

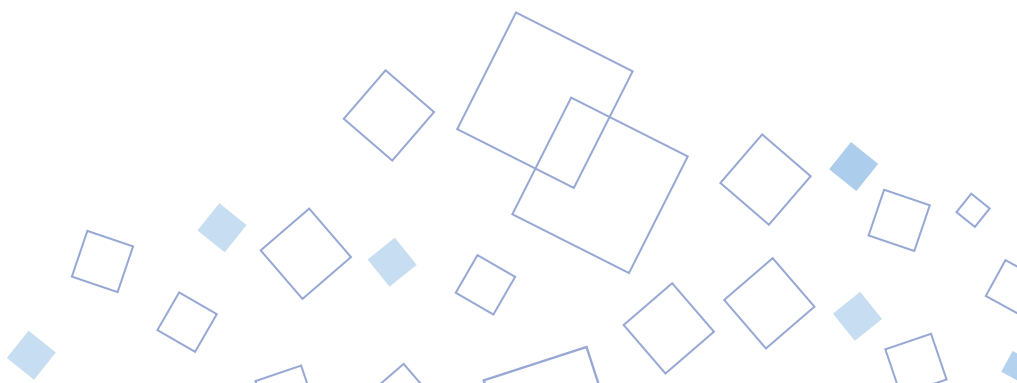
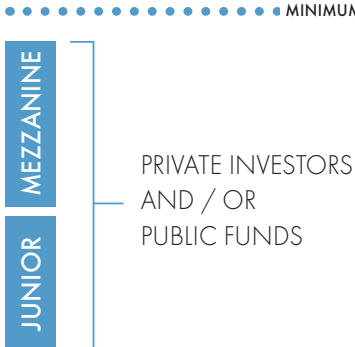
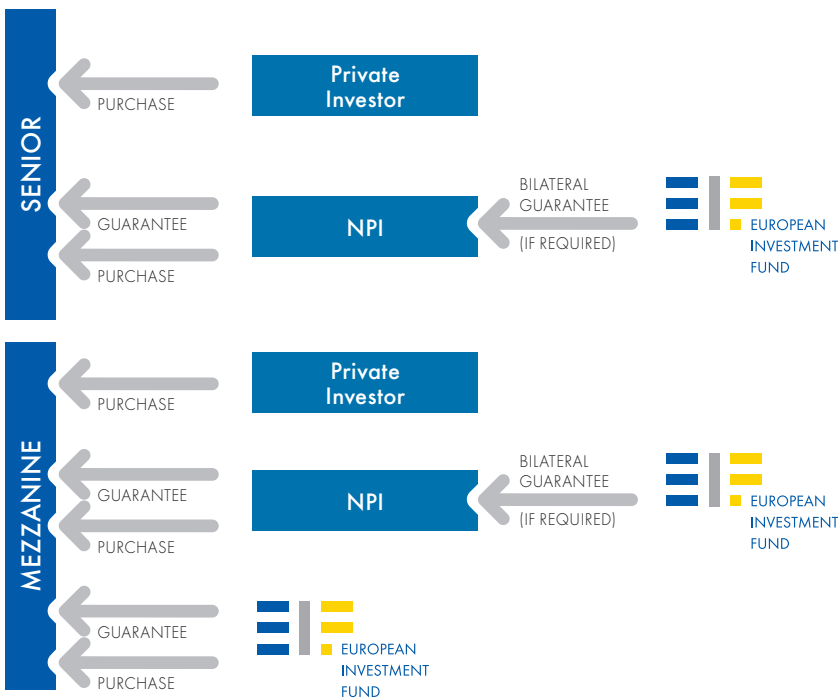
ENSI: EIF and NPIs Securitisation Initiative

Enhanced co-operation to support SME securitisation in Europe

INDICATIVE TERM SHEET

Overview

ENSI is a framework for the European Investment Fund (EIF) and the National Promotional institutions (NPIs) listed in Annex IV (together with EIF, the Relevant Entities) to co-invest in securitisation transactions. The investment may take the form of the purchase of notes issued in a cash securitisation transaction or the guarantee (or counter-guarantee) of payments on such notes. Potentially, the investment may take the form of a synthetic securitisation, such as a financial guarantee covering one tranche of a loan portfolio. The Relevant Entities will typically invest in the mezzanine or senior tranches. By way of example, an ENSI transaction may take the form set out in the structural diagram below:



Investments under the ENSI framework will be used to provide financial support to SMEs. The transactions in the portfolio will include loans to or leases with SMEs or guarantees of SME debt. Moreover, at closing, the financial intermediary will make a commitment to provide further financing to SMEs.

