



InnovFin
EU Finance for Innovators
Zagreb, 11 June 2015

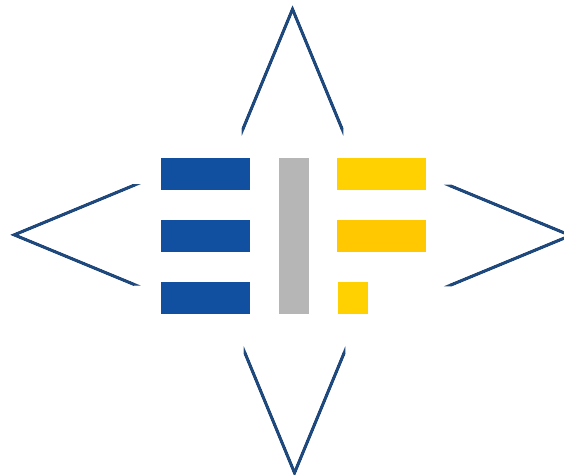
Stefano Bragoli,
Structured Finance Manager, EIF

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EIF at a Glance

- **EU specialised institution for SMEs risk financing**
 - **Debt** - Structuring and Guaranteeing portfolios of SME loans/leases and microcredit
 - **Equity** - Venture Capital and Mezzanine (fund of funds)

- **Geographic Focus:** EU 28, EFTA, Candidate Countries
- **Distribution through Banks and Funds** (Full delegation)



- Founded in 1994 & started providing VC to businesses in 1997
- **Multilateral Development Bank (MDB) status**
- Basel II 0% risk weighting
- **Aaa/AAA/AAA ratings** (Moody's/S&P/Fitch)

- **Shareholding Structure:**
 - **EIB: 63.7%**, EIB shareholders: 28 EU Member States
 - **European Commission: 24.3%**
 - **24 European Financial Institutions: 12 %**

InnovFin Product Overview



 direct products

 indirect products



InnovFin
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InnovFin
SME Guarantee

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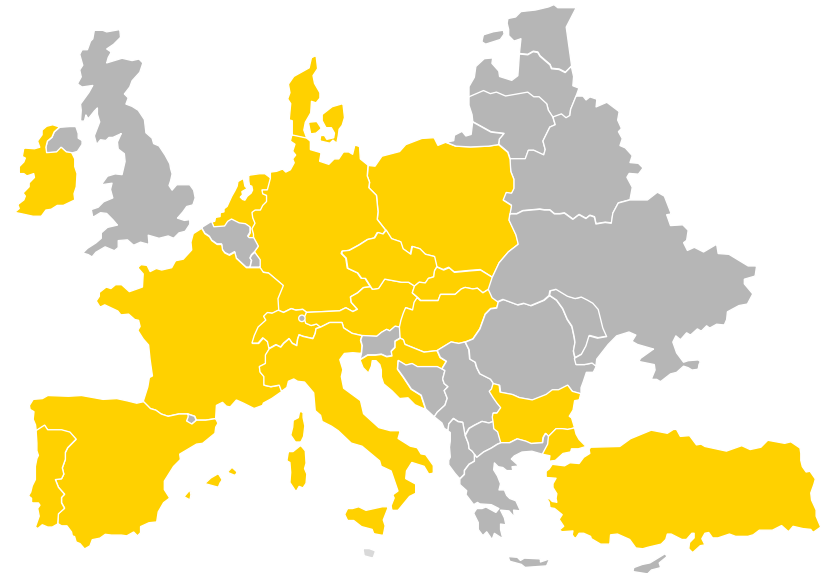
InnovFin SME Guarantee

- Signature of the Delegation Agreement between the EC, EIB and EIF: 12 June 2014
- Responsible EC Service: DG Research & Innovation
- Timeframe: 2014 - 2020
- **Target over EUR 10bn** of financing to benefit innovative SMEs and Small Mid-Caps over the next 9 years
- Purpose: **improve access to finance** for innovative SMEs and Small Mid-Caps
- EIF provides **direct (and indirect) financial uncapped guarantees** to selected Financial Intermediaries (FIs)
- Guarantee Rate: **up to 50%** of losses incurred in each loan
- Thanks to EIF Multilateral Development Bank status (MDB) and pursuant to Basel II, **no capital charge** expected on the covered part of the Portfolio
- Transfer of benefit
- Acceptable portfolio risk profile

Distribution of InnovFin Pilot Program across EU

Status of RSI (InnovFin Pilot Program) implementation :

