Credendo Bridge Guarantee (‘CBG’) – Frequently Asked Questions

1. What is the CBG?

The CBG is a guarantee granted to banks that covers the default risk the bank takes related to bridge loans given to Belgian companies that are internationally active.

2. Why the CBG?

The CBG is intended to complement a broader package of support measures adopted by the Belgian Government that aims at avoiding a systemic crisis in the Belgian economy. Indeed, as a result of the severe disruption of payments and cash flows caused by the covid-19 outbreak, many businesses are having trouble not only servicing existing loans but also obtaining additional credit to cover their liquidity needs.

Exports are crucial to the Belgian economy and it is therefore essential that extraordinary measures are taken in order to help Belgian companies that are internationally active to overcome the serious economic consequences of the covid-19 outbreak.

3. Interactions between the CBG and the Portfolio Guarantee

Both are intrinsically linked as only credits that fall under the Portfolio Guarantee are eligible under the CBG.
The CBG can be considered as an enhancement of the Portfolio Guarantee: it provides for a first-demand guarantee upon non-payment under the covered credit and at a predetermined participation percentage. This is different from the situation under the Portfolio Guarantee, where the bank can only introduce a claim after its final loss under its entire portfolio of credits has been established and where the percentage of compensation is not known at the time the credit is granted.
The CBG is ‘replacing’ the Portfolio Guarantee for losses related to the credit covered by the CBG: the bank must always first call for compensation under the CBG and agrees to reimburse Credendo for any compensation that it subsequently receives under the Portfolio Guarantee. The bank will hence only benefit from the compensation it receives under the CBG.

4. Key advantages for the exporter

(i) The CBG facilitates the granting of new loans to viable internationally active companies as Credendo guarantees up to 80% of the bank’s credit risk.
(ii) The guaranteed loans will finance the working capital and investment needs of the company.
(iii) The CBG comes at no extra cost for the borrower.
(iv) The CBG can be issued rapidly as it falls under existing framework agreements with the banks.

5. Key advantages for the bank

(i) The CBG is a ‘first-demand’ guarantee product whereby Credendo immediately compensates the bank upon non-payment by the borrower.
(ii) The CBG covers up to 80% of the guaranteed loan, minimising the new amount of risk to be borne by the bank and therefore facilitating its acceptance.
(iii) The percentage of the individual credit amount which is covered by the CBG is known from the outset.
(iv) It enables banks to obtain full capital relief (Credendo acts here on behalf of the Belgian State and it holds an AA rating from S&P) for the guaranteed portion of the loan.
(v) It falls under an agreement well known to Belgian banks (the Master Risk Participation Agreement).

6. What companies/borrowers can benefit from the CBG?

The borrower must be registered with the Belgian Crossroads Bank for Enterprises and cannot be part of the financial sector or a government entity as defined by the Royal Decree of 14 April 2020 granting a State guarantee for certain facilities in the fight against the consequences of the coronavirus (the 'Portfolio Guarantee').

As it is Credendo's mission to support international trade, only borrowers with a sufficient level of international activity can benefit from the CBG. This latter criterion is assumed to be met for companies whose exports represented at least 30% of their 2019 turnover.

The purpose of the scheme is to support entities facing liquidity needs caused by the covid-19 outbreak. The scheme is not meant to support companies with pre-existing financial difficulties. Therefore, the borrower must fulfil the following requirements:

(i) On 31.12.2019, it was not in difficulty as per the terms defined in Article 2(18) of Commission Regulation (EU) No. 651/2014. A company is considered to be in difficulty if at least one of the following circumstances occurs:
   a. In the case of a limited liability company (other than an SME that has been in existence for less than three years) where more than half of its subscribed share capital has disappeared as a result of accumulated losses.
   b. Where the borrower is subject to collective insolvency proceedings or fulfils the criteria for being placed in collective insolvency proceedings at the request of its creditors.
   c. Where the borrower has received rescue aid and has not yet reimbursed the loan or terminated the guarantee, or has received restructuring aid and is still subject to a restructuring plan.
   d. In the case of an undertaking that is not an SME, where, for the past two years:
      i. the undertaking's book debt to equity ratio has been greater than 7.5 and
      ii. the undertaking's EBITDA interest coverage ratio has been below 1.0.

