InnovFin SME Guarantee & COSME Loan Guarantee

Workshop
Warsaw, 6 November 2014
EIF at a Glance

- **EU specialised institution for SMEs risk financing**
  - **Debt** - Structuring and Guaranteeing portfolios of SME loans/leases and microcredit
  - **Equity** - Venture Capital and Mezzanine (fund of funds)

- **Geographic Focus**: EU 28, EFTA, Candidate Countries
- **Distribution through Banks and Funds** (Full delegation)
- **Founded in 1994 & started providing VC to businesses in 1997**
- **Multilateral Development Bank (MDB) status**
- **Basel II 0% risk weighting**
- **Aaa/AAA/AAA ratings** (Moody’s/S&P/Fitch)

- **Shareholding Structure**:  
  - EIB: 63.7%
  - EC: 24.3%
  - Financial Institutions: 12%
Enhancing a successful pilot initiative

Warsaw, 6 November 2014
InnovFin Product Overview

InnovFin: SME Guarantee
- SMEs and small Mid-Caps < 500 Employees
- Intermediated SME/Mid-Cap Financing

InnovFin: SME Venture Capital

InnovFin: MidCap Guarantee
- Mid-Caps < 3,000 Employees
- Intermediated and/or direct Corporate lending

InnovFin: MidCap Growth Finance

InnovFin: Large Projects
- Large Caps Typically > 3,000 Employees
- Direct Corporate Lending

InnovFin: Advisory
- Advisory products

- direct products
- indirect products
Fact Sheet

- **Signature** of the Delegation Agreement between the EC, EIB and EIF: **12 June 2014**
- Implementation Period: **2014 - 2020**
- Termination: **December 2033**
- **Financial Instruments**: Uncapped Guarantee and Counter-Guarantee issued by EIF
- Beneficiaries: **SMEs and Small Mid-caps**
- Estimated budget for InnovFin SME Guarantee: **EUR 1 bn**
- Geographical coverage (as of the date of the signature): **EU 28 and Associated Countries**
- No ex-ante country or product limits on the utilisation of the budget: **demand driven approach**
- Publication of the **open Call for Expression of Interest**: **4th August 2014**
InnovFin
SME Guarantee

Key Features

- EIF provides **direct and indirect financial uncapped guarantees and counter-guarantees** to selected Financial Intermediaries

- Can be combined with EIB funding facilities (subject to specific criteria and transfer of benefit requirements)

- Thanks to EIF Multilateral Development Bank status (MDB) and pursuant to Basel II, **no capital charge** expected on the covered part of the Portfolio

- No FX or maturity mismatch (however long stop on December 2032)

- Max (counter-) guarantee amount is EUR 200m per Financial Intermediary (EUR 500m per group) or equivalent

- Automatic inclusion (based on Eligibility criteria) in the Portfolio
  - Full delegation to Financial Intermediaries
  - Quarterly loan-by-loan reporting to EIF

- Visibility and publication requirements
Direct Guarantee structure

**FINANCIAL INTERMEDIARY**
- Portfolio of Beneficiary Transactions
  - Credit risk retained by the Financial Intermediary
  - Guarantee coverage provided by the EIF
  - Up to 50% guarantee rate on a loan-by-loan basis

**EIF**
- Portfolio of Guarantees
  - EIF as Guarantor
  - Guarantee
  - Guarantee Fee
InnoVFIn
SME Guarantee

Counter-Guarantee structure

FINANCIAL SUB-INTERMEDIARY

Portfolio of Beneficiary Transactions

Financial Sub-Intermediate

Credit risk retained by Financial Sub-Intermediate

Guarantee from the FI

Guarantee coverage provided by FI

Guarantee rate as per the Intermediary's standard policy, but not higher than 80%

