The Trieste Eastern Europe Investment Forum

Opportunities to support infrastructure investment needs in South-Eastern Europe through capital markets instruments

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AGENDA

🌐 Infrastructure financing needs in SEE

📈 Capital markets development in SEE

🔍 Selected case studies
Despite the surge in capital spending over the last 20 years, there is still on average a 35% infrastructure development gap between SEE and Western European countries.

Legacy of severe underinvestment, inadequate maintenance and weak project implementation have led to an uneven infrastructure gap across countries in the region.

This gap likely limits WB countries from a deeper regional integration and higher economies of scale while reducing their overall attractiveness for FDIs.

SEE countries: Serbia, Croatia, Bosnia and Herzegovina, FYR Macedonia, Montenegro, Albania, Bulgaria, Romania and Slovenia

* World Bank survey of logistic professionals
PUBLIC INFRASTRUCTURE NEEDS IN SEE

➢ Over 2018-2022, infrastructure investments financing needs in the Western Balkans are estimated at USD 52 bn and largely exceeding the FDIs flows to the area forecasted of USD 32 bn.

➢ Further capital inflows are therefore necessary to the area to keep pace with required investment financings.

Source: EBRD TRANSITION REPORT 2017-18 and ISP staff elaboration
Public infrastructure needs in SEE

Regional Peers: Infrastructure Gaps, 2015
(Percent)

Sources: WDI database; EIA; IRF; Eurostat; and IMF staff calculations.
Note: Electricity generation data are for 2014. CEE = Central Eastern Europe;
CIS = Commonwealth of Independent States; SEE-EU = Southeast Europe EU members;
SEE-XEU = Southeast Europe non-EU members.
Southeast Europe non-EU members, or Western Balkans (SEE-XEU, orange):
Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, Serbia.
ONGOING LARGE INFRASTRUCTURE PROJECTS

- Belgrade-Zagreb railway line ~ € 250 mln
- Belgrade (Nikola Tesla) Airport Concession ~ € 1.500 mln
- KRK Liquified Natural Gas Terminal ~ € 360 mln
- Karuše and Poprikuše Motorway Corridor ~ € 400 mln
- Serbia Wind Farms ~ € 600 mln
Bank loans account for the highest share of external finance (45%) followed by leasing (23%).

Source: EIB Group Survey on Investment and Investment Finance 2017: CESEE overview
REGIONAL CM DEVELOPMENT INITIATIVES

Several international initiatives were put in place to support infrastructure investments and facilitate capital markets development in SEE countries

Since the 1990s, an extraordinary international effort has aimed at building a unified approach to promote investments across the whole region. In 1999, the “Stability Pact” received support from international financial institutions, donor governments, and international organizations (including the EU, Council of Europe, and OECD).

In 2008, the Western Balkans Infrastructure Framework (WBIF) was established to accelerate the preparation and execution of priority investments in line with regional and national strategies by leveraging loans and grants (blending mechanism) and providing priority to projects with regional impact.

In 2009, the European Bank Coordination “Vienna” Initiative took form as a framework for safeguarding the financial stability of emerging Europe, bringing together all the relevant public and private sector stakeholders of EU-based cross-border banks active in Eastern Europe, and confirming their commitment to provide steady financial support and funding.

Started in 2014, the Berlin Process is an intergovernmental cooperation initiative aimed at improving regional cooperation in the Western Balkans on the issues of infrastructural and economic development. Donor and recipient countries agreed on top priority projects to be implemented (EU grants and loans from international financial institutions).
BOND ISSUANCE IN SEE COUNTRIES

Bond issuance from SEE countries (2011-2018)

<table>
<thead>
<tr>
<th>Year</th>
<th>Corporate</th>
<th>Government (Including Central Banks)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3,06</td>
<td>23,72</td>
</tr>
<tr>
<td>2012</td>
<td>1,56</td>
<td>25,62</td>
</tr>
<tr>
<td>2013</td>
<td>2,42</td>
<td>29,60</td>
</tr>
<tr>
<td>2014</td>
<td>1,08</td>
<td>30,57</td>
</tr>
<tr>
<td>2015</td>
<td>1,11</td>
<td>30,39</td>
</tr>
<tr>
<td>2016</td>
<td>1,48</td>
<td>34,19</td>
</tr>
<tr>
<td>2017</td>
<td>1,10</td>
<td>25,08</td>
</tr>
<tr>
<td>2018</td>
<td>0,59</td>
<td>11,22</td>
</tr>
</tbody>
</table>

Source: ISP elaboration on Bloomberg (GOV + CORP Bonds)
SEE Countries, excluded Greece, Private Placement excluded
POTENTIAL FOR CM DEVELOPMENT IN THE REGION

Cross-border holdings of securities in EU countries (% of the investee’s GDP, 2016)

Potential ‘best in class’ growth in pensions and insurance assets expressed as a % of 2015 GDP

Source: IMF Coordinated Portfolio Investment Survey (CPIS)

Source: New Financial
CMU TO SUPPORT INVESTMENT FINANCING NEEDS

“Today’s proposals are part of a broader strategy to strengthen capital markets and encourage investments in the EU. To have a genuine Capital Markets Union in Europe by 2019, we need to advance in three directions: European labels and passports for financial products, harmonised and simplified rules to deepen capital markets and more consistent and efficient supervision.”

