EUROPEAN
INVESTMENT
FUND

Annual Report 2007

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EIF highlights at 31 December 2007

2007 operations		EURm
Venture capital/private equity signatures	(33 funds)	521
Venture capital/private equity disbursements		430
Guarantee signatures	(26 operations)	1 397
Total outstandings		
Venture capital/private equity signatures	(273 funds)	4 388
Guarantee signatures	(190 operations)	11 584
2007 key financial data on full IFRS basis		
Subscribed capital		2 770.0
Own funds (before appropriation of dividends)		985.4
Treasury and debt securities		814.0
Net income for the year		50.4
Return on average equity		6.2%
Dividends declared		20.2
Shareholders		
European Investment Bank		65.8%
European Union via the European Commission		25.0%
31 financial institutions		9.2%

EIF's capital increase

Following approval by the European Parliament in March 2007 and by the European Council in April 2007, the 50% increase in the nominal capital of EIF was successfully completed, serving to reinforce its capital structure while ensuring the Fund's financial self-sufficiency over the longer term, assuming the maintenance of a similar investment strategy and cost structures, with no additional need for capital envisaged during the current financial perspectives period (2007-2013). The authorisation to issue 1,000 new shares meant, in nominal terms, an increase of the total subscribed share capital from EUR 2,000m to EUR 3,000m. Initial share uptake in 2007 actually increased subscribed capital to EUR 2,770m. Additional uptakes by the European Commission are scheduled in 2008 to 2010, when EIB will take up the balance of shares, if any, to reach EUR 3,000m.

The European Investment Fund is the EU's specialised financial body for SMEs, supporting EU objectives through market-based instruments to provide venture funding and guarantees to promote the creation, growth and development of small businesses.

Uniquely for a European body, EIF acts commercially through public-private partnerships, optimising the benefit of its operations and playing a catalytic role to attract private sector finance, while seeking an appropriate return on its investments.

EIF works in the enlarged Union and is active in Turkey, the Western Balkans and South-Eastern Europe.

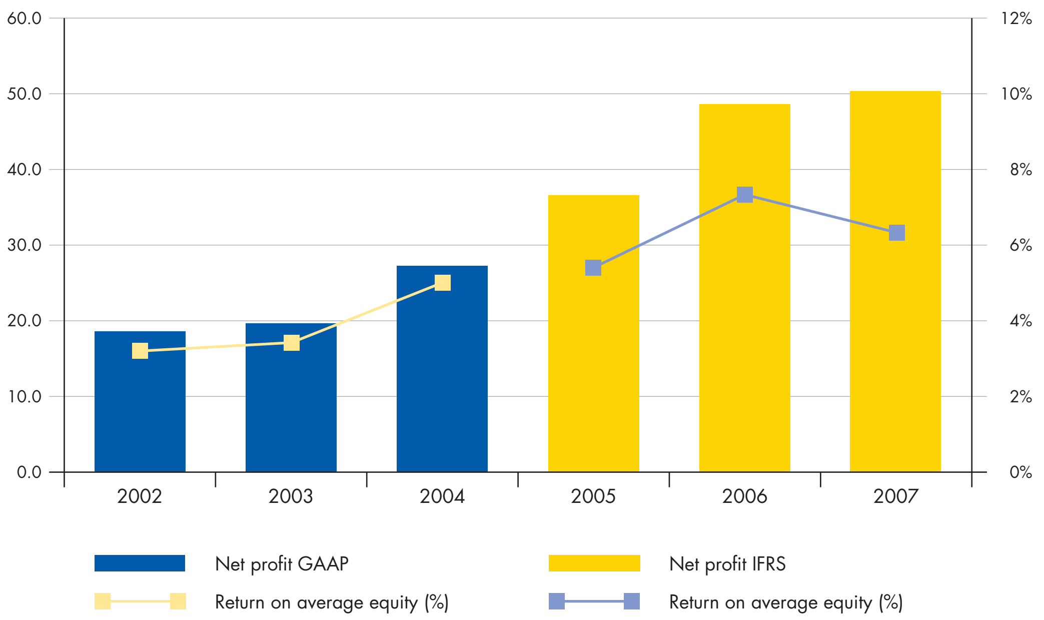
Overview of financial performance

Profits for the financial year

	GAAP			IFRS		
EURm	2002	2003	2004	2005	2006	2007
Net profit	18.80	19.70	27.20	36.70	48.60	50.40
Return on average equity (%)	3.50	3.60	4.90	5.75	7.34	6.15
Dividends declared	7.50	7.89	10.90	17.10	19.40	20.20[1]
Net asset value[2]	555.00	567.30	586.60	667.80	692.50	985.40

1 Subject to approval by the AGM
2 Before appropriation of dividends

Net profit against return on equity



EIF: three approaches to addressing SMEs' financial needs

EIF's central mission is to support small and medium-sized enterprises (SMEs) by enhancing their ability to access finance. In partnership with public and private institutions, EIF supports EU objectives by developing market instruments to target this market segment. EIF generally intervenes on market terms to ensure an appropriate financial return for its shareholders while achieving its core policy objectives. More specifically, EIF utilises venture capital, portfolio guarantees and credit enhancement – or a blend of all three – to achieve these dual objectives. Improving SMEs' access to finance requires a multifaceted approach which covers both debt and equity. This approach follows successive orientations from ECOFIN on the delivery of the Lisbon agenda.

An active role in European venture capital and private equity

Through its venture and private equity investments, the Fund has a crucial presence throughout the value chain of enterprise creation, from the earliest stages of intellectual property development through to mid-stage SME funds. EIF has a particular role to play in support of research and innovation and is employing technology transfer financing with increasing intensity to target this area. EIF's investments in expansion funds offer second and third rounds of financing to successful early-stage investments, and involvement in mid-stage, mid-sized companies boosts job creation.

A prime position in the guarantee and credit enhancement markets

It is equally important to target the debt environment as many SMEs seek finance through this more traditional avenue. By facilitating the transfer of risk, making otherwise illiquid assets – such as SME loans – more liquid for financial intermediaries, it allows them to provide debt financing to SMEs on more attractive terms. EIF has carved out a niche at the cutting edge of European SME loan securitisation, being heavily involved in deal structuring and being a key player in mezzanine positions. Through its guarantees and securitisation, EIF has indirectly supported well over 810,000 SMEs since guarantee activities commenced. European Commission mandated guarantees alone have supported nearly two million jobs.

JEREMIE: a new approach to supporting SMEs in developing regions

The Joint European Resources for Micro to Medium Enterprises (JEREMIE) began in 2005 as an initiative launched by the European Commission in partnership with EIF and EIB to promote SME access to finance in EU Member States and regions through the use of Structural Funds over the period 2007-2013. Under this initiative, national and regional authorities are given the option to deploy financial resources from the European Regional Development Fund (ERDF) in the form of a tailored portfolio of market-driven financial instruments, blending equity and guarantees as appropriate, implemented via a holding fund. With the evaluation phases having been completed, EIF has signed its first Holding Fund Agreements (Greece and Romania) and further such contracts are expected in due course.

Overview of activity

Venture and equity signatures*

EURm	2002	2003	2004	2005	2006	2007
All mandates	471.5	134.4	357.7	367.8	812.9	520.7
EIF	37.7	35.4	48.3	31.3	84.5	70.7
EIB Risk Capital Mandate	409.1	94.5	257.1	265.1	597.7	379.4
European Commission	24.7	4.5	14.8	38.9	89.4	49.7
ERP-EIF Dachfonds	–	–	37.5	32.5	41.4	21.0

Venture and equity disbursements

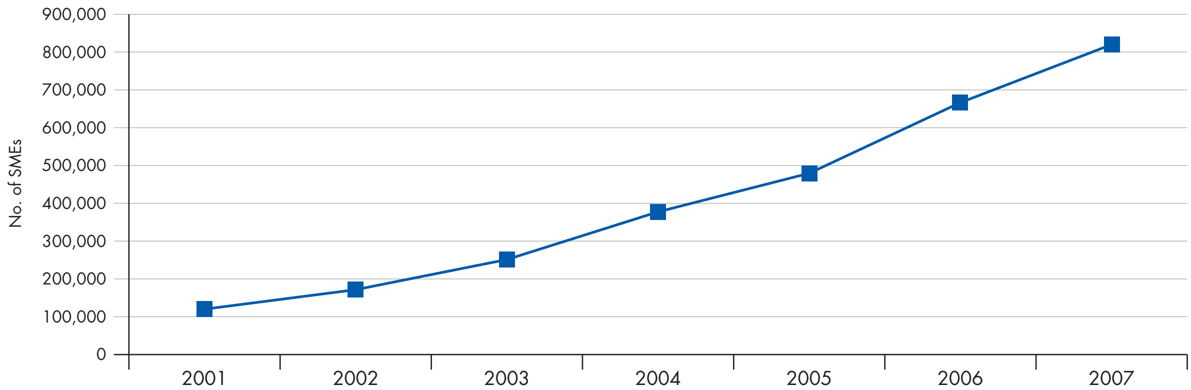
EURm	2002	2003	2004	2005	2006	2007
All mandates	233.0	214.3	242.3	317.7	392.4	430.2

Guarantee commitments

EURm	2002	2003	2004	2005	2006	2007
European Commission	711.9	1 657.3	749.7	1 213.3	1 028.2	8.0
EIF	523.7	594.1	697.1	472.1	1 194.3	1 389.2

*Including commitments in funds-of-funds structures in 2006 and 2007.

Cumulative number of SMEs supported



Foreword by the Chairman of the Board

"As part of the EIB Group, the Fund is well placed to address the challenges highlighted in the renewed Lisbon Strategy, in particular in the fields of knowledge, innovation, employment, energy and climate change."

Philippe Maystadt

EIF continued to diversify its range of financial products and services in 2007, furthering its contribution towards improving SME access to finance, with the aim of strengthening this vital activity within the European economy.

Addressing SME development stages, both upstream and downstream of its investment focus in previous years, EIF's presence continues to bring added value in venture capital and private equity markets, as well as in SME guarantees and credit enhancement. It continues to do so despite difficult market conditions, at the same time, maintaining its track record of increasing financial returns, thereby successfully marrying policy objectives with profitability.

As a result of its experience, EIF is also increasingly requested to provide structural advice, in its particular market segments. This is evident in several funds-of-funds and particularly in EIF's third core product, JEREMIE (Joint European Resources for Micro to Medium sized Enterprises), which became operational in 2007. This important string to EIF's bow complements its financial instruments and helps ensure that the Fund enters its fifteenth year of existence with a strong outlook.

As part of the EIB Group, the Fund is well placed to address the challenges highlighted in the renewed Lisbon Strategy, in particular in the fields of knowledge, innovation, employment, energy and climate change. The new Competitiveness and Innovation Framework Programme 2007-2013 targets such areas and constitutes the third major EU programme under EIF management.

2007 also saw further important EU institutional support, notably with the completion of EIF's 50% capital increase, continuing the fruitful cooperation between EIF, EIB, the Commission, Parliament and Council. The Fund was also pleased to see a large participation by its financial shareholders. Moreover, EIF welcomed four new financial institutions as shareholders, thus bringing the total number to 31, with a geographical spread covering 18 countries.

Finally, February 2008 saw the end of the mandate of EIF Chief Executive Francis Carpenter, who stepped down after five and a half successful years in the position. In line with market practice and to take account of the growth of EIF since its reform in 2000, I have proposed a change in the governance of the Fund, which will entail the appointment of both a new Chief Executive and a deputy. I believe that this will serve to further promote the success of EIF in its dual role of fulfilling EU policy objectives while achieving returns on its own funds.

Philippe Maystadt

Introduction by the Chief Executive

"EIF moved in 2007 to consolidate its presence across an extended investment spectrum"

Francis Carpenter

The past year has seen several important initiatives come to fruition after sometimes extended gestation periods, leaving EIF in a strong position to bring further added value to its SME financing activities as we head towards the end of the decade.

The Fund moved in 2007 to consolidate its presence across an extended investment spectrum. EIF's venture and guarantee business developed well, with new commitments in 2007 of some EUR 2bn in 33 venture funds and 26 SME guarantees backed by EIF's own resources as well as by third party resources. Furthermore, by the end of 2007, EIF had completed procedures to enlarge the geographic scope of its operations through an amendment to Article 23 of its statutes. Thus, as of 12 March 2008, the Fund may conduct its activities in the territory of the Member States of the Community, in candidate and potential candidate countries to the Community and in the European Free Trade Association (EFTA) countries.

EIF also laid the foundations for the successful implementation of its new EU mandate, the Competitiveness and Innovation Framework Programme (CIP). The first CIP operation was signed towards the end of 2007, with strong activity expected in 2008.

JEREMIE (Joint European Resources for Micro to Medium Enterprises) shifted gear in 2007 – from evaluation to implementation. The first agreement to establish a holding fund was established in Greece under EIF management and is expected to commence operations in early 2008. A further agreement was signed with Romania mid-February 2008.

EIF has also stepped up its joint-venture activity, establishing funds-of-funds in Turkey and in Portugal.

In financial terms, EIF continues to progress, showing net income of EUR 50.4m and a return on average equity of 6.15% for 2007. Total year-end equity before dividend payout came to EUR 985.4m, putting EIF on the point of becoming a billion euro institution. The private equity and venture environment in 2007 was conducive to EIF's activities, although underlying fears of global recession, notably in the second half of the year, led EIF management to adopt a prudent approach towards the impairment of venture capital funds for the year in question. We also delayed deploying the additional resources received from the capital increase, still largely held in short-term instruments, in view of market conditions.

EIF's commitment to a balanced investment strategy in recent years has contributed to a progressive turn-around in the financial performance of the equity portfolios under its management. With over EUR 500m in reflows and capital gains over the 2006-2007 period across all EIF's equity portfolios, they are now two thirds self-sufficient, up from one fifth, five years ago.

Taking a near six-year perspective, the progress made by EIF is due in a large degree to the incessant hard work and professionalism of its staff and to the continued support of the Chairman and the Board over the length of my mandate as Chief Executive.

Francis Carpenter

An active role in European venture capital and private equity

Cumulative equity portfolio:
EUR 4,388m at 31 December 2007

Multi-country	1 396
Central and Eastern Europe	208
Finland	103
Sweden	95
Denmark	56
Ireland	99
United Kingdom	649
The Netherlands	21
Belgium	44
Luxembourg	19
Germany	317
France	539
Austria	71
Spain	327
Portugal	26
Italy	301
Turkey	104
Greece	14

All figures in EURm; rounded where appropriate

The European market environment

During the first half of 2007, the strength of the European venture capital industry continued. All segments and stages of the private equity market remained very active in terms of investments, with a record-breaking second quarter. Rising oil prices and government regulation are still driving demand for "clean technology" oriented venture capital funds.

The sub-prime mortgage crisis led to a decline in the total value of private equity deals. While this initially had an impact on only the large buyouts with their high leverage, stock market instability, the looming recession in the US and fears of a global economic slowdown are likely to adversely affect the European venture capital industry throughout 2008, as they did already end 2007.

In a scenario somewhat reminiscent of the post-bubble period between 2001 and 2003, it is likely that many institutions will face capital constraints and therefore either freeze their private equity activities or exit the asset class entirely. With IPO markets possibly drying up, fewer reflows from exiting venture capital fund investments are to be expected. A limited number of long-term oriented "deep pocket" investors are likely to persevere, even profiting in this environment: a "flight to quality" may lead to some shakeout in the buyout sector, but may be less of an issue in venture capital, where in recent years investors have concentrated on fewer but better funds. Moreover, secondary players will have rich pickings.

Not unlike the scenario some years ago, EIF's value added will be mainly stepping in for limited partners that temporarily rein in their investments, thus providing some degree of stability for this important economic activity. However, fewer venture capital funds are likely to be closed and fund raising will take more time.

Venture capital

EIF's core objectives remain the support of SME finance for innovation, research and development, entrepreneurship, growth, and job creation within the Lisbon objectives. EIF operates in support of SMEs, not through direct investments, but through equity investments in venture funds, particularly those which are early-stage and technology-oriented.

For venture investments, EIF uses its own resources, as well as mandated resources: the Risk Capital Mandate (RCM) from EIB, the concluding Multiannual Programme for Enterprise and Entrepreneurship (MAP[1]) and, in future, the Competitiveness and Innovation Framework Programme (CIP) from the European Commission.

Important third party mandates, from non-shareholders, are ERP-EIF Dachfonds, NEOTEC, Dahlia and the Istanbul Venture Capital Initiative (iVCi).

- The ERP-EIF Dachfonds is managed by EIF on behalf of the German Federal Ministry of Economics and Technology (BMWi) and the European Recovery Programme.
- The NEOTEC fund-of-funds mandate was launched with the Centre for the Development of Industrial Technology (CDTI), a public business entity of the Spanish Ministry of Industry, Tourism and Commerce. NEOTEC aims to bring Spanish public and private sector investors to boost investments in Spanish SMEs which will foster innovation, research and development.
- Dahlia is a pan-European fund-of-funds launched jointly with Natixis Private Equity, Paris.
- iVCi is a fund-of-funds programme whose design is based on NEOTEC's experience in Spain. iVCi is focusing on generalist funds and co-investment opportunities in Turkey, in support of the development of the next generation of professional fund managers in Turkey.

EIF venture capital and private equity signatures in 2007 totalled EUR 521m in 33 funds[2].

1 All MAP figures presented in this report are inclusive of the predecessor mandate from the European Commission, the Growth & Employment (G&E) programme. Investments are still managed under the MAP and G&E.
2 Including EUR 50m committed to the iVCi fund-of-funds.

Venture capital resources and mandates

Total resources available per mandate under EIF management and co-management (EUR)

RCM	4 000m	MAP	304m	NEOTEC	183m
Own resources*	423m	Dahlia	300m	iVCi	150m
		ERP	500m	CIP**	73m

* Signatures at 31/12/07
** Budgetary commitment at 31/12/07

Total portfolio

EIF's total equity investments, including commitments in funds-of-funds, amounted to EUR 4.4bn at end 2007, up from EUR 3.9bn end 2006, invested in 273 funds. In turn, the funds in which EIF has invested have raised over EUR 26bn from other investors.

EIF has pursued the extension of its portfolio both upstream and downstream and returns on EIF's equity portfolios have continued to show improvement. More mid and later stage funds have added to the portfolio's balance by offsetting the higher risks inherent in early stage investing. Overall, the largest component of the portfolio remains early stage technology, primarily information and communications technologies and life sciences.

EIF's venture and private equity portfolio has maintained a healthy geographic diversification, which was extended to Turkey in 2007 following investments in three funds. Just under a third of the portfolio is invested in multi-country funds.

EIF targets top quality funds but also helps promising young funds, and it scrutinises all potential investments by applying rigorous due diligence. EIF works with market instruments using partnerships with both public and private bodies, seeking to improve SME access to finance, support EU objectives and address market failures. Through the scale and scope of its investments as well as its expertise, catalytic role and influence in developing best practice and corporate governance, EIF has established its reputation as a leading actor on the European VC market.

To further enhance its leverage of public funds, EIF has also undertaken to manage joint investment facilities with public and private partners. Whilst 2006 saw the NEOTEC and Dahlia initiatives come to fruition, 2007 welcomed the establishment of the iVCi fund-of-funds and the development of the PVCi fund-of-funds. In fact EIF has now invested in three generations of funds-of-funds with this latest generation involving much greater input from EIF into investment decisions.

EIF total equity investments: sector breakdown (EUR)
EUR 4,387.5m (at 31/12/07)

Generalist (non-tech)	1 900m (43.3%)
ICT-Life Science	1 064m (24.3%)
ICT	914m (20.8%)
Life Science	494m (11.3%)
Cleantech	15m (0.3%)

EIF equity investments in 2007

All figures in EURm (historical exchange rate)

Fund name	Principal resources	Geographic focus	Signatures
EIB and EIF	FOCUS ON EARLY TO MID-STAGE FUNDS INVESTING IN TECH AND MID-CAP COMPANIES		
Abingworth Bioventures 5	EIB/EIF	Multi-country	11.9
Accent Equity 2008	EIB/EIF	Multi-country	30.0
Actera Fund I	EIB/EIF	Turkey	44.0
Cape Natixis II	EIB/EIF	Italy	15.0
Consilium Private Equity Fund	EIB/EIF	Italy	15.0
Eden Two	EIB/EIF	United Kingdom	14.6
Explorer II	EIB/EIF	Portugal	10.0
Global Venture Capital II	EIB/EIF	Multi-country	10.0
GMT Communication Partners III	EIB	Multi-country	10.0
Innovacom 6	EIB/EIF	Multi-country	20.0
Kennet 3	EIB/EIF	Multi-country	20.0
Litorina Kapital III	EIB/EIF	Sweden	19.4
Lyceum Capital Fund II	EIB/EIF	United Kingdom	22.0
Mercapital Spanish Buyout Fund III	EIB/EIF	Spain	50.0
MVM Fund III L.P.	EIB/EIF	Multi-country	22.0
Pentech Fund II	EIB/EIF	United Kingdom	9.6
Royalton Capital Investors II	EIB/EIF	Central and Eastern Europe	15.0
Scope Growth II	EIB/EIF	Multi-country	15.0
TLcom II LP	EIB/EIF	Multi-country	15.0
Turkish Private Equity Fund II	EIB/EIF	Turkey	10.0
EC	NOTABLY TARGETING NEW OR SMALLER FUNDS WITH EARLY-STAGE, HIGH-TECH FOCUS		
Aescap Venture	EC	Multi-country	3.5
Baltcap Private Equity Fund	EC	Multi-country	10.0
Big Bang Ventures II	EC	Belgium	5.3
Capital-E	EC	Multi-country	8.9
Creandum II L.P.	EC	Sweden	15.0
Debaeque II FCR	EC	Spain	1.4
Gilde Healthcare II	EC/EIB/EIF	Multi-country	2.3
ERP	FOCUSING MAINLY ON GERMANY-BASED, HIGH-TECH, EARLY-STAGE COMPANIES		
Creathor	ERP/EC	Germany	0.6
Neuhaus III GmbH & Co.KG	ERP/EIB/EIF	Multi-country	2.8
Wellington Partners IV Technology Fund	ERP/EIB/EIF	Multi-country	30.0
Wellington Partners III Life Science Fund L.P.	ERP/EC	Germany	8.5
EIF			
CD3	EIF	Belgium	4.0
Funds-of-funds structure			
Istanbul Venture Capital Initiative iVCi	EIB/EIF	Turkey	50.0
Grand total			**520.7**

EIB's Risk Capital Mandate

EIF has operated the Risk Capital Mandate (RCM) on behalf of EIB since 2000, when the Fund became responsible for all EIB Group venture investments in Europe. The majority of EIF's venture capital investments are carried out using the EUR 4bn available under this evergreen facility. EIF generally co-invests alongside RCM using its own funds.

