



EUROPEAN INVESTMENT BANK

European Fund for Strategic Investments

**RATIONALES FOR THE DECISIONS TAKEN BY
THE EFSI INVESTMENT COMMITTEE IN JUNE 2018**

EFSI Investment Committee

11th June 2018

Those attending

<u>Chairman:</u>	Mr.	Wilhelm MOLTERER, Managing Director
	Ms.	Iliyana TSANOVA, Deputy Managing Director
<u>Members:</u>	Mr.	Gordon BAJNAI
	Mr.	Thierry DEAU
	Ms.	Dalia DUBOVSKA
	Ms.	Vicky D. KEFALAS
	Ms.	Andreja KODRIN
	Ms.	Nieves RODRIGUEZ VARELA
	Mr.	Manfred SCHEPERS
<u>Experts:</u>	Mr.	Marcus SCHLUECHTER, Advisor to the Managing Director
	Mr.	Juan Jose FEBLES, Advisor to the Deputy Managing Director
<u>EFSI Secretariat:</u>	Ms.	Emilie BOIS-WILLAERT, Head of EFSI Secretariat
	Mr.	Renko WOUTERS, Corporate Secretariat Officer

Rationales for the decisions taken by the Investment Committee in June 2018

Investment Committee decisions approving the availability of the EU guarantee for EIB operations are made publicly available, except for projects subject to a confidentiality agreement between the EIB and the promoters. In line with article 29 of the EFSI Agreement and the Transparency Policy of the Bank, Investment Committee decisions for such cases will be disclosed at a later stage, after project's signature, by including them in a list of Investment Committee decisions taken throughout the year and published at least once a year after year-end.

In line with article 7.12 of Regulation (EU) 2017/2396, the rationale of the Investment Committee will be included in the decisions approving the use of the EU guarantee for EIB operations, after the rationales have been approved by the Investment Committee, in general during the subsequent Investment Committee meeting.

The Chairman recorded that there was a quorum.

No Conflict of Interest was declared.

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The Investment Committee approved the availability of the EFSI portfolio guarantee for the following EIB operations:

CREVAL LOAN FOR SMES & MID-CAPS (Italy)

The IC approved the use of the EFSI guarantee for the proposed participation in the mezzanine tranche of a true sale securitisation of an existing granular portfolio of loans SMEs and MidCaps. The EIB intervention with EFSI support facilitates lending capacity towards increased access to finance for eligible entities with less than 3,000 employees with a contractual minimum requirement to support new eligible financing of at least 6x the amount of the EFSI intervention.

The IC welcomed the joint EIB Group intervention with EIB subscribing both the mezzanine and part of the senior tranche and EIF guaranteeing an intermediate tranche to be subscribed by private investors, jointly facilitating the release of lending capacity that enables Creval to extend new financing to eligible SMEs and MidCaps. The IC took note of the separate new portfolio requirement for the EIF participation (without EFSI support), which amounts to EUR 225m and is not included in the EFSI investment mobilised / multiplier figures.

Despite the welcome stabilisation of the economic environment in Europe access to finance for SMEs and Midcap remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

BUDAPEST BANK ENHANCED SUPPORT FOR SMES & MID-CAPS (Hungary)

The Investment Committee approved the availability of the EFSI guarantee for the proposal which increases the access to finance for entities up to 3,000 employees by providing purpose related long-term funding to a local partner bank with the contractual obligation to match the EFSI funding and create a new eligible portfolio of at least 2x the EFSI intervention. The intermediated structure leverages the market knowledge and access of the local partner with the financing capacity for the support of small eligible projects that could not be efficiently financed by EIB directly. At least 90% of the EFSI financing is expected to directly support beneficiaries in Cohesion regions. The Investment Committee acknowledged the importance of Budapest Bank for the SME and Midcap sector in the country and the importance of EUR denominated financing particularly for export oriented companies.

Despite the welcome stabilisation of the economic environment in Europe access to finance for SMEs and Midcap remains constrained, both quantitatively and qualitatively in terms of available terms, tenors and collateral requirements, and its continued support therefore a self-standing purpose of the EFSI in line with Article 3 (b) of the Regulation as extended in December 2017.

The risk profile of the EFSI intervention is Special Activity in line with the EIB's Statute, which is a strong indicator of Additionality in the EFSI Regulation.

SOCIAL & AFFORDABLE HOUSING INVESTMENT PLATFORM (Spain)

The IC approved the use of the EFSI guarantee for a proposal concerning the creation of an Investment Platform for supporting the availability of social and affordable housing in Spain. The proposal addresses a number of EFSI objectives in the field of social and affordable housing, urban development and energy efficiency of buildings, contributing to climate mitigation and supporting investment in Cohesion regions. Spain is undergoing through a financing gap for investment in social housing, since social investments have dropped dramatically since the financial crisis in 2008 due to reduced long-term financing available to promoters. Low credit volumes and higher cost of financing negatively affect economic returns on projects, further dampening private investment. As to the public sector, budgetary restrictions imposed on local authorities limit their ability to adequately fund or guarantee projects.

