

**Annual Press Conference 2008****Briefing Note No 04****The Bank promoting European objectives**

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Promoting small and medium-sized enterprises**• IMPORTANCE OF SMEs FOR THE EUROPEAN ECONOMY**

Small and medium-sized enterprises (SMEs) are a major source of employment, entrepreneurial skills, innovation as well as economic and social cohesion in the EU. The EU's aim is to promote successful entrepreneurship and to improve the business environment for SMEs, to allow them to meet the challenges faced in today's global knowledge-based economy and to realise their full potential.

• SUPPORT FOR SMEs IS ONE OF THE TOP PRIORITIES FOR THE EIB GROUP

Support for SMEs is a key operational priority for the EIB Group. This transversal activity involves both EIB financings through the EU banking sector (EIB lines of credit, by which the EIB provides funds to financial intermediaries at attractive rates, to be passed on in an appropriate manner to SMEs) and EIF support for SMEs both by providing equity (venture capital investments) and by facilitating access to finance (via securitisation and guarantee schemes). The EIF's capital was increased by 50% to EUR 3bn in 2007, strengthening the hand of the Fund in pursuing its role as the European body specialised in SME financing while ensuring its financial self-sufficiency until 2013. The EIB, as the largest EIF shareholder, demonstrated its ongoing commitment to supporting European SMEs by exercising fully its share of the capital increase.

• ACHIEVEMENTS IN 2007

The EIB Group's SME activity benefited more than 162 000 SMEs in 2007, with a specific focus on innovative SMEs with high growth potential, small renewable energy schemes promoted by SMEs, and micro-enterprises. EIB support was provided through lines of credit totalling some EUR 5bn, granted to its intermediaries throughout the European Union. The EIF's role as a major player in the European venture capital markets was confirmed, with 2007 venture capital operations totalling over EUR 500m. Guarantee operations amounted to EUR 1.4bn. A significant pick-up in this activity is expected in 2008 with the new EU Competitiveness and Innovation Framework Programme (CIP) mandate (see below), which was agreed towards the end of 2007. The EIF's credit enhancement activity reached record levels in 2007 both in terms of volumes and the number of deals. Under this activity, the EIF guarantees junior tranches of ABS transactions, making these tranches more attractive to investors and thus easier to sell for the originating banks. This in turn encourages the banks to develop their SME lending activity.

• KEY PROJECTS IN 2007

Besides continuing its traditional credit line activity with more than 100 partner banks throughout Europe, which was especially appreciated by the sector amid the market turmoil of the second half of the year, the Bank has continued to extend the group of partner institutions and diversify its product offering for SMEs to meet their financing needs.

In 2007, the EIB granted credit lines for the first time, for instance, to Isbank, Finansbank and DenizBank in Turkey, Hypo Tirol Bank AG in Austria, EFL and Millennium Leasing in Poland, and SEB Vilnius Bankas in Lithuania.

Smaller, regional banks play an important role in SME finance, due to the proximity to their clients. At the same time, these banks are more easily constrained in their lending activity by the size of their own funds than larger banks. Operations involving security structures such as the Spanish "cédulas hipotecarias" helped these banks in some countries to obtain further EIB funding for their SME lending activity. Packaging SME loans into ABS structures and selling them to investors is a way to free up own funds and thereby further develop lending activity for the benefit of SMEs. The EIB Group contributed to a number of securitisation structures in 2007. Noteworthy operations were concluded in Spain (Rural Coop Bank Sector and Bankinter SME; Banco Popular SME; BBK SME; SCH GL) and in Italy (Selmabipiemme). For the first

time, an ABS transaction was also signed in a new Member State: a EUR 200m operation with Millennium Leasing in Poland. This operation will particularly improve access to long-term financing for Polish SMEs and micro-enterprises with fewer than ten employees.

Following its strategy of taking more risk to provide more value added, the EIB also engaged in a number of risk-sharing transactions, where the EIB assumes part of the risk in respect of the SMEs themselves and thus encourages banks to develop their SME lending activity. Operations of this type approved in 2007 include, for example:

- RZB Group Risk Sharing Facility (SFF): a EUR 100m EIB Mid-Cap Loan in Austria, Hungary and Romania that will finance projects of limited scale carried out by mid-cap enterprises.
- Avenir Enterprises Mezzanine: a closed-end fund in France, which will finance SMEs with convertible bonds. The EIB subscribed to the fund (up to EUR 20m) alongside the sponsors OSEO and CDC Enterprises.
- KfW IPEX Risk Sharing Facility: a EUR 100m facility with KfW IPEX-Bank GmbH that provides a credit risk sharing scheme for small and medium-sized low/sub-investment grade transactions with companies of any size and ownership promoting RDI projects in Germany.

