

**British Business Bank plc**  
**Shareholder Relationship Framework Document**

**1. Introduction**

1.1 The British Business Bank plc (the “**Company**”) is a public limited company, the sole shareholder of which is the Secretary of State for Business, Innovation and Skills (the “**Shareholder**”), that operates within a Financial Framework agreed with HM Treasury. This framework document (the “**Framework Document**”) has been drawn up by the Company and the Shareholder. The Framework Document is to apply to the Company and its subsidiaries (the “**Group**”). The primary, day-to-day contact for the Company will be officials from the Shareholder Executive, within the Department for Business, Innovation and Skills (“**BIS**”), acting on behalf of the Shareholder.

1.2 The Group will have three strands of activity: (A) a “commercially funded” arm, British Business Investments Ltd (“**Commercial Subsidiary**”); (B) a “mandated” arm, British Business Finance Ltd (“**Mandated Subsidiary**”); and (C) an “entrusted entity” or service arm (“**Service Subsidiary**”), each of which may have subsidiaries of their own. References to the Mandated Group, Commercial Group and Service Group are to be construed accordingly.

1.3 The Framework Document describes:

- (A) certain parameters within which the Company, the Commercial Group, the Mandated Group and the Service Group are expected to operate;
- (B) certain obligations with which the Company, the Commercial Group, the Mandated Group and the Service Group are expected to comply; and
- (C) certain aspects of the relationship between the Shareholder and the Group and the manner in which it is expected that the Shareholder (in its capacity as the Company’s sole shareholder) and the Group will interact with each other, including an undertaking from the Shareholder to ensure the operational independence of the Company (Annex I).

**2. Overarching Purposes**

2.1 The strategic objectives of the Group are to:

- (A) make finance markets in the UK work effectively for SMEs, and, in the case of the Commercial Group, SMEs and small mid-cap businesses, allowing them to prosper, grow and build UK economic activity;
- (B) increase the supply of finance available in the UK to SMEs, and, in the case of the Commercial Group, SMEs and small mid-cap businesses, in areas where the markets supplying such finance do not work effectively;

- (C) help create a more diverse market for finance available in the UK to SMEs, and, in the case of the Commercial Group, SMEs and small mid-cap businesses, with a greater choice of options and providers; and
- (D) save in respect of the Commercial Group, help promote better information in the market in the UK, building confidence among SMEs, and in the finance options available.

2.2 For the purposes of the Framework Document:

- (A) **“SMEs”** means enterprises which have fewer than 250 employees and either an annual turnover not exceeding EUR 50 million or an annual balance sheet not exceeding EUR 43 million or, if different, as defined in the General Block Exemption Regulation<sup>1</sup> **“GBER”** as amended, restated or replaced from time to time; and
- (B) **“small mid-cap businesses”** means undertakings which have not more than 1,500 employees, calculated in accordance with the GBER or, if different, as defined in the Guidelines on State aid to promote risk finance investments<sup>2</sup> as amended, restated or replaced from time to time.

2.3 The strategic objectives of the Group described in paragraph 2.1 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the **“Overarching Purposes”** and are to be implemented through the operations of the Commercial Group, the Mandated Group and the Service Group respectively.

3. **Company activities**

- 3.1 The Company’s objects (the **“Company Objects”**) are specified in its articles of association (the **“Company Articles”**).
- 3.2 The Shareholder and the board of directors of the Company (the **“Company Board”**) have, in consultation with each other, agreed that the Company shall:
  - (A) conduct its activities in a manner which the Company Board considers will or is likely to achieve the Company Objects and to fulfil the Overarching Purposes;
  - (B) operate within, and conduct its activities in accordance with, the Common Strategic Framework described in Section 7 (Common Strategic Framework) and defined in paragraph 7.2;

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<sup>1</sup> Commission Regulation (EU) No 651/2014).

<sup>2</sup> Communication from the Commission (2014/C 19/04).

- (C) support the UK Government in the development of overall policy and in co-ordinating its efforts and other sources of support (including European Union institutions) to maximise the impact and efficiency of the financing in the UK of SMEs, and, in the case of the Commercial Group, SMEs and small mid-cap businesses;
- (D) act as the holding company of the Group;
- (E) develop a consistent and concise corporate narrative for the Group and proactively share a common corporate culture across the Group;
- (F) co-ordinate the awareness campaigns and stakeholder engagement initiatives of the Group;
- (G) advise the Shareholder and the UK Government in the development of the Overarching Purposes, any further strategic objectives and the policies of the Group (including the investment strategy of the Group);
- (H) monitor and procure compliance of the Group with the Framework Document, in particular, with the best practice of corporate governance, and any other agreed strategic objectives or policies;
- (I) provide information and advice to the UK Government in respect of supranational issues, as required;
- (J) provide the Shareholder with information in respect of the Group upon request; and
- (K) provide certain resources and services to the Group as required from time to time including property, IT and telephone system, human resources, financial management, legal, compliance, procurement, risk, marketing and market research,

(the strategic framework and priorities described in this paragraph 3.2 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the **“Company Strategic Framework”**).

3.3 In connection with the Company’s achievement of its purposes as stated in the Company Objects and the achievement of the Overarching Purposes:

- (A) the Company is to operate within, and conduct its activities in accordance with, the Company Strategic Framework;
- (B) the Operating Principles as described in Section 8 (Operating Principles) and defined in paragraph 8.2, in so far as they are applicable to the Company, are to apply to the conduct of the Company’s activities; and
- (C) the Company is to conduct its activities in accordance with the Financial Targets and Principles, as described and defined in Section 9 (Financial Targets and

Principles) and defined in paragraph 9.7, to the extent that the Financial Targets and Principles are applicable to the Company.

#### 4. **Commercial Subsidiary activities**

4.1 The Commercial Subsidiary's objects (the "**Commercial Subsidiary Objects**") are specified in its articles of association (the "**Commercial Subsidiary Articles**").

