**SB/22/17** 23 October 2017

<u>PV/17/21</u>

#### EUROPEAN FUND FOR STRATEGIC INVESTMENTS

#### STEERING BOARD

## Minutes of the Meeting held on 10 July 2017

Questions concerning this note should be referred to EFSI Secretariat: EFSISecretariat@eib.org

### **EFSI STEERING BOARD – MEETING 21/2017**

#### Minutes of the meeting held at the EIB Offices in Brussel on Monday, 10 July 2017

Those attending:

Steering Board members:

Mr G. Thomas (EC) Mr B. Angel (EC) Ms I. Schwimann (EC) Mr A. Fayolle (EIB)

Alternates:

Mr G. Chiarion Casoni

Excused:

Mr B. Angel (EC)

Experts:

Ms S Valtonen (EC) Ms I. Tsanova (EIB) Mr W. Molterer (EIB) Mr P. Lombardo (EIB) – for item 5 Mr J.-C. Laloux (EIB) – for items 6, 7 & 8

EFSI Secretariat:

Ms E. Bois-Willaert (EIB) Mr R. Wouters (EIB) The Chairperson declared the meeting open at 10:00 on 10 July 2017.

#### 1. Quorum

It was recorded that there was a quorum.

#### 2. Approval of the agenda

The agenda was approved.

#### 3. <u>FOR DECISION</u> Approval of the minutes of the meeting on 16 March 2017 (PV/17/19) and on 28 April with a continuation on 17 May (PV/17/20)

The draft minutes of the 19<sup>th</sup> Steering Board meeting, held on 16 March 2017 at the EIB Offices in Luxembourg were approved with minor comments. The draft minutes of the 20<sup>th</sup> Steering Board meeting, held on 28 April with a continuation on 17 May 2017 at the EIB Offices in Luxembourg were approved without comment. These minutes shall be disclosed on the Steering Board webpage of the EIB webpage.

#### 4. <u>FOR DISCUSSION</u> Quarterly reporting from the EFSI Managing Director – Q1 & Q2 2017

The EFSI Managing Director, reminding that the Q1-2017 report was sent to the Steering Board members by email in April 2017, presented to the Steering Board the EFSI Quarterly results at end of June 2017, for the Infrastructure and Innovation Window and for the SME Window.

Mr W. Molterer described the breakdown by country and by sector, with a more balanced geographical and sectoral coverage. The EFSI Managing Director also presented the total financing by approvals and signatures, data per GDP, EFSI projects involving National Promotional Banks / Institution, and combination with European Structural Funds (ESIF). The number of operations combining EFSI & ESIF increased but Mr W. Molterer stated that a promotional exercise in the EU Member States was still needed. The presentation also highlighted the key role played by the European Investment Advisory Hub to set up Investment Platforms and to find the relevant counterparts on a national level to that purpose. It was noted that Investment Platforms are interesting tools for Social infrastructures, both for EIB and EIF.

The Steering Board welcomed the presentation and asked for information on new clients – which represented 75% at end of June 2017 of EFSI counterparties under the Infrastructure and Innovation Window. The average size per operation / client has also continued its downward trend with certain projects now at 10 MEUR financing amount (2 operations at this level). The Steering Board noticed improvement in term of geographical diversification of EFSI financings with top 3

countries now accounting for cumulative 46% (down from 78% a year ago) substantially in line with the target of maximum 45% at the end of the investment period. Jointly between the IIW and SMEW all 28 MS have benefitted from EFSI support since December of 2016. The Steering Board made a positive assessment on progress with Investment platforms aggregating smaller projects (26 of which 20 with NPBs).

The Steering Board took note of the competitive environment in which the EIB was currently operating, with liquidity available from commercial banks, especially for corporates. This had an impact on lower disbursement levels as at end of June. The Steering Board highlighted the need to avoid crowding out of commercial bank sources.

#### 5. <u>FOR DISCUSSION</u> Supervision of EFSI Risk Profile

The Steering Board took note of the risk profile data at 31 March 2017 for the Infrastructure and Innovation Window (IIW) of EFSI, presented by Mr P. Lombardo, Director of the Operational Department within Risk Management Directorate.

The Steering Board members discussed the status of the risk profile of the IIW, namely: the overall situation of the debt and the equity portfolios, the share of operations signed as Special Activities or non-Special Activities. At end of March 2017, 94% of the outstanding debt operations under the IIW fell under the EIB Special Activity category, while all operations under the equity window fall under this category.

Mr P. Lombardo presented the evolution of the loan grading and the expected losses distributions at approval/signature stage and at the level of the outstanding portfolio. An improvement of the average loan grading after signature could be observed either due to a reduction of the level of risk during the implementation phase of an operation or due to timing considerations. EFSI added value is normally higher during the starting phase of an operation, when risks are higher. Mr P. Lombardo explained that there were also cases of loan grading degradation, for instance during a commercialisation phase, and that such degradation might happen more often in the future with higher number of riskier operations.

Mr P. Lombardo confirmed that there is a monthly risk assessment of the portfolio, which comprises an increased number of smaller size operations. The Steering Board welcomed this information and enquired on a streamlined approach for smaller clients, while preserving the usual duty of care.

Mr Lombardo also provided information to the Steering Board on the revenues generated and transferred to the European Commission.

