EUROPEAN
INVESTMENT
FUND

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EIF CORPORATE OPERATIONAL PLAN 2009-2011

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1 Introduction

This is the first Corporate Operational Plan to be developed by the new management of EIF that took over responsibility in April 2008. It reflects the broad Strategic Charter presented to the EIF Board in June and articulates the detailed implementation strategies and action plans.

EIF has a unique statutory framework through which it is charged to contribute to the pursuit of European Community policy objectives whilst generating an appropriate return on its resources. This Plan demonstrates how these two potentially conflicting objectives can be effectively combined.

Taking into account the increasingly challenging environment in which EIF operates, the COP 2009-2011 highlights EIF's priorities for 2009:

- Significant investment in human resources, increasing the staff to manage the existing activities of EIF, to meet the increasing demands being made during the economic crisis and to strengthen the monitoring and controls;
- Investment in technology focusing in particular on modelling and control systems. The objective is to provide EIF's management and shareholders with essential tools such as a robust Management Information System to be able to monitor and control more closely the development of our operations;
- Continue to adapt EIF's activities to market needs by introducing new products targeting specific businesses (mezzanine, micro credit, risk sharing option for the EIB SME loans...).

Building on the successful EIF existing core business, the Plan outlines a very significant growth in the number and quantum of Small- and Medium-sized Enterprise (SME) financing transactions that will be originated and executed by EIF within a more comprehensive combination of mandates and sources of capital. The geographic diversity of these interventions is planned to increase significantly, in particular as a result of the implementation of the JEREMIE programme.

The risk portfolio of own resource equity fund of funds investments (net commitments of EUR 332m[1] and draw-downs of EUR 287m at 31/10/08) remains well diversified and, although we have seen some net negative movement in values recently, we believe that our estimate of potential future impairments is conservative.

The EIF exposure to portfolios of SME loans and leases through its credit enhancement activity (total commitments of EUR 4.3bn of which EUR 1.5bn of a subordinated nature[2] and EUR 1.8bn rated Aa or better at 31/10/08) is also well diversified in terms of originator banks, sectors and countries, but we are watching the evolution of the risks in the SME market very carefully and are proposing to plan for provisions in this portfolio of EUR 14.3m in 2009.

In terms of 2008 year-end volumes, it is forecast that total equity signatures will reach some EUR 490m whilst guarantees and securitisation are expected to exceed the COP forecast of EUR 1,850 to reach EUR 2,745m.

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1 Net commitment equals signatures minus capital repayments.

2 Subordinated equals the sum of deals rated Baa1 and below.

The financial plan takes into account the significantly enhanced risk expectations resulting from the current state of the global economy, and also incorporates a major and necessary investment programme both in human resources as well as in systems.

2 Positioning and Vision for EIF

EIF is the EIB Group's specialist provider of Integrated Risk Finance to SMEs across the EU, EFTA and Accession Countries delivering a spectrum of financing solutions for selected public and private sector intermediaries aimed at the pursuit of Community Objectives. The core objective is to increase access to finance for SMEs and to fill gaps in the market coverage.

The risk finance will be a combination of equity, mezzanine and debt (supported by a range of guarantee instruments). In order to achieve the essential value added, EIF remains at the forefront of EU financial engineering strategy.

EIF will seek to earn an acceptable return over the cycle for its shareholders through a combination of fee- and risk-based activity, a balanced pricing policy, which reflects the risk taken, and the adherence to policy objectives of the various mandates.

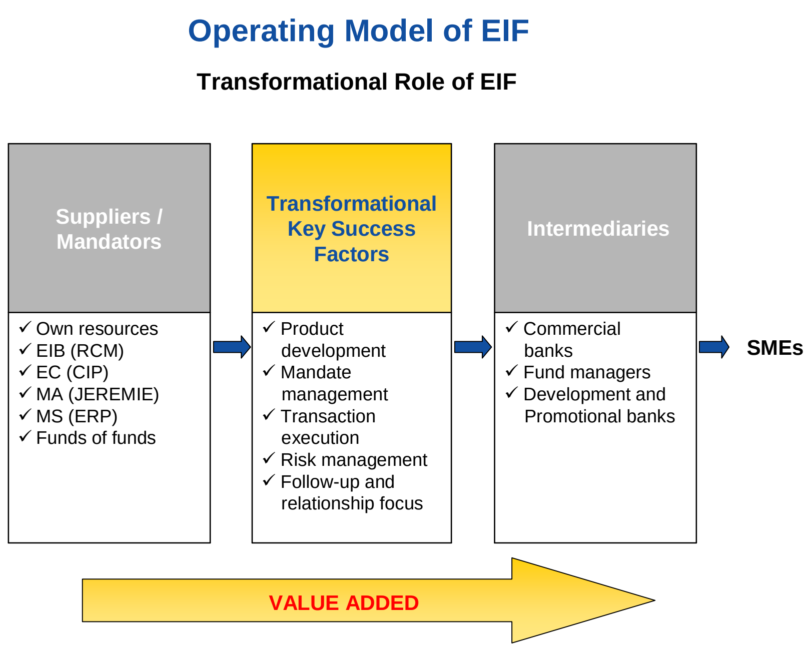
Finance capacity will be obtained principally from EIF own capital, and mandates from the EIB, the European Commission and Member State Managing Authorities (MA).

