#Believe InSmall

EMGN – The Future of the Credit Guarantee Business

CERSA – SGRs Case Study

Our unique approach

We design financial instruments that share risks with our partners multiplying public resources and increasing the supply of finance

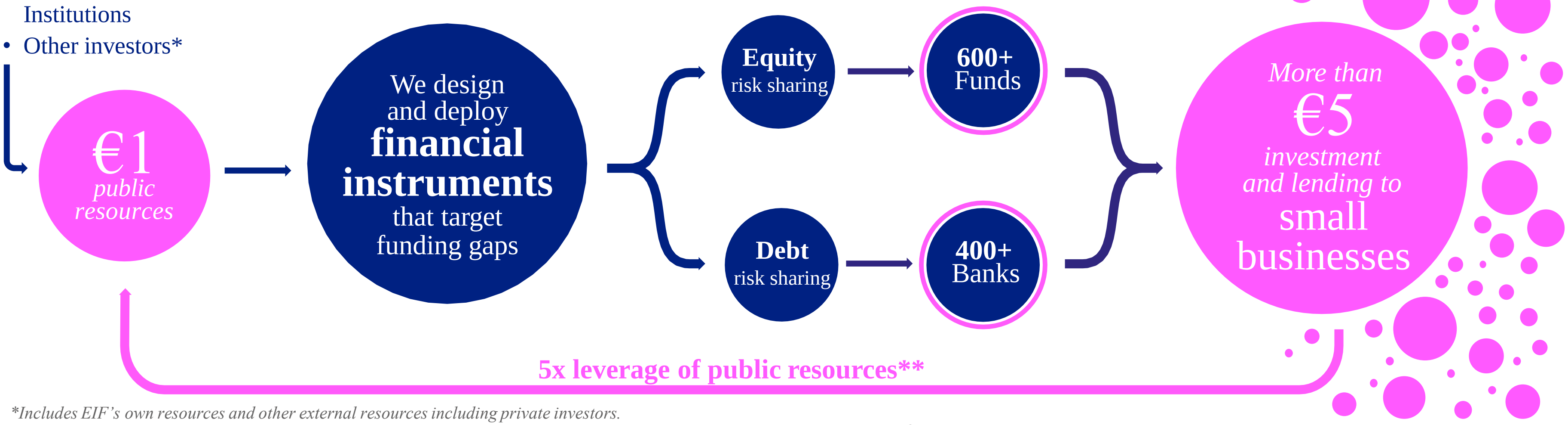
Our resources

- European Commission
- European Investment Bank
- Local authorities & National Promotional Institutions
- Other investors*

Our approach

Our partners

Small businesses



*Includes EIF's own resources and other external resources including private investors.
**On aggregate based on 2020 transactions. Depending on the instrument and the transaction, the leverage achieved can range from 4x to 40x.
Source: EIF Annual Report 2020.

Our main debt financing solutions

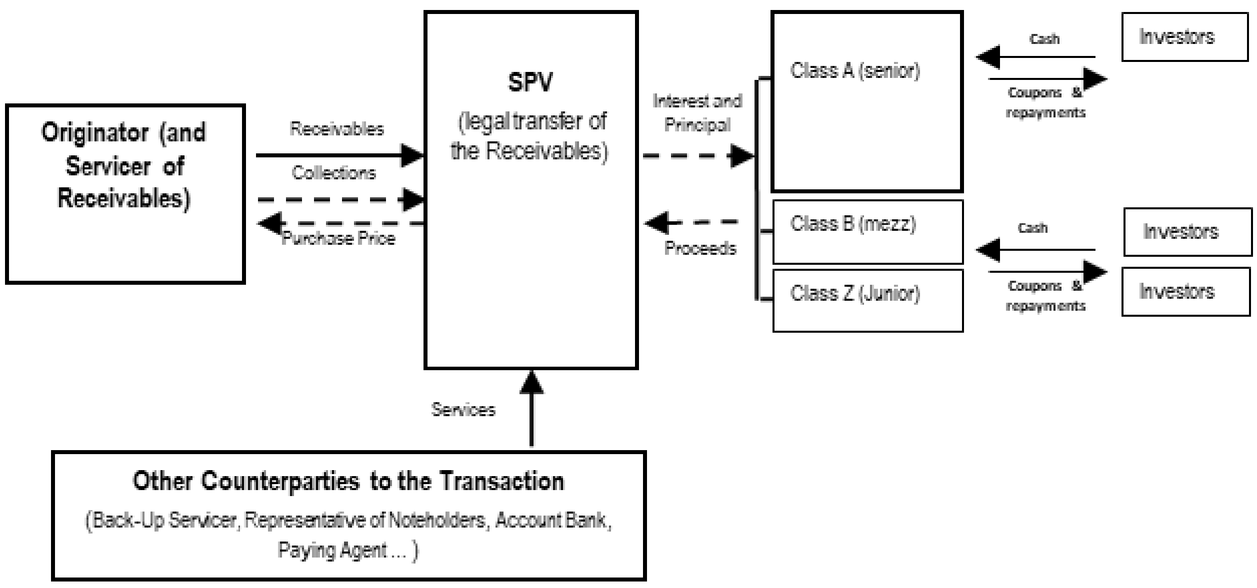
We share risk with our banking partners to encourage lending and improve lending terms to riskier small businesses

