

INVESTMENT PROGRAMME

Guidance Documents for Proposals

Questions & Answers

Legal Notices

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British Business Bank plc and its subsidiary entities are **not** banking institutions and **do not** operate as such.

A complete legal structure chart for British Business Bank plc and its subsidiaries can be found at www.bbinv.co.uk.

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Submission

Q: Please provide guidance on how much information should be provided by Applicants in an Expression of Interest?

A: Expressions of Interest should be concise and need to address the details of the key features of each Applicant's Proposal.

It is recommended that the Expressions of Interest should be around 5 pages in length, excluding supporting Annexes, and must address – at a preliminary level – each of the 9 Investment Criteria set out in Section 3 of the Guidance Document. In addition, Applicants should complete the information schedules included in the Annex (es) of the Guidance Document.

Detailed information that addresses the requirements of Annex I in the Guidance Document for Direct Capital and Managed Investments is not required to be provided at this stage.

Q: Please provide guidance on how much information should be provided by Applicants in a Formal Proposal?

A: It is recommended that Formal Proposals should be around 20 pages in length, excluding supporting Annexes, and should address in detail each of the 9 Investment Criteria set out in Section 3 of the Guidance Document. Applicants should also complete the information schedules included in the Annex(es) of the Guidance Documents.

Direct Capital and Managed Investment applicants may also include the information requirements detailed in Annex I in the Formal Proposal to support their Application and potentially expedite the due diligence process. All above information will need to be satisfactorily validated by British Business Investments ('BBI') as part of the due diligence process, should the Application proceed to the next stage.

Further guidance on key matters to be covered in Formal Proposal will be provided by BBI to the Applicant as part of the feedback to the Expression of Interest.

Q: Please provide guidance as to what information is required in Annex I of the Guidance Document for Direct Capital and Managed Investments in relation to:

a) remuneration, governance and risk management policies and arrangements of the business and the entities to be involved in executing

the Proposal;

b) the Applicant's strategy to be written into legal agreements.

A: a) Information that would be useful to support this statement would include details of what policies or procedures the Applicant has in place to regulate and manage its affairs. For example, does the company have an advisory board, remuneration committee or risk committee? What are the key risks facing the businesses and what procedures have been identified to mitigate them? Have these been codified in a policy which is regularly reviewed by management?

The reference to entity is concerned with the principal contracting party, recognising that some applicants may have a group structure or have established separate companies or partnerships as part of the operation. How will the proposal be managed?

b) An Applicant's investment strategy should be capable of being translated into targets or measures capable of being monitored and evaluated. What are the key measures that the Applicant would propose to be written into any legal agreement as a means of evaluating performance?

Q: Please provide on what is considered Managed Investment, Direct Capital Investment and Expansion Capital Investment.

A: The three types of Proposal are defined as follows:

- **Managed Investment:** BBI investing alongside Private Sector Investors into managed lending funds, or other managed lending vehicles, for direct onward lending to SMEs. Managed Investments will involve a party that provides active management services or involves remuneration for the management of funds (a 'Manager') committed under the Programme and by Private Sector Investors.
- **Direct Capital Investment:** BBI funding, either by way of equity or debt investments, alongside Private Sector Investors into lending businesses able to use these commitments to increase their lending activity. No Manager will be directly involved in a Direct Capital Investment.
- **Expansion Capital Investment:** BBI funding, either by long term equity or other forms of risk capital, to support the growth of companies active in SME lending markets. In contrast to Direct Capital and Managed Investments made under the Investment Programme, Expansion Capital Investment Applicants are not required to be match-funded to a private sector investor, however to the extent that Applicants' growth plans require additional funding, Applicants will be required to provide evidence that this funding is in place or can be secured to support their business plan.

Q: Please provide guidance as to the application process for Direct Capital Investment, Managed Investment and Expansion Capital Investment proposal types.