The mandate's main objective is to support technology and industrial innovation throughout early stage, expansion and development capital, with emphasis on innovative EU companies and generalist funds in Accession Countries and in various neighbouring countries.

By end 2007, amounts signed using EIB resources reached over EUR 3.5bn. The portfolio has a stable geographical coverage. Multi-country operations make up just under a third of the EIB portfolio, followed by investments in the UK, France, Spain, Italy and Germany.

In 2007, capital repayments for the RCM portfolio totalled EUR 184.1m and dividends received EUR 51.6m, over double the dividends received in the previous year. Since the portfolio's inception and at end 2007, EIB has received EUR 800m, of which EUR 692m in capital repayments and EUR 108m in dividends. The trend of these receipts over recent years is illustrated below. Unrealised capital gains for the RCM portfolio stood at EUR 276.2m at end 2007, an increase of EUR 128m compared to end 2006.

As outstanding resources under the RCM near full utilisation over the next two years, investment levels will depend thereafter on reflows from prior investments. Reflows have continued to improve, thanks to the revised investment policy and the market remaining strong.

EURm	2002	2003	2004	2005	2006	2007
Disbursements	206.2	177.3	209.1	259.4	310.8	323.4
Capital repayments	33.1	45.1	66.6	118.5	187.4	184.1
Unrealised gains	–	10.6	29.4	64.1	148.1	276.2
Dividends	1.4	0.5	3.0	10.3	23.0	51.6
Reflows/disbursements	16.7%	25.7%	33.3%	49.7%	67.7%	72.9%

European Commission mandates

From 2001 until final signatures in early 2007, EIF managed the ETF Start-up facility and the Seed Capital Action under the European Commission's Multiannual Programme for Enterprise and Entrepreneurship (MAP), targeting seed or early stage funds, aiming to finance the development of innovation and research as well as small business "incubators". Seed Capital Action was a small grant scheme supporting the recruitment of additional investment managers in seed capital business.

The successor mandate from the Commission, the High Growth and Innovative SME Facility (GIF) under the Competitiveness and Innovation Framework Programme (CIP), was designed in close collaboration between the European Commission and EIF and became operational in 2007.

GIF will be managed by EIF and will focus, on the one hand, on seed and start-up investments and, on the other hand, on SMEs in their expansion stage by co-investing in funds. GIF will also incorporate increased eco-innovation financing, an area where EIF is developing its activities. GIF is therefore extending both the range of EIF's investment spectrum and its scope.

In 2007, signatures under the European Commission's venture portfolio totalled some EUR 50m. At end 2007, cumulative amounts signed, including MAP, its predecessor "Growth and Employment" and CIP, reached EUR 314m.

In 2007, capital repayments totalled EUR 12.8m and dividends received EUR 1.9m. Unrealised capital gains for the EC portfolio stood at EUR 11.3m. Since the portfolio's inception and at end 2007, the European Commission has received some EUR 63m, of which EUR 45m in capital repayments and EUR 18m in dividends.

EURm	2002	2003	2004	2005	2006	2007
Disbursements	13.5	12.3	9.5	14.5	23.2	38.7
Capital repayments	0.1	0.2	0.8	12.1	7.6	12.8
Unrealised gains	–	–	2.9	19.6	8.4	11.3
Dividends	0.4	–	0.1	7.3	3.9	1.9
Reflows/disbursements	3.7%	1.6%	9.5%	133.8%	49.6%	40.0%

Own resources

EIF generally co-invests its own resources alongside third party resources from EIB (Risk Capital Mandate), the European Commission, the ERP-EIF Dachfonds, the new venture capital facilities NEOTEC and Dahlia, as well as the new fund-of-funds structure iVCi.

EIF's venture and private equity operations focus on primary investments in top quartile funds, balancing high-risk, high-return investments in early-stage high-tech with mid-size, mid-stage funds. This approach allows own resource equity investments to be managed on a portfolio basis and has contributed, alongside improving market conditions, to a significant improvement in financial performance.

In 2007, signatures under the own resources venture portfolio totalled some EUR 70m. At end 2007, cumulative amounts signed using own resources reached over EUR 423m. Specific volumes are not targeted but are linked to co-investment possibilities and the quality of investment opportunities.

Capital repayments totalled EUR 18.9m and dividends received totalled EUR 6.7m in 2007. Since the portfolio's inception and at end 2007, the portfolio has received over EUR 113m, of which over EUR 85m in capital repayments and over EUR 28m in dividends. The trend of these payments over recent years is illustrated in the table below. Unrealised capital gains for the own resources portfolio stood at EUR 36.8m at end 2007, up from EUR 20.9m at end 2006.

EURm	2002	2003	2004	2005	2006	2007
Disbursements	13.2	24.7	23.7	30.3	39.1	47.6
Capital repayments	0.8	1.7	7.8	12.5	20.8	18.9
Unrealised gains	–	5.3	7.0	9.8	20.9	36.8
Dividends	1.9	0.1	0.9	1.9	6.9	6.7
Reflows/disbursements	20.5%	7.3%	36.7%	47.5%	70.8%	53.8%

Case study

EIF's support to the Turkish private equity industry

Turkey's private equity environment has changed substantially over the past two years. In early 2006, when EIF was carrying out initial groundwork, the country received little attention from the international investor community and the industry was characterised by only one leading independent management team, Turkven. However, by the end of 2006, several of the leading sophisticated investors had been attracted by the dynamics of the market, resulting in booming fundraising activity in 2007 and the opportunity for the Fund to sign with two of the most prominent local private equity players.

Both Turkven's second fund and Actera Partners target the backbone of what is still an infant industry in Turkey. As witnessed in other countries, the first step for the sustainable development of a country's risk capital industry is the development of a healthy mid-market activity and EIF is committed to playing its part in this process. To further the Fund's role in Turkey, 2007 saw EIF act as advisor and as one of the cornerstone investors in the iVCi (Istanbul Venture Capital Initiative) fund-of-funds.

Turkven II

Turkven established its first fund in 2000 and by mid-2006 was ready for its second fund. Over one year, Turkven was able to raise a EUR 300m expansion capital/buyout fund targeting the Turkish mid-market.

EIF entered into discussions with Turkven well before its fundraising stage, providing invaluable experience with financial structures and industry practices. Early approval for an EIF commitment, which was finalised at EUR 10m, provided support to third party fundraising activity by the team.

Actera Partners

Actera is a first time EUR 325m private equity fund to which EIF signed a EUR 44m commitment in early 2007, further topped up by EUR 5m through Dahlia. Such a large commitment is atypical for EIF and is due not only to the quality of the team but also the context of the transaction, whereby EIF became in practice the third cornerstone of the fund, alongside two of Canada's largest pension funds, Ontario Teacher's Private Equity and Canada Pension Plan.

Actera is a buyout fund focusing on the Turkish mid-market with tickets between EUR 20m to EUR 50m investment size. Whilst the team has no formal investment track record together, they have collaborated extensively in the past and its founders bring a level of maturity to the Turkish private equity scene that is beneficial to such a young industry.

Joint ventures and funds-of-funds

ERP-EIF Dachfonds

The ERP-EIF Dachfonds is a EUR 500m fund-of-funds investing in venture funds focusing mainly on Germany-based, high-tech, early and development stage companies. EIF manages this co-investment facility on behalf of the German Federal Ministry of Economics and Technology (BMWi) and the European Recovery Programme (ERP), from which EUR 250m were committed, matched by co-investments through a combination of RCM, Commission and EIF funds.

In 2007, the ERP-EIF Dachfonds committed some EUR 42m in four funds. At end 2007, the ERP-EIF Dachfonds had signed, alongside other EIF resources, a total of EUR 282m in nine funds, which in turn helped to raise more than EUR 1.1bn from other investors, highlighting the programme's sustained influence and importance in the market.

NEOTEC

The Spain-based NEOTEC fund-of-funds was launched in February 2006 with the sponsorship of EIF and the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), the tech transfer office of the Spanish Ministry of Industry, Tourism and Commerce.

This high-tech and innovation co-investment facility was subscribed by CDTI, EIF and several other private investors, mainly Spanish blue chips. It closed at EUR 183m in June 2006, of which the EIF commitment was EUR 50m.

Since becoming operational, NEOTEC has signed commitments with Debaeque Venture Capital, Pond Venture Partners, Gilde Investment Management, Iris Capital Fund II and Adara Venture Partners, and has a healthy pipeline for 2008-2009.

Dahlia

Dahlia is a pan-European fund-of-funds, jointly sponsored by EIF and Natixis Private Equity (NPE), to which EIF provided EUR 75m and Natixis EUR 225m on a 25%/75% basis, allowing for a trust close at EUR 300m in mid 2006. An interesting feature of Dahlia is that it combines primary and secondary investments, building up on the respective strengths of EIF and Natixis in those two market segments.

At end 2007, Dahlia had committed EUR 120m, of which EUR 38m were through secondary operations (five deals) and EUR 1m co-investments. An additional EUR 25m have been approved by the Investment Committee.

Istanbul Venture Capital Initiative (iVCi)

iVCi is a EUR 200m dedicated Turkish fund-of-funds programme advised by EIF. First closing at EUR 150m took place in November 2007 in Luxembourg, with cornerstone investors the SME Development Organisation of Turkey (KOSGEB), the Technology Foundation of Turkey (TTGV), the public Development Bank of Turkey (TKB) and EIF.

The objective of iVCi is to serve as a catalyst for the development of risk capital in Turkey, whilst providing a platform for the first wave of domestic institutional investors in this asset class. The daily operations of iVCi are managed from Istanbul and Luxembourg, with the official public launch of the programme expected during 2008.

Portugal Venture Capital Initiative (PVCi)

EIF, alongside private financial institutions, public bodies and selected foundations, is setting up a EUR 100m private equity/venture capital fund-of-funds, the Portugal Venture Capital Initiative (PVCi), to invest in Portuguese and international PE/VC funds focusing primarily on Portugal.

Approved in 2007, EIF has committed EUR 15m to the fund and will assume the management of this initiative, which is expected to be operational during 2008.

Case study

Milestone partnership between EIF and K.U.Leuven

The Centre for Drug Design and Discovery (CD3) was created through a partnership agreement between the Katholieke Universiteit Leuven (Catholic University of Leuven – K.U.Leuven) and EIF. Its goal is to build upon research carried out in the biomedical field at K.U.Leuven to discover new therapeutic compounds for the treatment of diseases such as Hepatitis C, HIV and cancer and consequently bridge the gap between academic biomedical research and the needs of the applied industrial research.

The initiative will boost translational research and technology transfer in the life sciences field and was made possible as a result of both K.U.Leuven's excellence in research and technology transfer, in particular in the life sciences field, and EIF's understanding of this market segment and its particular needs. Both partners will invest a total amount of EUR 8m for the first years.

CD3 will source projects from both K.U.Leuven life sciences research groups and external partners such as other research institutions. It will seek to collaborate with, and/or license results to, the pharmaceutical and biotech industry, addressing the clear need for new and safer drugs. At the same time, it will enhance the value of the intellectual property developed at K.U.Leuven and open the door to new innovative research.

K.U.Leuven was founded in 1425 and operates one of the largest university hospitals in the world, UZ Gasthuisberg, which employs 8,200 people. Its research expenditures amounted to EUR 208m in 2005 and the field of life sciences is one of its major activities, making it one of the leading universities in Europe in this area.

Furthermore, the university is a pioneer of technology transfer in Europe. Its technology transfer office, K.U.Leuven Research & Development (LRD), was founded in 1972. The main activities of LRD include contract research, intellectual property rights management, establishment of new research-oriented and innovative spin-off companies and the promotion of high-tech entrepreneurship and innovation. It has a portfolio of over 60 active spin-off companies representing a total turnover of around EUR 350m and employing more than 2,000 people. Several of K.U.Leuven's research groups have a proven track record in the discovery of new drugs for major diseases, generating licensing revenues that are at par with the best universities worldwide.

This is the second partnership of EIF in this field and is testimony to EIF's commitment to funding outstanding technology transfer initiatives in Europe.

CIP and cleantech

In November 2007, EIF signed a new venture capital mandate with the European Commission: The High Growth and Innovative SME Facility (GIF) under the Competitiveness and Innovation Framework Programme (CIP). The facility is for investment into new funds for the period 2007-2013 and is a successor to the Multiannual Programme for Enterprise and Entrepreneurship (MAP).

The programme is set up with two windows. GIF 1 will cover investments into funds with an early stage focus, including seed funds and funds dedicated to technology transfer activity. Funds relating to business angels will also be considered. GIF 2, meanwhile, will cover investment into funds with a focus on SMEs with high growth potential in their expansion stage. It is envisaged that around EUR 550m will be dedicated to this mandate, representing half of the EUR 1.1bn total budget for EIF under CIP.

In December 2007, EIF signed its first investment under this new mandate, namely EUR 10m in BaltCap Private Equity Fund, utilising the GIF 2 window. BaltCap is an expansion capital fund targeting innovative SMEs in the Baltic region, and is managed by a newly independent team with offices in Estonia, Latvia and Lithuania. The fund will target consumer-related businesses, B2B service providers, specialised manufacturing, construction and ICT companies, and will assist them with their international expansion.

A particular focus of this new mandate is the emerging "cleantech" or "eco-innovation" sector. In this context, "eco-innovation" is defined as innovation aiming at significant and demonstrable progress towards the goal of sustainable development, through reducing impacts on the environment or achieving a more efficient and responsible use of natural resources, including energy. The GIF mandate will seek investments in funds which have this as part or all of their investment focus. This emerging sector is rapidly developing, with innovative technology companies having the opportunity to help meet the challenges posed by climate change and high energy costs.

A first investment from CIP into the eco-innovation area was made in early 2008, with EUR 15m being committed to Capricorn Cleantech Fund utilising the GIF 1 window. This fund is based in the Benelux and particularly targets companies that harness renewable materials and energy sources, dramatically reduce the use of natural resources, or cut or eliminate pollution.

The GIF mandate was conceived as being complementary to other resources under EIF management. With its emphasis on emerging managers and sectors, it is likely to be the largest mandate of its kind in Europe and has the opportunity to play a genuinely catalytic role in the setting up of new funds, widening and deepening the European venture capital market as a whole.

GEEREF

The Global Energy Efficiency and Renewable Energy Fund ("GEEREF") is a European Commission project mainly sponsored by DG Environment and DG AIDCO, the EuropeAid Cooperation Office. The project was announced by Commissioner Dimas and EIB Vice-President Brooks at the global climate conference in Bali in December 2007 for an overall investment amount of EUR 150m, EUR 80m of which will be funded by the Community budget. GEEREF is expected to become operational in spring 2008.

As a public-private partnership, GEEREF is destined to invest globally in energy efficiency and renewable energy projects in developing countries and economies in transition and will invest in regionally-oriented investment schemes. GEEREF will be the first compartment of a Luxembourg-based umbrella fund structure (SICAV – SIF).

EIF will act as a trustee for the participation of the European Community and provide advice as well as back office services.

In 2006, EIF staff members Thomas Meyer and Pierre-Yves Mathonet authored "J-Curve Exposure: Managing a Portfolio of Venture Capital and Private Equity Funds", published by Wiley Finance.

Technology Transfer – bridging the gap in the funding of marketable research

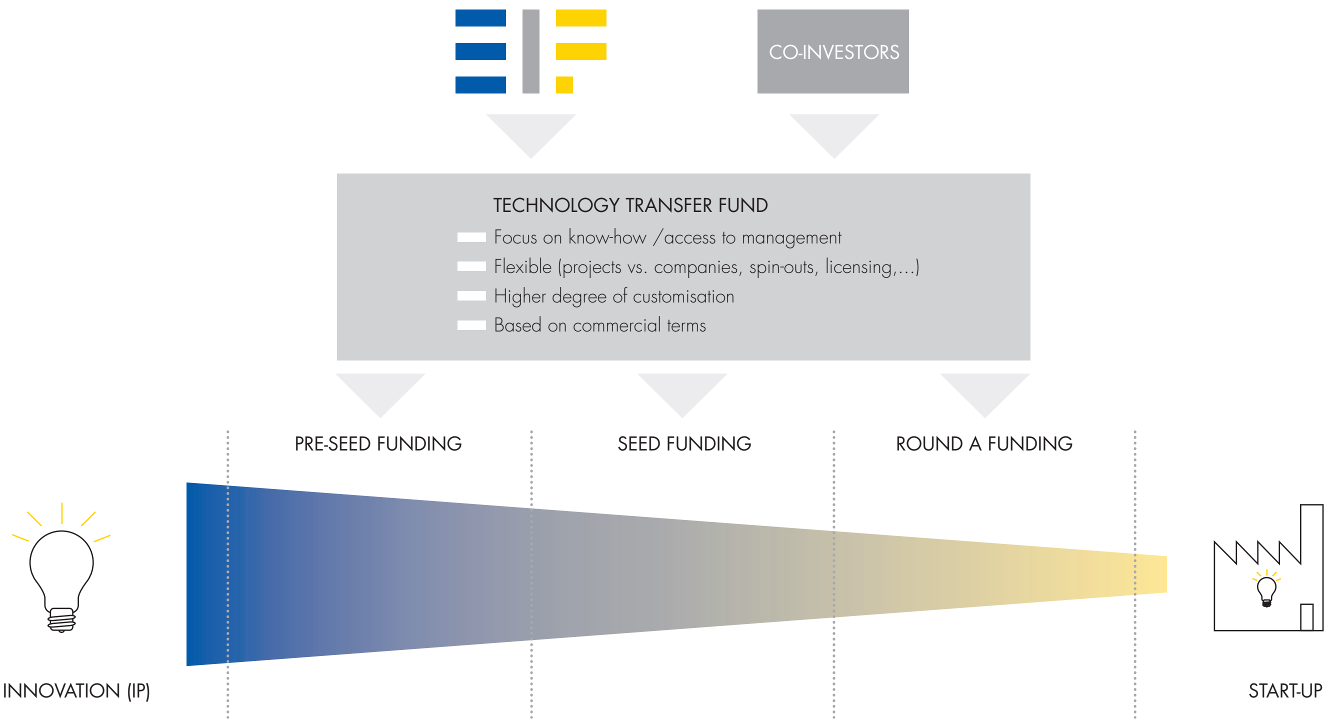
Technology Transfer is the process by which the results of research and development are transformed into marketable products or services. This transformation can take place through a number of means, in particular the collaboration between research organisations and industry, the licensing or assignment of intellectual property rights and the creation of start-up businesses or university spin-out companies.

Through its experience in the European venture capital market and as a result of its research, EIF has recognised that there is significant scope for unlocking the commercialisation potential of European research and supports the emergence of performing technology transfer initiatives, while reaping the associated financial rewards.

2007 saw the effective start of operations for the IP Venture Fund, a fund set up in cooperation with IP Group, a leading technology commercialisation company, and CD3, a fund set up together with the University of Leuven in the field of drug discovery and development.

The IP Venture Fund had a final closing at GBP 31m (approx. EUR 41m) and attracted several institutional investors to the field. The fund has now built a portfolio of 11 start-ups from across the UK. Meanwhile, CD3 has been established, its team built, and four projects are currently being financed. Both operations demonstrate the flexibility of EIF intervention in this emerging field and further signatures are expected in 2008.

EIF is committed to the continued development of its activities in the technology transfer field. It will do so by partnering with technology transfer professionals, developing adequate management and investment structures, and providing significant capital means.



A prime position in the guarantee and credit enhancement markets

Cumulative guarantee portfolio: EUR 11,584m at 31 December 2007

Non-EU	20
Pan-EU and multi	527
Finland	239
Sweden	371
Norway	9
Estonia	16
Latvia	23
Lithuania	40
Slovakia	45
Poland	225
Denmark	287
United Kingdom	585
Ireland	9
The Netherlands	880
Germany	986
Belgium	648
Luxembourg	0.2
Czech Republic	136
France	1 035
Austria	340
Slovenia	18
Hungary	36
Portugal	374
Spain	1 147
Italy	3 355
Romania	53
Bulgaria	81
Greece	84
Malta	6
Turkey	9
Cyprus	2

All figures in EURm; rounded where appropriate

The European market environment

During the summer of 2007, the capital markets witnessed an array of serious events, directly or indirectly linked to the sub-prime market crisis in the US. This led to a dramatic drop in demand in the ABS markets, including SME CLOs. As a consequence, liquidity almost completely dried up both in primary and secondary markets. The decrease in investor demand is most pronounced in the most senior risk classes. The ABS market has recorded its first year-on-year decline in new issuance and marked its historically widest year-end spreads. Overall new issuance of structured products in Europe totalled EUR 458bn in 2007, 3% down on the record volumes seen in 2006. However, this masks the sharp fall-off supply (-61% yoy) seen over the fourth quarter. Of the main asset classes, RMBS volumes fell 47% in the second half of the year relative to the first six months, while CDO and CMBS issuance declined by 28% and 74% respectively over the same period[1].

Furthermore, certain concerns arose during 2007 with respect to the reliance of the Spanish economy on the real estate and construction sector, and to the recent slowing of the house price inflation rate. SME pools have double exposure to the real estate sector, since most of the loans in the pools have been granted to real estate and building companies, which have been financed using mortgages as collateral.

EIF has no exposure to the sub-prime mortgage market in its guarantees portfolio, nor to "non-conforming" mortgage securitisations (a common asset type in the UK, for example, that has some similarities with the US sub-prime) or Commercial Mortgage-Backed Securities. EIF does have some exposure to SME financing backed by real estate property (e.g. mortgages on offices, industrial buildings and land used as security for the SME loans) through several transactions in Spain. However, none of the EIF transactions have shown any sign of performance deterioration that could potentially be linked to the real estate components.

In the current environment, EIF expects its role as a committed long-term SME investor, using various forms of guarantee instruments, to grow in importance. Going forward, the fundamental re-pricing of risk that has taken place since mid-2007 will also facilitate EIF in its achievement of an acceptable risk return profile for its overall guarantee portfolio.

