 50-249 employees (from Quarter 3 2012 to Quarter 4 2013). In the current economic climate, banks are likely to be capital-constrained due to post-crisis deleveraging and international and national banking regulations designed to

stabilise the banking sector against future volatility.

There are also structural market failures due to imperfect information. Before advancing credit, lenders must assess borrowers' ability to repay based on assessing the company's performance and future prospects. Despite advances in credit scoring techniques, it can be costly for banks to assess small loans to smaller companies. Many lenders therefore rely on evidence of past track record, and availability of collateral, which prevents some viable smaller and newer companies that lack long track record and security from raising bank finance.

These types of issues also extend to equity markets. It has long been recognised that there is an 'equity gap' in the provision of smaller amounts of equity finance. The equity gap is currently estimated to affect equity deals of up to £2-5m. This is because assessing the quality of proposals, and judging the associated risks of investing in young businesses is difficult. The cost of undertaking due diligence generally does not change by size of investment and so can often be disproportionately high for smaller investments- sometimes accounting for 10% or more of the investment. This has resulted in a structural gap in the market where investors and fund managers focus on fewer, larger investments in more established (and therefore lower risk) businesses at the expense of early stage venture capital. There are also cyclical factors currently affecting the Venture Capital market, with low levels of fund raising for new venture capital funds compared to before the recession, as investors look for lower risk and more liquid assets.



53%
**OF BUSINESSES WITH
0-49 EMPLOYEES**
who applied for a
loan were declined






OUR OBJECTIVES

- Our **goal** is to change the structure of finance markets for smaller businesses, so these markets work more effectively and dynamically. This will help businesses prosper and build economic activity in the UK.
- That's why
 - We will increase the supply of finance available to smaller businesses where markets don't work well.
 - We will create a more diverse and

vibrant finance market for smaller businesses, with a greater choice of options and providers.

- We will build confidence in the market by increasing smaller businesses' understanding of the options available to them.
- We will achieve this whilst managing taxpayer resources efficiently and within a robust risk management framework.

Smaller businesses will often need to seek external finance as they look to grow and invest. Different types of businesses will require different forms of finance at particular stages in their development; there is no one-size-fits-all solution. Early stage, fast-growing businesses may require equity finance, while companies with more predictable cash flows could be better suited to debt-based finance. Having knowledge of, and access to, a full range of finance options is critical.

Equity Finance						
	Seed Finance	Angel Finance	Equity Crowdfunding	Venture Capital	Private Equity	IPO/Public Offering
Pre-trading	●					
Pre-profit	●		●			
Profitable growing business					●	●
Established and steadily growing					●	●
Established stable business						●
Launching new product/service/brand						●
Making acquisitions					●	●
Expanding into new territories					●	●
Investing in new facilities					●	●
Looking to refinance			●			

The British Business Bank is active across a broad spectrum of the finance market for smaller businesses and continually evaluates where it should commit future funding to meet its strategic goal.

We are an evidence-based organisation, and are putting considerable resources

into data-gathering and analysis in order to properly inform our resource allocation process. We are uniquely placed to understand business finance markets for smaller firms. Later in 2014 we will publish a detailed "State of the Market Report" with insight into latest market
















































developments, the characteristics of different sub-markets, such as Fintech and alternative forms of finance, as well as the linkages with macroeconomics.

We will publish all our research as well as all our economic evaluations of our programmes.

Our programmes are designed to enhance smaller businesses' access to the full range of options. We focus on areas where the markets don't work well and where we can catalyse greater competition and diversity in finance provision.

The following table shows the various options available to different business stages and where the Bank is currently active.

Debt Finance

Start-up Loan	Overdraft	Loan	Peer to peer lending	Asset-based Finance	Leasing and Hire Purchase	Export Finance	Trade Finance	Mezzanine
								
								
								
								
								
								
								
								
								
								



Business Bank is active in this area



Business Bank is planning to become active in this area



Products available in the market

HOW WE ARE RUN

The British Business Bank is a 100% Government-owned institution which will operate to fulfil a public policy objective. Unlike most banks, our impact is not measured in terms of profits generated but rather by the benefit of increased economic activity it creates.

We are doing this to ensure that there is a vibrant, diverse and sustainable private sector market for small business finance.

We are not a traditional 'bank' which accepts deposits and lends to businesses through dedicated distribution channels and relationship managers. Instead, we make investments and offer guarantees through a very broad range of private sector partners. This allows us to work with the market rather than to replace it, and ensures that our support increases competition and reaches smaller businesses as efficiently as possible.

Working with the private sector also allows the Bank to leverage its impact by stimulating the deployment of significant quantities of additional funding. For each £1 the Bank invests or guarantees over the next five years, we expect a private sector contribution of £2 to £3. This makes the most use of Government funds and generates a meaningful impact in the market.

The Bank brings together the management of all Government-supported national access-to-finance programmes for smaller businesses (with the exception of export finance, housing finance and grant programmes) under one management structure.

Our headquarters are in Sheffield with a further office in London. Our team combines expertise from the private sector, including specialists in product development, finance and risk, policy and economic assessment skills from the public sector.

Although the Bank has a public policy objective, it will act in a commercially-minded way to invest Government money most effectively for the best possible benefit.

Relationship with the Shareholder

Once State aid approval has been obtained' to the start of this sentence. So 'Once State aid approval has been obtained, the British Business Bank will be an operationally independent institution that operates at arm's length from Government.

The Secretary of State for Business, Innovation and Skills, through the Government's Shareholder Executive, will hold 100% of shares in the Bank.

For each **£1** the Bank invests or guarantees over the next five years, we expect a private sector contribution of

£2 to £3

The shareholder will set the Bank's remit and high level strategic objectives. We will seek approval from the shareholder for a medium term business plan, updated on an annual basis, and will design and operate our own programmes.

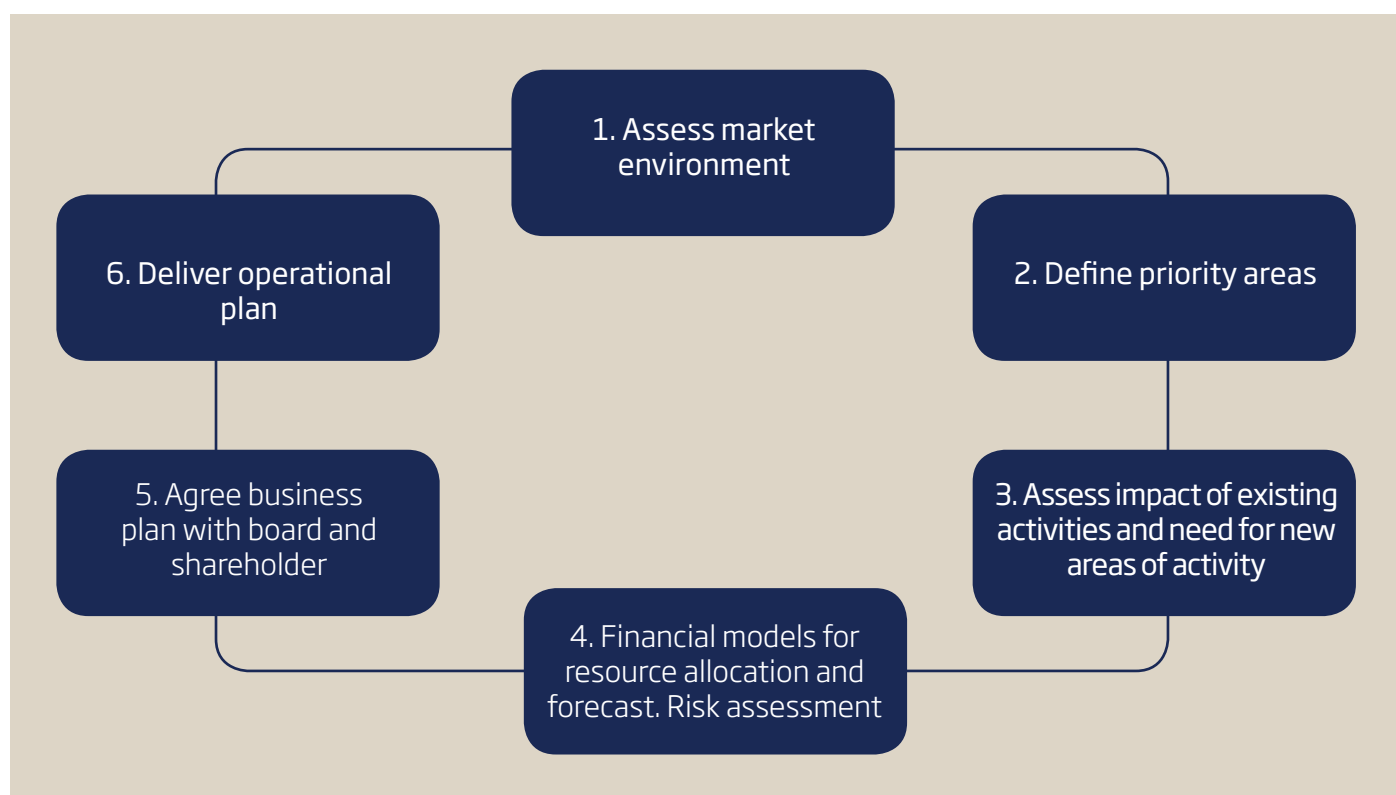
A number of existing assets comprising fund investments made historically by Government will move onto the Bank's balance sheet. In line with the agreed business plan, we will have the freedom to draw down additional funding and recycle funding from existing commitments.