The maintenance of the AAA rating remains of critical importance.

EIF intends to be a modern, leading edge institution able to respond rapidly to evolving market conditions, attracting and developing talented staff and maintaining the highest standards of compliance and integrity.

3 The Transformational Role of EIF

EIF plans to develop and enhance a number of Key Success Factors which enable it to successfully transform capital and external risk capacity into attractive market-based financing instruments. The business has recently been reorganised in order to meet better the challenges of this transformational role.



In order to assess more regularly the contribution of transactions to policy objectives, the development of a value added measurement tool will be carried out in line with the tool implemented by EIB.

4 Business Development, Strategic Imperatives and Key Action Items

4.1 Product Delivery Strategies

4.1.1 Equity Investment

- Key Performance Targets for 2009

At 31/10/08, total funds net committed amounted to EUR 3.6bn[1] (of which EUR 3bn has been invested in 290 different funds, which have invested a total of EUR 14.2bn in 3,444 underlying businesses).

New equity commitments in 2008 are expected to amount to some EUR 490m. Despite the considerable slow down in investment activity already being experienced, we anticipate an increase in total sums to be committed during 2009 up to EUR 840m, as detailed below[2].

EURm	2008	2009
EIF	30.0	50.0
EIB RCM	255.0	320.0
EC MAP/CIP	132.0	80.0
JEREMIE	-	70.0
External mandates	73.0	120.0
Mezzanine	-	200.0
TOTAL equity	490.0	840.0

Through its venture and private equity interventions, EIF plays a crucial role in the creation and growth of innovative SMEs from the very earliest stages of intellectual property development (through the support of technology transfer, seed, early stage and business angel funds) through to mid-stage funds. We always play a catalytic role in the funding of VC and private equity teams, adding essential credibility and discipline to their fund raising and investment activity.

In 2009, we plan to extend the existing strategy of pursuing an integrated and multi-channel investment approach. Direct investment is achieved through the ongoing utilisation of the Risk Capital Mandate (RCM) granted by the EIB, matched systematically with a 10% co-investment from EIF own resources. The considerable resources provided by the GIF1 & GIF2 windows of the Competition and Innovation Framework Programme (CIP) of the Commission are also enabling EIF to provide cornerstone support to early stage funds, particularly in the areas of technology and eco-innovation.

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1 Net commitment equals signatures minus capital repayments.

2 See Annex 1 for a detailed breakdown of total equity investment volumes foreseen until 2011.

A review with EIB is necessary on the expected remaining duration of the RCM mandate and, furthermore, there remain some outstanding points from an evaluation conducted in 2007. Discussions will therefore be commenced in the early new year to explore a new mandate to address the Lisbon objective of "sustaining economic growth" even in rather larger companies than those that fall within the SME definition. This is expected to be even more urgent as the economic downturn impacts the mid market across the EU.

- Technology Transfer

Since 2005, EIF has evolved towards being one of the major European players, providing guidance and cornerstone funding to players in this emerging asset class, notably CD3 (Belgium), the IP Group co-investment fund (UK), Chalmers Innovation Capital (Sweden), and the UMIP fund in Manchester (UK), the latter two of which were signed in 2008 for a total of EUR 17.3m.

In 2009, we intend to focus our resources on high impact transactions and capitalise on our experience in order to develop a number of typical transaction types, which can be replicated with different universities and clusters throughout Europe. Since this is still an emerging area, our target volume for 2009 is represented by a range of EUR 25-30m.

EIF is about to sign a small pilot advisory mandate with the Commission which will be dedicated to Tech. Transfer. The EUR 2m facility is small-scale, but will hopefully lead to a larger dedicated advisory mandate.