The originator of each transaction will retain an economic interest in the transaction in line with applicable risk retention regulatory requirements. The rating of the investment will be compatible with the rating requirements of the participating Relevant Entities.

The origination and servicing of the receivables shall be performed by the financial intermediary in accordance with its usual origination and servicing procedures. The financial intermediary will retain the direct client credit relationship with each SME. The financial intermediary will provide information about the securitised portfolio and the additional portfolio to the participating Relevant Entities until termination of the securitisation transaction in accordance with the reporting requirements set out in this document.

The European Commission (EC) has indicated that an allocation of certain EFSI funds¹ may be made for securitisation transactions, although the legal framework and exact timing is yet to be finalised. Certain NPIs are exploring whether further investments at the national or EU level, such as European Structural and Investment Funds (ESIF), can be utilised, potentially including investments at the junior tranche level.

In this summary term sheet, any defined terms, words or expressions shall have the meanings as set out in section I - Indicative Terms of the Securitisation, section II - Indicative Terms of the Securitised Portfolio, section III - Indicative Terms of the Additional Portfolio, and section IV - Miscellaneous, unless the context requires otherwise.

Process

The following is an overview of the proposed process for cooperation between the Relevant Entities:

1. The Relevant Entities may promote the ENSI program on their websites and other communication channels. Where an NPI has a particular regional focus, the NPI may direct its efforts at that region.
2. The Relevant Entities should provide contact information for receipt of requests for information and applications from financial intermediaries. EIF will assemble this contact information and create a distribution list.
3. Any Relevant Entity receiving a request for information or a firm application for an ENSI transaction may contact the other Relevant Entities using the contact information provided. If a Relevant Entity has received a request to provide information, the Relevant Entity may either directly answer the financial intermediary or involve the other Relevant Entities. If a Relevant Entity has received a firm application, it may provide the available public information sent by the financial intermediary to the other Relevant Entities using the contact information provided.
4. Once a Relevant Entity has received the available public information, it will use reasonable efforts to provide its indicative interest - if any - to the other Relevant Entities within ten business days, provided that the public information shared is sufficient and complete. Any Relevant Entity has the right to request additional information at this stage.
5. Any Relevant Entity expressing a formal interest will at that point become a "Potential Participating Entity". The expression of interest will be indicative only and will be subject to appropriate due diligence, analysis and internal processes of the Potential Participating Entity.
6. Each Potential Participating Entity will, if requested, sign a non-disclosure agreement with the financial intermediary and receive the full data and documentation package available for the transaction.
7. At this stage, the Potential Participating Entities will decide which of them will act as coordinator for that particular transaction. In principle and as long as EIF is one of the Potential Participating Entities, EIF will be available to act as the coordinator, subject to the agreement of other Potential Participating Entities.
8. A due diligence date will be agreed upon between the Potential Participating Entities and the financial intermediary. Annex III provides an indicative list of points that need to be covered during the due diligence process.
9. After the due diligence and analysis of the data and documentation for the transaction, the Potential Participating Entities will indicate their firm intention to participate or not in the transaction and, in case of participation, send the following information to the financial intermediary: (i) size committed, (ii) price and (iii) estimated timing for approval and closing. The Potential Participating Entities will either produce a joint proposal to the Financial Intermediary or separate proposals. These joint or separate proposals

¹ The European Fund for Strategic Investments (EFSI) is one of the three pillars of the Investment Plan for Europe that aims to revive investment in strategic projects around Europe to ensure that money reaches the real economy. EFSI is an initiative designed to help overcome the current investment gap in the EU by mobilising private financing for strategic investments.

will still be subject to internal approval from relevant committees. The joint or individual proposal will be sent or communicated by the coordinating entity or by each Potential Participating Entity individually to the financial intermediary, typically via email or a letter.

