

**REPORT AND  
FINANCIAL  
STATEMENTS**  
**2018**



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# COMPANY INFORMATION

## Directors

### Sir Harvey McGrath<sup>1,3</sup> (Chair)

Chair of Governors Birkbeck College, Chair of Trustees of West London Zone, Heart of the City, Funding London and Icould. Former Chair of Prudential plc and Man Group plc.

### Lesley-Anne Alexander CBE<sup>1</sup>

Non-Executive Director of the Royal Brompton Hospital and Metropolitan Thames Valley Housing Trust, and Trustee of the MicroLoan Foundation. Former Chief Executive of the Royal National Institute of Blind People.

### Paola Bergamaschi Broyd<sup>2</sup>

Non-Executive Director of BNY Mellon International, Wells Fargo Securities International, ARCA Fondi SGR (Milan), SAMTI (Amsterdam) and Trustee of Fareshare UK.

### Kieron Boyle<sup>1</sup>

Chief Executive of Guy's and St. Thomas' Charity. Trustee of Design Council and of Catch 22 and Advisory Board member of World Policy Institute.

### Sir Ronald Cohen

Sir Ronald Cohen was co-founder Chair of Big Society Capital. He is Chair of the Global Social Impact Investment Steering Group and former Chair of the Social Impact Investment Taskforce established under the UK's presidency of the G8. Co-founder and Chair of the Portland Trust, co-founder and former Chair of Bridges Ventures and co-founder of Social Finance in the UK, US and Israel. Member of the Board of Dean's Advisors at Harvard Business School and a Vice-Chairman of Ben Gurion University. Former Director of the Harvard Management Company and

the University of Oxford Investment Committee and was a co-founder and former Chair of Apax Partners.

### Fiona Ellis<sup>2</sup>

Formerly Chair of the BBC Appeals Advisory Committee, Member of Durham University Council, Chair of St Cuthbert's Society and Trust Manager of the Millfield House Foundation.

### Stuart Foster<sup>2</sup>

(Big Society Capital Director nominated by the shareholder banks) Managing Director, Commercial and Private Banking Division of NatWest Bank.

### Christina McComb OBE (Senior Independent Director)<sup>3</sup>

Chair of OneFamily and Standard Life European Private Equity Trust plc. Senior Independent Director of the British Business Bank and Nexxon Ltd and Trustee of Nesta.

### Cliff Prior CBE<sup>3</sup>

Chief Executive of Big Society Capital. Adviser to the Global Social Entrepreneurship Network, Member of the UK National Advisory Board for Impact Investment. Non-executive director of International Venture Philanthropy Centre.

### Anne Wade

Non-Executive Director of John Laing Group plc and of Summit Materials. Trustee of the Heron Foundation, Partner of Leaders' Quest.

### Danielle Walker Palmour<sup>1</sup>

Foundation Director of Friends Provident Foundation, Vice-Chair of York Blind and Partially Sighted Society and Trustee of York Area Quaker Meeting. Non-Executive

Director of Civil Society Media and (since February 2019) also of National Lottery Community Fund.

### Chris Wright

Chief Executive of Catch22, Trustee of Community Links, Only Connect, Launch22 and Catch22 Multi-Academy Trust. Non-Executive Director of Numbers for Good (until February 2019).

### Secretary

Alastair Ballantyne

### Auditors

KPMG LLP  
15 Canada Square  
London  
E14 5GL

### Bankers

HSBC plc  
69 Pall Mall  
London  
SW1Y 5EY

### Registered office

New Fetter Place  
8 - 10 New Fetter Lane  
London  
EC4A 1AZ

### Registered number

07599565

<sup>1</sup> Member of the Nominations and Remuneration Committee (N&RC)

<sup>2</sup> Member of the Audit, Risk and Compliance Committee (ARCC)

<sup>3</sup> Member of the Investment Committee (IC)

# CORPORATE GOVERNANCE

Big Society Capital Limited (Big Society Capital, BSC) is an independent financial institution with a social mission, set up to help grow the social investment market.

Our vision is to improve people's lives in the UK by helping tackle social challenges through investment. Big Society Capital will focus its efforts, alongside partners bringing their capital and expertise, on social issues where the company can have a sustainable impact. In the process Big Society Capital will help to build the social investment market. It also seeks to achieve and maintain financial sustainability over the longer term.

The company is authorised by the Financial Conduct Authority (Firm Number: 568940).

## Big Society Capital

Big Society Capital is a company limited by shares with capital comprising "A" shares, held by The Big Society Trust, and "B" shares, held by the four shareholder banks.

The composition of the Big Society Capital Board reflects its purpose and includes directors with financial and/or social sector expertise. The Board comprises non-executive directors (including one who is nominated by the shareholder banks) and the CEO of Big Society Capital. The Board meets five times a year and there is an annual review of the effectiveness of the Board (including the Senior Independent Director feeding-back on the Chair's performance).

Big Society Capital has two Board Committees each comprising non-executive directors with external members providing specific expertise:

- the Nominations and Remuneration Committee (N&RC) – responsible for making recommendations concerning the appointment of directors, particularly for ensuring that there is an even balance on the Board between individuals with the appropriate depth of experience and expertise in the financial and social sectors. It also has responsibilities for setting levels of remuneration.
- the Audit, Risk and Compliance Committee (ARCC) – responsible for overseeing management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

Big Society Capital has three other operational committees:

- the Executive Committee is chaired by the CEO and is responsible for the day-to-day running of Big Society Capital.
- the Investment Committee comprises Board and Executive Committee members responsible for making investments and for the performance of Big Society Capital's portfolio of investments, and reporting its activities to the Board. All investments over £10m also require approval by the Board. It is chaired by the CEO of Big Society Capital or delegated to an alternative member of the Committee (normally the Deputy Chair of the Investment Committee).
- the Valuation Committee is responsible for determining valuations and assessing investment performance, including social impact. This includes identifying key risks and

issues within Big Society Capital's investment portfolio. It is chaired by the CFO of Big Society Capital (who is not a member of the Investment Committee). Members of ARCC and the company auditors are invited to observe meetings of the Valuation Committee.

## The Big Society Trust Limited

The Big Society Trust Limited (The Big Society Trust, BST) is the majority shareholder in Big Society Capital. Its role is to ensure that Big Society Capital remains true to its mission. Reflecting its strategic remit, The Big Society Trust Board represents a balance of social and financial experience and comprises business and social sector leaders and ex-officio, the CEOs of sector representative bodies, a nominee of the Cabinet Office and the Chair of Big Society Capital. The Big Society Capital CEO is invited to attend The Big Society Trust Board meetings as an observer.

To fulfil its role, the Big Society Trust Board meets four times a year. For each board meeting, Big Society Capital provides information about its activities and there is a discussion of developments with the Big Society Capital CEO. The Board has an opportunity to advise on strategy and to review its oversight role and BST/BSC governance arrangements.

### The Big Society Trust Directors as at 31 December 2018:

#### Dame Clare Tickell (Chair from 7 June 2018)

CEO of Hanover Housing Association to November 2018, Member of the Board of The National Audit Office.

#### Baroness (Jill) Pitkeathley OBE (retired as BST Director and Chair on 7 June 2018)

House of Lords, Chair of the House of Lords Select Committee on Charities. President of the National Council for Voluntary Organisations.

#### Nicola Pollock (from 7 June 2018)

Director, John Ellerman Foundation.

#### Stephen Howard LVO

Chair of Thames Reach and Power to Change. Director of Big Issue Social Investments Limited and Thanda UK. Trustee, American International Church.

#### Robin Budenberg CBE

Chair of the Crown Estate, London Chairman of Centerview Partners and Non-Executive Director of Charity Bank.

#### Sir Stuart Etherington

CEO of The National Council for Voluntary Organisations.

#### Peter Holbrook CBE

CEO of Social Enterprise UK.

#### Joanna Fox

Senior Commercial Specialist in the Infrastructure and Projects Authority and Head of Public Private Partnerships.

#### John Kingston OBE

Chair of Access – the Foundation for Social Investment.

#### Sir Harvey McGrath

Chair of Big Society Capital.

To enable it to carry out its role, The Big Society Trust has a controlling interest in Big Society Capital. It has 80% of the voting rights at shareholders' meetings. For important issues, such as any change to the company's Articles concerning its objects or powers, a consensus vote by The Big Society Trust Board is required.

Big Society Capital reports regularly to The Big Society Trust on its financial performance, its investments and Board and senior manager appointments. The Big Society Trust is not involved in making investment decisions or other operational issues.

### Shareholder banks

Each shareholder bank (Barclays, HSBC, Lloyds Banking Group and RBS) has subscribed £50 million of Big Society Capital's shares. Their individual shareholdings will always be less than 10% of the paid-in capital, currently 8.60%.

The banks can vote at shareholders' meetings. Their votes are in proportion to their shareholding, but each is capped at 5% of the overall voting rights. The banks together have the right to nominate one director to the Big Society Capital Board. In addition to information provided to them by that director, the banks receive all Big Society Capital Board papers and quarterly and half yearly reports. In certain circumstances the banks have the right to request a meeting with the senior management of Big Society Capital to discuss its performance.

### Big Society Capital Advisory Board

The Big Society Capital CEO has established an Advisory Board to advise on aspects of Big Society Capital's strategy or activities. The Advisory Board is made up of individuals with specific interest and involvement in social investment including prominent practitioners from the sector. The Advisory Board is a consultative committee with no decision making powers. Its membership is approved by the Big Society Capital Board.

### Advisory Board members as at 31 December 2018

#### Vidhya Alakeson

Power to Change

#### Robert Annibale

Citi

#### Dawn Austwick OBE

Big Lottery Fund

#### Jonathan Bland

E3M

#### Rt Hon Hazel Blears

Social Investment Business

#### Dan Corry

New Philanthropy Capital

#### Alastair Davis

Social Investment Scotland

#### Seb Elsworth

Access – The Foundation for Social Investment

#### David Hutchison OBE

Social Finance

#### Dominic Llewellyn

Numbers for Good

#### Kate Markey

The London Community Foundation

#### Caroline Mason CBE

Esmée Fairbairn Foundation

#### James Perry

Panahpur

#### Hugh Rolo

Locality

#### Antony Ross OBE

Bridges Fund Management

#### Ian Scholes

Spacious Place

#### Carolyn Sims

Charity Bank

#### Whitni Thomas

Triodos Bank

# REMUNERATION REPORT

This report covers the 12 months ended 31 December 2018 and sets out the policy and disclosures in relation to the remuneration of the employees and directors of Big Society Capital.

