IACPM/ITFA PRIVATE CREDIT RISK INSURANCE SURVEY 2021

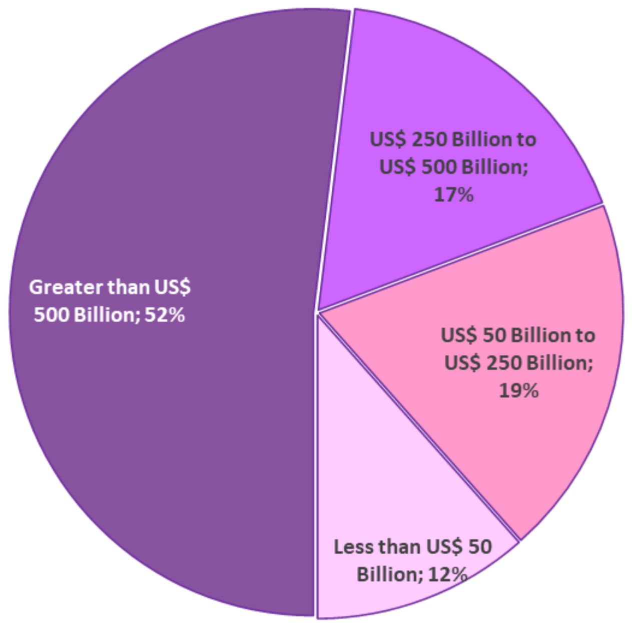
Current Practices and Relevance for Banks

Select High-Level Results

Survey Goals and Demographics:

- During Spring 2021 the IACPM (International Association of Credit Portfolio Managers) and ITFA (International Trade and Forfaiting) partnered to conduct a benchmarking survey on Private Credit Risk Insurance (PCRI, excluding ECA cover).
- The survey focuses on current practices for PCRI policies eligible as Basel/CRR-compliant guarantees and used by lenders as a credit risk mitigation (CRM) tool to release capital or increase lending capacity at the single loan/single borrower level.
- The survey was a repeat of two prior surveys:
    - IACPM & ITFA's Non-Payment Insurance survey (Fall 2019)
    - ITFA's Credit Risk Insurance survey (Spring 2019)
- 52 IACPM and ITFA member banks participated, including 48 commercial banks and 4 development bank, multilateral investment agency or similar.

Size of Participating Banks



% of responding banks

Executive Summary (1):

- The attractiveness of the private credit risk insurance (PCRI) product as a tool to mitigate credit risk has grown among participating banks with 87% of the participating banks now using PCRI
- As in the 2019 survey(*), PCRI ranks second after secondary loan trading in all regions, and just before synthetic securitization(**) in EMEA and funded risk participation in the Americas
- Banks are increasingly using PCRI solutions across all asset classes: corporate loans, asset-based finance, trade finance, etc.
- During the past two years, PCRI insurers relieved the participating banks from close to 800mln of credit losses
- The insured ratio (total insured amount / total transaction amount facilitated) stayed stable around 39% between 2019 and 2020
- The claims ratio increased slightly from 2019 to 2020 (+2.5%), as 49% of the insured portfolio is non-investment grade
- Despite the increase in claims, profitability after claims [(premium – claims) / total insured amount] stayed stable (0.31%), as insurance premiums increased slightly
- European banks continue to be more advanced than non-European banks in usage of insurance-based solutions for credit risk mitigation, diversifying thereby their sources of credit protection
- European banks on average have used PCRI for a much longer time period than their global peers
- For European banks, protected amounts and the number of transactions per annum are higher than their American or Asian counterparts

Source: IACPM/ITFA Private Credit Risk Insurance 2021
(*) 2019 IACPM & ITFA's Non-Payment Insurance survey | (**) Some synthetic securitizations are also using insurance policies/guarantees from credit insurers. These instruments are not included in this survey which focuses on genuine loan-by-loan private credit risk insurance.

Executive Summary (2):

- All participating banks are using PCRI solutions as an additional risk distribution channel

  a) To increase lending capacity to borrowers while complying with internal credit limits and avoiding accounting or risk mismatch between the loans and the protection instrument

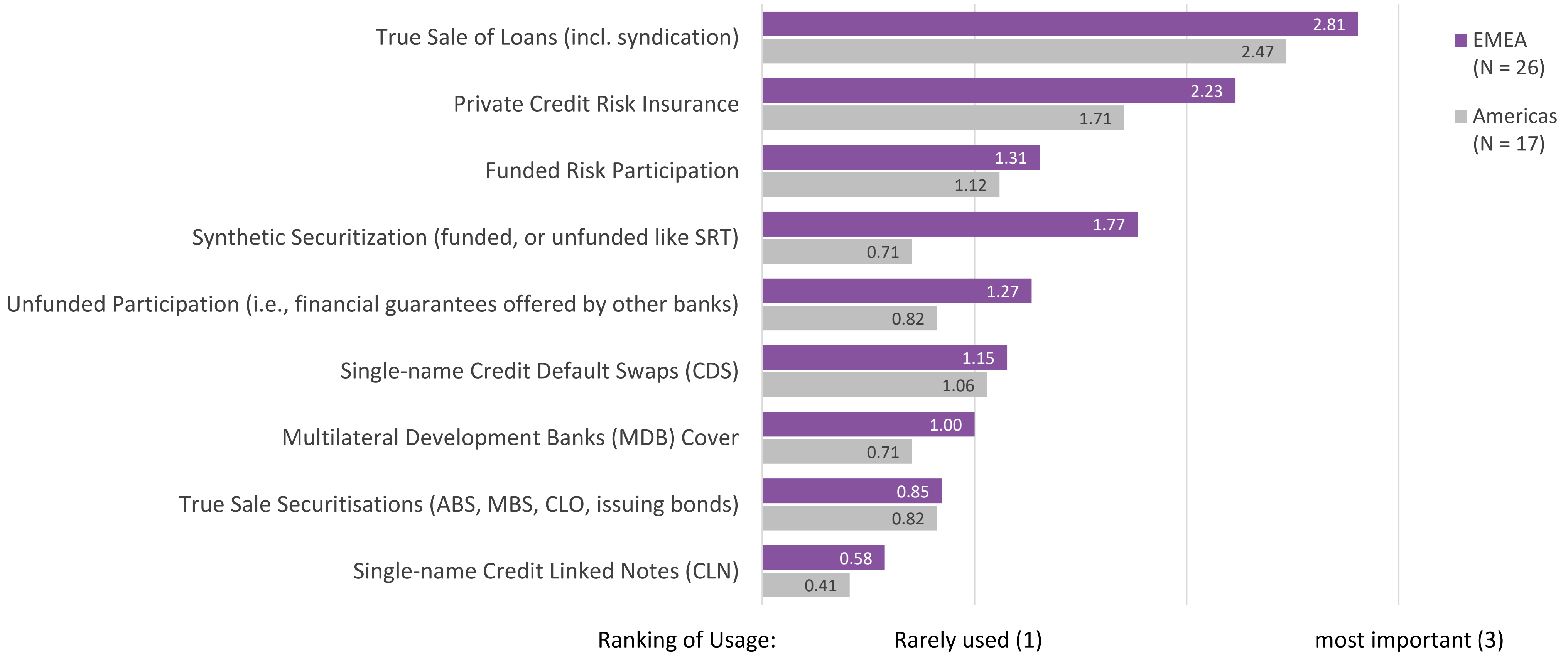
  b) To release regulatory capital as most protected obligors are unrated, non-investment grade, and do not trade in the CDS market

