

**REPORT AND
FINANCIAL
STATEMENTS**
2016



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COMPANY INFORMATION

Directors

Sir Harvey McGrath (Chair)¹

Chair of Governors Birkbeck College, Chair of Trustees of Heart of the City, the Prince's Teaching Institute, Funding London and icould, and Deputy Chair of the London Enterprise Panel. Former Chair of Prudential plc and Man Group plc.

Kieron Boyle¹

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.

David Carrington¹

Independent consultant. Vice-Chair and Member of the Supervisory Board of Triodos Bank NV and Trustee of GULAN and of SOFII Foundation.

Sir Ronald Cohen

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 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 Ellis²

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.

Dai Powell OBE¹

Chief Executive of HCT Group.

Cliff Prior CBE

Chief Executive of Big Society Capital (from 7 March 2016). Non-Executive Director of UCL Partners. Adviser to the Global Social Entrepreneurship Network, Member of the UK Practitioners' Council for the Global Steering Group for Impact Investment.

Lady Susan Rice CBE¹

Chair Scottish Water, Business Stream, Scottish Fiscal Commission, Governors of the National Galleries of Scotland, and the Chartered Banker: Professional Standards Board. Lay member of the Court of Edinburgh University. Senior Independent Director of J Sainsbury plc, Director of North American Income Trust, and the Banking Standards Board.

Sarah Smart²

Chair of TPT Retirement Solutions, Non-Executive Director and Chair of the Audit Committee of the Pensions Regulator, Board Member and Chair of the Audit Committee of UK Athletics, Independent Professional Observer for the Lothian Pension Fund and Patron of Social Investment Scotland.

Keith Smithson²

(Big Society Capital Director nominated by the shareholder banks.) Managing Director, Treasury, Barclays.

Anne Wade

Non-Executive Director of John Laing Group plc and of Summit Materials. Trustee of the Heron Foundation, Partner of Leaders' Quest, Director of Banking Futures. Advisory Council Member of Impetus-PEF.

Danielle Walker Palmour²

Foundation Director of Friends Provident Foundation, Vice-Chair of York Blind and Partially Sighted Society. Non-Executive Director of Civil Society Media.

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

¹ Member of Nominations and Remuneration Committee

² Member of Audit, Risk and Compliance Committee

CORPORATE GOVERNANCE

Big Society Capital Limited (Big Society Capital) 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 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.

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

- the Nominations and Remuneration Committee – 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, Executive Committee and advisor 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 £10 million 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.
- 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) 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 2016:

Baroness (Jill) Pitkeathley OBE (Chair)

House of Lords, Chair of the House of Lords Select Committee on Charities.

Stephen Howard LVO (from 1 March 2016)

Chair of Thames Reach, Power to Change and the National Schools Partnership. Director of Big Issue Social Investments Limited.

Ian Davis (until 1 March 2016)

Chair of Rolls Royce plc, Non-executive Director of BP plc, Johnson & Johnson and Teach For All.

Robin Budenberg CBE

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

David Robinson OBE

Chair, Early Action Task Force, Senior Adviser and founder of Community Links and Non-Executive Director of Social Finance Limited.

Sir Stephen Bubb (until 1 June 2016)

CEO of the Association for Chief Executives of Voluntary Organisations.

Asheem Singh (from 1 June 2016)

Interim CEO of the Association of Chief Executives of Voluntary Organisations.

Peter Holbrook CBE

CEO of Social Enterprise UK.

Helen Stephenson CBE

(nominated by Cabinet Office) Director, Early Years and Childcare, Department for Education.

Sir Harvey McGrath

Chair of Big Society Capital.

John Kingston OBE (from 18 May 2016)

Chair of Access – the Foundation for Social Investment.

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 9.97%.

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 2016

Vidhya Alekson

Power to Change

Robert Annibale Citi

Dawn Austwick OBE

Big Lottery Fund

Jonathan Bland

E3M

Rt Hon Hazel Blears

Social Investment Business

Carolyn Clifton

Ambition E. Midlands

Dan Corry

New Philanthropy Capital

Alastair Davis

Social Investment Scotland

Seb Elsworth

Access - The Foundation for Social Investment

Paul Farmer CBE Mind

Jamie Hartzell Ethex

David Hutchison OBE

Social Finance

Richard James

YMCA LSW

Dominic Llewellyn

Numbers for Good

Kate Markey Blue Sky

Caroline Mason CBE

Esmee Fairbairn

David Orr

National Housing Federation

James Perry Panahpur

Hugh Rolo Locality

Antony Ross

Bridges Fund Management

Ian Scholes Spacious Place

Carolyn Sims Charity Bank

Whitni Thomas Triodos Bank

Chris Wright Catch 22

REMUNERATION REPORT

This report covers the 12 months ended 31 December 2016 and sets out the policy and disclosures in relation to the remuneration of the employees and directors of Big Society Capital.

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

The Committee'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 not-for-profit and public bodies such as housing associations.
- In 2016, the amounts were £7,500 (2015: £7,500) per annum for the service of acting as a non-executive director, £3,250 (2015:

£3,250) per annum for chairing a Board Committee and £1,625 (2015: £1,625) per annum for acting as a non-chair member of a Committee. These figures will be reviewed by Big Society Capital annually in the light of inflation and comparable organisations.

- Total non-executive directors' fees in 2016 were £52,000 (2015: £46,000).

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:

| | 2016 | 2015 |
|---------------------|--------|--------|
| | Number | Number |
| £60,000 - £69,999 | 8 | 6 |
| £70,000 - £79,999 | 4 | 4 |
| £80,000 - £89,999 | 1 | 1 |
| £90,000 - £99,999 | 2 | 1 |
| £100,000 - £109,999 | 1 | 2 |
| £140,000 - £149,999 | 1 | 1 |

Sixteen 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 2016 was 44 and at 31 December 2015 was 43. The ratio of highest salary to lowest salary is 6.67.

STRATEGIC REPORT

Principal Objectives

Social investment is the use of repayable finance to achieve a social as well as a financial return. There are many charities and social enterprises working hard to deal with some of the most challenging issues in the UK, such as youth unemployment, financial exclusion and homelessness. An increasing number of them want to use repayable finance to help them increase their impact on society, for example by growing their organisation and extending their reach, providing working capital for contract delivery, or buying assets.

