

# COSME Loan Guarantee Facility

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- EIF in a nutshell
- COSME LGF overview
- COSME LGF features
- COSME support for SMEs
- COSME selection process and workflow
- COSME transaction types and case studies

# EIF in a nutshell (1/4)

## Overview



We are a value-driven institution with over 400 staff, committed to EU policy objectives and financial sustainability



### Shareholders

- 58.5% European Investment Bank (EIB)
- 29.7% European Union\*
- 11.8% 32 public and private financial institutions

### Strong capital base

of EUR 4.5bn

### AAA-rated

by the three major rating agencies

### Over 20 years

of market experience in SME financing

# EIF in a nutshell (2/4)

## EIF and the SME credit market in Europe



- **Credit demand:** European SMEs are highly dependent on bank financing
  - **Credit supply:** Banks' growing capital constraints contribute to a growing demand for risk-mitigation and capital relief solutions across Europe
  - **Liquidity supply** to the banking system is generally abundant. However, non-deposit-taking institutions (non-banks) and smaller banks/leasing companies still face challenges as regards long-term funding
  - **Budgetary constraints:** limited public resources (EU and member states) available to support SMEs, requiring efficient use of resources through leveraging and joining forces
- **EIF debt products many of which under EU mandates are well-suited to serve a wide range of financial intermediaries and support the real economy, by offering financial solutions for:**
- loss mitigation and capital relief via (counter-)guarantees
  - alternative finance (loan funds, marketplace lenders)
  - long-term funding to smaller banks and non-bank financial institutions

# EIF in a nutshell (3/4)

## EIF business model



- **Portfolio approach:** sufficient portfolio diversification allowing for a statistical approach on portfolio credit quality
- **Alignment of interest:** originator's "skin in the game" (risk sharing)
- **Due Diligence:** in-depth analysis of originator's credit policy and track record
- **Delegation:** "automatic" guarantee cover subject to eligibility criteria (i.e. no EIF approval needed for individual transactions)
- **Ex post controls:** monitoring of compliance with eligibility criteria, visibility clause etc.

# EIF in a nutshell (4/4)

## GS&M business lines



- **Loan Portfolio Guarantees**
  - Capped first loss portfolio guarantees (e.g. COSME LGF)
  - Uncapped guarantees (e.g. InnovFin)
- **Inclusive Finance**
  - Guarantees for microcredits and social finance (EaSI)
  - Funding to small financial institutions for microlending and social enterprise lending (EaSI)
- **Diversified Loan Funds**
  - Participation in credit funds investing in senior financing to SMEs and small mid-caps
- **Securitisation**
  - Guarantees on senior / mezzanine ABS notes (e.g. SME Initiative)
  - Purchase of senior ABS notes by EIB (EIB SLA)

# COSME LGF overview (1/3)

Enhancing access to  
finance

through

Free-of-charge  
guarantee for additional  
risk taking

in the  
form of

More risky new product  
or  
Substantial volume increase

## Background

- EC facility enhancing **access to finance** for European SMEs part of Europe 2020 strategy
- Successor of the CIP SME Guarantee Facility
- The initial estimated programme budget of EUR 690m is expected to be doubled thanks to EFSI support

## Description

- **Free-of-charge capped portfolio** (counter-) **guarantees** for **additional risk-taking**
- Implementation through financial intermediaries (e.g. banks, guarantee institutions and leasing companies, etc.)