- PCRI therefore fulfills a unique function as Credit Risk Mitigant for banks to support core lending, as well as specialized finance
- More participating banks (79% vs. 65% in 2019(1)) use the Internal Ratings Based Approach - Advanced (A-IRB) to calculate the RWA absorbed by the protected assets and released by PCRI mitigants
- Methodologies applied to calculate the RWA impact of PCRI vary substantially among responding banks. The main approach employed by responding banks in 2021 is PD & LGD substitution (vs PD substitution and best LGD of both in 2019(1))
- Only a handful of the participating banks use different LGD levels for PCRI than for loans granted to the same credit insurer. The majority of these banks (60%) use a LGD level below 15% .
- Most participating banks have set up centralized teams, often in Syndications or Credit Portfolio Management, to deal with the opportunities but also with the specific challenges of PCRI, most notably in implementation (confidentiality management, KYC, secondary limits, documentation, etc.)

Source: IACPM/ITFA Private Credit Risk Insurance 2021
(1) - 2019 IACPM & ITFA's Non-Payment Insurance survey

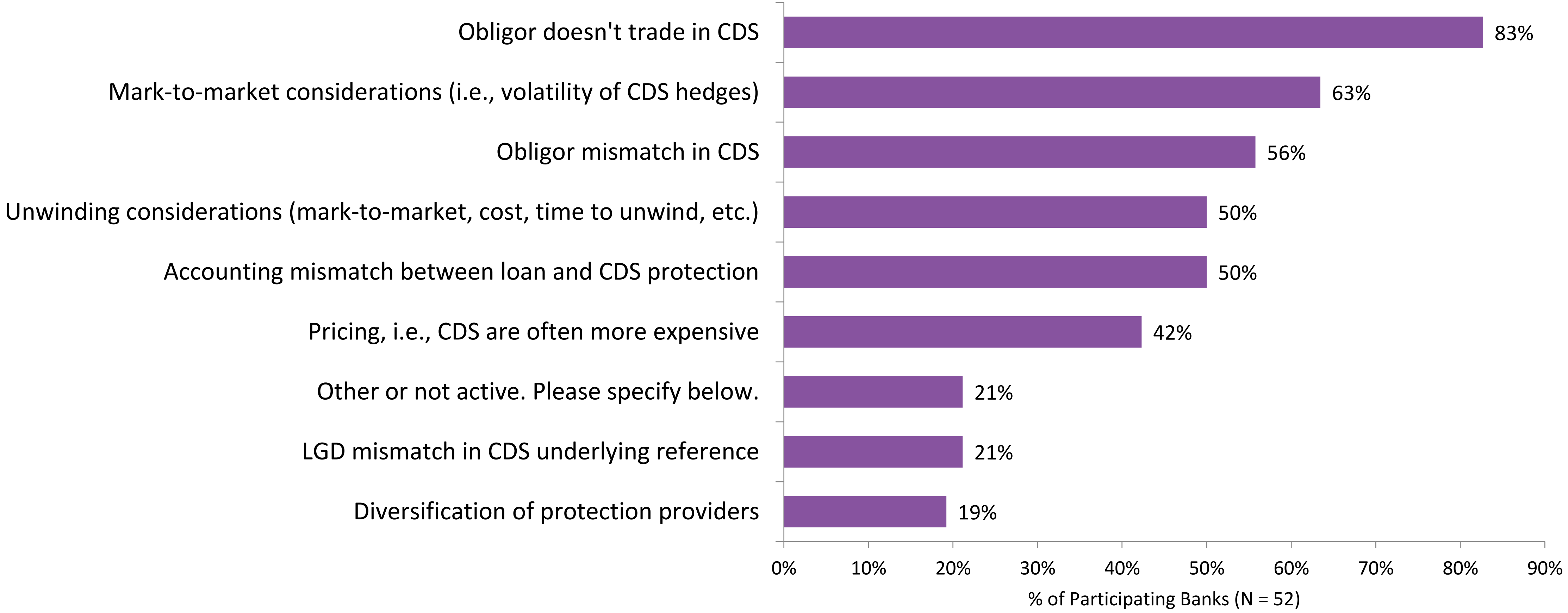
Relative Importance of Market Tools for Risk Mitigation By Region of Domicile

As in the 2019 survey(*), PCRI ranks second after secondary loan trading in all regions, and just before synthetic securitization in EMEA and funded risk participation in the Americas.