EIF SME guarantee products

EIF guarantee operations can be broadly split into "own risk" and "mandate" activities. For own risk transactions, EIF employs its own capital by writing credit enhancements of securitised SME loans or leases for capital market transactions, often in the form of a credit default swap. Alternatively, EIF provides own-risk credit insurance for portfolios of SME loans or leases to financial institutions on a bilateral basis.

EIF's guarantee mandate operation covers the management of the European Commission's SME Guarantee Facility, under the Multiannual Programme for Enterprise and Entrepreneurship (MAP). Under this facility, the Commission provides guarantees and counter-guarantees of part of the expected losses of SME portfolios to local financial institutions. EIF has recently been mandated to manage MAP's successor programme, the Competitiveness and Innovation Framework Programme (CIP), which covers the period 2007-2013. As with MAP, the objectives of the programme are to enhance the ability of SMEs to access finance, as well as to boost productivity, competitiveness and innovation capacity in the EU.

Across its guarantee product lines, EIF acts as a unique market player, thanks to its status as an AAA/Aaa/AAA rated European institution with Multilateral Development Bank status and also financial return objectives. EIF's guarantee activities achieve substantial added value thanks to the high leverage of this operation, which results from the fact that in its own risk transactions, EIF typically guarantees the mezzanine risk of a total portfolio, which has the multiple size of the nominal amount guaranteed by EIF. The same applies to the European Commission guarantee in the mandate operation, where part of the expected loss is guaranteed. Thus, the level of geared SME investment indirectly supported by EIF is vastly greater than the budgetary allocation that EIF requires for this activity.

1 Source: Deutsche Bank

Total portfolio

EIF's total guarantee portfolio amounted to EUR 11.6bn at end 2007, in 190 transactions.

EIF's credit enhancement activity has remained strong, with total commitments amounting to EUR 3,530m at end 2007, compared to EUR 2,868m at end 2006. EIF is a key participant in the developing European SME securitisation sector and also looks towards emerging securitisation markets for new business opportunities.

EIF's guarantee portfolio shows strong geographical diversification and the Fund has initiated transactions in almost all of the countries in which it may operate.

EIF continues to adopt a balanced portfolio approach, guaranteeing different levels of tranches so as to maintain the average portfolio at, or reasonably close to, the present level (weighted average rating of the own risk portfolio remains stable at iBaa1).

Supplementary to its primary market activities, EIF also uses own resources to participate in secondary operations on a selective basis.

EIF guarantee operations product breakdown (EUR)
EUR 11,584m in total commitments (at 31/12/07)

MAP	4 907m (42.4%)	Growth and Environment	456m (3.9%)
Credit enhancement	3 530m (30.5%)	Credit insurance	232m (2.0%)
SMEG 98	2 409m (20.8%)	Structured Investment Vehicle	50m (0.4%)

SME guarantees in 2007

In 2007, EIF's guarantee activity focused on own resources credit enhancement transactions, while the new EC mandate for the CIP SME Guarantee Facility was being finalised (it was finally launched by the European Commission in October 2007). The first CIP guarantee proposal was finalised at the end of the year.

Own funds guarantees reached the record level of approximately EUR 1,389m through 25 guarantee operations.

It is noteworthy that the second half of the year was characterised by very difficult market conditions where EIF played a crucial role in bringing a few milestone transactions to the market. These include various asset classes e.g. "club deals", such as the first securitisation of small firm loans in the UK (Goodwood Gold SME CLO, originated by Lloyds Bank), a small ticket leasing securitisation in Poland (Millennium Leasing), a structured finance transaction backed by a portfolio of new venture loans (Noble Venture Finance II) and the securitisation of subordinated loans to small and mid-sized regional banks in Denmark (Scandinotes IV and V). Most guarantee commitments were made in respect of mezzanine level tranches.

In view of the very tight liquidity in the market towards year-end, EIF selectively intervened also in a few secondary market SME CDO transactions.

European Commission mandates

In autumn 2007, the European Community mandated EIF to implement the SME Guarantee Facility under the Competitive and Innovation Framework Programme 2007-2013 (CIP).

Under the CIP, financial institutions are encouraged to enhance access to finance for SMEs. The guarantee is provided when it can be clearly shown that additional finance to SMEs is made available. Therefore, it provides an excellent tool to provide additional volumes, to finance SMEs that otherwise would not have access to financing and to offer financing instruments that entail increased risk.

Compared to the previous mandate, the MAP, more countries are expected to participate, such as countries from the Western Balkans. Emphasis is put on support for financing environmentally-friendly investments, as well as business transfers and mezzanine financing. A guarantee for quasi-equity instruments has therefore been introduced. Another novelty is the securitisation product, which will enable financial intermediaries that would not otherwise tap capital markets to expand their funding base and hence enable them to provide further loans to SMEs.

The preparation of the products is well advanced and a number of potential intermediaries have expressed their interest. 2008 is expected to mark the start of a major challenge and there will be close cooperation with the EC in order to ensure that EIF meets expectations.

EIF has worked closely with the European Commission to establish a website which will provide SMEs with information about the sources of EU-backed loan finance. The Access to Finance website www.access2finance.eu provides links to pages on intermediaries' websites where CIP-supported loan products are advertised.

EIF guarantees in 2007

Resources	Deal name	Country	EURm
EIF own funds			
	Anaptyxi 2006-1 Secondary	Greece	11.0
	Aqua Sme (Finibanco)	Portugal	15.0
	Ascot Black 2007	United Kingdom	234.3
	BEST SME 2007	The Netherlands	80.0
	CoSMO	Germany	116.0
	ETV	Pan EU	5.0
	FCC GIAC 6	France	22.5
	Fortis SME CLO	Belgium	263.4
	Goodwood Gold SME CLO	United Kingdom	109.7
	Gracechurch Corporate Loans 2005-1 – Secondary 1	United Kingdom	46.0
	Gracechurch Corporate Loans 2005-1 – Secondary 2	United Kingdom	10.0
	Gracechurch Corporate Loans 2007-1	United Kingdom	41.0
	MARS 2004 Secondary transaction	The Netherlands	5.0
	Millennium Leasing	Poland	18.8
	Noble Venture Finance II	Pan EU	29.5
	PREPS 2007-1	Germany	15.0
	Promise-I 2002-1	Germany	109.5
	PULS CDO 2007	Pan EU	40.0
	ScandiNotes IV	Denmark	13.0
	ScandiNotes V	Denmark	146.2
	S-Core	Germany	29.3
	SMILE 2007	The Netherlands	10.0
	SMILE 2007-1 Secondary	The Netherlands	7.5
	Stichting MARS 2006	The Netherlands	8.0
	Stichting MARS 2006	The Netherlands	3.5
		Subtotal	1389.2
MAP (Multiannual Programme for Enterprise and Entrepreneurship) SME Guarantee Facility			
	Banka Koper – LGF (SMEG 2001)	Slovenia	8.0
		Subtotal	8.0
		Grand total	1397.2

Microfinance

EIF has identified interesting opportunities as a guarantor in the microfinance field. An obvious example is the microfinance window under CIP, where EIF may provide direct loan portfolio guarantees to dedicated micro-banks as well as to Microfinance Institutions (MFIs). Implementation of the microfinance window in potential candidate countries is expected to substantially widen the geographic scope of EIF involvement in support of commercially viable microfinance activity.

Following initial contacts with microfinance institutions in 2005-2006, EIF also strongly believes that many opportunities using EIF own resources can be identified in the credit enhancement field. EIF is currently considering the development of standardised products (applying well-established structured finance techniques) to target MFIs and micro-banks in need of regulatory capital relief and/or medium- to long-term funding. The demand for such products is expected to increase under Basel II, since most of the micro-banks are so called "standardised banks" (i.e. using a Basel II standardised approach), which may benefit from substantial regulatory capital relief and from the transfer of the most senior risk in a synthetic securitisation transaction. These banks also typically need to manage strong loan portfolio growth with correspondingly higher capital requirements and, in some cases, in an environment where growth of microfinance activity suffers as a result of changes to the regulatory environment. EIF is also gaining insight into the microfinance field through external mandates and through its co-arranger experience in facilitating asset-backed financing for MFIs.

At European policy level, an initiative for the development of micro-credit in support of growth and employment has recently been launched. The purpose is to identify and overcome the main barriers impeding the development of microcredit in the European Union. The initiative has four main objectives: improve the legal and institutional environment in the Member States; encourage a favourable climate for entrepreneurship; disseminate best market practices; provide additional capital for MFIs through the creation of an investment vehicle (the "MicroFund"). EIF has been mandated to conduct a feasibility study in view of the setting up and management of the MicroFund. This vehicle will mainly target equity investments in newly established and non-bank MFIs, who face the most difficulties in obtaining funding.

EIB Group joint operations

Three joint operations totalling some EUR 70m from own resources were signed with the European Investment Bank in 2007. The credit enhancement deals in the UK, Gracechurch Corporate Loans 2007-1, and in the Netherlands, SMILE 2007, each constituted one of the few SME-related securitisations in the respective countries. A leasing securitisation deal in Poland, Millennium Leasing, was also finalised, providing EIF with the opportunity to support the securitisation of a portfolio of leases to very small enterprises, to transfer knowledge to a first time issuer and to diversify EIF's portfolio with exposure to Central and Eastern Europe and a new originator.

Furthermore, Raiffeisen Leasing Polska (Poland), signed early 2006, saw an increase in total transaction size and was finalised, with closing taking place early 2008.

To date, joint EIB Group operations have been mostly concentrated in the securitisation market, typically with EIB investing as a cash investor in the senior tranches and EIF investing in the riskier mezzanine tranches as a guarantor.

Collaboration has also taken place on the European Fund for South East Europe (EFSE), created in 2005. EFSE's overall objective is to foster economic development and prosperity in South East Europe through the sustainable provision of additional development finance, notably to small and micro-enterprises and to private households via local financial intermediaries. The European Commission entrusted EIF with the subscription of its shares, the management of its participation and its representation on the Board. The Commission's overall objective is to support the beneficiary countries in their progress towards a market economy, in particular, through the creation of a competitive private sector. EIB became a shareholder in EFSE end 2007, investing EUR 25m in B- and A-shares.

As JEREMIE becomes fully operational and as EIF's technology transfer activities become more sophisticated, further opportunities for joint operations – possibly including joint offers – will be explored. Under JEREMIE, the regional holding funds could be supplemented by loans to the regions themselves or through global loans, thus enhancing the impact of ERDF funding. As concerns technology transfer, EIF could use its support of "intellectual aspects" to complement the EIB's support for infrastructural requirements.

Case study

Goodwood Gold SME CLO 2007-1

Signed in November 2007, the Goodwood Gold SME CLO 2007-1 transaction represents the first securitisation with EIF involvement backed solely by small SMEs in the UK, in this specific case borrowers with a turnover of up to GBP 3m (approx. EUR 4m). All loans in the initial portfolio of GBP 3bn (approx. EUR 4bn) (financing approximately 15,000 small SMEs) have been originated by Lloyds TSB Bank Plc. Further loans can be included in the securitised portfolio over a three-year replenishment period.

The transaction was executed by the originator and a small number of key investors through a partially funded synthetic securitisation structure. EIF acted as credit default swap counterparty – in effect selling protection on the loan portfolio to the originator – for part of four classes of mezzanine tranches rated Ba1-Aa2. The remaining part of the mezzanine risk was transferred to an SPV which, in turn, hedged its exposure by issuing credit-linked notes to investors.

There are three key aspects which constitute the added value brought by this transaction, namely:

- Support to small SMEs in a very granular SME securitisation transaction;
- EIF involvement ensured that the transaction could close successfully in a very challenging capital market environment; and
- Intensified cooperation with Lloyds TSB Bank Plc, a dedicated SME lender in the UK.

EIF and a small number of other key investors were approached by the originator at an early stage of the transaction process in parallel to the rating exercise performed by Moody's. Given the private nature of this transaction, investors had a direct influence on certain structural aspects of the deal and broad guidelines for the composition of the underlying portfolio (e.g. in terms of diversification targets, limits for industry concentration, eligible product types, etc.). EIF committed approximately GBP 66m (approx. EUR 87m) to this transaction split vertically across the mezzanine tranches E (Ba1) to B (Aa2).

The private nature of this transaction, with high involvement early on from a small number of institutional investors, ensured a smooth closing at overall good terms in an otherwise very challenging market environment.

JEREMIE: an option for EU regions

Introduction

JEREMIE ("Joint European Resources for Micro to Medium Enterprises") is an initiative of the European Commission (Directorate-General for Regional Policy, "DG Regio") and EIB Group to promote SME access to finance through non-grant instruments in the EU Member States, in the context of the EU Structural Funds[1] programme 2007-2013.

Under JEREMIE, national and regional public authorities[2] responsible for EU Structural Funds implementation during the period 2007-2013 can opt to deploy money made available in the form of market-driven financial instruments, such as equity or venture capital investments, loans and guarantees. JEREMIE will operate as a "tool-box" to establish a portfolio of financial instruments for SMEs that are held and managed by a national/regional holding fund.

DG Regio mandated EIF to undertake preparatory evaluations of the gap between existing supply and potential demand for SME access to finance in the EU countries and regions interested in the JEREMIE approach, and to propose actions to decrease these financial gaps and market failures. By the end of 2007, 36 national and regional JEREMIE evaluation studies had been finalised by EIF's JEREMIE team in cooperation with the respective national and regional public authorities, and this work will continue in 2008.

Following the evaluation phase, the respective national or regional Managing Authority must then decide if JEREMIE should be implemented for the benefit of local SMEs and, if so, how the JEREMIE holding fund should be established and in cooperation with whom. According to the EC Regulation on implementation of Structural Funds 2007-2013 (1083/2006, Art. 44), EIF can be appointed directly as holding fund by the respective Managing Authority in charge.

Benefits to Member States

Unlike grants, which can only be spent once, JEREMIE instruments have the added benefit of revolving over a long period (2007-2015 and beyond), meaning that a given pool of funds can be re-invested several times, thus making Structural Funds allocations more sustainable.

JEREMIE's flexibility is optimal, as the holding fund is able to implement various types of instruments varying from equity and quasi-equity to venture capital and loans or guarantees. These financial instruments will create leverage by private sector funds, as market-based instruments give opportunities for public-private cooperation. Furthermore, the professional management of JEREMIE funds will provide incentives for the European financial sector, banks and investors to co-invest or lend to the financial intermediaries supported by JEREMIE.

Consequently, JEREMIE will enhance the supply of SME finance by bringing product expertise and decision on investment schemes at a national, regional and local level and should contribute to improve the financial conditions. This may be achieved, amongst other means, by decreasing lending interest rates through JEREMIE guarantees, reducing the need for collateral through the implementation of guarantee instruments, disseminating equity finance, enhancing the availability of microcredit, particularly to those areas where the market is not providing funds.

EIB Group

JEREMIE is an initiative of DG Regio and EIB Group. EIB offers support through the possibility of contributing EIB risk loans (potentially through the Structured Finance Facility) to national/regional JEREMIE holding funds. EIB's contribution to a JEREMIE holding fund could also be realised through financing of the national/regional co-financing applicable to all EU Structural Funds measures.

1 European Regional Development Fund – ERDF and the European Social Fund – ESF
2 So-called "Managing Authorities"

Operational implementation in 2007

If a country or region decides to use JEREMIE, the implementation is in three major phases.

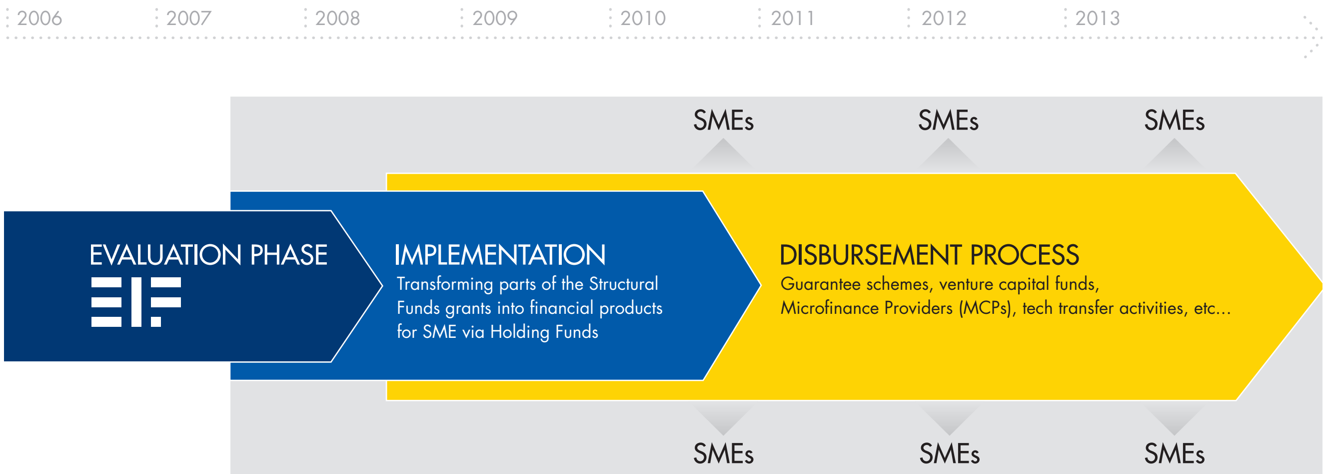
The first stage consists of the structuring of a holding fund and the negotiation and signature of a Funding Agreement with the Managing Authority. If appropriate, a local JEREMIE office is opened, the holding fund prepares a business plan for the implementation of the funds for presentation to the JEREMIE Investment Board, and the first contribution from the EU Structural Funds to the holding fund is made.

Next, on the basis of the business plans and proposals from national/financial intermediaries, the holding fund will select and sign Funding Agreements with those who are best equipped to channel the resources to SMEs through equity and debt financing. JEREMIE anticipates a wide spectrum of financial intermediaries, such as venture capital funds, loan funds, microfinance providers, banks, guarantee funds, and technology transfer vehicles.

Thirdly, financial intermediaries will invite SMEs to present their investment proposals for evaluation. The holding fund will be responsible for monitoring the use of the funds by financial intermediaries and SMEs and for reporting back to the Investment Board and the Managing Authority.

To date, EIF has signed Memoranda of Understanding for future cooperation on JEREMIE implementation with the Slovak Republic, Greece, Romania, Bulgaria, Cyprus, and also with several regions in France, Spain and Italy. In June 2007 and February 2008, EIF signed the first JEREMIE Funding Agreements with, respectively, the Greek and Romanian governments. Further Funding Agreements are currently under negotiation with the Slovak Republic, Bulgaria, Lombardy, Andalucía and some Baltic countries. Ideally, first contracts with regions in France, Italy, and Spain would be duplicated with other interested regions.

JEREMIE phases



Case study

JEREMIE in Romania

"The Romanian Republic is a model European case for the creation of financial products that are focused on redressing gaps in SME finance, particularly in the support of start-ups and further development of existing enterprises", said Francis Carpenter, Chief Executive of EIF, on the occasion of the signature of the JEREMIE Funding Agreement in February 2008.

On 18 February 2008, the Minister of Finance, Mr. Varujan Vosganian and EIF's Chief Executive, signed the JEREMIE Funding Agreement on behalf of the Romanian Republic and EIF. This signature, the first JEREMIE contract to be signed since the launch of the initiative in the new EU Member States, was the culmination of a year of concerted effort between the JEREMIE team, EIF's legal team, the staff of the Romanian Ministry of Economy and Finance and the Romanian Managing Authority.

From EIF's first JEREMIE presentation to the Ministry and Managing Authority, it was apparent that the programme's approach – revolving funds, financial engineering, and increased access to the banking system through guarantee schemes – was a natural match with the Ministry's proposed approach to using structural funds for the 2007-2013 programming period. Furthermore, the Gap Analysis jointly funded by the European Commission and EIF was already confirming that this sort of focused financial engineering solution was what the SME market most needed.

Once the similarity of strategy was confirmed, a Memorandum of Understanding was signed on 23 January 2007, describing the basis of the relationship and its objectives and defining a timetable.

Meanwhile, the JEREMIE team started to develop structures and procedures for the Romanian initiative. In parallel, detailed discussions were held with the Ministry as to which financial engineering products should be launched and which target SMEs reached. EIF's role is not only to recommend a structure and launch the most appropriate financial instruments, but also to be responsible for the administration, monitoring and reporting of the use of funds to the Ministry of Economy and Finance and to the Romanian Managing Authority. Therefore, the development of ad-hoc procedures, reflecting the specificities of the local market, is a key element in the successful implementation of the programme.

Funds transferred to the JEREMIE holding fund by the Managing Authority within the Romanian Ministry of Economy and Finance will remain the responsibility of the Managing Authority, with the development, launch and accounting for the financial engineering solutions delegated to EIF. To this end, the creation of an Investment Board, nominated by the Ministry and with members representing the Managing Authority and the private sector, will ensure that all activity undertaken by the JEREMIE holding fund is in line with national strategy and best market practice.

With local staff in place, product experts at headquarters ready to start the pre-launch of the foreseen financial engineering products (well balanced between guarantee schemes and venture capital activities), the full support of the Ministry assured, the imminent nomination of the Investment Board and the impending transfer of a part of the Managing Authority's structural funds to the JEREMIE holding fund account in Romania, EIF intends to see the planned new products in the Romanian market by the second half of 2008.

The JEREMIE structure is designed to be leveraged with public and private sector funding at several levels and the EU institutions, including EIB, can play a role in supporting this initiative in Romania.

Policy and institutional affairs

Added value of EIF intervention

EIF focuses its attention on refining its approach to the issue of added value. In 2007, EIF considerably increased its research in this field in order to try to find a more systematic and measurable way of assessing projects ex-ante and ex-post. The identification of social value-added in parallel to its financial return objectives is important for EIF because of its aim to contribute to its stakeholders' policy objectives, notably those of the European Community, and thus be truly accountable to its policy dimension. Assessing the efficiency of EIF's instruments and investments in pursuit of those objectives, such as fostering the financing landscape for SMEs, creating a fertile environment for technology and innovation in Europe, or contributing to sustainability in various sectors such as cleantech, requires that EIF develop tools that not only assess achievements through an ex-post evaluation, but which can also serve as investment selection criteria, just as the financial return expectation does with respect to the commercial value of equity invested.