- **47** applications
 - **44** for the direct guarantee
 - **3** applications for the counter-guarantee
- **40** guarantee contracts signed (including **4** increases)
 - covering **18** countries
 - for a total guarantee amount of EUR **1,563m**
- Enabling over EUR **3.2bn** of loans/ leases to innovative SMEs and small mid-caps



RSI - Deployed in 18 Countries

#	RSI - Financial Intermediary Names	Country	Guarantee Amount (EUR m)	Signature date
1	Unicredit Bank Austria	Austria	60.0	03-Oct-12
2	Ceska Sporitelna (Erste)	Czech Republic	45.0	08-Nov-12
3	ABN Amro	Netherlands	45.0	26-Nov-12
4	Bankinter	Spain	60.0	27-Nov-12
5	AIB	Ireland	25.0	28-Nov-12
6	Banco Popolare (joint application - 2 FIs)	Italy	60.0	07-Dec-12
7	Cassa Di Risparmio di Cento	Italy	20.0	07-Dec-12
8	Deutsche Bank	Germany	60.0	23-Jan-13
9	Komerční banka	Czech Republic	50.0	15-Mar-13
10	BPI	Portugal	30.0	17-Apr-13
11	Bank Pekao	Poland	40.0	27-May-13
12	BPCE (joint application - 17 FIs)	France	125.0	24-Jun-13
13	Credito Valtellinese Group (joint application - 4 FIs)	Italy	50	24-Jul-13
14	Raiffeisen Leasing Polska	Poland	30	31-Jul-13
15	Halkbank	Turkey	50	17-Sep-13
16	Epifrance financement	France	80	25-Sep-13
17	Sparbanken Öresund AB	Sweden	17.5	09-Oct-13
18	Bankinter (increase)	Spain	20	15-Oct-13
19	Alba Leasing	Italy	60	17-Oct-13
20	BES	Portugal	80	24-Oct-13
21	Deutsche Bank PBC	Poland	25	29-Oct-13
22	FIBank	Bulgaria	7.5	18-Nov-13
23	BPI (increase)	Portugal	50	18-Nov-13
24	IKB Leasing	Hungary	25	26-Nov-13
25	Unicredit Bank Austria (increase)	Austria	20	06-Dec-13
26	Komerční banka (increase)	Czech Republic	30	06-Dec-13
27	AWS (counter-guarantee)	Austria	11.5	13-Dec-13
28	ICCREA	Italy	60	31-Jan-14
29	Nordea	Denmark	70	31-Jan-14
30	DB Spain	Spain	32.5	03-Feb-14
31	Credem (join application - 2 FIs)	Italy	40	07-Feb-14
32	Lfa	Germany	10.5	25-Feb-14
33	ILB (counter guarantee)	Germany	6	25-Feb-14
34	DB Italy	Italy	20	04-Apr-14
35	Commerzbank	Germany/Switzerland	80	20-Jun-14
36	KfW	Germany	37.5	20-Jun-14
37	UniCredit UMBRELLA- BG	Bulgaria	7.5	24-Jun-14
38	UniCredit UMBRELLA- HR (Croatia)	Croatia	3.5	24-Jun-14
39	UniCredit UMBRELLA- HU	Hungary	5	24-Jun-14
40	UniCredit UMBRELLA- CZ/SK	Czech Rep./Slovakia	9	24-Jun-14
	UniCredit UMBRELLA- allocation amount	BG/HR/CZ/HU/SK	5	24-Jun-14
	Total Signed		1563.0	

#	Countries covered*
1	Austria
2	Czech Republic
3	Germany
4	Ireland
5	Italy
6	Netherlands
7	Poland
8	Portugal
9	Spain
10	Turkey
11	France
12	Sweden
13	Hungary
14	Bulgaria
15	Slovakia
16	Croatia
17	Montenegro
18	Estonia
19	Denmark
20	Switzerland

* all applications to RSI included

Signed

InnovFin - Focus

- **Eligible financing:**
 - **New loans, credit lines, bonds** (such as mini-bonds) and/or **financial leases**;
 - to be originated within a **two-year period** by the selected intermediary (up to Dec. 2022 under H2020 programme)

- **Eligible debtors:**
 - **SMEs** (EC definition) and **Small Mid-caps** (< 500 FTE employees);
 - Operating in **EU-28 and H2020 Associated Countries**; and
 - **Innovative**
 - invest in producing or developing innovative products, processes and/or services and where there is a risk of technological or industrial failure; or
 - “innovative” SMEs/Small Mid-caps, i.e. satisfying at least one of a list of pre-defined criteria;
 - “fast growing enterprises”, measured by employment or by turnover: annual increase > 20%

