EUROPEAN
INVESTMENT
FUND

December 2013

EIF CORPORATE OPERATIONAL PLAN 2014-2016

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Introduction and summary

<u>Vision</u>

"Europe's leading risk partner for entrepreneurship and innovation"

<u>Values</u>

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

The vision and values of the EIF remain pertinent in the context of a weak economic environment in Europe and a continued shortage of risk capital and debt finance for European medium and small sized enterprises. To support Europe's recovery path, this COP proposes another significant expansion of the EIF activities and impact, funded by increased capital and mandate resources and further investment in human resources, systems and processes.

EIF has a key role to play in the coming three years to contribute to the recovery of the European economy, through support to SMEs. Within these three years, the number of equity and guarantee transactions is expected to grow by 50%, of which an important portion dedicated to securitisation transactions and new equity products aimed at bringing innovative solutions to stimulate SME financing. In terms of volumes, this translates into EUR 3.9bn of new commitments foreseen for 2014 which in turn will catalyse nearly EUR 18bn of new support for SMEs. The focus will remain on high value added and accelerated absorption, underlining EIF's commitment to stimulate growth and employment.

The forecasts are based on our best knowledge of the size, terms and conditions of the mandates which we will be granted in the next 3 years. However, the achievement of target figures depends on successful finalisation of the potential multiple mandate negotiations with the European Commission and Member States, allowing their prompt implementation in early 2014.

Moreover, the Financial and Administrative Framework Agreement ("FAFA") has not yet been signed and the Delegated and Implementation Act (cohesion policy) not yet finalised with the European Commission. This might delay a prompt implementation of EC programmes planned for mid-2014.

Finally, the timing, the form and the modalities of EIF increased capacity have not yet been definitively settled, and potential changes compared to the current scenario could affect the present COP.

1 EIF Strategy

1.1 Backing the European recovery: EIF's role

The EIF plays a critical role in the EIB Group response to address the longer term consequences of the crisis and over the next three years will:

- Pursue European Union policy for the promotion of innovation, knowledge-based society, entrepreneurship, employment and economic and social cohesion, in support of "Smart, Sustainable and Inclusive Growth";
- Respond to the June 2013 European Council request to increase its unique credit enhancement capacity by injecting risk and capital protection capacity into the banking system;
- Deepen further its privileged relationship with its Financial Institution Shareholders and develop models through which each institution can be involved more with the EIF going forward;
- Further enhance and deepen its regional impact by deploying through mandates its broad product range and expertise.

In addition to the objectives linked to EIF increased capacity, EIF will continue to:

- Mobilise and lever public and private capital as a cornerstone and impact investor in European venture and growth and social enterprise;
- Maximise outreach and value added for SMEs: measure and report on impact at beneficiary level;
- Begin to deploy a capital increase of up to EUR 0.6bn in support of its equity, guarantees and microfinance businesses;
- Develop the SME loan backed securitisation market with the aim of diversifying the source of liquidity and relieving the capital of SME banks and leasing companies to the benefit of SMEs through well-tested structures;
- Maintain EIF AAA while optimising the use of own capital;
- Control the staffing and cost levels through productivity initiatives and appropriate outsourcing.

1.2 Medium-Term Objectives

"Maximise impact on growth of start-up SMEs and mid-caps through provision of risk capital"

- Deploy new resources, including the recently increased EIB-funded Risk Capital Resources ("RCR") mandate and implement swiftly the EC successor programmes "Competitiveness for SMEs" ("COSME") , Horizon 2020 and other EC mandates, as appropriate, as well as the second generation of Decentralized Financial Instruments ("DFI" or ex-"JEREMIE") capitalising on improved regulatory framework and building on lessons learned;
- Focus on the utilisation rate of committed resources, in order to supervise/control effective impact and propose corrective actions, if necessary;
- Continue to expand the equity investment activity in partnership with Member States and other public and private partners;
- Use EIF increased own resources as a key to the support and piloting of new initiatives addressing market failures or gaps by catalysing private capital investment from partners in Pan-European business-angels, corporates and social impact investing;
- Further strengthen the Knowledge Transfer Strategic Partnership and implement instruments with national institutions in the field of Technology Transfer and Seed Capital;
- Demonstrate an alignment of interests with EIF's mandators.

"Catalyse increased funding capacity through the provision of First and Second loss guarantees"

- Together with the EIB, respond to the SME Initiative of the European Council;
- Beyond the SME Initiative and jointly with the EIB, deploy a new mandate (EIB Group Risk Enhancement Mandate "EREM") aimed at re-establishing the securitisation and covered bond market for SME assets, increasing funding capacity and access to liquidity for SME focussed banks;
- Deploying the EREM to address specific market gaps in the fields of youth employment, microfinance, as well as funding solutions for cooperative banks and other smaller financial institutions;
- Maximise the impact of the European Union MFF instruments including the COSME, Risk Sharing Instrument ("RSI") under Horizon 2020 and the new Masters Student "Erasmus for all" scheme planned to be launched in early 2014;
- Capitalise on extensive JEREMIE experience to obtain new national DFI mandates to enhance in a sustainable way national guarantee markets.

"Contribute to market development across the EU and Accession Countries by providing appropriate and sustainable solutions and know-how"

- Maintain intensive cooperation with the European Commission, the EIB, EIF's Financial Institutions shareholders, Member States and regions and work on the effective deployment of financial instruments, including "off the shelf" and tailor made products or "leveraged holding funds" in the context of EU Regional Policy;

- Share with national promotional institutions and other financial shareholders best market practices and product expertise targeting specific market needs, leveraging on EIF experience.