The Nominations & Remuneration Committee (N&RC) is appointed by the Board of the company and makes recommendations on these issues to it.

The N&RC is responsible for establishing a formal and transparent procedure for setting the remuneration policy for the executive staff of the company and for determining the remuneration packages of executive staff. It also leads the process for setting non-executive directors' fees.

The N&RC's responsibilities regarding remuneration are to:

- make recommendations to the Board of the company in relation to the remuneration of directors and senior executives;
- make recommendations to the Board of the company in relation to the identity and terms of appointment of independent consultants for the conduct of an independent salary survey, at least once every five years;
- establish the benchmark for remuneration packages for persons engaged in similar positions in the public, not-for-profit or charity sectors;
- review the on-going appropriateness and relevance of the company remuneration, pensions and employment benefits policies;
- determine the total individual remuneration package of senior executives in consultation with the Chair and/or CEO of the company, as appropriate;
- review on an annual basis the remuneration of non-executive directors;

- ensure that contractual terms on termination, and any payments made, are fair to the individual and the company;
- oversee any major changes in the nature of employee benefits provided by the company; and
- agree the policy for authorising claims for expenses from the directors.

### Principles for executive remuneration

- Executive directors and the senior executive team will be paid a comparable remuneration package to persons engaged in similar positions in the public or not-for-profit sectors, as appropriate.
- The senior executive team will not be paid any bonuses.

### Principles for non-executive remuneration

- Non-executive directors will be offered an equivalent sum paid by other comparable public bodies and not-for-profit organisations, such as housing associations.
- In 2018, the amounts were £7,865 (2017: £7,635) per annum for the service of acting as a non-executive director, £3,350 (2017: £3,300) per annum for chairing a Board Committee and £1,675 (2017: £1,650) per annum for acting as a non-chair member of a Committee. In addition, £5,150 (2017: £5,000) per annum is offered to a non-executive director who acts as a member of the Investment Committee. These amounts are reviewed by Big Society Capital annually in the light of inflation and non-executive remuneration levels at comparable organisations.

- Total non-executive directors' fees in 2018 were £76,997 (2017: £61,500).

### Higher paid employees

The total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end were as follows:

	2018 Number	2017 Number
£60,000 - £69,999	10	7
£70,000 - £79,999	3	5
£80,000 - £89,999	1	1
£90,000 - £99,999	1	2
£100,000 - £109,999	1	1
£110,000 - £119,999	2	1
£140,000 - £149,999	-	1
£150,000 - £159,999	1	-

Eighteen of these employees participate in the company pension scheme. Employees make a contribution of up to 8% of salary to the pension scheme. The company matches the employee contributions and pays an additional 3% of salary.

The total number of employees at 31 December 2018 was 52 and at 31 December 2017 was 44.

The ratio of highest salary to lowest salary is 6.52 (2017: 6.33).

### Gender pay data

Big Society Capital has published its gender pay gap data on its website [www.bigsocietycapital.com](http://www.bigsocietycapital.com).



# STRATEGIC REPORT

## Strategy and purpose

BSC's over-riding purpose is to improve the lives of people in the UK by connecting social investment to social enterprises and charities. BSC is currently focusing its efforts on three areas where we believe social investment can be particularly effective: homes for people in need, supporting places and early action to prevent harm. In addition, BSC will continue to make capital available to opportunities outside these focus areas including follow-ons from existing funds where BSC is seeing an impact or well-formed and highly impactful incoming propositions.

BSC's five corporate objectives cascade from this strategy and purpose. They guide BSC team objectives and ultimately objectives for individual staff members.

## Corporate objectives

1. To support and invest in innovative models that use social investment to enable those in most need to live in affordable, safe, and secure homes – while creating wider change in the market.
2. To support and invest in innovative models that use social investment to strengthen communities in disadvantaged areas to build local solutions that improve people's lives.
3. To support and invest in innovative models that use social investment to help improve people's lives by tackling problems at an earlier stage.
4. To build and sustain a successful social investment market.
5. To grow BSC's impact, effectiveness, sustainability, and reputation.

## Business model and trends

Big Society Capital engages with investors, fund managers, social enterprises and charities to make it easier to use social investment. With its co-investors, it has made over £1.7 billion of new capital available to organisations with a social mission, through investments into fund managers and social banks. It has a special focus on: providing homes for people in need; supporting communities to improve lives; and early action to prevent problems.

Big Society Capital acts as a wholesaler, to build the market through intermediaries alongside others rather than investing directly. The company invests with intermediaries to provide finance that can meet the needs of social enterprises and charities. The company focuses on sustainable solutions that will achieve positive investment returns as it believes those will be able to attract the most co-investors and ultimately achieve the greatest systemic change. By investing its capital, the company aims to build a thriving ecosystem which has strong intermediaries and more available finance from diverse sources. The company will judge its ultimate success by the growth and social impact of the broader environment it helps create, not just the direct impact of its investment capital.

Big Society Capital also acts as a market builder to increase awareness of, and confidence in, social impact investment. It does this by encouraging other

organisations to engage with the market, developing research that builds understanding, improving the measurement of social impact, and advocating for an appropriate policy environment.

## Big Society Capital's principles are:

**Independence:** The Big Society Trust, an independent holding company that currently owns 65.6% of Big Society Capital's shares, was set up to ensure that the company is held 'on mission'. The company is not owned or controlled by Government, nor is it controlled by the banks that have invested in it, which have capped shares of 40%, and voting rights of 20%.

**Transparency:** Big Society Capital is committed to producing details of the financial and social impact of its investments. It acts as a champion for sharing information and expertise across the social investment sector.

**Self-sufficiency:** Over time, the company needs to cover its operating costs and any losses from the return on its investments, as well as earn a small financial return. This will demonstrate that the social investment model is sustainable.

**Wholesaler:** Big Society Capital acts as a wholesaler, deploying capital through intermediaries including organisations providing market infrastructure.

Big Society Capital has received equity capital from The Big Society Trust of £381m including £80m received in September 2018. The source of the capital from The Big Society Trust is dormant bank accounts managed by the Reclaim Fund Limited (RFL). The RFL passes surplus funds to the

**BUSINESS MODEL AND TRENDS**

CONTINUED

Big Lottery Fund, which then grants the English portion of the funds to The Big Society Trust for investment in enterprises domiciled in England. At the launch of the company it was expected that the Big Society Trust's shareholding would grow to £400m over time and further RFL monies are expected in future periods. Big Society Capital has received £200m from the shareholder banks (Barclays, HSBC, Lloyds Banking Group and RBS) for investment across the UK, which represents their maximum commitment.

**Principal risks and uncertainties**

In order to achieve its mission BSC is required to take risks from a strategic, financial return and social impact perspective. BSC considers the principal risks it is exposed to under four headings:–

- Strategic Risks
- Performance / Investment Risks
- External Risks
- Operational / Preventable Risks

Further information on the nature of these risks and how they are managed by BSC is set out below.

**Strategic Risks:** The risks arising from the design and execution of BSC's business strategy or business model that may lead to financial loss, adverse social impact and reputational damage. BSC seeks to mitigate these risks through a strong governance framework and an active programme of engagement with key stakeholders.

RISK AREA	EXPLANATION OF RISK
Strategic Risk – Reputation	BSC is perceived to be not fulfilling its mission. Risk of lost credibility from financial fraud or impact failure.
Strategic Risk – Governance	BSC suffers a failure in adequate governance. Governance structure fails to provide sufficient oversight of social mission or the investment process.
Strategic Risk – Under-developed network of partners and business models in BSC's strategy focus areas.	Greater degree of development and co-development required by BSC resulting in slower progress from an impact and pipeline perspective.

**Performance / Investment Risks:** The risk of financial and social impact losses as a result of loss of value of social impact investments, failure of a counterparty to meet its obligations in accordance with agreed terms and risk of reduced mobilisation of co-investment. These risks are mitigated through the Investment Committee and Valuation Committee frameworks which consider investments from Financial, Social Impact and Systems Change perspectives and through concentration thresholds on Intermediaries and Focus Areas. In addition, BSC runs programmes to support and develop Intermediaries and seeks to develop wider institutional relationships to bring increased capital flows closer to BSC's strategic focus areas.

Further detail on the key financial risks facing BSC and the steps taken to manage them are outlined in Note 15 to the Financial Statements.

RISK AREA	EXPLANATION OF RISK
Performance Risk – Financial and Portfolio Performance	Investment returns may not meet expectations, capital is not received as expected. Co-investment targets and financial returns may not be achieved. Portfolio too narrowly concentrated. Exits from investments may take longer than planned to realise, restricting liquidity for new investments. Volatility of investment valuations.
Performance Risk – Social Impact	BSC fails to effectively implement an internal social impact performance framework. The impact of BSC's investments are not delivered as expected. BSC fails to persuade the sector in its role as a market builder and is unable to provide sufficient evidence needed to demonstrate the effectiveness of social investment to the market.



**PRINCIPAL RISKS AND UNCERTAINTIES**

CONTINUED

**External Risks:** The risk of Government Policy and/or regulatory changes and adverse macroeconomic trends impacting the performance of BSC's social investment portfolio and its pipeline. Such risks are often outside BSC's direct control with mitigation through the diversified nature of BSC's portfolio and low correlation of that portfolio with wider market performance factors.

RISK AREA	EXPLANATION OF RISK
External Risk – Regulatory & Policy	Policy changes in key areas of BSC's activities and a downturn or uncertainty in the macroeconomic environment could impact investment pipeline and the performance of the existing investment portfolio.

**Operational / Preventable Risks:** The risk of direct losses resulting from inadequate or failed internal processes, people and key systems or indirect losses resulting from relationships with third parties. BSC seeks to mitigate these types of risks by policies, processes, controls and procedures in place together with having suitably qualified and experienced staff to operate these. This framework is supplemented by a programme of external reviews to assess the adequacy and effectiveness of these mitigants.