Source: IACPM/ITFFA Private Credit Risk Insurance 2021 | (*) 2019 IACPM & ITFA's Non-Payment Insurance survey
Question: Please rate the following market tools used to mitigate risk in your credit portfolio over the past twelve months by importance (based on volume). (Q6)

Main Reasons for Choosing PCRI over CDS



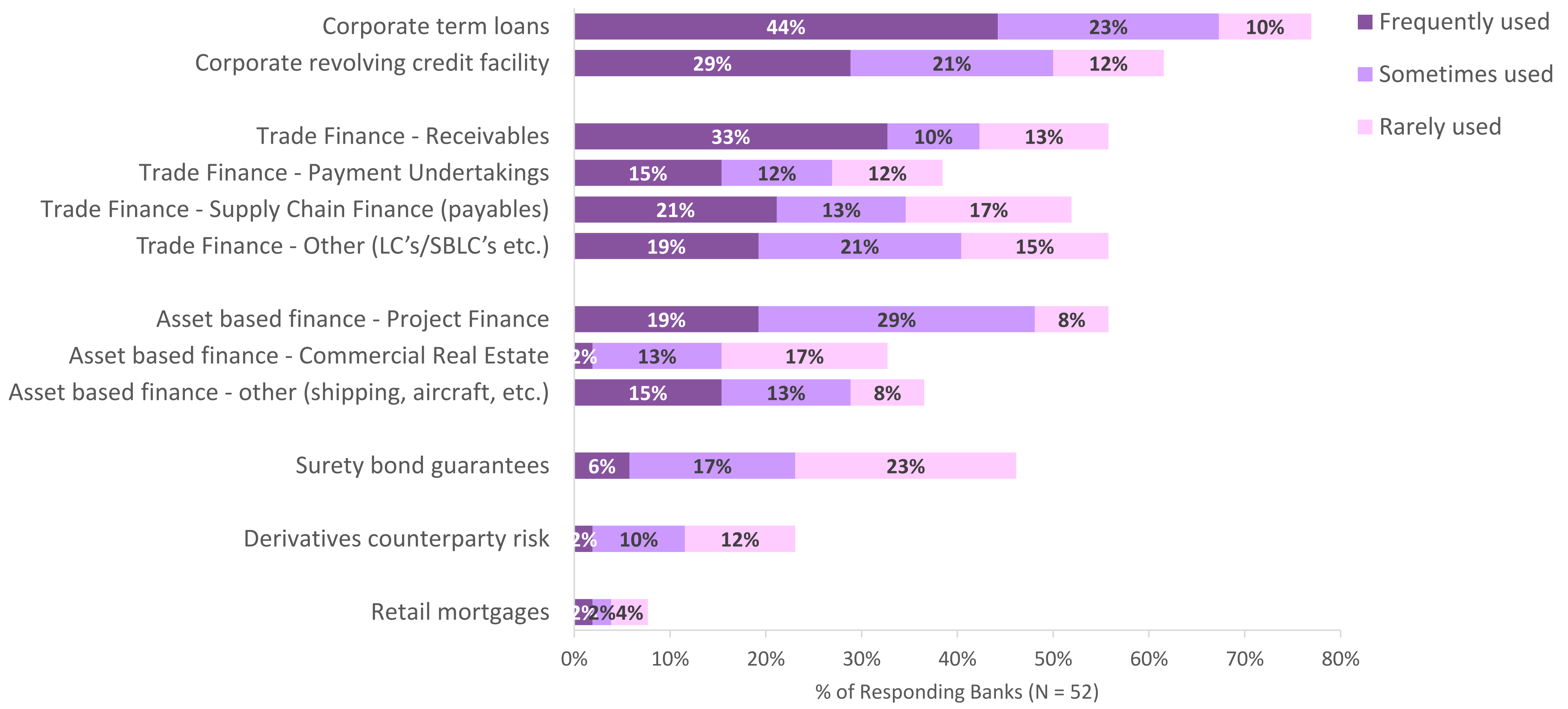
Other Reasons for choosing PCRI over single name CDS

- CDS is not a fully developed tool in the ring-fenced bank.
- PCRI is attached to the borrower credit agreement thus eliminate any basis risk.
- Better alignment.
- Systems, controls, expertise, etc.

Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: What are your firm's main reasons for choosing PCRI over single name credit default swaps (CDS)? Please check all that apply. (Q9)

Asset Classes Protected by PCRI

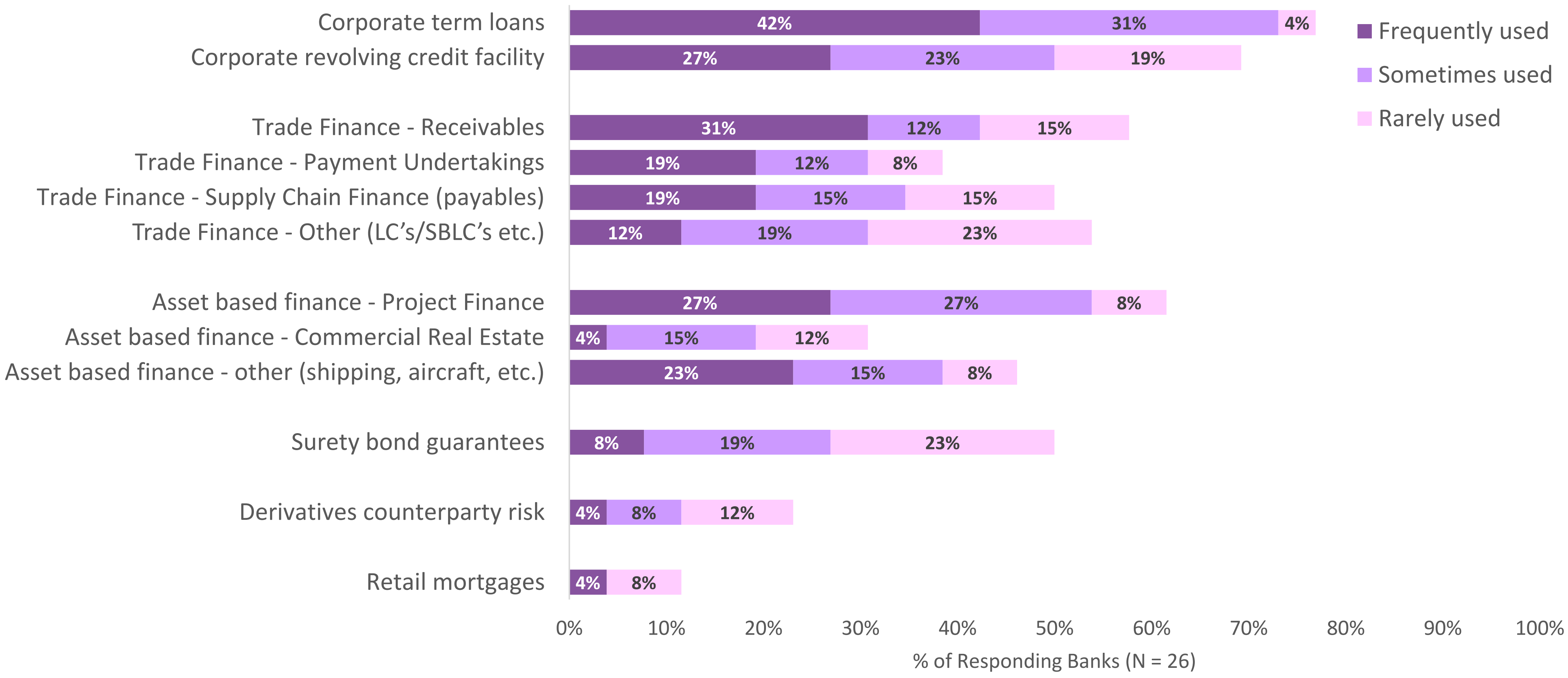
Banks increasingly use PCRI solutions across all asset classes.



Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: For which of the following asset classes has your bank used PCRI to manage credit risk over the past 1-2 years, including today? (Q17)

Asset Classes Protected by PCRI

Region of Domicile EMEA (N=26)



Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: For which of the following asset classes has your bank used PCRI to manage credit risk over the past 1-2 years, including today? (Q17)

PCRI Volume (Insured Exposure and Ratio)

Data for **all** participating banks

PCRI Volume (USD Billion)	**2019**	**Deviation 2019-2020**	**2020**
Number of participating banks	38	+5%	40
Total Insured Exposure (1)	130.4	+4%	135.7
Total Transaction Amount Facilitated (2)	330.2	+5%	346.2
Insured Ratio: (1) / (2)	39%	0%	39%

Note: Participating banks in the 2021 study overlap only in part with the participants in the 2019 ITFA study. Caution should be exercised when drawing conclusions from data comparison.

Source: IACPM/ITFFA Private Credit Risk Insurance 2021 | Question: Please indicate the total aggregate amount of your insured exposure; the total amount of underlying credit facilities; the total amount of insurance premium; the total aggregate amount of new claims on PCRI policies; each at the end of 2019 and 2020? (Q15; Q16)

PCRI Performance

Table shows data **only** for those participating banks that reported the following three values:
Insured Exposure, Transaction Amount Facilitated, and Premium for 2019 and 2020. (Also see note on prior page.)

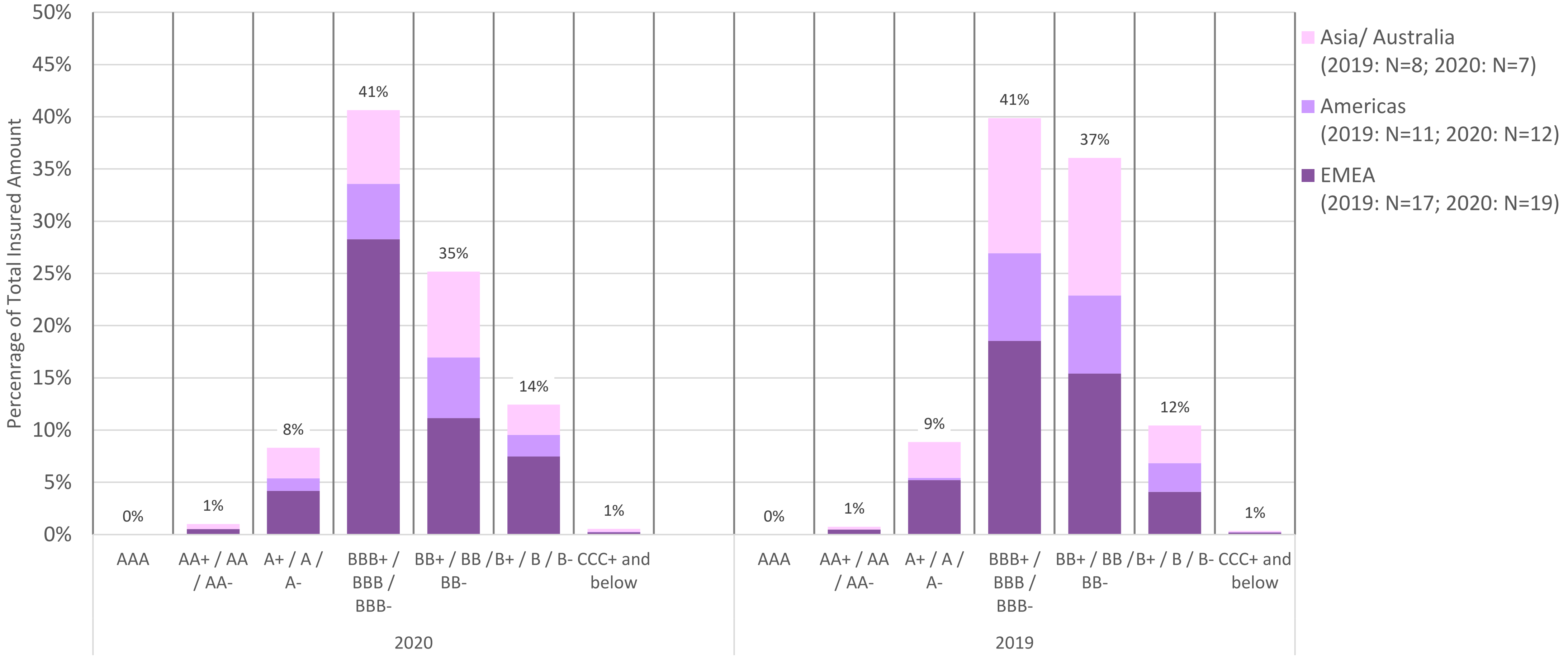
PCRI Performance	2019	Deviation 2019-2020	2020
Number of participating banks	29	+ 6.9%	31
Total Insured Exposure (USD Billion)	112.6	+2.7%	115.6
Total Transaction Amount Facilitated (USD Billion)	318.0	+5.1%	346.1
Total Premium (1) (USD Million)	716	+ 6.5%	762
Total Claims (2) (USD Million)	365	+ 8.9%	398
Claims Ratio: (2)/(1)	51%	+ 2.5%	52%