- **Can be combined with EIB funding facilities** (subject to specific criteria and transfer of benefit requirements)

Underlying Transaction Criteria

Purpose of Financing (Term Loans/Leases + Revolving Credit Facilities):

**Tangible &
Intangible
Assets**

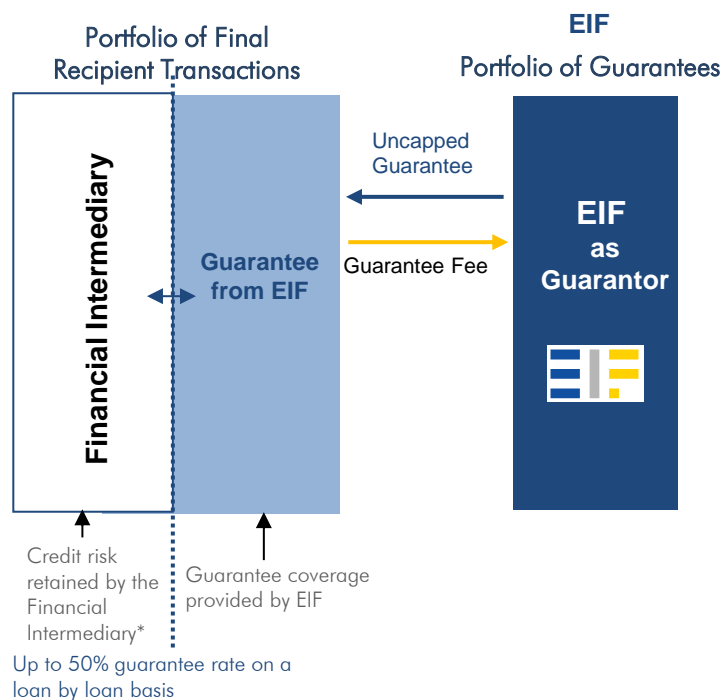
**Working
Capital**

**Business
Transfers**

- Loan amount: min EUR 25k - max EUR 7.5 m (only Senior Debt)
- Loan maturity: min 1 year - max 10 years
- Currency: EUR and local currency
- Max (counter-)guarantee amount is EUR 200m per intermediary (EUR 500m per intermediary group)

