Annual Report 2003

...THE **EU SPECIALISED** VEHICLE FOR VENTURE CAPITAL AND GUARANTEES...THE **EU SPECIALISED** VEHICLE FOR VENTURE CAPITAL AND GUARANTEES

European Investment Fund

Member of the EIB Group

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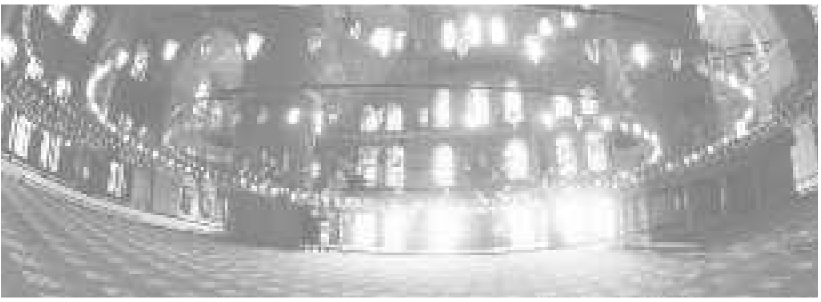

EIF Highlights

European Investment Fund

Member of the EIB Group

as at 31 December 2003

in EUR

2003 Activities

Venture Capital/Private Equity Commitments	14 funds for 135m
Venture Capital/Private Equity Disbursements	214m
Guarantees Commitments	31 operations for 2 251m

Total outstanding

Venture Capital/Private Equity Commitments	189 funds for 2 480m
Guarantees Commitments	126 operations for 6 351m

2003 Key financial data

Subscribed capital	2 000m
Own funds	578m
Treasury funds	533m
Net income for the year	19.7m

Shareholders

European Investment Bank	59.6%
European Union via the European Commission	30.0%
31 Financial Institutions	10.4%

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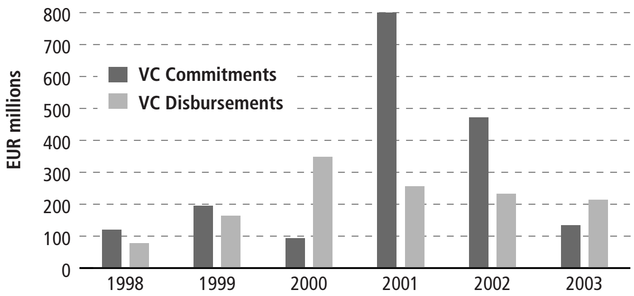
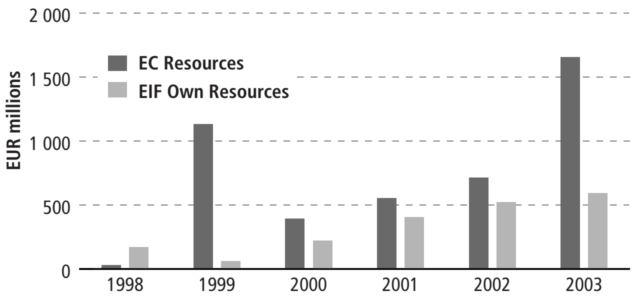
Overview
of Past and Present Performance and Results

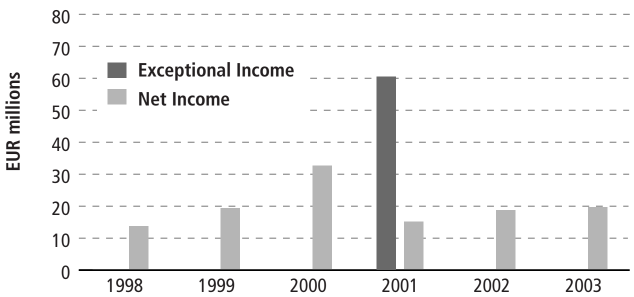
Venture Capital Commitments



SME Guarantees Commitments



Profit for the Financial Years



Exceptional income in 2001 results from the transfer of the Trans-European-Networks activity to the EIB, as part of the EIF Reform.

EIF Products

The EIF operates two principal instruments, which, through their leverage effect, play a strategic role in Research and Innovation and in the development of Small and Medium-sized Enterprises (SMEs) in Europe: venture capital and portfolio guarantees.

Venture Capital/Private Equity

In its venture capital activity, EIF operates as a fund-of-funds, with investments in some 190 venture capital funds across the enlarged EU and the Accession Countries. EIF invests across a broad spectrum from seed capital to early and mid-stage, and in specific sectors such as high-tech, biotech, regional and pan-European funds, thereby contributing to the development of an innovation and knowledge-based European economy, while targeting an adequate return on own funds.

Portfolio Guarantees

EIF guarantees comprise two main products: credit enhancement and credit insurance. EIF offers these products to a wide range of counter-parties to enable them to develop SME lending. Credit enhancement, or guarantees for securitised SME loan and lease portfolios, in particular has become a core EIF product, representing an important share of new commitments. Credit insurance transactions are guarantees and counter-guarantees in relation to a portfolio of SME loans or leases. A special case for which EIF uses credit insurance is the SME Guarantee Facility, which EIF manages on a mandate for the European Commission.

Guarantees for micro-loans, a unique window under the MAP Loan Facility, have also become a particularly pertinent activity in several EU countries.

…and Advisory Services

The EIF also offers independent advisory services as a new and complementary activity, whereby it can provide advice based in particular on its expertise as an investor and/or as guarantor. Targets are national or regional entities and authorities, and this activity can also apply to other sectors such as research, investment structuring and guarantee instruments.

EIF Resources

To fund its operations, the EIF draws on two types of resources: own funds and funds mandated by the EIB, the European Community (European Commission), and recently, by the German Federal Ministry of Economics and Labour.

The bulk of EIF's venture capital investments are carried out using **EIB resources**. Since the year 2000, EIF has been responsible for all EIB Group equity investments, notably in early to mid-stage technology funds that focus on innovative companies in the EU and in the Acceding and Accession Countries (AAC).

EIF uses its **own resources** principally to carry out guarantee commitments, while for its venture capital operations, EIF own resources are co-invested alongside EIB resources in a number of operations.

For both its guarantee and venture capital activities, the **EIF manages resources on behalf of the European Commission** under the Multiannual Programme for enterprise and entrepreneurship 2001-2005 (MAP). The MAP comprises three products:

1. SME Guarantee Facility offering principally:
   - Guarantees for SME loans;
   - Guarantees for micro-loans0 up to EUR 25 000 and for micro-enterprises with up to 10 employees.

2. ETF Start-up Facility: supports the financing of incubators, seed capital funds, smaller funds, funds operating regionally or focused on specific industries or technologies, or venture capital funds financing the development of Research and Innovation;

3. Seed Capital Action: supports, through a grant, the recruitment of additional investment managers in seed capital funds in which the EIF has invested.

The EIF was recently awarded a venture capital mandate by the German Federal Ministry of Economics and Labour: the **ERP-EIF Facility** ("ERP" for European Recovery Programme). The ERP-EIF Facility is the first mandate that EIF manages on behalf of a non-shareholder. Under this Facility, which was signed in December 2003, EIF will co-invest in a range of early to mid-stage funds focusing on Germany-based high-tech businesses.

Foreword

The Lisbon Process initiated in 2000 which aims at transforming the European Union into "the most competitive and dynamic knowledge-based economy in the world", as well as the Barcelona Council objective of increasing investments in European Research & Development (R&D) to reach 3% of GDP by 2010, are the core drivers of EIF strategy.

In accordance with these objectives, in 2003, EIF has reinforced and adapted its means to mobilise venture capital resources and has extended its guarantees activity. Furthermore, in an effort to link R&D with venture capital, emphasis has been put on EIF's contribution to venture capital funds that include a seed element or target spin-offs from university research centres.

Encouragingly, the strong role played by EIF in the financing of R&D was confirmed by the recent "European Action for Growth Initiative" (presented to the European Council) to support growth and integration by increasing overall investment and private sector involvement notably in major R&D projects. In this context, EIF has been asked to increase its support for venture capital and guarantees.

In parallel, EIB has strengthened its support for European venture capital by increasing the resources allocated to the "Risk Capital Mandate", an EIB facility managed by EIF, signifying over EUR 1 500 million additional EIF investment potential.

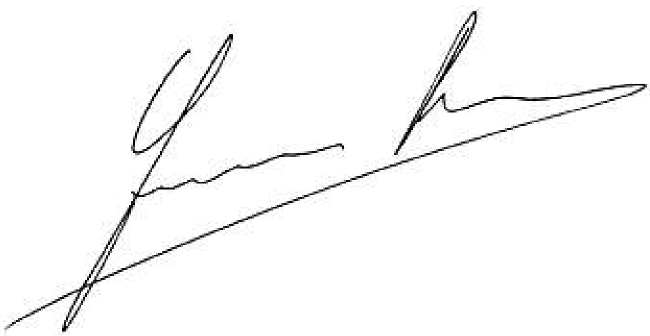
Certainly, with increased long-term resources coming from both of its main shareholders, EIB and the European Community, EIF anticipates an eventful year ahead. In terms of activity, the enlargement of the EU to include ten new Member States will almost certainly result in requests for increased action in highly work and resource-intensive markets for all EIF activity lines.

In addition to its impact on equity participations and guarantee commitments, enlargement has further implications for EIF from an institutional perspective, allowing it to widen its shareholding possibilities. Already in July 2003, the Hungarian Development Bank Ltd was welcomed as a new

by the Chairman of the Board

shareholder, followed shortly after by Encouragement Bank (Bulgaria) and Bank of Valletta p.l.c. (Malta). The Fund also welcomed SanPaolo IMI Private Equity S.p.A., the equity branch of the important Italian bank SanPaolo IMI, among its shareholders.

In sum, the results of 2003 have improved and the EIF now plays a well-established role on the European financial landscape. Backed by all of its shareholders, existing and new, and equipped with considerable investment potential, EIF will certainly develop its impact on innovation financing in the coming years.



Giovanni Ravasio

Introduction

2003 was a year of great progress for the Fund, inspite of difficult venture capital market conditions. Among the outstanding events was the achievement of a AAA/Aaa/AAA credit rating by rating agencies Standard & Poor's, Moody's and Fitch. This led to the approval, in early 2004, by the Basel Committee of Multilateral Development Bank status for EIF, meaning a 0% weighting under the new Basel II Capital Accord and a 20% weighting under the current Basel I. Further highlights were: EUR 500 million additional investment resources allocated to EIF for venture capital under the EIB's "Risk Capital Mandate" (RCM), which was unanimously approved by the Board of Governors of the EIB; a third-party venture capital mandate, which will leverage the EIF's operations; the signing of the first advisory contracts; and finally, the addition of four new shareholders to the EIF. Furthermore, 2003 was a successful year thanks to a considerable rise in EIF's guarantee activity, which has increased the overall level of EIF operations despite adverse market conditions that continue to affect the venture capital side of its business.

