

## **DD agenda/ questionnaire for Financial Intermediaries**

Your institution is a potential participant in a guarantee scheme covering SME loans including green loans to SMEs (the Growth and Sustainability Loan Scheme GSLS) intermediated by SBCI and counter-guaranteed by EIB Group

In this context you are requested to provide detailed information on the subjects specified below, together with any supporting material that you consider appropriate (e.g. power point presentations). The EIB Group will subsequently carry out a due diligence meeting (format can also be virtual/ via conference call)

### **Part 1 - Presentation of the Financial Intermediary, its implementation proposal and origination capacity**

- **General information about the Financial Intermediary (FI):**
  - Brief description of the FI, including brief history, number of employees, shareholder structure, legal status, geographical area of operation, regulatory framework, supervisory authority, external rating (if applicable), etc.
- **FI's activity with relevant Final Beneficiaries (RFB)<sup>1</sup>:**
  - Description and key terms and track record of debt financing products offered by the FI to RFB, including purpose, maturity, maximum and average rate of financing, maximum amount, minimum rating (max. risk), etc.
  - lending volumes to RFB in the past 2-3 years and description of the composition of the current portfolio of the FI by the targeted client segment(s) (RFB), e.g. by rating (PD) class, by maturity (original and remaining), by secured/unsecured, by nature of collateral, by security coverage, by product type, etc.
  - pipeline / business plan / forecasted lending volumes to RFBs for the next 2 years
  - Impact of COVID-19 on (i) foreseen RFBs and main measures taken and on (ii) FI's (lending) operations in general, NPLs, restructuring, forbearance measures.
- **FI's competitive position in the market segment of RFB:**
  - Economic outlook and characteristics of the local client segment market
  - market share in the relevant segment, main competitors (trends and outlook)
  - Overall strategy (positioning, objectives, strengths and weaknesses, core products)
  - Lending volumes (outstanding and new annual lending) historically and budgeted for the future for the relevant client segments
- **FI's experience with, if applicable:**
  - SBCI's products; and or
  - EIB/EIF risk-sharing products (also intermediated via SBCI); and/or
  - other EIB/EIF products; and/or
  - other relevant experience in cooperating with other international financial institutions (IFI) such as CoEB and/or with national/regional promotional banks or institutions; and/or in managing public funds on behalf of third parties or benefitting from national/regional guarantee funds or subsidies

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<sup>1</sup> Relevant Financial Beneficiaries (RFB) are eligible Final Beneficiaries targeted for the specific operation i.e. SMEs in Ireland excluding Northern Ireland.

- FI's experience and projects/resources (including committed to be deployed) in the context of recent national measures approved due to the COVID-19 crisis
- **FI's implementation proposal for the GSLS: FI's deployment strategy:**
  - strategy for the relevant target client segments (RFB) where possible including information on regional splits, credit assessment tools and resulting ratings, products, and lending volumes to be included in the guaranteed portfolio
  - timing required to build the new Portfolio with indicative quarterly forecasts
  - indication of FI's business lines to be involved in the process, indication of FTEs and roles, strategy for deployment (centralised vs. decentralised)
  - contribution toward increasing the multiplier effect (through the replenishment or additional portfolio features)

Supporting documents:

- Annual reports for the last available 3 years
- Reports of rating agencies (if available)
- Any other document requested by EIB Group in the context of the due diligence

**Part 2 - FI's results and financial standing**

- **Key ratios and highlights of the latest available financial results, including:**
  - Profitability: Evolution of profitability (ROAA, ROAE), earnings outlook (taking into account COVID-19 impact)
  - Credit Risk: information on the FI's portfolio – highlight large concentrations, if any against country average / peers
  - Asset quality: Historical levels of Non-Performing Loans (NPLs) (stock and by vintage), outlook against country average / peers (taking into account COVID-19 impact)
  - Capitalisation: Regulatory Capital Adequacy Ratio, risk-adjusted capital ratio against country average/ peers
  - Funding and liquidity: main funding sources, liquidity ratios
  - Off-Balance Sheet Items and contingent risks

**Part 3 - Operating policies, procedures and models**

- **Regulatory Assessment**: Brief description of the relevant regulatory regime and supervisory bodies (national/supranational); outline which Basel approach (standard, IRB, Advanced IRB) is applied by the FI; regulated vs. non-regulated FIs. G-SIIs, O-SIIs, etc.
- **Operating policies**: Executive summary of the FI's principal operating policies and procedures, particularly:
  - I. **Appraisal** process, including:
    - i. Origination (incl. segmentation per type of RFB, if any)
    - ii. Risk management function
    - iii. Approval procedures and delegation system (incl. segregation of duties, first and second line of defence, authorisation procedures and powers, limits, etc.)