## SME support approaches

- Launch of a new **more risky product**
- **Substantial increase in volumes** to higher risk SMEs

# COSME LGF overview (2/3)



- COSME counts on a single flexible window providing capped guarantees (LGF)
- Capped (counter-)guarantees are 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 be covered if the SME borrower does not meet any of the 14 InnovFin criteria
- 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 COSME cover*
  - OR
  - *Substantial increase in volumes to high risk SMEs, with a Reference Volume*
- COSME LGF covers investment and/or working capital financing, now including also credit lines and bank guarantees
- COSME LGF is State Aid consistent, i.e. it does not contain State Aid



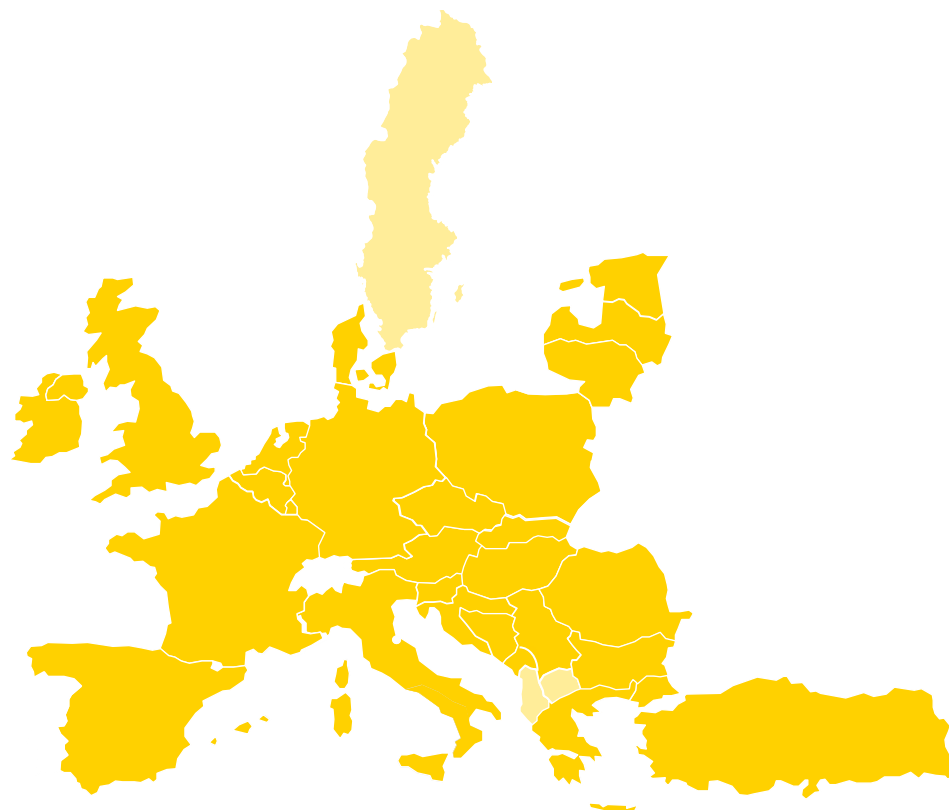
# COSME LGF overview - country coverage (3/3)

82 agreements signed for EUR 25.8bn of SME financing for an aggregate budget allocation of EUR 841m and appr. 541k SMEs expected to be supported



	Austria	AWS*
	Belgium	SOWALFIN, PMV
	Bosnia & Herz.	ProCredit Bank
	Bulgaria	CIBANK, BDB, NGF, Raiffeisenbank, Raiffeisen Leasing
	Croatia	PBZ
	Czech Rep.	CMZRB, Komerčni Banka, Equa Bank
	Denmark	Vaekstfonden, Vaekstfonden Farmers
	Estonia	Kredex, Swedbank, Swedbank Leasing
	France	France Active Garantie, SOCAMA*, SIAGI, GE Capital Equipement Finance, FranFinance
	Germany	LfA, KfW*, Buergschaftsbanken
	Greece	NBG, Eurobank, Alpha Bank, Piraeus Bank
	Hungary	K&H, AVHGA, Erste Bank, Garantiqua
	Ireland	SBCI
	Italy**	BdM-MCC*, BCC Lease, Credito Emiliano*, CDP, 12 Italian guarantee institutions (confidi)
	Latvia	Swedbank, Swedbank Leasing, UniCredit Leasing, Altum
	Lithuania	Swedbank, Swedbank Leasing
	Luxembourg	MCAC
	Montenegro	CKB
	Netherlands	Qredits
	Poland	BGK, PKO Leasing, POLFUND
	Romania	Libra Internet Bank, Raiffeisen Bank
	Serbia	Banca Intesa, UniCredit Bank, Erste Bank
	Slovakia	CSOB
	Slovenia	SEF
	Spain	Microbank, CERSA
	Turkey	QNB Finansbank
	UK	EZBOB, iwoca