Big Society Capital's objectives are:

1. To have a transformative impact on social investment in the UK by supporting intermediaries to become financially robust and able to: attract greater and more diverse sources of investment; effectively and efficiently channel appropriate and affordable capital to charities and social enterprises; and provide effective financial and business support services to charities and social enterprises.
2. To increase the use of social investment and build understanding with charities, social enterprises and investors by: promoting best practice and sharing information; improving links between the social investment and mainstream financial markets; and working with other investors to embed social impact assessment into the investment decision-making process.

Strategy

Big Society Capital continually reviews the strategic direction of the business and is currently engaged in an extensive review of the future

direction of the business. The process is designed to be as inclusive and transparent as possible, with the board and external stakeholders helping to provide direction on what role Big Society Capital should play in the future.

In November 2016 we published an evidence pack about the current state of the social investment market, and sought views on a series of major questions that we believed would be central to informing our next strategy. We expect to finalise and launch our updated strategy in summer 2017.

Business model and trends

Big Society Capital operates as an investor and as a champion.

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 charities and social enterprises. 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 champion for social investment to increase awareness of, and confidence in, social 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 60.11% 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 £301m. 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 Big Lottery Fund, which then grants the English portion

STRATEGIC REPORT

CONTINUED

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 £400 million 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) which represents their maximum commitment.

Principal risks and uncertainties

The principal risks and uncertainties facing the company relate to its investment portfolio. The company has an Investment Committee which has been delegated responsibility to make investment decisions in line with Big Society Capital's Investment Policy. The Valuation Committee monitors the ongoing financial and social performance of investments and identifies key risks.

The financial risks and the steps taken to manage them are outlined in Note 14 to the Financial Statements.

The company also faces the risk that its investments do not deliver the anticipated social impact. Social impact assessment has been incorporated into the Valuation Committee process which considers the social value of the underlying investments. The company works closely with intermediaries on their social impact strategies, models and reporting.

There is the risk that the company fails to deliver its strategy and market-building projects. Also, that the company fails to communicate effectively to charities and social enterprises as social investment develops. The company is focused

on ensuring that adequate resources are available to implement its plans.

The risks surrounding the development of the social investment market include:

- slower than expected take-up of investment by front-line organisations. The company continues to work with intermediaries and other market participants to improve the ability of charities and social enterprises to take on finance;
- the failure of an investment leading to damage to market confidence and/or to vulnerable beneficiaries or significant investment failure which impacts the financial viability of the company. The company closely monitors the performance of all its investments by holding regular reviews with the intermediaries and, if appropriate, by having representation or observer rights on the investee board or its investment committee; and
- not meeting matching targets for co-investment, resulting in less capital reaching the social sector. In recognition of the challenges faced with bringing in co-investment at this early stage, Big Society Capital is able to provide seed investments to help intermediaries build a strong track record and increase their chances of raising future matching finance.

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 2016, charities and social enterprises enjoyed 178 (2015: 52) hours of free meeting room space at Big Society Capital's offices.
- At the end of 2016 Big Society Capital had 4 (2015: 4) social enterprises in its supply chain.
- During 2016, 36 (2015: 28) charitable organisations were supported by the company's staff acting as Trustees, or in other governance roles, outside of their work commitments and on a voluntary basis.
- During 2016 the treasury portfolio moved to a new investment manager, operating in accordance with a socially responsible investment process, moving our criteria from negative screening to a more positive social and ethical approach.

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

The Financial Statements on pages 12 to 40 show the profit and loss for the period.

The financial result for the company has improved over the prior year (2016 loss of £5.3m : 2015 loss of £6.8m) in line with expectations. Increased revenue has been achieved from growth in the social investment portfolio and from increased treasury returns (2016 total revenue of £0.9m : 2015 net loss of £1.1m). Administrative costs have risen in line with expectations, reflecting growth in the business and commitment to supporting market championing activities (2016 administrative costs of £5.8m : 2015 £5.3m).

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. In 2016, the treasury portfolio moved to a new investment manager and the mandate changed to permit only issuers successfully screened in accordance with a socially responsible investment process, while aiming for capital preservation in line with normal treasury management. The treasury portfolio includes an allocation to social investment.

The majority of losses on the social investment portfolio reflect the current stage of Big Society Capital's social investments. A significant proportion of the investments is into funds that invest into charities, social enterprises and social property. Big Society Capital's use of fair value measurement in accounting for fund investments results, during this early stage, in the recognition of set-up costs, management fees and other expenses, whilst there is not yet sufficient corresponding income against which to offset these. Additionally, the early stage venture capital investments are expected to provide a positive return on a portfolio basis over time.

It is expected that these losses will continue in the near term. The long-term aim is to be self-sufficient. In the developing stage of the business the company will be loss-making while it builds the market and makes early stage investments. In later

years, as the portfolio matures, the investments are forecast to make returns to cover the operational and market championing costs and generate a financial return.

Championing Activities:

Big Society Capital continues to build awareness and understanding of social investment.

During 2016, Big Society Capital worked on a number of key initiatives:

- Collaborated with the Access Foundation and social sector partners on the development of Good Finance, a website to provide charities and social enterprises with information and resources on social investment to support improved navigation for users in this market.
- The Access Foundation made its first investments during the period. Finance was provided to support health and social care charities and social enterprises in the South West and to assist new and early stage social enterprises in the North of England and the Midlands.
- Continued to engage via events and media activities with charities and social enterprises and network bodies, including the set up of informal regional networks ("Lets Talk Good Finance").
- Continued engagement with investors through media and events including Worthstone's Social Investment Academy, Good Money Week, Toniic, Local Government Chronicle.
- Continued engagement with 'Impact First' social investors through our involvement and support of the Social Impact Investors Group (SIIG) of trusts and foundations.
- Launched the "Get Informed" campaign which aims to provide information and support for trustees and non executive directors of charity and social enterprise boards, on both taking on and making social investments.
- Launched revised social impact plan following consultation with the Board and external stakeholders.
- Produced the first comprehensive market sizing of the UK social investment market.
- Supported better impact measurement for frontline organisations through training events, online content on Good Finance, supporting Access to develop the Impact Management Programme and Chairing the Impact Readiness Fund for DCMS.
- Provided impact measurement help to fund managers through one-to-one advice, a dedicated peer forum and consultancy support.
- Celebrated the 2nd anniversary of Social Investment Tax Relief by showcasing the SITR Trailblazers and the first 30 deals in a report produced by NPC.
- Continued developing solutions to some of the perceived barriers to the development of social pension products.
- Developed a more rigorous approach to supporting the intermediary network to develop their capacity.