We will be required to marry an approach based on the best practice of corporate governance for a smaller quoted company with the principles of 'Managing Public Money' and other public sector frameworks.

HOW WE ALLOCATE OUR RESOURCES

We want to focus our resources on areas where markets are not working well. Markets change over time, and the types of firms that are well or not well served changes over time too. Our flexible business planning process reflects this changing environment. The development of new products, and the improvement of existing products is essential to help meet our goals.

Business planning process



All potential and existing products will be assessed against a set of criteria which include:

- Monetised economic impact - net present value, following a British Business Bank methodology that applies standard Government principles
- Non-monetised costs and benefits - such as innovation, exports, competition and longer-term market creation
- Market imperfection targeted - a qualitative assessment of how well a specific market failure is being addressed
- Delivery considerations - including scale, speed of deployment, funding required, capacity, risk and regulation.

MARKET SEGMENTATION

We use our analysis of the market to segment smaller businesses into three target groups, which we believe are most acutely affected by market imperfections and which could make a more valuable contribution to the UK economy if they were able to access the finance they need.

Start-ups

Firms less than two years old make up around a fifth of the UK's smaller businesses. They also have the highest rejection rate for bank loans of all smaller businesses; around three-fifths compared with just over a third for smaller businesses overall. Start-ups are also more likely to have a high proportion of discouraged borrowers - firms that would have liked to apply for finance but were discouraged from applying by their bank.

14%

14% of the total number of start-ups are not currently served by the market.

Growth firms - companies that have achieved positive growth over the last 12 months

These companies represent around 30% of all smaller businesses. In periods of high growth, firms will often become stretched and will need to access finance in order to keep investing in their business. If unable to access this finance, they are likely to see their growth constrained, leading to lower growth across the whole economy. While these companies generally have more success applying for finance than

most smaller firms as a whole, they also have much higher rejection rates than medium-sized businesses (companies with turnover between £25 and £500 million). Improving the success rate among growth firms applying for finance could significantly contribute to the UK economy.

9%

of the total number of growth firms are not served by the market; they are either rejected outright or discouraged from applying for finance.

Other viable but underfunded companies

These are stable, viable companies which nevertheless require external finance for the day-to-day running of their business. Once again, these firms face higher rejection rates than medium sized businesses, often despite having good risk ratings and balance sheet. Studies have found that the tightening credit conditions following the financial crisis disproportionately affected smaller firms with low to average risk ratings, while the rejection rates for higher-risk companies remained the same.

7%

of the total number of low and average growth firms that are not properly served by the market.

“We are uniquely placed to understand business finance markets for smaller firms”

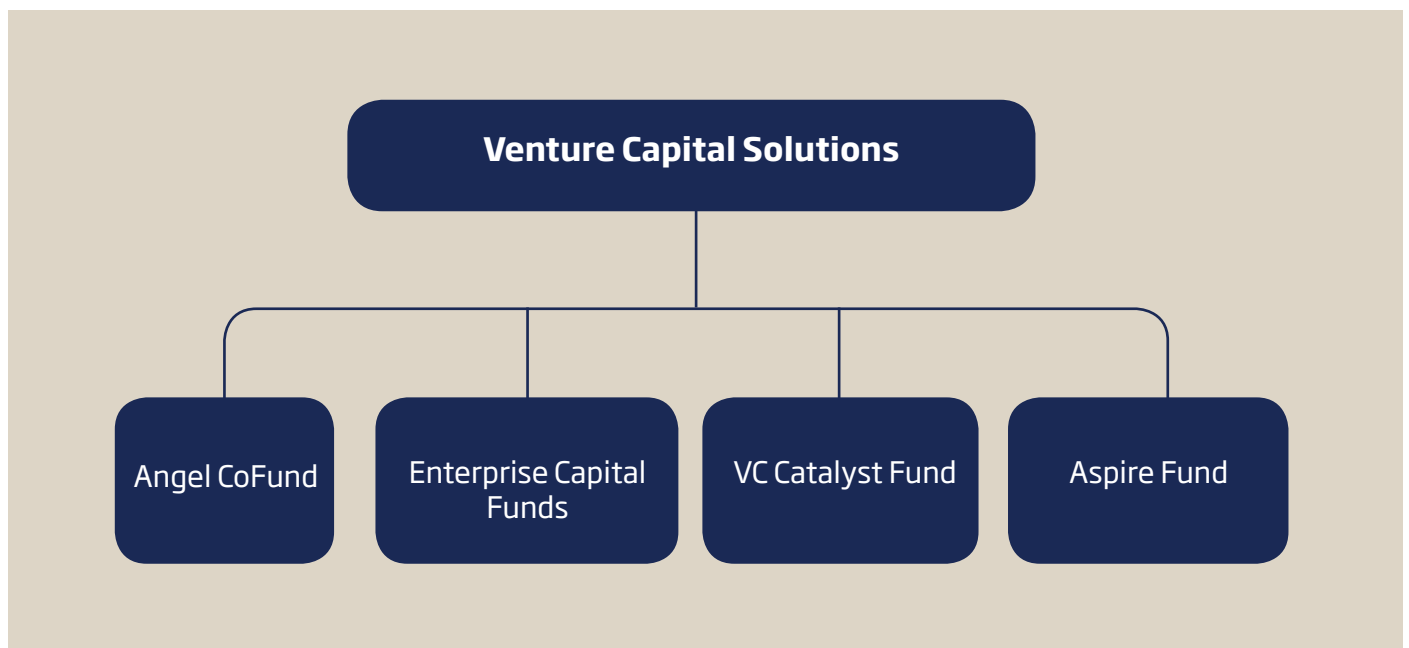
OUR PROGRAMMES

We have segmented the market into three core target groups: start-ups and early stage firms; firms planning to grow, and other stable firms with viable business propositions not able to obtain finance. Our programmes are designed to make finance markets work better for these groups. The table below shows which of our activities targets identified market gaps:

	Start-ups		Growing firms		Other viable underfunded firms	
Venture Capital Solutions						
Lending Solutions						
Investment programme						
Wholesale Solutions						

VENTURE CAPITAL SOLUTIONS

Our Venture Capital Solutions team is focused on supporting a vibrant and diverse venture capital market to support early stage and high-growth firms in the UK. The team is responsible for the design and delivery of a range of products that support the flow of venture capital based investment into smaller businesses.



Business Angel Co-Fund

For smaller, younger firms, our main activity is focused on the Business Angel Co-Fund, which makes equity investments of between £100,000 and £1 million in smaller businesses in the UK. The Co-Fund invests alongside business angel syndicates, where a number of angel investors team up, to generate sufficient capital to help smaller businesses really flourish. Through these commercial investments, the Co-Fund is able to ensure that companies are properly financed to a level which allows them to reach meaningful points in their development, fund research, open up new markets or deliver new projects. This targets an important equity gap for smaller businesses seeking finance. The businesses supported by the Co-Fund have high growth potential, often looking to extend well beyond our domestic markets, and cover sectors such as medical instruments, high tech manufacturing and internet enabled technologies.

Case Study: Gousto

Gousto provides customers with fresh organic ingredients for a wide range of exciting menus, delivered straight to the door to cook at home. Customers choose recipes online, and have all the ingredients delivered in the correct proportions, alongside recipe cards and cooking instructions. Founded in 2011, it now delivers over 10,000 meals a month. Gousto received a combined £500,000 from the Angel CoFund and an angel syndicate, which enabled Gousto to secure a further £1m in institutional funding.

In 2013/14 the Co-Fund supported £35.8 million of investment in smaller businesses. Collectively, businesses backed by the Co-Fund employ over 700 people, but through the next eight years of the fund's life we expect to support more than 6,000 jobs.

Forward Plan

We anticipate that the Co-Fund will be able to back around 50 new investments each year during the next few years, setting a commitment to recycle at least £40 million of that investment into new businesses within its first ten years.

Enterprise Capital Funds (ECFs)

Enterprise Capital Funds (ECFs) are our main support for early-stage venture capital. These funds are structured so that Government provides two thirds of funding (up to £50 million), and private sector investors match this with one third. The private sector investors take on relatively more risk and are granted a larger share of the returns, incentivising private sector involvement in this part of the market.

Each fund is managed by an experienced fund manager, pulling in private sector capital from a variety of sources - including teams from the venture capital industry as well as serial entrepreneurs with a history of success in building early stage UK companies. Applications from the fund managers are subject to a competitive process and are evaluated by our venture capital team before a decision to co-invest into a fund is made.

Case study: Sirigen

Based in Ringwood, Hampshire and with an office in California, Sirigen has developed technology that improves the diagnostics of clinical tests. ECF funding enabled Sirigen to launch the product and start sales, while investors also provided strategic direction to the business. Two large commercial contracts followed and the company was successfully sold in September 2012 to Becton Dickinson for a significant undisclosed sum, generating up to a 4x return to investors.

The programme currently has sixteen separate funds, of which nine are currently investing, with a combined investment capacity of over £530 million. In the last financial year, the funds invested £39.2 million in smaller businesses.

