

InnovFin

SME Guarantee

THE GUARANTEE AND COUNTER-GUARANTEE FACILITY UNDER HORIZON 2020 FRAMEWORK PROGRAMME WITH RESPECT TO RESEARCH & INNOVATION DRIVEN SMES AND SMALL MID-CAPS

OPEN CALL FOR EXPRESSION OF INTEREST TO SELECT FINANCIAL INTERMEDIARIES

(Published on 4 August 2014)

(updated on 10 December 2015)

(updated on 15 June 2016)

The objective of this Open Call for Expression of Interest, launched by the European Investment Fund, is to select eligible financial institutions to become Financial Intermediaries under the InnovFin SME Guarantee facility (the "**Facility**"), window of the single EU debt financial instrument, as further described below.

All applications for guarantees or counter-guarantees under the Facility to be submitted to the EIF should be conform to this Open Call for Expression of Interest.

1. InnovFin SME Guarantee facility

The European Commission Decision C (2014) 3758 of 10 June 2014 established the Facility, which is the debt facility established under Horizon 2020 Debt Financial Instrument targeting Research & Innovation driven SMEs and Small Mid-caps.

Pursuant to the Delegation Agreement between the European Union (the "**EU**"), the European Investment Bank (the "**EIB**") and the European Investment Fund (the "**EIF**") in respect of the Financial Instruments under Horizon 2020 dated 12 June 2014 (*the "**Horizon 2020 Agreement**"*), the *EIF* has been entrusted by EU to implement the Facility.

Under this Facility EIF shall provide guarantee and counter-guarantees to selected Financial Intermediaries, using a combination of the EU's Horizon 2020 Framework Programme for Research and Innovation (2014-2020) contribution ("**Horizon 2020**") and EIF's own risk capacity.

The Facility is the successor to the Risk Sharing Instrument for Innovative and Research oriented SMEs and Small Mid-caps ("**RSI**"), which has been implemented on a pilot basis by the EIF as a compartment of the Risk-Sharing Finance Facility Co-Operation Agreement ("**RSFF**") between EIB and EU.

Guarantees to be entered into under the Facility (the “**Guarantee**”) are further described in the Annex II to this Open Call for Expression of Interest.

Counter-guarantees to be entered into under the Facility (the “**Counter-Guarantee**”) are further described in the Annex III to this Open Call for Expression of Interest.

The Counter-guarantee and the Guarantee will be rolled-out jointly during the course of the 2014-2020 implementation period following the publication of this Open Call for Expression of Interest.

2. Eligible Financial Intermediaries

This Open Call for Expression of Interest is addressed and restricted to:

- a) in respect to Guarantees provided under the Facility: public or private credit or financial institutions or loan (debt) funds, in each case, duly authorised to carry out lending or leasing activities according to the applicable legislation;
- b) in respect to Counter-Guarantees provided under the Facility: public or private guarantee schemes, guarantee institutions or other credit or financial institutions duly authorized to issue guarantees according to the applicable legislation,

in each case established and operating¹ in one of the participating countries (**the “Participating Countries”**): EU Member States and Associated Countries, as updated, if applicable, under the Horizon 2020 Portal².

Financial Intermediaries shall represent that they do not perform activities which are: (i) illegal according to the applicable legislation in the country of Financial Intermediary and (ii) R&I activities referred to in Article 19 of Horizon 2020 (**the “R&I Excluded Activities”**).

Financial Intermediaries shall represent that they are not in any of the situations of exclusion, as further described in the appendix 2 of Annex I to the Open Call of Expression of Interest.

Financial Intermediaries shall comply with relevant standards and applicable legislation on the prevention of money laundering, the fight against terrorism and tax fraud to which they may be subject and shall not be established and shall not maintain business relations with entities incorporated in any Non-Cooperating Jurisdiction.

The EIF Anti-Fraud Policy shall apply to the (Counter-) Guarantee Agreements under the Facility (please refer to http://www.eif.org/attachments/publications/about/Anti_Fraud_Policy.pdf .)

¹ In the case of Israeli entities, in accordance with point 20 of the Commission Notice 2013/C 205/05 (OJEU C205 OF 19.07.2013 – EN), please note that the eligibility conditions set out in Sections C and D of the Guidelines shall apply.