10. For the avoidance of doubt, the timing for providing an individual or joint proposal will be determined by the actual timing of the transaction, timing imposed by the financial intermediary, etc.
11. Any private and/or confidential information received by any Potential Participating Entity in the context of a transaction shall not in any circumstances be shared with any Relevant Entity which has not signed a corresponding non-disclosure agreement with the financial intermediary.

Any Relevant Entity may terminate its participation in ENSI at any time by notification to the other Relevant Entities. Following termination, the terminating Relevant Entity will cease its ENSI

promotional activities and will no longer be included on distributions relating to potential transactions.

Any European national promotional institution may request to be included as an additional Relevant Entity by contacting any of the existing Relevant Entities. The national promotional institution may be included as an additional Relevant Entity if the existing Relevant Entities unanimously approve its request.

EIF will generally coordinate the efforts of ENSI and will be in charge of setting up regular meetings with all the members.

This summary term sheet contains a non-exhaustive set of standardised terms and conditions as well as certain eligibility criteria for an ENSI transaction and a securitised portfolio which are an indicative set of principles in order to implement an ENSI transaction process and will therefore be adapted for each ENSI transaction. For the avoidance of doubt, the terms and conditions set out in this document are subject to discussions between the Relevant Entities with regards to specific parameters.

I. INDICATIVE TERMS OF THE SECURITISATION

Securitisation transaction	Cash securitisations (true sale) and potentially synthetic securitisations are allowed (the securitisation transaction(s)).
Cash securitisation	The same meaning as “traditional securitisation” in the CRR, , i.e. a securitisation involving the economic transfer of the exposures being securitised. This shall be accomplished by the transfer of ownership of the securitised exposures from the originator to a SSPE or through other equivalent transfer mechanisms in accordance with applicable law.
Synthetic securitisation	Synthetic securitisation has the meaning given to it in the CRR, being a securitisation where the transfer of risk is achieved by the use of credit derivatives or financial guarantees, and the exposures being securitised remain exposures of the originator which can be structured as a funded (typically structured via a credit linked note) or unfunded synthetic securitisation.
SSPE	Newly formed or existing securitisation special purpose entity set up under the relevant jurisdiction. The special purpose entity must not be incorporated in an offshore or in a non-cooperative jurisdiction.
Tranches	Any senior tranche or mezzanine tranche of a securitisation may be considered.
Senior tranche	The most senior tranche of a securitisation. For the avoidance of doubt, various senior tranches that have different amortisation profiles but are pari-passu in a post enforcement scenario are all considered as a senior tranche.
Mezzanine tranche	Any tranche subordinated to the senior tranche(s) of a securitisation that is not the first loss piece.
Junior tranche	The first loss piece. Junior tranches may not be included at this time, although certain NPIs are considering whether junior tranches may be included in the future.
Required rating(s)	Strong preference for at least one public rating. The tranche’s rating should be consistent with the following minimum rating levels: <ol style="list-style-type: none"> 1. For senior tranches indicatively at least (1) public rating equivalent to Moody’s A3 or higher; 2. For mezzanine tranches indicatively either (i) (1) public rating equivalent to Moody’s Ba2 or higher or (ii) a guarantee from EIF.
Maximum WAL	The weighted average life of a senior or mezzanine tranche should not exceed a maximum of (10) years.
Guarantee agreement	A guarantee agreement entered into between any Relevant Entity and an investor and/ or a securitisation SSPE under a cash securitisation or the financial intermediary under a synthetic securitisation.