FINANCIAL INTERMEDIARY

Portfolio of Intermediary Transactions

Financial Intermediary

Credit risk retained by FI*

Counter-guarantee coverage provided by EIF

Up to 50% Counter-Guarantee Rate on a guarantee by guarantee basis

EIF

Portfolio of Counter-Guarantees

EIF as Counter-guarantor

Uncapped Counter-guarantee

Counter-Guarantee Fee
(Counter-) Guarantee Terms

- (Counter-) Guarantee covers **up to 50%** of principal and interest loss (up to 90 days) incurred on a loan-by-loan basis
  - 20% economic exposure retention on a loan-by-loan basis
- Guarantee payment can be structured either as:
  - an upfront payment of the portion of defaulted exposure amount and pro-rata sharing of the recoveries, or
  - a payment of the portion of the net loss at the end of the recovery work-out.
- (Counter-) Guarantee Fee:
  - **0.50% p.a.** for SMEs
  - **0.80% p.a.** for Small Mid-caps
  - Payment terms: (1) **Periodic**: Applicable to the guaranteed portion of transaction principal (non-defaulted loans only) or (2) **Up-front**: based on amortisation schedule
- Transfer of **Financial Benefit** to SMEs & Small Mid-caps (reduced interest rate or guarantee fee premium)
Financial Benefit – principle

Before InnovFin

- Credit Spread
- Others / Profit
- Admin cost
- Funding Cost

50% of the loans

Credit Spread reduction thanks to InnovFin

- Credit Spread
- Others/Profit
- Admin cost
- Funding Cost
- [0.50% - 0.80%]
- Others/Profit
- Admin cost
- Funding Cost

50% of the loans

Cost of the InnovFin guarantee from 50 bps to 80 bps on the guaranteed portion, i.e. 25 bps – 40bps on the underlying

Typical components of the loan margin
Eligible Underlying Transactions

- **Eligible financing:**
  - Term loans, revolving facilities, bonds (such as mini-bonds) and/or financial leases;
  - New transactions to be originated within a **two-year period** by the selected intermediary (longstop date: December 2022)

- **Purpose of financing:**
  - investment in tangible and intangible assets, and/or
  - working capital, and/or
  - business transfer transactions (50% new capital)

- Principal amount only: min **EUR 25k** - max **EUR 7.5 m** or equivalent

- **Maturity:**
  - Min. **1 year**, Max. **10 years** for term loans and **3 years** for revolving credit (including rollovers)

- **Currency:** **EUR and local currency**
Eligible Beneficiaries:

- **SMEs** (EC definition) and **Small Mid-caps** (< 500 FTE)
- Operating in **EU-28 and H2020 Associated Countries**
- No substantial focus on **Restricted Sectors**, not in any **situation of exclusion** nor “in difficulty”
- **Unlisted** (except for alternative trading platforms)
- **Innovative** (the borrower itself or enterprises from its group)
  - investing in the production or development of innovative products, processes and/or services that present a risk of technological or industrial failure
  - enterprises with a significant innovation potential or R&I-intensive enterprises, i.e. satisfying at least one “innovation criterion” out of a set of pre-defined eligibility criteria
  - “fast growing enterprises”, measured by employment or by turnover: annual increase > 20%
## Concept of Innovative Enterprise (1)

<table>
<thead>
<tr>
<th>Innovation Eligibility Criteria (at least one to be met)</th>
<th>To be met at signing date of the agreement with a Beneficiary:</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am an SME and I will invest the money in producing or developing new or substantially improved products, processes or services that are innovative, where there is a risk of technological or industrial failure as evidenced by an external evaluation</td>
<td>Appropriate evidence of: (i) declaration of intent and (ii) business plan where such risks of failure are evidenced.</td>
</tr>
<tr>
<td>I am a “fast-growing enterprise”. That is: I’ve been operating in a market for less than 12 years following the first commercial sale and turnover or staff has endogenously grown on average 20% a year over a three-year period (with at least 10 employees at the beginning of the reference period)</td>
<td>Appropriate evidence of: (i) evidence of operating history, enterprise’s business plan, (ii) employees, turnover at beginning of observation period.</td>
</tr>
<tr>
<td>I have been operating in a market for less than 7 years following the first commercial sale and R&amp;D costs represent at least 5% of the total operating costs in at least one of past three years (or in the current one in the case of a start-up enterprise)</td>
<td>Financial statements, evidence of such information provided by the certified accountant(s)</td>
</tr>
</tbody>
</table>
## Concept of Innovative Enterprise (2)