25 countries where agreements have been signed  
 3 countries where applications have been received



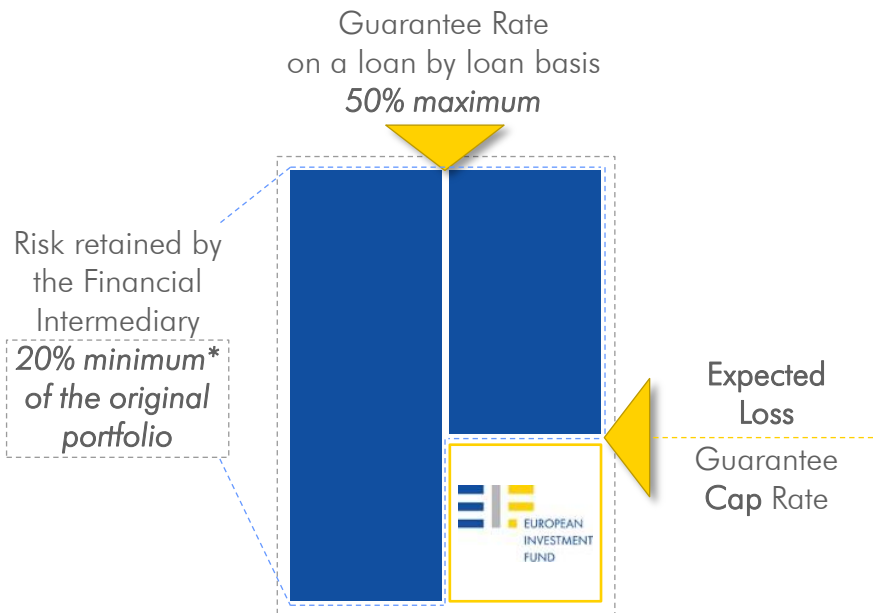
The slide is based on the transaction status as at 15/11/2017

\* EIF signed 2 agreements with SOCAMA, KfW, BdM-MCC, Credito Emiliano and AWS .

\*\* 1 agreement in Italy was terminated.

# COSME LGF capped (counter-) guarantee structure

Financial intermediary's portfolio of higher risk transactions to SMEs



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 ranking
- (Counter-) Guarantee cap rate fixed at the level of Expected Losses (max 20%)
- COSME guarantee has 10 year maturity
- Eligible loans min 12 months maturity
- Retained exposure of the Financial Intermediary to the SME transactions needs to be min 20%\*

\* The minimum 20% level allows financial intermediaries to combine COSME support with similar credit risk protection at national level up to, in aggregate, 80%.