Forward Plan

We have recently secured State aid approval from the European Commission to extend our programme, allowing larger funds - an increase in the initial investment round size from £2 million to £5 million - and larger investments - an increase in the maximum investment from £25 million to £50 million. Since the financial crisis, the 'equity gap' in the venture capital space has grown, as some investors have withdrawn due to poor returns over the last few years. This change will therefore help us to better address the current market gap in the venture capital area.

VENTURE CAPITAL SOLUTIONS

GLASGOW

FORESIGHT NOTTINGHAM FUND

Foresight Group foresightgroup.eu/nottingham
High-growth businesses based in Nottinghamshire
Notable investment: Positive Outcomes

Fund size	From government	Invested
£40.0m	£25.0m	£2.0m
Investments	Exits	Launched
2	n/a	2013
		Investing
		YES

CATAPULT GROWTH FUND

Catapult Ventures catapult-vm.co.uk
Invests in early growth-stage companies across most sectors
Notable investment: Oxford Biotherapeutics

Fund size	From government	Invested
£30.0m	£18.0m	£25.5m
Investments	Exits	Launched
20	1	2006
		Investing
		NO

IQ CAPITAL FUND I

IQ Capital Partners iqcapital.co.uk
Focuses on seed and early-stage high-tech ventures
Notable investment: Neul

Fund size	From government	Invested
£25.0m	£16.7m	£22.8m
Investments	Exits	Launched
14	3	2006
		Investing
		NO

AMADEUS & ANGELS SEED FUND

Amadeus Capital Partners amadeuscapital.com
Makes seed-stage tech investments
Notable investment: OneDrum

Fund size	From government	Invested
£10.0m	£6.5m	£6.0m
Investments	Exits	Launched
8	1	2006
		Investing
		NO

AMADEUS IV EARLY STAGE FUND

Amadeus Capital Partners amadeuscapital.com
Seed and early-stage disruptive tech in 'big data' analytics, cloud computing, cyber security, low-power computing, 'internet of things', medical tech and digital healthcare
Notable investment: N/A

Fund size (to date)	From government	Invested
£33.2m	£15.0m	£0.0m
Investments	Exits	Launched
0	n/a	2013
		Investing
		YES

OXFORD TECHNOLOGY ECF

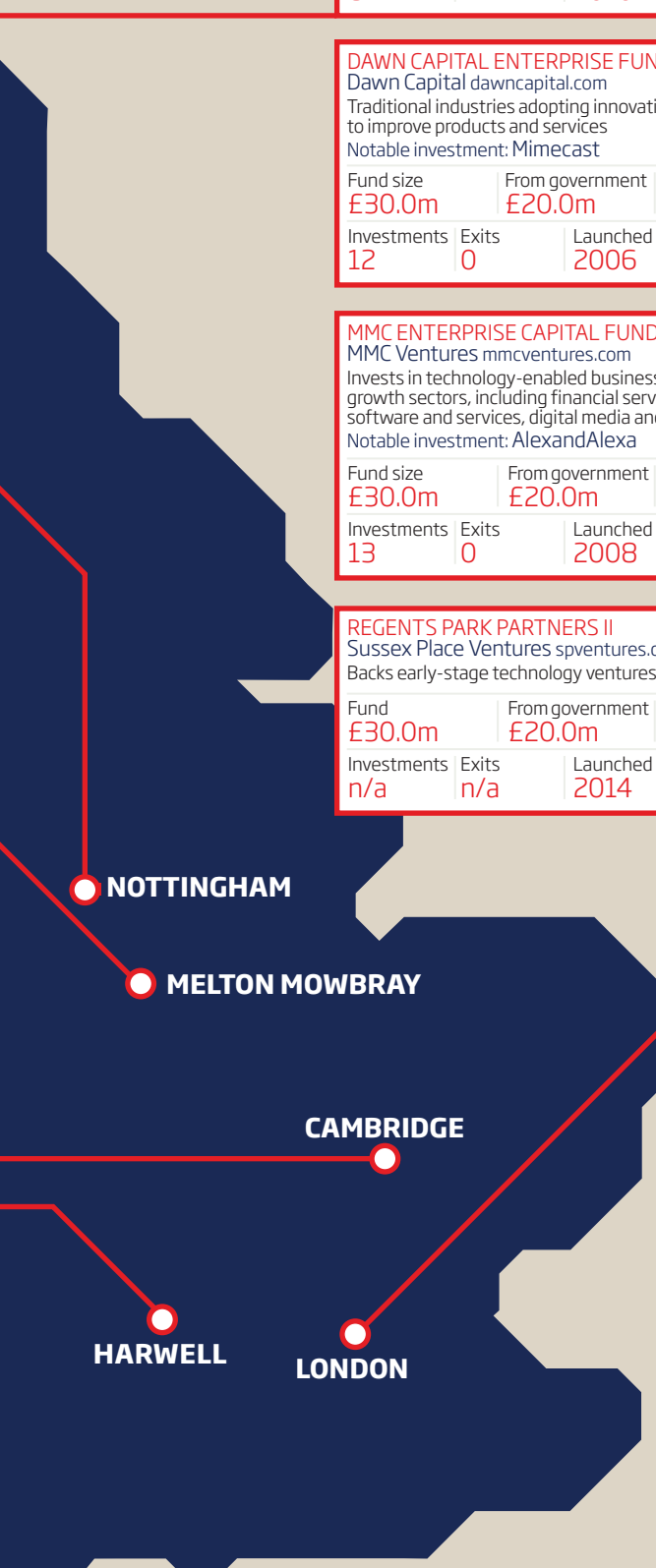
Longwall Ventures longwallventures.com
Invests in early-stage science/healthcare, engineering and software
Notable investment: Merciria

Fund size	From government	Invested
£30.0m	£20.0m	£22.0m
Investments	Exits	Launched
19	2	2008
		Investing
		NO

LONGWALL VENTURES ECF

Longwall Ventures longwallventures.com
Disruptive early-stage science, engineering and technology B2B ventures.
Notable investment: Oxford Photovoltaics

Fund size	From government	Invested
£40.0m	£25.0m	£3.5m
Investments	Exits	Launched
8	n/a	2012
		Investing
		YES



PANORAMIC ECF1
Panoramic Growth Equity pgequity.com
Private equity investor in UK growth SMEs with £1m+ revenues across all mainstream sectors, except life sciences and turnarounds
Notable investment: Solfex Energy Systems

Fund size	From government	Invested
£34.0m	£20.0m	£10.7m
Investments	Exits	Launched
8	1	2010
		Investing
		YES

NOTION CAPITAL 2
Notion Capital Partners notioncapital.com
Focuses on cloud computing and software-as-a-service businesses
Notable investment: Shutl

Fund size	From government	Invested
£76.3m	£25.0m	£19.5m
Investments	Exits	Launched
13	1	2012
		Investing
		YES

DAWN CAPITAL ENTERPRISE FUND
Dawn Capital dawncapital.com
Traditional industries adopting innovative technology to improve products and services
Notable investment: Mimecast

Fund size	From government	Invested
£30.0m	£20.0m	not disclosed
Investments	Exits	Launched
12	0	2006
		Investing
		NO

SUSTAINABLE TECHNOLOGY FUND
Disruptive Capital Finance disruptivecapital.com
Invests in cleantech, green and sustainable-technology ventures
Notable investment: ECO Plastics

Fund size	From government	Invested
£30.0m	£20.0m	£24.0m
Investments	Exits	Launched
6	0	2006
		Investing
		NO

MMC ENTERPRISE CAPITAL FUND
MMC Ventures mmcventures.com
Invests in technology-enabled businesses in high-growth sectors, including financial services, business software and services, digital media and e-commerce
Notable investment: AlexandAlexa

Fund size	From government	Invested
£30.0m	£20.0m	£22.4m
Investments	Exits	Launched
13	0	2008
		Investing
		NO

PASSION CAPITAL
Passion Capital passioncapital.com
Seed investor in digital media and consumer technology ventures
Notable investment: Mendeley

Fund size	From government	Invested
£37.5m	£25.0m	£18.0m
Investments	Exits	Launched
39	4	2011
		Investing
		YES

REGENTS PARK PARTNERS II
Sussex Place Ventures spventures.com
Backs early-stage technology ventures

Fund size	From government	Invested
£30.0m	£20.0m	£0m
Investments	Exits	Launched
n/a	n/a	2014
		Investing
		YES

SERAPHIM CAPITAL FUND
Seraphim Capital seraphimcapital.co.uk
Invests £600,000-1.5m in 'disruptive', scalable early-stage tech
Notable investment: Sirigen

Fund size	From government	Invested
£30.0m	£20.0m	£25.2m
Investments	Exits	Launched
12	1	2006
		Investing
		NO

EPISODE 1 INVESTMENTS
Episode 1 episode1.com
Backs UK software start-ups that have launched viable products to a few "reference" customers
Notable investment: Carwow

Fund size	From government	Invested
£37.5m	£25.0m	£2.1m
Investments	Exits	Launched
4	n/a	2013
		Investing
		YES

£543.5m has been committed to 16 ECFs, managed by 14 fund managers. More than £204m has been invested in 169 companies, leaving more than £300m still to be invested.

