127502/EU XXV. GP
Eingelangt am 20/12/16

Council of the
European Union

Brussels, 20 December 2016
(OR. en)

15743/16

ECOFIN 1201

COVER NOTE

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
date of receipt:	19 December 2016
To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
No. Cion doc.:	COM(2016) 795 final
Subject:	REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL - Interim Report on the participation of the European Union in the capital increase of the European Investment Fund and the pertinent increase of the European Investment Fund's support of actions in favour of enterprises, particularly small and medium sized enterprises pursuant to Article 4 of Decision No 562/2014/EU of the European Parliament and the Council of 15 May 2014 on the participation of the European Union in the capital increase of the European Investment Fund

Delegations will find attached document COM(2016) 795 final.

Encl.: COM(2016) 795 final

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EUROPEAN
COMMISSION

Brussels, 19.12.2016
COM(2016) 795 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Interim Report

on the participation of the European Union in the capital increase of the European Investment Fund and the pertinent increase of the European Investment Fund's support of actions in favour of enterprises, particularly small and medium sized enterprises

pursuant to Article 4 of Decision No 562/2014/EU of the European Parliament and the Council of 15 May 2014 on the participation of the European Union in the capital increase of the European Investment Fund

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1. INTRODUCTION

As required by Article 4 of Decision No 562/2014[1], this interim report assesses how the objective of increasing the support of the European Investment Fund (EIF) of actions which complement Member States' actions in favour of enterprises, particularly small and medium-sized enterprises (SMEs), has been achieved between 2014 and 3rd quarter 2016.

1.1 The EIF

a) Capital structure

The EIF was established in 1994[2] by the European Investment Bank (EIB), the European Community, now the European Union (EU), represented by the Commission, and several public and private financial institutions with an authorised capital of ECU 2 billion (later converted to EUR at the rate of 1 to 1) split into 2,000 shares. Paid-in shareholder capital was fixed at 20%. The Commission subscribed 600 shares, with a nominal value of ECU 600 million, of which ECU 120 million paid in.

The first capital increase initiated in 2007 brought the EIF’s authorised capital to EUR 3 billion (1,000 new shares issued). The Commission subscribed 300 additional shares at a price set annually, based on a formula agreed between the EIF's shareholders. The dividends received in the period 2007 to 2010 for participation in the EIF covered part of the subscription cost, with the remaining portion covered by the budget. It allowed the EU's 30% shareholding to be maintained.

In 2014, the second capital increase brought the EIF’s capital to EUR 4.5 billion through the issuance of 1,500 new shares. The Commission is entitled to subscribe up to 450 additional shares between 2014 and 2017. A total amount of up to EUR 178 million was made available within the general budget of the EU. The decision on the treatment of participation in the EIF's dividends was suspended until the next revision of the financial rules applicable to the general budget of the Union or, at the latest, in the context of this interim report[3].

At the time of this report, the EIF’s authorised capital equals 4,500 shares, of which 4,382 issued. The EIB holds 2,624 (59.9%), the Commission (on behalf of the EU) holds 1,232 (28.1%), and 30 financial institutions together hold 526 (12.0%) of the issued shares.

b) Governance

The EIF’s statutes and rules of procedure set the framework for the establishment, role and procedures of its decision-making bodies[4]: the General Meeting, the Board of Directors (Board), and the Chief Executive, under the control of the Audit Board.

c) Operational activities

[1] Decision No 562/2014/EU of the European Parliament and of the Council of 15 May 2014 on the participation of the European Union in the capital increase of the European Investment Fund, OJ L 156, 24.5.2014, p. 1.
[2] Council Decision 94/375/EC of 6 June 1994 on Community membership of the European Investment Fund, OJ L 173, 7.7.1994, p. 12.
[3] Statement by the European Parliament and the Council to Decision 562/2014. The Commission had proposed that the dividends paid by the EIF in 2014-2017 would be used to cover part of the cost of the new shares, COM(2014)066 final.
[4] http://www.eif.org/who_we_are/governance/index.htm

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The EIF's mission is to support Europe's SMEs by helping them to gain access to finance. The EIF designs, develops and deploys venture and growth capital, guarantees and microfinance instruments that specifically target the SME and mid-cap market segments, seeking to catalyse further investments in the EU and increase the leverage effect of EU budgetary resources and Member States' contributions, in cooperation with the relevant Commission services. The EIF fosters EU objectives to support innovation, research and development, entrepreneurship, growth and employment by addressing financial products to financial intermediaries such as banks, guarantee, leasing and microfinance institutions, private equity and venture capital funds.

