

CIP

SME GUARANTEE FACILITY

GUARANTEE POLICY AND OPERATIONAL GUIDELINES FOR SECURITISATION

The Guarantee Facility for SMEs created in the framework of the Competitiveness and Innovation Programme (2007-2013) (the "SME Guarantee Facility") is funded by the European Community and is operated by the European Investment Fund ("the EIF") on behalf of the European Commission.

Purpose

In the framework of the securitisation guarantee window of the SME Guarantee Facility (the "Securitisation Window"), the EIF provides guarantees and other similar instruments ("EU Guarantees") to support securitisation structures with a view to assisting financial institutions ("Intermediaries") to mobilise debt financing for small and medium-sized enterprises¹ ("SMEs" or "Final Beneficiaries"). Support for this type of transaction shall be made available upon an undertaking by the relevant Intermediary to use a significant part of the resources mobilised as a result of the securitisation transaction for new SME financing as set out in these Guarantee Policy and Operational Guidelines (the "Additional Portfolio").

The objective of the Securitisation Window is to enable Intermediaries to raise funding at attractive conditions, reduce their regulatory and economic capital requirements, facilitate access to capital markets, especially for unrated or low rated entities, such as smaller banks, and to support the launching of new SME products (e.g. granting new financing with the aim to securitise such new financing) with a view to enabling Intermediaries to provide further financing and/or guarantees to SMEs.

Eligible transactions

Eligible Transactions: EU Guarantees may be extended to support cash securitisations (true sale) and synthetic securitisations, including securitisations aiming at providing financing to financial institutions, such as micro-finance institutions, to allow them to provide financing to Final Beneficiaries. These transactions can be both single- and multi-intermediary transactions, as well as multi-country transactions.

¹ For the purpose of this window and in accordance with the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36) micro-, small and medium-sized enterprises (SMEs) are defined as enterprises which employ fewer than 250 employees and which have an annual turnover not exceeding EUR 50 million, and/or an annual balance sheet total not exceeding EUR 43 million. The reference year to be considered is the last approved accounting period. Any subsequent modification of the Recommendation will be taken into account in relation to the CIP Guarantees provided after the date of adoption of such a Recommendation.

- Intermediaries: An intermediary is an originator or any other party undertaking to establish an Additional Portfolio. Intermediaries shall be established and be operating in one or several Participating Countries² and will be selected among banks, leasing companies, guarantee schemes, special purpose entities ("SPEs"), micro finance institutions and any other financial institutions committed to SME financing.
- Selection process: Intermediaries shall be selected in conformity with best business and market practices in a fair manner, avoiding any conflict of interest. On the basis of a call for expression of interest³ proposals will be examined by the EIF, on a continuous basis, using professional analysis and judgment taking into account these Guarantee Policy and Operational Guidelines.
- Proposals will be considered for approval by the EIF and the Commission, after satisfactory evaluation and pre-selection by the EIF, within the constraints of the available Community budget allocations.
- Selection criteria: Intermediaries shall be selected having regard to the following selection criteria, in no particular order of priority:
- the financial standing and operational capability of the Intermediary, and its ability to manage risk, service the Securitised Portfolio (as defined below) and to comply with the terms and conditions of the SME Guarantee Facility;
 - the Intermediary's willingness and ability to originate the Additional Portfolio;
 - the Intermediary's overall commitment to SME financing;
 - the extent to which an EU Guarantee would enhance the Intermediary's access to capital markets;
 - the extent to which the Additional Portfolio includes SME Financing granted to finance investments, transfer of business, as well as mezzanine financing and/or other quasi-equity instruments;
 - the extent to which the Securitised Portfolio and/or the transaction structure contain, especially in the case of experienced Intermediaries, innovative features, such as:

² "Participating Countries" means the Member States of the European Union and those Member States of the European Free Trade Agreement ("EFTA") which are members of the European Economic Area ("EEA"), accession countries and candidate countries benefiting from a relevant pre-accession strategy, countries of the Western Balkans in accordance with the relevant framework agreements and any other country included in the list of Participating Countries as published from time to time in the Official Journal.

³ To ensure transparency the call for expression of interest will be published in the Official Journal and will remain open until 31 December 2013 or any later date as a result of any subsequent prolongation, subject always however, to the availability of budgetary funds.

