European Investment Bank
The EU bank

EIB Support to the Financial Sector

Risk Sharing Guarantees

Highlights:
- Agreement signed between beneficiary financial institution and the EIB
- EIB reimburses financial institution for up to 50% of principal losses incurred on a portfolio of eligible SME assets
- Eligibility is based on predefined criteria – EIB will not perform a review of individual assets at origination

Product description

A risk sharing guarantee facility (RSGF) is a bilateral loss-sharing agreement between the EIB and a financial institution, under which the EIB reimburses the financial institution for a portion of the principal losses incurred on a portfolio of SME loans, typically up to a maximum of 50%.

The RSGF allows the financial institution and the EIB to form a partnership with the goal of enabling the financial institution to develop its SME lending at a faster pace than would otherwise be feasible, thus providing greater access to credit for a wider range of SME clients and growing the loan book.

RSGFs cover assets newly created by the financial institution originated during the term of the facility to encourage the financial institution to expand its business.

The product itself is most appropriate for financial institutions requiring credit risk protection as opposed to funding.

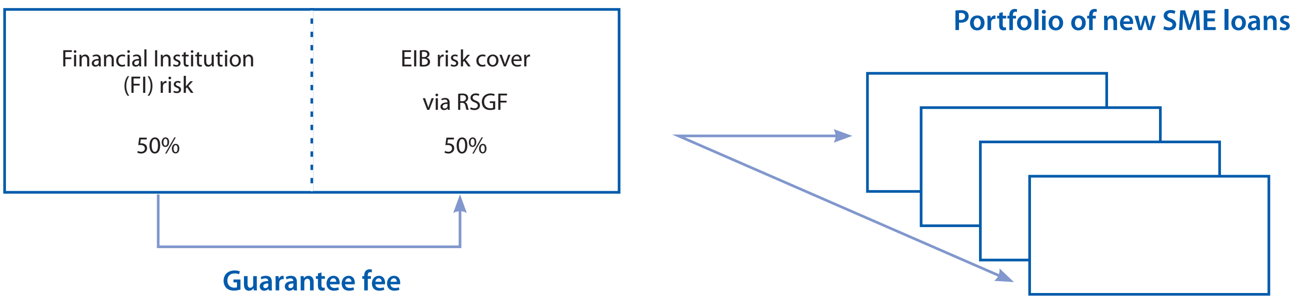
When it is applicable

Typically, RSGFs provide added value to financial institutions when introducing new products or when targeting new consumer or business segments (e.g. SMEs). In addition, such products may enable financial institutions to originate additional business without exceeding risk limits (country, single-obligor, industry exposure) and may reduce the portfolio's economic capital allocation.

How it works

RSGFs typically reimburse financial institutions for a fixed percentage of incurred losses of up to 50%. The financial institution and the EIB agree on eligibility criteria prior to signing, specifying the assets to be covered. All newly originated assets that meet these criteria must be added to the facility portfolio during a ramp-up period (two to three years) or until the portfolio reaches a predefined maximum volume. After the ramp-up period, no new assets may be added, but the EIB will continue to share losses incurred in the amortising portfolio until the last asset has been repaid, or the RSGF termination date has been reached.

Portfolio performance remains the responsibility of the financial institution, and must be reported to the EIB on a regular basis, usually quarterly. Any recoveries associated with the defaulted assets will be shared between the financial institution and the EIB using the same risk-sharing formula.



Overview of benefits

Portfolio growth: By sharing a portion of the risk associated with SME lending with the EIB, the financial institution will be able to introduce or expand new products, attracting new clients, generating additional fee income, and spreading the fixed operating costs of the product line over an expanded portfolio of assets.

Potential balance sheet/risk management improvements: Because the EIB is a highly-rated multilateral development bank (Aaa/AAA/AAA), an EIB RSGF may enable financial institutions that enter into such arrangements to overcome single-obligor, industry or regional exposure limits, as well as improving measures of risk-adjusted return.

The EIB at a glance

The EIB is both a policy-driven bank and an institution of the European Union. As such, we are happy to be fully transparent about how we make decisions, work and implement EU policies. We cooperate with external controls such as the European Court of Auditors and the European Commission.

In-house, we have a team focused on the financial sector, as well as lawyers, technical experts and teams dedicated to commercial banks, microfinance and private equity.

As a public development financial institution, the EIB is inherently interested in the impact on local markets and on the development of private enterprises through the projects that it finances. The EIB will work with its intermediary banking clients and beneficiaries to set reporting requirements and assess information on the development impact generated.

The EIB invests EUR 75bn in over 400 projects in a typical year. This includes EUR 7.5bn invested outside the European Union, in around 50 separate projects.

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