EUROPEAN
INVESTMENT
FUND

# Annual Report
2008

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# 1 Introduction

Introduction to the Annual Report

# EIF highlights

## at 31 December 2008

EURm

| 2008 activity | | |
|---|---|---|
| Equity signatures | (32 funds) | 409 |
| Guarantee signatures | (20 operations) | 2 143 |
| JEREMIE signatures | (6 agreements) | 604 |
| **Total outstandings** | | |
| Private equity assets under management | (299 funds) | 3 535 |
| Guarantee exposure | (189 operations) | 12 333 |

| Financial data | 2007 | 2008 |
|---|---|---|
| **Simplified profit and loss statement** | | |
| Guarantee income | 30 | 26 |
| Equity income | 22 | 21 |
| Advisory and regional mandate income | 6 | 7 |
| Treasury income | 28 | 39 |
| **Total income** | **86** | **93** |
| Staff costs | 19 | 22 |
| Overheads | 8 | 9 |
| **Total expenses** | **27** | **31** |
| **Operating profit** | **58** | **62** |
| Exceptional items | -8 | -27 |
| **Net income** | **50** | **35** |
| Return on average equity | 6.2% | 3.6% |
| Dividends declared | 20 | 14 |

| Simplified balance sheet | | |
|---|---|---|
| **Assets** | | |
| Cash | 292 | 384 |
| Investments | 690 | 654 |
| Other assets | 42 | 38 |
| **Total assets** | **1 024** | **1 076** |
| **Liabilities** | | |
| Financial liabilities | 18 | 31 |
| Other liabilities | 21 | 31 |
| Equity | 985 | 1 014 |
| **Total liabilities** | **1 024** | **1 076** |

| Shareholders | |
|---|---|
| European Investment Bank | 63.6% |
| European Union via the European Commission | 27.4% |
| 31 Financial Institutions | 9.0% |

# Strategic statement

The European Investment Fund (EIF) is the European Union (EU) body specialised in small and medium-sized enterprise (SME) risk financing. It is owned by the European Investment Bank (EIB) (64%) and the European Community, through the European Commission (27%). Additionally, EIF has a significant shareholding from public or private banks and financial institutions (31 from 17 countries, making up 9%). Uniquely for a European body, EIF has a core objective to earn an appropriate return for its shareholders, through a commercial pricing policy and a balance of fee and risk based income, alongside its goal to contribute to the pursuit of Community objectives.

EIF indirectly supports SMEs by means of equity (venture capital and private equity) and guarantee instruments, using either its own funds or those available through mandates given by EIB (the Risk Capital Mandate or RCM), the EU (the Competitiveness and Innovation Framework Programme or CIP), Member States or other third parties.

Complementing EIB's product offering, EIF has a crucial role to play throughout the value chain of enterprise creation, from the earliest stages of intellectual property development to mid and later-stage SMEs. EIF provides an "integrated offer" of SME finance covering a wide range of market segments and through a diverse array of financial institutions.

While EIF's equity instruments aim to improve the availability of risk capital for high-growth and innovative SMEs, it is equally important to target the debt requirements, as many SMEs seek finance through this more traditional route. By providing guarantees and credit enhancement through securitisation, EIF improves the lending capacity of financial intermediaries and, therefore, the availability and terms of debt for beneficiary SMEs.

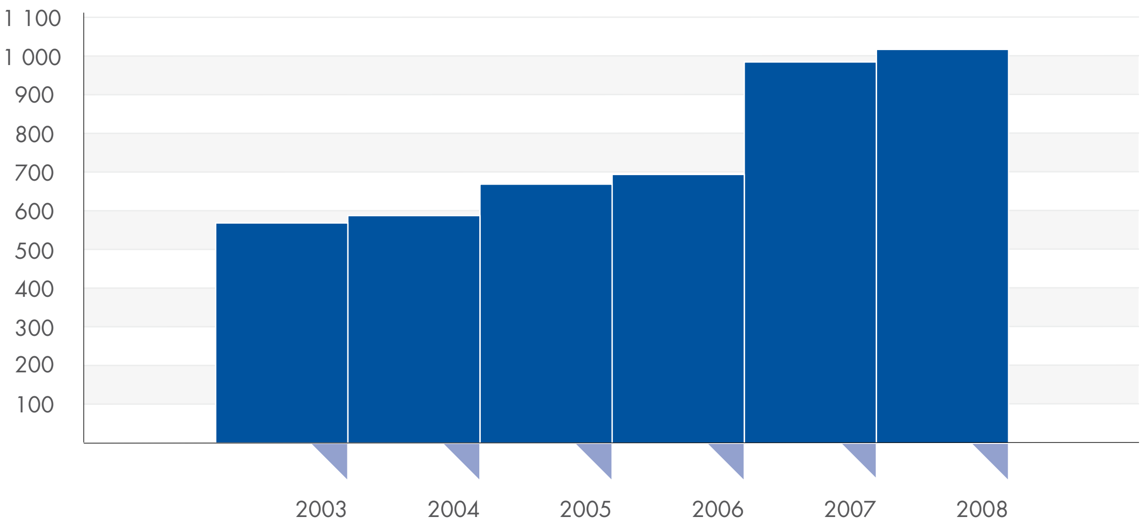
EIF has systematically developed skills in providing financial engineering products to SMEs in Europe. Capitalising on this expertise, the European Commission decided, in 2006, to mandate EIF as manager of the JEREMIE initiative. This initiative aims at using a portion of EU Member State Structural Funds to improve SME access to finance. EIF assesses the demand for SME financial instruments in regions and Member States and is now assisting Managing Authorities in the implementation of JEREMIE Holding Funds.

# Overview of financial performance

| EURm | GAAP | | IFRS | | | |
|---|---|---|---|---|---|---|
| Profits for the financial year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
| Net profit | 19.7 | 27.2 | 36.7 | 48.6 | 50.4 | 35.1 |
| Return on average equity (%) | 3.6 | 4.9 | 5.8 | 7.3 | 6.2 | 3.6 |
| Dividends declared | 7.9 | 10.9 | 17.1 | 19.4 | 20.2 | 14.3 * |
| Net asset value * * | 567.3 | 586.6 | 667.8 | 692.5 | 985.4 | 1 014.1 |