RISK AREA	EXPLANATION OF RISK
Operational/ Preventable Risk – People	BSC fails to attract and retain staff with the required skills and experience.
Operational/ Preventable Risk – Regulatory Process	Conduct risk – failure to observe FCA regulatory requirements. Breach of State Aid requirements by Intermediaries.
Operational / Preventable Risk – Processes and Key Systems	Financial loss from fraud. Accounting, valuation and reporting issues occur and go undetected. Operations are interrupted by a business continuity incident or cybercrime.

**Big Society Capital as a responsible business**

Big Society Capital seeks to maximise its positive impact and demonstrate its values as a social organisation through how it runs its operations, its staff policies, its approach as an investor and its wider engagement with the social sector.

- During 2018, social enterprises and charities enjoyed 101 (2017: 113) hours of free meeting room space at Big Society Capital's offices. Furthermore, six desk spaces were provided free of charge to National Housing Federation for three months.
- At the end of 2018, Big Society Capital had five (2017: four) social enterprises in its supply chain.
- The company encourages staff to undertake Trustee and other governance roles in social enterprises and charities, outside of their work commitments and on a voluntary basis. During 2018, 51 (2017: 41) charitable organisations were supported by the company's staff in this way.

**Business performance and key performance indicators****Financial performance:**

The Financial Statements on pages 16 to 43 outline the company's financial performance for the period.

The company has made a financial loss in the year of £6.5m (2017: profit £0.8m). As noted in prior years, the company expects to see some volatility within the valuation of the social investment portfolio, given the nature of the company's early stage investments, although

## BUSINESS PERFORMANCE AND KEY PERFORMANCE INDICATORS

CONTINUED

expects there to be a general trend towards improved financial performance.

The company's investment portfolio is made up of a social investment portfolio and a treasury portfolio. The social investment portfolio comprises investments made to meet the company's objectives outlined above. The treasury portfolio represents capital held before it is drawn down into social investment.

### Social Investment Portfolio

A key driver of the company's year on year financial performance is the extent of realised and unrealised valuation gains and losses in the social investment portfolio. The company's social investment portfolio is valued using accounting standards assessing the fair value of an asset at the measurement date, based on International Private Equity and Venture Capital Valuation guidelines. However, the valuations do not necessarily reflect the company's view of the long-term value of the investments, which are typically expected to be held for between five to ten years. As is common practice with unquoted investments, a key metric of the financial success is the actual cash realised on an investment relative to its cost.

Income (comprising interest, fees and dividends) on the social investment portfolio has continued to increase, during 2018 by £0.7m to £2.9m (2017: £0.5m increase to £2.2m), resulting from the growth of the portfolio. This was offset

by a number of other adverse movements (further breakdown is available in Notes 3 and 5):

- adverse valuation movements in the social investment portfolio resulting in a loss of £1.8m (2017: profit £4.4m);
- a slight increase on management fees paid to intermediaries, £4.2m compared to £3.8m in 2017, as the size of the portfolio continues to grow, however management fees as a percentage of average committed social investments were lower in 2018 (0.87%) compared to 2017 (0.99%).

The decreased returns from the social investment portfolio in 2018 reflect the nature and risk profile of the investments. Big Society Capital's use of fair value measurement in accounting for fund and other social investments has resulted in decreased revenue in 2018 based on the underlying performance and valuation of the investments. The movements in investment valuations in 2018 are due to write-downs within the portfolio significantly outweighing write-ups. This is largely due to a combination of impairments on underlying investments, generally in line with fund manager positions and small decreases on the social property investments. The performance of the social investment portfolio was negative 1.48% in 2018 compared to positive 1.64% in 2017, based on overall returns and the average balance of the portfolio. Partially offsetting the write-up/ down movements is an

increase in fund income reflecting the growth of the portfolio and the more established nature of some of the fund investments. The decline in this year's net profit demonstrates the upward and downward revenue volatility from valuation movements that is likely to continue to be a feature of the company's performance in future years, as a result of applying the principles of fair value measurement.

### Treasury Portfolio

The largest portion of the treasury portfolio is governed by a mandate that only permits investments which have been successfully screened in accordance with a socially responsible investment process, while aiming for capital preservation. The remainder of the treasury portfolio is invested into social bond, equity and multi-asset funds. Total revenue from the treasury portfolio in 2018 was £2.9m, approximately 33% lower than 2017, due to a lower average treasury portfolio balance in the year, notwithstanding the receipt of £80m additional share capital in September 2018. Treasury returns were also impacted by mark to market decreases on the social bond, equity and multi-asset funds, reflecting bond and equity market trends during the year.

### Administrative and other expenses

Administrative costs increased by £0.2m to £6.0m in 2018 and treasury management fees reduced marginally to £0.5m. Of the total administrative expenses it is estimated that 40-45% relate to the company's social investment market building activities including executing the engagement plan and pipeline development for

## BUSINESS PERFORMANCE AND KEY PERFORMANCE INDICATORS CONTINUED

which the company receives no reimbursement.

The longer term objective is for the company to generate positive financial returns and social impact on a continuing basis as the social investment portfolio becomes more mature and exits from earlier investments are realised. The generation of financial returns will also enable the company's operational and market building costs to be covered. However, it should be noted that, given the nature of the company's early stage investment portfolio, the company expects to continue to see volatility in the net profit and in some years, particularly in the near term, the company may experience further net losses.

### **Market Building Activities:**

Big Society Capital continues to build awareness and understanding of social investment with social enterprises, charities and investors.

Our market building in 2018 included developing closer relationships with potential partners (particularly investors), who can work with us to develop ideas for us and others to make social investments that will enable social impact in our focus areas of housing, place and early action. Through our ongoing market building, we continue to facilitate deeper understanding with specific investor groups and to help address barriers to participation.

Key activities in 2018 included:

- Continued to develop [www.GoodFinance.org.uk](http://www.GoodFinance.org.uk), a website to help social enterprises and charities navigate the social investment

market through the provision of information and resources alongside a comprehensive directory of social investors and advisers. By the end of 2018, there were 60,000 unique visitors to the website.

- Continued to engage via regional and national events and media activities with social enterprises, charities and network bodies to promote understanding and opportunities to connect with organisations providing investment and support.
- Delivered a second GET SITR campaign on behalf of DCMS, to increase awareness of Social Investment Tax Relief, and the updated eligibility rules amongst social enterprises and charities, and providing practical resources, case studies and 1:1 surgery sessions to get advice. There were 797 subscribers to the campaign at the end of 2018.
- Ran a workshop for a group of universities on responsible investment across the spectrum of capital. As a result of the interest shown, we will set up a responsible investment network for universities in partnership with Shareaction in 2019.
- Supported the continued development of two key funders' networks (the Social Impact Investors Group of Foundations and the Venture Philanthropy Steering Group) with our partners at the Association of Charitable Foundations and the European Venture Philanthropy Association, so that more social

impact investment is available across the funding spectrum.

- Continued engagement with partners to enable more donor advised funds (DAFs) and local government pension funds to make social impact investments.
- Continued engagement with investors through media and events including supporting Worthstone's Social Investment Academy's inaugural Social Impact Awards, investor events convened by Toniic, GIIN, Pensions for Purpose and BVCA Impact Investment Advisory Group.

### **Social Investment Activity and Key Performance Indicators:**

Big Society Capital has a range of key performance indicators (KPIs) that it uses to evaluate both the social investment market and the organisation's performance. The figures below show the company's KPIs at 31 December 2018.

### **Capital available to social enterprises and charities**

- Since launching Big Society Capital has signed 86 (2017: 75) investments.
- The cumulative amount of investments signed by Big Society Capital and its co-investors is £1,721m (2017: £1,146m). When an investment is signed, the funds are then available for intermediaries to invest into social enterprises and charities.
- Of this £524m (2017: £434m) is Big Society Capital's own funds and £1,197m (2017: £712m) is from its co-investors.

## BUSINESS PERFORMANCE AND KEY PERFORMANCE INDICATORS

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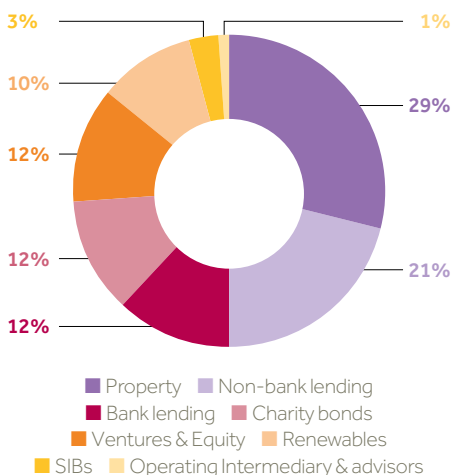
NAME	COMMITMENT	THEME	PURPOSE
CBRE Affordable Housing Fund	£10m	Homes	Attracting institutional capital to social impact driven affordable housing
Key Fund Investments Limited	£1.5m	Place	Helping local organisations take on community buildings
Bridges Social Impact Bond Fund II	£12.5m	Early Action	Improving outcomes in children's services, homelessness and health and social care
Ananda Impact Fund III GmbH & Co. KG	£4.5m	Early Action	Building outstanding impact businesses across Europe
Bethnal Green Ventures LLP	£0.25m	Early Action	Building tech businesses to change people's lives
Rathbones Investment Management Limited	£20m	Portfolio	Helping social enterprises and charities issue bonds to grow their impact
Match facility alongside The Charity Bank Limited	£10m	Portfolio	Supporting Charity Bank's lending to serve more social enterprises and charities
Bridges Evergreen Capital GP LLP	£18.7m	Portfolio	Providing long-term capital to scale social impact driven enterprises
Unity Trust Bank plc	£3.1m	Portfolio	Growing UTB's lending to social enterprises and charities
Community Impact Partnership CIC	£1.8m	Growth	Helping Housing Associations build social enterprises in their supply chain
Big Issue Access Limited	£2.3m	Growth Fund	England-wide small loan fund for social enterprises
Cultural Impact Development Loans Limited	£2.5m	Growth Fund	Small loans for enterprises delivering social impact through the arts
Forward Enterprise FM Ltd	£1.2m	Growth Fund	Small loans for enterprises run by ex-offenders and/or in recovery
Picnic Investment Limited	£2m	Growth Fund	Helping the National Trust develop impact driven enterprises in parks