Hedging of IR/FX	<p>Preferably the transaction should not be exposed to interest rate and/or currency risks.</p> <p>In the absence of proper interest rate or foreign currency hedging mechanisms, specific ad-hoc scenario analysis may be applied which could have a significant impact on the Relevant Entity's assessment of risk.</p>
Governing law and language	<p>The terms of the transaction documents should typically be in English. There is a preference for transaction documents to be governed by English law, although the laws of other jurisdictions may be accepted on a case by case basis.</p> <p>If an EIF guarantee is required, the guarantee must be in English and should be governed by English law. In selected circumstances, EIF may at its discretion agree that the guarantee may be governed by the laws of another jurisdiction.</p>
Base currency	<p>Securitisation transactions can be denominated EUR and/or GBP and/or potentially any other EU currencies or USD.</p>
Financial intermediary	<p>Financial or credit institution duly authorised to carry out lending or leasing activities according to the applicable legislation, established and operating in one or several of the EU Member States (other countries- could be agreed on a case by case basis by the Relevant Entities). Such institution shall comply with relevant standards and applicable legislation regarding the prevention of money laundering, the fight against terrorism and tax fraud and shall not be established in a non-cooperative jurisdiction.</p>
Non-cooperative jurisdiction	<p>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, unless otherwise agreed by the Relevant Entities.</p>
Securitised portfolio	<p>The securitised portfolio must include existing assets or portfolios of new assets with final recipient transactions to SMEs and other enterprises with fewer than 500 employees for an amount of at least 75% (indicatively) of the outstanding principal amount of the portfolio. Each securitised portfolio shall be homogeneous in asset type and have sufficient pool diversification in order for the Relevant Entity to apply its risk assessment methodology. The securitised portfolio should comply with eligibility criteria I and II.</p>
Due diligence requirements	<p>Implementation of (joint) due diligence. One coordinated/streamlined on site due diligence necessary. An indicative and non-exhaustive due diligence agenda is listed in annex III.</p>
Data requirements	<p>As defined in annex I. Full information packages available. Indicatively, ECB reporting standards.</p>
Reporting	<p>Financial Intermediaries shall provide the participating Relevant Entities within [] calendar days of each month or quarter end with information in a standardised report form (see annex II).</p> <p>Other reporting may be required from the financial intermediary with respect to the securitisation transaction and additional lending commitment.</p>
Pricing	<p>Pricing will be decided on a case by case basis by the Potential Participating Entities and included in the proposal sent to the financial intermediary, taking into account any relevant state aid and competition rules.</p>

II. INDICATIVE TERMS OF SECURITISED PORTFOLIO

SMEs	Has the meaning given to it in Annex 1 to Regulation no. 800/2008.
Final recipient transaction	A guarantee, loan or finance lease entered into between the financial intermediary and the final recipient.
Eligibility criteria I	<ol style="list-style-type: none"> 1. No "originate-to-distribute"; 2. Legally binding and enforceable receivables; 3. No arrears at the cut-off date; 4. In certain jurisdictions there may be limits on the one-year expected probability of default assigned to the final recipient transaction, which will be assessed on a case by case basis; 5. In certain jurisdictions there may be limits on ratings levels assigned by some national central banks to the final recipient transactions, which will be assessed on a case by case basis; 6. Other criteria applicable on a case by case basis.
Eligibility criteria II	<ol style="list-style-type: none"> 1. An effective number of the securitised portfolio indicatively greater than 300; 2. Targeted concentration limits per borrower group, top 10 borrower groups and single industry to be agreed on a case by case basis; 3. Targeted concentration limits by region to be agreed on a case by case basis; 4. Additional limitations may be included with regards to specific sectors, e.g. building and construction. In general, it is considered preferable to exclude (or limit) exposures to real estate developers; 5. The portfolio does not contain unusual amortisation profiles: Limitations may be included with regards to bullet or balloon loans (or receivables generally) as well as payment frequencies lower than quarterly; 6. In the case of revolving transactions, or transactions including a ramp-up period, ad-hoc criteria may be implemented during the ramp-up and/or revolving phase. <p>For the avoidance of doubt, the eligibility criteria I and II above are put in place to maintain a minimum level of granularity, diversification, standardisation and homogeneity; deviations can be considered and will be specifically addressed and stressed in the analysis of the transaction.</p>
Alignment of interest	Risk-sharing mechanism with the financial intermediary ensuring sufficient alignment of interest between the financial intermediary and Relevant Entities involved in the transaction must be included.

III. INDICATIVE TERMS OF ANY RELEVANT ADDITIONAL LENDING

New debt finance	Means new loans, leases or guarantees to final recipients originated by the financial intermediary.
Additional portfolio	Each financial intermediary may be required to commit to providing new debt finance to eligible final recipients (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 and enterprises with fewer than 500 employees that complies with eligibility criteria specified on a case by case basis.
Additional portfolio scheduled inclusion period end date	Typically [] months after the date of signature of the relevant documentation, or such other period as indicated in the documentation.
Agreed additional portfolio volume	As specified on a case by case basis by the participating Relevant Entities.
Actual additional portfolio volume	Expressed in the relevant currency, the aggregate amount of the principal committed to new debt finance included in the additional portfolio from time to time, provided that, for the avoidance of doubt: <ul style="list-style-type: none"> i) if any eligible final recipient transaction is prepaid and/or repaid, then this shall not reduce the actual additional portfolio volume; and ii) if a final recipient transaction is excluded from the additional portfolio as a result of the non-compliance with the proposed eligibility criteria, then such transaction shall not be taken into account for the calculation of the actual additional portfolio volume.