Inter-institutional affairs

The European Parliament decision on the Community participation in EIF's capital increase was adopted in March 2007, swiftly followed by the Council's approval in April 2007. This important reinforcement of the Community participation, through the European Commission, will contribute to support of the Lisbon strategy and help achieve the Community's objectives in the field of SMEs, job creation, innovation, research and development, cohesion and regional policy and enlargement.

In January 2007, the successor to the Tripartite Agreement between EIF, the European Commission and the European Court of Auditors was signed, defining the procedures for providing the Court with the documents and information relating to its audit of the value of the Community's subscription to the capital of the EIF.

EIF and European Commission services continued their cooperation for the launch of the Competitiveness and Innovation Framework Programme 2007-2013 (CIP), managed by EIF, as well as for the implementation of the JEREMIE initiative. Furthermore, under the Portuguese presidency, the December 2007 ECOFIN Council invited the Commission to further promote the development of risk capital for high-growth and technology-based SMEs through EIF, including through CIP and JEREMIE in order to address SME market gaps including for technology transfer and product development.

EIF participated in the Commission microcredit task force and contributed to the European initiative for microcredit adopted in late 2007. With extensive fund-of-funds experience, EIF also assisted the Commission in setting up the Global Energy Efficiency and Renewable Energy Fund (GEEREF), destined to invest in energy efficiency and renewable energy projects in developing countries and economies in transition.

During 2007, EIF closely followed developments at the European Parliament, regularly attending Parliamentary committees, notably ITRE, the Industry, Research and Energy Committee.

Cooperation with shareholders

EIF has continued operational cooperation with its main shareholder, EIB, signing three joint operations in 2007. There is also ongoing collaboration with the European Commission, including CIP, JEREMIE and EFSE. The Fund is also keen to identify opportunities for business cooperation with the financial institutions having an EIF shareholding. Under CIP and JEREMIE, and with a larger range of EIF products, there is renewed scope for cooperation.

The Gracechurch Corporate Loans 2007-1 deal is a fine example of EIF cooperation with shareholders in a securitisation deal. Barclays plc, the originator, is a long-term shareholder of EIF and has a strong track record in the UK SME loan securitisation market. EIF has participated in its loan portfolio transactions in the past, notably in the first issuance under the Gracechurch programme. This deal allows Barclays to obtain economic and regulatory capital relief which, with a five-year replenishment period, should ensure significant further SME lending. EIB invested GBP 300m (approx. EUR 400m) in the senior tranche, thus complementing EIF's investment in the mezzanine (and part of the senior) tranche. This transaction was underpinned by a GBP 3.5bn (approx. EUR 4.6bn) portfolio of primarily SME loans.

Governance

Capital and shareholders (at 2 April 2008)

EIF has an authorised capital of EUR 3,000m, divided into 3,000 shares of EUR 1m each. On 31 December 2007, 230 of these shares were authorised but not yet issued. Of the issued 2,770, EIB held 65.8%, the European Community represented by the European Commission 25% and a number of European banks and financial institutions 9.2%. It is planned that the EU will gradually increase its shareholding to 30% of the total.

	Number of shares
Finland	**6**
Finnvera Plc (6)	
Sweden	**3**
Stiftelsen Industrifonden (3)	
Hungary	**5**
Hungarian Development Bank Ltd (5)	
Denmark	**11**
Vaekstfonden (3) FIH (8)	
Germany	**91**
Kreditanstalt für Wiederaufbau (68) Landeskreditbank Baden-Wüttenberg-Förderbank (8) LfA Förderbank Bayern (7) Nordrhein-Westfalen Bank (NRW.BANK) (3)* Sächsische Aufbaubank-Förderbank (SAB) (5)	
United Kingdom	**8**
Barclays Bank PLC (5) Scottish Enterprise (3)*	
The Netherlands	**3**
NIBC (3)	
Luxembourg	**9**
Banque et Caisse d'Epargne de L'Etat (5) BIP Investment Partners S.A. (4)	
France	**40**
Caisse des Dépôts et Consignations (CDC) (30) Dexia Credit Local (10)	
Austria	**11**
Bank Austria Creditanstalt AG (3) Erste Bank der Oesterreichishen Sparkassen AG (3) Raiffeisen Zentralbank Oesterreich AG (3) Raiffeisen International Bank-Holding AG (2)*	
Spain	**12**
Instituto de Crédito Oficial (ICO) (8) Agencia de Innovación y Desarrollo de Andalucía (IDEA) (4)	
Italy	**28**
Dexia Crediop S.p.A. (5) IMI Investimenti S.p.A. (15) Intesa Sanpaolo S.p.A. (8)	
Portugal	**9**
Banco BPI S.A. (9)	
Croatia	**5**
Croatian Bank for Reconstruction and Development (HBOR) (5)*	
Bulgaria	**3**
Encouragement Bank A.D. (3)	
Malta	**8**
Bank of Valletta P.L.C. (8)	
Turkey	**5**
Industrial Development Bank of Turkey (TSKB) (5)	

* Shareholders that have joined EIF since 1 January 2007.

Philippe MAYSTADT

Ralph MÜLLER

Marc AUBERGER

Heinz ZOUREK

Kurt A. HALL

David McGLUE

Philippe de FONTAINE VIVE CURTAZ

Board of Directors (at 2 April 2008)

Chairman

Philippe MAYSTADT
President, European Investment Bank, Luxembourg

Members

Ralph MÜLLER
Ministerialrat, Leiter des Referates Haushalt der EU und der EIB Gruppe, Bundesministerium der Finanzen, Berlin

Heinz ZOUREK
Director General, Directorate-General for Enterprise and Industry, European Commission, Brussels

David McGLUE
Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg

Marc AUBERGER
Directeur Général, CDC Capital Investissement, Paris

Kurt Arne HALL
Director General, Ministry of Finance, International Department, Stockholm

Philippe de FONTAINE VIVE CURTAZ
Vice-President, European Investment Bank, Luxembourg

Alternates

Rémy JACOB
Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg

Thomas HACKETT
Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg

Jean-Marie MAGNETTE
Head of Unit, Liaison with EIB Group and New Financial Instruments, Directorate-General Economic and Financial Affairs, European Commission, Luxembourg

Detlef LEINBERGER
Mitglied des Vorstandes, KfW Bankengruppe, Frankfurt/Main

Gaston REINESCH
Director General, Ministry of Finance, Luxembourg

Isabel RIANO-IBANEZ
General Director for International Finance, Ministry of Economy and Finance, Madrid

Dirk AHNER
Director General, Directorate-General for Regional Policy, European Commission, Brussels

The Board wish to express their gratitude to Francis Carpenter who reached the end of his term of office as Chief Executive on 29 February 2008.

Management and key people (at 2 April 2008)

John A. HOLLOWAY	Jean-Philippe BURCKLEN	Christa KARIS	Matthias UMMENHOFER
Jacques DARCY	David WALKER	Ulrich GRABENWARTER	Alessandro TAPPI
Maria LEANDER	Hubert COTTOGNI	Marc SCHUBLIN	Robert WAGENER
Thomas MEYER	Jobst NEUSS	Alexander ANDÒ	Frédérique SCHEPENS

Chief Executive

Francis CARPENTER*

JEREMIE	
Head	Marc SCHUBLIN
Deputy Head	Hubert COTTOGNI
Senior	Alexander ANDÒ
RISK MANAGEMENT AND MONITORING	
Head	Thomas MEYER

Secretary General

Robert WAGENER

LEGAL	
Head	Maria LEANDER
COMPLIANCE	
Head	Jobst NEUSS
CORPORATE AFFAIRS AND FINANCE	
Head	Frédérique SCHEPENS

Director, Investments

John A. HOLLOWAY

VENTURE CAPITAL	
Heads	Jean-Philippe BURCKLEN
	Jacques DARCY
	Ulrich GRABENWARTER
Deputy Heads	Matthias UMMENHOFER
	David WALKER
GUARANTEES AND SECURITISATION	
Head	Alessandro TAPPI
Deputy Head	Christa KARIS

* Term of office ended 29 February 2008.

Audit Board (at 2 April 2008)

Raimundo POVEDA ANADÓN

Christian-Johann RÀKOS

Tony MURPHY

Chairman

Raimundo POVEDA ANADÓN
Former Director General, Banking Policy Directorate, Bank of Spain

Members

Christian-Johann RÀKOS
Director, Global Financial Services, Bank Austria Creditanstalt AG

Tony MURPHY
Head of Unit, Internal Audit, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg

The Audit Board prepares an activity report for the General Meeting for the preceding financial year. The report essentially reviews both internal and external audit work of the year, as well as cooperation with the European Court of Auditors, and it assesses the Fund's actions in response to the last Audit Board's recommendations. The activity report is available via EIF's website: **www.eif.org**

Audit and controls

EIF's principal audit and control mechanisms include both internal and external auditors working under supervision of the Audit Board, which maintains the independence and integrity of the audit function. The audit of EIF's accounts is, in principle, the duty of the Audit Board, as stated in EIF Statutes (Article 22) and Rules of Procedure (Article 17). The Audit Board may have recourse to the external auditors as stated in the Rules of Procedure (Article 19).

EIF's internal and external auditors liaise with the internal and external auditors of EIB, and those of the European Commission, with regard to the fiduciary mandates.

EIF is also audited by the European Court of Auditors for programmes mandated to EIF by the European Commission. In relation to the European Commission's shareholder participation in EIF, the Court of Auditors operates within a specific tripartite agreement that permits audit of the participation's value.

In 2007, the current EIF external audit contract with PwC expired following the audit of the financial year 2006. A restricted tender exercise in accordance with the current EU legislation took place in 2007. The Audit Board reached a unanimous decision and the contract was awarded to Ernst & Young. The Audit Board decided that the tendering will refer to a five year audit contract with an option of early termination to be triggered by the possible decision to have a common audit firm with EIB for the financial year 2009 onwards.

The audit methodology used at EIF is the External Control Framework mechanism that covers all key business processes. EIF equally operates a comprehensive Internal Control Framework with its internal auditor.

In 2005, EIF's Rules of Procedure were modified to enhance the Audit Board's role, notably in terms of producing an annual activity report, and in meeting the Board of Directors on an annual basis. A Code of Conduct, which defines the rules and principles which apply to all the Audit Board members, was approved in June 2005.

In 2006, EIF was informed of a possible issue regarding the additionality requirements for a specific financial activity carried out on behalf of a third party. The issue is still under examination, including any possible financial implication.

The Audit Board conducts its activity following the standards of the audit profession and has produced an annual activity report based on Audit Board activities. The Audit Board Charter and the annual activity report are published on EIF's website.

Overview of EIF risk management

The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product. EIF therefore constantly adapts its risk management systems to keep pace with best market practices.

Financial and operational systems are in place to control and report on the main risks inherent to EIF's business. Financial risks are monitored by an independent risk management and monitoring division (RMM) reporting directly to the Chief Executive. This segregation of duties and the "four-eyes" principle ensures an unbiased review of EIF's business activities. In addition, RMM operates in close contact with the Risk Management Directorate of EIB. RMM encompasses a Risk Management team and an Administration and Monitoring team each for venture capital and for portfolio guarantees.

Risk is monitored regularly on both individual transactions and on a portfolio level, and new and old transactions are assessed. RMM reviews the risk management methodologies, processes, and instruments in use in EIF's Investments department; issues independent opinions on all transaction proposals; independently reviews credit ratings (portfolio guarantees) and expected performance (venture capital) assigned by Investments; and checks limits.

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. RMM is also responsible for monitoring guarantee activities under the European Commission's mandates.

Further details on EIF risk assessment for venture capital, portfolio guarantees and treasury activities can be found in section 3 of the notes to the annual accounts for IFRS 7. This covers credit, liquidity and market risks.

Compliance

EIF Compliance was set up in 2005 to identify, assess, monitor and report on compliance risk, a key element of EIF's governance structure.

The remit of EIF Compliance includes institutional compliance, regarding the corporate structure of EIF, transaction compliance in relation to the transactions and operations pursued by EIF, and conduct compliance to ascertain the adequate performance of duties by EIF bodies and staff. In this framework, EIF Compliance has to identify, assess and monitor potential compliance risks. A key element of such compliance risk is potential risk incurred in relation to EIF's reputation. In this context, EIF Compliance analyses, in particular, general principles and standards prevailing on the international markets. Furthermore, it is required to identify, assess and monitor, in close cooperation with the European Commission, compliance with Community policies.

As an independent function, integrated in the EIF Secretariat General, EIF Compliance advises the Fund's management on potential compliance risk and its avoidance, intervening within its remit through the issue of policies and guidance as well as individual opinions and recommendations. Furthermore, it expressly confirms compliance with applicable rules, guidelines and policies for each transaction proposed to the Board. Following consultation with the Chief Executive, EIF Compliance may address directly the EIF Board of Directors, in particular, on key governance issues.

Additional staff were recruited for the function in 2007 resulting in EIF Compliance comprising two senior officers.

In 2007, EIF Compliance continuously issued positions on various matters of an institutional and corporate nature, including several policies, guidelines and recommendations relating to EIF's business parameters and restrictions. This comprised the implementation of a public procurement policy in EIF and an in-depth revision of the EIF Staff Code of Conduct.

EIF Compliance has provided specific support to the development of procedures and policies and compliance assessment for the various mandates managed and/or advised by EIF. It has a regular exchange of views with the office of the Group Chief Compliance Officer of EIF's majority shareholder, EIB.

Financial statements 2007

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 financial statements of the European Investment Fund, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements as of and for the year ended December 31, 2006 were audited by another auditor who has expressed an unqualified opinion on his report dated April 2, 2007.

Management responsibility for the financial statement
The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Luxembourg, 12 March 2008

Alain Kinsch

Statement by the Audit Board

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund (EIF), to audit annually the accounts of the EIF,

- having designated ERNST & YOUNG Société Anonyme Réviseur d'Enterprises as external auditor of the Fund,

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

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

- having examined and discussed the report dated 12 March 2008 drawn up by ERNST & YOUNG Société Anonyme Réviseur d'Entreprises,

- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial period ending 31 December 2007,

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

hereby confirms

- that the financial operations of the EIF 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 financial statements, comprising the balance sheet, income statements, cash flow statement, statement of changes in equity, and notes to the accounts of the European Investment Fund, give a true and fair view of the financial position of the EIF in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 12 March 2008

THE AUDIT BOARD

Raimundo Poveda Anadón

Christian-Johann Ràkos

Tony Murphy

Balance sheet

as at 31 December 2007
(expressed in EUR)

ASSETS	Notes	31.12.2007	31.12.2006
Cash and cash equivalents	4.1	291 604 538	52 866 663
Investments			
Debt securities and other fixed income securities	4.2	522 470 401	517 033 602
Shares and other variable income securities	4.3	167 876 521	133 668 178
		690 346 922	650 701 780
Guarantees operations	3.5		
Financial guarantees receivables		48 592 549	38 281 429
Derivatives		435 130	145 529
		49 027 679	38 426 958
Other assets	4.6	33 072 223	19 922 245
Intangible assets	4.4	1 161 484	831 630
Property, plant and equipment	4.5	8 245 595	8 611 983
TOTAL ASSETS		1 073 458 441	771 361 259
LIABILITIES			
Financial liabilities	5.1		
Financial guarantees payables		63 430 281	56 907 239
Derivatives		2 014 394	1 289 229
		65 444 675	58 196 468
Retirement benefit obligations	5.2	13 232 407	10 178 908
Other liabilities	5.3	9 416 044	10 466 196
TOTAL LIABILITIES		88 093 126	78 841 572
EQUITY			
Share capital	5.4		
Subscribed		2 770 000 000	2 000 000 000
Uncalled		(2 216 000 000)	(1 600 000 000)
		554 000 000	400 000 000
Share Premium		117 909 669	12 770 142
Statutory reserve	5.5	104 329 810	84 899 624
Retained earnings	5.5	136 353 969	126 638 689
Fair value reserve	5.6	22 369 530	19 635 766
Profit for the financial year	5.5	50 402 337	48 575 466
TOTAL EQUITY		985 365 315	692 519 687
TOTAL EQUITY and LIABILITIES		1 073 458 441	771 361 259

The notes on pages 53 to 107 are an integral part of these financial statements.

Income statement

for the year ended 31 December 2007
(expressed in EUR)

	Notes	31.12.2007	31.12.2006
Net interest and similar income	8.1	30 231 070	23 645 288
Income from securities			
Income from investments in shares and other variable income securities	4.3	6 674 654	6 902 149
Net income from guarantees operations	8.2	21 349 024	16 288 735
Commission income	8.3	29 072 382	26 277 510
Net loss on financial operations	8.4	(1 908 880)	(524 335)
Other operating income		18 955	9 062
General administrative expenses	8.5		
Staff costs:			
– wages and salaries		(17 317 160)	(14 614 519)
– social security costs		(2 130 900)	(1 123 415)
		(19 448 060)	(15 737 934)
Other administrative expenses		(6 665 063)	(5 862 253)
		(26 113 123)	(21 600 187)
Depreciation of property, plant and equipment and intangible assets	4.4 & 4.5	(1 219 062)	(1 277 236)
Impairment losses on available-for-sale investments	4.2 & 4.3	(7 702 683)	(1 145 520)
Profit for the financial year		50 402 337	48 575 466

The notes on pages 53 to 107 are an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2007
(expressed in EUR)

	Notes	31.12.2007	31.12.2006
A – Cash Flow from operating activities			
Profit for the financial year (*)		50 402 337	48 575 466
Increase/(decrease) in accrued interest on debt securities	4.2	465 186	(409 283)
Interest received from debt securities		(17 648 283)	(11 590 400)
Impairment on debt securities and other fixed income securities	4.2	197 156	0
Increase in shares and other variable income securities	4.3	(28 789 755)	(18 381 494)
Impairment on shares and other variable income securities	4.3	8 393 697	1 121 222
Depreciation for intangible assets, property, plant and equipment	4.4; 4.5	1 219 062	1 277 236
Increase in other assets	4.6	(13 149 978)	(4 739 287)
Increase in retirement for benefit obligations	5.2	3 053 499	2 074 474
Decrease effective interest on debt securities portfolio		4 187 074	(269 688)
Decrease/increase in other liabilities	5.3	(1 050 152)	4 192 453
Decrease in amortisation of financial guarantees		(3 788 076)	(1 705 378)
Increase/decrease in fair value of derivatives		435 564	(4 029 930)
Net cash from operating activities		(4 446 817)	16 115 391
B – Cash flow from investing activities			
Purchase of intangible assets	4.4	(892 952)	(292 856)
Net movements on purchase of property, plant and equipment	4.5	(289 576)	(319 987)
Interest received from debt securities		17 648 283	11 590 400
Increases in debt securities and other fixed income securities		(12 990 590)	(30 304 066)
Net cash from investing activities		3 475 165	(19 326 509)
C – Cash flow from financing activities			
Dividends paid	5.5	(19 430 000)	(17 144 000)
Capital increase		259 139 527	0
Net cash from financing activities		239 709 527	(17 144 000)
Summary statement of cash flows			
Cash and cash equivalents at beginning of financial year		52 866 663	73 221 781
Net cash from			
operating activities		(4 446 817)	16 115 391
investing activities		3 475 165	(19 326 509)
financing activities		239 709 527	(17 144 000)
Cash and cash equivalents at the end of financial year	4.1	291 604 538	52 866 663

(*) Profit for the financial year includes dividends received of EUR 6 674 654 (2006: EUR 6 902 149)

The notes on pages 53 to 107 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2007
(expressed in EUR)

	Note	Subscribed capital	Callable capital	Share capital	Share premium	Statutory reserve	Retained earnings	Fair value reserve	Profit for the year before appro-priation
Balance as at 01.01.2006		2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	67 755 278	124 179 463	26 345 596	36 747 573
Appropriation of prior year's profit inc. dividend		0	0	0	0	17 144 346	2 459 226	0	(36 747 573)
Fair value reserve		0	0	0	0	0	0	(6 709 830)	0
Profit for the year		0	0	0	0	0	0	0	48 575 466
Balance as at 31.12.2006		2 000 000 000	(1 600 000 000)	400 000 000	12 770 142	84 899 624	126 638 689	19 635 766	48 575 466
Appropriation of prior year's profit inc. dividend	5.5	0	0	0	0	19 430 186	9 715 280	0	(48 575 466)
Share issue	5.4	770 000 000	(616 000 000)	154 000 000	105 139 527	0	0	0	0
Fair value reserve	5.6	0	0	0	0	0	0	2 733 764	0
Profit for the year		0	0	0	0	0	0	0	50 402 337
Balance as at 31.12.2007		2 770 000 000	(2 216 000 000)	554 000 000	117 909 669	104 329 810	136 353 969	22 369 530	50 402 337

The notes on pages 53 to 107 are an integral part of these financial statements.

Notes to the accounts

for the year ended 31 December 2007
(Expressed in EUR)

1. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 43, avenue J.F. Kennedy Luxembourg.

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 to financial institutions that cover credits to small and medium sized entities ("SME");
- 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 of which the members are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union and of one acceding state. 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 1 January to 31 December each year.

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.

The Fund's financial statements have been authorised for issue by the Board of Directors on 10 March 2008.

2. Significant accounting policies and basis of preparation

2.1 Basis of preparation

The Fund's financial statements were until 31 December 2005 prepared in accordance with the general principles of the Council Directives of the European Communities 86/635/EEC of 8 December 1986 as amended by the Council Directive 2001/65/EC of 27 September 2001 relating to the annual accounts and consolidated accounts of banks and other financial institutions referenced as the "previous GAAP". Since 2006, the Fund's financial statements have been prepared in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss including all derivative contracts which are valued at fair value.

Notes to the accounts

for the year ended 31 December 2007
(Expressed in EUR)

2. Significant accounting policies and basis of preparation continued

2.1 Basis of preparation continued

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in more detail below. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Statement of compliance

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2 Foreign currency translation

The Euro (EUR) is the functional and presentation currency.

Non-monetary items, which include "intangible assets" and "tangible assets" denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the income statement or within the equity reserves.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing foreign exchange rate ruling on the date of the closure of the financial statements, as issued by the European Central Bank. The exchange differences are recognised in the income statement in the period in which they arise.