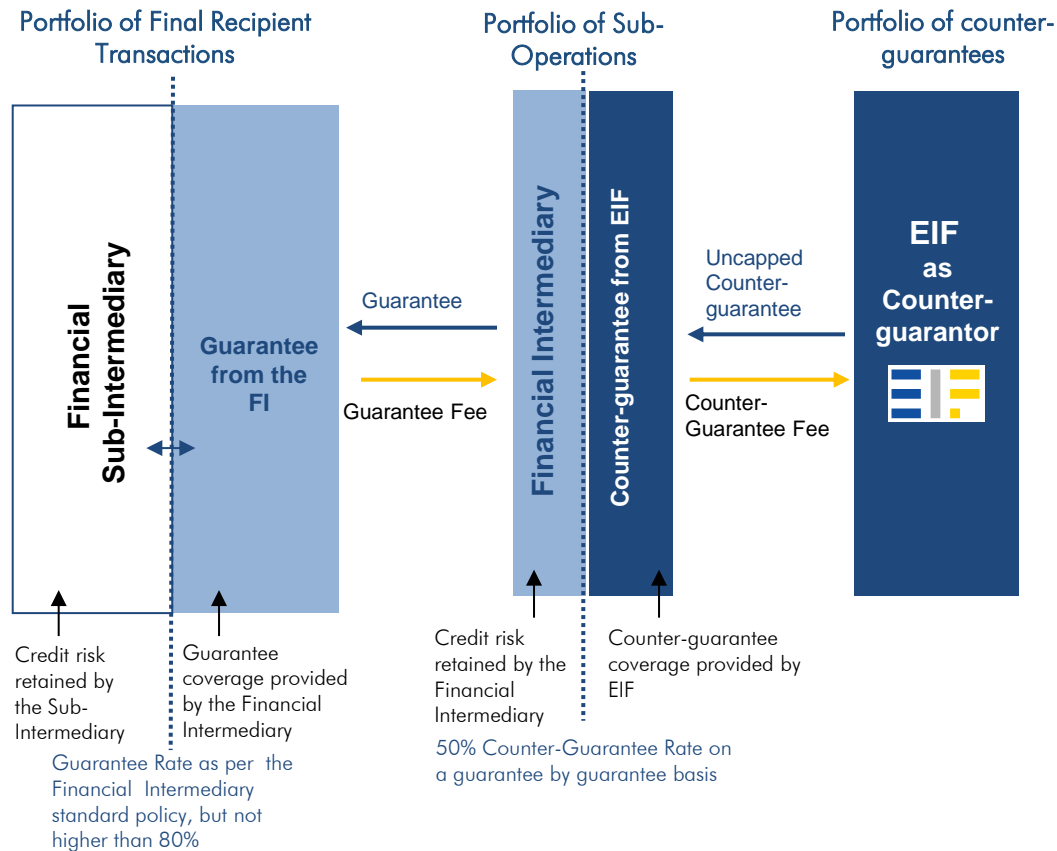
Direct - Guarantee Structure

- Guarantee payment can be structured either as (i) an upfront payment of the defaulted exposure amount and pro-rata sharing of the recoveries, or (ii) a payment of the net loss at the end of the recovery work-out process.



- Additional external credit protection may be obtained by the Financial Intermediary. At any time the economic exposure retained by the Financial Intermediary towards any Final Recipient Transaction must not be lower than 20% of the principal amount outstanding.

Counter - Guarantee Structure



- Additional external credit protection may be obtained by the Financial Intermediary. At any time the economic exposure retained by the Financial Intermediary towards any Sub-Operations must not be lower than 20% of the outstanding guaranteed principal amount.