New guarantee volumes increased significantly in 2003, with commitments reaching EUR 2 251m (MAP: EUR 1 657m; Own Risk: EUR 594m). These signatures are the result of, on the one hand, the development of the European securitisation market and credit enhancement operations, and on the other, the increased demand for the European Commission's Multiannual Programme (MAP), coming in part from the Acceding and Accession Countries. The MAP's micro-credit window has been especially successful as several new guarantees agreements have been signed, meaning that micro-credit coverage and mentoring services are available from financial institutions in six countries.

As for its venture capital activity, EUR 135m in new commitments were signed in 2003. Although this amount was lower than forecast, EIF still plays a leading role in the European venture capital market with a continuous presence achieved through ongoing disbursements, which remain at a level comparable to those of previous years. Through these disbursements, EIF attempts to balance its portfolio composition by stage, for example through second and third-round investments and, where possible, by vintage year, for example through secondary transactions. In addition, EIF aims to complement its early-stage tech funds with later-stage tech funds that have above average expected performance.

by the Chief Executive

One development in 2003 that holds significant implications for EIF's venture capital business in 2004 and beyond was the launch of a EUR 500m "ERP-EIF Facility" for investments in venture capital funds targeting German high-tech companies. The EIF is to be responsible for the management of this Facility on a mandate granted by the German Federal Ministry of Economics and Labour, which represents the first mandate EIF operates on behalf of a non-shareholder.

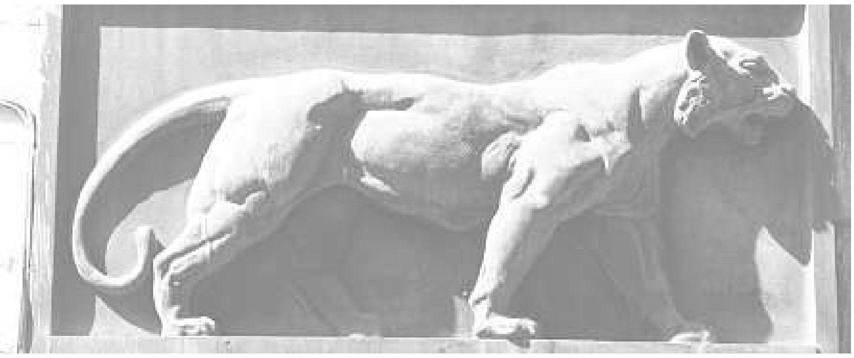
In addition, in 2003 four advisory contracts were signed with regional authorities in three EU countries as well as with the European Commission's DG Transport/Energy, indicating a successful beginning for EIF's newest activity, which was launched just over one year ago.

Financial year 2003 showed an audited net profit of EUR 19.7m, compared to 18.8m in 2002. Ordinary income remains stable and amounts to EUR 47.3m as the result of a slight decrease in treasury income and the fact that realised gains from venture capital operations were offset by an increase in guarantee fee income and management fees. The cash and equivalent position remains unchanged at EUR 530m.

The achievement of the EIF's Corporate Operational Plan objectives has been a team effort, for which I commend all EIF staff. Certainly, the fruit of such hard work to develop EIF's guarantees and venture capital business has already benefited thousands of SMEs across the EU and the Acceding and Accession countries. I look forward to the coming year, in which we will further expand our activity and objectives in favour of innovation and SMEs, as well as – last but not least – welcoming ten new Member States to the European Union.

F. Carpenter.

Francis Carpenter



Venture Capital

Venture Capital

The Market Environment

An economic decline, which began three years ago, continues to hinder European venture capital market activity, with the overall level of capital raised by funds still falling (depicted in the following chart), though a rebound is anticipated in 2004.

EIF Operations in 2003

For the EIF, this decline in overall market activity has affected the number of new commitments. Total signatures in 2003 amounted to EUR 134.4m, invested in fourteen venture capital funds. Out of these fourteen operations, six are new funds and the remaining eight consist of increases in EIF commitments in existing funds. EIF participations in 2003 include funds that are focused on all sectors, including ICT, biotechnology, engineering, nano-technology, software, communications and electronics, and traditional industries.

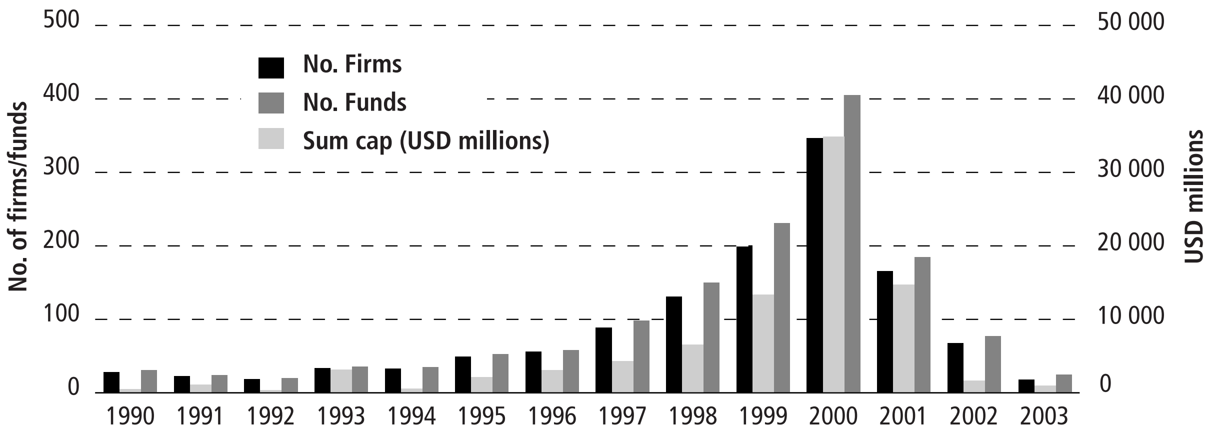
With regard to stage focus, five out of the fourteen venture capital funds are centered exclusively on companies in their seed, start-up or development phases, with two of these funds targeting new technology-based firms that are either university spin-offs or benefit from a strategic partnership with a university. EIF's participation in these funds, which will feed largely off research conducted at universities, is in keeping with the core driver of EIF strategy and the EIB's new "Innovation 2010 Initiative" to increase investment in research.

Another policy driver of EIF is regional development. To further this objective, in 2003 EIF invested in two funds that have a regional focus (FPCR Mezzogiorno and Interbanca Investimenti Sud) targeting sectors such as manufacturing, tourism and services. Both funds are based and active in the south of Italy, which is an "Objective 1" area under European regional policy. EIF's participation aims to foster regional development through employment, innovation, entrepreneurship and the establishment of a venture capital market in the area with a sound commercial basis.

Finally, alongside the total amount EIF invested in funds in 2003, EUR 300 000 was allocated to an additional two venture capital funds (EMBL Technology Fund and Pentech

Chart 1 : European venture capital funds raised 1990 to November 2003

Source: Thomson Venture Economics/NVCA



Fund 1) as grant finance under the Seed Capital Action (SCA). SCA is a European Community funded facility, helping to cover the recruitment costs of young investment managers who are active in seed capital.

EIF's overall venture capital portfolio amounts to EUR 2 480m at year-end; 87% of this amount being represented by **EIB resources** under EIF management through different facilities allocated to the Fund since 1997. This commitment of the EIB has been confirmed again in 2003, in the context of the European Growth Initiative, through the release of a further EUR 500m from the so-called ASAP reserve. Added to previous funds set aside, this amount represents an additional EUR 1 500m for venture capital and an overall investment capacity of EUR 4 000m since 2000. This support is provided by the EIB in the context of the **"Innovation Initiative 2010"**, which covers in parallel the mobilisation by the Bank of important lending resources aiming at the promotion of a knowledge based economy, research and development, human capital and technological networks. Since 2000, the EIF manages all EIB resources devoted to venture capital; backed by these resources, it has become the major investor in technological early stage venture capital all over Europe. Current EIB resources under management represent EUR 2 161m. The value adjustments (EUR 264 m) shown in the audited accounts are based on EVCA valuation methodologies, essentially adjusted net asset values. These figures should be seen in light of difficult market conditions particularly in the high-tech early-stage segment, targeted by the EIB mandate.

EIF and BMWA to mobilise resources for high-tech in Germany

An important development in 2003 was the launch of the EUR 500m "ERP-EIF Facility" ("ERP" for European Recovery Programme) for investments in early and mid-stage funds focusing on German high-tech companies. EIF has been awarded this mandate by the German Federal Ministry of Economics and Labour (BMWA).

The ERP-EIF Facility will have an investment period of up to 5 years and a divestment period of up to 10 years. Investments made under the mandate will be matched by EIF on the basis of a co-investment agreement (on a 50/50 basis); the overall amount available for investments will be up to EUR 500m, but will be invested only if suitable opportunities are identified. The objective of the Facility is to ease the fundraising of private investors and ultimately result in a potential EUR 1 700m of additional investments in support of innovative companies via venture capital funds. This Facility will positively affect the development of the German venture capital market in the future, in both early and mid-stages.