(ii) On 01.02.2020 there were no payment arrears on its outstanding credits, taxes or social security contributions or on 29.02.2020 there were no payment arrears of more than 30 days on its outstanding credits, taxes or social security contributions.

(iii) On 31.01.2020, it was not the subject of credit restructuring by its bank(s).

Credendo will analyse all CBG applications and will review each borrower's financial risk profile on a case-by-case basis.

7. Which credit agreements are eligible for the CBG?

(i) Credits under the Portfolio Guarantee: the credit needs to qualify as a covered credit falling under the Portfolio Guarantee and cannot be 'deselected' by the bank (i.e. the bank has not opted to keep it outside the Portfolio Guarantee scheme).

(ii) Aim: the credit needs to be granted to address the borrower's liquidity needs for the coming 12 months.

(iii) New credits: only new credits are considered; refinancing of existing credit agreements, drawdowns on credit agreements granted prior to 01.04.2020, leasing and factoring facilities are out of scope.

(iv) Type: the credit takes one of the following forms: credit facilities, straight loans, overdraft facilities or any other similar payment arrangement that can be qualified as an investment and/or working capital facility. Repayment terms can be amortising, revolving or bullet.

(v) Timing: the credit agreement needs to be granted between 01.04.2020 and 30.09.2020.

8. Maximum tenor of the credit

The tenor of the credit agreement is limited to 12 months. Credit agreements with an undetermined duration which can be cancelled at the discretion of the lender within 12 months of being granted can also benefit from the CBG.

9. Maximum amount of the credit

The total amount of the credit agreement does not exceed:

(i) double the annual wage bill of the borrower (including social charges as well as the cost of personnel working on the undertaking's site but formally in the payroll of subcontractors for 2019, or for the last year available); or
(ii) 25% of the borrower's total turnover in 2019.[1]

10. Minimum and maximum amount / percentage of the CBG

The percentage of the guarantee shall range between a minimum of 20% and a maximum of 80% of the credit amount (principal).

The maximum amount of the CBG will be the lesser of:
(i) EUR 10 m in principal (the maximum CBG notional amount);
(ii) 80% of the envisaged credit amount. This percentage represents the CBG's maximum guaranteed rate.

In principle, the amount of the guarantee cannot exceed 30% of the borrower's equity.

The CBG also covers the contractual interests (capped at 1.25% p.a.). These interests are not taken into account in order to calculate the CBG amount.

Example:
- Revenues of the borrower (SME): EUR 45 m for the year 2019
- Equity position of the borrower: EUR 10 m as of 31.12.2019
- Amount of the credit: EUR 4 m

The CBG amount would be the lesser of:
(i) EUR 10 m;
(ii) EUR 3.2 m (i.e. 80% x EUR 4 m);
(iii) EUR 3 m (i.e. 30% of the borrower's equity at 31.12.2019)

The CBG amount would thus be limited to EUR 3 m, resulting in a guaranteed percentage of 75%.

11. What is the CBG's maximum tenor

12 months

12. CBG's pricing

As the CBG falls under a Master Risk Participation Agreement, it follows its risk- and fee-sharing principle whereby Credendo's remuneration is set out at 100% of the bank's net margin (i.e. the interest margin less the bank's cost of funds) pro-rata Credendo's guaranteed portion.

More specifically, the pricing of any credit covered under the CBG will contain two main components:
(i) The interest charged by the bank (capped at 125 bps p.a.); and
(ii) A remuneration due to the State for the Portfolio Guarantee: 25 bps (for SMEs) or 50 bps (for corporates)

Credendo will participate, pro rata its guaranteed percentage, in the bank's net margin (corresponding to the interest described under (i) above less the bank's cost of funding), whereas

[1] Exceptionally, in urgent cases and for undertakings whose turnover or wage bill for 2019 is not a good proxy to forecast their expenses in the next months (e.g. the beneficiary is a new enterprise or an early-stage enterprise or the undertaking has incurred higher costs than under normal circumstances due to the covid-19 outbreak or needs higher liquidity to restart its business after the suspension of its industrial and commercial production activities), as assessed on a case-by-case basis by Credendo, the borrower shall provide Credendo with appropriate justification and a self-certification of its liquidity needs, testifying that the amount of the loan covers the liquidity needs from the moment of granting for the coming 12 months (point 25(d)(iii) of the Temporary Framework), Credendo can waive this requirement. In any event, for loans with a maturity until 31 December 2020, the amount of the loan principal cannot exceed the amount of the loan resulting from this point 25(d).

the remuneration under (ii) above is due and payable directly to the State as per the provisions of the Portfolio Guarantee.