### Innovation Eligibility Criteria (at least one to be met)

<table>
<thead>
<tr>
<th>Description</th>
<th>To be met at [signing date of the agreement with a Beneficiary] [()] or application date for a loan</th>
</tr>
</thead>
<tbody>
<tr>
<td>The enterprise shall have a significant innovation potential and/or be an &quot;R&amp;D and/or innovation-driven enterprise&quot; satisfying at least one of the following elements:</td>
<td></td>
</tr>
<tr>
<td>• Our latest certified accounts confirm that we are already spending at least 20% of the sum I want to borrow on R&amp;I and our business plan indicates an increase of R&amp;I expenses at least equal to that amount</td>
<td>Financial statements, evidence of such information provided by the certified accountant(s)</td>
</tr>
<tr>
<td>• At least 80% of the sum I want to borrow will be spent on R&amp;I activities as shown in my business plan and the remainder on costs necessary to enable such activities</td>
<td>Appropriate evidence of: (i) undertaking and (ii) business plan where such expenditures are evidenced.</td>
</tr>
<tr>
<td>• I have been awarded grants, loans or guarantees from European R&amp;I support schemes or regional, national research or innovation support schemes over the last 36 months, and the amount I want to borrow now will not cover the same expense</td>
<td>Appropriate evidence of an award dated less than 36 months [()]</td>
</tr>
<tr>
<td>• I have been awarded an R&amp;D or Innovation prize by an EU institution or an EU body over the last 24 months</td>
<td>Appropriate evidence of an innovation prize awarded in preceding 24 months [()]</td>
</tr>
<tr>
<td>• In the past 24 months I have registered at least one technology right (e.g. patent, utility model, design right) and the money that I will borrow intend to enable the use of this technology right</td>
<td>Appropriate evidence of technology right registration in preceding 24 months [()]</td>
</tr>
<tr>
<td>• I am an SME and in the past 24 months I have received an investment from a venture capital investor or from a business angel being a member of a business angels network; or they are today a shareholder in the company</td>
<td>Appropriate evidence of the investment [()]</td>
</tr>
<tr>
<td>• As per my business plan I intend to enter a new product or geographical market, and the required investment is higher than 50% of the average annual turnover of the past 5 years;</td>
<td>Appropriate evidence of enterprise’s business plan [()]</td>
</tr>
<tr>
<td>• I am an SME and our R&amp;I costs represent at least 10% of the total operating costs in at least one of the past 3 years (or in the current one in the case of a start-up enterprise)</td>
<td>Financial statements, evidence of such information provided by the certified accountant(s) [()]</td>
</tr>
<tr>
<td>• I am a Small Mid-cap and R&amp;I costs represent either at least 15% of total operating costs in at least one of the past three years or at least 10% per year in the past three years</td>
<td>Financial statements, evidence of such information provided by the certified accountant(s) [()]</td>
</tr>
</tbody>
</table>
Overview of RSI pilot implementation

As of 30/6/2014
RSI pilot implementation (1)

- **47** applications
  - **44** for a direct guarantee
  - **3** for a counter-guarantee
- **40** (counter-) guarantee contracts signed (including 4 increases)
  - covering **18** countries
  - for a total guarantee amount of **EUR 1.6 bn**
- Enabling over **EUR 3.2 bn** of loans/leases to innovative SMEs and Small Mid-caps
- As of 30/6/2014 supporting **98,000 jobs** in **1,376** innovative SMEs and Small Mid-caps
- RSI is still open for loan inclusions until the end of 2015
### RSI Portfolio breakdown by country

<table>
<thead>
<tr>
<th>Country</th>
<th>Nbr</th>
<th>mEUR</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>58</td>
<td>65.5</td>
<td>7.9</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>3</td>
<td>1.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>216</td>
<td>117.5</td>
<td>14.1</td>
</tr>
<tr>
<td>Denmark</td>
<td>2</td>
<td>1.1</td>
<td>0.1</td>
</tr>
<tr>
<td>France</td>
<td>150</td>
<td>47.5</td>
<td>5.7</td>
</tr>
<tr>
<td>Germany</td>
<td>36</td>
<td>58.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Hungary</td>
<td>38</td>
<td>8.1</td>
<td>1.0</td>
</tr>
<tr>
<td>Ireland</td>
<td>16</td>
<td>16.5</td>
<td>2.0</td>
</tr>
<tr>
<td>Italy</td>
<td>174</td>
<td>64.1</td>
<td>7.7</td>
</tr>
<tr>
<td>Netherlands</td>
<td>32</td>
<td>45.4</td>
<td>5.5</td>
</tr>
<tr>
<td>Poland</td>
<td>50</td>
<td>9.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Portugal</td>
<td>273</td>
<td>192.4</td>
<td>23.2</td>
</tr>
<tr>
<td>Spain</td>
<td>436</td>
<td>185.5</td>
<td>22.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>17</td>
<td>17.4</td>
<td>2.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,501</td>
<td>830.9</td>
<td>100</td>
</tr>
</tbody>
</table>