Source: IACPM/ITFFA Private Credit Risk Insurance 2021 Question: Please indicate the total aggregate amount of your insured exposure; the total amount of underlying credit facilities; the total amount of insurance premium; the total aggregate amount of new claims on PCRI policies; each at the end of 2019 and 2020 (in US$ Million)? (Q21;Q22)

Rating distribution of insured exposures

Most insured risks are rated between BBB and B

(Ratings weighted by insured amount; N = 36 for 2019; N = 38 for 2020)



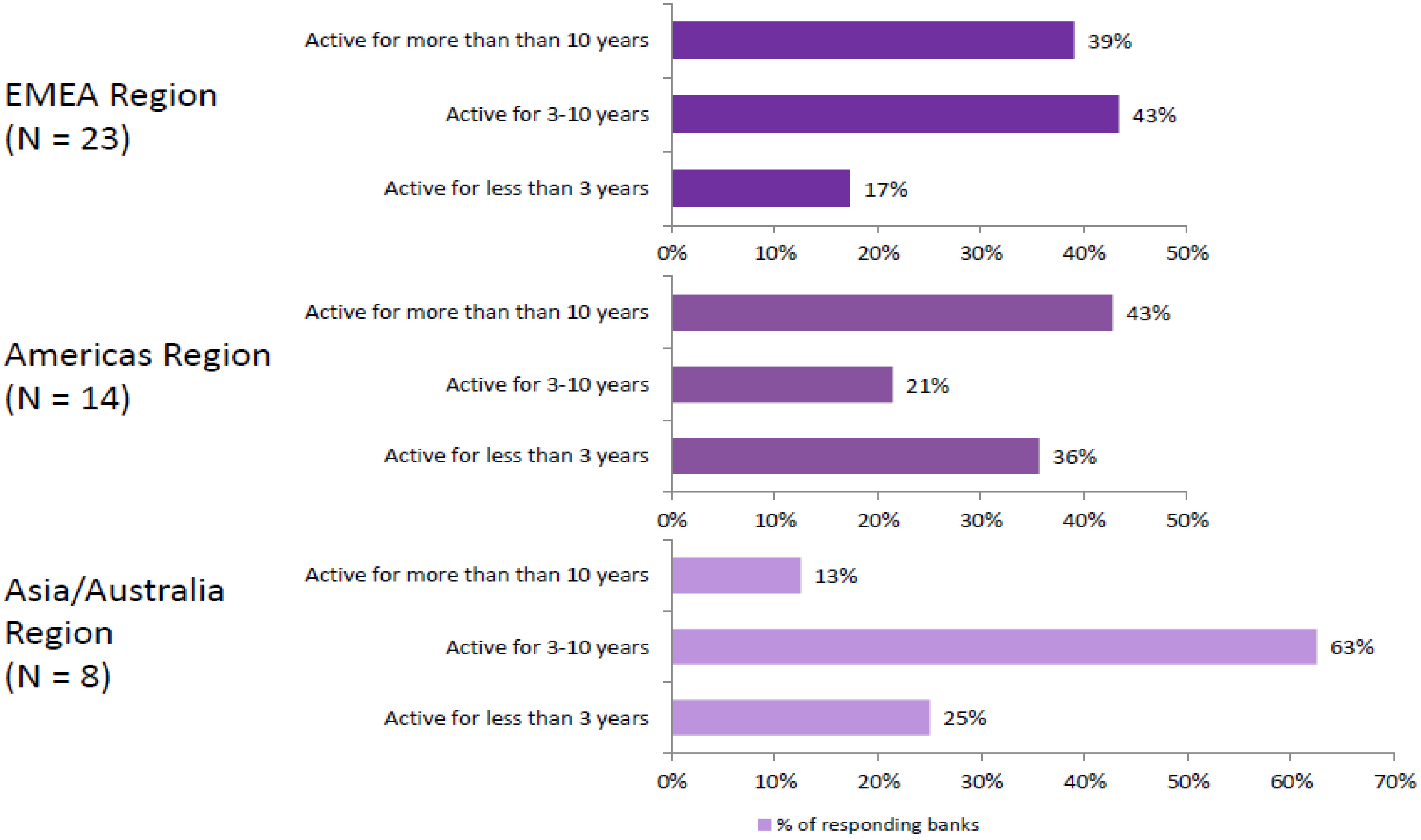
Source: IACPM/ITFFA Private Credit Risk Insurance 2021

Question: Please indicate the underlying borrowers' average equivalent credit rating for your bank's insured exposure at the end of 2019&2020 (in %). Please use internal equivalent where appropriate. (Q19 & Q20)