The EIF is chiefly active in Member States, candidate and potential candidate countries, and in the European Free Trade Association countries.

The EIF currently deploys more than 80 mandates on behalf of its mandators, notably the EIB and the Commission, on whose behalf (and risk) the EIF makes equity investments and provides guarantees. The EIB's Risk Capital Resources (RCR) mandate and the EIB Group Risk Enhancement Mandate (EREM) are, respectively, the EIF's largest equity and debt facilities. Using EU budgetary resources, the EIF deploys equity and debt instruments under the COSME[5], InnovFin[6], Erasmus+[7] and EaSI[8] facilities. In the context of a joint European effort to revitalise the blocked credit channel to SMEs and in complementarity and synergies with other financial instruments available to SMEs at a pan-European level, the EIF also deploys substantial mandates from Member States and authorities managing resources under the European Structural and Investment Funds (ESIF), funds of funds, corporates and private and public institutions and co-invests its own resources in equity and debt business activities.

d) Capital requirements and expected level of creditworthiness

The EIF’s business lines involve different risks, reflected by a certain level of economic capital allocation that needs to be set aside.

The EIF's commitments from own resources in the area of equity participations are currently limited by the EIF statutes at 50% of the EIF's own funds (without the fair value reserve). The ceiling for commitments from own resources under guarantee operations is three times the amount of subscribed capital.

The EIF's risk and capital management has helped maintain its AAA-stable credit rating, recently reconfirmed by the larger credit rating agencies. The breadth of the EIF's products and their geographical and sectorial scope underpin a moderate and sustainable risk exposure.

1.2 Overview of the capital increase

a) Main objectives

[5] Regulation (EU) No 1287/2013 of the European Parliament and of the Council of 11 December 2013 establishing a Programme for the Competitiveness of Enterprises and small and medium-sized enterprises (COSME) (2014 - 2020), OJ L 347, 20.12.2013, p. 3.

[6] InnovFin - EU Finance for Innovators - is a joint initiative by the EIB and the EU under Regulation (EU) No 1291/2013 of the European Parliament and of the Council of 11 December 2013 establishing Horizon 2020 - the Framework Programme for Research and Innovation (2014-2020), OJ L 347, 20.12.2013, p. 104.

[7] Regulation (EU) No 1288/2013 of the European Parliament and of the Council of 11 December 2013 establishing 'Erasmus+': the Union programme for education, training, youth and sport, OJ L 347, 20.12.2013, p. 50.

[8] Regulation (EU) No 1296/2013 of the European Parliament and of the Council of 11 December 2013 on a European Union Programme for Employment and Social Innovation (EaSI), OJ L 347, 20.12.2013, p. 238.

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The main objectives of the capital increase were to:

• Develop the SME loan capital markets with the aim of diversifying the source of liquidity for SME banks and leasing companies;

• Improve SMEs' access to finance by responding to the European Council request to increase the unique credit enhancement capacity of the EIF;

• Support the growth of the EIF as a cornerstone investor in the venture and growth capital market;

• Enhance the EIF's role in microfinance and social impact investment, enabling breakthrough equity participations in new social enterprises and financial institutions;

• Enable risk-sharing in the EIF mandates through co-investment;

• Support the EIF's AAA rating by injecting new capital and by demonstrating its increased policy importance.

b) Approval procedures

Upon the Board's endorsement of the capital increase and related modalities on 14 April 2014, it was approved by the General Meeting on 27 May 2014. The General Meeting also approved the arrangements for the issuance and subscription of new shares, including the payment of the share price, on the same date.

c) Shareholders' subscriptions

According to Decision No 562/2014, the EU can subscribe up to 450 new shares over the 2014-2017 period, backed by up to EUR 178 million total budgetary appropriations. The Commission has subscribed a total of 332 shares at a total cost of EUR 133,479,829.08 (average price per share of EUR 402,047.68).

