EUROPEAN
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# EIF CORPORATE OPERATIONAL PLAN 2012-2013

Important notices:

The Corporate Operational Plan 2012-2013 was discussed and approved by the Board of Directors of the European Investment Fund at its meeting of 21 December 2011.

Attention is drawn to the fact that data provided on 2011 activity are estimates only which were made prior to the 2011 year-end. This document also contains other forward-looking statements such as projections of financial performance. Such statements and projections may, by their nature, prove to be inaccurate.

Data or statements that are confidential and/or financially sensitive in nature have been removed from this publication.

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## Introduction and summary

The 2012 COP has been prepared in the context of a deep economic and financial crisis and during a critical phase for the EIF in the run up to the next EU programming period starting in 2014.

The EIF response to the crisis has been a doubling of transaction volumes over three years across a significantly broader range of mandates and funds, catalysing over EUR 12bn of new capital annually for SMEs.

This year the EIF decided to present a COP which contains a detailed forecast only for the years 2012-2013. The overall budget for financial engineering instruments under the new Multi Annual Framework is still under review and sub-budgets for the different actions have not yet been allocated. Given this uncertainty on the post-2013 EU budget allocation, the EIF has decided to present forecasts only on 2012-2013.

For the next 2 years, the EIF will sustain its 2011 level of activity and will commit a further EUR 1.3bn p.a. in Venture and Growth capital to leverage EUR 6.5-7bn of new capital in the market. Guarantee and funding commitments will be maintained at an aggregate level of EUR 1.3bn, also catalysing new lending volumes of over EUR 6.2bn annually.

Operating income in 2012 will increase by 11%, and by 14% in 2013. Net income will return to pre-crisis levels over the same period as a result of expected lower provisions and impairments giving a return on equity of 5%+ in 2013, in line with the EIF's objectives.

In the period starting in 2014, the EIF is expected to act as a key intermediary for the Commission in the management of new Equity and Debt instruments for smart, sustainable and inclusive growth. This is anticipated to include EU instruments under the Horizon 2020 programme for innovation, instruments supported by Structural Funds, as well as successor instruments for competitiveness and growth.

The Equity and Guarantee strategies approved by the Board provide the overall framework for the business plans in this COP and have been developed to encompass what is currently understood to be the increasing expectations of stakeholders of the EIF.

In the following section, the Vision, Values and Key Objectives of the EIF have been updated. An additional section has also been added, outlining a set of Key Principles and Drivers. These have been developed in parallel with the EIB and further underline, amongst other things, the policy orientation, the public/private multiplier effect and the partnership role of the EIF with national promotional institutions.

# 1 Vision, Values and Strategy of EIF

## Vision

"Europe's leading developer of risk financing for entrepreneurship and innovation"

## Values

Excellence * Teamwork * Integrity * Responsibility * Accountability * Customer-driven

## Key Principles and Drivers

1. Pursue the European Union 2020 policy by promoting innovation and entrepreneurship and in particular:
   a. stimulation of investment in innovation, growth and employment;
   b. economic and social cohesion.
2. Mobilise and lever financial resources through the role of cornerstone and impact investor in European Venture and Growth Capital.
3. Strengthen the EIF's position as the leading SMEs AAA guarantor, catalysing bank lending to SMEs.
4. Extend the EIF's role as partner with national promotional institutions to achieve complementarity of instruments, optimisation of capacities and best practice sharing.
5. Control the staffing and cost levels through productivity initiatives and appropriate outsourcing.
6. Optimise the use of own capital, whilst defending the AAA rating and strengthening those factors going for a 'stand alone AAA'.

## Medium-Term Objectives

- "Maximise impact on the smart, sustainable and inclusive growth of medium, small and micro enterprises in the EU, Accession and EFTA countries"
  - Fully commit all CIP, JEREMIE, MFG and Progress resources to respond to the persisting lack of access to finance;
  - Continue to expand the Fund of Funds (FoFs) activity in partnership with Member States, and other partners to increase the availability of risk capital;
  - Maximise EIF's value added and catalytic effects. Measure and report impact;
  - Maintain intensive work with the European Commission (EC), Member States and Regions on the development of Financial instruments and regulations for EU2020.
- "Cornerstone European Venture and Growth Capital"
  - Commit EUR 1.3bn p.a. to leverage an additional EUR 13bn of SME-oriented new Equity and Mezzanine finance over the two years;
  - Develop new generation of SME-oriented Equity instruments for the 2014-2020 period in cooperation with the EC;

- Launch new pilot initiatives (such as the European Business Angels co-investment fund and the first sector focused FoFs in the Innovation Platform) in view of their full scale roll-out in the 2014-2020 Multi-annual Financial Framework (MFF) perspective.