**BUSINESS PERFORMANCE AND KEY PERFORMANCE INDICATORS**  
CONTINUED

**The major categories of co-investors include:**

- Pensions and Insurance – 34% (2017: 19%)
- Funds & Fund Of Funds – 14% (2017: 16%)
- Social Bank Depositors – 14% (2017: 18%)
- Individuals & Family Offices – 13% (2017: 16%)
- Charity or Foundation – 12% (2017: 16%)
- Government bodies – 5% (2017: 8%)
- Banks – 5% (2017: 5%)
- Other – 3% (2017: 2%)
- In 2018 BSC signed new investments totalling £90m, including three follow-on investments, (2017: £94m). See table opposite.
- At 31 December 2018 Big Society Capital's social investment portfolio comprised investments in the following activities (% of portfolio by valuation):

**Product Type (by Valuation)**



**Money reaching social enterprises and charities**

- The cumulative amount drawn down from Big Society Capital and its co-investors is £1,004m (2017: £764m). Big Society Capital's expectation is that the average investment will typically take between three and six years to fully draw down.
- Of this £276m (2017: £224m) has come from Big Society Capital's own funds and £728m (2017: £540m) from its co-investors. In 2018 drawdowns by investee entities totalled £52m (2017: £82m).
- The drawdown has been utilised as follows (based on Big Society Capital's drawdown):

**Cumulative drawdown by product type:**

- 65% (2017: 59%) is capital for social enterprises and charities through funds and social banks.
- 20% (2017: 26%) is into property, mainly to help charitable service delivery.
- 4% (2017: 3%) is helping charities deliver services using Social Impact Bonds.
- 6% (2017: 6%) is management fees paid to intermediaries.
- 3% (2017: 3%) is capital for arrangers (investments into social investment advisers).
- 2% (2017: 3%) is cash balances in funds.

**Cumulative drawdown by organisational form:**

- 68% (2017: 68%) asset locked social enterprises and charities.
- 14% (2017: 14%) non-asset locked social enterprises.
- 4% (2017: 3%) Social Impact Bonds
- 3% (2017: 3%) other (e.g. Local Authorities as part of mixed funds)
- 3% (2017: 3%) is capital for arrangers (investments into social investment advisers).
- 6% (2017: 6%) is management fees paid to intermediaries.
- 2% (2017: 3%) is cash balances in funds.

**Capital available for investment**

Big Society Capital has received £581m (2017: £501m) of capital from Reclaim Fund Ltd and the shareholder banks including the £80m received in September 2018.

This is the amount of capital that the company has received from its shareholders, and is therefore available to the company to use to run its operations and invest. Of this £581m, £524m has been signed and committed, of which £276m has been drawn down.

This report was approved by the Board on 16 April 2019 and signed on its behalf.



**Cliff Prior**  
Director

# DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2018.

Registered number: 07599565

## Directors

The following persons served as directors during the year:

Sir Harvey McGrath (Chair)

Lesley-Anne Alexander CBE  
(appointed to the Board 7 June 2018)

Paola Bergamaschi Broyd  
(appointed to the Board 7 June 2018)

Kieron Boyle

Sir Ronald Cohen

Fiona Ellis

Stuart Foster

Christina McComb OBE

Dai Powell OBE (resigned from the Board 7 June 2018)

Cliff Prior CBE

Dame Susan Rice DBE (resigned from the Board 7 June 2018)

Sarah Smart (resigned from the Board 31 December 2018)

Anne Wade

Danielle Walker Palmour

Chris Wright (appointed to the Board 7 June 2018)

## Dividends

The directors do not recommend the payment of a dividend for the year (2017: £nil).

## Directors' Indemnity

The company arranges directors' and officers' liability insurance to cover certain liabilities and defence costs.

## Pillar III disclosures

The company makes disclosures on its website – [www.bigsocietycapital.com](http://www.bigsocietycapital.com) – setting out the company's capital resources, risk exposures and risk management processes.

## Statement of Directors' responsibilities in respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been



**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

CONTINUED

followed, subject to any material departures disclosed and explained in the financial statements;

- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Disclosure of information to Auditors**

Each person who was a director at the time this report was approved confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This report was approved by the Board on 16 April 2019 and signed on its behalf.



**Cliff Prior**  
Director

# INDEPENDENT AUDITOR'S REPORT

To the members of Big Society Capital Limited

## Opinion

We have audited the financial statements of Big Society Capital Limited ("the company") for the year ended 31 December 2018 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

## The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, such as the valuation of investments and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

## Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast

significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model, including the impact of Brexit, and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

## Other information

The directors are responsible for the other information, which comprises the strategic report, the directors' report, company information, corporate governance and the remuneration report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

## OTHER INFORMATION CONTINUED

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements;
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

### Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

### Directors' responsibilities

As explained more fully in their statement set out on pages 12 to 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

### The purpose of our audit work and to whom we owe our responsibilities

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

#### Jonathan Martin

(Senior Statutory Auditor)



for and on behalf of KPMG LLP,  
Statutory Auditor  
Chartered Accountants

15 Canada Square  
E14 5GL

16 April 2019

## STATEMENT OF COMPREHENSIVE INCOME



For the year ended 31 December 2018

	Notes	2018 £ 000	2017 £ 000
Income		6,392	6,051
Investment (losses)/gains	2	(6,547)	951
<b>Total Revenue</b>	<b>3</b>	<b>(155)</b>	<b>7,002</b>
Other income	4	137	116
Administrative and other expenses	5	(6,441)	(6,348)
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(6,459)</b>	<b>770</b>
Tax credit on (loss)/profit on ordinary activities	7	1	12
<b>(Loss)/profit for the financial year</b>		<b>(6,458)</b>	<b>782</b>
<b>Other comprehensive income</b>		<b>-</b>	<b>-</b>
<b>Total comprehensive (loss)/income for the year</b>		<b>(6,458)</b>	<b>782</b>

The results above relate to continuing operations.

The notes on pages 20 - 43 form part of these Financial Statements.

## STATEMENT OF FINANCIAL POSITION



As at 31 December 2018

	Notes	2018 £ 000	2017 £ 000
<b>Fixed assets</b>			
Intangible assets	8	45	-
Tangible assets	9	133	192
Investments	10	220,196	194,856
		<b>220,374</b>	<b>195,048</b>
<b>Current assets</b>			
Debtors	11	451	525
Investments	12	320,633	284,413
Cash at bank and in hand		17,251	5,230
		<b>338,335</b>	<b>290,168</b>
<b>Creditors: amounts falling due within one year</b>	13	(768)	(770)
		<b>337,567</b>	<b>289,398</b>
<b>Total assets less current liabilities</b>		<b>557,941</b>	<b>484,446</b>
<b>Provisions for liabilities</b>			
Deferred taxation	14	(24)	(21)
<b>Net assets</b>		<b>557,917</b>	<b>484,425</b>
<b>Capital and reserves</b>			
Called up share capital	17	581,345	501,395
Profit and loss account	18	(23,428)	(16,970)
<b>Total equity</b>		<b>557,917</b>	<b>484,425</b>

The notes on pages 20 - 43 form part of these Financial Statements.

Approved by the Board on 16 April 2019  
and signed on its behalf

**Cliff Prior**  
Director

Company registration number: 07599565

## STATEMENT OF CHANGES IN EQUITY



For the year ended 31 December 2018

	Share capital £ 000	Share premium £ 000	Other reserves £ 000	Profit and loss account £ 000	Total £ 000
<b>At 1 January 2017</b>	501,395	-	-	(17,752)	483,643
Profit for the financial year	-	-	-	782	782
<b>At 31 December 2017</b>	<b>501,395</b>	<b>-</b>	<b>-</b>	<b>(16,970)</b>	<b>484,425</b>
<b>At 1 January 2018</b>	501,395	-	-	(16,970)	484,425
Loss for the financial year	-	-	-	(6,458)	(6,458)
Shares issued	79,950	-	-	-	79,950
<b>At 31 December 2018</b>	<b>581,345</b>	<b>-</b>	<b>-</b>	<b>(23,428)</b>	<b>557,917</b>

The notes on pages 20 - 43 form part of these Financial Statements.



## STATEMENT OF CASH FLOWS



For the year ended 31 December 2018

	Notes	2018 £ 000	2017 £ 000
<b>Operating activities</b>			
Operating profit/(loss)		(6,459)	770
Adjustments for:			
Depreciation and amortisation		116	110
		<b>(6,343)</b>	<b>880</b>
(Increase)/decrease in debtors		74	(205)
(Decrease)/increase in creditors		(2)	(1,233)
		<b>(6,271)</b>	<b>(558)</b>
Returns on fixed asset investments		7,633	1,649
Returns on current asset investments		(2,632)	(4,390)
Foreign exchange losses		175	319
Corporation tax received		4	3
<b>Cash used in operating activities</b>		<b>(1,091)</b>	<b>(2,977)</b>
<b>Investing activities and interest</b>			
Payments to acquire tangible & intangible fixed assets		(102)	(26)
Payments to acquire fixed asset investments		(47,680)	(79,262)
Payments to acquire current asset investments		(69,373)	(38,258)
Repayment of loans		14,707	12,006
Proceeds from sale of current asset investments		35,500	92,949
<b>Cash used in investing activities</b>		<b>(66,948)</b>	<b>(12,591)</b>
<b>Financing activities</b>			
Proceeds from the issue of shares		79,950	-
<b>Cash generated by financing activities</b>		<b>79,950</b>	<b>-</b>
<b>Net cash used</b>			
Cash used in operating activities		(1,091)	(2,977)
Cash used in investing activities		(66,948)	(12,591)
Cash generated by financing activities		79,950	-
<b>Net cash used</b>		<b>11,911</b>	<b>(15,568)</b>
Cash and cash equivalents at 1 January	19	33,268	48,836
<b>Cash and cash equivalents at 31 December</b>		<b>45,179</b>	<b>33,268</b>
Cash and cash equivalents comprise:			
Cash at bank		17,251	5,230
Current asset investments (Maturity less than 3 months from the date of acquisition)		27,928	28,038
	19	<b>45,179</b>	<b>33,268</b>

The notes on pages 20 - 43 form part of these Financial Statements.