"Sustain operating profit levels with the view of achieving a sustainable Cost/Income ratio and a long run ROE of 5% by 2020"

- Ensure satisfactory level of strategic value-added for EIF mandators while maintaining sustainability and scalability for all new initiatives and mandates;
- After absorbing the initial dilutive effect of the capital increase, reach a 5% ROE on the long-term;
- Achieve a sustainable Cost/Income ratio (below 50% in 2016);
- Enhance productivity and cost flexibility through an increased level of synergies with the EIB, outsourcing of selected fund management tasks and systematic process improvement initiatives. EIF will continue to grow flexibly by hiring staff initially on fixed term contracts.

"Maintain value creating risk management and the AAA rating"

- Deploy increased own-risk capacity, especially for portfolio credit instruments, with a view to maximise its utilization over the COP period;
- Enhance equity portfolio management in view of continued optimization of EIF revenues and policy objectives, in particular as new products and mandates are established;
- Focus on an integrated enterprise risk management approach to better reflect the growth in funds under management, new products and mandates, and to be able to mitigate the potential risks involved;
- Further improve and develop a mandate based risk profile.

"Reinforce integrated, stable, scalable processes and underlying solutions"

- Adjust and scale the recently renewed IT platforms, ensuring alignment with evolving business requirements;
- Revisit core business processes and procedures in view of further simplifications, optimisation and efficiency gains;
- Strengthen data completeness and quality across solutions.

"Promote and enhance an excellent internal and external reputation"

- Promote EIF's unique competences and expertise in the SME area through an integrated communications approach;
- Proactively manage the relationships with mandators, shareholders and stakeholders, align communications activity to EU policy objectives;
- Deepen and extend initiatives towards the strengthening of the EIF as an employer of choice;
- Attract talented staff to deliver on the increased capacity.

2 Business Planning and Operations: 2014–2016

2.1 Venture and Growth capital

2.1.1 Market environment and EIF response

The European venture capital market has shown promising signs of maturation in 2013. The number and quality of start-up companies has improved benefiting from the development of local and national venture capital ("VC") ecosystems. The market gap for start-up financing, at least in the capital efficient segments, seems to have stabilized. There is however a huge gap for companies in their post start-up phase who need significant equity to grow and scale. At the same time, this presents a significant financial opportunity as witnessed by the increasing number of successful European exits which have a lighthouse effect.

During the next 3 years, EIF will maintain its support for the seed and early stages through investments in funds and accelerators. Technology Transfer ("TT") investment funding is projected to continue growing at a sustained rate as a result of the TT market evolution towards increasing professionalization of the industry, particularly amongst the academic seed finance and leading licensing operators. EIF will step up its efforts to address the need for venture and growth financing for maturing technology companies through investments in VC growth funds. Finally EIF will roll-out European Angel Funds ("EAF") to create the platform for co-investments with Business Angels and Family Offices in Europe.

In the lower mid-market ("LMM"), during 2013, lukewarm signs of a European-wide market improvement have been recorded. Nevertheless, the overall investment activity was still impacted by the macro-economic uncertainty during the first half of 2013. However, fundraising traction for growth capital and buyout funds improved significantly compared to last year. Together with the material improvement recorded in the exit environment, this seems to suggest that a more stable recovery of growth and buyout investment activity can be expected to emerge gradually.

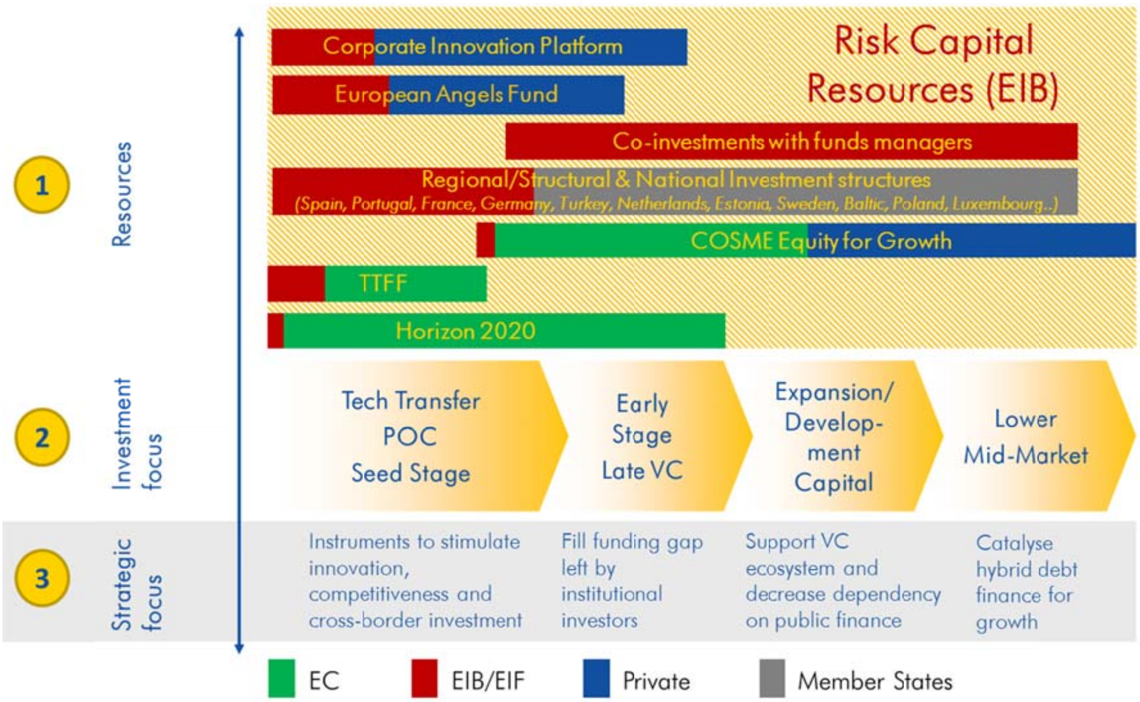
In this segment, EIF will further invest in funds providing both equity and hybrid instruments. EIF is also to continue to cover the mezzanine funds-of-funds business by turning the Mezzanine Dachfonds für Deutschland ("MDD") mandate into an evergreen model and rolling-out the MDD model to mezzanine schemes in other geographies.