A: Application process for the three type of proposals are described in detail in the following Guidance Documents:

1. Guidance Document for Direct Capital and Managed Investments provides details in relation to Direct Capital and Managed Investment proposals; and
2. Guidance Document for Expansion Capital Investments provides details in relation to Expansion Capital Investment proposals.

Above documents are available on the British Business Bank Investments website at www.bbinv.co.uk.

Q: Could an applicant apply for more than one type of Investment?

A: Applications which combine a request for Expansion Capital Investment alongside a Managed Investment or a Direct Capital Investment are welcomed.

Q: Is an SME business active in the industrial sector and not involved in the provision of financial services able to apply for Investment Programme funding?

A: The Investment Programme does not provide direct funding (e.g. loans) to non-financial organisations. The Programme aims to increase the amount of finance available to SMEs through investing in proposals that promote greater choice in the supply of lending to SMEs.

Q: Has the application process changed following the transfer of the Programme from the Department of Business, Innovation and Skills ('BIS') to BBI on 1 November 2014?

A: The application process remains the same in all material aspects. The final approval to proceed with Award and Completion is now a matter of BBI's Investment Committee.

Target Market

Q: Is BBI willing to invest in Proposals where the Investment Strategy is focused on lending to support the development of renewable energy assets?

A: The Investment Programme is sector agnostic and BBI welcomes Proposals from Applicants able to meet the 9 Investment Criteria for each of the type of proposals as set out in their respective Guidance Document.

Match Funding

Q: Is BBI willing to invest in Direct Capital and Managed Investment Proposals where private sector investors provide equity funding and BBI's investment provides debt funding to a business as a complete funding solution?

A: The terms and conditions, and the net return achieved from, and risks taken in relation to those investments, must be no worse than those enjoyed by private sector investors co-investing alongside BBI. In addition, BBI is interested in investing no more than 50% of the investment. In the scenario outlined in this question, for BBI to be willing to consider providing debt funding, private sector co-investors providing at least 50% of the debt funding would be required. The terms BBI invests on would also need to be no worse than the terms of the private sector co-investor offering the debt funding. These could be different to the terms of the equity funding.

Q: Is BBI willing to invest in Expansion Capital Investment Proposals as the sole investor?

A: Expansion Capital Investment proposals will be assessed in a way which is appropriate to the bespoke nature of such proposals and reflects the greater leverage which is sought from making such investments, including their potential for longer term impact.

In contrast to the other investments made under the Investment Programme, Expansion Capital Investment Applicants are not required to be match-funded to a private sector investor. BBI will expect to invest in long term equity or other forms of risk capital on terms and with a return and level of risk that would be attractive to Private Sector Investors in the absence of BBI's involvement.

However, where private sector investors are co-investing alongside BBI, the commercial terms (including costs and fees) for BBI must be at least as favourable as those of the co-investors. To the extent that Applicants' growth plans require additional funding, Applicants will be required to provide evidence that this funding is in place or can be secured to support their business plan.

Q: We are a finance provider and part of our current funding is provided by a debt fund. Is BBI willing to provide funding alongside the existing debt fund or another financial institution that refinances our existing facilities?

A: Proposals must demonstrate that the matched private sector investment brought in alongside BBI's investment will make a real difference to the scale or nature of

the activity to be undertaken by the Applicant. It is also noted that Applicants are requested to provide details of how the Proposal will support the development of a sustainable and long-term investor base once BBI' investment is withdrawn.

Q: Can Direct Capital Investments be made at different levels in the capital structure of the lending business? For example, a Direct Capital Investment of £5M in the equity of the lending entity simultaneously with a Direct Capital Investment of £25M in debt in the lending entity. If this is possible, can separate Private Sector Investors for the equity and debt investments provide the match funding?

A: Yes, investments can be made at different levels of a lending business so it is possible for the Programme to invest in the equity of a lending business and also make a debt investment in the lending business. The Private Sector Investors providing the match funding could differ and so one investor could match fund the Programme's equity investment and a separate investor could match fund the Programme's debt investment. At any level of the capital structure, the Programme cannot invest more than 50% of the total investment requirement. In the example above, BBI would not be able to invest more than £2.5m in the equity tranche and £12.5m in the debt tranche. BBI does not need to invest the same percentage at each level. For example, it could provide 20% of the equity investment requirement and 50% of the debt investment requirement.