- (i) less customary underlying assets (e.g. mezzanine financing or other equity-related instruments, bonds issued by SMEs, micro-credit instruments, etc.);
 - (ii) underlying assets originated in different countries or in countries where the securitisation market is considered relatively less developed; and
 - (iii) multi-seller origination.
- the extent to which the Securitised Portfolio includes SME obligors; and
 - the willingness to accept the criteria for Enhanced Access to Finance

The selection of Intermediaries shall be based on market conditions and practices in the relevant country or region, in particular regarding the credit quality and risk diversification of the Securitised Portfolio.

The Securitised Portfolio

A securitised portfolio (the “Securitised Portfolio”) may consist of underlying assets customary for the relevant type of securitisation transaction, such as:

- debt instruments, lease receivables, mezzanine financing, other forms of equity-related instruments and other types of debt financing;
- bonds and similar instruments issued by SMEs;
- trade receivables originated by SMEs;
- guarantees for the any of the above-mentioned instruments;
- financing (including hybrid debt/equity products) of smaller, unrated financial institutions, including microfinance institutions, which on-lend to SMEs.

Each Securitised Portfolio shall have sufficient homogeneity and sufficient pool diversification.

The Additional Portfolio

Each Intermediary shall undertake to create an Additional Portfolio by using a significant part of the resources made available as a result of the securitisation transaction to fund financing and/or guarantees to SMEs. The eligibility criteria for the instruments forming part of the Additional Portfolio and the size of the Additional Portfolio shall be determined by the EIF on a case-by-case basis, in agreement with the Intermediary, having regard to the requirements for enhanced access to finance as specified below, the amount of the EU Guarantee and the seniority of the relevant EU Guarantee. The Additional Portfolio shall be reasonably diversified and consist of financing or guarantees related to SMEs (“SME Financing”) complying with the following requirements (the “Additional Requirements”):

Final Beneficiaries:	A Final Beneficiary is an entity that, at the date of the relevant debt instrument, is an SME established and operating in a Participating Countries. The same SME can benefit more than once from the Securitisation Window and other windows made available under the SME Guarantee Facility.
Purpose of financing:	<p>The instruments forming part of an Additional Portfolio will be debt instruments, typically supporting new investments, start-ups and business transfers, as well as other forms of mezzanine financing, aiming at strengthening the financial structure of the Final Beneficiary.</p> <p>The Intermediary may include several financings with any one SME in the Additional Portfolio.</p>
Maturity:	Priority shall be given to medium- and long-term financing, i.e. financing with maturities longer than 18 months. Minimum maturity is in no case less than 12 months.
Availability Period:	The EIF and the Intermediary will agree an availability period (typically up to 3 years) during which the Additional Portfolio will be built up, taking account of the SME financing activity of the Intermediary (the "Availability Period").
"Enhanced Access to Finance":	<p>In consideration of the EU Guarantee, provided in respect of the Securitised Portfolio, the Intermediary shall undertake to provide enhanced access to finance to SMEs by the establishment of an Additional Portfolio ("Undertaking in respect of Enhanced Access to Finance").</p> <p>The contractual arrangements between the EIF and the Intermediary shall be established having regard to the resources mobilised as a result of the securitisation transaction and the following criteria and taking into account the purpose of these Guarantee Policy and Operational Guidelines as set out below:</p> <ul style="list-style-type: none"> • the effect on the volume of financing taking into account the purpose of financing (debt, equity or quasi-equity) made available to SMEs: increased volume of guarantees or, as applicable, financing extended by the Intermediary; and, where applicable • the effect on SMEs' access to finance: enhanced access to guarantees, or where appropriate, debt and equity financing through less stringent acceptance criteria (e.g. with regard to young and start-up companies, investment in intangible assets, extended maturities or reduced cost of finance to SMEs); and/or

- the effect on risk-taking in SME financing by the Intermediary: acceptance of higher risks (e.g. increased share of losses covered by the Intermediary or relaxed security requirements).

This will be for each Intermediary translated into specific target volumes.

The Additional Portfolio may consist of:

- New SME financing granted with a view to being securitised with the support of the EU Guarantee as soon as a sizeable portfolio is established; or
- New SME financing granted after closing of the securitisation transaction; depending on the transaction characteristics such new financing may or may not be included in the Securitised Portfolio through replenishment arrangements.

