Financial Institutions
Special Report

Italian Confidi
Rating methodology

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■ Definition

Confidi, or "*Consorzi di garanzia collettiva dei fidi*", mutual credit guarantee consortia (MCGC), began appearing in Italy in the 1970s to support small and medium-sized (SMEs) by providing lenders with a guarantee on behalf of their members, which in turn facilitate these SMEs in obtaining credit.

The idea of MCGC is a pan-European phenomenon: currently, MCGC exist in all EU countries with the exception of Sweden, and in most Eastern European countries. In Germany, they are called "*Burgschaftsbanken*", in France "*Societes de Cautionnement Mutuel*" (SCM), and in Spain "*Sociedades des Garantia Reciproca*".

■ Legislation

Confidi are regulated by **Law 317/91**, which establishes the minimum criteria to set up a confidi, and by Arts.106, 155 and 156 of the Italian **Banking Law of 1994** (also known as "*Testo Unico*"), which includes all Acts relating to financial intermediaries. The industry in Italy has been waiting for a number of years for specific national legislation but, so far, a law has only been issued in relation to confidi operating in the artisan sub-sector, passed explicitly to promote their creation and grant them public funds after their approval of confidi status. The main result of that law has been a uniform statutory structure among artisan confidi, which is not the norm for other sectors.

Since the 1994 Banking Law, confidi have been recognised as "financial intermediaries" and as such, must respect two minimum requirements before they are registered, namely:

1. have at least 50 shareholders or associated companies;
2. have capital (*Fondo Consortile*, FC) of at least EUR26,000. In Germany and France the figure is a minimum EUR516,000.

In the rest of Europe, the various Banking Laws regulate these types of consortia. In Germany, for instance, the sector is regulated by Art.1 of the "*KreditWesenesetz*", which includes them amongst the "*KreditInstitut*". In France, SCMs are governed by the Banking Law of 1994 and included among the "*Etablissements de Credit*". Loans guaranteed by SCMs are 20% weighted for capital adequacy purposes, as opposed to 100% for usual corporate loans. For a complete overview of these MCGC see annex 1.

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■ Accounting principles and taxation

On the recommendation of Banca d'Italia, confidi are required to base their accounts on the format of financial institutions. Not all produce audited financial statements.

The legal status of confidi is that of both a co-operative and of a consortium. Confidi are exempt from paying taxes, as they are non-profit associations. Furthermore, as the granting of guarantees is not recognised as a commercial activity under Italian law, they are also exempt from paying VAT. Like all Italian non-profit making organisations, they cannot distribute their net income but must transfer it to equity reserves. In addition, there is no supervisory authority to regulate them as financial intermediaries or support them, as is the case with Banca d'Italia and the banking system.

■ The purpose of the confidi

The purpose of confidi is to enable SMEs to obtain advantageous loan terms from banks by providing a guarantee to companies that would not normally have the necessary financial strength or collateral (usually third party guarantees). The aim of a confidi in such loan/guarantee scheme is to share the credit risk with the bank.

Under a guarantee scheme, the confidi's associated companies pay a fee to it according to the amount and/or maturity of the loan in question. The confidi may then receive State funds, and sometimes a portion of the fees paid by members, and offers these monies as a guarantee to the banks on behalf of its associated companies. Finally, the bank gives the borrower access to credit facilities based on the credit risk mitigation of the confidi's guarantee.

Thus, the confidi acts as a guarantor to the bank. The borrower would be a member of the confidi, but under the guarantee, the lending institution would be able to ask the confidi to cover part of the loan losses in the event of default. Confidi also enable companies to obtain better terms, such as lower interest rates, as the risk for the bank is reduced.

The guarantees provided by each confidi are usually backed by a guarantee fund, managed by the individual confidi. Such fund is invested in investment grade securities, largely government bonds, which are usually deposited with the lending bank or with another bank. The fund is exclusively called upon when a loan guaranteed by the particular confidi is not repaid according to the agreement and the guarantee is called. The guarantee fund is thus only affected when the respective bank makes a claim for loan losses.

Confidi may build their guarantee fund using three sources of income:

- contributions of the members, in which case the guarantees are issued only to members;
- contributions from local or regional authorities, which are intended to support micro or small enterprises within a particular province, region or sector, and
- transferring net income ("*Avanzo di Gestione*") to reserves. As already noted, confidi cannot distribute any net income to members.