- Venture Capital

The EIF expects to commit some EUR 220m to new VC funds in 2009 (of which EUR 80m from CIP resources, and EUR 45m of ERP). This target is based on the assumption of a degree of market stabilisation after the current financial crisis that should lead to a period when entry values (i.e. the price to be paid by the Fund Manager to acquire a portion of the share capital of a portfolio company) come down significantly, hence offering attractive investment opportunities to those funds with liquidity.

The ERP-EIF Dachfonds mandate from the German Federal Ministry of Economics and Technology continues to offer co-investment opportunities and we are now positioning EIF to be awarded a second mandate. By end 2008, ERP commitments should reach EUR 180m into 13 funds. Further expected approvals should lead to the ERP Facility being fully earmarked by early 2009.

EIF will very likely need to take bigger stakes in first closings, at least for the next 12 months, in order not only to catalyse investment in these difficult market conditions, but also to demonstrate our commitment to the sector. Indeed, it cannot be assumed there will be a significant number of willing co-investors in the EU VC market, particularly at first closings. Nonetheless, any high initial EIF commitment will only be recommended when we believe that critical size can be reached as a result of a successful first closing. EIF's overall percentage participation would thereafter reduce at second closing.

On existing investments, we assume a slowing down of reflows to EIF, increased holding periods and cash needs to support existing investments in fund portfolios.

- Growth Capital / Lower Mid-Market

We believe that 2009 will be a crucial year for the construction of a diversified and balanced lower mid market portfolio. The investment strategy is to support Fund Managers focusing on SMEs over several generations of funds in each of the major countries and less developed markets. Investments in this part of the spectrum could amount to some EUR 350m in the year.

In the UK, a new wave in investment is expected through deployment of the next generation of funds of groups such as Dunedin, Gresham, Isis and Lyceum coming back to the market.

Efforts will be made to seek second generation funds to complement geographically the portfolio in Germany, Italy, Central and Eastern Europe and the Netherlands following the already increased diversification of investments in 2008.

Specific focus in 2009 will be made in Turkey and in Portugal for investments through the recently committed funds of funds structures. There will also be a further number of cleantech investment opportunities in 2009.

- Funds of Funds

We are at the implementation phase of all of the fund of funds management mandates that provide EIF with considerable leverage of existing resources as well as opening opportunities to partner key players in new markets, whilst earning management fees.

Dahlia, a fund co-invested and co-managed with Natixis Private Equity, into which EIF has committed EUR 75m, is now 60% utilised and is expected to be fully invested by mid 2010.

The Neotec mandate in Spain, where EIF manages EUR 183m (own contribution EUR 50m) and where our partner is CDTI (Centre for the Development of Industrial Technology), is now over 40% committed with an interesting pipeline of technology-oriented deals.

Significant effort has been made to complete the balanced private/public fund raising for the two funds in Portugal (PVCi: EUR 111m) and Turkey (iVCi: EUR 150m) and both funds are now actively analysing a pipeline of investment opportunities.

- JEREMIE Equity Investment

More detail of the execution of the JEREMIE mandates is provided below (section 4.3), but it is important to note the importance of the allocated VC tranches in the various mandates. Out of a total expected EUR 1.05bn under management by end 2009, EUR 70m will be allocated to VC investment. This provides further capacity for EIF to offer fully integrated funding solutions to fund managers across the spectrum of size, stage and geography and provides the opportunity to reach out to under-developed and under-served markets with equity.

- Active Portfolio Management

With EIF's venture capital portfolio reaching close to 300 funds, active portfolio management is of increasing importance. A number of funds in EIF's portfolio are nearing the end of their term and solutions need to be found to deal with the funds that still have portfolio companies under management. There are also a number of funds that, even though not nearing their end of term, have liquidity and/or management issues where there are other problems that could impair the value of the underlying portfolio.

EIF can continue in such funds and "do nothing". Often a fund's life can be prolonged by majority LP consent, typically entailing a continuing obligation to pay management fees to the fund manager who will manage out the portfolio by trying to sell each of the remaining portfolio companies. Such a passive approach should not be viewed as the optimal or only way forward available to EIF.

Our conviction is that, in many cases, EIF can manage its economic interest in these funds best if it actively considers and pursues all of the options open to it as an investor. In 2009, active management of the portfolio will become a specific focus in order to extract most value from EIF's portfolio and to manage resources effectively.