4.2 The Commercial Subsidiary shall:

- (A) conduct its activities in a manner which its directors consider will or is likely to achieve the Commercial Subsidiary Objects and to fulfil the Overarching Purposes;
- (B) operate within, and conduct its activities in accordance with, the Common Strategic Framework described in Section 7 (Common Strategic Framework) and defined in paragraph 7.2; and
- (C) obtain the prior written consent of the Company before any member or members of the Commercial Group make(s) any individual investment or financial commitment in excess of £75 million (any such consent must fall within BIS's own delegated authorities),

(the strategic framework and priorities described in this paragraph 4.2 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the "**Commercial Strategic Framework**").

4.3 In connection with the Commercial Subsidiary's achievement of its purposes as stated in the Commercial Subsidiary Objects and the achievement of the Overarching Purposes:

- (A) the Commercial Subsidiary is to operate within, and conduct its activities in accordance with, the Commercial Strategic Framework on a fully commercial basis;
- (B) the Operating Principles as described in Section 8 (Operating Principles) and defined in paragraph 8.2, in so far as they are applicable to the Commercial Group, are to apply to the conduct of the Commercial Subsidiary; and
- (C) the Commercial Subsidiary is to conduct its activities in accordance with the Financial Targets and Principles, as described and defined in Section 9 (Financial Targets and Principles) and defined in paragraph 9.7, to the extent that the Financial Targets and Principles are applicable to the Commercial Group.

#### 5. **Mandated Subsidiary activities**

5.1 The Mandated Subsidiary will be tasked with monitoring and analysing the market and supporting the full range of interventions necessary to resolve any market failures and the associated funding gap faced by SME businesses, by delivering public policies

targeted at overcoming those market failures and by contributing to certain European programmes designed to assist SMEs in accessing finance. The Mandated Subsidiary will conduct its interventions on a market economy operator or an aided basis, within the remit of its State aid approval. The Mandated Subsidiary's objects (the "**Mandated Subsidiary Objects**") are specified in its articles of association.

5.2 The Mandated Subsidiary shall:

- (A) conduct its activities in a manner which its directors consider will or is likely to achieve the Mandated Subsidiary Objects and to fulfil the Overarching Purposes; and
- (B) operate within, and conduct its activities in accordance with, the Common Strategic Framework described in Section 7 (Common Strategic Framework) and defined in paragraph 7.2,

(the strategic framework and priorities described in this paragraph 5.2 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the "**Mandated Strategic Framework**").

5.3 In connection with the Mandated Subsidiary's achievement of its purposes as stated in the Mandated Subsidiary Objects and the achievement of the Overarching Purposes:

- (A) the Mandated Subsidiary is to operate within, and conduct its activities in accordance with the Mandated Strategic Framework on an aided or market economy operator basis;
- (B) the Operating Principles as described in Section 8 (Operating Principles) and defined in paragraph 8.2, in so far as they are applicable to the Mandated Group, are to apply to the conduct of the Mandated Subsidiary's activities; and
- (C) the Mandated Subsidiary is to conduct its activities in accordance with the Financial Targets and Principles, as described and defined in Section 9 (Financial Targets and Principles) and defined in paragraph 9.7, to the extent that the Financial Targets and Principles are applicable to the Mandated Group.

## 6. **Service Subsidiary activities**

6.1 The Service Subsidiary's objects (the "**Service Subsidiary Objects**") are specified in its articles of association.

6.2 The Service Subsidiary shall:

- (A) conduct its activities in a manner which its directors consider will or is likely to achieve the Service Subsidiary Objects and to fulfil the Overarching Purposes;
- (B) operate within, and conduct its activities in accordance with, the Common Strategic Framework described in Section 7 (Common Strategic Framework) and defined in paragraph 7.2;

- (C) as agreed between the Shareholder and the Service Subsidiary, provide information and advice to the UK Government (which, for the purposes of this sub-paragraph 6.2(C) and sub-paragraph 6.2(D) shall include the Welsh Government, the Scottish Government and the Northern Irish Executive) including in relation to: (i) the programmes referred to in sub-paragraph 6.2(D); (ii) the establishment of any new such programme; and (iii) the termination of any such programme;
- (D) as agreed between the Shareholder and the Service Subsidiary, act as an agent of the UK Government in respect of the administration, operation and implementation of certain programmes relating to the provision of finance to SMEs; and
- (E) perform any statutory function that the Service Subsidiary is required to perform,

(the strategic framework and priorities described in this paragraph 6.2 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the “**Service Strategic Framework**”).

6.3 In connection with the Service Subsidiary’s achievement of its purposes as stated in the Service Subsidiary Objects and the achievement of the Overarching Purposes:

- (A) the Service Subsidiary is to operate within, and conduct its activities in accordance with the Service Strategic Framework;
- (B) the Operating Principles as described in Section 8 (Operating Principles) and defined in paragraph 8.2, in so far as they are applicable to the Service Group, are to apply to the conduct of the Service Subsidiary’s activities;
- (C) the Service Subsidiary is to conduct its activities in accordance with the Financial Targets and Principles, as described and defined in Section 9 (Financial Targets and Principles) and defined in paragraph 9.7, to the extent that the Financial Targets and Principles are applicable to the Service Group. The Service Group will be subject to spending thresholds set by BIS within their own delegated authorities; and
- (D) the Service Subsidiary will act in accordance with the service agreement between the Company, the Service Subsidiary and the Shareholder.

