



Head of Debt Capital Markets and Financial Institutions Stefan Nanu gave an exclusive interview to the Romanian business portal Financial Intelligence about IIB activities in Romania

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What is the volume of Romanian projects in the IIB portfolio for lending and investment? What is the share? What country has the largest investment share in the IIB portfolio?

As of the end of last year, Romania held the leading position in the bank's loan and documentary portfolio, with a share of around 18%. Our activity in the country picked up noticeably in the last 3 years, so, we are very proud to be one of the largest beneficiaries among IIB member states, with active operations in the range of EUR 230 million. Credit support is provided to key sectors of the Romanian economy such as infrastructure, manufacturing, agriculture, retail, and logistics. Also, Romania is one of the core beneficiaries of a new product range aimed at stimulating capital investments of large multinational companies in IIB member states. IIB has financed complex projects of European giants like Schaeffler, Auchan, Gestamp or Medicover to expand their business in Romania.

The total share of European member states in the portfolio currently stands at around 60%.

What are the latest financed projects?

Looking at our activities in Romania, main objective was to maximize as much as possible the transversal impact of IIB funding in terms of value creation for the national economic environment.

We continued to support strategical agricultural sector, which provides for over 25% of the working places in the country, via the long-standing partnership with Agricover Holding IFN, one of the most important non-bank financial institutions in Romania, specialized exclusively on lending to farmers, offering expertise and financial support to several thousand local producers.

Looking further at the value chain creation, our focus was put towards the food-processing sector, being involved in the development of several of the most modern production facilities in Romania, undertaken by our clients Avicola Buzau and Fabrica de lapte Olympus Brasov. We are happy that we could support the reshaping of Ultex Tandarei to a modern production facility, which is among top domestic edible oil plants, thus maintained and created new jobs in this less-developed area of the country.

We supported the development of Medcover clinics in the western part of Romania with the latest medical systems, used by population in Romania as well as in neighboring Hungary, Serbia or Ukraine. IIB and Medcover Group have been collaborating since 2019. Total volume of investment allocated by International Investment Bank in support and development of this key sector in its European member states through this client amounts to EUR 40 million.

What is it that you are currently analyzing when it comes to future investment in Romania - any projects you are looking into?

At present, we have several deals at various stages of assessment in the Bank, implementation of which fully corresponds with the interests of the Romanian market. They target such sectors as SME and mid-cap support, infrastructure, manufacturing, etc. Projects that will receive approval will be publicly disclosed, which is our standard practice. We pay special attention to the transparency of our activities and do our best to inform the market about them promptly.

What are the advantages for companies to work with IIB?

We offer our clients much-needed flexibility and a tailor-made approach to structuring deals, in order to find optimal solutions that are mutually beneficial. We are ready to explore projects and lending products, that usually commercial banks are not too comfortable, such as long tenors or green-field projects. Our character is quite "boutique" and that, in our view, is one of IIB's major strengths.

Because of a rather compact structure, we offer complete staff involvement throughout all stages of project preparation and structuring. It is also a big asset that all our frontline managers have a strong local market knowledge, so both the Bank and clients can see the big picture of their business integration into a broader economic context.

IIB has attracted funding from the local capital market. What are the latest bond issues?

IIB has been very active on the debt capital markets of its Member States issuing bonds in Romania, Hungary, Slovakia, Czech Republic or Russian Federation. Just in the local format on the Romanian market, we have issued overall cumulatively an amount of RON 1.5 bn and also two EUR-denominated transactions amounting cumulatively to EUR 145m. We have been present five consecutive years starting from 2015 on the local capital market, by issuing bonds listed and traded on Bucharest Stock Exchange, which had earned us a frequent issuer status, making IIB a predictable and reliable partner of major Romanian institutional investors.