The EIB fully subscribed its entitlement of 923 shares. 15 financial institutions fully subscribed their respective capital increase entitlements and another 4 subscribed more than 50% of their entitlement, for a total of 193 new shares.

d) Steps for the finalisation of the capital increase until 2017

118 new shares remain authorised but unissued, all reserved by the Commission. EUR 44.5 million of budgetary resources remain from the initial total of up to EUR 178 million made available for EU shares. The EIF has provisionally calculated the sale and purchase share price in 2017 at approximately EUR 436,000[9].

The remaining budget thus allows the EU to subscribe another 102 shares at that share price. It will result in the EU having subscribed 434 new shares, instead of 450, due to a higher than foreseen increase in the price per share over the period. It would therefore own 1,334 shares (29.6% of the authorised capital) at the end of the capital increase exercise. The EU's participation will thus be diluted compared to its previous 30% share.

2. EIF 2014-2016 ACHIEVEMENTS UNDERPINNED BY THE CAPITAL INCREASE

[9] Based on 3rd quarter, non-audited accounts.

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2.1 Overview as at the third quarter of 2016

By 30 September 2016, the EIF had increased its volume of activity by 40% on average per year[10] compared to 2013. The EIF entered into 607 transactions for an investment volume of EUR 16.9 billion. Out of them, 370 transactions relied on the EIF's capital base. They mobilised EUR 5.8 billion of the EIF's own resources, of which more than EUR 4 billion were invested alongside mandate resources managed by the EIF.

The resulting strong capitalisation was a determining factor for the EIF's successful deployment of the European Fund for Strategic Investments (EFSI)[11]. It allowed the EIF to pre-finance the first transactions and deploy at an increased pace the InnovFin (where the EIF takes the senior tranche) and equity investments under its EFSI-specific RCR mandate resources (where the EIF co-invests systematically 5%).

In parallel, the EIF further strengthened its links with its existing shareholders through the latter's increase in their holdings and the addition of important actors in European SME financing as new shareholders.

2.2 Equity (venture and growth capital)

The additional risk-taking capacity resulting from the capital increase has notably allowed the EIF to expand significantly the outreach of its equity investments, both in terms of volumes invested and speed of deployment.

a) New EFSI/RCR operations underpinned by increased capital

The RCR enabled the EIF to pursue its equity strategy in the venture capital and growth segments for over 15 years and allowed increased investments through hybrid debt/equity financing. The EIF co-invests its own resources alongside mandate resources.

In July 2015, the EIB increased the RCR equity resources by EUR 2.5 billion (reaching EUR 9.5 billion) under the EFSI SME window for private equity and technology transfer investments in SMEs and mid-caps. At the end of 2015, EFSI-specific commitments amounted to EUR 1.4 billion in 45 funds. The resulting financing reached EUR 14.6 billion (a leverage ratio of nearly 1:11).

2015 marked the first full operational year of the Mezzanine Co-Investment Facility (MCIF) within the RCR mandate. That EUR 100 million hybrid debt-equity facility enabled the EIF to co-invest in target companies alongside mezzanine funds. By September 2016, commitments under MCIF totalled EUR 72 million (of which EUR 4 million of the EIF's own resources), promoting a broader utilisation of co-investment solutions and addressing clearly identified fundraising shortfalls.

In the period January 2014 - September 2016, the EIF committed EUR 5.0 billion under the RCR, including EUR 250 million of its own resources.

b) EIF risk-sharing under EU mandates - the single EU equity financial instrument

[10] CAGR (Compounded Annual Growth Rate) based on 2016 year end forecast volume.
[11] Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015 on the the European Fund for Strategic Investments the European Investment Advisory Hub and the European Investment Project Portal, OJ L 169, 1.7.2015, p. 1.