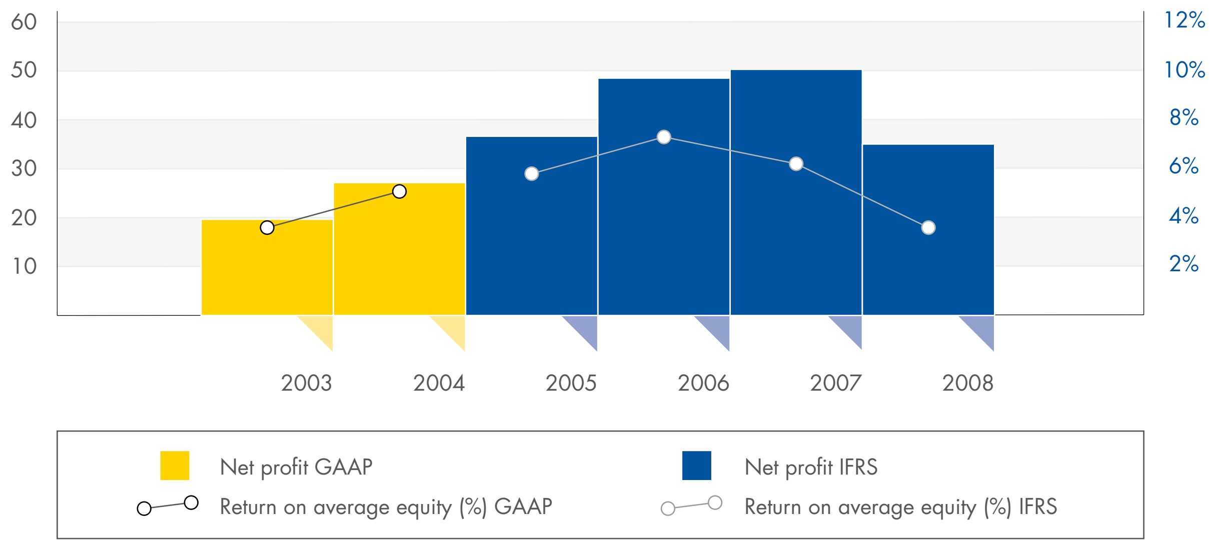
## EIF Net Asset Value

EURm




## Net profit against return on equity

EURm




* Subject to approval by the AGM
* * Before appropriation of dividends

# Overview of activity

EURm

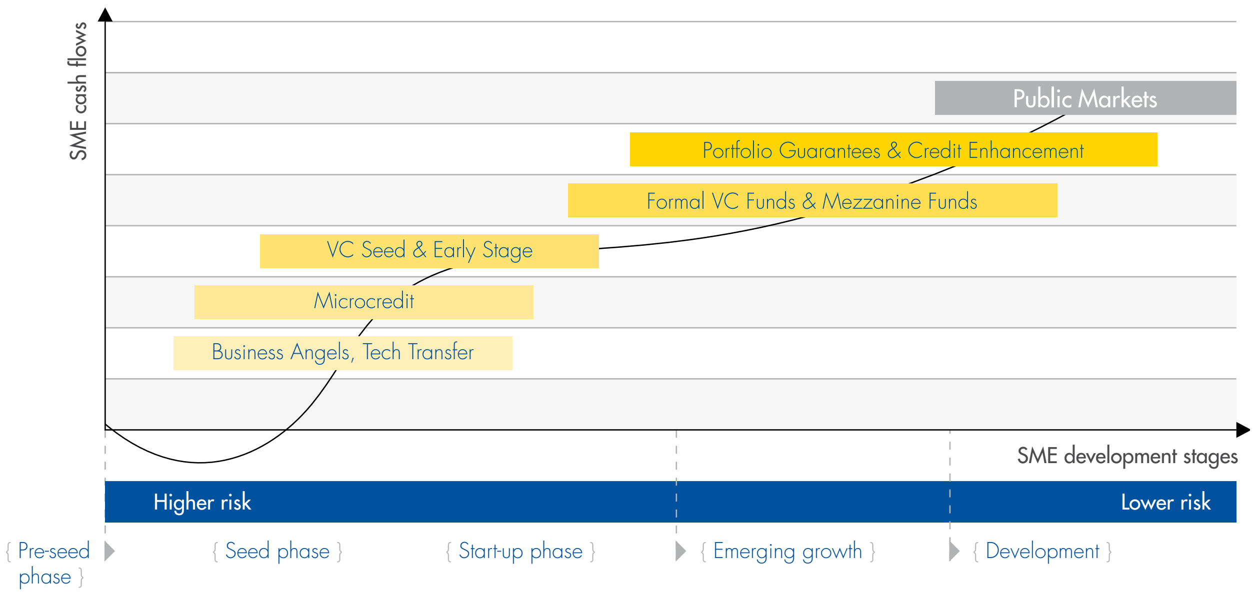
| Equity signatures * | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| EIF own resources | 48.3 | 31.3 | 74.5 | 70.7 | 19.2 |
| EIB Risk Capital Mandate | 257.1 | 265.1 | 482.7 | 379.4 | 187.6 |
| European Commission | 14.8 | 38.9 | 89.4 | 49.7 | 134.3 |
| ERP-EIF Dachfonds | 37.5 | 32.5 | 41.4 | 21.0 | 43.6 |
| Funds of funds activity | - | - | - | 3.6 | 24.2 |
| Total | 357.7 | 367.8 | 687.9 | 524.3 | 408.9 |

| JEREMIE | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Cumulative mandates | - | - | - | 1 | 7 |
| Cumulative total of fund agreements signed (EURm) | - | - | - | 100.0 | 704.0 |

EURm

| Guarantee commitments | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| European Commission | 749.7 | 1 213.3 | 1 028.2 | 8.0 | 1 308.7 |
| EIF own resources | 697.1 | 472.1 | 1 194.3 | 1 389.2 | 834.2 |
| Total | 1 446.7 | 1 685.4 | 2 222.5 | 1 397.2 | 2 142.9 |

# EIF tool kit for SMEs




* Including commitments in funds of funds structures in 2006, 2007 and 2008. Historical exchange rates.

# Foreword by the Chairman of the Board


On many fronts, 2008 was an eventful year for EIF. First of all, it witnessed the arrival of the Fund's new Chief Executive and Deputy. The implementation of their Strategic Charter is driving EIF forwards in terms of business development and operational excellence and has received full support from both the Board of Directors and EIF's shareholders.

The full year results of EIF demonstrate the impact of the financial crisis, which has made it increasingly challenging to achieve the levels of activity and financial performance seen in recent years. A highlight has however been the European Commission's Competitiveness and Innovation Framework Programme 2007-2013, through which EIF provides significantly increased guarantee and risk capital in support of small and medium-sized enterprises (SMEs) across the EU.

Since September 2008, the worsening economic situation has magnified EIF's importance as a countercyclical element in the European Economic Recovery Plan, at a time when financing options for SMEs have become increasingly limited and the need to implement EU policy objectives in their support is all-important.

In the face of this difficult economic environment, the new management recognised the need to strengthen the EIF product offering and range of financial solutions available to SMEs as an integral part of the EIB Group's new SME strategy. Actions have therefore already been taken to launch innovative new instruments necessary to meet changing market demands as well as to increase the financial resources available to EIF.

The Fund has launched two new products, firstly a EUR 1bn mezzanine finance facility, mandated by EIB and distributed through Fund Management teams. This initiative aims to fill gaps in the funding solutions for stable cash-generative SMEs.

At the small end of the SME spectrum, EIF has introduced the microcredit initiative JASMINE (Joint Action to Support Micro-finance Institutions in Europe) where it will be instrumental in channelling some EUR 50m of equity and debt support from EIB, the European Commission, the European Parliament, and financial institutions.

These are good examples of increased cooperation between EIB and EIF but it is not only from a business perspective that EIB and EIF are working together. Indeed, both institutions were reunited on the same campus when, in the summer, EIF moved into the new East Building, whose environmental consciousness and transparency is symbolic of the EIB Group's approach.