Example: a CBG-covered credit (granted to a SME) with the following features:

- Amount of the credit:	EUR 8 m
- Tenor of the credit:	12 months
- Interest:	125 bps p.a.
- Bank's cost of funding:	5 bps p.a.
- Remuneration fee for the Portfolio Guarantee	25 bps [standard fee for SMEs]
- CBG guaranteed percentage:	80%

Remuneration:

- Fee payable by the bank to Credendo (acting on behalf of the State) under the CBG:
  - ➔ EUR 76.800 (= 80% x EUR 8 m x [1.25% - 0.05%])
- Fee payable by the borrower to the State pursuant to the Portfolio Guarantee:
  - ➔ EUR 20.000 (= 25 bps x EUR 8 m)

13. Who needs to pay what for the CBG and for the Portfolio Guarantee?

A minimum guarantee fee should be paid for the CBG according to EU State aid regulations. The borrower already pays such minimum fee (25 bps for SMEs / 50 bps for large enterprises) under the Portfolio Guarantee, which is applicable by law. As soon as it is issued, the CBG has the effect of 'replacing' the Portfolio Guarantee for losses related to the credit covered by the CBG. The Portfolio Guarantee is accordingly neutralised by the CBG. The borrower should therefore not be charged a minimum guarantee fee for the CBG a second time as such fee has been paid under the Portfolio Guarantee.

Besides the minimum fee, a fee-sharing mechanism is applicable under the CBG. Such mechanism means that the bank will keep the remuneration for the part of the risk it retains (min. 20%) and will cede to Credendo the remuneration for the part of the risk covered by the CBG (max. 80%).

14. How to apply for a CBG

(i) Both the bank and the borrower have to fill in and sign an application form, available on Credendo's website.

(ii) The signed application form (along with the applicable documents such as the borrower's financial statements etc.) must be sent to Credendo via the following email address: cbg@credendo.com.

(iii) If the envisaged risk is accepted, the application form will be countersigned for approval by Credendo.
The countersigned application form will demonstrate Credendo's acceptance to grant the CBG on the basis of the information contained therein, provided that the credit agreement is signed or will be signed within a time period of 1 month from the Credendo acceptance date and no later than 30.09.2020.

(iv) The bank will provide a copy of the signed credit agreement to Credendo.

15. What is the deadline for submitting an application for CBG to Credendo?

All applications must be submitted to Credendo via the email address cbg@credendo.com by 25.09.2020 at the latest.

16. Can a credit fall under both the Portfolio Guarantee and the CBG?

Yes, it is a prerequisite for the CBG that the Portfolio Guarantee applies to the credit.

17. Can a credit benefit from both the CBG and a Regional Guarantee[2]?

Yes. However, Credendo must be informed of any Regional Guarantee received or applied for in respect to the credit for which the CBG is requested. Credendo will take such guarantee into consideration and limit the CBG coverage so that the bank assumes a final loss of at least 20% on every credit it issues. As the Portfolio Guarantee coverage is a prerequisite for the CBG, the Regional Guarantee must of course be compatible with it.

18. Can a credit benefit from the CBG and subsidised interest rates?

The CBG cannot be cumulated with other aid granted for the same underlying loan principal in the form of subsidised interest rates on loans.

19. Can the bank be compensated under the CBG and the Portfolio Guarantee for the same losses?

No. If the bank receives any compensation from Credendo under the CBG, any subsequent compensation (for the portion of the losses not guaranteed under the CBG) that it would obtain from the State under the Portfolio Guarantee would be allocated in priority for the repayment of the amount paid out by Credendo under the CBG.

This adjustment mechanism will have as a consequence that the State will never compensate the bank cumulatively under the Portfolio Guarantee and under the CBG and that the bank will assume at least a final loss of 20% (after all State guarantees) on every credit.

20. When can a bank call upon a CBG?

Contrary to the Portfolio Guarantee, where the bank can only claim from the State after final settlement of the whole portfolio, the CBG guarantees individual credit agreements. This means that the bank can call upon the CBG for each non-payment under any individual credit agreement covered by the CBG.

