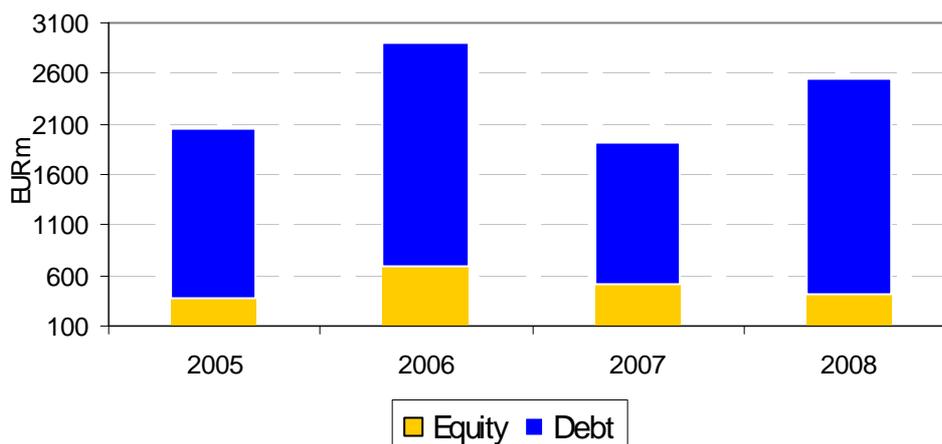




European Investment Fund Activity

Annual commitments 2005-2008



The EIF is the EU body specialised in SME financing. It is owned by the EIB (64%) and the European Union, through the European Commission (27%). It is also the only EU institution that allows public or private banks and financial institutions (31 from 17 countries) to have a shareholding (9%).

The EIF supports SMEs indirectly by means of equity (venture capital and private equity) and debt (guarantees) instruments, using either its own funds or those available through mandates given by the EIB (the Risk Capital Mandate or "RCM"), the European Union, Member States or other third parties. Complementing the EIB's product offering, which has hitherto focused on traditional loan finance, the EIF thus has a crucial role to play throughout the value chain of enterprise creation, from the earliest stages of intellectual property development through to mid-stage SME funds and through the provision of an "integrated offer" for SME finance covering a wide range of market segments and partnering with a wide range of financial institutions. Through EIF activities and risk-sharing schemes, partnering financial institutions can enhance their lending and financing capacity while improving SMEs' access to finance.

While the EIF's equity instruments aim to improve the availability of capital for high-growth and innovative SMEs, it is equally important to target the debt requirements of SMEs seeking finance through this more traditional route. By operating through guarantees and securitisation, the EIF can improve the availability and terms of debt for beneficiary SMEs and the lending capacity of financial intermediaries.

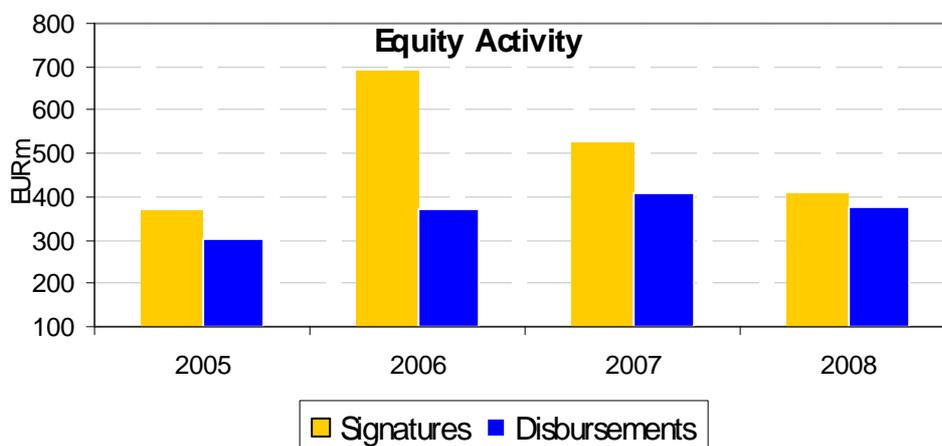
In late 2007, the European Commission entrusted the EIF with the management of a budgetary envelope of EUR 1.1bn as part of the Competitiveness and Innovation Framework Programme (2007-2013) or CIP for SME access to finance. This resource is split between venture capital and guarantee products, replacing the MAP (Multiannual Programme for Enterprise and Entrepreneurship 2001-2006) and became fully operational in 2008. The CIP was designed to be a more ambitious programme than its predecessor as it covers a wider geographical area and extends the range of instruments to support new SME market segments and products (e.g. technology transfer, business angels, eco-innovation).

The EIF has also extended its role as the EU's partner in the JEREMIE initiative. JEREMIE offers EU Member States, through their national and regional Managing Authorities the opportunity to use part of their EU Structural Funds to finance SMEs by means of equity, loans or guarantees, through revolving Holding Funds.

The EIF has been involved in the initiative since the very beginning in 2005, partnering with the European Commission in assessing the demand for SME financial instruments in regions and Member States. The EIF also assisted Managing Authorities in the programming phase of the cohesion policy and is advising interested Managing Authorities on the implementation of these JEREMIE funds.