- "Catalyse Bank lending and leasing through the provision of First and Second loss AAA guarantees"
  - Explore all possibilities of joint operations with the EIB in response to the crisis;
  - Continue to lead the reestablishment of the securitisation and covered bond market for SME assets;
  - Launch and maximize the impact of the RSI pilot; fully utilize CIP SMEG resources.

- "Sustain Operating Profit levels with the view of achieving a sustainable Cost/Income ratio and a long run ROE of 5% - 6%"
  - Ensure satisfactory level of profitability for all new initiatives and mandates;
  - Continue to strive to maintain the quality of the assets and guarantee portfolio;
  - Continue to invest in staff on short-term contracts and systems to position the EIF for EU2020.

- "Maintain value creating Risk Management and the AAA rating"
  - Actively manage the relationship with investors to capitalise on EIF's AAA rating;
  - Optimise use of own capital to support own funds guarantee activities;
  - Build further excellence in funds management and mandates administration in order to improve productivity and mitigate operational risk.

- "Build integrated, stable, scalable systems and processes"

Continue to implement the Long-Term Information Strategy, focusing on:

  - Establishing the platform of the mandates and products dimensions through the necessary evolution of the new integrated and flexible systems;
  - Leveraging the existing infrastructure at EIB Group level, in particular for Group-wide solutions;
  - Strengthening the analytical capabilities across product lines through controllable, robust and auditable management information.

- "Promote and enhance an excellent internal and external reputation"
  - Further enhance external communication to promote the EIF's unique competences, knowledge and expertise;
  - Proactively manage the relationships with mandators and stakeholders, align activity to EU policy objectives;
  - Deepen and extend initiatives towards the strengthening of the EIF as an employer of choice.

# 2 Business Planning and Operations: 2012–2013

## 2.1 Venture and Growth capital

Across the spectrum from University Technology Transfer through Venture Capital to the Lower Mid-Market and mezzanine finance, the EIF will continue to cornerstone these market segments with substantial first close commitments.

In today's economic circumstances good teams worthy of support are finding it more difficult than ever to attract interest, in particular from the private sector. The EIF will therefore use its financial means to lever in money from external sources, being like-minded Limited Partners from both the private and public sectors in a number of Member States and their Regions who take comfort and high value from being associated with the EIF's proven and focused investment expertise. Furthermore, the EIF will aim at developing the private equity ecosystems together with its regional partners, with special focus on Convergence Regions.

### 2.1.1 Expected volumes for 2012-2013

| EUR m | 2011 Projected | 2012 E | 2013 E |
|---|---|---|---|
| TT | 15 | 132 | 80 |
| VC | 496 | 470 | 510 |
| LMM | 415 | 441 | 400 |
| Mezzanine | 235 | 270 | 270 |
| **Total** | **1,161** | **1,313** | **1,260** |
| Leveraged volumes | 6,100 | 6,900 | 6,500 |

Source of commitment

| EUR m | 2011 Projected | 2012 E | 2013 E |
|---|---|---|---|
| MFG | 235 | 270 | 270 |
| RCM | 490 | 438 | 439 |
| EIF own funds | 54 | 48 | 48 |
| EC CIP | 127 | 105 | 103 |
| JEREMIE & G43 | 39 | 142 | - |
| ERP - LfA | 44 | 80 | 80 |
| Third party/private | 172 | 230 | 320 |
| **Total** | **1,161** | **1,313** | **1,260** |

### 2.1.2 Venture Capital (Technology Transfer to Expansion)

The Technology Transfer (TT) and Intellectual Property (IP) market segment is evolving rapidly, with the EIF's expertise and funding being increasingly solicited by research centres and universities, financial institutions, corporates and (quasi-) governmental entities.

A number of first-generation Technology Transfer investments are maturing and resulting in second-generation opportunities (CD3 Leuven in 2010 followed by Vives II and Orion in 2011, with others to be completed in 2012). In addition, a number of Member States are currently laying the ground for centralised and professional TT agencies which are expected to increase demand for EIF support.

The work of the IP Strategic Partnership continues together with EIB, CDC, KfW, CDP, CDTI, Finnvera and Innovationsbron, with other European institutions asking to join (AWS, Scottish Enterprise).