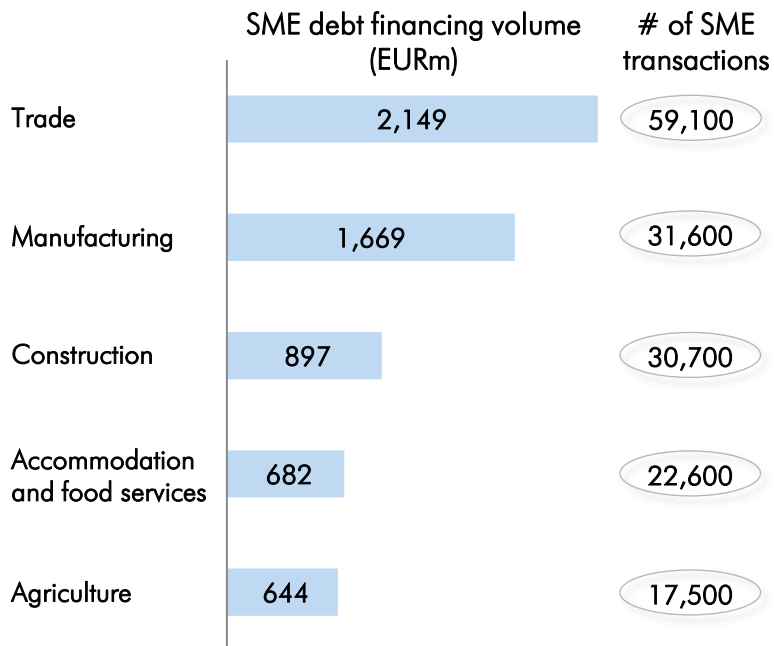
# COSME support for SMEs

**243,000**  
SMEs were supported  
under COSME in the  
period 2014-2017

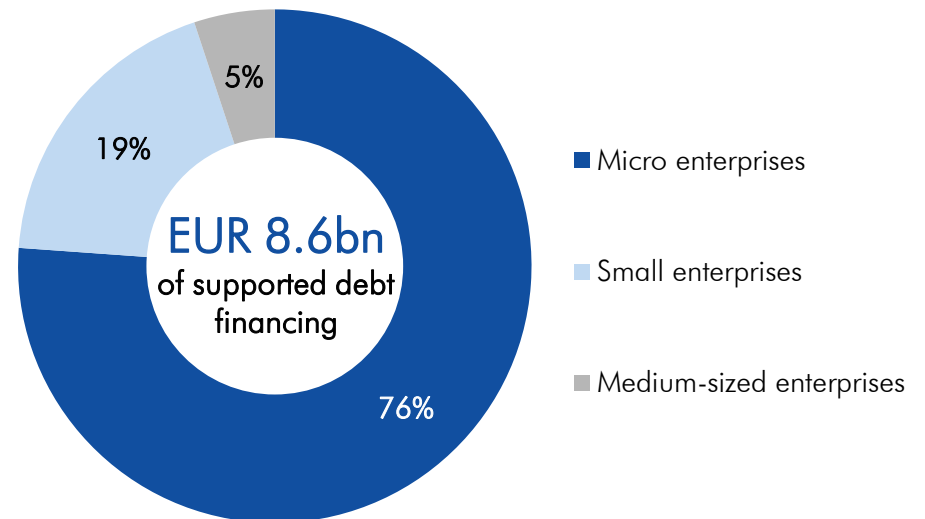
**40%**  
of the supported  
debt financing was  
granted to start-  
ups\*

