

Wholesale Guarantees Programme - Pilot Transaction

A Request for Proposals

20 March 2014



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1. Introduction

1.1 British Business Bank

The British Business Bank is being set up as an economic development bank to create more effective and efficient finance markets for small and medium-sized enterprises in the UK. It is a key element of the Government's Industrial Strategy, and we are already contributing to making the UK the best place in Europe to start, grow and finance a business.

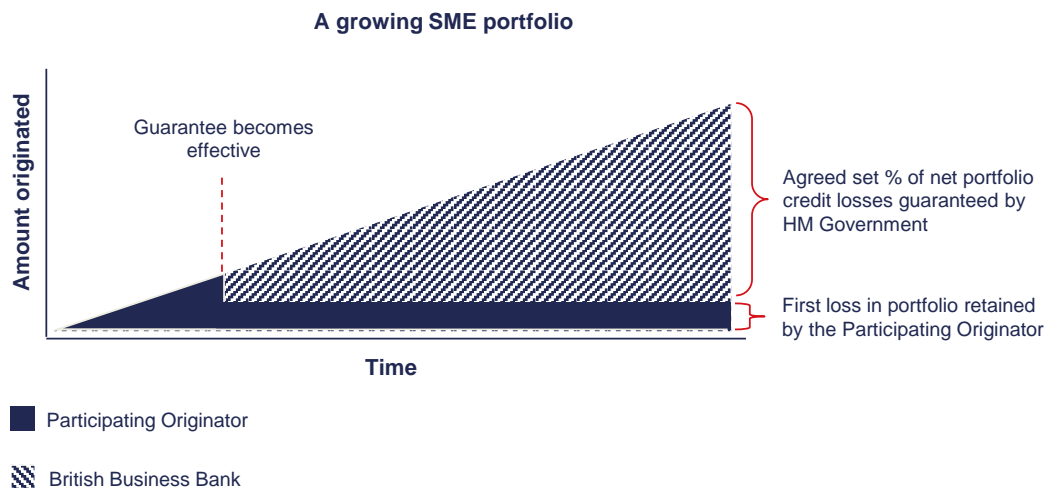
Circa £3.9 billion of capital is available for new and existing programmes which will help create new ways to unlock finance for smaller businesses. We are bringing together expertise and budgets to support economic growth by improving the UK's business finance markets. We will do this by investing Government funding alongside or through private sector partners and use targeted guarantees to encourage more private sector lending and investment.

1.2 British Business Bank Wholesale Guarantees Programme

The British Business Bank Wholesale Guarantees Programme (the "**Programme**") is part of the British Business Bank programme. The British Business Bank programme is currently run directly by the Department for Business, Innovation and Skills ("**BIS**") and is not authorised or regulated by the Financial Conduct Authority or the Prudential Regulation Authority. Once HM Government has received European Commission State aid clearance, which is expected in 2014, schemes in the British Business Bank programme may be transferred to the British Business Bank plc, which will operate as a Government-owned financial institution.

The **Programme** is a new scheme aiming to encourage participating banks (the "**Participating Originators**") to lend more to small and medium-sized enterprises by addressing the high regulatory capital consumption associated with such lending. The Programme will make use of guarantees on portions of newly originated portfolios of loans to smaller businesses in return for a fee (the level of which will be agreed commercially on a case-by-case basis). Participating Originators will be able to benefit from a zero risk-weighted HM Government guarantee on a fixed percentage of net credit losses in excess of an agreed first loss threshold on the portfolio originated under the Programme. Net losses are defined as losses incurred over and above the net income of the portfolio.

The guarantee will only cover newly originated loan portfolios, defined as portfolios containing eligible loans originated after the conclusion of the guarantee agreement. Each guarantee transaction will have a defined maximum notional guaranteed portfolio size. In order to ensure an efficient capital treatment, the guarantee will activate only after an agreed proportion of the maximum notional guaranteed portfolio size has been originated. To avoid adverse selection, all non-defaulted newly originated loans in compliance with the pre-agreed eligibility criteria will be required to be included in the portfolio subject to a maximum exposure per borrower.



