

British Business Bank Investments Ltd Framework Document

1. Introduction

- 1.1. The British Business Bank Investments Ltd (“**BBBIL**”), a limited company, is a wholly owned subsidiary of British Business Bank plc (“**BBB**”). This framework document (the “**Framework Document**”) has been drawn up by BBBIL and BBB.
- 1.2. This Framework Document is based upon principles set out in the British Business Bank plc Shareholder Relationship Framework Document and provided for by the ultimate shareholder (the “**Ultimate Shareholder**”), which is the Secretary of State for Business, Innovation and Skills.
- 1.3. This Framework Document describes:
 - i. The role of BBBIL within BBB and its various subsidiaries (the “**BBB Group**”), and the obligation of BBBIL to contribute toward the Overarching Purposes and Objectives of the BBB Group, as referred to in the BBB Shareholder Relationship Framework Document (“the **BBB Relationship Framework**”).
 - ii. The objectives BBBIL is expected to meet;
 - iii. The parameters within which BBBIL is expected to operate, and the obligations with which it is expected to comply;
 - iv. The relationship between BBBIL and BBB, including the responsibilities of BBBIL’s board of directors (“**BBBIL Board**”), and the manner in which BBBIL and BBB will interact with each other.
- 1.4. For the purposes of this Framework Document, the term “BBBIL” is to encompass British Business Bank Investments Ltd as well as any further companies that may from time to time come under its direct or indirect control.

2. Role of BBBIL within the BBB Group

- 2.1 BBBIL acknowledges and accepts its role within the following BBB Group obligations contained in the BBB Relationship Framework:
 - i. The group overarching purposes, referred to in paragraph 2 of the BBB Relationship Framework (the “**Group Overarching Purposes**”);

- ii. The common strategic framework, referred to in paragraph 7 of the BBB Relationship Framework (the “**Group Strategic Framework**”); and
- 2.2 For the avoidance of doubt, the clauses set out in paragraph 2.1 shall be fully incorporated into this Framework Document to the extent that they are relevant to BBBIL.
- 2.3 For the purposes of the Framework Document:
- i. “**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 Regulation¹ “GBER” as amended, restated or replaced from time to time; and
 - ii. “**small mid-cap businesses**” means undertakings which have not more than £500 million in annual turnover.
- 2.4 For the purposes set out in the State aid decision,² BBBIL is authorised to act on commercial terms, and is not required to target solely market failures.

3. **BBBIL Activities**

- 3.1. BBBIL’s objects (“**BBBIL Objects**”) are specified in its articles of association (the “**BBBIL Articles**”).
- 3.2. BBBIL shall:
- i. Conduct its activities in a manner which its directors considers will or is likely to achieve BBBIL Objects;
 - ii. Manage its programmes and overall budget as a portfolio, balancing its different activities to achieve the BBBIL Objects and taking a portfolio approach to intervention, without limitation on its investment decisions except as provided in this Framework Document;
 - iii. Provide information to BBB as needed, for the purpose of
 - a. Facilitating the monitoring or analysis of BBBIL’s performance;
 - b. Providing an evidence base to justify its own activities; and/or
 - c. Any other purpose which BBB may consider necessary.

¹ Commission Regulation (EU) (No 651/2014)

² Commission Decision No. SA.36061 (2014/N)

- iv. Monitor its own activities and alter its interventions and other activities according to evidence of the effectiveness and efficiency (taking into account the applicable objectives and Financial Principles as described in paragraph 6) of such interventions; and
- v. Obtain the prior written consent of BBB before making any individual investment or financial commitment in excess of £75 million, or before any material divestment of assets or investments (BBB may need to obtain its own consents prior to providing this consent to BBBIL).

The activities 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 “**BBBIL Strategic Framework**”.

- 3.3. In connection with BBBIL’s achievement of its purposes as stated in the BBBIL Objects and the achievement of the Group Overarching Purposes:
- i. BBBIL is to operate within, and conduct its activities in accordance with, the BBBIL Strategic Framework on a fully commercial basis; ;
 - ii. BBBIL is to conduct its activities in accordance with the Operating Principles, as described in paragraph 4.1 and defined in paragraph 4.2;
 - iii. BBBIL is to conduct its activities in accordance with the Financial Principles, as described and defined in paragraph 5.
 - iv. BBBIL is to conduct all of its activities with propriety and otherwise as far as is practicable and relevant in compliance with the publication entitled “Managing Public Money” issued by HM Treasury (as amended from time to time), except as agreed in writing with BBB and the Ultimate Shareholder.

