EVALUATION OF THE EIB's SPECIAL ACTIVITIES

European Investment Bank
The EU bank

TEAM MEMBERS

This evaluation was carried out by the EIB's Evaluation Division, under the supervision of Sabine Bernabè, Head of Evaluation.

Team Leader	**Charu Wilkinson** (external consultant — PEM)
Evaluators	Ombeline De Bock (EIB Evaluation Division)
	Iouri Marounov (EIB Evaluation Division)
	Joëlle Liebermann (EIB Evaluation Division)
	Adrian Costandache (EIB Evaluation Division)
	Aron Gereben (EIB Evaluation Division)
Assistant	Marcela Verónica Bordon (EIB Evaluation Division)

The team would like to thank the management and staff of the European Investment Bank for their insights and information, and also for providing extensive interactions and feedback. The team is moreover grateful to staff in the European Bank for Reconstruction and Development, the Nordic Development Bank, the Cassa Depositi e Prestiti Italy, the Inter-American Development Bank, the International Financial Corporation and EIB clients for making themselves available for interviews.

The EIB's Evaluation Division remains fully responsible for the content of this evaluation report.

**“In God we trust,
all others must bring data”**

- W. Edwards Deming

ABBREVIATIONS

- AIM: Additionality and Impact Measurement framework
- CAD: Capital adequacy ratio
- CDP: Caissa Depositi e Prestiti
- COP: Corporate operational plan
- EBRD: European Bank for Reconstruction and Development
- EFSI: European Fund for Strategic Investment
- EIB: European Investment Bank
- EIF: European Investment Fund
- ETI: Equity type individual
- ETP: Equity type portfolio
- ERR: Economic rate of return
- EU: European Union
- EU-15: The EU's earlier entrants (the 15 countries which have joined before 2004 - Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom)
- EU-13: The EU's newer entrants (the 13 countries which have joined since 2004 - Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia)
- EU GAAP: EU Generally Accepted Accounting Principles
- FLP: First loss piece
- FTE: Full-Time Equivalent
- IFC: International Finance Corporation
- IFRS: International Financial Reporting Standards
- IADB: Inter-American Development Bank
- Evaluation Division: Operations Evaluation Division of the EIB
- LG: Loan Grading
- MBILs: Multi beneficiary intermediated loans
- P&L: Profit and loss
- NIB: Nordic Investment Bank
- OPS: Operations Directorate of the EIB
- R&D: Research and Development
- SA: Special activities
- SO: Standard activities/operations
- 3PA: 3 pillar assessment

01

EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

Evaluation of the EIB's Special Activities (SAs)[1]

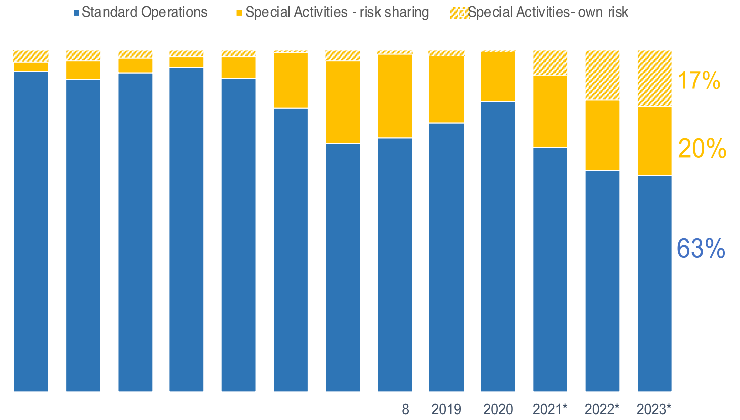
The context for this evaluation

There has been a huge increase in the volume and share of Special Activities in the Bank's portfolio during the last five years.[2] In terms of net signed volumes, the (inside European Union) Special Activity portfolio has grown from € 17 billion during 2011-2015 to € 55 billion during 2016-2020; while the share of Special Activities within the Bank's overall (inside European Union) business mix has expanded from 7% to 21% over the same period – Figure 1.

The European Fund for Strategic Investments has been the key driver behind the rapid scale-up of the Special Activity portfolio since 2016. The European Commission launched the European Fund for Strategic Investments in 2015 to tackle the European Union's widening and persistent gap in investment levels relative to needs as well as historical trends. The European Fund for Strategic Investments was designed to enhance the risk bearing capacity of the EIB Group with the overall aim of supporting investment in the European Union.

While historically, Special Activities have mainly been mandate driven, own-risk Special Activities are expected to play a bigger role going forward. The Corporate Operational Plan for 2021 foresees a further increase in the total share of Special Activities (up to 37% by 2023) – Figure 1. However, due to substantially reduced availability of resources under the InvestEU Fund, a larger share of Special Activities is planned to be undertaken by the Bank at its own risk in the future.[3] The share of own-risk Special Activities is thus, expected to expand from <1% of the overall business mix in 2020 to 17% by 2023.

Figure 1: Share of Special Activities versus Standard Operations in the Bank's business-mix



Source: Evaluation Division own computations based on internal corporate data. Volume orientations for 2021-2023 based on the Corporate Operational Plan 2021. Volume orientations for special activities – risk sharing range from € 11.5 – 14.2 billion. This figure uses the lower end of the range.

The changing business mix has implications for the Bank's business model. Alongside an increase in the scale of Special Activities, various parallel developments are putting the Bank's business model under strain. On the one hand, several Bank-wide factors have been driving up costs since 2008 e.g. Best Banking Practices; heavier compliance, due diligence and disclosure requirements; changing profile of the Bank's operations (smaller operations, newer clients, increasing diversity and complexity of the Bank's product offering). On the other hand, the Bank's surplus has been on a steady decline since 2014, because of the low/ negative interest rate and highly liquid market environment.

1 Defined as (i) lending/guarantee operations with a risk profile as determined by their Loan Grading of D- or below (expected loss of 2% or above); and (ii) equity and equity-type operations.
2 The evaluation only looks at inside European Union and excludes EIB mandates to the EIF – see section on evaluation scope and methodology.
3 Annual business volumes under InvestEU will be 35% lower than the European Fund for Strategic Investment, InnovFin and Connecting Europe Facility taken together.

EXECUTIVE SUMMARY

The objectives of this evaluation

Against the above background, **this evaluation seeks to unpack the trade-offs and links between risk, additionality, cost coverage, profitability and capital intensity of Special Activities**, with the overall aim of supporting evidence-based decision making regarding the future business mix of the Bank. The evaluation therefore, addresses four key questions:

1) How different are the Bank's Special Activities as compared to its Standard Operations in terms of characteristics such as size, counterparts, complexity, financing structures, sectoral and geographic deployment?
2) Do Special Activities provide higher additionality as compared to Standard Operations?
3) What are the cost, capital consumption and profitability implications of Special Activities for the Bank?
4) Is there a valid rationale for the Bank to take more risk with own resources?

Evaluation scope and methodology

The timing of the evaluation was calibrated to feed into the corporate operational plan 2022 discussions. This effectively resulted in a very short timetable for conducting the evaluation (February to July 2021).

To deliver a high quality evaluation within a tight timetable, the scope of the evaluation had to be limited as follows:

- Institutional scope: as the concept of Special Activity only exists in the EIB Statute, the evaluation does not cover the EIF. Moreover, the business delivered by the EIF under EIB mandates (e.g. risk capital resources and the group risk enhancement mandate) – although classified as Special Activity – has been excluded.
- Geographical scope: focus on European Union operations only.
- Temporal scope: the evaluation covers the period 2011-2020, with a focus on 2016-2020.

The evaluation is based on a data driven approach. Most of the analysis is based on raw data extracted from the Bank's internal corporate database and (processed) hard data provided by Services (General Secretariat, Risk Management, Financial Control and Transaction Monitoring and Restructuring). Additional sources were used to (a) add further layers of insights and analysis; and (b) to provide the basis for triangulation. These sources include:

- Internal documents e.g. corporate operational plans, group capital plan, equity strategy, risk management profitability reports, general secretariat annual performance and management reports, general secretariat cost coverage reports, audit committee reports, etc.;
- The three pillar assessments ratings which captures the EIB's contribution to an operation;
- Interviews with Board members, Management Committee members, services and other International Financial Institutions/ National Promotional Banks;
- Online surveys of EIB counterparts (project promoters, financial intermediaries and fund managers);
- Deep dives of 45 projects based on review of project documentation4, project promoter inputs and interviews with EIB loan officers;
- Literature review on investment gaps and financing needs in the areas of climate action and digitalisation;
- Comparative analysis covering five other International Financial Institutions/ National Promotional Banks.

4 This included the Appraisal Fact Sheet, the paper presented to the Board for approval of an operation and the European Fund for Strategic Investments guarantee form (where applicable). For a sub-sample of projects, the projects reports were also reviewed.

EXECUTIVE SUMMARY

Origins and evolution of Special Activities

The Bank has been engaging in higher risk activities since 1997, although these were not labelled as "Special Activities".[5] The Bank's higher risk activities can be traced back to the 1997 Amsterdam Special Action Programme.

The Amsterdam Special Action Programme was financed by the operating surpluses generated by the Bank during 1997-2000. In subsequent years, the Bank continued to finance higher risk operations in support of EU policy objectives through the Structured Finance Facility (2001), the Loan Guarantee Instrument for TENs Transport and the Risk Sharing Finance Facility which were launched following the introduction of the concept of leveraging EU budget resources for EIB-European Committee risk sharing schemes in 2006.

The label "Special Activities" was formally introduced in the Bank's revised Statute in December 2009, following adoption of the Lisbon Treaty. The adoption of the Lisbon Treaty in 2009 provided the EIB with greater flexibility (including a broader range of financial instruments) to support EU policy objectives.[6] The modified EIB Statute formally introduced the term "Special Activities" (article 16.3) and mandated the creation of "a specific allocation of reserve for the Special Activities of the Bank" (article 16.5).

The definition of Special Activities

The definition of Special Activities is based on a loan grading threshold established in 2001. The concept of Special Activities has been operationalised in the Bank's Credit Risk Guidelines as follows:

(i) Lending/guarantee operations with a risk profile as determined by their Loan Grading of D- or below (expected loss of 2% or above). This represents a continuation of the threshold introduced under the Structured Finance Facility in 2001 to classify riskier activities.

5 Operations with a higher risk profile than the Bank normally accepts.
6 The Lisbon Treaty provided more flexibility in EIB financing, including: equity participations as a complement to the ordinary activities of the Bank; the possibility to establish subsidiaries and other entities; the possibility to carry out "Special Activities" and to provide wider technical assistance services; and the strengthening of the Audit Committee.

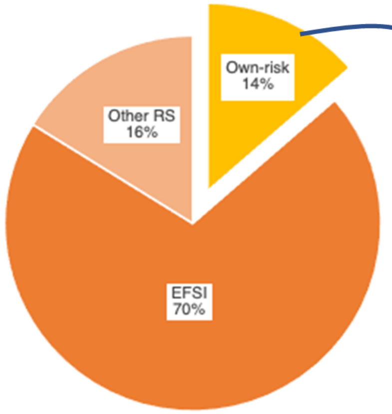
(ii) Equity and equity-type operations (i.e. debt products with a risk profile similar to that of an equity investment e.g. quasi-equity, venture debt).

This results in a binary classification of activities as "Standard" (A to D+) or "Special" (D- to F and equity/ equity-type).

The classification of an operation as "Special Activity" does not automatically translate into higher residual risk for the EIB. Special Activities are of two types: Own-risk and under risk-sharing mandates where third parties absorb part of the risk.

Special Activities under risk-sharing mandates typically represent low residual risk to the EIB due to the existence of counter guarantees/risk mitigants provided to the EIB by third parties (e.g. the European Commission). There are however, some exceptions e.g. pari-passu equity delivered under the European Fund for Strategic Investments which constitutes high risk (and high capital consumption) for the EIB. The bulk of the Special Activity portfolio (86%) is delivered under risk-sharing mandates such as European Fund for Strategic Investments, InnovFin, Connecting Europe Facility, etc. (Figure 2). Own risk represents 14% of the Special Activity portfolio and 2% of the Bank's overall portfolio over the period 2011-2020.

Figure 2: Breakdown of the Special Activity Portfolio



Own-risk Special Activity = € 9.86 billion

LG	SA-OR
D-	5,32
E1+	2,90
E2+	0,41
E3+	0,09
E1-	0,11
E2-	0,00
E3-	0,00
F	0,04
ETI	0,03
ETP	0,96

Source: Evaluation Division own computations based on internal corporate data. Based on net signatures between 2011 and 2020

EXECUTIVE SUMMARY

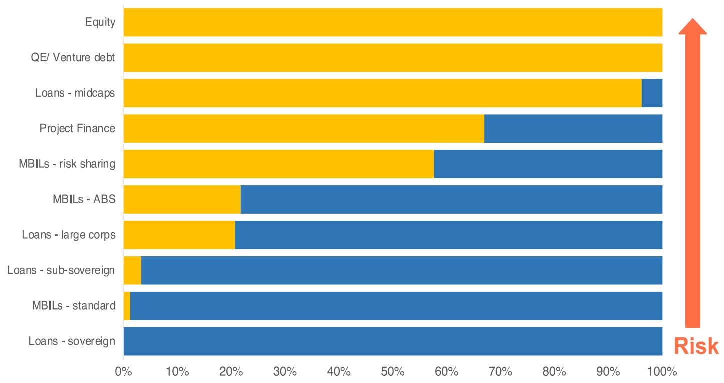
The characteristics of Special Activities vis-à-vis Standard Operations

A big chunk (69%) of the Special Activity portfolio comprises loans to corporates (46%) and project finance operations (23%). The bulk (94%) of the Standard Operations portfolio on the other hand, consists of classical intermediated lending operations (33%), public sector lending (31%) and loans to corporates (29%).

There are differences in the profile of corporate loans classified as Special Activities vis-à-vis those classified as Standard Operations. Corporate lending under the Special Activity portfolio is characterised by a relatively high share of new clients, non-investment grade borrowers, shorter tenors, smaller tickets and higher value added/ innovative sectors.

Special Activities account for all or majority of the signed volume under the more complex products such as: equity & quasi-equity (100% by definition), mid-cap lending (99%), project finance (67%), risk sharing instruments (58%) – Figure 3**.** These higher risk products are a small, but growing share of the overall EIB portfolio.

Figure 3: Mix of Special Activities versus Standard Operations across product groupings



Source: Evaluation Division own computations based on internal corporate data. Net signatures between 2011 and 2020

Overall Special Activities tend to be much smaller in size as compared to Standard Operations. The median size of a Special Activity is € 50 million whereas the median size of a Standard Operation is € 140 million. This tendency is particularly evident in the case of corporate loans where the median size of Special Activities (€ 70 million) is less than half the median size of Standard Operations (€ 145 million). Direct mid-cap loans and quasi-equity operations are even smaller (median size is € 30 million and € 20 million respectively).

The Special Activity portfolio has a much larger share of new borrowers. Special Activities are characterised by a significantly higher share of new clients as compared to Standard Operations, both in terms of the number of clients (86% vs 51% respectively) as well as net signed volumes (64% vs 16% respectively).[7]

There is a significantly higher share of non-investment grade borrowers within the Special Activity portfolio. The higher share of non-investment grade borrowers within the Special Activity portfolio is also evident both in terms of volume (68% vs 13% Standard Operations portfolio) as well as the number of contracts signed (45% vs 18%). There are noticeably lower rated financial intermediaries, sub-sovereign entities, mid-caps and large corporates within the Special Activity portfolio as compared to the Standard Operations portfolio.

7 This is partly explained by the financial structure of products such as equity funds, project finance and Multi beneficiary intermediated loans-asset backed securities operations, which altogether represent 35% of all Special Activity contracts signed with “new” clients. Funds are separate legal entities and hence, considered as new clients. Similarly, Special Purpose Vehicles set up for project finance or asset backed securities operations are considered as new clients although these might have been set up by repeat EIB clients.

EXECUTIVE SUMMARY

EU-15 Member States have a higher share of Special Activity in their EIB financing mix (relative to their gross domestic product as well as the European Union average) as compared to EU-13 Member States: Special Activities represent 15% of the EIB financing mix for EU-15 vs 8% for EU-13. EU-13 Member States on the other hand, have a higher share of Standard Operations in their financing mix. There are several possible explanations for this: financing needs of project promoters and financial intermediaries; the capacity to absorb more complex financial products; existence of regulation / market infrastructure for certain products (e.g. asset backed securities, equity, private debt, venture debt) etc. For higher-income Member States that have greater access to capital, the EIB needs to focus on more difficult or higher-risk projects to provide additionality (see the section on additionality). Moreover, in new/ peripheral Member States higher risk activities such as infrastructure projects, Small and Medium Enterprises financing, etc. tend to be financed by Cohesion Funds/ European Regional Development Funds.

The average tenor for the Special Activity portfolio (11 years) is slightly shorter than the Standard Operations portfolio (13 years). There are however some product level differences. For example, the average tenor for Special Activities is longer for Risk-sharing instruments (15 vs 11 years) and asset backed securities operations (10 vs 7 years).

The additionality of Special Activities as compared to Standard Operations

Additionality is central to the mandate of a public bank, such as the EIB. The concept of additionality reflects the principle that an *intervention should result in something that would not have happened otherwise*. In practical terms, this implies the following:

- The EIB offers something that is not available to a project from commercial sources (input additionality) - see box 1.
- The EIB's contribution makes a difference to the existence, design and functioning of the project or investment activity in terms of its scale, scope, quality, structure and/or timing ("investment additionality").
- The project being financed by the EIB addresses market failures and/ or sub-optimal investment situations.

Box 1: The concept of input additionality

Input additionality can be financial or non-financial. Longer tenors, ticket size, grace period, local currency denomination, flexible amortisation schedule, reduced collateral requirements, interest rates offered or fees charged, subordinated position etc. Non-financial additionality takes the form of innovative product type or financing structure, catalytic effect (crowding-in), financial structuring expertise and technical expertise and advice. For example, EIB financing could be structured to bring expected returns up to market thresholds when returns are too low to be commercially attractive, and hence crowd-in private investors.

In theory, higher risk activities should generate higher additionality. In light of the above concept of additionality, it would be logical to expect that the EIB financing is more needed (and therefore, it makes more of a difference) in case of higher risk projects as private sector appetite /capacity to invest in these is more limited or their return expectation is too high.

EXECUTIVE SUMMARY

The evaluation tested the above proposition using a combination of methods such as project deep dives, surveys and quantitative analysis of Three Pillar Assessment ratings of the two portfolios.[8] As additionality cannot be observed or precisely measured, any assessment of additionality is inherently subjective. The following analysis should therefore, be read with this caveat in mind.

The evaluation finds that input additionality tends to be higher for Special Activities as compared to Standard Operations. When comparing Three Pillar Assessment ratings across the two portfolios, the evaluation finds that Special Activities are more likely to be rated “high” on the “pillar 3- EIB’s contribution to the project” as compared to Standard Operations. In their responses to the Evaluation Division survey, Special Activity counterparts attached greater importance to the EIB’s product offering and size of financing; while cost, loan and repayment conditions were rated as more important features by Standard Operation counterparts. As regards non-financial inputs, project deep dives and survey results show that Special Activities are more likely to feature innovative financing structures or products as compared to Standard Operations. This is to be expected given the nature of products deployed under the Special Activity portfolio.

8 3PA – Three Pillar Assessment is the methodology used by the EIB in 2013-2020 to assess the quality of the project and the value added of the Bank’s support across three dimensions: i) pillar 1 - the contribution of the project to EU policies, ii) pillar 2 - the quality and soundness of the project, iii) pillar 3- the EIB technical and financial contribution to the project. The analysis is based on pillar 3 ratings (at indicator and sub-indicator level).

Special Activities are more likely to crowd-in private sector financing as compared to Standard Operations. A higher proportion of Special Activity counterparts (57% project promoters and 75% financial intermediaries) as compared to Standard Operation counterparts (34% project promoters and 40% financial intermediaries) reported crowding-in effect. Indirect equity operations in particular, tend to have a strong crowding-in effect: 18 out of the 20 fund managers who responded to the survey stated that the EIB’s participation was either critical or had a significant impact on other investors’ decision to invest in the fund. The stronger crowding-in effect for Special Activities was also evident from project deep dives.

There are some differences between Special Activities and Standard Operations as regards the channels through which the EIB's participation crowded-in external financing. The main channel of crowding-in effect for Special Activities is by reducing risk for private investors, whereas in case of Standard Operations, crowding-in mainly takes place via the signaling effect of the EIB’s contribution.

Beyond the crowding-in effect at the level of individual operations, Special Activities also generate significant market-level “demonstration effects”. By demonstrating the viability of specific financial products or operations (e.g. green technologies, vaccine development), EIB intervention can have a strong demonstration effect, thus attracting other investors to the market or creating new markets altogether. The evaluation found several examples of the demonstration effect of Special Activities e.g. opening of the local hybrid bond market, re-launch of the local small and medium enterprises securitisation market in a (COVID-19) crisis context and development of the offshore wind market in Europe.

EXECUTIVE SUMMARY

Special Activities tend to have higher "investment additionality" as compared to Standard Operations. In other words, EIB financing is much more likely to have an impact on the existence, design or functioning of Special Activities as compared to Standard Operations. In a survey conducted by Evaluation Division, 68% of Special Activity project promoters (vs. 40% Standard Operations) reported that EIB financing had an impact on the existence, designing or functioning of their project. Likewise, the absence of EIB financing would have had a negative impact on the small and medium enterprises/ mid-cap lending portfolios (reduced volume of lending, higher interest rates) of a higher percentage of Special Activity counterparts (86%) as compared to Standard Operation counterparts (58%). A vast majority of the surveyed fund managers (17 out of 22) reported that their funds would either not have closed at all or closed with a smaller size and/ or delay. Consequently, these funds would either not have launched or scaled down or excluded investments with a higher risk profile.

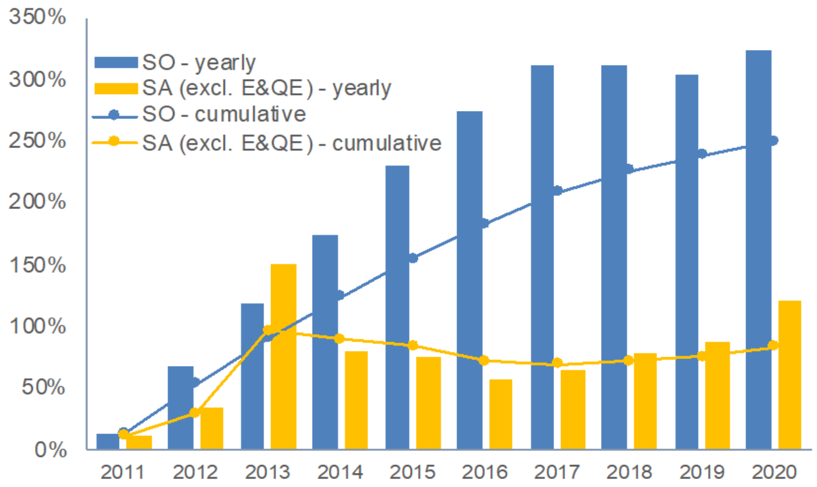
The nature and intensity of market failures or investment gaps being addressed are similar across the two portfolios (except for equity/ venture debt) e.g. market failures in the small and medium enterprise financing, sub-optimal investment in Research & Development or infrastructure, negative environment externalities etc. The evaluation found no evidence to suggest that Special Activities are taking place in sectors, segments or geographies where market failures or investment gaps are more severe. In case of equity and venture debt operations, it can be argued that the EIB backed operations address more severe market failures or sub-optimal investment situations e.g. Venture capital funds address market failures in equity financing for start-ups and small and medium enterprises. Thematic finance under venture debt enables the EIB to support businesses dealing with complex and/or unproven products and technologies in areas such as infectious diseases and energy demonstration.

9 The analysis presented here excludes equity and equity type operations given the absence of an operating revenues recognition policy

Cost, profitability and capital consumption of Special Activities as compared to Standard Operations[9]

The Special Activity portfolio has not been cost covering over the period 2011-2020. Although the annual cost coverage of Special Activities has improved in recent years (it crossed 100% in 2020 and can be expected to improve further in the coming years as more operations generate revenue), the cumulative cost coverage of Special Activities over the period 2011-2020 remains below 100%. In comparison, the Standard Operations portfolio achieved a cumulative cost coverage ratio of 250% in 2020 - Figure 4. The evaluation finds that the typical cost of Special Activities is higher than Standard Operations. Over a ten-year period (2011-2020), the share of cumulative costs over net signed volumes for the Special Activity portfolio is 0.8% as compared to 0.3% for the Standard Operation portfolio. This implies that for Special Activities, the cost per € signed is circa three times higher than Standard Operations over the period 2011-2020.

Figure 4: Yearly and cumulative cost coverage of Special Activities vis-a-vis Standard Operations (2011-2020)



NB: To put all groups on an equal footing we only consider operations created from 2011 to 2020, hence all groups are "penalized" by the time lag between revenues and costs (i.e. "time to generate revenues").

Source: Evaluation Division own computations based on internal corporate data. Based on net signatures between 2011 and 2020. Computation are based on all operations created from 2011 to 2020. The figures exclude pre-signature attrition, but include post-signature attrition.

EXECUTIVE SUMMARY

Special Activities have higher origination and monitoring costs. Various characteristics of Special Activities drive-up operating costs such as new counterparties (e.g. the need to perform know your customer checks, higher monitoring costs due to clients being unfamiliar with EIB procedures), new sectors, more complex operations (higher due diligence costs) and smaller size of operations (larger number of operations for same volume as compared to Standard Operations). Additionally for risk-sharing Special Activities, mandate specific costs also contribute to poor cost coverage of operations (e.g. mandate governance, contracting, monitoring, reporting, awareness raising). These costs tend to be fixed in nature and account for 15% of a mandate's total operating costs.

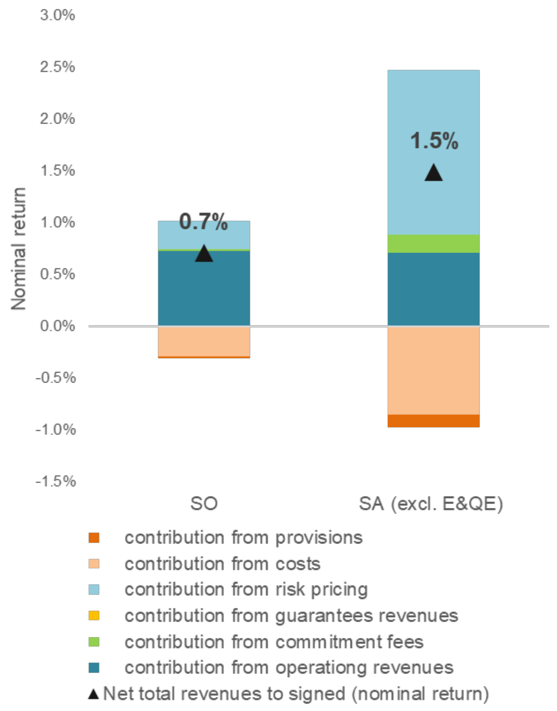
Smaller size and higher attrition rates affect the operating revenues generated by Special Activities. As Special Activities tend to be much smaller in size as compared to Standard Operations, they have a lower revenue generating capacity for a given margin. Moreover, Special Activities have a higher post signature attrition rate (7% vs 3% for Standard Operations) and lower disbursement rates (78% vs. 84%). It is believed that pre-signature attrition rates are significantly higher for Special Activities as compared to Standard Operations, but this could not be tested as part of this evaluation due to data issues.

Box 2: Size matters

The median cumulative cost of Special Activities is higher than that of Standard Operations, while the median ticket size of Special Activities is less than half of that of Standard Operations. This has a negative impact on the Bank-wide cost coverage ratio (due to higher cost per operation and higher number of operations for a given volume). Operations in the size bucket of € 50 to 75 million have just about been cost covering (109%), while below that level operating revenues have not been covering operating costs. While risk pricing significantly contributes to improving the revenue generation capacity and profitability of Special Activities, it does not fully counter-balance the impact of a very small ticket size. Below € 50 million, even total revenues have not been enough to cover operating costs.

However, when risk pricing is retained, Special Activities are more profitable than Standard Operations. The cumulative (2011-2020) nominal returns are higher for Special Activities as compared to Standard Operations – Figure 5.[10]

Figure 5: Cumulative (2011-2020) nominal returns (net revenues to signed volume) of Special Activities and Standard Operations



Source: Evaluation Division own computations based on internal corporate data. Computation are based on all operations created from 2011 to 2020. The figures exclude pre-signature attrition, but include post-signature attrition

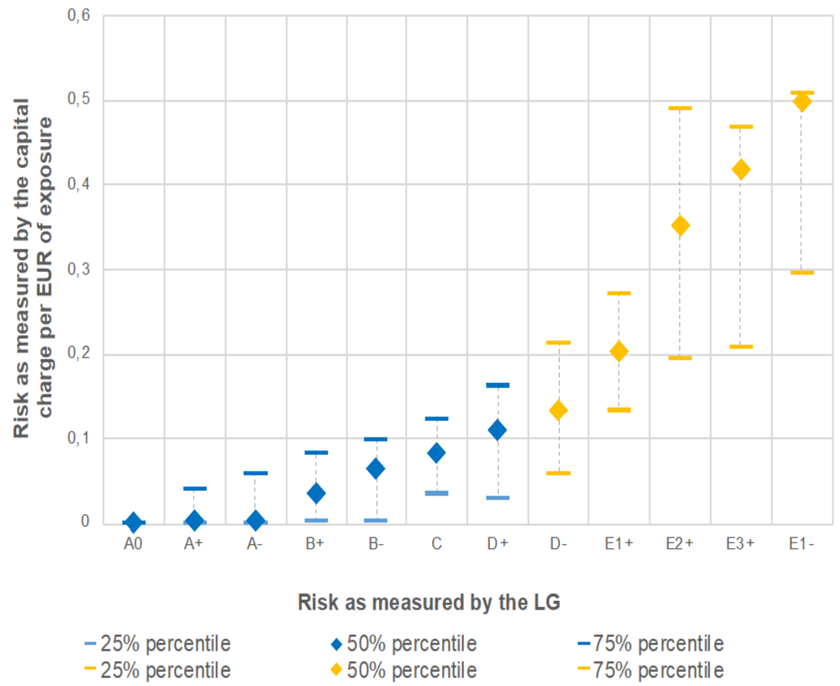
10 Nominal return for Special Activities is computed on the basis that the EIB retains all risk pricing revenues in the case of mandates. Hence they represent the maximum returns that can be achieved under full retention of risk pricing revenues. Note that the negative impact of provisioning is under-estimated in the Evaluation Division analysis as it only includes the part incurred by the EIB. The part under mandators' risk coverage is excluded, although it has been small inside the European Union.

EXECUTIVE SUMMARY

Risk pricing revenues have a much bigger positive impact on the profitability of Special Activities as compared to Standard Operations. There is a strong asymmetry in the revenues composition of Special Activities vis-à-vis Standard Operations. Operating revenues accounted for the bulk of Standard Operations total revenues. While, as expected, risk pricing revenues accounted for a larger share of Special Activities total revenues.

Although Special Activities are more capital intensive than Standard Operations, there is no cliff effect at D- loan grading. Figure 6 shows the capital intensity of own-risk operations for different loan grading buckets (i.e. the % of economic capital consumed per euro of signed exposure). As can be expected, both risk metrics are correlated, i.e. the lower the Loan grading the higher the capital charge, hence Special Activities are more capital intensive than Standard Operations. However more importantly, the analysis reveals that there is no cliff effect at loan grading D- as far as capital intensity is concerned (the same also applies to cost coverage profitability).

Figure 6 Link between capital intensity and loan grading[11]



Source: Evaluation Division computation based on internal corporate data.
NB: LG: loan grading. They are only very few contracts at own risk in the E2+ or lower loan grading buckets. This means that the results for these loan grading buckets are driven by a few specific contracts. These have hence been excluded

11. The capital charge proxy is computed as the % of economic capital (ECap) to signed exposure. Higher the value, higher the riskiness. Computations are based on pooling three vintages, namely December 2018, 2019 and 2020. Only contracts fully at own risk and inside European Union and European Free Trade Association are considered. The chart show the 25, 50 and 75 percentiles of the capital charge distribution across the different loan gradings.

EXECUTIVE SUMMARY

Relevance of Special Activities going forward

Europe has very large investment needs. Europe's investment needs for delivering the green transition and digital transformation are estimated to be at least € 595 billion per year according to the European Commission.[12] McKinsey estimates that reaching the net-zero CO2 emissions target alone would require an annual investment in the order of € 900 billion in clean technologies and techniques over the next 30 years.[13] Both the public and private sector will need to significantly step-up investment to achieve the European Union's structural transformation.

While European Union and national spending will support public investment, private sector capacity to invest will be reduced in a post-COVID context. The Next Generation European Union fund will provide substantial funding (€ 750 billion) to Member States to finance greener, more digital and more resilient post-COVID economies. This is likely to result in decreasing demand for classical EIB loans from public sector borrowers. However, access to finance already remains a major long-term impediment to corporate investment in several EU economies and at least a minor impediment in all European Union Member States. The COVID-19 crisis is likely to exacerbate finance constraints and therefore the private investment gap. Overall, with reduced earnings and increased debt, the investment vs. debt trade-off will become more acute for corporates.

12 Commission staff working document. Identifying Europe's recovery needs, (2020) 98 final, 25 May 2020. The above estimates provide a conservative benchmark for adequate green investment levels as it was not possible to quantify all green investment needs.

13 McKinsey (2020) Net-Zero Europe Decarbonization pathways and socioeconomic implications.

14 The Next Generation European Union fund will provide substantial funding (EUR 806.9 billion) to Member States to finance greener, more digital and more resilient post-COVID economies. This may result in decreasing demand for classical EIB loans from public sector borrowers.

A range of products along the risk spectrum will be required to stimulate/ de-risk private sector investment. Mobilising capital for these investments will require public sector interventions i.e. reducing investment risks and employing new financing models and products. For example, capital market innovations such as asset-backed securities, and risk guarantees could accelerate decarbonisation by reducing the cost of capital through securitising decarbonisation projects. Similarly, accelerating innovation in cutting edge technologies (High Performance Computing, Artificial Intelligence and Blockchain, Key Enabling Technologies etc.) requires the deployment of riskier financial instruments, such as private equity, venture capital, hybrid debt (or venture debt) or blended finance. Markets for these riskier products are however, underdeveloped in Europe and there is a shortfall of private risk capital, leading to an investment gap with respect to the main competitors, notably the United States of America (as well as a financing gap with respect to the demand emanating from the innovating businesses). There is therefore a rationale for public funding of these inherently risky activities through innovative financing structures or products.