Eligible loans will be defined as loans which meet criteria agreed between us and individual Participating Originators. These criteria will include risk parameters as well as conditions related to the target groups of smaller enterprises. For example, a proportion of the loans included in the portfolio may be required to be made to specific types of borrowers.

1.3 Objectives of the Programme

The Programme aims to support lending to SMEs, promote competition and increase supply through banks, including smaller institutions. It will achieve these objectives by working with third party lenders.

The key objectives of the Programme are to ensure:

- the provision of finance to i) smaller¹ SMEs, ii) SMEs with a trading history of less than 5 years and iii) SME growth companies;
- a net increase in the Participating Originator's credit activities to SMEs;
- an expansion of each Participating Originator's SME credit activities relative to its current total credit activities;
- an increase in lending which otherwise would not have occurred via other lenders.

This Request for Proposals relates to an expected maximum of two pilot transactions (in exceptional circumstances we could have more than 2) which we are planning to execute ahead of opening the Programme to all eligible lenders. During the pilot stage we will finalise the specific terms, legal documentation and operational procedures which will be used in the Programme itself. Applicants unsuccessful at this stage will be able to re-apply if and when the Programme opens.

¹ Businesses falling within the EU definition of a SME but with a consolidated annual global turnover of less than £25m

2. Process for Wholesale Guarantees Programme – Pilot transaction

2.1 Eligible applicants

The Programme is open to all UK banks and UK branches of foreign banks which lend or intend to lend to viable small and medium enterprises operating in the UK (the “SMEs”). SMEs are defined as micro, small and medium-sized enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding £43 million, and/or an annual balance sheet total not exceeding £35 million. Businesses operating in the UK are to be defined as those with undertakings that make a material contribution to economic activity in the UK, including UK incorporated companies and branches of foreign incorporated parents with a genuine business in the UK.

2.2 Application process

We welcome proposals from any applicant that is able to meet the criteria set out for the Programme in this Request for Proposals, and able to comply with the application process detailed below, together with our **indicative timings**. Proposals may be rejected at any stage.

- **Expression of Interest:** Applicants are encouraged to make contact with us at the earliest opportunity at wholesaleguarantees@british-business-bank.co.uk to express an interest in the Programme. These should be sent by no later than **4 weeks from the publication of this Request for Proposals**.
- **Initial Meeting:** We will invite applicants to have an initial meeting with us. At this meeting we will provide information schedules which will require completion if the applicant wishes to proceed to make a Formal Proposal. **We will endeavour to set up this meeting to take place within 2 weeks of receipt of your Expression of Interest.**
- **Formal Proposal:** After the Initial Meeting applicants should submit a “**Formal Proposal**” outlining how the proposal meets the criteria set out in this document and also complete the information schedules provided during the Initial Meeting. **Your Formal Proposal must reach us within 4 weeks after the Initial Meeting.**
- **Management Presentation:** Following the receipt of a satisfactory Formal Proposal, we will expect to meet with the applicant including selected members of its SME lending management team to discuss the Formal Proposal and the applicant’s operations. **We will endeavour to set this up promptly on receipt of a satisfactory Formal Proposal.**
- **Pilot applicant selection:** After the Management Presentation we will decide whether to select the applicant as a potential counterparty for a pilot transaction and proceed to the due diligence and negotiation stage. In order to make this decision we may ask the applicant additional questions after the Management Presentation. **We expect to make our decision within 6 weeks of receiving a Formal Proposal.**
- **Due diligence, negotiations and award:** Successful applicants will be notified and we will proceed to due diligence. The due diligence will focus on formally assessing the applicant’s business, its origination practices and track record and proposed new lending. Any information provided by an applicant will need to be satisfactorily validated by us at the end of this stage. If the due diligence is satisfactory, we and the applicant will start negotiating the structural aspects of the proposed transaction, such as guarantee attachment points and provide an indication of pricing of the guarantee. Subject to meeting the overall objectives of the Programme, and following satisfactory conclusion of the due diligence and negotiation process, we will communicate to the applicant our intention in principle to enter into a guarantee contract, subject to final due diligence, approvals⁽²⁾ and legal completion (an “**Award**”).
- **External due diligence, approvals, closing and portfolio ramp-up:** We will then proceed with the final due diligence by an external auditor and/or rating agency, approvals, agreement of final terms and completion of

² Including Ministerial and HM Treasury approvals. Completion, commitment and portfolio ramp-up may also be subject to additional approvals.

legal documentation. If applicants are successful at this stage, guarantee facilities will be committed by us to be used by applicants according to an agreed guaranteed portfolio ramp-up schedule.