STRATEGIC REPORT

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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 2016.

Money available to charities and social enterprises

- Since launching, Big Society Capital has signed 63 (2015: 48) investments.
- The cumulative amount of investments signed by Big Society Capital and its co-investors is £893m (2015: £587m).
- Of this, £340m (2015: £261m) is Big Society Capital's money and £553m (2015: £326m) is from its co-investors. When an investment is signed, the money is then available for intermediaries to invest into charities and social enterprises.

The major categories of co-investors include:

- UK charities and foundations - 14% (2015: 19%)
- UK Government agencies - 11% (2015: 18%)
- UK funds - 1% (2015: 2%)
- UK banks - 4% (2015: 6%)
- Local authority pension funds - 2% (2015: 3%)
- Other (Institutional/ Partner Clients) - 40% (2015: 25%)
- International - 10% (2015: 16%)
- Social bank depositors - 18% (2015: 11%)

Money reaching charities and social enterprises

- The amount of money reaching the frontline has more than doubled in the year, and with the match funding attracted in from co-investors, it has increased by 140%.
- The cumulative amount drawn down from Big Society Capital and its co-investors is £467m¹ (2015: £195m). Big Society Capital's expectation is that the average investment will typically take between three and six years to draw down fully.
- Of this £142m¹ (2015: £68m) has come from Big Society Capital's own funds and £325m (2015: £127m) from its co-investors.
- The drawdown has been utilised as follows (based on Big Society Capital's drawdown):

Product type:

- 50% (2015: 41%) is capital for charities and social enterprises through funds and social banks.
- 39% (2015: 39%) is into property, mainly to help charitable service delivery.
- 4% (2015: 8%) is helping charities deliver services using Social Impact Bonds.
- 4% (2015: 7%) is management fees paid to intermediaries.
- 3% (2015: 5%) is capital for arrangers (investments into social investment advisers).

Organisational form:

- 74% (2015: 77%) asset locked charities and social enterprises.
- 14% (2015: 8%) non-asset locked social enterprises.

- 5% (2015: 3%) other (e.g. Local Authorities as part of mixed funds)
- 4% (2015: 7%) is management fees paid to intermediaries.
- 3% (2015: 5%) is capital for arrangers (investments into social investment advisers).

Money available for us to invest

Big Society Capital has received £501m (2015: £357m) of capital from the Reclaim Fund and the shareholder banks to date, with additional Reclaim Fund capital anticipated in line with the original £600m capitalisation commitment.

This is the amount of capital that the company has received from its shareholders, and therefore the total amount available to the company to use to run its operations and invest. Of this £501m, £340m has been signed, of which £142m has been drawdown.¹

Return on assets

As required by IFPRU, the FCA Prudential Sourcebook for Investment Firms, the company's return on assets is a loss of 1.1% (2015: a loss of 2.0%).

This report was approved by the board on 13 April 2017 and signed on its behalf.



Cliff Prior
Director and Chief Executive

¹The drawdown number used in the Company's KPIs represents gross drawdowns to date of £152.5m, less significant cash held at intermediaries. The value of investments on the balance sheet is £132.7m, which represents gross drawdowns and draw down notices received, adjusted for loan repayments, redemptions and valuation adjustments (see note 9 – Fixed asset investments, for current year).

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2016.

Directors

The following persons served as directors during the year:

Sir Harvey McGrath (Chair)

Kieron Boyle
(appointed to the Board
14 June 2016)

David Carrington

Sir Ronald Cohen

Fiona Ellis

Dai Powell OBE

Cliff Prior
(appointed to the Board
7 March 2016)

Lady Susan Rice CBE

Sarah Smart

Keith Smithson

Anne Wade

Danielle Walker Palmour

Dividends

The directors do not recommend the payment of a dividend for the year (2015: £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 - 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*.

DIRECTORS REPORT

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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 followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 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 13 April 2017 and signed on its behalf.



Cliff Prior
Director and Chief Executive

INDEPENDENT AUDITOR'S REPORT

To the members of Big Society Capital Limited

We have audited the financial statements of Big Society Capital Limited for the year ended 31 December 2016 set out on pages 12 to 40. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 9 and 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with

applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on the financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- 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

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

Jonathan Martin
Senior Statutory Auditor



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

15 Canada Square
London E14 5GL

13 April 2017

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

| | Notes | 2016 £ 000 | 2015 £ 000 |
|--|-------|----------------|----------------|
| Income | | 3,683 | 2,460 |
| Investment losses | 2 | (2,832) | (3,556) |
| Total Revenue | 3 | 851 | (1,096) |
| Other income | 4 | 122 | 76 |
| Administrative and other expenses | 5 | (6,248) | (5,694) |
| Operating loss | | (5,275) | (6,714) |
| Loss on sale of tangible fixed assets | | - | (35) |
| Loss on ordinary activities before taxation | | (5,275) | (6,749) |
| Tax credit / (charge) on loss on ordinary activities | 7 | 4 | (31) |
| Loss for the financial year | | (5,271) | (6,780) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (5,271) | (6,780) |

The results above relate to continuing operations.