VALDIS DOMBROVSKIS
Vice-President in charge of Financial Stability, Financial Services and Capital Markets Union

“We want to make it easier and cheaper for companies, especially small and medium-sized ones, to get the financing they need. A deepened single market will help companies to do that and will allow them to grow. The Commission is delivering on its commitment to put in place the building blocks of CMU. The European Parliament and Council must now do their part. The Commission stands ready to work with them to adopt all legislative proposals by 2019.”

JYRKI KATAINEN
Vice-President responsible for Jobs, Growth, Investment and Competitiveness
CM INFRASTRUCTURE FINANCING IN CROATIA

During the last ten years, PBZ (ISP Group) has been front-runner in financing infrastructure projects through financial innovations in capital markets:

- **2005 / 2006**
  - PBZ was one of the investors in the first PE fund in the Republic of Croatia - Quaestus I - which invested in Metronet d.d., telecom company known for their investments in their own optical infrastructure - today in 100% ownership of VipNet, Telekom Austria.

- **2006 / 2007 / 2008**
  - PBZ was Agent of City of Rijeka issue of municipal bonds enabled funds raising for financing the construction of the Kantrida pool complex.

- **2007**
  - City of Vinkovci bond issue enabled the realization of several strategic capital projects; complex of indoor swimming pools "Lenija", a recreation and rehabilitation center and “Hrvatski dom Vinkovci”.

- **2015**
  - Luka Rijeka increase in share capital via issuing new shares enabled raising funds to finance the construction of warehouse complex terminal Škrjeko.

- **2017**
  - Stanovi Jadran "private placement" for pension funds, investment funds and selected qualified investors to finance real estate projects in order to implement the company’s business strategy in the hotel-tourist and real estate segment.
CITY OF RIJEKA EUR 24.6 M BOND ISSUE ↔ 3 TRANCHES ↔ MATURITY 2016

**Terms and Conditions**

- **Issuer**: City of Rijeka
- **Issue Amount**: 24,574,513 EUR, 3 tranches
- **Issue Date**: 18.07.2006. / 17.05.2007. / 01.04.2008.
- **ISIN**: HRGDRIO167A4
- **TICKER**: GDRI-O-167A
- **Redemption**: Amortizing bond
- **Denomination**: EUR
- **Maturity Date**: 18.07.2016.
- **Issue Price**: 94,965% / 94,346% / 89,977%
- **ICoupon**: 4,125%
- **Frequency**: Semiannual
- **Additional Features**: Call Option
- **Listing**: ZSE Official Market
- **Depository**: SKDD
- **PBZ’s Role**: Issue Agent and Underwriter

**Objectives**

- The issue of municipal bonds should enable the realization of strategic capital projects – raising funds to finance the construction of the Kantrida pool complex.

**Structure by Investor Type**

- Pension Funds - 28,5%
- Retail Investors - 1,0%
- Banks - 49,3%
- Investment Funds - 1,4%
- Foreign Investors - 7,3%
- Insurance Companies - 12,3%
- Others - 0,2%

**Transaction Results**

- The issue of municipal bonds enabled the realization of strategic capital projects - proceeds from the bond issue were used to finance the construction of the Kantrida pool complex.
- Total EUR 24.6 m - the largest issue of municipal bonds in the Republic of Croatia.
- The first bond issue in the Republic of Croatia with an embedded call option (possibility of early withdrawal of bonds by the Issuer).
- Bonds of the City of Rijeka were actively offered to retail investors in six PBZ branches in the Rijeka area, but they could also be purchased in all other branches of PBZ in Croatia.
- The interest of citizens, except in Rijeka, was also shown in other Croatian cities: Opatija, Crikvenica, Krk, Mali Lošinj, Novalja, Rovinj, Zadar, Samobor and Zagreb.
- Citizens participated in the subscription of bonds from the symbolic amount of 1 euro up to several tens of thousands of euros.
- Bonds were also subscribed by famous athletes, artists and businessmen of Rijeka.
CITY OF VINKOVCI HRK 42 M BOND ISSUE »»
Maturity 2017