## 7. **Common Strategic Framework**

7.1 The Shareholder and the Company Board have, in consultation with each other, agreed that the Group, informed principally by the activities of the Commercial Subsidiary and the Mandated Subsidiary, shall:

- (A) proactively identify imperfections in the business finance markets of SMEs and, in the case of the Commercial Subsidiary, SMEs and small mid-cap businesses, (such as lack of diversity, supply or awareness) and become a Centre of Excellence for the research and analysis of such UK business finance markets;

- (B) proactively address such imperfections through design, implementation and management of targeted interventions (such as increased funding, the delivery of information or advice campaigns);
- (C) deliver effective awareness campaigns and ensure that stakeholders understand the Overarching Purposes and are fully engaged with the Group;
- (D) manage its programmes as a portfolio, balancing its different activities to achieve its objectives and in particular, the Commercial Subsidiary Objects or the Mandated Subsidiary Objects (as applicable);
- (E) act transparently by: (i) publishing research, market analysis and information on its own performance against its objectives; and (ii) producing a robust evidence base to justify its activities;
- (F) monitor its activities and alter its interventions and other activities according to evidence of the effectiveness and efficiency (taking into account the objectives and the Financial Targets and Principles applicable to the relevant company) of such interventions; and
- (G) in respect of the Commercial Group and the Mandated Group, not be constrained by any programme-specific budgets but instead manage an overall budget of the types of resources that it receives taking a portfolio approach to intervention and without limitations on its investment decisions except as provided in the Framework Document.

7.2 The strategic framework and priorities described in paragraph 7.1 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the “**Common Strategic Framework**”.

## 8. **Operating Principles**

8.1 The Company, the Commercial Subsidiary, the Mandated Subsidiary and the Service Subsidiary shall:

- (A) operate within the Company Objects, the Commercial Subsidiary Objects, the Mandated Subsidiary Objects or the Service Subsidiary Objects (as applicable), as set out in their relevant articles of association;
- (B) act in a manner consistent with the Group Business Plan to the extent that their provisions are relevant to the applicable company or member of the Group;
- (C) operate within financial services and any other relevant regulatory parameters;
- (D) except in relation to the Commercial Group, seek to minimise distortion and any displacement effects where markets function well;
- (E) seek to overcome market imperfections and improve market effectiveness and, in the case of the Mandated Group and the Service Group, whilst minimising adverse impacts on competition and trading conditions;

- (F) apply commercial expertise to, and endeavour to operate and to evaluate, the operation of commercial programmes (in the case of the Commercial Group, on a fully commercial basis) where appropriate to address a market failure; and
- (G) operate consistently with the terms of any State aid approval relating to the Group and/or its activities (“**State Aid Approval**”) and any relevant EU State aid rules and guidance applicable to the Group, (together with State Aid Approval, the “**State Aid Requirements**”), in each case liaising with the UK Government as appropriate.

8.2 The principles described in paragraphs 8.1 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the “**Operating Principles**”.

## 9. **Financial Targets and Principles**

### ***Separation of funding streams***

9.1 The Company shall ensure that the funding for each of the Commercial Group, the Mandated Group and the Service Group is accounted for separately and that any funding or other financial support provided in respect of any member of the Group shall be consistent with any State Aid Approval and State Aid Requirements from time to time. Subject thereto, for the avoidance of doubt, profits generated by the Commercial Group that have been distributed to the Company may be re-invested in the Mandated Group.

### ***Group financial target***

9.2 The medium term (4 year, reducing to 3 year) return target for the Group will be set by reference to the cash weighted average nominal yield of UK Government gilt issuance as reported by the Debt Management Office (“**DMO**”). The return is defined as the Return on Capital Employed adjusted for temporary accounting adjustments and is measured at the level of the British Business Bank programme as a whole. Annex II contains details of how the target and return will be calculated.

### ***Company and Mandated Group Spending threshold***

9.3 The consent of the Shareholder shall be required before the Company or any member or members of the Mandated Group shall make any individual investment or individual financial commitment (as part, or comprising the whole, of a programme) in excess of £75 million. Any such consent must fall within BIS’s own delegated authorities.

### ***Managing taxpayer resources***

9.4 The Group shall manage taxpayer resources efficiently.

### ***No borrowing***

9.5 No member of the Group shall incur borrowings (or any analogous obligations) without HM Treasury written consent but may incur liabilities in connection with normal business activities, including in respect of guarantees, indemnities or security granted by a



member of the Group, provided that such liabilities (whether with respect to guarantees, indemnities, security or otherwise) are incurred within the terms of the financial and information framework agreed in writing with HM Treasury.

- 9.6 Any debt funding of the Commercial Group by the Company or the UK Government shall require an assessment that the rate for such funding is commercial.
- 9.7 The principles described in paragraphs 9.2 to 9.6 (inclusive and as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the “**Financial Targets and Principles**”.

## 10. **Other policies**

### ***Procurement policy***

- 10.1 Procurement of works, goods and services shall be in compliance with applicable procurement law.

### ***Tax policy***

- 10.2 In addition to any other policies the Company Board considers necessary, the Group shall have (and shall conduct its activities in accordance with) a tax policy that has been agreed in writing by the Shareholder.

### ***Incorporation of subsidiaries and subsidiary undertakings***

- 10.3 No member of the Group shall incorporate a subsidiary or incorporate or establish a subsidiary undertaking unless it has notified the Shareholder in writing before any such incorporation or establishment (as applicable), save as part of the ordinary establishment of a finance programme in respect of SMEs or, in the case of the Commercial Group, SMEs and small mid-cap businesses; and in any case the Group shall notify the Shareholder of a proposal to establish a regulated entity or any undertaking incorporated or established outside the UK.

### ***Programme transfers***

- 10.4 It is not expected that programmes will transfer between the Commercial Group and the remainder of the Group, particularly given the different objectives across the Group. In the exceptional event that such a transfer were deemed appropriate, the transfer would need to comply with the constitution of the members of the Group concerned, any other relevant corporate governance documents and other relevant legal requirements. The transfer would also be subject to approval by the board of the Commercial Subsidiary (the “**Commercial Subsidiary Board**”), the board of any other Group member involved in the transfer and the Company Board.