Finally, the focus will also be to increase funds-of-funds impact through co-investments. The first initiative will be a Mezzanine Co-Investment Facility ("MCIF") and thereafter the possible roll-out of this model to other asset classes and regional mandates. This co-investment model will ensure rapid deployment of EIF resources and lower fee costs. It is a model being employed by many funds-of-funds and some public institutions (such as BPI France).

2.1.2 EIF as the Cornerstone investor

The following diagram sets out the basis of EIF's action during the next COP period. Each component of the investment spectrum (line 2) should benefit from financial support coming from mandators (line 1) according to their specific strategic focus.

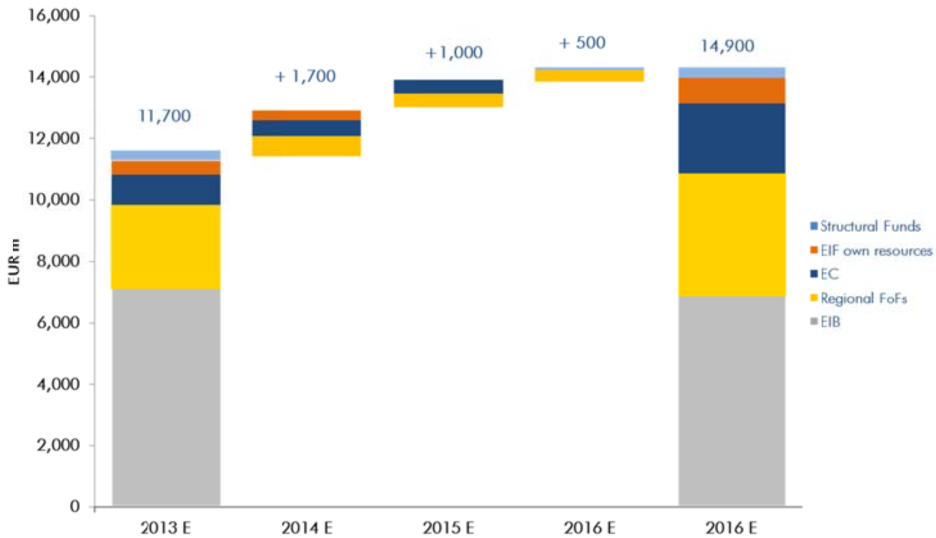
*Chart 1: EIF activity across the equity/mezzanine finance spectrum**



** This graphic presentation does not represent the share of the co-investment between the various operators*

Chart 2 presents the evolution of EIF resources for risk capital investment over the next 3 years. The sharp increase (+27%) is mainly driven by the launch of COSME equity, Horizon 2020, several new funds-of-funds which will bring additional national or regional funds as well as the new DFIs which are expected as from 2015. In parallel, EIF increased capacity will enable EIF to comply with the co-investment requests of its mandators, which will contribute to increasing further the volume of assets under management. The cumulative amount is expected to reach EUR 14.9bn by the end of 2016.

Chart 2: Assets under Management – evolution over the COP period



2.1.3 Expected commitment volumes

A. Building on EIF current activity

During the COP period, EIF will continue to build successful relationships with key partners to enhance access to finance for early to growth stage VC financed technology SMEs:

- European Recovery Programme ("ERP") - EIF Facility to be increased by a further EUR 700m to a total of EUR 1.7bn to provide investment capacity for another 5 years;
- Dutch Venture Initiative ("DVI") to be increased to EUR 300m target size through partnering with Dutch region(s);
- Focus on renewing existing funds-of-funds mandates with limited or no remaining investment capacity such as Istanbul Venture Capital initiative ("iVCi") in Turkey and Neotec in Spain as well entering into new partnerships with additional countries, including Sweden and Luxembourg;
- European Angels Fund to be increased in Germany from EUR 70m to EUR 130m in 2014, ramped up in Spain and Austria and further rolled out in additional countries with Ireland and the Netherlands joining next year and further 6 Member States anticipated to join EAF over the COP period, bringing the total size of EAF capacity to EUR 450m in 2016;
- Signature of the Corporate Innovation Platform ("CorIP") in partnership with key corporates. This initiative aimed at investing in innovative venture capital Funds operating in the strategic innovation domains of digital life, health and well-being, smart things and sustainability is expected to be launched in 2014, with EUR 120m invested by 2016;
- Discussions are advancing with EC Research & Innovation ("RI") to set up a Technology Transfer Finance Facility ("TTFF") to be deployed alongside a Capacity-Building Technology