PCRI Experience - by Region of Domicile

Active PCRI users only

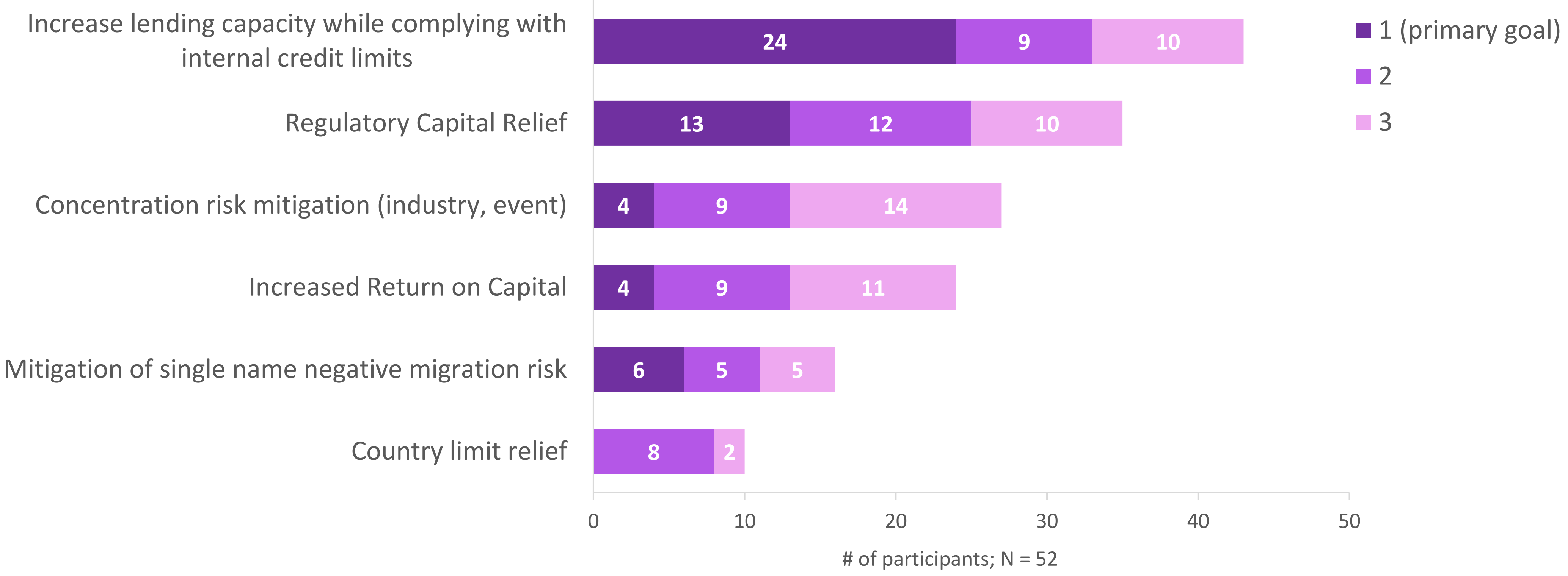
European banks continue to be more advanced than non-European banks in usage of insurance-based solutions for credit risk mitigation and on average have used PCRI for a longer time period than their global peers



Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: Please indicate when your bank started executing PCRI transactions, assuming your firm is still active in this space. (Q13)

Top 3 Goals for Using PCRI

All participating banks are using PCRI solutions as an additional risk distribution channel to increase lending capacity and release regulatory capital as most protected obligors are unrated or non-investment grade, and do not trade in the CDS market.

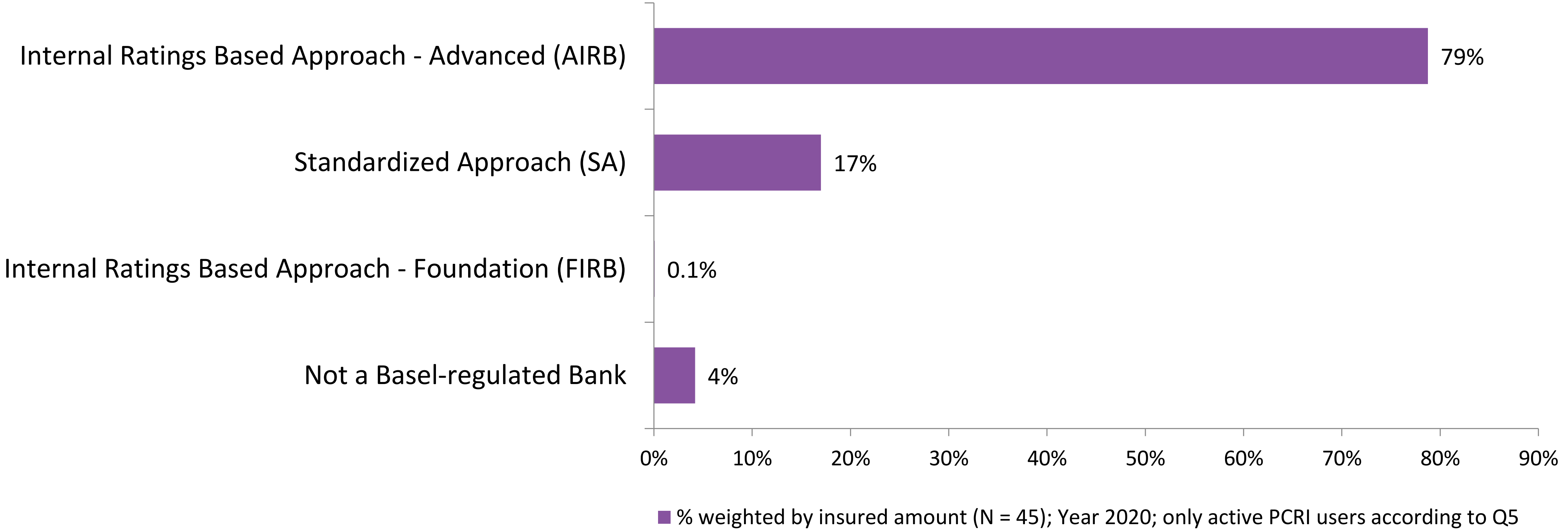


Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: What are your top 3 goals when using PCRI for any of the asset classes indicated above? Please rank. (Q18)