Conclusions and strategic considerations

At the core of the evaluation lies the following question: should the EIB be taking higher risk in the form of Special Activities? The answer to this question is yes, Special Activities are relevant and necessary for the following reasons:

- Special Activities generate higher additionality, have enabled the Bank to reach out to new clients and sectors, and develop products that respond to shifting market dynamics and evolving market needs (e.g. Asset-backed securities, mid-cap lending, quasi-equity/ venture debt, etc.). Special Activities therefore, contribute to strengthening the Bank's institutional distinctiveness and competitive position, especially in mature markets and in a market context characterised by low/negative interest rates and high liquidity.[14]

EXECUTIVE SUMMARY

- Exclusive reliance on Standard Operations will almost certainly not deliver the Bank's ambitious climate action and digital targets. Riskier instruments (equity, hybrid debt, subordinated debt, blended instruments) are needed to address the European Union's investment gaps in critical sectors. If the EIB wishes to be at the forefront of financing the European Union's transition to a carbon neutral and digital economy, it will need to develop products that respond to market needs and address these gaps.
- Special Activities are profitable over the longer term due to risk pricing. There are however two caveats to this finding: (i) although the evaluation provides longer term evidence on additionality, cost, profitability etc. (covering the period 2011-2020), it is unable to provide a full lifecycle analysis for Special Activities as the bulk of the portfolio is still young and the full effects of the COVID-19 crisis have not yet materialized; (ii) the evaluation demonstrates that the Special Activity portfolio is quite heterogeneous, comprising a range of product lines with differences in characteristics, additionality, cost coverage and profitability. The Bank therefore, needs to be mindful of product level differences when making decisions. For example, the project finance portfolio and Special Activity portfolio of loans to large corporates have been cost covering and profitable, while the portfolio of loans to mid-caps has not (yet) been cost covering or profitable.

Finding the sweet spot. In finding the balance between the mix of Standard Operations and Special Activities on the one hand and between own-risk and risk-sharing Special Activities on the other hand, the following trade-offs need to be considered:

- Special Activities generate higher additionality, but are more capital intensive than Standard Operations.
- Special Activities have lower (statutory) cost coverage, but are more profitable than Standard Operations when all risk pricing is retained by the Bank.

When determining the balance between own-risk versus risk-sharing mandate Special Activity, the Bank should consider the following trade-offs

- Special Activities under risk-sharing mandates result in lower residual risk for the Bank, but involve higher costs and have lower profitability (due to retrocession of risk pricing).[15] In other words, the higher the size of the guarantee coverage or the First Loss Piece (FLP), the lower the residual risk retained by the EIB. But on the flip side, profitability is also lower (or even negative as in the case of the European Fund for Strategic Investments) due to retrocession of risk pricing.
- Own-risk Special Activities entail more risk (>> more capital intensive), but have higher profitability for the EIB when all risk pricing is retained. Although higher profitability comes with higher volatility in the profit and loss account.
- Own-risk Special Activities would provide greater strategic autonomy to the Bank (in determining product choices and features, governance aspects for example) and reduce the Bank's dependence on third parties.
- A much larger share of the revenues for Special Activities comes from risk pricing, as compared to Standard Operations. This is an important consideration for negotiating retrocession of risk pricing with mandators.

15 This is due to the existence of mandate specific costs. According to the Services' analysis, fixed costs of a mandate can be up to 15% of its lifetime costs.

EXECUTIVE SUMMARY

Recommendations

Recommendation 1: Higher risk products need to be strongly anchored in the expectation of higher additionality and impact, while balancing financial sustainability considerations. In order to achieve this, the Bank should improve its capacity to understand and analyse the additionality and impact of each product line along with its full lifecycle cost coverage and profitability.

(i) The Audit Committee has previously flagged the need for the Bank to improve its "capacity to analyse revenue and expense drivers as well as cost coverage with the aim to ensure adequate profitability per product and per mandate". The evaluation reinforces the Audit Committee's recommendations. Furthermore, it is recommended that the Bank extends the ongoing product level analysis of cost coverage and profitability to also include additionality and impact (both expected and delivered) as measured through the additionality and impact measurement framework. This will enable the Bank to better understand the performance of each product line and to take evidence based decisions regarding which product lines to develop and which ones to drop.

(ii) Ensure that the additionality and impact measurement is monitored and all (sub-indicators) are filled, particularly at completion. This would not only enable a comparison between expectations versus achievements, but also enable the Bank to take business decisions based on what was actually delivered in terms of additionality and impact.

(iii) Conduct *ad hoc* impact evaluations of some specific higher risk products to better understand their impact and the mechanisms at play.

(iv) Explore the possibility of using data science to better understand the interlinkages and relationships between the characteristics (e.g. counterpart type, size etc.) and performance of operations as well as products (cost coverage, profitability, capital consumption, additionality and impact).[16] Factors such as risk, counterpart type (new vs repeat, Investment Grade vs non-Investment Grade, public/ private, large corporate vs mid-cap) sector, geography, ticket size, tenor etc. affect- to varying degrees - cost coverage, profitability, capital consumption, additionality and impact. Data science can help (a) connect the dots, i.e. the patterns, interlinkages and relationships between these variables and (b) understand how the inter-linkages and relationships between product/ operation characteristics, risk, capital consumption, cost coverage, additionality and impact might change during a crisis context or over an economic cycle.

Recommendation 2: The Bank should explore and implement specific measures to improve the cost coverage of Special Activities.

Several actions are being taken to improve the sustainability of the Bank's business model, e.g. revised framework for the administrative mark-up and upfront fees applicable to lending operations, implementation of the recommendations of the Audit Committee, introduction of Capital Sustainability Policy, Group Equity Strategy, Digitalisation strategy, etc. These broader measures aimed at improving Bank-wide cost coverage and profitability are acknowledged and appreciated. However, the Bank should also explore and implement specific measures to improve the cost coverage of Special Activities.

16 Data science is a multi-disciplinary approach applying mathematics and statistics, using specialised programming, predictive analytics and artificial intelligence (AI), including machine learning and deep learning models to extract actionable insights buried in huge volumes of data.

EXECUTIVE SUMMARY

Examples of such measures (depending on the suitability of these measures for specific product lines) could include increased standardisation of products, streamlining of procedures for smaller ticket sizes, converting new clients into repeat clients, limiting the number of product variations, etc. Streamlined procedures for small projects could include i) more flexibility and Services' support for programmatic approaches, ii) refining the scope of appraisal/ due diligence so that it is proportional to size and complexity of operations, iii) more delegation to Directors and Management Committee for approvals, and iv) (for partial delegation risk sharing instruments) more reliance on intermediaries' internal credit reviews.

Recommendation 3: The Bank should consider re-assessing the suitability of the D- threshold and/or dropping the nominal hard limit on own-risk Special Activity (introduced in the 2021 corporate operational plan) in light of the evaluation findings and the broader context (changing business model of the Bank, shifting market dynamics and evolving needs).

The evaluation shows that there is no capital intensity cliff effect at loan grading D-. The capital intensity is correlated with loan grading buckets, the lower the loan grading , the higher the capital intensity: i) capital intensity of operations with a loan grading of D- are close to that of D+ operations; ii) operations with a loan grading of D- are much less capital intensive than those with a loan grading of E2+. Indeed the rate of increase in capital intensity is increasing as one moves down the loan grading scale. This is due to the convexity of capital intensity as well as the fact that the range of expected losses covered by a given loan grading bucket is increasing.

The 2021 Group Operational Plan introduces, for the first time, a nominal ceiling on the new signature volume of own-risk Special Activity.[17] The Bank should consider discontinuing this nominal ceiling, which is based on the binary designation of Special Activity. This limit is not necessary as the Group capital planning is already based on more sophisticated risk based methods.[18] On the other hand, it potentially imposes a constraint on delivery. For example, a nominal ceiling could be hit by concentrating new Special Activities business in the D- range, while consuming relatively little capital. A nominal ceiling cannot reflect the heterogeneity of capital intensity across loan grading . This applies to both Standard Operations and Special Activities operations. The Capital Plan provides orientations for new business of capital allocation by business line, Group entity and lending type.

More widely, the evaluation raises into question the appropriateness of the D- threshold for Special Activities. The label "Special Activities" was formally introduced under Article 16.3 of the Bank's revised Statute in December 2009 (following adoption of the Lisbon Treaty). The introduction of the "Special Activity" concept under the new Statute provided the Bank with a clear legal basis to undertake higher risk financing on its own for the first time. Special Activities are described in the Statutes as presenting a specific risk profile for which a specific reserve allocation is prescribed under Article 16.5. The concept was operationalised in the Bank's Credit Risk Guidelines in 2010 on the basis of the D- loan grading threshold and all equity type operations. This was a continuation of the threshold introduced in 2001 used to classify activities under the Structural Finance Facility. Since 2001, both the wider market and policy context as well as the Bank's business model have significantly changed. In light of these wider trends and the evaluation findings, the Bank should consider re-assessing the suitability of the D- threshold for Special Activities.

17 The decision dated December 2020: Special Activities–own risk (excluding EIF activities) up to € 4.9 billion for 2021.

18 Economic, regulatory and risk-adjusted capital radio requirements are based on underlying riskiness of each transaction irrespective of the binary Special Activities/ Standard Operations designation prescribed by the Statute.

02

MANAGEMENT RESPONSE

MANAGEMENT RESPONSE

The Management Committee welcomes the valuable analysis and conclusions of the evaluation of EIB Special Activities. The Management Committee agrees with the recommendations proposed in the Evaluation Report.

Overall, the Management Committee also welcomes the conclusion that Special Activities are relevant and necessary to generate higher additionality and to develop products addressing evolving market needs. This strengthens the Bank's strategic positioning and is needed to deliver on EIB's ambitious goals in key policy areas such as climate and digital.

To optimise the use of Special Activity, it will be important to further analyse and understand the relation between capital employed by Special Activity operations and its impact.

The evaluation finds that Special Activities are profitable over the longer term contributing to EIB financial sustainability. However, the Management Committee takes note that there are cost coverage concerns for some Special Activities. It is important to ensure that the remuneration of capital employed is no lower for Special Activities than it is for standard operations.

The conclusions of the evaluation of the Special Activities will be duly taken into account when preparing for the future strategic orientations for the EIB Group.

The Management Committee would like to thank the Inspectorate General for the evaluation and its actionable recommendations for strengthening the impact and financial sustainability of EIB Special Activities.

MANAGEMENT RESPONSE

Recommendation 1:

Higher risk products need to be strongly anchored in the expectation of higher additionality and impact, while balancing financial sustainability considerations. In order to achieve this, the Bank should improve its capacity to understand and analyse the additionality and impact of each product line along with its full lifecycle cost coverage and profitability.

i. The Audit Committee has previously flagged the need for the Bank to improve its "capacity to analyse revenue and expense drivers as well as cost coverage with the aim to ensure adequate profitability per product and per mandate". The evaluation reinforces the Audit Committee's recommendations. Furthermore, it is recommended that the Bank extends the ongoing product level analysis of cost coverage and profitability to also include additionality and impact (both expected and delivered) as measured through the additionality and impact measurement framework. This will enable the Bank to better understand the performance of each product line and to take evidence based decisions regarding which product lines to develop and which ones to drop.

ii. Ensure the additionality and impact measurement is monitored and all (sub- indicators) are filled, particularly at completion. This would not only enable a comparison between expectations versus achievements, but also enable the Bank to take business decisions based on what was actually delivered in terms of additionality and impact.

iii. Conduct ad hoc impact evaluations of some specific higher risk products to better understand their impact and the mechanisms at play.

iv. Explore the possibility of using data science to better understand the interlinkages and relationships between the characteristics (e.g. counterpart type, size etc.) and performance of operations as well as products (cost coverage, profitability, capital consumption, additionality and impact). Factors such as risk, counterpart type (new vs repeat, investment grades non-investment grade, public/ private, large corporate vs mid-cap) sector, geography, ticket size, tenor etc. affect- to varying degrees - cost coverage, profitability, capital consumption, additionality and impact. Data science can help (a) connect the dots, i.e. the patterns, interlinkages and relationships between these variables and (b) understand how the inter-linkages and relationships between product/ operation characteristics, risk, capital consumption, cost coverage, additionality and impact might change during a crisis context or over an economic cycle.

MANAGEMENT RESPONSE

Management Response: Agreed

The Management Committee recognizes the importance to demonstrate additionality and impact, while balancing financial sustainability considerations, for Special Activities as it is for all other types of operations.

With the rollout of the Additionality and Impact Measurement framework on January 1, 2021, the EIB has further strengthened its capacity to understand, measure and analyse additionality and impact in every operation, across all products and geographies, in a unified manner.

While the additionality and impact measurement framework is primarily a tool to assess the additionality and impact of individual operations, it can also be used to obtain information about product lines in order to assess them.

This recommendation will be taken forward as follows:

i. EIB services will continue to prepare periodic reports on additionality and impact on an aggregated level per product type. The reports will be made available to the Bank's governing bodies, as per the existing good practice under the previous frameworks for measuring value added (the 3-Pillar Assessment and the Results Measurement framework).

ii. The additionality and impact measurement framework is used at all relevant stages of the project cycle, both for ex-ante (appraisal and pre-appraisal) and ex-post (monitoring) assessment of operations. Strong quality assurance is a key element of the additionality and impact measurement framework, as it was for three pillar assessment /Results measurement framework. Services are committed to ensure quality control of the entire framework through effective operational processes.

iii. In the context of the periodic reports on additionality and impact (point (i) above), EIB services will conduct deeper analysis of selected higher risk products and present related findings in the appropriate manner. The EIB has also a research program in place to conduct impact assessment on specific products, including a forthcoming study on venture debt, due to be delivered in Q1 2022. The 2022 EIB Client Survey will offer additional deeper insights into market gaps and client satisfaction with existing products.

iv. Supported by the recent implementation of a new advanced financial risk platform, the Bank will also further ramp-up its capacity for analytical profitability monitoring, including risk-return indicators.

MANAGEMENT RESPONSE

Recommendation 2:

The Bank should explore and implement specific measures to improve the cost coverage of Special Activities. The EIB services should make specific proposals to the Management Committee to this effect.

Several actions are being taken to improve the sustainability of the Bank’s business model, e.g. revised framework for the administrative mark-up and upfront fees applicable to lending operations, implementation of the recommendations of the Audit Committee, introduction of Capital Sustainability Policy, Group Equity Strategy, Digitisation strategy, etc. These broader measures aimed at improving Bank-wide cost coverage and profitability are acknowledged and appreciated. However, the Bank should also explore and implement specific measures to improve the cost coverage of Special Activities. Examples of such measures (depending on the suitability of these measures for specific product lines) could include increased standardisation of products, streamlining of procedures for smaller ticket sizes, converting new clients into repeat clients, limiting the number of product variations, etc.

Streamlined procedures for small projects could include i) more flexibility and Services’ support for programmatic approaches, ii) more limited appraisal scope/scale, iii) more delegation to Directors and Management Committee for approvals, and iv) (for partial delegation risk sharing instruments) more reliance on intermediaries’ internal credit reviews.

MANAGEMENT RESPONSE

Management Response: Agreed

The Management Committee agrees with the recommendation to explore and propose measures to improve the cost coverage of Special Activities.

In fact, and as noted by the Evaluation, the Bank has already taken a number of steps to improve the cost coverage of Special Activities. In addition, the existing reporting on profitability of product lines allows to monitor the cost coverage and profitability of Special Activities. The Bank will continue to improve tools at its disposal to enhance the measurement of cost coverage of standard and Special Activities, as well as the way in which cost coverage and profitability are presented.

The Management Committee takes note that the cost coverage and profitability of the different Special Activities products and segments is not uniform For this reason, improving cost coverage of individual Special Activities products will require detailed assessment and understanding of revenue and cost drivers and risk-adjusted returns of each Special Activities sub segment (as acknowledged in recommendation 1). This is something that is already under active development in the bank as noted above.

A better understanding of Special Activities at product level and their profitability relative to additionality and impact will allow the Bank to better focus its resources in those areas where it can most efficiently and effectively generate value. However, this should not preclude the EIBs selective pursuit of certain (in particular, new) activities where the cost coverage prognosis may initially be poor. This could be particularly the case when considering new products or new strategic mandates/partnerships. Other important considerations to improve the cost coverage of Special Activities could also include the review of the composition of Special Activities business (including minimum size for direct interventions), the delivery mode for small operations (direct vs. intermediated), the review of revenue sharing arrangements with mandators (given its historic negative contribution to the cost coverage of Special Activities), the review of cost-coverage and profitability of Special Activities inside European Union and Outside European Union and standardization/rationalization of EIBs management responsibilities across mandators and mandates.

In relation to the standardization of products and/or limiting the number of product variations, this is an important point, bearing in mind however that one of the key strengths of the EIB is its ability to accommodate and adapt its products to the specific needs of various clients and markets. Notwithstanding this, the Bank commits to put (new) products to the test of being able to achieve sufficient scale to be cost covering.

MANAGEMENT RESPONSE

Streamlining and delegation [19] are important aspects of the Bank to be more efficient, reduce the time to market, and therefore to manage the costs of its operations. The Bank aims to reduce its time to market, and has committed to review its processes and its delegation framework. The Bank will need to ensure that there is a proper balance between the enhanced efficiencies that could be achieved through streamlined processes on the one hand, and the need to continue to undertake thorough due diligence on all risk aspects on the other.

Recommendation 3:

The Bank should consider re-assessing the suitability of the D- threshold and/or dropping the nominal hard limit on own-risk Special Activity (introduced in the 2021 COP) in light of the evaluation findings and the broader context (changing business model of the Bank, shifting market dynamics and evolving needs).

The evaluation shows that there is no capital intensity cliff effect at loan grading D-. The capital intensity is correlated with loan grading buckets, the lower the loan grading, the higher the capital intensity:

i. capital intensity of operations with a loan grading of D- are close to that of D+ operations;

ii. operations with a loan grading of D- are much less capital intensive than those with a loan grading of E2+. Indeed the rate of increase in capital intensity is increasing as one moves down the loan grading scale. This is due to the convexity of capital intensity as well as the fact that the range of expected losses covered by a given loan grading bucket is increasing.

The 2021 Group Operational Plan introduces, for the first time, a nominal ceiling on the new signature volume of own-risk Special Activity. The Bank should consider discontinuing this nominal ceiling, which is based on the binary designation of Special Activity. This limit is not necessary as the Group capital planning is already based on more sophisticated risk based methods. On the other hand, it potentially imposes a constraint on delivery. For example, a nominal ceiling could be hit by concentrating new Special Activities business in the D range, while consuming relatively little capital. A nominal ceiling cannot reflect the heterogeneity of capital intensity across loan grading . This applies to both Standard Operations and Special Activities operations. The Capital Plan provides orientations for new business of capital allocation by business line, Group entity and lending type.

19 In terms of delegation, a delegation of implementation of operations or specific programmes with financial intermediaries is not to be confused with a delegation of decision making powers that are conferred on the Board of Directors

MANAGEMENT RESPONSE

More widely, the evaluation raises into question the appropriateness of the D- threshold for Special Activities. The label “Special Activities” was formally introduced under Article 16.3 of the Bank’s revised Statute in December 2009 (following adoption of the Lisbon Treaty). The introduction of the “Special Activity” concept under the new Statute provided the Bank with a clear legal basis to undertake higher risk financing on its own for the first time.

Special Activities are described in the Statutes as presenting a specific risk profile for which a specific reserve allocation is prescribed under Article 16.5. The concept was operationalised in the Bank’s credit risk guidelines in 2010 on the basis of the D- loan grading threshold and all equity type operations. This was a continuation of the threshold introduced in 2001 used to classify activities under the Structural Finance Facility. Since 2001, both the wider market and policy context as well as the Bank’s business model have significantly changed. In light of these wider trends and the evaluation findings, the Bank should consider re-assessing the suitability of the D- threshold for Special Activities.

Management Response: Agreed

The Management Committee agrees with this recommendation.

The concept of Special Activities is firmly integrated in many of the Bank’s core policies and processes, such as the Credit Risk Guidelines, and is a widely used proxy in internal and external discussion for investment grade vs non-investment grade assets.

Special Activities have also been incorporated into operational planning, where it is used to steer (and limit) activities that present a higher risk profile and are associated with higher than average capital consumption.

However, the scope and scale of the Bank`s activities have increased significantly since the Special Activity concept was introduced in the EIB’s Statute in 2009, as the Bank responded to evolving market needs and the ambitions of its Member State shareholders; what was ‘special’ at the time is not necessarily exceptional today in a much changed context.

The binary Special Activities classification has been retained in the operational planning exercise, and a nominal ceiling on own-risk Special Activities was decided by the Board in the EIB Group Operational Plan 2021. As the evaluation has pointed out, the Special Activities classification itself is only a proxy for e.g. the riskiness and capital intensity of the underlying transactions, and there is no cliff effect at D- Loan Grading, which is the entry point to Special Activities.

MANAGEMENT RESPONSE

In fact, the Bank has already developed more sophisticated capital based tools to steer the quantum of business delivery, which are more sensitive to the underlying risk of individual projects and better suited to steer the sustainability of the Bank. The Bank's capital calculations and capital planning processes treat risk as a continuum and to this end are not dependent on the Special Activities classification. This is also reflected in the Group Operational Plan including a decision on maximum allocation of capital for business implementation. Consequently, a specific limit on Special Activities may be eventually redundant.

In order to identify operations with higher risk profile and support planning precision, the binary approach currently applied may need to be replaced by other, possibly more granular risk categories for business and capital planning purposes. Exactly how these new categories should be defined will require further analysis and the adaptation of related business planning processes.

Building on recommendation 3 of this evaluation the Bank may also consider, in the longer term, to initiate a comprehensive review of the Bank's policies and processes, at present firmly anchored in the concept of Special Activities, as set out under Articles 16.3 and 16.5 of the Bank's Statute and implemented by the relevant decisions of the Board of Governors and Board of Directors.

This review may eventually lead to a discussion with the Bank's Governing Bodies on a review of the existing legal framework resulting from the statutory provisions and the relevant decisions taken by the Governing Bodies to implement them. Depending on the scope of any changes proposed, such new framework may require an approval by the Board of Directors and, possibly, the Board of Governors, or even an amendment of the Statute.

03

INTRODUCTION TO THE EVALUATION

THE CONTEXT FOR THIS EVALUATION

Rationale and evolution of special activities

Pre-Lisbon Treaty

- The Bank has been engaging in higher risk activities since 1997, although these were not labelled as "Special Activities". The Bank's higher risk activities can be traced back to the 1997 Amsterdam Special Action Programme which (a) included a "special small and medium enterprise window" to support technology related and high growth small and medium enterprises through risk-sharing instruments, subordinated finance and venture capital facilities; and (b) extended the Bank's lending activities to social housing, education and health. Amsterdam Special Action Programme was financed by the operating surpluses generated by the Bank during 1997-2000. As these higher risk instruments exceeded the structure provided by the Statute at that time, a limited exception to the statutes could be justified on the basis of dedicated (fully funded upfront) capital allocations.
- In subsequent years, the Bank continued to finance higher risk operations in support of European Union policy objectives:
    - In 2001, the EIB established the Structured Finance Facility which enabled the Bank to finance projects with a higher risk profile and provide more flexible financing solutions (e.g. project finance, equity and mezzanine financing etc.);
    - In 2005, the Bank's strategy of "taking more risk, in a controlled manner for more value-added in support of European Union policies" was endorsed by the Board of Governors;
    - In 2006, the concept of leveraging European Union budget resources and EIB-European Commission risk-sharing facilities/schemes was introduced. These included the Loan Guarantee Instrument for TENs Transport and the Risk Sharing Finance Facility.

Post-Lisbon Treaty

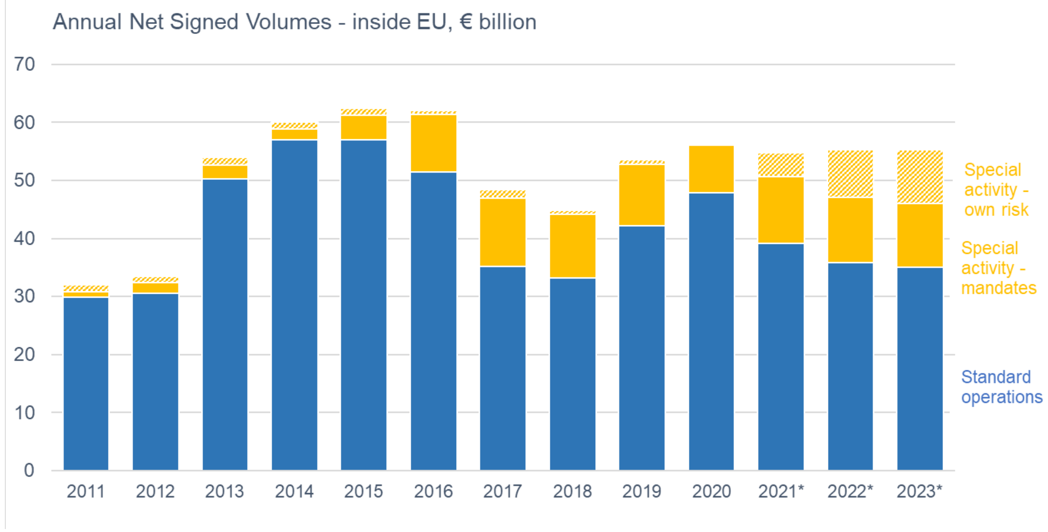
- The label "Special Activities" was formally introduced under Article 16.3 of the Bank's revised Statute in December 2009 (following adoption of the Lisbon Treaty).
- The introduction of the Special Activities concept under the new Statute provided the Bank with a clear legal basis to undertake higher risk financing on its own for the first time. Special Activities are described as presenting a specific risk profile for which a specific reserve allocation is prescribed under Article 16.5
- The concept was operationalised in the Bank's credit risk guidelines in 2010 on the basis of the D- loan grading threshold. This was a continuation of the threshold introduced in 2001 used to classify activities under the structured finance facility.

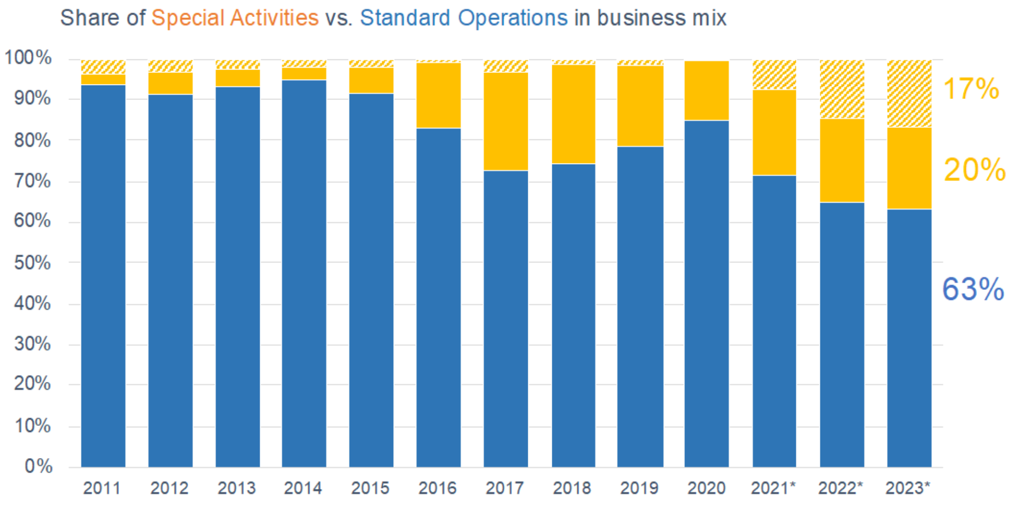
European Fund for Strategic Investment – scaling up of Special Activities and changing the Bank DNA

- In a context of declining investment level in Europe, the European Fund for Strategic Investment enhanced the EIB's risk taking capacity in order to mobilise resources to address market failures and sub-optimal investment situation in the European Union.

THE CONTEXT FOR THIS EVALUATION

Changing risk profile of the Bank's activities





There has been a **significant increase in the volume of Special Activity** in both absolute and relative terms **since the launch of the European Fund for Strategic Investment in 2016**

The share of Special Activity in overall business mix increased from **7% (2011-2015)** to **21% (2016-2020).** In absolute terms, it grew from € 17 billion to € 55 billion over the same period

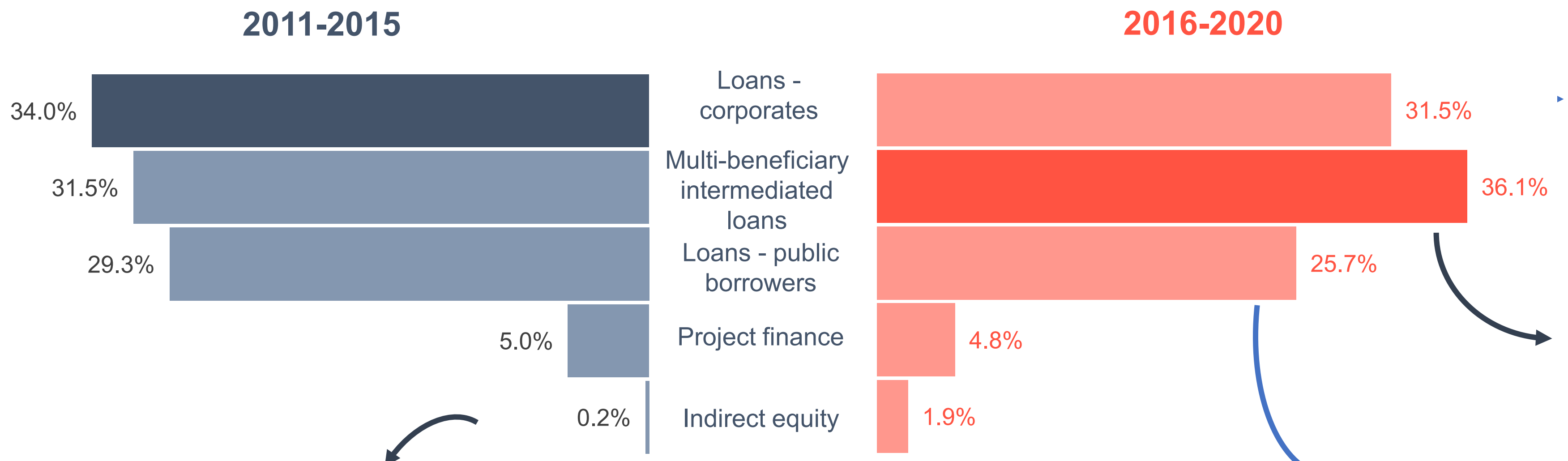
Going forward, the share of **Special Activity is expected to expand to 37%** of the business mix by 2023 (as per corporate operational plan 2021)

Own-risk Special Activity is expected to play a bigger role in future: growing from <1% in 2020 to 17% of inside European Union business volume in 2023 (as per corporate operational plan 2021)

Data source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grading at signature. Volume data up to December 2020 are based on net signatures of non cancelled contracts for which the operation is fully in the European Union and for which no loan grading is missing.
**Volume orientations for 2021-2023 based on the Operational Plan 2021. Volume orientations for special activities – mandates range from € 11.5 – 14.2 billion. This figure uses the lower end of the range.*

THE CONTEXT FOR THIS EVALUATION

Increasing diversity and complexity of the Bank's product offering



- Direct lending to mid-caps since 2013
- Quasi-equity/ venture debt and thematic finance to mid-caps since 2013
- Hybrid bonds for large corporates
- Standard loans to non-investment grade corporates

- Evolution from classical loans providing liquidity to capital relief products such as asset-backed securities mezzanine tranche, Risk Sharing Instruments
- Diversification of client base: from banks to non-bank intermediaries

Diversification of client base from sovereign to sub-sovereign entities and Public Sector Enterprises

Development of a range of indirect equity products:
- Infrastructure & climate action funds
- Co-investment vehicles
- Selective debt funds etc.

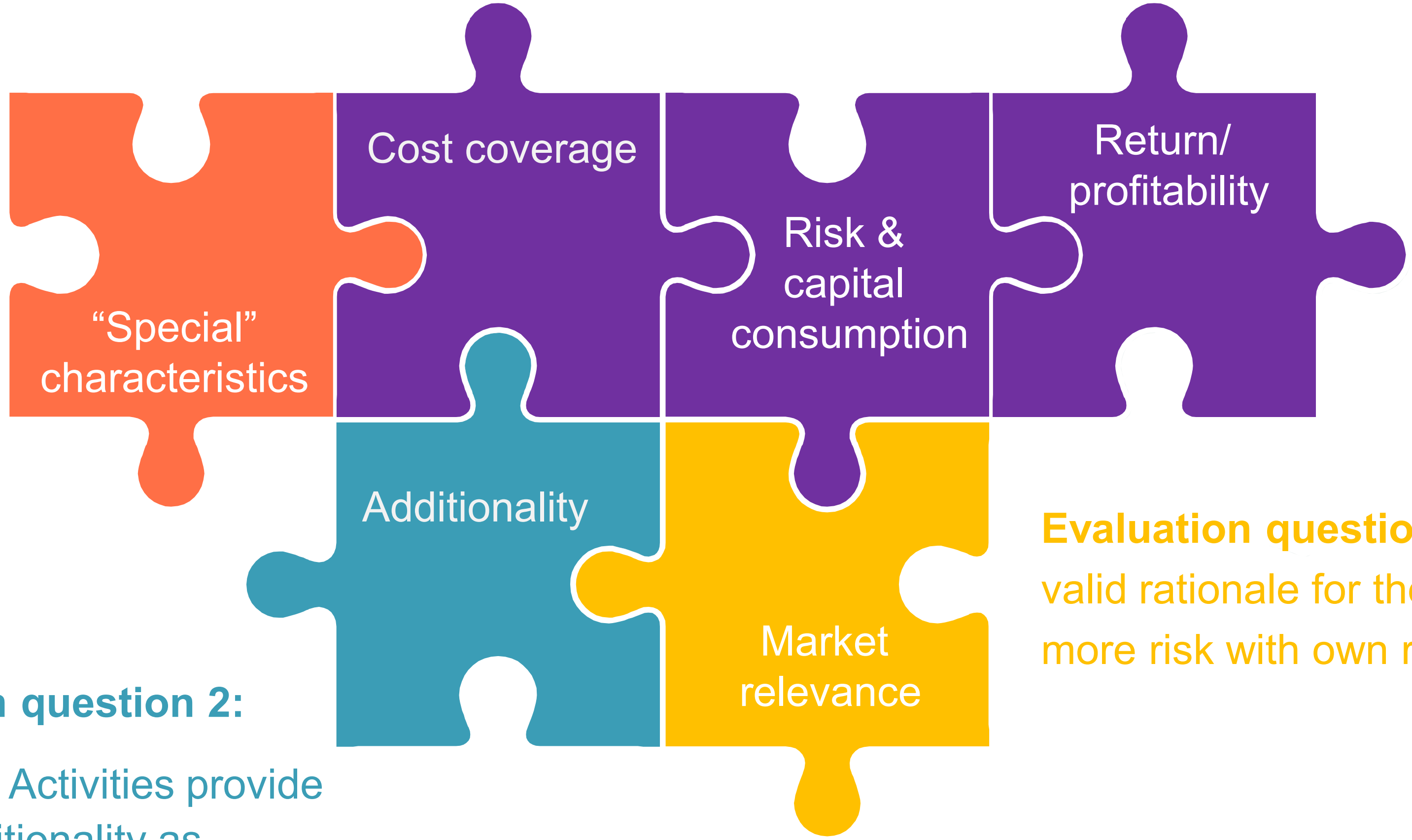
NB: Inside European Union indirect equity has moved to EIF w.e.f. 2021

Source: Evaluation Division own computations based on internal corporate data. Standard operations and Special activities identified on the basis of loan grading at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing.

OBJECTIVES OF THE EVALUATION

To provide evidence and insights on the trade-offs and links between risk, additionality, cost coverage, profitability and capital intensity of Special Activities

Evaluation question 1: How different are the Bank's Special Activities as compared to its Standard Operations in terms of characteristics such as size, counterparts, complexity, financing structures, sectoral and geographic deployment?