Transfer ("CBTT") action. Assuming EC funding can be invested on a subordinated basis; this risk sharing facility with a more aggressive risk profile would open a new market for EIF and address the needs of a larger number of European Tech Transfer offices, particularly in their Proof-of-Concept ("POC") needs. The overall amount of this pilot facility, including a contribution from EIF, is still under discussion but is expected to reach EUR 250 to 300m;

- Launch of MCIF: This new facility will inject EUR 100m to the hybrid debt-equity asset class for the benefit of European SMEs and mid-caps needing to finance their growth. This new investment scheme, whereby EIF would co-invest with selected fund managers in the RCR portfolio, will provide a new tool to fund managers to accelerate absorption.

B. Deployment of EIF's increased capital and mandate capacity

EIF's partners have or are in the process of granting additional capacity. This additional capacity from mandates is complemented by EIF own risk resources, which have been a key to the support and piloting of new initiatives as well as providing for an alignment of interests. The recent increase of RCR by the EIB (total size has been increased from EUR 5bn to 7bn) will trigger an increased need for EIF own resources capacity through the 5% co-investment.

EIF will also have to respond to the thematic objectives under EU structural & investment fund ("ESIF") and develop tailor made national POC, TT, and accelerator fund activities.

In addition, EIF has also identified key initiatives which will require additional own risk capacity:

Support to research, development and innovation policy

- The EUR 450m Horizon 2020 mandate will be operational in 2014 and a planned commitment of EUR 25m will demonstrate an alignment of interests;
- EIF is at an advanced stage in the development of a co-investment programme with existing funds. This will be a key way to maximize the capital invested into growing enterprises.

Jobs, Growth and Social Cohesion policy

- EIF will manage the approximately EUR 690m Competitiveness & SME ("COSME") programme (High growth & innovative "GIF" successor), as for Horizon, alignment of interests is expected to be required;
- Sustained support of microcredit, growth of social investment and participations in the increasing number of social finance institutions being established in the Member States with or without ESIF or national support. Here again, there is already demand for increased equity investment from the EIF.

C. Yearly commitment volumes

Table 1 presents EIF forecasted commitment volumes in the equity business for the years 2014 to 2016:

Table 1: Equity/Mezzanine commitments

	2013 E		COP 2014-2016						
EUR m	2013 COP	YE Exp	2014 E	# deals	2015 Indicative	# deals	2016 Indicative	# deals	
COMMITMENTS									
TT	110	103	120	9	130	9	130	9	
VC	615	606	690	56 *	770	75 *	830	97	*
LMM	800	757	830	42	880	46	910	49	
Total committed	1,525	1,466	1,640	107	1,780	130	1,870	155	
YoY			+12%		+9%		+5%		
CATALYSED VOLUMES									
TT	280	271	200		250		350		
VC	2,700	1,763	1,850		2,150		2,800		
LMM	4,600	4,411	4,400		4,700		5,100		
Total catalysed volumes	7,580	6,445	6,450		7,100		8,250		
YoY			+0%		+10%		+16%		

* Including:
2014: 26 business angels deals
2015: 38 business angels deals
2016: 57 business angels deals

In summary, the increasing level of commitments will be financed through:

- the deployment of existing mandates;
- the implementation of new mandates, as well as;
- the utilisation of EIF increased capacity.

During the next COP period, EIF will support 400 funds or business angels, increasing its target volume by 30% to reach EUR 1.9bn in 2016. This amount is twice what has been committed in 2010 and equivalent to the amount committed for the full 3 year period 2008-2010. The overall catalysed volumes will increase at the same pace, despite the increasing weight (up to 20% in 2016) of higher policy impact initiatives. These initiatives (business angel, co-investment funds) are usually funded at 50% by EIF leading to a low 2x catalytic factor. The overall catalytic factor in 2016 is however expected to reach the level of 2013 (4.4x), as EIF anticipates higher leverage on its mainstream mandates with investors gradually coming back to the market.

2.2 Guarantees, Credit Enhancement and Microfinance

2.2.1 Market environment and EIF response

Several factors have over the last years negatively affected SME lending in Europe. The macroeconomic environment, the overall bank deleveraging coupled with significant asset reallocation by banks towards low risk-weighted assets to the detriment of corporate exposure, and in particular SMEs, are among the key factors that have contributed to a significant reduction in the availability of credit to SMEs. At the same time, demand from SMEs for long-term financing is generally reduced especially in those countries still in crisis, while more financing needs are signalled for working capital facilities.

Demand from banks for SME loan guarantees has thus grown substantially, as these represent an effective way to mitigate credit risk and achieve economic and regulatory capital relief.

On the other hand, the recovery of the European securitisation market, and of SME securitisation in particular, remains very weak for a number of reasons, including important regulatory issues (current and proposed regulatory treatment of asset backed securities "ABS" exposures) and monetary policy issues (with the crowding out effect that cheap liquidity being made available by Central Banks has on debt capital market funding solutions such as SME securitisation).