The Venture Capital Portfolio

EIF Equity Operations Cumulative Portfolio
EUR 2 480m as at 31 December 2003

Chart 2 : *Commitment by Sector*

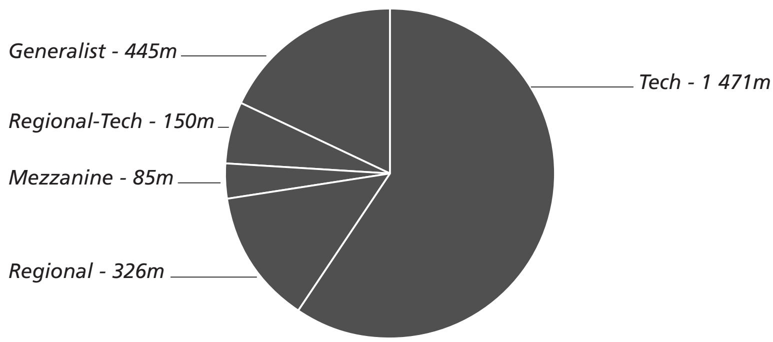


Chart 3 : *Commitment by Country*

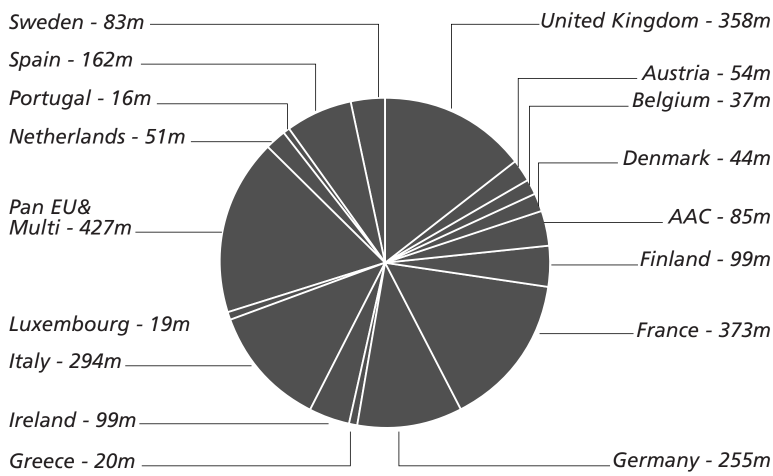


Table 1 : Operations Signed in 2003

EUR

Resources	Commitments
EIB Group	129 853 449
EC Funding	4 800 000

♠ *Further closing* ♣ *Seed Capital Action (EC) funding* ♥ *ETF Start-up Facility (EC) funding* ♦ *Secondary operations*

Country	Venture capital operation	Focus	Signatures	
Pan-European & Multicountry				
	Advent Private Equity Fund 2	ICT, Biotechnology		♦
	Avlar Bioventures Fund II LP	Biotechnology		♠
	EMBL Technology Fund	Life sciences, information technology		♣
	Innovacom 5	ICT		
	Merlin Biosciences Fund III	Biotechnology		♠
		Subtotal	***26 897 330***	
Belgium				
	Vives	Information & Communication Technology (ICT), Biotechnology		♥
		Subtotal	***4 500 000***	
Acceding Countries				
	Euroventures III	Generalist		
		Subtotal	***10 000 000***	
France				
	21 Développement II	Generalist		♠
	AXA Venture Fund IV	ICT, Biotechnology		♠
	Science & Innovation Fund 2001	ICT, Biotechnology		♠
		Subtotal	***23 752 190***	
Italy				
	FPCR Mezzogiorno	Regional		♠
	Interbanca Investimenti Sud	Regional		
		Subtotal	***24 000 000***	
The Netherlands				
	Waterland Private Equity Fund II B.V.	Generalist		
		Subtotal	***15 000 000***	
United Kingdom				
	Amadeus II A	ICT		♦
	Close Brothers Growth Capital Fund II	Generalist		
	Pentech Fund 1	ICT		♣
		Subtotal	***30 503 929***	
		Grand Total	**134 653 449**	

Case Study: Seed Capital Investment

T-Source (France)

In France, an outstanding public technology research base houses highly attractive investment opportunities. However, as academic research does not provide sufficient financial incentives for scientists to develop intellectual property to its fullest potential, seed funds can play a critical role in enabling a number of such scientists to make the transition from academic research to the technology private sector.

In October 2002, using ETF Start-up (European Community) resources, the EIF made a commitment to invest EUR 4.3m in “T-Source”, a EUR 38m French seed capital fund entirely dedicated to companies involved in telecommunications. The fund (similar to other French seed funds such as Bioam and Emertec) is an initiative of CDC PME, an EIF Strategic Partner with which EIF has co-operation agreements in place, which has helped to build the structure, recruit Sponsors and the Team. The aim of EIF’s participation in the fund was to facilitate new investment as well as follow-on investment by the fund in existing portfolio companies fostering technology transfer from French national research institutes to product commercialisation.

T-Source is managed by I-Source Gestion, a specialised technology seed-stage investment company that is currently managing three other technology seed funds: I-Source, I-Source II, and C-Source. I-Source Gestion was founded in 1998 and is owned in equal parts by AXA, CDC PME and INRIA Transfert, the technology transfer branch of French public research institutes INRIA (Institut National de Recherche en Informatique et en Automatique). T-Source has raised a substantial contribution from ALCATEL and GET (Groupe des Ecoles de Telecom), confirming the strategy of tech transfer from research centers to Industry. These strategic sponsors are able to make available a powerful network to the fund in terms of access to scientists as a source of expertise when reviewing investment proposals and preferred access to exceptionally high-quality deal flow.

Examples of this high-quality deal flow are evident in the six investments made by T-Source to date. The companies are characterised by strong intellectual property rights on commercially viable products in high potential sectors such as optoelectronics and wireless infrastructure. They were all founded in 2001 and 2002, and, although young, they already have a sizeable list of important clients, including two international airports, Paris Congress Center, key telecom operators in Europe, large branded retailers, European television stations and American production companies. Together, these high-growth companies have mobilised over EUR 19m from different private equity funds in order to pursue their growth strategies. Two EIF partners, Ventech and Sofinnova, are co-investors via their respective funds within T-Source. Some 80 highly qualified staff currently work for the six companies.

Besides T-Source, EIF has participated in similar seed capital structures in other countries (Belgium, Germany, Denmark, United Kingdom, etc).

Guarantees

Guarantees

The Market Environment

As for EIF guarantee activity and in particular credit enhancement, securitisation transactions flourished in a number of Member States. They represent an effective means of managing actively bank loan books, seeking alternative sources of funding on competitive terms and achieving better returns on equity. Moreover, the recent changes in the regulatory and economic environment, such as the phasing-out of the statutory guarantees provided by the German Länder, the increasing budget constraints on public finances, and the future implementation of higher regulatory capital requirements under Basel II, will most probably contribute to making securitisation even more attractive. It is therefore expected that the environment will continue to be favourable for all EIF guarantee lines in the future, the overriding objective for EIF being to provide funding – be it indirectly – to SMEs.

- Guarantees: leveraging instruments for further SME loans

EIF's status as a Multilateral Development Bank (and the recognition by the Basel Committee) as well as its financial standing (EIF was rated AAA/Aaa/AAA by Standard and Poor's, Moody's and Fitch in 2003):

- Allows for reduced regulatory capital allocation on assets guaranteed by the EIF thanks to its 20% risk weighting (0% when the proposed new Basel II Capital Accord comes into force);
- Allows financial institutions to expand their lending capacity and improve their return on equity in the SME segment;
- Facilitates credit risk transfer to the capital markets through bond issuances guaranteed by EIF.

EIF guarantee activity has an **important leverage effect**: under the credit insurance and re-insurance line, it is considered that for each EUR 1m budgetary allocation (risk funds), EIF has so far supported approximately EUR 50m of new SME lending.

EIF Guarantees: Two Main Instruments

Credit Insurance
EIF addresses market failures and supports SME lending through the management of a dedicated programme on behalf of the European Commission – trust activity: the SME Guarantee Facility of the Multiannual Programme for Enterprises (MAP) – notably with credit insurance and re-insurance instruments.

Under the SME Guarantee Facility, EIF provides loan portfolio guarantees and counter-guarantees in relation to a portfolio of SME loans or leases. EIF covers up to 50% of the credit risk of the individual loans or leases in the dedicated portfolio and its obligation to pay its share of losses under a specific portfolio will be capped at a pre-set amount. EIF also provides guarantees for portfolios of micro-loans for enterprises with 1 to 10 employees to encourage financial institutions to become more involved in this area by offering loans of a smaller amount which involve proportionally higher handling costs.

Under this programme, EIF operates mainly with public guarantee organisations, promotional banks and mutual guarantee schemes, including those having a specific regional focus. It also conducts credit insurance operations with its own resources.

Credit Enhancement
Credit enhancement has become a core EIF product, representing an important share of the deal flow and already now a substantial portion of the existing portfolio.

In credit enhancement transactions (guarantees for securitisation), banks and leasing companies transfer their credit risk to the capital markets, achieving capital relief and freeing up capacity for new SME loans or leases. EIF's role is to provide guarantees to noteholders to enhance the credit quality of the asset-backed bonds or to enter into credit default swap arrangements as protection seller, thereby facilitating the risk transfer from originators to the capital market. The main advantage of securitisation for SMEs is the substantial increase in the lending capacity of banks and leasing companies, which remain by far the main source of SME medium and long-term funding.

With its own resources activity, EIF allows banks to increase their lending capacity and to achieve higher returns on equity from SME lending, while contributing to the

Micro-credit as a SME Guarantee Facility window

A specific micro-loan window had been designed under the MAP Guarantee Facility in order to stress the importance of micro lending. It supports entrepreneurs and micro-enterprises with up to 10 employees, guaranteeing micro-loans of up to EUR 25 000. Mentoring for entrepreneurs is a key feature under the programme to ensure success.

EIF has entered into agreements in 6 countries, for a total guarantee commitment of EUR 180m: ADIE (Association pour le droit à l'Initiative Economique) (FR); Deutsche Ausgleichsbank (DE); First Step (IE); Fonds de Participation (BE); Instituto de Crédito Oficial (ES); The Prince's Trust and the Scottish Youth Business Trust (UK). As of 31 December 2003, these intermediaries had committed EUR 80.7m in micro-loans to 9 139 companies employing 11 197 people. The number of loans and starters supported is growing steadily and is quite impressive: for a small loan amount a high number of jobs can be created.

The classical **micro lending activity** is targeted at individuals who want to set up their own business, often because they have limited access to bank finance or to the labour market: long-term unemployed, women, ethnic minorities. Financial support is not the only condition for a successful business start. EIF believes that, as in the case of Prince's Trust, appropriate mentoring for the entrepreneurs is an essential element, as it improves the prospects for loan repayment and for survival rates, by helping to create self-sustainable small businesses. In this respect, specialised non-profit organisations, such as ADIE in France, are playing a very important role, complementary to the banking sector. Within the micro-loan window of the MAP Guarantee Facility, EIF provides **loans to micro-enterprises** with up to 10 employees that are directly provided by commercial banks or other financial institutions and where the MAP guarantee can provide the necessary support. Under this facility, commercial banks are encouraged to lend to start-ups that cannot provide sufficient collateral to be bankable. As commercial banks or promotional institutions do not have the expertise to provide mentoring support, institutions like DtA and ICO have chosen to work with specialised NGOs in this area.