A confidi's members are usually limited to those companies that fall into the rank of SMEs, as defined by the EU. Eligibility criteria of the EU include any business with annual turnover of under EUR20 mln and less than 250 employees. Furthermore, an entity with sales and headcount exceeding the above cannot hold more than a 25% stake in any confidi-guaranteed debtor companies (Art.30 of Italian law n.317/91).

■ Market concentration

There are over 800 confidi organisations in Italy today, mostly of which are very small. Only a few are of considerable financial size. The largest operate with a regional (as opposed to local) focus, and some are supported by "*Confindustria*" (the National Association of Industrial Entrepreneurs). There are no national confidi in Italy. Generally, a confidi's activities are restricted to a limited geographic area or are characterised by the activity of the obligors (i.e. artisans, industrials, retailers). The number of associated companies for each confidi varies from 50 to more than 13,000.

Tab.1 Confidi Industry indicators

	1999	1999	
	Total	**Confidi rated by Fitch**	
No. of Confidi	702(*)	5	0.7%
No. of associated companies	874,796(**)	32,316	3.7%
Equity (EUR mln)	1.075	82	7.6%
Guarantees (EURmln)	8,800	1,042	11.8%

Source: ***Coordinamento nazionale Confidi*** *(it includes Fedart, Federconfidi, Fincredit, Federascomfidi, Federfidi Commercio)* and Fitch
(*) Not exhaustive list
(**) It include 597,062 Artisans' SMEs. The figure also includes shop owners.

Tab. 2 above provides a picture of the confidi industry in Italy and all the confidi rated by Fitch. As shown, the five Confidi rated by Fitch account for only 0.7% of all

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Italian confidi in 1999 but 3.7% of member companies (11.6% if Artisans and Shop owners are not included), and 12% of outstanding guarantees. The data reveals a concentrated industry where the trend is for additional consolidation. It is expected that in time small, specialised confidi with a provincial focus will merge with the bigger, regional confidi.

■ Major industry changes:

Increasing concentration

Like the banking system in Italy, one of the key trends among confidi is increasing competition and the consequent search for critical mass to improve chances of survival. Confidi are seeking to grow by way of mergers to improve efficiency through economies of scale and territorial coverage. This, in turn, would allow them to broaden diversification of their guarantee portfolios both by industry sector and geographical breakdown.

The development of second level guarantees

With the creation of the Central Guarantee Fund ("*Fondo Centrale di Garanzia*" - CGF) by the Italian central government and of the European Investment Fund ("*Fondo Europeo degli Investimenti*" - EIF) by the European Commission in 1998, ever more confidi are increasing the value of guarantees granted while simultaneously reducing the risks by counter-guaranteeing themselves with these special funds. Other confidi are beginning to specialise in second level guarantees, effectively becoming "guarantors of the last resort" for smaller confidi. Under these schemes, "second level" confidi collect European and State funds from CGF and EIF to counter-guarantee other confidi.

This development is becoming a crucial activity for the sector as it modifies confidi' credit risk for two reasons. Firstly, the counter-guarantees reduce the risk, providing confidi with a guarantee and mitigating risk exposures. Secondly, obtaining a counter-guarantee from another confidi or State fund means a confidi must satisfy some quality criteria and demonstrate its ability to assess the credit risk of guaranteed companies. Overall, therefore, confidi have improved their risk approval procedures in selecting their members. However, the second level guarantee confidi tend to have weaker capital and their capacity to repay guarantees in unfavourable economic cycles could be impeded, in particular for small confidi specialised in economic sub-sectors (i.e. artisans) or geographical areas. Usually such confidi have a regional focus and are cooperatives set up by provincial confidi, local governments, industrial associations and local Chambers of Commerce.

Venture capital

EIF was founded recently to guarantee Italian banks' venture capital investments (up to a maximum 25% of equity) in start-up SMEs. Under this scheme, confidi guarantee 60% of possible losses on the investment in a start-up company's equity for a limited period (10 years), off-setting their risk through a 90% counter-guarantee from the EIF. Although this mitigates the risk, Fitch still considers it high. However, some confidi are looking into guaranteeing these investments in start-up SMEs as well as providing financial consultancy on budgeting and planning, debt restructuring, etc.