VENTURE CAPITAL SOLUTIONS

Enterprise Capital Funds currently investing:

Panoramic ECF 1 – Panoramic Growth Equity	UK-wide – Generalist growth equity www.pgequity.com
Passion Capital ECF – Passion Capital	UK-wide – Early stage digital media and technology start ups www.passioncapital.com
Notion Capital Fund 2 – Notion Capital	UK-wide – Internet-based services including cloud computing www.notioncapital.com
Notion Capital Fund 2 – Notion Capital	UK-wide – Stage science, engineering and technology www.longwallventures.com
Amadeus IV Early Stage Fund ECF – Amadeus Capital Partners	UK-wide – Companies developing disruptive technologies www.amadeuscapital.com
Dawn Capital II – Dawn Capital	UK and Europe – Targeted at businesses in the cloud, software and consumer internet sectors www.dawncapital.com
Episode 1 ECF – Episode 1	UK-wide – Early stage software www.episode1.com
Foresight Nottingham Fund – Foresight Group	Nottinghamshire region – Generalist /www.foresightgroup.eu/nottingham/the-fund.asp
Regents Park Partners II ECF LP – Sussex Place Ventures	UK-wide – Early Stage Growth Companies www.spventures.com

VC Catalyst Fund

In addition to the ECF programme, we also have the capacity to help close funds for slightly later stage venture capital. Our VC Catalyst Fund invests - on the same or better terms than private investors - in commercially viable venture capital funds which might otherwise fail to launch, enabling them to invest in smaller, high growth businesses. It addresses a cyclical weakness in the provision of institutional capital to venture capital funds which has made it more challenging, even for established teams in the market, to reach a satisfactory first close. It targets commercial returns from its investments, in line with that of private sector investors, and looks to ensure that at least twice the Government funding committed is invested in UK companies.

The Fund typically commits between £5 million and £10 million to underlying funds; this will not be more than 20% of the total fund size. Applications from fund managers are subject to a competitive process, and potential fund managers are only considered formally for the Fund once they have significant private investment already committed. Funds will typically have a minimum size of at least £50 million at their first close, though proposals for smaller funds will be considered on a case-by-case basis.

Forward Plan

Due to the successful pilot, we are currently extending the VC Catalyst Fund to £125 million. We will use this extension to attract significant private sector funding and deliver major investment into UK companies over the next ten years.

Aspire Fund

The Aspire Fund invests in women-led businesses across the UK. It makes investments of between £100,000 and £1 million on a co-investment basis, investing on the same or better terms as private investors. Lead investors can be established venture capital funds or experienced business angels. The Aspire Fund helps to increase the number of successful women-led businesses within the UK, and to ensure those with real potential to succeed are not held back through a lack of growth capital. The Aspire Fund supported £5.5 million of investment in smaller businesses in 2013-14.

Case Study: Wool and The Gang

Wool and The Gang is an online boutique specialising in fashion knitwear selling ready-to-wear items or kits to knit for customers to create their own unique versions.

It was established in 2008 by Central St Martins graduates Aurelie Popper and Jade Harwood, with Lisa Rodwell, formerly of Moo.com, as Chief Executive to implement the new business strategy. The £200,000 from the Aspire Fund will enable them to expand their business.

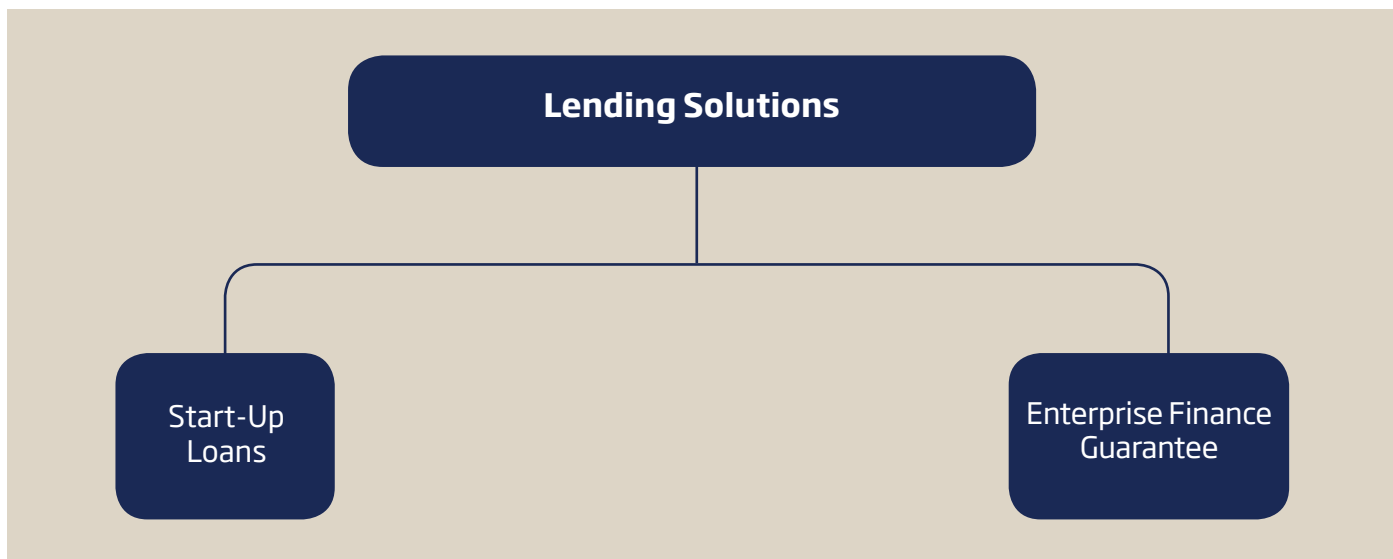
“ The Aspire Fund helps to increase the number of successful women-led businesses within the UK, and to ensure those with real potential to succeed are not held back through a lack of growth capital”

We will also manage a large portfolio of legacy investments made by Government in venture capital and also some debt funds. For example, we oversee large local finance interventions for smaller businesses which have been funded by a mixture of UK and European money, including the three northern English funds supported by EU funding, which together provide more than £450 million of investable capital for smaller businesses. We also manage BIS's interests in 90 regional funds with commitments of over £1 billion.

As well as providing oversight for existing funds, British Business Bank expertise is instrumental in helping to shape the future access to finance landscape for smaller businesses, working in conjunction with BIS, the Department for Communities & Local Government and the 39 English Local Enterprise Partnerships (LEPs).

LENDING SOLUTIONS

Our Lending Solutions team manages a range of programmes and products that support the flow of debt-based finance into smaller businesses, helping them to prosper, grow and build UK economic activity. The team facilitates lending for smaller businesses through a number of different mechanisms.



Start-Up Loans

For very small, very early stage firms, we provide funding through the Start-Up Loans programme, which supports entrepreneurs looking to start their own business, who have potentially viable propositions but cannot otherwise attract investment from a high street bank. The programme offers a repayable loan of up to £25,000, over up to five years, combined with a business mentor.

The Start-Up Loans programme is run on a day-to-day basis by the Start-Up Loans Company, an independent business created expressly for the delivery of the programme. The company has subsequently contracted with over 70 delivery partners to deliver loans and mentorship.

The Start-Up Loans programme lent over £70.6 million to new entrepreneurs in the last financial year, backing nearly 14,000

businesses. The programme is on track to meet its target of supporting 30,000 new businesses by 2015.

Case study: FittaMamma

Alexandra McCabe, a 29 year old entrepreneur from Burgess Hill has been given a £9,500 Start-Up Loan to help develop her clothing line and resource centre for active pregnant women. As well as funding, Alexander has benefited hugely from the support provided to her through George Clayson, her mentor. The commercial expertise George provided Alexandra was invaluable to the growth of her business.

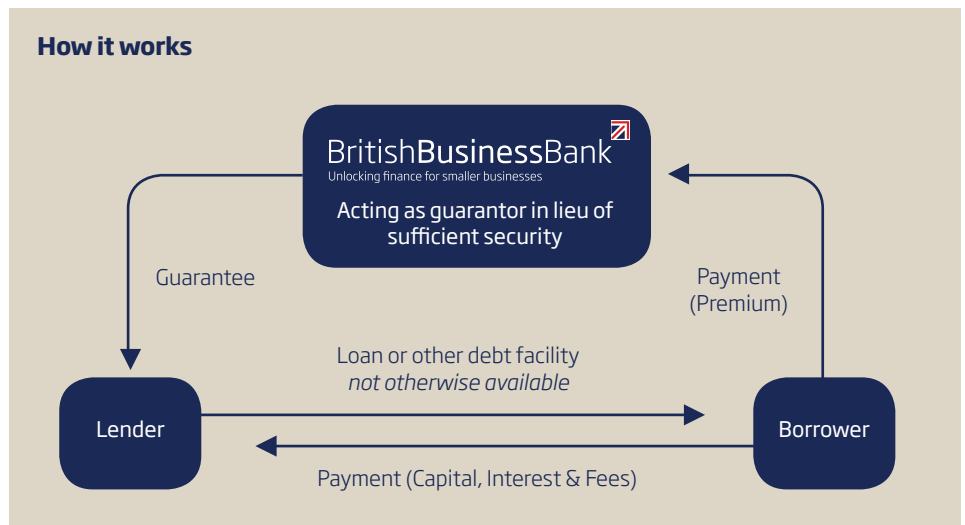
Forward Plan

Having built momentum and expanded across the UK since its launch in 2012, the Start-Up Loans programme will continue to support new entrepreneurs with up to 300 loans a week.