The Single EU Equity Financial Instrument includes the COSME Equity Facility for Growth (COSME EFG) and the Horizon 2020 InnovFin SME Venture Capital instrument (InnovFin Equity), which also covers a pilot initiative for business angels. In both cases, EU budgetary resources are deployed alongside the EIF's own resources.

COSME EFG enables the EIF to invest in funds that provide equity and mezzanine finance to expansion and growth-stage SMEs with high growth potential, particularly those SMEs operating across borders. By September 2016, nine investments under the EFG facility had been signed, resulting in EUR 107 million of aggregate commitments, of which EUR 5 million from the EIF's own resources.

Through InnovFin Equity, the EIF targets investments in technology transfer, business angels, venture capital funds and fund-of-funds that provide equity for early stage companies in pre-seed, seed and start-up phases that may not yet have generated revenues from the sale of their products. It mobilises more than EUR 1.7 billion for enterprises in Member States and countries associated with the Horizon 2020 programme. The EIF committed a total amount of EUR 130 million to seven equity funds, including EUR 26.5 million of the EIF's own resources.

Following the set-up of a new equity product under the EFSI, a structured financial product under the EFSI was created, combining the EU’s InnovFin Equity with a EUR 270 million commitment benefitting from the EFSI EU Guarantee and a EUR 290 million commitment under the EIF's own resources.

c) Development of social impact investment: Social Impact Accelerator (SIA)

SIA is an EIF initiative launched in 2013 as part of the EIB Group’s impact investment strategy, responding to the wider EU policy aim of establishing a sustainable funding market for social entrepreneurship in Europe. SIA is a fund-of-funds that seeks to create a portfolio of equity investments in social impact funds. It promotes social inclusion, provides alternative sources of employment for marginalised social groups and contributes to growth.

Throughout 2014 and 2015, the EIF continued to build a strong and well-diversified SIA pipeline across Europe, ensuring the availability of a broad range of financing options, including debt or hybrid debt/equity instruments.

SIA benefits from financing under the EREM Social Impact Finance Instrument, an EIB mandate (EUR 189 million). Total commitments to SIA reached EUR 243 million at its final closure in July 2015, through additional investments from the Bulgarian Development Bank, the Finnish innovation fund Sitra, and EUR 11.5 million of the EIF's own resources.

d) Regional outreach

The EIF has expanded its regional equity outreach initiated in 2006, currently managing 12 regional funds-of-funds, aggregating commitments of EUR 3.7 billion at fund-of-fund level. In 2016, EIF and its regional partners set up three funds-of-funds, mainly targeting Estonia (EUR 60 million), Sweden (SEK 582 million - approx. EUR 60.5 million) and the Netherlands (EUR 200 million), including from ESIF and/or EFSI resources. The EIF also invests its own resources alongside mandators’ funds under other regional funds-of-funds through the EIF’s co-investment under the RCR mandate, which partly funds these initiatives.

The EIF also expanded its activities under the European Angels Fund (EAF) initiative. Under the EAF, the EIF provides equity to business angels and other non-institutional investors,

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increasing their investment capacity by co-investing in innovative companies in the seed, early or growth stage. The EAF now covers Austria, Germany, Ireland, the Netherlands, Spain and Denmark, a significant expansion since its 2012 launch. At the end of September 2016, the EAF initiative had a volume of EUR 265 million, of which at least EUR 8 million to be committed under the EIF's own resources.

2.3. Debt (guarantees, securitisation and microfinance)

Alongside new mandates deployed in 2014-2016 relying exclusively on the mobilisation of mandators' resources, an important number of debt-focused mandates were launched with EIF co-investments and/or risk-sharing. In addition, the EIF has boosted its own-risk activity in credit enhancement operations.

a) EIB risk enhancement mandate

The EREM was signed between the EIB and the EIF in March 2014 to support the impaired financing of European businesses through additional guarantees, debt and equity instruments. A total of up to EUR 6 billion is earmarked, of which EUR 4 billion from the EIB and up to EUR 2 billion from the EIF.