Diversification of revenue sources

In the past, the main revenue source and quickest way to increase the equity of a confidi was interest income earned on securities which the confidi invested and deposited in the banks as part of the guarantee fund. However, the sharp cut in Euroland interest rates and spreads in European and Italian banking markets in the run-up to EMU has resulted in a much diminished source of revenue that was only partially off-set by a development of guarantee fees paid by associated companies to the confidi, calculated on the amount and the maturity of the loan. These organisations have, therefore, started to look for alternative sources of income. They have begun to develop financial consultancy and other such services for their associated companies, supplied by subsidiaries specialised in structured and corporate finance (budgeting and business planning, debt restructuring and so on). This development has allowed the confidi to build customer loyalty and to diversify sources of income, which are discussed under "**Profitability**", below.

■ RATING CRITERIA

As for other financial institutions rated by Fitch, there are a number of considerations that have to be taken into account when evaluating the creditworthiness of confidi. Fitch uses a "bottom-up approach", whereby it first analyses the stand-alone fundamentals of the company, including credit and market risk, liquidity, solvency and funding, profitability, capitalisation and the quality of management. It also considers thereafter ownership structure and the likelihood of external support from other confidi as well as the risk mitigation deriving from counter-guarantees and other mechanisms in order to assign Short- and Long-term ratings. Confidi ratings reflect the ability to meet obligations, which means to

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pay, on time, all claims relating to losses generated by its guarantees and level of operating expenses.

✓ Credit risk

A confidi's greatest credit risk comprises guarantees issued on behalf of members. A lesser risk exists in corporate bonds and equities in its securities portfolio. Confidi are also exposed in the second level guarantees they issue. The confidi offer banks a guarantee, for amounts not usually exceeding 50% of the value of any loan made to a member of its consortium. In return, the guaranteed member pays a fee to the confidi. In addition to the 50% maximum guarantee rule, confidi have internal regulations that further restrict the maximum guarantee (risk) that it will grant to a single obligor. To protect themselves better, some confidi collect a cautionary deposit, which does not represent revenue, but rather is added to the funds available for meeting losses.

The quality of risk management systems and controls

Confidi have a well-defined system for assessing credit risk that has allowed them, so far, to suffer minimal losses on outstanding guarantees, substantially lower than those reported by the Italian banking system. Usually a confidi makes an initial assessment of the credit quality of its members when a company first asks to join a consortium, evaluating the financial quality, business profile, and sometimes also reputation. However, when guarantees are granted, the evaluation is more stringent. Furthermore, confidi are able to gather in-depth qualitative information about a company given the relatively small area they cover, by both geographic and industrial terms. Ever more confidi are also implementing scoring systems for their analysis. Some evaluate the companies together with the lending bank.

Once the analysis has been completed, approvals are given by a committee, usually composed of members of the Board of the confidi, who are also entrepreneurs and shareholders of the confidi. They tend to have good experience of their local area and economy. Some committees also include senior employees of local banks' credit departments.

The banks advancing the loans are responsible for monitoring their exposure and recovering any losses suffered. Some confidi have a role of "moral suasion" for ensuring repayment of a loan if they have connections with local Industry Associations, Chambers of Commerce and Government.

Most confidi set limits on the maximum guarantee they will extend to any single member and the total figure they will extend as guarantees, the latter being based on equity. However, confidi do not set down industry limits and may be exposed to one or very few economic sectors.

The agreement between confidi and banks

Guarantees are given under, and regulated by, specific agreements between banks or other financial institutions (leasing, factoring companies, etc.) and each individual confidi. This contract will also define the total amount of guarantees that each confidi can issue in respect of any bank. The figure is based on a multiple set down by the bank in accordance with its economic and financial evaluation of the confidi.

Indeed, each bank accepts a confidi guarantee calculated as follow:

Value of cash and securities pledged to the bank * Guarantee Factor

The guarantee factor (the multiplier) varies from bank to bank and from confidi to confidi, from 5 to 80 times. The average in Italy was, in 1999, 20 times, and has been falling steadily in recent years (during 1998 the figure was, on average, 30 times).