SME securitisation activity, despite its relatively small share in the overall European securitisation scene, remains an important segment of the European structured finance market. The issued volume of SME deals in H1/2013 remained around the same levels to the similar period of last year (EUR 13.6bn vs. 13.9bn), however it's worth highlighting that as per the other segments of the structured finance market, most of the issuance was done for repo purposes with the European Central Bank ("ECB") and only a fraction was placed with private investors. As per previous years, issuance from Spain and Italy provided the bulk of the overall volume of deals. Despite the turbulent economic times on a number of European countries, the performance of SME securitisation transactions held up quite well in terms of losses.

Therefore, although only very few SME transactions have been placed with investors over the recent years, the need for a revitalised and sound securitisation capital market is stressed by market players as well as policy makers, as it forms part of the global response to the economic crisis and the difficulties that SMEs are facing in obtaining financing.

In this context the role of EIF as risk sharing and credit enhancement provider has grown in importance, as banks are looking for capital relief and credit risk mitigation solutions, which are best provided by a AAA, zero weighted guarantor.

Therefore, the EIF guarantee activity is expected to further develop significantly and mobilise substantial additional resources, with a view to addressing the above identified market gaps with effective capital relief and risk protection solutions and to reduce market fragmentation in EU SME financing.

2.2.2 EIF key objectives and strategy

EIF's key objective is to catalyse new lending for SMEs through financial intermediaries. This is achieved by offering risk sharing, capital protection and/or funding solutions through a full suite of products, ranging from first loss portfolio guarantees to credit enhancement of senior and mezzanine tranches in asset backed securities transactions. Funded solutions are also used for microcredit providers and on a case by case basis when utilising ESIF.

The strategy of further developing the SME capital markets will focus on two main themes:

- Continuation and furthering our own risk business in SME securitisation

The objective is to target countries that have been the most active users of securitisation of SME portfolios and are also more in need of support (Italy, Spain, and Portugal). EIF will selectively target opportunities in the rest of the EU (in particular Germany, Netherlands, UK, France, Poland), as well as supporting opportunistically ad hoc initiatives. EIF will also seek to develop the EIB/EIF joint ABS co-operation agreement.

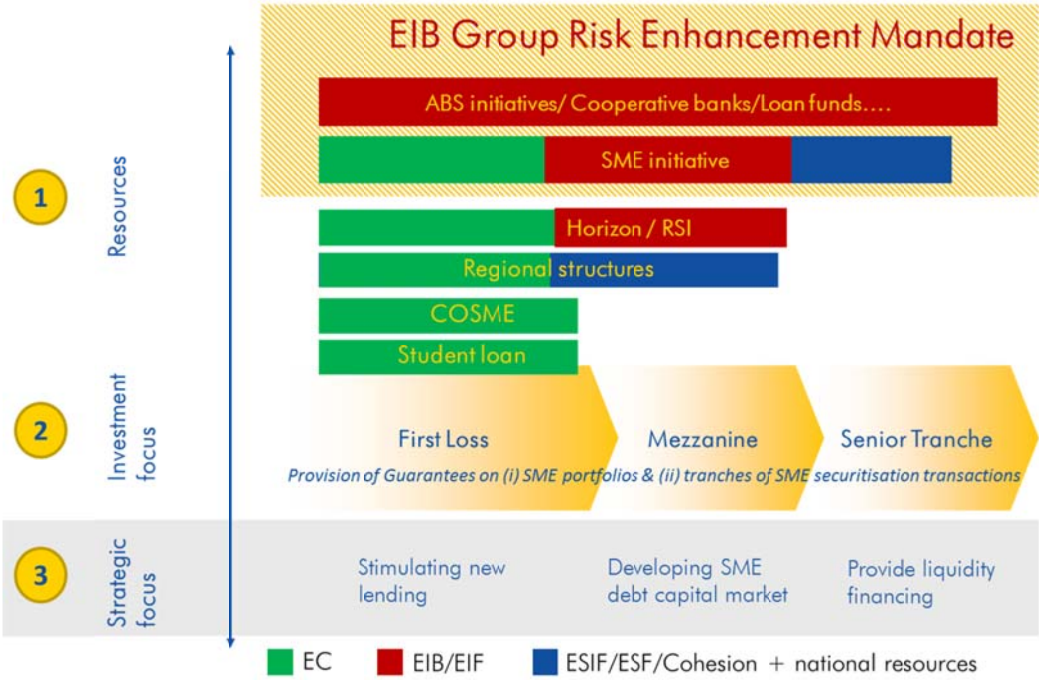
- Fully capitalise our increased mandate supported capacity from EREM including the SME initiative and from renewed Horizon and COSME mandates as well as DFIs based on an acceptable risk profile

A particular challenge is the fact that the EIF is currently limited in the size of its own risk credit enhancement capacity as regards both individual guarantee amounts and the overall cumulated exposure. This limited capacity is a severe constraint and has resulted in the past in transactions not being realized as sufficient scale was not achievable for the client bank. The new EREM will ensure greater liquidity and risk sharing impact through larger commitments, particularly needed to structure capital relief transactions of a critical size to make them attractive to larger intermediaries. Through the SME initiative supported by the European Council in June 2013 (see below) but also through this new EREM mandate, EIF would get sufficient resources to have a scalable impact.

2.2.3 EIF as a catalyser for new lending

The following diagram sets out the basis of the debt instrument development of 2014 and beyond by highlighting where the resources from the mandators (line1) are allocated based on the strategic focus.