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

2.3 Investments

2.3.1 Classification and Measurement

Classification

The Fund classifies the investments in debt securities and shares in the category available-for-sale financial assets ("AFS"). The classification of the investments is determined at initial recognition.

AFS financial assets are non-derivative financial instruments that are either designated in this category at initial recognition or not classified in any other categories.

Initial recognition and derecognition

Purchases and sales of AFS financial assets are initially recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or where the EIF has substantially transferred all risks and rewards of ownership.

2. Significant accounting policies and basis of preparation continued

2.3 Investments continued

Subsequent measurement
AFS financial assets are subsequently measured at fair value. Changes in fair value of financial assets classified as AFS are directly recognised in the fair value reserve in the equity section of the balance sheet, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in income statement.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method is recognised in the income statements. Dividends on equity investments are recognised in the income statement when the Fund's right to receive payment is established.

Differences from currency translation from non-monetary items, such as equity instruments, are recognised in the fair value reserve in equity.

Impairment of financial assets
EIF assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from reserves and recognised in the income statement. Impairment losses on equity instruments previously recognised in the income statement are not reversed through the income statement. In contrast, if in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.3.2 Investments in shares and other variable income

Investments in venture capital funds 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.

a) Categories of venture capital investments:

Fair value considerations:
Under the valuation technique, the fair value of venture capital funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example the international private equity and venture capital valuation guidelines, IPEVCVG, as established by the EVCA, the BVCA and AFIC) which will need more detailed monitoring and review.

Notes to the accounts

for the year ended 31 December 2007
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2. Significant accounting policies and basis of preparation continued

2.3 Investments continued

In accordance with this method, the funds are classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39 or IPEVCVG for which a specific review is performed to ensure that the NAV is a reliable estimation of fair value.

- Category II – funds that have adopted other valuation guidelines (such as the former 2001 EVCA) or standards that can be considered as in line with IAS 39 a specific review is performed to ensure that the NAV is a reliable estimation of fair value.

- Category III – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

b) Impairment considerations:

The Fund's Valuation Committee assesses unrealised losses for impairment, unrealised gains resulting from the fair value measurement are recognised in fair value reserve and unrealised losses for impairment so as to determine whether they are recognised as impairment losses in the income statement or as changes in the fair value reserve. The Valuation Committee will assess unrealised losses for impairment. The decline in value will be estimated as significant or prolonged only when funds are graded P-D.

Investments belonging to category III are valued at cost less impairment with any unrealised losses booked through profit and loss. If an investment is deemed to be impaired as reflected in operational status grades OC-OD the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25% depending on the operational and performance grading of the respective funds.

The fair value attributable NAV 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. In order to bridge the interval between the last available NAV and the year-end reporting period, a monitoring procedure is performed and if necessary the reported NAV is adjusted.

2.3.3 Investments in debt securities and other fixed income securities

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

- floating rate notes with maturities exceeding one year and fixed rate note other than commercial papers are included in the "Investment Portfolio".

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

Securities held by the Fund are all listed on a recognised market. Consequently, the fair value of financial instruments is based on bid prices at the balance sheet date.

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the income statement.

2. Significant accounting policies and basis of preparation continued

2.3 Investments continued

2.3.4 Investment in interest in joint ventures

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. The joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers).

Investments in a joint venture shall be accounted for using proportionate consolidation, or, the equity method. However, as an alternative, EIF has elected to use the venture capital and similar entities exemption and not consolidate under this exemption. In this case, the holding in the joint ventures are upon initial recognition designated as at fair value through profit and loss and measured at fair value in accordance to IAS 39, with changes in fair value recognised in profit and loss in the period of the change.

2.4 Classification and measurement of guarantee operations

Initial recognition and classification

EIF has undertaken a classification analysis of each guarantee contract to determine if the definition of a financial guarantee in accordance with IAS 39.9 is fulfilled. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. If one of the definition criteria is not met, the contract is considered as a derivative.

In accordance with the classification, the guarantees contracts are classified either as financial guarantees or as derivatives.

Financial guarantees measurement:

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the financial guarantees. At initial recognition, the fair value corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction and is recognised in the asset side as "financial guarantees receivables" and in the liabilities side as "financial guarantees payables".

Subsequent to initial recognition, the EIF's liabilities under such guarantees are measured at the higher of:

- the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent Assets; and

- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two thirds of the Weighted Average Life (WAL) of the transaction, followed by a quicker linear amortisation down to zero at expected maturity date.

The best estimate of expenditure is determined in accordance with IAS 37 (provisions, contingent liabilities and contingent assets). Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated based on all relevant factors and information existing at the balance sheet date.

Any increase or decrease in the liability relating to financial guarantees is taken to the income statement under "net income from guarantees operations".

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for the year ended 31 December 2007
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2. Significant accounting policies and basis of preparation continued

2.4 Classification and measurement of guarantee operations continued

Derivatives measurement:
Guarantee transactions, which do not comply with the definition of a financial guarantee contract, are regarded as derivatives in terms of IAS 39. A derivative is a financial instrument or other contract where its value changes in response to the change in a specified underlying, it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled at a future date. At initial recognition and subsequent measurement, derivatives are measured at fair value. The best approach for fair value will in this case be the market price. However, operations in which EIF act as guarantors are typically illiquid. Hence EIF has derived a measurement based on an alternative valuation technique using as much market information as possible. The fair value of derivatives equals to the net of the NPV of expected premium inflow and the cost of settling the exposure.

At initial measurement, the fair value equals zero. Subsequent to initial measurement, derivatives are re-measured to fair value at each balance sheet date. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Gains and losses arising from changes in the fair value of derivatives are immediately recognised in the income statement.

2.5 Property, plant and equipment and intangible assets

2.5.1 Intangible assets

Intangible assets are composed of internally generated software and purchased computer software, and they are accounted for at cost net of accumulated amortisation and of impairment losses.

Direct costs associated with the development of software are capitalised provided that those costs are separately identifiable, that the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the period in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the balance sheet date.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally developed software: 3 years
Software: 2 to 5 years

2.5.2 Property, plant and equipment

Property, plant and equipment includes buildings and other machines and equipment; they are stated at cost minus accumulated amortisation and impairment losses. Property, plant and equipment is reviewed for indications of impairment at the balance sheet date.

Amortisation is calculated on a straight-line basis over the following estimated useful lives:

Buildings: 30 years
Fixtures and Fittings: 3 to 10 years
Office Equipment: 3 to 5 years
Computer Equipment and Vehicles: 3 years

2. Significant accounting policies and basis of preparation continued

2.6 Employee benefits

2.6.1 Post-employment benefits

Pension fund

The EIF operates an unfunded pension plan of the defined benefit type as defined by IFRS, providing retirement benefits based on final salary. The cost of providing this benefit is calculated using the projected unit credit actuarial valuation method.

Actuarial gains and losses have been recognised using a faster method than the corridor approach, that is gains and losses are amortised over the average remaining working life of the population through the profit and loss account.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the EIF. These funds are transferred to the EIB for management with the Bank's own assets and appear on the Fund's balance sheet as an asset under the caption "other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

Health insurance scheme

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. The health insurance liabilities are determined based on actuarial calculations as per the same dates as the pension fund.

2.6.2 Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding annual leave as a result of services rendered by employees up to the balance sheet date.

2.6.3 Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the period is included in the income statement under caption "staff costs", resulting in a provision for the estimated liability at the balance sheet date.

2.7 Interest income and expenses

Interest income and interest expense are recognised in the income statement for all interest bearing instruments on an accrual basis, using the effective interest method based on the actual purchase price, including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

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2. Significant accounting policies and basis of preparation continued

2.8 Income from guarantees operations

Income from guarantees operations and guarantees commissions mainly includes:

- guarantees commissions received on derivatives contracts and net income arising from changes in the fair value of derivatives; and
- interest income on the discounting of the expected premium inflows and any decrease in the liability relating to financial guarantees payables contracts (due to amortisation of the initially recognised amount).

2.9 Fee and commission income

This section is mainly made up of fees and commissions on mandates and advisory activities.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided.

2.10 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

2.11 Leases

The leases entered into by EIF as a lessee are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.12 Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. The EIF makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors. Actual results may differ from those estimates and judgemental decisions.

Judgements and estimates are principally made in the following areas:

- Impairment of available-for-sale equity investments (see note 2.3.1);
- Determination of fair values of equity investments (see note 2.3.2);
- Determination of the values of financial guarantees and the fair value of derivatives (see note 2.4);
- Provision for risk on guarantee operations; and
- Actuaries' assumptions related to the measurement of pension liabilities (see note 2.6.1 and 5.2).

2. Significant accounting policies and basis of preparation continued

2.13 New standards

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Fund has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Fund. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment – Presentation of Financial Statements

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures:
This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Fund's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements:
This amendment requires the Fund to make new disclosures to enable users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital. These new disclosures are shown in Notes 5.4 and 5.5 of the financial statement.

The following new standards were issued with an effective date for financial periods beginning on or after 1 January 2007 but are not applicable to the Fund:

- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The following IFRS and IFRIC interpretations were issued with an effective date for financial periods beginning on or after 1 January 2008. The Fund has chosen not to early adopt these standards and interpretations at its effective date. When applicable to the Fund, the Fund's plans to adopt this interpretation at its effective date or at the date of endorsement by the European Union, if later, and does not anticipate any significant impacts on its financial statements.

- IFRS 8 Operating Segments
- IFRIC 11 IFRS 2 – Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 23 – Amendment – Borrowing costs

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3. Financial risk management

3.1 Overview of EIF risk management

EIF aligns its risk management systems to changing economic conditions and evolving regulatory standards. It therefore adapts them on an ongoing basis as best market practices develop. Credit, market and operational systems are in place to control and report on the main risks inherent to its operations.

Risk Management and Monitoring (RMM) independently reports directly to the Chief Executive. This segregation of duties and the "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the EIB Group context, RMM operates in close contact with the European Investment Bank's Risk Management Directorate. RMM is divided into two main areas: venture capital and for portfolio guarantees and securitisation activities. Each of these encompasses a Risk Management team and an Administration and Monitoring team, adding to a total of four teams within RMM. RMM covers own resources, fully public mandates (RCM, G&E, SME GF (1998, 2001, 2007), Jeremie, ERP Dachfonds), and non-fully public mandates (Dahlia, Neotec).

In general, RMM's functions comprehend the collection of information (information gathering, checking, and inputting), the aggregation and analysis of information (assessment of financial risks, valuations, and cash flow projections), risk reporting, and advice. The main challenges and limitations to fulfil these functions are the complexity of structure of transactions in relatively opaque markets, the absence of transparent market values, and the long-term nature of the business (up to ten years and more).

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. Exposures and risk-taking is monitored against predetermined tolerances as determined by the Board of Directors, senior management or as set under mandates. The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product.

RMM covers EIF's VC and portfolio guarantees and securitisation activities, monitors risk regularly on individual transactions as well as on a portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in investments;
- issues independent opinions on all transaction proposals;
- independently reviews internal ratings (portfolio guarantees)/grades (VC) assigned by investments; and
- checks limits.

3. Financial risk management continued

3.2 Venture capital

3.2.1 Background:

For its venture capital business, over the last years, EIF staff has developed a tool set to design, manage and monitor portfolios tailored to the dynamics of this market place, going beyond the typical and often-simplistic recipe of investing only in top quartile funds. This tool set is based on an internal model, the Grading-based Economic Model ("GEM"), which allows EIF to better assess and verify funds' valuations and expected performances. This effort supported by the development of a proprietary IT system and an integrated software (front to back) improves the investment decision process and the management of portfolio's financial risks and of liquidities.

Interaction between investments and risk management includes flash reports to highlight "hot spots" in the portfolio and an internal grading methodology to determine the monitoring coverage and intensity as well as the range for the expected performance.

The grading is defined as follows:

Expected performance grade	
P-A	At the time of the grading the fund's rank falls into the first quartile of the peer group.
P-B	At the time of the grading the fund's rank falls into the second quartile of the peer group.
P-C	At the time of the grading the fund's rank falls into the third quartile of the peer group.
P-D	At the time of the grading the fund's rank falls into the fourth quartile of the peer group.

Operational status grade	
O-A	No adverse signals or information so far.
O-B	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for a first quartile fund. Absence of signals or information that would be inconsistent with an expected second quartile performance.
O-C	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for an above average fund. Absence of signals or information that would be inconsistent with an expected third quartile performance.
O-D	Events that if no appropriate measures are quickly put in place, will result in a sub-standard performance or even in a failure or collapse of the private equity fund.

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3. Financial risk management continued

3.2 Venture capital continued

Valuation review under IFRS
Part of the monitoring is the valuation review for venture capital funds under IFRS. This process includes different steps to get what is called Operational Adjustment:

- Collecting financial quarterly reports sent by the fund managers as basis for valuation.
- Assessing whether valuations are in line with IPEVCVG. EIF produces monitoring templates that capture events relevant for valuation, such as:
- "Flash reviews" of regular financial reporting received from venture capital funds.
- Monitoring visits.
- Any significant information with potential evaluation impact.
- Subsequent events.
- Classification of funds: depending on the outcome of the monitoring described above, funds will be judged as IFRS compliant or not. Following the analysis performed above, the funds are classified into three categories as described in note 2.3.2.
- Valuation Committee sign-off: The Valuation Committee comprises the Chief Executive and the Director of Operations. Based on the documentation provided (financial reporting received from venture capital funds and monitoring notes) the Valuation Committee has to give its sign-off to validate the classification.
- Determine impairment for Category III based on the gradings of the funds. A percentage of provisioning is applied to the net paid in.

As a conclusion, EIF portfolio management systems are not mechanical exercises – they rely on the judgement of experienced staff.

3.2.2 Portfolio overview:

Under its venture capital operations, EIF is a fund of funds, taking equity participations in funds. The dearth of available funds for venture capital financing makes EIF's role particularly meaningful in this area. EIF's minority stakes in funds have catalyzed commitments from a wide range of investors. EIF's venture capital ("VC") operations are mainly focused on early-stage and seed capital, with 40% of the portfolio destined for investments at those stages in 2007. However, the portfolio is also expanding in well-established mid- and later-stage investments, which, generally speaking, have a lower risk profile.

All mandates
At the end of 2007, the EIF's total venture capital investments amounted to EUR 4.4bn in terms of signatures. The investments were made in 273 funds and helped mobilize total capital of over EUR 26bn with other investors. The majority of EIF's venture capital activities are carried out on behalf of the EIB under the EUR 4bn Risk Capital Mandate (RCM). Total signatures using EIB resources reached about EUR 3.5bn. The Fund also manages venture capital investments on behalf of the EC under G&E, MAP and since recently CIP mandates. The cumulative portfolio that EIF manages under MAP was EUR 314m at the end of December 2007.

The Fund has also put in place joint investment facilities with four public and/or private partners.

3. Financial risk management continued

3.2 Venture capital continued

EIF own resources

At the end of 2007, own-risk venture capital commitments (i.e. commitments given to underlying funds to invest) amounted to EUR 413m. EIF maintains a balanced portfolio with a focus on technology-oriented early-stage and general mid- and later-stage funds. EIF does not directly acquire participations in companies, but instead invests in selected venture capital funds, with the private sector investors providing at least 50% of the equity. All investments are done on a pari-passu basis with other investors, granting them no specific rights (or obligations) to EIF. All of the EIF's risk existing from its own-risk VC operations is fully covered by shareholders' equity. As a subceiling, venture capital commitments may not exceed 50% of shareholders' equity, equivalent to EUR 482,602,190 at year end 2007. Of the EUR 413m of own-risk funds committed at that time, EUR 246m had been disbursed. Venture capital investments are evaluated quarterly according to the IPEVCVG. Following the methodology described in the background part, EIF records value adjustments on a line-by-line basis, either through the profit and loss in case of impairment or through the fair value reserve, which forms part of EIF's shareholder's equity. Consequently, net disbursed own-risk funds (at cost) of EUR 164m (2006: EUR 139m) are valued at EUR 168m in EIF's 2007 balance sheet (2006: EUR 134m).

3.2.3 Significance of financial instruments for financial position and performance

Activities

In terms of activities, 2007 represents a record year for the EIF venture capital portfolio. All figures, signatures, disbursements and reflows have exceeded historical yearly figures:

EIF yearly cash flow activity (EURm)

Signatures	Disbursements	Capital repayments	Income and dividends
70.6	47.6	18.9	6.7

Value adjustments including impairments have increased by EUR 9.5m.

The proportion of funds considered as impaired have increased from 10% to 16% of the EIF portfolio (see table), based on committed funds.

Venture capital assets not impaired vs. impaired (EURm)

	Signatures		
Funds	Dec 2006	Dec 2007	+/-
Not impaired	317.6	348.0	+ 9.6%
Impaired	34.9	65.3	+ 87.1%
Impair. (% of sign)	10%	16%	+6.0%

Diversification

The EIF own-resource portfolio can be considered as well diversified. As of 31 December 2007, EIF has committed EUR 413m in 155 private equity funds with the biggest exposure amounting to EUR 15.0m (4% of total signatures). These PE funds have invested in more than 1,000 investees.

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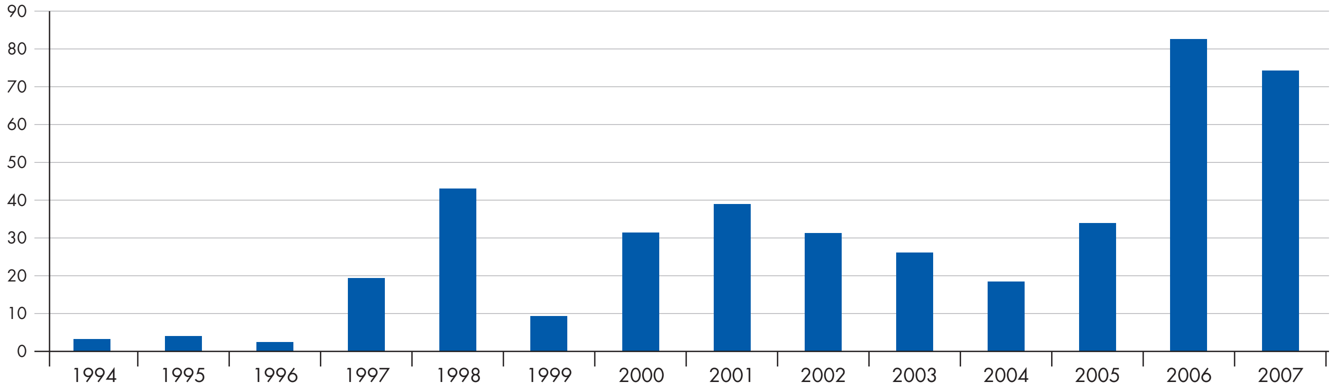
3. Financial risk management continued

3.2 Venture capital continued

In terms of vintage year, sector and stage the portfolio is well balanced, illustrated by the followings split by signature as at 31 December 2007:

Vintage year (signatures) in EURm



Split per sector (signatures) in percentage

Generalist (non-tech)	42%	ICT-Life Science	23%
ICT	25%	Life Science	10%

Split per stage (signatures) in percentage

Start-up/Early Stage	35%	Small Cap PE	10%	Special Structure\FoF	5%
Mid-Market PE	20%	Expansion VC	7%	Seed	3%
Balanced VC	13%	Growth/Replacement Capital	5%	Balanced PE	2%

Finally, in terms of maturity, the EIF portfolio is still young. Its commitment weighted average age has increased from 3.9 years in 2006 to 4.2 years in 2007.

3. Financial risk management continued

3.3 Portfolio guarantees and securitisation

3.3.1 Background:

EIF extends portfolio guarantees to financial intermediaries involved in SME financing, and by taking on the risk faced by those institutions, it helps facilitate funding access, and in turn, it helps to finance SMEs.

For its guarantee and securitisation business, over the last years, EIF staff has developed a tool set to analyse portfolio guarantee and structured financial transactions in line with best market practices. Before EIF enters legally into a guarantee transaction, guarantees and securitisation, within the investments department, assigns an internal rating to each new own risk guarantee transaction in accordance with the EIF Credit Risk Policy Guidelines. The rating is based on internal models, which analyse and summarise the transaction's credit quality (expected loss concept), considering not only quantitative parameters but also qualitative aspects.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk adjusted and consequently vary according to the assigned rating. Over the past years EIF's conservative capital allocation rules have already considered the Basel II ideas and will be adjusted in line with Basel II.

As the rating is based on a model, RMM – in the course of the independent opinion process and in line with the Model Review Procedure – conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable for the official EIF internal rating models. It defines, inter alia, that each basic model has to be independently reviewed within EIF and that assumptions to adjust the basic model for individual transactions in the course of the rating process have to be documented, and reviewed by RMM.

A transaction is eligible if the assigned rating falls between Aaa-B1. It is EIF's intention to maintain an average rating portfolio of minimum Baa3. Once EIF guarantees a particular tranche, the individual internal rating assigned to such a tranche is reviewed quarterly upon closing. Furthermore, the principle of "monitoring by exception" is applied. If there is an event which could cause an upgrade or a downgrade of a tranche, an analysis and further review is triggered.

The guarantee transactions are monitored regularly. The monitoring process includes:

- ongoing risk review of each existing guarantee operation;
- checking compliance of contractual obligations by the relevant counterparty (e.g. timely reporting, compliance with eligibility criteria, verification of financial covenants, timely payment of fees due, etc.);
- assessing the expected evolution of each guarantee operation in terms of its performance compared to ex-ante estimates set prior to signature of the operation;
- assessing whether the level of capital allocation and general provisions made for each operation are adequate and to propose, if deemed necessary, specific provisions for individual loss items;
- establishing and maintaining of the Watch list (for transactions rated below Ba2) in accordance with the internal guidelines (Watch-listed cases require a more important monitoring and joint internal decisions to be taken by an operational committee consisting of staff from the Guarantees and Securitisation division, RMM and the Legal Service (Watch List Operational Committee));
- analysis of the guarantee portfolio as a whole (portfolio review);
- on-site monitoring visits;
- valuation of portfolio guarantees in line with IFRS accounting rules (financial guarantees and derivatives).

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3. Financial risk management continued

3.3 Portfolio guarantees and securitisation continued

3.3.2 Portfolio overview:

Of the EUR 11.58 billion ("bn") guarantee commitments at the end of December 2007, EUR 4.27bn (of which outstanding is EUR 3,487bn) (38%) are for "own risk" activities. The remaining EUR 7.3bn (62%) relate to "trust" activities on behalf of the EC. These trust activities include EUR 4.9bn under MAP and EUR 2.4bn under the SME Guarantee Facility (SME GF) which in turn is under the umbrella of MAP (replaced by CIP in 2008).