## NOTES TO THE FINANCIAL STATEMENTS



# 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2018

### **Basis of preparation**

The financial statements have been prepared in accordance with FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland.

The financial statements have been prepared under the historical cost convention, except for certain financial instruments which are stated at their fair value, as detailed in the 'Basic Financial Instruments' accounting policy below.

### **Use of judgements and estimates**

The preparation of the financial statements in conformity with applicable UK GAAP requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis.

The most significant area of judgement is the determination of fair values for investments. This is discussed below, in the accounting policy 'Basic financial instruments – iii) Fair value measurement'.

### **Going concern**

The financial statements have been prepared on the going concern basis. The company has incurred cumulative losses since inception of £23.4m, including a loss for the year of £6.5m. The company had cash and current asset investments of £337.9m as at the year end, having been capitalised with £581.3m of equity investment since inception. This means that, despite the losses to date, the company is in a position to continue to finance and support the overall business objectives. The directors have prepared cash flow projections that support the ability of the company to continue as a going concern.

### **Revenue**

Revenue comprises income and gains/losses on the social investment and treasury portfolios. Revenue is recognised on an accruals basis throughout the year when it is probable that the economic benefits will flow to the company.

### **Foreign currency**

Transactions in foreign currencies are translated to the company's functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the Statement of Financial Position date are translated to the functional currency (pound sterling) at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income.

### **Associates held as part of an investment portfolio**

The company has investments which may be regarded as associated undertakings, which might require these to be consolidated using the equity method of accounting. As these investments are held as part of an investment portfolio, they have not been consolidated in the accounts of the company, and are measured at fair value with changes in fair value recognised in profit or loss in accordance with FRS 102 14.4B.

### **Government grants**

Government grants are included within deferred income in the Statement of Financial Position and credited to the Statement of Comprehensive Income over the expected useful lives of the assets to which they relate or in the period in which the related costs are incurred.

### **Interest**

Interest income is recognised either using the effective interest method or on an accruals basis, depending upon whether the financial asset is measured at 'amortised cost' or whether it has been designated upon initial recognition as at 'fair value through profit or loss'.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instrument to the carrying amount of the financial instrument. When calculating the effective interest rate, the company estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### CONTINUED

#### **Net gains or losses from financial assets designated as at fair value through profit or loss**

Net gains or losses from financial assets designated as at fair value through profit or loss includes all realised and unrealised fair value changes, but excludes interest income.

#### **Basic financial instruments**

##### *i) Recognition and initial measurement*

Financial assets designated as at fair value through profit or loss are recognised initially at fair value, with transaction costs recognised in profit or loss. Financial assets or financial liabilities not at fair value through profit or loss are recognised initially at fair value plus transaction costs that are directly attributable to their acquisition or issue.

Investments within the social investment portfolio, in which the company has significant influence are held as part of an investment portfolio, rather than qualifying as associates. The company recognises its investments within the Statement of Financial Position, on the date on which investments are signed and a drawdown notice has been received by the company. Additionally the company discloses commitments at two distinct stages: commitments contracted but not drawn down and in principle commitments. Details are set out in Note 21 – Capital commitments.

##### *ii) Classification*

The company classifies its basic financial instruments into the following categories:

Financial assets at fair value through profit or loss:

- Designated as at fair value through profit or loss - debt, equity, fund and social impact bond investments and derivative financial instruments.

Financial assets at amortised cost:

- Debt investments meeting the conditions set out in FRS 102.11, cash at bank and in hand, cash deposits (included in investments held as current assets), and other debtors.

Financial liabilities at amortised cost:

- Creditors

Financial liabilities at fair value through profit or loss:

- Derivative financial instruments

Note 15 – Financial risk management and financial instruments – provides a reconciliation of line items in the Statement of Financial Position to the categories of financial instruments.

##### *iii) Fair value measurement*

As described in Note 16 – Valuation of financial instruments, the company uses a three-level hierarchy for fair value measurement disclosure. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines' (2015 edition):

Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark then the

company will use the Price of Recent Investment adjusted to reflect milestone/ benchmark analysis.

Where appropriate and reasonable earnings or revenue multiples are available for comparable businesses, the company will apply the Multiples valuation technique to derive a value for the investment.

If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.

If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.

Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate the company will apply the Adjusted Net Asset Valuation method.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

##### *iv) Impairment*

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence of impairment. A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset(s), and that loss event(s) had an impact on the estimated future cash flows of that asset(s) that can be estimated reliably.

**BASIC FINANCIAL INSTRUMENTS**

## CONTINUED

*vi) Derivative financial instruments*

The company holds derivative financial instruments to manage its exchange risk exposure from its USD and EUR denominated financial assets. Derivatives are recognised initially at fair value with any attributable transaction costs recognised in the profit and loss account as incurred. After initial recognition derivatives are measured at fair value and changes recognised in the profit and loss account as incurred, the fair value reflects the estimated amount the company would receive or pay in an arms length transaction. This amount is determined based on observable exchange rates.

*vi) Offsetting*

Financial assets and liabilities are offset and the net amount presented in the Statement of Financial Position when, and only when, the company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under UK GAAP e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit or loss.

**Investments held as current assets**

The company classifies investments (cash deposits or other debt securities) that cannot be readily realised within 24 hours, but can be realised within 12 months as Investments held as current assets.

**Intangible fixed assets**

Intangible fixed assets are measured at cost less accumulative amortisation and any accumulative impairment losses.

Amortisation is provided on all intangible assets to allocate the depreciable amount of the assets to their residual values over their estimated useful lives, as follows:

- Software development over 3 years

**Tangible fixed assets**

Tangible fixed assets are measured at cost less accumulative depreciation and any accumulative impairment losses.

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

- Leasehold land and buildings over the lease term
- Fixtures, fittings and equipment over 3 years

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference.

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective from 1 April 2020) were substantively enacted on 26 October 2015 and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly.

**Pensions**

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

## 2

## INVESTMENT GAINS/ (LOSSES)

	2018 £ 000	2017 £ 000
<b>Social investment portfolio</b>		
Net gains/(losses) from financial assets designated as at fair value through profit or loss:		
Realised	1,686	2,150
Unrealised	(7,744)	(1,507)
Net gains/(losses) from financial assets carried at amortised cost:		
Unrealised	111	(142)
<b>Total Net Gains from Financial Assets</b>	<b>(5,947)</b>	<b>501</b>
Net foreign exchange (losses)/gains from financial assets designated as at fair value:		
Unrealised	(13)	-
<b>Total Social investment (losses)/gains</b>	<b>(5,960)</b>	<b>501</b>
<b>Treasury portfolio</b>		
Net gains/(losses) from financial assets designated as at fair value through profit or loss:		
Current Asset Investments – Realised	618	379
Current Asset Investments – Unrealised	(1,030)	206
Net (losses)/gains from financial assets carried at amortised cost:		
Realised	(13)	184
<b>Total Net (Losses)/Gains from Financial Assets</b>	<b>(425)</b>	<b>769</b>
Net (losses)/gains on currency forward derivatives – Realised	(2,307)	1,456
Net (losses)/gains on currency forward derivatives – Unrealised	(34)	1,152
Net (losses)/gains on currency forward derivatives	(2,341)	2,608
Net foreign exchange gains/(losses) from financial assets designated as amortised cost:		
Realised	713	464
Unrealised	1,466	(3,391)
Net foreign exchange losses	(162)	(319)
<b>Total Treasury (losses)/gains</b>	<b>(587)</b>	<b>450</b>
<b>Total Social investment and Treasury (losses)/gains</b>	<b>(6,547)</b>	<b>951</b>

During 2018 the company made investments in foreign currency denominated assets. As outlined in Note 15 – Financial risk management and financial instruments, the foreign exchange risk is managed with currency forward derivative contracts. Any gains/ losses on the revaluation of foreign denominated assets offset the corresponding gains/ losses on the currency forward derivatives to the extent that the derivatives match the underlying currency exposure. Following changes in the mix and return profile of foreign exchange denominated assets in the treasury portfolio during 2018 the exchange gain on foreign currency denominated debt securities was £2.2m (2017: loss of £2.9m) which was offset by a loss on the currency forward derivatives in 2018 of £2.3m (2017 gain of £2.6m), resulting in a net foreign exchange loss of £162,000 (2017: £319,000).

## 3

## TOTAL REVENUE

	2018 £ 000	2017 £ 000
<b>Social investment portfolio</b>		
Fixed asset investments:		
Interest income on financial assets designated as amortised cost	495	302
Interest income on financial assets designated as at fair value through profit or loss	2,311	1,807
Dividend income from financial assets designated as at fair value through profit or loss	74	36
Fees received	15	38
<b>Income</b>	<b>2,895</b>	<b>2,183</b>
Net (losses)/gains from financial assets designated as at fair value through profit or loss:		
Management fees and expenses paid to intermediaries	(4,175)	(3,832)
Valuation changes and income relating to underlying investments	(1,883)	4,475
Net foreign exchange losses from financial assets	(13)	-
Net gains/(losses) from financial assets designated as amortised cost:		
Valuation changes and income relating to underlying investments	111	(142)
<b>Investment gains/(losses)</b>	<b>(5,960)</b>	<b>501</b>
	<b>(3,065)</b>	<b>2,684</b>
<b>Treasury portfolio</b>		
Interest income on financial assets designated as amortised cost	3,497	3,868
<b>Income</b>	<b>3,497</b>	<b>3,868</b>
Net (losses)/gains from financial assets designated as at fair value through profit or loss:		
Current asset investments	(412)	585
Net (losses)/gains on currency forward derivatives	(2,341)	2,608
Net (losses)/gains from financial assets carried at amortised cost:	(13)	184
Net foreign exchange gains/(losses) from financial assets designated as amortised cost	2,179	(2,927)
<b>Investment (losses)/gains</b>	<b>(587)</b>	<b>450</b>
	<b>2,910</b>	<b>4,318</b>
<b>Income</b>		
Social investment portfolio	2,895	2,183
Treasury portfolio	3,497	3,868
	6,392	6,051
<b>Investment (losses)/gains</b>		
Social investment portfolio	(5,960)	501
Treasury portfolio	(587)	450
	(6,547)	951
<b>Total Revenue</b>	<b>(155)</b>	<b>7,002</b>



**3. TOTAL REVENUE**

## CONTINUED

Total revenue decreased significantly in 2018 primarily as result of higher write-downs within the social investment portfolio together with decreased returns from the treasury portfolio. As described in the Strategic Report on pages 5 to 11 the income and valuation movements on the social investment portfolio reflect the continued growth of the portfolio and the current stage of the company's social investments as these move to a more mature fully-invested position, as well as the expected volatility due to the nature of the investments and the use of fair value accounting to value them. As described in Note 16 – Valuation of financial instruments, one of the valuation techniques applied is to value the investments on the basis of their Net Asset Valuation. This results in the recognition of set-up costs, management fees and other expenses paid to intermediaries, as they are incurred by the investee.

