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InnovFin MidCap Guarantee

MCG Guarantee for Innovative Mid-caps

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European Investment Bank

MCG - Structure & Key Terms

- **The InnovFin Mid-cap Guarantee (MCG) aims at supporting RDI intensive Mid-cap companies, with the support of the European Commission**
- **The MCG provides an unfunded guarantee to Financial Intermediaries (mostly banks) on newly originated loans**
 - 50% guarantee rate covering losses (principal and interest) incurred on each new loan
 - Guarantee payment upon default, with pro-rata sharing of recoveries
- **The MCG is expected to provide capital relief on the guaranteed exposure (*)**
- **Portfolio of new loans to be built-up within a 2-year period**
 - Maximum EUR 500 million non granular portfolio, with approximately 20-50 loans (expected)
 - Delegated model: Financial Intermediary includes loans (through quarterly reports) based on eligibility criteria and remains in charge of the loans monitoring and work-out actions
 - Eligibility criteria include a minimum portfolio quality (to be defined following the due diligence)
- **MCG guarantee priced on market terms**

() The analysis of the treatment of the Guarantee in respect of regulatory capital relief is to be carried out by the Financial Intermediary together with its regulator. The fulfilment of the regulatory requirements that enable the Financial Intermediary to use the Guarantee as a credit risk mitigation tool remains ultimately subject to the scrutiny and interpretation of the Financial Intermediary's regulator.*

MCG – Structure

FINANCIAL INTERMEDIARY

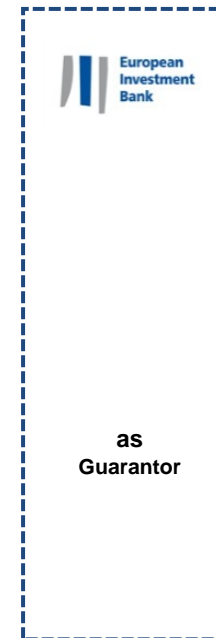
Portfolio of Mid-Cap Loans

Guarantee Rate @ 50%

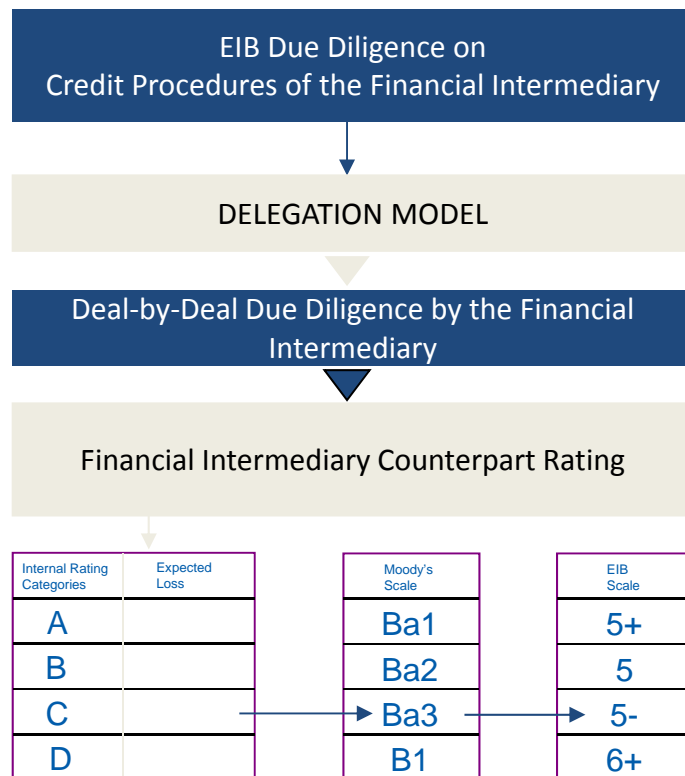


EIB

Guarantee to Financial Intermediaries



Delegation Model



- The key operational feature of the MCG is the delegation model, whereby EIB delegates the origination, due diligence, structuring as well as monitoring/work-out to the Financial Intermediary
- EIB performs a detailed Delegation Due Diligence on the credit processes/policy of the partner bank
- The counterpart rating scale (one key result of the due diligence) will translate via, for example, the Moody's rating scale and the associated expected loss figures into an EIB counterpart rating
- Financial Intermediary operates on the basis of a pre-agreed set of eligibility criteria and allocates loans during the Availability Period
- If the Financial Intermediary's external rating(s) fall below a threshold, EIB will have the right to replace the intermediary in its capacity as servicer or appoint a third party servicer.