Pari Passu Terms

Q: If the Private Sector Investor's match funding is provided on a secured basis, will BBI invest on an unsecured basis but with all other terms and conditions (e.g. financial covenants, fees, returns etc.) the same as the Private Sector Investor?

A: The terms and conditions, and the net return achieved from, and risks taken in relation to those investments, must be no worse than those enjoyed by private sector investors co-investing alongside BBI. This means if the private sector investor's funding is on a secured basis, BBI's investment cannot be on an unsecured basis; it must enjoy the same security arrangements as the private sector investor.

Legal, Structure and Tax Domicile

Q: We are not currently accredited to provide lending facilities but are keen to do so. We do not wish to take customer deposits. What would be the best license for us to apply for to meet your requirements?

A: BBI is unable to provide Applicants with guidance as to the necessary authorisations or permissions required to conduct lending or investment activities in line with Applicants' Proposals.

Investment Strategy

Q: Is BBI willing to consider proposals where the Investment Strategy is focused on investing in start up businesses? For example, investing in start up businesses led by students and recent graduates, who often lack a credit history for their businesses and find it hard to obtain the finance they need.

A: The Investment Programme does not have a specific focus in terms of the type of business applicants' investment strategy should target except that proposals should be focused on lending to viable businesses, operating in the UK, with a turnover of up to £100m. Proposals able to demonstrate a focus on lending to businesses with turnover of less than £25m will be viewed favourably. It is also noted that investment strategies must be based on the provision of debt finance and that the majority of the return on investment should be debt-based.

With respect to start up businesses, the British Business Bank supports a Start-Up loans scheme which provides loans and mentoring support aimed at young entrepreneurs. This scheme is aimed at 18+ year olds, who are living in England and looking for finance to start a business. Further information, including how to apply, can be found on the Start-Up Loans Company website at <http://www.startuploans.co.uk/>.

BBI's Venture Capital Catalyst Fund invests in commercially viable venture capital funds that might otherwise fail to reach satisfactory 'first-close'. It enables private sector investment already committed to those funds to be unlocked and invested in growth companies. Further information, including how to apply can be found on the British Business Bank Investments website.

Q: Do convertible loans qualify as debt finance?

A: This depends on the specific terms of each proposed instrument. If the majority of its characteristics are equity-like, then the instrument would be considered as equity and not debt. For example, a convertible loan which offers minimal cash yield and automatically converts into equity after a certain amount of time would be ineligible for the purposes of the Investment Programme.

Investment Channels

Q: Please clarify the meaning of "No Manager will be directly involved in a Direct Capital Investment" in section 1.2 of the Guidance Document for Direct Capital and Managed Investments.

A: As per the Guidance Document, 'Manager' is defined in the explanation of Managed Investments as follows:

- Managed Investments will involve a party that provides active management services or involves remuneration for the management of funds (a 'Manager') committed under the Programme and by Private Sector Investors.

In contrast, under Direct Capital Investments there will be no party involved that directly provides active management services or involves remuneration for the management of funds committed under the Programme and by Private Sector Investors. Direct Capital Investments will involve funding, either by way of equity or debt investments, alongside Private Sector Investors into lending businesses able to use these commitments to increase their lending activity.

Q: Can BBI make Investments in start-up lending businesses?

A: Investments in start-up lending businesses would be considered by BBI. BBI welcomes Proposals from Applicants able to meet the 9 Investment Criteria as set out in the respective Guidance Document. These Criteria include, but are not limited to, Applicants providing evidence of their ability to on-lend funds to SMEs within 3 years and an ability to start deploying funds and commence on-lending to SMEs early on. Start-up operations must clearly demonstrate access to sufficient resources, skills and competencies required to execute the Proposal's investment strategy.

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