

Category: Investor of the year

European
Investment
Fund

A submission to *SCI Capital
Relief Trades Awards 2019*

Progress



Levelling up

September 2018 onwards was an extraordinarily busy time for the EIF; we signed nearly EUR 2bn worth of Significant Risk Transfer (SRT) transactions. This unprecedented increase of activity meant that our volume of SRT trades under management more than doubled, and today are approaching EUR 4bn. Three particular transactions played a pivotal role at the end of 2018 - read more about these in our pivotal transactions section on the next page.

Matrix reloaded

Vintages have become a vintage unto themselves at EIF. Our trades do not require the financial intermediary to embark on the tedious task of data extraction needed to chart the vintage curves. Instead, the EIF has developed an internal methodology that relies on the rating transition matrices - typically updated annually by the intermediaries' risk management departments - to derive cumulative probability of defaults for each of the loans making up the securitised portfolio.

Thanks to this tool we are able to quickly process most portfolios, in a standardised and effective manner, and hence helping us execute our work more efficiently.

A robot in the kitchen

A steep increase in workload prompted our legal department to venture into new, automated ways to speed up the turnaround of documentation for any SRT trade, including those with the most sophisticated features.

A new system was developed, successfully deployed and has since improved compliance, client service and overall transaction efficiency whilst also reducing costs, delays and risks. Delivery times have been reduced from weeks to just a matter of hours and the associated legal costs have been halved.

The success of our in-house automated solution was a significant factor in EIF winning the 2019 Global in-house team of the year by The Lawyer magazine.

About the EIF

The European Investment Fund (EIF) is a specialist provider of risk finance to small and medium-sized enterprises (SMEs). EIF is an international financial institution and its shareholders are the European Investment Bank (EIB), the European Union (represented by the European Commission) and a wide range of public and private banks and financial institutions. EIF fosters EU objectives in support of entrepreneurship, growth, innovation, research and development, and employment.

The pivotal transactions of 2018

The “Jumbo” Cajamar transaction

The EIB Group, BCC-Grupo Cajamar and ICO joined forces to ensure that SMEs working in rural areas and agri-food companies can access the credit they need to invest. With this securitisation, the Spanish cooperative banking sector Grupo Cooperativo Cajamar will provide over EUR1bn for new investment projects in the sector.

This is a very innovative operation for Spain, as it is the first cash securitisation from a Spanish entity to free up capital under the standard model and leads the way for other Spanish organisations to mobilise resources in a similar manner.

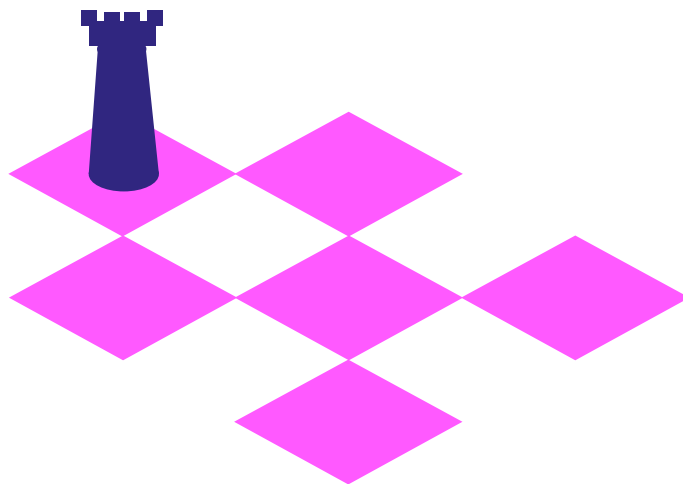
The first synthetic trades in Poland

Carrying out a synthetic securitisation in a country with a less developed securitisation market in a non-Euro currency helps to build market confidence in the implementation of synthetic securitisation across the whole of the EU. In Poland, the EIF executed guarantees on senior and mezzanine tranches for two new banks: Alior Bank and one of the largest Polish banks.

