

DIRECTORS' REMUNERATION REPORT

CHAIR'S FOREWORD

On behalf of the Board, I am pleased to present the Remuneration Report for the British Business Bank for the year ended 31 March 2015, the first since the Bank became a plc. Those sections of the report that have been audited by the National Audit Office have been identified as such.

The Committee's primary role is to provide robust, independent governance for executive remuneration that:

- supports the Bank's long term business strategy and values
- enables the Bank to recruit, motivate and retain talented individuals with appropriate skills and experience
- links executive reward to the Bank's performance against its long term business plan.

This report is divided into two parts:

1. Policy on Executive Directors' and senior management remuneration
2. Annual report on remuneration. This section outlines how the policy has been applied and includes details of remuneration for the senior team and the Board.

During the financial year 2014-15, the Bank made significant progress, as outlined in the Chairman's statement. The Committee has played an important role in determining a remuneration framework that reflects the particular circumstances of the Bank as a public owned Company operating in a commercial environment. Accordingly, the Committee has agreed and implemented

an incentive scheme that is designed to reward employees based on the long-term sustainable success of the Bank. Key decisions made by the Committee and recommended to the Board during the year were:

- agreeing base remuneration for the Executive Directors and senior management team
- designing a long term incentive plan (LTIP) appropriate to the particular circumstances of the Bank
- agreeing performance targets for 2014-15 and the first cycle LTIP
- reviewing overall remuneration policy for the Bank.

As this was the first year of operation of the Bank, the Remuneration Committee has taken an interest in broader market trends and carried out benchmarking of salaries and other reward mechanisms in summer 2014. In the context of the Bank's policy remit, the Committee recognises that remuneration policy will need to be reviewed from time to time to ensure that it is meeting the requirements of our shareholder and is fit for purpose. Where appropriate, the Committee will seek relevant external advice and guidance.

Looking ahead to 2015-16, the Committee will be reviewing the business targets for the next period and setting stretching business and personal targets for the executive, in particular in the context of any new policy initiatives which the Bank may be asked to undertake.

The Committee's primary role is to provide robust, independent governance for executive remuneration



Christina McComb

Christina McComb
Chair of the Remuneration Committee

REMUNERATION POLICY REPORT

POLICY OVERVIEW

The Remuneration Committee determines, on behalf of the Board, the Bank's policy on the remuneration of the Chairman, Executive Directors and other members of the senior team. The Committee's terms of reference are available on the Bank's website.

While not covered by the FCA/PRA Remuneration Code for banks, the British Business Bank has sought where appropriate to meet these governance requirements, in addition to The Large and Medium-sized Companies and Groups Regulations 2013.

As the Bank is in its first year of operation, the Remuneration Committee acknowledges that the policy may require review, both to meet changes in the Bank's internal strategy and to reflect changes in the external environment. The Committee will consider how such changes are appropriately taken into account in

order to ensure that the Bank adopts leading practice with respect to its remuneration policy.

HOW THE VIEWS OF THE SHAREHOLDER HAVE BEEN TAKEN INTO ACCOUNT

The shareholder-appointed Non-executive Director is a member of the Remuneration Committee. In addition, specific approval has been obtained from the shareholder for Executive Director remuneration and for the LTIP terms.

THE REMUNERATION POLICY FOR DIRECTORS AND THE SENIOR TEAM

In setting remuneration policy for the senior team, the Remuneration Committee has taken into account the following key factors:

- the need to attract and retain a high-calibre senior team to deliver

the Bank's strategy in alignment with the interests of the shareholder

- the requirement to reward long-term performance and incentivise the right behaviours
- the efficient use of taxpayer resources and the requirement to deliver good value for money for the Exchequer as a whole.

The Bank has not consulted its employees on this policy, although it has considered the reward philosophy for employees in general. The focus for employees is on rewarding performance over the longer term and to have reward packages which attract high-calibre candidates, while delivering value for money.

Table 1 below summarises the key elements of the Bank's remuneration policy for Executive Directors and the senior team, taking into account the factors above. The Executive Directors' service contracts are available for inspection at the Bank's registered office.