Key Guarantee Terms

**Up to 50% loss
coverage
(Principal +
Interest 90D)**

**Full Delegation
to Financial
Intermediaries**

**Automatic
Coverage/
Inclusion**

**Attractive
Guarantee
Terms**

**Favourable
Capital
Treatment**

**Guarantee and
Counter -
Guarantee**

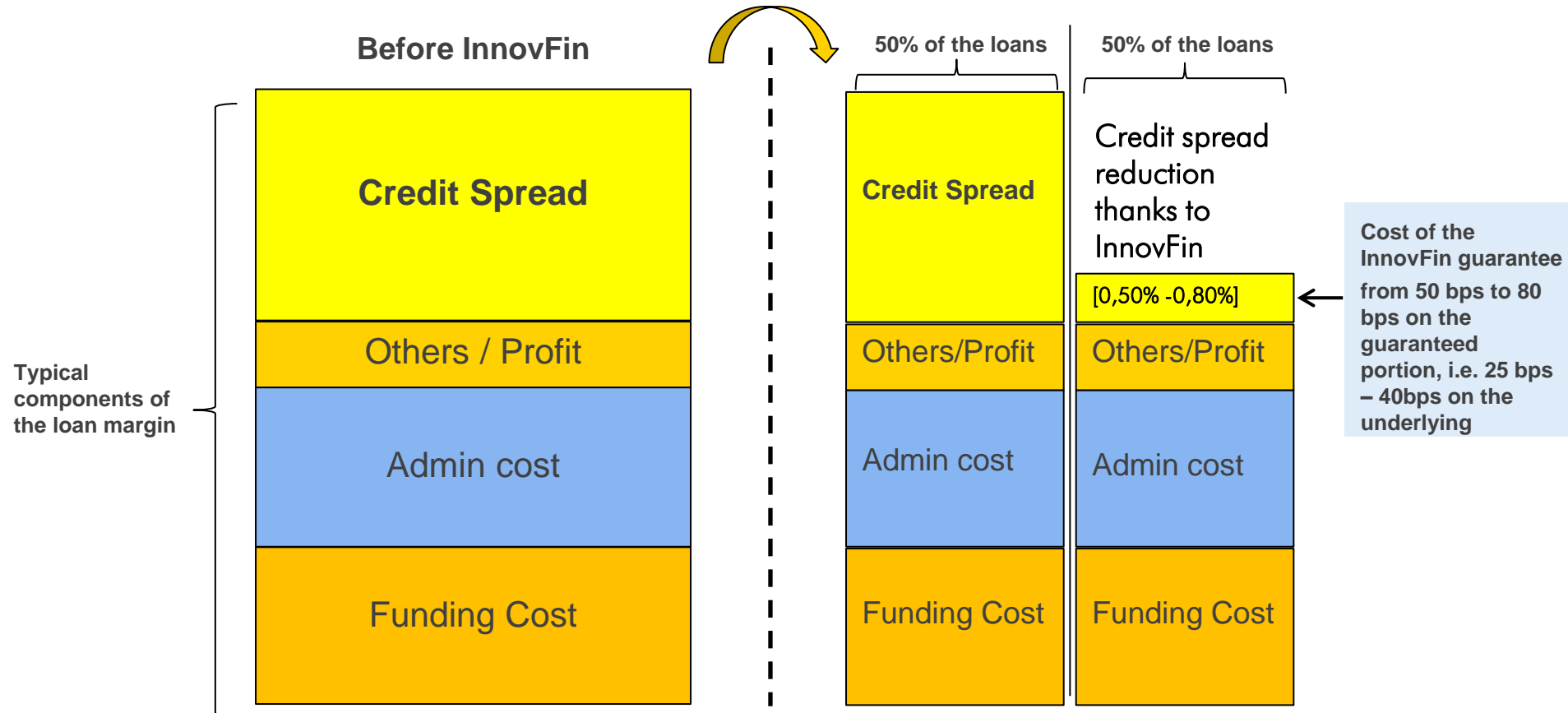
Key Guarantee Terms

**Guarantee Fee:
SME
0.50% p.a.**

**Guarantee Fee:
Small Mid-Cap
0.80% p.a.**

- Payable either quarterly based on the average portfolio balance or up-front (based on an amortisation schedule)
- Financial Intermediaries are required to transfer the Financial Benefit to SMEs & Small Mid-caps:
 - reduced interest rate (direct guarantees)
 - reduced guarantee fee premium (counter-guarantees)

Financial Benefit – Principle



InnovFin Selection Process

- Selection of FIs through a Call for Expression of Interest published on **4 August 2014** on EIF website



<http://www.eif.org>

- Application assessed on a « **first come, first processed** » basis by EIF
- Selection procedure:
 - Pre-selection of Expression of Interest based on the evaluation criteria
 - Due diligence exercise of pre-selected Applicants
 - Transaction proposal
- First transactions under InnovFin was signed in **October 2014**

InnovFin: A Win-Win Facility

Financial Intermediary

Reduced Capital
Consumption

Increased Return on
Capital

Competitive Loan
Pricing

Beneficiary

Enhanced Access to
Finance

Flexible Funding

Reduced Cost of
Funding



Appendices

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Appendix I

Are you an innovative SME or Small Mid-cap business(1/2)

InnovFin Eligibility Criteria (at least one to be met)	To be met at <u>signing date</u> of the loan/lease agreement with:
I am an SME and I will invest the money in producing or developing new or substantially improved products, processes or services that are innovative, where there is a risk of technological or industrial failure as evidenced by an external evaluation	Appropriate evidence of: (i) declaration of intent and (ii) business plan where such risks of failure are evidenced.
I am a “fast-growing enterprise”. That is: I’ve been operating in a market for less than 12 years following the first commercial sale and turnover or staff has endogenously grown on average 20% a year over a three-year period (with at least 10 employees at the beginning of the reference period)	Appropriate evidence of: (i) enterprise’s business plan being significantly based on carrying out R&D and/or innovation activities, (ii) growth rate and (iii) employees at beginning of observation period.
I have been operating in a market for less than 7 years following the first commercial sale and R&I costs represent at least 5% of the total operating costs in at least one of past three years (or in the current one in the case of a start-up enterprise)	Appropriate evidence of such information provided by the certified accountant(s)
The enterprise shall have a significant innovation potential and/or be an “ R&D and/or innovation-driven enterprise”, satisfying <u>at least one</u> of the following elements:	
<ul style="list-style-type: none"> Our latest certified accounts confirm that we are already spending at least 20% of the sum I want to borrow on R&I and our business plan indicates an increase of R&I expenses at least equal to that amount 	Appropriate evidence of such information provided by the certified accountant(s)
<ul style="list-style-type: none"> At least 80% of the sum I want to borrow will be spent on R&I activities as shown in my business plan and the remainder on costs necessary to enable such activities 	Appropriate evidence of: (i) undertaking and (ii) business plan where such expenditures are evidenced.
<ul style="list-style-type: none"> I have been awarded grants, loans or guarantees from European R&I support schemes or regional, national research or innovation support schemes over the last 36 months, and the amount I want to borrow now will not cover the same expense 	Appropriate evidence of award dated less than 36 months before
<ul style="list-style-type: none"> I have been awarded an R&D or Innovation prize by an EU institution or an EU body over the last 24 months 	Appropriate evidence of an innovation prize delivered less than 24 months before
<ul style="list-style-type: none"> In the past 24 months I have registered at least one technology right (e.g. patent, utility model, design right) and the money that I will borrow intend to enable the use of this technology right 	Appropriate evidence of technology right registration dated less than 24 months before
<ul style="list-style-type: none"> I am an SME and in the past 24 months I have received an investment from a venture capital investor or from a business angel being a member of a business angels network; or they are today a shareholder in the company 	Appropriate evidence of the investment
<ul style="list-style-type: none"> As per my business plan I intend to enter a new product or geographical market, and the required investment is higher than 50% of the average annual turnover of the past 5 years; 	Appropriate evidence of enterprise’s business plan
<ul style="list-style-type: none"> I am an SME and our R&I costs represent at least 10% of the total operating costs in at least one of the past 3 years (or in the current one in the case of a start-up enterprise) 	Appropriate evidence of such information provided by the certified accountant(s)
<ul style="list-style-type: none"> I am a Small Mid-cap and R&I costs represent either at least 15% of total operating costs in at least one of the past three years or at least 10% per year in the past three years 	Appropriate evidence of such information provided by the certified accountant(s)