**As of 30/6/2014**
As of 30/6/2014

Split of RSI Final Recipients according to innovation criteria

- 35.3% have used financing to develop innovative products/processes
- 9.7% are fast-growing enterprises
- 7.6% have spent on innovation more than 20% of the requested loan amount
- 5.6% will spend more than 90% of the loan on R&D and/or innovation
- 4.4% have received innovation support from European or national/regional schemes
- 3.3% have been awarded an innovation prize
- 2.7% have registered at least one patent
- 2.7% have received an investment from a venture-capital fund
- 2.7% have their seat registered in a science, technology or innovation park
- 0.8% have benefited from innovation tax credit on their investments for R&D or innovation
TOP 5 industries

1. Manufacturing
2. Wholesale and retail trade
3. Information and communication
4. Professional, scientific and technical activities
5. Construction

As of 30/6/2014
COSME Loan Guarantee

Warsaw, 6 November 2014
COSME Loan Guarantee Facility (LGF)

- Successor of the CIP SME Guarantee Facility as part of the Europe 2020 strategy
- Call launched on 4th August 2014
- Estimated budget: EUR 690m (2014-2020)
- COSME LGF provides:
  - Free of charge capped portfolio guarantees and counter-guarantees for additional SME risk-taking
  - A Securitisation option on mezzanine tranches of SME debt portfolios subject to additional lending to SMEs
- COSME LGF is implemented through Financial Intermediaries like guarantee schemes, banks and leasing companies
- COSME LGF targets Higher Credit Risk Transactions with SMEs resulting in Enhanced Access to Finance for them
- Through COSME LGF, Financial Intermediaries provide further support SMEs by going beyond their current lending/guarantee practice or increase lending volumes
As of the Q1 2014, CIP SMEG has achieved the following milestones, with many agreements still open for inclusions:

- 67 Agreements signed
- 23 Countries covered
- 329,000 SMEs supported
- EUR 553m of committed budget
- EUR 16.9b of mobilized lending
- >30 Leverage

Further 7 Transactions were signed in Q2 and Q3 2014
COSME LGF vs. CIP – What’s new?

- COSME LGF counts on a single flexible window providing capped guarantees and a securitisation option
- Capped (counter-)guarantees would be provided at a guarantee rate of up to 50% and a guarantee cap rate fixed at the level of Expected Losses (Max 20%)
- A maximum loan amount threshold of EUR 150,000 applies - Larger loans can only be covered under the COSME LGF if the SME borrower does not meet any of the innovation criteria under InnovFin*
- Financial Intermediaries have two options to provide additional risk taking:
  - Launch of a new more risky product (e.g. without collateral, start-ups) with ground up for COSME cover, OR
  - Substantial increase in volumes to high risk SMEs, with a Reference Volume
- COSME LGF is State Aid consistent, i.e. it does not contain State Aid
- COSME LGF covers investment and/or working capital financing, now including also credit lines and bank guarantees

*For securitisation, this threshold is fixed at EUR 500,000
What are Higher Credit Risk Transactions under COSME LGF?

COSME LGF covers Higher Credit Risk Transactions to SMEs, which may be defined through two options, as follows:

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Target Higher Risk Profile clients/products through:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- New product set up for Start-ups; OR</td>
</tr>
<tr>
<td></td>
<td>- Extension in maturities and/or reduction in collateral; OR</td>
</tr>
<tr>
<td></td>
<td>- New products or existing products offered to previously excluded client sectors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option 2</th>
<th>Increase in volumes of (guarantees of) loans to SMEs related to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- most risky 25% of current portfolio by internal rating; OR</td>
</tr>
<tr>
<td></td>
<td>- full portfolio in case of guarantee institutions and promotional banks</td>
</tr>
</tbody>
</table>

“Unconditional” guarantee

“Conditional” guarantee
How does it work?