Looking forwards, EIF has now been reinforced with investment in staff and systems to face the challenges ahead in what could be one of the most demanding years of its relatively short lifetime.

*Philippe Maystadt*

# Introduction by the Chief Executive


The past year has seen a major change to EIF in its leadership and organisation, and in the necessity to respond to the looming economic crisis.

The simultaneous appointment of a new Chief Executive and a Deputy, in April, presented the opportunity to renew the strategy of EIF, its governance and its relationship with the EIB.

The Strategic Charter, approved by the Board of Directors in June, has been developed into a comprehensive Corporate Operating Plan for 2009-11. This plan underlines the importance of developing an integrated range of risk-based products and solutions, which can respond broadly to the growing financial needs of European SMEs. Over the next three years, EIF aims to mobilise significantly greater risk capacity from its shareholders and mandators, in order to increase its impact and enhance access to finance.

EIF's equity investment and guarantee activity in 2008 was affected by the financial crisis but finished the year at satisfactory levels. Total equity signatures amounted to EUR 409m across a very wide range of funds, using capacity from all the mandators and investing from the very early technology transfer stage through to more established growth funds.

Guarantee signatures in 2008 reflect the successful deployment of the first CIP capacity in nine transactions across six countries. The Structured Finance activity was also sustained at high levels right up to year-end, underlining the critical importance in this market of the capacity of EIF to take risk on portfolios of SME debt.

EIF's financial performance in 2008 reflects the challenges in the markets in which we are invested. Net profit for the year is EUR 35.1m, down from the record level of 2007. This is largely due to EUR 26.9m of impairments and provisions. These impairments and provisions have been assessed using prudent models and approaches and have been endorsed by the external auditors.

Overall income for the year was ahead of budget at EUR 92.7m, reflecting growing guarantee commissions and significantly higher treasury income from the increased capital. Total costs were kept below budget at EUR 30.7m. Total year-end paid-in equity before dividends amounts to EUR 1 014.1m, which provides a very stable base for the Fund's continuing role as a pillar of SME finance.

From a personal point of view, I am proud and honoured to have been selected to lead EIF. Jean-Marie Magnette and I have forged a close partnership based on our mutual desire to serve our stakeholders to the best of our ability. We would like to pay tribute to the quality and dedication of all the staff who have made EIF what it is today.

*Richard Pelly*

# Reorganisation

EIF will continue to develop the operational excellence and quality of its processes so as to service better its intermediaries and to control and monitor its risks. Following the arrival of its new Chief Executive and Deputy Chief Executive, EIF has reorganised its market facing teams into the following three groups to reflect this more integrated approach.

- The new Mandate Management, Product Development and Incubation (MMPDI) group is dedicated to the strategic evolution of the Fund. A proactive approach to relations with mandators (EIB, the European Commission and Managing Authorities) has resulted in very intensive and constructive dialogue, which is particularly important in the current crisis. In parallel, this group is developing new products (venture capital, guarantees and funded risk sharing) with the aim of responding more quickly and with greater impact.

- The Transaction and Relationship Management (TRM) group incorporates the venture capital and lower mid-market equity investment, as well as the Guarantee and Securitisation teams. They are responsible for the professional execution of all transactions and the maintenance and development of relationships with intermediaries across the EU.

- A new Regional Business Development (RBD) group has been established which is responsible for the management of regional mandates and, in particular, the seven JEREMIE Holding Fund agreements now signed. The group has established offices in a number of locations, reflecting this new activity and the geographic configuration of EIF resources is planned to develop over time. This group maintains a high level relationship with the European Commission Directorate-General for Regional Policy (DG REGIO) and mandate overview, while regional teams will handle the relationships with local Management Authorities.

Furthermore, the overall governance of EIF now benefits from the structuring of the responsibilities for Finance, Risk Management and Compliance under the Deputy Chief Executive. This ensures a form of dual control over these critical aspects of the Fund's management.

# The European market environment

## Challenging times

The global economy is going through a totally unprecedented crisis, which began in 2008 and is continuing into 2009. During 2008, market confidence deteriorated and remained fragile, leading to the collapse or near-collapse of large financial institutions and resulting in public intervention in the financial system on a scale not seen for decades.

The financial system has been severely weakened by mounting losses on impaired and illiquid assets, uncertainty regarding the availability and cost of funding, and further deterioration of loan portfolios. Since October 2008 risks to financial stability have intensified and funding costs have increased, causing the credit crunch to spread globally.

## Reduced valuations for private equity

As financial institutions began to feel the dramatic effect of mounting leveraged and structured finance related write-downs, the impact of these losses spread to the private equity industry and the valuation and performance of this industry has suffered. Market conditions have caused investors to avoid high risk investments and, as a result, risky and illiquid private equity assets have become less attractive.

With a decreasing number of investors, the volume of private equity deals is expected to decline during 2009, as it becomes increasingly difficult to attract the co-investment necessary to achieve target fund sizes. Additionally, there is a current focus on existing portfolio consolidation and management, rather than increased investments.

## Increased SME default rates for guarantees and securitisation

The crisis is now simultaneously affecting the financial sphere and the real economy. Through the second half of 2008, banks became more reluctant to lend and have started to tighten their lending standards. This behaviour has had negative effects on SME access to finance and it is expected that SME default rates will further increase significantly in 2009. In the current market environment many players, originators, investors, and arrangers of structured transactions, have left the market, at least temporarily. The number of new guarantee and securitisation transactions in 2008 significantly decreased and were not publicly placed in the capital markets.

Due to the negative feedback loop, stemming from cost cutting measures, increasing default rates, tighter credit conditions, the crisis is going to continue and the 2009 GDP forecasts for the European countries have been downgraded significantly.

With this financial environment, the role of EIF as specialised and stable long-term investor and guarantor in the SME market becomes even more crucial. EIF will continue to support the appropriate venture capital and private equity teams, taking, if necessary, somewhat higher participations at first closing. A new effort will be made to support mezzanine teams in their goal to inject a favorable debt structure into their SME portfolios. EIF will continue its role as guarantor of certain portfolio risks in order to facilitate and encourage the further provision of debt finance to SMEs.