Awards will be valid for a period of one month following notification. If completion has not taken place within one month of the applicant receiving notification of an Award, the Award may be withdrawn. Prior to an Award being allocated, we reserve the right to change the one month time period that the Award is valid for without prior notice, or to negotiate different availability periods for specific proposals on a case-by-case basis.

Proposals will be assessed and Awards allocated by us to up to two applicants best meeting our criteria. We reserve the right not to make any Awards should the quality of proposals, in our opinion, not meet the requirements of the Programme.

We will make reasonable endeavours to respond promptly to applicants at each stage of the application process.

Guidance Note: Pre-submission engagement

After submitting an Expression of Interest, applicants can direct up to five questions in advance of submitting a Formal Proposal to wholesaleguarantees@british-business-bank.co.uk. Questions (posted anonymously) and answers in relation to the Programme in respect of policy, objectives or origination criteria will be made available to all applicants online at www.british-business-bank.co.uk/wholesale-solutions to ensure that all applicants have access to the same information about the Programme.

2.3 Delivery of Formal Proposals

Expressions of interest and Formal Proposals should be submitted by email and in portable document format ('PDF') to wholesaleguarantees@british-business-bank.co.uk. Any accompanying spread sheets should be compatible with Microsoft Excel.

3. Origination criteria

The paragraphs below detail the criteria against which proposals will be assessed. Proposals should seek to address each of these criteria and meet the Objectives of the Programme (paragraph 1.3) as closely as possible.

The information provided in the Formal Proposal will be used to assess to what extent the criteria outlined here have been met. Where any requested information is unavailable, or cannot be disclosed, applicants should make this clear in their Formal Proposal.

3.1 Origination Strategy

The Applicants' origination must be based on the provision of debt finance⁽³⁾. Formal Proposals which provide evidence of the applicants' ability to provide new types or additional supply of finance to SMEs will be considered favourably. Also, the extent to which the new lending will not just displace or substitute existing sources of finance available to SMEs will be a determinant in the selection process.

The following exposures will not be eligible for inclusion into the Programme:

- exposures to SME borrowers in financial difficulty.
- buy-to-let exposures and exposures to professional landlords of residential property.

Proposals involving the acquisition of secondary debt assets (on a portfolio or single asset basis) will not be considered.

3.2 Origination Levels

The Formal Proposal should specify the proposed maximum notional guaranteed portfolio size to be covered by the Programme guarantee, including information on what percentage increase relative to the applicant's existing SME annual credit origination this amount would constitute. We have a preference for proposals involving at least 250 borrowers and portfolio amounts of at least £75m.

Applicants considering submitting a proposal for a maximum notional portfolio size in excess of £250m must demonstrate that they will deliver the Objectives of the Programme more effectively relative to a guarantee limited to £250m.

In exceptional circumstances, we will consider proposals seeking a Programme guarantee for portfolio amounts of less than £75m. Applicants whose proposals involve portfolio amounts of less than £75m must strongly evidence a proposal's ability to meet all other origination criteria and the Objectives of the Programme.

Applicants must evidence their ability to ramp up to a maximum notional guaranteed portfolio of a size specified in the proposal within 6-9 months following closing and an ability to commence the origination of that portfolio by no later than one month after closing. Proposals will be viewed favourably if they can demonstrate a ramp-up period of less than 6 months.

³ For the avoidance of doubt, debt finance includes term lending, receivables financing, supply chain financing, trade finance and asset finance. This does not include hybrid or equity-like instruments even if the majority of the return is debt-based.