² As of the update of this Open Call for Expression of Interest, the following countries are Associated Countries: Iceland, Norway, Albania, Bosnia and Herzegovina, the former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Israel, Moldova, Faroe Islands, Ukraine, Tunisia, Georgia. (for further up-dates please consult Horizon 2020 Participation Portal: http://ec.europa.eu/research/participants/docs/h2020-funding-guide/cross-cutting-issues/international-cooperation_en.htm). Other countries may become associated during the course of Horizon 2020.

3. Definitions and Interpretation

In this Call for Expression of Interest, capitalised terms and expressions shall have the meaning attributed to them below or as elsewhere defined in this document and its Annexes, unless the context requires otherwise.

| | |
|---------------------------------------|---|
| Applicant | Means an entity applying to this Call for Expression of Interest as a potential, future Financial Intermediary. |
| Agreed Portfolio Volume | The maximum aggregate amount of principal of newly originated Eligible Transactions to be included in the Portfolio, as further described respectively in the Annex II (Indicative Guarantee Term sheet) and Annex III (Indicative Counter-Guarantee Term sheet). |
| Beneficiary Transaction | Means a debt financing (including a loan or finance lease) ³ provided directly or indirectly (through a sub-intermediary) by a Financial Intermediary to an SME or a Small Mid-cap. |
| (Counter-) Guarantee Agreement | Means a guarantee or counter-guarantee agreement, as applicable, entered into between the Applicant or Participating Entity, as the case may be, and the EIF in connection with the Facility. |
| Deadline | Means 31 December 2020 or such earlier date as announced officially in the Facility section of EIF's website. |
| Eligible Transaction | Means a Transaction that complies with all the Eligibility Criteria. |
| Eligibility Criteria | Means jointly the Innovation Eligibility Criteria, Beneficiary Eligibility Criteria, Beneficiary Transaction Eligibility Criteria as defined in the Annex II (Indicative Guarantee Term Sheet) or Annex III (Indicative Counter-Guarantee Term Sheet) and in case a Beneficiary Transaction is a guarantee, Intermediary Transaction Eligibility Criteria, as defined in the Annex III. |
| Expression of Interest | Means an application to the Open Call for Expression of Interest submitted to EIF within the Deadline, conforming to the provisions of Annex I to this Open Call for Expression of Interest. |
| Non-Cooperating Jurisdiction | Any jurisdiction classified as "non-compliant" by the Organisation for Economic Cooperation and Development (OECD) and its Global Forum on Transparency and Exchange of Information for Tax Purposes, from time to time (please refer to the Information Note to Financial Intermediaries published on the EIF website for further details). |
| Participating | Means, in case a joint application to the Open Call for Expression of Interest is submitted covering the Applicant and at least one additional |

³ In the case of the Guarantee, bonds may also be foreseen subject to an evaluation of the feasibility on a case by case basis.

| | |
|------------------------------------|---|
| Entities | potential future Financial Intermediary, each and every additional potential future Financial Intermediary covered by such joint application. |
| Portfolio | Means the portfolio of Eligible Transactions originated directly or indirectly by the Financial Intermediary and covered by a (Counter-) Guarantee Agreement. |
| Transaction | Means: a) In case of a Guarantee: any Beneficiary Transaction; b) In case of a Counter-Guarantee: any guarantee instrument issued by the Financial Intermediary to a Financial Sub-Intermediary covering directly or indirectly a Beneficiary Transaction. |
| R&I Excluded Activities | Means the following fields of research: (a) research activity aiming at human cloning for reproductive purposes; (b) research activity intended to modify the genetic heritage of human beings which could make such changes heritable (excluding research relating to cancer treatment of the gonads); (c) research activity intended to create human embryos solely for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer; (d) research activities that are prohibited in all the Member States; (e) where a research activity is forbidden in a Member State, such activity in that Member State. |

4. The application procedure

Financial institutions interested in applying to this Call for Expression of Interest shall submit an application to EIF before the Deadline to be considered as a possible Financial Intermediary under the Facility.

It is to be noted that financial institutions may group together for the Facility through submitting a joint Expression of Interest. In the Expression of Interest one coordinating entity shall act as the Applicant. The Applicant shall apply in the name and on behalf of the Participating Entities and shall indicate to the EIF the basis for the joint application.

Following selection of such joint application one (Counter-) Guarantee Agreement may be signed with the Applicant and Participating Entities or, alternatively, separate (Counter-) Guarantee Agreements may be signed with the Applicant and each Participating Entity. The ultimate decision on the form of the agreement(s) shall be made at the discretion of the EIF.

