



EFSI Operation Scoreboard¹

PROJECT PRESENTATION	
<u>Project name</u>	FUNDING CIRCLE P2P FACILITY
<u>Promoter or financial intermediary</u>	FUNDING CIRCLE CE GMBH
<u>Country of implementation</u>	Germany, Netherlands
<u>Summary project description</u>	<p>The purpose of the operation is to support SMEs via loans originated by a lending platform dedicated to Continental Europe and set-up by Funding Circle, the leading peer-to-peer (“P2P”) lending platform in Europe.</p> <p>Established in 2010, Funding Circle allows investors to lend directly to SMEs in the UK, US, Germany and the Netherlands. Investors originate loans via Funding Circle’s direct lending platform and Funding Circle underwrites and services all loans on behalf of the investors.</p> <p>With the P2P direct lending market at its infancy stage and fragmented, the proposed transaction represents a novelty in Continental Europe. This operation is part of a broader effort to develop EU capital market based financing which remains relatively undeveloped as SMEs are heavily reliant on bank lending to fund their investments. P2P lending is a direct alternative to a bank loan with the difference that, instead of borrowing from a single source, companies can borrow directly from individuals who are willing to lend. Through P2P platforms, borrowers are matched directly with investors and, unlike traditional lending, the platform does not typically take direct risk on the loans. Once an online loan request is submitted, the lending platform carries out checks on the borrower’s business and guarantors in regard to Know-Your-Customer (KYC), fraud prevention, sectors exclusion and minimum acceptance criteria. Afterwards, the lending platform runs a credit underwriting process, and the decision on acceptance or rejection of loan is taken. Marketplace lending platforms generate revenue by charging origination fees to borrowers and taking a percentage of the interest earned on the loan.</p> <p>An EIB participation in the transaction would provide a strong signal to potential market participants that the legal and the regulatory environment, as well as the soundness of P2P platforms, are conducive to these type of operations.</p>

¹ This Scoreboard of indicators reflects the information presented to the EFSI Investment Committee (IC) for its decision on the use of the EU guarantee for this operation. Therefore, the document does not take into account possible developments that could have occurred after this decision. Parts of this document that fall under the exceptions for disclosure defined by the EIB Group Transparency Policy, notably under the articles 5.5 (protection of commercial interests) and 5.6 (protection of the Bank’s internal decision-making process), have been replaced by the symbol [...].

PROJECT PILLAR ASSESSMENT

Pillar 1

Contribution to EU policy	Significant
Cross-cutting objectives	
EIB Cohesion Priority Regions / Economic and Social Cohesion	5.00%
Climate Action	2.00%
EFSI	
Contribution to EFSI	100.00%
EFSI: Financial support through the EIF and the EIB to entities having up to 3 000 employees	100.00%
Provision of working capital and investment	100.00%

Pillar 2

Quality and soundness of the project	Excellent
1. Capacity and soundness of the Intermediary and quality of the operating environment	[...]
2. Increasing access to finance and improving financing conditions including for final beneficiaries	[...]
3. Employment	[...]

This pillar evaluates the quality and soundness of the operation. This pillar is composed of four indicators which include:

- (i) "Growth" i.e. for example and where relevant the economic rate of return ('ERR'), which considers the project's socioeconomic costs and benefits, including its spillover effects;*
- (ii) "Promoter capabilities" i.e. the capacity of the promoter/intermediary to implement the project and create the expected impact at the [final] beneficiary level;*
- (iii) "Sustainability" i.e. environmental and social sustainability²;*
- (iv) "Employment" i.e. the project's direct employment effect.*

Pillar 3

EIB Technical and financial contribution to the project	High
1. Financial contribution	[...]
2. Financial facilitation	[...]

This pillar measures the EIB's particular contribution to the project and its financing scheme in the form of financial and non-financial benefits which go beyond what commercial players would normally be able to offer. This dimension of value added is assessed through three indicators:

- (i) "Financial Contribution" i.e. improving the counterpart's funding terms compared to market sources of finance (interest rate reduction and/or longer lending tenor),*
- (ii) "Financial Facilitation" i.e. helping to attract private financiers (for example through positive signaling effects), promoting synergies in co-financing with other public sources of funds including National Promotional Banks or EU financial instruments,*
- (iii) "Technical Contribution and Advice" i.e. providing advice with a view to optimizing the financing package (financial structuring), or technical advisory services in the form of expert input / knowledge transfer – provided in-house by the EIB or in the form of assignments to external consultants – to facilitate the preparation or implementation of a project.*

² For additional information on the EIB's assessment of the project's environmental and social aspects, please refer to the project's Environmental and Social Data Sheet (ESDS) published on the EIB website.

Pillar 4 – Complementary indicators

Additionality

In line with the EFSI objective of supporting entities having up to 3,000 employees, the operation shall support SMEs in Germany and the Netherlands for which access to finance remains limited. The operation will have a particular focus on accelerating the availability of alternative lending channels to small companies via the implementation of peer-to-peer (P2P) platforms. Broadening access to finance for SMEs is at the heart of the 2015 Capital Market Union (CMU) Action Plan, which places a great emphasis on strengthening different sources of alternative finance, including P2P lending or crowdfunding.

