

**EUROPEAN INVESTMENT FUND
STATEMENT ON GOVERNANCE**

EIF Governance: Basic Principles

This statement explains the guiding principles on Governance at the European Investment Fund ("EIF"). They reflect the "Principles of Corporate Governance" issued in 2004 by the Organisation for Economic Co-operation and Development ("OECD").

EIF's approach to Governance is based on the following characteristics:

- the EIF is a financial institution with legal personality and financial autonomy;
- the EIF has as its statutory mission to pursue Community objectives;
- the EIF is a Community body and the European Community's specialised vehicle for providing risk capital and guarantee instruments for small and medium sized enterprises ("SMEs");
- the EIF is established as a public-private partnership with tripartite shareholder structure (EIB, Commission and 34 private financial institutions mainly from EU Member States);
- the EIF is a multilateral development bank under both the 1988 Basel Capital Accord and the Commission rules on capital adequacy (Directive of the European Council no. 89/647 EC, Directive of the European Parliament and the European Council no. 2000/12 EC of 20 March 2000) and is rated AAA or equivalent by the international rating agencies Standard & Poor's, Moody's and Fitch;
- the EIF co-ordinates its activities with EIB as its majority shareholder within the framework of the EIB Group strategy.

Transparency

Transparency is one of the essential pillars of Governance. EIF applies a high degree of transparency - in its activities, operating procedures and guiding principles- that extends beyond its provisions for public access to information and documents.

EIF follows a consequent information policy based on the dialogue with its shareholders, regular reporting to shareholders and in the framework of the various mandates managed by EIF as well as other institutions and the public. This information policy may, of course, be limited by confidentiality obligations and EIF's related liability.

EIF has adopted rules on public access to documents; these rules are published on EIF's website.

Important documents which set out the framework of EIF's operations, are published on EIF's website, such as. e.g., EIF's Statutes and Rules of Procedure, annual and interim financial reports, transaction guidelines or codes of conduct.

The EIF continuously develops its website, which features a number of publications concerning its operational strategies. The Corporate Operational Plan (COP) in particular sets out a medium-term policy and operational priorities. The website also contains a list of projects signed. It provides information on the various mandates EIF is presently managing for EIB, the European Community and the German Ministry of Economic Affairs and Labour.

[Rules on public access to documents](#)

Decision-making and supervisory bodies

EIF's Statutes and Rules of Procedure set the framework for the establishment, role and procedures of the decision-making bodies in EIF.

The EIF Board of Directors adopts the guidelines and directives for the operations and the management of EIF. According to the provisions contained in the EIF Rules of Procedure, the majority shareholder has the right to designate the majority of the members of the EIF Board of Directors for appointment by the General Meeting.

According to the EIF Statutes, the members of the EIF Board of Directors act independently and in the best interest of the Fund; they are accountable only to the General Meeting.

The EIF Board of Directors, upon proposal of the majority shareholder, appoints the Chief Executive, who is responsible for the day-to-day management. The Chief Executive is acting in the interest of the EIF and is accountable to the EIF Board of Directors.

[Statutes](#)

[Rules of Procedure](#)

[Code of Conduct for Members and Alternate Members of the Board of Directors](#)

Expertise, Ethics and Conflicts of Interest

Information published on EIF's website on the composition of its decision-making bodies includes a curriculum vitae (summary of the professional qualifications and experience) of the members of the Board of Directors and the Audit Board. Any changes in the composition of the decision making and supervisory bodies, including the EIF Board of Directors and/or the Audit Board is published.

EIF has published on its website all codes of conduct and the principles of remuneration applicable to its decision-making bodies.

The members of the EIF Board of Directors sign and update personal statements on the other offices or positions they hold; these are summarized in the published CVs and up-dated regularly.

Each member of the EIF Board of Directors signs a declaration of financial interests. The declaration of financial interests are part of the Code of Conduct signed by the members of the EIF Board of Directors and published on the EIF website.

[Composition of Decision Making Bodies](#)

[Code of Conduct for Members and Alternate Members of the Board of Directors](#)

Remuneration and other benefits

The General Meeting of EIF decides on the remuneration of the Members of the EIF Board of Directors and the Members of the Audit Board. The EIF Board of Directors decides on the remuneration of the Chief Executive. Detailed information is provided on the remuneration of members of the Board of Directors and the Audit Board

EIF has published detailed information on the remuneration and other benefits applicable to the members of its staff, notably by publishing its salary scales, the bonus system, the EIF's pension scheme and staff regulations.

[Salary scales](#)

[Staff regulation](#)

[Remuneration of Audit Board](#)

[Remuneration of the Board of Directors](#)

[Remuneration of the Chairman of the Board](#) (6.4 of minutes of the 2005 General Meeting)

Audit

The General Meeting appoints EIF's Audit Board. The Audit Board audits the annual accounts and verifies whether the operations of the Fund have been carried out in compliance with the Statutes, Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors. The Audit Board verifies that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes, Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors and that EIF's books have been kept in a proper and accurate manner.

The Audit Board acts in full independence; competence, integrity and expertise form the basis for the appointment of its members. The Audit Board submits to the General

Meeting an annual activity report on the activities of the EIF for the respective financial year.

The Audit Board has recourse to external auditors to whom it may delegate routine work relating to the audit of the EIF's financial statements. The external auditors report directly to the Audit Board, which they inform each year of their work programme and of the coordination of their activity with that of the Fund's Internal Audit. The firm PricewaterhouseCoopers S.à r.l. was re-appointed by the Audit Board for the financial year 2005, after consultation with the Fund's Chief Executive and the Board of Directors. The contract runs for a one year and may be extended.