*Chart 3: EIF activity across the Guarantee & Securitisation spectrum**



** This graphic presentation does not represent the share of the co-investment between the various operators*

2.2.4 Expected commitment volumes

Table 2 presents EIF forecasted commitment volumes in the equity business for the years 2014 to 2016:

Table 2: Guarantees/Microfinance commitments

	2013 E		COP 2014-2016					
EUR m	2013 COP	YE Exp	2014 E	# deals	2015 Indicative	# deals	2016 Indicative	# deals
COMMITMENTS								
First Loss (CIP/COSME-Erasmus)	110	130	140	17	170	17	170	12
of which COSME/Horizon SME initiative	-	-	*30*		*70*		*55*	
Securitisation / Credit enh.	750	645	770	9	865	11	965	13
RSI	600	850	650	13	750	15	750	15
Regional / Structural funds	190	240	110	8	110	7	115	11
EIF increased capacity	-	-	505	23	1,410	64	1,370	58
Gtees & Securitisation	1,650	1,865	2,175	70	3,305	114	3,370	109
Microfinance	50	50	50	15	50	15	50	15
Total committed	1,700	1,915	2,225	85	3,355	129	3,420	124
YoY			*+16%*		*+51%*		*+2%*	
CATALYSED VOLUMES								
First Loss (CIP/COSME-Erasmus)	1,540	2,080	1,380		1,200		1,370	
Securitisation / Credit enh.	2,250	2,950	2,400		2,700		3,000	
RSI	1,200	1,700	1,300		1,500		1,500	
Regional / Structural funds	475	599	230		220		230	
EIF increased capacity	-	-	6,000		15,000		12,000	
Gtees & Securitisation	5,465	7,329	11,310		20,620		18,100	
Microfinance	150	176	150		150		150	
Total catalysed volumes	5,615	7,505	11,460		20,770		18,250	
Exp cat. vol. on EIB comm.	1,000	800	1,000		1,100		1,250	
YoY			*+53%*		*+81%*		*-12%*	

A. EIF mainstream credit enhancement activity

Based on the strategy described above, EIF is expected to deploy annually from EUR 800m to 1bn, including EUR 0.5bn every year of joint operations with the EIB (EIF providing the guarantees and EIB the liquidity). The remaining part (EUR 300m to 500m) will be essentially the guarantee of senior tranches.

B. EIF as guarantor under the SME Initiative with support of EIB and EU mandates

A base case scenario has been established for the SME initiative which is a mix of different options presented to the European Council in June 2013. The European Council supported the proposal to explore various options for the use of up to EUR 8.5bn in Structural Funds ("ESIF"), in "Joint Instruments", i.e. blending Structural Funds resources with up to EUR 0.4bn of centrally managed instruments (COSME/Horizon 2020), to support lending to Small and Midsized Enterprises in the new Multiannual Financial Framework (referred to as the SME Initiative). The type of activities foreseen is fully in line with EIF's core expertise and market positioning as credit enhancer.

The total size of the SME initiative in the EIF scenario presented in this COP could result in total portfolios of EUR 30bn being leveraged over seven years. The expected EIF participation would be EUR 1.8bn funded through EIF own risk and the new EREM mandate. EUR 1.3bn would be frontloaded in 2014-2016. EIF would take exposure in mezzanine tranche of portfolio.

At this particular moment, there is still a lack of clarity on how the SME initiative policy proposal will be taken forward, but EIF believes that an option 1 model should be taken up first whilst Option 2 may come later on a case by case basis. In each case, ESIF and Horizon/COSME central budgets will be used to leverage EIF's commitments.

C. Risk Enhancement Mandate

As described above, the new EREM will enable a further increase of EIB Group support for SME lending, including a major role in the SME initiative.

The EREM is proposed to be structured in the form of a framework agreement operated by the EIF, using its own and EIB resources, under which EIF will deploy financial instruments, on behalf and at the risk of the EIB and on a fully delegated basis aiming at enhancing SME and midcap financing. The EREM is expected to amount to up to EUR 2.3bn[1] of EIB resources over 2014-16, complemented by up to EUR 1.3bn from EIF over 2014-16, thus bringing the total resources to EUR 3.6bn for 2014-16.

EIF's participation in the EREM is expected to enable an increase in its credit enhancement capacities with a view to greater outreach towards SMEs and midcaps, through Europe's key SME banks and guarantee institutions. It is envisaged that instruments deployed under the EREM shall (1) contribute to the development of European capital markets instruments to the benefit of SMEs and midcaps (Joint SME Initiative, SME asset-backed securitization, loan funds/minibonds, enhancement of EIF own risk etc.) and (2) target specific areas in the fields of youth employment, microfinance, cooperative banks and other smaller financial institutions that are outside the scope

[1] Including up to EUR 170m of contribution to the Youth Employment Programme

of normal EIB financing, social and environmental impact, etc. as well as any other areas agreed with EIB.

D. Consolidated additional EIF Guarantee volumes

The additional volume would represent a significant increase to the EIF overall business plan with levels of commitment for the next three years ranging between 2 to 3 times what has been committed in 2012. On a consolidated basis over the next programming period, EIF is expected to deploy annually between EUR 2bn and EUR 3bn (to catalyse annually between EUR 16 to 20bn of SME lending). The volumes planned as a result of the increased investment capacity could be deployed through a variety of EU mandate and EIB joint operations in the circumstances that the SME Initiative would not attract sufficient interest from Member States.