EIF's own risk operations are based on three product types:

- *Credit enhancement products* accounted for 94.6% of total own-risk outstanding guarantees (EUR 3.3bn) as of end 2007. Credit enhancement is the EIF's core own-risk guarantee activity, accounting for EUR 1.4bn of own-risk signatures in 2007. Credit enhancement serves as an unconditional debt service guarantee (or as a credit default), covering a specific tranche of a SME loan portfolio, with a maximum weighted average term of 15 years. The guarantee is called upon once a loss threshold has been reached in the relevant tranche.

- *Credit insurance products* accounted for 4.9% of all own-risk outstanding guarantees (EUR 171.2m) as of end 2007. In these cases, the fund guarantees up to 50% of a loan or loan portfolio extended to SMEs by a financial institution. 37% of this portfolio (EUR 63m) consists of the Growth and Environment Programme sponsored by the EU.

- *Structured Investment Vehicles (SIVs)* accounted for 0.5% of own-risk outstanding guarantees (EUR 15.7m) at end 2007. In this instance, the EIF guarantees specific tranches (EUR 10m–EUR 50m) of SIVs. These funds are set up to make mezzanine or equity investments in SMEs that would not normally qualify for bank financing and therefore present a higher risk than typical special-purpose vehicles.

3.3.3 Significance of financial instruments for financial position and performance

The performance of EIF's guarantee portfolio has been quite strong because of careful project selection and a keen eye to avoid excessive risk.

At the end of 2007, the quality of the overall portfolio related to the number of transactions was at investment-grade level (89.2% against 89.7% at end 2006). The weighted average internal rating was Baa1 (of which 76% was confirmed by rating agencies and the remaining relied on the fund internal rating). SIVs represented the riskiest portion of the portfolio, carrying an average internal rating of "Ba1", while the safest guarantee facilities were credit insurance ("A2") and credit enhancement ("Baa1").

At the end of 2007, 82% of the transactions reviewed had a "neutral" outlook ("performance as expected"); 13% had a positive outlook ("rating upgrade is likely"), and a few transactions had a negative outlook ("possible rating downgrade").

3. Financial risk management continued

3.3 Portfolio guarantees and securitisation continued

The total exposure at risk (commitment deducted from repayments) for EIF's own risk guarantees amounts to EUR 3,607m with the following split:

	Weighted Average Rating		Exposure at risk (commitment minus repayment); in EURm		% of total	
	2007	2006	2007	2006	2007	2006
Credit enhancement	Baa1	Baa1	3 367	2 652	93.34%	86.90%
Credit insurance	A2	A2	212	367	5.86%	12.00%
SIV	Ba1	Ba1	25	28	0.70%	0.90%
Defaulted	D	D	3	3	0.10%	0.10%
Total			3 607	3 050	100.00%	99.90%

In 2007, no new contract was classified as defaulted. Since inception, guarantees have been called upon on 23 deals for a total amount paid of EUR16.7m which in aggregated accounted for 0.4% of total commitments at end-2007.

The portfolio's overall weighted average life was stabilised at 4.9 years in 2007, compared with 5.2 years at end 2006.

While EIF's guarantee portfolio is still relatively young, meaning that results to date may not be indicative of future performance, no meaningful deterioration of asset quality is expected.

3.4 Treasury

3.4.1 Background:

Treasury management has been outsourced to EIB under a treasury management agreement signed by both parties and it is carried out according to EIF treasury guidelines.

EIF's operations are not cash driven, and are almost exclusively based on shareholders' equity, which is the basis for VC investments and capital allocation for guarantees. Consequently, EIF does not borrow funds.

The treasury is managed in such a way as to protect the value of the paid-in capital to ensure an adequate level of liquidity to meet possible guarantee calls, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

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3. Financial risk management continued

3.4 Treasury continued

3.4.2 Portfolio overview:

The treasury portfolio is split into four distinct subportfolios:

- the operational portfolio (containing short-term instruments with a maximum duration of six months);
- the investment portfolio (made up of long-term debt instruments with a maximum duration of six years);
- the hedging portfolio (floating-rate instruments); and
- a cash portfolio.

The portfolio's average maturity is 3.79 years (2006: 3.4 years).

3.4.3 Significance of financial instruments for financial position and performance

In recent years, the EIF core business has increasingly surpassed treasury as the main income provider, accounting for 66 % of total income in 2007, down from 68% in 2006.

3.5 Nature and extent of risks arising from financial instruments

The following table provides information relating to the categories of financial instruments:

31.12.2007	Loans and receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Other financial liabilities	Non-financial assets/ liabilities	Total	Fair value
Cash and cash equivalents	291 604 538	0	0	0	0	0	291 604 538	291 604 538
Investments:								
Debt securities and other fixed income securities	0	0	522 470 401	0	0	0	522 470 401	522 470 401
Shares and other variable income securities	0	1 599 263	166 277 258	0	0	0	167 876 521	167 876 521
Guarantee operations								
Financial guarantees receivables	0	0	0	48 592 549	0	0	48 592 549	48 592 549
Derivatives	0	435 130	0	0	0	0	435 130	435 130
Other assets (note 4.6)	19 739 594	0	0	0	0	13 332 629	33 072 223	33 072 223
Intangible assets	0	0	0	0	0	1 161 484	1 161 484	1 161 484
Property, plant and equipment	0	0	0	0	0	8 245 595	8 245 595	8 245 595
Total assets	**311 344 132**	**2 034 393**	**688 747 659**	**48 592 549**	**0**	**22 739 708**	**1073 458 441**	**1073 458 441**
Financial liabilities								
Financial guarantees payables	0		0	60 031 682	0	3 398 599	63 430 281	63 430 281
Derivatives	0	2 014 394	0	0	0	0	2 014 394	2 014 394
Retirement benefit obligations	0	0	0	0	0	13 232 407	13 232 407	13 232 407
Other liabilities (note 5.3)	0	0	0	0	1 357 583	8 058 461	9 416 044	9 416 044
Total liabilities	**0**	**2 014 394**	**0**	**60 031 682**	**1 357 583**	**24 689 467**	**88 093 126**	**88 093 126**

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

31.12.2006	Loans and receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Other financial liabilities	Non-financial assets/ liabilities	Total	Fair value
Total assets	63 022 731	682 292	650 165 017	38 281 429	0	19 209 789	771 361 258	771 361 258
Total liabilities	0	1 289 229	0	50 991 539	3 456 479	23 104 325	78 841 572	78 841 572

3.5.1 Credit risk

Credit risk concerns mainly the EIF Guarantee activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial papers and deposits. The Fund uses appropriate instruments, policies, and processes to manage the credit risk.

The tables below show the maximum exposure to credit risk without taking into account any collateral (in EUR):

Split by classes of balance sheet and off balance sheet

	Maximum exposure 2007	Maximum exposure 2006
Cash and cash equivalent	291 604 538	52 866 663
Investments		
Debt securities and other fixed income securities	522 470 401	517 033 602
Guarantees operations		
Financial guarantees payables	60 031 682	50 991 539
Derivatives	1 579 264	1 143 700
Total BS	875 685 885	622 035 504
Guarantees	3 606 967 244	3 038 293 307
Fiduciary operations	10 467 106 367	10 301 018 906
Assets held on behalf of third parties	423 136 577	368 776 504
Total off BS	14 497 210 188	13 708 088 717
Total credit risk exposure	15 372 896 074	14 330 124 221

A) Venture capital

For EIF own risk venture capital portfolio, there is no credit exposure as investments are always done through an equity participation. As such, EIF is only exposed to market risk.

B) Portfolio guarantees and securitisation

Credit risk arises mainly from EIF's guarantee transactions funded by own resources.

This risk is managed by conservative risk management policies covered by the statutory and Credit Risk Policy Guidelines.

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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

The statutes of the fund limit own-risk guarantees to 3.0x subscribed capital, which amounted to EUR 3.0bn at end-2007. Hence, the EUR 4.27bn committed at end 2007 was well below the statutory limit of EUR 9.0bn.

The EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified guarantee portfolio in terms of product range, geographic coverage, counterparty exposure, obligor exposure, industry concentration and also set out the capital allocation rules based on the ratings of the exposures.

Concentration risk is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, sectors, and also with regard to regional diversification.

To cover concentration risk, EIF has strict limits (based on capital allocation) for individual transactions and on originator level (maximum aggregate exposures for originators and originator groups).

End of 2007, EIF's overall own-risk guarantee portfolio was spread over 19 countries. The largest nominal individual country net exposures were Italy, Belgium, Germany and UK, which jointly accounted for 51% of total guarantee commitments.

Own funds guarantees: exposures at risk by country end 2007:

Country	Ccy	2007 EURm	2007 Share	2006 Share
Austria	EUR	4	0.1%	0.2%
Belgium	EUR	473	13.1%	7.0%
Bulgaria	EUR	50	1.4%	1.6%
Denmark	DKK; EUR	164	4.5%	3.3%
Finland	EUR	17	0.5%	0.7%
France	EUR	60	1.7%	1.6%
Germany	EUR	379	10.5%	15.1%
Greece	EUR	61	1.7%	1.6%
Ireland	EUR	4	0.1%	0.1%
Italy	EUR	495	13.7%	19.7%
Luxembourg	EUR	0	0.0%	0.0%
Netherlands	EUR	144	4.0%	1.3%
Non EU	EUR	20	0.5%	0.6%
Pan EU & Multi	EUR	527	14.6%	15.0%
Poland	PLN	79	2.2%	1.8%
Portugal	EUR	279	7.7%	8.7%
Spain	EUR	228	6.3%	8.1%
Sweden	SEK	144	4.0%	5.0%
United Kingdom	GBP; EUR	480	13.3%	8.6%
TOTAL		3607	100.0%	100.0%

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Compensating controls track exposures on a sectoral basis: in the context of EIF's own-risk guarantee and securitisation operations, industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, dependent on the financial model to analyse the transaction, sector exposures can be reflected in diversity scores or can be indirectly captured through the assumption on default rate volatility, as a key model input variable. In addition, sector exposures are analysed in the context of each deal using qualitative measures such as current status and forecast for sectors with high concentrations in the portfolio. Exceptionally, some deals have a concentrated exposure in the same (broad) sector. This is typically captured through increased credit enhancement (e.g. subordination) to the benefit of EIF. Typically, deals with replenishing features have portfolio criteria, such as maximum single obligor, maximum top five obligors, and maximum industry concentration levels. All together help to model industry concentration and portfolio correlation. Furthermore, the consideration of sector exposures is part of EIF's overall portfolio analysis.

Counterparty risk is mitigated by the quality of EIF counterparties which are usually major market players. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of guarantees, including extreme case assumptions, are carried out once a year to determine the ability of the capital base to sustain adverse shocks.

Actual performance on the guarantee operations to date has been very satisfactory, reflecting the high credit quality of exposures, the diversification of assets and the granularity of the portfolio.

C) Treasury

The Fund is exposed to residual credit risk relating to its liquid assets portfolio. However, EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio under EIF's management, the eligibility criteria for counterparts are fixed according to their nature and credit quality (as measured by their external agency rating), while limits are fixed according to counterparts' own funds.

Any currency arbitrage not directly required to carry out EIF's operations is ruled out by the statutes.

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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

The following tables outline the credit quality by investment grade of the Fund's debt securities as on 31 December 2007 and 2006, based on external ratings. Figures are presented without accrued interests.

AFS – debt securities and other fixed income securities	31.12.2007		31.12.2006	
Rating	Amount in EUR	Percentage	Amount in EUR	Percentage
AAA	379 388 527	74.18%	348 853 074	69.01%
AA1	12 541 320	2.45%	17 609 306	3.48%
AA2	23 278 108	4.55%	54 620 328	10.80%
AA3	38 649 549	7.56%	15 303 760	3.03%
AA+	0	0.00%	5 488 722	1.09%
A1	11 247 280	2.20%	0	0.00%
A2	41 417 450	8.10%	38 915 833	7.70%
A3	0	0.00%	10 026 260	1.98%
BAA1	4 811 728	0.94%	0	0.00%
NR*	98 579	0.02%	4 743 997	0.94%
P1**	0	0.00%	9 969 276	1.97%
Total	511 432 541	100%	505 530 556	100%

* Non-rated
** Short-term rating, equivalent of (Aaa-A2)

3.5.2 Liquidity risk

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

The following table shows the Fund's assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. It is presented using the most prudent expectation of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Maturity at 31.12.2007 (in EUR)	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined maturity	Total
Cash and cash equivalent	291 604 538	0	0	0	0	291 604 538
Investments						
Debt securities and other fixed income securities	26 263 700	73 880 810	226 810 079	195 515 812	0	522 470 401
Shares and other variable income securities	3 078 893	13 081 039	72 402 857	79 313 732	0	167 876 521
Guarantees operations						
Financial guarantees	216 154	189 504	34 575 841	13 611 050	0	48 592 549
Derivatives	0	0	370 924	64 206	0	435 130
Other assets	13 554 019	0	4 144 063	15 374 141	0	33 072 223
Intangible assets	592	51 068	1 109 825	0	0	1 161 484
Property, plant and equipment	4 394	29 275	415 656	7 796 269	0	8 245 594
Total assets	**334 722 290**	**87 231 696**	**339 829 245**	**311 675 210**	**0**	**1 073 458 440**
Financial liabilities						
Financial guarantees	59 597	785 858	48 122 186	14 462 639	0	63 430 281
Derivatives	0	582 930	436 844	994 620	0	2 014 394
Retirements benefit obligations	0	0	0	13 232 407	0	13 232 407
Other liabilities	1 880 898	2 844 388	50 000	4 640 758	0	9 416 044
Equity	0	0	0	0	985 365 315	985 365 315
Total liabilities	**1 940 495**	**4 213 176**	**48 609 030**	**33 330 424**	**985 365 315**	**1 073 458 440**
Net liquidity position at 31.12.2007	332 781 794	83 018 520	291 220 215	278 344 785	(985 365 315)	0
Cumulative liquidity position at 31.12.2007	332 781 794	415 800 314	707 020 529	985 365 315	0	0
Commitments	29 100 371	49 405 259	106 032 678	228 749 142	0	413 287 450
Guarantees	228 885 425	192 150 747	2 361 417 882	825 324 501	0	3 607 778 555
Total Off BS	**257 985 796**	**241 556 006**	**2 467 450 560**	**1 054 073 643**	**0**	**4 021 066 005**

Maturity at 31.12.2006 (in EUR)	Less than 1 year	1 year to 5 years	More than 5 years	Undefined maturity	Total
Total assets	161 088 156	295 140 502	315 132 601		771 361 259
Total liabilities	10 288 265	37 881 440	30 671 867	692 519 687	771 361 259
Net liquidity position at 31.12.2006	150 799 891	257 259 062	284 460 734	(692 519 687)	0
Cumulative liquidity position at 31.12.2006	150 799 891	408 058 953	692 519 687		0
Commitments	9 592 704	150 896 433	192 017 221	0	352 506 358
Guarantees	729 950 791	1 699 266 134	622 098 783	0	3 051 315 708

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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Guarantees issued on behalf of EIF are analysed with reference to their maturity as follows:

	Drawn EUR	Undrawn EUR	Total 31.12.2007 EUR	Total 31.12.2006 EUR
Up to 5 years	462 218 868	42 879 931	505 098 799	469 835 256
From 5 to 10 years	1 328 407 368	43 087 734	1 371 495 102	1 150 074 290
From 10 to 15 years	1 018 783 583	29 022 657	1 047 806 240	742 670 397
Over 15 years	683 378 414	0	683 378 414	688 735 765
	3 492 788 233	114 990 322	3 607 778 555	3 051 315 708

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

Of the above total amount, EUR 1,627,750 (2006: EUR 3,304,323) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 811,311 representing the present value of future interest for guarantees contracts in default (2006: EUR 1,106,129).

A. Venture capital
The private equity market is by nature not liquid as the vehicles are closed-end funds with in general a ten-year life contract. After the first closing it is difficult for an investor to get out from its position except if it can find a buyer through the secondary market.

B. Portfolio guarantees and securitisation
The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensures a high degree of liquidity to cover unexpected losses arising from the guarantee activity.

The total capital charge for guarantees is limited to 50% of shareholders' equity.

At year-end 2007 the capital charge represented 54% of the limit versus 66% in 2006. The reduction in the limit utilisation is mainly due to EIF net capital increase of EUR 266m paid in 2007.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

	31.12.2007	31.12.2006
Capital charges EURm:	259	221
Capital ceiling:	483	337
Utilisation:	54%	66%
Headroom:	224	116
Commitments EURm:	4 268	3 801
Guarantees drawn:	4 153	3 690
Guarantees undrawn:	115	110
Maximum exposure:	3 607	3 038
Aggregated guarantee calls:	16.7	15.5

C. Treasury

At the end of 2007, 74.18% of the banks liquid asset exposure was awarded "AAA"-status. 14.56% were rated "AA"-entities and only 0.02% were not rated. In view of the quality of the securities held (averaging "AA+"), liquidity risk on this portfolio is not significant.

3.5.3 Market risk

1. Market risk-interest rate risk

More than half of the Fund's income and operating cash flows are independent of changes in market interest rates. The Fund's interest rate risk arises mainly from cash and cash equivalents positions as well as investments in debt securities.

A. Venture capital

Venture capital being an equity product, sensitivity to interest rate is not performed.

B. Portfolio guarantees and securitisation

For transactions in which EIF acts as guarantor are typically in no liquid markets and representative market prices are not available. Hence, EIF has developed a mark-to-model approach to value these transactions, using external and internal ratings, information from the regular monitoring, and discounted cash-flow analysis.

The value of guarantee transactions classified as financial guarantees are not subject to fluctuations on interest rate during transactions' life since valuations are carried under IAS 37 provisions rules.

The value of guarantee transactions classified as derivatives guarantees (which do not comply with all the definition criteria of a financial guarantee contract in terms of IAS 39) are valued monthly and current market interest rates are inputted in the model.

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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

However, the interest rates used by the model are only applied to calculate the present value of expected premiums. Fluctuations on present value are then included on the guarantee FV and recognised in the P&L. The interest rate impact on the underlying rating model of these transactions is not measured.

At the end of 2007, own risk guarantees transactions classified as "derivative" amounts to EUR 1.27bn and represents 30.2% of total guarantee commitments (EUR 4.27bn). Capital allocation charges for derivatives amounting to EUR 73.9m represent 28.5% of total guarantee capital allocation charges (EUR 259m).

C. Treasury

Approximately 50% of the cash and cash equivalents held have an average duration of up to five years, thereby safeguarding the Fund against the substantial fluctuations in its long-term revenues.

Moreover, operations of a speculative nature shall not be authorised. Investment decisions are based on the interest rates available in the market at the time of investment. Interest rate expectations shall not be taken into account.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value):

	Fixed rate					
At 31.12.2007 (in EUR)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Variable rate	Total
Cash and cash equivalents	291 604 538	0	0	0	0	291 604 538
AFS – debt securities and other fixed income securities	26 263 699	73 880 810	179 547 928	165 071 575	77 706 389	522 470 401
Total	317 868 237	73 880 810	179 547 928	165 071 575	77 706 389	814 074 939
Percentage	39.05%	9.08%	22.06%	20.28%	9.55%	100.00%

	Fixed rate					
At 31.12.2006 (in EUR)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Variable rate	Total
Cash and cash equivalents	52 866 663	0	0	0	0	52 866 663
AFS – debt securities and other fixed income securities	36 514 743	37 176 930	172 822 899	219 928 170	50 590 860	517 033 602
Total	89 381 406	37 176 930	172 822 899	219 928 170	50 590 860	569 900 265
Percentage	15.68%	6.52%	30.33%	38.59%	8.88%	100.00%

The average effective interest rate on term deposit in EUR is 4.05% for the year 2007 (2006: 2.89%). The average effective interest rate on the AFS securities portfolio in EUR is 4.54% for 2007 (2006: 4.55%).

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Sensitivity analysis applied to the positions of the EIF treasury managed by the EIB as at 31 December 2007 and 31 December 2006
Sensitivity of economic value of own funds (EURm).

Sensitivity of earnings
The sensitivity of the earnings is an estimate of the the change during the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or decrease by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the portfolio on a deal-by-deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life of the previous one as of 31.12.2007. Positions in floating rate assets are assumed to have quarterly repricings. With the positions in place as of 31.12.06, the earnings of the EIF treasury portfolio would increase by EUR 0.79m if interest rate increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points. With the positions in place as of 31.12.07, the earnings of the EIF treasury portfolio would increase by EUR 2.8m if interest rate increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points.

		Sensitivity of economic value of own funds						
31.12.2007	Increase in Bp	[0-1y]	[2y-3y]	[4y-6y]	[7y-11y]	[12y-20y]	[+20y]	Total
EUR	+100	-1	-2	-6	-6	0	0	-15
USD	+75	0	0	0	0	0	0	0
GBP	+50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31.12.2007	Decrease in Bp	[0-1y]	[2y-3y]	[4y-6y]	[7y-11y]	[12y-20y]	[+20y]	Total
EUR	-100	1	2	6	6	0	0	15
USD	-75	0	0	0	0	0	0	0
GBP	-50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31.12.2006	Increase in Bp	[0-1y]	[2y-3y]	[4y-6y]	[7y-11y]	[12y-20y]	[+20y]	Total
EUR	+100	-1	-2	-6	-9	0	0	-18
USD	+75	0	0	0	0	0	0	0
GBP	+50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31.12.2006	Decrease in Bp	[0-1y]	[2y-3y]	[4y-6y]	[7y-11y]	[12y-20y]	[+20y]	Total
EUR	-100	1	2	6	9	0	0	18
USD	-75	0	0	0	0	0	0	0
GBP	-55	0	0	0	0	0	0	0

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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Value at risk

The VaR estimates the potential negative change in the value of a portfolio at a given confidence level and over a specified time horizon. As of 31.12.07, the value at risk of the EIF treasury portfolio was EUR 1.6m (EUR 1.2m as of 31.12.06). It was computed on the basis of the Riskmetrics VaR methodology, using a confidence level of 99% and a one-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1%. The choice of the Riskmetrics VaR methodology has some limitations because it assumes that the portfolio exposures are linear and that the future movements in the risk factors will follow a normal distribution. More generally, VaR does not purport to measure the worst loss that could happen.

