Developing local capital markets and market infrastructure to finance infrastructure projects and innovation

The Trieste Eastern Europe Investment Forum
Jim Turnbull | LC2 Senior Advisor | June 2018
Why is developing local domestic capital markets a global public good?

- More efficient capital resource allocations – global markets can’t “do it all” – role for local and regionalized market groupings
- Size matters – small borrowers cannot tap international markets but can access local markets – brand recognition is an element
- Policy issues – support of SME sector through expanded financing options such as incubators, crowd funding and listing support programs
- Overreliance on internationally dominated banking system can have financial stability risks – the Vienna Initiative
- Local investors need to be able to invest locally in domestic currency
- Borrowers with income in local currency are not exposed to adverse currency risks
- IFI are creating specialist local capital market teams – LC2, J-Cap, ABMI
‘Top-down’ policy dialogue where the Local Currency & Capital Markets Development Team (LC2) provides technical cooperation (TC) in adopting and/or implementing processes that promote the overall transactions enabling environment – better institutions, regulations & more liquid markets;

‘Bottom-up’ support for transactions: i) arrangers interface; ii) central banks; iii) financial services authority; iv) rating agencies; v) reputable global associations (i.e. ISDA), among others;

Policy Dialogue: successful outreach is subject to local authorities’ willingness to implement reform agenda;

So you want to build an investor base?

Which of the following do investors need to participate in local capital markets?

A. Investible products – both OTC and Exchange traded
B. Supportive supervisor and local authorities
C. Someone to “buy from” and “sell to!”
D. Valuation mechanisms
E. Secondary market liquidity
F. Instruments to hedge currency exposures
G. All of the above
CPI-linked Bond

The EBRD invested TRY 100m (EUR 22m) in a bond issued by the utility group Enerjisa Enerji and listed on Borsa Istanbul.

This is the Bank’s first investment in an inflation-linked bond.

Its 5y tenor is the longest for a CPI linked or LCY instrument issued by a Turkish company.

Covered Bond

Facilitating and supporting regulation including: i) the development of legal & regulatory framework for covered bonds issuance in Croatia, Hungary Poland, Romania and Slovakia; and ii) ensuring pari-passu status for derivatives counterparties.

Milestone covered bond deals: PKO Bank Hipoteczny (Poland) and VakifBank (Turkey’s first euro covered bond).

LCY and Eurobonds

First Romanian corporate (non-FI) to issue Eurobond of benchmark size.

The senior unsecured Eurobond issue by Globalworth was dual-listed on the BVB and Irish Stock Exchange (ISE).

Trading rights were passported to the BVB as per EBRD policy dialogue outreach.

The Bank invested 9% of the EUR 550m offer.

Green Bonds (& Social)

The Bank’s first investment in a green bond – in line with ICMA Green Bond Principles.

EBRD invested EUR 30m in the green bond issued by Lietuvos Energija of Lithuania.

Trading rights passported to Nasdaq Vilnius from Luxembourg Stock Exchange.

LC2 participated in the external coordination on the matter when considering arrangers, third-party assessment (i.e. Cicero) as well as internally with Banking, Credit, EPG & Treasury members.
Infrastructure Bonds

EBRD supported Turkey’s first ever infrastructure bond with a USD 80m participation in a USD 450m Eurobond, issued by Mersin International Port (MIP).

Bond was listed on the Irish Stock Exchange – 7y tenor.

Municipal Bonds & Aggregators

Creation of a LCY benchmark yield curve for municipal debt (3y, 5y, 7y and 10y).

EBRD subscribed RON 330m (EUR 75m) in City of Bucharest’s RON 2.2bln municipal bond; One-stop shop ready to facilitate: i) enhancing settlement; ii) repo eligibility; iii) LCY asset class.

REIT

EBRD acquired 9.5% stake for PLN 84m (EUR 20m) in Griffin Premium as part of its IPO on the Warsaw Stock Exchange (WSE).

The company was set up under Dutch legislation with the aim to become the first REIT under the new Polish REIT law.

Securitization

The Bank supported the first SME loan securitization in Greece.

EBRD subscribed EUR 50m out of EUR 650m of senior notes publicly listed by Alpha Bank of Greece.