The following options are typically considered a part of active portfolio management:

❖ Sell EIF's stake to another LP or a third party investor

This can be attractive from a risk point of view (reduce future financial and/or reputational risk) or from a cash management point of view (upfront cash versus the uncertainty of future cash reflows whilst continuing to pay management fees and other costs).

❖ Increase exposure to a fund by buying another LP's stake

EIF could consider buying the stakes of other LPs in the fund to increase the risk/return profile of its investment or to increase control over the fund and/or its manager.

❖ Liquidate a fund

The LPs could decide to liquidate the fund. This could result in an impairment of the underlying value of the portfolio companies and is often also a costly process. Nevertheless, in certain cases it can be a better solution than to continue the fund.

❖ Receive shares in kind

EIF could also decide to receive shares in kind in the underlying investments and to manage these investments further. A specialised structure to hold and manage these portfolio companies would have to be set up in order to do this effectively.

4.1.2 Mezzanine Finance

A number of studies, including the EIB consultation on the financing needs of SMEs conducted in the second half of 2007, have concluded that there is a funding gap amongst small and mid-sized companies, which would be best filled by the provision of a form of hybrid finance generally known as mezzanine.

This form of finance, which is always subordinated to senior debt, is typically committed for long terms and contains a deferral of capital and sometimes interest payments until the enterprise reaches more stable levels of cash flow generation. The mezzanine debt provider is rewarded by considerably higher margins than senior debt together with a back ended grant of equity through warrants. The dilution resulting from this form of equity issue is considerably lower than a more standard equity investment, enabling entrepreneurs to retain control.

There is now some considerable support from the Commission, as underlined in the Small Business Act, and a number of Member States directly for the EIB Group, through the EIF, to develop a mezzanine finance product. The EIB Board of Directors, on 16 December, approved the allocation of EUR 1bn to a new mezzanine activity managed by EIF. The aim will be to commit EUR 200m in 2009. These resources will be invested in dedicated mezzanine funds that are either already in formation or which will be launched by experienced fund managers. This mandate is planned to operate in a very similar way to the RCM, operated by EIF on behalf of EIB, and a growing level of management fees has been budgeted through the planning period.

4.1.3 Guarantees and Credit Enhancement

The market environment for our debt guarantee and credit enhancement activity is turbulent. 2009 will witness the new Basel II coming fully into force, a lasting liquidity crunch, weakening economies, and credit concerns extending to the SME sector across the European Union.

In this context, EIF, with its AAA rating, Multilateral Development Bank status and recognition as a quality investor in the SME market segment is expected to play a crucial role in facilitating risk transfer in a period when banks badly need regulatory and economic capital to underpin their lending activity.

We also have a long-term reputation for the mobilisation and significant leveraging of Community resources through instruments that guarantee portfolios of SME debt and lease obligations under MAP and now CIP programmes. This capacity will be increased further by the deployment of the guarantee tranches under the new JEREMIE Holding Fund mandates, and by the new microfinance resources (JASMINE). We are targeting a high number of intermediaries across the EU Member States, including mutual guarantee schemes, commercial banks and public institutions focusing on SME financing.

EIF will continue to take a balanced approach between own risk guarantees issued at commercial terms and guarantees under EU mandates aiming at addressing specific market gaps.

In view of the current market conditions, own risk guarantee business will be deployed selectively both through mainstream SME securitisation with large market players committed to SME financing, as well as tailor-made transactions with smaller players. Here, EIF acts not only as provider of credit protection but also plays a key structuring role as a trusted and respected market presence.

- Key Performance Targets for 2009

At 31/10/08, cumulative total commitments amounted to EUR 12.5bn, of which EUR 4.3bn under own funds, and EUR 8.2bn under EC mandates (including some EUR 890m under CIP).

New commitments in 2008 are expected to amount to some EUR 2,745m. In 2009, EIF aims at issuing guarantee commitments of EUR 2.4bn spread over own risk, the CIP and JEREMIE, as detailed in the following table[1]. The CIP pipeline appears strong, but the number of deals may be affected by expected falling volumes of new loans to be made by the Financial Intermediaries to SMEs. With commercial private sector banks reducing their SME lending activity, CIP Guarantee deals will depend substantially on the public or semi-

[1] See Annex 1 for a detailed breakdown of total guarantees and securitisation investment volumes foreseen until 2011.

public intermediaries remaining present, and the interpretation of the Additionality rules to be applied.

