SOCIAL INVESTMENT
FROM AMBITION TO ACTION

annual review 2013

BIG SOCIETY CAPITAL

Contents

CHAIR'S FOREWORD

I'm very pleased to welcome you to Big Society Capital's 2013 Annual Report, my first as Chair, and to report real progress in our mission to develop the social investment market in the UK. As a businessman, investor and philanthropist, I've long held a close interest in exploring more effective ways to tackle persistent social issues. I also have a strong conviction that evidencing social outcomes is key to unlocking funding for effective interventions.

Harvey McGrath at the Good Deals Conference
© Matthew Herring/Matter&Co

Acting as a market champion and using our investments to encourage others to invest alongside us, we've continued to develop the social investment market. We've done this by funding existing and new organisations providing finance and other support to the sector, and by continuing to drive interest in and understanding of the market, within the social sector and with mainstream investors. As detailed in this Annual Report, as at 31 December we had received £225.4 million of funding from the Reclaim Fund and our bank investors, and made commitments of £149.1 million, with matching funding of 116% from third party investors alongside our signed investments. We're pleased with this progress, which is in line with our targets for the year. Beyond our investment role, we've supported the development of the market in many ways, for example through publishing leading research, developing a social outcomes framework and engaging with HM Treasury to develop a new social investment tax credit.

Alongside our work, broader momentum around social investment continues to build. In the UK there is growing recognition by government, and across the political spectrum, of the need to create a positive policy environment to support the development of the social economy, including the need to act as an enabler of social investment. The UK Government has established a Centre for Social Impact Bonds and made money available to the sector to support investment. A number of social investment models, such as the DWP Innovation Fund and DFiD Impact Programme, have been developed around specific policy areas. Other initiatives such as the Public Services (Social Value) Act 2012, the review by the Regulator of Community Interest Companies of its rules, and the Financial Conduct Authority initiatives to consult and engage with financial services providers, have all helped put momentum behind the social investment agenda.

Internationally, interest and engagement in social investment stepped up a gear in 2013. Under the UK Presidency of the G8, the British Prime Minister David Cameron hosted the G8 Social Impact Investment Forum and launched the Social Impact Investment Taskforce chaired by Sir Ronald Cohen. The Taskforce aims to galvanise the development of an effective global social investment market and will publish its recommendations in September 2014. Both Nick O'Donohoe and I are pleased to be working on this initiative by chairing working groups. The European Commission is also engaged in discussing international themes through the European Social Business Initiative, which held a gathering of European experts in Strasbourg in January 2014.

The international take-up of the Social Impact Bond initiative is also noteworthy. There are now four US Social Impact Bonds addressing issues as varied as reoffending, and early years education, with 20 states working on ideas. There are two Social Impact Bonds in Australia and one in the Netherlands, with additional proposals being developed in Canada, Israel, India, Pakistan, Colombia, Uganda, Mozambique, South Africa and Swaziland.

...broader momentum around social investment continues to build.

Back in the UK, Big Society Capital has grown to a staff of 30 talented, committed people. My thanks to them for their significant contribution, ably led by Nick O'Donohoe as CEO. I would also like to thank our four shareholder banks – Barclays, HSBC, Lloyds Banking Group and RBS – and my colleagues on the Big Society Capital and the Big Society Trust boards and the members of our Advisory Board. They provide invaluable expertise and input to enable the executive team to consult and test strategic ideas more broadly.

I'd particularly like to thank Dawn Austwick and Steve Morrison, who stepped down from the Big Society Capital board towards the end of 2013, for their invaluable contribution to Big Society Capital. They've both been on the board since it was first established and have been instrumental in the design of our strategy and policies and have overseen their implementation.

Big Society Capital of course wouldn't have been established were it not for the vision, tenacity and enthusiasm of my predecessor as Chair, Sir Ronald Cohen. His passion for making social impact investment a powerful force for improving people's lives remains undiminished, and I'm delighted that he continues to serve as a director of our organisation.

I look forward to building on the strong foundations that the team, both executive and non-executive, has laid, and to working alongside colleagues across the social and financial sectors to make the vision of a thriving social investment market a reality.

Harvey McGrath

CEO'S STATEMENT

Big Society Capital's mandate is to grow the social investment market. A strong social investment market has the power to change lives. This year we've started to see that happen.

Nick O'Donohoe at the Social Enterprise West Midlands Finance Fair © Aidem Digital

Since April 2012, we've been building our foundations at Big Society Capital and setting our goals as a market champion and investor. What is most rewarding about our progress in 2013 is that we're now seeing our investments starting to reach the front line, helping address a wide range of social challenges and making a positive difference to people's lives and the communities we live in.

Thanks to our funding and the work of our partners and the charities and social enterprises they support, more teenagers around the country now have mentors to help improve their prospects in education and work; community organisations are better equipped to tackle isolation among older people; and hard to adopt children have an increased chance of finding suitable adoptive parents.

I'm proud of what we've achieved. We recognise that the social investment market cannot combat every problem and building the market will take many years. But it's incredibly encouraging to see the breadth of issues being addressed by social capital. We believe that will continue to grow.

In this, our second Annual Report, we set out what we've done to develop the market – both as a champion and as an investor. It's been an exciting year and part of that excitement stems from the fact we're doing something very new – and learning every day. Our growing knowledge enables us to continue to evolve our activities. As you can see in this report we have a strong vision for the long-term expansion of the market and the role that we need to play.

...it's incredibly encouraging to see the breadth of issues being addressed by social capital. We believe that will continue to grow.

What we've done in 2013

Last year, our objective was to make £75 to £100 million of commitments during 2013. We ended the year with almost £93 million of new commitments, bringing the total to nearly £150 million.

We also highlighted five areas of focus for our investments and have made distinct progress in these areas. We promised more support through regional funds and have now committed to a joint venture with Northern Rock Foundation in the North East and committed in principle to invest in Social Investment Scotland. We said we would fund more community organisations and have now invested in Social and Sustainable Capital's Community Investment Fund, as well as continuing to work with the Big Lottery Fund to support the launch of a new community assets fund. We highlighted the need for a fund that was more accessible to retail investment and in December we provided cornerstone funding for the Threadneedle UK Social Bond Fund advised by Big Issue Invest. We recognised the demand from charities and social enterprises for more unsecured lending and have now committed unmatched funding to two separate funds, which aim to plug that gap. Finally, we suggested that additional funds might be needed to support the growth of the Social Impact Bond market. However, we decided no new investment from us was necessary in addition to the Bridges Social Impact Bond Fund, which we backed in 2012.

Social investment is a new form of funding for many charities and social enterprises. It lends itself more to addressing some social issues rather than others and is not appropriate for every type of social organisation. The demand for funding from the front line to the intermediaries has been slower than we had hoped and much of it is for small unsecured lending products. We're addressing this issue in a number of ways. We've increased our direct engagement with the sector, hiring Geetha Rabindrakumar, former CFO of Scope, to lead that effort. We've worked closely with government to try to create a more level playing field for social enterprises competing for public service contracts and trying to ensure that they have access to the funding they need. We're working directly with key grant makers to look at blending loans and grants, which may better suit the needs of small charities and community organisations.

The number of mainstream investment organisations willing to commit resources to help develop this market is encouraging. Most of the leading global financial firms are involved in some way in market development and we are in conversation with all of them. However, it's still extremely difficult for fund managers to raise funding alongside our commitments. This has delayed the initial capital raising of several of the funds which in turn delays commitments to charities and social enterprises. We are tackling this in several ways. We hired Aine Kelly from Barclays to lead our engagement efforts with mainstream financial institutions and to work directly with intermediaries to identify and access pools of social capital. In certain circumstances, such as unsecured lending, we've waived our matching requirements. We've invested more in instruments such as charity bonds that provide funding more quickly to support frontline services. We've also worked closely with HM Treasury to develop the Social Investment Tax Relief, which we believe has the potential to

Teens and Toddlers Innovation Social Impact Bond

introduce half a billion pounds of new investment for the sector over the next five years.

As of April 2014, we have over £145 million of finance, including match funds, signed and made available to the market, providing a broad range of products. One year ago that figure was less than £40 million. In addition to this, our investment into Charity Bank should enable them to increase their lending to charities from around £55 million today to £250 million by 2018. We will continue to do all we can to ensure this increases steadily and can be accessed by charities and social enterprises to deliver change.

Our plans for the future

This year we've taken the time to reflect on our successes and challenges to date, and in consultation with our partners, created a three-year strategy. This represents an evolution of our activities so far. It provides more clarity about what we believe is needed to build a sustainable social investment market and our role in making that happen.

Our strategy sets out four elements for a thriving social investment market:

1. We need to build a market that is accessible and allows everyone to contribute to social change through their investment decisions. Our specific aims are to lobby for appropriate tax relief and increased choice in the pensions and savings markets, and to use our capital to support new investment products that deliver social investment alternatives to wider groups of investors.

2. We need a market that provides suitable funding to a broad range of charities and social enterprises. We will look for opportunities to use our capital to ensure that funding is available in a way that is appropriate and flexible, and to help communicate the advantages to social sector organisations of social capital through outreach and engagement. It is also necessary to articulate the need for social lenders to achieve adequate returns on their capital. Without that they will continue to be dependent on government grants and fail to attract private capital.

3. We believe that social investment has a particular role to play in supporting innovative new models that address entrenched social issues, for example through Social Impact Bonds. We will continue to support their growth through investment and through active engagement with government and local authority commissioners. There is also a rapidly developing group of social entrepreneurs using technology to address key social issues that require growth capital to support this activity. We will work with key partners and incubators to identify and fund more of these initiatives.

4. If the market is to grow and become sustainable, it needs scale. While not appropriate for all social sector organisations, social investment offers opportunities to finance at scale, particularly in the areas of greatest expenditure such as education and health, and capital intensive areas such as social housing and the provision of facilities for residential care.

We will respond to and encourage the diversity that is emerging in the UK social investment market.

We recognise that we have a broad role to play in building the social investment market and must balance these four elements. We need to be active across multiple social issues. We need to ensure that as we allocate capital there is a reasonable balance between supply and demand. We need to target a return – not merely to satisfy a particular group of shareholders, but to demonstrate that social investing can at least preserve the value of investments. We need to recognise that our primary role is market building. Our capital is an important tool to enable us to do that, but it is just a tool. Our market development and championing role needs to be broader and extend beyond our investing remit.

Thank you

I'm very pleased with our performance in 2013. This Annual Report illustrates that we are making significant progress towards building a strong social investment market in the UK.