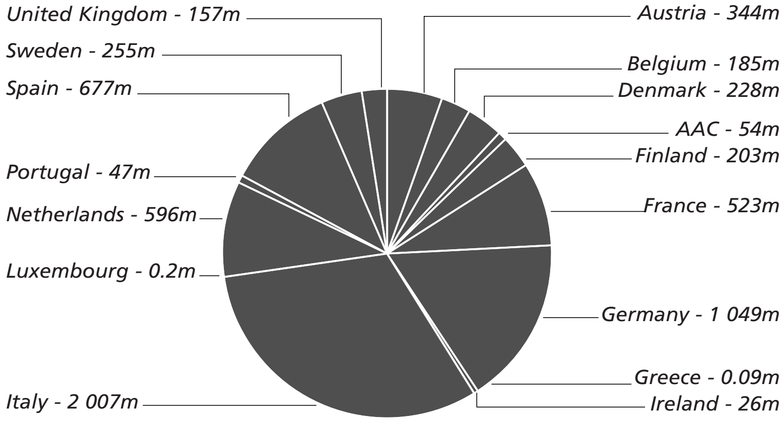
EIF expects to develop its cooperation with both types of institutions in the future and is aiming at widening the number of intermediaries providing micro-loans at a national level.

Her Majesty Queen Sofia of Spain, recently presented an award to EIF Chief Executive, Mr Francis Carpenter, in recognition of EIF's support for ICO's micro-credit activity in Spain. ICO's micro-credit scheme was launched in 2002 and was among the first micro-credit operations guaranteed by EIF.

The Guarantees Portfolio

Chart 4 :
EIF Guarantee Operations Cumulative Portfolio
EUR 6 351m as at 31 December 2003

Commitments by Area



spread of best market practice and product innovation (e.g. by contributing to the development of the securitisation markets and structured finance transactions for SME financing) throughout the EU.

EIF Operations in 2003

EIF concluded thirty-one guarantee transactions in 2003 for a total amount of EUR 2 251m:

- Twenty-one transactions were signed under EIF's trust activity (SME Guarantee Facility – MAP), amounting to EUR 1 657m.
- Ten transactions were signed on own resources, amounting to EUR 594m. Of this amount, nine credit enhancement transactions were concluded for EUR 504m and one credit insurance operation for EUR 90m.
- Two of the operations completed were secondary market transactions, the first for the EIF, guaranteeing certain mezzanine credit-linked notes issued from the CAST 1999-1 and Promise-I 2000-1 SME loan securitisation transactions. Through a secondary intervention, EIF improves the liquidity of the secondary markets for securities backed by SME loans or lease collateral as well as the structure and yield of its portfolio.

The cumulative amount of EIF guarantees portfolio totals EUR 6 351m.

The MAP became available to Acceding and Accession Countries in March 2003, following which the first three EIF guarantee operations were signed in Bulgaria, the Czech Republic and Latvia for credit insurance operations amounting to EUR 54m.

Case Study: SME Loan Securitisation

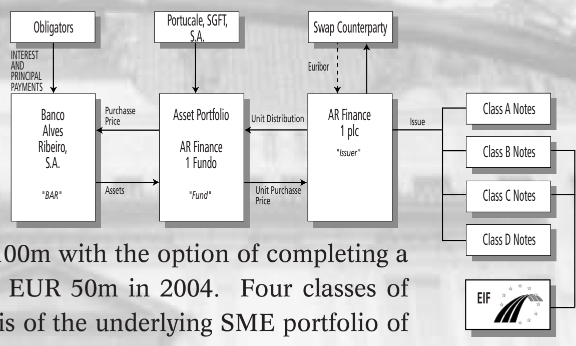
AR Finance I PLC (Portugal)

The **process of loan securitisation** involves the packaging of a pool of homogenous loans and (a) selling these to investors in the form of securities backed by the cash flows arising from the underlying loans ("true sale" securitisation), or (b) the transfer of the credit risk of such portfolio of loans to the capital markets, while actual ownership of the loans remains with the originating bank ("synthetic" transactions).

From the **originating bank's perspective**, the main advantages of securitisation include the ability to raise finance at a relatively low cost and on flexible terms; partial or total removal of assets from its balance sheet; diversification of funding sources; access to the capital markets for unrated or low rated entities (i.e. smaller banks) and access to liquidity. Additionally, through securitisation banks are able to reduce their regulatory and economic capital requirements.

The **main advantage to SMEs** of securitisation is the substantial increase of the banks' direct and indirect funding base as a result of economic and regulatory capital relief. Since banks can originate SME financing, and transfer the risk of the loans originated (without losing the important client relationship), the lending capacity of the banks applying securitisation techniques is markedly enhanced. This is especially true for smaller banks which have reached their credit limits and therefore cannot further expand their lending activity.

The primary role of EIF within the securitisation transactions is to facilitate the risk-transfer from originators to the capital market by providing credit enhancement to asset-backed securities, typically in the illiquid mezzanine segment (i.e. securities with an underlying rating in the range from double-B to single-A).



The AR Finance I PLC operation signed in 2003 is the first securitisation of SME financing in Portugal. The initial portfolio to be securitised was around EUR 100m with the option of completing a tap issuance of an additional EUR 50m in 2004. Four classes of notes were issued (on the basis of the underlying SME portfolio of loans); EIF providing a wrap on the mezzanines classes for a nominal amount of EUR 25m. Geographically, almost two thirds of the portfolio was originated in Oporto, the wholesale and retail sector representing the highest industry concentration (29%). The securitised portfolio can be divided into three main building blocks: real estate leases, loan property financing and residential mortgages.

Table 2 : Operations Signed in 2003

EUR

Product	Commitments
Contingent liability: EIF own resources	594 117 109
No contingent liability for EIF: MAP	1 657 310 553
	2 251 427 662

♦ *Secondary operations*

Product	Bank	Country	Commitment	
Enhancement	AR Finance 1 Plc	Portugal	25 000 000	
	CAST 1999 – Promise 1 2000	Germany	40 000 000	♦
	FTYPME BANCAJA 2 FTA	Spain	43 800 000	
	Lombarda Lease Finance 3	Italy	100 000 000	
	Maestrale S.r.l.	Italy	34 200 000	
	Mile – N1 plc	Germany	73 367 109	
	Promise Color 2003-1	Germany	53 050 000	
	Promise-XXS 2003-01	Germany	92 700 000	
	Promise-I 2000-1*	Germany	42 000 000	♦
		Subtotal	504 117 109	
Insurance	Finans Nord 2	Denmark	90 000 000	
		Subtotal	90 000 000	
MAP	ATI – Alleanza di Garanzia	Italy	207 500 000	
	ATI – Artigiancredit Piemonter – Emilia Romagna – Lombardia	Italy	220 000 000	
	ATI – SIS	Italy	74 000 000	
	ATI – Garanzia Diretta	Italy	83 000 000	
	BBMKB	Netherlands	170 000 000	
	AWS (formerly Bürges)	Austria	85 900 000	
	CERSA	Spain	220 150 000	
	CMZR**	Czech Republic	32 197 752	
	KfW (formerly Deutsche Ausgleichsbank)	Germany	76 500 000	
	KfW (formerly Deutsche Ausgleichsbank)	Germany	60 000 000	
	Encouragement Bank AD	Bulgaria	7 000 000	
	Finnvera	Finland	49 995 000	
	First Step Ltd	Ireland	3 000 000	
	Fonds de Participation	Belgium	7 500 000	
	Fonds de Participation	Belgium	20 000 000	
	ICO – Instituto de Credito Oficial	Spain	11 400 000	
	MCC	Italy	90 000 000	
	Mortgage and Land Bank Latvia (Hipoteku banka)	Latvia	15 000 000	
	SOCAMA	France	118 750 000	
	Sofaris	France	79 400 000	
	The Prince's Trust and the Scottish Youth Business Trust**	United Kingdom	26 017 800	
		Subtotal	1 657 310 553	
		Grand Total	**2 251 427 662**	

** NB: EIF transferred 3 Aaa tranches (EUR 188.2m in total) to a counterparty with effective dates during the third quarter 2003 and sold risk protection on 4 tranches (EUR 42m in total, average rating: Baa3) from 29.06.03 onward (asset switch). Net amount signed is therefore 2 250.5m minus 188.2m.*
*** Historical rates.*

THE EU SPECIALISED VEHICLE FOR VENTURE CAPITAL AND GUARANTEES...THE EU SPECIALISED VEHICLE FOR VENTURE CAPITAL AND GUARANTEES

Advisory Services

This fee-based activity was launched by the EIF in 2003 in close liaison with DG Regional Policy of the European Commission, in order to optimise the impact and benefits of SME finance operations, to bridge the knowledge gap and to contribute to the diffusion of best market practice in its business fields. EIF is the institution at European level with experience of the most relevant existing schemes, instruments and intermediaries in this field throughout Europe. Its experience is therefore valuable for optimising the impact of these types of initiative and for spreading good practice in the market.

EIF Advisory Services aim to support the creation, growth and development of SMEs by enhancing their access to finance. This is achieved through the provision of strategic and technical advice on the design, implementation and evaluation of SME finance and financial engineering policies, projects and structures to a range of counterparties, e.g. governments, local authorities and regional development agencies, as well as the European Commission.

The ultimate goal of Advisory Services is to contribute to the pursuit of European Union objectives, in particular the promotion of an entrepreneurial spirit, regional development and the cohesion of the Union (art. 2 of EIF Statutes).

Type of Intervention: Policy and Project Level

EIF assignments comprise two levels of intervention: general policies; specific projects and instruments for SME finance.

- At the policy and programme level, EIF's role is to strengthen the capacity of the public and private sectors to formulate and implement national and regional policies, strategies and programmes to promote SME development as well as to monitor their effectiveness.
- At the project level, EIF can help clients to design and implement specific instruments and structures.

In 2003, three contracts were signed: the first, with Spain's Instituto de Fomento de Andalucía (IFA), was of a more technical nature and included the structuring of seed funds and micro-credit operations; the second assignment, for Belgium's Gouvernement Wallon (Ministry of Economic Affairs), dealt with the future SME policy for the region. In both cases, EIF's overview of European best practice was a determining element of the assignment entrusted to the Fund.

A third assignment on behalf of the European Commission's Directorate General for Transport/Energy is currently still underway. In this case, due to its expertise in the field of guarantees, EIF is assessing the feasibility of an Arbitral Award guarantee fund for projects of common strategic interest in the context of the Energy Partnership between Russia and the European Union.

Recent Publications

Based on the EIF's specificity and portfolio, fund staff have been involved in the research and writing of venture capital and risk management articles, which have appeared in numerous journals and publications. All of these articles, including the two excerpts below, are available in the Publications section of the EIF Internet site: www.eif.org.

"The Risk Profiles of Private Equity: Private equity is a risky asset, but private equity investments not necessarily so"

The European Venture Capital Association has recently published the above study by EIF staff, Dr. Tom Weidig and Pierre-Yves Mathonet.