2. Market risk: foreign currency risk

The following section provides information on the risk that fair values and future cash flows of financial assets fluctuate due to changes in foreign exchange rates.

The Fund's objective is to reduce exchange risk by limiting its investment in out-currency. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

The table below shows the exchange positions (in EUR) of EIF's main assets and liabilities.

At 31.12.2007 (in EUR)	EUR	Pound sterling	US dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalent	285 336 884	2 277 354	2 587 459	1 402 841	6 267 654	291 604 538
Investments						
Debt securities and other fixed income securities	522 470 401	0	0	0	0	522 470 401
Shares and other variable income securities	122 267 894	35 053 480	5 150 527	5 404 620	45 608 627	167 876 521
Guarantees operations						
Financial guarantees	42 896 428	1 859 782	0	3 836 339	5 696 121	48 592 549
Derivatives	299 215	135 915	0	0	135 915	435 130
Other assets	33 072 223	0	0	0	0	33 072 223
Intangible assets	1 161 484	0	0	0	0	1 161 484
Property, plant and equipment	8 245 594	0	0	0	0	8 245 594
Total assets	1 015 750 123	39 326 531	7 737 986	10 643 801	57 708 318	1 073 458 441
Financial liabilities						
Financial guarantees	53 202 974	7 108 765	0	3 118 541	10 227 306	63 430 281
Derivatives	1 261 934	752 460	0	0	752 460	2 014 394
Retirements benefit obligations	13 232 407	0	0	0	0	13 232 407
Other liabilities	9 416 044	0	0	0	0	9 416 044
Total liabilities	77 113 359	7 861 225		3 118 541	10 979 766	88 093 126
Commitments	299 555 513	90 517 442	11 754 636	11 459 859	113 731 937	413 287 450
Guarantees	2857 823 627	393 727 589	0	356 227 339	749 954 928	3 607 778 555
Total off BS	3 157 379 140	484 245 031	11 754 636	367 687 198	863 686 865	4 020 254 693

At 31.12.2006 (in EUR)	EUR	Pound sterling	US dollars	Other currencies	Sub total except EUR	Total
Total assets	715 658 388	41 400 751	8 022 505	6 279 615	55 702 871	771 361 259
Total liabilities	73 605 429	3 566 351	0	1 669 793	5 236 144	78 841 572
Commitments	245 959 407	85 541 275	13 138 952	7 866 724	106 546 951	352 506 358
Guarantees	2 445 247 952	262 419 014	0	343 648 742	606 067 756	3 051 315 708
Total off BS	2 691 207 359	347 960 289	13 138 952	351 515 466	712 614 707	3 403 822 066

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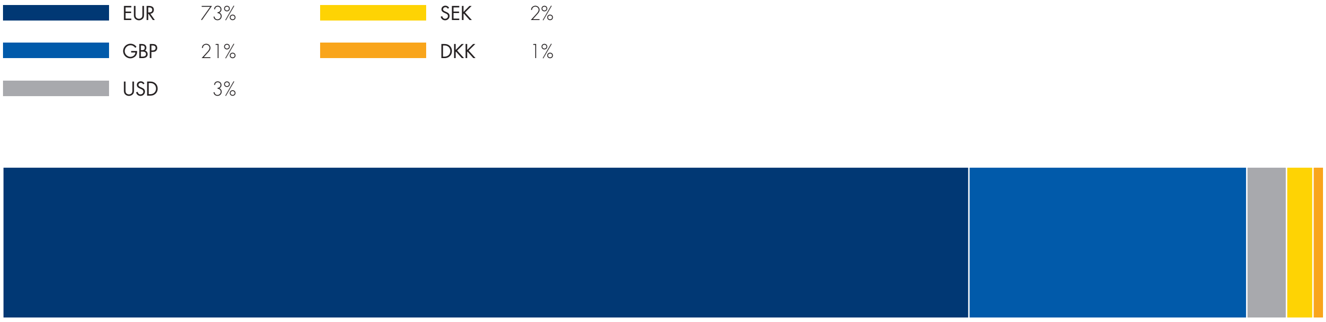
for the year ended 31 December 2007
(Expressed in EUR)

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

A. Venture capital

On the venture capital side, at 31 December 2007, currency exposure for the investments funds can be split as follows:



(as % of the total fair value, EUR 168m)

As assets in the EIF balance sheet are recorded at the historical cost (e.g. for each separate operations (disbursements and capital repayments) with the exchange rate at the end of the month preceding the operation), they need to be readjusted at the exchange rate of the 31 December 2007.

For 2007, changes in foreign exchange rates for shares and other variable income amount to EUR -4,083,903 out of which EUR 3,195,734 have been recorded in the fair value reserve.

The sensitivity analysis performed below includes four scenarios:

1. An increase/decrease of 15% of USD vs. the euro

2. An increase/decrease of 5% of GBP vs. the euro

The other currencies are not tested separately as their weight in the total exposure is below 5% and any change would then have no material impact.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

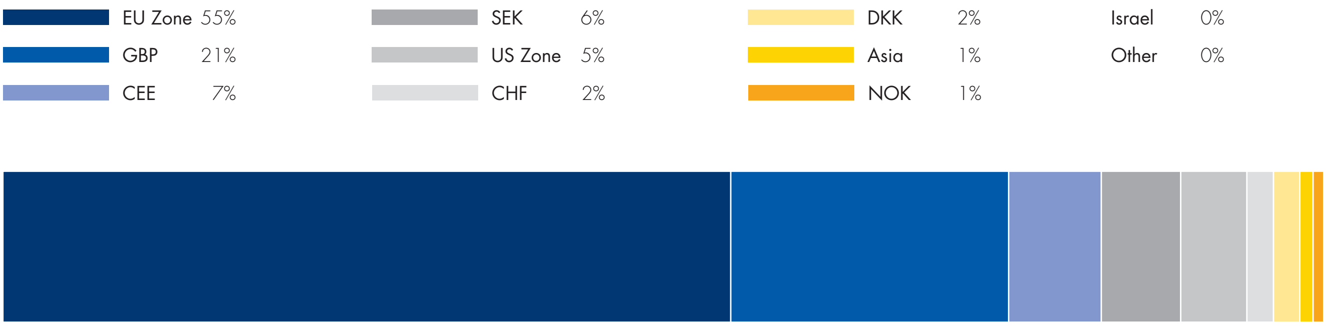
Foreign exchange rate risk			
USD +15%		USD -15%	
Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
0	(842,710)	0	842,710
GBP +10%		GBP -10%	
(487,116)	(1,404,834)	487,116	1,404,834

Closing rates at balance sheet date were (1 EUR/CCY):

DKK 7.4583
GBP 0.73335
SEK 9.4415
USD 1.4721

It has to be noted however, that these impacts are measured at the fund level (impact on the net asset values denominated in out-currency). Therefore they do not take into account indirect potential effects on the underlying investments (investee companies) which could be in out-currencies. In practice most of the fund managers try to hedge the positions they could have in currency different of the fund main currencies.

However, the underlying investments are also well diversified and the indirect exposure of EIF is following broadly the exposure at the fund level, as illustrated by the graph below:



Notes to the accounts

for the year ended 31 December 2007
(Expressed in EUR)

3. Financial risk management continued

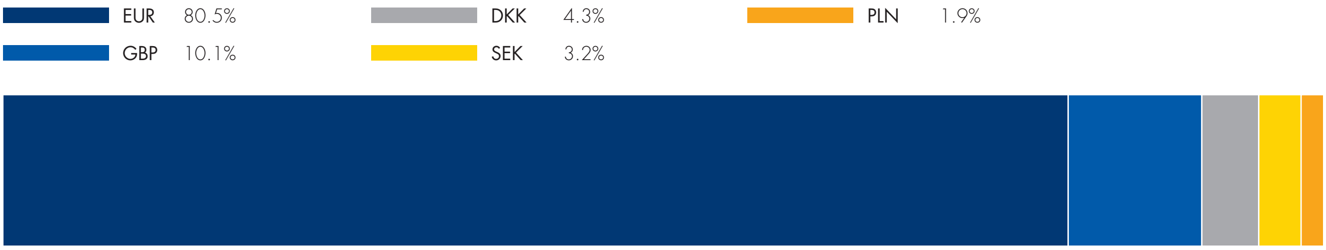
3.5 Nature and extent of risks arising from financial instruments continued

B. Portfolio guarantees and securitisation

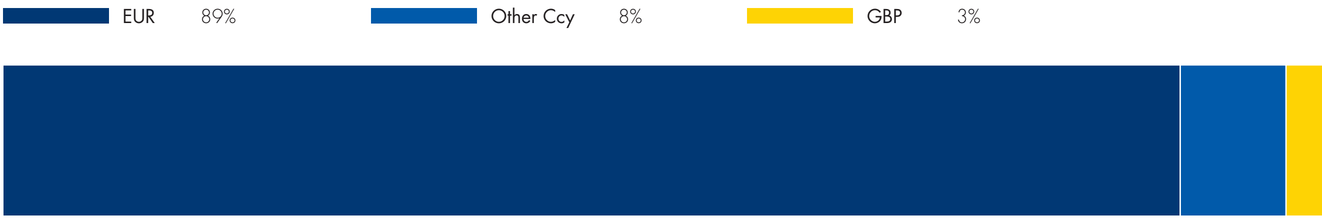
The own risk guarantees portfolio is mainly denominated in EUR. As of end 2007, 80.5% of commitments (89% of Fair Value) were in EUR. The GBP is the main foreign currency exposure and represented 10.1% of commitments (3% of Fair Value). Therefore this risk is limited and characterized by a low volatility of EUR/GBP (4.6% for the period 2000-2007).

Own risk portfolio breakdowns by currency and assets fair value at 31.12.2007:

Commitments breakdown



Breakdown of assets fair value



EIF is monitoring its non-euro exposure, performs regular stress tests, with regard to currency risk (impact on unexpected loss). Additional capital charges on non-EUR exposures are assumed and the outcome is compared with the available headroom. Analyses are done on what potential actions are required in order to limit the foreign exchange risk exposure. For Trust operations the exchange risk is typically borne by the EIF counterparties. In some cases specific budgetary allocations can be made in order to mitigate the risk taken by the intermediary. Related to Trust activities no currency exposures emerge on behalf of EIF.

C. Treasury

No risk is taken regarding EIF's debt securities' portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR. Included in the above exchange positions are the financial assets classified by currency. It shows that risk regarding foreign currency exchange rates is insignificant.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

3. Market risk: public market risk

A. Venture capital

The specificities of private equity asset class make the use of traditional approaches to market risk analysis difficult to apply. Market risk analysis requires the estimation of the correlation between the assessed asset class and the public market. This can be done based on the capital asset pricing model. This model requires estimating the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, private equity and in particular venture capital lacks such data. Indeed, the analysis of private equity returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which are not fully representative of the market. Most of all, data does not fully capture the uncertainty of the asset class. Furthermore, as the standard performance measure used for private equity funds, the IRR, is capital-weighted, while for the public market assets, it is traditionally time-weighted, an analysis of correlation between private equity and other asset classes is not possible without significant adjustments and therefore induces potentially important biases.

To circumvent this issue, the EIF uses the Listed Private Equity (LPE) indices (LPX indices). This index family is published by LPX GmbH and provide a basis for various private equity sub-markets, including:

- LPX Europe: the most actively traded LPE companies covered by LPX that are listed on a European exchange,

- LPX Buyout: the most actively traded LPE companies covered by LPX whose business model consists mainly in the appropriation of buyout capital or in the investment in such funds, and

- The LPX Venture: the most actively traded LPE companies covered by LPX whose core business lies mainly in the provision of venture capital or in the investment in venture capital funds.

The betas of these indices can be used as a proxy for the sensitivity of the economics valuation of EIF's PE investment to market prices.

Beta	Start date	Oct 04-Nov 07	Start date-Nov 07	Delta
LPX Europe	31.12.1993	0.945	0.679	0.266
LPX Venture	31.12.1993	1.365	0.992	0.373
LPX Buyout	31.12.1997	0.906	0.509	0.397
Average		1.072	0.727	0.345

Notes to the accounts

for the year ended 31 December 2007
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3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

Using betas from LPX Europe and applying it on all the operations without any stage distinction and assuming market price movements of ±10%, EIF's private equity investments' economics value would be impacted as follows:

Public market risk: ALL PRIVATE EQUITY				
	+10% Beta 0.7 Final sensitivity: +7%		-10% Beta 0.7 Final sensitivity: -7%	
	Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
	763 904	10 145 958	(774 731)	(10 242,830)
	Beta 1.0 Final sensitivity: +10%		Beta 1.0 Final sensitivity: -10%	
	Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
	1 053 572	14 528 423	(1 106 759)	(14 634 733)
Average	908 738	12 337 191	(940 745)	(12 438 782)
Sum	13 245 929		(13 379 527)	

Using betas from LPX Venture and buyout and applying it on all the operations depending on their stages (buyout or venture capital) and assuming market price movements of ±10%, EIF's PE investments' economics value would be impacted as follows:

Public market risk: BY STAGE			
+10% Min Beta BO: 0.5 / VC: 1.0 Final sensitivity: +5% /+10%		-10% Min Beta BO: 0.5 / VC: 1.0 Final sensitivity: -5% /-10%	
Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
995 770	11 214 418	(995 770)	(11 311 305)
Max Beta BO: 0.9 / VC: 1.4 Final sensitivity: +9%/+14%		Max Beta BO: 0.9 / VC: 1.4 Final Sensitivity: -9%/-14%	
Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
1 385 287	17 054 411	(1 441 507)	(17 164 142)

For all these simulations, the final sensitivity (i.e. beta x ±10%) is applied to the net asset value giving an adjusted net asset value, which is then compared to the net paid. The calculated value adjustment will then be recorded following the methodology described in the "background" part.

3. Financial risk management continued

3.5 Nature and extent of risks arising from financial instruments continued

These results can only be seen as indications of the potential sensitivity. Indeed, despite the notions of fair value, private equity – like real estate, art or antiques – is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and normally following industry valuation guidelines, such as the IPEV ones, which are widely used within EIF's portfolio as legally required for the new operations.

Quoted investments

At the end of 2006, the fair value of the investments in venture capital funds amounts to EUR 168m out of which EUR 19m or 11.7% are underlying invested indirectly in quoted companies. It is then possible for these specific investments to do a more in-depth and direct analysis of the impact of public market on their valuation. For this simulation, the fair value of each quoted underlying investees is re-assessed. With the information provided by the fund managers, (value, price per share, number of shares), prices from Bloomberg as of 31 December 2007 are increased or decreased by 10%. The difference in valuation obtained is then multiplied by EIF interest held in the fund and this final difference is deducted or added to each PE fund valuation to get the final fund value adjustments. The value adjustment treatment will then follow the methodology for "operational" adjustments.

Shares and other variable income securities (note 4.3)

Public market risk			
+10%		-10%	
Profit and loss account EUR	Equity (Fair value reserve) EUR	Profit and loss account EUR	Equity (Fair value reserve) EUR
39,932	1,426,330	(39,932)	(1,426,330)

3.6 Fair value of financial assets and financial liabilities

Table setting out a comparison by categories of the carrying amounts and fair values of the Fund's financial assets and liabilities:

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Financial assets				
Loans and receivables	311 344 132	311 344 132	63 022 731	63 022 731
Financial investments – AFS	687 335 660	687 335 660	649 665 005	649 665 005
Financial assets designated at fair value through P&L	2 034 393	2 034 393	682 292	682 292
Financial guarantees	48 592 549	48 592 549	38 281 429	38 281 429
TOTAL	1 049 306 734	1 049 306 734	751 651 457	751 651 457
Financial liabilities				
Financial guarantees	60 031 682	60 031 682	50 991 539	50 991 539
Financial liabilities designated at fair value through P&L	2 014 394	2 014 394	1 289 229	1 289 229
Other liabilities	1 357 583	1 357 583	3 456 479	3 456 479
TOTAL	63 403 659	63 403 659	55 737 247	55 737 247

Notes to the accounts

for the year ended 31 December 2007
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3. Financial risk management continued

3.6 Fair value of financial assets and financial liabilities continued

The financial liabilities designated at fair value through profit and loss consisting of the guarantees operations are EUR 62,046,076. The change for the current year is a gain of EUR 289,601 (2006: gain of EUR 5,167) included in the captions "net income from guarantees operations".

Table showing an analysis of financial assets and liabilities recorded at fair value according to how the fair value is determined:

At 31.12.2007	Quoted market	Valuation techniques – non-market observable input	Total
Financial assets			
Loans and receivables	311 344 132	0	311 344 132
Financial investments – AFS	526 040 135	161 295 525	687 335 660
Financial assets designated at fair value through P&L	0	2 034 393	2 034 393
Financial guarantees	0	48 592 549	48 592 549
	837 384 267	211 922 467	1 049 306 734
Financial liabilities			
Financial guarantees	0	2 014 394	2 014 394
Financial liabilities designated at fair value through P&L	0	60 031 682	60 031 682
	0	62 046 076	62 046 076

At 31.12.2006	Quoted market	Valuation techniques – non-market observable input	Total
Financial assets			
Loans and receivables	63 022 731	0	63 022 731
Financial investments – AFS	521 118 795	128 546 209	649 665 004
Financial assets designated at fair value through P&L	0	682 292	682 292
Financial guarantees	0	38 281 429	38 281 429
	584 141 527	167 509 930	751 651 456
Financial liabilities			
Financial guarantees	0	1 289 229	1 289 229
Financial liabilities designated at fair value through P&L	0	50 991 539	50 991 539
	0	52 280 768	52 280 768

3. Financial risk management continued

3.6 Fair value of financial assets and financial liabilities continued

Fair value of derivative financial instruments

Derivatives	Valuation techniques – non-market observable input Fair value at 31.12.2007 EUR	Fair value at 31.12.2006 EUR
Negative value of derivatives	(2 014 394)	(1 289 229)
Positive value of derivatives	435 130	145 529
At 31.12.2007	(1 579 264)	(1 143 700)

Derivatives nominal value amounts to EUR 1,268,070,381 (2006: EUR 876,022,764).

4. Detailed disclosures relating to asset headings

4.1 Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets, highly liquid securities. They include cash at bank and in hand, interest earning deposits with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

The remaining life of cash and cash equivalents is as follows:

	31.12.2007 EUR	31.12.2006 EUR
Repayable on demand	21 874 539	25 796 170
Up to three months	269 729 999	27 070 493
	291 604 538	52 866 663

The effective interest rate on short-term bank deposits is 4.05% (2006: 2.89%). These deposits have an average maturity of 38 days (2006: 29 days).

Notes to the accounts

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(Expressed in EUR)

4. Detailed disclosures relating to asset headings continued

4.2 Debt securities and other fixed-income securities

The Fund's portfolio includes money market funds and other money market instruments; long-term debt instruments e.g. bonds, notes and other obligations. Debt securities and other fixed-income securities are analysed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Short-term portfolio	0	14 456 143
Investment portfolio	522 470 401	502 577 459
of which accrued interests	*11 037 860*	*11 503 046*
	522 470 401	517 033 602

Debt securities and other fixed-income securities held by the Fund are all listed on an active market. Figures above are presented at fair value.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties, the market value of securities lent at year-end amounts to EUR 77,319,235 (2006: EUR 85,091,001). Derecognition criteria in accordance with IAS 39 are not fulfilled.

Movement in debt securities and other fixed income securities:

	31.12.2007 EUR	31.12.2006 EUR
Fair value at 1 January	517 033 602	504 361 053
Additions	104 291 000	91 155 772
Disposals	(91 300 412)	(60 851 706)
Effective interest rate adjustment	3 721 889	678 970
Change in fair value reserve	(11 078 522)	(18 310 487)
Impairment	(197 156)	0
Fair value at 31 December	522 470 401	517 033 602

The total amount of fair value changes that has been recognised in equity during the year 2007 is EUR -7,521,129 (2006: EUR 3,557,393).

As at end of March 2007 impairment for an amount of EUR 197,156 has been recorded corresponding to ⅔ of its carrying value as at 31 December 2007. In 2006, no impairment losses on debt securities and other fixed income securities categorised as AFS had been booked.

4. Detailed disclosures relating to asset headings continued

4.3 Shares and other variable income securities

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

	31.12.2007 EUR	31.12.2006 EUR
Investment at cost at 1 January	139 026 112	120 644 616
Additions	47 694 091	39 146 739
Disposals	(18 904 337)	(20 765 243)
Investment at cost at 31 December	167 815 866	139 026 112
Value adjustment at 1 January	(5 392 075)	(15 269 533)
Value adjustment to fair value reserve	17 008 019	11 022 978
Impairment	(7 505 527)	(1 145 520)
Value adjustment at 31 December	4 110 417	(5 392 075)
Foreign exchange adjustment at 1 January	34 141	(567 834)
Value adjustment to fair value reserve	(3 195 734)	577 679
Impairment	(888 169)	24 296
Foreign exchange adjustment at 31 December	(4 049 762)	34 141
	167 876 521	133 668 178

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

During the year, dividends in the amount of EUR 6,674,654 (2006: 6,902,149) were paid to the fund. They are shown under the caption "Income from investments in shares and other variable income securities" in the income statement.

The cumulated fair value changes on these investments, which are recorded in the fair value reserve, in accordance with the valuation method described in note 2.3.2, amount to EUR 17,008,019 (2006: EUR 11,022,978).

The cumulated unrealised foreign exchange loss arising from the revaluation of venture capital funds at year-end closing rates amounts to EUR 3,195,734 (2006: gain of EUR 577,678).

Investments belonging to Category III are measured at cost less impairment, as no reliable fair value is available. These amount to EUR 247,500 (2006: EUR 247,500).

The fair value as at 31 December 2007 includes an amount of EUR 1,599,263 related to investment in joint-venture. After initial recognition at fair value, changes in fair value are recognised in the income statement.