Internal Capital Treatment

Active PCRI users only

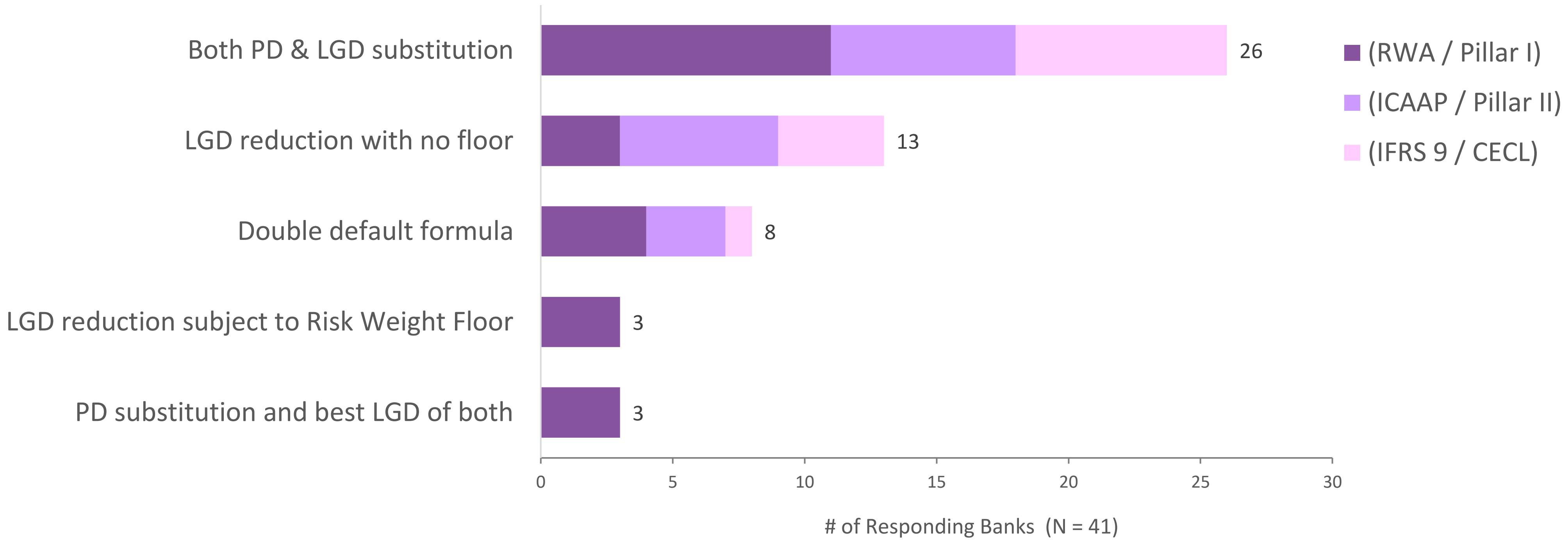
The number of participating banks using AIRB to calculate the RWA absorbed by the protected assets and released by PCRI mitigants has increased over the past two years and indicates that a bank's Regulatory Capital Approach is key to the attractiveness of PCRI for risk mitigation.



Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: Which regulatory capital approach does your bank follow for most of its total covered portfolio? (Q24)

Mitigating Requirements

Methodologies applied to calculate the RWA impact of PCRI vary substantially among responding banks. The main approach employed by responding banks in 2021 is PD & LGD substitution (vs. PD substitution and best LGD of both in 2019[1])

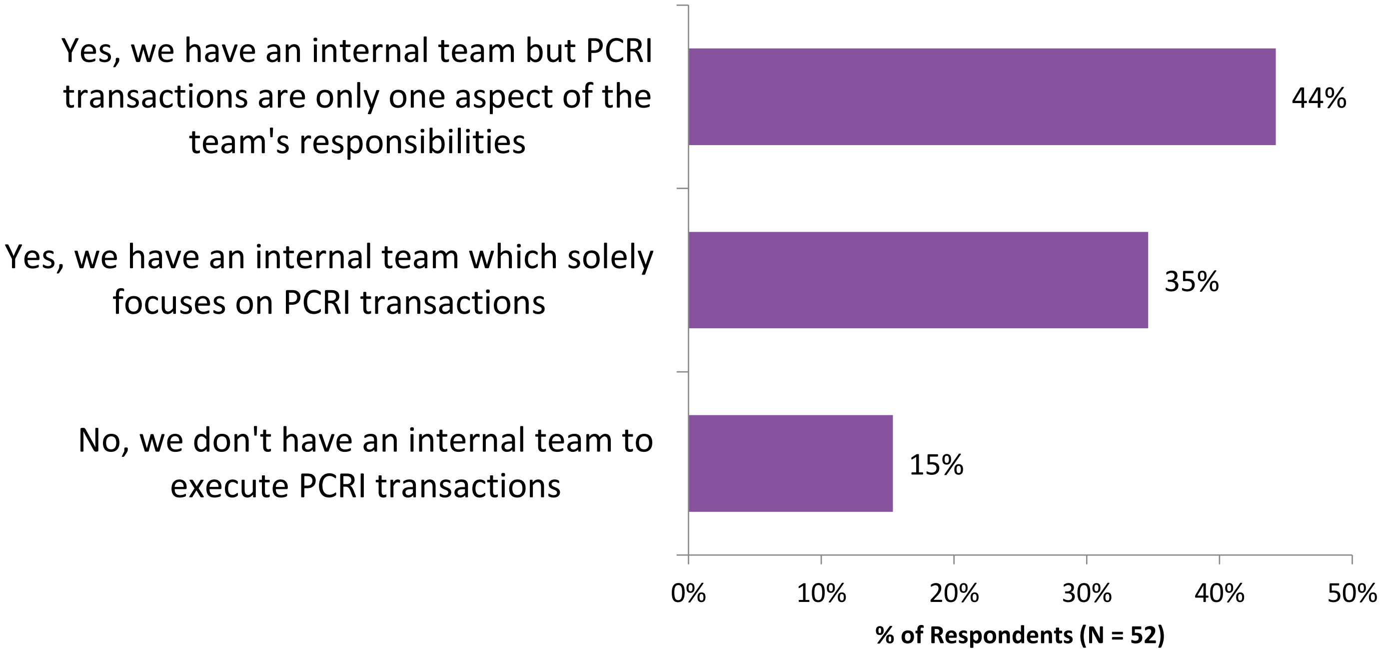


Source: IACPM/ITFFA Private Credit Risk Insurance 2021 | (1) - 2019 IACPM & ITFA's Non-Payment Insurance survey | Question: If your bank is following AIRB for most of its portfolio, please indicate which approach your bank follows to estimate the mitigating impact of PCRI covers? (Q25)

Organization and management

Active PCRI users only

Most participating banks have set up centralized teams, often in Syndications or Credit Portfolio Management, to focus on the opportunities but also the specific challenges of PCRI, most notably in implementation (confidentiality management, KYC, secondary limits, documentation, etc.) See next slide.