**5 years**  
average maturity of  
the COSME  
supported debt  
financing

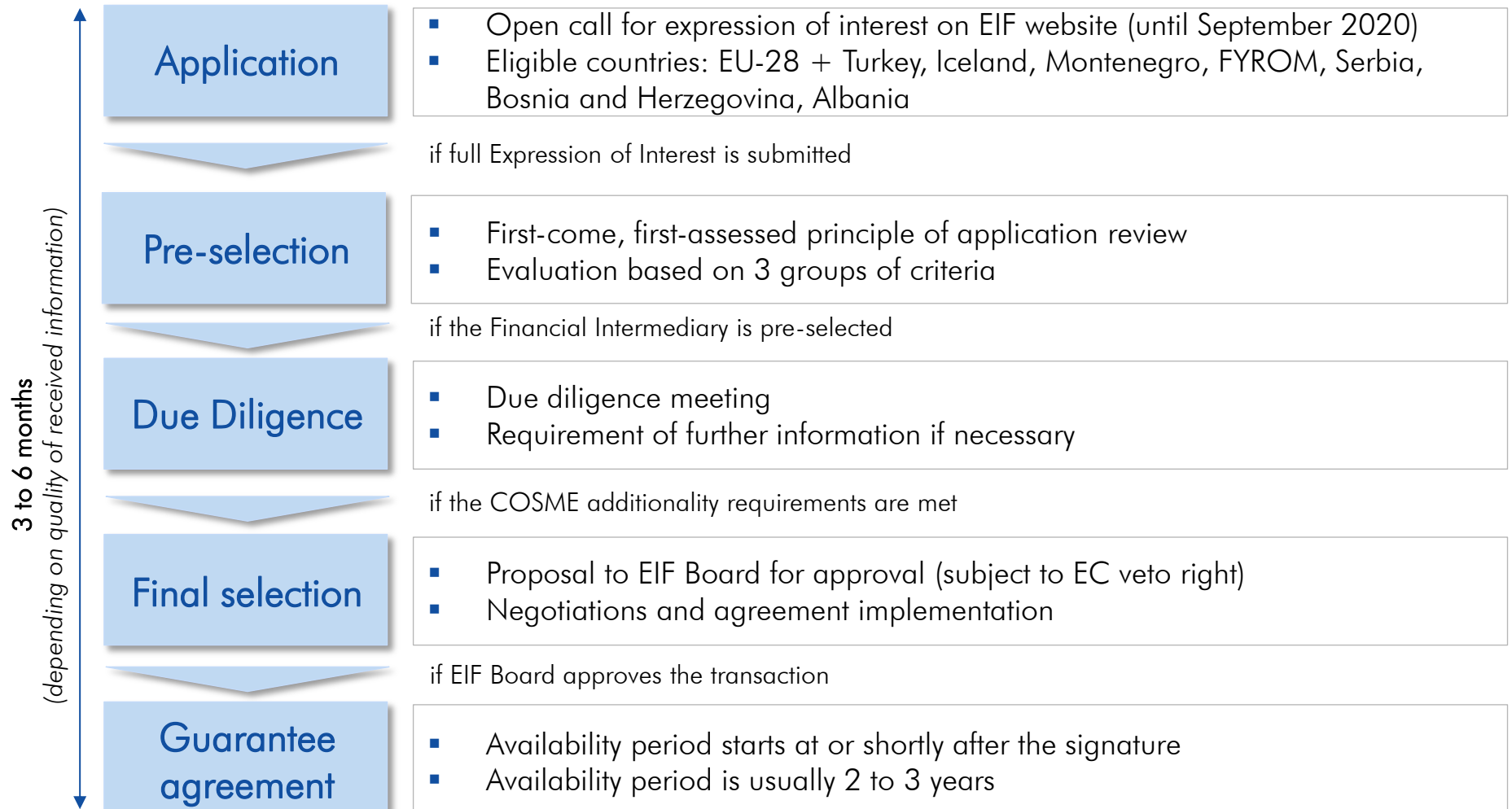
Top 5 COSME supported economic sectors



Breakdown of the SME debt financing volume by SME size



# COSME selection process and workflow (1/5)



# COSME selection process and workflow (2/5)

Application

Pre-selection

Due Diligence

Final selection

Guarantee  
agreement

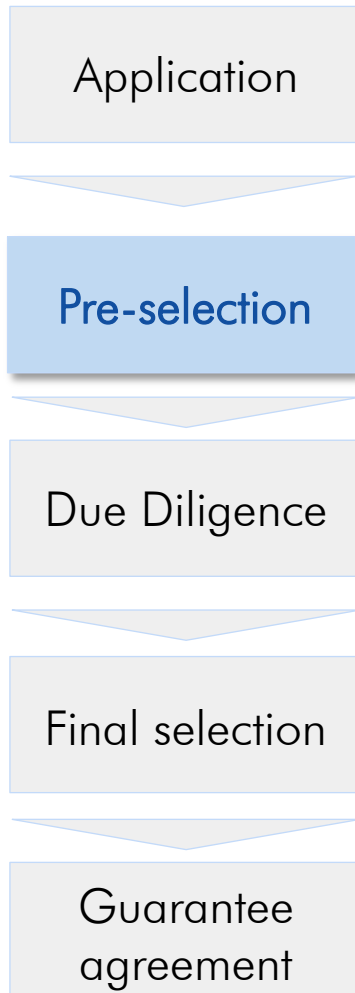
## Required documents:

- Signed Declaration of Honor/Cover Letter and Applicant Identification
- Annual reports for the last available 3 years

## Main information to be provided by the Financial Intermediary:

- **Explanation of the selected COSME Option** (1 or 2) and how the intermediary would enhance the access to SMEs thanks to the COSME guarantee, additionality elements (if applicable), business plan, marketing and promotion tools foreseen
- **SME debt financing volumes for the past 5 years** - annual production and outstanding end-of-year portfolio volumes
- **Vintage analysis** for both **defaults** and **recoveries** for the past 5 years for products comparable to the ones under COSME
- **Description of the activity** (inter alia geographical coverage, market position and previous cooperation with IFIs)
- **Description of the operating principles** (inter alia SME debt financing origination, risk management, pricing policy, collateral policy)

# COSME selection process and workflow (3/5)



## 3 components of evaluation of Expressions of Interest:

### 1. Compliance with formal criteria:

- Declaration of Honour by the Applicant
- Full Application submitted

### 2. Quality criteria:

- Capacity to comply with all COSME contractual obligations
- Capacity manage the risk of the COSME operation
- Experience and ability to finance SMEs
- Quality and plausibility of the implementation proposal

### 3. Impact criteria:

- Assessment of the proposed COSME portfolio, specifically with regards to providing enhanced access to finance and the expected loss and granularity
- Impact of the application on the geographical distribution of the overall current and expected aggregate COSME portfolio

QUALITY (A to C)

	A1	B1	C1
	A2	B2	C2
	A3	B3	C3

IMPACT (1 to 3)

- Pre-selected
- On the Reserve List
- Not Pre-selected

# COSME selection process and workflow (4/5)

Application

Pre-selection

**Due Diligence**

Final selection

Guarantee  
agreement

## The proposal the Due Diligence would be in the form of:

- First time applicant: physical meeting in the premises of the financial intermediary (usually 4-6 hours)
- Follow-up transactions: potentially a video conference

## Scope of the Due Diligence:

- to validate the understanding of the information received in the application;
- to understand better how the COSME LGF could be of valuable support for SMEs.

Based on the relevant discussions during the Due Diligence additional information may be needed from the applicant.

# COSME selection process and workflow (5/5)

Application

Pre-selection

Due Diligence

**Final selection**

Guarantee  
agreement

The decision about the **final selection** of the COSME transaction proposals (subject to EC veto right) **is taken by the EIF Board of Directors**.

**The decisions of the EIF Board of Directors on COSME transactions could be taken:**

- as part of the agenda of the **physical Board meetings** (typically ten times a year)
- in the framework of a Board **written procedure** .

In line with EIF's internal processes, the proposals for COSME transactions need to be finalised one month before the relevant Board meeting or written procedure.



# What are higher credit risk transactions under COSME LGF?

- COSME LGF covers higher credit risk transactions to SMEs of two types:

## Option 1

- Target Higher Risk Profile products/clients through:
  - New product set up for Start-ups; OR
  - Extension in maturities and/or reduction in collateral; OR
  - New products or existing products offered to previously excluded client sectors
- Ground up COSME cover

*“Unconditional”  
guarantee*

## Option 2

- Increase in volumes of (guarantees of) loans to SMEs related to
  - most risky 25% of current portfolio by internal rating; OR
  - full portfolio in case of guarantee institutions and promotional banks
- COSME cover is conditional on the Intermediary realising certain volumes of activities as defined within the Guarantee Agreement