In addition, contrary to the Portfolio guarantee, which is a last-resort guarantee that can only be activated when all recourses against the borrower or any collateral have been exhausted, the CBG can be activated on first demand if and when non-payment occurs under a covered credit.

21. Can the credit be used to finance international activities?

The guaranteed credits are intended to maintain Belgian economic activity and are therefore subject to stringent limitations with respect to the use of any proceeds for the benefit of activities outside Belgium.

The limitations of the Portfolio Guarantee apply, hence guaranteed credits can only be used for (i) Belgian activities and (ii) ‘qualifying foreign activities’ if the proceeds channelled to the latter are limited to 10% of the guaranteed credit and such use is not detrimental to Belgian activities.

22. Will Credendo share in the securities that the bank benefits from?

The CBG is offered on *pari passu* terms, meaning that the general securities over the borrower’s assets or rights that the bank holds along with the specific ones that it might require so as to grant the CBG-covered credit must be shared pro rata with Credendo (i.e. the losses will be supported proportionally and under the same conditions by the bank and Credendo).

23. What will happen upon maturity of the CBG-covered credit?

[2] A Regional Guarantee is a guarantee supported by the Flemish, Walloon or Brussels Region.

At that moment, the bank will decide, after discussion with its client, whether the envisaged credit will be refinanced or needs to be fully reimbursed by the borrower. The CBG will end at the initial maturity date of the credit and in any case within 12 months.

24. What are the key parameters of the CBG and the Portfolio Guarantee?

Feature/scheme	Credendo Bridge Guarantee	Portfolio Guarantee
Targeted beneficiaries	Internationally active companies facing liquidity issues due to COVID-19	Broader scope than the CBG, including, for instance, 'independent workers'
Approval process	Case-by-case approval: The CBG only applies to qualifying credits under the Portfolio Guarantee and to borrowers fulfilling Credendo's requirements	Automatic approval: The Portfolio Guarantee applies automatically to all qualifying credits
Risks covered	Non-payment under a single Credit Agreement	Final loss under a portfolio of qualifying Credit Agreements
Type of cover	First-demand guarantee	Guarantee covering the remaining loss post enforcement of all sureties and guaranties available
Guaranteed rate	Up to 80% (min. 20%)	Specific per tranche depending on the final loss recorded in the portfolio of qualifying credits
Pricing	100% of the bank's net margin on the guaranteed portion	25 bps for SMEs / 50 bps for large enterprises

25. Can a CBG-covered credit be used for refinancing purposes?

No. As every CBG-covered credit also falls under the Portfolio Guarantee, it must represent 'new money' made available to a Belgian exporter between 01.04.2020 and 30.09.2020.

26. What are the main differences between the CBG and Credendo's Financial Guarantee?

Feature/product	Credendo Bridge Guarantee	Financial Guarantee
Tenor	Up to 12 months	No strict maximum tenor
Amount	Up to EUR 10 m	No strict maximum amount
Guaranteed rate	Up to 80% (min. 20%)	Up to 50%
Types of Credit Agreement	Credit agreements financing the general liquidity needs of the borrower for the following 12 months, which may include investment and working capital costs	Credit agreements (preferably) financing specific needs linked to the borrower's contracts or projects: - Working capital loans - Capex loans - Bonding facilities
Financial situation of the Borrower	The borrower must not have been in financial difficulties before the covid-19 crisis but at the time of the CBG submission it can be facing or	The borrower must not have been in financial difficulties before the covid-19 crisis and must not be facing or expecting to face extraordinary financial issues during the tenor of the financing

	be expecting to face liquidity issues in the future ➔ Financing for exceptional liquidity requirements	➔ Financing for 'business as usual'

27. Can one borrower benefit from both the CBG and Credendo's Financial Guarantee scheme?
Yes. The CBG and the Financial Guarantee scheme can be combined for the same borrower when the financing needs of the borrower can be clearly distinguished and are financed through different credit agreements (e.g. a bridge loan for liquidity needs in the coming 12 months and a bonding facility for issuing bonds in the framework of its international transactions). The two guarantee schemes cannot be combined for the same credit.

28. Does the maximum amount apply per borrower or per borrower group?
The CBG's maximum amount (i.e. EUR 10 m) is applied per borrower group.

29. Which banks can benefit from the CBG?
Similar to the Portfolio Guarantee, all Belgian credit institutions or Belgian branches of foreign credit institutions can benefit from the CBG.