4. Operating Principles

4.1. BBBIL shall:

- i. Act in a manner consistent with the BBB’s Business Plan, to the extent that its provisions are relevant or applicable;
- ii. Seek to overcome market imperfections and improve market effectiveness;
- iii. Apply commercial expertise to the operation of commercial programmes on a fully commercial basis; and

- iv. Operate consistently within the terms of any State aid approval (“**State Aid Approval**”), in each case liaising with BBB, the Ultimate Shareholder, or the UK Government as appropriate.
- 4.2. The principles described in 4.1 (as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the “**Operating Principles**”.

5. Financial Principles

- 5.1. BBBIL shall operate within a Financial Framework agreed with BBB (on behalf of the BBB Group) and HM Treasury.
- 5.2. BBBIL is to be funded on a wholly commercial basis to be consistent with any State Aid Approval or State Aid Requirements from time to time, and its funding must be separated from that of BBB other subsidiaries. Subject thereto, for the avoidance of doubt, profits generated by BBBIL may be distributed to BBB and re-invested elsewhere within BBB or the BBB Group.

Managing taxpayer resources

- 5.3. BBBIL shall act in a manner expected of a public body managing taxpayer resources efficiently, notwithstanding the requirement to act commercially.

No Borrowing

- 5.4. BBBIL shall not incur borrowings (or any analogous obligations) without written consent of BBB (which will require BBB to obtain written consent from HM Treasury), but may incur liabilities in connection with normal business activities, including in respect to guarantees, indemnities or securities granted by a member of the BBB Group, provided such liabilities (whether in respect to guarantees, indemnities, security or otherwise) are incurred within the terms of the financial framework in place with HM Treasury.

Funding

- 5.5. BBB will fund BBBIL by way of an interest free shareholder loan which will be capitalised quarterly. Calculation of return on equity will treat any shareholder loan as if it had been capitalised. There will be a BBBIL dividend policy in place, and any changes to the dividend policy will be approved by BBB.
- 5.6. Any debt funding of BBBIL by BBB or the UK Government shall be done on a commercial basis, reflecting the market rate at the time of the funding.

- 5.7. If such debt funding exceeds 5% of BBBIL's aggregate committed capital, the appropriate market rate shall be determined by an independent expert or according to the Commissions' Reference Rate Communication.
- 5.8. BBBIL and BBB must be prepared to provide evidence that any debt funding was completed on a commercial basis, which the Ultimate Shareholder may from time to time require.
- 5.9. The principles described in paragraphs 5.1 to 5.9 (inclusive and as amended, updated or replaced from time to time) are referred to in the remainder of the Framework Document as the "**Financial Principles**".

6. Other policies

Procurement policy

- 6.1. BBBIL's procurement of works, goods and services shall be in compliance with applicable procurement law, and BBBIL shall apply the same procurement policies as BBB.

Tax policy

- 6.2. BBBIL shall comply with BBB's tax policy, which does not allow for tax planning, in accordance with the government's requirement for all public bodies.

Incorporation of subsidiaries and BBBIL undertakings

- 6.3. BBBIL shall notify both BBB and the Ultimate Shareholder in writing before incorporating or establishing a subsidiary, save as part of the ordinary establishment of a finance programme inside of the UK in respect of SMEs or small mid-cap businesses.

Programme Transfers

- 6.4. It is not expected that programmes will transfer between BBB and the remainder of the Group, particularly given the different objectives across the BBB 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 BBB 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 BBBIL (the "**BBBIL Board**"), the board of any other BBB Group member involved in the transfer, and the BBB Board.

Statement of propriety

- 6.5. The activities, roles and responsibilities of BBBIL 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 BBB. For the avoidance of doubt, this includes the compliance by BBBIL with “Managing Public Money” in respect of any proposals of BBBIL that are or might be considered novel, contentious or repercussive.

Value for money

- 6.6. BBBIL, acting in collaboration with BBB, shall seek to deliver good value for money for the Exchequer as a whole.