With the increase of the Risk Capital Mandate (RCM) facility, the EIF has a clear mandate for Technology Transfer and Intellectual Property allowing for non-SME related TT investments, with adequate parameters and a higher level of remuneration necessary to operate in this field. Work is ongoing to achieve similar terms for future EC instruments.

During 2012-13, the EIF's Venture Capital activity will focus on investing RCM and CIP resources in line with the respective policy and financial objectives and in response to the crisis, as well as on executing the existing third party cross-regional and regional mandates (JEREMIE, NEOTEC and PVCi will be fully committed by 2012-2013 and new generation funds are being worked on). Additionally, the set-up of two FoFs is currently being discussed with interested investors: the signature of the EUR 300m DVi (Dutch Venture Capital initiative) is expected for 2012, as well as a new investment structure with the Luxembourg Government with a target size of EUR 150m.

At the same time, a number of pilot activities have already been initiated under the Equity strategy. These initiatives are expected to be implemented during the next two years with the possibility to apply them as models for joint instruments with the EC from 2014 onwards:

- The European Angels Fund (EAF) pilot[1], which is expected to be signed already in 2011 at EUR 60m, will start operations in Germany during 2012. There is already interest from other Member States and Regions to launch additional pilots, a scheme for Benelux being the most likely and expected to be kicked off in 2013.
- The strategy around the Pan-European sector-focused FoFs, such as Cleantech, Biotech and ICT has been fine-tuned based on the discussion with market players. Based on market feedback, the sector-focused FoFs have been integrated in a broader framework, the "Corporate Venture Innovation Platform 2020". The model of these platforms is built around a collaborative structure bringing start-ups, venture capitalists and corporate investors together, representing a complementary tool to corporate business development and corporate Venture Capital in order to source and manage multi-domain innovation on a pan European scale. A first EUR 300m pilot scheme is expected to be launched in 2012. Three further themes, targeting different sectors and addressing complementary major policy objectives, are expected to be launched soon after and a broader roll-out is anticipated in the context of the 2014-2020 framework.
- Further effort will be put into preparing additional new schemes and in particular the European Social Entrepreneurship and Impact Facility (ESEIF) which could be launched as a pilot in 2012/2013 and should come to full size after 2014.

[1] Formerly known as the Euro Co-Investment Fund.

### 2.1.3 Growth Capital / Lower Mid-Market

For 2012-2013, the EIF will continue to back successful existing relationships focused on established SMEs but also to select new fund managers.

The renewed RCM mandate has firmly established the policy contribution of growth capital investments and will thus continue to be a core funding source for the Lower-Mid Market (LMM) activity, along with the Mezzanine Facility for Growth (MFG) and focused FoFs.

For the coming years the EIF's LMM business will encompass the following elements:

- Continuous adaptation and development of the existing instruments: the EIF will continue to target high-quality funds across the EU, backing well-performing existing managers as well as high-quality, promising new fund managers. For many of these funds the fundraising climate remains difficult. This is due to the persistent financial crisis which has resulted in a significant reduction of the allocation of resources to Private Equity by private investors. Despite these difficult conditions, the EIF expects to support 10-15 funds a year for a total amount of around EUR 260m p.a..
- Regional FoFs investments: assuming the second generation fund of iVCi is in place, yearly commitments can increase to EUR 60m as a result of the significant growth of the Turkish economy and the large potential of the local market.
- Mezzanine: in order to maximise the use of the available MFG resources it is envisaged to enlarge the product range and leverage other resources to co-invest alongside. Another extension of the MFG facility is a German-focused dedicated mezzanine facility which will be funded by MFG as well as by German institutional and governmental capital. MFG is expected to be deployed at a rate of EUR 270m invested in 8-10 funds p.a. over the coming two years and an extension of the mandate will be discussed with the EIB.

## 2.2 Guarantees, Credit Enhancement and Microfinance

### 2.2.1 Expected Guarantee and Microfinance volumes for 2012-2013

| EUR m | 2011 projected | 2012 E | 2013 E |
|---|---|---|---|
| CIP - SMEG | 90-100 | 95 | 95 |
| Own Resources | 700+ | 750 | 800 |
| JEREMIE - Debt | 430 | 210 | - |
| RSI - Pilot | - | 200 | 300 |
| *of which own resources* | | *160* | *240* |
| Microfinance | 59 | 50 | 50 |
| Total | 1,275+ | 1,305 | 1,245 |
| Leveraged volume | 6,200+ | 6,235+ | 6,080+ |

### 2.2.2 Credit Enhancement and Securitisation

The EIF remains a key player in the European SME securitisation market, with a unique position recognised by originators, investors and regulators. In 2011, the EIF was present in all transactions where notes were placed with third party investors. The EIF's credit enhancement activity will continue to support the SME securitisation market recovery and to facilitate deal execution, with a strong catalytic role both in terms of signalling effect to market participants and of mobilisation of resources for new SME lending.