Thanks to EIF's experience in mobilising and structuring the investment, as well as the participation of the EIB and the support of the Juncker Plan, the two financial institutions have been able to release regulatory capital and enhance their capacity to provide SME financing on better terms.



Strategic goals met



At the core of EIF's remit

While we (as well as our counterparts) undeniably appreciate the technical aspects of synthetic trades, the reason why we pursue them lies at the very core of the *raison d'être* of the European Investment Fund: to stimulate and ease access to finance for SMEs and Small Mid-Caps. In 2018 and 2019 the EIF's securitisation activities were (and continue to be) fundamental in ensuring a successful deployment of the EIB's *Juncker Plan* resources. In exchange for freeing up considerable amounts of regulatory capital of the banks that partner with us, we require them to on-lend to SMEs in the subsequent 2-3 years. Since September 2018, SRT trades will generate approximately 5.7 billion euros of additional financing for European SMEs; so who says securitisation is just helping banks?

Capital relief for social impact

In 2019, EIF successfully closed a "Social Impact" SRT transaction in Italy with Unicredit. This transaction will help provide more accessible loans for social enterprises, thereby contributing in turn to social and economic development. This impact concerns a wide range of social enterprises; including companies supporting the integration of disadvantaged groups (e.g. migrants and asylum seekers), companies active in the fields of energy efficiency and renewable energy, as well as education, training, and social housing.

Did you know?

The EIF and several National Promotional Institutions (NPIs) launched a cooperation and risk sharing platform called ENSI. Its purpose is to stimulate the availability of finance to SMEs in Europe by revitalizing the SME

Securitisation market while catalysing resources from the private sector. ENSI has invested nearly 4bn EUR since 2016 in European SME securitisation transactions.

Capital Relief for the Cohesion Region

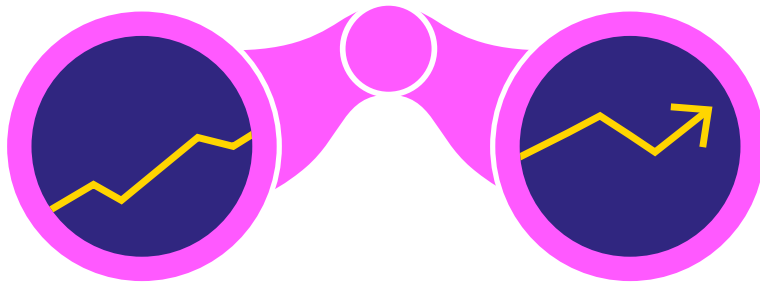
In September, the EIF will receive an endowment of EUR 220m in structural funds provided by the Italian Ministry of Development. These funds can be used as first-loss cover, as well as for lowly rated mezzanines, and will allow the completion of SRT trades with financial intermediaries in Italy which can commit to on-lend (at a discount) to SMEs in the Southern regions of Italy. EIF had implemented a first tranche of this programme in 2017, deploying c. EUR 300m of guarantees which translated into nearly EUR 1.3bn of additional lending.

Crowding in investors

Being a public/private institution, we take pride in claiming that not only we avoid crowding out private investors, but also our presence has a powerful signalling effect in catalysing the interest (and the resources!) of other investors.

Since September 2018, we have continued our cooperation with National Promotional Institutions in two Italian cash transactions (Alba Leasing and Hypo Vorarlberg Leasing), while in Santander Magdalena III, EIF participated together with a group of private investors in the biggest market placement of a SRT transaction in 2019. EIF, EIB and a number of private investors invested a total of 342mn EUR in the mezzanine tranches over a portfolio of 2.8mn EUR.