To achieve our mission of building a social investment market, we continue to rely on the collaboration, support and challenge of those around us: the inspiring charities and social enterprises achieving social change; the partners and social investment intermediaries helping to get the right finance, in the right way to organisations; and the committed and growing group of social investors we have in this country. I am grateful for all their support. I am also particularly indebted to our Advisory Board for their important counsel and advice over the past year.

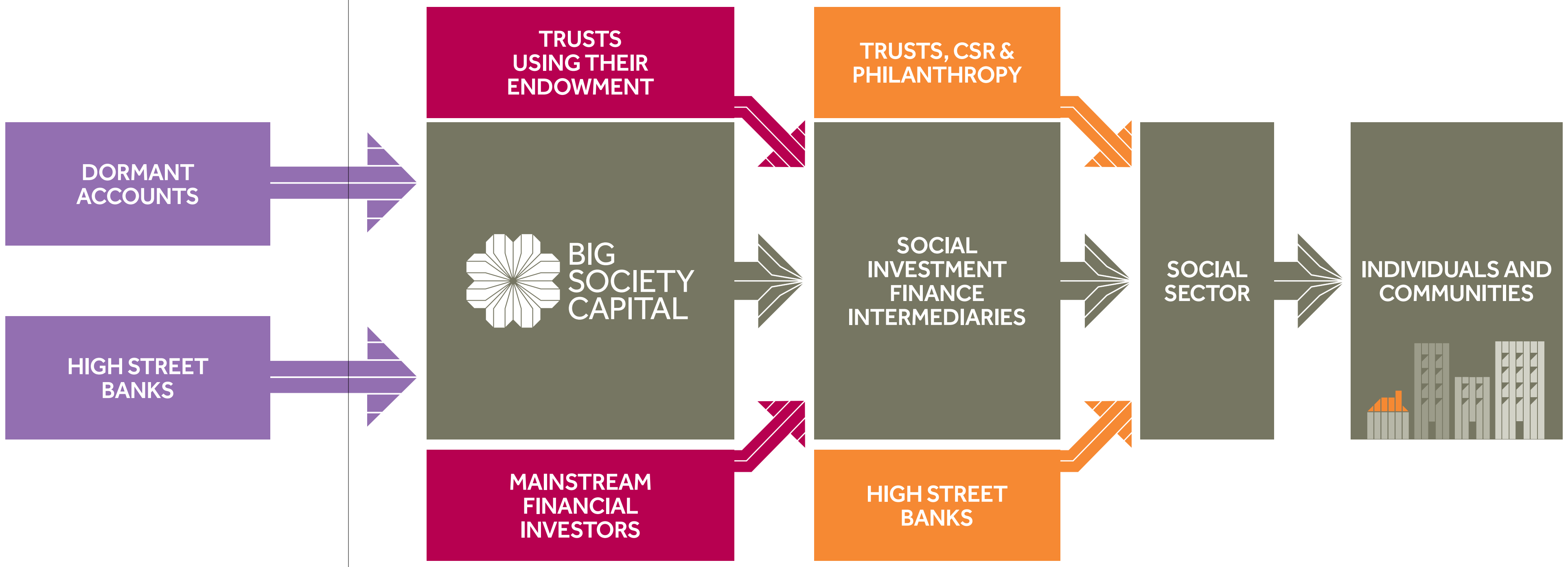
Any organisation is only as good as the people who work for it. Big Society Capital has been extraordinarily lucky to attract such a high calibre group of people dedicated to building a social investment market and through it making a real difference to people's lives and communities. I thank them all for their commitment, hard work, and support over the past year.

Nick O'Donohoe

ABOUT BIG SOCIETY CAPITAL

HOW THE SOCIAL INVESTMENT MARKET OPERATES IN THE UK

Big Society Capital is an independent financial institution with a social mission, set up to help grow the social investment market in the UK. Social investment is about lending or investing money to achieve a social as well as a financial return.



How social investment works

There are many charities and social enterprises working hard to deal with some of the most challenging social issues in the UK, such as youth unemployment, financial exclusion and homelessness.

Historically, many of these organisations have depended on receiving grants or donations to support their work. A growing number of social sector organisations are now looking at a more diverse funding model including repayable finance. There's a new social investment market emerging. It's developing ways to connect socially motivated investors with social sector organisations that need capital so they can grow and make a greater impact on society.

Where we fit in

Big Society Capital has been set up to make sure charities and social enterprises that want to borrow money, or take on investment, can find sources of appropriate capital to meet their needs.

We have two roles:

1. We act as a champion for the social investment market to increase awareness of, and confidence in, social investment. We do this by: encouraging other organisations to engage with the market; developing research that builds our understanding; improving the measurement of social impact; and advocating for an appropriate policy environment.

2. We are also an investor that provides capital to social investment finance intermediaries (such as fund managers or specialist banks serving the sector) that in turn provide finance and support to charities and social enterprises. We aim to demonstrate that the social investment model is sustainable through our own portfolio. By investing in intermediaries, rather than directly in charities and social enterprises, we're looking to build a diverse market of finance providers without undercutting the existing providers of finance to the sector.

Our story

Big Society Capital has been more than 10 years in the making. Our roots are in Chancellor Gordon Brown's Social Investment Task Force, which was set up in 2000 to look at ways to boost growth while doing good. We were launched in 2012 by Prime Minister David Cameron.

We receive our funding from two sources:

1. Banks and building societies in the UK pay money from dormant accounts into the Reclaim Fund Limited. The Reclaim Fund keeps sufficient funds to meet reclaims from any account holders and passes surplus funds to the Big Lottery Fund. The Big Lottery Fund releases the English portion of these funds to the Big Society Trust to invest in Big Society Capital. We expect to receive up to £400 million from dormant accounts.

2. Four of the main UK banks (Barclays, HSBC, Lloyds Banking Group and RBS) have each agreed to invest up to £50 million in Big Society Capital.

Our principles

Independence – The Big Society Trust, an independent holding company that owns 60% of our shares, was set up to ensure that we are held "on mission". We are not owned or controlled by Government, nor are we controlled by the banks that have invested in us.

Transparency – We are committed to producing details of the financial and social impact of our investments. We act as a champion for sharing information and expertise across the social investment sector.

Self-sufficiency – Over time, we need to cover our operating costs and any losses from the return on our investments, as well as earn a small financial return. This will demonstrate that the social investment model is sustainable.

Wholesaler – We act as a wholesaler, deploying capital through social investment finance intermediaries (SIFIs), including organisations providing market infrastructure.

KEY PERFORMANCE INDICATORS

We have a range of key performance indicators (KPIs) that we use to evaluate both the social investment market and our organisation's performance.

THE FIGURES BELOW SHOW OUR KPIS AT 31 DECEMBER 2013

(These are cumulative numbers, including investments that have been redeemed.)

Capital received from the Reclaim Fund and banks

£225.4m

This is the amount of capital that Big Society Capital has received and therefore the total amount available to us to invest. The Reclaim Fund Ltd receives dormant account balances from banks and building societies in the UK.

Total social investment commitments

£149.1m

This is the total amount of our capital that we have committed to invest across 31 deals. However, once we have made an in principle commitment, there is then a period of time in which conditions are fulfilled and legal documents are agreed.

Investments signed

£48.1m

Once an investment is signed, the capital is available for organisations to use. If it is a fund or social bank, the money will then be available to charities and social enterprises.

Matching finance for investments signed

£55.5m

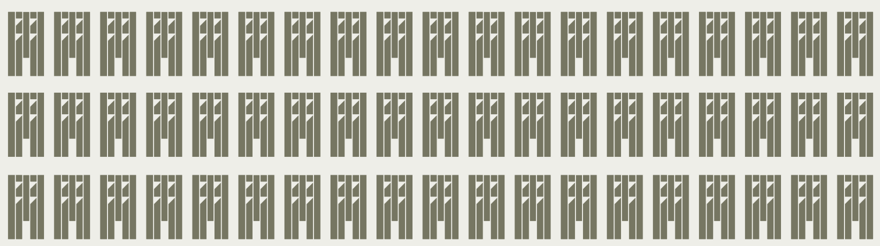
(116%)

When we make an investment, we normally ask organisations to find match investment from elsewhere. We do this as we are committed to ensuring that new and additional sources of capital come into the market.

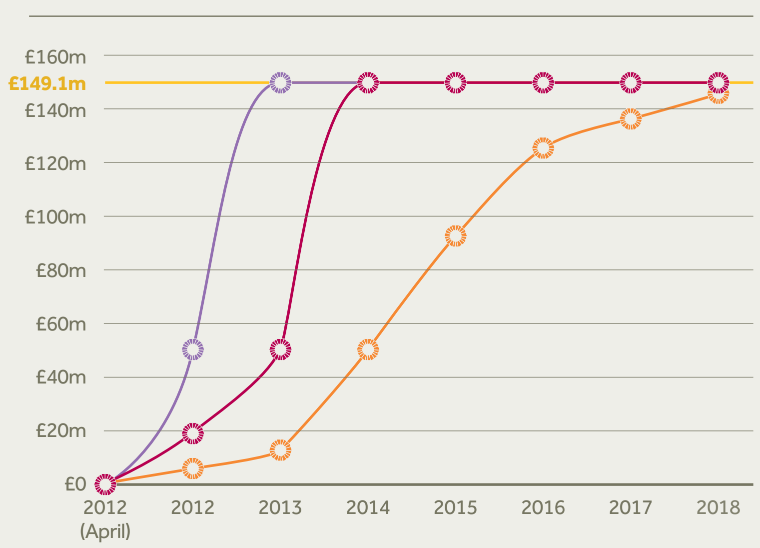
Number of charities and social enterprises benefitting from our investments

57

After an investment has been signed, the money is then available to be invested in charities and social enterprises.



Existing portfolio: Projected signing and drawdown



For a variety of reasons, such as legal documentation and match fundraising, it can take several months from the point that a commitment is made, to when an investment is signed. In addition, many of the funds that we have invested in are expected to be used (drawn down) by charities and social enterprises over several years. In most cases drawdowns are triggered by use by the frontline charities and social enterprises. To illustrate this, the graph outlines how our existing in principle commitments (£149.1 million) are forecast to sign and drawdown over future years.

Actuals to 2013/Projected

- In principle commitment
- Signed
- Drawdown amount

Our KPIs previously included figures for new SIFIs receiving investment. However, this KPI will no longer be used as it does not sufficiently reflect how important it is to strengthen and support existing SIFIs, as well as helping develop new ones.