### Option 1

<table>
<thead>
<tr>
<th>Guarantee rate (GR)</th>
<th>Guarantee cap rate (GCR)</th>
<th>Expected Loss</th>
<th>Cap amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Guarantee rate (GR):** 50%
- **Guarantee cap rate (GCR):** 20%
- **Expected Loss:**
- **Cap amount:**

### Option 2

<table>
<thead>
<tr>
<th>Guarantee rate (GR)</th>
<th>Guarantee cap rate (GCR)</th>
<th>Expected Loss</th>
<th>Cap amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>50%</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Guarantee rate (GR):** 50%
- **Guarantee cap rate (GCR):** 20%
- **Expected Loss:**
- **Cap amount:**

#### Portfolio Volume Indicator

<table>
<thead>
<tr>
<th>Portfolio Volume Indicator</th>
<th>Pre-set Value</th>
<th>Trigger calculation formula</th>
<th>Trigger Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>MaxPV*</td>
<td>200</td>
<td>MaxPV<em>GR</em>GCR</td>
<td>20</td>
</tr>
<tr>
<td>MinPV**</td>
<td>130</td>
<td>MinPV<em>GR</em>GCR</td>
<td>13</td>
</tr>
<tr>
<td>RPV***</td>
<td>100</td>
<td>RPV<em>GR</em>GCR</td>
<td>10</td>
</tr>
</tbody>
</table>

*MaxPV (maximum Portfolio Volume); MinPV (Minimum Portfolio Volume); RPV (Reference Portfolio Volume)*
COSME LGF capped (Counter-) Guarantee Structure

Financial Intermediary’s Portfolio of Higher Risk Transactions to SMEs

<table>
<thead>
<tr>
<th>Guarantee Rate on a loan by loan basis</th>
<th>50% maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk retained by the Financial Intermediary</td>
<td>20% minimum* of the original portfolio</td>
</tr>
<tr>
<td>Expected Loss</td>
<td>Guarantee Cap Rate</td>
</tr>
</tbody>
</table>

COSME LGF’s capped (counter-) guarantee proposed features

- Structured in the form of guarantees or counter-guarantees
- (Counter-) Guarantee rate typically set at maximum 50%
- Pari-Passu with respect to recoveries
- (Counter-) Guarantee cap rate fixed at the level of Expected Losses
- Max. 10 year cover of guarantee and min. 12 months maturity of loans
- Retained exposure of the Financial Intermediary to the SME transactions needs to be 20% minimum*

* The minimum 20% level is based on the consideration that financial intermediaries could combine additional credit risk protection financial instruments alongside with the proposed COSME (counter-)guarantees
Overview of the application process

Warsaw, 6 November 2014
Selection process and workflow

- Open Calls for InnovFin SMEG and COSME LGF published and open until 2020

- Full application according to the terms of Call:
  - Expression of interest
  - Declaration of honour
  - Information requirements

- First-come, first assessed basis:
  - Formal criteria
  - Quality
  - Portfolio/Impact

- Due diligence meeting
- Requirement of further information if necessary

- Proposal to EIF Board for approval (subject to EC pre-approval)
- Negotiations and agreement implementation
Points of attention

**Evaluation criteria:** Special focus – related to each Call

Enhanced access to finance: what benefits do you offer to SMEs thanks to the EU programme
- Be specific in how much you reduce pricing (including fees),
- By how much volumes can be increased,
- At which level collateral will be reduced,
- Will you offer a new product or adjust an existing one?

Implementation:
- How will you inform the branch network/internally?
- How will you make final beneficiaries aware?
- How much time is needed to launch the product?

Absorption capacity:
- New lending during a given period – on which basis did you estimate such volume, is it reasonable, achievable?
Special focus

**InnovFin SME Guarantee**
- Track record in financing innovative / R&D companies
- Implementation plan for deploying the Facility
- Overall impact of expected portfolio on the global InnovFin SME guarantee portfolio (risk/diversification/transaction size)
- Transfer of financial benefit to the final borrower (see specific slide)

**COSME Loan Guarantee**
- Increased risk taken (additionally requirements):
  - launch of a new more risky product (e.g. no collateral, start-ups)
  - substantial increase of volumes to high risk SMEs with reference volume
Some Practical Insights

- **Complete proposal; clarify questions with us**

- **Due Diligence (DD): for new FI:**
  - Complete DD, on-site meeting, please be prepared and send slides before the meeting

- **For known FIs:**
  - Focus on the specifics of the application: track record, added value, absorption level, implementation plan
  - DDs at HQ level to be updated on origination, credit servicing procedures

- **Approval process:**
  - Board approval (which drives the timeline), contractual negotiations in parallel
  - Third party’s approval: for EC mandates not requested any more (veto right based on summary)
Thank you!