The Lithuanian Leveraged Fund
and Smart Finance for Smart Buildings

Warsaw, 15 May 2018

The Lithuanian Leveraged Fund

Introduction - Programme Overview (1/2)

The Multi-apartment Buildings Modernisation Programme

- Focuses on energy efficiency projects in the multi-apartment buildings.
- More than **20,000** multi-apartment buildings in Lithuania have inefficient heating systems and equipment and low-quality windows, roofs and seals between panels.

Progress and Results

- **JESSICA 2007 - 2013** supported more than **1,050** modernisation projects worth circa **EUR 265m**.
- Currently, **Jessica II 2014 – 2020** is financing more than **1,200** modernisation projects worth **EUR 315m**.

Main Challenges

- Lending is **unsecured** since no enforcement against apartment is possible if it is primary residence;
- Every apartment owner in the building must have **access to a loan** in order for the renovation of the building to be executed.

Introduction – Financing of the Programme (2/2)

2007 – 2013 Programming Period

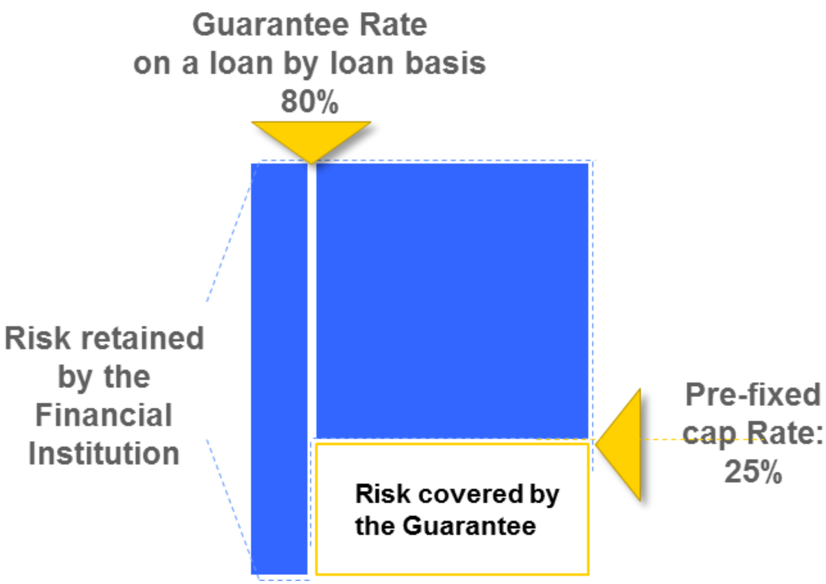
- Step 1: The banks performed agency function
- Step 2: The banks gradually started to provide co-financing (senior to ESIF)

2014 – 2020 Programming Period

- Step 1: ESIF and commercial debt are blended (ESIF subordinated)
- Step 2: Under the **Leveraged Fund** the banks will be financing the modernisation loans *solely* with their own funds, supported by the First-loss Portfolio Guarantee instrument financed with EU structural funds (banks already selected).
  - Leverage of **five times**: **EUR 100m** EU structural and public funds to raise an additional **EUR 500m** from private resources.
  - Unsecured lending
  - Credit decision by the banks on portfolio basis

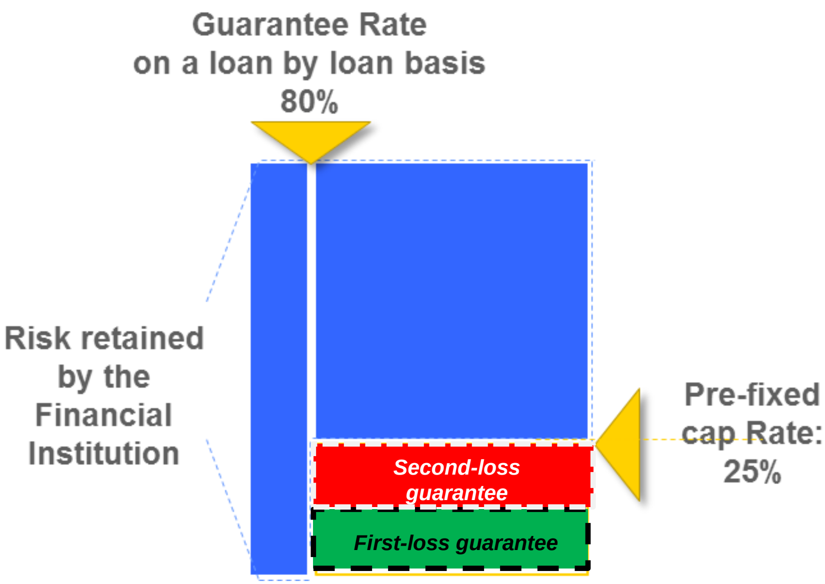
First-loss Portfolio Guarantee Instrument (1/3)

First Loss Portfolio Guarantee:



- Major step towards the pursuit of leveraging private sector investment to meet the massive investment needs
- EUR **100m** first demand EIB guarantee;
- Potential capital relief;
- **80%** risk coverage on a loan by loan basis;
- Losses are capped at portfolio level at **25%** - prefixed.
- **Leverage of 5x**

First-loss Portfolio Guarantee Instrument (2/3)



- Introducing additional **EUR 100m** second-loss tranche to further boost the Modernisation Programme

- Second-loss tranche mechanics work similarly to the first tranche to mobilize another **EUR 500m** private resources

- Product indicates increasing market interest maximizing the impact of the limited public funds available

Results expected to be achieved by 2023 across all mandates in Lithuania

More than **EUR 1bn** loan agreements signed to support the energy-efficiency works in around **100,000** apartments in more than **3,500** multi-apartment blocks.