The aim of the proposed Investment Platform is to counter the sub-optimal investment situation by building upon the origination capacity, sector expertise and risk absorption capacity of EIB. EFSI support is expected to enable an operation that could not have been carried out by EIB before in light of the higher risk profile, falling under the EIB's Special Activities risk category, due to the absence of a public guarantor and weak credit metrics. Ultimately, loan repayment will hinge on cash-flows generated by the rental of social housing units, and therefore depend on market demand, rent collection rates and the promoters' capacity to implement and manage the projects. The platform is built to mobilise private investment via the participation of commercial banks as lenders, and by financing eligible projects presented by private sector promoters, as well as by supporting smaller scale investments, to the benefit of local contractors. The provision of long-term financing through the Investment Platform will allow public promoters to accelerate their investment plans and promote an effective and strategic use of public money within the established framework of budgetary discipline in Spain. The operation is expected to have an important social impact by offering long term affordable financing allowing to maintain the rents at low levels as well as through a high employment impact as housing construction is typically labour-intensive.

ILUNION SOCIAL COMPANY INVESTMENTS (Spain)

The IC approved the use of the EFSI guarantee for a proposal concerning the investment programme of a Spanish social non-profit enterprise. The project activities are presented as the vehicle aiming at higher social inclusion by maximizing the personal autonomy and social integration of blind and severely visionary impaired people and other less able people while improving their quality of life, through the facilitation of their employment opportunities. The investment programme includes refurbishments and construction of a hotel portfolio, energy efficiency improvements in the industrial laundries segment, and research and development in products and activities targeting improved accessibility to digitalisation and devices to improve the daily life of disabled persons.

The promoter's mission is to contribute to an inclusive society where disabled people are treated under a sieve of normality and equal conditions with a constant dedication to personal improvement. It is considered a unique company of this scale in the world, with a sustainable business model around the social vocation, not relying in the public subsidy contributions. The average employment rate of people with disabilities in companies related to the project is in the range of 40%, but the promoter also extends its efforts to facilitate the integration in as many open business and social sectors as possible.

The operation is eligible under a number of EU and EFSI objectives and addresses a sub-optimal investment situation. The market does not easily avail with sufficient financing to support hotel building, energy efficiency work or RDI. The operation will also be the first with the promoter. It will allow to provide support to the Spanish social enterprise sector as well as the Spanish tourism segment, which have not received much EIB financing in the past. The finance will help to accelerate the borrower's investment projects under the scale and timeline that would be appropriate, and is expected to crowd-in private sector financing. EIB/EFSI support shall contribute to increasing the social and commercial lenders' confidence in the operation and confirm their own engagement in the financing.

HOTELS UPGRADE PROGRAMME SPAIN (Spain)

The IC approved the use of the EFSI guarantee for a proposal concerning a hotel improvement programme in several Cohesion Regions in Spain. The refurbishment programme intends through a dual-strategy to modernise the facilities whilst also improving technical and environmental standards, including energy efficiency and circular economy components that contribute to the climate objectives of the EU. It is thus expected to enhance the quality and attractiveness of the tourism offer in the regions where the hotels are located, primarily in less developed regions - as 75% of the costs will be incurred in Canary Islands and Andalusia, while generating a substantial impact on growth and jobs. The project is consistent with the EU policy framework, in line with the European Commission Communication 'Europe, the world's No. 1 tourist destination – a new political framework for tourism in Europe'.

The operation is considered addressing market failures in the hotel sector, where owners or operators lack the financing capacity or incentives to pursue strategic measures needed to maintain competitiveness catering to evolving customer preferences and shift towards higher-quality, sustainable tourism. The need to upgrade facilities that necessitate a temporary or partial closure and the economic pressures to keep hotels open and occupied are both leading into a sub-optimal investment situation. The project presents high risk and is expected to be classified under the EIB Special Activities category, in particular due to the loan's unsecured nature and long tenor, representing an important evolution for the company's capital structure. The financing could not have been provided to the same extent by the EIB without EFSI support, and is expected to crowd-in private sector financing, by increasing the commercial lenders' confidence in the operation and confirm their engagement in the company's financing, beyond the

scope of the current project. The operation will be the first for the EIB with the promoter and will allow the EIB to provide support to the Spanish tourism sector.