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# 2 | Equity

An active role in European venture capital and private equity

# Outstanding equity portfolio

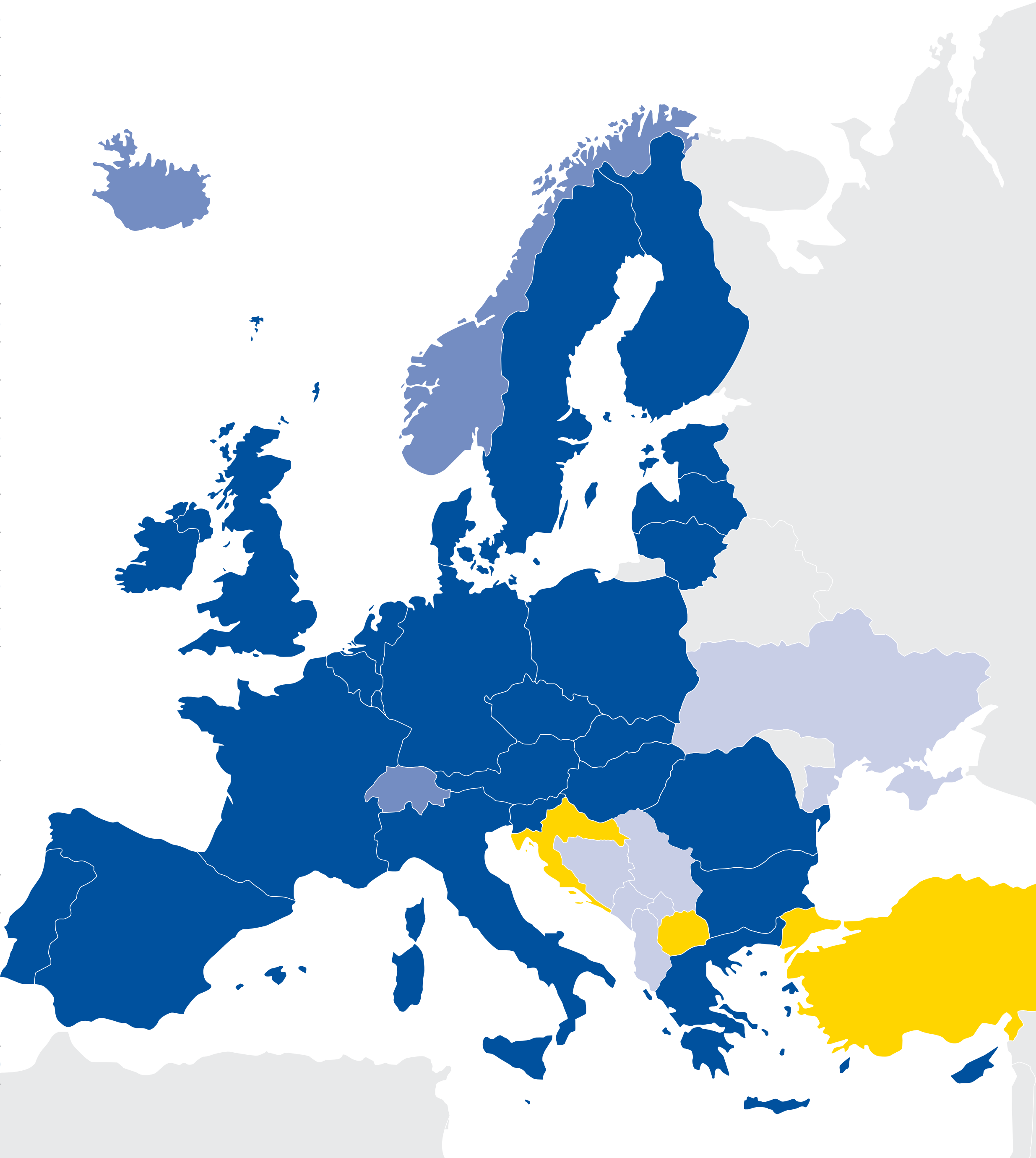
EUR 3 536m at 31 December 2008

| EU 27 | EURm |
|---|---|
| Austria | 61 |
| Belgium | 82 |
| Bulgaria | 1 |
| Cyprus | 4 |
| Czech Republic | 18 |
| Denmark | 99 |
| Estonia | 4 |
| Finland | 104 |
| France | 626 |
| Germany | 446 |
| Greece | 13 |
| Hungary | 14 |
| Ireland | 97 |
| Italy | 238 |
| Latvia | 16 |
| Lithuania | 8 |
| Luxembourg | 11 |
| Malta | 6 |
| Netherlands | 83 |
| Poland | 48 |
| Portugal | 46 |
| Romania | 8 |
| Slovakia | 8 |
| Spain | 292 |
| Sweden | 179 |
| United Kingdom | 636 |

| Candidate Countries | |
|---|---|
| Turkey | 104 |

| EFTA Countries | |
|---|---|
| Norway | 15 |
| Switzerland | 61 |

| Multi-Country / Other | |
|---|---|
| Central and Eastern Europe | 38 |
| Other | 170 |



# Equity overview

Through its venture capital and private equity interventions, EIF plays a crucial role in the creation and development of high-growth and innovative SMEs by facilitating access to equity for these companies across the entire life cycle of corporate innovation. It does so by investing in venture capital and mid-market funds, from the very earliest stages of intellectual property development into technology transfer, to more mature phases of development.

As one of the largest investors in European venture capital, supporting both well-known and first time teams, EIF has built a strong track record in the industry. Through this reputation, while maintaining a highly selective process, EIF takes significant minority stakes in funds which provides a catalytic effect on commitments from a wide range of investors, particularly in the private sector. The scale and scope of EIF investment, along with its added value on fundraising, allows EIF to promote best market practice and corporate governance for the teams it chooses to support. As a result, EIF is recognised as a leading financial institution in the European private equity market.

EIF acts as an integrated operational platform for SME finance, deploying either its own resources, or resources mandated by its shareholders or third parties depending on the nature of the investment. Through the varied resources managed by EIF, mandators can make use of EIF operational expertise to reach specific targets, such as eco-innovation and technology transfer funds through the European Commission's Competitiveness and Innovation Framework Programme (CIP), or fine-tune the financial support for SMEs to meet local market gaps through the JEREMIE initiative.

In parallel with the two main mandates, the Risk Capital Mandate (RCM) and the CIP, which are managed by EIF on behalf of, respectively, EIB and the European Community, EIF has sought to enhance further its market impact and reach. This has resulted in the establishment of joint investment facilities with public and private entities through its country specific funds of funds (ERP in Germany, NEOTEC in Spain, iVCi in Turkey, PVCi in Portugal) and multi-country or sector specific (Dahlia in France and GEEREF for environmental projects in emerging markets) fund of funds. A similar increased impact is being achieved through the management of holding funds under the JEREMIE initiative, a significant portion of whose funds are directed towards venture capital investment in the Member States or regions concerned.

# Equity resources and mandates

| EURm | | % signed |
|---|---|---|
| **EIB Group** | | |
| RCM | 4 000 | 92% |
| Own resources | 489 | 65% |
| **European Commission** | | |
| MAP and G&E | 342 | 100% |
| CIP envelope | 550 | 30% |
| **Other fund of funds activity** | | |
| ERP | 500 | 67% |
| Dahlia | 300 | 60% |
| NEOTEC | 183 | 37% |
| iVCi | 160 * | 0% |
| PVCi | 111 | 0% |

* After final closing in early 2009, iVCi has a total of EUR 160m under management.