Trends & evolution



Trend-setting: opening up to standardised banks

While SRT transactions were originally conceived for banks employing advanced, validated, rating models, we believe that our goal of easing SMEs' access to finance should not be limited by technicalities that confine the counterparties we can structure these trades with. In December 2017 we had our first, successful attempt, with a bank employing a standardised approach (HypoVorarlberg) but it was only in the following year that volumes in this (previous) niche took off, when we closed with Alior, Cajamar and one of the largest banks in Poland.

In order to structure these trades, which require a large senior to be guaranteed, we changed our internal limit system, allowing our guarantee capacity in AAA ratings to go up to EUR 500m.

EBA's recommendations on excess spread

With a few exceptions, all the transactions we have so far carried out only aim at freeing up the regulatory capital, therefore we find that excess spread is a powerful tool to improve the pricing of the guarantee without adding additional credit enhancement to the guaranteed tranche. This means that over time we have implemented, together with the intermediaries, various and innovative excess spread mechanisms. Since EBA's seminal paper laying out the agency's *desiderata* on excess spread, we have endeavoured to make sure that our guarantees match the spirit of such paper, with a view to maximising the chances of success of the transaction before the regulatory scrutiny.

'Credit Event' redefined

We have redesigned the Credit Event definition in one remarkable SRT transaction with BBVA on a portfolio of Corporate loans to mirror the IFRS9 Stage 3 booking of the bank. This has provided additional flexibility to the protection buyer to manage the surveillance and collections procedures according to their standards for the corporate business. In the same fashion, we have adapted our Credit Event definition in Italian trades, so that concepts specific to the Italian market, such as *sofferenza*, could be captured without any doubt.

Did you know?

EIF will normally cover the following Credit Events:

- Failure to Pay ≥ 90 dpd;
- Bankruptcy;
- Restructuring;
- Deemed to be defaulted by the Beneficiary in accordance with the Credit and Collection Policy

Furthering our market engagement

New geographies and new players

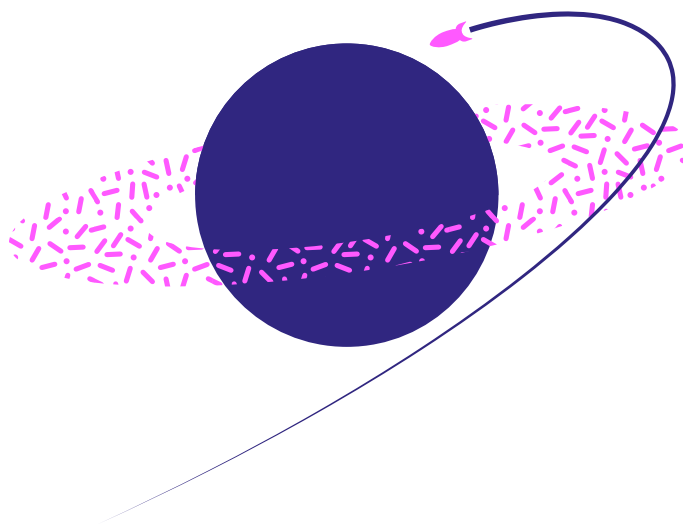
By virtue of not needing a securitisation law, SRT transactions are applicable virtually anywhere in EU. However, testing a new jurisdiction clearly requires a significant investment of time and resources. As our recent transaction in Czech Republic indicates, we are willing to go the extra mile to make sure that financial institutions in as many countries as possible can benefit from our intervention and increase their lending to SMEs.

Similarly to new geographies, we are also committed to “on-boarding” new financial institutions which have never pursued an SRT trade before. The process can take a bit longer than when working with our more experienced players, but at EIF we love opening new avenues to deploy our resources! Since September 2018, the following financial institutions were able to close their first SRT thanks to the beneficial interaction with EIF: Ceska Sporitelna, Banco BPM, Alior, a Polish bank, Cajamar, and Banca Nazionale del Lavoro.

Finally we also consider asset classes other than SMEs (such as consumers) and we continue to monitor new lenders and fintechs.