The EREM's products/windows reinforce existing activities or strengthen alternative financing tools to respond to concrete new market needs:

- **ABS Credit Enhancement (EREM ABS CE)** supports by up to EUR 1.95 billion an increased capacity in mezzanine tranches of asset-backed securitisations, freeing up resources for originators to lend to SMEs and small mid-caps;

- **EREM Cooperative Banks & Smaller Institutions** broadens the EIB Group's range of intermediaries, in particular small cooperative banks and other smaller institutions particularly focused on smaller SMEs and start-ups. In turn, originators are expected to use the freed up resources to increase lending to SMEs;

- **Loan Funds –** a new segment that the EIF tapped into to widen the availability of loan financing for SMEs and small mid-caps beyond traditional bank channels. The strong pipeline led to an increase of the available resources to EUR 725 million in January 2016.

- **EREM-SME Initiative**

The EREM requires the EIF to participate with its own resources alongside the financing made available by the EIB. Up to EUR 333 million of the EIF's own resources have been mobilised in 42 transactions so far, for an aggregate invested volume of EUR 1.2 billion.

b) EIF capital contributions to EU budgetary instruments

i) InnovFin SME Guarantee Facility (SMEG)

Since 2014, the EIF had offered uncapped guarantees or counter-guarantees to financial intermediaries, allowing them to provide debt financing on favourable terms to innovative SMEs and small mid-caps in Member States and Associated Countries[12].

[12] http://ec.europa.eu/research/participants/data/ref/h2020/grants_manual/hi/3cpart/h2020-hi-list-ac_en.pdf

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EUR 1.1 billion from the EU budget and up to EUR 4.0 billion of EIF exposure are expected to make approximately EUR 10 billion of debt finance available for innovative companies and catalyse around EUR 14 billion in investments. The EIF concluded 88 guarantee transactions, totalling EUR 3.8 billion, of which 68 transactions were backed by the EFSI for EUR 3.0 billion in total signatures.

Since January 2015, the SMEG facility has benefitted from a significant acceleration in deployment through the support offered by the EFSI.

ii) European Fund for Strategic Investments

The EFSI was jointly launched by the EIB Group and the EU to help overcome the current investment gap in the EU by mobilising private financing for strategic investments. It is backed by a EUR 16 billion guarantee from the EU budget and a EUR 5 billion allocation of the EIB's own capital.

The EIF implements the EFSI's SME Window, providing EUR 5.5 billion[13] of guarantees and equity investments. An investment volume in SMEs and mid-caps of EUR 82.5 billion is expected to be triggered by the summer of 2018 (leverage of 15x). Current implementation supports that initial estimate and also indicates the reaching of targets well ahead of schedule[14].

The EIF drew on its own resources to advance the deployment of EFSI products, ahead of the formal approval of the EFSI legislation, mobilising up to EUR 500 million of its own funds as pre-financing until the EFSI structure became fully operational.

c) EIF support to the SME initiative

The SME Initiative of the Commission and the EIB group stimulates SME financing by providing partial risk cover for SME loan portfolios of originating financial institutions. ESIF provide the major part of EU funds which include a contribution from EU level instruments (COSME and/or Horizon 2020), with co-funding from EIB and EIF own resources.

The EIF offers selected financial intermediaries an uncapped portfolio guarantee instrument or a securitisation instrument. That loss protection and potential capital relief allows financial intermediaries to provide SME loans, leasing and/or guarantees at favourable terms.

It currently covers Spain, Bulgaria, Finland, Malta, Italy and Romania, with plans for expansion to other Member States. Approximately EUR 1 billion of ESIF resources have been entrusted to the EIF so far, coupled with an expected commitment of up to EUR 1.8 billion from the EIB and EUR 150 million from the EIF's own resources.

d) Increased EIF own resource SME securitisation activities

By facilitating securitisation transactions through credit enhancement, the EIF provides guarantees to financial institutions, thus diversifying their funding sources and achieving economic and regulatory capital relief through credit risk transfer, enhancing the ability of banks to lend to SMEs.