# Total portfolio

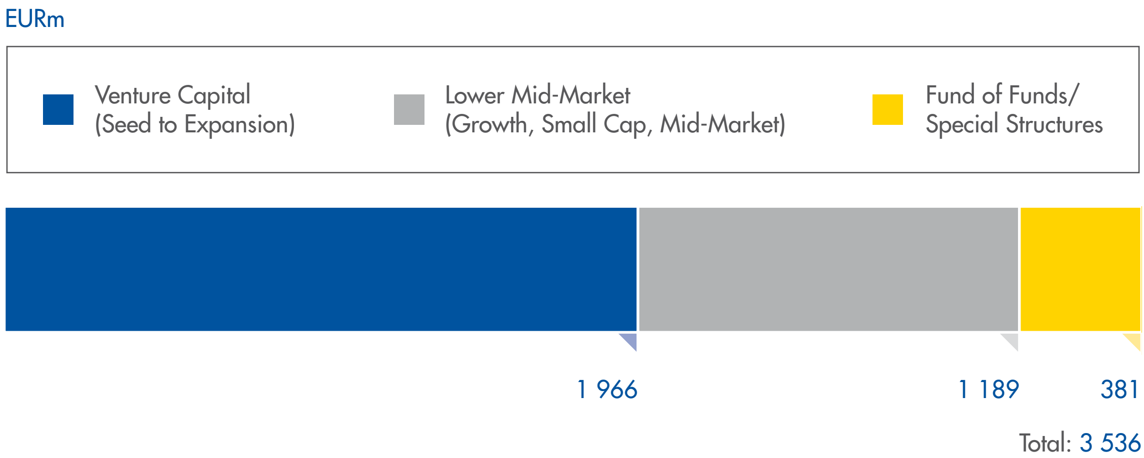
In 2008, EIF signed venture capital and private equity agreements totalling close to EUR 409m in 30 funds and two funds of funds. Despite the difficult market conditions, EIF has been able to invest, not only in established teams, but also in first time funds. EIF maintained its core focus on seed and early stage investments through two technology transfer and 19 venture capital agreements, which was complemented by 11 expansion and lower mid-market operations. The latter contributes to balancing the EIF portfolio by offsetting the higher risk that is usually inherent in early-stage investments.

From a geographical perspective, EIF backed teams, established in 11 different European countries, which provide financial support for SMEs spread across Europe. Finally, sectorwise, EIF continues its investment in the Cleantech sector, through agreements with two new teams, the remaining venture capital signatures being equally spread between life science and ICT.

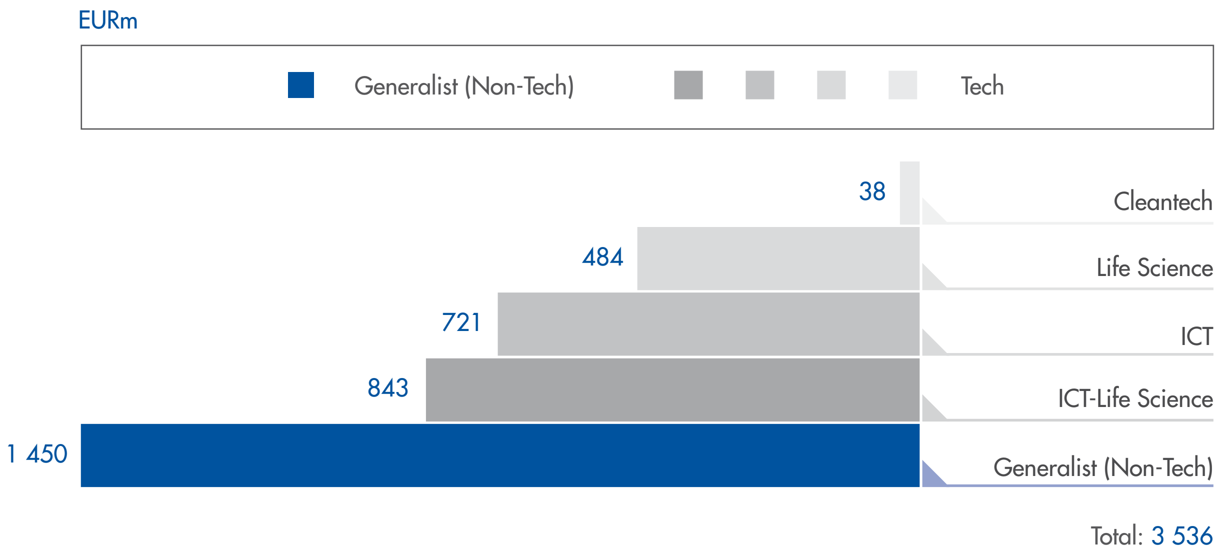
At the end of 2008, total net equity commitments amount to EUR 3.5bn. EIF market interventions contribute to leverage some EUR 23bn for over 3 000 high growth and innovative SMEs. With investments in 299 funds, EIF is a leading player in the European venture capital market for seed to mid-cap funds.

EIF's portfolio, derived from all resources, remains focused on the early-stage sector with over 40% of the portfolio in seed and start-up funds, and a geographically diversified portfolio, covering EU, candidate and potential candidate countries as well as the EFTA area.

# Equity stage focus




# Equity sector focus



# Equity signatures in 2008

EURm

| Fund vehicle | Resources | Geographic focus | Signatures |
|---|---|---|---|
| 360 Capital Partners | EC | Multi-country | 14.8 |
| Albuquerque, FCR | EC | Portugal | 13.1 |
| Alcedo III | EIB/EIF | Italy | 25.0 |
| Arx III | EIB/EIF | Central and Eastern Europe | 20.0 |
| Baring Iberia III | EIB | Spain | 3.1 |
| BioMedInvest Fonds II | ERP/EIB/EIF | Multi-country | 18.4 |
| Capricorn Cleantech Fund | EC | Multi-country | 15.0 |
| Chalmers Innovation Fund | EC/EIB/EIF | Sweden | 5.8 |
| Coinversion Neotec, SA, SCR | EIB | Spain | 0.5 |
| Dritte SHS Technologie GmbH & Co. KG | ERP/EC | Germany | 15.2 |
| Earlybird IV | ERP/EIB/EIF | Multi-country | 30.0 |
| Eden Two | EIB/EIF | United Kingdom | 6.8 |
| Eqvitec Mezzanine Fund III | EIB/EIF | Multi-country | 15.0 |
| Fountain Healthcare Partners Fund I | EC | Ireland | 15.0 |
| Inventure Fund Ky (ex Holtron) | EC | Finland | 9.9 |
| Lead Equities II | EIB/EIF | Austria | 10.0 |
| Life Sciences Partners IV B.V. | ERP/EIB/EIF | Multi-country | 22.9 |
| MCH Private Equity Fund III | EIB/EIF | Multi-country | 15.0 |
| Middle Market Fund IV | EIB/EIF | France | 14.3 |
| Montefiore Investment II | EIB/EIF | France | 15.0 |
| Neuhaus III GmbH & Co.KG | ERP/EIB/EIF | Multi-country | 0.7 |
| Nordic Biotech Opportunity Fund KS | EIB/EIF | Denmark | 4.9 |
| Odin Equity Partners Fund II | EIB/EIF | Denmark | 12.7 |
| Pentech Fund II | EC | United Kingdom | 5.0 |
| Pinova Fund I | EC | Germany | 12.5 |
| Portugal Venture Capital Initiative PVCi | EIB | Portugal | 15.0 * |
| ProA Capital Iberian Buyout Fund I USA, FCR | EIB | Spain | 5.5 |
| Royalton Capital Investors II | EIB | Central and Eastern Europe | 3.3 |
| Serena Capital | EC | Multi-country | 12.5 |
| The UK High Technology Fund Ltd (secondary) | EIB | United Kingdom | 1.8 * |
| UMIP-MTI TTA Fund | EC | United Kingdom | 11.5 |
| WHEB Ventures Private Equity Fund 2 | EC | Multi-country | 14.5 |
| **Subtotal** | | | **384.7** |
| **Funds of funds activity** | | | |
| Baring Iberia III | NEOTEC | Spain | 8.2 |
| Coinversion Neotec, SA, SCR | NEOTEC | Spain | 1.4 |
| ProA Capital Iberian Buyout Fund I USA, FCR | NEOTEC | Spain | 14.5 |
| **Subtotal** | | | **24.2** |
| **Total** | | | **408.9** |

* Commitment in fund of funds structure.