Appendix I

Are you an innovative SME or Small Mid-cap business(2/2)

SME Eligibility Criteria (all to be met)	To be met at signing date of the loan/lease agreement with:
Shall be micro, small or medium-sized enterprises as defined in the Commission Recommendation 2003/361/EC (OJ L124, 20.05.2003, p. 36), as amended, restated, supplemented and/or substituted from time to time or Small Mid-caps (defined as enterprises with less than 500 employees full-time equivalent);	Appropriate evidence of criteria being met and information source.
Shall not be a “firm in difficulty” within the meaning of Article 2.1 of the Community guidelines on State aid for rescuing and restructuring firms in difficulty (OJ C 244, 1.10.2004, p. 2.), as amended, restated, supplemented and/or substituted from time to time;	Appropriate evidence of criteria being met and information source.
Shall not have a substantial focus on one or more Restricted Sectors (which determination shall be made by the intermediary in its discretion based, without limitation, on the proportionate importance of such sector on revenues, turnover or client base of the relevant enterprise);	Appropriate evidence of Restricted Sectors, criteria used to assess the focus and information source.
Shall be established and operating in one or several of the Member States and Associated Countries;	Appropriate evidence of information source.
Any additional eligibility criteria as may be specified in the relevant guarantee agreement.	Appropriate evidence of criteria being met and information source.

SME Eligibility Criteria (always to be met)	To be met at all times with:
Shall not perform RDI activities which are related to human cloning, genetic heritage of human beings, human embryos, human stem cells, nuclear energy and/or military applications	Appropriate evidence of information source.

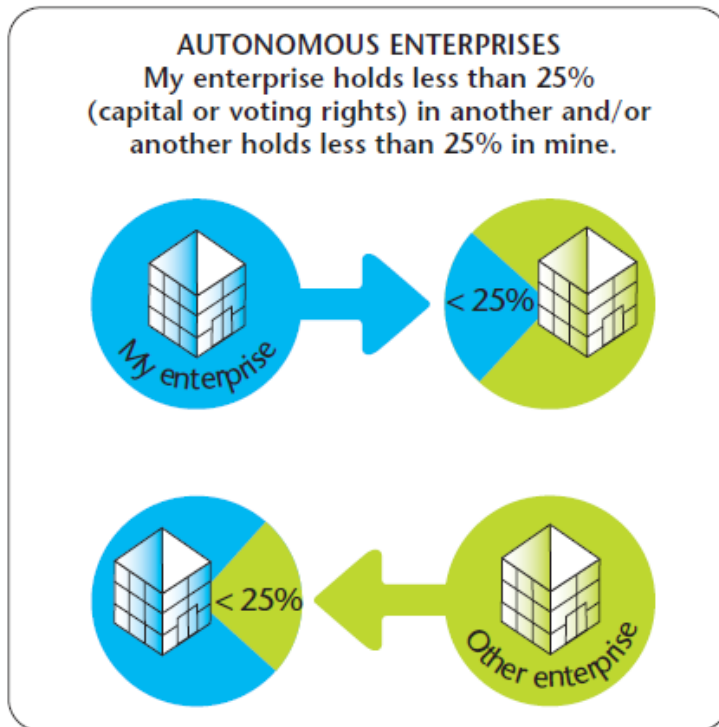
Appendix II

Eligibility requirements for a business transfer transaction

- In the case of business transfers a Final Recipient Transaction may finance up to 100% of the purchase price of a target company, including any resulting goodwill. However mere change of ownership (buyout of the existing company's shareholders) is not eligible, unless it is combined with a commitment by any party of the business transfer transaction to inject a new capital into the target company for an aggregate amount, which is not less than 50% of the Final Recipient Transaction, be it in a form of equity, quasi equity or debt financing.
- The other conditions for eligible business transfers are the following:
 - a) the borrower shall qualify as an SME or Small Mid-cap as a result of such transfer
 - b) the borrower or the target shall comply with at least one of the Innovation Eligibility Criteria.