Target Portfolio
Volume:

The Intermediary shall undertake to reach a pre-agreed target Portfolio volume. The target Portfolio volume shall be determined by the EIF having regard to the activity of the Intermediary, the characteristics of the Additional Portfolio, the duration of the Availability Period, as well as the amount and seniority of the EU Guarantee.

External Rating

The securitisation transaction benefiting from an EU Guarantee shall typically be externally rated by at least one major rating agency.

Technical support

Technical support to Intermediaries may be made available in the form of lump sum payments, in order to partially offset the cost relating to external rating of the relevant transaction. Such support may be made available, especially in case of first time Intermediaries, multi-seller transactions, multi-country transactions and for less customary underlying assets and shall not exceed the lesser of EUR 50,000 and 50% of the actual external rating cost.

The EU Guarantees

Nature:	Subject to the terms and conditions of the EU Guarantee, the EIF will undertake to pay certain amounts of principal and interest in respect of the guaranteed asset backed securities, or, in the case of synthetic structures, amounts due in respect of losses allocated to the guaranteed tranche.
Beneficiary:	The EU Guarantee shall be made available directly or indirectly (i) for the benefit of the note holders or, as the case may be, (ii) for the benefit of the Intermediary.
Guarantee Rate:	Typically, the EU Guarantee rate will be (i) up to 100% of the guaranteed tranche for any tranches other than the first loss piece; or (ii) up to a maximum of 50% of the first loss piece.
Term:	The EU Guarantee will typically have a term of up to 10 years.
Guarantee Fees:	The beneficiary of the EU Guarantee will normally be required to pay a guarantee fee.
Commitment Fees:	Where appropriate and in order to encourage the establishment of the Additional Portfolio, the EIF may charge a fee to the Intermediary according to an agreed schedule, such fee to be calculated on the Target Portfolio Volume less the aggregate of the amount of principal included in the Additional Portfolio.

Co-investment with the EIF

The EIF may participate in securitisation transactions supported under the Securitisation Window, using its own resources. In cases when the EIF decides to participate, using its own resources, such involvement will be based on the EIF's own standards applied for the relevant type of product.

Reporting

Each Intermediary shall provide the EIF with periodical information as and when required in the Undertaking in respect of Enhanced Access to Finance.

In addition, periodical information customary for securitisation transactions will be required in respect of the Securitised Portfolio.

Monitoring and audit

Intermediaries, sub-intermediaries and Final Beneficiaries must agree to allow and to provide access for the European Commission's agents and the European Court of Auditors to adequate information to enable them to discharge their duties with respect to monitoring, control and auditing of the correct use of the Community funds. To that effect, the EIF, Intermediaries and sub-intermediaries will include appropriate provisions in each agreement relating to the SME Guarantee Facility, using the exact wording:

"The counter party acknowledges that the European Investment Fund (the "EIF"), the agents of the EIF, the Court of Auditors of the European Community (the "ECA"), the Commission and the agents of the Commission including OLAF (the "Agents") shall have the right to carry out controls and to request information in respect of this agreement and its execution. The counter party shall permit inspections by the EIF, the agents of the EIF, the ECA, the Commission and the Agents of its business operations, books and records. As these controls may include on the spot controls of the counter party, the counter party shall permit access to its premises to the EIF, the agents of the EIF, the ECA, the Commission and the Agents during normal business hours."

Promotion

The EIF in cooperation with the Intermediary shall ensure that the support given by the European Community is reflected in the press releases and other media announcements concerning the securitisation transaction.

Intermediaries will also be required to ensure that their specific promotional material relating to the Additional Portfolio includes the EU logo (twelve yellow stars on a blue background) and a statement that the funding of the SMEs "has been made possible due to a securitisation transaction supported under the European Community's Competitiveness and Innovation Framework Programme". Intermediaries shall display the European logo at least as prominently as their own logo in all specific promotional material.

Visibility

Intermediaries will be required to include or, as the case may be, request in the contracts with Final Beneficiaries the inclusion of a statement that the relevant debt financing has been made available in connection with a securitisation transaction "supported under the European Community's Competitiveness and Innovation Framework Programme".