- iv. Minimum risk requirement by different products and no goes for targeted lending products/sectors.
  - v. Key contractual clauses and collateral requirements
- II. **Compliance function**  
Please provide the duly completed [Financial Crime Compliance Questionnaire \(FCCQ\)](#) (Wolfsberg questionnaire). In case the FCCQ is not available, an existing Correspondent Banking Due Diligence Questionnaire (CBDDQ) is also considered acceptable.
- III. **Monitoring** (what steps are taken and when; which departments are involved, key monitoring tools, Early Warning systems (pro-active monitoring), Watch Listings,). Emphasis on lending activities to RFBs.
- IV. **Restructuring, work-out and recovery procedures:** loan classification, provisioning and management of problem loans / re-structuring (what steps are taken and when; which departments are involved, which tools are used, etc.). Emphasis on lending activities to RFBs.
- **Risk models** (associated to the RFB's foreseen to generate exposures under the GSLS):
    - i. Summary of internal risk models, including data required (qualitative, financial, behavioural rating factor information) for the rating of the exposures and the LGD estimation;
    - ii. Information on the (Master) rating scales, the associated 1-year PDs through the cycle (TTC) and point in time (PIT) (min-max, median by rating class, if applicable) and equivalent; distinction between performing and non-performing rating classes;
    - iii. LGD data per asset types for unsecured SME exposures (and for secured exposures, i.e. mortgaged loans, and coverage percentages);
    - iv. Any prepayment rate estimates/models;
    - v. Information with respect to the strength and accuracy of the internal credit assessment/scoring models, including data on back-testing, Gini-score (if available) and Validation/Calibration process - Expected vs. realised PD and LGD rates. Specify the frequency of model reviews and validations as well the date of the most recent review and validation undertaken
    - vi. [Supporting documents: if applicable, key findings of most recent validation reports and/or validation reports]).
    - vii. EL calculation methodology (if not covered under pricing).
  - **Pricing policy**
    - FI's pricing policy on the targeted underlying exposures broken down to the various pricing components, clearly presenting the risk related margin.

#### **Part 4 - Ownership structure and governance**

- **Ownership structure:** description of shareholder structure and, if any, of recent or planned developments therein (e.g. mergers, acquisitions, etc.)
- **Corporate governance:**
  - **Governing and statutory bodies:** key responsibilities, composition, method of appointment, and summary of key decision procedures
  - **Organisation chart** highlighting the functions/teams to be involved in the deployment of the GSLS

- “Mandate management” team: describe how the team that will be managing the GSLS product fits into the broader organisation of the FI and indicate the departments that would contribute to both the mandate and other activities of the FI such as the risk management or legal departments
- If the FI is a subsidiary of a wider group, provide a brief description of its relationship with the Parent company
- [For Public Banks/ NPBIs: describe the relationship with national/regional government

Supporting documents:

- Structure chart
- Organisation chart
- Description of FTEs and teams to be involved by the FI]

**Part 5 - Administrative capacity**

- Executive summary of the FI's IT system architecture and management information system, monitoring and reporting procedures and responsibilities
- FI's monitoring and reporting capabilities and experience in reporting under previous EIB Group operations or other comparable schemes
- Ability of the FI to comply with the reporting and monitoring requirements linked to the GSLS product, taking into consideration the FI's monitoring and reporting procedures and responsibilities and its IT systems.

**Part 6- Prior experience with the EIB Group**

- Describe prior experience of the FI with EIB Group (EIB and/or EIF) including experience with other EIB Group mandates

**Part 7 – Expected composition and quality of the GSLS portfolio**

Information on FI's existing portfolio composition (on similar asset types expected to be guaranteed under the GSLS) in terms of:

- internal rating distribution;
- proportion of fully secured, partially secured and unsecured loans;
- type of collateral;
- tenors and grace periods;
- regional distribution; other relevant distribution metrics (e.g. type of SMEs/MicroSMEs/sectors, etc);
- NPL data by region or other relevant distribution metrics.

Provide expected composition of the GSLS portfolio to be guaranteed based on the proposed deployment strategy, with respect to:

- min/max loan size of exposures to be guaranteed;
- min/max tenor by rating category and LGD class
- number of exposures to be included in the portfolio and average/typical loan size;
- distinction between acceptable and non-acceptable rating classes for the origination of the portfolio to be guaranteed and expected internal rating ;

- maximum obligor concentration (if applicable) and regional distribution (and any other relevant distribution metrics such as economic sector, turnover, balance sheet total, number of employees....);

As a general comment, **please make sure that no personal information subject to GDPR is contained in any loan-by-loan data sent over to the EIB Group.**