The aggregate (counter-) guaranteed portion of the Agreed Portfolio Volume under any (Counter-) Guarantee Agreement entered into with a single Financial Intermediary in a single Participating Country shall not exceed an aggregate amount equivalent to EUR 350 (three hundred fifty) million. Without prejudice, in the case of i) Financial Intermediaries belonging to the same group or ii) Financial Intermediaries implementing Transactions in more than one Participating Country via its

branches, the aggregate (counter-) guaranteed portion of the Agreed Portfolio Volumes under (Counter-) Guarantee Agreements entered into with such Financial Intermediaries shall not exceed an aggregate amount equivalent to EUR 500 (five-hundred) million.

In accordance with Annex I to this Open Call for Expression of Interest, the application should include the Applicant's identification and the Information Requirements with supporting documents.

Information Requirements (as further specified in the Appendix 3 to the Annex I) should place particular emphasis on:

- a) Envisaged actions for the implementation of the Facility, particularly with regard to its launch (timing, target customers, promotional activities, type of products, changes to the underlying legal documentation, etc.);
- b) Estimated absorption capacity in terms of expected volumes of Transactions to be included in the Portfolio and the geographical coverage;
- c) The level of Financial Benefit for SMEs and Small Mid-caps;
- d) Origination and credit risk management capacity;
- e) Expected composition and characteristics of the Portfolio (split per rating, industry, etc.).

In case of joint Expressions of Interest, all information required under Appendix 3 to the Annex I must be provided for the Applicant and each and every Participating Entity covered by the joint application.

Applicants may send questions regarding the Open Call for Expression of Interest or the nature and features of the (Counter-) Guarantees Agreements. EIF shall analyse such incoming questions and may publish from time to time the resulting answers in the form of FAQ (Frequently Asked Questions) document posted in the Facility section of the EIF's website (www.eif.org). EIF reserves the right to update the FAQ document from time to time as and when it regards appropriate.

5. Language and governing laws

The Expression of Interest shall be prepared in English.

The terms of the (Counter-) Guarantee Agreement shall be in English. The (Counter-) Guarantee Agreement shall be governed by the laws of England.

6. Submission of Expression of Interest

The Expression of Interest shall be submitted before the Deadline both by (i) email and (ii) registered mail or professional courier service. The Expressions of Interest sent by registered mail or professional courier service shall consist of a closed single package, and shall contain the Expression of Interest, together with its attachments, in paper form and in removable electronic storage medium (e.g. CD-ROM, USB).

The Deadline is set on the **31 December 2020**, provided that EIF may, at its sole discretion determine that the Deadline will end on an earlier date depending, inter alia, on the availability of the budgetary resources for the Facility or any amendment to the Horizon 2020 Agreement. Any change in the Deadline will be announced officially in the Facility section of EIF's website.

The Deadline applies (i) in case of e-mails to the reception by EIF and (ii) in case of registered mail or professional courier service to the date of dispatch proven by the post office stamp or a dispatch

receipt.

The Expressions of Interest shall indicate the name of the Applicant and be sent to the following address:

European Investment Fund
InnovFin SME Guarantee – Expression of Interest
Guarantees, Securitisation & Microfinance
37B, avenue J.F. Kennedy
L-2968 Luxembourg

An electronic version of the Expression of Interest shall be sent to: InnovFin_SMEG@eif.org, stating in the subject of the email, as appropriate: "InnovFin SME Guarantee – Expression of Interest: [name of the Applicant]".

An acknowledgement of receipt will be sent to the relevant Applicants by EIF via e-mail, which shall state the following:

- unique application identifier (Expression of Interest number);
- confirmation that the Expression of Interest was received before the Deadline.

The acknowledgement of receipt shall not be construed as a declaration of completeness of the Expression of Interest and the documents submitted therewith, nor any kind of assessment or acceptance of the same.

The Applicants may withdraw, in the same manner as specified above, their Expression of Interest at any stage of the Selection process.

7. Selection procedure

Financial Intermediaries will be selected in due consideration of the general principles of transparency, equal treatment and non-discrimination, in compliance with EIF's policies, rules, procedures and statutes and in conformity with best business and market practices.

The Expressions of Interest for the Guarantee and the Counter-Guarantee under the Facility shall be subject to the uniform selection process. The budgetary allocation between the Counter-Guarantee and the Guarantee, countries, regions or sectors is not set ex ante but shall be demand-driven.