	Capped guarantees	Uncapped guarantees	Credit enhancement (securitisation)	Private credit
Risk sharing mechanism	AAA guarantee of losses up to a capped rate per loan (free of charge)	AAA guarantee of losses uncapped (guarantee fee)	Credit enhancement of securitized SME loan portfolios provides economic and regulatory relief for originators	Crowding in additional investors via cornerstone investments in direct lending funds
Benefit for small businesses	Loans at better terms (collateral reduction, maturity extension, lower interest rates)	Loans at better terms (collateral reduction, maturity extension, lower interest rates)	Increased lending to riskier small businesses	Bespoke debt packages, speedy deployment and flexible approach
Net commitments	€6.8bn	€29.2bn	€22.2bn	€5.2bn

Notes: Transaction level data based on net commitments (signatures), excludes capacity building investments and senior and subordinated loans under EaSI.
Source: SPA reporting, data as at 30/06/2021.

True sale securitisation

- The reference portfolio is transferred by a legal true sale to an SPV, so the originator is not the lender of record of the loans any more.
- The SPV issues securitisation notes backed by the securitised portfolio.
- The notes are purchased by investors and the proceeds are captured by the originator. This structure is commonly used for funding purposes but it can be also used for capital relief.



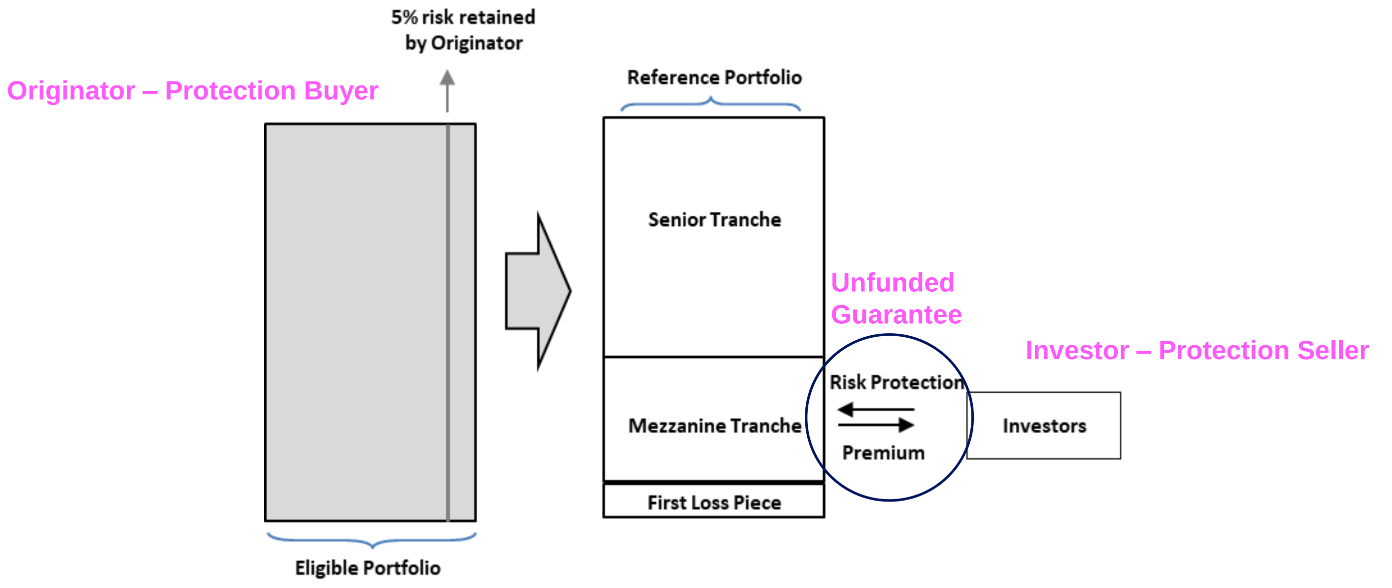
Synthetic securitisation (i)

- **Synthetic securitisation**
  - The originator remains to be the lender of record of all loans (there is no legal true sale) and the securitised exposures remain on the balance sheet of the originator.
  - The credit risk of a pool of exposures is divided in tranches, with subordination among the tranches in the loss allocation.
  - The risk is transferred by means of Credit Risk Mitigation.

- **Forms of Credit Risk Mitigation (CRM)**
  - CRM is a technique used **to reduce the credit risk** associated with exposures held by an institution:
    - "**unfunded credit protection**"
    - "**funded credit protection**"

Synthetic securitisation (ii)

- Synthetic securitisation via **Unfunded Credit Protection**
  - Protection buyer (originator) obtains a contractual obligation of a counterparty to cover losses (e.g. bilateral guarantee)
  - Protection buyer relies on credit quality of counterparty (ability to make required payments)
  - Type of instrument: credit default swaps, financial guarantees
  - Requires a counterparty with a low(er) risk weight (i.e. EIF/EIB: 0% risk weight)



Synthetic securitisation (iii)

- Synthetic securitisation via **Funded Credit Protection**
  - Protection buyer (originator) obtains a contractual obligation of a counterparty to cover losses. It is a fully collateralised protection instrumented by the issuance of securitisation notes or also called credit-linked notes (CLNs) by an SPV
  - Risk transfer does not depend on credit quality of counterparty/investor
  - Type of instruments: credit-linked notes