Some confidi have opted to set additional limits with the banks in respect of their responsibility for customers' default. In these cases, the confidi agree with the bank a maximum sum to be repaid to it, based on the customer's default record. The bank applies the multiplier to this figure, determining the maximum guarantees that the confidi can grant to its customers. The confidi then deposits this amount in a current account at the bank. The latter, therefore, can make a claim for loan losses only on this amount and not on the entire FC or confidi's dedicated funds.

This system works as a cap on the confidi's liabilities and its credit risk if one of its customers defaults, by determining the maximum loss that confidi may record. These caps are determined on the basis of historical experience of default of customers and also require confidi to pledge less funds to the banks. A similar scheme of risk sharing between the confidi and the banking system currently operating in the industry is when the mutual organisation creates a similar fund for all the banks rather than for each individual bank. The reduction of credit risk for confidi, which the introduction of these schemes brings, is matched by a likely increase in risk for the banks. In fact, the higher a

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bank's leverage, the more its own resources are exposed to risk.

The availability of third party second level guarantees or collateral

The credit risk of the confidi also takes into account the availability of third-party second level guarantees, which are deducted from the value of the guarantees given. Second level guarantees appear frequently among Italian confidi. An implicit form of second level guarantee may consist of a further guarantee that a bank requests from a borrower in addition to the confidi guarantee. In order of credit risk coverage, such guarantees may include:

- a pledge over liquid securities or deposits (most common),
- a mortgage on residential or commercial real estate, or
- a pledge over machinery and equipment.

If an obligor defaults, the bank must try to recover its losses first by seizing the pledged assets. If the confidi has already paid the bank under its guarantee and later the bank recovers part of the loan, the confidi is proportionally repaid. Therefore, the additional guarantees required by the bank reduce the confidi's credit risk.

The explicit scheme of "second level" guarantees was created in 1997 with the establishment of two special funds: the CGF (law 266/97 "*Legge Bersani*") and the EIF.

The CGF is a State-created fund used to help small businesses in certain under-developed areas in Italy. Mediocredito Centrale administers this fund, giving a guarantee of up to 90% of a confidi's risk. This counter-guarantee is possible only if an obligor matches a minimum credit score and if the confidi satisfies minimum requirements in its process of analysis of the inherent credit risk.

The EIF also provides some cover for guarantees given by confidi, although this is limited to the total amount defined for each of the funds available, again, only for borrowers meeting the eligibility criteria. These mainly relate to company size (SMEs only) and loans for fixed investments and job creation. Both funds protect the confidi's equity ("*Fondo Consortile*") and increase its capacity to give guarantees (see Equity below).

Other types of counter-guarantee are those granted by regional confidi, which are cooperatives or consortia set up by a group of local confidi and financed with funds provided by regional/local government, local industrial and trade associations and by the same confidi. Some of the latter are characterised by low capitalisation and Fitch considers their counter-guarantees to be weaker than those previously outlined.

Trends in doubtful loans and charge offs

Several research studies have confirmed that, on average, losses suffered by confidi are significantly lower than those reported in the banking system. From 1996 to 1999 an analysis of the industry showed, on average, losses of only c.0.5% of total outstanding guarantees. It was revealed that companies associated with confidi are usually in a stronger financial position than average, with higher profitability.

One of the additional reasons of the low losses could be that these obligors are subjected to a double assessment for creditworthiness: from the bank and from the guarantor. The confidis healthy asset quality may also be explained by their links with trade and industrial associations, which increase their powers of persuasion.

When deciding on the rating for a confidi, Fitch looks at the level of delinquency that it has suffered and compares total outstanding guarantees against the system average. The agency also takes into account the confidi's ability to recover losses, the level of counter-guarantees and records of losses paid. Fitch completes the assessment of credit risk by comparing each individual confidi with a local peer group. It also gauges the risk coverage provided by equity and pre-provision operating profit in comparison with the peer group.

Should one of the companies guaranteed by a confidi default, a confidi may:

- wait until the transaction between the obligor and the bank is finalised and then pay the bank. The sum paid by the confidi would be calculated on the definitive loss recorded by the bank and on the percentage of the loan guaranteed. In this case, the confidi will also pay interest accrued on the loan from the time of default, within a limit that has been pre-defined in the contract; or,
- pay the bank directly the guaranteed amount, before the final loss has been determined. In this instance, there is no payment of interest. If the bank recovers any amounts from the obligor, it will re-pay the confidi a previously agreed percentage.