### ***Statement of propriety***

- 10.5 The activities, roles and responsibilities of the Company as described in this Framework Document shall be conducted with propriety and otherwise as far as practicable and relevant in compliance with the publication entitled “Managing Public Money” issued by

HM Treasury (as amended from time to time), except in respect of any issue set out in this Framework Document or as otherwise agreed in writing with the Shareholder. For the avoidance of doubt, this includes the compliance by the Company with “Managing Public Money” in respect of any proposals of the Company that are or might be considered novel, contentious or repercussive.

***Value for money***

10.6 The Group shall seek to deliver good value for money for the Exchequer as a whole.

**11. Group Business Plan and Commercial Group Business Plan**

11.1 The Company Board will develop and update a business plan for the Group covering a period of at least three years (the “**Group Business Plan**”).

11.2 The Shareholder and the Company Board shall agree the issues and priorities to be addressed in the Group Business Plan but it will include:

- (A) the strategic objectives of the Group as set out in clause 2.1, the strategy for meeting those objectives and associated performance targets (financial and non-financial) for the Group, in line with the requirements of the Framework Document, in particular, the Company Strategic Framework, the Commercial Strategic Framework, the Mandated Strategic Framework, the Service Strategic Framework and the Financial Targets and Principles;
- (B) where applicable, a review of performance in the preceding financial year, together with comparable outturns for the previous two years and an estimate of performance in the current year;
- (C) a set of financial forecasts which underpins the Group Business Plan and includes the costs of operating the Group, and financial forecasts for individual programmes owned by the Group and managed by the Group; and
- (D) alternative scenarios and an assessment of the risk factors that may significantly affect the execution of the Group Business Plan but that cannot be accurately forecast.

11.3 The Group Business Plan shall be reviewed by the Company Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by the Group. The Group Business Plan shall be subject to review by, and approval of, the Shareholder on an annual basis.

11.4 The Company shall inform and consult with the Shareholder in respect of any contemplated changes to the Group Business Plan that it considers are, or may become, necessary from time to time. Any proposed updates or amendments to the Group Business Plan, whether arising out of the annual review process or otherwise, will be subject to discussion with, and approval by, the Shareholder.

11.5 The Commercial Subsidiary Board will develop and update a business plan with the Company, including a budget and financial forecasts, for the Commercial Group, which

shall demonstrate the market(s) in which the Commercial Group shall operate, its intended activities and a forecast of expected future returns over at least a three year term (the “**Commercial Group Business Plan**”).

- 11.6 The Commercial Group Business Plan will be drawn up on a commercial basis, cover a period of at least three years and shall be reviewed by the Commercial Subsidiary Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by the Commercial Group. The Commercial Group Business Plan will be subject to review by, and approval of, the Company on an annual basis and the Company shall monitor the implementation of the Commercial Group Business Plan.
- 11.7 The Commercial Subsidiary shall inform and consult with the Company in respect of any contemplated changes to the Commercial Group Business Plan that it considers are, or may become, necessary from time to time. Any proposed updates or amendments to the Commercial Group Business Plan, whether arising out of the annual review process or otherwise, will be subject to discussion with, and approval by, the Company.

## 12. **Shareholder relationship and governance**

### ***Corporate governance***

- 12.1 The Group shall operate a corporate governance framework that, so far as practicable and in the light of the other provisions of the Framework Document or as otherwise may be agreed with the Shareholder, accords with best practice corporate governance. In particular (but without limitation), the Company shall comply with the provisions of The UK Corporate Governance Code (the “**Corporate Governance Code**”) other than in respect of Section E (Relations with Shareholders), or specify and explain any non-compliance in its annual report.

### ***Board appointments and senior management***

- 12.2 The composition of the Company Board and of the board of each member of the Group is a critical factor for the Shareholder. The aim is to secure an environment in which, for each member of the Group, the Shareholder, the Chairman of the relevant member of the Group and the Chair of the nomination committee for that member of the Group share a common view about the composition of the relevant member of the Group’s board and proposals for succession, taking into account the balance of experience and background. To this end, the following shall apply:
- (A) the Company Board is to consist of no fewer than eight directors, including six non-executive directors;
- (B) the Chairman of the Company (the “**Company Chairman**”) and independent, non-executive directors (meaning non-executive directors having the character of independence specified in the Corporate Governance Code) are to constitute a majority of the Company Board;

- (C) the Shareholder shall appoint the Company Chairman and Senior Independent Director, and one senior UK Government official as its representative director (a **“Shareholder Representative Director”**) to the Company Board;
- (D) the Shareholder shall consult with the Company Chairman and, if the Company Chairman is not also the Chair of the Company Nomination Committee, the Chair of the Company Nomination Committee about the identity of the proposed Shareholder Representative Director and the Senior Independent Director before nominating him or her for appointment;
- (E) subject to the prior written consent of the Shareholder in accordance with the Company Articles, the Company Board shall appoint the other directors of the Company as recommended by the Company Nomination Committee;
- (F) subject to the prior written consent of the relevant shareholder in accordance with the applicable articles of association, the board of directors of each member of the Group other than the Company may appoint other directors of the relevant member of the Group as recommended by the Company Nomination Committee or, in the case of the Commercial Group, the Commercial Subsidiary Nomination Committee;
- (G) the chairman of the relevant member of the Group (or, if different, the Chair of the Company Nomination Committee, or, in the case of the Commercial Group, the Commercial Subsidiary Nomination Committee) and the Shareholder shall discuss the proposals for appointment and succession made by the Company Nomination Committee or, in the case of the Commercial Group, the Commercial Subsidiary Nomination Committee (as applicable);
- (H) no appointment or removal of a director of the Company or of any other member of the Group, or appointment or removal of any such director to or from an executive position, shall be made without the prior written consent of the Shareholder except that such consent shall not be required in respect of the appointment of a director of a member of the Group other than the Company if the person who is proposed to be so appointed was an employee of any member of the Group or a director of another member of the Group at the time such person was proposed as a director of the relevant member of the Group; and
- (I) the Company Board shall ensure that suitably rigorous appraisals are made of the effectiveness of the Company Chairman and the members of the Company Board.