# EIB Group resources

EIF has managed EIB resources for equity (venture capital and mid-market) in Europe since 2000 through the Risk Capital Mandate (RCM). The mandate's core objective is to support technology and industrial innovation through early stage, expansion and lower mid-market capital, with an emphasis on specialist funds investing in the EU and generalist funds in the enlarged Europe. EIF's venture capital operations are conducted through this EUR 4bn evergreen facility, and are complemented by EIF own resource co-investments.

In 2008, signatures under RCM and EIF resources totalled EUR 207m. In terms of cash flow, disbursements for the year reached EUR 324m, with reflows of EUR 194m (capital repayments of EUR 160m and revenue repayments of EUR 34m).

At end 2008, net amounts signed using EIB Group resources reached nearly EUR 3bn. Since inception, total disbursements have amounted to EUR 2.8bn with total reflows of EUR 1.1bn (capital repayments of EUR 936m and revenue repayments of EUR 170m).

From 2009, these resources will be complemented by a EUR 1bn mezzanine facility.

# EIB Group disbursements and reflows

EURm

| RCM + own resources | 2004 | 2005 | 2006 | 2007 | 2008 | Since inception |
|---|---|---|---|---|---|---|
| Disbursements | 232.8 | 289.7 | 349.9 | 371.0 | 324.6 | 2 792.1 |
| Capital repayments | 74.4 | 131.0 | 208.2 | 203.0 | 160.0 | 936.3 |
| Revenue repayments | 3.9 | 12.2 | 29.9 | 58.3 | 33.9 | 170.0 |

# European Commission resources

In 2008, EIF began to invest the budgetary envelope of EUR 1.1bn as part of the Competitiveness and Innovation Framework Programme 2007-2013 (CIP) for SME access to finance. This resource is equally split between venture capital and guarantee products and replaces the Multiannual Programme for Enterprise and Entrepreneurship 2001-2006 (MAP).

The CIP is a more ambitious programme than its predecessor as it covers a wider geographical area, extends the targets of its support and has a larger budget. This programme applies to the EU 27, EEA, and other European countries such as Croatia, Former Yugoslav Republic of Macedonia, Montenegro and, since the start of 2009, Turkey and Serbia.

Through the CIP, EIF has been able to expand the range of instruments in support of new SME market segments and products, including technology transfer, business angels, and eco-innovation.

The equity segment of the CIP known as GIF (High Growth and Innovative SME Facility) is split between GIF 1, which covers early stage (seed and start-up) investments and GIF 2, which covers expansion stage (mid-market) investments. The GIF objective is to improve access to finance for the start-up and growth of SMEs, and investment in innovation activities, including eco-innovation.

At end 2008, EIF had made a total of 13 CIP investments amounting to EUR 144m (EUR 108m under GIF 1 and EUR 36m under GIF 2). In terms of 2008 cash flow, for all Commission mandates (CIP, MAP and the Growth and Employment scheme or G&E) EUR 51m was disbursed, with reflows of EUR 4m.

This activity brings the net signatures of the European Commission portfolios (G&E, CIP and MAP) at end 2008, to EUR 375m.

# EC mandates disbursements and reflows

EURm

| European Commission | 2004 | 2005 | 2006 | 2007 | 2008 | Since inception |
|---|---|---|---|---|---|---|
| Disbursements | 9.5 | 14.5 | 23.2 | 38.7 | 50.7 | 212.6 |
| Capital repayments | 0.8 | 12.1 | 7.6 | 12.8 | 3.6 | 48.3 |
| Revenue repayments | 0.1 | 7.3 | 3.9 | 1.9 | 0.2 | 18.3 |

# Overview of joint ventures and funds of funds

## ERP-EIF Dachfonds

The ERP-EIF Dachfonds is a EUR 500m fund of funds investing in venture capital 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 from EIF, EIB and European Community resources.

In 2008, the ERP-EIF Dachfonds committed some EUR 87m in five funds. At end 2008, the ERP-EIF Dachfonds is 67% committed with signatures totalling EUR 342m in 13 funds.

## 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 Technológico Industrial), the technology centre 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 chip companies. It closed at EUR 183m in June 2006, of which the EIF commitment was EUR 50m.

In 2008, three deals were signed under NEOTEC for a total of around EUR 33m, with EUR 9m brought by EIF. At end 2008, NEOTEC is 37% committed with signatures totalling EUR 68m in seven funds and co-investment agreements.

## 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. An interesting feature of the initiative is that it combines primary and secondary investments, building upon the respective strengths of EIF and Natixis in those two market segments.

Almost 60% of Dahlia funding has now been committed, with a target of full investment by mid-2010.

## Istanbul Venture Capital initiative (iVCi)

iVCi is a dedicated Turkish fund of funds advised by EIF. First closing took place in November 2007 with cornerstone investors the SME Development Institute of Turkey (KOSGEB), the Technology Foundation of Turkey (TTGV), the public Development Bank of Turkey (TKB) and EIF. After final closing in early 2009, iVCi has a total of EUR 160m under management.

The initial main objective is to serve as catalyst for the development of risk capital in Turkey. Since the fund's first closing, there has been a strong pipeline of investment proposals and EIF is currently screening them and undertaking the due diligence process to identify suitable investment possibilities.

## Portugal Venture Capital initiative (PVCi)

At the end of 2007, EIF created, alongside private financial institutions, public bodies and selected foundations, a EUR 111m private equity/venture capital fund of funds - the Portugal Venture Capital Initiative (PVCi) to invest in Portuguese and international funds focusing primarily on Portugal.

EIF is responsible for the management of PVCi. The Investment Board is now established and a pipeline of opportunities is being screened.

## GEEREF

GEEREF (Global Energy Efficiency and Renewable Energy Fund) is a fund of funds set up at the initiative of the European Commission. Its objective is to make investments in private equity funds that focus on the fields of renewable energy and energy efficiency in emerging markets (ACP, ALA and European neighbour countries). GEEREF is a closed-end fund set up under Luxembourg law for which EIF has been appointed overall Fund Manager because of its expertise in fund management. However, the geographical focus of the fund is outside the EU and hence a combined team has been established with the EIB to pursue the investment programme.