Evaluation question 2:

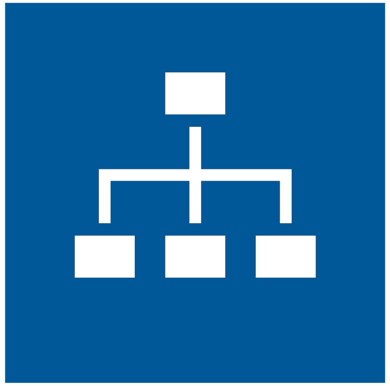
Do Special Activities provide higher additionality as compared to Standard Operations?

Evaluation question 3: What are the cost, capital consumption and profitability implications of Special Activities for the Bank

Evaluation question 4: Is there a valid rationale for the Bank to take more risk with own resources?

SCOPE OF THE EVALUATION

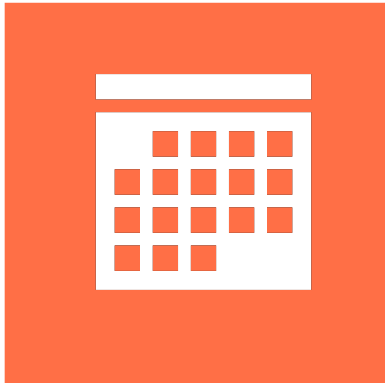
The scope of this evaluation has been defined by user needs and practical considerations



Organisational

EIB only. EIF-delivered business under mandates from the EIB (Risk Capital Resources, Risk Enhancement Mandate) has been excluded

Rationale: The concept of Special Activity only exists in the EIB Statute; it does not apply to the EIF. The business delivered by the EIF under EIB mandates however, falls under the category of Special Activity. The latter could not be covered by the evaluation due to the short timetable (6 months).



Temporal

From 2011 onwards with a focus on 2016-2020

Rationale: Small scale of Special Activity prior to 2011; moreover, the business context has changed substantially e.g. the types of products deployed by the Bank pre-2011 as well as the market and policy context were very different from the situation post-2011 and particularly post-European Fund for Strategic Investment.

Geographical

Inside European Union

Rationale: Short timetable for the evaluation. Furthermore, data inconsistencies make a comparison between European Union and non-European Union difficult: in contrast to European Union operations, for non- European Union operations benefiting from a Comprehensive Risk Guarantee from the European Commission or Member States, the transaction risk includes the guarantee. Hence these operations are classified as Standard Operations at signature.

EVALUATION METHODOLOGY

The approach utilises a range of data sources and methods to provide the basis for triangulated findings

DOCUMENTARY REVIEW

Strategic documents e.g. Group Capital Plan, Equity Strategy
RM Profitability Reports
SG Cost Coverage Reports
Audit Committee Reports
Internal Audit Reports
Risk Reports etc.

INTERVIEWS

Board Members
Management Committee Members
EIB Services: RM, OPS, SG, PJ, FC, IA, TMR
Other IFIs/ NPBs: IFC, IADB, EBRD, NIB, CDP

PORTFOLIO ANALYSIS

Data on net signed, signed, disbursed, and pre-payments volumes, LG, borrower rating, tenor, sector, geography, products, size, 3PA rating, costs and revenues

PROJECT DEEP DIVES

In-depth review of 45 projects (23 SAs and 22 SOs) to compare factors contributing to risk, sources and quality of additionality, nature of impact

ONLINE SURVEYS

Online surveys of project promoters, Financial Intermediaries and Fund Managers for operations signed between 2018-2020
Number of Responses:
Promoters: 179 (SA = 74 and SO = 105)
FIs: 53 (SA = 12 and SO = 41)
Fund Managers = 20

COMPARATIVE ANALYSIS

Comparison between the EIB and other IFIs/ NPBs (IFC, IADB, EBRD, NIB, CDP) in terms of their approach to risk taking, expectations and experiences as regards the link between risk and additionality, return etc.

Clarification of a few concepts

DEFINITION OF SPECIAL ACTIVITY

Special Activity is defined in terms of expected loss / loan grading for debt operations; all equity/ equity type operations are de facto classified as Special Activities

Expected Loss	= Present Value (	Default Probability X	Exposure at Default X	Loss Given Default)
Risk drivers and Inputs	▪ Loan maturity, grace period, frequency of coupons / amortisation schedule ▪ Discount factors with blue curve	▪ Borrower and guarantor ratings ▪ EIB estimated long-run Probability of Default curves ▪ Correlation between borrower and guarantor	▪ Cash flows (principal and interest)	▪ Internal Loss given default parameters for unsecured and secured portions (financial haircuts) ▪ Upward loss given default adjustment if key protective clauses are missing
Expected loss Spread	Loan grading computes the loan's "Expected loss risk-free coupon" and also the "Expected loss risk coupon" which is expected to cover for the loan expected loss. The Expected loss risk-pricing spread is determined by the difference between the risky coupon and the risk-free coupon			

Unlike the EIB, peer institutions (except the Nordic Investment Bank) do not rely much on risk mitigants. They work in far riskier countries as compared to the European Union; as such, they rather seek to ensure that return (via risk pricing) is commensurate with the risk taken

Factors affecting expected loss calculations:

- Loan maturity, grace period, loan structuring e.g. bullet repayment versus amortising loan
- Borrower/ guarantor creditworthiness. Default correlation – chances of simultaneous difficulties for borrower and guarantor
- Project cashflows
- The value of guarantees/ securities, contractual clause

DEFINITION OF SPECIAL ACTIVITY

- The expected loss is a continuous variable which ranges from 0% to 100%
- Transactions are further bucketed into a loan grading (loan grading) on a discrete scale (ranging from A0 to F) according to expected loss ranges
- The concept of Special activities is operationalised in the Bank's Credit Risk Guidelines as follows:

  (i) Lending/guarantee operations with a risk profile as determined by their Loan Grading of D- or below.

  (ii) equity and equity-type operations (i.e. quasi-equity which are debt products with a risk profile similar to that of an equity investment)

  - This results in a binary classification of activities as "standard" or "special"
  - The 2% Expected Loss / loan grading of D- has been introduced in 2001 to classify activities are riskier than standards.

Lower Loan Gradings of Special Activities can be explained mainly by unsecured lending to higher risk profile borrower, subordinated position, exposure to project risk, very long tenor.

	LG
SO	A0
SO	A+
SO	A-
SO	B+
SO	B-
SO	C
SO	D+
SA (Debt)	D-
SA (Debt)	E1+
SA (Debt)	E2+
SA (Debt)	E3+
SA (Debt)	E1-
SA (Debt)	E2-
SA (Debt)	E3-
SA (Debt)	F

SA: Equity & quasi-equity

ETI: equity type individual
ETP: equity type portfolio

Source: Evaluation Division, based on the internal credit risk guidelines

MEASUREMENT OF SPECIAL ACTIVITY

The evaluation uses the "transaction view" based on loan grading at signature ("flow" concept)

There are different approaches to measuring Special Activity:

- **Transaction vs residual risk view**

  (i) Transaction view: loan grading before European Commission/ Member States guarantee or first loss piece

  (ii) Residual risk view: loan grading based on residual risk to the EIB (i.e. loan grading after taking into account European Commission / Member States guarantee or first loss piece)

- **Flow vs stock of Special Activity**

  (i) Flow: new signatures classified as Special Activities (according to the transaction view) at time of signature. The flow figures are used for planning, operational performance reporting and communication

  (ii) Stock of Special Activities existing in the current portfolio. This figure includes loan grading migration* and is re-computed monthly

** Loan grading migration means upgrades or downgrades of the Loan gradings.*

MEASUREMENT OF SPECIAL ACTIVITY

- The evaluation uses data extracted on 28-02-2021 from the internal corporate database

- Volume data are based on net signed amounts for contracts not cancelled after signature in the risk portfolio for which the operations is fully in the European Union and for which no loan grading is missing

- The timeframe refers to contracts signed over 2011 to 2020

- Special Activities vs Standard Activities/Operations

  - Special Activities: When applied at the volume level, it entails all contract tranches which have a loan grading of D- or below, including equity and quasi equity types. When applied at the operation level, it entails all operations for which all contracts/tranches have a loan grading of D- or below, including equity and quasi equity types.

  - Standard Operations: When applied at the volume level, it entails all contract tranches which have a loan grading of D+ or higher. When applied at the operation level, it entails all operations for which all contracts/tranches have a loan grading of D+ or higher.

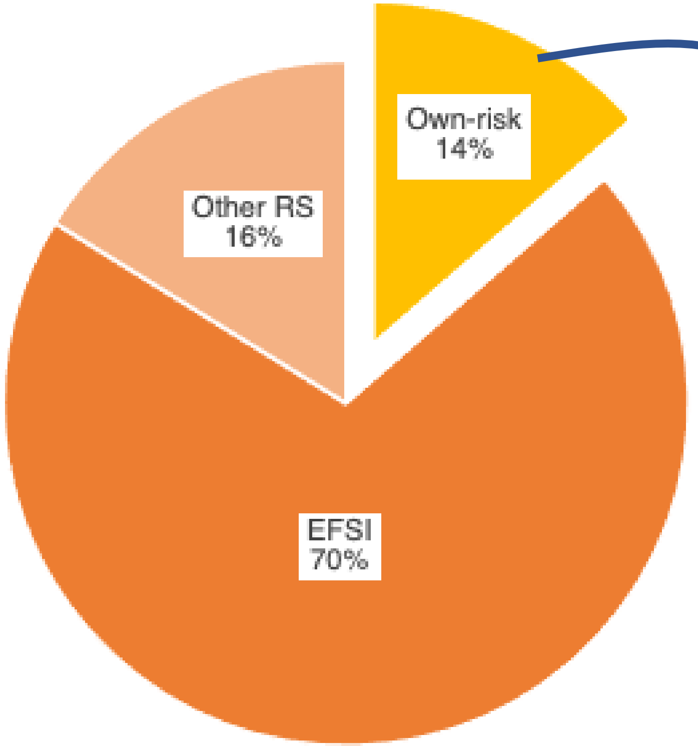
  - Hence, when looking at characteristics of operations circa 4% of operations (in terms of numbers and volume) are excluded as they are "mixed", i.e. have loan grading in the Standard Operations and Special Activities range.

LOAN GRADING AS A PROXY FOR RISK

Special Activity does not necessarily imply high residual risk for the EIB

- Operations under risk sharing mandates (classified as Special Activity under the transaction view) typically represent low residual risk to EIB due to the existence of counter guarantees, mandates or other risk mitigants provided to the EIB by third parties (e.g. European Commission). There are some exceptions e.g. pari-passu equity delivered under European Fund for Strategic Investments which constitutes high risk (and high capital consumption) for the EIB
- Bulk of the Special Activity portfolio (86%) is delivered under risk-sharing mandates such as European Fund for Strategic Investments , InnovFin, Connecting Europe Facility, etc.
- Own risk represents 14% of the Special Activity portfolio and 2% of the overall portfolio

Breakdown of Special Activity Portfolio



Own-risk Special Activity = € 9.86 billion

LG	SA-OR
D-	5,32
E1+	2,90
E2+	0,41
E3+	0,09
E1-	0,11
E2-	0,00
E3-	0,00
F	0,04
ETI	0,03
ETP	0,96

Source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grading at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing

04 CHARACTERISTICS OF SPECIAL ACTIVITIES

Evaluation question 1

How different are the Bank’s Special Activities as compared to its Standard Operations in terms of characteristics such as size, counterparts, complexity, financing structures, sectoral and geographic deployment?

RISK PROFILE OF THE TOTAL PORTFOLIO

Bulk of the Special Activity portfolio lies in the loan grading range of D- to E2+

	€ billion			Share of total			
LG	2011-2015	2016-2020	2011-2020	2011-2015	2016-2020	2011-2020	
A0	48.44	47.32	95.76	20%	18%	19%	41% of SO portfolio
A+	25.03	19.42	44.45	10%	7%	9%	
A-	21.53	17.52	39.05	9%	7%	8%	
B+	14.21	20.22	34.43	6%	8%	7%	59%
B-	27.85	23.98	51.82	12%	9%	10%	
C	57.18	53.58	110.76	24%	20%	22%	
D+	30.41	27.90	58.31	13%	11%	12%	
D-	9.67	20.89	30.56	4%	8%	6%	82% of SA portfolio
E1+	5.16	17.29	22.44	2%	7%	4%	
E2+	0.86	5.30	6.16	0%	2%	1%	
E3+	0.41	2.63	3.04	0%	1%	1%	6%
E1-	0.31	0.85	1.16	0.1%	0.3%	0.2%	
E2-	-	0.17	0.17	0.0%	0.1%	0.0%	
E3-	-	-	-	-	-	-	
F	-	0.05	0.05	0.0%	0.0%	0.0%	
ETI	0.21	3.14	3.35	0.1%	1.2%	0.7%	12%
ETP	0.53	4.97	5.50	0.2%	1.9%	1.1%	
	241.79	**265.21**	**507.00**	**100%**	**100%**	**100%**	
Sub-total: Standard ops	224.64	209.94	434.58	93%	79%	86%	
Sub-total: Special	17.15	55.28	72.42	7%	21%	14%	

Source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grading at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing.

The higher-than-normal risk for Special Activities can be explained by:

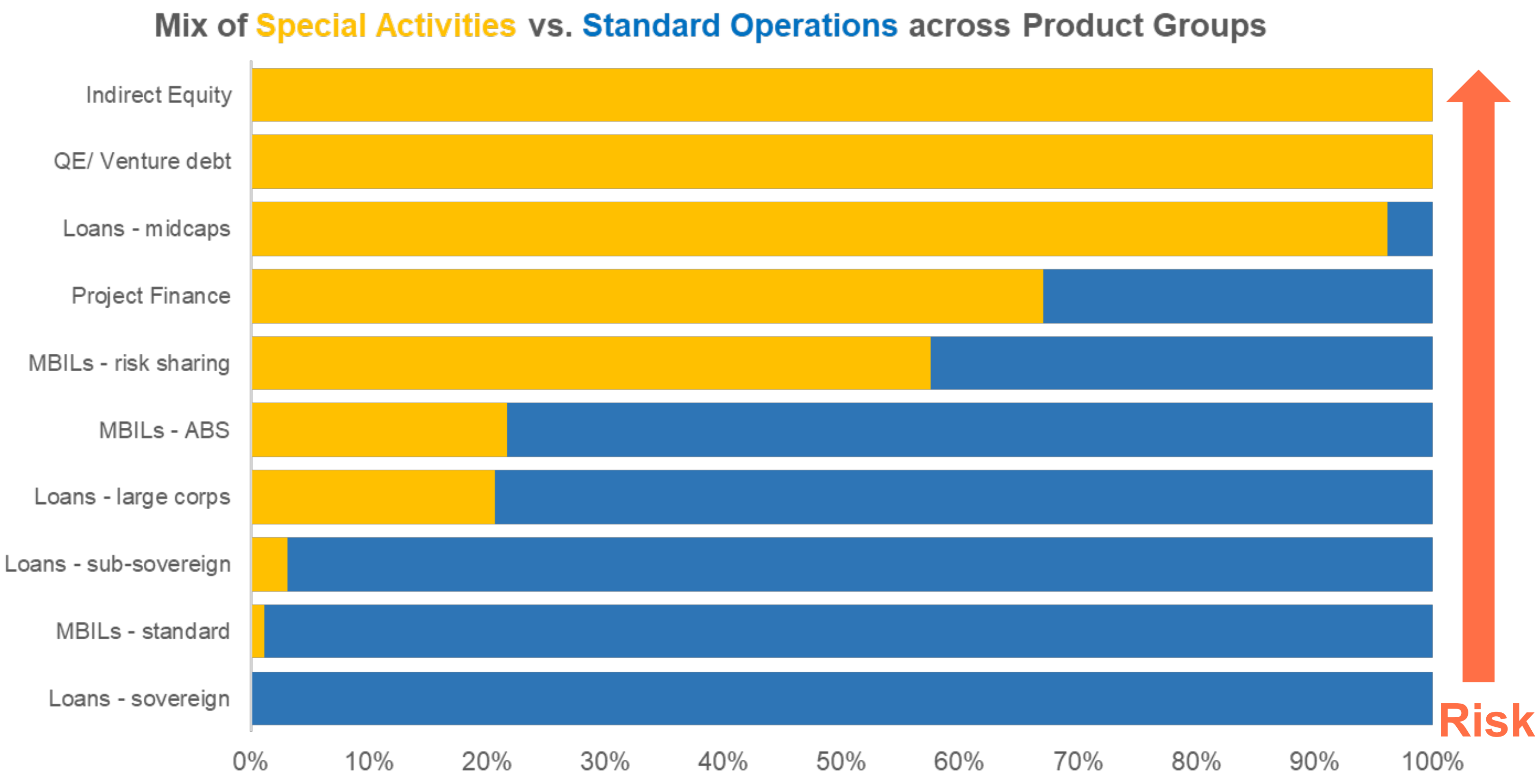
- the **higher risk profile of the borrower**. This factor is particularly prominent in the case of direct loans to corporates and sub-sovereign entities
- the **unsecured and subordinated structure of the EIB financing**. This factor plays a particularly important role in the case of intermediated lending operations (Multilateral beneficiary intermediated loans)
- **exposure to market or project activity risks**, including unproven technology (e.g. vaccine development), high competition, regulatory uncertainty (e.g. infrastructure projects) and the cyclicality of some of the sectors. These factors are particularly noticeable for quasi-equity operations and project finance

PRODUCT GROUPINGS

In the analysis which follows we decompose the portfolio in different product groups as defined below

Direct (Direct financing / guarantee)	**Indirect** (Financing provided to benefiaciary via a fiancial intermediary or a fund)
	Equity funds / Indirect equity
	- All contracts/operations with a LG of ETP and the few operations with a LG of ETI which are (indivudal equity) co-investment in fund
	MBILs / Intermediated lending
	- Standard loans (i.e. EIB risk is on the financial institution) and covered bonds
	- ABS: granular & non-granular and synthetic & true sale (EIB takes the risk of the reference portfolio of the ABS - Horizontal tranche (senior or mezzanine))
	- Risk sharing instruments: Contingent loans and guarantees (EIB takes the risk of the reference portfolio of loans - Vertical tranche - up to 50% of the loss on individual loans) nb: Exlcuding project finance risk
Project finance (all contracts which are flagged as "project finance" credit risk)	
- Loans and guarantees	- Risk sharing instruments: Contingent loans and guarantees (EIB takes the risk of the reference portfolio of loans - Vertical tranche - up to 50% of the loss on individual loans)
Loans public borrower	
- Loans sovereign borrower - Loans sub-sovereign borrower	
Loans corporates / private borrower	
- Loans - large corporates (including the few loans to FI non MBILs) - Loans - Midcaps - QE / Venture debt	

MIX OF SPECIAL ACTIVITIES VERSUS STANDARD OPERATIONS ACROSS PRODUCT GROUPINGS



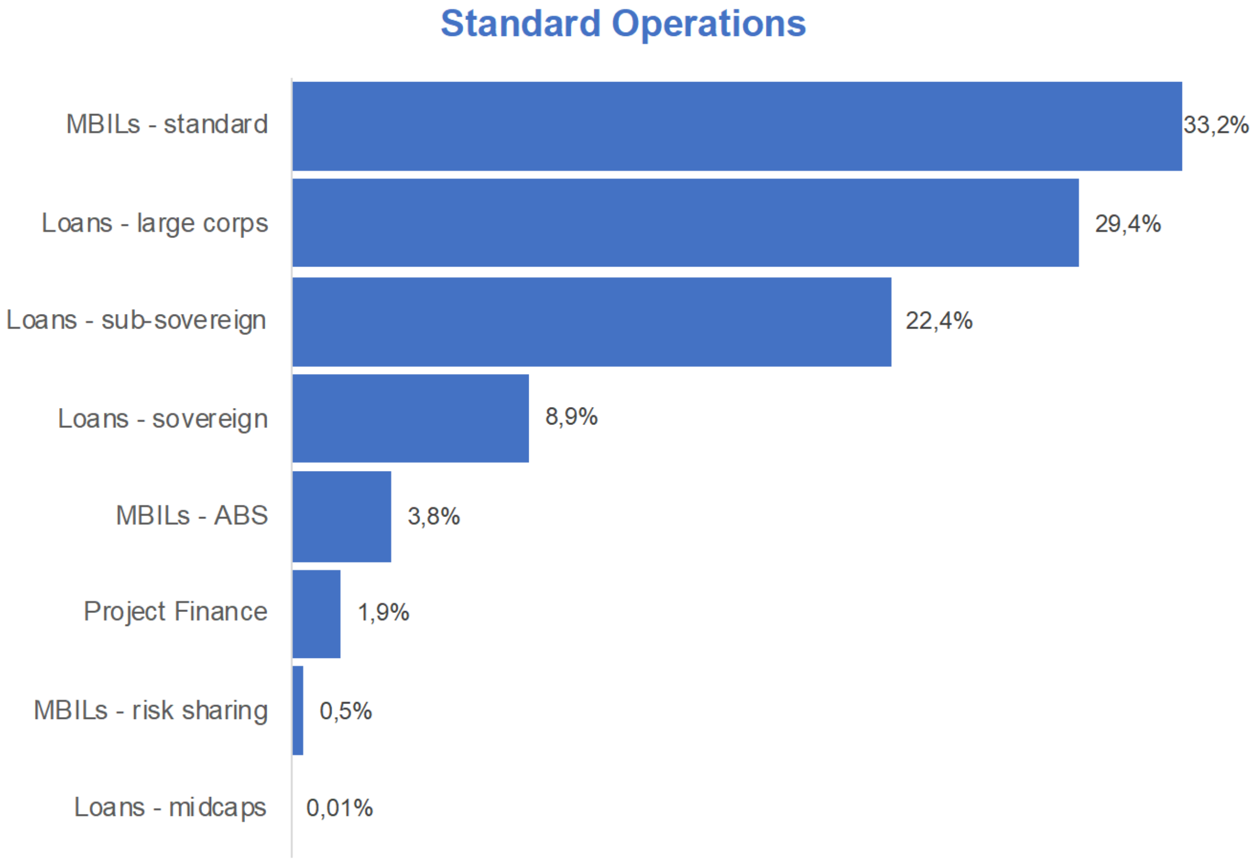
- Special Activities account for all/ majority of the signed volume under equity & quasi-equity (100% by definition), mid-cap lending (99%), project finance (67%), risk sharing instruments (58%)
- These five product groupings however, account for a very small share (8%) of the overall EIB portfolio: equity (1%), quasi-equity (0,6%), loans mid-caps (0,3%), project finance (5%), Multi beneficiary intermediated loans - risk sharing instruments (1%)

Source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grading at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing. Project finance operations are mainly Special Activities. Project finance operations falling in the Standard Operation category are typically bank guaranteed tranches.

PORTFOLIO DECOMPOSITION

70% of the Special Activities portfolio by volume is made up of loans to large corporates and project finance operations

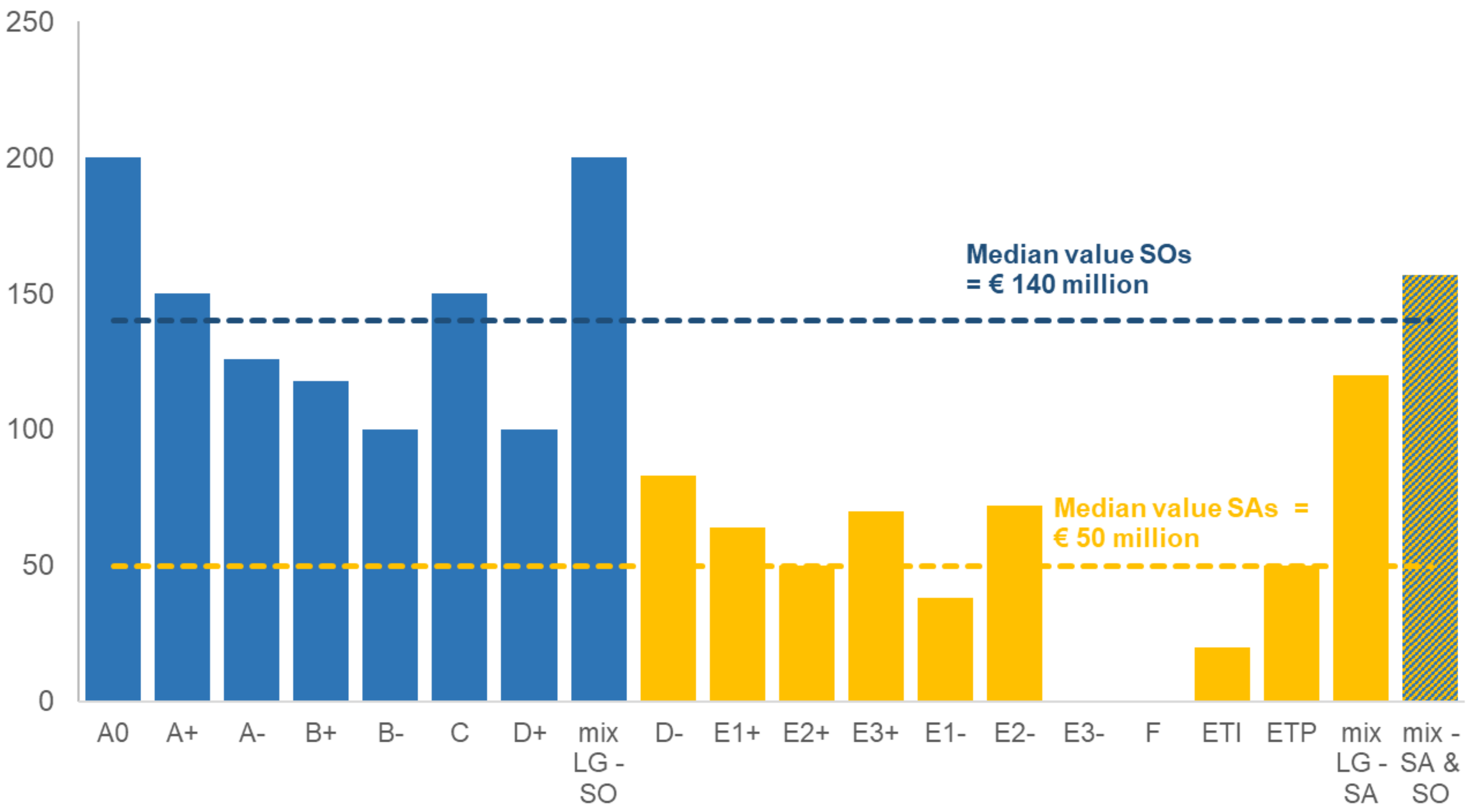
Corporate lending falling in Special Activities category is characterised by a relatively high share of new clients and non-investment grade borrowers



Source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grading at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing.

MEDIAN SIZE OF OPERATIONS BY LOAN GRADING

Special Activities tend to be much smaller in size as compared to Standard Operations



- This tendency is particularly evident in the case of coporate loans where the median size of Special Activities operations (€ 70 million) is less than half the median size of Standard Operations (€ 145 million)
- Direct mid-cap loans and Quasy-equity operations are even smaller (Median size = € 30 million and € 20 million respectively)

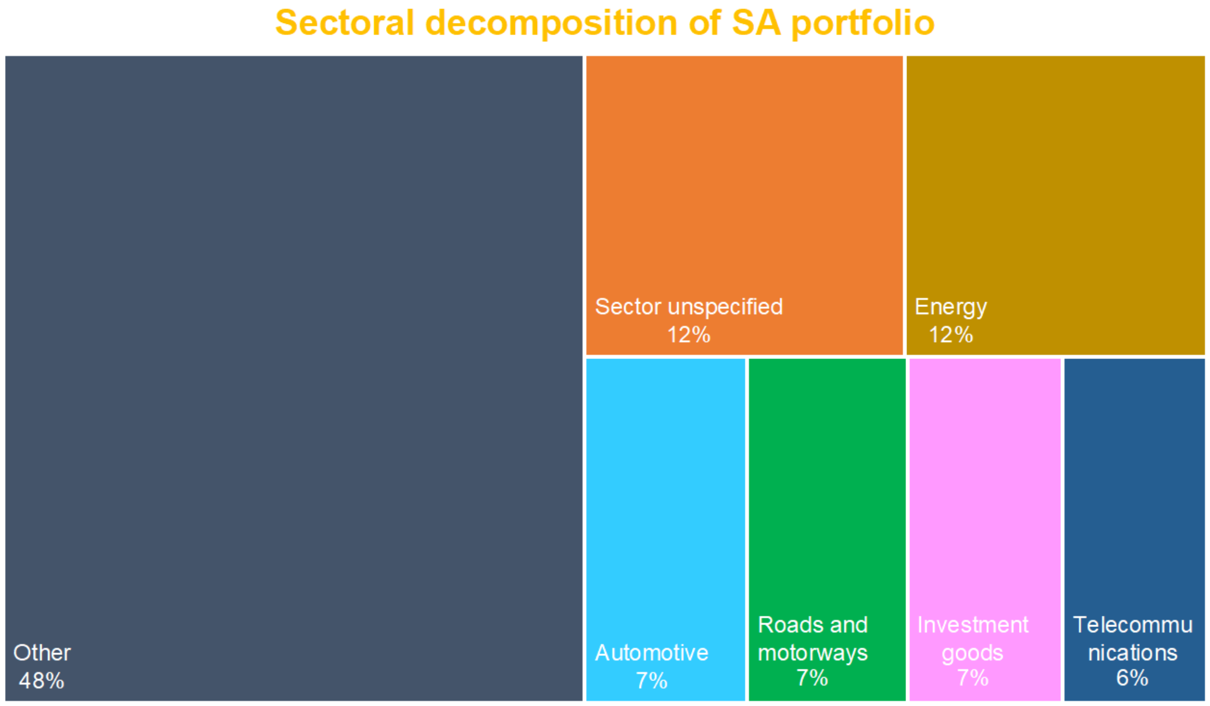
To note that Credit Risk Guidelines specify size limits per loan grading for Special Activities as well as min and max limits across product groups

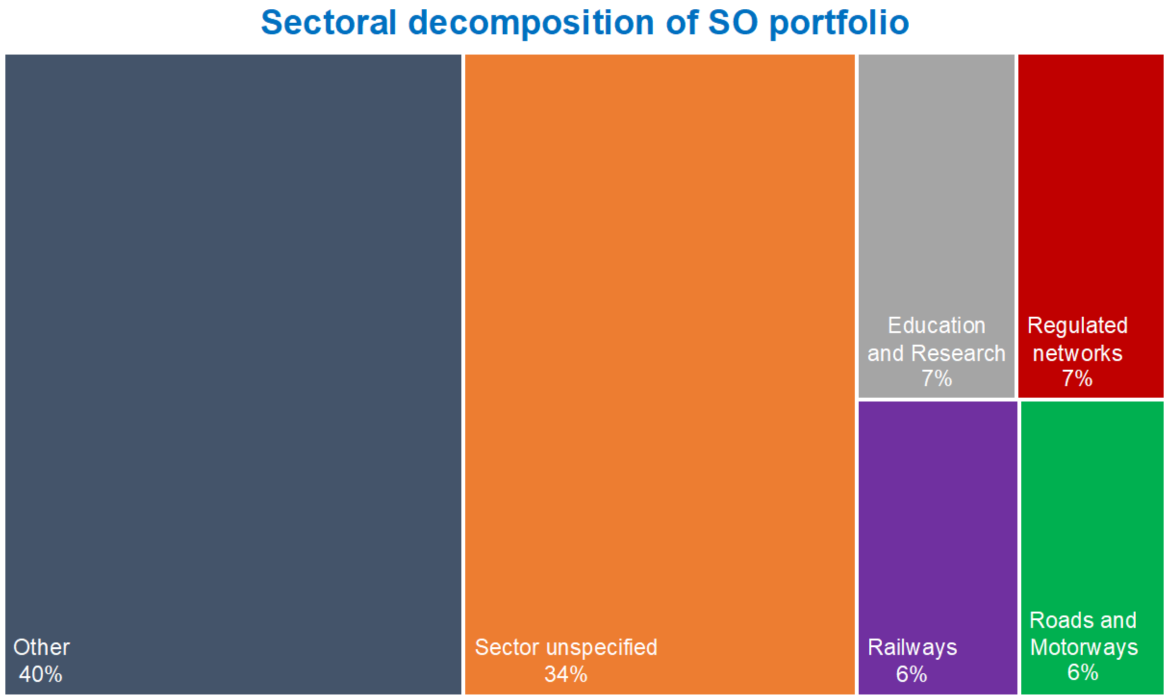
Interviews with peer institutions suggest that riskier investments tend to have a smaller ticket size

Source: Evaluation Division own computations based on internal corporate data. Operations included are fully in the European Union, non cancelled and include all operations with a number starting with 2011-xxxx up to 2020-xxxx and for which no loan grading is missing. Mix loan grading –Standard Operations comprises operations with mixed tranches in the range of A0 to D+.Mixed loan grading-Special Activities comprises operations with mixed tranches in the range of D- to F. Mix-Special Activities & Standard Operations comprises operations with mixed Standard Operations and Special Activities tranches

SECTORAL DECOMPOSITION

There are no striking sectoral patterns when comparing the two portfolios



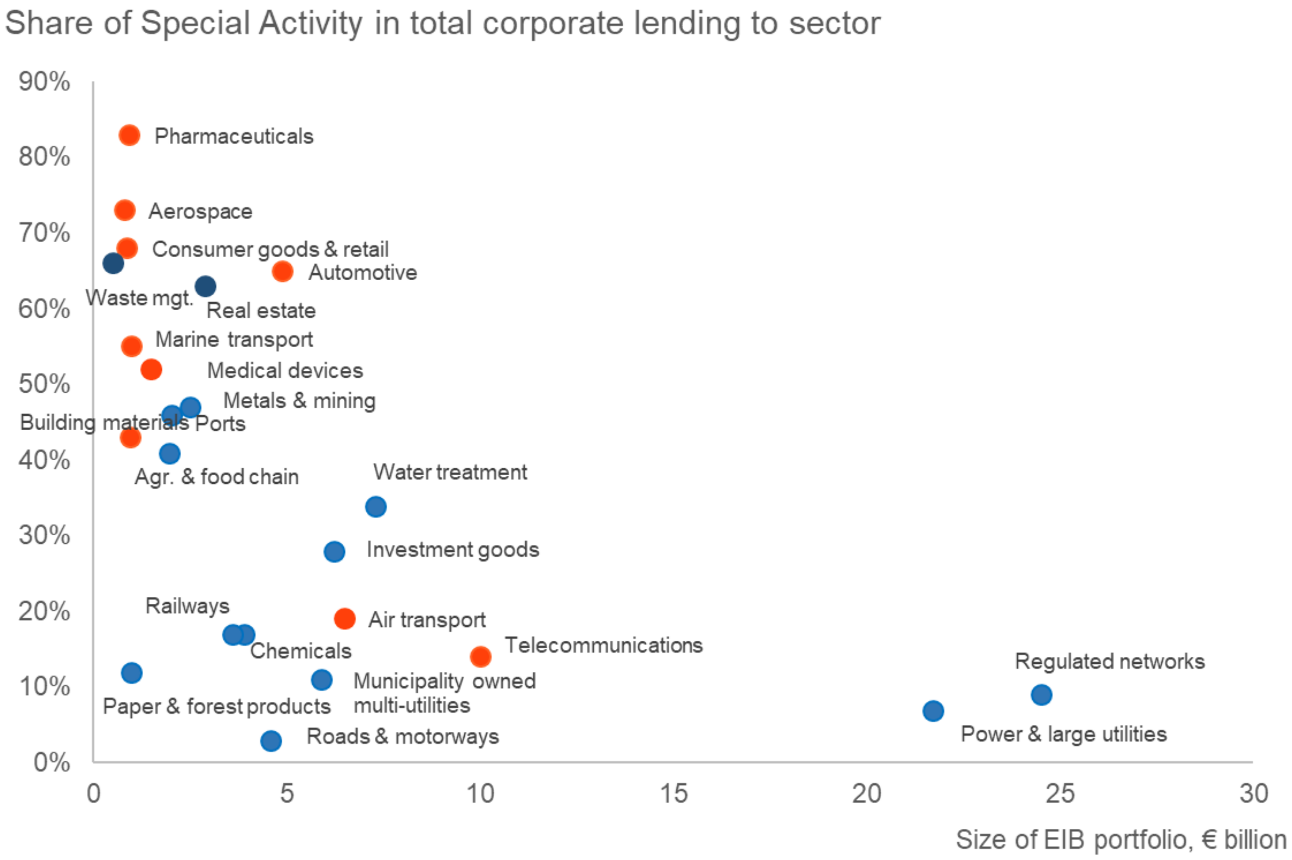


Source: Evaluation Division own computations based on internal corporate data mapped against Risk Management sectoral classification.