In the study, the authors introduce the different investment vehicles, referring mainly to venture capital, but also to buyout whenever possible. Discussion is based on published research articles, the authors' own research, and the Thomson Venture Economics database. An analysis is conducted of the risk profiles in detail, also in terms of the risk-return ratios of each vehicle. The authors conclude that there is a clear diversification benefit for funds, funds-of-funds, and portfolios of funds and direct investments. For example, the probability of any loss is small for a venture capital fund-of-funds, whereas the probability of a total loss of capital in a direct VC investment is about 30%. The study also makes mention of the allocation of economic capital to cover for unexpected losses, especially with respect to Basel II regulations.

EIF sponsorship of the "Survey of European Venture Capital (SEVeCa)"

In 2003, EIF sponsored a "Survey of European Venture Capital", conducted by three leading venture capital experts: Laura Bottazzi (IGIER-Bocconi University and CEPR), Marco Da Rin (Turin University, ECGI, IGIER-Bocconi University) and Thomas Hellmann (Stanford University, USA). The survey, which is the largest to date on the venture capital industry in Europe, includes collected data on the activities of more than 1 850 investment companies, venture capital partners and funds, for the period 1998-2001.

Bottazzi, Laura & Da Rin, Marco & Hellmann, Thomas: The Changing Face of the European Venture Capital Industry: Facts and Analysis; Survey of European Venture Capital, January 2004.

Results of the Financial Year 2003

Independent Auditor’s report

To the Audit Board
of the EUROPEAN INVESTMENT FUND
43, avenue J. F. Kennedy
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying annual accounts of the EUROPEAN INVESTMENT FUND for the year ended December 31, 2003. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in accordance with the general principles of the Council Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions, a true and fair view of the financial position of the EUROPEAN INVESTMENT FUND as of December 31, 2003 and of the results of its operations and its cash flows for the year then ended.

Luxembourg, 17 February 2004

PricewaterhouseCoopers S.à r.l.
Réviseur d’Entreprises
Represented by

Pierre Krier

Report of the Audit Board

The Audit Board set up in accordance with pursuant to Article 22 of the Statutes,

- acting in accordance with the customary standards of the audit profession,

- having studied the books of accounts and such documents which it deemed necessary to examine in the discharge of its duties,

- having examined the report dated 17 February 2004 drawn up by PricewaterhouseCoopers S.à r.l. Réviseur d'Entreprises,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms

- that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes, the Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors;

- that the balance sheet and profit and loss account of the Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 17 February 2004

THE AUDIT BOARD

Henk Kroeze

Michael Haralabidis

Sylvain Simonetti

Balance Sheet as at 31 December 2003

EUR

ASSETS	Notes	2003	2002
Cash at bank and in hand	3.1		
current accounts		24 123 231	11 195 881
term deposits		30 000 000	15 000 000
		54 123 231	**26 195 881**
Debt securities and other fixed-income securities	3.2	478 934 830	506 714 888
Shares and other variable income securities	3.3	59 870 013	49 305 307
Intangible fixed assets	3.4	993 975	35 697
Tangible and other fixed assets	3.4	4 714 086	4 904 435
Other assets	3.5	3 376 011	646 585
Prepayments and accrued income	3.6	15 163 313	14 482 767
TOTAL ASSETS		**617 175 459**	**602 285 560**

OFF-BALANCE SHEET ITEMS	Notes	2003	2002
Guarantees in respect of loans granted by third parties	5.1		
Drawn		2 768 008 277	2 642 723 393
Undrawn		204 503 824	420 280 619
		2 972 512 101	**3 063 004 012**
Commitments	5.3	82 747 480	75 512 464
Assets held for third parties	5.4	227 920 889	210 683 007
Fiduciary operations	5.5	6 714 836 258	5 109 410 869
	5.6	**9 998 016 728**	**8 458 610 352**

LIABILITIES	Notes	2003	2002
Creditors	4.1	1 758 283	3 438 016
Accruals and deferred income	4.2	16 006 738	15 955 426
Provisions for liabilities and charges			
Provisions relating to guarantees	4.3	27 454 593	25 522 421
Provisions relating to pensions and similar obligations	4.4	2 702 122	550 000
Other provisions		1 976 360	1 780 033
		32 133 075	**27 852 454**
Capital	4.5		
Subscribed		2 000 000 000	2 000 000 000
Uncalled		-1 600 000 000	-1 600 000 000
		400 000 000	**400 000 000**
Share premium account		12 770 142	12 770 142
Statutory reserve	4.6	58 367 050	54 613 022
Profit brought forward	4.6	76 402 471	68 886 360
Profit for the financial year	4.6	19 737 700	18 770 140
TOTAL LIABILITIES		**617 175 459**	**602 285 560**

The accompanying notes form an integral part of these annual accounts.

Profit and Loss Account
for the year ended 31 December 2003

EUR

	Notes	2003	2002
Net interest and similar income	6.1	22 451 050	23 837 716
Income from securities			
Income from investments in venture capital enterprises		126 868	1 943 526
Commission income	6.2	24 463 235	20 575 145
Net profit / (loss) on financial operations	6.3	-1 632 761	-403 108
Other operating income		221 713	24 780
General administrative expenses:			
Staff costs:			
- wages and salaries	6.4	-6 704 911	-6 682 869
- social security costs of which: EUR 541 205 relating to pensions contributions 2002: EUR 338,662)		-810 554	-411 537
		-7 515 465	-7 094 406
Other administrative expenses		-3 219 950	-4 216 928
		-10 735 415	-11 311 334
Value adjustments in respect of tangible and intangible fixed assets		-348 031	-384 189
Value adjustment in respect of shares and other variable income securities	3.3	-10 922 598	-11 340 972
Transfer to the provision relating to guarantees	4.3	-3 736 361	-3 621 424
Transfer to provision for staff pension plan	6.5	-150 000	-550 000
Profit for the financial year		19 737 700	18 770 140

The accompanying notes form an integral part of these annual accounts.

Cash Flow Statement
for the year ended 31 December 2003

EUR

	2003	2002
Cash flows from operating activities		
Profit for the financial year	19 737 700	18 770 140
Value adjustments in respect of tangible and intangible fixed assets	348 031	384 188
Value adjustments in respect of shares and other variable income securities	12 496 651	11 559 964
Net increase in provisions relating to guarantees	1 932 172	1 210 811
Increase in provisions relating to pensions and similar obligations	2 152 122	550 000
Profit on operating activities	36 666 676	32 475 103
(Increase) / decrease in other assets	- 2 729 426	1 608 974
(Increase) / decrease in prepayments and accrued income	-680 546	719 911
(Decrease) / increase in creditors and other provisions	-1 483 406	2 087 340
Increase in accruals and deferred income	51 312	409 790
Net cash from operating activities	**31 824 610**	**37 301 118**
Cash flows from investing activities		
Increase in tangible and intangible fixed assets	-1 115 960	-155 274
Increase in shares and other variable income securities	-23 061 357	-12 436 962
Decrease / (increase) in debt securities and other fixed-income securities	27 780 058	-1 814 805
Net cash from investing activities	**3 602 741**	**-14 407 041**
Cash flows from financing activities		
Dividends paid	-7 500 000	-15 600 000
Net cash from financing activities	**-7 500 000**	**-15 600 000**

	2003	2002
Summary statement of cash flows		
Cash at bank and in hand at the beginning of the financial year	26 195 881	18 901 804
Net cash from:		
Operating activities	31 824 610	37 301 118
Investing activities	3 602 741	-14 407 041
Financing activities	-7 500 000	-15 600 000
Cash at bank & in hand at the end of the financial year	**54 123 232**	**26 195 881**

The accompanying notes form an integral part of these annual accounts.

1 General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund") was incorporated on June 14, 1994 as an international financial institution.

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Community objectives through

- the provision of guarantees;
- the acquisition, holding, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

The Fund operates as a partnership the members of which are the European Investment Bank (hereafter the "EIB"), the European Community, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union and some Acceding and Accession Countries. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from January 1 to December 31 each year.

As detailed in note 4.5, the EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated accounts of the EIB Group. The consolidated accounts may be obtained from the registered office of the EIB at 100, boulevard Konrad Adenauer, L-2950 Luxembourg.

2 Accounting policies and presentation of annual accounts

2.1 Presentation of annual accounts

The Fund's annual accounts are based on the general principles of the Council Directive of the European Communities 86/635/EEC of December 8, 1986 as amended by the Council Directive 2001/65/EC of September 27, 2001 and by the Council Directive 2003/51/EC of June 18, 2003 relating to the annual accounts and consolidated accounts of banks and other financial institutions.

These annual accounts have been prepared in accordance with the historical cost convention, using the accounting policies set out below.

The Fund has adapted its disclosure of the assets in the balance sheet in order to fully comply with the Directives above. The comparative figures have been restated accordingly.

2.2 Valuation of foreign currency balances and transactions

The share capital of the Fund is expressed in euro ("EUR") and the accounting records are maintained in that currency.

Non-monetary items, which include "Intangible fixed assets" and "Tangible and other fixed assets" denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost).

Monetary items, which include all other assets, liabilities, and off-balance sheet items expressed in a currency other than EUR are reported using the closing foreign exchange rate ruling on the date of the closure of the annual accounts, as issued by the European Central Bank.

Income and charges in foreign currencies are translated into EUR at the exchange rate ruling on the date of the transaction.

Other exchange differences arising from the translation of monetary items are recognised in the profit and loss account in the period in which they arise.

2.3 Debt securities and other fixed-income securities

Debt securities and other fixed-income securities are categorised and valued as follows:

- floating rate notes with maturities exceeding one year and fixed rate notes other than commercial paper are included in the "Investment Portfolio" and are valued at the lower of cost or market value and respectively at amortised cost.

• floating rate notes and commercial paper with maturities of less than one year are included in the "Short-term Portfolio" and are shown at nominal value.

Premiums paid over the maturity value, and discounts received in comparison to the maturity value of securities, are taken to the profit and loss account in equal instalments over the remaining period to maturity. The net cumulative amortisation of premiums and discounts from the date of acquisition is included in "Accruals and deferred income" or "Prepayment and accrued income" in the balance sheet.

2.4 Investments in venture capital enterprises

Investments in venture capital enterprises are included in "Shares and other variable income securities". They are acquired for the longer term in the normal course of the Fund's activities and are shown in the balance sheet at their original purchase cost.

Based on the reports received from fund managers up to the balance sheet date, the investments in venture capital are valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV"), thus excluding any attributable unrealised gain that may be prevailing in this portfolio.

The attributable net asset value is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective fund manager.

For the final valuation, the attributable net asset value is adjusted for the events having occurred between the available NAV date and the balance sheet date to the extent that it is considered to be material.