The management fees paid to intermediaries who manage funds allow those fund managers to employ high quality teams to deliver the social and financial returns required. In this way, the fees represent the cost of delivering the company's investment objectives and of building the capacity of the social investment sector to deliver returns for all social investors. Management fees as a percentage of average committed social investments were 0.87% in 2018 (2017: 0.99%).

## 4 OTHER INCOME

	2018 £ 000	2017 £ 000
Government grants received	59	36
Other income	78	80
	<b>137</b>	<b>116</b>

During 2018, five grants were received totalling £58,929. DCMS provided two grants, £20,000 and £15,000 covering SITR and Knowledge Hubs projects respectively. £5,600 was received from The Rockefeller Foundation to facilitate a conference on Impact Investment. £11,245 was received from Guys & St Thomas' Charity for Research on Market Solutions to Childhood Obesity. £7,084 was received from Wellcome Trust for our Research to Venture Mental Health Programme.

## 5 ADMINISTRATIVE AND OTHER EXPENSES

	2018 £ 000	2017 £ 000
Wages and salaries	2,775	2,922
Non-executive directors' fees	77	62
Social security costs	372	296
Pension costs	245	222
Staff related costs, including recruitment, training and travel	534	366
Premises	651	650
General and administrative expenses	352	408
Consultancy	216	130
Marketing, including events, sponsorship and website development	231	253
Research	41	10
Amounts receivable by the company's auditor (see below)	105	110
Other professional costs	149	181
Depreciation of owned fixed assets	100	110
Amortisation of intangible assets	16	-
Investment related expenses, including legal fees	88	88
<b>Total administrative expenses</b>	<b>5,952</b>	<b>5,808</b>
Treasury management fees	489	540
<b>Total other expenses</b>	<b>489</b>	<b>540</b>
<b>Total administrative and other expenses</b>	<b>6,441</b>	<b>6,348</b>
Amounts receivable by the company's auditor and its associates in respect of:		
Auditors' remuneration for audit services	89	87
Taxation compliance services	16	23
	<b>105</b>	<b>110</b>

## AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	2018 Number	2017 Number
Investment	20	20
Senior Management	3	5
Communications	4	3
Operations	10	10
Social & Finance Sector Engagement	5	5
On Purpose Interns	2	2
	<b>44</b>	<b>45</b>

A breakdown of the total number of employees, including directors, with annual remuneration of £60,000 or more and employed as at the period end is disclosed in the Remuneration Report on page 4.

## 6

## DIRECTORS' AND KEY MANAGEMENT PERSONNEL EMOLUMENTS

## DIRECTORS' EMOLUMENTS

	2018 £ 000	2017 £ 000
Emoluments	228	207
Company contributions to money purchase pension schemes	16	16
	<b>244</b>	<b>223</b>
Highest paid director:		
Emoluments	151	145
Company contributions to money purchase pension schemes	16	16
	<b>167</b>	<b>161</b>

## NUMBER OF DIRECTORS TO WHOM RETIREMENT BENEFITS ACCRUED:

	2018 Number	2017 Number
Money purchase schemes	<b>1</b>	<b>1</b>

## KEY MANAGEMENT PERSONNEL EMOLUMENTS\*

	2018 £ 000	2017 £ 000
Emoluments	706	654
Company contributions to money purchase pension schemes	77	53
	<b>783</b>	<b>707</b>

\*Key management personnel includes one executive director

# 7

## TAXATION

	2018 £ 000	2017 £ 000
<b>Analysis of charge in period</b>		
Current tax:		
Adjustments in respect of previous periods	(4)	(3)
	(4)	(3)
Deferred tax:		
Origination and reversal of timing differences	3	(9)
	3	(9)
Tax credit on (loss)/profit on ordinary activities	<b>(1)</b>	<b>(12)</b>
<b>Factors affecting tax charge for period</b>		
The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:		
	2018 £ 000	2017 £ 000
(Loss)/Profit on ordinary activities before tax	<b>(6,459)</b>	<b>770</b>
Standard rate of corporation tax in the UK	19.0%	19.3%
	£ 000	£ 000
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax	(1,227)	149
Effects of:		
Income not taxable and/or expenses not allowable for tax purposes	889	(230)
Capital allowances for period in excess of depreciation	6	9
Adjustments to tax charge in respect of previous periods	(4)	(3)
Tax loss not recognised as deferred tax asset	332	72
Deferred tax – origination and reversal of timing differences	3	(9)
Current tax credit for period	<b>(1)</b>	<b>(12)</b>

## 8 INTANGIBLE FIXED ASSETS

	Software development £ 000
<b>Cost</b>	
At 1 January 2018	-
Additions	61
At 31 December 2018	<b>61</b>
<b>Amortisation</b>	
At 1 January 2018	-
Provided during the year	16
At 31 December 2018	<b>16</b>
<b>Carrying amount</b>	
At 31 December 2018	<b>45</b>

## 9 TANGIBLE FIXED ASSETS

	Land and buildings £ 000	Fixtures, fittings, tools and equipment £ 000	Total £ 000
<b>Cost</b>			
At 1 January 2018	330	246	576
Additions	-	41	41
At 31 December 2018	<b>330</b>	<b>287</b>	<b>617</b>
<b>Depreciation</b>			
At 1 January 2018	183	201	384
Charge for the year	67	33	100
At 31 December 2018	<b>250</b>	<b>234</b>	<b>484</b>
<b>Carrying amount</b>			
At 31 December 2018	<b>80</b>	<b>53</b>	<b>133</b>
At 31 December 2017	<b>147</b>	<b>45</b>	<b>192</b>

# 10

## FIXED ASSET INVESTMENTS

	Total £ 000
<b>Social investment portfolio</b>	
At 1 January 2018	194,856
Additions	51,161
Repayment of loans	(14,707)
Redemptions	(2,920)
Profit and loss – unrealised*	(8,194)
At 31 December 2018	<b>220,196</b>

\*Profit and loss – unrealised is predominantly a combination of management fees and expenses paid to intermediaries and fair value adjustments on social investments.



The company holds 20% or more of the share capital of the following undertakings:

<b>Investments</b>	<b>Country of Incorporation / Principal place of business<sup>1</sup></b>	<b>Shares held Class</b>	<b>% As at 31 December 2018</b>	<b>Aggregate Capital and reserves of the entity<sup>2</sup> £000</b>	<b>Aggregate Profit (loss) for the year of the entity<sup>2</sup> £000</b>
3SC Capitalise Limited	UK	Ordinary	50.00	-	-
Triodos New Horizons Limited	UK	Ordinary	30.00	3	-
Children's Support Services Limited	UK	Ordinary	26.60	1,758	(139)
Energise Innovation Limited	UK	Ordinary	35.37	-	-
The Charity Bank Limited	UK	Ordinary	65.34	18,263	(609)
It's All About Me Scheme LLP	UK	Partnership Interest	25.00	92	41
Social Stock Exchange Limited	UK	Ordinary	31.60	(270)	(422)
Bridges Social Impact Bond Fund LP	38 Seymour Street, London, W1H 7BP	Partnership Interest	37.78	Holding less than 50%, no public filing required	
Impact Ventures S.A., SICAV-SIF	Luxembourg	Registered Shares	41.58	Holding less than 50%, no public filing required	
North East Social Investment Fund Limited Partnership	Maybrook House, Grainger Street, Newcastle	Partnership Interest	48.75	Holding less than 50%, no public filing required	
Nesta Impact Investments 1 Limited Partnership	1 Plough Place, London, EC4A 1DE	Partnership Interest	45.46	Holding less than 50%, no public filing required	
Real Lettings Property Fund Limited Partnership	42 St Thomas Road, Launceston, Cornwall	Partnership Interest	25.07	Holding less than 50%, no public filing required	
The Community Investment Fund L.P.	Reading Bridge House, George Street, Reading	Partnership Interest	40.00	Holding less than 50%, no public filing required	
The Third Sector Loan Fund LLP	UK	Partnership Interest	50.00	10,360	(614)
Shared Lives Investments LP	131-151 Great Titchfield Street, London	Partnership Interest	37.93	Holding less than 50%, no public filing required	
Social Growth Fund LLP	UK	Partnership Interest	50.00	7,358	(1,700)
Bridges Social Interim LP	38 Seymour Street, London	Partnership Interest	99.98	822	(14)
Social Finance Care and Wellbeing Investments LLP	UK	Partnership Interest	50.00	1,109	(390)
Funding Affordable Homes SICAV SIF S.A.	Luxembourg	Registered Shares	27.08	Holding less than 50%, no public filing required	
Big Issue Invest Social Enterprise Investment Fund II L.P.	113-115 Fonthill Road, London	Partnership Interest	62.98	9,544	112
National Homelessness Property Fund Limited Partnership	42 St Thomas Road, Launceston, Cornwall	Partnership Interest	46.06	Holding less than 50%, no public filing required	
Cheyne Social Property High Impact (1) Fund	94 Solaris Avenue Camana Bay, Grand Cayman	Partnership Interest	100.00	2,793	(207)
Bridges Evergreen Capital LP	UK	Partnership Interest	59.05	18,659	376
Bethnal Green Ventures LLP	UK	Partnership Interest	24.54	1,799	(736)
Public Service Lab LLP	UK	Partnership Interest	20.00	(568)	(410)
Bill Outcomes Investment Fund LP	113-115 Fonthill Road, London	Partnership Interest	85.00	358	(331)
Community Owned Renewable Energy LLP	UK	Partnership Interest	50.00	16,728	(223)

The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 requires that:

<sup>1</sup> for unincorporated undertakings, the address of its principal place of business is stated.