In the following sectors, Special Activities account for a larger share of the EIB financing mix as compared to Standard Operations: pharmaceutical and medical equipment (64%); financial services (61%); business services, IT and media (54%); metals and mining (52%). These sectors however, represent a very small portion (3%) of the overall EIB portfolio.

NB: “Sector unspecified” corresponds to credit lines or intermediated financing (Multi beneficiary intermediated loans).

SECTORAL DECOMPOSITION OF THE CORPORATE LENDING PORTFOLIO



A larger share of Special Activities can be found among corporate loans to higher value added and/or innovative sectors such as aerospace, pharmaceuticals, medical devices, automotive etc.

*Source: Evaluation Division chart based on internal risk management data. The chart is for **Corporate loans** only. Portfolio size = € 116 billion. Share of Special Activities is based on signed exposure as of June 2020 (i.e. stock values). Classification of SAs is based on loan grading at signature. Red dots indicate higher value added/ innovative sectors*

GEOGRAPHIC PATTERNS

		EIB financing € bn			GDP (2020)		As % of total EIB financing		EIB financing mix	
		SO	SA	Total	€ billion	As % EU	SO	SA	% SO	% SA
EU-15 sorted by size of GDP	Germany	45.5	8.5	54.0	3332	21.2%	10.5%	11.7%	84%	16%
	United Kingdom	30.5	5.1	35.6	2374	15.1%	7.0%	7.1%	86%	14%
	France	47.6	11.3	58.9	2279	14.5%	11.0%	15.7%	81%	19%
	Italy	71.5	10.5	81.9	1652	10.5%	16.4%	14.5%	87%	13%
	Spain	71.9	9.1	80.9	1122	7.2%	16.5%	12.5%	89%	11%
	Netherlands	12.3	3.3	15.6	799	5.1%	2.8%	4.6%	79%	21%
	Sweden	10.7	3.1	13.8	472	3.0%	2.5%	4.3%	77%	23%
	Belgium	12.3	2.1	14.4	451	2.9%	2.8%	3.0%	85%	15%
	Austria	11.3	2.0	13.4	376	2.4%	2.6%	2.8%	85%	15%
	Ireland	5.8	1.2	7.0	367	2.3%	1.3%	1.7%	83%	17%
	Denmark	4.0	1.0	5.0	312	2.0%	0.9%	1.4%	80%	20%
	Finland	10.3	1.9	12.2	238	1.5%	2.4%	2.6%	85%	15%
	Portugal	9.8	1.2	11.0	203	1.3%	2.3%	1.6%	89%	11%
	Greece	11.3	1.9	13.2	166	1.1%	2.6%	2.6%	86%	14%
	Luxembourg	0.8	0.1	0.9	64	0.4%	0.2%	0.2%	84%	16%
EU-15 sub-total		355.6	62.3	417.9	14204	90.6%	81.8%	86.1%	85%	15%
EU - 13 sorted by size of GDP	Poland	39.2	2.7	41.9	523	3.3%	9.0%	3.7%	94%	6%
	Romania	4.5	0.6	5.1	218	1.4%	1.0%	0.9%	88%	12%
	Czechia	7.4	0.2	7.5	214	1.4%	1.7%	0.3%	98%	2%
	Hungary	7.9	0.6	8.5	136	0.9%	1.8%	0.8%	93%	7%
	Slovakia	4.3	0.5	4.8	92	0.6%	1.0%	0.7%	89%	11%
	Bulgaria	1.7	0.3	2.1	61	0.4%	0.4%	0.5%	84%	16%
	Croatia	3.0	0.2	3.2	49	0.3%	0.7%	0.3%	93%	7%
	Lithuania	1.7	0.2	2.0	49	0.3%	0.4%	0.3%	88%	12%
	Slovenia	2.0	0.4	2.5	46	0.3%	0.5%	0.6%	83%	17%
	Latvia	0.7	0.1	0.8	29	0.2%	0.2%	0.1%	89%	11%
	Estonia	1.4	0.2	1.6	27	0.2%	0.3%	0.3%	88%	12%
	Cyprus	2.1	0.1	2.2	21	0.1%	0.5%	0.1%	95%	5%
	Malta	0.2	0.1	0.3	13	0.1%	0.1%	0.1%	81%	19%
EU-13 sub-total		76.3	6.2	82.6	1478	9.4%	17.6%	8.6%	92%	8%
Regional - EU countries		2.7	3.8	6.5			0.6%	5.3%	41%	59%
Total - EU		434.6	72.4	506.9	15682		100.0%	100.0%	86%	14%

- EU-15 Member States have a higher share of Special Activities in their EIB financing mix (15%) than EU-13 Member States (8%). 86.1% of the Special Activities portfolio comprises financing to projects in Eu-15 as compared to 81.8% of the Standard Operations portfolio.

- EU-13 Member States on the other hand, have a higher share of Standard Operations in their financing mix : 92% Standard Operations vs 8% Special Activities. 17.5% of the Special Activities portfolio comprises financing to projects in EU-15 as compared to 8.6% of the Standard Operations portfolio.

- There are several possible explanations for this: financing needs of project promoters and financial intermediaries; the capacity to absorb more complex financial products; existence of regulation / market infrastructure for certain products (e.g. Asset-backed securities, equity, private debt, venture debt).

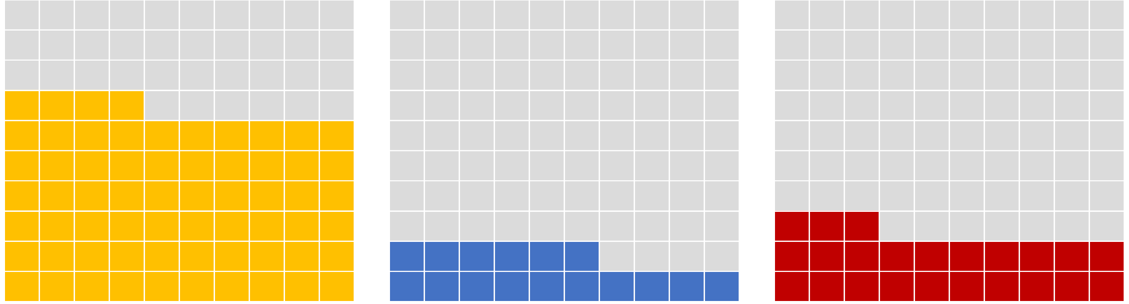
- For higher- income Member States that have greater access to capital, the EIB needs to focus on more difficult or higher-risk projects to provide additionality (see the section on additionality). Moreover, in new/ peripheral Member States higher risk activities such as infrastructure projects, Small and medium entreprises financing, etc. tend to be financed by Cohesion Funds/ European Regional Development Funds.

Source: Evaluation Division own computations based on internal corporate data. Standard Operations and Special Activities identified on the basis of loan grade at signature. Volume data are based on net signatures of non cancelled contracts for which the operations is fully in the European Union and for which no loan grading is missing. Gross Domestic Product data from Eurostat.

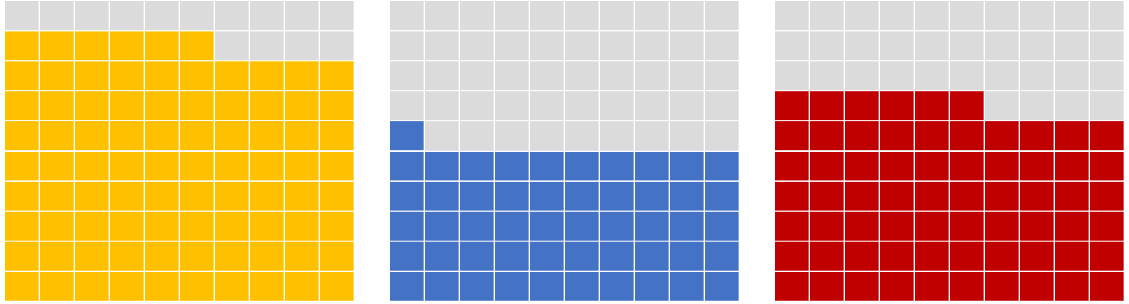
SHARE OF NEW CLIENTS

Special Activities are characterised by a significantly higher share of new clients as compared to Standard Operations

Share of new clients by volume



Share of new clients by number



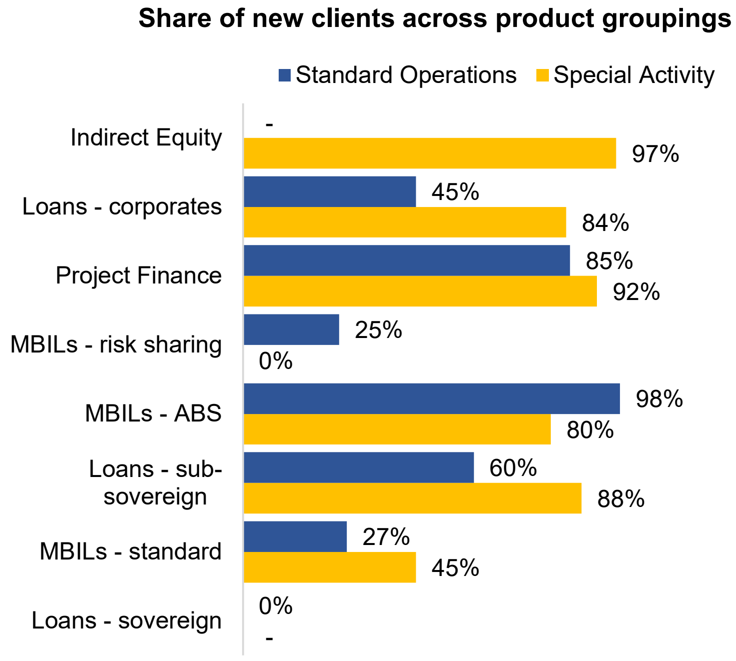
- Special Activities are characterised by a significantly higher share of new clients as compared to Standard Operations both in terms of number of clients (86% vs 51% respectively as well as net signed volumes (64% vs 16% respectively)
- 58% of all new clients acquired between 2011 and 2020 were corporates and 24% were public administration, regional or local authorities and public sector entities
- Among sub-sovereign borrowers, 69% of new clients were public sector entities and 29% were regional or local authorities
- One fifth of the new clients became recurring ones over the period

Source: Evaluation Division own computations based on internal corporate data. % New clients based on the number of new clients. % Volume based on volume of first contract to the new client. It shows volume signed with new client as a share of total volume signed in a particular category. New clients are defined using OPS classification (recurring client/more than 5 years/new). When a borrower is involved in several contracts of the project finance, he is considered new as long as he has at least signed one contract over the period as a new client

SHARE OF NEW CLIENTS … continued

The high share of new clients within Special Activity is to a large extent reflective of the nature of these operations

- Equity funds, project finance and Multi beneficiary intermediated loans – Asset-backed securities represent account for 35% of all Special Activities contracts signed with new clients. This is largely explained by the financial structure of these operations: funds are separate legal entities and are therefore considered as new clients; similarly, special purpose vehicles are considered as new clients although these might have been set-up by repeat clients/shareholders.



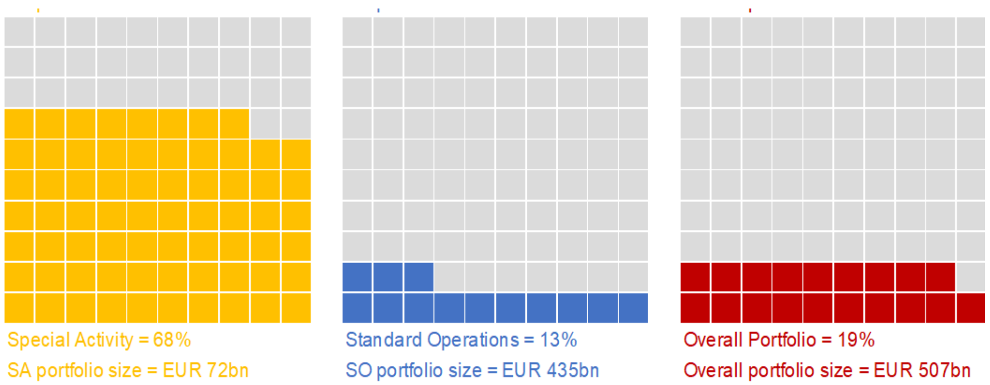
Source: Evaluation Division own computations based on internal corporate data.

- New clients among corporates represent 84% for Special Activities contracts vs 45% for Standard Operations. Corporates represent 45% of the new clients in the volume of Special Activities operations.
    - This is partly explained by the fact that mid-caps were not targeted for EIB direct lending before 2013. Since then, mid-caps became eligible counterparts and have been targeted through two products: standard loans and quasi-equity type loans.
    - The share of new clients is also high among quasi-equity/venture debt operations. This is a new activity for the Bank and as such, it does not overlap with the existing client base. Moreover, these operations have few recurring clients by design.
- Among Special Activities contracts signed with sub-sovereigns, 88% are new clients as compared to 60% among Standard Operations. Sub-sovereigns represent 6% of the Special Activities volumes signed with new clients. More than half of the Special Activities operations with sub-sovereign were carried out under European Fund for Strategic Investment with sub-sovereign non-investment grade borrowers and almost exclusively (95%) signed with new clients.

SHARE OF NON-IG CLIENTS

Special Activities are characterised by a significantly higher share of non-Investment Grade clients as compared to Standard Operations

Share of non-investment grade clients by volume, 2011-2020



Source: Evaluation Division own computations based on internal corporate data. The analysis is based on net signed volumes for which there exists a borrower rating. ETI & ETP excluded from the analysis
*Note: *High investment grade (AAA to A-), Low IG (BBB+ to BBB-), Non-IG (BB+ to C)*

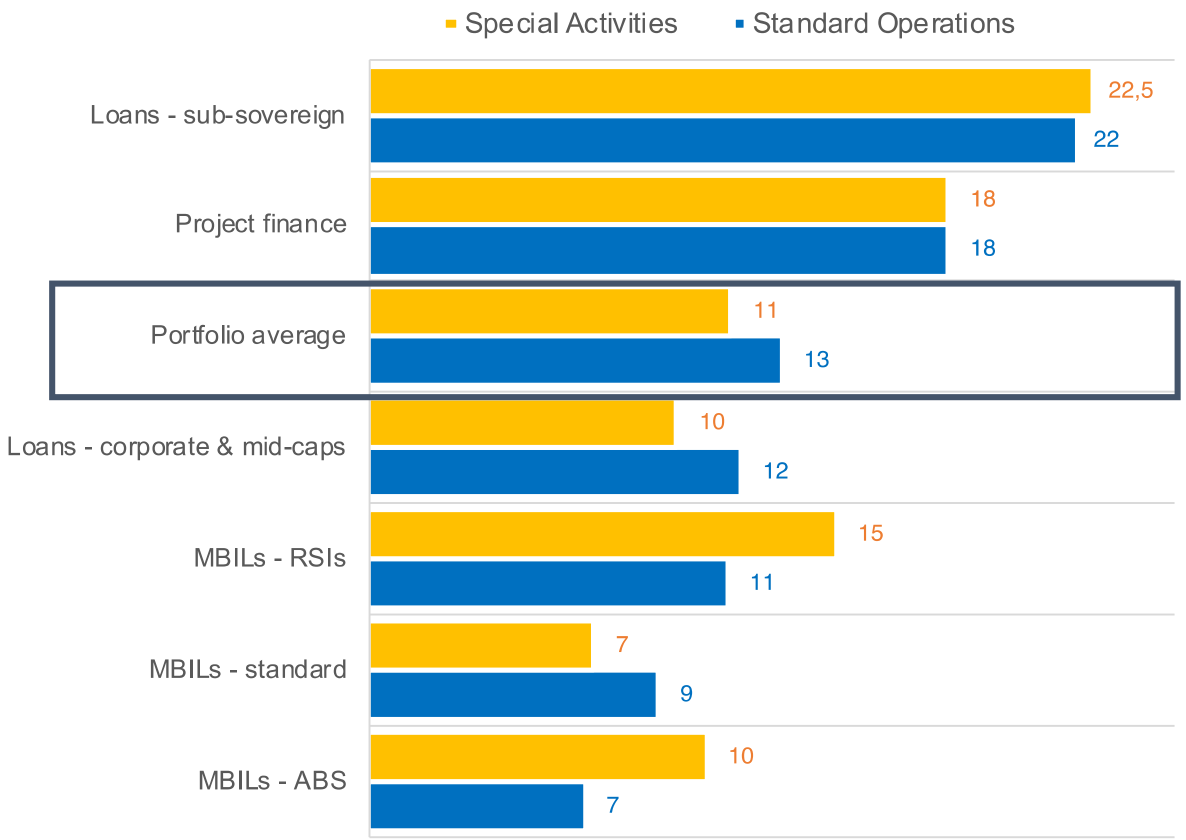
- There are noticeably lower rated financial intermediaries, sub-sovereign entities, mid-caps and large corporates within the Special Activities portfolio as compared to Standard Operations portfolio.
- The higher share of non-Investment grade borrowers (with a rating BB+ to C) is also evident in terms of the number of contracts signed (45% Special Activities portfolio vs 18% Standard Operations portfolio) between 2011 and 2020.
- Over the 2011-2020 period, a higher share of non-Investment grade borrowers can be found among new clients (34% non-Investment grade) as compared to recurring clients (20% non-Investment grade).

- This pattern is more pronounced during the first period (2011-2015) as compared to the second period (2016-2020). Non-Investment grade borrowers in the first period are mostly usual EIB counterparts downgraded during the Euro zone double-dip recession and the sovereign debt crisis while in the second period, they include more risky clients (such as doing business with mid-caps).
- The share of lending going to non-Investment grade and low-Investment grade borrowers (with a rating of BBB+ to BBB-) is above average in case of project finance, corporate loans and Multi beneficiary intermediated loans - standard loans & covered bonds.

NB: Operations with Investment grade clients can result in Special Activities grading if the EIB takes a subordinate position and/or offers long maturity.

AVERAGE TENOR

The (volume weighted) average tenor for Special Activities portfolio is shorter than the Standard Operations portfolio; there are however some product level differences



- Average tenor for Special Activities is slightly shorter for standard Multi beneficiary intermediated loans and corporate loans. This could be due to the fact that the EIB's Credit risk guidelines limit the maximum tenor for Special Activities (except for project finance).
- Average tenor for Special Activities is noticeably longer for Risk sharing instruments and asset-backed securities operations.

Source: Evaluation Division own computations based on internal corporate data. Analysis based on actual contract tenors, volume weighted, computed as the difference between first disbursement date and full loan repayment. Project documentation specifies the maximum tenor; hence this data has not been used.

RECAP OF KEY POINTS

There are some noticeable differences between Special Activities and Standard Operations

- Special Activities are mainly concentrated in loans to corporates (47%) and project finance (23%); while Standard Operations are mainly concentrated in Standard Multi beneficiary intermediated loans operations (35%), public sector lending (33%) and loans to corporates (31%).
- Corporate lending falling in Special Activities category is characterised by a relatively high share of new clients, non-investment grade borrowers, shorter tenors, smaller tickets and higher value added/ innovative sectors.
- Special Activities account for all or majority of the signed volume under the more complex products such as: equity & quasi-equity (100% by definition), mid-cap lending (99%), project finance (67%), risk sharing instruments (58%). These higher risk products are a small, but growing share of the overall EIB portfolio.
- Overall Special Activities tend to be much smaller in size as compared to Standard Operations. Special Activities portfolio (median size) = € 50 million vs. € 140 million for Standard Operations portfolio.
- Special Activities have a much larger share of new and non-investment grade borrowers.
- EU-15 Member States have a higher share of Special Activity in their EIB financing mix as compared to EU-13 Member States .

05 ADDITIONALITY

THE CONCEPT OF ADDITIONALITY

Additionality is central to the mandate of an International Finance Institutions/ Multilateral Development Banks , such as the EIB. International Finance Institutions/ Multilateral Development Banks need to demonstrate that their financing is essential, beyond what commercial finance would provide on its own, and that they add value through risk mitigation and improved project design that leads to better project outputs, outcomes and impacts.

International Finance Institutions/ Multilateral Development Banks must ensure that they do not undermine the development of private financial markets, for example by crowding-out private finance. As such, International Finance Institutions/ Multilateral Development Banks tend to operate in areas, sectors, market segments where private finance is less likely to be forthcoming. These involve situations of market failure and crisis conditions where Multilateral Development Banks risk-taking capacity and long-term perspective allows them to operate and encourage investment.

Most International Finance Institutions/ Multilateral Development Banks recognise this need, and many call their special role "additionality," that is, the value they bring to a project beyond what the private sector could offer.

International Finance Institutions/ Multilateral Development Banks can make a difference to the projects that they finance in several ways:

- Making them more commercially viable through, for example, the size and cost of their financing or by offering financing on suitable terms (e.g. longer tenors, local currency etc.)
- Crowding-in other investors.
- Improving project outcomes and impacts by, for example, providing the advice and technical contributions that lead to better operations, products, and services; stronger environmental, social, and corporate governance activities; or projects that are more inclusive.

SCOPE OF THE ADDITIONALITY ANALYSIS

This evaluation examines the following dimensions of additionality

Input additionality ▶ The EIB offers **something that is not available to the project from commercial sources** due to the its perceived high risk and/or low return (private versus social).

Investment additionality ▶ **The EIB's contribution makes a difference** i.e. it facilitates or improves a project. This means that in the absence of the EIB's support, the project or investment activity **would have either not taken place** OR it would have **only gone ahead with changes** to its scope, scale, quality and/ or timetable.

Market Failures and / or sub-optimal investment situations ▶ The project being financed by the EIB **addresses market failures and/or sub-optimal investment situations.**

Elements of input additionality

Financial

- The amount of financing provided by the EIB
- The cost of EIB financing (interest rate, fees)
- Longer tenor
- Subordinated position
- Lower or no collateral requirements
- Flexibility of drawdowns
- Flexible repayments
- Length of the grace period
- Possibility to convert or revise interest rates
- Funding in local currency

Non-financial

- The quality stamp of the EIB's due diligence
- The reputational benefit of EIB financing
- Crowding-in effect
- Financial advice & structuring
- Innovative financing
- Technical contribution & advice

Evaluation question 2

Do Special Activities provide higher additionality as compared to Standard Operations?

METHODOLOGICAL APPROACH

The evaluation adopted a multi-layered approach to provide depth, breadth and triangulation

DOCUMENTARY REVIEW

- Review of documents describing EIB additionality frameworks: Three pillar assessment (VA2010, VA2013, VA2014, VA2016), Aadditionality and impact measurement framework (2020).
- Review of past evaluations to extract existing evidence on additionality e.g. European Fund for Strategic Investments evaluations, Innovfin evaluation etc.

PORTFOLIO ANALYSIS

- Analysis of three pillar assessment ratings of Special Activities versus Standard Operations for operations approved after the introduction of Three pillar assessment framework in 2013.
- This analysis focused on Pillar 3 ratings at indicator and sub-indicator level. See next slide for an overview of the Three pillar assessment framework.

SURVEY OF OPERATIONS (2018-2020)

- Survey of project promoters, Financial Institutions and Fund Managers to explore elements of additionality from their perspectives.
- Questions relating to financing conditions, nature and value of EIB additionality, access to alternative sources of finance, counterfactual situation.

PROJECT DEEP DIVES

- 45 deep dives based on desk research + survey + interviews with EIB loan officer.
- Deeper analysis of how additionality is assessed and evidenced. Interviews and surveys were conducted to explore ambiguous claims of additionality, to verify any claims of crowding-in effect and to check for potential crowding-out effect .

COMPARATIVE ANALYSIS

- How other International Financial Institutions/ National Promotional Banks assess additionality.
- What they have found in terms of relationship between additionality + risk.

OVERVIEW OF THE THREE PILLAR ASSESSMENT FRAMEWORK

The portfolio analysis focuses on Pillar 3 ratings at indicator and sub-indicator level

3PA indicators (2013-2020)

Pillar 1: Contribution to EU policy

1.1 – Consistency with EU/EIB objectives

1.2 – Contribution to EU/EIB objectives

1.3 – Contribution to EFSI objectives

Pillar 2: Project quality and results

Investment loans

2.1 – Economic growth (ERR)

2.2 – Promoter capabilities

2.3 – Sustainability

2.4 – Employment

MBILs

2.1 – Capacity/soundness of the FI, quality of the Operating Environment

2.2 – Increasing access to finance and improving financing conditions for final beneficiaries

2.3 – Employment

Pillar 3: Technical and financial contribution to the project

3.1 – Financial contribution

(longer maturity, customized terms, financial benefit)

Non-Financial contribution :

3.2 – Financial facilitation

(Innovative financing, crowding-in)

3.3 – EIB contribution and advice

(Financial advice and structuring, technical contribution and advice)

Source: Guidelines for the implementation of the revised value added methodology: 3 pillar assessment. Version 2.1

CAVEATS AND LIMITATIONS

Methodological limitations

- Additionality cannot be observed or precisely ‘measured’; there is an inherent element of subjectivity involved in any assessment of additionality.
- The three pillar assessment - Pillar 3 ratings are based on *ex-ante* expectations and do not represent *ex-post* evidence. Survey data however, provides some *ex-post* evidence of additionality (albeit based on self-assessment by project promoters and counterparts)
- The evaluation initially intended to analyse both the additionality as well as the impact of Special Activities versus Standard Operations. It was however, not feasible to undertake a detailed comparative analysis of the impact of Special Activities versus Standard Operations due to the following reasons:
    - Methodological challenges e.g. impact occurs with a time-lag, it is not always measurable and can be difficult to compare in absolute terms across operations (particularly when the operations are in different sectors). Pillar 2 indicator which measures the Economic Rate of Return provides a basis for comparing the impact of projects, but this measure could not be used due to data limitations – see point below.
    - Limitations with the available data on Pillar 2 indicator which measures the Economic Rate of Return of projects e.g. the economic rate of return cannot always be quantified and therefore, numerical estimates are only available for a part of the portfolio (29% of the operations falling within the scope of the evaluation). Moreover, ex-post data on economic rate of return (reported in Project Completion Reports) is only available for 18% of the portfolio.

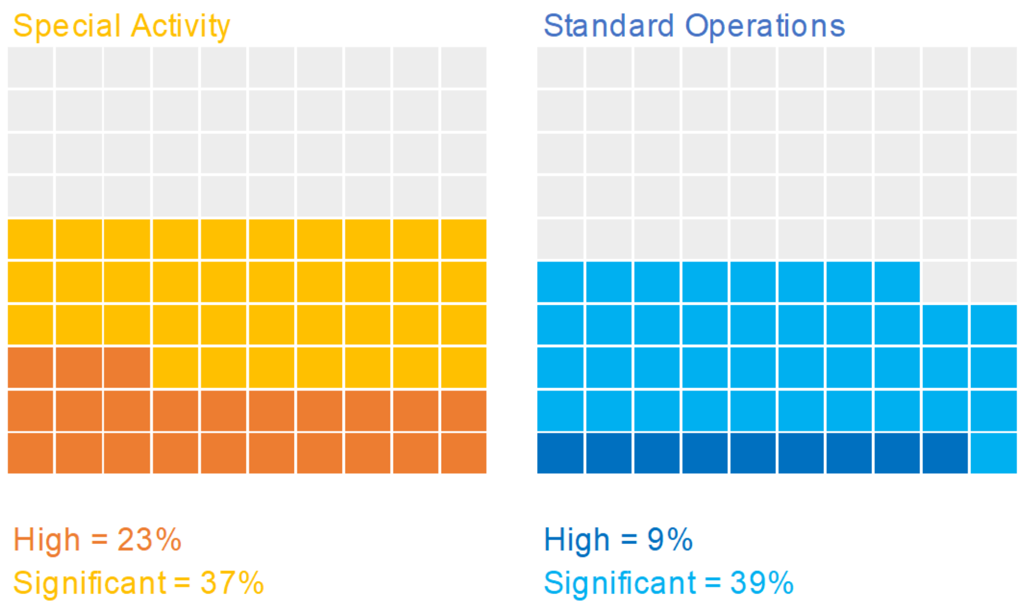
  The evaluation conducted an analysis of ex-ante economic rate of return ratings which is presented in the Annex. This analysis on its own is however, not sufficient to draw any meaningful conclusions regarding the impact of Special Activities versus Standard Operations.

Observations

- There are weaknesses in how additionality has historically been captured in the Bank’s systems, making it difficult to draw strong evaluative judgements e.g.
    - Additionality claims are often not substantiated by (a) data e.g. market benchmarks (e.g. tenors, collateral requirements), data on financing conditions and gaps; or (b) convincing narratives on crowdin—in effect, assessment of availability of alternative sources of finance or the counterfactual situation (what would happen in the absence of EIB financing).
    - The following concepts are often conflated in project documentation (project documentation, Board paper): the market failures being addressed by an operation versus the financing “gap” for an operation.
- The Additionality and impact measurement framework, introduced in 2020 and effective from 1 January 2021, is more robust and will help better capture the additionality and impact of EIB operations going forward.

ADDITIONALITY (PILLAR 3) RATINGS

Special Activities are more likely to be rated “high” on “EIB’s contribution to the project” as compared to Standard Operations



Source: Evaluation Division own computation based on Three Pillar Assessment data. Note: Figure based on 2442 operations. The difference of distribution between Special Activities and Standard Operation is statistically significant (two-sample Kolmogorov-Smirnov test)

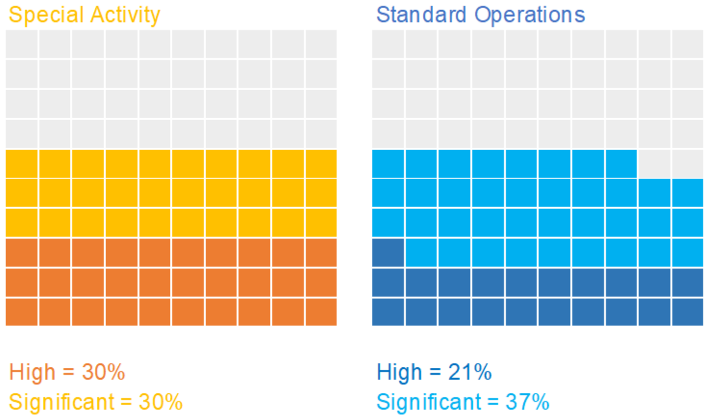
- A higher share of Special Activities (23%) as compared to Standard Operations (9%) are rated “high” on Pillar 3 of the Three Pillar Assessment which captures the EIB’s contribution to a project (see Annex)*.
- Higher additionality ratings are particularly pronounced among Multi beneficiary intermediated loans (44% of Special Activities are rated High vs 17% of Standard Operations), corporate loans and loans to sub-sovereigns
- The difference in the Pillar 3 ratings of Special Activities and Standard Operations is not substantially influenced either by the size or the geographical location of an operation.
- There is no significant difference between Pillar 3 ratings of *new* versus *recurring* clients.
- Project deep dives corroborate the overall message that Special Activities are generally associated with higher additionality.

* The rating scale includes four categories: “low”-”moderate”-”significant”-”high”.

SOURCES OF ADDITIONALITY: FINANCIAL

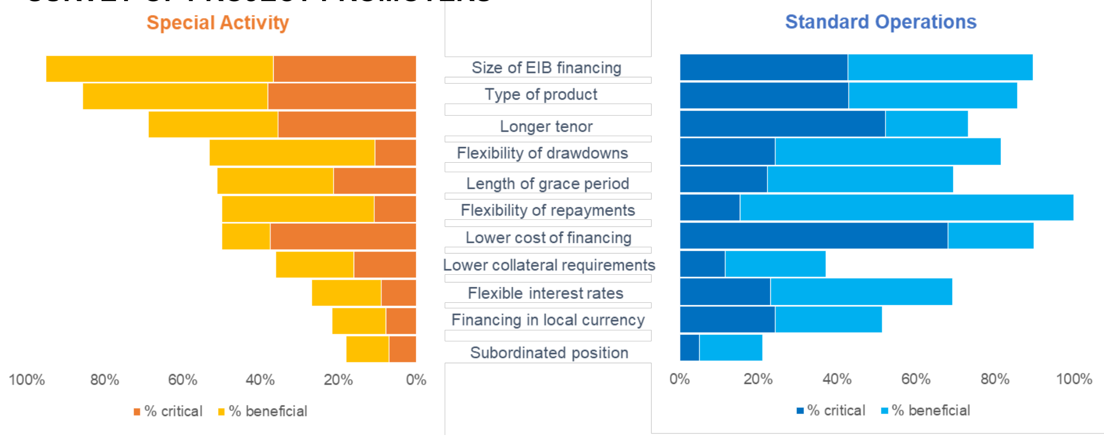
Special Activities attach greater importance to EIB product offering and size of financing; while cost, loan and repayment conditions are more important features for Standard Operations

PILLAR 3 INDICATOR: FINANCIAL CONTRIBUTION



Source: Evaluation Division own computation based on 3PA data. Note: Figure based on 2440 operations.

SURVEY OF PROJECT PROMOTERS



Source: Evaluation Division Survey of project promoters. Number of responses: SAs = 74; SOs = 105

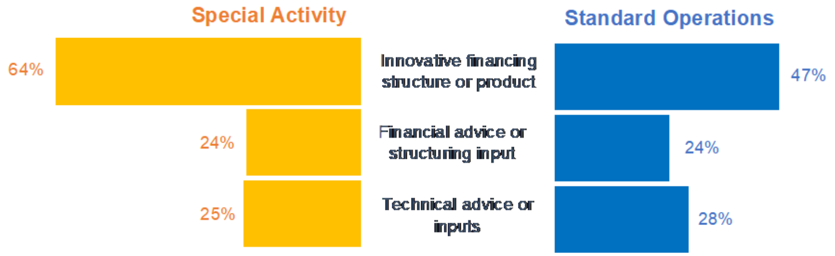
- A higher proportion of Special Activities (30%) are rated “high” as compared to Standard Operations (21%) on the three pillar assessment indicator capturing the **EIB’s financial contribution** (interest rate, customized terms and tenor) to an operation. The survey responses however, provide a diverging perspective: a higher share of Standard Operation project promoters (74%) vis-à-vis Special Activities project promoters (62%) rated at least one aspect of the EIB’s financial contribution as “critical” or “beneficial”.
- Both the survey results and deep-dives indicate that the main sources of financial additionality are similar for Special Activities and Standard Operations: size of the EIB financing, longer tenor, lower costs of financing and type of product.
- Size of EIB financing and the type of product however, are somewhat more important features for Special Activities project promoters as compared to Standard Operation project promoters.
- On the other hand, a higher share of Standard Operation project promoters attach significance to the following features of the EIB financing: cost; flexibility of repayments and drawdowns; possibility to convert or revise interest rates and financing in local currency.
- For intermediated lending operations, the nature of financial additionality is a function of the product used rather than the type of the operation (Special Activities vs Standard Operations). In all cases, EIB financing enables a financial intermediary to access a long term (>10 years) and stable source of funding at competitive rates (survey responses suggest cost is a decisive factor in selecting EIB financing for a higher share of Standard Operations counterparts as compared to Special Activities counterparts). In the case of loan substitutes (Asset-backed securities, covered bonds), there are added benefits for the intermediaries such as risk transfer (synthetic Asset-backed securities) and diversification of funding sources via access to capital markets (true-sale)
- In case of indirect equity operations, feedback from fund managers highlight the following aspects of EIB financing as being critical or beneficial: EIB’s long term outlook and stability of capital and size of the EIB’s investment.