The notes on pages 16 - 40 form part of these Financial Statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

| | Notes | 2016 £ 000 | 2015 £ 000 |
|---|-------|----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 8 | 276 | 312 |
| Investments | 9 | 132,318 | 78,415 |
| | | 132,594 | 78,727 |
| Current assets | | | |
| Debtors | 10 | 320 | 779 |
| Investments | 11 | 339,823 | 204,214 |
| Cash at bank and in hand | | 15,842 | 62,869 |
| | | 355,985 | 267,862 |
| Creditors: amounts falling due within one year | 12 | (4,906) | (2,489) |
| Net current assets | | 351,079 | 265,373 |
| Total assets less current liabilities | | 483,673 | 344,100 |
| Provisions for liabilities | | | |
| Deferred taxation | 13 | (30) | (34) |
| Net assets | | 483,643 | 344,066 |
| Capital and reserves | | | |
| Called up share capital | 16 | 501,395 | 356,547 |
| Profit and loss account | 17 | (17,752) | (12,481) |
| Total equity | | 483,643 | 344,066 |

The notes on pages 16 - 40 form part of these Financial Statements.

Approved by the board on 13 April 2017 and signed on its behalf



Cliff Prior
Director and Chief Executive

Company registration number: 07599565

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

| | Share capital £ 000 | Share premium £ 000 | Other reserves £ 000 | Profit and loss account £ 000 | Total £ 000 |
|-----------------------------|------------------------|------------------------|-------------------------|----------------------------------|----------------|
| At 1 January 2015 | 305,461 | - | - | (5,701) | 299,760 |
| Loss for the financial year | - | - | - | (6,780) | (6,780) |
| Shares issued | 51,086 | - | - | - | 51,086 |
| At 31 December 2015 | 356,547 | - | - | (12,481) | 344,066 |
| At 1 January 2016 | 356,547 | - | - | (12,481) | 344,066 |
| Loss for the financial year | - | - | - | (5,271) | (5,271) |
| Shares issued | 144,848 | - | - | - | 144,848 |
| At 31 December 2016 | 501,395 | - | - | (17,752) | 483,643 |

The notes on pages 16 - 40 form part of these Financial Statements.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

| | Notes | 2016 £ 000 | 2015 £ 000 |
|---|-------|------------------|----------------|
| Operating activities | | | |
| Operating loss | | (5,275) | (6,714) |
| Adjustments for: | | | |
| Depreciation | | 72 | 137 |
| | | (5,203) | (6,577) |
| Decrease in debtors | | 459 | 154 |
| Increase in creditors | | 45 | 666 |
| | | (4,699) | (5,757) |
| Foreign exchange losses | | 33 | - |
| Loss on fixed asset investments | | 5,441 | 4,123 |
| Returns on fixed asset investments | | 156 | 69 |
| Realised loss on fixed asset investments | | 249 | 200 |
| Gain on current asset investments | | (1,045) | (357) |
| Returns on current asset investments | | (2,355) | (1,111) |
| Cash used in operating activities | | (2,220) | (2,833) |
| Investing activities | | | |
| Payments to acquire tangible fixed assets | | (36) | (407) |
| Payments to acquire fixed asset investments | | (63,116) | (50,737) |
| Payments to acquire current asset investments | | (551,225) | (76,110) |
| Repayment of loans | | 4,443 | 1,535 |
| Proceeds from sale of fixed asset investments | | 330 | 1 |
| Proceeds from sale of current asset investments | | 386,326 | 150,569 |
| Cash (used in)/generated by investing activities | | (223,278) | 24,851 |
| Financing activities | | | |
| Proceeds from the issue of shares | | 144,848 | 51,086 |
| Cash generated by financing activities | | 144,848 | 51,086 |
| Net cash generated/(used) | | | |
| Cash used in operating activities | | (2,220) | (2,833) |
| Cash (used in)/generated by investing activities | | (223,278) | 24,851 |
| Cash generated by financing activities | | 144,848 | 51,086 |
| Net cash (used)/generated | | (80,650) | 73,104 |
| Cash and cash equivalents at 1 January | 18 | 129,486 | 56,382 |
| Cash and cash equivalents at 31 December | | 48,836 | 129,486 |
| Cash and cash equivalents comprise: | | | |
| Cash at bank | | 15,842 | 62,869 |
| Current asset investments (maturity or period of notice less than 3 months) | 18 | 32,994 | 66,617 |
| | | 48,836 | 129,486 |

The notes on pages 16 - 40 form part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2016

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 losses since inception of £17.8m, including a loss for the period of £5.3m. The company had cash and current asset investments of £355.7m as at the year end, having been capitalised with £501.4m 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.

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 balance sheet 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 profit and loss account.

Associates held as part of an investment portfolio

The company has investments which may be regarded as associated undertakings, which would 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 balance sheet and credited to the profit and loss account 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.

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 balance sheet, 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 20 - 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 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 14 - Financial risk management and financial instruments - provides

a reconciliation of line items in the balance sheet to the categories of financial instruments.

iii) Fair value measurement

As described in Note 15 - 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.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

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.

v) 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 statement of comprehensive income as incurred. After initial recognition derivatives are measured at fair value and changes recognised in the statement of comprehensive income, 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 balance sheet 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.

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 |

Deferred taxation

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. Reductions in the UK corporation tax rate from 20% to 19% as of 1 April 2017 were substantively enacted on 18 November 2016.

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)

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Social investment portfolio | | |
| Net gains/ (losses) from financial assets designated as at fair value through profit or loss: | | |
| Fixed Asset Investments - Realised | 1,384 | (200) |
| Fixed Asset Investments - Unrealised | (5,313) | (3,975) |
| Net gains/ (losses) from financial assets carried at amortised cost: | | |
| Unrealised | (284) | - |
| Total Social investment losses | (4,213) | (4,175) |
| Treasury portfolio | | |
| Net gains from financial assets designated as at fair value through profit or loss: | | |
| Current Asset Investments - Realised | 369 | - |
| Current Asset Investments - Unrealised | 1,045 | 619 |
| Total Net Gains from Financial Assets | 1,414 | 619 |
| Net losses on currency forward derivatives - Realised | (4,837) | - |
| Net losses on currency forward derivatives - Unrealised | (966) | - |
| Net losses on currency forward derivatives | (5,803) | - |
| Net foreign exchange gains from financial assets designated as amortised cost - Unrealised | 5,770 | - |
| Net foreign exchange losses | (33) | - |
| Total Treasury gains | 1,381 | 619 |
| Total Social investment and Treasury losses | (2,832) | (3,556) |

During 2016 the company made investments in foreign currency denominated assets. As outlined in Note 14 - Financial risk management and financial instruments, the foreign exchange risk is managed with currency forward derivative contracts. The gains/ losses on the revaluation of foreign denominated assets match the corresponding gains/ losses on the currency forward derivatives. During 2016 the unrealised gain on foreign currency denominated debt securities was £5.8m. This is mainly attributable to the appreciation in the year end USD exchange rate compared to the average purchase exchange rate. There has been a corresponding loss on the currency forward derivatives, resulting in a net foreign exchange loss of £33,000.