Table 1: Remuneration policy

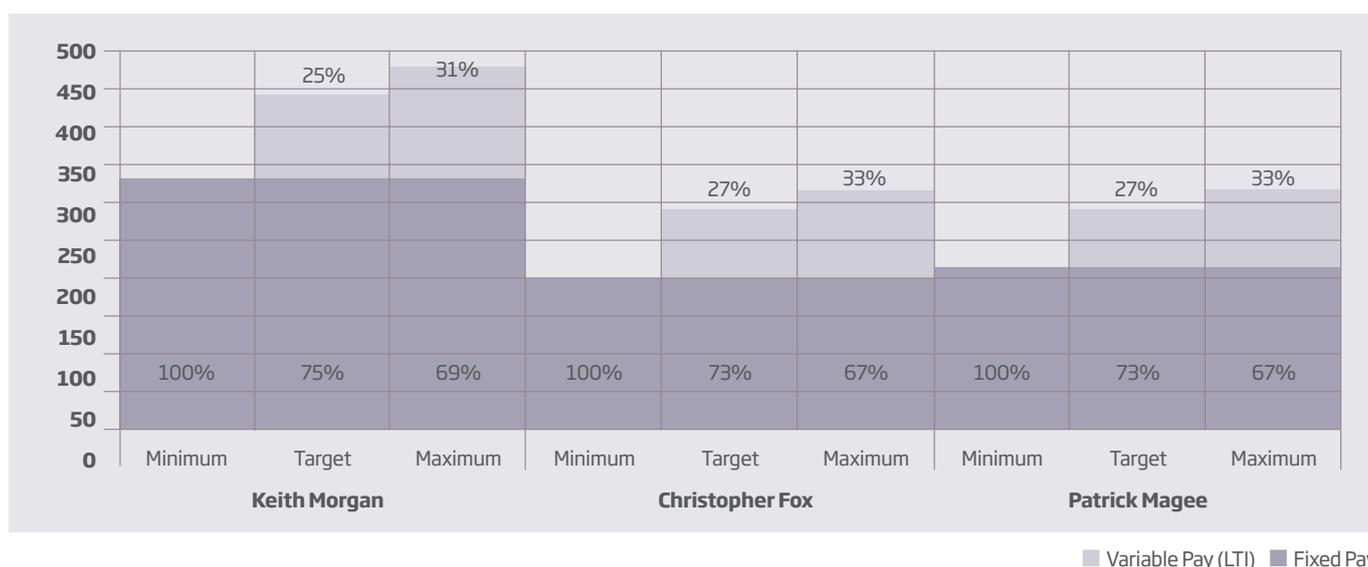
Element	Operation, opportunity & performance framework
Base Salary	
Objective: To attract and retain high-calibre senior leaders	Base salaries are reviewed annually taking into account the nature of the role and responsibilities. Roles are benchmarked against relevant comparator organisations in the public and private sectors. The Remuneration Committee also takes into account the external environment and views of the shareholder.
Long Term Incentive Plan (LTIP)	
Objective: To reward performance over the longer term	Executive Directors and certain members of the senior team are eligible to participate in the Long Term Incentive Plan (LTIP). The LTIP operates as a series of three year cycles; the first covers the period 2014-15 to 2016-17. Objectives are set at the beginning of each cycle and progress is reviewed by the Committee on an annual basis. Objectives are set in two categories: corporate and personal. The weighting between these categories may be varied over time, at the discretion of the Committee, taking into account the requirements of the business and any relevant external factors. The weighting for the first cycle LTIP is 60% to corporate targets and 40% to personal targets. Corporate targets cover rolling three year periods and will generally be in line with the Bank's business plan objectives. Personal targets are designed to take into account the specific responsibilities of individual senior leaders in the Bank.

