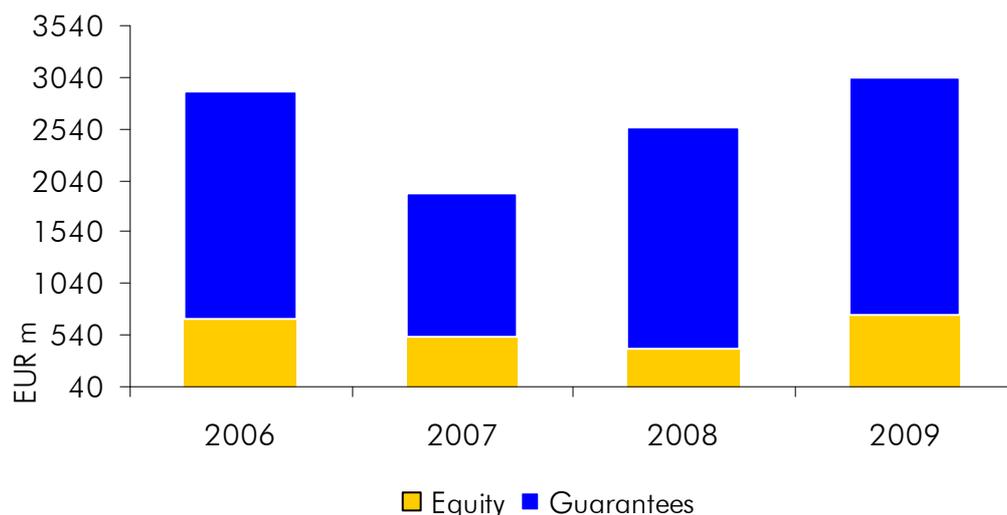




## European Investment Fund Activity

### Annual commitments 2006-2009



The EIF is Europe's leading developer of risk financing for entrepreneurship and innovation.

The EIF delivers a wide spectrum of SME financing solutions for selected intermediaries. By taking SME risk, it promotes the implementation of Community policies, particularly in the field of entrepreneurship, technology, innovation and regional development.

The EIF has a unique shareholding structure. It is part of the EIB Group and owned by the EIB (61%) and the European Community, through the European Commission (29%). Additionally, a significant stake in the EIF is held by public or private banks and financial institutions (30 from 17 countries, making up 9%)<sup>1</sup>. The EIF has two main statutory goals:

- to support EU policy objectives
- to generate an appropriate return on capital for its shareholders.

The EIF indirectly supports SMEs by means of equity (venture capital and private equity) and guarantee instruments, using either its own funds or those available through mandates given by the EIB (the Risk Capital Mandate or RCM), the EU (the Competitiveness and Innovation Framework Programme or CIP), Member States or other third parties.

Complementing the EIB product offering, the EIF has a crucial role to play throughout the value chain of enterprise creation, from the earliest stages of intellectual property development to mid and later-stage SMEs. The EIF provides an "integrated offer" of SME finance and covers a wide range of market segments.

While the EIF 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 providing guarantees and securitisation, the EIF can improve the availability and terms of debt for beneficiary SMEs and the lending capacity of financial intermediaries.

In 2009, the EIF entered into the operational implementation phase of JEREMIE (Joint European Resources for Micro-to-Medium Enterprises). To date the EIF has signed 10 agreements with Member States and regions, six of