Currently, its shareholders are the European Commission, Germany and Norway. GEEREF has already accumulated EUR 109m in subscriptions. The aim is to attract up to EUR 200m under management in the coming months, calling on other public and private investors.

# Case study
# WHEB Ventures Private Equity Fund 2

## Background

In recent years, there has been a growing interest in using clean technologies to promote more efficient and responsible use of natural resources and thereby reducing negative impacts on the environment. This growing interest in sustainable development is driven by public policy initiatives as well as consumer and corporate demand.

In this context, WHEB Ventures Partners, a UK based fund manager, is one of the pioneers in the sector having raised one of Europe's first dedicated cleantech venture capital funds in 2005.

In 2008, WHEB Ventures Partners launched the fundraising of its second cleantech venture capital fund, WHEB Ventures Private Equity Fund 2. In July 2008, the fund achieved a first closing at GBP 57m from private individuals and family offices. In December 2008, the fund held a second closing at GBP 74m, where the EIF, the first and main institutional investor, committed GBP 12m to the fund.

## Profile

WHEB Ventures Private Equity Fund 2 invests in European innovative, young, high growth companies that place sustainable development, efficiency and reduction of negative environmental impacts at the heart of their business models.

The fund targets a variety of businesses in the energy, materials, waste and water industries. The efficient and responsible use of natural resources by these businesses results in an enhancement of economic value and strong competitive positioning.

## Added value

Through its investment, EIF is providing support to eco-innovative SMEs with high growth potential in their early stage phase. At the same time, the EIF investment is supporting the creation of a long-standing infrastructure for the funding and development of clean technologies in Europe. Moreover, as the first institutional investor, EIF is playing a crucial catalytic role towards other institutional investors allowing this promising team to reach the fund target size and to successfully complete the transition from a firm backed by private individuals and family offices to a firm with a solid and diversified institutional investors' base.

## Notes

This EIF investment was funded with EU CIP resources endorsing the programme's objectives of boosting the development of eco-innovation in Europe.

# Technology transfer

Technology transfer is the process by which the results of research and development are transformed into marketable products and 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 property rights, and the creation of start-up businesses or university spin-out companies.

Although technology transfer and seed investments in Europe are triggering increasing interest from investors, results of fundamental research are often considered to be 'too new' or 'too high-risk' to be transferred out of the research laboratory and pursued by the industry. New discoveries and technologies developed in academic laboratories or early-stage companies may fail to realise their potential unless they become attractive to industry or downstream investors and this is where EIF aims to play an important role.

EIF will generally seek to support financially sustainable technology transfer structures through pre-seed funding, prior to company or intellectual property formation, and seed funding, once the company is established, as well as funding in the context of licensing and intellectual property transaction deals. EIF may also advise on the structuring of appropriate technology transfer instruments, provide technical assistance, and assist the management team in the fundraising process.

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

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# 3 | Guarantees and Credit Enhancement

A prime position in the guarantee and credit enhancement markets

# Guarantee portfolio exposure

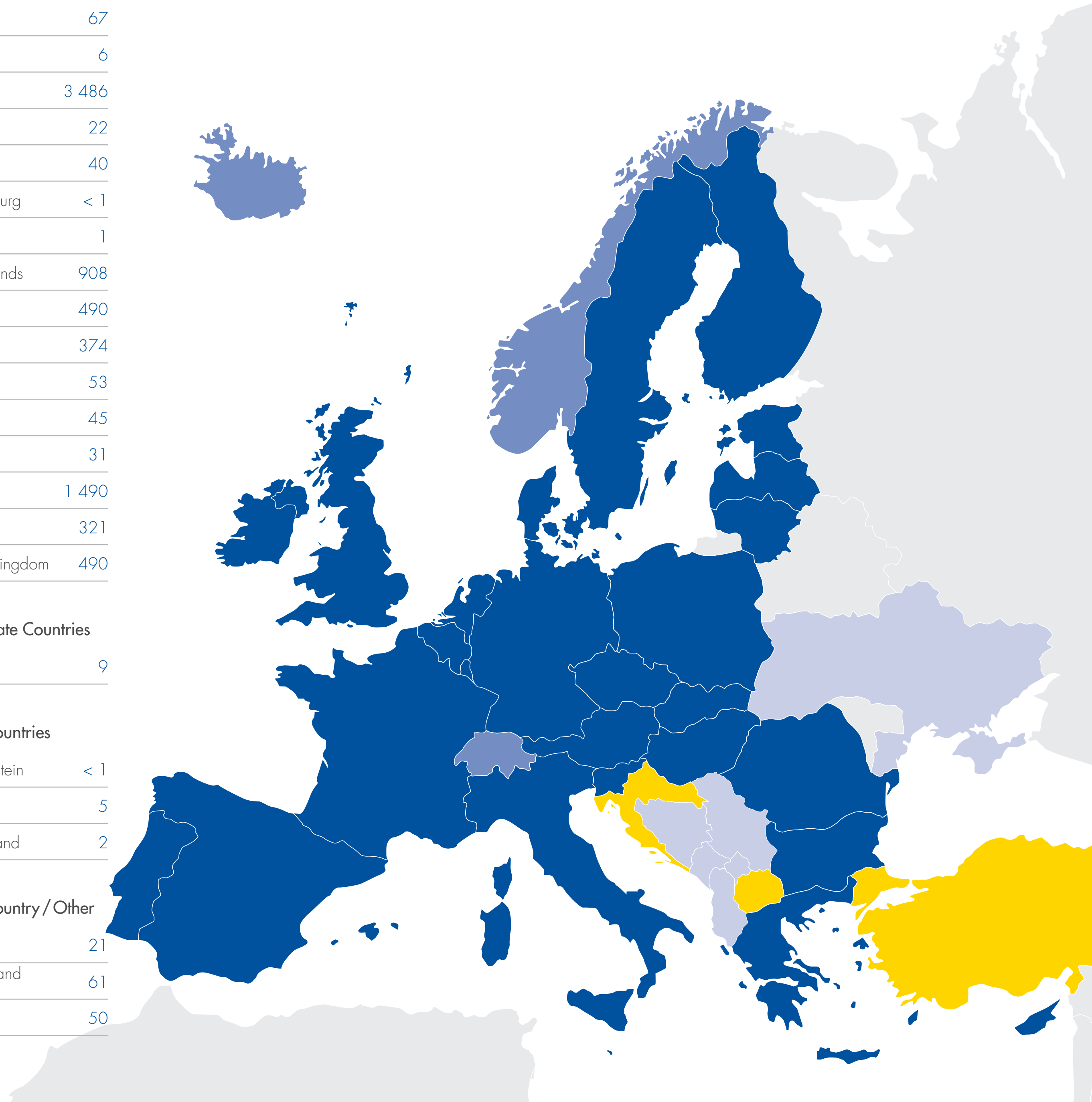
## EUR 12 333m at 31 December 2008

| EU 27 | EURm |
| --- | --- |
| Austria | 288 |
| Belgium | 614 |
| Bulgaria | 101 |
| Cyprus | < 1 |
| Czech Republic | 164 |
| Denmark | 246 |
| Estonia | 16 |
| Finland | 214 |
| France | 1 624 |
| Germany | 1 008 |
| Greece | 83 |
| Hungary | 67 |
| Ireland | 6 |
| Italy | 3 486 |
| Latvia | 22 |
| Lithuania | 40 |
| Luxembourg | < 1 |
| Malta | 1 |
| Netherlands | 908 |
| Poland | 490 |
| Portugal | 374 |
| Romania | 53 |
| Slovakia | 45 |
| Slovenia | 31 |
| Spain | 1 490 |
| Sweden | 321 |
| United Kingdom | 490 |

| Candidate Countries | |
| --- | --- |
| Turkey | 9 |

| EFTA Countries | |
| --- | --- |
| Liechtenstein | < 1 |
| Norway | 5 |
| Switzerland | 2 |

| Multi-Country / Other | |
| --- | --- |
| Other | 21 |
| Pan EU and Multi | 61 |
| Serbia | 50 |