OLSZTYN WASTE-TO-ENERGY PLANT PPP (Poland)

The IC approved the use of the EFSI guarantee for a proposal concerning the construction of a waste-to-energy plant located in a Cohesion priority region in North-Eastern Poland, in the city of Olsztyn. First of its kind in the country, the project will be implemented through a Public-Private Partnership contract with the local district heating company, owned by the city. Planned to serve 1.41 million people, the project fully qualifies under climate action by using urban waste as fuel for energy generation and contributing to reducing the landfilling. There is a triple aim related to green and renewable energy, energy efficiency and clean waste management, closing the loop of circular economy. These are sectors suffering from structural market failures, which the project will contribute to alleviate, together with adding further economic and societal benefits (e.g. public health, employment) for the concerned region and the municipality.

The operation is deemed to address a clear gap in the market for this type of projects, i.e. heavy investments required across the sector in Poland, long assets' economic life and weak financial structure of the public counterpart. There is no availability in the market of the required conditions (e.g. long tenor matching long economic life) and sound knowledge of public-private partnerships (PPP). There has been the need of providing technical assistance on the PPP structure, through the EPEC contribution. The EIB EFSI support, which will be combined with EU funds, appear essential for the project's acceleration and for providing a catalytic effect to raise the further private financing necessary.

NORTHWESTER 2 (Belgium)

The EFSI Investment Committee approved the availability of the EFSI guarantee for the financing of the Northwester offshore wind project. At full capacity the project will generate 733GWh/yr of electricity, equivalent to the energy needs of 189,000 households, at a CO2 saving of 349kt of CO2 per annum.

The underlying project supports in its entirety the Climate Action Objective and supports the development of renewable energy as part of the energy market and the Energy Union, the EU Energy Roadmaps and the Paris Agreement. The investments are expected to support more than 1,400 person years of temporary employment across several member states.

The project is the first under a new support scheme in Belgium which has been significantly reduced to aid the affordability of energy for consumers. In response it employs latest generation turbines and related infrastructure, with limited or no commercial track record, in order to lower lifetime costs of the windfarm to levels that make the project viable in the new regulatory environment.

The investment committee noted the cooperation with Danish EKF, which is expected to crowd-in significant amounts of private funding to meet the projects financing requirements and facilitate a financial close in 2018, in order to meet the targeted start of operations in 2020.

The operation has a risk profile of Special Activities as per the Bank's statute, which is a strong indicator for Additionality in line with the EFSI Regulation.

ZUMTOBEL LIGHTING RDI (Austria, United Kingdom, Germany, France)

The IC approved the use of the EFSI guarantee for a proposal concerning investments in research and development of innovative and more efficient lighting technologies, with a key focus in interconnectivity and smart integrated solutions. The project is expected to increase the promoter's innovation capabilities and thus supporting its position and prospects in a very competitive and price sensitive industry. The operation contributes to a more sustainable climate environment and to retain highly skilled RDI jobs in Europe, knowledge accumulation and the competitiveness of the lightning industry in Europe.

The operation is addressing a suboptimal investment situation by supporting an RDI programme that, given its inherent uncertainty and the absence of material assets, commercial banks do not typically finance RDI investments. The commercial financing offer does not match the long lead times of those investments, even more so in a relatively high risk industry, given the highly competitive and fast evolving technological trends under which the borrower operates. Without the EFSI guarantee the EIB would not have been able to finance this operation to the extent proposed. A strong signalling effect is expected for attracting other lenders to the borrower, for which it is important to maintain its competitive position in the challenging lighting market. This catalytic effect shall contribute to strengthen lenders' confidence in the borrower's capacity to pursue its growth objective and long term strategy by accessing affordable debt.

ACHEMA NEW MELAMINE PLANT IN LITHUANIA (Lithuania)

The IC approved the use of the EFSI guarantee for a proposal concerning the construction of a new melamine production plant in an existing industrial site in Lithuania. The new production facility will be based on the Best Available Technology standards and is designed to use the promoter's own urea (carbamide) production as main raw material, therefore contributing to circular economy. The investment is expected to contribute to the economic development of the region via the creation of direct (the new melamine plant alone will employ 65 FTEs) and indirect employment. The resulting improvements in general economic conditions (growth in income and infrastructure improvements) will add to the attractiveness of the region for other potential investors. As melamine production is a new activity in the region and country, the project will also enhance the skills of labour and support technology diffusion and creation of industrial knowledge and know-how.

The operation addresses a market gap identified in Lithuania, as it responds to a structurally sub-optimal investment situation in a cohesion country, where promoters of investments with long economic life only have access to short term funding. With the back-up of the EFSI guarantee, the EIB will for the first time launch an operation with a privately-owned corporate in Lithuania and in the Baltics. The longer tenor offered matches better the economic life of the proposed investment and provides a credit protection through structural subordination to the crowded-in local private sector lenders. The EIB financing will also act as a catalyst for additional investors, as well as provide a positive signal that could stimulate the development of similar financing schemes to support this segment of the market and similar corporates in Lithuania and in the Baltics.

Wilhelm MOLTERER
Managing Director