3 TOTAL REVENUE

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Social investment portfolio | | |
| Fixed asset investments: | | |
| Interest income on financial assets designated as amortised cost | 343 | 272 |
| Interest income on financial assets designated as at fair value through profit or loss | 724 | 194 |
| Dividend income from financial assets designated as at fair value through profit or loss | - | 326 |
| Fees received | 149 | 30 |
| Fees paid directly to intermediaries | - | (101) |
| Income | 1,216 | 721 |
| Net losses from financial assets designated as at fair value through profit or loss: | | |
| - Management fees and expenses paid to intermediaries | (3,343) | (2,694) |
| - Valuation changes and income relating to underlying investments | (586) | (1,481) |
| Net losses from financial assets designated as amortised cost | | |
| - Valuation changes and income relating to underlying investments | (284) | - |
| Investment losses | (4,213) | (4,175) |
| | (2,997) | (3,454) |
| Treasury portfolio | | |
| Interest income on financial assets designated as amortised cost | 2,467 | 1,739 |
| Income | 2,467 | 1,739 |
| Net gains/ (losses) from financial assets designated as at fair value through profit or loss: | | |
| Current asset investments | 1,414 | 619 |
| Net losses on currency forward derivatives | (5,803) | - |
| Net foreign exchange gains from financial assets designated as amortised cost | 5,770 | - |
| Investment gains | 1,381 | 619 |
| | 3,848 | 2,358 |
| Income | | |
| Social investment portfolio | 1,216 | 721 |
| Treasury portfolio | 2,467 | 1,739 |
| | (3,683) | (2,460) |

Investment gains/ (losses)

| | | |
|-----------------------------|----------------|----------------|
| Social investment portfolio | (4,213) | (4,175) |
| Treasury portfolio | 1,381 | 619 |
| | (2,832) | (3,556) |
| Total revenue | 851 | (1,096) |

As described in the Strategic Report on pages 5 to 8, losses on the social investment portfolio reflect the current stage of the company's social investments. As described in Note 15 - 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.

As described in the Strategic Report on pages 5 to 8, the treasury portfolio moved to a new investment manager during 2016. In addition to the move to a socially responsible investment process, the new investment manager is required to hold investments to maturity. As a result debt securities within the new portfolio have been designated as amortised cost. Under the previous strategy debt securities were designated as at fair value through profit or loss.

4 OTHER INCOME

| | 2016 £ 000 | 2015 £ 000 |
|----------------------------|---------------|---------------|
| Government grants received | 52 | 35 |
| Other income | 70 | 41 |
| | 122 | 76 |

During 2016 two project related grants were received from the Cabinet Office. £18,000 has been recognised in respect of research into mission-led businesses, and £34,000 has been recognised in respect of the Good Finance digital platform development.

5 ADMINISTRATIVE AND OTHER EXPENSES

| | 2016 £ 000 | 2015 £ 000 |
|---|---------------|---------------|
| Wages and salaries | 2,459 | 2,222 |
| Non-executive directors' fees | 52 | 46 |
| Social security costs | 305 | 263 |
| Pension costs | 192 | 170 |
| Staff related costs, including recruitment, training and travel | 421 | 458 |
| Premises | 645 | 683 |
| General and administrative expenses | 483 | 370 |
| Consultancy | 219 | 169 |
| Marketing, including events, sponsorship and website development | 281 | 188 |
| Research | 100 | 59 |
| Amounts receivable by the company's auditor (see below) | 126 | 119 |
| Other professional costs | 228 | 233 |
| Depreciation of owned fixed assets | 72 | 137 |
| Investment related expenses, including legal fees | 169 | 225 |
| Total administrative expenses | 5,752 | 5,341 |
| Treasury management fees | 496 | 352 |
| Total other expenses | 496 | 352 |
| Total administrative and other expenses | 6,248 | 5,693 |
| Amounts receivable by the company's auditor and its associates in respect of: | | |
| Auditors' remuneration for audit services | 69 | 69 |
| Taxation compliance services | 57 | 38 |
| Other services | - | 12 |
| | 126 | 119 |

AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

| | 2016 Number | 2015 Number |
|------------------------------------|----------------|----------------|
| Investment | 13 | 12 |
| Senior Management | 4 | 4 |
| Strategy | 5 | 4 |
| Communications | 4 | 4 |
| Operations | 8 | 9 |
| Social & Finance Sector Engagement | 4 | 4 |
| On Purpose Interns | 3 | 2 |
| | 41 | 39 |

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

| | 2016 £ 000 | 2015 £ 000 |
|---|---------------|---------------|
| Emoluments | 169 | 195 |
| Company contributions to money purchase pension schemes | 12 | 16 |
| | 181 | 211 |
| Highest paid director: | | |
| Emoluments | 117 | 150 |
| Company contributions to money purchase pension schemes | 12 | 16 |
| | 129 | 166 |

NUMBER OF DIRECTORS TO WHOM RETIREMENT BENEFITS ACCRUED:

| | 2016 Number | 2015 Number |
|--------------------------------|----------------|----------------|
| Money purchase pension schemes | 1 | 1 |

KEY MANAGEMENT PERSONNEL EMOLUMENTS*

| | 2016 £000 | 2015 £000 |
|---|--------------|--------------|
| Emoluments | 604 | 704 |
| Company contributions to money purchase pension schemes | 50 | 64 |
| | 654 | 768 |