<sup>2</sup> for all undertakings where the company's holding is 50% or greater, and for undertakings where the company's holding is 20% or greater and the undertaking is required by any provision of the 2006 Companies Act to deliver a copy of its balance sheet, the aggregate amount of the capital and reserves of the undertaking as at the end of its relevant financial year, and its profit or loss for that year is also stated.

<sup>3</sup> Aggregate capital and reserves and profit or loss not available, as first financial year end falls after 31 December 2018.

## 11 DEBTORS

	2018 £ 000	2017 £ 000
Other debtors	17	9
Prepayments	248	265
Accrued income on treasury portfolio	74	85
Treasury portfolio – Derivative financial instrument	112	166
	<b>451</b>	<b>525</b>

## 12 INVESTMENTS HELD AS CURRENT ASSETS

	2018 £ 000	2017 £ 000
Treasury portfolio – Cash deposits	32,715	33,878
Treasury portfolio – Listed debt securities	257,621	219,219
Treasury portfolio – Social Bond/Equity/Multi Asset Funds	30,297	31,316
	<b>320,633</b>	<b>284,413</b>

Investments held as current assets can be realised within 1 year, but not within 24 hours. Social bond/equity/multi asset funds are open-ended investment companies, and are held as part of the social investment allocation within the treasury portfolio, as described in the Strategic Report on pages 5 to 11.

Listed debt securities include items with a fair value of £130,000 (2017: £nil), which have been pledged as collateral for a contingent liability on foreign exchange forward contracts. The collateral is adjusted daily to reflect any contingent liability arising as at the prior day close of business and is subject to a minimum transfer threshold of £250,000. The collateral can be replaced by a range of agreed alternative financial assets. The company retains the risks and rewards of ownership.

## 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2018 £ 000	2017 £ 000
Trade creditors	123	140
Other taxes and social security costs	94	85
Other creditors	26	20
Accruals	501	513
Deferred income	24	12
	<b>768</b>	<b>770</b>

Other creditors comprise drawdown notices received before the year end but paid after the year end.

## 14

## DEFERRED TAXATION

	2018 £ 000	2017 £ 000
Accelerated capital allowances	24	21
Adjustment in respect of prior period	(102)	(680)
Tax losses carried forward	(1,812)	(1,582)
Tax losses not recognised as a deferred tax asset	1,914	2,263
<b>Provision for deferred tax</b>	<b>24</b>	<b>21</b>

	2018 £ 000	2017 £ 000
<b>Provision for liabilities</b>		
At 1 January	21	30
Credited to the profit and loss account	3	(9)
At 31 December	<b>24</b>	<b>21</b>

## 15

FINANCIAL RISK MANAGEMENT  
AND FINANCIAL INSTRUMENTS**Introduction**

The Board is responsible for overall corporate governance, which includes ensuring that there are adequate systems of risk management. The systems and processes aim to identify, measure and report risks. Risk is controlled through a system of procedures, checks, reports and responsibilities. The Audit, Risk and Compliance Committee examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

As described in the Strategic Report on pages 5 to 11, the company's investment portfolio comprises a social investment portfolio and a treasury portfolio.

The social investment portfolio comprises unlisted equity investments, loans, investments in unlisted funds and investments in social impact bonds. All social investments are approved by the Investment Committee (which has been delegated authority by the Board to operate within set parameters).

The treasury portfolio comprises bank and building society cash deposits, certificates of deposit and listed and unlisted debt securities, social bond/equity/multi-asset funds, and represents capital held before it is drawn down into social investment. The treasury portfolio operates using a socially responsible investment process.

## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

### CATEGORIES OF FINANCIAL INSTRUMENT

Financial instruments as at 31 December by category are shown below:

<b>2018</b>	Financial instruments measured at fair value through profit or loss £ 000	Financial instruments measured at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
<b>Assets</b>				
Tangible & Intangible fixed assets	-	-	178	178
Fixed asset investments	207,142	13,054	-	220,196
Debtors	112	91	248	451
Investments held as current assets	41,830	278,803	-	320,633
Cash at bank and in hand	-	17,251	-	17,251
<b>Liabilities</b>				
Creditors: amounts falling due within one year	-	(768)	-	(768)
Deferred taxation	-	-	(24)	(24)
	<b>249,084</b>	<b>308,431</b>	<b>402</b>	<b>557,917</b>

<b>2017</b>	Financial instruments measured at fair value through profit or loss £ 000	Financial instruments measured at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
<b>Assets</b>				
Tangible fixed assets	-	-	192	192
Fixed asset investments	186,759	8,097	-	194,856
Debtors	166	94	265	525
Investments held as current assets	35,924	248,489	-	284,413
Cash at bank and in hand	-	5,230	-	5,230
<b>Liabilities</b>				
Creditors: amounts falling due within one year	-	(770)	-	(770)
Deferred taxation	-	-	(21)	(21)
	<b>222,849</b>	<b>261,140</b>	<b>436</b>	<b>484,425</b>

The financial instruments not accounted for at fair value through profit or loss are assets and liabilities whose carrying amounts at the period end approximate fair value.

## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

### CATEGORIES OF FINANCIAL INSTRUMENT CONTINUED

Gains and losses recognised in the profit and loss account during the period to 31 December by category are shown below:

<b>2018</b>	Financial assets measured at fair value through profit or loss £ 000	Financial derivatives measured at fair value £ 000	Financial assets measured at amortised cost £ 000	Other income and expense £ 000	Total £ 000
Interest income	2,311	-	3,992	-	6,303
Fee and dividend income	89	-	-	-	89
Investment gains / (losses)	(6,483)	(2,341)	2,277	-	(6,547)
Other income	-	-	-	137	137
Administrative & other expenses	-	-	(489)	(5,952)	(6,441)
Tax on loss on ordinary expenses	-	-	-	1	1
	<b>(4,083)</b>	<b>(2,341)</b>	<b>5,780</b>	<b>(5,814)</b>	<b>(6,458)</b>

<b>2017</b>	Financial assets measured at fair value through profit or loss £ 000	Financial derivatives measured at fair value £ 000	Financial assets measured at amortised cost £ 000	Other income and expense £ 000	Total £ 000
Interest income	1,788	-	4,189	-	5,977
Fee and dividend income	74	-	-	-	74
Investment gains / (losses)	1,228	2,608	(2,885)	-	951
Other income	-	-	-	116	116
Administrative & other expenses	(72)	-	(544)	(5,732)	(6,348)
Tax on loss on ordinary expenses	-	-	-	12	12
	<b>3,018</b>	<b>2,608</b>	<b>760</b>	<b>(5,604)</b>	<b>782</b>

**15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS** CONTINUED

## CREDIT RISK

Credit risk is the risk of financial loss from a counterparty's failure to settle financial obligations as they fall due. The company is exposed to credit risk principally from debt securities held, loans and receivables and cash deposits.

Investments in unlisted funds and loans included in fixed asset investments are all social investments. Debt securities, showing as current asset investments are held within the treasury portfolio. Cash deposits are either held for operational purposes or as part of the treasury portfolio. Cash deposits that can be withdrawn at any time without notice and without penalty or that have a maturity or period of notice of not more than 24 hours or one working day are shown as cash at bank and in hand, all other deposits with a maturity of up to 1 year are shown as investments held as current assets.

Within the treasury portfolio the company has set a maximum exposure limit for each counterparty. The treasury policy seeks to minimise the exposure to counterparties with perceived higher risk of default by specifying an average credit rating for the portfolio. The treasury portfolio is managed externally and counterparty exposure limits and average credit rating are monitored by the external managers. The company receives monthly treasury reports.

The company's maximum credit risk exposure at the Statement of Financial Position date is represented by the respective carrying amounts of the relevant financial assets in the Statement of Financial Position, with the exception of listed debt securities designated as at amortised cost, for which the credit exposure and the carrying value are shown below. The carrying value includes amortisation of the premium at purchase and does not include any market revaluation, and therefore does not represent the current credit risk.

The company uses foreign exchange forward contracts to manage its exchange risk exposure from holdings of non-GBP denominated financial assets. Collateral is exchanged on open foreign exchange forward contracts representing the unrealised gain (receipt of collateral by the company) or loss (pledge of collateral by the company) on a daily basis.

Credit risk arises from changes in the value of the open foreign exchange forward contracts being insufficiently covered by collateral received (to cover unrealised gains) if the counterparty to the contract does not complete the exchange of currency on the contracted settlement date. This is mitigated by utilising standard credit support agreements with a limited number of mainstream financial institutions and reliance upon the collateral management processes at the investment manager.

## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

### CREDIT RISK EXPOSURE

Credit risk exposure as at the Statement of Financial Position date comprises:

	2018 £ 000	2017 £ 000
Fixed asset investments	220,196	194,856
Other debtors	17	9
Accrued income	74	85
Social Bond/Equity/Multi Asset Funds – Investments held as current assets	30,297	31,316
Cash deposits – Investments held as current assets	32,715	33,878
Listed debt securities*	256,305	220,238
Cash deposits – Cash at bank and in hand	17,251	5,230
<b>Maximum exposure to credit risk as at the Statement of Financial Position date</b>	<b>556,855</b>	<b>485,612</b>

**\* Included within listed debt securities:**

	Credit risk exposure £ 000	Carrying value £ 000
Listed debt securities designated as at amortised cost	256,305	257,621
	<b>256,305</b>	<b>257,621</b>

As at the year end Cash at bank and in hand and Investments held as current assets were held at institutions rated as follows by Standard and Poor's Investor Services:

	Rating	2018 £ 000	2017 £ 000
Social Bond/Equity/Multi Asset Funds investments	Not rated	30,297	31,316
Listed debt securities	AAA	40,050	39,902
Listed debt securities	AA	43,880	29,439
Listed debt securities	A	117,484	96,179
Listed debt securities	BBB	42,956	42,578
Listed debt securities	Not rated	13,251	11,121
Cash deposits – Investments held as current assets	A-1	28,922	33,878
Cash deposits – Investments held as current assets	A-2	501	-
Cash deposits – Investments held as current assets	Not rated	3,292	-
Cash deposits – Cash at bank and in hand	A-1	17,251	5,230
		<b>337,884</b>	<b>289,643</b>

## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

### LIQUIDITY RISK

Liquidity risk is the risk that cash may not be available to pay obligations. The company's policy is to ensure it has sufficient funds to fulfil liabilities as they fall due, including investment commitments approved by the Investment Committee (see Note 21 – Capital Commitments for details of investment commitments).