*“Conditional”  
guarantee*

# Examples of COSME transactions

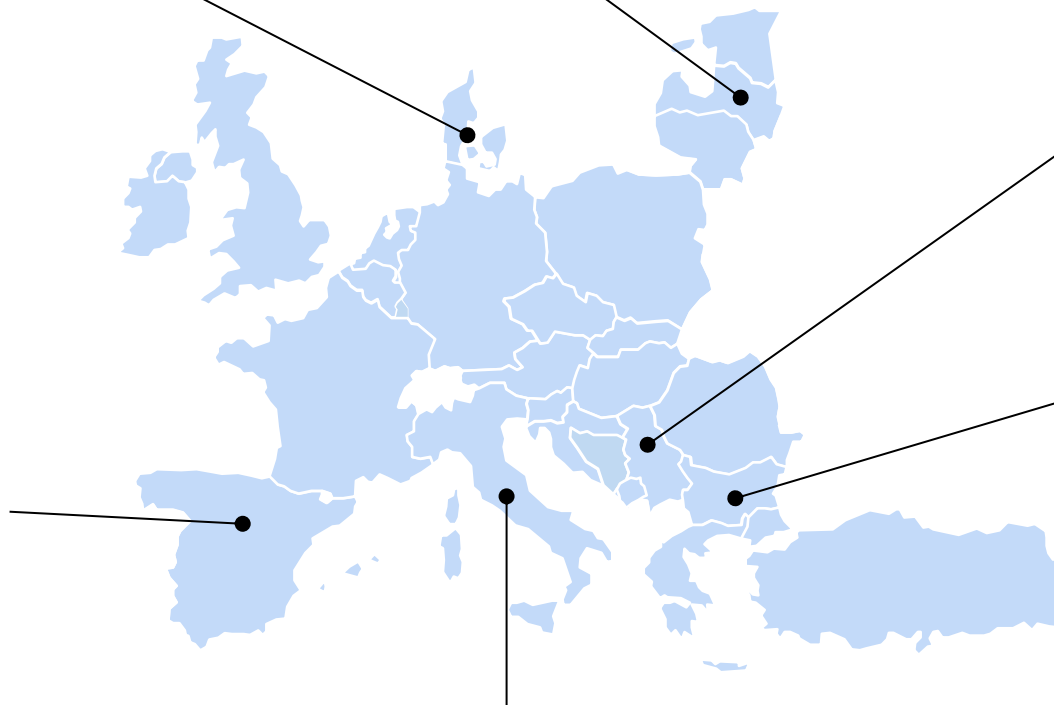
**Vækstfonden (DK):** unsecured direct loans to farmers

**Altum (LV):** new unsecured loan product for start-ups with an operational history up to 5 years

**Banca Intesa (RS):** new unsecured working capital loan product with extended maturities

**Raiffeisen Leasing (BG):** new finance lease products for start-ups and for established SMEs benefiting from substantially reduced down-payment requirements for SMEs, including start-ups

**Nuevo Micro Bank (ES):** unsecured loans for micro and small companies and self-employed entrepreneurs



**CREDEM (IT):** substantial increase in the volume of unsecured direct loans to higher risk SMEs, with a focus on agriculture

# Higher Credit Risk Transactions under Option 1

## *COSME proposal*

- New unsecured loan product with a maximum collateralisation of 50%

- New revolving loan product with a minimum maturity of 36 months

- New loan product for start-up SMEs

## *Additionality requirements unlikely to be met*

- Min. collateralisation required as per credit policy: 100%
- Average collateralisation of the SME loans granted in the last 12 months: 60%

- Max. maturity for revolving loans as per credit policy: 24 months
- Average maturity of the revolving loans granted in the last 12 months: 36 months

- Start-up SMEs are not eligible for financing as per credit policy
- Share of start-ups in the SME loan portfolio granted in the last 12 months: 15%