*Key management personnel includes one executive director

7 TAXATION

| | 2016 £ 000 | 2015 £ 000 |
|--|----------------|----------------|
| Analysis of charge in period | | |
| Deferred tax: | | |
| Origination and reversal of timing differences | (4) | 31 |
| Tax (credit) / charge on loss on ordinary activities | (4) | 31 |
| Factors affecting tax charge for period | | |
| The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows: | | |
| | 2016 £ 000 | 2015 £ 000 |
| Loss on ordinary activities before tax | (5,275) | (6,749) |
| Standard rate of corporation tax in the UK | 20% | 20% |
| | £ 000 | £ 000 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax | (1,055) | (1,350) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 687 | 728 |
| Capital allowances for period in excess of depreciation | 4 | (15) |
| Tax loss not recognised as deferred tax asset | 364 | 637 |
| Deferred tax - origination and reversal of timing differences | (4) | 31 |
| Current tax (credit) / charge for period | (4) | 31 |

8 TANGIBLE FIXED ASSETS

| | Land and buildings £ 000 | Fixtures, fittings and equipment £ 000 | Total £ 000 |
|------------------------|--------------------------------|---|----------------|
| Cost | | | |
| At 1 January 2016 | 319 | 194 | 513 |
| Additions | 10 | 26 | 36 |
| At 31 December 2016 | 329 | 220 | 549 |
| Depreciation | | | |
| At 1 January 2016 | 82 | 119 | 201 |
| Charge for the year | 33 | 39 | 72 |
| At 31 December 2016 | 115 | 158 | 273 |
| Carrying amount | | | |
| At 31 December 2016 | 214 | 62 | 276 |
| At 31 December 2015 | 237 | 75 | 312 |

9 FIXED ASSET INVESTMENTS

| | £ 000 |
|------------------------------------|----------------|
| Social investment portfolio | |
| At 1 January 2016 | 78,415 |
| Additions | 64,532 |
| Repayment of loans | (4,443) |
| Redemptions | (579) |
| Profit and loss - Unrealised* | (5,607) |
| At 31 December 2016 | 132,318 |

*Profit and loss - Unrealised is predominantly management fees and expenses paid to intermediaries or fair value reductions on social investments, as detailed in Note 3 - Total Revenue

FIXED ASSET INVESTMENTS

CONTINUED

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

| Investments | Country of Incorporation / Principal place of business ¹ | Shares held Class | % As at 31 December 2016 | Aggregate Capital and reserves of the entity ² £ 000 | Aggregate Profit (loss) of the entity ² £ 000 |
|--|---|----------------------|--------------------------|---|--|
| Social Stock Exchange Limited | UK | Ordinary | 34.70 | 188 | (712) |
| Think Forward Social Impact (1) Limited | UK | Ordinary | 50.00 | 1,047 | 592 |
| 3SC Capitalise Limited | UK | Ordinary | 82.14 | 467 | 45 |
| Triodos New Horizons Limited | UK | Ordinary | 30.00 | 3 | 280 |
| Children's Support Services Limited | UK | Ordinary | 26.60 | 924 | 1,526 |
| Energise Innovation Limited | UK | Ordinary | 35.37 | 171 | 56 |
| The Charity Bank Limited | UK | Ordinary | 54.27 | 15,939 | (1,325) |
| It's All About Me Scheme LLP | UK | Partnership Interest | 25.00 | 345 | (19) |
| 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 | 41.72 | Holding less than 50%, no public filing required | |
| North East Social Investment Fund Limited Partnership | 5th Floor, Maybrook House, 27-35 Grainger Street, Newcastle Upon Tyne, Tyne And Wear, NE1 5JE | 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 | 37.86 | Holding less than 50%, no public filing required | |
| Real Lettings Property Fund Limited Partnership | 42 St Thomas Road, Launceston, Cornwall, PL15 8BX | Partnership Interest | 25.07 | Holding less than 50%, no public filing required | |
| The Community Investment Fund L.P. | 4th Floor, Reading Bridge House, George Street, Reading RG1 8LS | Partnership Interest | 40.00 | Holding less than 50%, no public filing required | |
| The Third Sector Loan Fund LLP | UK | Partnership Interest | 38.47 | 1,397 | (342) |
| Shared Lives Investments LP | 131-151 Great Titchfield Street, London W1W 5BB | Partnership Interest | 37.93 | Holding less than 50%, no public filing required | |
| Social Growth Fund LLP | UK | Partnership Interest | 50.00 | 4,053 | (220) |
| Bridges Social Interim LP | 38 Seymour Street, London, W1H 7BP | Partnership Interest | 99.98 | 388 | (34) |
| Social Finance Care and Wellbeing Investments LLP | UK | Partnership Interest | 50.00 | 936 | (557) |
| Funding Affordable Homes. SICAV SIF S.A | Luxembourg | Registered Shares | 34.10 | Holding less than 50%, no public filing required | |
| Big Issue Invest Social Enterprise Investment Fund II L.P. | 13-115 Fonthill Road, Finsbury Park, N4 3HH | Partnership Interest | 71.30 | 4,552 | (27) |
| National Homelessness Property Fund Limited Partnership | 42 St Thomas Road, Launceston, Cornwall, PL15 8BX | Partnership Interest | 47.48 | 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 | N/A ³ | N/A ³ |

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

¹ for unincorporated undertakings, the address of its principal place of business is stated.

² 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.

³ Aggregate capital and reserves and profit or loss not available, as first financial year end falls after 31 December 2016.

10
DEBTORS

| | 2016 £ 000 | 2015 £ 000 |
|--------------------------------------|---------------|---------------|
| Other debtors | 58 | 45 |
| Prepayments | 255 | 322 |
| Accrued income on treasury portfolio | 7 | 412 |
| | 320 | 779 |

11
INVESTMENTS HELD
AS CURRENT ASSETS

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Treasury portfolio - Cash deposits | 53,461 | 123,773 |
| Treasury portfolio - Listed debt securities | 275,171 | 69,937 |
| Treasury portfolio - Unlisted debt securities | 11,191 | 10,504 |
| | 339,823 | 204,214 |

Investments held as current assets can be realised within 1 year, but not within 24 hours. Unlisted debt securities are held in an open-ended investment company with daily quoted prices, and are held as part of the social investment allocation within the treasury portfolio, as described in the Strategic Report on pages 5 to 8.

Listed debt securities include items with a fair value of £1.4m (2015: £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.