Furthermore, the EIF will seek to provide its structuring expertise and credit enhancement support to issuers of covered bonds backed by SME loans, thus opening up new secured funding opportunities for SME lenders.

For 2012, the EIF plans to originate a volume of EUR 750m of own resource commitments, in line with 2011, where risk transfer transactions (for capital relief purposes) will likely represent a small portion of the nominal volume (less than 10%), although in risk-weighted terms they will represent the largest share (indicatively 50%-70% of total capital absorption). A similar volume is expected for 2013 with more emphasis on risk transfer. In its origination efforts, the EIF will closely liaise with the EIB and pursue joint EIB-EIF operations to the maximum extent possible, with a view to maximising Group impact and added value. In larger funding-driven SME-backed transactions originated by strategic Group counterparts, the joint involvement of the EIB and EIF would entail increased underwriting capacity and potentially higher Group synergies. (see § 2.2.4)

The funding-driven credit enhancement activity remains particularly dependent on market sentiment: the difficult market conditions associated with growing concerns around sovereign risks in the Eurozone and global economy outlook affect both originators and investors, including potential cash investors for the EIF's guaranteed notes. This is particularly true for operations in non-core EU countries. Therefore, SME securitisation will remain very challenging and the EIF's credit enhancement activity will play a fundamental stabilising role. In addition to the own resources commitments, the EIF plans to also mobilise EC budget (CIP Securitisation window) in respect of risk transfer transactions, most likely with smaller/regional originators.

Looking beyond 2013, the credit enhancement activity is expected to remain at levels comparable to the 2012-2013 volumes, but the EIF sees potential upsides with the implementation of Basel III and higher demand for term funding and capital protection.

### 2.2.3 Portfolio Risk Sharing Facilities

First loss portfolio guarantees remain a key element of the EIF's product offering aiming at enhancing financing conditions for SMEs.

The EIF has built up under CIP a broad relationship base consisting of public and private financial intermediaries, complemented by the more recent network of commercial banks under the JEREMIE instruments (First Loss Portfolio Guarantees and Funded Risk Sharing instruments) and other similar regional mandates (e.g. GAGF). Through these intermediaries, the EIF has been able to mobilise large volumes of new SME financing at substantially improved conditions for the final beneficiaries (for instance in terms of reduced cost of financing, improved collateral requirements, etc.).

Going forward, the EIF will continue to mobilise and leverage budgetary resources, further expanding its outreach in terms of both financial intermediaries and target beneficiaries.

In 2012-13 the EIF will aim at fully committing the remaining CIP SMEG and JEREMIE capacities:

- Indicatively EUR 90-100m p.a. under the CIP SMEG, with a multiplier effect of around EUR 1.6bn p.a.;
- EUR 210m in 2012 under JEREMIE risk sharing products with a multiplier effect of almost EUR 600m, fostering a sustainable and revolving public support system in Member States and Regions enabling access to long-term finance to SMEs in line with EU policies.

At the same time, the EIF will launch in 2012 the RSI pilot facility, with the objective of fully committing the available budget within 2 years, maximising the impact of the EC budget on new financing for highly innovative companies at a 10 times multiplier effect, through EIF's own risk taking of about EUR 200m a year.

Furthermore, the EIF will seek to the extent possible to secure additional resources through regional mandates (e.g. Western Balkans, GAGF II, etc.) in order to complement its risk sharing capacity with region-specific funds.

### 2.2.4 Joint EIB-EIF operations

In 2011 significant progress has been made in the establishment of joint operations with three structured finance transactions approved as joint operations with portfolios from Lloyds TSB (UK), Friesland Bank (NL) and Sekerbank (TK). Furthermore, an EIB Group approach to strategic European banks was defined and is being implemented.