Last year we have decided to leave the domestic format issuances and move to a more standardized format accessible by a much larger investor base, global, regional and local investors. In March 2020 we established our EUR 1.5 bn MTN Programme, which allows us to issue in various currencies, structures and maturities, offering a greater flexibility and a more efficient and less time consuming execution for the IIB as an issuer and a much broader investor outreach. Therefore, we currently focus on issuing under this format, in both hard currencies and the currencies of our Member States - RON, CZK or HUF as well as potentially to other currencies. Since the establishment of the Programme we have executed 9 transactions under MTN and 3 of them were denominated in RON. From the beginning of this

year, we have executed five transactions amounting to EUR 214 million and to provide few highlights, we have issued our longest maturity ever (EUR 35m 20-year bond) at MS+90 bps and also have for the first time reached a negative euro after-swap interest rate for two consecutive issuances (2-yr floating rate RON bond amounting to RON 190m and 3-yr CZK fixed rate amounting 2.5 bn CZK).

Do you have further intentions of funding via Bucharest Stock Exchange? What currency?

As I already mentioned, we currently issue bonds under the MTN Programme, which is listed on Euronext Dublin. At the same time we have a very strong demand on our bonds from Romanian investors, as an example this March we have issued under the MTN Programme a new 2-year RON floating rate note in the volume of RON 190 million with pricing of 3m ROBOR + 65 bps.

Another example of the IIB's brand recognition by the local market is the fact that Romanian investors own 28% share of the Bank's outstanding bonds. We are very happy about this fact and are strongly committed to continue issuing Romanian Lei denominated bonds, even though it is under the MTN Programme format. Actually, all of our potential Romanian investors could buy IIB bonds under MTN, since they are very familiar with this format. The process is much smoother and fast, lasting just few days and we could match investors' demand for a specific structure (maturity, currency) if that fits into our strategy. We have a permanent contact with the Romanian investor base either directly or through our partners that act as potential lead-managers for our bond issuances. Although we have a very strong group of dealers under MTN Program (American-based global players such as JP Morgan, Citibank, European-based banks such as ING, Unicredit, Raiffeisen and OTP or Asian-based banks such as Bank of China) we have preserved also the long standing fruitful relationships with local banks such as Banca Transilvania Capital Partners with whom IIB actually executed all domestic format deals in Romania but also one of the deals in RON under the MTN Program as a dealer of the day.

What are the funding cost levels lately for IIB? What were the factors behind?

We show a constant improvement of our funding costs and instrument diversification. In the recent years, we have done a tremendous work within the investor community and built up our image from relatively unknown name to a very well perceived issuer, with a strong focus on the currencies of CEE but aiming for broadening our investor base.

Constantly improving credit history, which translated into a solid track record of rating upgrades was one of the main factors driving this positive change. Also, in the very challenging period of last year when the pandemic context came out of nowhere, our bank proved a strong resilience and was the only multilateral development bank that was upgraded in that context becoming a fully-fledged A-rated MDB. This was the result of a strong financial performance and a very prudent risk management framework, including a cautious liquidity management framework. On the top of that, by becoming a frequent issuer on our markets, we have created a strong pool of our bondholders, who are rolling over and even increasing their exposures.

All these benefits have been capitalized with a lag, this year when we have reached for the first time in IIB's history euro negative rates, as mentioned above. Since IIB is a small size issuer,

smaller non-benchmark private placement provide the desired and much needed cost effectiveness so this is our main area of focus. Our weighted average cost of funding after swap for 2021 is 0.127%, which is very competitive.

How would you assess the investor demand for IIB issuance in the aftermath of the pandemic context?

In the beginning of the Covid pandemic, we have seen strong negative market movements and caution on investors' side. Despite this, we have managed to ensure a smooth implementation of our funding plan without affecting Bank's commitments and the achievement of its development mandate. The Bank have drawn valuable lessons from this unexpected world economic crisis and adopted a cautious approach to liquidity and funding without deviating from cost effectiveness and diversification strategy in the implementation of our long-term plan.