Appendix III

Definition of an autonomous SME



- It is possible for you to have several investors each with a stake of under 25% in your enterprise and still remain autonomous, provided these investors are not linked to each other;
- It is possible to remain autonomous if one or more of the investors listed below have a stake of no more than 50% in your enterprise (provided they are not linked to one another):
 - Public investment corporations, venture capital companies and business angels.
 - Universities and non-profit research centres.
 - Institutional investors, including regional development funds.
 - Autonomous local authorities with an annual budget of less than 10 million euro and fewer than 5,000 inhabitants.

Appendix IV

Definition of Venture Capital and Business Angels

Venture Capital:

- At present, there is no integrated European venture capital market - the regulatory situation varies widely from country to country and the market is fragmented along national lines.
- Strictly defined, venture capital is a subset of private equity. Venture capital is thus professional equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of a higher than average return on the investment.

Business Angels:

- Business angels can be defined as individuals or groups of individuals with a regular venture capital investment activity who invest equity capital in unquoted businesses
- The financial involvement of business angels in an enterprise must be below 1,250,000 euro.



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Mid-Cap Guarantee (MCG)
Zagreb, 11 June 2015

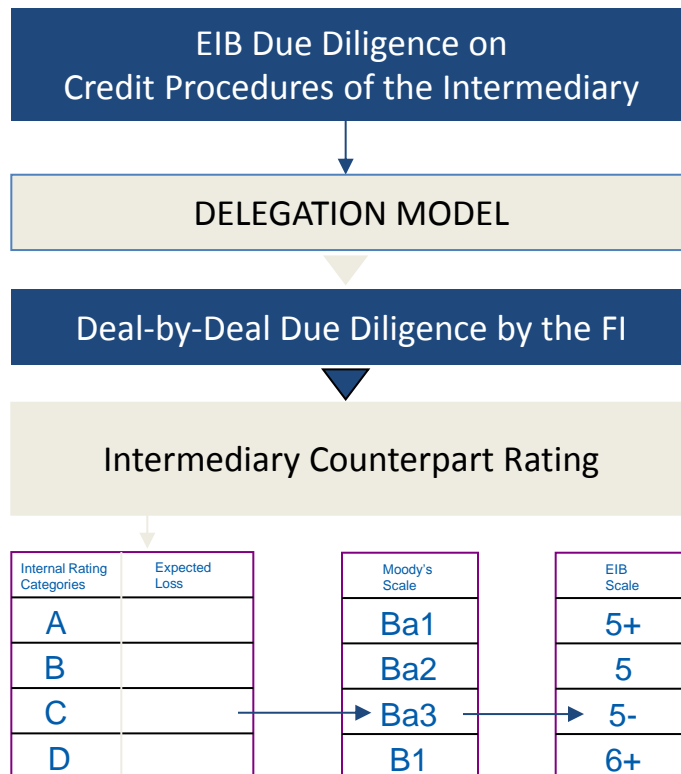
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MCG - Structure & Key Terms

- **MCG provides an unfunded guarantee to the selected Financial Intermediary (FI) on new loans to be originated**
 - 50% guarantee rate covering losses (principal and interest) incurred on each new loan
 - Guarantee payment upon default, with pro-rata sharing of recoveries
- **Alignment of interest: no risk-hedging possible on the non-guaranteed share of each loan**
- **Portfolio of new loans to be built up within a 2-year period**
 - Delegated model: FI includes loans based on eligibility criteria (through quarterly reporting) and remains in charge of the loans monitoring and work-out actions
 - Maximum EUR 400-500 million non-granular portfolio, with approximately 20-40 loans (expected)
 - Minimum portfolio quality (to be defined following the due diligence)
- **MCG guarantee priced on market terms**
 - 50/50 sharing with EIB of FI's margin over cost of funds (net of administration costs)
 - 50/50 sharing with EIB of FI's up-front, waiver and restructuring fees (only above a defined cap)
 - Guarantee Fee to be reviewed in details at EIB's Due Diligence in order to ensure alignment of interest

MCG – Delegation Model



- The key operational feature of the MCG is the delegation model, whereby EIB delegates the origination, due diligence, structuring as well as monitoring/work-out to the intermediary
- EIB performs a detailed Delegation Due Diligence on the credit processes/policy of the partner bank
- The counterpart rating (one key result of the due diligence) will translate via, for example, the Moody's rating scale and the associated expected loss figures into an EIB counterpart rating
- Financial Intermediary operates on the basis of a pre-agreed set of eligibility criteria