12
CREDITORS: AMOUNTS FALLING
DUE WITHIN ONE YEAR

| | 2016 £ 000 | 2015 £ 000 |
|--|---------------|---------------|
| Trade creditors | 128 | 127 |
| Other taxes and social security costs | 81 | 83 |
| Other creditors | 3,101 | 1,768 |
| Accruals | 618 | 507 |
| Deferred income | 12 | 4 |
| Treasury portfolio - Derivative financial instrument | 966 | - |
| | 4,906 | 2,489 |

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

13 DEFERRED TAXATION

| | 2016 £ 000 | 2015 £ 000 |
|---|-----------------------|-----------------------|
| Accelerated capital allowances | 30 | 34 |
| Adjustment in respect of prior period | 382 | (34) |
| Impact of change in tax rates | (64) | - |
| Tax losses carried forward | (2,192) | (1,271) |
| Tax losses not recognised as a deferred tax asset | 1,874 | 1,305 |
| Provision for deferred tax | 30 | 34 |
| | 2016 £ 000 | 2015 £ 000 |
| Provision for liabilities | | |
| At 1 January | 34 | 3 |
| Credited to the profit and loss account | (4) | 31 |
| At 31 December | 30 | 34 |

14 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 8, 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 deposits and listed and unlisted debt securities, and represents capital held before it is drawn down into social investment. The treasury portfolio operates using a socially responsible investment process.

Up to £20m of the treasury portfolio can be invested into social bond investments. As at 31 December 2016, the company held £11.2m (2015: £10.5m) in social bond investments. The treasury portfolio is managed in accordance with the company's treasury policy, as approved by the Board.

CATEGORIES OF FINANCIAL INSTRUMENTS

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

| 2016 | Financial assets measured at fair value through profit or loss £ 000 | Financial assets measured at amortised cost £ 000 | Non financial instruments £ 000 | Total £ 000 |
|--|---|--|------------------------------------|----------------|
| Assets | | | | |
| Tangible fixed assets | - | - | 276 | 276 |
| Fixed asset investments | 125,014 | 7,304 | - | 132,318 |
| Debtors | - | 65 | 255 | 320 |
| Investments held as current assets | 32,067 | 307,756 | - | 339,823 |
| Cash at bank and in hand | - | 15,842 | - | 15,842 |
| Liabilities | | | | |
| Creditors: amounts falling due within one year | (966) | (3,940) | - | (4,906) |
| Deferred taxation | - | - | (30) | (30) |
| | 156,115 | 327,027 | 501 | 483,643 |

As described in Note 3, the treasury portfolio moved to a new investment manager during 2016. In addition to the move to a socially responsible investment process, the new investment manager is required to hold investments to maturity. Within the new portfolio, debt securities have been designated as amortised cost, whereas within the previous portfolio they were designated as at fair value through profit or loss.

| 2015 | Financial assets measured at fair value through profit or loss £ 000 | Financial assets measured at amortised cost £ 000 | Non financial instruments £ 000 | Total £ 000 |
|--|---|--|------------------------------------|----------------|
| Assets | | | | |
| Tangible fixed assets | - | - | 312 | 312 |
| Fixed asset investments | 72,476 | 5,939 | - | 78,415 |
| Debtors | - | 457 | 322 | 779 |
| Investments held as current assets | 80,441 | 123,773 | - | 204,214 |
| Cash at bank and in hand | - | 62,869 | - | 62,869 |
| Liabilities | | | | |
| Creditors: amounts falling due within one year | - | (2,489) | - | (2,489) |
| Deferred taxation | - | - | (34) | (34) |
| | 152,917 | 190,549 | 600 | 344,066 |

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.

**FINANCIAL RISK MANAGEMENT AND
FINANCIAL INSTRUMENTS** CONTINUED

**CATEGORIES OF FINANCIAL
INSTRUMENTS CONTINUED**

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

| 2016 | 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 | 724 | - | 2,810 | - | 3,534 |
| Fee and dividend income | 149 | - | - | - | 149 |
| Investment gains / (losses) | (2,515) | (5,803) | 5,486 | - | (2,832) |
| Other income | - | - | - | 122 | 122 |
| Administrative & other expenses | (136) | - | (477) | (5,635) | (6,248) |
| Tax on loss on ordinary expenses | - | - | - | 4 | 4 |
| | (1,778) | (5,803) | 7,819 | (5,509) | (5,271) |

| 2015 | 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 | 540 | - | 1,665 | - | 2,205 |
| Fee and dividend income | 246 | - | 9 | - | 255 |
| Investment gains / (losses) | (3,556) | - | - | - | (3,556) |
| Other income | - | - | - | 76 | 76 |
| Administrative & other expenses | (415) | - | (130) | (5,149) | (5,694) |
| Loss on sale of fixed assets | - | - | - | (35) | (35) |
| Tax on loss on ordinary expenses | - | - | - | (31) | (31) |
| | (3,185) | - | 1,544 | (5,139) | (6,780) |

**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 balance sheet date is represented by the respective carrying amounts of the relevant financial assets in the balance sheet, 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.

**FINANCIAL RISK MANAGEMENT AND
FINANCIAL INSTRUMENTS** CONTINUED

CREDIT RISK EXPOSURE

Credit risk exposure as at the balance sheet date comprises:

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Fixed asset investments | 132,318 | 78,415 |
| Other debtors | 58 | 28 |
| Accrued income | 7 | 412 |
| Rental deposit | - | 17 |
| Unlisted debt securities | 11,191 | 10,504 |
| Cash deposits - Investments held as current assets | 53,461 | 123,773 |
| Listed debt securities* | 277,003 | 69,937 |
| Cash deposits - Cash at bank and in hand | 15,842 | 62,869 |
| Maximum exposure to credit risk as at the balance sheet date | 489,880 | 345,955 |

*** Included within listed debt securities:**

| | Credit risk exposure £ 000 | credit risk exposure £ 000 |
|--|----------------------------------|----------------------------------|
| Listed debt securities designated as at amortised cost | 277,003 | 275,171 |
| | 277,003 | 275,171 |