Enterprise Finance Guarantee

We also run the Enterprise Finance Guarantee (EFG), which aims to improve the availability of working capital and investment funding for smaller businesses. The EFG provides a partial guarantee to encourage lending institutions to lend to viable smaller businesses that would otherwise be declined for lacking collateral.

The guarantee is available to lenders serving viable smaller businesses with an annual turnover of up to £41 million, seeking loans of between £1,000 and £1.2 million over terms of between three months to ten years. The product also provides guarantees on invoice finance, overdrafts and other revolving facilities over terms of up to three years. The EFG is delivered by 42 accredited lenders ranging from the main bank to very local small lenders.



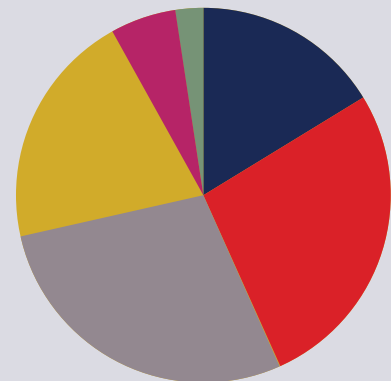
In the last financial year, the EFG facilitated around £350 million of lending, supporting over 3,000 smaller businesses. The majority of EFG loans drawn are worth less than £100,000. The table below breaks down the percentage of EFG loans drawn between different value bands:

Case study: Viva Brazil

Viva Brazil is a Brazilian-style restaurant using traditional barbeque methods. It opened its first restaurant in Liverpool in September 2010 and the second in Glasgow a year later. The expansion of the chain to Cardiff, creating 30 new jobs, was facilitated by a £375k funding deal from participating lender, Santander Corporate Banking.

Percentage of number of EFG loans drawn by value bands, Q1 2014.

- Less than £25K
- £25,001 to £50K
- £50,001 to £100K
- £100,001 to £250K
- £250,001 to £500K
- £500,001 to £1 million



Forward Plan

We are currently exploring how the Enterprise Finance Guarantee might be applied to unlock further finance for smaller businesses, in particular the possibility of applying the guarantee to asset finance and trade credit facilities.

Mezzanine finance

Mezzanine Finance is a hybrid between pure debt and pure equity finance. It is often used by high growth mid-sized companies and by property developers. In the 1980s and earlier, it was used by smaller companies, but has become less common since then.

Forward Plan

We are currently gathering evidence regarding historic and international supply and demand of **mezzanine finance** for smaller businesses. We will publish an evidence paper in July 2014 and further proposals subsequent to that.

INVESTMENT PROGRAMME

Our Investment Programme addresses long-standing gaps in the finance market for smaller business and promotes greater choice in their supply of lending.

The Programme launched in April 2013 and 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.

Once state aid approval for the British Business Bank is complete, we expect to move the Investment Programme into a subsidiary of the British Business Bank plc. This may comprise all the Bank's investments that have a commercial rate of return, almost £1 billion of commitments made to debt funds and other lenders by Government.

Applications by innovative smaller finance providers for investments are subject to a formal assessment process; they are first analysed by the Investment Programme team before being progressed to an Investment Advisory Panel, which is made up of members of the Business Bank

Project's Executive Committee and external panel members, before a final investment decision is made.

Since launch, the Investment Programme has received over 100 applications, with combined requests for funding of £3 billion. To date, £198 million of awards have been recommended by our Investment Advisory Panel.

The Investment Programme is providing support to a range of finance providers who meet the funding needs of smaller UK businesses, funding growth, working capital and asset acquisition. The Programme has been established as an open competition, the parameters of which permit the British Business Bank to seek to build a diversified portfolio and prioritise catalytic ventures – those capable of being scaled to provide an enduring source of funding for smaller businesses. The sub-sectors supported to date have covered debt funds, peer to peer platforms, and lease finance.

The Programme builds on a forerunner programme called the Business Finance Partnership.

Case Study: Lund Precision Reeds

Lund Precision Reeds can trace its heritage back to 1871 and is recognised as one of the world leading manufacturers of high-quality weaving reeds, warp preparation reeds and yarn guides. Lund borrowed £50,000 through Funding Circle to enhance growth opportunities in both the UK and export markets. They also used the finance to upgrade existing machinery to improve the quality of their products and help them to penetrate more demanding markets worldwide.

// The Investment Programme is providing support to a range of finance providers who meet the funding needs of smaller UK businesses, funding growth, working capital and asset acquisition”

Funders supported through the Investment Programme and Business Finance Partnership

BMS finance

Praesidian Capital

Funding Circle

Beechbrook Capital

Market Invoice

Zopa

Boost Capital

CAML

URICA

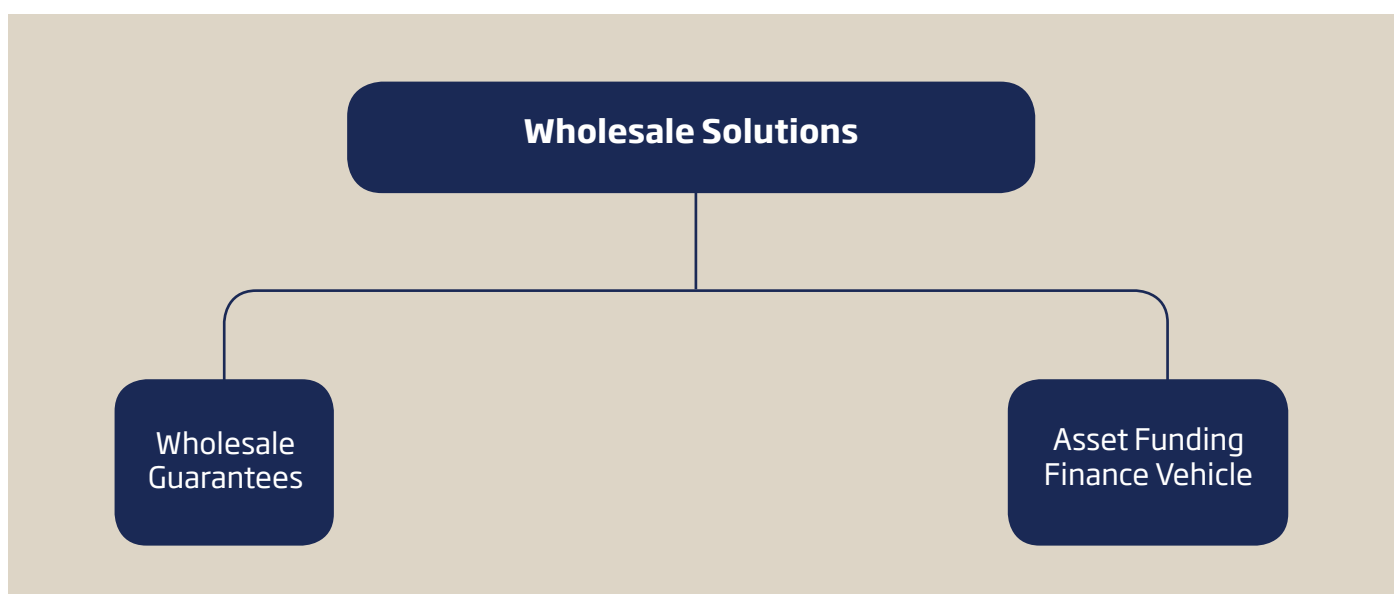
Forward Plan

As the Investment Programme draws closer to awarding its total initial £300 million allocation, we will soon be announcing the next phase of the Programme, which will continue to address specific gaps in the finance markets for smaller businesses.

The intention is also to transfer £863 million of commitments under the Business Finance Partnership made by HM Treasury to the British Business Bank.

WHOLESALE SOLUTIONS

The Wholesale Solutions team is responsible for the design and delivery of funding and capital products and programmes to help increase the flow of finance to smaller businesses.



Wholesale Guarantees

We are developing a new programme of Wholesale Guarantees which aims to make lending to smaller businesses more attractive to banks by increasing their capital efficiency. A request for proposals to pilot the first phase of this programme was launched in March 2014. The programme will share a portion of the underlying second loss risk on portfolios of newly originated loans, thereby giving a more favourable capital treatment to participating banks.

The wholesale solutions team is working on variants to this programme in order to tackle different segments of smaller business lending, work with a variety of finance providers, and potentially help address both capital and funding constraints.

We have brought together a team with significant experience of portfolio risk transfer trades in the private sector to develop this programme.

Forward Plan

The team is currently in discussions with potential lenders for the pilot, with the first transactions expected to be structured in summer 2014. Subject to positive outcomes of these, the Wholesale Guarantees programme will be opened to further transactions.

Asset Finance Funding Vehicle

We are currently developing an Asset Finance Funding Vehicle which is designed to help smaller businesses seeking asset finance.

We intend to deliver this in conjunction with the European Investment Fund (EIF); the programme and the EIF will each assume 50% of the credit exposure.

The vehicle will combine portfolios of newly originated asset finance transactions from a number of mid and smaller sized originators. The programme will provide the initial senior funding to warehouse the assets until the aggregate portfolio size is sufficiently large for a capital markets take out.