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[13] Following an increase of EUR 500 million, transferred from the EFSI Infrastructure and Innovation Window, decided by the EFSI Steering Board.

[14] As at November 2016, more than 80% of the EUR 82.5 billion target is expected to be reached, based on current signatures.

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Since 2014, the EIF's efforts to help the revival of high quality SME securitisation have resulted in EUR 2.8 billion of signed guarantees. Geographical coverage has significantly expanded to 12 countries. The leveraged volume of additional SME lending undertaken by the originators is estimated to reach EUR 9.6 billion. In total, the EIF’s SME securitisation activity has mobilised more than EUR 2.2 billion of EIF own resources in the same period.

The EIF's EREM ABS CE also supported mezzanine tranches of SME/small mid-caps based securitisation transactions, including both synthetic and true sale transactions. The EIF also used EUR 105 million of its own resources to purchase more senior tranches under a newly set-up product of direct investments in SME asset-backed securitisations.

2.4 Shareholders

The EIF reinforced its public-private shareholding structure through the participation of the financial institutions in the 2014 capital increase. Following its efforts to broaden the shareholder base, six further financial institutions from Spain, Italy, Slovenia, France and Turkey joined, therefore resulting in the current total of 30 shareholding financial institutions.

Moreover, on 10 October 2016, the General Meeting approved the admission of a new member, the Czech-Moravian Guarantee and Development Bank CMZR. Any potential further broadening of the circle of financial institution shareholders will be based on expanding the geographical coverage and the latter's focus on supporting European SMEs.

Cooperation with financial institutions was further strengthened by the EIF through the creation of the Corporate Relations division in 2015.

2.5 Creditworthiness

Larger rating agencies have consistently affirmed the EIF’s AAA-credit rating and emphasised the EIF's strong capitalisation, notably highlighting the 2014 capital increase.

3. KEY EIF ACTIVITY LOOKING FORWARD

3.1 Additional future activities

The EIF continually tries to cover identified market gaps in the financing of European SMEs and mid-caps, including by mobilising its own resources alongside mandate resources, such as ESIF.

a) EFSI SMEW equity product

In July 2016 the EIF, the EIB and the Commission launched a product dedicated to equity investments in the EU, whose overall investment capacity of EUR 2,068 million targets equity investments across a wide spectrum of financing needs and delivery modalities (co-investments, technology transfer, funds-of-funds, social impact, etc.). The SMEW Equity Product has two sub-windows, with the EIF investing up to EUR 340 million of its own resources into growth/expansion (sub-window 1) and early stage investments (sub-window 2).

A collaborative platform for national promotional banks and institutions enables them to match the total budget for investment under the EFSI SME Equity Product on a 1:1 basis.

b) Additional Debt Activities

i) Further EFSI Support to InnovFin SMEG

A new guarantee facility under InnovFin SMEG, covering mezzanine loans, is under design. EIF resources of up to EUR 300 million will be combined with the EFSI so as to cover a total loan volume of up to EUR 2 billion over the period 2017-2020.

ii) Funded instruments for microfinance (EaSI)

Under Regulation (EU) No 1296/2013, the Commission and the EIB Group plan to supplement the guarantee mandate with a facility for offering senior and subordinated loans to microfinance and social entrepreneurship institutions that will in turn extend financing to micro-enterprises and social enterprises. The EIF's own resources of up to EUR 28.5 million (including from the EREM mandate) are to be mobilised alongside EIB and EaSI resources for an expected aggregate volume of EUR 200 million.

iii) Additional SME securitisation activities

Following the successful pioneering of the EIF’s direct investment in SME-focused securitisations, the EIF is currently reflecting on increasing its presence in that market segment with potentially EUR 300 million of the EIF's own resources over three years.

c) Increase of EFSI (EFSI 2.0)

In September 2016, the Commission proposed an increase in the overall investment capacity of the EFSI[15] (total catalysed investment to increase from EUR 315 billion to EUR 500 billion), together with an extension of its investment period until 2020. Moreover, the Commission has proposed to increase the EFSI guarantee by EUR 10 billion up to a total of EUR 26 billion. Drawing on the very successful start in the implementation of the EFSI, in particular the SME window implemented by the EIF, the new proposal entails an increase of the SME window of EUR 5 billion made available for investments for SMEs and mid-caps through the EIF. It will result in significant additional EIF own resources mobilised alongside EFSI between 2018 and 2020.