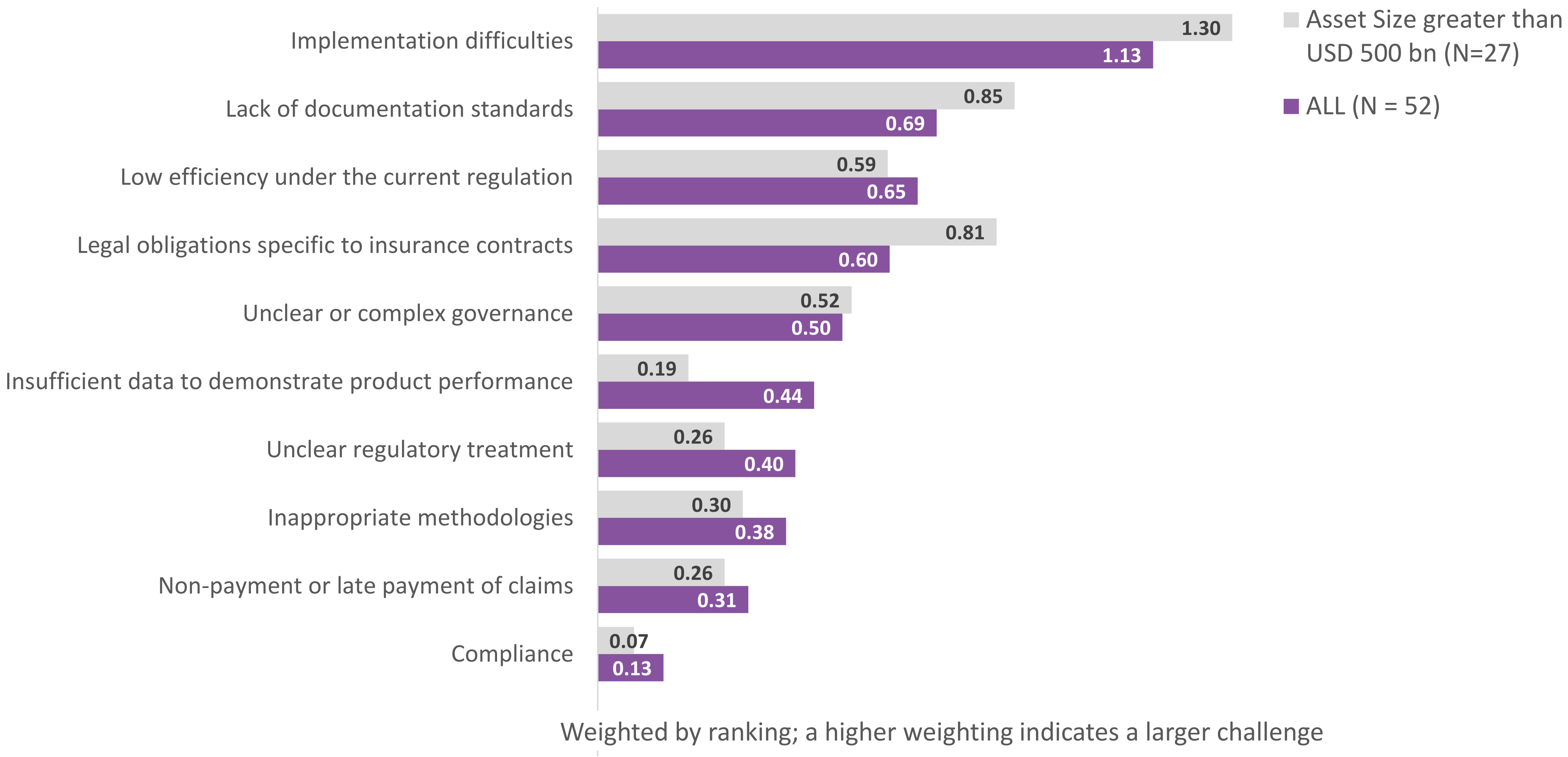
Observed Demographic Differences

- Larger banks are often more specialized than their smaller peers, with almost half of all respondents reporting internal teams **solely** focusing on PCRI transactions at (44%; N=27). At smaller banks PCRI transactions are often only one aspect of a team's responsibilities (52%; N = 25).
- Regionally, about one third of North American banks do not have internal teams to execute PCRI transactions compared to only 12% of banks headquartered in EMEA.

Source: IACPM/ITFFA Private Credit Risk Insurance 2021

Question: Do you have an internal team to execute PCRI transactions, including structuring and distribution? (Q11)

Top 10 Operational Challenges – by Asset Size



Source: IACPM/ITFFA Private Credit Risk Insurance 2021
Question: Please indicate your top 3 operational challenges when using PCRI? (Q10)

Glossary

CECL/ IFRS 9 - Approach used for accounting–based assessment of expected losses (Point-in-Time (PIT) and forward-looking expected losses).

Comprehensive Private Risk Insurance (CPRI) - Non-Payment Insurance written by firms in the private sector of the economy and covering non-payment by the borrower/obligor for any reason whatsoever. CPRI does not include ECA covers.

Corporate Loans - A debt-based funding arrangement between a business/ corporate customer and a financial institution such as a bank. It is typically used to fund major capital expenditures and/or cover operational costs that the company may otherwise be unable to afford.

ECA Cover - Credit Insurance provided by a governmental Export Credit Agency (ECA). The insurance premium is to be paid by the importer.

MBA Cover - Guarantee products offered by multilateral development banks in the form of credit guarantees (triggered irrespective of the cause of the default, political or commercial) and risk guarantees (called only when a government-owned entity fails to meet specific obligations).

N - Sample size. E.g., “N = 46” indicates that 46 participating firms provided an answer.

Private Credit (and Political) Risk Insurance (PCRI) - Private Credit and Political Risk Insurance cover non-payment by the borrower/obligor and Government intervention that prevents payment. The only conditionality outside the insured bank’s control might be a nuclear/biological warfare and radioactive contamination exclusion and even this is not always required. All other conditionality which can prevent a claim payment are within the bank’s own control.

Private Market Insurance - Insurance coverage written by firms in the private sector of the economy (as opposed to government insurers).

SPV borrower - Special Purpose Vehicles are typically banks' counterparties in Project Finance, Transportation Finance, Trade Finance transactions.

Surety bond (incl. Master participation agreement) - A surety bond is a contract between three parties—the principal, the surety and the obligee (the entity requiring the bond)—in which the surety financially guarantees to an obligee that the principal will act in accordance with the terms established by the bond. When the guarantee relates to non-payment, the surety bond can be a form of Non-Payment Insurance.

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