What we've done as a

MARKET CHAMPION

Acting as a market champion and using our investments to encourage others to invest alongside us, we've continued to develop the social investment market.

Harvey McGrath,
Chair of Big Society Capital

Energise Social Impact Bond

IMPROVING OUR UNDERSTANDING OF SOCIAL INVESTMENT

Reliable and relevant information is fundamental to establishing confidence in any new market. That's why we're working to fill any social investment knowledge gaps with credible research and information.

Publishing research

In the last year we've commissioned several external research reports to contribute to our understanding of social investment, including:

- 'Social Investment in Education' by the Young Foundation – looking at the opportunities for social investment to close the attainment gap in education
- 'Growing the Social Investment Market: The Landscape and Economic Impact' by ICF GHK – showing that the social investment market has grown past the £200 million per year mark.

Launching the Social Investment Research Council

In October 2013, we launched the Social Investment Research Council with the Big Lottery Fund, Cabinet Office, Citi and City of London. With a unique combination of public, private and social sector members, the Council will help advance the social investment market by delivering practical insights for social sector organisations and investors. The Council will also be a hub for social investment research, and encourage research where it's needed most.

The Council's first three research projects will include: identifying new sources of capital for social investment; improving infrastructure to price social investment; and mapping the financial promotions landscape.

Publishing the Social Investment Compendium

To help consolidate research relevant to the social investment market, we've developed a Social Investment Compendium. The Compendium provides a 'bird's-eye view' of the social investment market across four key areas: products/intermediation, demand, supply and broader environment. It has enabled us to better understand where we are and where we need to go as a market, and has been particularly useful for newcomers to the sector.

Understanding a social business

We've been working with UnLtd to better understand what makes a social business and the different types of social businesses that are out there. We want to identify the diversity of existing social business models and understand the potential ways that investors and organisations can lock-in social impact while achieving growth. We hope that this work will help bring greater clarity to the debate, drive any reform needed and better enable social investment to support good social businesses.

CREATING A BETTER ENVIRONMENT FOR SOCIAL INVESTMENT

ABOVE : Sir Ronald Cohen speaking at the GIIN conference © Jack Terry

OPPOSITE : Energise Social Impact Bond

Developing a shared approach to measuring social impact

Having good social impact data can help fund managers and social sector organisations improve their services and compare achievements with similar organisations. It also helps them communicate the difference they are making to be able to attract further investment.

Finding a common ground for measuring social impact is an evolving process. We've continued to work alongside experts such as Triangle Consulting, New Philanthropy Capital, SROI Network, Inspiring Impact and the Good Analyst, as well as charities, social enterprises and fund managers. As part of this we launched a revised Outcomes Matrix – a tool to support fund managers, charities and social enterprises with planning and measuring their social impact on beneficiaries, communities and society. The Outcomes Matrix reflects all the elements people need to have a fulfilling life, from financial inclusion to a good education, as well as developing common ground and language which can be used across the social sector.

Finding a common ground for measuring social impact is an evolving process.

Helping shape the policy agenda for social investment

The policy agenda for social investment has been rapidly developing. We've played an active role across a wide range of relevant areas in the past year, from probation reforms to regulation. We worked with key stakeholders, including the Government, to advocate and implement the policy changes necessary to ensure the social investment market can flourish.

Highlights have included:

- Working with key stakeholders and tax practitioners to develop the Social Investment Tax Relief, announced by the Chancellor of the Exchequer in March 2013. The tax relief could help unlock an estimated half a billion pounds worth of investment
- Taking part in the Community Interest Company (CIC) technical panel and responding to the consultation on CIC regulatory reform
- Convening key social sector stakeholders to help understand the implications of the upcoming probation reforms, and support their financing needs to give them a fair chance at competing for new contracts.

Sharing our experience globally

We are committed to sharing our experience, both inside the UK and abroad, to help spread social impact and spur new ideas. We also believe that a globally supportive environment will help to boost social investment in the UK. We've played a key role in new international networks, such as the Impact Investing Policy Collaborative (IIPC) and the Global Impact Investing Network (GIIN), and supported their successful 2013 conferences in London.

We also played a leading role in forming the Social Impact Investment Taskforce, established by the G8, which is being chaired by Sir Ronald Cohen. Each participating country has a National Advisory Board, with Nick O'Donohoe leading the UK Board. There are also specialist workstreams examining key issues: measurement of social outcomes; how the agenda can work in emerging countries; how to ensure profit-with-purpose businesses remain true to their social mission; and how these investments can fit within the asset allocation processes of investors (the final workstream chaired by Harvey McGrath).

INTRODUCING NEW GROUPS TO THE MARKET

An essential part of building the social investment market is working alongside other sources of investment – both existing and potential – and charities and social enterprises that might benefit from it.

We've been participating in and supporting conferences, developing close working relationships with membership bodies and meeting directly with charities.

Some examples of how we have done this in the last year include:

Supply of social investment

Identifying pools of capital
A major priority has been to identify and engage with key groups in the investor landscape where there is a particular appetite for social investment, for example Local Authority Pension Funds – as seen in 2013 by an investment from Waltham Forest Pension Fund into Impact Ventures UK.

Raising broad awareness
Alongside key partners, we're working to raise broad awareness of social investment and possible opportunities amongst investors. For example, we sponsored two Social Investment Academy events organised by Worthstone targeting private wealth advisers.

Creating new products
One of our 2013 targets was to make social investment more accessible to everyone by supporting the launch of a fund available to both individual and institutional investors, with a clear objective of delivering both a financial and a social return. We did this by providing the cornerstone investment of £10 million in the Threadneedle UK Social Bond Fund, launched in partnership with Big Issue Invest.

Demand for social investment

Increasing understanding
We've been working to increase awareness and understanding of social investment among charities and social enterprises through participating in and supporting conferences, developing close working relationships with membership bodies and meeting directly with charities. For example, in October we supported a Social Finance Fair with Social Enterprise West Midlands, bringing together social enterprises and charities with social finance providers.

Developing a common language
Developing a common language of social impact is critical to building the social investment market. We're working with the Social Impact Analysts Association to gather evidence about current impact measurement practice in the social investment sector. We've also been engaging with companies to help them consider and recognise social value in their supply chains and in their general approach to corporate social responsibility.

Helping charities and social enterprises access public sector contracts
We're working to increase the finance available to social organisations providing public services. One strand of this work is to support the growth of Social Impact Bonds in the UK. We're also working to improve the commissioning environment for charities and social enterprises by engaging with government departments including the Cabinet Office, the Department for Health, the Ministry of Justice and the Department for Work and Pensions.

Supporting 'investment readiness'
Organisations seeking to raise investment for the first time often need additional support to build their capacity as a business, for example legal advice or expertise in public service commissioning. With support from Big Lottery Fund, Cabinet Office and others, there are now a growing number of places where charities and social enterprises can access this, a number of which we support through representation on their decision-making panels.

TOP: Nick O'Donohoe at the Social Enterprise West Midlands Finance Fair
© Aidem Digital
BELOW: ThinkForward Social Impact Bond

What we've done as an

INVESTOR

It's a relief to know that there are other parents going through the same thing and that you can make contact and find out more.

Lindsay, Scope befriender

SOCIAL IMPACT ACROSS THE UK

Our early investments are now in their second year, and proving how social investment can make a positive contribution in addressing some of UK society's key challenges, such as housing, mental health, educational attainment, ageing, and community energy. We invest into specialist fund managers who really understand the needs of charities and social enterprises, and are able to support them in delivering social change.

Supporting families of disabled children

When you're a parent of a disabled child, being able talk to someone who understands the challenges you face can be life changing. Disability charity Scope developed the Face 2 Face befriending service to give emotional and practical support to parents. To fund this, and similar programmes, it needed to develop its sustainable income streams. Scope set out to do this by increasing its donor base and expanding its charity shops. It needed social investment to help open new shops and recruit new donors, so it launched the Scope Charity Bond, in partnership with the Social Investment Market CIC (a subsidiary of Investing for Good), which received backing from Big Society Capital.

So far, the finance has helped Scope to open 11 new charity shops, which are forecast to generate an extra £291,000 a year. This money will enable Scope to expand its work with disabled people across the UK.

Providing a route back to independent living for homeless people

Making the transition from living in temporary accommodation into a stable home can be tough. That's why the homelessness charity Broadway set up Real Lettings, a service which not only provides homes for homeless people to rent, but also helps them settle in, maintain their tenancies and find a job. By offering them stable, affordable private sector tenancies Real Lettings also frees up hostel places to cope with the rising numbers of rough sleepers on London's streets. Suitable accommodation is bought through the Real Lettings Property Fund, which was developed and is now managed by Resonance, a social investment company, supported by investment from Big Society Capital.

So far the Real Lettings Property Fund has bought, or is in the process of buying, over 80 properties for homeless people to rent in London. It aims to buy around 220 properties, providing a route to independent living for over 600 people over the life of the fund.

It's been a new lease of life for me, because this is the first time in 18 years that I've had my own front door.

Gary, Real Lettings client

LEFT : Scope (Social Investment Market CIC) © Scope
RIGHT : Real Lettings © Resonance

I've seen the residents' mobility and dexterity improve thanks to the classes – they provide a positive experience for everyone in the home.

Lynn, care home manager, Oomph!

Transforming older people's health and quality of life

Gentle exercise can greatly improve the health, mobility, independence, social interaction and confidence of older people. Oomph! (Our Organisation Makes People Happy) designs and runs specialist exercise classes in care homes and the community. Based on expert techniques that use music and simple routines, the classes deliver both physical and mental health benefits. They particularly help increase older people's physical strength and mobility, reducing the risk of falls and injury.

Oomph! is one of the first organisations to receive investment from Nesta Impact Investments, which aims to be a £25 million social investment fund backed by Big Society Capital, Omidyar Network and Nesta. It has already delivered 7,000 sessions in over 600 care homes and will use this investment to scale up its work to help more older people across the UK.

Building sustainability for community organisations in deprived areas

Southmead, Bristol is one of the most deprived places in England. Residents have the lowest life expectancy in Bristol – on average 9.4 years less than people living in the neighbouring area. They also face higher than average rates of domestic violence, drug and alcohol abuse, as well as high levels of unemployment.

The Greenway Centre is there to help change this. Run by the Southmead Development Trust, it offers courses for jobseekers with few or no qualifications; affordable business pods for start-up businesses; and facilities for community groups. It also has a community gym with fitness classes and GP referral schemes, and free exercise for those recently released from prison.