IV. MISCELLANEOUS

Servicing and recoveries	<p>The financial intermediary shall perform the servicing of the securitised portfolio, including monitoring and recovery actions, where applicable.</p> <p>The financial intermediary shall take recovery actions (including the enforcement of any security) in relation to each defaulted eligible final recipient transaction in accordance to its internal guidelines and procedures.</p> <p>Back-up servicers if applicable may be included in the transaction documentation.</p> <p>An external servicer or a specialised collections entity or company may be appointed by the financial intermediary to perform the collections and management duties on its behalf.</p>
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ANNEX I

Indicative data requirements

There are different types of information requirements.

1. A loan-by-loan dataset, which where possible is substantially in the form of EDW/ECB template (which may be adapted).
2. Historic performance data:
 - a) Default data based on static vintage historical information
 - b) Recovery data
 - c) Prepayment data
 - d) Delinquency data.
3. Detailed description of each product type.
4. Probability of default (PD), loss given default (LGD) and internal scoring/rating on a receivable by receivable basis (if available).
5. Historic performance data to back up internal PD and LGD models (where relevant).
6. Observed default frequencies of the different product types and segments and sub-segments by scoring/rating category for the last economic cycle (if available).
7. Transition matrices for the past economic cycle (if needed).

ANNEX II

Indicative reporting minimum requirements

There are three different types of reporting requirements.

1. Information on the transaction: Participating Relevant Entities may expect to receive, at every payment date (if applicable to the transaction):
 - a) An investor report, showing, among other things: the amortization of the notes, the amounts paid under the waterfalls, the monitoring of the triggers, etc.;
 - b) A servicing report, showing the relevant performance (i.e. delinquencies, defaults, recoveries, prepayments, etc.) of the underlying assets;
 - c) A receivable by receivable dataset, which where possible is substantially in the form of EDW/ECB template (it may be adapted).
2. Information on the additional portfolio: The financial intermediary is obliged to provide, from time to time, data on the additional portfolio, which may include:
 - a) The number of SMEs and companies with fewer than 500 employees supported (and details per category of SME and small mid-cap);
 - b) The number of employees in the supported companies to verify the compliance by the financial intermediary with the terms of the financial intermediary's undertaking
 - c) For each of the SMEs and small mid-caps supported:
 - i. Name
 - ii. NUTS code and activity code (NACE - Level 2) (or reasonable equivalent)
 - iii. Receivable amount
 - iv. Term of receivable (in months).
3. Ex-ante and ex-post measurement of the impact of participating Relevant Entities intervention. This report consists of a questionnaire which the financial intermediaries and/or investors are asked to fill in. The information will aim to capture:
 - a) Where required, the Relevant Entities' contribution (both financial and non-financial) to the transaction,
 - b) Where required, the Relevant Entities' long-term structural effects at the financial intermediary, SME (catalytic effect) and market level, and
 - c) The impact of the transaction on the volume of finance made available to SMEs.

ANNEX III

Indicative DD agenda

1 General description of the intermediary

- History: set up, mission and future development.
- Organisational structure, shareholding structure.
- Funding, capital market activities.
- Summary of financial performance and outlook.
- Company strategy, market position and main competitors.

2 SME lending, products strategy, and economic environment

- Overall strategy in relation to SMEs (e.g. positioning, objectives, strengths and weaknesses, core products, regional coverage, origination volumes both historical and forward looking).
- Geographical/regional presence and information flow.
- Characteristics of the products offered to SMEs, incl. (if any) dedicated products offered to research and development and innovation driven SMEs (for example purpose, maturity, collateral requirements). Sales trends and products in SMEs.
- Economic cycle - outlook for the local SME market.