Forward Plan

We are currently discussing this the European Commission for State aid approval.

WIDER ACTIVITY TO IMPROVE THE MARKET

In addition to our activities which tackle specific market issues, we also have a strategic objective to promote better information in the market, building confidence among smaller businesses in their understanding of the finance options available. By raising businesses' awareness of finance options or making it easier to find them, supply and demand for finance will be brought together more efficiently.

To achieve this, we work in partnership with leading business representative groups and finance bodies, leveraging their reach to raise awareness and educate their members. An example of this is a new guide to business finance, aimed at smaller businesses, which the Bank is producing jointly with the Institute of Chartered Accountants for England and Wales, with input from a further sixteen representative bodies and finance providers. This guide will be published on June 26, in print and digital form.

Our website provides information on the Bank's programmes and links to

relevant partner organisations. It provides guidance to business on the types of finance available to meet different finance needs, with a description of their advantages and disadvantages. The site also links to further information such as the British Bankers Association Finance for You tool, the finance and support finder on GOV.UK, the British Private Equity and Venture Capital Association online one-stop shop for venture capital and entrepreneurs, the appeals process for companies that have had loans turned down and the finance advice schemes offered by chartered accountants.

In a wider context we have close relations with, and work alongside, other important public initiatives and institutions, such as the Green Investment Bank and the Technology Strategy Board.

We are also working in conjunction with policy officials in HM Treasury and BIS to consider developing policy options for a new referrals system, where banks which have rejected smaller businesses' applications for finance will refer these to

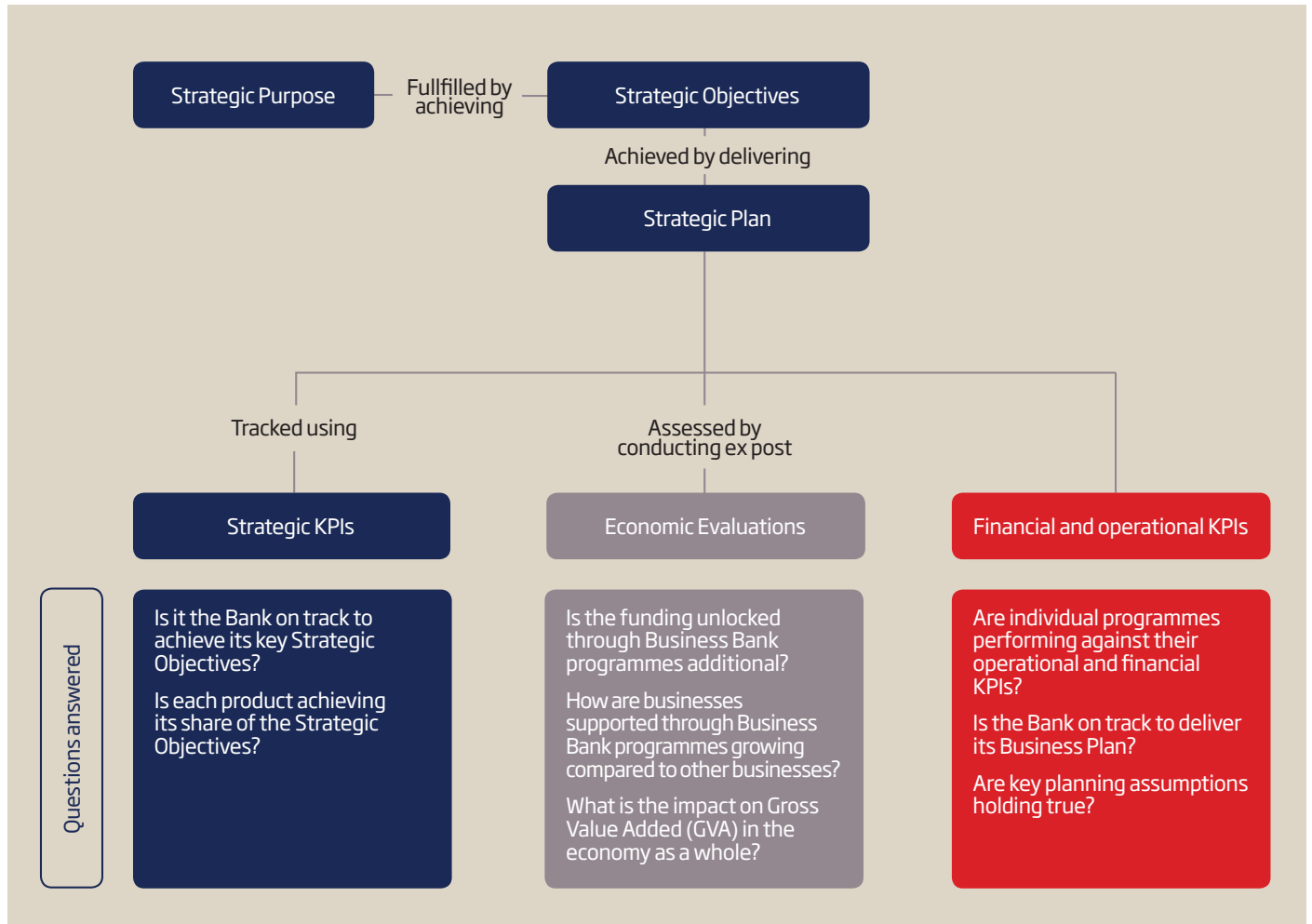
alternative lenders. In conjunction with planned Government legislation to require banks to share information on their smaller business customers with other lenders through Credit Reference Agencies, this should drive a significant change in the way that smaller businesses access credit in the UK, helping to make it easier for alternative and innovative finance providers to compete in the marketplace and to increase access to finance for smaller businesses.

In the publication 'Small Business: GREAT Ambition', the Government committed to review all national business support products and services to simplify and enhance business access to and experience of Government funded support. We will align our programmes so that the Government's support offer to businesses is clear and simple to understand. As part of this, we are committed to provide smaller businesses with information about the range of public and private sources of finance available to them through the [GREATbusiness.gov.uk](https://www.greatbusiness.gov.uk) website.

ASSESSING OUR PERFORMANCE

We want to be in a position to understand at all times how we are performing against our remit and strategic goal. We have created a framework which breaks performance measurement into three areas:

- Strategic Key Performance Indicators (KPIs) - measuring how we are performing against our high level, longer term strategic objectives.
- Economic Indicators - measuring whether our programmes and products are providing additional finance to smaller businesses as intended, and what the impact on economic growth is.
- Operational and Financial KPIs - measuring how each programme/product is doing against a set of annually defined KPIs.



The table below sets out our strategic objectives and the relevant strategic KPIs:

Objective	Key Performance Indicators
<ul style="list-style-type: none"> To increase the supply of finance available to smaller businesses in areas where markets do not work well 	<ul style="list-style-type: none"> Up to £10 billion stock of finance facilitated through our programmes over 5 years Clear demonstration that activities are focused on market imperfections
<ul style="list-style-type: none"> To help create a more diverse finance market for smaller businesses with greater choice of options and providers 	<ul style="list-style-type: none"> Over 50% of our finance facilitated through providers other than the four largest banks over 5 years Clear demonstration that a broad range of options and providers has been supported
<ul style="list-style-type: none"> To help ensure better provision of information in the market connecting smaller businesses and finance providers 	<ul style="list-style-type: none"> Clear survey evidence from smaller businesses and finance providers that information about finance options has improved
<ul style="list-style-type: none"> To manage taxpayers' resources efficiently 	<ul style="list-style-type: none"> To earn greater than the Government's medium term cost of capital over the next 5 years measured by the 5 year gilt rate at the beginning of the plan To demonstrate value for money through evaluation of programmes

// We want to be in a position to understand at all times how we are performing against our remit and strategic goal"

ASSESSING OUR PERFORMANCE

Financial and operational KPIs

Each of our programmes has a robust governance process in place, with clear objectives, assessment criteria for funding applications and an expert investment committee advising on investment decisions.

Taking the Investment Programme we launched in April 2013 as an example, the clearly articulated programme objectives are to:

- support the development of diverse debt finance markets available to SMEs (diversification);
- mobilise additional funding from private sector sources in order to support lending to SMEs (leverage);
- channel finance to SMEs in an effective, appropriate and responsible manner (effective deployment); and
- expand the aggregate amount and/or types of debt funding available to SMEs (additionality).

Applications for funding are evaluated according to a set of nine criteria contained in the public guidance, relating to key issues such as proposed target market or fund size.

An Investment Advisory Panel was established to provide investment appraisal expertise for the Investment Programme. The Panel comprises five external independent members and two Government members. This ensures strong external scrutiny of all formal proposals, both before and after due diligence has been conducted.

In addition, financial performance is monitored in terms of funding drawdowns, income and capital returns.

We are in the process of developing a performance management process which will set the operational and financial KPIs for each product going forward. In order to develop these, we are analysing the underlying drivers for operational and financial performance for each product. We will publish these KPIs together with our performance against them in our first full year business plan, by April 2015.

At a product level, we will also complement the available financial and operational indicators with robust economic evaluations. This is already ongoing for existing programmes and will continue to clearly establish the extent to which individual Business Bank programmes have been successful in addressing market failures.