7. BBBIL Business Plan

- 7.1 BBBIL’s Board will develop and update a business plan in collaboration with BBB, including a budget and financial forecasts, which shall demonstrate the market(s) in which BBBIL shall operate, its intended activities, and a forecast of expected future returns over at least a three year term (the “**BBBIL Business Plan**”).
- 7.2 The BBBIL Business Plan will be drawn up on a commercial basis, cover a period of at least three years and shall be reviewed by the BBBIL Board on an annual basis and otherwise as necessary to take account of any additional or amended obligations or responsibilities assumed by BBBIL. The BBBIL Business Plan will be subject to review by, and approval of, BBB on an annual basis, and BBB shall monitor the implementation of the BBBIL Business Plan.
- 7.3 The BBBIL Business Plan shall be distinct from the BBB Business Plan, and is to be prepared annually for approval by the Ultimate Shareholder, subsequent to being approved by the BBB board of directors (the “**BBB Board**”).
- 7.4 BBBIL shall inform and consult with BBB in respect of any contemplated changes to the BBBIL Business Plan that it considers are, or may become, necessary from time to time. Any proposed updates or amendments to the BBBIL Business Plan, whether arising out of the annual review process or otherwise, will be subject to discussion with, and approval by, BBB.

8. Governance and the Board of Directors

- 8.1 BBBIL shall not be subject to the UK Governance Code.

The BBBIL Board of Directors

- 8.2 Joint meetings of the Boards of BBBIL and BBB shall be held annually to ensure BBBIL is coordinated with the BBB in relation to strategy, audit, and risk approach.

- 8.3 BBB has the right to call meetings between the audit, risk, remuneration and nomination committees of the two boards.
- 8.4 The CEO of BBBIL will be invited to attend board meetings of BBB, and the CFO of BBB is invited to attend board meetings of BBBIL.
- 8.5 The consents of both BBB and the Ultimate Shareholder are required prior to the appointment of any new directors to the BBBIL Board where the appointee is external. If the appointee is an existing employee or director within the BBB Group, the approval of BBB, but not the Ultimate Shareholder, is required.
- 8.6 No more than one-third of the BBBIL Board may consist of members of the BBB Board.
- 8.7 The BBBIL's Board shall constitute a remuneration committee (the "**BBBIL Remuneration Committee**"), risk and audit committee (the "**BBBIL Risk and Audit Committee**") and a nomination committee (the "**BBBIL Nomination Committee**"), some of which may be joint.

9. Accounting and Audit Requirements

- 9.1 BBBIL shall adhere to the BBB's accounting standards in respect of producing and reporting accounts.
- 9.2 BBBIL will have its own distinct audit of accounts, in accordance with State Aid Requirements. The auditors will be the same as those of BBB, and BBBIL will be subject to the same internal audit plan as set out by BBB.
- 9.3 BBBIL will be subject to the same internal audit plan as set out by BBB. The internal audit shall present its findings to the BBBIL Risk and Audit Committee, and BBBIL shall comply with the findings of this internal audit.
- 9.4 BBBIL will determine its own accounting policies, to the extent that they differ from those adopted by BBB, the Chair of the BBBIL Audit and Risk Committee will discuss and agree this with the Chair of the BBB Audit and Risk Committee.

10. Relationship to the Group

- 10.1 BBBIL shall only employ front office staff, and shall rely on the BBB Group to provide support in all central office functions, including (but not limited to) Finance, Risk, Legal Strategy, Human Resources and Communications. BBBIL will pay an appropriate cost allocation to the costs of BBB.
- 10.2 BBB shall allocate costs in a manner consistent with the methodology provided to the European Commission during State aid negotiations. BBB shall provide supporting calculations to BBBIL upon request.
- 10.3 For the avoidance of doubt, paragraph 11.1 does not prevent BBBIL from engaging external expertise on the advice of the BBB central functions.
- 10.4 BBBIL will feed information into the same financial reporting process utilised by the rest of the BBB Group, and the BBB Group's finance function will provide appropriate management information to BBBIL.