3 SME origination process and credit policy

- Summary of the current SME portfolio: concentration, industry, regional coverage, tenor, scoring/rating level, etc. Most important changes in the origination process in the last 2-3 years.
- Description of the origination channels, organisation, staff.
- Credit policy and internal procedures (including among others detailed information on the credit granting process, delegation of authority and approval procedures, criteria for loan disbursement).
- Credit risk assessment and systems.
- Collateral requirements (including for example types of collateral, methods/concepts of evaluation and measures for granting evaluator independence of financial intermediary).

4 Credit analysis, risk management and monitoring

- Organisation of risk management & monitoring (including degree of standardisation and automatisisation, IT support, IT emergency plan).
- Internal risk management system (e.g. scoring and rating systems, related PDs and classes, LGD models, SME portfolio composition); PIT/TTC models; regulatory framework (standardised, Foundation IRB, Advanced IRB).
- Scorecards: number of scorecards employed, key differences between them (e.g. key parameters used, different weightings of each parameter), frequency of scorecard validation and adjustments, discriminatory powers of the scorecards (e. g. GINI-scores).
- Back testing of internal models, last adjustments (if any); review of default frequencies (+90D and +180D, if possible) of past 3y per rating category.
- Data input / customer data required (qualitative, financial, behavioural information) in the rating/scoring models.
- Factors analysed when determining rating categories of the obligors.
- Monitoring procedures and responsibilities (including for example monitoring of internal and external exposure limits, monitoring of individual loans and early delinquencies management, risk monitoring reporting).
- Provisioning and capital allocation policy (e.g. general provisions, specific provisions, regulatory and economic capital).
- Most important changes in the above processes of the last 2-3 years.

5 Default and recovery procedures

- Specific arrangements arising from the national legal framework, if any.
- Track record of historical defaults (vintage data) (+90D and +180D, if applicable) divided by product and/or client type (if possible).
- Regional distribution of annual default (if possible), i.e. comparison of expected defaults vs. actual defaults by region.
- Recovery department organisation and strategy (such as policy, outsourcing, out-of-court/court settlement).
- Track record of historical recovery rates and recovery timing by type of debtor and for secured/unsecured loans.
- Recovery performance – monitoring of results vs. forecasts, trends and outlook.
- Historical and forecasted CPR rates.

6 Compliance function





- General description of the financial intermediary's compliance function. Description of the Know Your Customer (KYC) and Anti Money Laundering (AML) measures for SME clients.

7 Securitisation and transaction

- Role of securitisation for the financial intermediary and its experience.
- Organisation and responsibilities regarding securitisation transactions.
- Former/existing securitisation transactions and their historical performance.
- Asset selection process.
- Treatment of securitised assets within the financial intermediary's overall SME portfolio and procedures.
- Transaction structure (e.g. PDL-debit mechanism of loans), asset portfolio data, investor report, and transaction parties (e.g. back-up servicer).

ANNEX IV



List of National Promotional Institutions (NPIs)

Institution*	Country
KFW	Germany
bpi france	France
	Italy
 Instituto de Crédito Oficial	Spain
Malta Development Bank** Working Group	Malta
	Portugal
	United Kingdom

* Some of the participating NPIs may need further internal developments and approvals to actively participate in ENSI operations.

** The Malta Development Bank Working Group is a member of the Working Group on the joint securitisation initiative and foresees the potential membership of the future Maltese promotional institution.

List of Economic Development Institutions

Institution
 European Investment Bank <i>The EIB bank</i>
 European Bank for Reconstruction and Development

Important Disclaimer

This summary term sheet is for information purposes only. This document is an outline of the principal terms and conditions for the product described herein. These terms and conditions are subject to change and non-exhaustive.

This document is intended to provide a basis for discussions and does not constitute a recommendation, a solicitation, an offer or a binding commitment – either implicit or explicit – on the part of European Investment Fund (EIF), the National Promotional Institutions (NPIs) listed in Annex IV or any other person to enter into one or more transaction(s). Any finance commitment will be made only after, among other things, appropriate approvals, conclusion of legal due diligence and finalisation of legal documentation.

Please note that the principal terms and conditions for the product described herein are subject to the individual scope of securitisation activities and investment appetite of the European Investment Fund (EIF) and the National Promotional Institutions (NPIs). The final involvement of an investor into an ENSI transaction will be subject to that investor's internal analysis and assessment and to its final approval.

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