The Steering Board took note of the report and remarked that the risk appetite of EFSI has to be continuously evaluated, taking into account the improving economic performance of the EU and the positive growth forecasts. A close monitoring of the weighed loan grading of the portfolio is very necessary as it could have a real impact on additionality of projects financed. The Steering Board took note that there was no guarantee call due to defaulted operations at end of March 2017.

#### 6. FOR DISCUSSION EFSI Projections

The Director General of Operations, Mr J.-C. Laloux, presented projections for EFSI operations (namely signatures and approvals), as such information is crucial for Steering Board's discussions on EFSI Strategic orientations. The Steering Board was satisfied with the overall pipeline development and the effort made to finance smaller size operations.

The Steering Board had a discussion on the potential impact of Brexit. Information was provided that the UK remains a country of operations for the EIB Group and under EFSI, but because of the on-going negotiations and the lack of clarity on the outcome, the negative reaction of the UK market was noted, as the reluctance of potential counterparts to discuss projects financing. This situation has an impact on the pipeline of EFSI operations. The Steering Board asked that efforts are made to meet the EUR 315 bn target with other countries, with the understanding that such situation could impact the geographical concentration of EFSI operations, and also the share of Climate Action financings, as the UK is a country offering a lot of possibilities in this sector.

#### 7. FOR DISCUSSION Strategic Orientations for EFSI

The Steering Board held a discussion on a revised version of the Strategic Orientations for EFSI, in the presence of Mr J.-C. Laloux, Director General of Operations. The Steering Board was satisfied with the revised text and asked that the EIB submits it to the approval of the Board of Directors before final adoption by the Steering Board.

#### 8. FOR DECISION

# Request for the agreement of the EFSI Steering Board to confirm the inclusion in the EFSI portfolio of operations approved or signed with higher amounts than existing exposure limits per risk category

In accordance with point 7(b) of the EFSI Investment Guidelines (Annex II of the EFSI Regulation), the Director General of Operations, Mr J.-C. Laloux, presented a request to include in the EFSI portfolio 9 operations already approved by the EIB Board of Directors in 2015 and 2016, but not yet signed, for which the additionality and added value had already been confirmed by the European Commission - for the warehousing period before the establishment of the Investment Committee - or by the EFSI Investment Committee since January 2016, having higher amounts than the EFSI exposure limits per risk category.

Considering its regular review of the EFSI risk profile, the size and loan grading of the operations presented to the Steering Board, and knowing the relevant EFSI risk limits set out in the EIB risk guidelines transmitted to the EC as per the EFSI Agreement, the Steering Board agreed on the possibility to include in the EFSI portfolio 9 operations already approved by the EIB Board of Directors, but not yet signed.

Similar request was also introduced by Mr J.-C. Laloux for 2 operations that have already been signed, but for which the level of disbursement was, in July 2017, still low (less than 5% of the signed amounts). One operation was approved in 2015 under the warehousing procedure before the establishment of the Investment Committee, while another was submitted to the Investment Committee. Both operations received the positive opinion respectively of the European Commission and the Investment Committee with regards to additionality and added value at that time.

The Steering Board noted that such request should have been presented by the EIB before signature. The legal services of EIB and of the European Commission confirmed that an ex-post decision by the Steering Board was possible. The Steering Board therefore gave its agreement to include the 2 concerned operations in the EFSI guarantee portfolio.

The Steering Board set up the following procedures for future derogation requests:

- For operations to be submitted to the Investment Committee and to the EIB Board of Directors, the Steering Board approval shall be sought through a written procedure. The Investment Committee should be informed of a derogation to be granted by the Steering Board in the sense of Art 7(b) of the EFSI Investment Guidelines, and such information shall be reflected in the minutes of the Investment Committee alongside the approval on the use of the EU guarantee confirming that additionality and added value is clearly demonstrated. The Steering Board decision shall occur after Investment Committee's decision but still before the EIB Board of Directors' approval.
- For decisions to be taken after the Investment Committee and Board of Directors approval, but before the signature of an operation, especially in case the loan grading of an operation changes and necessitates a derogation, the Steering Board approval shall be obtained as soon as the information on loan grading necessitating a derogation in accordance with point 7(c) of the Investment Guidelines is available, through a written procedure, on a non-objection basis within 2 business days.

The Steering Board took note of Mr J.-C. Laloux explanations that for risk sharing operations, the rating of the transactions is not known at the time of approval or sometimes not even until the underlying allocations by the financial intermediary have been finalised. Given that under risk sharing operations the risk is taken on an individual sub-operation basis, the Steering Board acknowledged that only those sub-operations that necessitate a derogation will be presented to the Steering Board for its approval of their inclusion in the EFSI portfolio. Finally, the Steering Board decided not to publicly disclose the names of the operations falling under this procedure, to protect commercially sensitive data.

The Chairperson declared the meeting closed at 11:30.

## Schedule A

## Decisions taken by the Steering Board (Meeting 21/2017)

Agenda Item	Description	Decision taken
3	Minutes of the meeting held on 16 March 2017.	The Steering Board approved the document with minor comments.
3	Minutes of the meeting held on 28 April with a continuation on 17 May 2017.	The Steering Board approved the document without comments.
8	Request for the agreement of the EFSI Steering Board to confirm the inclusion in the EFSI portfolio of operations approved or signed with higher amounts than existing exposure limits per risk category.	The Steering Board approved the request.