Element	Operation, opportunity & performance framework
Objective: To reward performance over the longer term (cont.)	<p>The current incentive is a maximum cash award of 50% of base salary. In the case of Executive Directors, awards are paid at the end of the relevant three year cycle; in the case of the first cycle LTIP, in August 2017. In the case of other members of the LTIP, any awards in respect of personal objectives may be paid after two years. There is no annual bonus award for Directors and the senior team.</p> <p>Although the Company is not governed by the FCA or PRA, the Committee has determined that the regulatory best practice should be adopted with regard to Recovery and Withholding Provisions and such provisions shall apply for a period of seven years from the start of the performance period. Recovery and Withholding shall apply in a range of adverse circumstances, at the Committee's discretion, including financial accounts mis-statement, significant failure of risk management, regulatory censure or breach of policy and procedures.</p> <p>As a general rule, if a participant ceases employment within the Company's Group before an award is paid, then the award opportunity shall normally be forfeited and lapse in full, although there are exceptions for participants categorised as 'good leavers'.</p> <p>The Remuneration Committee has ultimate discretion over the payment of any awards taking into account factors it considers relevant including the overall performance of the Bank.</p>
Pension & other benefits	
Objective: To provide an attractive and cost-effective package	<p>The Bank contributes up to 15% of base salary to its defined contribution scheme or an approved personal pension scheme, subject to a minimum employee contribution of 3%. The CEO receives a cash-in-lieu allowance of 10%.</p> <p>Current benefits provided are illness income protection and life assurance. These are subject to review on an annual basis.</p>
Loss of office payments	
Objective: To provide fair but not excessive contract features	<p>There are no defined terms for loss of office within service contracts. Contractual Notice periods range from 3 to 6 months for members of the senior team. Executive Directors are on six months' notice either side. Provision may be made for payment in lieu of notice, where this is deemed to be in the interest of the business. Any situation will be considered by the Committee on its merits.</p> <p>Should an individual be considered a 'good leaver' under the LTIP rules, an appropriate portion of their LTIPs may, at the discretion of the Remuneration Committee, be retained. All termination payments are subject to Cabinet Office Guidelines.</p>
New Executive Director Remuneration	
Objective: To attract and retain high-calibre senior leaders	Remuneration for any new appointments will be set in accordance with the policy set out in this table. The same approach will be taken with respect to any internal appointments.

Based on the remuneration policy, the total remuneration for each Executive Director will depend on her or his own performance and the Bank's performance.

The following chart shows how executives' remuneration could vary according to performance and assumes that the Directors are employed by the Bank for a whole financial year. The variable pay element is measured over a three year period and is paid out after the end of the third year, subject to continued employment.

Chart 1: Ranges for Executive Director remuneration



■ Variable Pay (LTI) ■ Fixed Pay

Notes

- 1. Minimum = fixed pay only (salary and current cost of benefits and pension)
- 2. Target = fixed pay and 75% vesting of the LTIP
- 3. Maximum = fixed pay and 100% vesting of the LTIP

EXTERNAL APPOINTMENTS

Executive Directors may be invited to become Non-executive Directors in other companies. It is the Bank's policy that Board approval is required before any external appointment may be accepted by an Executive Director. The Board provides approval where such appointments will enhance the Executive Director's knowledge and experience to the benefit of the Bank. Board approval is also required in order for the Executive Director to retain any fees paid for such services. During the year, Keith Morgan served as a Non-executive Director at UK Asset Resolution Ltd and received a fee of £61,750.

NON-EXECUTIVE DIRECTORS

The Chairman and the Non-executive Directors do not have service agreements with the Bank. Non-executive Directors are appointed under letters of appointment which provide for an initial term of service of three years. The appointment of a Non-executive Director can be terminated by either party giving written notice. There is no provision for compensation for loss of office. The dates of the current letters of appointment of the Non-executive Directors are shown in the Corporate Governance Statement.

The terms and conditions of appointment of the Non-executive

Directors are available for inspection at the Bank's registered office.

The fee levels paid to Non-executive Directors reflect the time commitment and responsibilities, having regard to best UK practice.

The Board reviews Non-executive Director fees on a periodic basis to assess whether they remain competitive and appropriate in light of changes in roles, responsibilities or time commitment of the Non-executive Directors. In accordance with common practice Non-executive Directors are reimbursed expenses incurred in performing their role.