Investments in venture capital enterprises in existence for less than two years at balance sheet date are valued based on the same principles. Unrealised losses due only to administrative expenses of these recently created funds will however be ignored.

2.5 Intangible and tangible fixed assets

Intangible fixed assets include the development costs of software that are capitalised under specific conditions such as identifiable expenses or existence of a future benefit for the Fund.

Intangible and tangible fixed assets are valued at purchase price, including development costs, reduced by accumulated value adjustments calculated to write off the value of such assets on a straight line basis over their expected useful life as follows:

	Useful life
Intangible fixed assets:	
Software	2 to 5 years
Internally developed software	3 years
Tangible fixed assets:	
Buildings	30 years
Fixtures and fittings	3 to 10 years
Office equipments	3 to 5 years
Computer equipments and vehicles	3 years

2.6 Provisions relating to guarantees

Provisions relating to guarantees have been calculated in line with the methodology set out in the Fund's Credit Risk Policy Guidelines approved by the Board of Directors on December 4, 2001. This results in a valuation of the provisioning requirements based on credit ratings, done transaction-by-transaction.

On a prospective basis, for the operations signed since January 1, 2002 the provisioning requirements are built up during the two thirds of the weighted average life of the guarantees in order to better conform with fair value accounting principles. The provisioning requirements remain booked in full for the guarantee operations signed until December 31, 2001.

2.7 Provisions relating to pensions and similar obligations

The main pension plan of the European Investment Fund is a contributory defined benefit pension scheme, which covers all employees. It has entered into force in March 2003, replacing a defined contribution pension scheme. All contributions of the Fund and its members of staff are transferred to the EIB for management and are invested by the EIB, following the rules and principles applied by the EIB for its own pension scheme. The amount transferred to the EIB for management is included under the heading "Other assets". These annual contributions are set aside and accumulated as a specific provision on the liabilities side of the Fund's balance sheet, together with annual interest.

Commitments for retirement benefits are to be valued on a periodic basis using the "projected unit credit method" to ensure that the provision recorded in the accounts is fairly stated. The main actuarial assumptions used by the actuary are set out in note 4.4. Actuarial surpluses and deficits are spread forward over a period based on the average expected remaining service lives of staff.

2.8 Guarantees in respect of loans granted by third parties

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and undrawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

2.9 Net interest and similar income

Interest and similar income are recognised on a time proportion basis taking account of the effective yield on the asset.

Premiums on fixed-income securities amortised during the financial year, and interest and similar expenses paid are deducted from the gross amount of interest and similar income received.

2.10 Commission income

Up-front commissions received for arranging and granting guarantees are recognised when a binding obligation has been entered into.

Guarantee commissions received are recognised on a time proportion basis over the life of the guarantee.

3 Detailed disclosures relating to asset headings

3.1 Cash at bank and in hand

The remaining life of cash at bank and in hand is as follows:

EUR

	2003	2002
Repayable on demand	24 123 231	11 195 881
Up to three months	30 000 000	15 000 000
	54 123 231	**26 195 881**

3.2 Debt securities and other fixed-income securities

Debt securities and other fixed-income securities are analysed as follows:

EUR

	2003	2002
Short-term Portfolio	50 500 000	74 862 446
Investment Portfolio	428 434 830	431 852 442
	478 934 830	**506 714 888**

The accounts disclosure of commercial paper (shown in the Short term Portfolio) has been modified. Commercial paper is now shown at nominal value with deferred interest income shown separately, whereas previously the securities were disclosed at purchase price with accrued interest income shown separately. The nominal value of commercial paper held as at December 31, 2002, if this method had been applied, would have been EUR 75 300 000 instead of the purchase price of EUR 74 862 446, deferred income would have been EUR 229 679 and accrued income EUR 207 875.

Debt securities and other fixed-income securities held by the Fund are all listed on a recognised market.

Debt securities and other fixed-income securities with a remaining duration to maturity of less than one year amount to EUR 99 061 663. If commercial paper had also been included in this category in 2002 then the comparative value would have been EUR 130 056 739.

The market value of the debt securities and other fixed-income securities amounts to EUR 496 055 085 (2002: EUR 517 273 096).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear and Clearstream. The market value of securities lent at year-end amounts to EUR 42 676 (2002: EUR 5 638 772).

3.3 Shares and other variable income securities

Shares and other variable income securities include investments in venture capital enterprises and are analysed as follows:

EUR

	2003	2002
Net disbursed amount at cost	86 850 992	63 789 635
Value adjustment	-25 187 933	-14 265 336
Unrealised loss on foreign currencies	-1 793 046	-218 992
Net book value	**59 870 013**	**49 305 307**

Investments in venture capital enterprises represent equity investments and related financing structures.

The unrealised gains on these investments, which are not recorded in the accounts, in accordance with the valuation method described in note 2.4, amount to EUR 5 323 724 (2002: EUR 6 706 891).

The unrealised foreign exchange loss arising from the revaluation of venture capital enterprises at year-end closing rates amounts to EUR 1 793 046 (2002: unrealised loss of EUR 218 992). In accordance with the Fund's provisioning policy this amount is included in the exchange loss of the year.

3.4 Movements in fixed assets

Debt securities and other fixed-income securities are analysed as follows:

Expressed in EUR

EUR

HEADINGS	Gross amount at the beginning of the year	Additions	Disposals	Gross amount at the end of year of the year	Cumulative value adjustments at the end	Carrying amount at the end of the year
Debt securities and other fixed income securities (*)	431 852 442	70 731 650	-54 756 739	447 827 353	107 477	447 934 830
Shares & other variable income securities	63 789 635	24 748 128	-1 686 771	86 850 992	-26 980 979	59 870 013
Intangible assets	330 982	991 794	0	1 322 776	-328 801	993 975
Tangible and other fixed assets of which :	6 278 238	124 166 0	0	6 402 404	- 1 688 318	4 714 086
a) Land & Buildings	5 161 380	0	0	5 161 380	-1 009 618	4 151 762
b) Fixtures & fittings	267 457	62 040	0	329 497	-148 043	181 454
c) Office equipment	564 351	59 926	0	624 277	-302 955	321 322
d) Computer equipment	192 214	2 200	0	194 414	-144 090	50 324
e) Vehicles	84 072	0	0	84 072	-83 612	460
f) Other fixed assets	8 764	0	0	8 764	0	8 764
Total	**502 251 297**	**96 595 738**	**-56 443 510**	**542 403 525**	**-28 890 621**	**513 512 904**

(*) This amount does not include commercial paper

3.5 Other assets

Following the introduction of a new pension scheme in 2003 (see note 2.7), "Other assets" include the assets of the pension scheme transferred to the EIB for management and investment on behalf of the Fund. The movements for the year are as follows:

EUR

	2003	2002
Contribution from the Fund and its members of staff since March 2003	633 138	0
Transfers from previous pension scheme	1 711 184	0
Transfers to another pension scheme	-199 500	0
Accrued interest on funds managed by the EIB	74 208	0
Risk fund (see note 6.5)	700 000	0
Assets relating to pensions managed by the EIB	2 919 030	0
Other debtors	456 981	646 585
	3 376 011	**646 585**

3.6 Prepayments and accrued income

Prepayments and accrued income are analysed as follows:

EUR

	2003	2002
Interest receivable on debt securities	10 698 842	10 621 538
Income receivable on commercial paper	0	207 875
Interest receivable on term deposits	7 230	10 963
Accrued commission on guarantees	4 457 241	3 642 390
	15 163 313	**14 482 767**

As mentioned in the note 2.3, the discounts and premiums on securities held in the "Investment Portfolio" are netted. The total amount of the discount to be accrued on the remaining life of these securities amounted to EUR 3 207 587 as at December 31, 2003 (2002: EUR 3 136 606).

As mentioned in the note 3.2 the presentation of commercial paper has been modified, with no impact on the profit and loss account. With the same presentation, the income receivable on commercial paper would have been EUR 0 as at December 31, 2002.

4 Detailed disclosures relating to liability headings

4.1 Creditors

Creditors are analysed as follows:

EUR

	2003	2002
Trade creditors and other payables	1 540 957	3 433 813
Optional Supplementary Pension Scheme (see note 4.4)	217 326	0
Current account	0	4 203
	1 758 283	**3 438 016**

4.2 Accruals and deferred income

Accruals and deferred income are analysed as follows:

	2003	2002
		EUR
Deferred income on issued guarantees	11 776 781	11 421 152
Premium amortised on "Investment Portfolio"	4 171 580	4 534 274
Deferred income on commercial papers	58 377	0
	16 006 738	**15 955 426**

As mentioned in the note 2.3, the discounts and premiums are netted.

As mentioned in the note 3.2, the presentation of the commercial paper has been modified. Had the same method applied last year the balance for deferred income on commercial papers would have amounted to EUR 229 679.

4.3 Provisions relating to guarantees

The movements relating to provisions in respect of contingent losses that may arise from the guarantee portfolio are set out below:

	2003	2002
		EUR
Balance at the beginning of the financial year	25 522 421	24 311 610
Transfer relating to SME guarantees	3 736 361	3 621 424
Utilisation of the provision	- 1 804 189	-2 410 613
Balance at the end of the year	**27 454 593**	**25 522 421**

The balance of EUR 27 454 593 (2002: EUR 25 522 421) solely pertains to the Fund's own risk SME guarantee portfolio.

The Growth and Environment programme sponsored by the European Commission, the credit risk of which is assumed by the Fund, required the transfer to the provision relating to guarantees for the financial year of EUR 1 114 495, and EUR 1 708 634 of the utilisation of the provision.

4.4 Provisions relating to pensions and similar obligations

Commitments in respect of retirement benefits as at December 31, 2003 have been valued in January 2004 by an independent actuary using the projected unit credit method. The calculations are based on the following assumptions:

- A discount rate of 5,5% for determining the actuarial present value of benefits accrued;
- A retirement age of 62;
- A combined average impact of the increase in the cost of living and career progression estimated at 4%;
- Probable resignation of 3% up to age 55;
- Use of EVK/PRASA 90 actuarial tables.

Following this actuarial calculation, the Fund has allocated funds to the provisions relating to pensions to ensure that commitments are fairly covered.

The movements in the “provisions relating to pensions and similar obligations” are as follows:

EUR

	2003	2002
Provisions at December 31, 2002	550 000	0
Contributions during the year	2 152 122	550 000
Provisions as at December 31, 2003	2 702 122	550 000

The above figures do not include the liability towards members of staff in respect of the Optional Supplementary Pension Scheme (a contributory defined benefit pension scheme). The corresponding amount of EUR 217 326 is included under “Creditors”.

4.5 Capital

The authorised capital amounts to EUR 2 billion, divided into 2 000 shares with a nominal value of EUR 1 000 000 each.