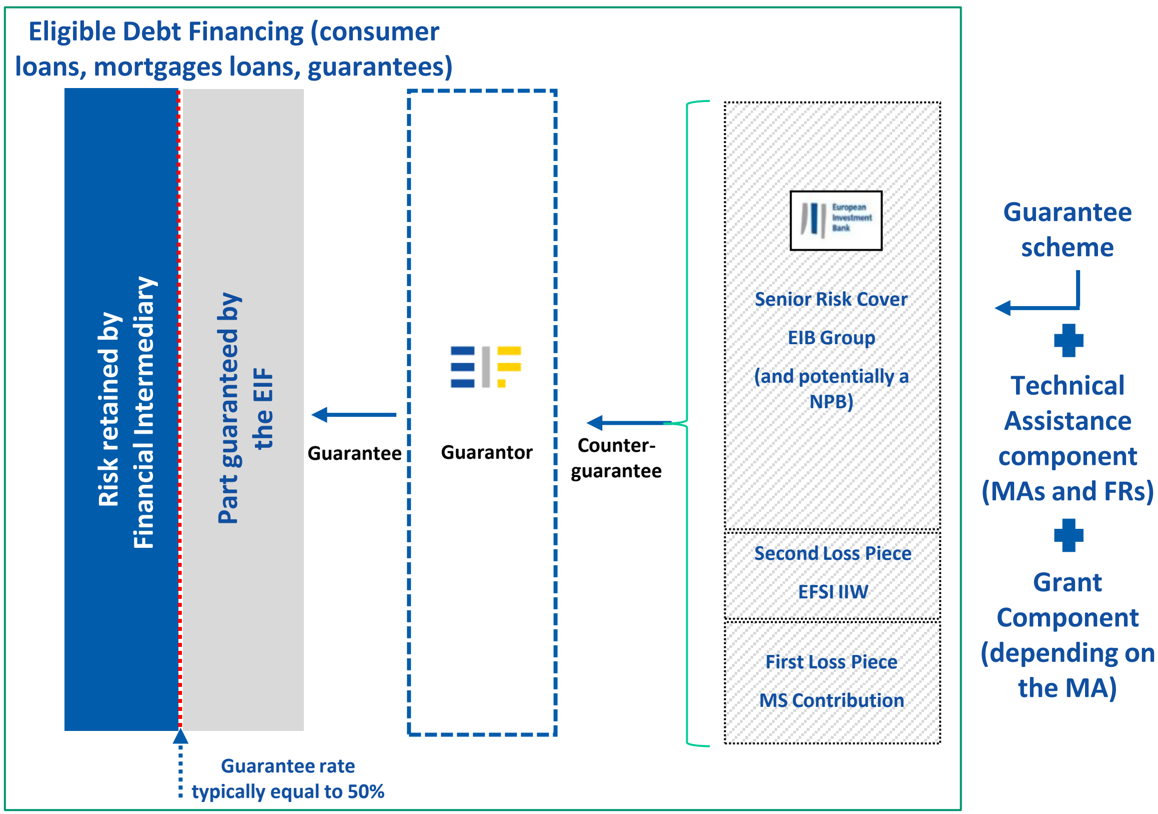
~130,000 p.a. reduction in CO_2 emissions

Approx. **44,000** jobs created

Smart Finance for Smart Buildings

The ‘Smart Finance for Smart Buildings’ initiative – SFSB initiative

A single financial instrument combining up to 3 components



Background information

- Launched on **Nov. 30th, 2016** by **the European Commission**;
- Developed in **cooperation with EIB Group** (EIB/EIF);
- Part of the “**Clean Energy for all Europeans” package**”;
- Aims to unlock **EUR 10bn of public and private funds by 2020** for energy efficiency (“EE”) in buildings ;
- Consists mainly in an **unfunded credit risk protection** fronted by **EIB Group** (EIF);
- Relies heavily on **MS Contribution to the First Loss Piece** (most likely ESIF – ERDF);
- Contains reasonable **eligibility criteria** to ensure consistency with **policy objectives**
- May be combined with an EIB Global Loan

A comprehensive financial instrument providing SFSB stakeholders with a holistic solution

Potential EE measures

Buildings
Investments related to the building envelope • Isolation • Windows and doors **Investments related to the building system** • Space heating • Domestic hot water • Ventilation systems • Cooling • Lighting • Building automation and control • Connection to energy supplies • Decentralized renewable energy production

Baltic Sea and Northern Europe

Financial Instruments

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Annex:
First-loss Portfolio Guarantee Instrument

- Claim of the guarantee at the discretion of each bank:
  - Established loss: 90 dpd and completion of the workout process (to be defined by each bank);
    - To give sufficient time for the banks to establish whether a delayed payment is a real default or not;
  - Administrator Model: only partial defaults corresponding to specific exposures to Final Beneficiaries.
- Guarantee payment mechanics:
  - Direct Model – Loan acceleration is possible
    - <u>One payment</u>: Full outstanding principal amount and accrued interest (up to 90 days);
  - Administrator Model – Loan acceleration is not possible, claims are limited to accrued amounts
    - <u>Multiple payments</u>: Accrued principal amount and accrued interest for the first 90 days.
- Pro rata (i.e. 80%-20%), pari passu sharing of Recoveries – All amounts collected, no subordination but up to the covered loss amount.