

## Erste Bank wants to help local businesses with mezzanine capital

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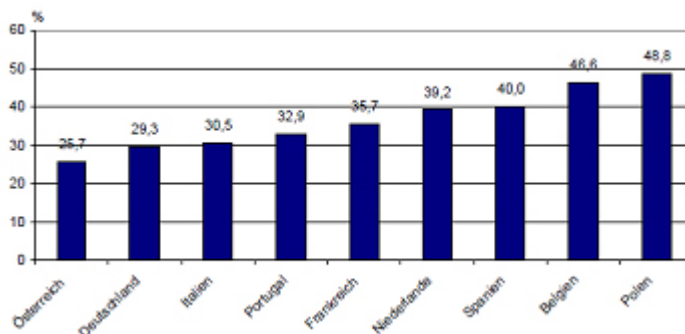
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- Peter Bosek: "Local businesses need more equity in order to hold their own amongst international competitors"
- Erste Bank calls for an Austria fund to help local businesses grow

**Erste Bank, Salzburger Sparkasse and Tiroler Sparkasse are now providing local small and medium-sized businesses with mezzanine capital. A total of 60 million Euros (20 million per institute) has initially been approved. Erste Bank is also working on a Private Equity Fund with other banks and insurance companies. The reason for these activities? Local businesses need more equity in order to hold their own amongst international competitors (see graph).**

"Austria's entrepreneurs need more capital to strengthen their crisis resistance. We want to provide them with this", says Peter Bosek, member of the Private and Corporate Customer Board of the Erste Bank der oesterreichischen Sparkassen. "During the phase of economic boom and highly liquid credit markets, most entrepreneurs financed their ventures through borrowed capital. But the crisis re-arranged priorities. Like banks, businesses also need more equity in order to strengthen their basis and thus improve their credit rating", Bosek says. Mezzanine is a good way of doing this as it constitutes equity based on credit and economic information for the business. It thus improves the business' rating and protects its credit lines. The bank can do away with collateral as it has a holding in the business' profit and risk.

With an average private equity base of 26 percent, Austria's businesses are at the lower end of the scale in the European comparison. Polish, Belgian and Spanish businesses have an equity base of almost 49 percent (see graph from KMU Forschung Austria).



Mezzanine capital is particularly of interest to those businesses with an annual sales turnover of at least three million Euros and who want to expand further. The amount of financing totals a minimum of 200,000 and a maximum of two million Euros. The capital is provided for 5 to 10 years.

### **Erste Bank calls on banks and institutional investors to co-found their own "Austria Fund"**

Erste Bank is already working on a private equity fund structure for major customers with sales turnovers of 30 million Euros or more. The "Austria Fund" is to be set up together with other institutional investors (banks, insurance companies and foundations) and managed by an independent management company. In total, the private equity fund is expected to hold around 100 to 150 million Euros. The Erste Bank would be prepared to take a holding of 20 million Euros.

“The formation of this private equity fund is extremely important for further boosting trust in the economy, which is beginning to increase once more. In terms of the Austrian economy, all investors should pull together and put aside any thoughts of competition” says Sebastian Erich in an effort to encourage the industry to participate. Erich runs the Erste Bank’s Major Customers department, and is responsible for co-ordinating this project within the Erste Bank.

**Facts: Mezzanine capital and private equity**

In architecture, “mezzanine” is an intermediate floor (Italian *mezza* = middle), and it applies in a similar manner for financing. Because mezzanine capital is a mixture of private equity and borrower capital, and is mostly used as a supplement to other financing instruments. The advantage of mezzanine capital? As it is based on profit and not one collateral, it protects a businesses’ equity. If the business becomes insolvent, it is dealt with after borrowed capital but before pure equity.

Private equity is a form of equity capital in which the holding entered into by the investor cannot be traded on regulated markets (stock exchanges). The investors can be private or institutional; it is often funds specialising in this form of holding which are managed by a management company.

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