NON-FINANCIAL ADDITIONALITY

Special Activities attach greater importance to EIB's quality stamp and are more likely to benefit from innovative financing structures or products as compared to Standard Operations

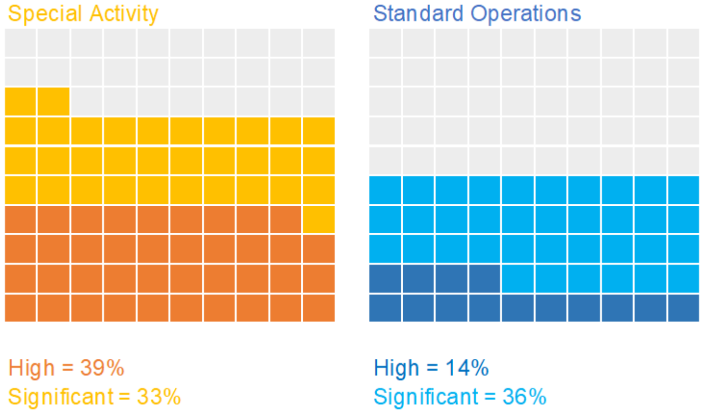
- A higher proportion of Special Activities (39%) as compared to Standard Operations (14%) are rated "high" on the three pillar assessment indicator called **"financial facilitation**" which captures how the EIB improves the efficiency of other stakeholder support (innovative financing, the capacity to attract other private sector financiers or **"crowding-in**" (discussed on the next slide) or to work with public sector partners)
- The alignment of interest between the two parties is perceived as one of the key factors in the decision to apply for the EIB financing for almost all the fund managers surveyed.
- In terms of **advice (financial structuring and technical advice**), only a few operations are rated "high" in the three pillar assessment but the proportion is slightly higher among Special Activities (5% vs 3%). Moreover, 31% are rated "significant" for Special Activities vs only 9% for Standard Operations.
- The survey of project promoters shows **innovative financing structure or product** is much more prevalent for Special Activities than for Standard Operations (see graph).
- In case of intermediated lending, around half of the financial intermediaries surveyed, reported receiving technical advice to enhance their capacity to select EIB eligible sub-projects / final beneficiaries or to enable them to meet EIB requirements (e.g. on reporting and allocation procedures, eligibility etc.). 6 out of 20 fund managers surveyed, reported having received technical advice which contributed to improving the governance structure of their fund and in one case, the investment strategy.
- **Quality stamp/ reputational benefit** is among the main sources of additionality for both Special Activities and Standard Operations: 100% of the Special Activities project promoters and 85% of Standard Operations project promoters indicated this non-financial input as "critical" of "beneficial" for their project.

SURVEY OF PROJECT PROMOTERS, % of operations receiving….

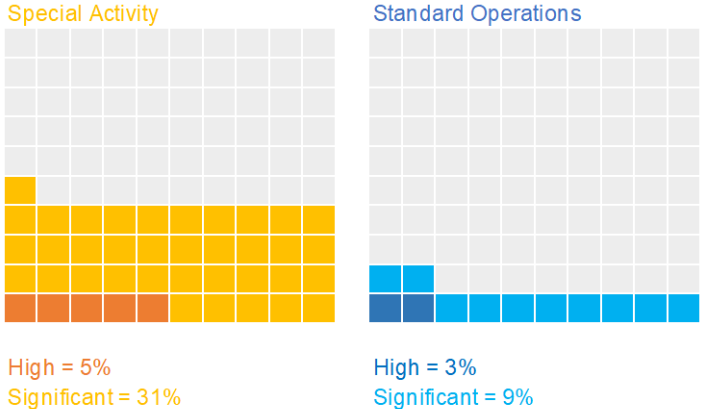


Source: Evaluation Division Survey of project promoters. Number of responses: SAs = 74; SOs = 105

PILLAR 3 INDICATOR: FINANCIAL FACILITATION



PILLAR 3 INDICATOR: ADVICE



Source: Evaluation Division own computation based on 3PA data.
Note: Figures based respectively on 2438 and1568 observations

NON-FINANCIAL ADDITIONALITY: CROWDING-IN

Special Activities are more likely to crowd-in private sector financing as compared to Standard Operations

- A higher proportion of Special Activities project promoters (57%) as compared to Standard Operations project promoters (34%) reported crowding-in effect (survey of project promoters). Likewise for intermediated lending operations, a much higher share of Special Activities counterparts (75%) as compared to Standard Operations counterparts (40%) reported crowding-in effects (survey of financial intermediaries).
- Indirect equity operations in particular, tend to have a strong crowding-in effect: 18 out of the 20 fund managers who responded to the survey stated that the EIB's participation was either critical or had a significant impact on other investors' decision to invest in the fund.
- The project-based deep-dives corroborate the above findings and provide insights on the channels through which crowding-in effect takes place (see next slide for more detail):
    - By creating visibility for the supported projects and promoters beyond their respective national contexts, thus attracting international investors.
    - By supporting promoters in their initial endeavors to obtain financing, helping them to reach "critical mass" and thereby demonstrating to other investors that their projects are financially viable.
    - The technical and legal due diligence performed by the EIB re-assures other investors.
    - The subordinate status of the EIB financing (including through very long maturity) reduced the risk aversion of potential investors.
    - In addition to the crowding-in effect at transaction level some operations also demonstrated such effect at market level. For instance, the EIB financing in the form of a hybrid bond opened-up the local market for this financial product.

CROWDING-IN EFFECT: SPECIAL ACTIVITIES EXAMPLES

PROJECT 1

The promoter was looking to raise a large amount of money on the market (€ 650 million). Commercial Banks were initially reluctant to provide them such a large financing package. The situation changed significantly following the financing offered by the EIB and an National Promotional Bank (€ 250 million in total). Subsequently, the commercial banks decided to join in and the company eventually managed to raise a significantly higher amount (€ 870 million).

PROJECT 2

The borrower was a recently created company entering an unregulated market and planning to roll-out an optical fibre access network in many cities. In order to implement this very large project, the promoter was planning to raise € 2.7 billion from the market. Considering the complex nature of the project and the fact that the borrower had a fairly high leverage, it was facing difficulties in raising the necessary financing. The EIB and the local National Promotional Bank were together able to provide a "critical mass" of support (€ 975 million) for this project. The remaining financing was subsequently provided by Commercial Banks, some of which conditioned their participation to the successful signature of EIB financing.

PROJECT 3

The borrower was in the process of issuing its first long-term bond. This was the first cooperative in the market trying to issue issued a bond. The EIB loan (due to its long tenor) was effectively subordinated to most of the promoters' other financing facilities. This helped to attract other commercial financiers as confirmed by the promoter in the survey.

PROJECT 4

This fund invests in Small and medium enterprises operating in the sectors of energy transition, clean mobility, circular economy, and sustainable cities and communities. One of the factors behind the crowding-in effect in this case was the comfort the EIB due diligence provided to some smaller investors who were less familiar with the Fund's investment strategy and not very well equipped in terms of team resources and knowledge. Some of these investors did not even look at the legal documentation of the fund, placing trust that the EIB had reviewed these documents to ensure that the interests of the investors were protected.

PROJECT 5

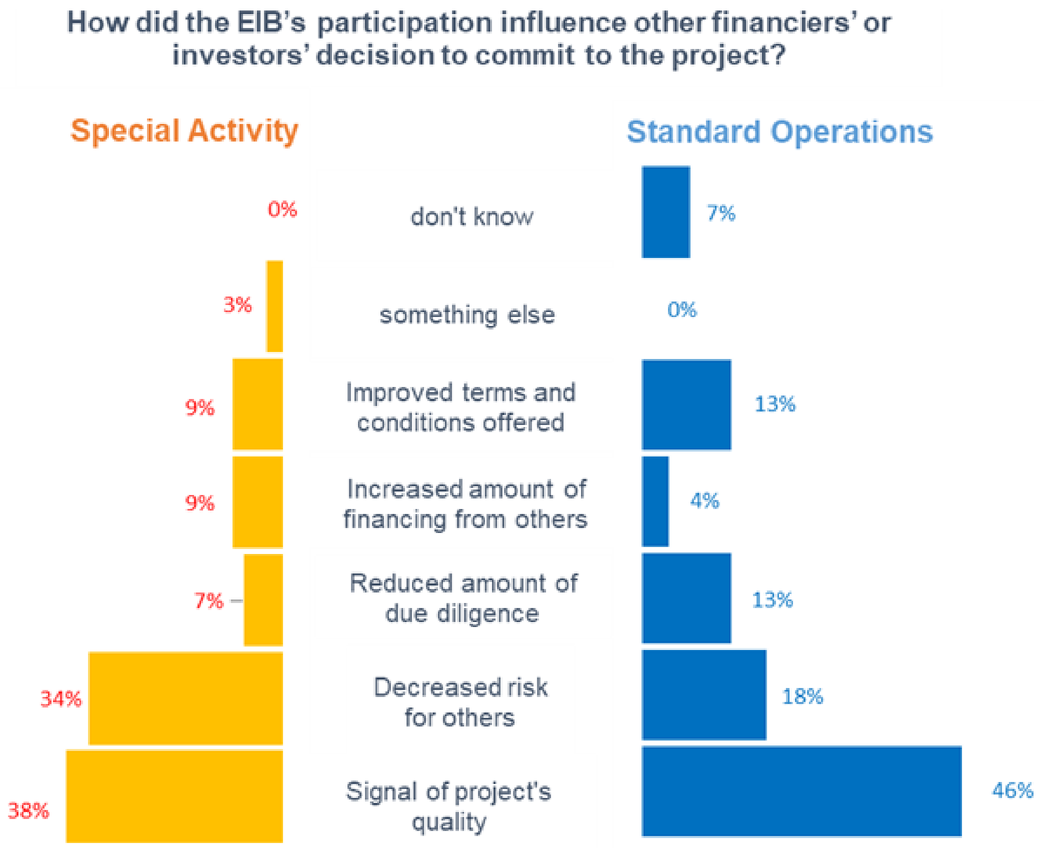
Prior to the EIB operation, hybrid bonds were not available to companies like the one involved in the project. The hybrid bond instrument was important for the company since it alleviates the pressure of debt-financed investments on the balance sheets and credit metrics and thereby allowed the company to implement a more ambitious investment programme. Inspired by the EIB operation, the local National Promotional Bank issued a similar product to the promoter allowing it to expand its investment programme even further.

PROJECT 6

This was a synthetic securitisation transaction signed with the promoter institution during the COVID crisis. The operation aimed to enhance access to finance for small and medium enterprises and Mid-Caps during a difficult period. The EIB did not succeed crowding-in other investors at transaction level since the COVID crisis closed the market completely. However, it helped to re-start the local securitisation market and drew back investors into it, shortly after the crisis.

CROWDING-IN EFFECT: DIFFERENCES

There are some differences between Special Activities and Standard Operations as regards the channels through which the EIB's participation crowded-in external financing



Source: Evaluation Division Survey of project promoters. Number of responses: Special Activities = 74; Standard Operations = 105

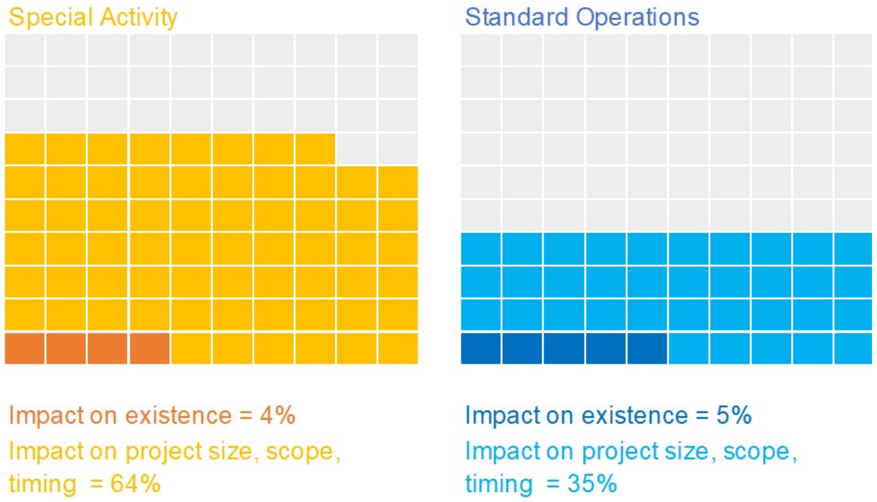
- For Special Activities, a much higher percentage of project promoters mentioned decreased risk for other investors (34% Special Activities project promoters vs 18% Standard Operations project promoters). This is consistent with the notion of Special Activities being riskier activities. See previous slide on channels of crowding-in effect identified for a sample of Special Activities via deep-dives
- For Standard Operation, a somewhat larger proportion of project promoters (46% Standard Operation promoters vs 38% Special Activities promoters) mentioned signaling of the quality of the project

INVESTMENT ADDITIONALITY

Special Activities tend to have higher investment additionality as compared to Standard Operations

- Investment additionality refers to the magnitude and quality of the impact of the Bank's inputs on the existence, designing or functioning of a project. The evaluation therefore, looked for the following evidence:
    - would an EIB financed project have gone ahead (without any changes) in absence of the Bank's support?
    - did the EIB's financing have any impact on the scale, scope or timing of the project?
- Both the project deep-dives and survey results confirm that the EIB financing is much more likely to have an impact on the existence, design or functioning of Special Activities as compared to Standard Operations

SURVEY OF PROJECT PROMOTERS



Source: Evaluation Division Survey of project promoters. Number of responses: Special Activities = 74; Standard Operations = 105

- In a survey conducted by EIB EV, 68% of Special Activities project promoters (vs. 40% Standard Operations) reported that EIB financing had an impact on the existence, designing or functioning of their project (see graph).
- Likewise, the absence of EIB financing would have had a negative impact on the small and medium enterprise / mid-cap lending portfolios (reduced volume of lending, higher interest rates) of a higher percentage of Special Activities counterparts (86%) as compared to Standard Operation counterparts (58%).
- A vast majority of the surveyed fund managers (17 out of 22) reported that their funds would either not have closed at all or closed with a smaller size and/ or delay. Consequently, these funds would either not have launched or scaled down or excluded investments with a higher risk profile.

INTENSITY OF MARKET FAILURES

The nature and intensity of market failures/ sub-optimal investment situations are similar across the two portfolios except for equity and venture debt

While assessing the significance of the sub-optimal investment situations/ market failures involves some level of subjectivity, the evaluation could not find any notable differences in the nature and intensity of investment gaps/ market failures being addressed by Special Activities versus Standard Operations (with the exception of equity and venture debt - see point below) in the thematic areas reviewed as part of project deep-dives.

- **Energy sector:** of the projects reviewed, both Special Activities as well as Standard Operations address similar sub-optimal investment situations in renewable energy technologies (wind farms), and in the refurbishment of energy infrastructure (electricity networks, and outdated/ less efficient thermal generation technologies). There is no evidence to suggest that SAs are focused in countries where market failures are more pronounced.

- **Sustainable buildings:** aside from addressing negative environmental externalities, the three Standard Operations reviewed address sub-optimal investment situations in the social and affordable housing sector. The Special Activities operation on the other hand, addresses a shortage of quality housing for a wider range of the local population. Arguably, in this case the Standard Operations are addressing market failures arising from both environmental and social externalities. In contrast, the Special Activities operation is only tackling environmental aspects.

- **Intermediated lending**: all operations address market failures in small and medium enterprises or mid-cap financing. There are no clear-cut patterns to suggest that Special Activities are focused in geographies, sectors or segments where market failures are more intense. In some cases, the EIB requests more policy requirements for the operations where it takes more risk (e.g. in the case of the intermediary was required to lend to small and medium enterprises s/mid-caps and amount). However, some Standard Operations also include policy requirements (e.g. one project was designed to increase access to finance for micro enterprises or small and medium enterprises s located in less developed regions and in vulnerable sectors. Another project included a dedicated portion for companies in convergence regions and climate action projects).

- **Research & Development:** all operations address underinvestment in Research & Development resulting from market failures (divergence between societal and private return). Both Special Activities and the Standard Operations address sub-optimal investment situations which tend to be very significant as they are associated with areas of high priority for the European Union and tend to promote ground-breaking technologies. For instance, the reviewed Special Activities promote research in areas such as energy fusion, access to space and autonomous driving, while the Standard Operations are in areas such as batteries for electric vehicles and use of enzyme-assisted products and processes.

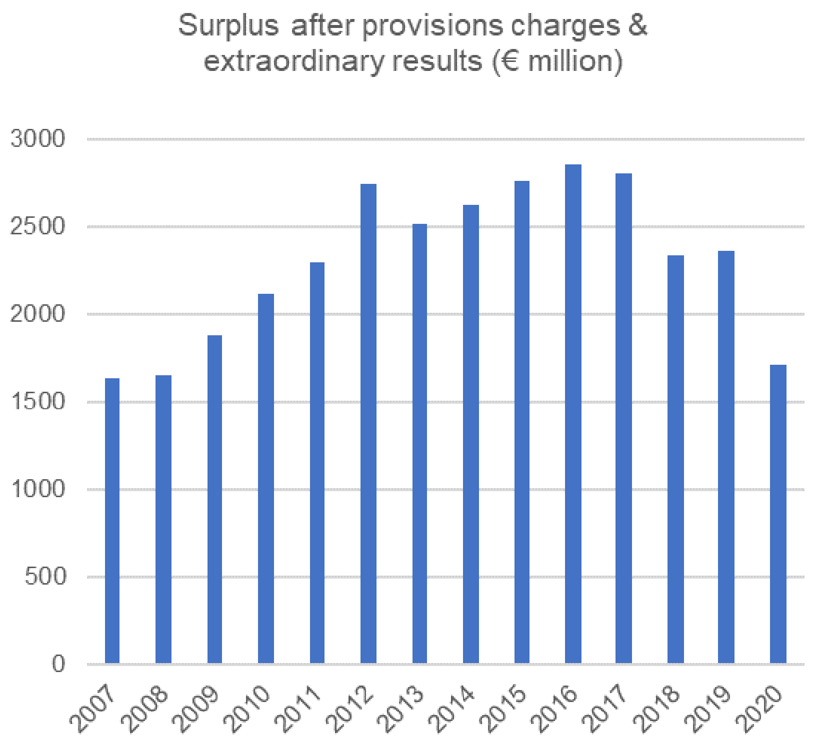
In case of **equity and venture debt operations**, it can be argued that the EIB backed operations address more severe market failures or sub-optimal investment situations e.g. venture capital funds address market failures in equity financing for start-ups and small and medium enterprises s. Thematic finance under venture debt enables the EIB to support businesses dealing with complex and/or unproven products and technologies in areas such as infectious diseases and energy demonstration.

RE-CAP OF KEY POINTS

- Special Activities are more likely to be rated “high” on “EIB’s contribution to the project” (Pillar 3) as compared to Standard Operations. This indicator reflects the additionality of the EIB’s inputs.
- Special Activities attach greater importance to EIB’s product offering and size of financing; while cost, loan and repayment conditions are more important features for Standard Operations.
- Special Activities are more likely to benefit from innovative financing structures or products as compared to Standard Operations. This to a large extent, reflects the nature of the EIB products deployed under Special Activities e.g. venture debt/ quasi-equity, equity, mid-cap financing, risk sharing instruments etc.
- Special Activities are more likely to crowd-in private sector financing as compared to Standard Operations. The main channel of crowding-in effect for Special Activities is by reducing risk for private investors whereas in case of Standard Operations, the crowding-in takes place via the signalling effect of EIB’s contribution.
- Beyond the crowding-in effect at the level of individual operations, Special Activities also generate significant market-level “demonstration effects e.g. opening of local hybrid bond market, re-launch of the local small and medium entreprise securitisation market in a (covid-19) crisis.
- EIB financing is much more likely to have an impact on the existence, design or functioning of Special Activities as compared to Standard Operations.
- On balance, the evidence suggests that Special Activities deliver higher additionality as compared to Standard Operations.
- The nature and intensity of market failures or investment gaps being addressed are similar across the two portfolios (except for equity and venture debt) e.g. market failures in small and medium entreprise financing, sub-optimal investment in Research & Development or infrastructure, negative environment externalities etc. There is no evidence to suggest that Special Activities are taking place in sectors, segments or geographies where market failures or investment gaps are more severe.

06 COST, PROFITABILITY AND CAPITAL CONSUMPTION

CONTEXT: DECREASING SURPLUS



Source: EIB Financial Reports – 2008 to 2020

In a capital constrained environment (i.e. no increase in shareholders' capital), the Bank must rely on organic (i.e. internal) growth of own funds from its retained (net) profits / surplus.

The surplus comes essentially from two sources:

(i) Interest revenue from investment of own funds (Asset Liability Management) which have been the main driver of surplus generation over the past are under pressure given the low interest rate environment.

These revenues are entirely dependent on market interest rates, hence the Bank has little control over this i.e. the Bank can adjust the duration of own funds (*Asset Liability Management* strategy) but strictly within the approved Risk Appetite Framework Interest Rate Risk limits.

(ii) Net income from lending activity

These are driven by the lending margin with market pricing acting as a cap and pricing attractiveness issues in a world of low/ negative interest and ample liquidity.

There are several internal and external factors affecting costs and revenues. Among internal factors the most notable drivers are volume and risk mix, but there are other factors also – see subsequent slides.

CONTEXT: RISING COST BASE

The Bank's cost base and headcount have been constantly increasing since 2008

The Bank's cost base and number of Full time equivalents have both doubled over the last decade. Although staff costs are the main component of the Bank's operating expenses, non-staff costs (other operating expenses and depreciation) are also closely linked to staff numbers.

The increase in cost base is being driven by:

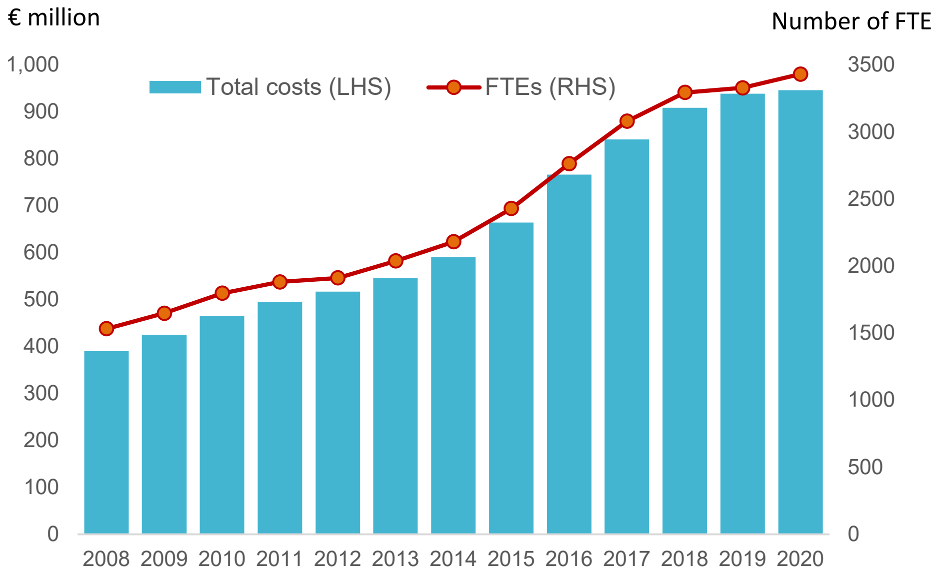
The changing profile of the Bank's operations (increasing share of Special Activities in business mix - smaller operations, newer clients, increasing risk and complexity), largely due to European Fund for Strategic Investment >> for a given volume, more operations >> more workload due to origination and due diligence of more operations, more physical and financial monitoring.

Other Bank wide factors impacting on costs and workload include:

- Regulatory requirements: Best Banking Practice
- Increased transparency requirements and increased external transparency
- Compliance and tax: Heavier compliance requirements, especially non compliant jurisdiction/know your customer and Tax
- Reporting and disclosure requirements: additional commitments related to mandates (e.g. European Fund for Strategic Investment, InnovFin)
- Expansion in scope of due diligence (e.g. climate, gender and social aspects)
- Institutional growth e.g. opening of new external offices

Going forward, cost increases expected from:

- New initiatives – new mandates;
- Further increases in staff resources necessary to implement the audit committee road map, e.g. Audit Committee (report 2020): Group ICT: Strategy, digitalization and Information Security Risk Management.



Source: Evaluation Division computations based on internal corporate data. Cost in € million

The following measures are expected to contribute to cost control:

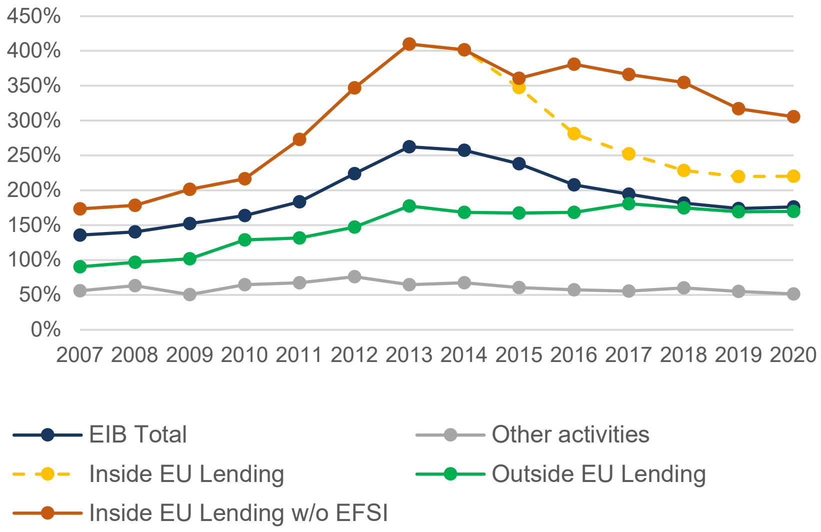
- Strengthening the cost control capacity within the EIB (Audit Committee report 2019)
- Digitalisation
- Streamlining of procedures

COST COVERAGE RATIO

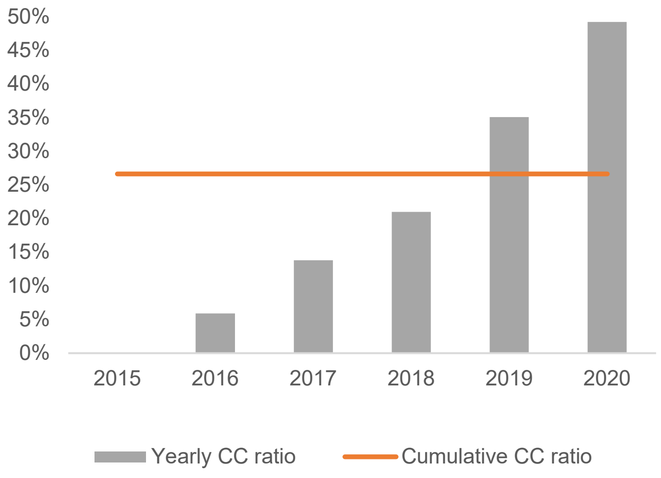
- The cost coverage ratio is defined as operating revenues divided by operating costs
    - Operating revenues consist of intermediation revenues (mark-up & modulation), administrative revenues and upfront fees.
    - Operating costs include all operating costs of the year as per the Bank’s Financial Statement, excluding non budgeted items.
- At the Bank wide level, it is a statutory obligation that this ratio is above 100%
    - The Bank level cost coverage ratio is driven by the cost coverage ratio of different products, as well as their share of cost in the total cost.
    - It allows some cross-subsidization between products and between loans which are still in production and loans which have good revenue generating disbursed amounts outstanding, however non-cost covering products drive down the Bank wide ratio.
- Costs are generated by both managing and monitoring of the existing portfolio as well as by the origination of new operations, whereas revenues are mostly generated by disbursed contracts.
- The metric is calculated on a yearly accounting basis. As such, it considers only those costs incurred and revenues received within a given calendar year. This caveat applies in particular to activities/products in ramp-up phase.

CONTEXT: DETERIORATING COST COVERAGE RATIO

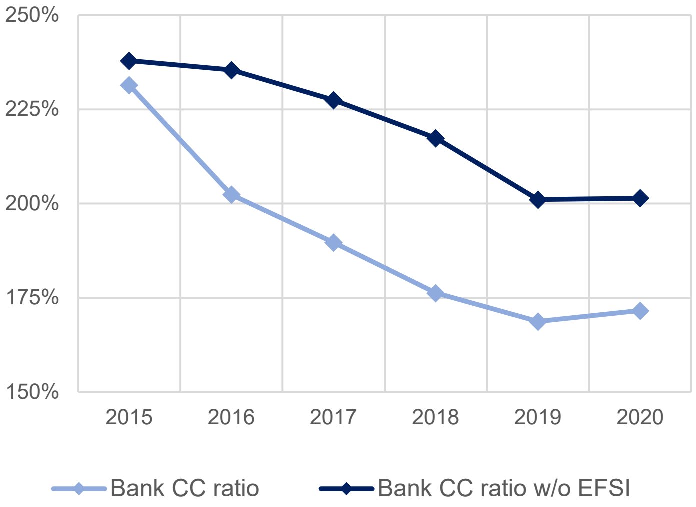
a) Historical evolution of the Bank's CC ratio



b) EFSI CC ratio



c) Bank wide CC ratio



Source: Evaluation Division computation based on internal corporate data.

- **Chart a:** From 2008 to 2013 >> strong increase in the Bank wide cost coverage ratio, primarily driven by increases in intermediation revenues. However, since 2014, the growth in costs has been outpacing the growth in revenues.

- **Chart b & c:** European Fund for Strategic Investment has been driving down the Bank wide cost coverage ratio (chart c). Although European Fund for Strategic Investments cost coverage ratio is expected to improve, on a full lifecycle basis it is foreseen to remain negative (chart b) due to higher costs in the investment phase reflecting the underlying nature of the pursued complex transactions with higher attrition rates, smaller average size and higher origination costs compared to Standard Operation, as well as the absence of operating revenue recognition policy for equity operations

Evaluation question 3

What are the cost and profitability implications of Special Activities for the Bank? And how capital intensive are these activities?

COST COVERAGE & PROFITABILITY

Available analysis: General Secretariat cost coverage reports and risk management quarterly profitability reports.

These are different, although related concepts:

- Cost coverage (General Secretariat) is a Statutory obligation: operating revenues vs operating costs.
- Profitability analysis (Risk Management) is based on the full P&L decomposition (i.e. all costs and all revenues and EU GAAP based). Different notion of profitability: net revenues, return on asset, return on equity, risk-adjusted return on equity.

Caveats:

- All these metrics are calculated on a yearly accounting basis. As such it consider only those costs incurred and revenues received within a given calendar year. A cumulative / lifetime / lifecycle overview is thus missing. This distorts the picture for products/ activities in ramp-up phase
- Proxy for Special Activities: (i) loans under risk-sharing mandates, but not all of these operations are Special Activities; (ii) Special Activities at own risk, but these constitute a small share of the overall Special Activities portfolio and as such are not fully representative of overall SA portfolio; (iii) No granular analysis by product, loan grading and size buckets
- Limited yearly time-series evidence not covering a full economic cycle (6 and 5 years for cost coverage and profitability respectively)

METHODOLOGY: COST COVERAGE AND PROFITABILITY

- In the next few slides, the evaluation assesses the yearly and cumulative cost coverage and profitability (i.e. costs vs revenues) of Standard Operations vs Special Activities as well as at a more granular level, i.e. by loan grading and size buckets (NB: the results by product grouping are shown in the appendix).
- Equity and quasi-equity type operations are excluded given the absence of an operating revenues recognition policy. Hence Special Activities refers to Special Activities excluding equity and quasi-equity operations.
- To put all groups on an equal footing, the evaluation only considers all operations created from 2011 to 2020, hence all groups are “penalized” by the time lag between revenues and costs (i.e. “time to generate revenues”).
- The analysis takes into account post-signature attrition, but cannot take into account pre-signature attrition as the loan grading at signature is not yet available for these operations.
- To save space, the data source is not added below each chart. Evaluation Division computations are based on the following sources: 1) BO: volumes and loan gradings; 2) General Secretariat: operating costs, operating revenues and commitment fees at the operation level; 3) Risk Management: risk pricing revenues and pre-payments at the contract level; 4) Financial Control: specific and collective provisions and guarantees revenues (available for the years for 2018 to 2020) at the contract level

METHODOLOGY (CONTINUED)

DATA USED IN THE ANALYSIS

OPERATING COSTS

Operating costs as defined in the Bank's cost accounting system methodology and used in the Bank's cost coverage ratio.

TOTAL REVENUES

Operating revenues (Bank definition)

- Intermediation revenues (mark-up & modulation)
- Administrative revenues
- Upfront fees

➕ **Additional revenues impacting the Profit and loss**

- Commitment fees
- Revenues from guarantees

- Expected loss risk pricing revenues
- Unexpected loss risk pricing revenues
- Increase or release of provisioning (-/+)

→ Risk-pricing retrocession / retention and size of FLP

METRICS COMPUTED (revenues vs costs)

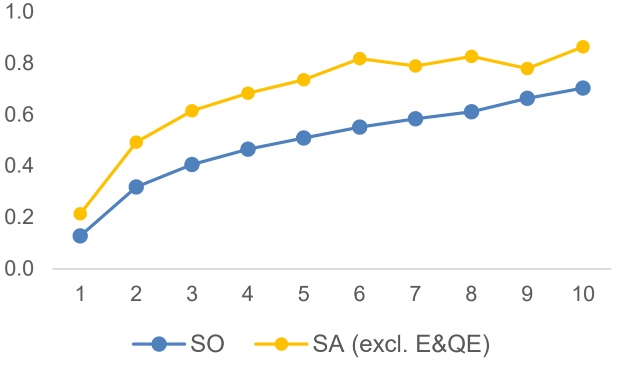
- **COST COVERAGE metric (Bank's definition) which compares operating revenues to operating costs**
- **PROFITABILITY metric which further includes (the main) additional revenues impacting the profit and loss**, i.e. risk pricing, commitment fees and guarantees revenues as well as provisioning* are included. This represents a counterfactual situation EIB retaining all risk pricing revenues and as such provides a ceiling for the profitability of Special Activities. This provides a more complete view of (the potential) profitability of Special Activities operations per se than the restricted portfolio of Special Activities at own risk. Indeed, as given the reduced size of InvestEU compared to European Fund for Strategic Investment, going forward some of the Special Activities operations pursued under mandates will/might be pursued at own risk
- **Both metrics are computed:**
  1) **as RATIOS (revenues divided by costs)** labelled cost coverage and profitability ratios **and as LEVELS (revenues minus costs)**, as this is how they enter the profit and loss, labelled net operating revenues and net total revenues
  2) **on a YEARLY accounting basis** and **on a CUMULATIVE / lifetime basis** (rolling sum starting in 2011)
- Furthermore, **to control for the size differences of the portfolios**, a **NOMINAL RETURN** is also computed along with the contribution from its different components

*: The impact of provisioning is "under-estimated" as it includes only the part incurred by the EIB and not the part under Mandators' risk-coverage, although inside European Union it has been small
**: Signed volume are used to control for the size as revenues are not only generated by disbursement. Given that signed is lower than disbursement, this is a more conservative return.

