Coordination among MIVs in response to Covid 19

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Introduction

The Covid pandemic and related economic downturn will have a significant effect on most of our investees as a result of the impact on particularly their micro and SME clients. We anticipate that as a result many of our financial institution borrowers will require a rescheduling or restructuring of our financings. We also know that microentrepreneurs and SME's are resilient. They will form a vital basis for social and economic recovery. Supporting Financial Inclusion and preservation of the strong foundations that have been built over recent years therefore is of vital importance. This calls for enhanced cooperation within our sector.

We learned from previous experience that through transparency and close cooperation we can best help our partners and ourselves through challenging times. The purpose of this document is therefore to guide ourselves, our investment teams, our clients, other finance providers and other relevant stakeholders.

This document is not intended as a legally binding agreement. We acknowledge the fact that each participant listed in this document has its own obligations and mandates to adhere to and that they may have distinct roles with respect to MIVs/Funds and therefore have different levels of control over the implementation of individual provisions included therein.

It is further acknowledged that this is a working document. We will learn and improve as we go. This document may be adjusted from time to time.

The Covid pandemic is unique and unprecedented with various forms of lock down across the globe. The measures to prevent Covid from spreading are drastic and hopefully successful, but also expected to be of temporary nature. The level of impact will differ substantially per country, market segment and client. The approach towards rescheduling therefore should match the circumstances with the goal to keep our actions pragmatic, supportive and simple where possible.

We distinguish between four core categories, each requiring its own level of coordination among lenders. These categories form a clear order of preference. If an earlier category cannot generate the results needed, the next category comes into play.

A. Ordinary renewals / fresh loans / waivers for going concern clients that with informal MIVs coordination can sustain themselves.
B. Informal handshake rollover / moratorium / payment holiday. These going concern clients will need support from a wider group of lenders in an informally coordinated manner.
C. Legally binding forbearance agreement and rollover requiring more formally coordinated and binding support to the client.
D. Ordinary restructurings resulting in a Restructuring Agreement and workouts. Going concern is at stake.

In this document:

- "MIVs" is a generic term for lenders that participate in this Covid-19 coordination document, while acknowledging their different roles in the lending process.
- Clients refer to the investees of a few or all MIVs.
- Lenders refer to any lenders to a client, including but not limited to MIVs.

Categories

A. Ordinary renewals / fresh loans

- Scope
  - **Stronger clients**
  - Individual Stress tests showing:
    - Low risk of solvency shortage, even with more pessimistic scenarios on the crisis evolution
    - Relatively low risk of liquidity, capacity to overcome the crisis even if a substantial (but minority) part of lenders do not renew lines coming to maturity within next six months.
  - Clients may have requested liquidity support in anticipation. In some cases, lenders have been calling for concerted actions
  - No existing payment defaults
- Process
  - No extensive restructuring required as some key lenders can offer the required funding.
  - True loan renewals at conditions individually negotiated between the lenders and the clients.
  - It is recommended that lenders in consultation with the client reach out to other relevant MIVs bilaterally before providing fresh funding to share views and ensure alignment

B. Informal handshake rollover

- Scope
  - **Going concern clients; expected to recover relatively quickly after the crisis**
  - Short – medium term focus, aiming to support the client to weather the storm
  - Stress tests showing:
    - Relatively low risk of solvency shortage, problems would arise in case pessimistic scenarios on the crisis evolution realize,
    - Medium risk of liquidity of temporary nature, concerted action between MIVs will be needed. Focus on rapid assurance that moratorium on principal payments or coordinated rollover of principal instalments within the next 3-12 months will be adequate to stabilize the funding base and allow the client to be back to original repayment schedule within a defined time horizon.
  - Clients may have requested liquidity support (rescheduling of payments or payment moratorium), or at the initiative of the Lender's calling for concerted actions in anticipation of liquidity risk, if Category A cannot not apply.
  - No existing payment default at the beginning of the rollover/forbearance consultations
- Process
  - 1-2 MIV(s) with large total outstanding exposure to take the lead in terms of coordination in close cooperation with the client or in more complex cases: MIVs to establish governance framework (target 75% of the total outstanding exposures of the