To reduce ongoing operational costs and enable the Centre to remain self-sufficient, the Southmead Development Trust received a social loan from Pure Leapfrog (backed by Big Society Capital) to cover part of the cost of a solar installation on its roof. This has helped it continue to deliver its vital services to the community and improve the lives of local residents.

Supporting vulnerable young people

There are nearly one million young people not in employment, education or training. They are far more likely to suffer from depression, end up with a criminal record or have significantly lower incomes than their peers in the longer term.

ThinkForward, delivered by the charity Tomorrow's People in Tower Hamlets, is providing coaching and support to 950 vulnerable 14-17 year olds. These young people are identified by their schools as being most at risk of dropping out and becoming unemployed. The programme is managed by Impetus-PEF and is financed through a Social Impact Bond. The main investors, Big Society Capital and Impetus-PEF, have provided the finance for the programme, assuming most of the risk. Based on successful outcomes, the Department for Work and Pensions will repay the investment out of long-term savings to the taxpayer.

This support is already having a measurable impact on these young people, including improvements in positive thinking, appetite for learning, and planning and organising skills. The young people have also outperformed their targets for academic attainment, with 60% of the group achieving five A*-C GCSEs against a target of 30%.

ABOVE : Oomph! (Nesta)
© Simon Dewhurst
RIGHT : ThinkForward Social Impact Bond

ThinkForward is helping a generation of young people who are struggling to make a successful move from education into employment.

Kevin, Programme Manager, ThinkForward

Teens and Toddlers Innovation
Social Impact Bond

> We want to collaborate with regional specialists to help ensure social investment is accessible to charities and social enterprises across the UK.

NEW INVESTMENT COMMITMENTS

In 2013, we made a broad range of investment commitments to ensure that appropriate finance options are available to charities and social enterprises.

Social banks

Social banks have long been at the heart of social investment in the UK, offering secured investment to charities and social enterprises whose borrowing needs are not being met by traditional banks. In 2013, we committed to supporting Charity Bank, one of the largest lenders to the UK social sector, by investing up to £14.5 million of equity capital. This will enable Charity Bank to raise its lending from around £55 million today to around £250 million by December 2018, and to be an enduring institution that is available to respond to the needs of the sector.

Social sector loan funds

Market research has highlighted the demand from small and medium-sized social sector organisations for greater access to risk-taking capital, in particular unsecured loans. We took our first steps in responding to this in 2013 when we invested in two loan-focused investment funds. We put a £15 million investment into the Third Sector Loan Fund, managed by Social and Sustainable Capital, and a £10 million investment into the Social Impact Accelerator Fund managed by the FSE Group. These funds will be used to raise additional capital and will make finance available to organisations that do not qualify for traditional secured lending.

Risk capital for charities and social enterprises

In traditional markets, venture capital and private equity support businesses as they seek to grow and innovate. In the social sector, there is clear demand for a similar offering. We've made several investments designed to offer a variety of investment structures and risk capital to charities and social enterprises. These include a new commitment of £15 million to PRISM, an impact investment fund created in partnership with Bridges Ventures and Sarasin & Partners.

Regionally focused finance

We want to collaborate with regional specialists to help ensure social investment is accessible to charities and social enterprises across the UK. In 2013, we made our first steps towards achieving this long-term goal, including in principle commitments of over £12.5 million in total into two regional funds, one in Scotland and the other in the North East of England. The first will be managed by Social Investment Scotland. A manager for the second will be appointed by the North East Social Investment Company (NESIC), an initiative funded by Northern Rock Foundation and supported by Big Society Capital.

Our partnership with the Northern Rock Foundation is a good example of the collaborative relationships we hope to forge in the future.

> One of our key commitments for this year was to ensure more finance is available to community organisations.

> ...there are some social issues where social investment can play a particularly significant role...

Issue-specific funds

It's clear there are some social issues where social investment can play a particularly significant role and where it will be beneficial to develop fund managers with specialist knowledge and insight. We know, for example, charities and social enterprises can make a real impact on health and wellbeing. So, we've made in principle commitments totalling over £24 million to new funds that focus on these areas – including Apposite Capital's Social Impact Healthcare Fund and Local Partnerships' Technology Spin Out Fund.

Some of these funds, such as the one being developed by Social Finance, are focused on physical health – but may potentially boost wellbeing too. The Social Finance Care and Wellbeing Fund will aim to improve health and wellbeing in the UK, with particular focus on disadvantaged groups such as the frail elderly; people with long-term health conditions; those affected by cancer; or disabled people.

Some investments target multiple benefits. In September 2013, we committed to invest in Developing and Empowering Resources in Communities (DERiC). DERiC will make loans to community groups to help them build their capacity to manage personal budgets for social care on behalf of older people and reduce their isolation through community support and volunteering. This investment is expected to produce positive social outcomes in mental health and wellbeing, and citizenship and community. DERiC will generate revenue through the interest it receives on the loans, which it can then use to cover operating costs and service our investment.

Social Impact Bonds

Social Impact Bonds enable charities to focus on the outcomes of their interventions, while social investors assume the risk. By developing a three-way relationship between the charity, the commissioner and the investor, Social Impact Bonds align interests, and support innovation and early intervention in some of the UK's most challenging social issues. In 2013, we invested £1 million in a new Social Impact Bond designed to reduce the time it takes for hard-to-place children to be adopted. Voluntary adoption agencies, funded by social investors, will offer to local authorities an intervention called 'It's All About Me', designed to find adoptive families for children considered harder to place because of their age, background or circumstances, and help them settle successfully with their new family. Finance raised through the Social Impact Bond will help extend the service, which aims to support 300 children per year over the next 10 years.

Funding for community organisations

One of our key commitments for this year was to ensure more finance is available to community organisations. Our first investment in this area has been £10 million into the Community Investment Fund, which will make loans and equity investments in community-based social enterprises that are improving the lives of local people. The fund will be managed by Social and Sustainable Capital and has been developed in partnership with Social Investment Business.

LEFT: ThinkForward Social Impact Bond
ABOVE: The Greenway Centre (Pure Leapfrog) © Southmead Development Trust

OUR PORTFOLIO

The charts show our portfolio at the end of December 2013. They include both signed investments and commitments in principle. See page 28 for a full list.

TARGET OUTCOME AREAS OF INVESTMENTS

Some of our investments focus on specific social outcomes, while others will provide finance across a broad range of outcome areas. We also have a small number of investments targeted at market building infrastructure.

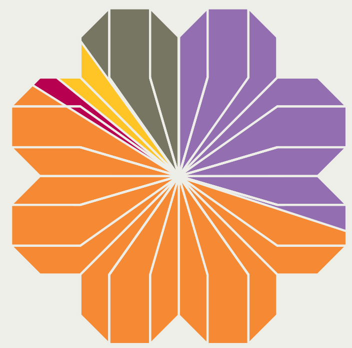
Outcome area	Investments
Housing and local facilities	resonance; real lettings
Citizenship and community	resonance; DERiC; Nesta Impact Investments; SASC; leapfrog; The FSE Group
Physical health	Local Partnerships; DERiC; Nesta Impact Investments; Apposite Capital LLP; Social Finance; Investing for Good
Mental health and wellbeing	Local Partnerships; DERiC; Nesta Impact Investments; Apposite Capital LLP; Social Finance; Investing for Good
Education, employment and training	Franchising Works; thinkforward; Nesta Impact Investments; connexions; adviza brighter futures; 3SC
Financial inclusion	Franchising Works; Big Issue Invest
Family, friends and relationships	iaam; action for children
General	Berenberg; SASC; The FSE Group; SIS; Bridges Ventures; PRISM; North East Social Investment Company; The Charity Bank
Infrastructure	Social Stock Exchange; ClearlySo; The Foundry
Conservation of the natural environment	These are not outcome areas that Big Society Capital currently targets
Arts, sport, heritage and faith	These are not outcome areas that Big Society Capital currently targets

INVESTMENTS BY TYPE AND GEOGRAPHY

Type of investment

We are committed to ensuring that a broad range of finance options are available to charities and social enterprises, as well as using a small proportion of our investment portfolio to support the development of key market infrastructure (operating intermediaries).

General Funds	54%
Operating Intermediaries	4%
Social Bank	10%
Social Impact Bonds	2%
Specialised Funds	30%



Geographical reach of investment

Our aim is to ensure that social sector organisations across the UK have access to social investment. To-date, many of our funds are UK-wide, and we expect these to have a broad geographical distribution. Geographic hotspots are the result of either region-focused funds or where investments to charities and social enterprises are being used.

UK-wide investments
£123,475,000

Regional-specific investments
£25,449,000

FULL PORTFOLIO

The following includes all investments in our portfolio at the end of December 2013.

INVESTMENT COMMITMENTS

In principle, subject to contract and certain other conditions.

Investment name	Arranger/ Manager	Amount	Description
Apposite Social Impact Healthcare Fund	Apposite Capital	£10,000,000	Investing in social ventures aimed at tackling inequality in health in the UK, especially for the most disadvantaged.
Care and Wellbeing Fund	Social Finance	£10,000,000	Investing in organisations that are responding to rising health and social care needs. Its focus will be on prevention, early intervention and community-based solutions with a particular focus on disadvantaged groups.
Charity Bank*	–	£14,500,000	Lending to small and medium-sized charities, community groups and social enterprises.
Community Investment Fund*	Social and Sustainable Capital	£10,000,000	Investing in community-based organisations that are improving the lives of local people, particularly the vulnerable and disadvantaged. Developed in partnership with Social Investment Business.
DERiC CIC*	DERiC CIC	£1,050,000	Providing loans to community-owned social enterprises that engage community supporters to improve social care services.
North East Fund*	North East Social Investment Company CIC	£4,500,000	Regional finance investing in charities and social enterprises in the North East. Developed in partnership with Northern Rock Foundation.
PRISM	Bridges Ventures and Sarasin & Partners	£15,000,000	Multi-asset fund targeting the alleviation and prevention of poverty and increased social mobility within the UK.
Social Growth Fund	Social Investment Scotland	£8,000,000	Providing regional finance for charities and social enterprises in Scotland looking for growth capital.
Social Impact Accelerator Fund*	FSE SIA Limited	£10,000,000	Providing finance to social sector organisations who would not qualify for traditional secured lending.
Technology Spin-out Fund	Local Partnerships	£3,000,000	Lending to NHS and local authority health and social care spin-outs for investment in technology to ultimately improve service delivery for patients.
Third Sector Loan Fund	Social and Sustainable Capital	£15,000,000	Providing finance for social sector organisations that would not qualify for traditional secured lending. Developed in partnership with Social Investment Business.