E. New EU mandates

Since 2011, EIF has acted as second loss risk taker with its own resources, alongside the European Commission's first loss risk in the Risk Sharing Initiative ("RSI") benefitting not only innovative SMEs but also other SMEs and Mid-caps, as part of the Risk Sharing Finance Facility. EIF participation to a successor scheme for the 2014-2020 period is targeted, with overall guarantee volumes expected to triple to reach EUR 4 to 5bn depending on the outcome of the budget allocated by the EU to the RSI successor scheme (EUR 800m indicatively). EIF's experience shall further be shared when deploying DFI models.

Erasmus Master Student Loan Guarantee Facility is another potential new mandate to EIB Group in which EIF would contribute with its core expertise on capped portfolio guarantees/counter-guarantees and relationships with existing bank counterparties, in combination with the expertise and experience in the education field brought in by EIB. A market gap has been identified in respect of the availability of financial support for full-programme cross-border Master studies. This EUR 600m mandate will be funded by the Commission in a first loss capacity.

3 Regional business development and geographical reach

During the last programming period 2007-2013 EIF has fostered and developed a strong regional presence throughout Europe through its involvement in Structural funds, pre-Accession (IPA), fund-of-fund business and strategic partnerships. EIF's experience in partnering with national institutions is now firmly established and forms a central part of its strategic development and regional business focus. EIF has been able to successfully build these partnerships by providing tailored regionalised solutions through equity funds-of-funds, debt and guarantee structures as well as multi-products and multi-regional platforms. While building on its expertise and regional presence; EIF has been able to attract national funding including guarantee structures (i.e. Cyprus in close cooperation with EIB). Over the planning period EIF will continue to mobilise different sources of funding for European SMEs by leveraging off its regional presence.

3.1 Structural Funds

The first generation of structural funds availability period will end in 2015 and the main focus continues to be on fully disbursing this funding. The JEREMIE Holding Funds are beginning to show a significant impact at SME level while EIF remains fully committed to help boost absorption and it is prepared to facilitate this within the limits of the applicable regulatory framework.

Now that the budget for the 2014-2020 Structural funds programming period has been confirmed, Structural funds will remain an important budgetary line with an increased focus on financial engineering instruments. The expertise and gained from managing the current JEREMIE holding funds has resulted in demand from regions and Member States both where EIF is currently holding fund manager but equally where EIF is not engaged with structural funds. For this reason EIF has begun to develop a dedicated roadmap of engagement with Member States. To date discussions have already taken place with several regions and Member States in relation to planning for the new programming period with particular focus on ex-ante assessments which will help in determining the market needs and defining the adequate products. Subsequently EIF will create and structure investment solutions with regions and Member States through standardised Funding Agreements under the JEREMIE successor program or by partnering with national agencies. However future involvement in managing ESIF funds is contingent on final discussion on pricing and indemnity, as the latter may also have a major impact on the SME initiative.

3.2 Joint partnerships

EIF's role as a partner with Member States and their national promotional institutions will be further expanded, developing new initiatives including the management of revolved Structural Funds. As the first generation of structural funds comes to an end, the objective is to accelerate the development of SMEs in EU Member States and regions through revolving instruments as opposed to grants. The new partnerships will allow EIF to develop capacity building, know-how and synergies in line with the expectations from the European Council and to help to create a more harmonised financial support eco-system.

Over the next COP period and beyond EIF will partner with national champions and ministries, collectively developing and delivering effective financing solutions for European SMEs.

The experience gain through NEOTEC, ERP, iVCi and Baltic Innovation Fund amongst many more enables EIF to:

- demonstrate a strong regional network with mandators and financial markets;
- harness valuable lessons learnt to optimise value added in accordance with EU policy;
- develop investment strategies to foster and develop a regional financial eco system; and
- create effective capacity building platforms to increase know-how and knowledge transfer.

The design phase of these new initiatives is already underway and discussions are at an advance stage in many Member States in line with the 2014-2016 COP objectives.

3.3 Delivery mechanism

By mobilising alternative sources of funding EIF plans to promote risk sharing models with an improved regulatory framework which can be achieved via:

- EIF acting as a delegated manager for structural funds, for equity funds-of-funds, for guarantee structures and Instrument for Pre-accession assistance ("IPA") funded instruments;
- co-investing through partnerships with promotional institutions using blended funds (equity/debt);
- and/or through advisory and capacity building in close cooperation with Member States to ensure adequate transfer of know-how.