### ***Remuneration and incentives***

- 12.3 The Shareholder expects the Company Remuneration Committee to have responsibility for setting the remuneration policy for all executive directors of members of the Group, the Company’s Chairman, the chairman of each other member of the Group and all other senior management of any member of the Group, including pension rights, any compensation payments and, in so far as possible in respect of wholly-owned subsidiaries, performance related remuneration except in respect of members of the

Commercial Group in which case the Commercial Subsidiary Remuneration Committee shall have such responsibility. Proposals on severance must comply with the rules in Chapter 4 of Managing Public Money.

- 12.4 In determining such a remuneration policy, the Company Remuneration Committee and Commercial Subsidiary Remuneration Committee shall take into account all factors that it deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the Corporate Governance Code and associated guidance.
- 12.5 The approval of or agreement to (or material variation or amendment of) the remuneration, the terms and conditions on which such remuneration is to be paid or granted or the terms of employment or engagement of any director of the Company or any non-executive director of any other member of the Group shall require the prior written consent of the Shareholder in accordance with, and observing any limits in, the Company Articles or the articles of association of the relevant member of the Group (as applicable).
- 12.6 No executive officer or other employee of the Company or any other member of the Group shall be paid more than the highest paid director of the Company (the “**Highest Paid Director**”) without prior written consent of the Shareholder. In determining the remuneration of the Highest Paid Director, such remuneration shall be deemed to be equal to the actual cash payment that the Highest Paid Director receives in the relevant year.
- 12.7 The average total remuneration of staff below board level in the Group, whose total remuneration (including their annual payment or allocation under any applicable incentive scheme and including any applicable pension contribution(s)) is in excess of the Prime Minister’s salary, shall be in line with lower quartile total remuneration for comparable roles in the private sector (calculated on the same basis).
- 12.8 The Company Remuneration Committee shall on an annual basis:
- (A) report to the Shareholder on the remuneration of staff below board level in the Group, providing a comparison against comparable roles in the private sector as necessary, and more generally on how the Group is showing best practice and leadership on remuneration in the financial services industry;
  - (B) confirm to the Shareholder that no-one below board level in the Group is paid more than the Highest Paid Director, unless the Shareholder approval has been received;
  - (C) confirm to the Shareholder that in line with the Group’s objective to deliver an appropriate return to the Shareholder as outlined in paragraph 9.2, it considers that the remuneration policy of the Group as described in paragraph 12.3, represents good value for the Exchequer as a whole, and the Group’s remuneration practices are consistent with the delivery of that objective;
  - (D) confirm to the Shareholder that the average total remuneration of staff below board level in the Group, whose total remuneration (including their annual payment or allocation under any applicable incentive scheme and including any

applicable pension contribution(s)) is in excess of the Prime Minister's salary, is in line with lower quartile total remuneration for comparable roles in the private sector (calculated on the same basis).

- 12.9 The Shareholder's interest is primarily in ensuring that remuneration levels:
- (A) are designed to promote the long-term success of the Group and to drive the delivery of the activities and objectives described in the Framework Document;
  - (B) are structured to link a significant proportion of executive directors' remuneration to performance, as measured by the achievement of the Overarching Purposes and the objects of the relevant member of the Group and in line with the strategic framework, the Operating Principles and Financial Targets and Principles as applicable to the relevant member of the Group;
  - (C) are aligned with the objectives set out in the Framework Document;
  - (D) demonstrate that the Group is showing best practice and leadership on remuneration in the financial services industry;
  - (E) deliver good value for money for the Exchequer as a whole; and
  - (F) take account of remuneration levels within comparable public sector institutions.

### **Committees**

- 12.10 The Company Board shall constitute a remuneration committee (the "**Company Remuneration Committee**"), risk committee, audit committee (the "**Company Audit Committee**") and a nomination committee (the "**Company Nomination Committee**") of the Company Board.
- 12.11 The Commercial Subsidiary Board shall constitute a remuneration committee (the "**Commercial Subsidiary Remuneration Committee**"), risk and audit committee (the "**Commercial Subsidiary Risk and Audit Committee**") and a nomination committee (the "**Commercial Subsidiary Nomination Committee**"), some of which may be joint, of the Commercial Subsidiary Board.

### **Monitoring the Company's performance**

- 12.12 The Shareholder shall regularly monitor the Group's performance against the objectives described in the Framework Document, by the following means:
- (A) meetings between the Chairman (six monthly) and the chief executive (fortnightly) of the Company (the "**Company CEO**") and representatives of the Shareholder shall be held to discuss the Group's activities and performance against the objectives described in the Framework Document;
  - (B) monthly shareholder meetings between representatives of the Shareholder and the Company's finance team and shall be held to provide a forum to review the Group's activities, the Group's performance against the objectives described in

the Framework Document and any expenditure or forecast expenditure by the Group in excess of that set out in the Group Business Plan, in particular with regard to the Financial Targets and Principals and risks applicable to the Group;

- (C) the Company shall provide reports to the Shareholder containing such information as the Company, in consultation with the Shareholder, deems sufficient to enable the Shareholder to monitor the achievement of the Overarching Purposes and the purposes as stated in the Company Objects, the Commercial Subsidiary Objects, the Mandated Subsidiary Objects and the Service Subsidiary Objects, and the management of risks applicable to the Group, and in accordance with the requirements of the Framework Document; and
- (D) in addition to the regular shareholder meetings, the directors of the Company shall meet representatives of the Shareholder to discuss the affairs of the Group at the Shareholder's request.

12.13 The Shareholder may, on giving reasonable notice to the Company, have access to the books and records and the management of the Company and otherwise in accordance with the Articles.

