

CIP

SME GUARANTEE FACILITY

GUARANTEE POLICY AND OPERATIONAL GUIDELINES FOR EQUITY and QUASI-EQUITY GUARANTEES

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 equity guarantee window of the SME Guarantee Facility (the "Equity Guarantee Window"), the EIF supports small and medium-sized enterprises¹ (SMEs or "Final Beneficiaries") by providing guarantees, co-guarantees and counter-guarantees ("EU Guarantees") to financial intermediaries ("Intermediaries") covering investments in the seed and start-up phase, mezzanine financing and/or risk capital operations. The objectives of the Equity Guarantee Window are to reduce the particular difficulties which SMEs face because of their weak financial structure and to assist SMEs achieve business transfers. The EU Guarantees are provided by the EIF on behalf of the European Commission and cover part of the risk of the Intermediary relating to that particular financing.

Selection of Intermediaries

Intermediaries: Intermediaries shall be established and be operating in one or several of the Participating Countries² and will be selected among financial institutions, such as the following mezzanine finance providers: banks, specialised financial institutions and guarantee schemes, including, without limitation, mutual guarantee organisations.

Selection process: Intermediaries shall be selected in conformity with best business and market practices in a fair manner, avoiding any conflict of

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.

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.

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 the operational capability of the Intermediary, its ability to manage risk and to comply with the terms and conditions of the SME Guarantee Facility;
 - whether the Intermediary provides or will provide guarantees on a portfolio basis to mezzanine financing or guarantees to cover investments by risk capital funds or corporates in the equity of eligible SMEs. For the purpose of this window the individuals investing in equity of SME are not eligible for EU Guarantees;
 - the extent to which the Intermediary has a wide geographic coverage of SMEs in one or several of the Participating Countries; and
 - the willingness to accept the criteria for Enhanced Access to Finance.

State aid: Intermediaries have to comply with applicable State aid rules.

Eligibility Criteria

Final Beneficiaries: A Final Beneficiary is an SME, established or to be established in a Participating Country and which benefits, directly or indirectly, from the mezzanine financing, quasi-equity or equity investments.

In the case of equity investments only, the SMEs must be in their seed or start-up phase and if already founded they must have been established or operating for less than 10 years.

Each Final Beneficiary can benefit more than once from the Equity Guarantee Window and other windows made available under the SME Guarantee Facility.

Portfolios: A portfolio covered by an EU Guarantee may include guarantees, equity or quasi-equity provided for the benefit of SMEs ("Portfolio").

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.

The eligibility criteria for the instruments covered by an EU Guarantee shall be determined by the EIF individually for the relevant Portfolio in agreement with the Intermediary and with the aim of reaching as many Final Beneficiaries as possible. These criteria shall reflect market conditions and practices in the relevant country or region.

In addition, each Portfolio must have a composition which allows it to be treated as a Portfolio from a risk management perspective and shall show sufficient diversification and homogeneity so as to have a loss expectation that may be predicted with reasonable accuracy.

- Purpose of financing: A Portfolio may include the following forms of financing, i.e.
- mezzanine financing, including financing instruments such as subordinated Debt Instruments, silent participations, participating Debt Instruments, profit participation rights and convertible bonds/bonds with warrants;
 - guarantees for mezzanine financing, as referred to above; and
 - guarantees provided by Intermediaries to funds providing seed capital, start-up capital and other forms of risk capital to SMEs.

Maximum guaranteed amount: The maximum equity investment amount covered by any EU Guarantee shall be EUR 500,000⁴.

The EU Guarantee

Nature: The individual EU Guarantee can be a guarantee, a co-guarantee or a counter-guarantee and shall be provided for the benefit of an Intermediary.

“Enhanced Access

⁴ For the purpose of this window the maximum amount of EUR 500,000 refers to equity and quasi-equity investments made or a mezzanine financing extended, by an Intermediary in or to one eligible SME. In other words, whereas each Final Beneficiary (SME as per Annex 1C, title “Eligibility Criteria”, section “Final Beneficiaries”, last paragraph) can benefit from the Equity Guarantee Window more than once and such investments or financings may exceed an amount of EUR 500,000, the total amount of such investments or financings may be covered by an EU Guarantee only up to EUR 500,000 per SME to satisfy the diversification and homogeneity criteria.

to Finance”

The EU Guarantee shall provide coverage for each instrument in the relevant Portfolio at an agreed guarantee rate, provided that the obligation under the EU Guarantee to cover a share of the losses relating to the relevant Portfolio shall be capped to a pre-set amount and that losses in excess of such amount shall not be covered under the EU Guarantee.