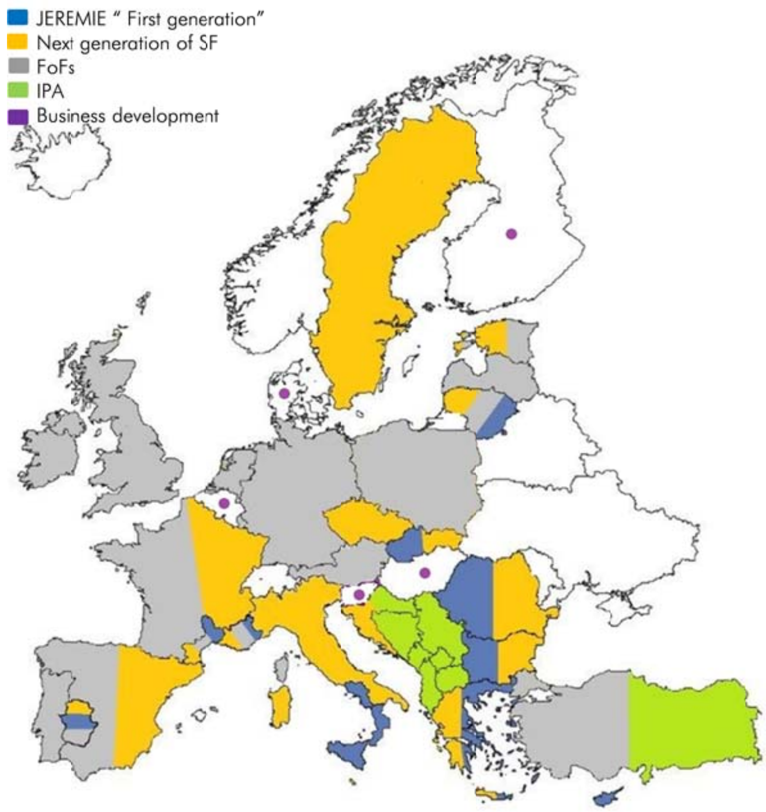
3.4 Update on EIF regional mandates

The Cyprus Entrepreneurship Fund ("CYPEF") will be launched in 2014. It is a joint EIB group operation, blending the lending capacity of EIB and the mandate management expertise of EIF. This EUR 100m mandate aims to facilitate access to finance and improve funding conditions for SMEs in a period of distressed economic conditions. Other similar structures could be envisaged over the planning period.

The remaining funds available within the Guarantee Facility of the Western Balkan Enterprise Development & Innovation Facility ("WB EDIF") are planned to be committed in 2014. EIF will seek to further leverage on this platform by attracting additional EC funding both from DG Enlargement and RI. The WB EDIF facility, which aims at improving the possibility for small SMEs in the targeted sectors to access bank lending and potentially lower their cost of borrowing, has already proven to answer specific market needs in the Western Balkan region. EIF efforts will be continued over the next years to find additional resources for this instrument and to ensure proper absorption.

The chart below outlines EIF's planning and strategy for the 2014-2016 period for its partnership development. For some countries (purple dotted countries), the models to be implemented are still under discussion with the local authorities and potential partners, but with no clear visibility at this stage on the preferred route.

Chart 4: EIF's expected partnership development[2]



3.5 Funds utilisation/absorption

Funds absorption has become since 2011 a new focus for the EIF's enhance monitoring activity. Utilisation is a priority on all the mandates, and targets have been set and reviewed for RCR, Progress FMA & FCP, CIP-SMEG, JEREMIE (first generation) and RSI for 2014-2016.

Table 3: Cumulative Absorption/Utilisation targets

	2014 E	2015 E	2016 E
JEREMIE *	60%	100%	100%
RCR **	60%	65%	70%
CIP-SMEG **	75%	80%	85%
RSI **	55%	90%	95%
Progress **	54%	67%	80%

* calculated as a % of Holding Fund size

** calculated as a % of the amount committed to FIs at Y-1. For the guarantee products, absorption refers to the loan portfolio generated by the intermediaries

2 The chart does not provide a view of the investments made by centrally managed programmes like CIP, RSI, RCM, etc., which cover countries not covered by regional partnerships.

Annex 1: Glossary of Terms

ABS	Asset-Backed Securities
CAGR	Compound Annual Growth rate
CBTT	Capacity Building Technology Transfer
CYPEF	Cyprus Entrepreneurship Fund
C/I	Cost to Income ratio
CIP	Competitiveness and Innovation Framework Programme
COP	Corporate Operational Plan
CorIP	Corporate Innovation Platform
COSME	Competitiveness for SMEs
DFI	Decentralized Financial Instruments (i.e. JEREMIE and new ESIF)
DVi	Dutch Venture Capital initiative
EAF	European Angel Funds
EaR	Exposure at Risk
EC	European Commission
ECB	European Central Bank
EIB	European Investment Bank
EREM	EIB Group Risk Enhancement Mandate
ERP	European Recovery Programme
ESIF	EU Structural and Investment Fund
EU	European Union
FAFA	Financial and Administrative Framework Agreement
FCP	Fonds Commun de Placement
FI	Financial Intermediary
FMA	Fiduciary Management Agreement
FoF	Fund of Fund
GIF	High Growth and Innovative SME facility
G&S	Guarantees & Securitisation – EIF Service
IPA	Instrument for Pre-Accession Assistance
iVCi	Istanbul Venture Capital Initiative
JEREMIE	Joint European Resources for Micro to Medium Enterprises
LMM	Lower Mid-Market
MCIF	Mezzanine Co-investment Facility
MDD	Mezzanine Dachfonds für Deutschland
MFF	Multiannual Financial Framework
MfG	Mezzanine for Growth
NAV	Net Asset Value
OR	Own Resources
PE	Private Equity
P&L	Profit and Loss
POC	Proof of Concept
RCM	Risk Capital Mandate
RCR	Risk Capital Resources
RI	Research and Innovation

ROE	Return On average Equity
RSI	Risk Sharing Instrument
SF	Structural Funds
SME	Small and Medium-sized Enterprise
SMEG	SME Guarantee Facility
TRM	Transactions and Relationship Management – EIF Service
TT	Technology Transfer
TTFF	Technology Transfer Finance Facility
TTO	Technology Transfer Office
VC	Venture Capital
WB EDIF	Western Balkan Enterprise Development and Innovation Facility