3.3 Origination Standards

The Formal Proposal should provide details of the origination practice including, but not limited to:

- track-record of ability to originate loans to SMEs;
- availability of historic SME portfolio performance data and prediction power of internal PD and LGD models;
- current and expected net income defined as: gross income – (funding cost + overheads + business-specific costs + expected loss);
- portfolio management and origination procedures;
- granularity of the historic and expected portfolio and approach to portfolio diversification and risk management;
- quality of risk management.

The Formal Proposal must also demonstrate that robust and tested systems and processes are in place for making and managing loans including but not limited to loan documentation, back-office systems, monitoring and governance arrangements and management information reporting.

3.4 Minimum Portfolio Criteria

We will apply certain minimum requirements in terms of portfolio and eligibility criteria:

Expected minimum high-level eligibility criteria:

- it is an interest paying debt instrument with a stated maturity;
- originated by the Participating Originator;
- the borrower operates in the UK;
- the borrower is a SME in accordance with the definition of the European Commission;
- at least one instalment due and payable must have been paid and the debt instrument is not in arrears;
- the borrower is a UK private limited company, a public limited company, a partnership, a trust, a foundation, a sole trader, a society, a charity or a club or any other entity which is customarily accepted as a small or medium-sized enterprise;
- no payment default under the instrument or insolvency of the borrower has occurred;
- the borrower is not in financial difficulty;
- the borrower is not a special purpose entity.

Expected minimum portfolio criteria:

- no single exposure should exceed 1% of the maximum notional portfolio size;
- no single industry should exceed 20% of the maximum notional portfolio size;
- the minimum expected number of borrowers is 250.

3.5 Management Team and Track Record

Applicants must be able to demonstrate that they have a competent team, with sufficient expertise to execute the proposal's origination strategy. Applicants should provide:

- information on the applicant's management team and key personnel;

- recent and relevant experience of, and successful track record in, SME lending; and
- evidence of the management and origination teams having worked together effectively, and their ability to execute the mandate for the full life of the transaction.

Applicants must have suitable standards of reputation and integrity, including appropriate ethical standards in all areas of its proposed operations and must demonstrate this as part of their proposal.

If an applicant identifies any shortfalls in the levels of resources, skills and competencies required to deliver against the Origination Standards, they will be required to demonstrate how they would expect to address these.

3.6 Legal Structure, Regulation and Tax Domicile

Applicants must operate in the United Kingdom and must confirm that they have the necessary authorisations and permissions to conduct banking activities in the EU. In addition, Applicants must be able to demonstrate transparent and appropriate regulatory and tax structures.

4. Terms and Conditions

BIS reserves the right at any time not to grant a guarantee and / or cancel or withdraw from the process at any stage and any costs or expenses incurred by an applicant will not be reimbursed. BIS excludes its liability for any costs, expenses or losses incurred by an applicant to the full extent permitted to BIS by law.

BIS reserves the right to amend any timetable and/or process until such time as legally binding arrangements are concluded with applicants.

BIS reserves the right to reject any and all proposals.

BIS may request clarification of information and additional information regarding an Expression of Interest or a Proposal. BIS may also request face to face meetings. Refusal to provide such clarification, information or meetings may cause the Proposal to be rejected. Where no reply to a request for information or for clarification is received within ten business days, BIS may assume that the Proposal has been withdrawn.

Any Award made by BIS as a result of this process will be subject to the prompt and satisfactory agreement of legal terms.

All information provided by applicants will be treated as commercially confidential. Save to the extent set out in the paragraph below regarding the Freedom of Information Act 2000 ("FOIA") or where otherwise required by law, by Parliamentary requirements or where the consent of the applicant has been obtained, such information will not be disclosed to third parties other than those involved in assessing the bids or advising BIS. BIS will retain Formal Proposals after an Award has been made, for example to support any evaluation of the Programme.

The FOIA applies to BIS. Applicants should be aware of BIS's obligations and responsibilities under FOIA which may, unless an exemption applies, require BIS to disclose, on written request, recorded information held by them.

This Request for Proposals is not a legally binding document and should be treated as indicative only.

This communication does not constitute an offer document or an offer of transferable securities to the public in the UK to which section 85 of the Financial Services and Markets Act 2000 of the UK ("FSMA") applies and should not be considered as a recommendation that any person should subscribe for or purchase any of the investments described herein.

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