<sup>1</sup> 1% of the shares have yet to be issued

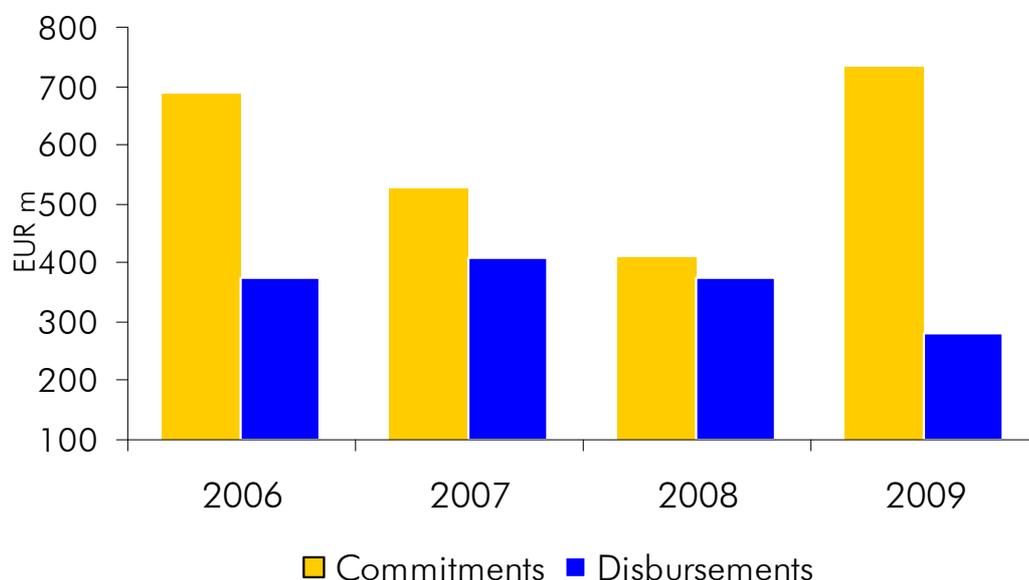


which in new Member States, demonstrating its continued commitment to supporting economic development in these regions. The total funds committed to these agreements by the end of 2009 amounted to EUR 1bn.

During the year, the EIF started to implement other instruments designed in 2008 in conjunction with the EIB, in particular for mezzanine finance and microcredit in order to better meet market needs in this strategic area.

In late 2009, the EIF responded to an open call for tenders for the UK Innovation Investment Fund to manage a proportion of the Government's Fund for technology investments. The EIF was selected in December to manage a GBP 200m Technology Fund-of-Funds which will invest in digital/ICT, life sciences and advanced manufacturing, primarily in the UK.

### Equity operations



In 2009, the EIF made, across all funding sources, total unconditional equity commitments of close to EUR 518m. However, given the difficult market conditions seen in 2009, the EIF reinforced its catalytic role by making over EUR 215m in conditional commitments to help teams in their fundraising. This amount can also be added, resulting in a combined total of close to EUR 733m.

Although the level of EIF equity disbursements decreased when compared with 2008, the amount of signatures nearly doubled that of 2008 despite the difficult market conditions. Throughout the year, the EIF maintained a high level of support by backing teams in the early stages of their fundraising. In the current harsh economic environment, the EIF has played an instrumental role in helping fund managers to attract co-investors and reach a sufficiently viable fund size to implement their investment strategies.

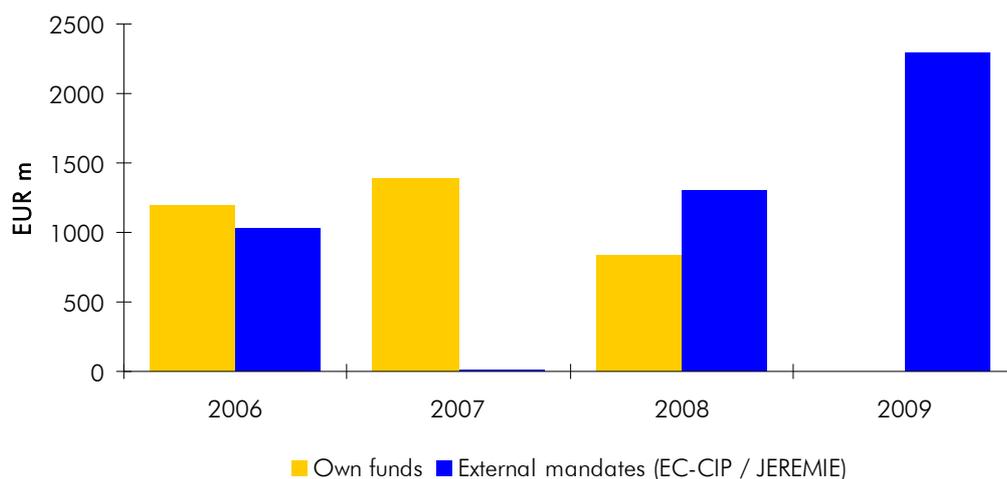
Total net equity commitments amounted to EUR 3.9bn at the end of the year. With investments in over 300 funds, the EIF remains the leading player in European venture capital and small to mid-cap funds and the Fund continued to broaden its investment strategy across venture capital and mid-stage funds.

In April 2009, the EIF's Board approved the Mezzanine Facility for Growth, a new EUR 1bn fund-of-funds mandate granted by the EIB to be invested in hybrid debt/equity funds all over Europe, with a view to playing a catalytic role in this market segment. The EIF has approved EUR 282m in seven funds to date and has already signed commitments of EUR 160m in funds managed by leading independent mezzanine players (MML Capital Partners Fund V, Syntaxis, Accession Mezzanine Capital 3, Avenir Entreprise Mezzanine).



In 2009 the EIF also conducted a strategic review of its technology transfer activity to determine the potential for increasing its support to this asset class. EIF investments in technology transfer are expected to increase in 2010.

### Guarantee transactions



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 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 relief to the financial intermediaries and create scope for extending further SME loans.