Table 2: Remuneration policy for Non-executive Directors

Element	Operation, opportunity & performance framework
Basic fee - Chair	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	The Chair fee will be reviewed from time to time by the Board.
Basic fee - Non-executive Directors	
Remuneration is in the form of an annual cash fee, in line with practice in the UK	Non-executive Director remuneration is reviewed annually by the Chair and the Executive Directors. Any recommendations are subject to Board approval, with Non-executive Directors not voting on their own remuneration.

Additional fees are paid to the Senior Independent Director and Chairs of the Audit, Risk and Remuneration Committees, in recognition of the additional time spent in respect of their Committee activities. This is in line with UK practice generally. Any increases in fees are subject to Shareholder approval.

BANK WIDE REMUNERATION AND INCENTIVE PLANS

The Bank aims to apply its remuneration policy in a consistent way for all staff. Staff receive pension contributions, life assurance and illness income protection as well as their basic salary. The Bank has three mutually exclusive incentive plans, all of which are designed to reward performance and achievement of the Bank's objectives.

These plans are payable wholly in cash, reflecting the fact that the Bank has a single shareholder (the Secretary of State for Business, Innovation and Skills) and does not issue shares to staff.

SHORT TERM INCENTIVE PLAN

Senior employees who are not eligible for the Long Term Incentive Plan are eligible to participate in the STIP. The purpose of this plan is to reward senior managers for their performance over the year as assessed against both their personal objectives (currently 40% of award) and the Bank's objectives (currently 60% of award). The maximum annual award is 30% of base salary. 50% of any award is paid after the relevant year end, with 25% deferred for one year and a further 25% deferred for two years. The STIP rules incorporate withholding and recovery provisions in line with good

practice and such provisions apply for a period of seven years from the start of the performance period.

ANNUAL BONUS

Employees not eligible for the Long or Short Term Incentive Plans may participate in the annual bonus scheme which has a maximum award of 20% of base salary.

ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3 of Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Amendment Regulations 2013. Disclosures are also made in accordance with the Companies Act 2006. The Bank has complied with the regulations where it believes it is appropriate to do so. Although the Bank is not subject to the

variable pay cap introduced under the European Union Capital Requirements Directive, it does comply with the cap.

PERFORMANCE ASSESSMENT

None of the senior team receives an annual performance award or bonus. The LTIP is a three year plan and the first LTIP corporate awards will be assessed at the end of the

three year period in March 2017. 20% of the LTIP award is subject to personal performance in 2014-15. The Committee has reviewed the performance of individuals for 2014-15 and has made provisional awards ranging from 75% to 95%. Table 3 below sets out the corporate three year performance targets for the first LTIP cycle.

Table 3: Corporate targets for the 2014-2015 LTIP which matures in March 2017

Objective	2016-17 target		
	Lower threshold	Stretch	Challenge
Increase stock of finance facilitated through British Business Bank programmes	£8bn	£9.9bn	£10.5bn
More diverse finance market (measured by finance facilitated through non-big 4 lenders)	70%	75%	80%
Better provision of information (measured through average awareness of six alternative finance options from British Business Bank customer research)	47%	49%	51%
Manage taxpayers' resources efficiently through earning an appropriate adjusted return on equity	1.2%	1.6%	1.8%
Expected vesting of corporate award based on judgement of Committee	Up to 50% for threshold performance. 0% if no targets are achieved	Up to 75%	Up to 100%

REMUNERATION

Table 4: Executive Director remuneration (audited)

	Salary & allowances	Taxable benefits ¹	Annual incentive	Long-term incentives ²	Pension payments (incl cash supplements)	Total ¹	Annual equivalent salary as at 31 March 2015
	£000	£000	£000	£000	£000	£000	£000
Keith Morgan ³	125	-	-	-	12	137	299
Christopher Fox ⁴	49	-	-	-	-	49	210
Patrick Magee ⁵	13	-	-	-	1	14	210
Total	187	-	-	-	13	200	719