Thanks to EFSI, the operation envisages an EIB Group support to Funding Circle (FC), a leading online SME direct lending platform in the EU. Investors originate loans via FC's direct lending platform, and FC underwrites and services all loans on behalf of investors. This operation is part of the bigger effort to develop EU capital market based financing, which remains relatively undeveloped. P2P lending is a direct alternative to a bank loan with the difference that, instead of borrowing from a single source, companies can borrow directly from tens, sometimes hundreds of individuals who are willing to lend. Investment facilitated through such platforms supports not only individual businesses, but also the economy as a whole. Lending boosts growth and employment for industries of the loan recipients, as well as those sectors along the supply chain.

The operation addresses clear market failures and sub-optimal investment situations faced by SMEs in Germany and the Netherlands having very few alternatives to traditional debt. It is therefore necessary to broaden the range of financing instruments available to SMEs in order to enable them to continue to play their role in growth, innovation and employment. While bank financing will continue to be crucial for the SME sector, more diversified options could support long-term investments and reduce the vulnerability of the sector to changes in the credit market. The EIB Group would thus contribute to the development of the P2P lending in Germany and the Netherlands, knowing that funding constitutes a significant hurdle for these platforms to expand their lending activities.

The operation is expected to fall under the Special Activity category taking into account the underlying SME risk and FC's limited track record in Germany and the Netherlands. Hence, EFSI support is crucial in the deployment of the platform in these countries.

Moreover, the EIB Group participation in this transaction provides a strong signal to potential market participants that the legal and the regulatory environment as well as the soundness of P2P platforms are conducive to these type of operations. This transaction will thus catalyse new private funding to SMEs from institutional and retail investors.

Set of indicators related to the macroeconomic environment

Germany - Economic environment

Economic Performance

	DE	EU	US	DE
	2016	2016	2016	2001-2007
GDP per capita (EUR, PPS)	38,232	29,440	42,615	32,614
GDP growth (%)	1.0	1.9	1.8	1.4
Potential GDP growth (%)	1.8	1.3	2.1	1.3
Output gap (% of potential GDP)	-0.15	-0.75	-0.03	-0.27
Unemployment Rate (%)	3.9	8.2	4.7	9.4
Unemployment Rate (%) - Y/Y change (% points)	-0.5	-0.8	-0.3	0.06
Bank-interest rates to non-financial corporations (%)	1.3	1.4	1.8	4.1
Bank-interest rates to non-financial corporations (%) - Y/Y change (% points)	-0.15	-0.21	-1.4	-0.04
Investment rate (GFCF as % of GDP) - Total	20.0	19.7	19.6	19.9
Investment rate (GFCF as % of GDP) - Public	2.1	2.7	3.4	2.0
Investment rate (GFCF as % of GDP) - Private	17.9	17.0	16.2	17.9

SME/midcap

	2013	2014	2015	2016	EU (latest available)
Share of SMEs with Access to Finance Difficulties (%)	10.3	25.4	15.6	16.4	20.9
Availability of Private equity (Thousand euro)	5,438,070	7,163,849	6,643,294	6,722,758	50,091,574
Availability of Venture Capital (Thousand euro)	722,393	677,049	847,425	970,079	4,035,807

Netherlands - Economic environment

Economic Performance

	NL	EU	US	NL
	2016	2016	2016	2001-2007
GDP per capita (EUR, PPS)	37,509	29,440	42,615	37,307
GDP growth (%)	2.2	1.9	1.8	2.0
Potential GDP growth (%)	1.3	1.3	2.1	2.1
Output gap (% of potential GDP)	-0.76	-0.75	-0.03	-0.41
Unemployment Rate (%)	5.4	8.2	4.7	4.7
Unemployment Rate (%) - Y/Y change (% points)	-1.2	-0.8	-0.3	0.09
Bank-interest rates to non-financial corporations (%)	1.2	1.4	1.8	3.8
Bank-interest rates to non-financial corporations (%) - Y/Y change (% points)	0.07	-0.21	-1.4	-0.06
Investment rate (GFCF as % of GDP) - Total	19.8	19.7	19.6	21.3
Investment rate (GFCF as % of GDP) - Public	3.4	2.7	3.4	4.0
Investment rate (GFCF as % of GDP) - Private	16.4	17.0	16.2	17.3

SME/midcap

	2013	2014	2015	2016	EU (latest available)
Share of SMEs with Access to Finance Difficulties (%)	54.8	62.3	51.0	38.1	20.9
Availability of Private equity (Thousand euro)	2,412,787	3,008,908	3,299,796	3,725,796	50,091,574
Availability of Venture Capital (Thousand euro)	194,957	192,013	161,653	184,512	4,035,807

- Country average for "GDP per capita (EUR, PPS)" is calculated in real terms
- EU value for "Bank-interest rates to non-financial corporations" corresponds to Euro Area average; Country average is the simple average between 2003 and 2007
- The EU value is displayed as the value in the year that corresponds to the latest value of the indicator in a particular country

Other indicators³

Key project characteristics

	Expected at PCR
EIB/EFSI eligible investment mobilised	700.00 MEUR
External EFSI multiplier	3.50
External EIB (non-EFSI) multiplier	0.00
Amount of private financing	300.00 MEUR
Sum of number of employees of all final beneficiaries (no additionality) (Relative to the SME/Mid-Cap share)	
Allocation volume dedicated to SME/ Mid-Caps	89.00 %
Co-financing with national promotional banks	0.00 MEUR
Co-financing with structural funds (ESIF)	0.00 MEUR
Co-financing with other EU instruments (i.e. Horizon 2020, Connecting Europe Facility, etc)	

³ For additional information on the EIB's assessment of the project's environmental and social aspects, please refer to the project's Environmental and Social Data Sheet (ESDS) published on the EIB website. The abbreviation PCR stands for Project Completion Report.