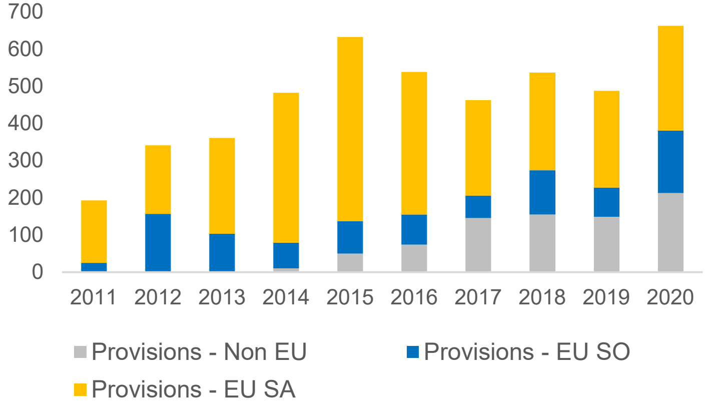
SPECIAL ACTIVITIES VERSUS STANDARD OPERATIONS: COST & REVENUE DRIVERS

Interviews with peer institutions suggest that riskier investments tend to have higher costs

(a) Median cumulative costs (€ million) of operations in their n-th calendar year of lifetime



(b) Evolution of loan provisions (specific & collective) and value adjustments (EU GAAP basis – € million – after credit enhancement)



(c) Attrition and disbursement rates

	SO	SA (excl. E&QE)
% operations cancelled after signature	3%	7%
Net signed to signed	93%	91%
Disbursed to signed	78%	71%
Disbursed to net signed	84%	78%
Pre-paid to disbursed	8%	9%

Source: Evaluation Division computations based on internal corporate data.

COSTS

- The "typical" cost of Special Activities operations is higher than that of Standard Operation for reasons mentioned previously (higher origination costs, higher complexity leading to higher monitoring) – Figure a
- Additional costs stemming from mandate specific requirements (e.g. governance, monitoring and reporting etc.): According to the Bank's analysis, fixed costs of a mandate can be up to 15% of its lifetime costs

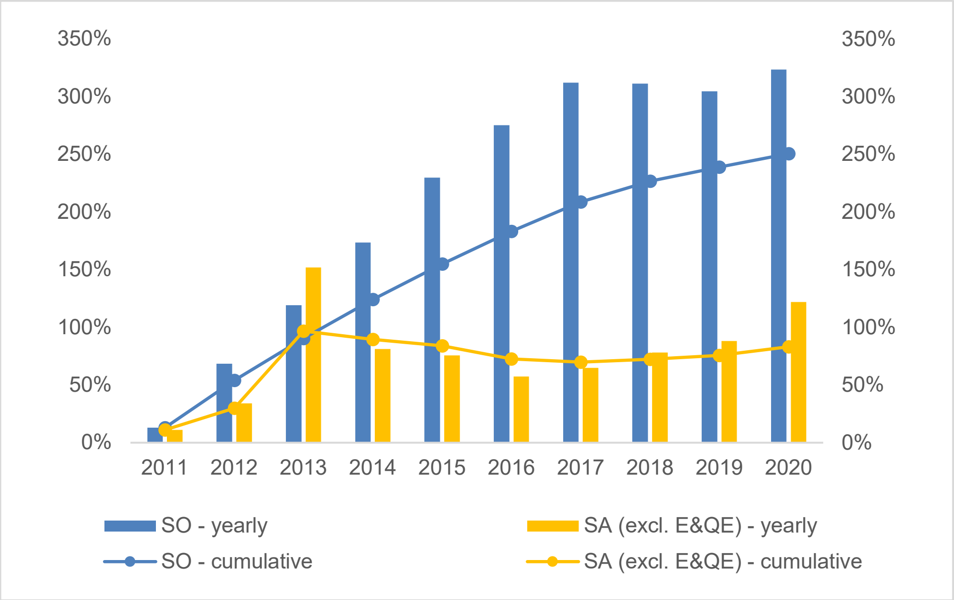
REVENUES depend on:

- Size: Except for project finance, Special Activities operations are smaller than Standard operations ➔ lower revenue generating capacity (see following slides)
- Margins: Mark-up and risk pricing are higher for Special Activities than Standard Operation ➔ higher level of revenues (see following slides)
- Provisions: Higher for Special Activities than Standard Operation (Figure b)
- Attrition: Post signature cancellation is higher and disbursement rates a bit lower for Special Activities (Figure c)

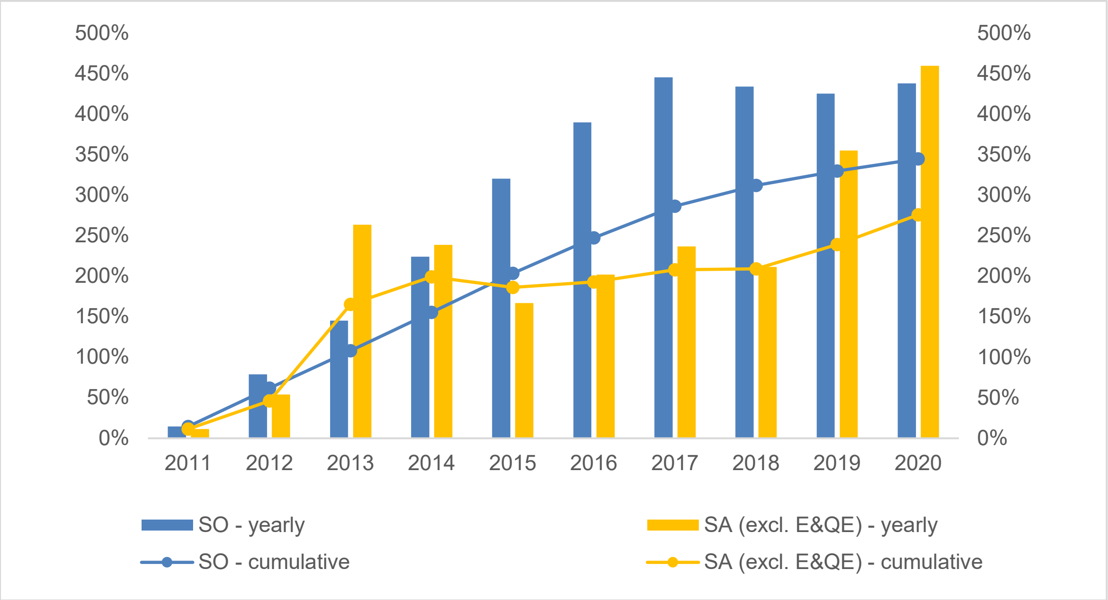
REVENUES TO COST RATIO

On a cumulative basis (2011-2020), Special Activities have not achieved cost coverage

a) Yearly and cumulative cost coverage ratio



b) Yearly and cumulative profitability ratio



NB: We use the term cumulative instead of lifetime/lifecycle as the later applies more specifically to a mandate or an operation which has a termination date.

Source: Evaluation Division computations based on internal corporate data.

- **Chart a:**. For the first few years, the cost coverage ratio of Standard Operations and Special Activities operations were comparable (driven by only a few big Special Activities operations) and below 100%. From the 2014 onwards, as the stock of Special Activities operations was quickly growing, the Special Activities cost coverage ratio started deteriorating. Although the annual cost coverage of Special Activities has improved in recent years (it crossed 100% in 2020 and can be expected to improve further in the coming years as more operations generate revenue), the cumulative cost coverage of SAs over the period 2011-2020 remains below 100%.

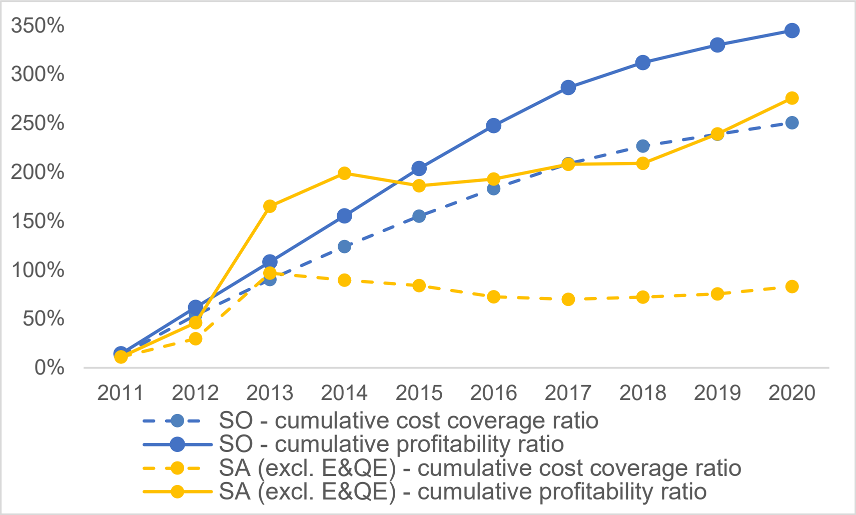
  However, it is clear that **the cost coverage ratio of Special Activities (yearly and cumulative) has been/is much lower than that of Standard Operations**.

- **Chart b**: When all revenues are taken into account, **the yearly profitability ratio of both Standard Operations and Special Activities is above 100%** starting in the third year onwards, implying a yearly net positive contribution to the profit and loss.

REVENUES TO COST RATIO (CONTINUED)

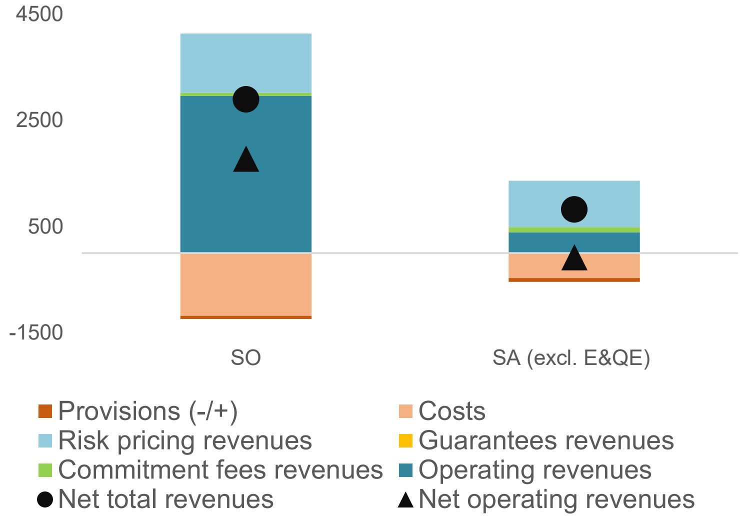
On a cumulative basis (2011-2020), Special Activities are profitable when all revenues are taken into account

c) Cumulative cost coverage and profitability ratios



Source: Evaluation Division computations based on internal corporate data.

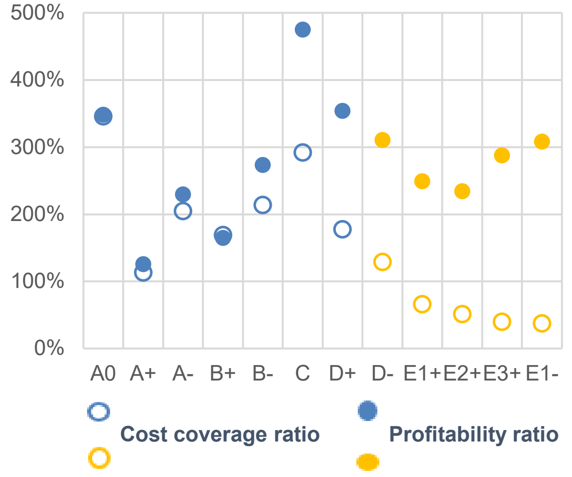
d) Cumulative (10yrs) P&L impact (€ million)



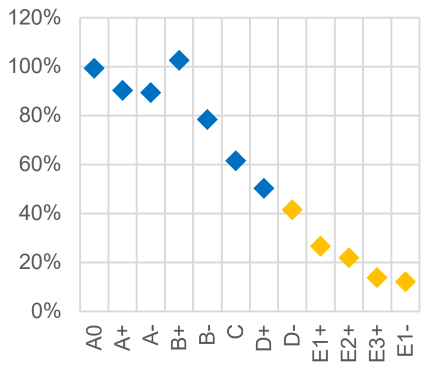
- **Including additional profit and loss revenues has a much bigger positive impact on Special Activities than Standard Operations (chart c and d).** This is due to the strong asymmetry in the revenue composition of Standard Operation and Special Activities as cumulatively (over 10 years):
  - **Operating revenues accounted for the bulk of Standard Operations total revenues,**
  - While, as expected, **risk pricing revenues accounted for a larger share of Special Activities total revenues** contributing substantially to their revenue generation capacity, hence mitigating their smaller size
  - Provisions, which adds to y-o-y volatility of the Bank's net surplus, have a negative impact which is more important for Special Activities.

DISAGGREGATED VIEW: RISK VS COSTS

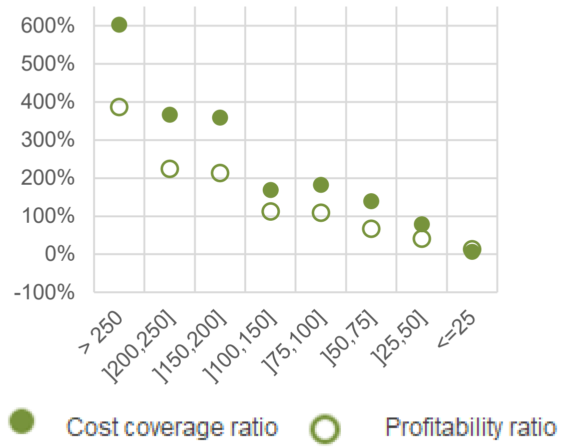
a) Cumulative cost coverage and profitability ratios by LG



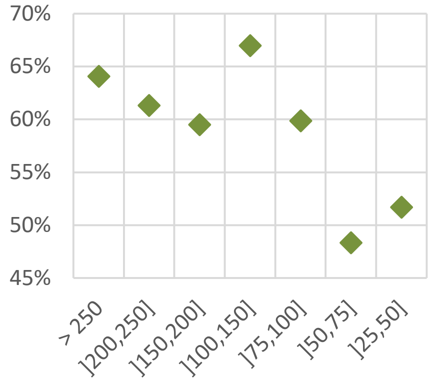
b) Cumulative operating revenues as a % of total revenues by LG



c) Cumulative cost coverage and profitability ratios by median size (€ million) buckets



d) Cumulative operating revenues as a % of total revenues median size (€ million) buckets



Source: Evaluation Division computations based on internal corporate data.

Risk as measured by the loan grading (charts a & b)

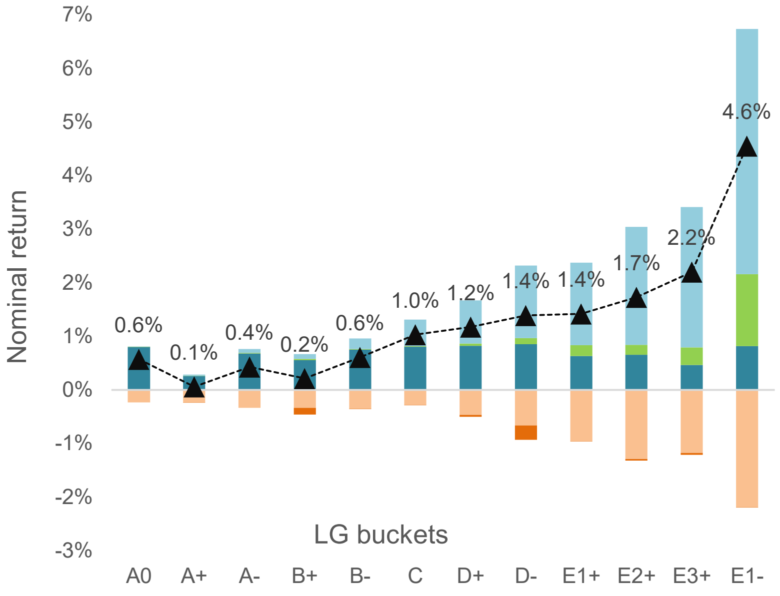
- The CC ratio is decreasing with loan grading buckets after “C” loan grading. Except for the Special Activities “D-” loan grading bucket, the cumulative cost coverage ratio has been below 100% for Special Activities operations for which operating revenues have not been enough to cover operating costs.
- When considering total revenues across all loan grading buckets, Special Activities profitability ratio > 100% >> Special Activities operations have been profitable (i.e. positive profit and loss impact).
- chart b): The share of operating revenues in the total revenues decreases as risk increases (i.e. as risk pricing revenues increases), this translates in a bigger jump in the revenues to costs ratio for Special Activities.

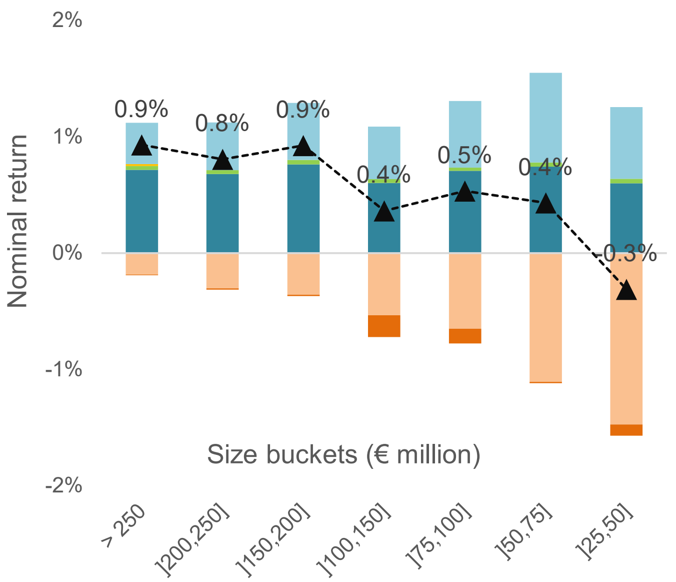
Size (charts c & d)

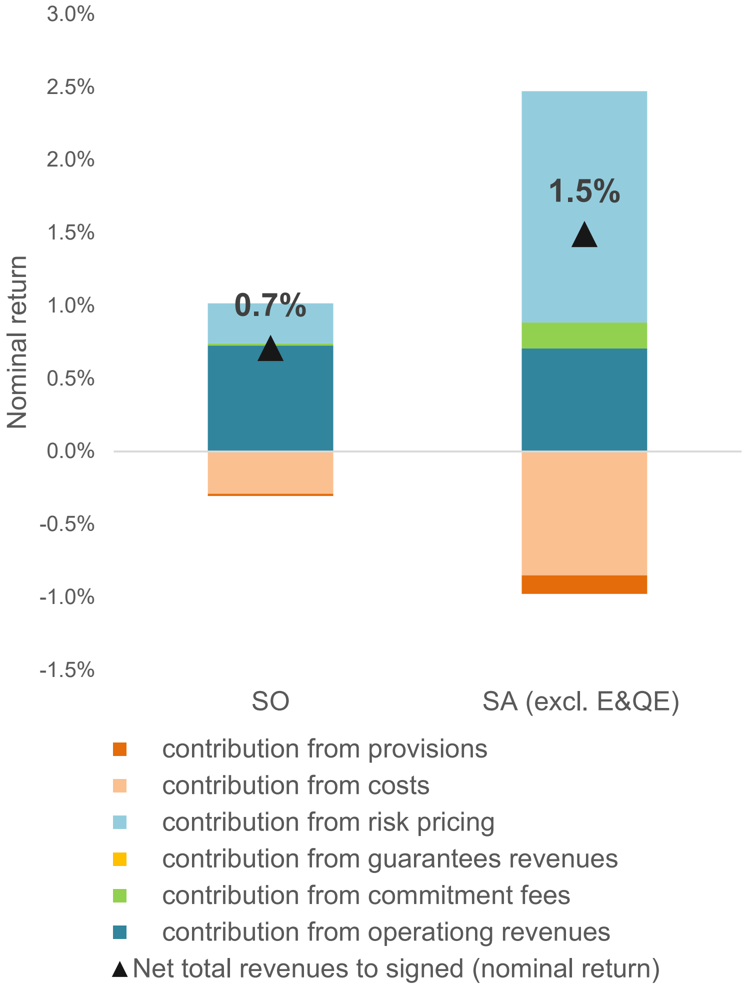
- Revenues to costs decreases (whether considering only operating revenues or total revenues), although not monotonically, with size of operations.
- Operations in the size bucket of € 50 to € 75 million are just about cost covering (109%), while below that level operating revenues have not been covering operating costs.
- Below € 50 million, even total revenues have not been enough to cover operating costs.

NET REVENUES TO SIGNED VOLUME CUMULATIVE (2011-2020) NOMINAL RETURN

Special Activities are more profitable than Standard Operations when risk pricing is retained





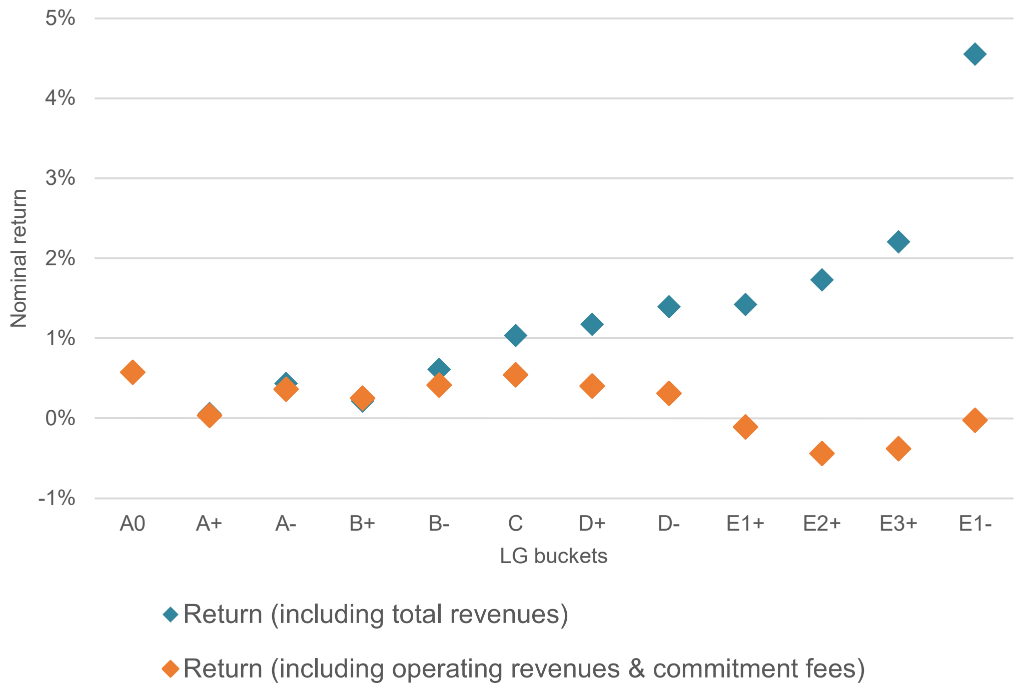


Source: Evaluation Division computations based on internal corporate data.

- Cumulative nominal returns are higher for Special Activities as compared to Standard Operations
- Risk pricing helps a lot in improving the revenue generation capacity and profitability of Special Activities, but size matters

NB: return decomposition by product groups are available in the appendix

RISK RETURN TRADE-OFF



Source: Evaluation Division computations based on internal corporate data.

This slide shows the same information as the previous slide, but instead of showing the full return decomposition it shows:

- the total return, i.e. counterfactual if EIB assumes full risk, hence return takes into account risk pricing revenues* and provisions
- the return only taking into account operating revenues and commitment fees, i.e. counterfactual if EIB assumes no risk, hence receives no risk pricing revenues and incurs no provisions

*: This includes also the guarantees revenues for which the mark-up and risk pricing components are not separately identifiable.

CAPITAL CONSUMPTION

Caveats

Capital intensity per EUR of Standard Operations vs Special Activities at own risk is difficult to measure and compare for the following reasons:

- The Bank uses three measures of capital intensity (Basel III CAD ratio, ECap / own funds, S&P risk adjusted capital ratio). There are methodological differences between the three ratios (i.e. which scalar risk measure is used (value at risk vs expected shortfall), the horizon over which losses are estimated and the level of confidence, model differences, risk parameters and risk mitigants & contract clauses eligibility). Hence the answer will be metric specific, although the resulting ranking is for all three ratios the same: the higher the residual risk for the EIB, the higher the capital consumption per EUR nominal exposure.

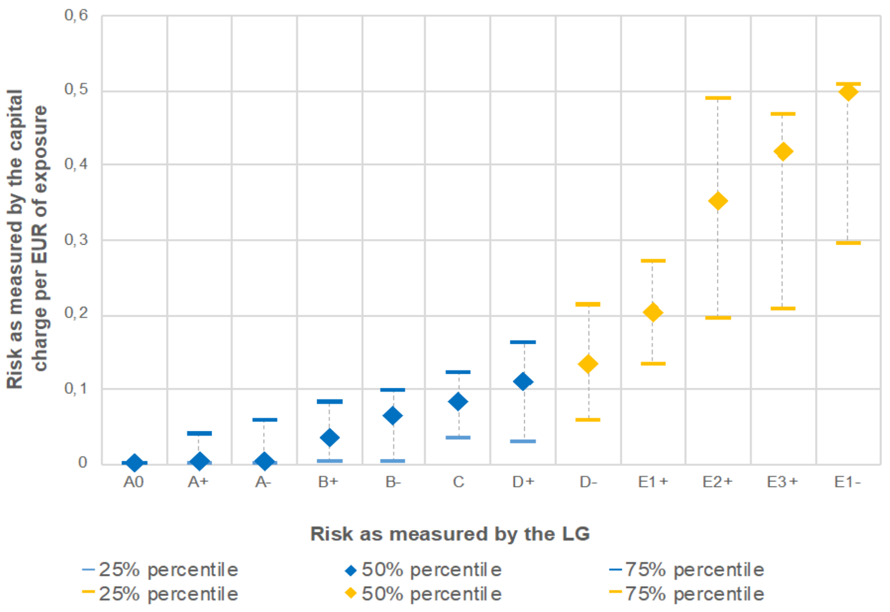
- The vast majority (86%) of the Special Activities has historically (2011-2020) been carried out under mandates. For these contracts/operations, capital consumption data cleaned of the impact of the first loss piece are not available.

- Own risk Special Activities volume has been small (14% of net signed Special Activities volume between 2011-2020), but are the only data available to proxy the capital intensity of Special Activities at own risk, however they do not cover the whole spectrum of risk as:

    - Special Activities at own risk (excluding Equity &Quasi-equity) have mainly ranged in the lower risk buckets of Special Activities and;

    - Given the heterogeneity of Special Activities and non-representativeness of own risk Special Activities for the Special Activities portfolio it does not cover the whole spectrum of Special Activities undertaken by the Bank. For instance some products such as risk sharing instrument under full delegation are much more capital intensive that a plain vanilla loan with a loan grading of D- but have only been undertaken under mandates.

CAPITAL CONSUMPTION: DEBT



Source: Evaluation Division computations based on internal corporate data.

- The capital charge proxy is computed as the % of economic capital (ECap) to signed exposure. Higher the value, higher the riskiness .
- Computations are based on pooling three vintages, namely December 2018, 2019 and 2020 European Union and European free trade association are considered. There are only very few contracts at own risk in the E2+ or lower loan grading buckets, hence results are driven by a few contracts.
- The chart show the 25, 50 and 75 percentiles of the capital charge distribution across the different loan gradings buckets.

	LG
SO	A0
	A+
	A-
	B+
	B-
	C
	D+
SA (Debt)	D-
	E1+
	E2+
	E3+
	E1-
	E2-
	E3-
	F

SA: Equity & quasi-equity

ETI: equity type individual

ETP: equity type portfolio

Source: Evaluation Division, based on the internal credit risk guidelines

- As expected, the two risk measures (capital charge and loan grading) are positively correlated
- There is **no cliff effect of capital intensity at loan grading D-**;
- The size of the increase in ECap charge between loan grading classes has to be seen in relation to the width of the expected loss range which is increasing with lower loan grading (see table on the RHS).

For instance, the loan gradings D+ and D- include both a 1% expected loss range and have respectively a median ECap charge of 11% and 13%, while the loan grading E1+includes a 2%expected loss range and has a median ECap charge of 20%.

CAPITAL CONSUMPTION : EQUITY & QUASI-EQUITY

- Equity and quasi-equity operations consume materially more capital than debt operations

Measure	Debt w/o firs loss piece	Debt with first loss piece	Equity
Capital adequacy Ratio	Low to High	Low	Medium to High
Risk-adjusted Capital Ratio	Low to High	Low to Medium	High
Gearing Ratio	Low (1:1)	Low (1:1)	High (1:2.5)

Source: Equity Audit Committee Presentation

RECAP OF KEY POINTS

Costs, cost coverage ratio and profit & loss impact

- The typical cost (per operation) of Special Activities is higher than Standard Operations. Over a ten-year period (2011-2020), the share of cumulative costs over net signed volumes for the Special Activities portfolio is 0.8% as compared to 0.3% for the Standard Operations portfolio. This implies that the cost per € signed is circa three times higher than Standard Operations over the period 2011-2020
- The Special Activities portfolio has not been cost covering. Although the annual cost coverage of Special Activities has improved in recent years (it crossed 100% in 2020 and can be expected to improve further in the coming years as operations generate revenue), the cumulative cost coverage of Special Activities over the period 2011-2020 remains below 100%. In comparison, Standard Operations have a cumulative cost coverage ratio of 250%
- Factors driving up costs: higher origination and monitoring costs, mandate specific costs
- On the revenue side, "ticket" size and margin, drive the level of revenues
- On including all revenues, Special Activities operations are profitable. Cumulative nominal returns are higher for Special Activities than Standard Operations.
- There is a strong asymmetry in the revenues composition of Standard Operations and Special Activities.
- There is no cliff effect at loan grading of "D-" for cost coverage, profitability and capital consumption

But:

- Risk pricing significantly contributes to improving the revenues generation capacity of Special Activities operations and profitability, but cannot fully counter-balance the impact of too small size – see Box.
- The sunk cost of pre-signature attrition is not accounted for as the loan grading at signature is not available at pre-signature stage.
- The negative impact of provisioning is "under-estimated" as it includes only the part incurred by the EIB and not the part under mandators' risk-coverage, although inside European Union it has been small.
- Provisions are EU GAAP based and not IFRS-9.
- Uncertainties remain with respect to the full impact of the COVID crisis and more generally the profitability of Special Activities operations under a cyclical downturn.

SIZE MATTERS!
The median cumulative cost of Special Activities is higher than that of Standard Operations, while the median ticket size of Special Activities is less than half of that of Standard Operations. This has a negative impact on the Bank cost coverage ratio (due to higher cost per operation and higher number of operations for a given volume). Operations in the size bucket of € 50 million to € 75 million have just about been cost covering (109%), while below that level operating revenues have not been covering operating costs. While risk pricing significantly contributes to improving the revenue generation capacity and profitability of Special Activities, it does not fully counter-balance the impact of a very small ticket size. Below € 50 million, even total revenues have not been enough to cover operating costs.

07

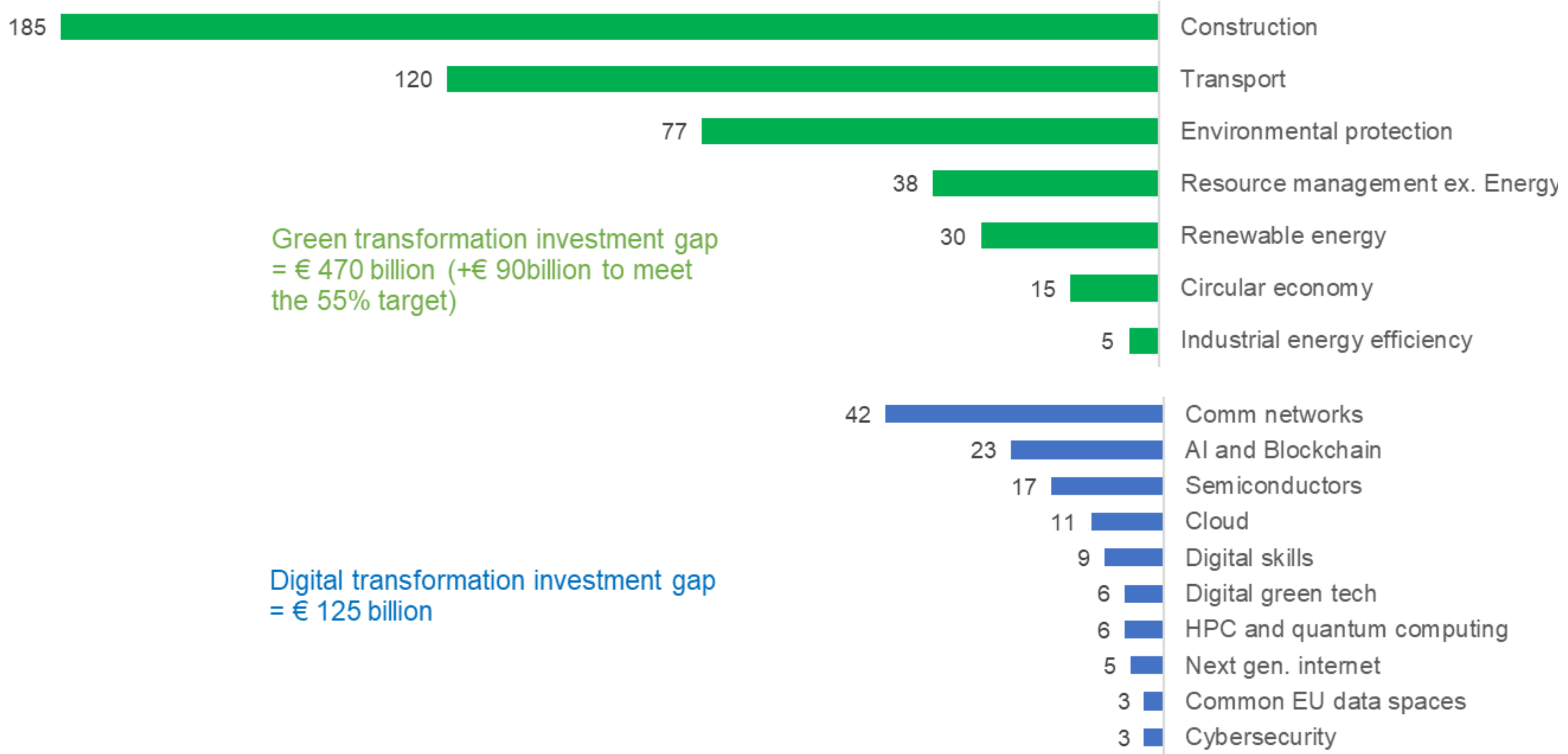
RELEVANCE GOING FORWARD

Evaluation question 4

Is there a valid rationale for the Bank to take more risk with own resources?