Notes

- The Executive Directors receive death in service and illness income protection benefits which are non-taxable. There are no additional benefits payable.
- The Remuneration Committee has reviewed performance of individuals for 2014/15 and has made provisional awards ranging from 75-95% for the senior team. Subject to continued performance, these awards are payable in August 2017.
- Pension contributions were not made for Keith Morgan during 2014-15. The number shown above is the accrued amount due in respect of 2014-15 which was paid in 2015/16 as a cash alternative.
- Christopher Fox joined the British Business Bank as Chief Financial Officer on 8 January 2015. The amounts shown above are the amounts payable in respect of service from this date.
- Patrick Magee became an Executive Director of the Bank on 10 March 2015. The amounts shown above are the amounts payable in respect of service from this date.

Non-executive Directors are not remunerated in the same way as the Executive Directors and therefore have not been included in this table. However, they do receive compensation in the form of a fee as detailed in Table 7.

The amounts above are in respect of service on the Board for the period 1 November 2014 (the date the Bank commenced operations) to 31 March 2015. No amounts are shown for the prior financial year as the bank had no Executive Directors.

The median salary of British Business Bank employees for 2014-15 was £58,000. This compares to the CEO's annual base salary of £299,000. No employee earns more than the highest paid Director.

Table 5: Senior team remuneration (audited)

	Salary & allowances	Taxable benefits ¹	Annual incentive	Long-term incentives ²	Pension payments (incl cash supplements)	Total ³	Annual equivalent salary
	£000	£000	£000	£000	£000	£000	£000
Shanika Amarasekara ⁴	73	-	-	-	14	87	200
Mark Gray ⁵	83	-	-	-	14	97	200
Patrick Magee ⁶	87	-	-	-	10	97	210
Neil Wood ⁷	56	-	-	-	-	56	307
Total	299	-	-	-	38	337	917

Notes:

- The individuals above receive death in service and illness income protection benefits which are non-taxable.
- The Remuneration Committee has reviewed performance of individuals for 2014/15 and has made provisional awards ranging from 75-95% for the senior team. Subject to continued performance, these awards are payable in August 2016, except for Patrick Magee whose payment is deferred until August 2017 as he is an Executive Director.
- The amounts above are in respect of service as a member of the senior team for the period 1 November 2014 (the date of the inception of the Bank) to 31 March 2015. Members of the senior team have received no signing on payments, no leaving payments and no annual bonus payments.
- Shanika Amarasekara, General Counsel and Company Secretary
- Mark Gray, Managing Director, Risk and Compliance
- Patrick Magee was a member of the senior team prior to appointment to the Board. The remuneration figures above cover the period 1 November 2014 to 31 March 2015 and include his remuneration whilst an Executive Director.
- Neil Wood served as Interim Chief Financial Officer from 1 November 2014 to 8 January 2015 through a secondee agreement with Deloitte.

As the Bank commenced operations on 1 November 2014, there are no prior year comparatives for the remuneration of Executive Directors or the senior team.

Table 6: Long Term Incentive Plan (LTIP)

Senior management participate in a Long Term Incentive Plan and have been granted interests worth up to a maximum of 50% of their salary. Any payout is subject to a number of performance conditions.

	Type of interest	Face value of award (% of salary)	Face value of personal award (£)	Face Value of corporate award (£)	Total Face value of award (£)	% of corporate award for reaching threshold targets ¹	End of corporate performance period
Keith Morgan	Cash LTIP	50%	£59,800	£89,700	£149,500	50%	31 March 2017
Christopher Fox ²	Cash LTIP	50%	£28,974	£43,460	£72,434	50%	31 March 2017
Patrick Magee ²	Cash LTIP	50%	£32,840	£49,261	£82,101	50%	31 March 2017
Shanika Amarasekara ²	Cash LTIP	50%	£36,318	£54,477	£90,795	50%	31 March 2017
Mark Gray	Cash LTIP	50%	£40,000	£60,000	£100,000	50%	31 March 2017

Notes:

1. Personal performance targets are not included in this calculation as they are not subject to threshold conditions.

2. Christopher Fox, Patrick Magee and Shanika Amarasekara's awards have been pro-rated as they were employed by the British Business Bank or BIS (prior to the Bank's formation) for less than 12 months in the year ended 31 March 2015.