In consideration of the EU Guarantee, the Intermediary shall undertake to provide enhanced access to finance to SMEs as set out below ("Undertaking in respect of Enhanced Access to Finance").

The contractual arrangements between the EIF and the Intermediary shall be established having regard to the following criteria and taking into account the purpose of these Guarantee Policy and Operational Guidelines:

- 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.

Availability Period:

Each agreement evidencing an EU Guarantee will stipulate an availability period during which eligible debt financing may be included in the Portfolio for cover (the "Availability Period").

Such inclusion shall become effective upon receipt by the EIF of an inclusion notice submitted by the relevant Intermediary in the form set out in the EU Guarantee.

Guarantee Rate:

A risk-sharing arrangement shall be established between the EIF and the Intermediary.

Each EU Guarantee will provide partial cover to the commitment of the relevant Intermediary (directly or indirectly) with regard to the financing included in the relevant Portfolio ("Guarantee Rate").

The Guarantee Rate shall be determined individually for each Portfolio having regard to the risk-sharing arrangements and the maximisation of the effect of the Community funds in increasing the availability of debt finance to SMEs.

The Guarantee Rate shall not exceed 50% of the commitment by the Intermediary.

Guarantee Cap: The obligation of the EIF to pay a portion of the losses relating to a specific Portfolio will be capped to a pre-set amount (the "Guarantee Cap"). The obligation to pay amounts subject to this Guarantee Cap will be effective until the cumulative amount of net payments made equals the Guarantee Cap, above which no further payments shall be made under the relevant EU Guarantee.

Guarantee Cap Rate: In respect of a Portfolio, the aggregate amount of Losses for which the EIF is liable under an EU Guarantee, such amount expressed as a percentage of the product of the total size of the relevant Portfolio and the respective Guarantee Rate.

The standard guarantee cap rate shall not exceed 20% of the guarantee commitment under the relevant EU Guarantee. The guarantee cap rate shall be the rate determined by the EIF individually for each Portfolio, having regard to:

- the expected loss rate of the Portfolio, taking into account the expected default rate and expected recovery rate of the Portfolio, to be established and documented on the basis of historical data and/or forward-looking estimations;
- the risk premium charged by the relevant Intermediary; and
- the requirements as to enhanced access to finance as detailed above.

Pari passu clause: Subject to the relevant Guarantee Cap, the EIF will rank pari passu with the Intermediary, with regard to loss payments. Loss recoveries may be taken into account by an estimated loss recovery rate for the individual Portfolio set ex-ante and, where applicable, deducted from the payments to be made by the EIF against guarantee calls, which may lead to a deviation from the pari passu rule.

Term: EU Guarantees will have a term of up to ten years, provided that the guaranteed instruments may have longer terms.

Fees: EU Guarantees will be provided without charging a guarantee fee. Notwithstanding this, where appropriate and in order to encourage utilisation, the EIF may charge a commitment fee to the relevant Intermediary, calculated on amounts committed but not utilised according to an agreed schedule ("Commitment Fee").

Reporting

Each Intermediary shall supply the EIF with the periodical information required in the agreement policies evidencing the relevant EU Guarantee.

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

Intermediaries are encouraged to actively promote the Equity Guarantee Window.

Intermediaries will be required to ensure that their specific promotional material, specific promotion campaigns and information on their webpage(s) relating to the financing supported by the Equity Guarantee Window include the EU logo (twelve yellow stars on a blue background) and a statement that the supported financing "benefits from a guarantee issued under the European Community's Competitiveness and Innovation Framework Programme". Intermediaries shall display the European logo at least as prominently as their own logo.

A portion of the cost incurred in connection with the design, implementation and maintenance of the specific webpage(s) and promotion campaigns, giving adequate visibility to the EU support, maybe reimbursed in accordance with the agreement evidencing the relevant EU Guarantee.

Visibility

Intermediaries will be required to include or, as the case may be, request in the contracts with the Final Beneficiaries the inclusion of a statement that the relevant guarantee/financing "benefits from a guarantee issued under the European Community's Competitiveness and Innovation Framework Programme".