#### ***Accounting and audit requirements***

- 12.14 In producing accounts in accordance with statutory requirements, the Company shall, and shall, to the extent it is able to do so, ensure that any auditor shall, apply IFRS financial reporting regulations.
- 12.15 The Company shall observe the Companies Act 2006 provisions for quoted companies in respect of its reporting obligations and shall obtain the necessary information from the Group for that purpose. The Company shall also include a corporate governance statement in its directors' report as though it were a company to which paragraph 7.2 of the Disclosure and Transparency Rules applies.
- 12.16 The Company shall provide the Shareholder with such information as is necessary for the Shareholder to produce its own accounts in respect of the Company and the Group.
- 12.17 The Company shall ensure that its accounting structure allows for accounting transparency and separation between aided and non-aided revenue, in particular, whether revenue has originated from aided or non-aided programmes and investments and whether the revenue has originated from the Commercial Group or the Mandated Group. The Service Group will maintain its own accounting records in respect of its costs and revenues.
- 12.18 The Principal Accounting Officer of BIS is responsible for oversight of the Group. The Principal Accounting Officer of BIS will designate the Company CEO as the Company's Accounting Officer and the Accounting Officer in respect of each member of the Group.
- 12.19 The Company Board shall establish an internal audit function for the Group. The internal audit function will report to the Company Audit Committee and, in respect of the Commercial Group, to the Commercial Subsidiary Risk and Audit Committee and will

consider issues relating to the Company and the Group's or the Commercial Group's (as applicable) delivery of the objectives set out in this Framework Document, in particular, matters relating to the strategy, performance and risk management of the Company and the Group or the Commercial Group (as applicable).

- 12.20 The Company will arrange for audit of its accounts in accordance with the Companies Act 2006. The Company will invite the Comptroller and Auditor General (the "**C&AG**") to accept appointment as the Company's auditor and will, in turn, in compliance with the provisions of the Companies Act 2006, ensure that the C&AG is invited to be appointed as the auditor of each member of the Group but not, for the avoidance of doubt, any investment programme vehicles.
- 12.21 The Company's auditor will share information identified during the audit process, the audit report and any other outputs in respect of the audit process and the audit report, with the Shareholder promptly after any relevant audit.
- 12.22 The Shareholder will lay the audited accounts together with the auditor's report before Parliament.
- 12.23 The C&AG may carry out examinations into the economy, efficiency and effectiveness with which the Company and members of the Group have used their resources in discharging their functions. For the purpose of those examinations the C&AG has statutory access to documents as provided for under section 8 of the National Audit Act 1983. In addition, the Company shall use its best endeavours to secure access for the C&AG to any other documents required by the C&AG which are held by counterparties to any agreement in respect of any member of the Group.

***Risk Appetite Framework and Risk Management Framework***

- 12.24 The Company shall develop and update, in respect of the Group, a: (A) risk appetite statement (the "**Risk Appetite Statement**"); (B) risk appetite policy (the "**Risk Appetite Policy**"); and (C) risk management framework (the "**Risk Management Framework**"), each in respect of risks relevant to the activities and exposures of the Group, including risks associated with making and divesting investments, the assessment and mitigation of those risks and the Group's associated structures, controls, processes and procedures.
- 12.25 The Risk Appetite Statement, the Risk Appetite Policy and the Risk Management Framework shall each be subject to review and approval by the Shareholder on an annual basis and shall each be reviewed by the Company Board on an annual basis and otherwise by the Company Board as necessary to take into account any changes that it deems relevant, including but not limited to the activities of the Group, the investment environment, and regulatory guidelines and requirements (which, even if the Group does not conduct regulated activities, shall be applied on a best practice basis to the extent appropriate).
- 12.26 The Company shall inform and consult with the Shareholder in respect of any changes to the Risk Appetite Statement, the Risk Appetite Policy and/or the Risk Management Framework that the Company Board considers to be material and that are, or may become, necessary from time to time. Any such updates or amendments to the Risk



Appetite Statement, the Risk Appetite Policy and/or the Risk Management Framework, whether arising out of the annual review process or otherwise, will be subject to discussion with the Shareholder.

### 13. State aid and financial regulation

#### **State aid**

- 13.1 As the UK is required under EU law to ensure State aid compliance, the Shareholder expects the Company to ensure that the activities of the Group comply with the State Aid Requirements and with the various State aid notifications that have been submitted in respect of the programmes managed by the Group. The Company will have its own in-house, or will obtain suitable third party, expertise on State aid that will advise the Group, in particular in respect of individual programmes and transactions.
- 13.2 In respect of:
- (A) issues that may affect the Shareholder's reputation;
  - (B) any novel or significant issues arising in relation to programmes administered or operated by the Service Group; and
  - (C) any proposed alterations to the approved parameters of any existing notified or approved schemes or programmes,
- the Company will consult the Shareholder's State aid team.
- 13.3 Insofar as there are aid schemes in the Mandated Group or where the Service Group is administering, operating or implementing such schemes, and in relation to the Group as a whole, the Group will be responsible for the provision of data required by the Commission to the Shareholder's State aid team, whether:
- (A) as part of the annual reporting exercise for State aid schemes;
  - (B) as part of a European Commission monitoring exercise;
  - (C) in response to a complaint lodged with the European Commission, or
  - (D) to comply with the reporting requirements on individual awards of aid under Article 9 of the GBER.
- 13.4 The Shareholder will lead on all State aid related communications with the European Commission, which will be effected through the Shareholder's State aid team and UKREP. In particular, any proposals to amend the approved remit of the Group will be discussed early with the Shareholder's State aid team and Shareholder's legal advisers.
- 13.5 The Shareholder may require repayment of any aid provided to the Group, together with interest from the date of payment, if the Shareholder is required to do so as a result of a decision by the European Commission or as a result of any obligation arising under EU law.