Composition and diversification of the loan portfolio

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A confidi's guarantee portfolio can be broken down by borrower size (normally the number of employees), industry, location (Province, Region), sums guaranteed and loan maturity. Fitch takes into account the fact that since confidi are generally limited in their geographic coverage, a portfolio's diversification will only reflect the industrial base of that same geographical area. Usually, the concentration of the marketplace and the confidi's guarantee portfolio correspond, especially for those confidi not restricted by the business sectors of its members or operating in a single province with a localised economic centre.

An assessment is made of the strengths and weaknesses of the geographical area in which the confidi operates in terms of industry concentration, problem loan ratios, macroeconomic trends, wealth distribution and local demand for investment and consumption.

The confidi should manage risk within its client portfolio just like a bank, evaluating the credit risk of its customers and avoiding concentration of guarantees in a single sub-sector. Risk rating of the various target groups and sectors is recommended. However, it is possible that from a social perspective, the objectives of a guarantee scheme explicitly require targeting of a specific group through support of a single economic activity. Confidi should realise that in this case loan losses are likely to be higher and a risk premium may be charged accordingly.

In terms of maturity, guarantees are provided for short- and long-term loans, although it is unusual to find guarantees for loans with a maturity of over five years. In recent times, the proportion of guarantees covering long-term loans in the confidi's portfolio has been increasing, and normally, a large slice of such loans is also secured by a mortgage or other pledge over equipment and machinery, reducing any potential final loss: when another guarantee is in place, the lender must try to recover first from this and only then can claim against the confidi for its share of the loss.

■ Profitability

Although confidi are non-profit making organisations, the main way a confidi can build up its equity, which, in turn, determines how much it can guarantee, is internal capital generation. External contributions are volatile and not assured. The fact that net income ("*Avanzo di Gestione*") cannot be distributed and that a confidi must pass this into reserves allows for continual increases in equity.

Confidis' revenue sources are:

- annual fees charged to members;
- guarantee fees paid by obligors (i.e. 40 to 150 basis points of the guaranteed loan, up front or on an annual basis depending on the type of loan/credit facility). These two revenue sources are becoming the most important component of a confidi's revenue structure;
- net interest revenue earned on investment securities pledged by the confidi. In recent times, this was the main revenue source as the interest rate on government bonds was relatively high. However, this is not the case any more because sector operating revenues had shrunk from 42% of total income in 1996 to 19% in 1999;
- other consultancy fees and revenues from services provided to its members, mainly developed since the sharp reduction in interest rates in the run-up to EMU. This income is generally negligible;
- third party contributions usually from the Chamber of Commerce, the Province or the Region as per specific laws. However, while very often growth of a confidi's income and equity depends largely on contributions from the Province and/or the Region in which it operates, its rating does not reflect that of the local government (see Support/Ownership, below). Since these contributions are difficult to forecast and the sums contributed have varied over the years, our assessment includes an extensive analysis of the capacity of the confidi to cover operating expenses with internally-generated revenues.

Costs for a confidi are:

- operating expenditures; mostly analytical staff (credit officers) and administration related;
- losses on guarantees issued;
- losses on securities.

Overall, the income statement structure of a confidi is simple, although some differences can be found in the accounting for external contributions, provisions and loan losses.

■ Market risk

This is potentially a weakness of the confidi. Although net interest revenue earned from securities has become less important in recent years, this has not been mirrored in a reduction in the market risk inherent in a confidi's securities portfolio, which usually comprises government bonds and in some cases corporate bonds. Recently, to recover some profitability, confidi have begun investing increasing proportions of their securities portfolios in equities and mutual funds. However, they have not adopted procedures to monitor

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and limit market and credit risks on these financial investments, thereby potentially increasing income volatility.

Portfolio management generally falls to the banks granting the lending to their associated companies, usually without a written or explicit mandate from the confidi. Fitch has not generally found any limits being set on any portfolio or its composition by the relevant Board of Directors or any other specific committees. Decisions in respect of portfolio management are usually made directly by the managing director. Confidi do not generally have any explicit or formalised procedures to monitor the management of their portfolios, nor do they normally receive a periodic report from the banks performing this function.

Furthermore credit assessments are not generally undertaken when investing in corporate bonds or equities, and no credit limits are set. Overall, investment decisions rely on the ability of both the employee responsible, usually the managing director, and the quality of advice given by third parties.