3.2 Impact on the EIF’s capital consumption

a) Capital consumption

i) Equity

The EIF's own resources commitments in the area of equity participations are capped at the ceiling mentioned in section 1.1.d). It translates into an amount of EUR 891 million available for equity participations as of September 2016. The overall private equity net commitments of EUR 659 million utilised 74% of the ceiling.

ii) Guarantees

As of the end of September 2013, the EIF's exposure from own risk guarantee operations was EUR 2.9 billion, resulting in a EUR 6.1 billion headroom for such transactions. The

[15] COM(2016)597 final, 2016/0276(COD)

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significantly increased guarantee business volume between 2014 and the end of September 2016 doubled the EIF's exposure to EUR 5.8 billion against the ceiling of EUR 12.9 billion.

iii) Completion of the 2014 capital increase

The 2014 capital increase should be completed in 2017 through a final auxiliary subscription period for the remaining authorised EIF shares reserved by the EU. The par value will be confirmed immediately after the EIF's 2017 Annual General Meeting in the first half of 2017[16]. The EU's subscription of its remaining shares will increase the relevant headroom available for additional EIF operations, which will underpin the further deployment of the EIF’s investments set out in section 3.1.

b) Optimisation of capital use

The EIF is actively working to manage sustainably its capital to accommodate a steady rate of growth expected for its activities. Different measures are envisaged to reduce consumption of the EIF’s capital, including a more active portfolio management, in particular in the equity area.

4. CONCLUSION

Although not yet completely finalised, in particular due to the EU's pending decision on the 118 remaining shares, the capital increase has already led to increased financing made available to SMEs and mid-caps. The capital increase also created additional risk-taking capacity, allowing a higher volume and speed of deployment of equity investment into SMEs, whereby the EIF's capital was significantly leveraged. The increase equally boosted the EIF's own-risk activity in credit enhancement operations, in particular for guarantees and securitisation, thus mobilising private financing and increasing access to finance for SMEs.

However, the budget made available will probably not be sufficient to subscribe fully the remaining 118 shares reserved for the EU. It will lead to a slight dilution of the EU shareholding. That result is mainly due to (i) a higher than foreseen increase in the price per share over the period[17], and (ii) the decision not to use the dividends the EU received so far from the EIF to purchase additional shares, as was the case for the 2007 capital increase. The dilution will not have an immediate impact on the EU's statutory shareholder rights but will result in a corresponding slight decrease in its share of future dividends.The results so far indicate that subscribing to the remaining reserved shares will enable the EIF's SME and mid-cap activities to be further increased. The ceilings set in the EIF statutes and the need to ensure its AAA-stable credit rating[18] limits the scope for those additional activities. The current headroom under the ceilings allows the EIF to sustain additional activities over the coming years and it is too early to predict its capital needs post-2018. A further mobilisation of EIF's own resources under EFSI 2.0, once adopted, is however to be expected. At the same time, the EFSI guarantee will enable the EIF to achieve even more significant leverage on its capital.

[16] The share price is calculated using the Replacement Share Purchase Undertaking and based on the report issued by the EIF's external auditors following the Annual General Meeting's approval of the financial statements and the attribution of net income.
[17] The higher than foreseen increase in the price per EIF share is mainly due to better than originally projected financial performance of the EIF.
[18] In line with Regulation (EU) No 462/2013 of the European Parliament and the Council of 21 May 2013 amending Regulation (EC) No 1060/2009 on credit rating agencies, OJ L146, 31.5.2013.

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