*legal documentation for these in principle commitments was signed during 2014.

SOLD INVESTMENT

Portfolio investment sold during 2013

Investment name	Arranger/ Manager	Amount	Description
T&T Innovation Social Impact Bond	Social Finance	£176,000	DWP Innovation Fund programme tackling youth unemployment. Delivered by Teens and Toddlers in the North West of England. Sold to Bridges Social Impact Bond Fund.

SIGNED INVESTMENTS

Investment name	Arranger/ Manager	Amount	Description
3SC Capitalise Social Impact Bond	3SC	£205,000	DWP Innovation Fund programme tackling youth unemployment. Delivered by Dyslexia Action and 'include' (a subsidiary of Catch22), in the Cardiff and Newport Areas.
Affordable Homes Rental Fund	Resonance Limited	£2,500,000	Lending to Community Land Trusts to provide rental properties for local communities at affordable prices.
Bridges Social Impact Bond Fund	Bridges Ventures	£10,000,000	Financing for social sector organisations that deliver services designed to improve social outcomes through payment-by-results contracts.
ClearlySo Limited	–	£1,000,000	Providing growth finance to expand activities in raising capital for social enterprises including investment readiness.
Community Energy Fund	Pure Leapfrog	£1,000,000	Offering renewable energy loans to community organisations in areas of high deprivation to pay for renewable energy equipment and energy efficiency measures.
Community Generation Fund	FSE Fund Managers	£750,000	Supporting disadvantaged communities to develop community-owned renewable energy projects that create income for the community.
Energise Social Impact Bond	Social Finance	£319,000	DWP Innovation fund programme tackling youth unemployment. Delivered by Adviza in the Thames Valley Area.
Essex Social Impact Bond	Social Finance	£825,000	Providing interventions for 11-17 years olds at the edge of entering care or custody, so that they can safely remain at home with their families. Delivered by Action for Children for Essex County Council.
FranchisingWorks Licence Fund	Shaftesbury Partnership	£1,000,000	Finance for purchasing franchise licences and enabling unemployed and financially excluded people to set up their own franchise businesses.
Impact Ventures UK	LGT Venture Philanthropy and Berenberg Bank	£10,000,000	Providing growth capital for social enterprises that will improve the lives of disadvantaged people in the UK. Co-founded by LGT VP and Berenberg Bank.
It's All About Me Social Impact Bond	Consortium of Voluntary Adoption Agencies / Baker Tilly	£1,000,000	Providing targeted interventions by Voluntary Adoption Agencies to support families adopting harder to place young people.
Moneyline	Big Issue Invest	£950,000	Investing in the largest personal lending Community Development Finance Institution in the UK.
Nesta Impact Investment Fund	Nesta Investment Management	£8,000,000	Offering risk capital for early stage social ventures that use technology and innovation to have a positive impact on ageing, educational attainment and sustainable communities.
Real Lettings Property Fund	Resonance Limited	£5,000,000	A residential property fund established and managed by Resonance, buying and leasing properties to Real Lettings, the lettings arm of homeless charity Broadway, providing transitional accommodation to formerly homeless people, or those at risk of homelessness.
Social Investment Market CIC	–	£875,000	A secured loan facility set up for underwriting the inaugural issue of a fixed income bond by disability charity Scope.
Social Stock Exchange	–	£850,000	Connecting social impact businesses with investors looking to generate social or environmental change as well as financial return from their investment.
The Foundry (Social Justice and Human Rights Centre)	–	£2,700,000	Providing affordable office space for social organisations in Vauxhall, London.
ThinkForward Social Impact Bond	Impetus-PEF	£450,000	DWP Innovation Fund programme tackling youth unemployment. Delivered by Tomorrow's People in East London.
Triodos New Horizons Social Impact Bond	Triodos Bank	£450,000	DWP Innovation Fund programme tackling youth unemployment. Delivered by Greater Merseyside Connexions Partnership in Merseyside.

OUR FUTURE STRATEGY

As both an investor and a market champion, we are in a good position to think holistically about how the social investment market could develop in the future.

To clarify our vision of the future market, and pinpoint what our contribution should be towards building it, we have recently reviewed our strategy. We have assessed all of our investment and other activities to date, analysed how social investment can help different social issues across our outcomes framework and segmented the investor landscape. The work has involved all of our staff, our main board, our Advisory Board, the Big Society Trust and shareholder banks, and consultation with our closest partners.

Our vision for the future market

We know that a diverse social investment market can generate significant social value for the UK. We have a clear vision for how to make this happen. We need to:

1. Build mass participation in social investment
2. Improve access to finance for small and medium-sized charities and other social sector organisations
3. Provide capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate
4. Bring far greater financial scale to bear in the financing of social issues.

Our organisation

To deliver this we will need to make a range of changes to the way we work. We will place greater emphasis on:

- Partnerships with other expert organisations in the social and financial sectors
- Market champion work in general
- Co-creation and incubation of investment ideas
- A differentiated understanding and thresholds for investment and impact across different parts of the market.

Our founding mission and our core values of independence, sustainability, wholesaling and transparency will stay the same. However, we will make our Governance Agreement (concerning frontline eligibility of profit with purpose entities) clearer. We will also explore raising additional capital for the future.

We are developing the goals and metrics that we will use to measure success and we will report on progress against our strategy in future annual reports.

Our strategy for 2014-2016

This chart shows how, over the next three years, we will adapt our market championing and investment activity to develop each element of our vision:

Element of vision	1 Build mass participation in social investment	2 Improve access to finance for small and medium-sized charities and other social sector organisations	3 Provide capital that allows the most innovative approaches to tackling social problems to quickly grow and replicate	4 Bring far greater financial scale to bear in the financing of social issues
What will success look like?	We want to ultimately see millions of people contribute to social change through their personal finance choices and thousands of grassroots organisations able to access the finance they need to support their local communities.	We want to ensure that every social organisation for which repayable finance is appropriate can access a range of simple, sustainable products.	We want to ensure social entrepreneurs tackling the most entrenched social problems can access the capital they need.	We believe some social organisations can be larger, the social economy as a whole should play a larger part in the overall economy and mainstream financial institutions can play a much greater role in providing and channelling capital to social causes. Ultimately, social investment in the UK will be an asset class measured in the billions.
How will we contribute as a market champion?	• Encouraging products that use the new social investment tax relief, and investor take-up. • Advocating for a 'right-to-choose' ethical or social product in private pensions.	• Piloting an advisory/signposting service for charities and other social sector organisations and an awareness campaign for charity trustees. • Contributing to the debate on social identity and form. • Helping to improve credit data on lending to small and medium-sized social organisations.	• Supporting an environment that is conducive to Social Impact Bonds. • Expanding the capacity of our investor marketing team to cover mission-driven foundations and family offices. • Investigating alternative routes to growth for social sector organisations, e.g. group structures, social buy-outs.	• Working more closely with housing associations as a partner and potential co-investor. • Advocating for clearer rules on the application of social objectives to the fiduciary duties of pension fund directors and trustees. • Encouraging mainstream financial institutions' research units to research social investment funds. • Targeting wholesale international social funds that might make UK investments.
How will we contribute as an investor?	• Supporting more retail bond products. • Making it easier to finance community assets. • Backing regeneration projects that substantially involve the local community.	• Offering existing intermediaries support to source deals and providing more capital as required. • Investing alongside others to blend grant and investment capital and improve the supply of products for smaller investment amounts. • Improving access to capital for social organisations bidding as part of the Transforming Rehabilitation programme.	• Ensuring that all feasible Social Impact Bonds that come to market can access the capital they need through existing or additional Social Impact Bond funds. • Co-creating alongside partners more single issue-focused funds where market fundamentals justify it.	• Accelerating the market for charity bonds e.g. through underwriting facilities. • Supporting more funds that help social organisations that need property or other assets to deliver their services.

We will also focus on overarching areas

- Supporting impact measurement practice to become better and more widely adopted.
- Continuing our role as an advocate of public policy reforms that support the social investment market, and talking to mainstream political parties about their forward policy agenda.
- Continuing to promote high-quality social investment research.
- Contributing to international work on social investment.

BIG SOCIETY CAPITAL AS A **RESPONSIBLE BUSINESS**

We seek to maximise our positive impact and demonstrate our values as a social organisation through how we run our operations, our staff policies, our approach as an investor and our wider engagement with the social sector.

Travis Hollingsworth, a Big Society Capital member of staff

We aim to support the social sector in ways that complement our direct roles as investor and market champion.

Aligning our Treasury policy to our mission

There is a time-lag between receiving funds from the Reclaim Fund and them being used by our investees. During this time, we hold a treasury fund in a portfolio of cash and bonds. Under our treasury policy, there are negative screens on funds invested. This means none of our funds can be invested in armaments, businesses with significant revenue sourced from gambling, pornography or tobacco, or businesses subject to sanctions.

We also use our treasury fund to support organisations generating a positive social impact wherever possible. In 2013, our Board approved changes to our treasury policy so that £20 million can be invested in social investments that meet our financial criteria around liquidity and return, while also delivering a positive social impact.

We have since invested £10 million in a social bond fund run in partnership between Threadneedle and Big Issue Invest, which will invest in bonds with daily liquidity, issued by organisations delivering positive social outcomes in areas including housing, employment and health and social care. We also invested £1.3 million in Greenwich Leisure Limited, the UK's largest charitable social enterprise delivering leisure, health and community services. The bond's proceeds will be used to fund the transformation of the Olympic Aquatic Centre and Copper Box Area for community use and develop affordable health and fitness facilities in South London and Essex.

Supporting the social sector

We aim to support the social sector in ways that complement our direct roles as investor and market champion. We actively encourage and support our staff to carry out non-executive director roles and take on other types of volunteering in the sector, where they can use their skills, expertise and interests. Our staff volunteered a total of approximately 1,150 hours in 2013 and between them held 15 non-executive director roles.

We work with law firms to secure pro-bono or discounted rates for some of the legal work required for our investments. We encourage them to do this across the sector to minimise transaction costs for charities and social enterprises.

Supporting our staff

Our HR practices aim to be fair, transparent and encourage diversity and inclusivity. We have policies on flexible working and equal opportunities to ensure that we can recruit from the widest pool of talent available and can support people in their roles. All employees can rely on support to help them be successful in their careers. We offer opportunities for relevant training, secondments and volunteering opportunities.

Looking to the future

We're continuing to develop our approach as a social organisation.