Employment policies

- 10.5 Employees of BBBIL shall be subject to the same code of conduct and policies which apply to all employees within the BBB Group.
- 10.6 BBBIL will be expected to operate within the remuneration policies set by BBB. The BBBIL Remuneration Committee will make decisions in respect of the remuneration of executive directors and senior management members, including performance-related remuneration. The BBBIL Remuneration Committee will make remuneration decisions within the remuneration policy of BBB.

Risk and Investing

- 10.7 BBBIL may develop its own risk appetite, which will operate within the risk appetite and risk management frameworks decided by BBB for the BBB Group.
- 10.8 The terms of reference of BBBIL's Investment Committee shall be approved by BBB.
- 10.9 Marketing of the programmes within BBBIL shall be kept separate from the marketing activities of BBB.

Product Development

- 10.10 Any new programme devised by the BBBIL will be approved by the BBB Board, and BBBIL will participate in the product development committee process to the extent it is developing any new products. The CEO of BBBIL will attend the product development committee as an attendee to ensure consistency across the group in the area of product development.

11. State aid and financial regulation

11.1 BBBIL shall comply with State Aid requirements and any relevant State aid notifications. BBBIL shall seek the advice of BBB's in-house legal advisors, or of a third party expert if required by BBB, in respect of its programmes and transactions.

11.2 In respect of:

- i. Issues that may affect BBB's reputation;
- ii. Issues that may affect the Ultimate Shareholder's reputation; or
- iii. Any proposed alterations to the approved parameters of any existing notified or approved schemes or programmes;

BBBIL must consult with BBB's in-house legal advisors.

11.3 BBBIL will provide any information or data to BBB as needed for the purpose of facilitating the monitoring of BBBIL's programmes and activities in respect of State aid compliance.

11.4 For the avoidance of doubt, BBBIL's liability to comply with EU State aid rules and regulations is not contingent solely upon the UK's continued membership within the EU, and BBBIL has no authority to dis-apply State aid law in any area without the knowledge and express permission of the Ultimate Shareholder.

Regulatory

11.5 BBBIL shall seek the consultation and approval of BBB's in-house legal team or external expertise prior to engaging in activities subject to financial regulation. BBBIL shall refer to the guidance of BBB's in-house legal team or external expertise as to whether an activity is subject to financial regulation or not.

12. Revision of the Framework Document

12.1 Subject to 13.4 below, any amendment, update or replacement of any provision of the Framework Document:

- i. Shall be effected by BBB giving notice in writing to BBBIL; and
- ii. Must be consistent with:

a. The BBBIL Objects

- b. Any State aid requirements
 - c. Any relevant requirements of the Financial Conduct Authority or the Prudential Regulation Authority
- 12.2 On or before the date falling five years after the first date of the adoption by BBBIL of the relevant provisions of the Framework Document as part of BBBIL's constitution, and at regular intervals thereafter, BBB and BBBIL may, in consultation with one another, amend, update or replace the Financial Principles in respect of subsequent periods as either deems appropriate.
- 12.3 The BBBIL Board may submit proposals to the BBB Board to amend, update or replace an element of the BBBIL Strategic Framework, in particular (but without limitation):
- 12.4 In circumstances in which the BBBIL Board considers the proposed amendment, update or replacement will materially improve BBBIL's ability to achieve the Overarching Purposes or contribute to the achievement of the Overarching Purposes; or
- 12.5 As a result of the BBBIL Board concluding it will not be possible or practicable for the BBBIL to comply with any element of the BBBIL Strategic Framework.
- 12.6 The Ultimate Shareholder or BBB may, either separately or in consultation with one another, propose to amend, update or replace any element of the Strategic Framework or the Financial Principles; in which case the Ultimate Shareholder and/or BBB shall consult, and seek to reach agreement with, the BBBIL Board before giving notice pursuant to 13.1.i.

13. Status of Framework Document

- 13.1 The Framework Document shall be interpreted in light of the BBBIL Articles and English company law, and is without prejudice to the statutory and other rights and obligations of the Ultimate Shareholder, BBB or the Group.
- 13.2 The BBBIL Strategic Framework, Operating Principles and Financial Principles are intended to be part of BBBIL's constitution for the purposes of the Companies Act 2006.
- 13.3 Paragraphs 11.1, 11.2, 11.3, and 11.4, in relation to State aid regulation and compliance, are intended to be part of BBBIL's constitution for the purpose of the Companies Act 2006.