Each product has its own evaluation plan. The nature and timing of the evaluations will be product specific, but broadly we will seek to use the following mixed-methods approach:

- **Early assessment** (1 year in): this is likely to occur while the product is still

rolling out or has just been rolled out. The evaluation seeks to understand whether the product was implemented efficiently; how it is being delivered; whether it is targeting the right groups; and provides a description of the customer journey. It may also provide an early assessment of the product's finance additionality, taking account of displacement and deadweight. At this stage there is likely to be limited data and therefore the evaluation will most likely rely on information collected through a small set of in-depth interviews with participants and delivery partners. The results are likely to be less robust and will not provide any estimates of the impact of the scheme on firm performance and economic growth. However, they will provide valuable information on how to improve the deliverability of the product.

- **Interim evaluation** (3-4 years in): this is likely to be conducted once a product has been running for some time. A large scale survey with participants and providers is typically conducted. This offers the opportunity to obtain a better

assessment of finance additionality and displacement and deadweight as well as the impact of the finance provided on the business and its performance – turnover, employment and productivity growth. It also provides opportunities to conduct an initial cost benefit analysis and assess whether the product represents value for money for the taxpayer.

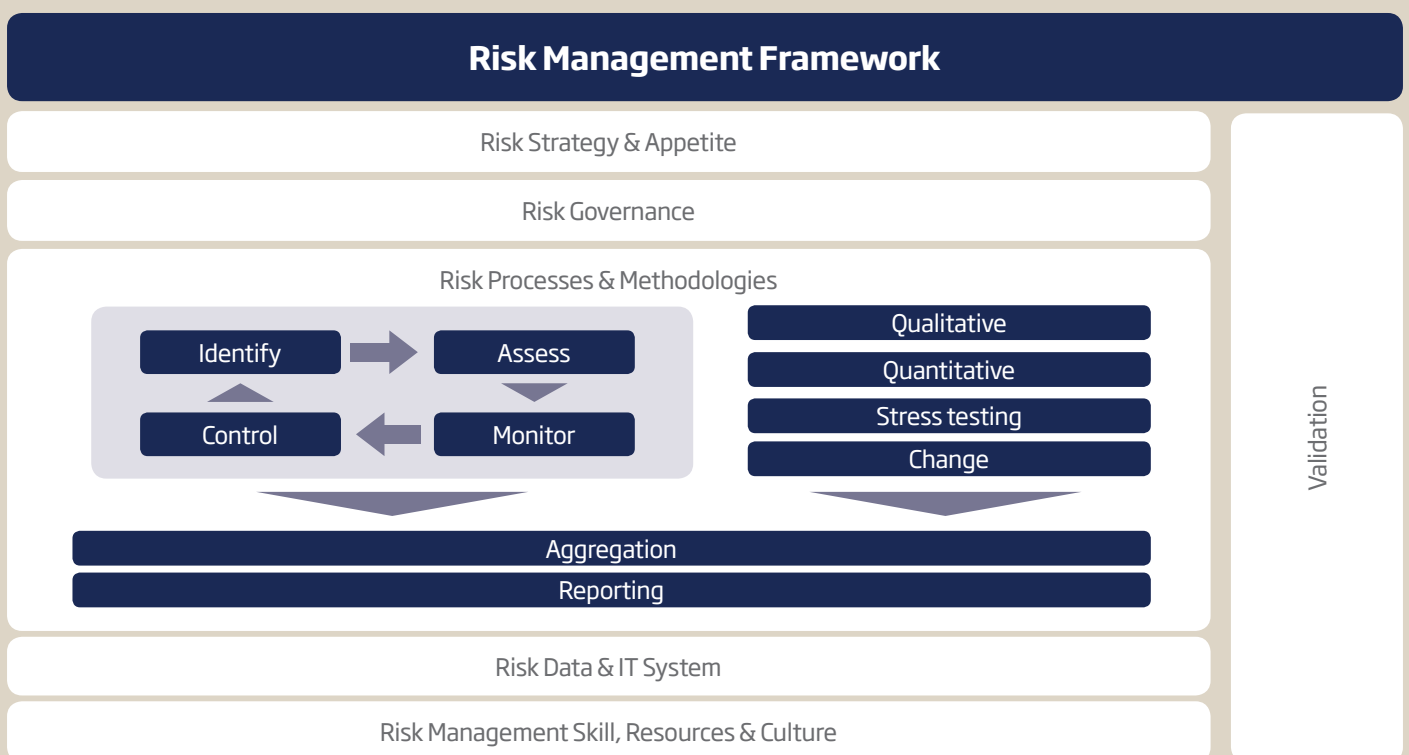
- **Final-evaluation** (5-7 years): quantitative methods are used to provide the most robust assessment of the product's impact. There is likely to be a long-time series of data and econometric techniques can be used to assess the impact of the programme on finance additionality and firm growth.

This product-specific evaluation work will be complemented by a robust market analysis and research programme. Areas of work include:

- Producing a regular review on the state of the finance market for smaller businesses, which will set out our view of the business finance markets and where the gaps are;
- Producing more detailed assessments of specific markets to inform any new products that we may consider developing further;
- A world-class research programme on access to finance as well as work to benchmark the British Business Bank's activities against counterparts in other OECD countries;
- Using behavioural economics to investigate and change firms' attitudes towards raising finance;
- Ensuring that data produced on bank lending to smaller businesses is supplemented by data on alternative forms of finance; and

Our market analysis team will work closely with academics and industry experts to ensure all its activities are informed by cutting-edge economic theory and a deep understanding of the market.

RISK MANAGEMENT



“The team has designed a Risk Management Framework, which is a collection of tools that support the British Business Bank in identifying, assessing, monitoring and controlling the risks it faces”

We have established a strong risk and compliance team to provide the Bank’s Board, shareholder and other key stakeholders with independent and objective assurance that the bank operates with integrity, to high standards and within its risk appetite.

The risk and compliance team will prepare detailed reports for internal use, as well as for external regulators and other bodies as appropriate. It will also provide analytical support to other areas of the bank, and ensure good communication channels are in place to support robust but constructive dialogue.

In the interim period, before the British Business Bank becomes operational upon securing State aid approval from the European

Commission, we are reviewing and assessing the Bank’s risk management systems to be ready for go-live.

The team has designed a Risk Management Framework, which is a collection of tools that support the British Business Bank in identifying, assessing, monitoring and controlling the risks it faces. The framework informs development of the risk infrastructure and provides a sound basis for more informed risk-based decision-making across the business areas, acknowledging that we have a public policy agenda - to ensure that finance markets for smaller businesses work effectively - and thus not a specific commercial strategy and risk appetite.

FINANCIAL SUMMARY

We have a total Government funding allocation of close to £3.9bn for our programmes, for deployment over a number of years. Some of this funding comes from past spending review commitments to existing programmes which are moving into the Bank, and some is new funding for innovative Business Bank programmes.

All existing Government-supported national access to finance programmes (with the exception of export finance and grant programmes) will be managed by the British Business Bank, including investments already made and funding commitments for future investments under these programmes. For State aid and regulatory reasons, not all programmes may transfer to the balance sheet of the British Business Bank, but will still be managed by the Bank on behalf of BIS where they are not transferred.

Through the 2012 and 2013 Autumn Statements, we have obtained a further £1.25bn of Government funding for our new programmes, which forms part of the £3.9 billion total Government allocation for the Bank. Of this, we have already allocated £300 million to the Investment Programme, £50 million to the Angel CoFund and £125 million to the VC Catalyst Fund. This leaves £775 million for deployment to our other new planned programmes, including the Wholesale Guarantees and the Asset Finance Funding Vehicle.