Our priorities for 2014 include:

- Reviewing who we work with to ensure we buy from social sector suppliers where possible
- Increasing our involvement with charities and social enterprises through volunteering and other community activities
- Reviewing our operations to assess where we can improve our performance as a responsible business.

COMPANY INFORMATION

Directors
Harvey McGrath*
(Chair from 1 January 2014)

David Carrington*

Sir Ronald Cohen
(Chair until 31 December 2013)

John Kingston†

Geoff Mulgan†

Nick O'Donohoe

Dai Powell*

Lady Susan Rice*

Keith Smithson†
(Appointed on 22 January 2014)

Danielle Walker Palmour†

Secretary
Alastair Ballantyne

Auditors
KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Bankers
HSBC plc
69 Pall Mall
London
SW1Y 5EY

Registered office
5th Floor
Chronicle House
72 - 78 Fleet Street
London
EC4Y 1HY

* Member of Nominations and Remuneration Committee

† Member of Audit, Risk and Compliance Committee

CORPORATE GOVERNANCE

Big Society Capital's object is to act as a social investment wholesaler and generally to promote the development of the social investment marketplace in the UK. It also seeks to achieve and maintain financial sustainability over the longer term.

The company is an independent financial institution authorised by the Financial Conduct Authority.

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 shareholding banks.

The composition of the Big Society Capital board reflects its purpose and includes directors with financial and/or social sector expertise. The board is mainly non-executive, with the CEO of Big Society Capital the only executive member.

Big Society Capital has two board Committees each comprising a majority of non-executive directors:

- 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.
- Audit, Risk and Compliance Committee – examines management processes and other arrangements to ensure the appropriateness and effectiveness of systems and controls, including risk management.

The Executive Committee is responsible for the day-to-day running of Big Society Capital and risk management. It has established two further committees:

- The Investment Committee is an executive Committee with delegated responsibility for identifying and making investments and for the performance of Big Society Capital's portfolio of investments. It defines the investment policy of Big Society Capital and monitors and reports on investment performance to the Big Society Capital board. It is chaired by the CEO of Big Society Capital.
- The Valuation Committee is an executive Committee, responsible for determining valuations and assessing social impact, which includes identifying key risks and issues within Big Society Capital's investment portfolio.

The Big Society Trust

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.

The Big Society Trust Directors:

Sir Richard Lambert (Chair)
Chair of Banking Standards Review and Chancellor of the University of Warwick

Ian Davis Chair of Rolls Royce plc, non-executive director of BP plc, Johnson & Johnson and Teach For All. Non-executive member of the Cabinet Office Board

Sir Stuart Etherington CEO of National Council for Voluntary Organisations

Peter Holbrook CEO of Social Enterprise UK

Harvey McGrath Chair of Big Society Capital

Baroness Pitkeathley House of Lords, Chair of the Professional Standards Authority, previously CEO of Carers National Association (now Carers UK)

David Robinson Chair, Early Action Task Force and Senior Adviser and founder of Community Links

Helen Stephenson Director of the Office for Civil Society and Government Innovation Group, Cabinet Office

CORPORATE GOVERNANCE
continued

To enable it to carry out its role, the Big Society Trust has a controlling interest in Big Society Capital. It controls 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 unanimous 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 Capital CEO is invited to attend the Big Society Trust board meetings as an observer.

There is a Governance Agreement between the Big Society Trust and Big Society Capital detailing the operating and reporting arrangements agreed between the two entities.

Shareholder banks

Each shareholder bank (Barclays, HSBC, Lloyds Banking Group and RBS) has committed to subscribe for up to £50 million of Big Society Capital's shares. Their individual shareholding will always be less than 10% of the outstanding paid-in capital.

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 have the right to nominate a director to the Big Society Capital board. In addition to information provided to them by the Bank 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 Advisory Board is made up of individuals with specific interest in social investment including prominent practitioners from the social, financial and business sectors and provides advice to the CEO of Big Society Capital. It met three times in 2013.

Advisory Board members as at 31 December 2013

Robert Annibale Citi Community Development and Microfinance
Dawn Austwick Big Lottery Fund
Rt Hon Hazel Blears MP
Matthew Bowcock Local Means Ltd
Dan Corry New Philanthropy Capital
Deirdre Davies Deutsche Bank AWM
Toby Eccles Social Finance
Julia Grant Impetus-PEF
Victoria Hornby Foundation of Prince William and Prince Harry
Jonathan Jenkins Social Investment Business
Nigel Kershaw Big Issue Invest
Stephen Lloyd Bates Wells Braithwaite
Kate Markey Formerly CAN Invest
Caroline Mason Esmée Fairbairn Foundation
Mick May Blue Sky
David Orr National Housing Federation
James Perry Panahpur
Cliff Prior UnLtd
Hugh Rolo Locality and Community Shares Unit
Antony Ross Bridges Ventures
Rod Schwartz ClearlySo

REMUNERATION REPORT

This report covers the 12 months ending 31 December 2013 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 the board of the company.

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 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 shall 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 to non-executive directors.
- In 2013, the amounts were £7,000 per annum for the service of acting as a non-executive director, £3,000 per annum for chairing a board committee and £1,500 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 2013 were £43,000 (2012: £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:

	2013 Number	2012 Number
£60,000 - £69,999	4	1
£70,000 - £79,999	2	1
£80,000 - £89,999	3	3
£90,000 - £99,999	0	2
£100,000 - £109,999	2	1
£140,000 - £149,999	1	1

Eleven 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.

STRATEGIC REPORT

Principal objectives

Big Society Capital's objectives are:

1. To have a transformative impact on the social investment market in the UK by supporting social investment finance intermediaries (SIFIs) to become financially robust and able to: attract greater and more diverse sources of investment; effectively and efficiently channel appropriate and affordable capital to the social sector; and provide effective financial and business support services to the social sector.
2. To increase awareness of and confidence in social investment 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.

Business performance and investment activity

The Financial Statements on pages 44 to 68 show the profit and loss for the period.

Big Society Capital has been set up to receive equity capital from dormant bank accounts of up to £400m and £200m from the shareholder banks (Barclays, HSBC, Lloyds Banking Group and RBS).

During 2013 £106.0m (2012: £119.4m) of equity capital was received, £63.7m (2012: £71.7m) from the dormant bank accounts via the Reclaim Fund Limited and £42.3m (2012: £47.7m) from the shareholder banks, taking total equity capital to £225.4m (2012: £119.4m). The balance of equity capital will be received over the next four years.

Total revenue for the year was £1.1m (2012: £1.5m). This comprises treasury management returns of £1.7m (2012: £1.6m) and overall net losses on the social investment portfolio of £0.6m (2012: £0.1m). Expenses were £4.0m (2012: £3.0m) with average headcount of 27 (2012: 18).

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. The treasury portfolio operates with an ethical screen and has an allocation to social investment.

The losses on the social investment portfolio reflect the current stage of Big Society Capital's social investments. A significant proportion of the investments are into funds that invest into social sector organisations. 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 no corresponding income against which to offset these. In future years it is expected that the funds will generate returns sufficient to cover these costs and earn a financial return.

The losses for the year are in line with Big Society Capital's forecasts. The long term aim is to be sustainable. The business plan shows that, for the initial few years, the company will be loss-making while it builds the market and makes early stage investments. In later years, the investments are forecast to make returns to cover the operational and market championing costs and generate a financial return.

As set out on pages 8 and 9, Big Society Capital has continued to focus on its two key roles, as investor and as market champion.

Investor

Big Society Capital's investment activities are described on pages 18 to 29.

In principle commitments of £92.5m have been made during 2013. Since launching, Big Society Capital has made total commitments of £149.1m. During 2013, one investment for £0.2m has been sold, resulting in Big Society Capital having total commitments of £148.9m for 30 investments at 31 December 2013. Of this total, 19 investments with a value of £47.9m have been signed and £13.1m has been drawn down. Big Society Capital's expectation is that the average investment will typically take between 3 and 6 years to fully draw down. Alongside the signed investments made by Big Society Capital, £55.5m has been committed by co-investors, taking the total value of capital available to the market to £103.4m. Uninvested capital remaining at 31 December 2013 was £73.3m.

As described above, the treasury portfolio has an allocation to social investment. As at 31 December 2013, the company held £11.3m in social investment through its treasury portfolio, taking Big Society Capital's overall drawn down social investment across the social investment and treasury portfolios to £24.4m.

Market Champion

Big Society Capital's market champion activities are described on pages 12 to 17.

Big Society Capital has helped build platforms to support the development of information systems, greater understanding of social outcomes and international cooperation. Big Society Capital has acted to improve the information available in the market through delivering a number of key research projects and worked to establish the first social investment research council. It has also helped build a consistent framework for understanding social outcomes by facilitating a collaboration of social sector experts. It has further helped promote international cooperation on social investment, through supporting the development of the Social Impact Investment Taskforce, established by the G8.

In addition, Big Society Capital has continued to act to shape the policy surrounding social investment. Big Society Capital has contributed to the development of the new tax relief for social investment launched in Budget 2014, as well as working with Government on upcoming reforms, such as the probation reforms, to identify ways that social investment can provide support.

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 16 to the Financial Statements.

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

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

- The failure of an investment leading to a damage in confidence. The company closely monitors the performance of all its investments by holding quarterly reviews with the SIFIs and by having representation or observer rights on the investee board or its investment committee.
- 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, in 2013 Big Society Capital introduced a new seeding policy to help SIFIs build a strong track record and increase their chances of raising future match finance.

Future developments and strategy

Big Society Capital will continue to be capitalised via the Reclaim Fund Limited and the shareholder banks. This capital will be used to invest in SIFIs to achieve the objectives outlined above.

The company's future strategy is detailed on pages 30 and 31.

This report was approved by the board on 14 April 2014 and signed on its behalf:

Nick O'Donohoe
Director

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2013.

Directors

The following persons served as directors during the year:

Sir Ronald Cohen
(Chair until 31 December 2013)

Harvey McGrath
(appointed to the board on 9 September 2013, Chair from 1 January 2014)

Dawn Austwick
(resigned on 10 September 2013)

David Carrington

John Kingston

Steve Morrison
(resigned on 21 January 2014)

Geoff Mulgan

Nick O'Donohoe

Dai Powell

Lady Susan Rice

Danielle Walker Palmour

Dividends

The directors do not recommend the payment of a dividend for the year (2012: £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 and the Directors' report, and the Financial Statements

The directors are responsible for preparing the Strategic report and 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).