## **Regulatory**

13.6 Where a material issue arises in relation to financial regulation which could affect the interests of the Shareholder, then the Company or the relevant member of the Group must consult with the Shareholder, in good time and before any substantive communications with the relevant financial regulator addressing that issue, to agree an appropriate clearance arrangement for such communications.

13.7 The Shareholder acknowledges that the provision of certain aspects of the Group's activities may be subject to the Financial Conduct Authority Rules (the "**FCA Rules**") or guidance or principles, the Prudential Regulation Authority Rules (the "**PRA Rules**") or guidance or principles and/or other applicable laws or regulations and acknowledges that if there is any conflict between the Framework Document and any of the FCA Rules or guidance or principles, the PRA Rules or guidance or principles or other applicable laws or regulations, any relevant FCA Rules, PRA Rules and/or other applicable laws or regulations shall prevail.

## **14. Confidentiality**

14.1 The Shareholder Representative Director shall be authorised to pass to the Shareholder information received in his or her capacity as director of the Company.

14.2 Where the Shareholder Representative Director receives information other than in his or her capacity as a director of the Company, and where that information is subject to a duty of confidentiality, he or she shall not be obliged to disclose that information to the Company.

## **15. Revision of Framework Document**

15.1 Subject to paragraph 15.4 below, any amendment, update or replacement of any provision of the Framework Document:

(A) shall be effected by the Shareholder giving notice in writing to the Company; and

(B) must be consistent with:

(i) the Company Objects (or, where applicable, the Commercial Subsidiary Objects, the Mandated Subsidiary Objects or the Service Subsidiary Objects);

(ii) any State Aid Requirements; and

(iii) any requirements of the Financial Conduct Authority or the Prudential Regulation Authority.

15.2 On or before the date falling five years after the first date of the adoption by the Company of the relevant provisions of this Framework Document as part of the Company's constitution, and at regular intervals thereafter, the Shareholder will review

and, subject to paragraph 15.4 below, may amend, update or replace the Financial Targets and Principles in respect of subsequent periods as it deems appropriate.

- 15.3 The Company Board may submit proposals to the Shareholder to amend, update or replace any element of the Company Strategic Framework, the Commercial Strategic Framework, the Mandated Strategic Framework and/or the Service Strategic Framework, in particular (but without limitation):
- (A) in circumstances in which the Company Board considers the proposed amendment, update or replacement will materially improve the Group's ability to achieve the Overarching Purposes or contribute to the achievement of the Overarching Purposes; or
  - (B) as a result of the Company Board concluding it will not be possible or practicable for the relevant members of the Group to comply with any element of the Company Strategic Framework, the Commercial Strategic Framework, the Mandated Strategic Framework and/or the Service Strategic Framework.
- 15.4 If the Shareholder proposes to amend, update or replace any element of the Company Strategic Framework, the Commercial Strategic Framework, the Mandated Strategic Framework or the Service Strategic Framework, or the Financial Targets and Principles, it shall consult, and seek to reach agreement with, the Company Board before giving notice to the Company pursuant to sub-paragraph 15.1(A).

## 16. **Publication**

The Company shall publish this Framework Document and any subsequent amendments on its website.

## 17. **Status of Framework Document**

- 17.1 The Framework Document should be interpreted in the light of the Company Articles, the articles of association of any relevant member of the Group and English company law and is without prejudice to the statutory and other rights and obligations of the Shareholder, Company or any other member of the Group.
- 17.2 The Operating Principles in so far as they apply to the Company, the Company Strategic Framework, the Financial Targets and Principles in so far as they apply to the Company, paragraph 12.1 and paragraph 12.12(C) of the Framework Document are intended to be part of the Company's constitution for the purposes of the Companies Act 2006.
- 17.3 The Operating Principles in so far as they apply to the Commercial Subsidiary, the Commercial Strategic Framework, paragraph 4.3(A) of the Framework Document and the Financial Targets and Principles in so far as they apply to the Commercial Subsidiary are intended to be part of the Commercial Subsidiary's constitution for the purposes of the Companies Act 2006.
- 17.4 The Operating Principles in so far as they apply to the Mandated Subsidiary, the Mandated Strategic Framework and the Financial Targets and Principles in so far as

they apply to the Mandated Subsidiary are intended to be part of the Mandated Subsidiary's constitution for the purposes of the Companies Act 2006.

- 17.5 The Operating Principles in so far as they apply to the Service Subsidiary, the Service Strategic Framework and the Financial Targets and Principles in so far as they apply to the Service Subsidiary are intended to be part of the Service Subsidiary's constitution for the purposes of the Companies Act 2006.

The Framework Document, including the Company Operational Independence Undertaking, is acknowledged and agreed by the Secretary of State for Business, Innovation and Skills:

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Secretary of State for Business, Innovation and Skills

**Annex I**  
**(Company Operational Independence Undertaking)**

1. Unless otherwise defined below, capitalised terms used in this Annex shall have the meaning given to such terms in the Framework Document drawn up by the Company and its Shareholder (the “**Framework Document**”).

**Undertakings**

2. In its capacity as the sole shareholder of the Company, the Shareholder is committed to giving the Company Board freedom to operate the Company in seeking to achieve its purposes as stated in the Company Objects and the Company Strategic Framework. The Group will have operational independence to identify, design and deliver specific interventions, or any category of interventions, based on its own assessment of how to achieve the Group Business Plan, save in respect of the Service Group. Subject to the exceptions below, but without prejudice to paragraphs 4 and 5, the Shareholder:
  - (A) shall not interfere in day-to-day operational or commercial matters or decision-making by the Company except to the extent that such activities relate to the activities of the Service Group or statutory functions (if any) to be undertaken by the Group;
  - (B) shall not, save in respect of the Service Group, give any instruction to the Company to implement, or prevent the Company from implementing, any specific programme(s) or category of programme(s);
  - (C) shall not exercise its rights as shareholder in a manner which is inconsistent with this paragraph 2 or paragraphs 12.2(B) or paragraph 12.2(E) of the Framework Document; and
  - (D) shall allow the Group freedom to allocate resources within its control budgets,
 (together, (A), (B), (C) and (D) being the “**Company Independence Principles**”).
3. The Shareholder shall not give any instruction to the directors of the Commercial Subsidiary, or to the Company in respect of the Commercial Subsidiary, which would be inconsistent with the requirement for the Commercial Subsidiary to operate and conduct its activities on a fully commercial basis or which would be contrary to any State Aid Requirements applicable to the Commercial Subsidiary.