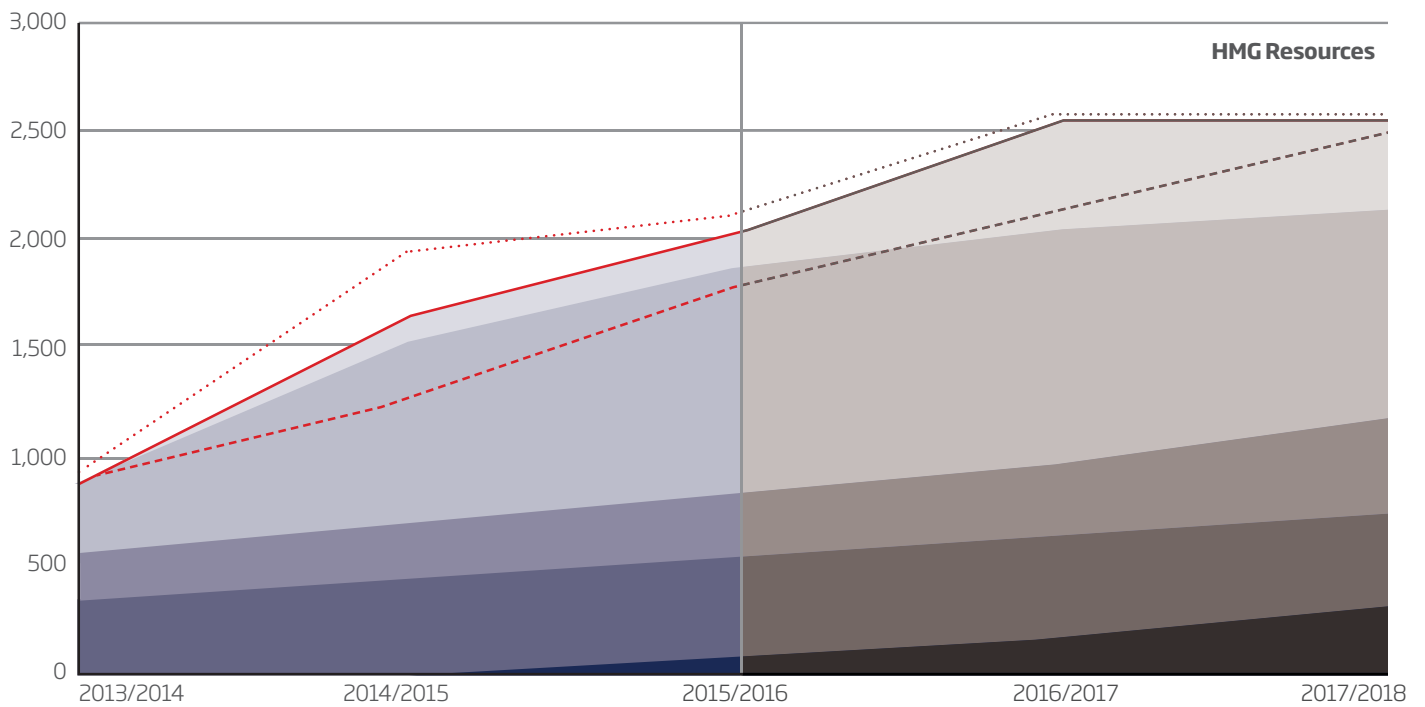
All our programmes are longer term programmes, so that we can effectively work with our private sector delivery partners. Therefore, funding allocations for a programme are often distributed across several years once made, and are particularly long for venture capital programmes.

British Business Bank initial funding allocation, £m

Programme	Public funding
	ALLOCATED £m
Venture Capital Solutions	
UK High Technology Fund	20
Regional Venture Capital Fund	74
Early Growth Fund	32
Bridges Ventures Fund	20
Enterprise Capital Fund	338
Aspire Fund	13
Capital for Enterprise Fund	50
UK Innovation Investment Fund	150
Angel Co-Investment Fund	100
VC Catalyst Fund	125
	971
Lending Solutions	
Start-Up Loans	322
Enterprise Finance Guarantee	553
	875
Investment Programme	
BFP (Small Business Tranche)	87
BFP Mid-cap Tranche	863
Investment Programme	300
	1,250
Future programmes inc. Wholesale Programmes	775
Total	3,872

Notes: The table above presents the total amount of funding available to programmes managed by the Bank, over a number of years. For some programmes, all the funding available has already been drawn down. Some of the funding above can be switched between programmes. In principle, funding can be recycled, subject to future Spending Review decisions. Out of the Angel Co-Fund's £100m funding, only £50m has come from Business Bank programmes, with the remainder coming from the Regional Growth Fund.

The graph below illustrates how we might deploy the funding allocations by programme area by 2018. This 2018 figure is lower than £3.9 billion because some funding is expected to be drawn down after 2018, and the graph below measures Government exposure at a point in time, whereas the total funding allocation of £3.9bn looks across the lifetime of programmes.



Where possible, we match our Government funding with private sector funding, in order to generate a more significant impact, and in order to catalyse the market rather than replace it. Often, we invest our funding on the same terms as private investors, which ensures that our investments are made on a transparent and commercial basis. The proportion of private sector match funding varies between types of programmes, and so the average amount of private sector funding per pound of public funding depends on the portfolio mix of programmes. We estimate that over the next five years, we will attract £2 to £3 of private sector investment per £1 of Business Bank funding.

Currently, the amount of finance supporting businesses through our programmes is £1.5 billion, not including the mid-cap portion of the Business Finance Partnership, which will transfer into the Bank in time for it becoming fully operational.

Notes: Illustrates expected cash drawdowns for programmes except the Enterprise Finance Guarantee and the Wholesale Guarantees. For the EFG, the expected net loss has been included based on the stock of lending outstanding at the time. For Wholesale Guarantees, the capital that will be held against the Guarantees has been included.

The 2013/14 figure includes the mid-cap tranche of the Business Finance Partnership, which is due to transfer to the Business Bank during 2014/15.

- Capital returns for reinvestment
- Venture Capital
- Lending Solutions
- Investment Programme
- Wholesale Solutions

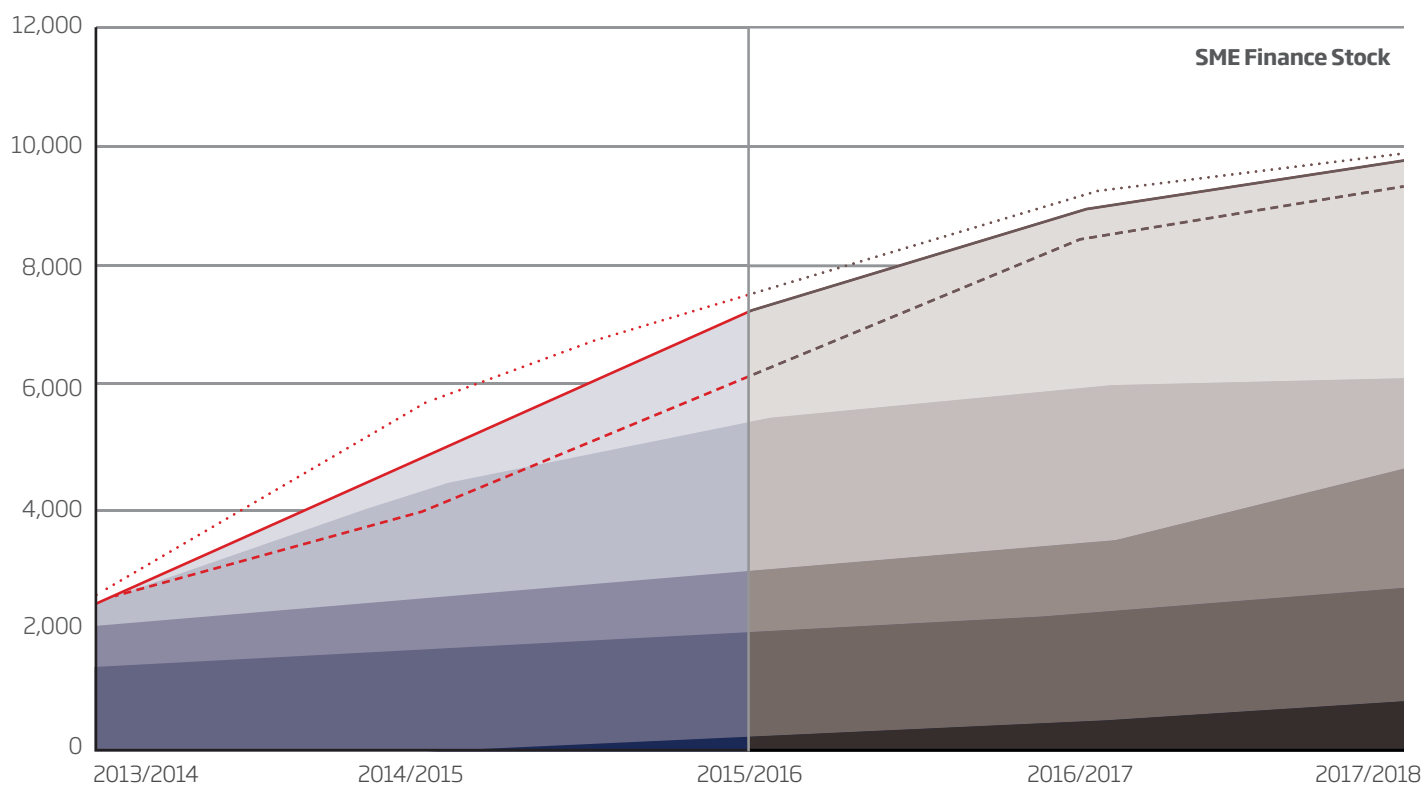
One of our strategic goals is to unlock £10bn of finance by 2018, combining public and private sector funding.

The graph below gives an illustration of how we might achieve this.

Of course, there is significant uncertainty in predicting our market impact, particularly in later years:

- Once we commit funding to delivery partners, they typically have a number of years to draw down the awarded funding, in line with standard private sector process. Therefore, we do not have control over the precise timing of drawdowns once we have made a commitment.
- In addition, each year, through a report on our view of the state of the market, we will update where we see gaps in the market, and will allocate resources to the mix of products that best addresses the market gaps. This means that whilst we are more certain of what our product mix will be in the next two years, there is significant uncertainty beyond this. For each product, the amount of private sector capital per public £ is different, and therefore also the market impact.

Illustration of market impact by 2018, private and public resources



Note: Leverage ratios for each programme have been estimated using programme guidance and existing investments. The 'Stock' is the amount of finance actively supporting businesses at the end of each year, so the investments minus any capital returned.

The 2013/14 figure includes the mid-cap tranche of the Business Finance Partnership, which is due to transfer to the Business Bank during 2014/15.

- Capital returns for reinvestment
- Venture Capital
- Lending Solutions
- Investment Programme
- Wholesale Solutions

STRATEGIC PLAN JUNE 2014

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