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; and
- 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 the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has 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 14 April 2014 and signed on its behalf:

Nick O'Donohoe
Director

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 2013 set out on pages 44 to 68. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 auditors

As explained more fully in the Directors' responsibilities statement set out on pages 41 and 42, 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 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 2013 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 for which the Financial Statements are prepared is consistent with the Financial Statements.

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.

Lord Rockley
Senior Statutory Auditor

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
8 Salisbury Square
London EC4Y 8BB

14 April 2014

Profit and Loss Account

For the year ended 31 December 2013

	Notes	2013 £ 000	2012 £ 000
Investment (losses) / gains	2	(217)	686
Income		1,326	788
Total Revenue	3	**1,109**	**1,474**
Other income	4	55	462
Administrative expenses		(4,037)	(3,014)
Loss on ordinary activities before taxation	5	**(2,873)**	**(1,078)**
Tax on loss on ordinary activities	8	1	6
Loss for the financial year		**(2,872)**	**(1,072)**

The results above relate to continuing operations.

The Company has no recognised gains or losses other than those included in the profit and loss account.

There is no difference between the profit or loss on ordinary activities before taxation and the retained profit or loss for the year as stated above, and their historical cost equivalents.

The notes on pages 47 to 68 form part of these Financial Statements.

Balance Sheet

As at 31 December 2013

	Notes	2013 £ 000	2012 £ 000
Fixed assets			
Tangible assets	9	116	146
Investments	10	13,547	5,265
		13,663	**5,411**
Current assets			
Debtors	11	736	704
Investments	12	156,375	76,929
Cash at bank and in hand		51,224	35,822
		208,335	**113,455**
Creditors: amounts falling due within one year	13	(544)	(538)
Net current assets		**207,791**	**112,917**
Total assets less current liabilities		**221,454**	**118,328**
Creditors: amounts falling due after more than one year	14	(44)	(80)
Provisions for liabilities			
Deferred taxation	15	(9)	(10)
Net assets		**221,401**	**118,238**
Capital and reserves			
Called up share capital	18	225,409	119,374
Profit and loss account	19	(4,008)	(1,136)
Shareholders' funds	20	**221,401**	**118,238**

Approved by the board on 14 April 2014
and signed on its behalf:

Nick O'Donohoe
Director

Company registration number: 07599565

Cash Flow Statement

For the year ended 31 December 2013

	Notes	2013 £ 000	2012 £ 000
RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES			
Loss on ordinary activities before taxation		(2,873)	(1,078)
Depreciation and amortisation		52	39
Increase in debtors		(32)	(583)
Decrease in creditors		(30)	(449)
Fair value adjustments on current asset investments		(356)	(788)
Returns on current asset investments		(683)	(83)
Fair value adjustments on fixed asset investments		725	135
Returns on fixed asset investments		(16)	(10)
Increase in unamortised deferred commitment fee		(8)	20
Amortised commitment fee released in year		8	5
Net cash outflow from operating activities		**(3,213)**	**(2,792)**
CASH FLOW STATEMENT			
Net cash outflow from operating activities		(3,213)	(2,792)
Taxation		-	(49)
Capital expenditure and financial investments	21	(9,013)	(5,477)
		(12,226)	**(8,318)**
Management of liquid resources	21	(78,407)	(76,058)
Financing	21	106,035	119,374
Increase in cash		**15,402**	**34,998**
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
Increase in cash in the period		15,402	34,998
Change in net funds		**15,402**	**34,998**
Net funds at 1 January		35,822	824
Net funds at 31 December		**51,224**	**35,822**

Notes to the Financial Statements

For the year ended 31 December 2013

1 ACCOUNTING POLICIES

Basis of preparation

The Financial Statements have been prepared under UK GAAP in accordance with applicable accounting standards. They have been prepared under the historical cost convention, except for financial instruments which are accounted for in accordance with FRS 26 'Financial Instruments Measurement' and FRS 29 'Financial Instrument Disclosures'.

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 'Financial assets and financial liabilities - 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 £4.0m, including a loss for the period of £2.9m. The company had cash and current asset investments of £207.6m as at the year end, having been capitalised with £225.4m 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.

Substantial interest

The company has investments which may be regarded as associated undertakings under FRS 9 'Associates and Joint Ventures', which would require these to be consolidated using the equity method of accounting. As these investments are held to earn investment income and to achieve capital gains on subsequent disposal, they have not been consolidated in the accounts of the company.

Government grants

Government grants received are included within these accounting statements according to the nature of the grant and the terms and conditions contained therein. Grants received that support capital expenditure are credited to the profit and loss account over the expected useful economic life of the related asset, on a basis consistent with the depreciation policy. The revenue-based grants received, which are offset against core expenditure, are recognised in the profit and loss account when such expenditure is incurred.

Interest

Interest income is recognised either using the effective interest method or on an accruals basis, depending upon whether the financial asset has been designated upon initial recognition into the category 'loans and receivables' or '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.

Financial assets and financial liabilities

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 financial assets, within the balance sheet, on the date on which investments are closed and a draw down 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 23 - Capital commitments.

ii) Classification

The company classifies financial assets and financial liabilities 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

Financial assets at amortised cost:

- Loans and receivables - debt investments, cash at bank and in hand, cash deposits (included in investments held as current assets), and other debtors

Financial liabilities at amortised cost:

- Other liabilities - other creditors

Financial assets meeting the definition of loans and receivables are classified as financial assets at amortised cost. Otherwise financial assets are classified as at fair value through the profit or loss. Financial liabilities are classified as at amortised cost.

Note 16 provides a reconciliation of line items in the balance sheet to the categories of financial instruments, as defined by FRS 26.

iii) Fair value measurement

As described in Note 17 - 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':

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 Earnings (or other) Multiples are available for comparable businesses, the company will apply Multiples Valuation techniques to derive a value for the investment.

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.

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.

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

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) 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.

Depreciation

Depreciation is provided on all tangible fixed assets, 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

Full provision is made for deferred taxation resulting from timing differences between the recognition of gains and losses in the Financial Statements and their recognition for tax purposes.

Deferred tax is calculated at the tax rates which are expected to apply in the periods when the timing differences will reverse.

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 AND LOSSES

	2013 £ 000	2012 £ 000
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Realised	7	5
Unrealised	(225)	681
Net gains/ (losses) from financial assets carried at amortised cost:		
Unrealised	1	-
	(217)	**686**

3
TOTAL REVENUE

	2013 £ 000	2012 £ 000
Social investment portfolio		
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Fixed asset investments	(716)	(154)
Interest income on financial assets carried at amortised cost:		
Fixed asset investments	94	19
Interest income on financial assets designated as at fair value through profit or loss:		
Fixed assets investments	27	15
Fees	15	5
	(580)	**(115)**
Treasury portfolio		
Net gains/ (losses) from financial assets designated as at fair value through profit or loss:		
Current asset investments	498	840
Net gains/ (losses) from financial assets carried at amortised cost:		
Fixed asset investments	1	-
Interest income on financial assets carried at amortised cost:		
Cash at bank and in hand	591	253
Current asset investments	599	496
	1,689	**1,589**
Total revenue	**1,109**	**1,474**

As described in the Strategic report on page 39, losses on the social investment portfolio, reflect the current stage of the company's social investments.

4
OTHER INCOME

	2013 £ 000	2012 £ 000
Government grants received	49	462
Other income	6	-
	55	**462**

5
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2013 £ 000	2012 £ 000
This is stated after charging:		
Depreciation of owned fixed assets	52	39
Auditor's remuneration for audit services	55	48
Auditor's remuneration for taxation advisory services	4	28
Auditor's remuneration for non-audit services	75	20

6
DIRECTORS' EMOLUMENTS

	2013 £ 000	2012 £ 000
Emoluments	185	188
Company contributions to money purchase pension schemes	15	15
	200	**203**
Highest paid director:		
Emoluments	142	142
Company contributions to money purchase pension schemes	15	15
	157	**157**

NUMBER OF DIRECTORS IN COMPANY PENSION SCHEMES:

	2013 £ 000	2012 £ 000
Money purchase schemes	**1**	**1**

7

STAFF COSTS

	2013 £ 000	2012 £ 000
Wages and salaries	1,809	1,267
Social security costs	207	141
Other pension costs	135	89
	2,151	1,497

AVERAGE NUMBER OF EMPLOYEES DURING THE YEAR

	2013 Number	2012 Number
Investment	12	9
Senior Management	2	2
Strategy	4	2
Communications	2	1
Operations	7	4
	27	**18**

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 37.

8

TAXATION

	2013 £ 000	2012 £ 000
Analysis of charge in period		
Deferred tax:		
Origination and reversal of timing differences	(1)	(6)
Tax on loss on ordinary activities	**(1)**	**(6)**

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:

	2013 £ 000	2012 £ 000
Loss on ordinary activities before tax	**(2,873)**	**(1,078)**
Standard rate of corporation tax in the UK	23.25%	24.50%
	£ 000	£ 000
Profit on ordinary activities multiplied by the standard rate of corporation tax	(668)	(264)
Effects of:		
Expenses not deductible for tax purposes	182	25
Capital allowances for period in excess of depreciation	10	8
Pension contributions not paid in the year	(2)	-
Adjustment in respect of unrealised fair value movements	-	38
Tax loss not recognised as deferred tax asset	478	193
Current tax charge for period	**-**	-

Factors that may affect future tax charges

Future tax liabilities will be affected by the fall in the basic rate of corporation tax from 23% to 21% with effect from 1 April 2014.

9
TANGIBLE FIXED ASSETS

	Land and buildings £ 000	Fixtures, fittings and equipment £ 000	Total £ 000
Cost			
At 1 January 2013	123	67	190
Additions	3	19	22
At 31 December 2013	**126**	**86**	**212**
Depreciation			
At 1 January 2013	24	20	44
Charge for the year	26	26	52
At 31 December 2013	**50**	**46**	**96**
Net book value			
At 31 December 2013	**76**	**40**	**116**
At 31 December 2012	**99**	**47**	**146**

10
FIXED ASSET INVESTMENTS

	£ 000
At 1 January 2013	5,265
Additions	9,205
Disposals	(214)
Profit and loss - Unrealised	(709)
At 31 December 2013	**13,547**

Fixed asset investments are investments that cannot be realised within 1 year. Purchased in the year, and included within total fixed assets at 31 December 2013 is a £1.3m (2012: £0) investment held through the social investment allocation within the treasury portfolio, as described in the Strategic report on pages 38 to 40.