Following the receipt of the Expression of Interest, EIF shall assess the applications pursuant to the selection process outlined in the section 7 of this Open Call for Expression of Interest. This process comprises:

1. Pre-selection
2. Due diligence
3. Selection

Following the pre-selection based on the Expression of Interest EIF shall perform a due diligence of the pre-selected Applicant, as a result of which EIF will decide whether or not to propose to its Board of Directors for approval entering into a (Counter-) Guarantee Agreement under the Facility. However, the decision to perform a due diligence visit shall be at the discretion of the EIF. Prior to presenting the proposal to its Board of Directors, EIF must obtain the European Commission's approval of the proposal. The contractual negotiation process may not be considered concluded prior to the approval of the proposal by the European Commission and EIF Board of Directors.

In any phase of the selection process until and prior to entering into a legally binding agreement with an Applicant, EIF reserves itself full discretion to consider or not Applicants (and Participating Entities as the case may be), and no Applicant or Participating Entity has any claim or other right or may expect to be ultimately selected as Financial Intermediary. Any negotiation of terms and conditions of (Counter-) Guarantee Agreements by no means entails any obligation for EIF to enter into such (Counter)-Guarantee Agreement with the relevant Financial Intermediaries.

EIF shall send a rejection notice to Applicants whose Expression of Interest was rejected during any stage of the selection process. EIF may, but shall not be obliged to provide reasons of such rejection.

Those Applicants whose Expression of Interest is rejected, shall have the right to submit a written complaint by e-mail and registered mail or professional courier service, to the same address used for the submission of the Expressions of Interest above, within thirty (30) days of receipt of the rejection notice. Any complaints will be dealt with within the framework of and in accordance with the EIB Group complaints policy (for further information visit <http://www.eib.org/about/publications/complaints-mechanism-policy.htm>).

7.1. Pre-selection

Applications for the Guarantee and the Counter-Guarantee will be assessed by EIF for pre selection on the basis of the Expressions of Interest, on a "first come, first assessed" basis. When assessing the application, EIF will use its professional analysis and judgment.

Questions related to the Facility raised during the pre-selection process will be collected and published in the context of the FAQ as referred to above.

The pre-selection comprises:

1. Formal assessment of the application;
2. Evaluation of the application quality;
3. Assessment of the contribution of the application to the overall Facility.

Only applications that meet the formal criteria, as further described in the section 7.1.1, may continue to go through the quality assessment process.

In the quality assessment, as further described in the section 7.1.2, EIF will evaluate the overall quality of the application. All criteria listed under section 7.1.2 are assessed at the discretion of EIF with equal importance, which means the pre-selection process does not give specific weight to any one of these criteria. Based on the quality assessment, EIF shall assign the "quality score" to the application, being A, B or C.

EIF will also assess the likely impact of the expected Portfolio indicated in the application on the aggregate Facility, according to the section 7.1.3. Based on this assessment EIF shall assign the "portfolio score" to the application, being 1, 2 or 3.

Only applications with combined “quality” and “portfolio” scores A1, A2 or B1 are pre-selected. Applications with combined scores C1, C2 or C3 are not pre-selected. Applications with combined scores A3, B2, B3 are included in a reserve list, which remains valid until the Deadline.

The application classification table below summarizes possible pre-selection outcomes:

| | | |
|----|----|----|
| A1 | B1 | C1 |
| A2 | B2 | C2 |
| A3 | B3 | C3 |

Pre-selected

On the Reserve list

Not pre-selected

All Applicants will be sent a notification about the result of the pre-selection process. Pre-selected Applicants are advanced to the Due diligence phase of the selection process as referred to in section 7.2. Applicants listed on the reserve lists may be considered for pre-selection upon availability of the budgetary resources.

EIF may suspend or abandon the pre-selection process at any time and no Applicant may claim any right to be pre-selected or included on the reserve list as described above.

7.1.1 Formal assessment

EIF shall assess on whether the application for the Facility has been prepared in accordance with the provisions of this Open Call for Expression of Interest according to the formal criteria:

1. The Applicant (and any Participating Entity as the case may be):
 - a. is established and operating in one of the Participating Countries;
 - b. is authorised to carry out their business under the applicable regulatory framework;
 - c. is not established in a Non-Cooperating Jurisdiction;
 - d. is not in the situation of exclusion, as validly represented in the form outlined in appendix 2 of Annex I to the Open Call of Expression of Interest;
 - e. is not performing any R&I Excluded Activities, as validly represented in the Expression of Interest;
 - f. does not perform any illegal activities according to the applicable legislation of the country of establishment of the Applicant (or Participating entity), as validly represented in the Expression of Interest;
2. The Expression of Interest has been submitted and prepared in accordance with the Open Call for Expression of Interest and that all required representations, information and supporting documentation required thereunder are provided (in the form requested, where specified).