EURm	2008	2009
EIF own risk	778.5	700.0
EIB Joint Ops. / New products	33.5	200.0
EC CIP	1,933.0	1,100.0
JEREMIE	-	400.0
TOTAL	2,745.0	2,400.0

4.2 Mandate Management, Product Development and Incubation (MMPDI)

The newly established team has an important strategic role for the EIF. They will take on the core relationship with current and future mandators including the EIB and a number of Commission directorates (Enterprise, Regional Policy, ECFIN, Aidco). Through them, relations with the European Parliament will be developed and sustained.

The key objective will be to optimise the quantity and nature of the finance resources available to EIF to enable it to offer a fully integrated package of risk financing solutions to the intermediary market of public and private banks and funds focusing on the SME sector. This will require considerable dialogue and proactive management of relations with partners in these institutions.

MMPDI will also manage the existing mandates to ensure effective use of the resources and the necessary communication with the mandator to maintain relationships and the quality of the service. This will include the establishment of a coherent approach to the allocation of specific deals to particular mandates. We also plan to play a coordinating and coercive role between the various directorates to ensure that there are no gaps, duplications or misunderstandings concerning the activities of the EIF under the various mandates.

Dedicated teams will develop and incubate where necessary new product ideas. In late 2008 and early 2009 these will include:

- Risk sharing option for the EIB SME loans; these products, targeting financial institutions financing SMEs, would include instruments combining EIB loans to SMEs with a portfolio guarantee;
- A range of products for the JEREMIE mandates including guarantees, early stage equity investment, microfinance funding solutions;
- Under the JASMINE initiative, the design of financial products to be deployed alongside micro-credit initiatives of financial institutions.

4.3 Regional Business Development (RBD)

The newly established activity, which is based on the successful development of the JEREMIE initiative will ensure, in line with Community and EIB Group objectives, the improvement of access to finance for SMEs, foster innovation and improve convergence. This will be achieved through active management of various Holding Funds on regional and/or national levels and will replace grant schemes by sustainable revolving financial structures.

The following table presents the Key Performance Indicators for JEREMIE, giving targets for the cumulative number of funding agreements signed with Managing Authorities, followed by the cumulative total of those agreements.

JEREMIE KPIs	2007	2008	2009	2010	2011
Cumulative mandates	1	7	13	15	15
Cumulative total of fund agreements signed (EURm)	100	700	1,050	1,150	1,150

The key objective of Regional Business Development will be to reach the next tier of financial intermediaries and SMEs. Through the nationally or regionally focused Holding Funds, with the added benefit of local presence, individual market needs will be better addressed. At the same time, it will allow EIF to establish strong relationships both with the Managing Authorities as well as with the broad range of local financial intermediaries.

Building on the strong link to the local markets, EIF will be able to offer an integrated portfolio of services which will in time reach far beyond the pure deployment of JEREMIE funding on behalf of Member States or regions, and will create a natural pipeline and deal flow for other mandates managed by EIF. The main target will be to foster innovation in the SME sector through VC, Tech Transfer, debt and mezzanine instruments as well as microfinance. This broad offering and the expected penetration of the local markets will build the platform for EIF's long-term strategy in these markets, ensuring a sustainable business model and presence in these to-date underserved markets beyond the natural deadline of most JEREMIE mandates in 2015.

The management of the regional mandates will result in a relatively high number of new recruits, in particular in the regional offices which, however, are designed to be self-sustainable, allowing EIF to cover its direct and indirect costs, based on a full cost rate calculation and charging.

5 Operational Excellence

5.1 Projects and Change Management Office (PCMO)

The "Projects and Change Management Office" (PCMO) will support and implement projects as defined by the top management. In particular, it will sustain the change effect in a coordinated manner contributing to enforcing operational excellence across the various services by:

- Being a centre of excellence in the design and implementation of efficient processes in an advisory capacity;
- Providing organisational and project management support to the various services;
- Consolidating and standardising methods and practices to facilitate and streamline business objectives, ensuring cohesion and regularly driving project prioritisation exercises;
- Contributing to design and document agreed internal guidelines, processes and procedures, in collaboration with the relevant services.

The PCMO will support projects in line with the initiatives outlined above. A Projects and Change Management Committee will meet on a monthly basis.

5.2 ICT

As part of the new arrangements with EIB on moving into the East Building, EIF's IT infrastructure management and application development has been outsourced to the Bank. A service level agreement will be put in place to ensure the services are provided in a timely and transparent manner. This will allow EIF to concentrate on the analysis work (a team of four business analysts has been put in place) and benefit from substantial development resources when needed. Under the ICT unit, Facilities Management services will be coordinated with EIB and will also manage EIF's archiving services.