Table 7: Non-executive Director remuneration (audited)

	Total Fees 2014-15 £000	Annual Fee Entitlement 2014-15 £000	
Ron Emerson (Chairman)	120	120	
Christina McComb (Senior Independent Director)	46	45	
Maria Turner	30	30	
Jonathan Britton	30	30	
Teresa Graham	20	25	
Caroline Green	20	25	
Colin Glass	20	25	
Ceri Smith	Nil	Nil	
Patrick Magee	Nil	Nil	

The amount paid to Christina McComb was higher than her entitlement because there was an underpayment to her in the previous year.

The base fee for Non-executive Directors is £25,000 and individuals receive an allowance of £5,000 for chairing a Committee. There are no additional fees payable for individual Committee membership.

PENSION ENTITLEMENTS

The British Business Bank does not offer a defined benefit pension scheme for new staff. However, colleagues that transferred into the Bank from BIS are able to continue to participate in BIS's defined benefit scheme.

Mark Gray, Patrick Magee and Shanika Amarasekara were participants in a defined benefit pension scheme in 2014-15. Their pension entitlements are calculated based on length of service and earnings during the period of eligible service as advised to the Bank by the Pension Administrator, MyCSP. Mark Gray, Patrick Magee and Shanika Amarasekara transferred to the British Business Bank's defined contribution scheme on 1 February, 1 March and 1 June 2015 respectively. The change in their pension benefits is set out in the single figure disclosure in table 5. Keith Morgan receives a cash allowance of 10% of base salary in lieu of pension contribution.

BOARD OF DIRECTORS TERMS OF OFFICE

The dates of appointment and terms of office of Non-Executive and Executive Directors are provided in the Corporate Governance Statement, page 37.

MEMBERSHIP OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Christina McComb (Chair), Ron Emerson, Teresa Graham and Ceri Smith (representing the Shareholder). The Committee members bring with them a range of expertise from diverse backgrounds designed both to support the Bank in its governance framework and to facilitate the relationship with the Shareholder. Informal discussion between Committee members has also added value to the Bank's remuneration policy and practice.

Information on the number of meetings of the Remuneration Committee and the individual attendance by members is provided on page 40.

The Chief Executive and Chief Financial Officer have been invited to join meetings, where their own remuneration is not the subject of discussion. The Assistant Company Secretary acts as Secretary to the Committee.

EXTERNAL ADVISERS

The Remuneration Committee received advice from Aon in respect of the set-up of the Long Term and Short Term Incentive Plans and to support the production of this Directors' Remuneration Report. The total fees paid were £92,000.

Aon was selected following a competitive tendering process. Aon is a signatory to the Remuneration Consultants' Code of Conduct which requires consultants to provide objective and impartial advice. The Remuneration Committee is satisfied that Aon is not connected to the British Business Bank.

RELATIVE IMPORTANCE OF SPEND ON PAY

As this was our first year of operation, we are not able to provide information on the actual expenditure of the Bank for the year ended 31 March 2015 and the preceding year and the difference in spend between those years on remuneration, distributions to shareholders and any other significant distributions. Total staff costs for 2014-15 were equal to 34% of revenue.

IMPLEMENTATION OF THE REMUNERATION POLICY FOR 2015-16

For 2015-16, the Remuneration Committee will continue to implement the

policy on a similar basis to 2014-15. The British Business Bank will seek approval from the Shareholder for any changes to the policy.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

This Directors' Remuneration Report, including both the Policy and Annual Remuneration Report, has been approved by the Board of Directors.

Signed on behalf of the Board of Directors.

Yours sincerely



Christina McComb
Chair of the Remuneration Committee

The Committee members bring with them a range of expertise from diverse backgrounds designed both to support the Bank in its governance framework and to facilitate the relationship with the Shareholder