In the context of the EIB Group consolidation and of the Risk Capital Mandate, EIF's external auditors coordinate with the external auditors of the EIB.

The European Court of Auditors has an audit role insofar as Community resources are concerned. Article 248 of the EC Treaty stipulates that the Court is responsible for examining the accounts of all revenue and expenditure of the Community. Consequently, the deployment of public funds from the EU managed by the Fund under mandate, i.e. the "Multiannual Programme for enterprise and entrepreneurship" and the "Growth and Employment Initiative" is subject to control by the Court. Furthermore, the Court of Auditors has certain audit rights as regards the shareholding of the European Community in EIF, which are detailed in a tripartite agreement between the EIF, the European Commission and the European Court of Auditors.

Following a ruling of the Court of Justice of the European Communities on the co-operation of EIB with the anti-fraud office OLAF, EIB had taken steps to adapt its internal rules and procedures to the applicable legal framework in order to ensure optimal cooperation with OLAF in the fight against fraud and corruption. Similarly, EIF has implemented co-operation principles with OLAF and issued EIF Procedures in Case of Fraud, which are published on the EIF website.

[Rules of Procedure](#)

[Audit Board, tripartite agreement](#)

[EIF procedures in case of fraud](#)

Financial statements and information of a financial nature

The financial statements of EIF are drawn up in accordance with Council Directive 86/635/EEC of 08.12.1986 on the annual accounts and consolidated accounts of banks and other financial institutions (as amended by Directive 2001/65/EC of 27.09.2001). They are consolidated with the financial statements of EIB as EIF's majority shareholder, in accordance with the International Financial Reporting Standards (IFRS). With effect as of 1 January 2005 on, EIF will also prepare a set of accounts following the IFRS accounting rules.

EIF also publishes quarterly accounts (unaudited) on the website.

Although communication with EIF is possible in all major official languages of the EU, documents published by EIF are available in English which is the working language of EIF.

Risk Management

Risk management at the EIF has a key role and is of particular importance for the EIF with a view to fulfill its objectives. The EIF Statutes (Article 2, paragraph 3) expressly require, that the “activities of the Fund shall be based on sound banking principles or other sound commercial principles and practices as applicable”.

The Risk Management and Monitoring Division (RMMD) is an integral part of EIF’s internal control system. Risk management aims at creating stability and leading to higher transparency of risks on individual deal basis as well as on portfolio level. However, the purpose of internal controls is rather to help manage and control risk appropriately than to eliminate it.

RMMD assures that the risks EIF is taking correspond to the risk preferences of its shareholders and mandators.

RMMD cooperates with the Risk Management of the EIB to align the interests of both institutions in the context of the EIB Group interests while taking into account the specific risks of EIF’s business.

RMMD is organizationally separated from operational divisions and reports directly to the Chief Executive. This control framework is actively monitored by both, internal and external auditors. RMMD is linked to the operational divisions via activity-line specific IT tools, which support the risk control functions.

EIF’s risk management promotes effective and efficient operations, reliable financial and regulatory reporting, and the compliance with credit or investment policies/procedures as applicable from time to time, relevant laws, regulations and policies. It is oriented according to three areas: venture capital, portfolio guarantees and financial administration.

The responsibilities of RMMD encompass, inter alia

- the issuance of independent second opinions on all transactions;
- the establishment of portfolio reviews, cash flow forecasting,
- the development and implementation of appropriate IT tools for financial administration/monitoring, and
- the improvement of the ALM.

Compliance

In the light of the principles defined by the Basel Committee and in consideration of the OECD Principles of Corporate Governance the EIF Compliance Function is established in order to ensure observance of the EIF's statutory provisions as well as applicable rules, codes of conduct and professional standards, and to prevent risks that might arise owing to failures by the EIF, its decision-making bodies or members of its staff, to discharge their obligations.

The Compliance Function reports to the Secretary General.

Internal Audit

In the context of the reform of EIF's corporate structure in 2000, EIF has outsourced its internal audit to EIB. EIB Internal Audit performs audit tasks for EIF while respecting EIF's separate legal personality under appropriate confidentiality obligations.

In this context EIB Internal Audit provides EIF's management with assurances, analyses, agreed action plans or recommendations, and information and advice concerning the activities it reviews.

[Charter for Internal Audit](#)

Strategy implementation and monitoring

An integrated planning and reporting system that produces detailed periodic reports has been gradually developed and consists of specific tools (EIF Corporate Operational Plan, quarterly non-consolidated summary reports), identifying specific performance indicators that relate to EIF's strategic objectives. These documents are published on EIF's website.

Other Policies

EIF publishes its policies and general guidelines, such as the policy to combat corruption and fraud, the procurement policy or the various investment policies. These policies are published on the web-site.

EIF's anti-fraud policy is designed to (i) inform Management of any situation where there are allegations of fraud whether this occurs within the EIF or within projects financed by the EIF, (ii) provide information about the fraud so that Management can take appropriate actions, and (iii) inform OLAF in order to review the possibility of prosecution by competent local authorities. Fraudulent behaviour is identified by the Secretary of the Fund and investigated by the internal audit acting in strict confidence.

Upon the recommendations of the internal audit, the Chief Executive decides on any further action to be taken, including any disciplinary measures.

[EIF Anti-Fraud Procedures](#)