**Right to raise reservations**

4. Subject to paragraph 3, if the Shareholder gives any instruction to the Company to undertake an action or an instruction to procure that any member of the Group undertakes an action that the Company CEO, the directors of the Company or the directors of any member of the Group required to undertake any such action (an “**Affected Company**”) reasonably believe (in the case of an Affected Company, by providing written notice to the Company) would or may require the Company or any relevant Affected Company (as applicable) to undertake an action that would:

- (A) infringe the requirements of propriety or regularity;
- (B) not represent good value for money for the Exchequer as a whole;
- (C) be of questionable feasibility or is unethical;
- (D) be contrary to the Company Objects, the Commercial Subsidiary Objects, the Mandated Subsidiary Objects or the Service Subsidiary Objects (as applicable) or would result in the Affected Company being in breach of its objects;
- (E) be contrary to the Overarching Objectives;
- (F) result in the directors of the Company or any relevant Affected Company being in breach of their legal duties to the relevant company; and/or
- (G) not be in the best interests of the Company or any relevant Affected Company for any other material and demonstrable reason,

then the Company Board, acting through the Company CEO, may make their reservations in respect of such matter clear to the Shareholder in writing (a "**Reservation Notice**").

5. If the Shareholder, after receiving a Reservation Notice, nevertheless instructs the Company to proceed, or to procure that any Affected Company shall proceed, with the matter the subject of the Reservation Notice (an "**Instructed Matter**"), then the Company CEO shall:
- (A) seek a written instruction to undertake such Instructed Matter from the Shareholder, (a "**Written Direction**") with any oral instruction from the Shareholder (an "**Oral Direction**") being confirmed promptly in writing;
  - (B) upon receipt of a Written Direction or an Oral Direction:
    - (i) inform the Company Board who shall undertake the Instructed Matter or procure that the Instructed Matter shall be undertaken by any relevant Affected Company, without delay;
    - (ii) copy the Written Direction or any Oral Direction confirmed in writing to the Comptroller & Auditor General and the Treasury Officer of Accounts;
    - (iii) if asked, explain the Shareholder's course of action; and
    - (iv) arrange for the existence of the Written Direction or any Oral Direction confirmed in writing to be published (unless the Shareholder has directed in writing to the Company that the matter must be kept confidential).

**Exceptions**

6. The Company Independence Principles shall only apply if and to the extent that the activities of the Company are:
  - (A) consistent with the Company Articles (including with respect to the achievement of the Company's purposes as stated in the Company Objects), the Operating Principles, the Company Strategic Framework, the Financial Targets and Principles, and paragraphs 12.1 and 12.12(C) of the Framework Document; and
  - (B) compliant with the State Aid Requirements and the other specific requirements imposed upon the Group pursuant to the Framework Document.
  
7. Notwithstanding the Company Independence Principles, in addition to any matters which are expressly stated to be subject to the prior approval of the Shareholder in the Framework Document or the Company Articles, any conduct which is inconsistent with the Company Articles (including with respect to the achievement of the Company's purposes as stated in the Company Objects or the Company Strategic Framework), the Operating Principles, the Financial Targets and Principles or paragraphs 12.1 and 12.12(C) of the Framework Document shall require the prior written approval of the Shareholder.

**Annex II**  
**(Group Financial Target)**

The Group's<sup>1</sup> Adjusted Return on Capital Employed is calculated as follows:

$$\text{Adjusted Return on Capital Employed} = (\text{Earnings before tax} - \text{temporary fair value discounts} - \text{amortisation of the temporary fair value discounts}) / (\text{average share capital} +/- \text{average net shareholder loan} + \text{average retained earnings} - \text{average cash balance})$$

The Group will seek to meet an Adjusted Return on Capital Employed target of 2.025% for the financial year 2018/19. In future years the target return rate will be set by reference to the weighted average nominal yield of UK Government gilt issuance as reported by the DMO (the "DMO rate"). The reference years and the relevant target years will be as set out in the table below (with subsequent years reflecting the profile for the February 2018 Business Plan):

Business Plan date	Reference year for the DMO rate	DMO rate %	Discount applied <sup>2</sup> %	Target return rate %	Year to which the target applies	Years covered by 5 year Business Plan
October 2014	2013-14	2.525	(0.5)	2.025	2018-19	14/15 <sup>3</sup> - 18/19
February 2015	2013-14	2.525	(0.5)	2.025	2018-19	15/16 - 19/20
February 2016	2014-15	TBC	TBC	TBC	2019-20	16/17 – 20/21
February 2017 <sup>4</sup>	2015-16	TBC	TBC	TBC	2019-20	17/18 – 21/22
February 2018	2016-17	TBC	TBC	TBC	2020-21	18/19 – 22/23

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<sup>1</sup> Where "group" is the notional group including the earnings and associated capital deployed relating to the programmes that BBFSL administers on behalf of BIS. Group earnings include the net gains or losses arising from the guarantee programmes, notwithstanding that there is no capital deployed by BIS in respect of these programmes, and excludes the impact of any direct revenue funding by BIS of the Start Up Loans Company.

<sup>2</sup> Discount in recognition of the financial impact of the Start Up Loans Company.

<sup>3</sup> Five months only.

<sup>4</sup> Year in which the target return must be met brought forward by one year from 4 years out to 3 years out.