In the past, some confidi split their securities portfolio into more than one portion, and took advice from different external consultants (banks, stockbrokers etc) on how to manage each portion. A recent trend has been to centralise the portfolio management and to entrust the entire portfolio to a single specialised operator.

■ Equity

Confidi's capital bases (FCs) are built from the contributions from their members, sector associations and local or regional government, and reserves augmented annually with retained net income. In addition, they may also have access to one or two other funds which for the purpose of calculating the maximum amount of guarantees a confidi may issue, are treated as equity, but which may have restrictions attached. These are the "*Fondo Rischi per Garanzie Prestate*" (FR) and the "*Fondo Fideiussioni*" (FF). The FR comprises contributions from Chambers of Commerce, industrial associations, local governments and bank credit facility fees paid by associated companies. This fund may only be used for meeting credit losses, but is used together with the FC as a basis for calculating the maximum value of guarantees which a confidi may issue.

In rare cases, confidi may avail themselves of guarantees from their member companies or their owners. These guarantees would be available to meet any kind of loss facing a confidi, but should be more accurately considered as additional support rather than equity. However, in general, the sums involved are insignificant.

The size of equity and of these funds have a central role in the mutual guarantee scheme as they determine the amount of guarantees a bank accepts from a confidi under the multiplier system. There are various methods used by banks and confidi to determine how this amount guarantees the bank. The most common mechanism is when a single fund comprising FC, FR, FF and constituting all a confidi's available funds, guarantees all the banks without distinction. In other cases single funds are deposited in each bank guaranteeing their exposures. In this instance, the bank is guaranteed only by the fund deposited with it and not with the amount deposited with the other banks. If the losses exceed the amount of the fund, the bank has to bear the losses. In other situations the confidi creates a special fund using a portion of the fees paid by its members and offers it as the only guarantee to the banking system. The portion of equity (FC and the other funds which usually are available to cover the banks' losses relating to confidi associated companies' defaults) is secured by further possible losses of confidi customers. However, a recent trend has been to set a cap, which determines *ex ante* the maximum loss a confidi can sustain, thus protecting its own equity. Some confidi have funds from regional or national government for special purposes (for example to underpin some areas depressed or affected by natural disasters). Although these funds are exclusively related to guarantees granted for these special aims, they are not treated as equity and Fitch reclassifies them as Loan Loss Reserves in its spreadsheet.

A confidi's internal revenue generation is determined by its profitability given that net income cannot be distributed. Fitch considers external contributions as non-structural or non-operating revenues because of volatility and uncertainty.

✓ Organisational structure and risk

Confidi are small, both in structure and staff; the biggest mutual organisations in Italy employ an average 10/15 workers. Although they are restructuring to improve efficiency, they are again identified and characterised by their choice of managing director and by his experience and knowledge of the markets. The analytical teams are small. Credit analysis procedures are generally well defined, while the more innovative and larger confidi are in the process of introducing, or have just introduced, scoring systems for more accurate credit assessments. Although IT systems are normally basic, again the larger confidi have introduced more sophisticated software programmes to hone credit methodologies.

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✓ Ownership and support

Confidi have a distinctive shareholding structure. As they are non-profit mutual cooperatives set up by associated companies and promoted by local governments (Provincial and Regional), and by local "*Confindustria*" and Chambers of Commerce, they usually have a very fragmented ownership.

However, despite local governments being shareholders, there is no legal obligation for them to bail out consortia in financial difficulties. In addition, there is no supervisory authority that controls and supports the confidi, as is the case in the banking system. Consequently, they are not regulated by Banca d'Italia as financial intermediaries.

Experience has shown that small, provincial confidi facing financial difficulties have usually merged with larger, regional ones for economic or political reasons, although there is no obligation for this path to be taken. Sometimes having national and/or local banks or local governments as shareholders may strengthen the opportunity to intervene, but this is ever an obligation.

The only support is provided via Art.21 of the Italian Law 317/91, which contemplates help from another national fund, which covers 30% of the losses on guarantees realised by confidi. However, with the recent introduction in Italy of federal reforms passing some competencies to local governments, each Regional government can decide autonomously the use and recipient of the funds distributed under this law. Generally, these funds are used to counter-guarantee confidi.