The applications that do not conform to the formal criteria are rejected. If the Applicant or any Participating Entity covered by the application does not comply with the formal criteria, the entire application is rejected.

7.1.2 Quality assessment

After the formal check of the received Expressions of Interest and after having obtained any additional information or clarifications from Applicants, if and as needed, the EIF will pre-select the Applicants (and any Participating Entities as case may be) according to the criteria set out below, in no particular order of priority:

1. Financial capacity of the Applicant (and any Participating Entities as the case may be) as evidenced by its external credit rating and/or by the EIF financial analysis of the Applicant/Participating Entity;
2. Capacity of the Applicant (and any Participating Entities as case may be) to manage risk;
3. Experience and ability of the Applicant (and any Participating Entities as the case may be) to enter into Transactions. This shall be assessed by EIF based inter alia on: track record of lending to (or as case may be of guaranteeing transactions with) SMEs and Small Mid-caps and the business plan for building a Portfolio);
4. Envisaged composition of the Portfolio, including its credit quality, granularity and diversification;
5. Level of Financial Benefit, as compared to standard pricing conditions for SMEs and Small Mid-caps;
6. Quality and plausibility of the Facility implementation proposal, with particular focus on: implementation and rollout strategy, proposed volumes, type of Beneficiaries targeted (SMEs, Small Mid-caps), financial products used under the Facility, expected Beneficiary Transaction size).

7.1.3. Portfolio contribution assessment

EIF, when making their pre-selection decisions will consider, inter alia, the impact of the application on the geographical distribution and the risk profile of the Facility. EIF will aim at the appropriate composition of the Facility aggregate portfolio between Guarantees and Counter-Guarantees, adequate credit risk profile, granularity and diversification of the overall Facility. The credit risk contribution of the proposed Portfolio to the Facility shall be confirmed based on the results of the due diligence at the Selection stage (see 7.2).

7.2. Due diligence

Pre-selected applications will be followed up with the due diligence process, carried out in accordance with the EIF's internal rules and procedures, where financial and operational matters relating to the Facility's implementation shall be analysed in more detail. The aim of the due diligence is to assess the content of the application based on, *inter alia*, the ability to build up the envisaged Portfolio, the transfer of Financial Benefit, the risk nature of the envisaged Portfolio, the quality of origination, risk management, collection recovery/workout processes, systems and ability to comply with the reporting requirements. The due diligence may comprise an on-site visit, which shall be at the discretion of the EIF. The due diligence process does not comprise legal

negotiations.

7.3. Selection

Subject to the satisfactory outcome of a due diligence and the European Commission's approval of the proposal, the EIF may request its Board approval for an (Counter-) Guarantee to be entered into with the selected Financial Intermediary under the Facility. EIF has no obligation to enter into (Counter-) Guarantee Agreement with a (pre-) selected Applicant. The participation of any institution will depend, *inter alia*, on the budget available for the Facility and other considerations made by the EIF such as, without limitation: outcome of the due diligence, impact of the envisaged Portfolio on the Facility (as assessed at EIF's discretion), result of negotiations with the Applicant.

8. Publishing of information on the Financial Intermediaries, Financial Sub-Intermediaries and On-lending Banks⁴

EIF may publish, from time to time, on its website a list of Financial Intermediaries, Financial Sub-Intermediaries and On-lending Banks, which may include the name and the registered addresses of the Financial (Sub-) Intermediaries and On-lending Banks, types of the contract entered into (a Guarantee or a Counter-Guarantee) and, in the case of Financial Intermediaries only, the respective (Counter-) Guarantee amounts.

The Financial Intermediary, Financial Sub-Intermediary or an On-Lending Bank may, prior to receiving financial support under the Facility, decide not to agree in writing to the publication requirement if it risks harming its commercial interests or risks threatening the rights and freedoms of individuals concerned as protected by the Charter of Fundamental Rights of the European Union. In addition such publication shall not be required if it would be illegal under the applicable laws and regulations⁵.

⁴ EIF shall also publish the information on the Beneficiaries, as further detailed in the Annex II and Annex III to this Open Call for expression of interest.

⁵ As substantiated by an intermediary with a legal opinion.