The absence of securitisation (own funds) transactions, as illustrated in the graph above, is due to the prevailing market conditions. However, the EIF successfully provided guarantee instruments using CIP resources throughout 2009. Twenty-one new guarantee agreements and extensions of existing agreements amounting to over EUR 2.2bn were signed in 2009. At end-2009, cumulative signatures<sup>2</sup> of EUR 10.7bn had been made using European Commission mandates, with a budgetary allocation of EUR 620m.

Total EIF guarantee transactions in 2009 amounted to nearly EUR 2.3bn while the total outstanding guarantee portfolio stood at EUR 13.6bn at year-end, comprising some 170 transactions.

### JEREMIE (Joint European Resources for Micro-to-Medium Enterprises)

The first JEREMIE agreement was signed between the EIF and the Government of the Hellenic Republic (EUR 100m) in June 2007. Further signatures followed with Romania (EUR 100m), Latvia (EUR 91.5m), Lithuania (EUR 290m) and the Slovak Republic (EUR 100m) in 2008. Furthermore, two regional funding agreements were signed with the French region of Languedoc-Roussillon (EUR 30m) and the Italian region of Campania (EUR 90m). In 2009, Bulgaria (EUR 200m), Cyprus (EUR 20m) and the Sicily region of Italy (EUR 60m) also signed agreements with the EIF resulting in JEREMIE operations being launched in 10 EU Member States and regions with the EIF acting as holding fund, for a total signed amount of over EUR 1bn.

<sup>2</sup> Maximum portfolio volume



Further JEREMIE contracts between the EIF and national or regional governments are currently under advanced negotiation.

In addition to this, in 2009 the EIF offered advisory services to other national/regional JEREMIE Holding Funds.

The EIF has developed for JEREMIE a tool-box of financial engineering debt, guarantee and equity instruments which covers the full life cycle of SMEs. In countries where the EIF has signed funding agreements, the first calls for expression of interest to financial intermediaries were launched and in 2009 the first contracts were signed.

Throughout 2009, the EIF's role extended beyond the successful implementation of the JEREMIE Holding Funds to establishing and developing strong relationships in all markets in which it is active, often through a local presence. This has helped to build up knowledge of the specific dynamics and needs of the local markets and has extended the EIF's representation, promoting the full range of services and instruments that it has to offer.

The EIF will therefore be able to reach the next tier of financial intermediaries and extend its reach and excellence beyond its traditional geographic coverage.

## Microfinance

The European Commission has launched a new initiative in the field of social policy and entrepreneurship to address, in particular, the adverse effects of the global financial crisis on at-risk groups.

In this context, the EIF is negotiating with the Commission a new mandate ("Progress Microfinance Facility") which will provide up to EUR 100m in support of employment, development of micro-enterprises and the social economy.

The mandate, which is expected to be match-funded by the EIB, will be deployed over the period 2010-2013 in the form of guarantees and debt products, and is expected to be operational in early 2010. It is aimed at increasing lending activity to micro-borrowers through a wide range of financial intermediaries such as microfinance institutions, dedicated microfinance companies or investment funds, local savings banks, smaller co-operative banks, smaller development banks/institutions and selected local commercial banks (the latter particularly in the new Member States of the EU).

This complements other Commission, European Parliament and national initiatives in support of the sector and managed by the EIF, as well as own resource securitisations in the field:

- The CIP Guarantees microfinance window;
- The JASMINE initiative (Joint Action to Support Microfinance in Europe), which comprises technical assistance services in support of non-bank microfinance institutions, and a EUR 20m pilot window for investment activity made available by the EIB under the Risk Capital Mandate. To date, the EIF has signed one investment and further transactions are in the pipeline;
- Microfinance in the context of JEREMIE holding fund agreements;
- An additional EUR 4m will be made available by the European Parliament through a Preparatory Action and is expected to be ready for investment in 2010.

## Global Energy Efficiency and Renewable Energy Fund (GEEREF)

GEEREF is an innovative Fund-of-Funds, providing global risk capital through private investment for energy efficiency and renewable energy projects in developing countries and economies in transition. It aims to accelerate the transfer, development, use and enforcement of environmentally sound technologies for the world's poorer regions, helping to bring secure, clean and affordable energy to local people. GEEREF was initiated by the Directorate-General for Environment and the Directorate-General for EuropeAid Co-operation Office (AIDCO) of



The bank of the European Union



the European Commission, and was signed by the EIF on behalf of the EIB Group. It is advised by both the EIF and the EIB and sponsored by the EU, Germany and Norway.

The target funding size for GEEREF is EUR 200-250m and as of September 2009, GEEREF had secured a total of EUR 108m. To date GEEREF has made two investments and has numerous other deals in the pipeline as the EIB Group, with its experience and large portfolio in renewable energy, is uniquely positioned to act as a catalyst for investors interested in the sector.

For further information on the EIB, visit its website [www.eib.org](http://www.eib.org)

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