Selected Eligibility Criteria

- **Eligible Beneficiaries**

- Mid-caps and large SME companies: less than 3,000 employees (at group level)
- Operating in EU-28 and other InnovFin eligible countries (Norway, Turkey...)
- Minimum rating requirement, expected at an equivalent Ba3-B1 (to be reviewed during the due diligence)
- Innovative companies (based on a set of innovation criteria)

- **Eligible project costs**

- Eligible beneficiaries must have a “project” budgeted over 3-years
- Larger projects (above EUR 25m) to be pre-approved by the EIB under a simple form approach

- **Loan characteristics**

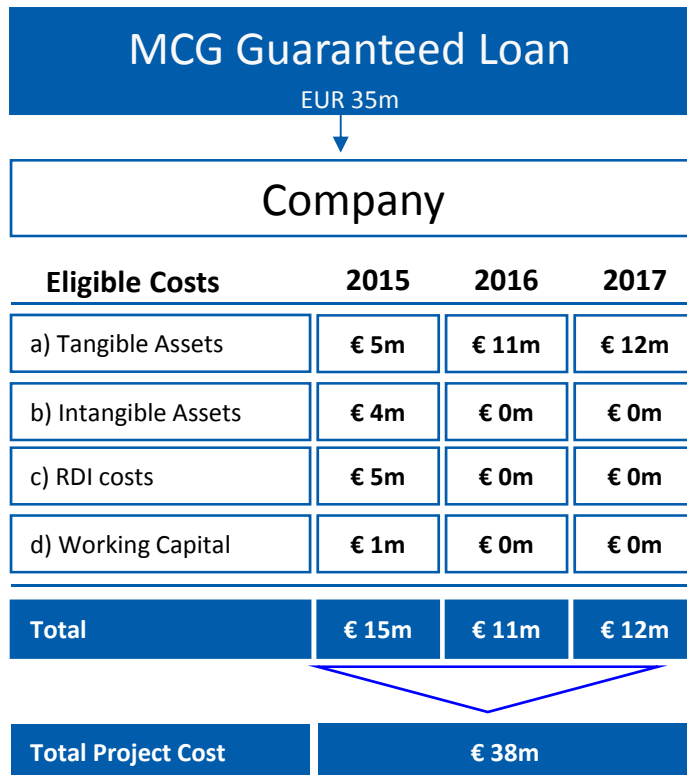
- Loan amount: minimum EUR 1 million (except Mid-caps with less than 500 FTEs : minimum limit of EUR 7.5 million) and maximum EUR 50 million
- Loan maturity: minimum 2 years, maximum 7 years
- Fixed repayment schedule (no revolving loan), with a capped grace period (no bullet loans)

Innovation Criteria

- **The Mid-cap is a “fast-growing enterprise” if it has a**
 - growth in turnover of at least 10% (average p.a.) over a three-year period, or
 - growth in FTEs of at least 5% (average p.a.) over a three-year period and with one hundred or more employees at the beginning of the observation period
- **The Mid-cap has a significant innovation potential if it has**
 - R&I expenses/investment (in the latest financial statement) at least equal to 5% of its annual turnover
 - 80% of the Mid-cap loan invested in R&I expenses/investments in the next 36 months (as indicated in its business plan and reflected in future financial statements)
 - Been formally awarded grants, loans or guarantees from European R&I support schemes or through their funding instruments or a national or regional research or innovation support schemes over the last 36 months
 - Been awarded an innovation prize over the last 24 months
 - Has registered at least one patent in the last 24 months
 - has received an investment from a private equity fund or from a business angel being a member of a business angel network, or such private equity fund or business angel is a shareholder of the Mid-cap (at the time of its application for the Mid-cap Transaction)
 - Has its registered seat in a science, technology, or innovation park or technology cluster or technology incubator, in each case with activities relating to R&I
 - Has benefited from tax credit or tax exemption related to investment in R&I in the last 24 months.
- **Only one criteria above must be met in order to treat a Mid-cap as innovative !**

Eligible Project

Example:

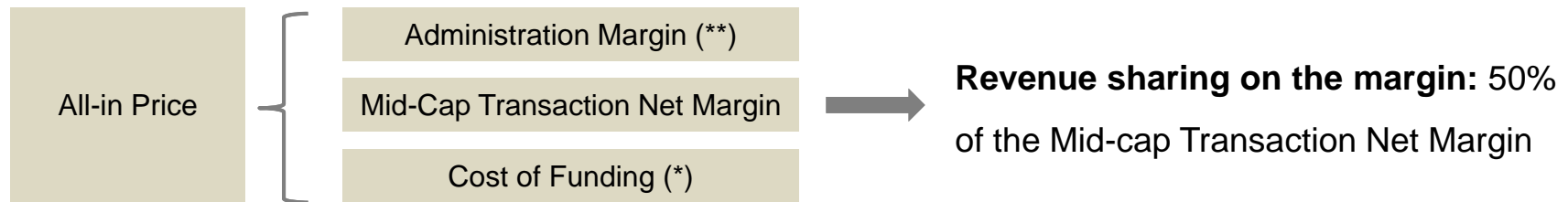


Main principles:

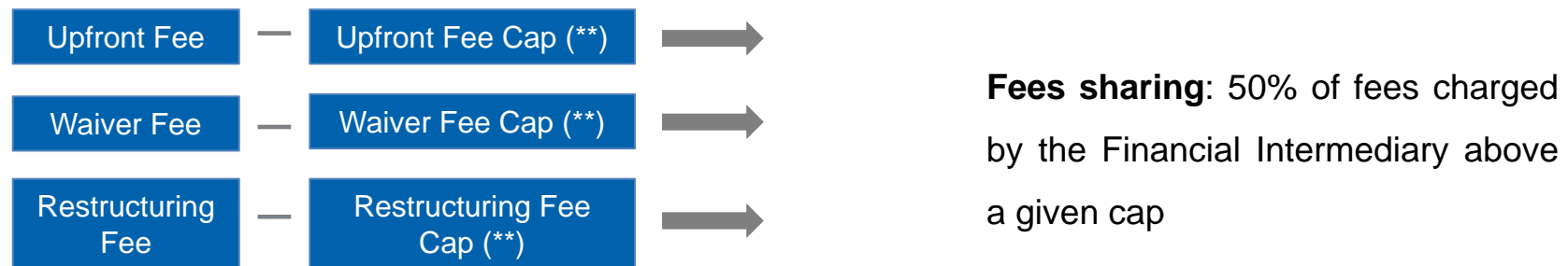
- **Loan will directly or indirectly support “eligible costs”** undertaken over a period of up to three years
- The following cost items are considered to be ‘eligible costs’ forming the Total Project Cost:
 - a) Purchase, renovation or extension of tangible assets
 - b) Purchase of intangible assets
 - c) Research, Development & Innovation costs (RDI)
 - d) Medium and long term working capital needs
- **Total Project Cost must represent**
 - at least the size of the guaranteed loan, and
 - not more than EUR 50 million
- **Exception to the full delegation: eligibility of the project will be reviewed and approved by EIB before inclusion (for projects above EUR 25 million only)**

Pricing Mechanism

The guarantee fee is charged **quarterly** on **performing** Mid-cap Transactions included in the MCG portfolio, on the margin above cost of funding (net of an administration margin):



Up-front, waiver and restructuring fees must also be shared in case they exceed a pre-defined cap:



(*) Independently calculated by the Financial Intermediary's ALM/treasury and fixed at a rate that would be applied to a similar loan entered into at the same point in time

(**) To be defined following the due diligence. Admin margin will compensate the Financial Intermediary for the administration of the mid-cap loans on behalf of EIB.

Counterparty Risk

- **EIB aims at selecting Financial Intermediaries able to originate, monitor and service the portfolio throughout the life of the MCG**
- **In case the Financial Intermediary becomes insolvent, the guarantee ceases for performing loans, but defaulted loans are still expected to generate recoveries**
- **Protection against the Financial Intermediaries' counterparty risk, in order to secure recoveries on already defaulted Mid-cap Transactions**
 - Requirement to mitigate counterparty risk through an assignment of rights or a pledge
 - The security should be created at loan signature

Additional Features

- **In order to strengthen alignment of interest, MCG includes the following features**
 - Financial Intermediaries must maintain an economic exposure of 50% on each loan covered by the MCG
 - Pari passu and pro rata sharing of recoveries at the Mid-cap level
 - Step-in right granted to EIB in case of disagreement on a work-out plan (to be presented to EIB after each guarantee calls)
 - Step-in rights granted to EIB in order to manage the MCG pool in case of substantial difficulty of the Financial Intermediary (downgrade below a defined threshold, typically high yield territory)
 - Compliance of the Financial Intermediary with its own credit procedures

Next steps

- **MCG Open Call for Interest was published on May 28, 2015:**
<http://www.eib.org/products/blending/innovfin/how-to-apply/index.htm>
- **Banks have to formally apply to the MCG in order to participate in the programme**
- **Applicants will be treated on a “first-come, first-assessed” basis**

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