MCG – Eligibility Criteria

- **Eligible Beneficiaries**

- Mid-caps and large SME companies: less than 3,000 employees (at group level)
- Operating in EU-28 and other H2020 eligible countries (Norway, Turkey...)
- Minimum rating requirement, expected at an equivalent Ba3-B1 (to be reviewed during the due diligence)
- Innovative companies

- **Eligible project costs**

- Eligible beneficiaries must have a “project” budgeted over 3-years
- Larger projects to be pre-approved by the EIB under a simple form approach

- **Loan characteristics**

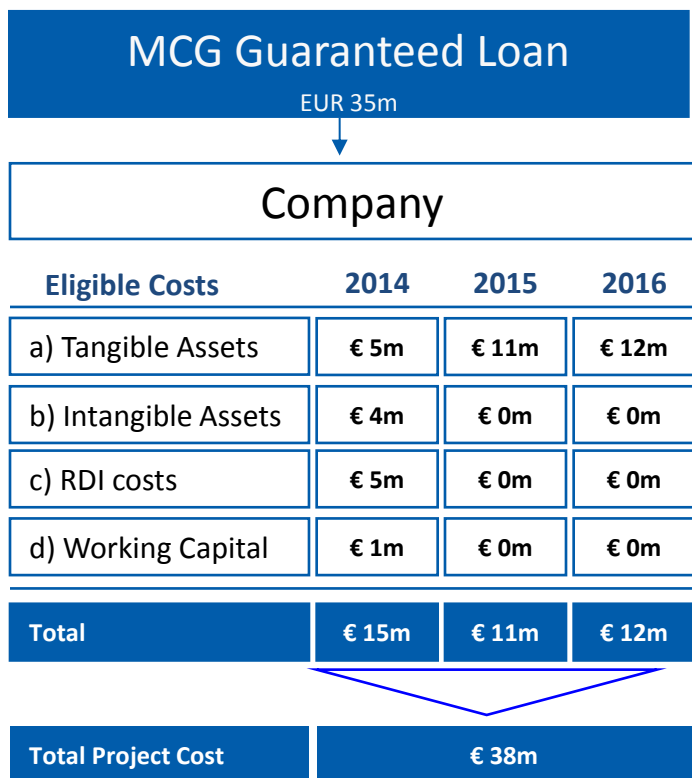
- Loan amount: minimum EUR 7.5 million (or EUR 1 million possible for Mid-caps with more than 500 FTEs) and maximum EUR 50 million
- Loan maturity: minimum 2 years, maximum 7 years
- Fixed repayment schedule (no revolving loan), with a capped grace period (no bullet loans)

MCG – Innovation Criteria

- **The Mid-cap is a “fast-growing enterprise” if it has a**
 - growth in turnover of at least 10% (average p.a.) over a three-year period, or
 - growth in FTEs of at least 5% over a three-year period (average p.a.) and with one hundred or more employees at the beginning of the observation period
- **The Mid-cap has a significant innovation potential if it has**
 - R&I expenses/investment (in the latest financial statement) at least equal to 5% of its annual turnover
 - 80% of the Mid-cap loan invested in R&I expenses/investments in the next 36 months (as indicated in its business plan and reflected in future financial statements)
 - Been formally awarded grants, loans or guarantees from European R&I support schemes and/ or through their funding instruments or regional, national research or innovation support schemes over the last 36 months
 - Been awarded an innovation prize over the last 24 months
 - Has registered at least one patent in the last 24 months
 - Has received an investment from a venture-capital fund (life science/clean energy/technology) or the venture capital fund is a shareholder of the Mid-cap (at the time of its application for the Mid-cap Transaction)
 - Has its registered seat in a science, technology, or innovation park or technology cluster or technology incubator, in each case with activities relating to R&I
 - Has benefited from tax credit or tax exemption related to investment in R&I in the last 24 months.
- **At least one (out of the ten) criteria above must be met**

MCG - Eligible Project

Example:



Main principles:

- **Loan will directly or indirectly support ‘eligible costs’** undertaken over a period of up to three years
- The following cost items are considered to be ‘eligible costs’ forming the Total Project Cost:
 - a) Purchase, renovation or extension of tangible assets
 - b) Purchase of intangible assets
 - c) Research, Development & Innovation costs (RDI)
 - d) Medium and long term working capital needs
- **Total Project Cost must represent**
 - at least the size of the guaranteed loan, and
 - not more than EUR 50 million
- **Exception to the full delegation:** eligibility of the project will be reviewed and approved by EIB before inclusion (for projects above EUR 25 million only)