EUROPE HAS HUGE INVESTMENT NEEDS

The investment needs for delivering the green transition and digital transformation are estimated to be at least € 595 billion per year



\+ € 100 billion per year of public investment

\+ € 192 billion per year of investment in social infrastructure

Source: COMMISSION STAFF WORKING DOCUMENT. Identifying Europe's recovery needs, (2020) 98 final, 25 May 2020
The above estimates provide a conservative benchmark for adequate green investment levels as it was not possible to quantify all green investment needs

WHILE EUROPEAN UNION AND NATIONAL SPENDING WILL SUPPORT PUBLIC INVESTMENT …

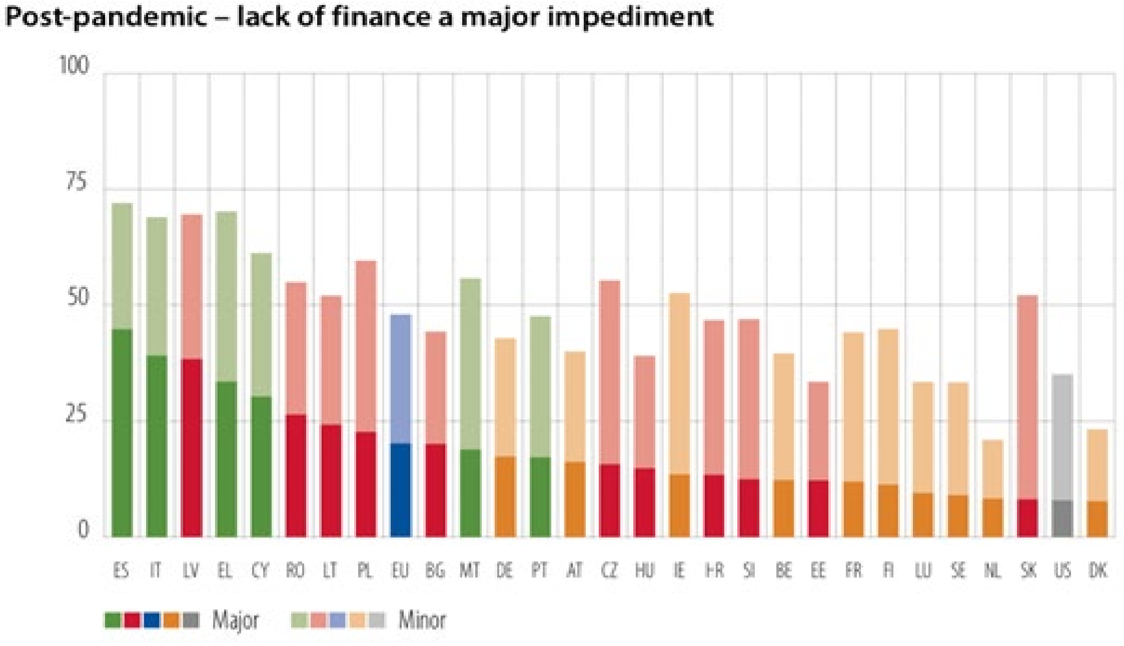
		Gross debt, general government (as a percentage of GDP, 2002-2022)					
		2017	2018	2019	2020	2021	2022
EU-15							
EU-15 sorted by size of GDP	Germany	65.1%	61.8%	59.7%	69.8%	73.1%	72.2%
	France	98.3%	98.0%	97.6%	115.7%	117.4%	116.4%
	Italy	134.1%	134.4%	134.6%	155.8%	159.8%	156.6%
	Spain	98.6%	97.4%	95.5%	120.0%	119.6%	116.9%
	Netherlands	56.9%	52.4%	48.7%	54.5%	58.0%	56.8%
	Sweden	40.7%	38.9%	35.0%	39.9%	40.8%	39.4%
	Belgium	102.0%	99.8%	98.1%	114.1%	115.3%	115.5%
	Austria	78.5%	74.0%	70.5%	83.9%	87.2%	85.0%
	Ireland	67.0%	63.0%	57.4%	59.5%	61.4%	59.7%
	Denmark	35.9%	34.0%	33.3%	42.2%	40.2%	38.8%
	Finland	61.2%	59.7%	59.5%	69.2%	71.0%	70.1%
	Portugal	126.1%	121.5%	116.8%	133.6%	127.2%	122.3%
	Greece	179.2%	186.2%	180.5%	205.6%	208.8%	201.5%
	Luxembourg	22.3%	21.0%	22.0%	24.9%	27.0%	26.8%
EU-13							
EU - 13 sorted by size of GDP	Poland	50.6%	48.8%	45.6%	57.5%	57.1%	55.1%
	Romania	35.1%	34.7%	35.3%	47.3%	49.7%	52.7%
	Czechia	34.2%	32.1%	30.3%	38.1%	44.3%	47.1%
	Hungary	72.2%	69.1%	65.5%	80.4%	78.6%	77.1%
	Slovakia	51.5%	49.6%	48.2%	60.6%	59.5%	59.0%
	Bulgaria	25.3%	22.3%	20.2%	25.0%	24.5%	24.0%
	Croatia	77.6%	74.3%	72.8%	88.7%	85.6%	82.9%
	Lithuania	39.1%	33.7%	35.9%	47.3%	51.9%	54.1%
	Slovenia	74.1%	70.3%	65.6%	80.8%	79.0%	76.7%
	Latvia	39.0%	37.1%	37.0%	43.5%	47.3%	46.4%
	Estonia	9.1%	8.2%	8.4%	18.2%	21.3%	24.0%
	Cyprus	93.5%	99.2%	94.0%	118.2%	112.2%	106.6%
	Malta	48.5%	44.8%	42.0%	54.3%	64.7%	65.5%
Total - EU		83.2	81.2	79.1	92	94.4%	92.9%

Source: DG ECFIN forecast, Spring 2021

Although sovereign debt levels have increased as a result of the COVID crisis, European Union funding particularly from the Next Generation European Union - € 750 billion in the form of grants and loans - will support Member States (particularly those that are highly indebted) to finance greener, more digital and more resilient post-COVID economies.

This is likely to result in decreasing demand for classical EIB loans from public sector borrowers.

… PRIVATE SECTOR CAPACITY TO INVEST WILL BE REDUCED



Source: EIB Investment Survey, 2020
NB: Orange bars represent Northern and Western Europe, while green stands for Southern Europe and red represents Central and Eastern Europe. Grey represents the United States.

Access to finance remains a major long-term impediment to corporate investment in several European Union economies and at least a minor impediment in all European Union Member States.

The COVID-19 crisis is likely to exacerbate finance constraints and therefore the investment gap.

With reduced earnings and increased debt, the investment vs. debt trade-off will become more acute.

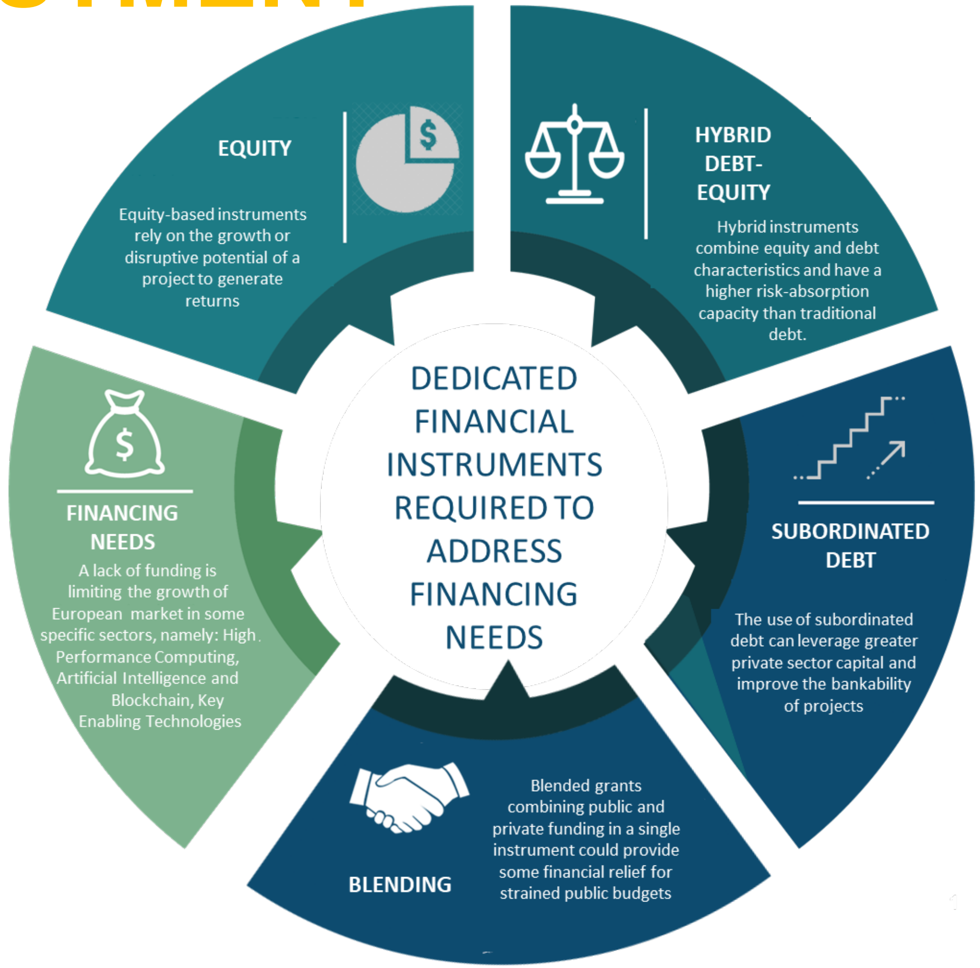
A RANGE OF PRODUCTS ALONG THE RISK SPECTRUM WILL BE NEEDED TO STIMULATE/ DE-RISK PRIVATE SECTOR INVESTMENT

Mobilising capital for net zero-CO2 emissions investments will require public sector interventions i.e. reducing investment risks and employing new financing models and products. For example, capital market innovations such as asset-backed securities, and risk guarantees could accelerate decarbonisation by reducing the cost of capital through securitising decarbonisation projects.

Similarly, accelerating innovation in cutting edge technologies (High Performance Computing, Artificial Intelligence and Blockchain, Key Enabling Technologies etc.) requires the deployment of riskier financial instruments, such as private equity, venture capital, hybrid debt (or venture debt) or blended finance. Markets for these riskier products are however, underdeveloped in Europe and there is a shortfall of private risk capital, leading to an investment gap with respect to the main competitors, notably the US (and a financing gap with respect to the demand emanating from the innovating businesses). There is therefore a rationale for the public funding of these inherently risky activities through innovative financing structures or products.

Findings from comparative analysis:
The appetite for equity is a common trend across peer institutions, albeit from a small base or in embryonic form so far.

A recent European Bank for Reconstruction and Development evaluation recommends that it should expand and diversify its offer range to move into new business areas; increase its institutional distinctiveness; and create paths to new competitive advantage.



Source: Evaluation Division based on 2018-2021 InnovFin Advisory studies (see list of references)

STRATEGIC CONSIDERATIONS / CONCLUSIONS & RECOMMENDATIONS

STRATEGIC CONSIDERATIONS / CONCLUSIONS TO GUIDE DECISION MAKING

- **At the core of the evaluation lies the following question: should the EIB engage in higher risk activities in the form of Special Activities? The answer to this question is ”yes”. Special Activities are relevant and necessary for the following reasons:**
- Special Activities generate higher additionality (which is central to the mandate of a Public Bank such as the EIB), have enabled the Bank to reach out to new clients and sectors, and develop products that respond to evolving market needs (e.g. Asset-backed securities, mid-cap lending, Quasi-equity/ venture debt etc.). As such, Special Activities contribute to strengthening the Bank’s institutional distinctiveness and competitive position, especially on mature markets with appetite for more sophisticated risk-sharing products and in a market context characterized by low/negative interest rates and high liquidity*.
- Exclusive reliance on Standard Operations will almost certainly not deliver the Bank’s ambitious climate action and digital targets. Riskier instruments (equity, hybrid debt, subordinated debt, blended instruments) are needed to address the investment gaps in critical sectors. If the EIB wishes to be at the forefront of financing the European Union’s transition to a carbon neutral and digital economy, it will need to develop products that respond to market needs.
- Special Activities are profitable over the longer term due to risk pricing. There are however two important caveats to this finding: (i) although the evaluation provides longer term evidence on additionality, cost, profitability etc. (covering the period 2011-2020), it is unable to provide a full lifecycle analysis for Special Activities as the bulk of the portfolio is still young and the full effects of the COVID crisis might not have yet materialized; (ii) the evaluation demonstrates that the Special Activities portfolio is quite heterogeneous, comprising a range of product lines with differences in characteristics, additionality, cost coverage and profitability. The Bank therefore, needs to be mindful of product level differences when making decisions. For example, the project finance portfolio and Special Activity portfolio of loans to large corporates have been cost -covering and profitable, while the portfolio of loans to mid-caps has not (yet) been cost covering nor profitable.

*: The Next Generation European Union fund will provide substantial funding (€ 806.9 billion) to Member States to finance greener, more digital and more resilient post-COVID economies. This may result in decreasing demand for classical EIB loans from public sector borrowers.

STRATEGIC CONSIDERATIONS / CONCLUSIONS TO GUIDE DECISION MAKING

- **Finding the sweet spot.** In finding the balance between the mix of Standard Operations and Special Activities on the one hand and between own-risk and risk-sharing Special Activities on the other hand, the following trade-offs need to be considered:
- Special Activities generate higher additionality, but are more capital intensive than Standard Operations
- Special Activities have lower (statutory) cost coverage, but are more profitable (i.e. generate a higher net revenues per EUR signed) than Standard Operations when all risk pricing is retained

When determining the balance between own-risk versus under risk-sharing mandate Special Activity, the Bank should consider the following trade-offs

- Special Activity under risk sharing mandate imply lower residual risk for the Bank, but involve higher costs* (this poses challenges in achieving cost coverage) and have low/ no profitability (due to retrocession of risk pricing). In other words, the higher the size of the First Loss Piece , the lower the residual risk retained by the EIB, but the profitability is also lower (or even negative as in the case of European Fund for Strategic Investments) due to retrocession of risk pricing. Mandates also come with additional constraints such as specific governance, eligibility & reporting requirements.
- Own risk Special Activities entail more risk (>> more capital intensive), but have higher profitability for the EIB and greater strategic autonomy (in determining product choices and features, for example).

Special Activities have not been cost covering, but are profitable when all risk pricing is retained. The cumulative cost coverage ratio of Special Activities is <100% and much lower than Standard Operations due to (a) higher cost per operation and (b) lower operating revenues. A much larger share of the revenues for Special Activities comes from risk pricing, as compared to Standard Operations.

*: This is due to the existence of mandate specific costs. According to the Bank’s analysis, fixed costs of a mandate can be up to 15% of its lifetime costs

FOCUS OF THE RECOMMENDATIONS

In its conclusions, the evaluation lays out the trade-offs (risk, additionality, capital consumption, cost coverage and profitability) that need to be considered by the Services, the Management Committee and the Board when determining future volume orientations. The evaluation does not issue recommendations on the following topics:

i. The exact business mix of Special Activities versus Standard Operations going forward

ii. The exact mix of own-risk versus risk-sharing Special Activities

Services (Risk Management, General Secretariat and Operations) are better placed to run simulations on the optimal business volume and business mix which are a function of several parameters, some of which have not been covered by the evaluation (e.g. market demand, operational capacity, capital headroom etc.).

The recommendations address the following issues (i) gaps in business analytics that need to be resolved in order for the Bank to take informed decisions regarding business mix; (ii) cost coverage and profitability of Special Activities; and (iii) the binary distinction between Standard Operations versus Special Activities.

RECOMMENDATIONS

Recommendation 1: Higher risk products need to be strongly anchored in the expectation of higher additionality and impact, while being financially sustainable. In order to achieve this, the Bank should improve its capacity to understand and analyse the additionality and impact of each product line along with its full lifecycle cost coverage and profitability

Due to data issues (see box), it is currently not possible to get a full picture of cost coverage, profitability, additionality and impact at product level.

Data issues: Cost coverage, profitability and additionality analysis

- Most sub-indicators of pillar 3 (EIB's contribution) are missing in the Business Objects data base and, in practice, only a very small share of operations report three pillar assessment indicators at completion. Under the additionality and impact measurement framework, a new IT system should allow an effective assessment of projects at inception, approval as well as a review of the additionality and impact measurement summary sheet at completion stage.
- Some improvements in the measurements of revenues and costs are needed to ensure a more precise of view of cost coverage and profitability.

i. **The Audit Committee** has previously flagged the need for the Bank to improve its "capacity to analyse revenue and expense drivers as well as cost coverage with the aim to ensure adequate profitability per product and per mandate". The evaluation reinforces the Audit Committee's recommendations. Furthermore, **it is recommended that the Bank extends the ongoing product level analysis of cost coverage and profitability to also include additionality and impact (both expected and delivered) as measured through the additionality and impact measurement framework.** This will enable the Bank to better understand the performance of each product line and to take evidence based decisions regarding which product lines to develop and which ones to drop.

ii. **Ensure the additionality and impact measurement is monitored and all (sub-)indicators are filled, particularly at completion.** This would not only enable a comparison between expectations versus achievements, but also enable the Bank to take business decisions based on what was actually delivered in terms of additionality and impact.

iii. **Conduct ad hoc impact evaluations** of some specific higher risk products to better understand their impact and the mechanisms at play.

iv. **Explore the possibility of using data science*** to better understand the interlinkages and relationships between product characteristics (e.g. counterparts type, size etc.) and product performance (cost coverage, profitability, capital consumption, additionality and impact). Factors such as risk, counterpart type (new vs old, investment grade vs non- investment grade, public/ private, large corporate vs mid-cap) sector, geography, ticket size, tenor etc. affect- to varying degrees - cost coverage, profitability, capital consumption, additionality and impact. Data science can help (a) connect the dots, i.e. the patterns, interlinkages and relationships between these variables and (b) understand how the inter-linkages and relationships between product/ operation characteristics, risk, capital consumption, cost coverage, additionality and impact might change during a crisis context or over an economic cycle.

**Data science is a multi-disciplinary approach applying mathematics and statistics, using specialized programming, predictive analytics and artificial intelligence, including machine learning and deep learning models to extract actionable insights buried in huge volumes of data.*

RECOMMENDATIONS

Recommendation 2: The bank should explore and implement specific measures to improve the cost coverage of special activities.

Several actions are being taken to improve the sustainability of the Bank's business model, e.g. revised framework for the administrative mark-up and upfront fees applicable to lending operations, implementation of the recommendations of the Audit Committee, introduction of Capital Sustainability Policy, Group Equity Strategy, IT strategy, etc. These broader measures aimed at improving Bank-wide cost coverage and profitability are acknowledged and appreciated. However, given the higher cost per operation of Special Activities, the Bank should also explore and implement specific measures to improve the cost coverage and profitability of Special Activities. Examples of such measures (depending on suitability for a particular product line) could include increased standardisation of products, streamlining procedures for smaller ticket sizes, converting new clients into repeat clients, limiting the number of product variations, etc. Streamlined procedures for small projects could include i) more flexibility and Services' support for programmatic approaches, ii) refining the due diligence/ appraisal process so that it is, iii) more delegation to Directors and Management Committee for approvals, and iv) (for partial delegation risk sharing instruments) more reliance on intermediaries' internal credit reviews.

Recommendation 3: The Bank should consider re-assessing the suitability of the D- threshold and/or dropping the nominal hard limit on own-risk Special Activity (introduced in the 2021 COP) in light of the evaluation findings and the broader context (changing business model of the Bank, shifting market dynamics and evolving needs).

The evaluation shows that there is no capital intensity cliff effect at loan grading D-. The capital intensity is correlated with loan grading buckets, the lower the loan grading, the higher the capital intensity: i) capital intensity of operations with a loan grading of D- are close to that of D+ operations; ii) operations with a loan grading of D- are much less capital intensive than those with a loan grading of E2+. Indeed the rate of increase in capital intensity is increasing as one moves down the loan grading scale. This is due to the convexity of capital intensity as well as the fact that the range of expected losses covered by a given loan grading bucket is increasing.

The 2021 Group Operational Plan introduces, for the first time, a nominal ceiling on the new signature volume of own-risk Special Activity. The Bank should consider discontinuing this nominal ceiling, which is based on the binary designation of Special Activity. This limit is not necessary as the Group capital planning is already based on more sophisticated risk based methods*. On the other hand, it potentially imposes a constraint on delivery. For example, a nominal ceiling could be hit by concentrating new Special Activities business in the D- range, while consuming relatively little capital. A nominal ceiling cannot reflect the heterogeneity of capital intensity across loan grading . This applies to both Standard Operations and Special Activities operations. The Capital Plan provides orientations for new business of capital allocation by business line, Group entity and lending type.

More widely, the evaluation raises into question the appropriateness of the D- threshold for Special Activities. The label "Special Activities" was formally introduced under Article 16.3 of the Bank's revised Statute in December 2009 (following adoption of the Lisbon Treaty). The introduction of the "Special Activity" concept under the new Statute provided the Bank with a clear legal basis to undertake higher risk financing on its own for the first time. Special Activities are described in the Statutes as presenting a specific risk profile for which a specific reserve allocation is prescribed under Article 16.5. The concept was operationalised in the Bank's credit risk guidelines in 2010 on the basis of the D- loan grading threshold and all equity type operations. This was a continuation of the threshold introduced in 2001 used to classify activities under the Structural Finance Facility. Since 2001, both the wider market and policy context as well as the Bank's business model have significantly changed. In light of these wider trends and the evaluation findings, the Bank should consider re-assessing the suitability of the D- threshold for Special Activities.

**Economic, regulatory and Risk-adjusted capital ratio requirements are based on underlying riskiness of each transaction irrespective of the binary Special Activities /Standard Operations designation prescribed by the Statute.*

09

ANNEXES & REFERENCES

Chapter 2: METHODOLOGY

The analysis of new clients needs to be interpreted carefully

Methodological specifications

- New clients are defined using OPS classification of counterparty seniority type (recurring client/more than 5 years/new):
  - **NEW clients** are counterparts who have **never signed** a finance contract with the EIB (type I clients)
  - Type II clients are counterparts who have not signed a finance contract **with the EIB in the past 5 years**
  - **Recurring clients** are counterparts who have signed a contract with the EIB **in the past 5 years**
- When a borrower is involved in several contracts from the PF, he is considered as new as long as he has at least signed one contract between 2011 and 2020 as a new client.
- The analysis is performed at the contract level on a portfolio of 3045 operations and 4324 contracts signed between 2011 and 2020. All contracts are signed non-cancelled and we focus on the risk portfolio. NB: We have excluded contracts relating to non European Union and mixed European Union and non European Union operations (United Kingdom is treated as European Union as we cover the pre-Brexit period).
- Almost one fourth of the contracts have been signed with several borrowers
- For some products, a new borrower is created by definition for each contract, even though recurring clients of the Bank are involved (this is for instance the case for Special Purpose Vehicles).

Chapter 3: METHODOLOGY

Pillar 3 indicators used for the analysis of additionality

Methodological specifications

- The Three Pillar Assessment analysis is conducted at the operation level on a sub-portfolio of 2466 operations approved after 2012. We have removed from the portfolio 822 operations approved before the introduction of the Three Pillar Assessment template (before 2013) in order to use only comparable Three Pillar Assessment data.
- The analysis is hence based on 3503 contracts signed between 2013 and 2020 for a total signed amount of € 407 billion of which 16% is signed for special activities.
- The Three Pillar Assessment framework has been revised in 2016 and some indicators have changed (for instance, for multi beneficiary intermediated loans “increasing access to finance has been introduced with the revised methodology in 2016, before that, the indicator reported was “economic interest”).

Indicators of relevance	Investment loans	Equity / Quasi-equity	MBILs	Guarantees	Framework loans	All
Total # of operations	1274	235	639	67	251	2466
Pillar 3: EIB contribution	1257	235	638	67	245	2442
# missing values for Pillar 3 rating	17	0	1	0	6	24
3.1. Financial contribution	1257	234	638	67	244	2440
3.1.1 Financial benefit	0	0	0	0	0	0
3.1.2 Longer maturity	0	0	0	0	0	0
3.2. Financial facilitation	1256	234	638	66	244	2438
3.2.1. Innovative financing	0	0	0	0	0	0
3.2.2. Crowding-in	0	0	0	0	0	0
3.3. Advice	871	217	1	4	147	1240
3.3.1. Financial advice and structuring	0	0	0	0	0	0
3.3.2. Technical contribution and advice	384	15	0	6	96	501
Note: 232 operations have been assessed using both the 3PA and the AIM methodology. For the sake of comparability, we only report the 3PA rating.						

Source: Evaluation Division own computation based on Three Pillar Assessment data.

Chapter 3: METHODOLOGY

Pillar 2 indicators used for the analysis of impact

Methodological specifications

- Growth (economic rate of return)/ Economic interest has been used as a proxy indicator for impact. Where possible the economic rate of return is quantified.
- The economic rate of return is reported at appraisal for 1476 operations or 60% of the PF. Numerical values are available for 29% of the operations, qualitative estimates for 31%. (NB: 2 additional percent for which the economic rate of return is missing have a qualitative rating for the growth indicator). The economic rate of return is not calculated for multi beneficiary intermediated loans.
- Qualitative estimates have been converted as follows for standard projects: economic rate of return of 3.5-5% “marginal”, 5-7% “Acceptable ”, 7-10% is “Good”, economic rate of return > 10% “Excellent". However, no distinction has been made when converting numerical economic rate of return values of competitive private sector industry projects into the 4 ratings as there is no clear variable to identify those projects.
- The growth indicator is reported for 70% of the investment loans and 93% of the equity and quasi-equity operations.
- The indicator “economic interest” is reported for the remaining 30% of investment loans and 6% of the equity and quasi-equity operations.

2013-2020						
Indicators of relevance	Investment loans	Equity / Quasi-equity	MBILs	Guarantees	Framework loans	All
Total # of operations	1274	235	639	67	251	2466
Pillar 2: Quality and soundness of the project	1269	235	637	66	249	2456
# missing values for Pillar 2 rating	5	0	2	1	2	10
2.1. Growth	886	219	NA	4	NA	1109
2.1. Increasing Access to Finance	NA	1	362	49	NA	412
2.1.1. Increased Access to Finance	NA	1	362	49	NA	412
2.1.2. Improving financing conditions	NA	1	363	49	NA	413
2.1. Economic interest	384	15	274	13	NA	686
2.1. Strategic intent & Investment quality	NA	NA	1	NA	249	250

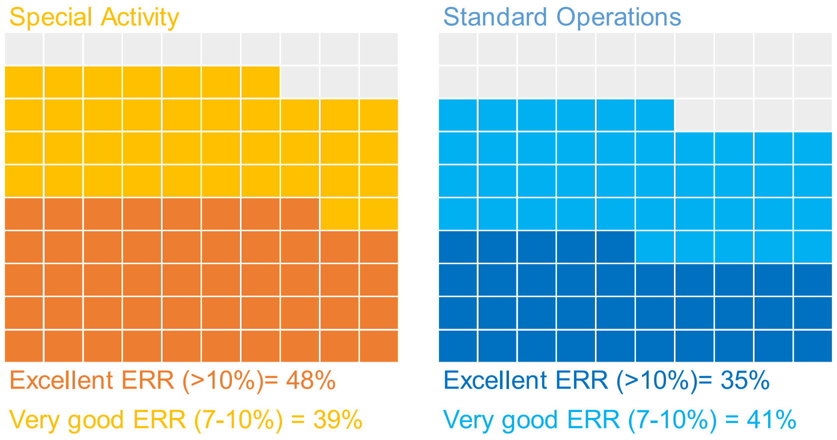
Source: Evaluation Division own computation based on Three Pillar Assessment data.

Chapter 3: IMPACT OF SPECIAL ACTIVITIES VERSUS STANDARD OPERATIONS

There is diverging evidence on the impact of Special Activities relative to Standard Operations

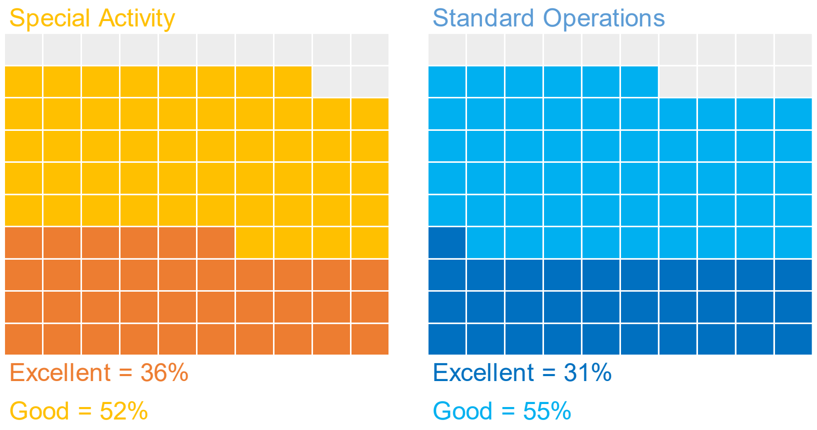
- Between 2013 and 2020, a higher share of Special Activities had an “excellent” expected economic rate of return (i.e. economic rate of return > 10%) at appraisal (48% vs 35% for Standard Operations)
  - this difference is particularly noticeable in Central and Eastern Europe and in Northern and Western Europe, but less pronounced for operations in Southern Europe
  - the size of the operation and the product type have little effect on the **economic rate of return** differential between Special Activities and Standard Operations
- In case of intermediated lending, a significantly higher share of Special Activities are rated “excellent” on “improving financing conditions” (98% Special Activities vs 65% Standard Operations). This data however, needs to be used cautiously as the deep-dives do not suggest that Special Activities have a higher impact than Standard Operations in terms of improving financing conditions for Small and Medium Enterprises. On the contrary Standard Operations tend to be much larger in size and such, reach a higher number of Small and Medium Enterprises.
- However, no material difference can be observed between Special Activities and Standard Operations for investment loans with respect to their contribution to economic growth (as measured by the indicators “growth” and “economic interest” of Pillar 2) over the period 2013-2020
- Overall, the deep-dives show that Special Activities and Standard Operations address similar problems and provide similar solutions. What is different between the two types of operations is the level of risk and the level of additionality (reflecting the fact that Special Activities don’t have the same access to financing from commercial sources as Standard Operations for various reasons)

Economic rate of return, Special Activities vs Standard Operations (ALL)



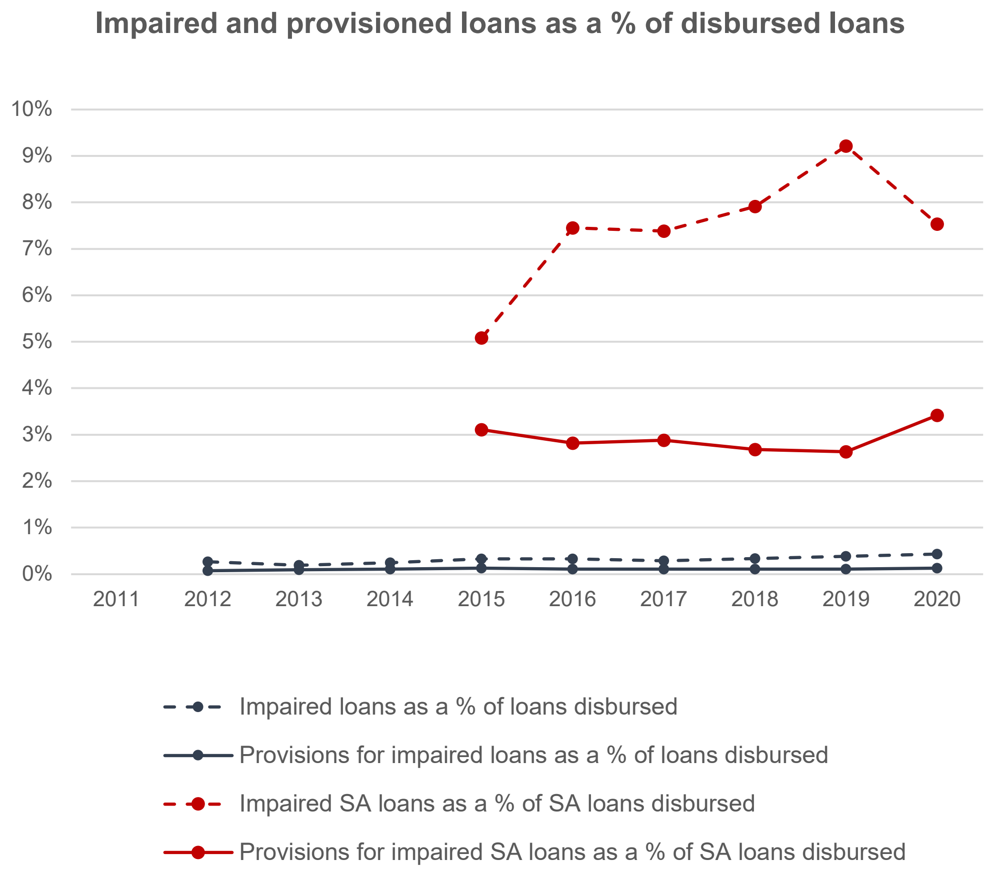
Evaluation Division computation based on 1452 operations for which the ERR is available.

Growth and economic interest, Special Activities vs Standard Operations Investment loans



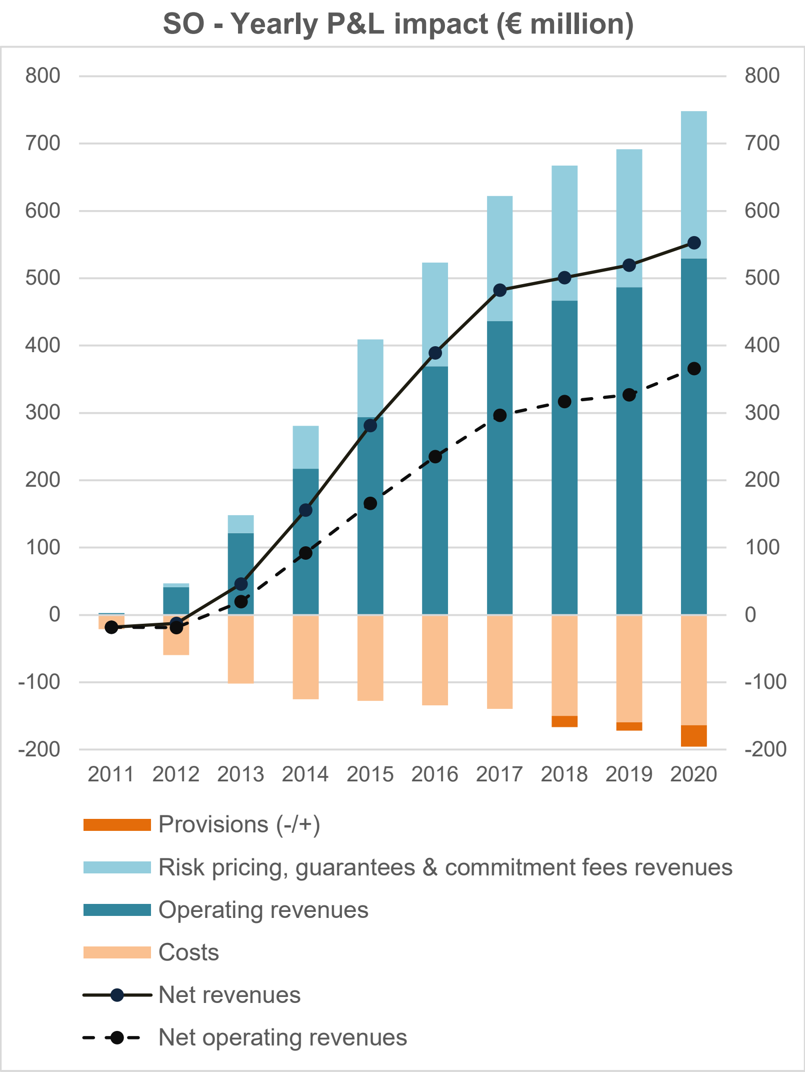
Evaluation Division computation based on 810 investment loans and 8 guarantees for which growth or economic interest indicators under Pillar 2 are available.