Going forward, the EIF will seek EIB Group joint operations, focusing in particular on the following actions:

- Combine EIB and EIF participations in funding-driven transactions, thus enhancing the signalling effect and creating critical mass to make transactions economically viable for originators;
- Combine internal resources in order to build on the respective core competences;
- Build the EIB-EIF strategic focus on key counterparts, to better address customer needs and market gaps;
- Selectively structure joint transactions under third party guarantee mandates, thus providing both credit protection on new loans and new funding. This will be the aim for instance in the RSI facility, as well under local mandates (e.g. GAGF).
- Expand the deployment of EIB leveraged holding funds under Structural Funds' mandates with EIF management. This deployment will take into account the evolution of the regulatory framework.

### 2.2.5 Microfinance

The business environment for microfinance within the European Union remains very challenging. Access to long-term funding, in particular in peripheral countries, is very limited. Also, microfinance providers are cautious in their new risk underwriting since portfolio risk levels have been rising over the last couple of years.

Against this background, the EIF's product offering for the microfinance market segment through Progress and JASMINE (i.e. funding, credit risk protection and technical assistance) is proving to be the right response to the above challenges.

Going forward, the EIF will continue to expand its support to an increasing number of institutions through the provision of medium-term funding and risk sharing instruments with the aim to fully commit the Progress facility through a wide range of MFIs.

Over the 2012-2013 period, Progress volumes are expected to be slightly lower than in 2011, a year that also benefited from the significant origination efforts undertaken in 2010 and from targeting countries with high unserved demand. Key deliverables are the launch of new products, e.g. subordinated loans and risk sharing loans to smaller banks, and the assurance that committed funds are quickly disbursed to the financial intermediaries and channelled through to eligible beneficiaries.

In early 2012, the EIF will also launch a pilot ESF funded instrument under the JEREMIE Sicily mandate. Its results will allow the EIF to assess the possibility of further exploring, in cooperation with Member States and Regions, the financial engineering measures funded through ESF based Operational Programmes.

The EIF will also aim for more tailored capacity-building and technical assistance interventions, so as to more systematically combine them with the investment activity.

## 3 Risk Management and Capital Utilisation

The EIF has the necessary resources and capital to implement the COP while preserving its AAA credit quality. In particular:

- As the EIF has established a healthy cushion of provisions over the past three years, since the beginning of the crisis, retained net income is expected to continue to increase own funds over the planning period.
- Simulations of capital allocation for guarantee, equity, treasury and operational risk show that ample headroom will be maintained through the period even at the 99.99% confidence level, which is typically associated with a AAA rating.
- These simulations cover both the current portfolio and new business generation as foreseen under the higher volume case in the COP. Ample headroom is also shown by the result of the EBA stress tests.
- Statutory ratios will also be respected with significant headroom.

## Annex 1: Acronyms

| | |
|---|---|
| AWS | Austria Wirtschaftsservice |
| CAD | Capital Adequacy Directive |
| CDC | Caisse des Dépôts et Consignations |
| CIP | Competitiveness and Innovation Framework Programme |
| DVi | Dutch Venture Capital initiative |
| EAF | European Angels Fund |
| EaR | Exposure at Risk |
| EBA | European Banking Authority |
| EC | European Commission |
| ECB | European Central Bank |
| EL | Expected Loss |
| ERP | European Recovery Programme |
| ESF | European Structural Fund |
| ESEIF | European Social Entrepreneurship and Impact Facility |
| FLPG | First Loss Portfolio Guarantee |
| FoF | Fund of Fund |
| FRSP | Funded Risk Sharing Product |
| G&S | Guarantee & Securitisation |
| GAGF | Greater Anatolia Guarantee Facility |
| G43 | South-Eastern Anatolia Project – Venture Capital |
| IRR | Internal Rate of Return |
| iVCi | Istanbul Venture Capital Initiative |
| JASMINE | Joint Action to Support Micro-finance Institutions in Europe |
| JEREMIE | Joint European Resources for Micro to Medium Enterprises |
| KfW | Kreditanstalt für Wiederaufbau |
| LMM | Lower Mid Market |
| MFF | Multi-annual Financial Framework |
| MFG | Mezzanine Facility for Growth |
| MFI | Microfinance Institution |
| NAV | Net Assets Value |
| PE | Private Equity |
| PMF | Progress Microfinance Facility |
| PVCi | Portugal Venture Capital Initiative |
| RCM | Risk Capital Mandate |
| ROE | Return On Equity |
| RSFF | Risk Sharing Finance Facility |
| RSI | Risk Sharing Instrument |
| RWA | Risk Weighted Assets |
| SME | Small and Medium-sized Enterprise |
| SMEG | SME Guarantee Facility |
| TTA | Technology Transfer Accelerator |
| VC | Venture Capital |
| UKFTF | UK Future Technologies Fund |