## *Additionality requirements could potentially be met*

- Min. collateralisation required as per credit policy: 100%
- Average collateralisation of the SME loans granted in the last 12 months: 120%

- Max. maturity for revolving loans as per credit policy: 24 months
- Average maturity of the revolving loans granted in the last 12 months: 18 months

- Start-up SMEs are not eligible for financing as per credit policy
- Share of start-ups in the SME loan portfolio granted in the last 12 months: 1%

Increased risk taking through reduction in collateral

Increased risk taking through increase in maturities

Increased risk taking through support of a new more risky client segment

# Higher Credit Risk Transactions under Option 2

*Applicable only to commercial institutions*

- Up to the bottom quartile (more risky 25%) of the loan portfolio would be considered in order to identify the High Risk SMEs quartile (e.g. lower rating class at origination)

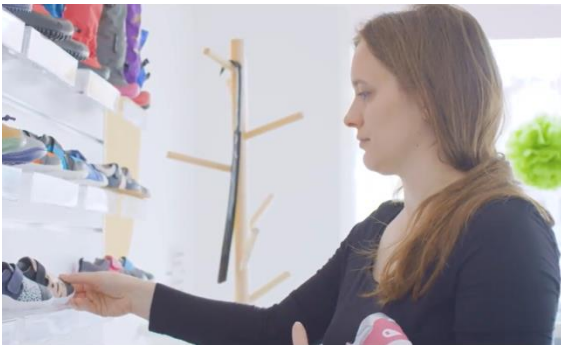
PD Range (%)		Average PD (%)	Rating Classes at Origination	SME Portfolio Distribution	Cumulative Distribution
0.00%	0.04%	0.02%	1	0.00%	100.00%
0.04%	0.17%	0.11%	2	0.00%	100.00%
0.17%	0.42%	0.30%	3	0.00%	100.00%
0.42%	0.87%	0.65%	4	21.00%	100.00%
0.87%	1.56%	1.22%	5	28.00%	79.00%
1.56%	2.81%	2.19%	6	24.00%	51.00%
2.81%	4.68%	3.75%	<b>7</b>	11.00%	<b>27.00%</b>
4.68%	7.16%	5.92%	<b>8</b>	7.00%	<b>16.00%</b>
7.16%	11.62%	9.39%	<b>9</b>	6.00%	<b>9.00%</b>
11.62%	17.38%	14.50%	<b>10</b>	3.00%	<b>3.00%</b>

Bottom quartile  
and acceptable  
rating classes

- To calculate the Reference Portfolio Volume we first need to estimate the volumes that the financial intermediary would disburse during the availability period to SMEs rated in the Acceptable Rating Classes without the support of the EU guarantee, with the past 12 months origination being the main criterion

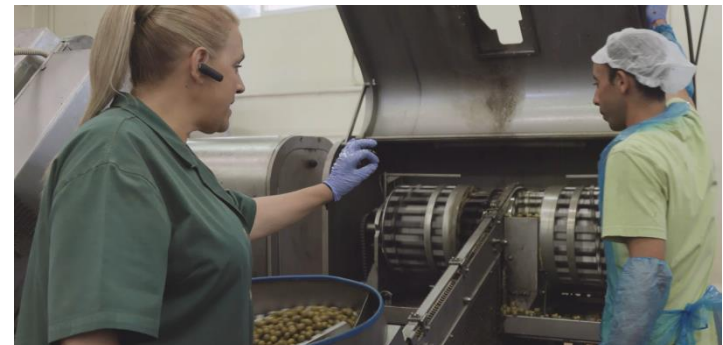
# Case studies – supported SMEs under COSME

Helping young entrepreneurs in Denmark:  
<https://youtu.be/wNMB4CtoUrE>



Helping SMEs start up in the Czech Republic:  
<https://youtu.be/q0rzA4glA0M>

Helping SMEs scale up in Greece:  
<https://youtu.be/66Qxvp4HFt8>





Thank you for your attention.

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European Investment Fund