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Table 1. The main ratios for confidi analysis	
I. PROFITABILITY LEVEL	
1Net Income/Equity (av)	
2Net Income/Total Assets (av)	
3Operating Profit/Total Assets (av)	It does not include external subsidies
4Costs/Income	Income does not include external subsides
5Commission/Gross Guarantees	
6Net earning from securities/Total assets	Earnings received from securities portfolio
II CAPITAL ADEQUACY	
1Equity/Gross Guarantees	Capital adequacy ratio with total guarantees (gross of the portion of risk supported by third parties)
2Equity+Loan Loss Reserves/Gross G'tees	LLRs includes government funds provided by the State according to special laws. These loans are added to equity to calculate through the multiplier the total maximum amount of guarantees that a confidi can grant and cover the risk for the guarantees released in accordance to the purpose of these funds.
3Equity/Net Guarantees	Capital adequacy ratio with guarantees net of that portion of risk supported by third parties
III LIQUIDITY	
1Liquid Assets/Gross G'tees	Numerator includes cash, bank deposits, securities
2(Liquid Assets-Ringfenced Assets)/Gross G'tees	Numerator includes cash, disposable bank deposits, disposable securities
IV ASSET QUALITY	
1Ringfenced Assets/Gross G'tees Issued	
2Net G'tees Called/Equity	
3Loan Loss Provisions/Gross G'tees	Coverage policy
4Loan loss Provisions/Pre-prov.Op. Profit	
5Problem guarantees/Gross Guarantees	Numerator includes year-end amount of issued guarantees related to problem loans (revoked, defaulted,…)
6Problem Guarantees/(Equity+LLRs)	LLRs includes also government funds provided by the State with particular law related to specific financing

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Annex.1 European Guarantee Funds

Country	Name	Target Group	Main Funding	Secondary Funding	% guaranteed
Austria	Burgers forderungsbank	SMEs	Donor Agencies	National Government	50 to 80
Belgium	Societes de Caution Mutuel	SMEs<50 employees	Participating Banks	SEM organisations	75 to 95
Czech Republic	Czech-Moravian Guarantee and development Bank	SMEs<500 employees			Max 70
Finland	Finnish Guarantee Board	SMEs<350 mln FIM of Fixed asset, employees<500 and not more than 1/3 of capital held by other companies	National Government		
France	Societes mutuel de credit and SOFARIS	All sectors except retailing. This scheme concentrates on manufacturing (58.5%), business services, wholesale (13%) and construction	National government	Participating Banks	50 to 60
Germany	Burgschaftsbanken	Starts up, mainly in the areas of skilled trades, retail and distribution, transport, agriculture, horticulture, fisheries and miscellaneous manufacturing			Max 80
Greece	Central Bank of Greece CG Scheme	Small firms			
Ireland	Enterprise Development Programme	Start up, MBO or buy-in projects			50
Italy	Mutual guarantee Fund	SME<250 employees, <20 EUR turnover	SMEs organisations	Regional Government	
Luxemburg	Societe nationale de credit et d'Investissement	Firms<200 mln francs in equity capital	Borrowing SMEs		100
Netherlands	Dutch loan Guarantee System	Start up firms and existing businesses<100 employees			90 to 100
Norway	Loan Guarantee Scheme	SMEs			50 to 75
Poland	British-Polish Enterprise Project	SMEs<100 employees in Lubin region	Donor Agencies		Max 70
Portugal	SPGM-Sociedade de Investimento, SA	SMEs<500 employees	Donor agencies	National government	75
Romania	Romanian loan Guarantee Fund	Viable private sector SMEs	National government	Participating banks	Max 70
Slovakia	Small credit Guarantee Scheme	New or recently established firms<25 employees	Donor agencies	National government	Max 80
Slovenia	Republic of Slovenia Small Business Development Fund	SMEs<50 or 125 employees depend upon type of business	National government		60 to 90
Spain	Sociedades de Garantia Reciproca	SMEs in all sector of the economy	National government	Regional organisations	100
Switzerland	Regional SCMs (loosely confederated into GBG)	Eligibility rules vary from region to region	Participating banks		50 to 90
United kingdom	Small Firms loan Guarantee Scheme	Firms<200 employees. Manufacturing firms<3mln turnover level. Firms in others sector<1.5 mln turnover	Government		70 to 85

Source: International labour Organisation-ILO

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