Structure: i) EUR325m in senior notes (acquired together with EIB & Citi); and ii) EUR 325m in mezzanine & junior tranche subscribed by Alpha.

Notes were listed on the Irish Stock Exchange.

Subordinated Debt

EBRD invested PLN 133m out of PLN 1bn subordinated bonds issued by PKO Bank Polski.

Tier II capital (MREL) eligible bonds with a 10y maturity and callable after 5y.

The issue is CRD IV / CRR (Basel III) compliant and listed on Warsaw Stock Exchange.
## Case Study 1: EBRD holistic approach to Capital Market Product Development in Romania

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<th>Bucharest Stock Exchange</th>
<th>Bank financing through capital markets</th>
<th>Dormant Accounts</th>
<th>City of Bucharest bond issuance</th>
<th>IPO</th>
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<td>Improvements to capital market infrastructure to promote cross border transactions</td>
<td>EBRD investment in Subordinated bonds under new bail in regime</td>
<td>4 Phase Strategy to address the ongoing issue of over 8 million dormant retail accounts that emerged during 1990s' mass privatization program</td>
<td>LCY bond to support the City of Bucharest to address unacceptable refinancing and currency risk exposure</td>
<td>Investments in SOE-Romgaz and Transelectrica;</td>
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<td>Proposal to develop a regional CCP to reduce settlement risk</td>
<td>Leading banking group – assistance with capital raising</td>
<td>Initial project funded by EBRD’s Shareholders Special Fund</td>
<td>Constructive advice on deal structuring</td>
<td>DIGI- first A/B structure to be listed on BVB -may not be the optimum share structure but was the largest private sector IPO on the (BVB) to date and the first telecom company. The IPO value stood for RON 870m (EUR 193m).</td>
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<td>Introduction of Stock borrowing and lending capability at CSD</td>
<td>Followed on from senior unsecured bond investments in major banking groups</td>
<td>Next stage solution to be presented &amp; implemented with EC SRSS funds</td>
<td>Creation of benchmark muni yield curve</td>
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<tr>
<td>Developing derivative markets strategy</td>
<td>Drafting of covered bond regulations</td>
<td></td>
<td>Muni bonds now eligible for repo operations at central bank</td>
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<td>TC for organizational review of CSD operations</td>
<td>EBRD retained certain % shareholding in BT after recent selling on the secondary market at BVB</td>
<td>Focus is on legal and regulatory requirements to implement optimum solution</td>
<td>EBRD subscribed RON 333m (EUR 75m) out of RON 2.2bn (EUR 500m)</td>
<td>Led to more IPO where we did not invest – Medlife</td>
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<td>Direct investment in BVB (5%+)</td>
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<td>Ongoing dialogue with other municipalities</td>
<td>Assistance in reclassifying Romania as an emerging market</td>
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Case Study 2: Creating Market Access in Croatia

Exchanges as Financing Hubs

**Funderbeam SEE**
- Platform for early stage start-up investments (access to growth capital)

**Atlantic Grupa**
- Leading food & beverage producer as well as FMCG distributor in SEE

**SME Growth Market Project**
- Aimed to increase the access of SMEs to capital markets and to create investment opportunities for EBRD

**Zagreb City bond issuance**
- 7-year LCY bond to support the City of Zagreb in reducing the balance sheet and currency mismatches

**Zagreb Stock Exchange (ZSE)**
- Facilitating capital market transactions

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**Indirect investment in crowd-funding platform via 3TS fund**
- EBRD retained 6% shareholding in Atlantic Grupa after selling 2.5% via a private placement on the OTC market in Zagreb

**EBRD subscribed HRK 45mln (EUR 6mln) out of HRK 1.8bln**
- EBRD acquired 5.2% of ZSE, to assist acquisition of Ljubljana Stock Exchange

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**ZSE Value Creation as 20% of Funderbeam SEE is owned by ZSE**
- Project funded by the Taiwan Business EBRD Fund

**Listed SME Investment Vehicle feasibility study (SSF)**
- Listing support programme (planned)

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**TC to support pipeline creation**
- EBRD acquired 5.2% of ZSE, to assist acquisition of Ljubljana Stock Exchange