Green Bonds – Solution or Labelling?

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A long history of long term investments since early civilisation

Today: same needs but higher standards and norms

- Acqueduct: Aqua Claudia
- Sewers/drains: Cloaca Maxima
- Public latrines: Ostia Antica
- Water reservoir for security of supply
- UV Disinfection for safe, potable water
- Wastewater treatment plant
The companies in the portfolio

- Acque Vicentine
- Acque Veronesi
- Acque del Chiampo
- Alto Vicentino Servizi
- Centro Veneto Servizi
- ETRA
- Azienda Servizi Integrati
- BIM Belluno
- Basso Livenza

- Region of Veneto
- 437 municipalities
- 3m residents

Problem:

- No access to capital markets
- Difficult to access bank financing for long maturities
- No access to EIB direct lending given the small size and low rating
Structure: a novelty bundle for EIB

Credit Risk - highlights

- Local municipality-owned companies, providing regulated water services under concession agreements
- Internal ratings ranging from 4/Baa2 to 6+/B1 (4/Baa2: 1 case; 4-/Baa3: 2 cases; 5+/Ba1: 4 cases; 6+/B1: 1 case)
- EIB underlying documentation to include typical corporate clauses for operations with Italian water companies
### Renewable Energy Platform for Institutional Investors

Stimulate RE deal flow and institutional finance

<table>
<thead>
<tr>
<th>Main objective</th>
<th>Key elements</th>
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<tr>
<td>Create more RE deal flow</td>
<td>1. Lower cost of capital to improve RE project bankability: provide commercial lenders with ‘guaranteed exit’ and remove refinancing risk premium from equity.</td>
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<td>2. Release capital for commercial lenders, raise their capacity for further RE investments</td>
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<td>3. Enable institutional investors with varying risk/reward profiles to acquire mature long-term RE assets</td>
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**Ultimate goal:** simultaneously stimulate deal flow and engage institutional investors to increase overall RE financing
**Concept: REPIN**

**RE debt provider**
- Banks
- Equity provider
- Other sponsors
  - Sell loans/cash flows from operational projects to free-up capital
  - Projects need to meet minimum standard

**Institutional Investors**
- Pension funds
- Insurers & re-insurers
- Other asset managers
  - Enter into purchase transactions meeting different risk/reward expectation

**Renewable Energy Platform for Institutional Investors (REPIN)**

- Sets minimum technical, legal and risk/reward standards
- Aggregates & brokers RE loan portfolios
- Offers transaction vehicles that meet institutional investors’ different risk/reward expectations
- Monitors & manages loan portfolios (potentially with assistance of initial debt provider)

- **Straight pass-through of loans from a project or portfolio**
- **Issuance of notes from a loan portfolio (with or without credit enhancement)**
- **Securitisation of loan portfolio(s)**
Environmental Performance
Indexed Bonds (e.g. REDD credits) – generic structure

Institutional Investors

Bond (or SPV) with Principal Guaranteed (*)

AAA-bank account or ad hoc secured utilisation (*)

Management Structure of the Bond Platform

Third-party “Bridge” Lender to the Management Structure

PORTFOLIO of projects (**):
Project 1
Project 2
Project 3
Project 4
Project 5
Project 6
Project 7
Project 8 etc...

(1) Bond Proceeds

(11) Bond Redemption

(9) Periodic Payments to Investors of coupons regrouping flows (8) by Bond Paying Agent

(8) Pass-through payments of flows (7) to Bond Paying Agent

(7) Payments (***) from each project

(6) Investment in project on demand

(5) Bridge loan reimbursed as and when fixed coupons are foregone by investors

(4) If need be, bridge loan to be invested to kick-start projects on demand

(3) Fixed coupons foregone by investors

(2) Bond Proceeds

(10) Bond Redemption

(*) : if EIB is the bond issuer, it would invest the proceeds in identified “green” projects
(**) : each project may already be mothered or sponsored or looking for co-financing by (SRI / voluntary) corporations or by foundations
(***) : a project could pay cash the proceeds of carbon credit, clean water certificate, or agricultural commodity / timber sales

17/10/2014
Under PBI, EIB provides Project Bond Credit Enhancement (PBCE) to:

- Ensure debt service for Project Bond Investors up to the total size of the instrument
- Credit enhance project bonds from a typical BBB- rating by up to 3 notches to A-
- As either a funded (subordinated loan) or unfunded (letter of credit) guarantee instrument

PBCE up to 20% of total Project Bond issue
### Project Overview

<table>
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<tr>
<th>Project Type</th>
<th>Electricity transmission assets connecting the 140 wind turbines of the 504MW Greater Gabbard offshore wind farm to the UK onshore grid</th>
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<tbody>
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<td>Status</td>
<td>Construction completed and part of the UK regulated transmission system</td>
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</table>
| Project details | • PBCE of GBP 45.8m  
• 125bps over the benchmark UK Gilt rate or 4.317%, 3x oversubscribed  
• Use of EU budget (EUR 10m from TEN-E budget) |
| Concession Term | 20 years                                                                                                                                 |
| Bond | GBP 305.1m, publicly listed, long term, amortising senior debt with a tenor of 19 years                                      |
| Bond Rating | A3 (with the PBCE)                                                                                                               |
| PBCE Letter of Credit | • GBP 45.8m initially, amortising with bond  
• EUR 10m USE OF TEN-E PBI FUNDS                                           |