5.3 Finance

The finance division has been re-centred on its core activity, and its role reinforced on the following fronts:

- Remaining a centre of expertise for the accounting methodologies to be adopted (IFRS);
- Upgrading management information with pertinent financial indicators allowing a rigorous performance monitoring;
- A methodology for cost accounting will be defined and implemented;
- The planning and budgeting process will be enhanced, in coordination with the business lines, but also in alignment with that of EIB in order to ensure full coordination with the Group COP;
- An audit and coordination unit is being set up with the aim of managing audit issues proactively and systematically, as well as coordinating the administrative relations with EIB.

6 Risk Management and Control

6.1 Compliance and Operational Risk

The annual compliance work plan for the financial year 2009 will focus on the finalisation of key policies (such as the inventory of governing rules and principles for EIF's activities, statements on corporate governance and corporate social responsibility) in continuous consideration of the development of policies in EIB and in co-operation with the competent services in EIB. Further objectives relate to the necessary update of the compliance charter and the compliance procedure. Objectives also concern the refinement and standardisation of individual compliance procedures and control systems (such as procedures relating to Anti-Money Laundering and Know-Your-Customer, or procedures relating to transactional compliance) and generally ensuring market leading standards of compliance and integrity.

Concerning EIF operational risk, further tasks in 2009 will notably relate to the development of a methodology on EIF operational risk, in close co-operation with the competent services of EIB.

6.2 Risk Management

For 2009, Risk Management will maintain a rigorous discipline in the monitoring of operations. This discipline will, however, be strengthened by the putting in place of specific tools/processes to increase its supervision of the different activities of EIF, such as:

- The set-up of an Investment and Risk Management Committee which approves transactions prior to the Board of Directors. This committee will also review EIF's portfolio, carrying out monitoring of work-out cases and following up the measures put in place to protect EIF interests in these specific transactions.
- Specific stress-testing tools are currently being developed to better adapt EIF's different models and projections to extreme market conditions. In this context, a Modelling Work Group has been set up between Risk Management and Transactions and Relationship Management.
- But more generally, particular rigour in the daily activities has and will be exercised to limit EIF's exposure to the current market conditions, while maintaining an efficient support to the market.

7 Develop EIF as an Employer of Choice

Considerable investment is required into HR processes and actions, notably in the areas of staff recruitment and retention, training, communication, appraisals, incentives, and simplifying and aligning EIF-EIB contractual arrangements.

The following specific initiatives have been identified:

- Enhance the recruitment process and fill 30+ posts vacant;
- Measure staff satisfaction annually and act on improvement recommendations;
- Develop retention tools including mentoring and top talent development plans;
- Implement a training and development plan, doubling the budget and focusing specifically on management and leadership development, particularly to address challenges highlighted by the staff "pulse survey";
- Simplify and align contractual arrangements between EIF and EIB including pension and healthcare;
- Introduce a Balanced Scorecard-based performance management system and introduce 360° appraisals to improve feedback;
- Make more competitive incentive, reward and recognition schemes;
- Develop communication systematically;
- Build a corporate and social responsibility programme.

Annex 1: Forecast signature volumes

1a. Equity

EURm	2007	2008	2009	2010	2011
EIF	70.7	30.0	50.0	50.0	55.0
EIB RCM	379.4	255.0	320.0	370.0	405.0
EC MAP/CIP	49.7	132.0	80.0	80.0	80.0
JEREMIE	-	-	70.0	130.0	-
External mandates	21.0	73.0	120.0	150.0	160.0
Mezzanine	-	-	200.0	200.0	200.0
TOTAL	520.7	490.0	840.0	980.0	900.0

1b. Guarantees and Securitisation

EURm	2007	2008	2009	2010	2011
EIF own risk	1,319.4	778.5	700.0	700.0	700.0
EIB Joint Ops. / New products	69.8	33.5	200.0	250.0	400.0
EC CIP	8.0	1,933.0	1,100.0	1,200.0	1,200.0
JEREMIE	-	-	400.0	200.0	-
TOTAL	1,397.2	2,745.0	2,400.0	2,350.0	2,300.0

1c. Microfinance (JEREMIE window)

EURm	2007	2008	2009	2010	2011
TOTAL*	-	-	60.0	70.0	100.0

* A further EUR 170m will be allocated over the life of the project.