The company's financial assets include loans, unlisted equity investments, investments in unlisted funds and investments in social impact bonds, which are generally illiquid.

The company's investments in listed debt securities are considered to be readily realisable as they are actively traded. All cash deposits held as current assets have a maturity of less than 12 months.

The company's overall liquidity is monitored on a daily basis. The company expects to receive quarterly capital inflows to meet its social investment commitments and other obligations.

An analysis of contractual creditor balances, by maturity is shown below:

<b>2018</b>	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	744	744	744
	<b>744</b>	<b>744</b>	<b>744</b>

<b>2017</b>	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	758	758	758
	<b>758</b>	<b>758</b>	<b>758</b>

### MARKET RISK

Market risk is the risk that changes in market prices, such as interest rates and credit spreads (not relating to changes in the issuers credit standing) will affect the company's income or the fair value of its holdings of financial instruments.

The company has interest rate exposure. The company currently has £337.9 million in cash or current asset investments that earn interest at a variety of rates. Any reduction in interest rates will reduce the interest income on these deposits. A reduction of interest rates by 1% would result in a reduction in returns of £3.4 million.

### FOREIGN EXCHANGE RISK

The company is exposed to foreign currency risks on assets and liabilities as a result of changes in exchange rates. The company invests in foreign currency denominated bonds through its treasury portfolio and a foreign currency denominated fund in the social investment portfolio and so has foreign currency risk exposure on those assets. The company mitigates the risk on the bonds by putting in place matching currency forward derivative contracts. When a foreign currency denominated bond is purchased a spot trade and a forward are executed and these are rolled forward every three months. The spot trade buys foreign currency and sells GBP (originally to fund the bond purchase) and a new forward contract is then executed to sell foreign currency and buy GBP creating a foreign currency liability that offsets the investment. Currently the size of the company's investment in the foreign currency denominated fund is too low for a similar process to be cost effective due to the associated fees, the fund also holds GBP denominated assets which partially mitigate the exposure. The exposure continues to be monitored and the company has the ability to implement a similar procedure to the bonds when/if required.



## 15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS CONTINUED

### REGULATORY RISK

The company is authorised and regulated by the FCA. It is required to regularly assess the amount of capital needed for operations and will hold liquid capital in excess of this amount.

The company has, at all times during the period under regulatory supervision, held sufficient capital to meet its regulatory capital requirement.

## 16 VALUATION OF FINANCIAL INSTRUMENTS

The determination of fair value for basic financial instruments for which there is no observable market price requires the use of valuation techniques as described in Note 1 – Accounting policies, 'Basic financial instruments – iii) Fair value measurement'.

The company uses a three-level hierarchy for fair value measurement disclosure, as follows:

- Level 1. The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3. Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

In determining a fair value using Level 3 valuation techniques, the company applies the principles included in the 'International Private Equity and Venture Capital Valuation Guidelines' (2015 Edition):

- Where an investment has been made recently, or where there has been subsequent, significant new investment into the company, a more accurate valuation is not available and there is no evidence to suggest that the unadjusted Price of Recent Investment is no longer relevant, the company may apply the Price of Recent Investment, for a limited period following the date of the relevant transaction. Where it is felt that there has been a change to the milestones or benchmark then the company will use the Price of Recent Investment adjusted to reflect milestone/ benchmark analysis.
- Where appropriate and reasonable earnings or revenue multiples are available for comparable businesses, the company will apply the Multiples valuation technique to derive a value for the investment.
- If industry benchmarks can be applied to the investment to derive a fair value, these will be applied.
- If future cash flows can be reasonably estimated, and it is felt that the risks, due to the high level of subjectivity, involved in applying the Discounted Cash Flow method do not render the method insufficiently reliable, this will be applied.
- Where a regular Net Asset Valuation is available for the investment, the company will assess this for reasonableness and consider whether the investment can be valued on the basis of the underlying fair value of its assets, rather than its earnings. If this is considered appropriate the company will apply the Adjusted Net Asset Valuation method.

The company may decide to use a combination of the mentioned methods, or other methods that are considered more appropriate to derive the fair value of its investments.

## 16. VALUATION OF FINANCIAL INSTRUMENTS CONTINUED

The fair value hierarchy of financial assets and liabilities as at 31 December can be analysed as follows:

	2018 £ 000	2017 £ 000
Financial assets/(liabilities) held at fair value:		
<b>Level 1</b>		
Investments held as current assets	-	-
<b>Level 2</b>		
Investments held as current assets	41,830	35,924
Derivative financial instruments	112	166
<b>Level 3</b>		
Fixed assets – investments	207,142	186,759
	<b>249,084</b>	<b>222,849</b>

There have been no changes in classification of assets held at each level.

### Level 3 financial assets held at fair value

Financial assets held at fair value through profit or loss  
£ 000

<b>Balance at 1 January 2018</b>	186,759
Purchases	45,493
Sales	(16,459)
Total investment returns	(8,651)
<b>Balance at 31 December 2018</b>	<b>207,142</b>

All level 3 financial assets held at fair value are investments held within the social investment portfolio.

## 17 SHARE CAPITAL

	Nominal value	2018 Number	2018 £ 000	2017 £ 000
Allotted, called up and fully paid:				
Ordinary A shares	£1 each	381,345	381,345	301,395
Ordinary B shares	£1 each	200,000	200,000	200,000
			<b>581,345</b>	<b>501,395</b>

During the year The Big Society Trust Limited subscribed for 79,950,000 additional shares at par following receipts of further funds via Reclaim Fund Ltd.

# 18

## PROFIT AND LOSS ACCOUNT

	2018 £ 000	2017 £ 000
At 1 January	(16,970)	(17,752)
Profit/(loss) for the financial year	(6,458)	782
At 31 December	<b>(23,428)</b>	<b>(16,970)</b>

# 19

## CASH AND CASH EQUIVALENTS

	2018 £ 000	2017 £ 000
<b>Cash and cash equivalents comprise:</b>		
Cash at bank	17,251	5,230
Current asset investments (Maturity less than 3 months from the date of acquisition)	27,928	28,038
Cash and cash equivalents per cash flow statement	<b>45,179</b>	<b>33,268</b>

As described in Note 12 – Investments held as current assets, investments held as current assets can be realised within 1 year, but not within 24 hours. For cash flow purposes those investments that have a maturity or period of notice of less than 3 months from the date of acquisition are included as cash and cash equivalents. A breakdown of investments held as current assets is provided below:

	2018 £ 000	2017 £ 000
Cash deposits (Maturity less than 3 months from the date of acquisition)	27,928	28,038
Cash deposits (Maturity greater than 3 months from the date of acquisition)	4,787	5,840
Listed debt securities	257,621	219,219
Social Bond/Equity/Multi Asset Funds investments	30,297	31,316
Investments held as current assets per Statement of Financial Position	<b>320,633</b>	<b>284,413</b>

# 20

## EVENTS AFTER THE REPORTING DATE

There are no significant events to disclose since the reporting date.

## 21 CAPITAL COMMITMENTS

The company recognises investments and potential investments at three distinct stages of the investment process:

1. Investments signed and drawn down – legal agreements are completed and signed and funds (in total or partial) have been drawn down. The amounts drawn down are recognised as financial assets in the Statement of Financial Position, and the balance of the commitment is disclosed below.
2. Investments signed, commitment undrawn – legal agreements are completed and signed and funds (in total or partial) have not been drawn down. These are not recognised within the Statement of Financial Position, but are disclosed below.
3. In principle commitments – the commitment has been approved in principle by the company's Investment Committee, legal agreements and deal terms are in the process of being prepared. These are not recognised within the Statement of Financial Position, but are disclosed below.

As at 31 December, there were capital commitments, in respect of investments signed, commitments undrawn of:

	2018 £ 000	2017 £ 000
Commitments contracted, undrawn fully or partially and not provided in the Financial Statements	<b>248,512</b>	<b>207,365</b>

As at 31 December, there were in principle commitments of:

	2018 £ 000	2017 £ 000
In principle commitments (approved by the Investment Committee, subject to legal documentation)	<b>24,000</b>	<b>21,352</b>

## 22 OTHER FINANCIAL COMMITMENTS

Total future minimum lease payments under non-cancellable operating leases:

	Land and buildings 2018 £ 000	Land and buildings 2017 £ 000
Falling due:		
within one year	358	358
within two to five years	76	434
	<b>434</b>	<b>792</b>

## 23

### RELATED PARTY TRANSACTIONS

During 2018 The Big Society Trust, being the parent company, purchased £80m (2017: £Nil) of £1 Ordinary A shares in Big Society Capital Limited.

During the period Access – The Foundation for Social Investment, being a member of The Big Society Trust group, paid £78,400 (31 December 2017: £70,000) to Big Society Capital, in respect of a licence fee for the use of its offices. As at 31 December 2018 there was an outstanding balance of £6,500 (31 December 2017: £6,000). The transactions were made on terms equivalent to those that prevail in arm's length transactions.

Directors' and senior management emoluments are disclosed in Note 6 – Directors' and key management personnel emoluments, and the Remuneration Report on page 4.

## 24

### CONTROLLING PARTY

The directors consider that the immediate parent undertaking and the ultimate controlling party of this company is The Big Society Trust, a company incorporated in the UK and limited by guarantee.

The consolidated financial statements of the group are available to the public and may be obtained from Companies House.

## 25

### PRESENTATION CURRENCY

The financial statements are presented in Sterling.

## 26

### LEGAL FORM OF ENTITY AND COUNTRY OF INCORPORATION

Big Society Capital Limited is a limited company incorporated in England.

## 27

### PRINCIPAL PLACE OF BUSINESS

The address of the company's principal place of business and registered office is:

New Fetter Place  
8-10 New Fetter Lane  
London  
EC4A 1AZ