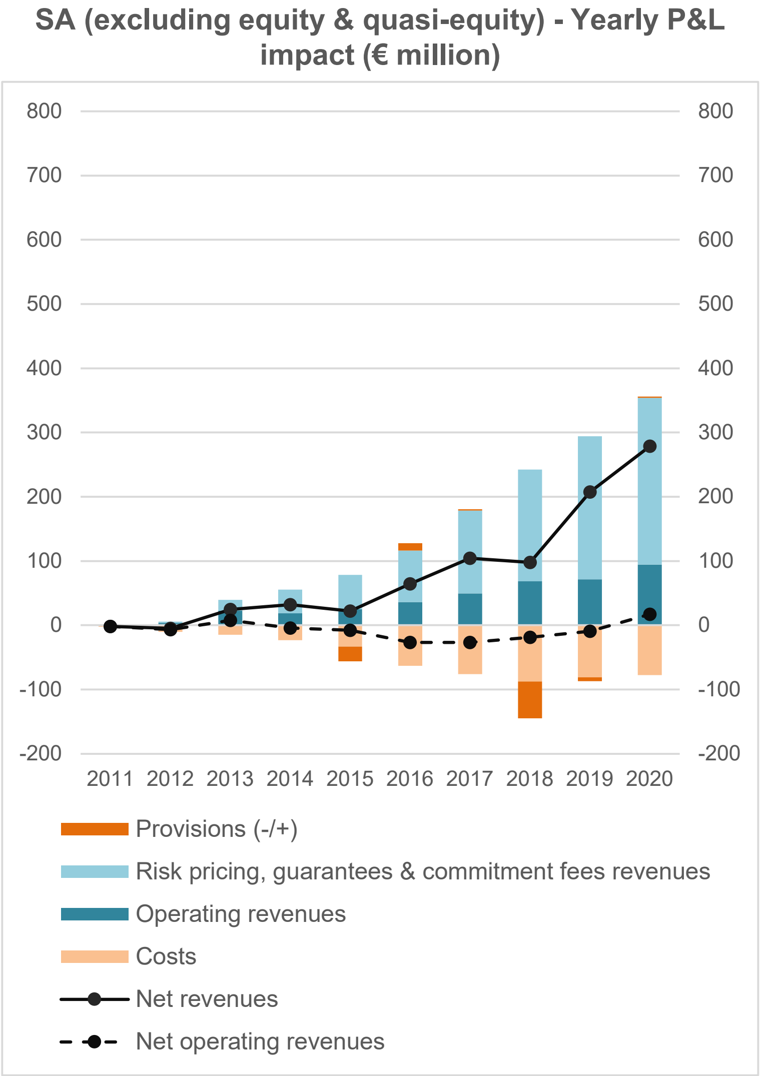
Chapter 4: IMPAIRED AND PROVISIONAL LOANS

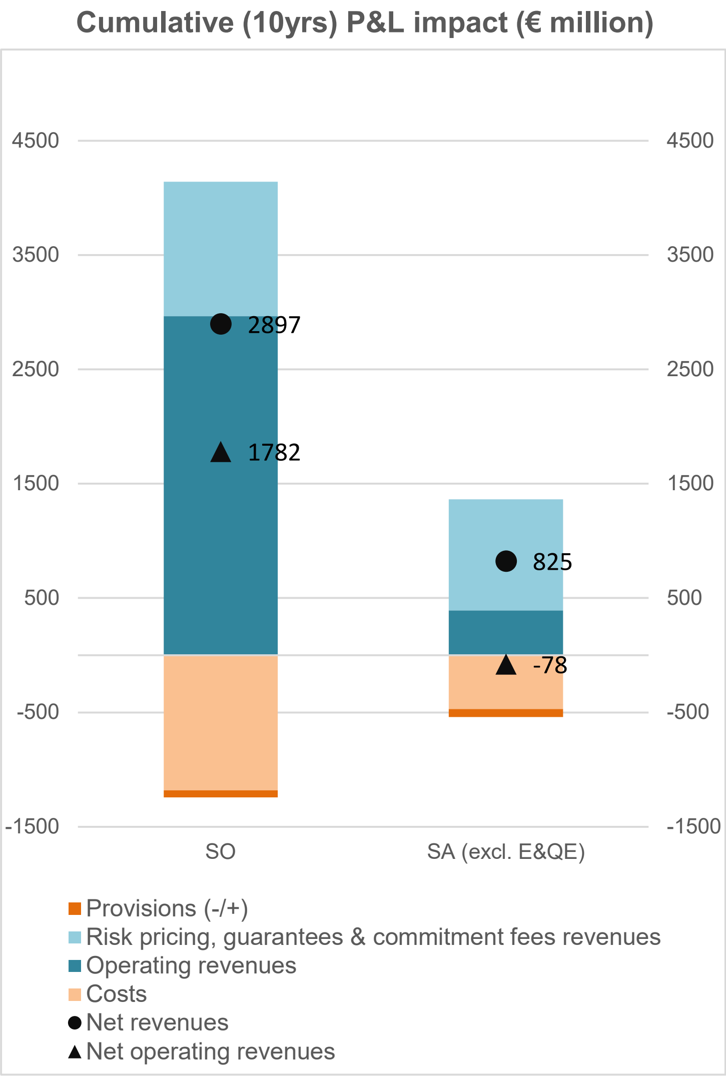


Source: Evaluation Division computations based on internal corporate data

Chapter 4: PROFIT & LOSS VIEW

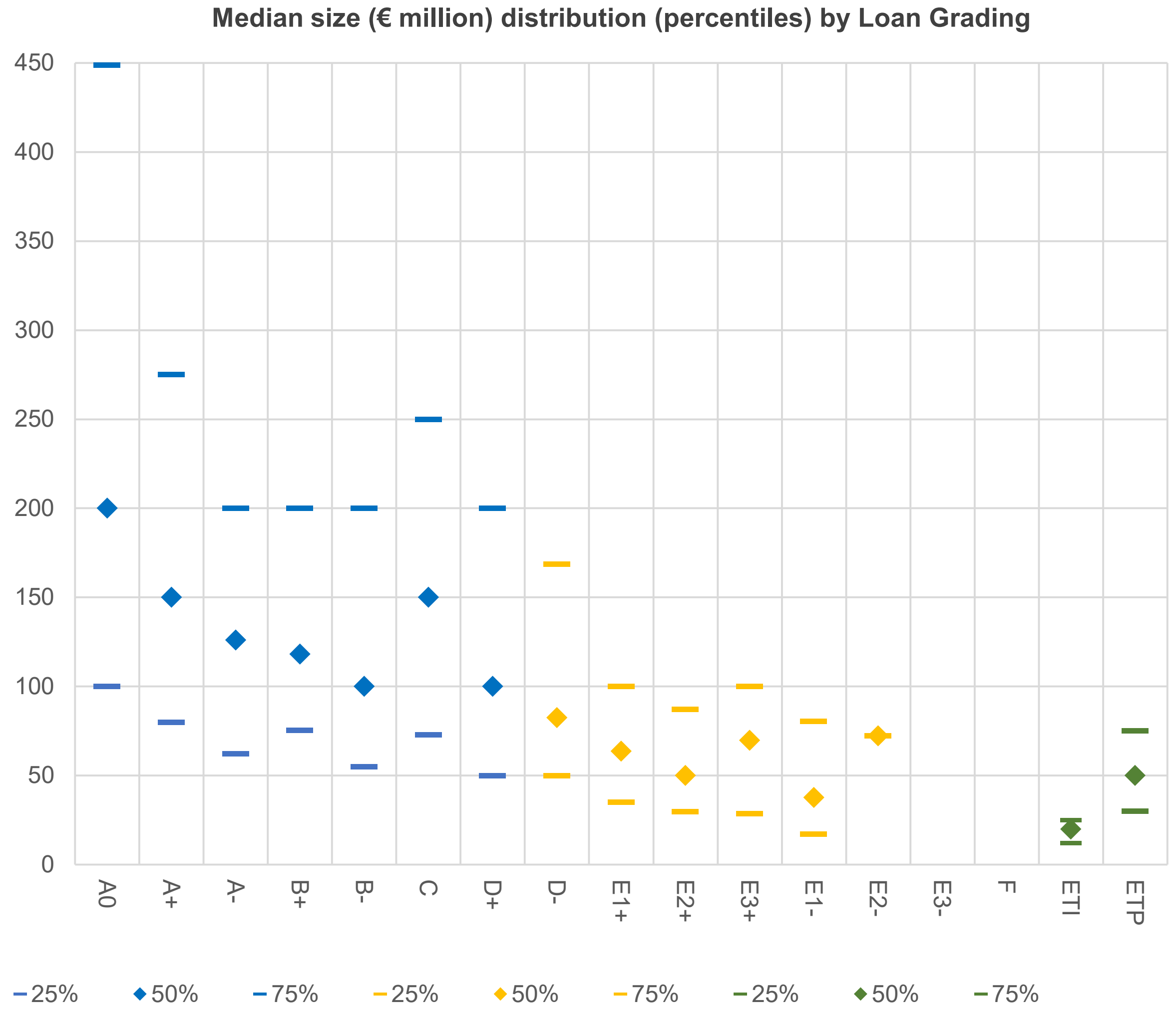






Source: Evaluation Division computations based on internal corporate data

Chapter 4: RISK vs SIZE



Source: Evaluation Division computations based on internal corporate data

Special Activities operations tend to be smaller than Standard operations

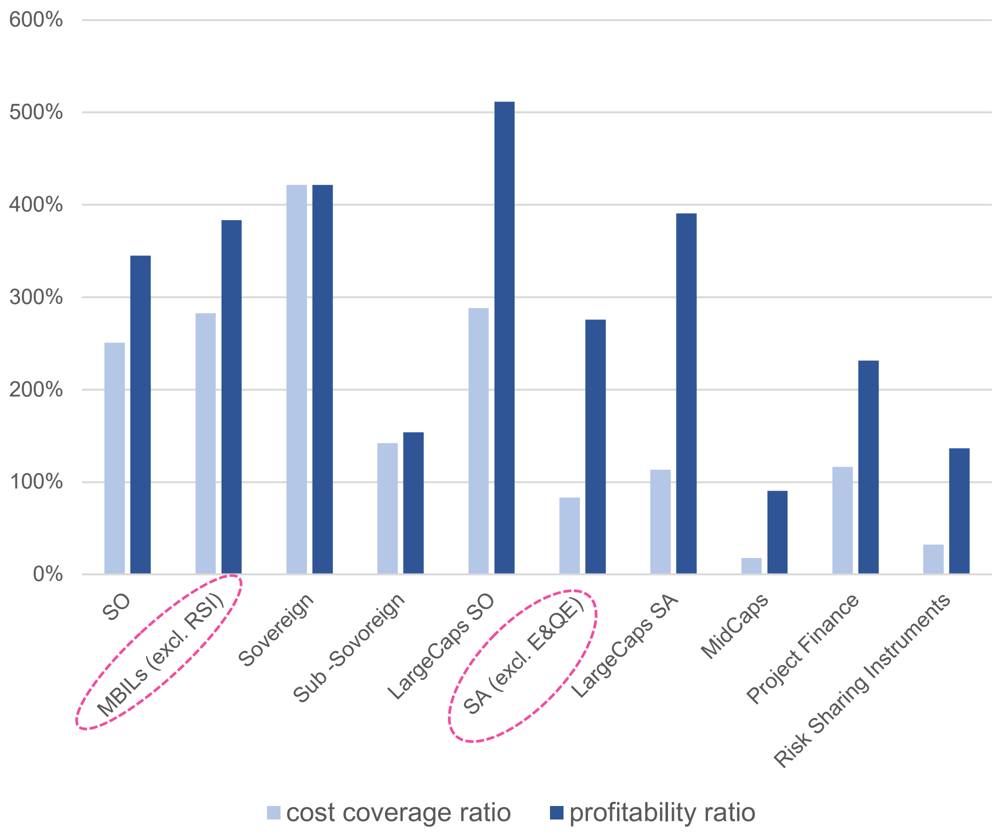
- For a given margin, size has a negative impact on the level of revenues

Special Activities operations are riskier than Standard operations, hence have a higher mark-up and risk pricing

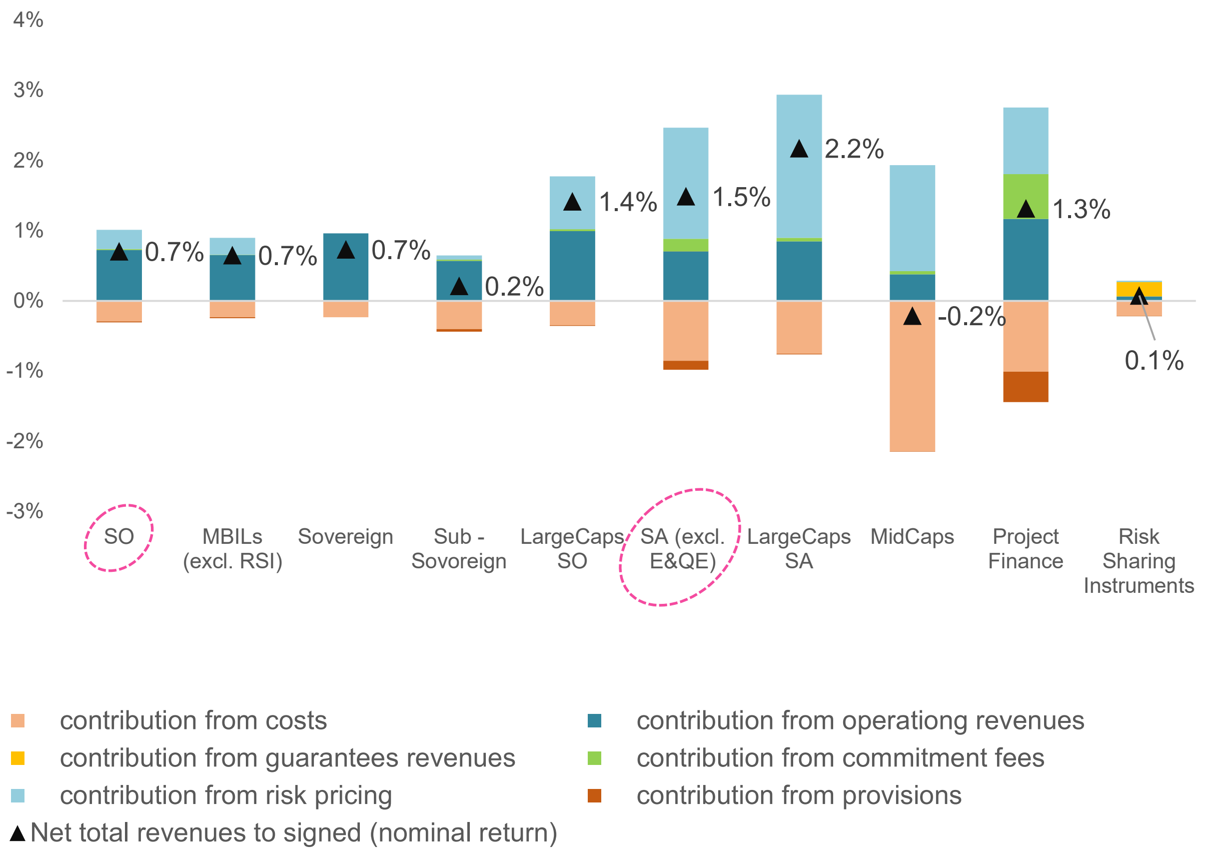
- For a given a given size, the margin has a positive on the level of revenues

Chapter 4: REVENUES to COSTS BY PRODUCT GROUPS

Cumulative (2011-2020) cost coverage and profitability ratio



Cumulative (2011-2020) nominal return



Source: Evaluation Division computations based on internal corporate data

Chapter 4: EQUITY AND QUASI-EQUITY

Costs :

- The typical cost of indirect equity funds is much higher than direct Quasi-equity.

Revenues: In terms of revenues, Equity & Quasy-equity operations are different from loans as there is no regular flow of revenues generated.

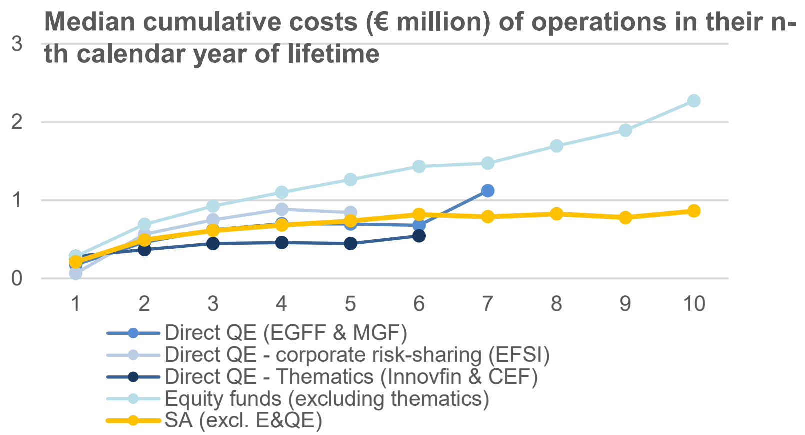
- Currently, EIB does not have an operating revenue recognition policy for Equity & Quasi-equity operations, but Services are working on defining a notional mark-up for Equity & Quasi-equity operations.

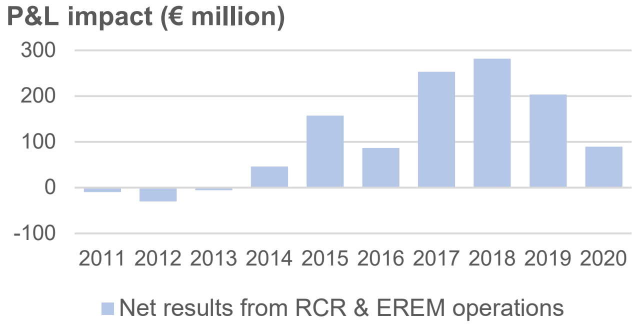
- Equity & Quasi-equity net results are valuation based (i.e. realized and unrealized gains and losses) and can vary significantly depending on accounting standard used (EU GAAP vs IFRS).

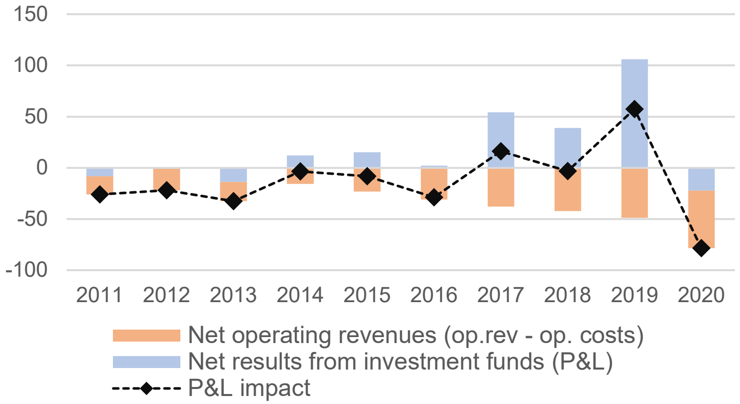
For **indirect equity**, net results are reported in the profit and loss for Risk Enhancement Mandate & Risk Capital Resources operations and from investment funds.

- Although outside of the scope of this evaluation, the isk Capital Resources and Risk Enhancement Mandate portfolio exposure is mainly equity and hence is informative in terms of equity profitability, especially since these are the biggest EIB equity exposures. These mandates have had a positive profit and loss contribution.

- For investment funds, the net results from Investment funds in the profit and loss only includes the management fees paid to the EIF for the operations it fronted. But the bulk of the portfolio, until December 2020, was fronted and managed by the EIB. Hence we further deduce the operating costs of equity type operations to have a net profit and loss measures. Only in 2017 and 2019 the net yearly profit and loss impact was positive.







Source: Evaluation Division computations based on internal corporate data

Chapter 4: EQUITY AND QUASI-EQUITY

Direct Quasi-equity consists of a too young portfolio for which it is too early to conclude

- Quasi-equity Venture Debt portfolio: Since inception, the Venture Debt portfolio has seen 16 profitable exits and 3 exits at a loss due to insolvency. The total net gain on the portfolio is € 52.5 million.
- Thematic Finance portfolio's is a portfolio of high-risk, pre-bankable transactions which benefit from a 100% risk coverage (first loss piece) from the European Commission. The fair value is very volatile due to the nature of operations (many times binary) and affected by operations with asymmetric risk return profile.
- The Thematic Finance portfolio has been negatively impacted in 2020 as the result of the full impairment of two operations, leading to a negative performance in 2020.

COMPARATIVE ANALYSIS WITH PEERS

		EBRD	IFC	CDP Italy	IDB Invest	NIB
Organisational structure		Development multilateral financial institution focused on countries in Central/Eastern Europe, former USSR and few Mediterranean countries	Multilateral financial institution, part of the World Bank Group	CDP was part of the public administration until 2003. CDP equity was created in 2016 (previously fondo strategico Italiano): holding company focused on direct investments and investments into funds	Regional development multilateral institution focused on Latin America	Regional development multilateral institution focused on the Nordic and Baltic region
Geographical coverage		more than 30 countries from central Europe to central Asia and the southern and eastern Mediterranean	Can lend worldwide, same coverage as for the World Bank	Mainly Italy	Can lend only in 26 countries, all belonging to the Latin American region	Nordic and Baltic countries (1975: Sweden, Norway, Denmark, Finland, and Iceland + 2005: Estonia, Latvia, and Lithuania)
Shareholding structure	Member countries/ sovereign (%)	97% (57% G7, 84% OECD) (69 shareholders)	100% (185 shareholders)	83% = Italian Ministry of Economy and Finance	48 shareholders (sovereign states), including countries in Latin America, but also many European countries, China, Japan, Canada and the United States	100% (8 shareholders)
	Other Public (%)	3% EC and EIB	NA	1% Treasury shares	NA	NA
	Private (%)	NA	NA	16% Bank foundations	NA	NA
Credit Rating	Fitch	AAA	AAA	BBB-	AAA	
	S&P	AAA	AAA	BBB-	AA	AAA
	Moody's	Aaa	Aaa	Baa3	Aa1	Aaa
Mandate		To foster open, market-oriented economies and promote private and entrepreneurial initiative in the EBRD's countries of operations through investments based on promoting transition, sound banking principles, additionality, sustainability	The World Bank Group member institution dedicated to financing of the private sector in developing countries	To foster prosperity of the Italian economic system	IDB Invest belongs to the same group as IADB. The difference is the IDB Invest's main focus on the private sector. Since 2015, the IDB Invest consolidated all the private sector assets of the IDB Group (transferred from the IADB).	To provide loans to productivity- and environment-enhancing investments in the region (Minimum 35% of all loans have to have good or excellent rating in terms of environment and minimum 19% have to be good or excellent in terms of mandate)
Equity base	Subscribed capital	€ 29.8 billion as of 2020	$ 25.2 billion			€ 8.37 billion (2020)
	Paid-in capital	€ 6.2 billion	$ 19.6 billion		$ 2.1 billion	€ 0.846 billion (2020)
	Leverage ratio (total debt/shareholders equity)	205.8% as of end-2019	220%	NA	186%	586% (2020) bank's usable equity relative to its development assets
Total assets	Total € billion	€ 66.7 billion (2020)	$ 95.6 billion (2020)	€ 512.4 billion	$ 6.4 billion (2019)	€ 35.422 billion
Annual lending		€ 21 billion (2020)	$ 22 billion (2020)	€ 107 billion loans, € 35.6 billion equity inv & funds, € 33.7 billion equity		€ 5.6 billion loans (2020)
% equity in the total assets		7%	11%	8%	2%	-

REFERENCES

European Investment Bank. (2005).Towards a new strategy for the EIB Group. Available https://www.eib.org/en/publications/towards-a-new-strategy-for-the-eib-group

European Investment Bank. (2018). Audit Committee Annual Reports for the year 2017. Available https://www.eib.org/en/publications/audit-committee-annual-reports-2017

European Investment Bank. (2019). Audit Committee Annual Reports for the year 2018. Available https://www.eib.org/en/publications/audit-committee-annual-reports-2018

European Investment Bank. (2020). Audit Committee Annual Reports for the year 2019. Available https://www.eib.org/en/publications/audit-committee-annual-reports-2019

European Investment Bank. (1997). Annual report 1997. Available https://www.eib.org/attachments/general/reports/ar1997en.pdf

European Investment Bank. (1998). Annual report 1998. Available https://www.eib.org/attachments/general/reports/ar1998en.pdf

European Investment Bank. (1999). Annual report 1999. Available https://www.eib.org/attachments/general/reports/ar1999en.pdf

European Investment Bank. (2000). Financial report 2000. Available https://www.eib.org/attachments/general/reports/fr2000en.pdf

European Investment Bank. (2001). Financial report 2001. Available https://www.eib.org/attachments/general/reports/fr2001en.pdf

European Investment Bank. (2002). Financial report 2002. Available https://www.eib.org/attachments/general/reports/fr2002en.pdf

European Investment Bank. (2003). Financial report 2003. Available https://www.eib.org/attachments/general/reports/fr2003en.pdf

European Investment Bank. (2004). Financial report 2004. Available https://www.eib.org/attachments/general/reports/fr2004en.pdf

European Investment Bank. (2005). Financial report 2005. Available https://www.eib.org/attachments/general/reports/fr2005en.pdf

European Investment Bank. (2006). Financial report 2006. Available https://www.eib.org/attachments/general/reports/fr2006en.pdf

European Investment Bank. (2007). Financial report 2007. Available https://www.eib.org/attachments/general/reports/fr2007en.pdf

European Investment Bank. (2008). Financial report 2008. Available https://www.eib.org/attachments/general/reports/fr2008en.pdf

European Investment Bank. (2009). Financial report 2009. Available https://www.eib.org/attachments/general/reports/fr2009en.pdf

European Investment Bank. (2010). Financial report 2010. Available https://www.eib.org/attachments/general/reports/fr2010en.pdf

European Investment Bank. (2011). Financial report 2011. Available https://www.eib.org/attachments/general/reports/fr2011en.pdf

European Investment Bank. (2012). Financial report 2012. Available https://www.eib.org/attachments/general/reports/fr2012en.pdf

European Investment Bank. (2013). Financial report 2013. Available https://www.eib.org/attachments/general/reports/fr2013en.pdf

European Investment Bank. (2014). Financial report 2014. Available https://www.eib.org/attachments/general/reports/fr2014en.pdf

European Investment Bank. (2015). Financial report 2015. Available https://www.eib.org/attachments/general/reports/fr2015en.pdf

European Investment Bank. (2016). Financial report 2016. Available https://www.eib.org/attachments/general/reports/fr2016en.pdf

REFERENCES

European Investment Bank. (2017). Financial report 2017. Available https://www.eib.org/attachments/general/reports/fr2017en.pdf

European Investment Bank. (2018). Financial report 2018. Available https://www.eib.org/attachments/general/reports/eib_financial_report_2018_en.pdf

European Investment Bank. (2019). Financial report 2019. Available https://www.eib.org/attachments/general/reports/eib_financial_report_2019_en.pdf

European Investment Bank. (2020). Financial report 2020. Available https://www.eib.org/attachments/general/reports/eib_financial_report_2020_en.pdf

European Investment Bank. (2018). Evaluation of the European Fund for Strategic Investments 2018. Available https://www.eib.org/attachments/ev/ev_report_evaluation_of_efsi_en.pdf

European Investment Bank. (2021). Evaluation of the European Fund for Strategic Investments 2021-Thematic report. Available https://www.eib.org/attachments/ev/ev_report_evaluation_of_efsi_2021_en.pdf

European Investment Bank. (2021). Macroeconomic Impact of the European Fund for Strategic Investments. Available https://www.eib.org/attachments/efs/macroeconomic_impact_of_european_fund_for_strategic_investments_en.pdf

European Investment Bank. (2021).The EIB Group Operational Plan 2021.

European Investment Bank, European Investment Advisory Hub. (2020). Financing the digitalisation of small and medium-sized enterprises. Available https://www.eib.org/attachments/thematic/financing_the_digitalisation_of_smes_en.pdf

European Investment Bank, European Investment Advisory Hub. (2021). Artificial intelligence, blockchain and the future of Europe: How disruptive technologies create opportunities for a green and digital economy. Available https://www.eib.org/attachments/thematic/artificial_intelligence_blockchain_and_the_future_of_europe_report_en.pdf

European Investment Bank, European Investment Advisory Hub. (2018). Financing the Deep Tech Revolution: How investors assess risks in Key Enabling Technologies (KETs). Available https://www.eib.org/attachments/pj/study_on_financing_the_deep_tech_revolution_en.pdf

European Investment Bank, European Investment Advisory Hub. (2018). Financing the next wave of medical breakthroughs - What works and what needs fixing? Access-to-finance conditions for Life Sciences R&D. Available https://www.eib.org/attachments/pj/access_to_finance_conditions_for_life_sciences_r_d_en.pdf

European Investment Bank, European Investment Advisory Hub. (2018). Financing the future of supercomputing How to increase investments in high performance computing in Europe. Available https://www.eib.org/attachments/pj/financing_the_future_of_supercomputing_en.pdf

European Investment Bank, European Investment Advisory Hub. (2019).The future of the European space sector How to leverage Europe's technological leadership and boost investments for space ventures. Available https://www.eib.org/attachments/thematic/future_of_european_space_sector_en.pdf

European Investment Bank, European Investment Advisory Hub. (2018). Financing innovation in clean and sustainable mobility. Study on access to finance for the innovative road transport sector. Available https://www.eib.org/attachments/pj/access_to_finance_study_on_innovative_road_transport_en.pdf

OECD. (2021). Core concepts in blended finance: assessment of uses and implications for evaluation.

OECD. (2021). Evaluating Financial and Development Additionality in blended finance Operations. Available https://www.oecd-ilibrary.org/docserver/a13bf17d-en.pdf?expires=1627374543&id=id&accname=guest&checksum=96CB4911F4E131A240F8835B771602E5 Accessed on 16/11/2021

OECD. (2021). Methods for Evaluating Blended Finance Instruments. Draft / pre-publication version.

CDP. (2020). Borsa Italiana Digital Italian Sustainability Week 2020. Available https://www.cdp.it/resources/cms/documents/2020%20Italian%20Sustainability%20Day%20Borsa%20Italiana%20CDP%20Presentation.pdf Accessed on 16/11/2021

REFERENCES

CDP. (2020). Annual Report 2020. Available https://www.cdp.it/resources/cms/documents/CDP-Annual-Report-2020_ENG.pdf Accessed on 16/11/2021

CDP. (2020). Ex-ante evaluation model - Sustainable Development Assessment SDA.

CDP. (2020). Integrated Report 2020. Available https://www.cdp.it/resources/cms/documents/CDP-Integrated-Report-2020_ENG.pdf Accessed on 16/11/2021

CDP. (2019). 2019 Sustainability Report. Available https://www.cdp.it/resources/cms/documents/cdp-bilancio-sostenibilita-2019_EN.pdf Accessed on 16/11/2021

Fitch Ratings. (2020). Downgrades Cassa Depositi e Prestiti to 'BBB-' Outlook Stable.

Moody s investor's service. (2020). Credit opinion.

Scope Operations. (2020). Cassa Depositi e Prestiti S.p.A. (CDP) Issuer Report.

S&P Global Rating. (2021). Ratings Direct CDP.

EBRD. (2021). EBRD's Approach to Additionality.

EBRD. (2020). Financial report 2019.

EBRD. (2021). EBRD organisation.

Fitch Ratings. (2020). Fitch Revises EBRD's Outlook to Negative; Affirms at 'AAA.

EBRD. (2021). EBRD Investment of Choice.

EBRD. (2021). Moody s investor service European Bank for Reconstruction and Development – AAA stable.

EBRD. (2020). Financial report 2020.

S&P. Global Rating (2021). Ratings Direct EBRD.

IFC. (2121). How IFC Measures the Development Impact of Its Interventions.

IFC. (2020). Financial Report. IEG. (2021). Concept Note Results and Performance of the World Bank Group 2021.

Moody s investor's service (2020). International Finance Corporation (IFC) – Aaa stable.

S&P Global Rating (2020). Ratings Direct IFC.

NIB. (2020). NIB Risk Appetite Statement Adopted by the Board of Directors of the Nordic Investment Bank.

NIB. (2020). NIB's updated Statutes enter into force on 29 July 2020.

NIB. (2020). Financial Report 2020.

NIB. (2020). Impact Report 2020.

NIB. (2019). NIB Mandate Rating Framework.

NIB. (2021). Interim Management Statement.

Moody s investor's service. (2021). Nordic Investment Bank – Aaa stable.

S&P Global Rating. (2021). Ratings Direct NIB.

Fitch Ratings. (2020). Fitch Affirms Inter-American Development Bank at 'AAA'; Outlook Stable.

Moody s investor's service. (2021). Inter-American Development Bank – Aaa stable.

IADB. (2019). Financial Statements.

About the Evaluation Division

The Evaluation Division conducts independent evaluations of the European Investment Bank Group's activities. It assesses the relevance and performance of these activities in relationship to their objectives and evolving operating environment. It also helps the EIB Group to draw lessons on how to continuously improve its work, thereby contributing to a culture of learning and evidence-based decision-making.

Evaluation reports are available from the EIB website: http://www.eib.org/evaluation

Evaluation of the EIB's Special Activities

This is a publication of the EIB's Evaluation Division, IG/EV.

Disclaimer

The views and assessments contained in this report reflect the views of the EIB Group's evaluation function and do not necessarily represent the views of the EIB management or of its Board of Directors.

The EIB has an obligation of confidentiality to the owners and operators of the projects referred to in this report. Neither the EIB nor the consultants employed on these studies will disclose to a third party any information that might result in a breach of that obligation, and the EIB and the consultants will neither assume any obligation to disclose any further information nor seek consent from relevant sources.

This version was approved by the EIB Board of Directors. To accommodate scheduling limitations, it has not undergone standard EIB copyediting and proofreading.

For further information on the EIB's activities, please consult our website, www.eib.org. You can also contact our InfoDesk, info@eib.org.

Published by the European Investment Bank.
Printed on FSC® paper.

pdf:	QH-07-21-118-EN-N	ISBN 978-92-861-5149-1 DOI 10.2867/683589
html:	QH-07-21-118-EN-Q	ISBN 978-92-861-5150-7 DOI 10.2867/420772

EVALUATION OF THE EIB’s SPECIAL ACTIVITIES

European Investment Bank
The EU bank

EVALUATION

European Investment Bank
98-100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-22000
www.eib.org – info@eib.org

Evaluation
Evaluation@eib.org
www.eib.org/evaluation

pdf: ISBN 978-92-861-5149-1
html: ISBN 978-92-861-5150-7

02/2022 - EN