MIVs, preferably all foreign lenders) to prolong, resolve or terminate current handshake agreement.
  - In the form of a standard, non-legally binding handshake agreement via email to be confirmed by all MIVs who represent the critical mass (at least 80%-90%, of the total outstanding exposure of the MIVs, preferably of all foreign lenders)
    - MIVs to reflect formally in bilateral agreements with clients.
    - If possible including more lenders besides MIVs but just MIVs can be acceptable.
    - 6-12 months rescheduling, exceptionally 3 months, addressing exclusively principal repayments due within the next 6-9 months.
    - Interest to accrue and be paid on contractual payment dates.
    - In more complex cases: unified set of financial covenants may be considered by the MIVs. Common terms during the defined period.
    - Preferably rollover on the same terms and conditions, just modifying the maturities, however if higher hedging costs are anticipated, they can be passed on to the client or the position can be converted to USD. In case of unhedged loans in local currency, the change in hedging costs can also be applied to the rescheduling.
    - At the end of the handshake payment holiday period, the way forward (getting back to normality, extension of the payment holiday or restructuring project) needs to be agreed among the MIVs. Unless otherwise specified, expectation is that the original maturity schedule will remain with all principal payments deferred by [x] months.

C. Legally binding forbearance agreement

- Scope: As in B. but with more uncertainty as to client's ability to get back to original repayment schedule which requires a more formal process to ensure required support to sustain the client.
  - **Going concern under pressure without coordinated support**
  - Support from a wider group required. This may include other international lenders, local lenders, shareholders and other stakeholders.
  - Medium term focus (moratorium of 6-12 months on all principal installments, whenever due), aiming to support the client to recover after the storm.
- Process
  - 1-2 MIV(s) with large exposure to take the lead in terms of coordination in close cooperation with the client
  - Formal payment moratorium (payment holiday, standstill)
    - To be confirmed by all foreign lenders who represent critical mass. Aims at 100% of foreign lenders. Including other lenders (regional / local) when deemed necessary to obtain critical mass. To be assessed on case by case basis.
    - It should be formalized as a legally binding agreement drafted by external legal counsel
    - If needed, MIVs to establish governance framework (target votes of 75% of outstanding exposures, preferably 100%) to prolong, resolve or terminate current handshake agreement

        - Covers for payment defaults and breaches of covenants,
        - Common terms during the defined period, for example next 6, 9 or 12 months, addressing exclusively principal repayments.
        - Interest to accrue and be paid on contractual payment dates.
        - At the end of the standstill agreement the way forward (getting back to normality, extension of the payment holiday or restructuring project) needs to be agreed among the lenders. Unless otherwise specified, expectation is that the original maturity schedule will remain with all principal payments deferred by [x] months.
        - Unified set of financial covenants to be considered by the lenders
        - Preferably rollover on the same terms and conditions, just modifying the maturities, however usually higher hedging costs are anticipated

D. Ordinary restructurings / workouts

- Scope
    - **Weaker clients**
    - Stress tests showing:
        - Substantial risk of solvency shortage, especially with more pessimistic scenarios on the crisis evolution, going concern is at risk, additional capital seems required.
        - High risk of illiquidity, inability to overcome the crisis and honor not just principal repayments but also ordinary expenses.
    - Clients have requested liquidity support (rescheduling of payments) or some MIVs raise the alarm.
    - Potential existing payment default but not necessarily yet.
- Process
    - Usual restructuring process