Notes to the accounts

for the year ended 31 December 2007
(Expressed in EUR)

4. Detailed disclosures relating to asset headings continued

4.4 Intangible assets

	Internally generated software EUR	Purchased software EUR	Total EUR
At 01.01.2006			
Cost	2 069 580	335 705	2 405 285
Accumulated depreciation	(853 585)	(334 333)	(1 187 918)
Net book amount	**1 215 995**	**1 372**	**1 217 367**
Opening net book amount	1 215 995	1 372	1 217 367
Additions	251 486	41 369	292 855
Depreciation charge	(666 572)	(12 020)	(678 592)
Closing net book amount 2006	**800 909**	**30 721**	**831 630**
At 01.01.2007			
Cost	2 321 066	377 074	2 698 140
Accumulated depreciation	(1 520 157)	(346 353)	(1 866 510)
Net book amount	**800 909**	**30 721**	**831 630**
Opening net book amount	800 909	30 721	831 630
Additions	773 516	119 436	892 952
Depreciation charge	(508 645)	(54 453)	(563 098)
Closing net book amount 2007	**1 065 779**	**95 704**	**1 161 484**
At 31.12.2007			
Cost	3 094 582	496 510	3 591 092
Accumulated depreciation	(2 028 802)	(400 806)	(2 429 608)
Net book amount	**1 065 780**	**95 704**	**1 161 484**

There were no indications of impairment of intangible assets in either 2007 or 2006.

4. Detailed disclosures relating to asset headings continued

4.5 Property, plant and equipment

	Land and buildings	Fixtures and fittings	Office equipment	Computer equipment	Vehicles	Other fixed assets	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR
At 01.01.2006							
Cost	8 590 527	357 469	768 516	506 773	84 073	8 764	10 316 122
Accumulated depreciation	(390 696)	(215 081)	(440 124)	(295 509)	(84 073)	0	(1 425 483)
Net book amount	8 199 831	142 388	328 392	211 263	0	8 764	8 890 640
Opening net book amount	8 199 831	142 388	328 392	211 263	0	8 764	8 890 640
Additions	0	0	169 882	150 106	0	0	319 988
Depreciation charge	(374 150)	(24 951)	(87 009)	(112 534)	0	0	(598 645)
Closing net book amount 2006	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
At 01.01.2007							
Cost	8 590 527	357 469	938 398	656 879	84 073	8 764	10 636 110
Accumulated depreciation	(764 846)	(240 032)	(527 133)	(408 043)	(84 073)	0	(2 024 127)
Net book amount	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
Opening net book amount	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
Additions	0	0	115 737	173 839	0	0	289 576
Disposals	0	0	0	237 909	0	0	237 909
Depreciation charge	(374 150)	(24 951)	(94 224)	(162 637)	0	0	(655 963)
Closing net book amount 2007	7 451 531	92 486	432 779	497 946	0	8 764	8 483 505
At 31.12.2007							
Cost	8 590 527	357 469	1 054 136	592 808	84 073	8 764	10 687 777
Accumulated depreciation	(1 138 996)	(264 984)	(621 357)	(332 771)	(84 073)	0	(2 442 181)
Net book amount	7 451 531	92 486	432 779	260 037	0	8 764	8 245 595

There were no indications of impairment of property, plant and equipment in either 2007 or 2006.

Notes to the accounts

for the year ended 31 December 2007
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4. Detailed disclosures relating to asset headings continued

4.6 Other assets

Other assets are made up of the following:

	31.12.2007 EUR	31.12.2006 EUR
Accounts receivable relating to pensions managed by the EIB	13 294 567	9 709 504
Advanced payments	8 220	26 830
Accrued commission on management fees and other income	14 572 826	6 095 465
Other debtors	5 196 610	4 090 446
	33 072 223	19 922 245

Accounts receivables relating to pensions managed by the EIB: following the introduction of a defined benefit pension scheme in 2003 (see note 2.6), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management and investment on behalf of the Fund. See also note 5.2.

5. Detailed disclosures relating to liability and equity headings

5.1 Financial liabilities

The movements relating to financial guarantees payables are set out below:

Financial guarantees payables	2007 EUR	2006 EUR
Balance at 1 January	56 907 239	51 673 280
Additions	23 195 710	16 138 074
Transfer relating to SME guarantees	366 472	686 021
Utilisation of the financial guarantees	(896 303)	(1 769 290)
Financial guarantees amortisation (note 2.4)	(16 142 837)	(9 820 846)
Balance at 31 December	63 430 281	56 907 239

The balance of EUR 63,430,281 (2006: EUR 56,907,239) includes a provision for an amount of EUR 3,398,599 (2006: EUR 5,915,700).

Derivatives	2007 EUR	2006 EUR
Balance at 1 January	1 289 229	5 313 992
Fair value changes	725 165	(4 024 763)
Balance at 31 December	2 014 394	1 289 229

5. Detailed disclosures relating to liability and equity headings continued

5.2 Retirement benefit obligation

The retirement benefit obligation consists of the pension scheme and the health insurance scheme as follows:

Retirement benefit obligations	31.12.2007 EUR	31.12.2006 EUR
Pension scheme	11 982 407	8 928 908
Health insurance scheme	1 250 000	1 250 000
	13 232 407	10 178 908

Commitments in respect of retirement benefits as at 31 December 2007 have been valued in February 2008 by an independent actuary using the projected unit credit method. The calculations are based on the following main assumptions:

Principal assumptions	2007	2006
Discount rate for obligations	5.52%	4.76%
Rate of future compensation increases	4.00%	3.50%
Rate of pension increases	2.00%	1.50%
Actuarial tables	Swiss BVG 2005	Swiss BVG 2000

The pension commitment as evaluated in the independent actuary report dated February 2008 amounts to EUR 11,982,000. As of December 2007, the Fund has allocated EUR 12,456,911 to the provisions relating to pensions to ensure full coverage of the commitments.

The health insurance obligation was measured by a full actuarial calculation at the end of 2007 and the existing liability found to be appropriate so no cost was recorded in the year. From 2008 the health insurance will have annual cost under IAS 19.

The movements in the "retirement benefit obligations" are as follows:

Benefit liabilities as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007 EUR
Present value of funded obligation	0	0	0
Present value of unfunded obligation	12 628 000	1 120 000	13 748 000
Unrecognised net actuarial gains/losses	(646 000)	130 000	(516 000)
Net liability	11 982 000	1 250 000	13 232 000

Benefit liabilities as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006 EUR
Present value of funded obligation	0	0	0
Present value of unfunded obligation	9 928 000	1 250 000	11 178 000
Unrecognised net actuarial gains/losses	(999 000)	0	(999 000)
Net liability	8 929 000	1 250 000	10 179 000

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5. Detailed disclosures relating to liability and equity headings continued

5.2 Retirement benefit obligation continued

Net periodic benefit cost as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007 EUR
Current net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Amortisation of unrecognised gains/losses	75 000	0	75 000
Net benefit expense	**1 810 000**	**0**	**1 810 000**

Net periodic benefit cost as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006 EUR
Current net service cost	867 000	0	867 000
Interest cost	376 000	0	376 000
Amortisation of unrecognised gains/losses	133 000	0	133 000
Net benefit expense	**1 376 000**	**0**	**1 376 000**

Changes in defined benefit obligation as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007 EUR
Defined benefit obligation, beginning of year	9 928 000	1 250 000	11 178 000
Net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Employee contributions	682 000	0	682 000
Benefits paid	561 000	0	561 000
Experience (gain)/loss	1 656 000	293 000	1 949 000
(Gain)/loss due to assumption changes	(1 934 000)	(423 000)	(2 357 000)
Defined benefit obligation	**12 628 000**	**1 120 000**	**13 748 000**

Changes in defined benefit obligation as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006 EUR
Defined benefit obligation, beginning of year	8 635 000	1 250 000	9 885 000
Net service cost	867 000	0	867 000
Interest cost	376 000	0	376 000
Employee contributions	513 000	0	513 000
Benefits paid	185 000	0	185 000
Experience (gain)/loss	430 000	0	430 000
(Gain)/loss due to assumption changes	(1 078 000)	0	(1 078 000)
Defined benefit obligation	**9 928 000**	**1 250 000**	**11 178 000**

5. Detailed disclosures relating to liability and equity headings continued

5.3 Other liabilities

	31.12.2007 EUR	31.12.2006 EUR
Trade creditors	775 000	4 936 054
Other taxation and social security costs	1 182	33 504
Other payables	8 639 862	5 496 638
	9 416 044	10 466 196

Other liabilities are mainly composed of the following elements:

Trade creditors mainly includes amounts payable to the SMEGF and other sundry items.

Other payables include amounts relating to accrued fees for professional services. It also includes treasury management fees, accruals for EIF staff compensation and a provision related to derivatives for a total amount of EUR 1,657,366 (2006: EUR 534,696).

5.4 Share capital

The authorised capital amounts to EUR 3bn, divided into 3,000 shares with a nominal value of EUR 1m each of which 2,770 have been issued. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

The EIF's authorised share capital was increased by 50% to EUR 3bn after a unanimous vote by shareholders at the Annual General Meeting. New shares were issued on the 30 June 2007 as follows:

Authorised shares at 01.01.07	2 000
New shares 30.06.07	
New shares issued	770
Shares authorised but not yet issued	230
Authorised shares at 31.12.07	3 000

The authorised and subscribed share capital of EUR 2,770,000,000 representing 2,770 shares is called and paid in for an amount of EUR 554,000,000 representing 20% of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital need the approval by the General Meeting of shareholders.

Notes to the accounts

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5. Detailed disclosures relating to liability and equity headings continued

5.4 Share capital continued

The subscribed share capital is detailed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Subscribed and paid in (20%)	554 000 000	400 000 000
Subscribed but not yet called (80%)	2 216 000 000	1 600 000 000
	2 770 000 000	2 000 000 000

The capital is subscribed as follows :

	31.12.2007 Number of shares	31.12.2006 Number of shares
European Investment Bank	1 822	1 224
European Commission	691	600
Financial Institutions	257	176
	2 770	2 000

5.5 Statutory reserve and retained earnings

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 10,080,467 is required to be appropriated in 2008 with respect to the financial year ended 31 December 2007. Movements in reserves and profit brought forward are detailed as follows:

	Statutory reserve EUR	Retained earnings EUR	Profit for the financial year EUR
Balance at the beginning of the financial year	84 899 624	126 638 689	48 575 466
Dividend paid	0	0	(19 430 000)
Other allocation of last financial year profit	19 430 186	9 715 280	(29 145 466)
Profit for the financial year	0	0	50 402 337
Balance at the end of financial year	**104 329 810**	**136 353 969**	**50 402 337**

The General Meeting of Shareholders of 7 May 2007 approved the distribution of a dividend amounting to EUR 19,430,000 relating to the year 2006 (2005: EUR 17,144,000), corresponding to EUR 9,715 per share.

5. Detailed disclosures relating to liability and equity headings continued

5.6 Fair value reserve:

The fair value reserve includes the followings:

	31.12.2007 EUR	31.12.2006 EUR
Fair value reserve on debt securities and other fixed income securities	(7 521 128)	3 557 393
Fair value reserve on shares and other variable income securities	29 890 658	16 078 373
	22 369 530	19 635 766

6. Commitments

Commitments represent investments in venture capital funds committed and not yet disbursed amounting to EUR 167,523,540 at current rate (2006: EUR 150,836,248).

7. Disclosures relating to off-balance sheet items

7.1 TEN Guarantees

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

	Drawn EUR	Undrawn EUR	Total 2007 EUR	Total 2006 EUR
Up to 5 years	112 831 414	0	112 831 414	146 468 721
From 5 to 10 years	119 187 366	16 750 000	135 937 366	183 301 353
From 10 to 15 years	182 155 122	0	182 155 122	161 170 743
Over 15 years	45 345 263	0	45 345 263	76 270 734
	459 519 165	16 750 000	476 269 165	567 211 551

The drawn down portion of the guarantees issued includes an amount of EUR 19,014,126 (2006: EUR 19,935,442) representing the present value of future interest covered by guarantees.

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7. Disclosures relating to off-balance sheet items continued

7.2 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, the EIB and the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"). Sums held in these accounts remain the property of the Commission, the EIB and the BMWi so long as they are not disbursed for the purposes set out in relation to each programme.

Under the SME Guarantee Facility (SMEG 1998, SMEG 2001 under the Multi-Annual Programme for enterprises (MAP) and SMEG 2007 under the Competitiveness and Innovation Framework Programme), the Fund is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

Under the ETF Start-Up Facility (ESU 1998, ESU 2001 under the Multi-Annual Programme for enterprises (MAP) and GIF 2007 under the Competitiveness and Innovation Framework Programme), the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf 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, and at the risk of the EIB the European Technology Facilities (ETF) 1 and 2, which have been implemented by the Fund since 1998.

Within 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.

Under the ERP-EIF Dachfond agreement, initiated in 2004, the Fund manages venture capital activity on behalf, and at the risk of the BWMi.

7. Disclosures relating to off-balance sheet items continued

7.2 Assets held for third parties continued

The Fund is managing a European Commission facility, the Preparatory Action Facility (PA 2004 and PA 2005), on behalf of the EIB Group. The facility is particularly targeting micro lending and will be used for grants to finance technical assistance to SMEs, which must be coupled with an EIF guarantee or an EIB global loan.

		31.12.2007 EUR	31.12.2006 EUR
Preparatory Action Facility 2004		16 767	2 035 024
SMEG 1998 (SME Guarantee 1998)		71 885 622	80 045 053
ESU 1998 (ETF Start-up 1998)	(*)	28 509 679	32 566 875
Seed Capital Action		185 233	185 176
SMEG 2001 (MAP Guarantee)		118 671 399	115 905 351
ESU 2001 (MAP Equity)	(*)	91 773 212	93 386 930
CIP/ SMEG 07		35 255 356	0
CIP/GIF 07		36 447 745	0
Trust accounts with the Commission	(**)	382 745 013	324 124 409
Trust accounts with the EIB		40 372 364	44 528 353
Trust account with the BWMi		19 198	123 742
		423 136 575	368 776 504

(*) The figures above do not include the net cash flow in venture capital, of EUR 44,597,618 for ESU 1998 (2006: EUR 47,867,842) and EUR 53,806,983 for ESU 2001 (2006: EUR 26,073,020) made on behalf of the Commission that are included in 8.3.

(**) 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.

7.3 Fiduciary operations

Pursuant to Article 28 of its Statutes, the Fund may accept the tasks of administering special resources entrusted to it by third parties. In execution of this article, the Fund manages and disposes of investments in venture capital funds, in its own name but on behalf and at the risk of

– the EIB, in accordance with European Technology Facility, European Technology Facility 2 and Transfer, Implementation and Management of Risk Capital Investments (Risk Capital Mandate) agreements;

– the Commission, in accordance with ETF Start-Up Facility, the High Growth and Innovative SME Facility and Seed Capital Action agreements; and

– the German Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"), in accordance with ERP-EIF Dachfond agreement.

The Fund is also empowered to issue guarantees in its own name but on behalf and at the risk of the Commission according to the Fiduciary and Management Agreement concluded with the Commission (SME 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.

Notes to the accounts

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(Expressed in EUR)

7. Disclosures relating to off-balance sheet items continued

7.3 Fiduciary operations continued

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

	31.12.2007 EUR	31.12.2006 EUR
Guarantees committed on behalf of the Commission		
Under the SMEG 1998(*)		
Drawn	2 407 638 575	2 332 846 185
Undrawn	1 664 115	93 010 423
Under the SMEG 2001(*)		
Drawn	4 629 662 857	3 661 541 835
Undrawn	276 876 349	1 247 116 128
Under the SMEG 2007(*)		
Drawn	0	0
Undrawn	0	0
Investments made on behalf of the Commission (**):		
Under ESU 1998:		
Net disbursed	55 992 520	62 098 578
Undrawn	8 727 939	14 569 689
Under ESU 2001:		
Net disbursed	57 584 408	28 249 549
Undrawn	131 730 410	128 076 705
Under GIF 2007:		
Net disbursed	0	0
Undrawn	10 000 000	0
Under Seed Capital Action:		
Net disbursed	150 000	150 000
Undrawn	50 000	50 000
Investments made on behalf of the EIB (**):		
Under EIB Risk Capital Mandate		
Net disbursed	1 370 579 363	1 248 520 533
Undrawn	1 242 905 845	1 204 359 297
Under European Technology Facility		
Net disbursed	124 725 313	130 025 976
Undrawn	28 434 532	46 173 159
Investments made on behalf of the external mandators (**):		
Under ERP-EIF Dachfond		
Net disbursed	47 514 956	30 375 557
Undrawn	72 869 186	73 855 292
	10 467 106 367	10 301 018 906

7. Disclosures relating to off-balance sheet items continued

7.3 Fiduciary operations continued

(*) Those amounts are valued based on the valuation method described in note 2.3.

(**) Those amounts are valued at current rate. The drawn amounts correspond to the net disbursed. The value adjustment calculation is performed based on the valuation method described in note 2.3.

- a value adjustment has been estimated at EUR 83,639,222 (2006: EUR 195,621,038) leading to a net adjusted value of EUR 1,411,665,454 (2006: EUR 1,182,925,472), on the investments managed on behalf of the EIB.
- a value adjustment has been estimated at EUR 15,172,327 (2006: EUR 16,407,266 estimated amount) leading to a net adjusted value of EUR 98,404,600 (2006: EUR 73,940,862 estimated amount), on the investments made on behalf of the Commission.

8. Detailed information on the income statement

8.1 Net interest and similar income

Net interest and similar income comprises:

	31.12.2007 EUR	31.12.2006 EUR
Interest on debt securities	23 853 812	21 344 796
Interest on term deposits	4 778 046	900 209
Interest on bank current accounts	898 741	946 287
Other interest	700 471	453 996
	30 231 070	23 645 288

As mentioned in the note 2.7, the discounts and premiums are calculated with the effective interest rate method. The above figures are presented netted. Discounts amount to EUR 3,316,906 (2006: EUR 1,149,607) and premiums amount to EUR 1,732,099 (2006: EUR 1,945,169).

Notes to the accounts

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(Expressed in EUR)

8. Detailed information on the income statement continued

8.2 Net income from guarantees operations

Net income from guarantees operations comprises:

	31.12.2007 EUR	31.12.2006 EUR
Net guarantees fees on derivatives	7 579 840	1 183 644
Loss/Gain on fair value changes on derivatives	(870 260)	4 564 626
Interest (expenses)/income on amortisation of NPV	(341 388)	1 254 315
Reversal of provision	2 517 101	2 140 674
Provision for guarantees under IAS 37	(1 122 670)	(534 696)
Net increase in the financial guarantees contracts	13 586 401	7 680 172
	21 349 024	16 288 735

8.3 Commission income

Commission income is detailed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Commissions on mandates relating to venture capital operations	14 798 524	15 580 893
Commissions on mandates relating to guarantees	8 412 985	7 733 288
Income from advisory activity	5 850 873	2 953 329
Other commissions	10 000	10 000
	29 072 382	26 277 510

8.4 Net loss on financial operations

Net loss on financial operations amounting to EUR (1,908,880) (2006: loss EUR 524,335) corresponds to losses arising entirely from transactions or cash positions in foreign currencies, of which EUR 813,477 is a foreign exchange loss on venture capital impaired funds (2006: gain EUR 24,296).

8. Detailed information on the income statement continued

8.5 General administrative expenses

	31.12.2007 EUR	31.12.2006 EUR
Wages and salaries	17 317 160	14 614 519
Social security costs	2 130 900	1 123 415
	19 448 060	15 737 934
Other administrative expenses	6 665 063	5 862 253
	26 113 123	21 600 187

Wages and salaries include expenses of EUR 4,078,735 (2006: EUR 3,671,243) incurred in relation to staff seconded from the EIB.

Key management compensation for the year is EUR 1,300,648 (2006: EUR 1,264,687).

Other administrative expenses include office space leased in addition to the EIF's owned premises. Expenses relating to these operational leases amount to EUR 1,154,045 (2006: EUR 645,159).

	Less than 1 year EUR	1 to 5 years EUR	More than 5 years EUR	Total EUR
Future minimum lease payments under non-cancellable operating leases	1 053 359	4 213 437	1 053 359	6 320 155

The number of persons, including 14 EIB secondees (2006: 14 EIB secondees), employed at the year-end is as follows:

	31.12.2007	31.12.2006
Chief Executive	1	1
Employees	141	120
Total	142	121
Average of the year	135	111

Notes to the accounts

for the year ended 31 December 2007
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9. Related parties transactions

The European Investment Bank is the majority owner of the Fund with 66% of the shares. The remaining percentage is held by the European Commission (25%) and the Financial Institutions (9%).

9.1 European Investment Bank

Related party transactions with the European Investment Bank are mainly related to the management by the Fund of the venture capital activity as described in the note 7.3. In addition, the European Investment Bank manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the European Investment Bank are disclosed as follows:

	31.12.2007 EUR	31.12.2006 EUR
ASSETS		
Prepayments and accrued income	795 703	1 589 529
Other assets	13 294 567	9 709 504
LIABILITIES		
Creditors	84 122	2 646 501
Other provisions	1 482 798	1 571 360
Accruals and deferred income	180 000	190 000
Capital paid in	365 000 000	244 800 000
OFF BALANCE SHEET		
Guarantees drawn	410 445 884	503 386 265
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	40 372 364	44 528 353
Investments drawn in venture capital	1 495 304 677	1 378 546 509
Investments undrawn in venture capital	1 271 340 376	1 250 532 456
INCOME		
Management fees	8 540 072	8 456 922
EXPENSES		
Wages and salaries	2 928 735	2 802 613
IT expenses	866 775	850 635
Services	1 134 982	1 884 472
Treasury management fees	337 176	269 363

9. Related parties transactions continued

9.2 Commission of the European Communities

Related party transactions with the Commission are mainly related to the management by the Fund of the venture capital and guarantees activities as described in the note 7.3. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	31.12.2007 EUR	31.12.2006 EUR
ASSETS		
Accounts Receivable	8 078 322	3 828 075
LIABILITIES		
Accounts Payable	499 675	258 813
Capital paid in	138 200 000	120 000 000
OFF BALANCE SHEET		
Guarantees drawn	7 037 301 432	5 994 388 020
Guarantees undrawn	278 540 464	1 340 126 551
Assets held for third parties	382 745 013	324 124 409
Net disbursed in venture capital	113 726 928	90 498 127
Investments undrawn in venture capital	150 508 348	142 696 395
INCOME		
Management fees	11 849 856	12 296 812
EXPENSES		
Treasury management fees	57 528	88 213

10. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

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