11
DEBTORS

	2013 £ 000	2012 £ 000
Other debtors	74	73
Prepayments	145	109
Accrued income	517	522
	736	**704**

12
INVESTMENTS HELD AS CURRENT ASSETS

	2013 £ 000	2012 £ 000
Treasury portfolio - Cash deposits	77,122	41,729
Treasury portfolio - Listed debt securities	69,319	35,200
Treasury portfolio - Unlisted debt securities	9,934	-
	156,375	**76,929**

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 38 to 40.

13
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2013 £ 000	2012 £ 000
Trade creditors	54	27
Other taxes and social security costs	66	54
Other creditors	-	156
Accruals	388	264
Deferred income	36	37
	544	**538**

Deferred income comprises the portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012.

14
CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	2013 £ 000	2012 £ 000
Deferred income	**44**	**80**

Deferred income comprises:

- The portion of grant for core costs from the Office for Civil Society, part of the Cabinet Office, which will be offset against depreciation on tangible fixed assets purchased up to 31 March 2012.
- Placement fees received, which become repayable if conditions are met during the term of investment. These will be released to the profit and loss account at the end of the investment term, if the conditions for repayment are not met.

15
DEFERRED TAXATION

	2013 £ 000	2012 £ 000
Accelerated capital allowances	9	10
Tax losses carried forward	(600)	(193)
Tax losses not recognised as deferred tax asset	600	193
Undiscounted provision for deferred tax	**9**	**10**

	2013 £ 000	2012 £ 000
At 1 January	10	16
Deferred tax charge in profit and loss account	(1)	(6)
At 31 December	**9**	**10**

16
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 38 and 39, 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 and listed and unlisted debt securities, and represents capital held before it is drawn down into social investment. The treasury portfolio operates with an ethical screen to exclude investments in armaments, businesses involved in production/distribution of illegal drugs, businesses with significant revenue sourced from gambling, pornography or tobacco and businesses subject to sanctions. Up to £20m of the treasury portfolio can be invested into social investment. As at 31 December 2013, the company held £11.3m in social investment. The treasury portfolio is managed in accordance with the company's treasury policy, as approved by the board.

CATEGORIES OF FINANCIAL INSTRUMENT

2013	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Liabilities at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
Assets					
Tangible fixed assets	-	-	-	116	116
Fixed asset investments	10,021	3,526	-	-	13,547
Debtors	-	591	-	145	736
Investments held as current assets	79,253	77,122	-	-	156,375
Cash at bank and in hand	-	51,224	-	-	51,224
Liabilities					
Creditors: amounts falling due within one year	-	-	(544)	-	(544)
Creditors: amounts falling due after more than one year	-	-	(44)	-	(44)
Deferred taxation	-	-	-	(9)	(9)
	89,274	**132,463**	**(588)**	**252**	**221,401**

2012	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Liabilities at amortised cost £ 000	Non financial instruments £ 000	Total £ 000
Assets					
Tangible fixed assets	-	-	-	146	146
Fixed asset investments	3,284	1,981	-	-	5,265
Debtors	-	595	-	109	704
Investments held as current assets	35,200	41,729	-	-	76,929
Cash at bank and in hand	-	35,822	-	-	35,822
Liabilities					
Creditors: amounts falling due within one year	-	-	(538)	-	(538)
Creditors: amounts falling due after more than one year	-	-	(80)	-	(80)
Deferred taxation	-	-	-	(10)	(10)
	38,484	**80,127**	**(618)**	**245**	**118,238**

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

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

2013	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Other income and expense £ 000	Total £ 000
Investment gains and losses	(218)	1	-	(217)
Income	27	1,284	15	1,326
Other income	-	-	55	55
Administrative expenses	(166)	(100)	(3,771)	(4,037)
Tax on loss on ordinary activities	-	-	1	1
	(357)	**1,185**	**(3,700)**	**(2,872)**

2012	Financial assets at fair value through profit or loss £ 000	Loans and receivables £ 000	Other income and expense £ 000	Total £ 000
Investments gains and losses	686	-	-	686
Income	15	768	5	788
Other income	-	-	462	462
Administrative expenses	(77)	(22)	(2,915)	(3,014)
Tax on loss on ordinary activities	-	-	6	6
	624	**746**	**(2,442)**	**(1,072)**

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.

Loans included in fixed asset investments are predominantly 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 social investment loans, held as 'loans and receivables', for which the carrying value and the credit exposure are shown below. The carrying value includes adjustments to the amortised cost that do not represent a reduction in credit risk.

Credit risk exposure as at the balance sheet date comprises:

Credit risk exposure	2013 £ 000	2012 £ 000
Fixed asset investments*	13,559	5,285
Other debtors	12	12
Accrued income	517	522
Rental deposit	62	62
Unlisted debt securities	9,934	-
Cash deposits - Investments held as current assets	77,122	41,729
Listed debt securities	69,319	35,200
Cash deposits - Cash at bank and in hand	51,224	35,822
Maximum exposure to credit risk as at the balance sheet date	**221,749**	**118,632**

* Included within fixed asset investments:	Credit risk exposure £ 000	Carrying value £ 000
Loans	885	873
	885	**873**

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

	Rating	2013 £ 000	2012 £ 000
Unlisted debt securities (average portfolio rating)	A2	9,934	-
Listed debt securities (average portfolio rating)	A2	69,319	35,200
Cash deposits - Investments held as current assets	Aa3	15,037	-
Cash deposits - Investments held as current assets	A2	66,688	23,303
Cash deposits - Investments held as current assets	A3	20,022	18,426
Cash deposits - Cash at bank and in hand	Aa3	1,502	701
Cash deposits - Cash at bank and in hand	A2	25,097	23,981
Cash deposits - Cash at bank and in hand	A3	-	11,139
		207,599	**112,750**

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.

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.

2013	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	468	468	468
	468	**468**	**468**

2012	Carrying amount £ 000	Contractual cash flows £ 000	6 months or less £ 000
Creditors: amounts falling due within one year	481	481	481
	481	**481**	**481**

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 £207.6m 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 therefore result in a reduction in returns of £1.0m.

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.

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VALUATION OF FINANCIAL INSTRUMENTS

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in Note 1 - Accounting policies, Financial assets and liabilities, iii) Fair value measurement.

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

- Level 1. Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2. Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3. Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The investments made by Big Society Capital, as part of its social investment portfolio, are each set up as bespoke investments. In determining the fair value techniques to apply to these investments, the individual circumstances of each investment and the attributes of each deal will be considered. The company uses a combination of the Adjusted Net Asset Valuation, Discounted Cash Flow and other methods to value its existing social investment portfolio.

The company relies on financial and other information provided by the investees, which may include unaudited items, and will use this as the basis for its valuations. The company regularly reviews the information provided for reasonableness and will make adjustments where required.

The fair value hierarchy of financial assets and liabilities as at 31 December 2013 can be analysed as follows:

	2013 £ 000	2012 £ 000
Financial assets held at fair value:		
Level 1		
Investments held as current assets	69,319	35,200
Level 2		
Investments held as current assets	9,934	-
Level 3		
Fixed assets - investments	10,021	3,284
	89,274	**38,484**

Level 3 financial assets held at fair value	Financial assets held at fair value through profit or loss £ 000
Balance at 1 January 2013	3,284
Purchases	7,637
Sales	(183)
Total investment returns recognised in profit or loss	(717)
Balance at 31 December 2013	**10,021**

Total investment returns included in profit or loss relating to assets held at the end of the reporting period:	(725)

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

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SHARE CAPITAL

	Nominal value	2013 Number	2013 £ 000	2012 £ 000
Allotted, called up and fully paid:				
Ordinary A shares	£1 each	135,381	135,381	71,696
Ordinary B shares	£1 each	90,028	90,028	47,678
			225,409	**119,374**

	Nominal value	Number	Amount £ 000
Shares issued during the period:			
Ordinary A shares	£1 each	63,685	63,685
Ordinary B shares	£1 each	42,350	42,350
			106,035

Shares were issued in order to provide capital to the company to enable it to fulfil its objectives, outlined in the Strategic report. Ordinary A shares have a minimum of 80% of voting rights attached to them.

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PROFIT AND LOSS ACCOUNT

	2013 £ 000	2012 £ 000
At 1 January	(1,136)	(64)
Loss for the financial year	(2,872)	(1,072)
At 31 December	**(4,008)**	**(1,136)**

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RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2013 £ 000	2012 £ 000
At 1 January	118,238	(64)
Loss for the financial year	(2,872)	(1,072)
Shares issued	106,035	119,374
At 31 December	**221,401**	**118,238**

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GROSS CASH FLOWS

	2013 £ 000	2012 £ 000
Capital expenditure		
Payments to acquire tangible fixed assets	(22)	(63)
Payments to acquire investments	(9,205)	(5,416)
Receipts from sales of investments	214	2
	(9,013)	**(5,477)**
Management of liquid resources		
Purchase of current asset investments	(113,652)	(105,205)
Sale of current asset investments	35,245	29,147
	(78,407)	**(76,058)**
Financing		
Issue of share capital	106,035	119,374
	106,035	**119,374**

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POST BALANCE SHEET EVENTS

In January 2014, the company received £14.8m of share capital via the Reclaim Fund Limited and in February 2014, £9.8m of share capital was received from the shareholder banks.

Since the year end, the company has paid investee drawdowns of a further £8.0m, increased in principle commitments by £2.0m and signed five of these in principle commitments with a value of £42.1m.

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CAPITAL COMMITMENTS

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

1. Investments signed and drawn down - legal agreements are completed and signed and funds (in total or partial) have been drawn down. The amounts drawn down are recognised as financial assets in the 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:

	2013 £ 000	2012 £ 000
Commitments contracted but not drawn down and not provided in the Financial Statements	**34,795**	**13,934**

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

	2013 £ 000	2012 £ 000
In principle commitments (approved by the Investment Committee, subject to legal approval)	**101,050**	**37,250**

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OTHER FINANCIAL COMMITMENTS

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2013 £ 000	Land and buildings 2012 £ 000
Operating leases which expire: within two to five years	**80**	**80**

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RELATED PARTY TRANSACTIONS

During the period the Big Society Trust, being the parent company, purchased £63.7m (31 December 2012: £71.7m) of £1 Ordinary A shares in Big Society Capital Limited, as detailed in Note 18 - Share capital.

Directors' emoluments are disclosed in Note 6 - Directors' emoluments and the Remuneration report on page 37, and senior management remuneration is included in Note 7 - Staff costs.

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ULTIMATE 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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Big Society Capital is authorised and regulated by the Financial Conduct Authority

BIG SOCIETY CAPITAL

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