Regulatory insight

Owing to our role as an EU-mandated institution whose purpose is one of easing access to finance for SMEs, as well as our 20+ years of structured finance experience, we believe that the EIF is well positioned to contribute to the ongoing debate on regulatory changes by providing unbiased, professional opinions. After having closely followed the tripartite negotiation that eventually led to the birth of the new Securitisation Regulation, throughout 2018 and 2019, we continued to maintain our active role by submitting our own views to consultations for technical standards, as well as by participating to regulatory roundtables, and stimulating bilateral discussions on selected regulatory topics.



Fighting the stigma

Besides being accountable for what we do, we wanted to take a more active role in contributing to the narrative which surrounds the world of securitisation (and its often tarnished reputation). Therefore, in the last year we began devoting more resources to communicating our view on the market and the transactions we execute. From curating additional sections dedicated to securitisation in the EIF's SME Outlook to posting thought-leadership EIF Talks on YouTube as well as blogs on Medium.

Scan or click to access:



EIF Talks: Giovanni Inglis

In our first securitisation-based EIF Talks episode, Giovanni explores how securitisation, being associated with the financial crisis, is often just misunderstood. Securitisation is simply a tool like any other. It can be used or abused. In its simplest form, securitisation takes illiquid assets and makes them available in the real economy.



EIF Blog: Seven myths

In EIF's recently launched blog, we debunk many of the common misunderstandings surrounding the world of securitisation.



Small Business Finance Outlook

The EIF Working Papers are designed to make available to a wider readership selected topics and studies in relation to EIF's business. In its Small Business Finance Outlook, the EIF presents its perspectives on various sectors, including securitisation.



Value-added methodology

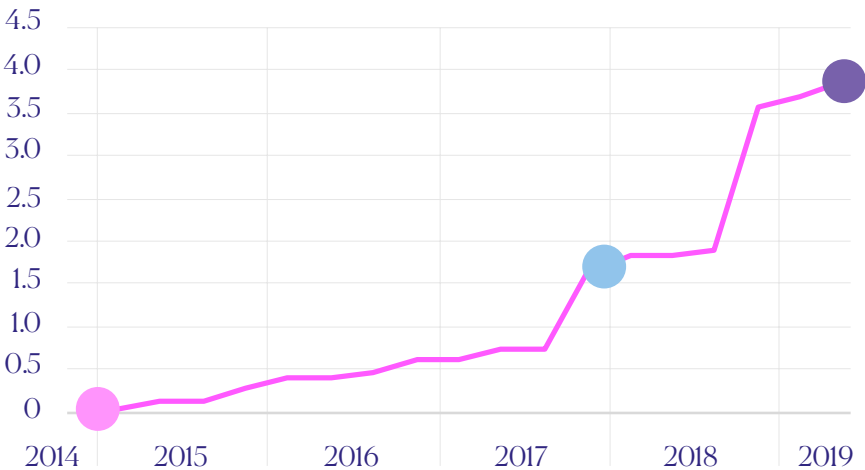
In looking back over the EIF's transactions between 2015 and 2017, we explain our value-added methodology for securitisation, thus aiming to demonstrate the link between the EIF's activity and its measurable market effects.



Looking to the future

Since 2014 we have been working to continuously support and advance the securitisation market in Europe - we believe it plays a cornerstone role in providing better access to finance for more SMEs. 2018 was a great year, and we look forward to many more in collaboration with our great partners.

- December 2014: First SRT transaction with Unicredit
- December 2017: First SRT with standardised Bank; HypoVorarlberg. During the same month we concluded SRT trades to stimulate lending in cohesion regions (under the SME Initiative Italy)
- June 2019: CLN with Santander



Meet the team

Our continued motivation and success is thanks to our talented and dedicated in-house securitisation team. Meet them here!



George Passaris
Director, Credit
Market Products



Daniela Francovicchio
Head of Securitisation
Division