In 2008, the EIF in conjunction with the EIB also designed new instruments, in particular for mezzanine finance and microcredit in order to better meet market needs in the current market environment.

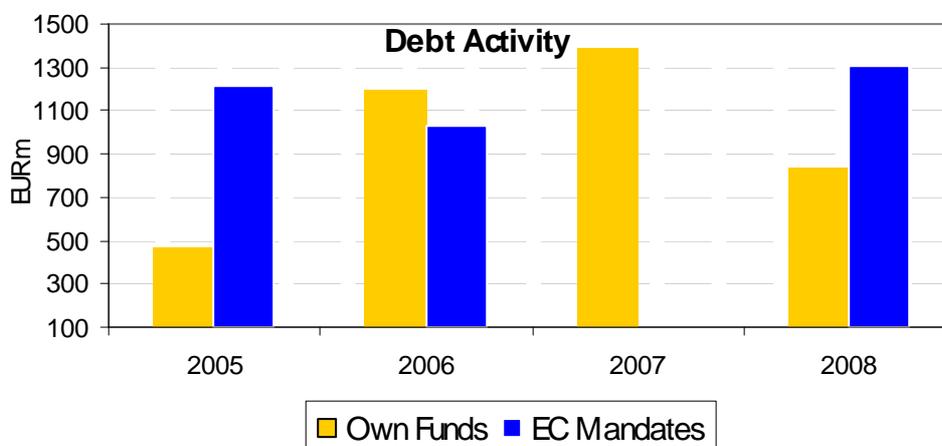
Equity operations for venture capital



As shown in the chart above, the level of EIF equity disbursements increased steadily up to 2007 and stabilised in 2008. The reduction in the number of new signatures in 2008 can be explained by the less satisfactory market conditions, which acted as a constraint on investors, although the EIF still plays a significant role in supporting new or repeat equity operations.

Nevertheless, in 2008 the EIF signed venture capital agreements for close to EUR 409m¹ including 12 CIP deals totalling over EUR 134m, while total cumulative equity commitments amounted to EUR 4.7bn at the end of the year and assets under management amounted to EUR 3.5bn². With investments in some 300 funds, the EIF remains the leading player in European venture capital and small to mid-cap funds. This is due not only to the scale and scope of its investments, but also to its catalytic role. By providing its 'quality stamp' to funds and taking significant minority stakes, the EIF encourages commitments from a wide range of investors, particularly in the private sector. In 2008, the Fund continued to broaden its investment strategy across mid-stage funds and through investing in technology transfer, with the objective of facilitating the commercialisation of research.

Debt activity through guarantee instruments



¹ Including fund of fund activity.

² Assets under management = commitments less capital reflows.

The EIF offers two main product lines for its SME guarantee activity: credit enhancement-securitisation (guarantees for securitised SME financing instruments) and guarantees/counter-guarantees for portfolios of micro-credits, SME loans or leases.

EIF credit enhancement activity supports the securitisation of SME loans and leases pooled by financial institutions either in 'synthetic' transactions or distributed on the capital markets. In 2008, EIF credit enhancement activity backed by own resources decreased compared to the previous year from EUR 1.3bn to EUR 0.8bn due to changing market conditions. At end-2008 the cumulative own resources portfolio totalled EUR 3.8bn³.

In its guarantee and counter-guarantee schemes for portfolios of SME or microcredit loans or leases, the EIF takes up to 50% of the expected loss or credit risk on every individual loan or lease in the portfolio. The effect is to provide loss mitigation relief to the counterparty, thus creating scope for extending further SME loans. The EIF successfully provided these instruments using CIP resources throughout 2008. There were no CIP signatures in 2007 as the programme was only implemented in 2008. However, 12 new guarantee agreements with 9 intermediaries amounting to EUR 1.3bn were signed in 2008. At end-2008, cumulative signatures⁴ of EUR 8.5bn were made using European Commission mandates, with cap amounts of EUR 500m.

Total EIF guarantee operations amounted to EUR 2.1bn in 2008, while the total net guarantee portfolio stood at EUR 12.3bn at year-end, comprising some 190 transactions.

The Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative

By end-2008, the EIF had carried out 53 national and regional evaluation studies (gap analyses), thus finalising the evaluation phase of the initiative.

To date the EIF has signed 7 agreements with Member States and regions, four of which in new Member States, demonstrating continuing commitment to supporting economic development in these regions.

The total funds committed to these agreements by the end of 2008 amounted to EUR 613m.

Joint Action to support microfinance institutions in Europe (JASMINE)

JASMINE is a EUR 50m 3-year pilot initiative promoted by the EC, in cooperation with the EIB/EIF, partner financial institutions and the European Parliament, to help entrepreneurs excluded from the banking sector create or develop their project. JASMINE will provide both operational technical assistance and funding (equity and debt) to institutions providing microcredit.

In 2008, the EIF's dedicated JASMINE team conducted evaluation studies covering 12 EU countries to assess the demand and supply for "non-banking" microcredit. The estimated demand from these studies amounted to 11 million potential microcredit borrowers in the EU, a market which is recognised as particularly important in the current environment.

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

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³ Outstanding guarantees plus undrawn.

⁴ Maximum portfolio volume.