Principles

- **Going concern.** Voluntary debt restructuring, standstill and workouts are aimed at preserving and maximizing the long-term, going-concern value of the client for the benefit of all involved parties.
- **Transparency.** MIVs commit to transparent and trustful exchange of information in close cooperation with the client on any element such as individual rescheduling request by a client, stress test assessment on a client, hesitations by investors or investment committee to confirm the route chosen, etc. Group exchanges are preferred to bilateral interactions. In case of bilateral interactions, the outcome of such is shared with other MIVs.
- **Pragmatism.** MIVs commit to limited number of exchanges, light solutions, limited legal counsel interventions, limited ambition of analysis of client's situation and reporting requirement thereof (Pareto principle in mind). In particular, when cases are not clear cut, Category A should always be preferred to Category B, which should always be preferred to Category C, which should always be preferred to Category D.
- **Tolerance.** MIVs accept that from time to time and as long as exception rather than rule, members in the group may not be able to follow on a collective action taken by the group, due to objective constraints of their funds/investors (i.e. liquidity).
- **Additional support**. MIV's acknowledge that providing extra support or fresh funding during Covid times can have big positive effects to the benefit of the client and all its stakeholders. This should be encouraged and supported. Loans provided during Covid times will be recognized as such and may be treated with some preference. To be determined on a case by case basis. Each MIV commits to contribute its fair share of support within its capabilities and mandates.
- **No general critical mass.** MIVs may not always hold a majority of debt in clients under Category A and B but they are very likely to represent a substantial part of foreign lenders. As the group shows cohesion, it is expected that the signal sent to other lenders, particularly foreign ones, will encourage them to joint efforts of pragmatic, agile and empathetic coordination of support to clients. Therefore, it is accepted that general critical mass of debt to clients on a case-by-case basis is not required under Category A and B.
- **Free lunch treatment.** Notwithstanding the above-mentioned principle of tolerance, MIVs who cannot follow on Category B commit to always offer alternatives to mitigate the effects of their inability to follow and avoid falling into Category C or D. These alternatives may include for example proposals of haircuts or simple commitment to continue forbearing payment (as opposed to switching to rescheduling agreements).
- **Local lenders.** Do not need to be included in these agreements, unless otherwise agreed particularly in Category C or D, but clients should provide updates if any moratorium or rescheduling has taken place.
- **Ranking.** MIVs commit to accept the following rules on debt ranking within their group and to promote them with other lenders:
    - **Senior loans pre-rescheduling request**: chronological distribution if Category A or B applies, also in case of prepayment by the client; negotiation if Category C or D, pro rata distribution more likely under Category D.
    - **Senior loans post-rescheduling request:** granted chronological priority, even if case falls into Category C.
    - **Subordinated loans:** subordinated to senior loans, usual.

  - **Shareholders loans:** all principal repayments made to shareholders of the client shall be deemed subordinated to senior loans in Categories C (during the period of the agreement) or D, as usual, unless facility provided in support of the client during the Covid crisis (then Pari passu).
  - **No Dividends royalties or other payments** to shareholders allowed in categories B, C and D. In Category B, MIVs add their own language to the rescheduling agreement to document it.
- **Rescheduling scope.** For Categories B, MIVs target rescheduling principal payments due over the next 6-9 months (to be defined), For Category C, they commit for a moratorium and extension on all principal repayment that will come in the future, no matter when. Exceptions requests should be clearly motivated.
- **Interest payment.** Focus of Categories B and C is on rescheduling or forbearance of principle payments. In these two Categories (as well as in Category A), interest should be paid as per schedule unless agreed otherwise.
- **Breaches of covenant.** MIVs commit to opt preferably for waiving breaches of financial or technical covenants under Category B and C, even informally. They may be inclined to send Reservation of Rights (RoR) letters in accordance with their fiduciary duty. In such cases MIVs commit to inform peers before they send their RoR letter.
- **No Prepayments.** MIVs commit to abstain from asking clients for prepayments in any of Categories B, C and D. and to promote prohibiting clients to make prepayments to any other lenders, to the extent possible.
- **Non-Acceleration.** Without prejudice to MIVs right reservation, MIVs commit to abstain from accelerating their indebtedness under their respective loan agreements due to non-payment of principal or financial covenant breaches until a "handshake agreement" is reached or formal restructuring is properly formalized.
- **No late interest payments or penalty fees.** Unless agreed otherwise under Category C or D, MIVs commit not to charge additional interest payments or penalty fees during the whole process. Interest will accrue over principal during extended period.
- **Hedging arrangements.** For local currency loans with hedging arrangements, respective hedging strategy to be elaborated individually by each MIV. It may include hedge rollover, conversion into USD/EUR or a different option.