The subscribed share capital of EUR 2 000 000 000 representing 2 000 shares is called for an amount of EUR 400 000 000 representing 20% of the subscribed share capital.

The subscribed share capital is detailed as follows:

EUR

	2003	2002
Subscribed and paid in (20%)	400 000 000	400 000 000
Subscribed but not yet called	1 600 000 000	1 600 000 000
Balance at the end of the year	**2 000 000 000**	**2 000 000 000**

The capital is subscribed as follows:

	2003 Number of shares	2002 Number of shares
European Investment Bank	1 192	1 215
European Commission	600	600
Financial institutions	208	185
	2 000	**2 000**

4.6 Statutory reserve and profit brought forward

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20% of its annual net profit until the aggregate reserve amounts to 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 3 947 540 is required to be appropriated in 2004 with respect to the financial year ended December 31, 2003. Movements in reserves and profit brought forward are detailed as follows (in EUR):

	Statutory reserve	Profit brought forward	Profit for the financial year
Balance at the beginning of the financial year	54 613 022	68 886 360	18 770 140
Dividend paid			-7 500 000
Other allocation of last financial year profit	3 754 028	7 516 111	-11 270 140
Profit for the financial year			19 737 700
Balance at the end of financial year	**58 367 050**	**76 402 471**	**19 737 700**

The General Meeting of Shareholders of April 28, 2003 approved the distribution of a dividend amounting to EUR 7 500 000 relating to the year 2002 (2001: EUR 15 600 000), corresponding to EUR 3 750 per share.

5 Disclosures relating to off-balance sheet items

5.1 Guarantees

5.1.1 SME Guarantees

Guarantees issued in respect of loans drawn down and those not yet drawn down by the obligor are analysed with reference to their maturity as follows:

EUR

	Drawn	Undrawn	Total 2003	Total 2002
Up to five years	652 535 781	39 649 008	**692 184 789**	727 426 874
From five to ten years	387 037 032	98 020 100	**485 057 132**	718 302 144
From ten to fifteen years	314 877 109	0	**314 877 109**	40 810 000
Over fifteen years	123 000 000	0	**123 000 000**	0
	1 477 449 922	**137 669 108**	**1 615 119 030**	**1 486 539 018**

Of the above total amount, EUR 26 403 417 (2002: EUR 26 511 338) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 26 426 858 (2002: EUR 24 577 968) representing the present value of future interest covered by guarantees.

5.1.2 Trans European Network Guarantees

Trans European Network (TEN) infrastructure guarantee operations, complementary to EIB's activities, have been transferred to the latter. The relevant contract was signed with the EIB on December 7, 2000. The EIB assumes the advantages of the transferred portfolio, but also bears the ultimate risk of the transactions, the Fund remaining merely a guarantor of record.

EUR

	Drawn	Undrawn	Total 2003	Total 2002
Up to five years	422 723 506	29 061 188	451 784 694	519 385 959
From five to ten years	319 613 893	8 117 151	327 731 044	441 307 907
From ten to fifteen years	283 160 195	24 340 252	307 500 447	275 789 066
Over fifteen years	265 060 761	5 316 125	270 376 886	339 982 062
	1 290 558 355	**66 834 716**	**1 357 393 071**	**1 576 464 994**

The drawn down portion of the guarantees issued includes an amount of EUR 32 940 834 (2002: EUR 38 266 134) representing the present value of future interest covered by guarantees.

5.2 Statutory ceiling on the overall commitments for operations

As regards guarantee operations, under the terms of Article 26 of the Fund's Statutes, the overall commitment of the Fund, excluding commitments made by the Fund on behalf of third parties, may not exceed three times the amount of its subscribed capital for guarantee operations.

The present level of subscribed capital establishes a ceiling of EUR 6 000 000 000 in relation to total guarantees outstanding committed by the Fund currently totalling EUR 1 615 119 031 (2002: EUR 1 486 539 018).

The TEN guarantee operations managed by the Fund on behalf of, and at the risk of the EIB (EUR 1 357 393 071) are not included in the above amount of guarantees outstanding.

In accordance with Article 12 and in conjunction with Article 26 of the Statutes, the ceiling presently applied in respect of the Fund's own venture capital operations is 50% of own funds. Taking into account the 2003 results, the ceiling stands at EUR 279 698 682 whilst the commitments in respect of the venture capital operations amount to EUR 192 195 305 (2002: EUR 162 818 519).

5.3 Commitments

Commitments represent investments in venture capital enterprises committed and not yet disbursed amounting to EUR 82 747 480 (2002: EUR 75 512 464).

5.4 Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission and the EIB. Sums held in these accounts remain the property of the Commission and the EIB so long as they are not disbursed for the purposes set out in relation to each programme.

Under the Growth and Environment Pilot Project, the Fund provides a free guarantee to the financial intermediaries for loans extended to SME's with the purpose of financing environmentally friendly investments. The ultimate risk from the guarantee rests with the Fund and the guarantee fee is paid out of European Union budgetary funds.

Under the SME Guarantee Facility and the MAP Guarantee programme, the Fund is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.

Under the ETF Start-Up Facility and the MAP Equity programme, the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf of, and at the risk of the Commission.

The support provided by the Seed Capital Action is aimed at the long-term recruitment of additional investment managers by the venture capital funds to increase the number of qualified personnel and to reinforce the capacity of the venture capital and incubator industries to cater for investments in seed capital.

Within the context of its venture capital activity, the Fund manages on behalf of, and at the risk of the EIB on the one hand the European Technology Facilities (ETF) 1 and 2, which have been implemented by the the Fund since 1998.

On the other hand, in the framework of the Risk Capital Mandate signed with the EIB in 2000, the EIF took over the EIB's existing venture capital portfolio, with further investments being funded as part of the "Innovation 2000 Initiative" of the EIB.

EUR

	2003	2002
Growth & Environment Pilot Project	5 192 134	6 714 312
SME Guarantee facility	113 120 994	105 795 347
ETF Start-up Facility (*)	41 337 877	43 035 289
Seed Capital Action	102 570	100 337
MAP Guarantee	17 965 961	5 868 191
MAP Equity (*)	26 737 605	18 103 597
Trust accounts with the Commission (**)	204 457 141	179 617 073
Trust accounts with the EIB	23 463 748	31 065 934
	227 920 889	**210 683 007**

(*) The figures above do not include the net investment position in venture capital, of EUR 56 706 333 for ETF Start-Up (2002: EUR 46 704 169) and EUR 2 987 831 for MAP Equity Facility (2002: EUR 860 000) made on behalf of the Commission that are included in 5.5.

(**) The trust accounts with the Commission include cash at bank, money market balances, investments in securities at nominal value and the relevant security accruals. They do not represent a final valuation of the relevant programmes.

5.5 Fiduciary operations

Pursuant to Article 28 of its Statutes, the Fund acquires, manages and disposes of investments in venture capital enterprises, in its own name but on behalf of and at the risk of the EIB and of the Commission, according to Fiduciary and Management Agreements concluded with the EIB ("European Technology Facility", "European Technology Facility 2" and "Transfer, Implementation and Management of Risk Capital Investments" (Risk Capital Mandate)) and with the Commission ("ETF Start-Up Facility", "MAP Equity Facility" and "Seed Capital Action").

The Fund is also empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission according to the Fiduciary and Management Agreement concluded with the Commission ("SME Guarantee Facility" and "MAP Guarantee Facility"). However, the EC programmes are only liable for a contracted percentage of the full signature amounts shown below, up to the limit of the agreed budgetary allocation.

Fiduciary operations concluded pursuant to the Fiduciary and Management Agreements are analysed as follows:

EUR

	2003	2002
Guarantees committed on behalf of the Commission		
Under the SME Guarantee Facility		
Drawn (*)	2 357 520 172	1 937 501 373
Undrawn	118 187 749	588 568 708
Under the MAP Guarantee Facility		
Drawn (*)	221 663 587	0
Undrawn	1 730 523 681	295 358 333
Investments made on behalf of the Commission:		
Under ETF Start-Up Facility:		
Drawn (**)	71 467 113	62 100 589
Undrawn	38 459 119	52 956 823
Under MAP Equity		
Drawn (**)	2 987 831	860 000
Undrawn	10 947 169	8 440 000
Under Seed Capital Action		
Drawn (**)	0	0
Undrawn	300 000	0
Investments made on behalf of the EIB:		
Under EIB Risk Capital Mandate		
Drawn (**)	961 354 057	808 774 334
Undrawn	980 586 565	1 109 821 666
Under European Technology Facility		
Drawn (**)	135 870 967	123 312 774
Undrawn	84 968 248	121 716 270
	6 714 836 258	**5 109 410 869**

(*) Those amounts are valued based on the valuation method described in note 2.8.

(**) Those amounts are valued at cost. On the basis of the valuation method described in the note 2.4.

- a value adjustment has been estimated at EUR 264 806 802 (2002: EUR 150 682 608) leading to a net adjusted value of EUR 832 418 222 (2002: EUR 781 404 500), on the investments made on behalf of the EIB.
- a value adjustment has been estimated at EUR 24 156 284 (2002: EUR 11 740 217 estimated amount) leading to a net adjusted value of EUR 50 298 660 (2002: EUR 51 220 372 estimated amount), on the investments made on behalf of the Commission.

5.6 European Investment Fund commitments included in the off-balance sheet items

From the total off-balance sheet of EUR 9 997 485 155 (2002: EUR 8 458 610 352) the Fund only bears the final risk for the following operations:

EUR

	2003	2002
Guarantees issued		
Drawn	1 477 449 922	1 172 558 275
Undrawn	137 669 108	313 980 743
	1 615 119 030	1 486 539 018
Commitments in venture capital operations	82 747 480	75 512 464
	1 697 866 510	**1 562 051 482**

6 Detailed information on the profit and loss account

6.1 Net interest and similar income

Net interest and similar income comprises:

EUR

	2003	2002
Interest on debt securities	23 070 334	24 043 112
Interest on term deposits	482 993	977 035
Interest on bank current accounts	-9	207
Premium amortised on "Investment Portfolio"	-1 272 405	-1 287 799
Interests on pensions	74 208	0
Interest & similar charges	95 929	105 162
	22 451 050	**23 837 716**

As mentioned in the note 2.3, the discounts and premiums of the "Investment Portfolio" are netted.