<table>
<thead>
<tr>
<th>Terms and Conditions</th>
<th>Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Issuer</strong></td>
<td>City of Vinkovci</td>
</tr>
<tr>
<td><strong>Issue Amount</strong></td>
<td>42.000.000,00 HRK</td>
</tr>
<tr>
<td><strong>Issue Date</strong></td>
<td>23.10.2007.</td>
</tr>
<tr>
<td><strong>ISIN</strong></td>
<td>HRGRVIO17AA5</td>
</tr>
<tr>
<td><strong>TICKER</strong></td>
<td>GRVI-O-17AA</td>
</tr>
<tr>
<td><strong>Redemption</strong></td>
<td>amortizing bond</td>
</tr>
<tr>
<td><strong>Denomination</strong></td>
<td>HRK</td>
</tr>
<tr>
<td><strong>Maturity Date</strong></td>
<td>23.10.2017.</td>
</tr>
<tr>
<td><strong>Issue Price</strong></td>
<td>99,827%</td>
</tr>
<tr>
<td><strong>Interest rate (Coupon)</strong></td>
<td>5,50%</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Semiannual</td>
</tr>
<tr>
<td><strong>Listing</strong></td>
<td>ZSE Official Market</td>
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<tr>
<td><strong>Depository</strong></td>
<td>SKDD</td>
</tr>
<tr>
<td><strong>PBZ’s Role</strong></td>
<td>Issue Agent and Underwriter</td>
</tr>
<tr>
<td><strong>Objectives</strong></td>
<td>• The issue of municipal bonds should enable the realization of strategic capital projects; complex of indoor swimming pools &quot;Lenija&quot;, a recreation and rehabilitation center and “Hrvatski dom Vinkovci” with library, multifunclional hall with 400 seats and business facilities.</td>
</tr>
</tbody>
</table>

Transaction Results

• The net proceeds from the issuance were used to finance the complex of indoor swimming pools with a recreation and rehabilitation center.
• Additionally, proceeds were used for financing the construction of a “Hrvatski dom Vinkovci” that includes a library with accompanying amenities, a multifunctional hall with 400 seats and business facilities.
• Retail investors were able to subscribe Bonds of the City of Vinkovci from 10th to and including 19th October 2007 in PBZ branches in Vinkovci area.
• The Bond issue of City of Vinkovci generated strong demand among domestic investors, both institutional and retail.
LUKA RIJEKA D.D. << SECONDARY PUBLIC OFFERING >> HRK 300 M

**Terms and Conditions**

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Luka Rijeka d.d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of security</td>
<td>Ordinary share</td>
</tr>
<tr>
<td>Maximum no. of new shares</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Minimum no. of new shares</td>
<td>6,000,000</td>
</tr>
<tr>
<td>Existing no. of shares</td>
<td>5,980,475</td>
</tr>
<tr>
<td>Price range of shares</td>
<td>HRK 40.00 - HRK 70.00</td>
</tr>
<tr>
<td>Issue price</td>
<td>HRK 40.00</td>
</tr>
<tr>
<td>Minimal no. of shares for purchase</td>
<td>1</td>
</tr>
<tr>
<td>Listing</td>
<td>ZSE Official Market</td>
</tr>
<tr>
<td>Depository</td>
<td>SKDD</td>
</tr>
<tr>
<td>PBZ's Role</td>
<td>Sole Issue Agent</td>
</tr>
</tbody>
</table>

**Objectives**

- Increase in share capital via issuing new shares and raising funds to finance the construction of warehouse complex terminal Škrjevo.
- Increase the participation of pension funds and institutional investors in the ownership structure, as well as, finding a strategic partner whilst decreasing the Republic of Croatia’s ownership below 50%.
- Establish a stable and long-term acceptable ownership structure.
- Increase the free float of shares alongside an increase in trading volume.

**Transaction Results**

- In four rounds of share capital increase, 9,898,591 new shares were subscribed, amounting to 32.00% more than the number of available new shares that totaled 7,500,000 new shares.
- The investor structure allocating the new shares through the public offering counted approximately 400 investors. This included both obligatory and voluntary pension funds, existing small shareholders and employees, foreign investors, investment funds, legal persons and insurance companies.
- There was also a noticeable increase in new investors, both institutional investors and natural persons, that entered the ownership structure of Luka Rijeka d.d. for the very first time.
- The Republic of Croatia, former majority shareholder, fell to 36.77% ownership.
- The third day after the public issue marked a HRK 57.00 share price on the Zagreb Stock Exchange, which was 42.5% above the share price during the public offering (HRK 40.00). This issuing represents the best post-transactional performance in relation to the public offering process on the Croatian market in the past 8 years.
- Additionally, trading volume increased several times in comparison to the period prior to the public offering.
- The new shares acquired by retail investors were subscribed via selected PBZ offices and PBZ Investor.

**Structure by Investor Type**

- Obligatory Pension Funds 55.44%
- Foreign Investors 37.44%
- Retail investors 3.19%
- Investment Funds 1.57%
- Voluntary Pension Funds 2.07%

**Ownership Structure Before and After the IPO**

- R. of Croatia 82.88%
- Croatia osiguranje d.d. 2.32%
- Kapitalni fond d.d. 1.17%
- Others 13.63%

- R. of Croatia 36.77%
- Obligatory Pension Funds 30.85%
- Foreign Investors 20.83%