Despite the pandemic in 2020 we have attracted a record amount of funding - EUR 480 million.

Since the beginning of this year, we have entered the markets very fast, executing two EUR-denominated transactions with 20 and 3-year maturities, locking-in a repriced EUR-yield curve. We have also executed CZK, HUF and RON transactions, which were all in a very high demand.

Apart from our usual investor base, we also witness increased interest of new investors from Asia and Middle East. We believe that the market demand is pretty much in the pre-pandemic level and for us this year is so far the most successful one in terms of funding.

What is your opinion on IIB's role for local debt capital market development?

Being an MDB, the development of local currency debt capital markets is part of our mandate. We have been pioneering several transactions and instruments on the local markets, such as first EUR-denominated issuance in the local format on the Romanian market or providing floating-rate RON instruments, which are very scarce on the domestic market and are in high demand by the local investors.

Even though we have already withdrawn from using the local format issuances, we continue to supply bonds denominated in local currency with a credit rating that otherwise is not available on the local markets supporting the diversification of risk and assets for the local investors community. IIB is a pretty unique asset that helps local and regional asset managers to diversify their risk. Moreover, since we are swapping the proceeds from local currency bond issues into EUR, we are supporting the development of the swap markets that are very useful for other corporates and for local banks. Based on the outcomes of our latest transactions, we see a very high demand on IIB's name, clear sign of recognition and fruit of our continuous investor relations work.

What are IIB's strategic plans in the near future?

Currently, Management is drafting a concept of our next strategy 2023-2027, we are still in discussions internally, as well as with our shareholders, but one thing is certain - we aim at a strategy of growth. Headquarters relocation gave a positive impetus to raising our brand

awareness, improving our market positioning and credit ratings and we would like to build on that momentum seeing demand for our financing both from public owned institutions and leaders of corporate sectors in member states. We are a bank with a very diverse shareholder base, which occupies its own niche - namely, financing of mid-sized companies, promoting sustainable economic development of our countries and contributing to their growth. There is a lot of potential in that area and we are determined to continue providing necessary services to meet the growing demand.

What are the advantages of IIB now having a HQ in the EU?

The successful relocation and comprehensive support from shareholders became key factors for long-term credit rating upgrades of the Bank by all major credit rating agencies and currently allow us to enjoy our position of an „A” rated multilateral development bank. It also allowed IIB to place funding at record volumes, at record maturities and at record low interest rates for us. That, in its turn, has granted the Bank an ability to both increase its loan portfolio to a record level in its newest history and pass on the lower funding costs to the benefit of the clients in our member states. As a result, we are achieving things we strive for as a development finance institution in accordance with our mandate: contribute to economic and social development of our countries, including workplace creation and preservation, environmental protection, integration between economies. We have become more visible in the market, facilitating the attraction of new clients with strong positions in the national economy, which consequently led to strong improvements in the IIB loan book quality.

Continuing to raise IIB’s profile in the region was one of the goals of relocation and it’s safe to say we are on the right track. Since the first half of 2019, the share of European countries in the loan portfolio has increased from 52% to 60%.

What is the relationship with Romania as a shareholder given the past criticism of the current PM Florin Cîțu?

Romania has always been one of the most active shareholders in the Bank, with a positive and pro-active role in all strategic decisions through various stages of IIB relaunch and recent development from 2012 onwards. As you can see from my answers above and figures shown, IIB puts significant effort to strengthen and justify that support. There is strong trust created between the Bank and the local financial community, as well as the corporate sector (on the asset side); and that trust is rather vivid in relations with the investor base (pension funds, asset managers, banks - on the liability side). Romania’s leading positions in the loan and documentary portfolio, as well as among our investors is a vivid proof of that. We are committed to continue our positive cooperation with the Ministry of Public Finance as the body representing Romania at IIB, with the Romanian Government in general as well as the active engagement with all major market players in the country.

Original interview in Romanian can be found here

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