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 | 2016 £ 000 | 2015 £ 000 |
|--|-----------|----------------|----------------|
| Unlisted debt securities | Not rated | 11,191 | 10,504 |
| Listed debt securities | AAA | 44,967 | 13,127 |
| Listed debt securities | AA | 38,453 | 13,420 |
| Listed debt securities | A | 123,875 | 21,460 |
| Listed debt securities | BBB | 49,116 | 21,930 |
| Listed debt securities | Not rated | 18,760 | - |
| Cash deposits - Investments held as current assets | A-1 | 45,470 | 123,773 |
| Cash deposits - Investments held as current assets | A-2 | 1,996 | - |
| Cash deposits - Investments held as current assets | Not rated | 5,995 | - |
| Cash deposits - Cash at bank and in hand | A-1 | 15,842 | 62,869 |
| | | 355,665 | 267,083 |

**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 20 - 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:

| 2016 | Carrying amount £ 000 | Contractual cash flows £ 000 | 6 months or less £ 000 |
|--|-----------------------------|------------------------------------|------------------------------|
| Creditors: amounts falling due within one year | 3,926 | 3,926 | 3,926 |
| | 3,926 | 3,926 | 3,926 |

| 2015 | Carrying amount £ 000 | Contractual cash flows £ 000 | 6 months or less £ 000 |
|--|-----------------------------|------------------------------------|------------------------------|
| Creditors: amounts falling due within one year | 2,419 | 2,419 | 2,419 |
| | 2,419 | 2,419 | 2,419 |

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 £355.7 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 £2.9 million.

**FINANCIAL RISK MANAGEMENT AND
FINANCIAL INSTRUMENTS** CONTINUED

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 and so has foreign currency risk exposure on those assets. The company is mitigating that risk 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 matches the investment.

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.

15

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.

The company invests to achieve a financial return, a measurable social impact and to further market development and success across these factors will influence valuation.

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

| | 2016 £ 000 | 2015 £ 000 |
|--|----------------|----------------|
| Financial assets/(liabilities) held at fair value: | | |
| Level 1 | | |
| Investments held as current assets | - | 69,937 |
| Level 2 | | |
| Investments held as current assets | 32,067 | 10,504 |
| Derivative financial instruments | (966) | - |
| Level 3 | | |
| Fixed assets - investments | 125,014 | 72,476 |
| | 156,115 | 152,917 |

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 |
|------------------------------------|--|
| Balance at 1 January 2016 | 72,476 |
| Purchases | 62,472 |
| Sales | (4,643) |
| Total investment returns | (5,291) |
| Balance at 31 December 2016 | 125,014 |

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

16 SHARE CAPITAL

| | Nominal value | 2016 Number | 2016 £ 000 | 2015 £ 000 |
|-------------------------------------|------------------|----------------|----------------|----------------|
| Allotted, called up and fully paid: | | | | |
| Ordinary A shares | £1 each | 301,395 | 301,395 | 214,142 |
| Ordinary B shares | £1 each | 200,000 | 200,000 | 142,405 |
| | | | 501,395 | 356,547 |

| | Nominal value | Number | Amount £ 000 |
|----------------------------------|------------------|--------|-----------------|
| Shares issued during the period: | | | |
| Ordinary A shares | £1 each | 87,253 | 87,253 |
| Ordinary B shares | £1 each | 57,595 | 57,595 |
| | | | 144,848 |

17 PROFIT AND LOSS ACCOUNT

| | 2016 £ 000 | 2015 £ 000 |
|-----------------------------|-----------------|-----------------|
| At 1 January | (12,481) | (5,701) |
| Loss for the financial year | (5,271) | (6,780) |
| At 31 December | (17,752) | (12,481) |

18 CASH AND CASH EQUIVALENTS

| Cash and cash equivalents comprise: | 2016 £ 000 | 2015 £ 000 |
|---|---------------|----------------|
| Cash at bank | 15,842 | 62,869 |
| Current asset investments (Maturity less than 3 months from the date of acquisition) | 32,994 | 66,617 |
| Cash and cash equivalents per cash flow statement | 48,836 | 129,486 |

As described in Note 11 - 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:

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Cash deposits (Maturity less than 3 months from the date of acquisition) | 32,994 | 66,617 |
| Cash deposits (Maturity greater than 3 months from the date of acquisition) | 20,467 | 57,156 |
| Listed debt securities | 275,171 | 69,937 |
| Unlisted debt securities | 11,191 | 10,504 |
| Investments held as current assets per balance sheet | 339,823 | 204,214 |

19 EVENTS AFTER THE REPORTING DATE

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

20 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, or a draw down notice has been received to this effect. The amounts drawn down are recognised as financial assets in the balance sheet, 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 balance sheet, 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 balance sheet, but are disclosed below.

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

| | 2016 £ 000 | 2015 £ 000 |
|---|----------------|----------------|
| Commitments contracted, undrawn fully or partially and not provided in the Financial Statements | 183,266 | 173,076 |

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

| | 2016 £ 000 | 2015 £ 000 |
|---|---------------|---------------|
| In principle commitments (approved by the Investment Committee, subject to legal documentation) | 19,831 | 13,924 |

21 OTHER FINANCIAL COMMITMENTS

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

| | Land and buildings 2016 £ 000 | Land and buildings 2015 £ 000 |
|--------------------------|--|--|
| Falling due: | | |
| within one year | 358 | 358 |
| within two to five years | 792 | 1,151 |
| | 1,150 | 1,509 |

22 RELATED PARTY TRANSACTIONS

During the period The Big Society Trust, being the parent company, purchased £87.3m (31 December 2015: £30.7m) of £1 Ordinary A shares in Big Society Capital Limited, as detailed in Note 16 - Share capital.

During the period Access: The Foundation for Social Investment, being a member of The Big Society Trust group, paid £70,000 (31 December 2015: £36,000) to Big Society Capital, in respect of a license fee for the use of its offices. As at 31 December 2016 there was an outstanding balance of £6,000 (31 December 2015: £12,000). 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.

23 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.

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PRESENTATION CURRENCY

The financial statements are presented in Sterling.

25

LEGAL FORM OF ENTITY AND COUNTRY OF INCORPORATION

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

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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



www.bigsocietycapital.com/annualreport

REGISTERED NUMBER 07599565