6.2 Commission income

Commission income is detailed as follows:

EUR

	2003	2002
Commissions on guarantees issued in respect of loans drawn down	10 625 220	6 808 298
Commissions on guarantees issued in respect of loans not yet drawn down	177 949	159 355
Up-front commissions in respect of guarantees issued	173 106	1 031 390
Commission on European Technology Facility	2 034 918	2 017 855
Commission on ETF Start-up Facility	604 157	1 253 390
Commission on SME Guarantee Facility	4 679 957	3 912 173
Commission on MAP Guarantee Facility	582 989	250 000
Commission on MAP Equity Facility	263 300	400 500
Commission on SEED Capital action	10 500	0
Commission on EIB Risk Capital Mandate	5 301 139	4 732 188
Other commissions	10 000	9 996
	24 463 235	20 575 145

6.3 Net gain/(loss) on financial operations

Net profit/(loss) on financial operations mainly corresponds to losses on foreign exchange operations for an amount of EUR 1 740 238 (2002: EUR 403 108), of which EUR 1 574 054 is an unrealised loss on foreign exchange revaluation of the venture capital portfolio (2002: EUR 218 992).

6.4 Wages and salaries

Wages and salaries include expenses of EUR 2 955 016 (2002: EUR 2 723 249) incurred in relation to staff seconded from the EIB.

6.5 Transfer to provisions relating to pensions and similar obligations

The Board of Directors in its meeting of December 3, 2002 approved the principle of the creation of a defined benefit pension fund replacing the previous defined contribution pension scheme. Following the advice of an independent actuary a risk fund has been set up and EUR 150 000 allocated for 2003 (2002: EUR 550 000). Also refer to notes 2.7, 3.5 and 4.4.

7 Personnel

The number of persons (including 14 EIB secondees (2002: 15 EIB secondees), including the Chief Executive) employed at the year-end was as follows:

	2003	2002
Chief Executive	1	1
Employees	67	57
Total	**68**	**58**
Average number of employees over the year	63	55

Included in the above table are three Fund's staff members seconded to EIB (2002: 0).

8 Related parties transactions

8.1 European Investment Bank

The amounts included in the financial statements and relating to the European Investment Bank are disclosed as follows:

EUR

	2003	2002
ASSETS		
Prepayments and accrued income	1 340 682	1 284 491
Other assets	2 919 030	0
LIABILITIES		
Creditors	1 486 949	3 602 083
Other provisions	947 500	613 058
Accruals and deferred income	220 004	230 004
Capital paid in	238 400 000	243 000 000
OFF BALANCE SHEET		
Guarantees Drawn	1 003 774 163	1 179 728 051
Guarantees undrawn	34 377 311	27 937 615
Assets held for third parties	23 463 748	31 065 934
Investments drawn in venture capital	1 097 225 024	932 087 108
Investments undrawn in venture capital	1 065 554 813	1 231 537 936
INCOME		
Management fees	7 336 057	6 760 039
EXPENSES		
Wages & Salaries	2 955 016	2 723 249
IT expenses	779 741	1 450 000
Services	526 424	938 918

8.2 Commission of the European Communities

The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

EUR

	2003	2002
ASSETS		
Accounts Receivable	1 881 038	1 694 365
LIABILITIES		
Accounts Payable	0	25 035
Deferred fees	8 823 358	11 190 721
Capital paid in	120 000 000	120 000 000
OFF BALANCE SHEET		
Guarantees drawn	2 579 183 759	1 937 501 373
Guarantees undrawn	1 848 711 430	883 927 041
Assets held for third parties	204 457 141	179 617 073
Investments drawn in venture capital	74 454 943	62 960 589
Investments undrawn in venture capital	49 406 288	61 396 823
INCOME		
Management fees	6 140 903	5 816 063
Commissions received	3 218 682	3 027 344
EXPENSES		
Treasury management fees	35 842	53 468

The commission fees received in framework of the Growth & Environment are structured to cover the risk and expenses born by the Fund (see 4.3).

8.3 Other related parties

The venture capital fund investments held by the Fund are not to be considered as related parties, as the aim is not to exercise control over the financial and operating policies of the fund's management.

9 Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

Governance, Management and Administration

The EIF is managed and administered by the following three authorities:

- **General Meeting of all Shareholders**
- **Board of Directors**
- **Chief Executive**

The EIF's Chief Executive, Mr Francis Carpenter, wishes to thank all EIF staff for their ongoing commitment throughout the year. In 2003, the number of staff was increased to 68 from 58 in 2002. This increase was notably in the Risk Management and Monitoring Division, which was necessary in order to be able to supervise and monitor EIF's growing guarantee and venture capital portfolios, and to provide reports to mandators; operational staff in Venture Capital, Guarantees and Legal Services were also increased in line with the development of operations.

As an EU body enjoying a Multilateral Development Bank status, though not subject to Company Law, EIF is closely following the recommendations made in November 2002 by the Winter report "Modern Regulatory Framework for Company Law in Europe".

EIF Management (as at 31 March 2004)

Chief Executive	**Francis CARPENTER**
Head of Division, Risk Management and Monitoring	Thomas MEYER
Secretary General	**Robert WAGENER**
Head of Division, Policy and Institutional Coordination/Advisory Services	Marc SCHUBLIN
Managerial Adviser	Jacques LILLI
Head of Division, Legal Service	Maria LEANDER
Responsible for Human Resources	Petra de BRUXELLES *Susanne RASMUSSEN until 1 March 2004*
Responsible for Accounting and Treasury	Frédérique SCHEPENS
Director, Operations	**John A. HOLLOWAY**
Head of Division, Venture Capital 1 (BE, ES, FR, IT, GR, LU, NL, UK)	Jean-Philippe BURCKLEN
Head of Division, Venture Capital 2 (AT, DK, FI, DE, IE, PT, SE, Acceding and Accession Countries)	Ulrich GRABENWARTER *Kim KREILGAARD until 16 February 2004*
Deputy Head of Division	Matthias UMMENHOFER
Head of Division, Guarantees, MAP and Securitisation	Alessandro TAPPI
Deputy Head of Division	Christa KARIS

Board of Directors (as at 31 December 2003)

Chairman	
Giovanni RAVASIO	Former Director General, Economic and Financial Affairs Directorate General, European Commission, Brussels
Members	
Mauro CICCHINÈ	President, DEXIA CREDIOP, Rome
Guy CRAUSER	Special Adviser, Regional Policy Directorate General, European Commission, Brussels
Iñigo FERNÁNDEZ DE MESA	Subdirector General para Asuntos de la Unión Económica y Monetaria, Ministerio de Economía, Madrid
Sauli NIINISTÖ	Vice-President, European Investment Bank *since 15 October 2003*
	Francis MAYER until 8 January 2003
Peter SEDGWICK	Vice-President, European Investment Bank
Lars TYBJERG	Former Deputy Permanent Secretary, Ministry for Economic and Business Affairs, Copenhagen
Alternates	
Jean-Pierre ARNOLDI	Administrateur général de la Trésorerie, Ministère des Finances, Brussels
Terence BROWN	Director General, Directorate for Lending Operations – Europe, European Investment Bank
Rémy JACOB	Deputy Secretary General, European Investment Bank
Detlef LEINBERGER	Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt
David McGLUE	Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Economic and Financial Affairs Directorate General, European Commission, Luxembourg
Timo SUMMA	Director, Directorate for Promotion of entrepreneurship and SMEs, Enterprise Directorate General, European Commission, Brussels
	Isabel CORREIA BARATA until 16 June 2003

Audit Board (as at 31 December 2003)

Chairman	
Henk KROEZE	Chartered Accountant, Group Controller Holding at NIB Capital N.V., The Hague *since 28 April 2003*

Members	
Michael P. HARALABIDIS	Deputy Director, Group Risk Management, National Bank of Greece, Athens
Sylvain SIMONETTI	Head of Unit, Human Resources and Administration Unit, Resources Directorate, Economic and Financial Affairs Directorate General, European Commission, Luxembourg

Capital and Shareholders

Authorised capital is EUR 2 000m divided into 2 000 shares of EUR 1m each. In 2003, four new members, including three from the Acceding/Accession Countries, joined the EIF's shareholding structure. This was made possible after the EIB agreed to sell a number of its shares to the four institutions:

- 5 shares to Hungarian Development Bank Ltd effective 9 July 2003
- 3 shares to Encouragement Bank effective 31 October 2003
- 10 shares to SAN PAOLO IMI Private Equity S.p.A. effective 24 November 2003
- 5 shares to Bank of Valletta p.l.c. effective 29 December 2003.

The EIF's capital was entirely subscribed on 31 December 2003, by the EIB (59.6%), the European Community represented by the European Commission (30%), and a number of European banks and financial institutions (10.4%).

Institution	Number of shares
European Investment Bank	1 192
European Community represented by the European Commission	600
31 Financial institutions (breakdown below)	208
TOTAL	**2 000**

Belgium	
Fortis Bank NV	6
KBC Bank NV	4
Bulgaria	
Encouragement Bank	3
Germany	
Kreditanstalt für Wiederaufbau	45
Bayerische Landesanstalt für Aufbaufinanzierung	5
Bayerische Landesbank Girozentrale	5
Landeskreditbank Baden-Württemberg Förderbank	5

Greece	
Alpha Bank A.E.	6
Emporiki Bank of Greece, S.A.	3
Spain	
Instituto de Crédito Oficial	5
France	
Caisse des dépôts et consignations (CDC)	15
Dexia Public Finance Bank	10
Ireland	
AIB Capital Markets plc (AIBCM)	3
Italy	
CAPITALIA, S.p.A.	10
Dexia Crediop	10
SAN PAOLO IMI Private Equity S.p.A.	10
Banca Monte dei Paschi di Siena S.p.A.	5
Banca Intesa S.p.A.	5
Luxembourg	
Banca Lombarda International S.A.	5
BGL Investment Partners S.A.	3
Hungary	
Hungarian Development Bank Ltd	5
Malta	
Bank of Valletta p.l.c.	5
The Netherlands	
NIB Capital Bank N.V.	3
Austria	
Bank Austria Creditanstalt AG	3
Erste Bank der oesterreichischen Sparkassen AG	3
Raiffeisen Zentralbank Österreich AG	3
Portugal	
Banco BPI S.A.	6
Banco Espírito Santo S.A.	3
Finland	
Finnvera p.l.c.	6
United Kingdom	
Barclay’s Bank plc	3
Multilateral Financial Institution	
Nordic Investment Bank	5

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www.eif.org

European Investment Fund

Please note that all documentation on EIF
(Statutes, Rules of Procedure, Annual Reports, etc.) are available through the website.

The EIF is a Member of EIB Group:

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European Investment Bank

EIF welcomes the new Member States set to join the European Union on 1 May 2004, also the date of publication of our 2003 Annual Report. To celebrate this event, EIF has illustrated its Annual Report with photos depicting monuments from the new Member States.

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