Another focus was on lending to very small enterprises or to SME investments linked to renewable energy or energy efficiency projects:

- CS Risk-Sharing Energy Efficiency GL: a risk-sharing credit line for the financing of small-and medium-scale projects in the Czech Republic in the field of rational use of energy, energy efficiency, renewable energy as well as research, development and innovation in energy.
- Rentenbank Micro GL Renewable Energy: a EUR 200m credit line to fund Rentenbank's dedicated special programmes to finance long-term investments in the fields of renewable energies in Germany (particularly biogas, biofuel, wind power and photovoltaic energy), and to a smaller extent rural development and forestry.
- CMZRB SME Credit Line: the EIB loan will co-finance programmes for SMEs handled by CMZRB under the Czech Government's Operational Programme Enterprise and Innovation, in particular the sub-programmes PROGRESS (subordinated loans for existing SMEs), ECO-ENERGY (loans to SMEs for energy efficiency and renewable energy sources) and START (loans for start-ups).

The Bank prepared the first structured finance operation in South-Eastern Europe in 2007, which was finally concluded in early 2008. This transaction will help to diversify the range of EIB products offered in South-Eastern Europe and sends a positive signal to the local financial sector and to micro and small enterprises, which are particularly important for the development of the Balkans:

- EFSE Southeast Europe: the EIB will invest EUR 25m in the European Fund for Southeast Europe, which will onlend the EIB funds via intermediary financial institutions to micro and small enterprises and private households. The EFSE intends to make the majority of its investments in the Western Balkan countries and the rest in Bulgaria, Romania and Moldova, and possibly other countries of South-Eastern Europe.

- **OUTLOOK FOR 2008**

To further strengthen its support for SMEs, notably by adapting it to the needs of modern SME finance, the EIB Group entered into a consultation process with representatives of SMEs and major partners in SME financing in the EU-27. The consultation process, results and preliminary conclusions are presented in a separate briefing note. The conclusions of the consultation process will be used in the course of 2008 to finalise a revised strategy for the EIB Group's product offering in favour of SMEs.

Increased cooperation with the European Commission: CIP

In 2007, the European Commission mandated the EIF to manage a EUR 1.1bn facility within the CIP, which will cover the period 2007-2013. The CIP aims to encourage the competitiveness of European enterprises, support innovation and provide better access to finance for SMEs. The CIP SME Guarantee Facility will comprise four main business lines: loan guarantees, micro-credit guarantees, equity guarantees and securitisation.

Its objectives will remain comparable to those of its predecessor MAP (the Multiannual Programme for Enterprise and Entrepreneurship 2001-2006), namely to generate economic growth and create more jobs as

well as boost productivity, competitiveness and innovation in the EU. The CIP, however, has been designed as a more ambitious programme than its predecessor. It should cover a larger geographical area and will extend the range of instruments to include new market segments and products.

JEREMIE

JEREMIE is a joint European Commission/EIB Group initiative, designed to give EU Member States the option of using a portion of their Structural Funds allocations in the budgetary period 2007-2013 to establish a revolving fund, managed by an intermediary, to improve access to finance for small enterprises, including start-ups, and provide microcredit in regional development areas through a tailored package of financial products.

During 2006 and 2007, the special JEREMIE task force created within the EIF conducted some 40 gap analyses, throughout the 27 Member States. Memoranda of Understanding have already been signed with the Slovak Republic, Romania and Bulgaria; a letter of intent was signed with Portugal in 2006 and the first JEREMIE funding agreement was signed with Greece in June 2007.

JEREMIE represents another innovative departure for SME financing involving the EIB Group, encompassing both significant leverage of Structural Funds and the establishment of a revolving facility through a holding fund. It creates new opportunities and represents a promising departure from the formerly exclusively grant-based financing approach of the Structural Funds.

For further information on the EIB, visit its website www.eib.org.

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