# Guarantee operations overview

EIF guarantee operations can be broadly split into 'mandate' and 'own risk' activities.

EIF's mandate activity is backed by European Commission (EC), through EIF's management of the SME Guarantee Facility, as part of the Competitiveness & Innovation Framework Programme (CIP). Under this facility, the EC provides guarantees and counter-guarantees of part of the expected losses for portfolios of SME or microcredit loans or leases to local financial institutions. The objectives of the programme are, as for the private equity side, to provide a tool for the benefit of SMEs which would otherwise have limited access to finance, as well as to boost productivity, competitiveness and innovation capacity in the EU.

Under the CIP facility, EIF provides capped guarantees to partially cover portfolios of financing to SMEs. The facility comprises of four business lines, known as "windows":

- **Loan Guarantees** cover portfolios of mid- to long-term debt finance targeting SMEs and focus on investment financing.

- **Micro-Credit Guarantees** cover portfolios of micro-credits to encourage financial institutions to provide financing to micro-enterprises, especially start-ups.

- **Equity Guarantees** cover portfolios of investments in SMEs in the seed and start-up phases; Quasi Equity Guarantees are available to cover portfolios of mezzanine financing.

- **Securitisation** consists of guarantees to support securitisation transactions by financial institutions so as to mobilise additional debt financing for SMEs.

The CIP mandate is a very efficient budgetary tool due to the high leverage effect of EIF capped guarantees.

EIF collaborates with the EC, notably (DG ECFIN and DG ENTR) to ensure an optimal implementation of EU mandates *.

For own risk transactions, EIF employs its own capital to credit enhance securitised SME loans or leases portfolios for capital market transactions. Alternatively, EIF provides own risk credit insurance for similar portfolios to financial institutions on a bilateral basis. Through its credit enhancement activity, EIF achieves substantial added value by facilitating SME credit risk transfer from financial institutions to the capital markets. As a consequence, EIF facilitates capital relief of financial institutions, therefore increasing their lending capacity to SMEs.

* Further information regarding CIP financial instruments may be found at www.access2finance.eu

# Total portfolio

EIF's net guarantee portfolio (own risk and mandated business together) amounted to EUR 12.3bn at the end of 2008, consisting of 189 transactions spread over the vast majority of EIF's countries of operation.

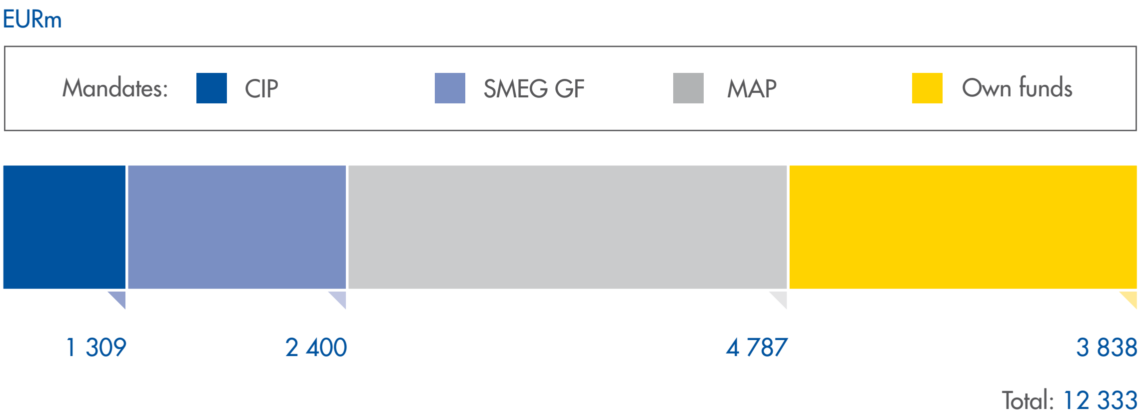
The net own risk guarantee portfolio (including outstanding and undrawn amounts) amounted to EUR 3.8bn, compared to EUR 3.6bn the year before, and mainly consists of credit enhancement products. EIF remained a key player in the SME securitisation market and continues to operate selectively with SME originators. Underlying portfolio assets consist of a variety of financing instruments to SMEs, such as commercial loans, subordinated loans, venture financing, leasing receivables, microcredit, loan guarantees, etc.

EIF further maintained its balanced portfolio strategy, guaranteeing a variety of tranches resulting in a steady Baa1 weighted average rating of its portfolio. The majority of the portfolio consists of investment grade, as demonstrated in the table below. Since 2007, the trend shows a slight (-2%) decrease in investment grade.

The net guarantee portfolio under mandate activity amounted to EUR 8.5bn as of December 2008 (corresponding to a maximum first loss liability of EUR 0.5bn), up from EUR 7.3bn in 2007. The strong increase in portfolio is due to the implementation of the new CIP guarantee facility.

| Rating | % of outstanding at 31.12.08 |
|---|---|
| Aaa | 30.6% |
| Aa1 to Aa3 | 20.4% |
| A1 to A3 | 19.4% |
| Baa1 to Baa2 | 18.5% |
| Subtotal investment grade | 88.9% |
| Ba1 to Ba3 | 10.5% |
| B1 to D | 0.6% |
| Subtotal non-investment grade | 11.1% |
| Total | 100% |

# Guarantee product breakdown portfolio



# Guarantees and securitisation in 2008

## Own funds: credit enhancement and securitisation

The market conditions of 2008 led to fewer but more targeted own resources signatures. EIF continued to be a key player in the SME securitisation market with 11 operations totalling approximately EUR 834m signed this year. These operations feature a high level of diversity in terms of originators, underlying assets and geographic areas, covering eight countries.

New commitments include the securitisation inter alia of a portfolio of SME loan guarantees originated by regional mutual guarantee funds (Rete Fidi Liguria), small ticket leasing receivables (originated by Commercio e Finanza, a specialised regional player) and large balance sheet CLOs originated by major European financial institutions such as Fortis, UniCredit and Rabobank. In addition, EIF provided its guarantee in the context of ProCredit Serbia's first asset-backed financing transaction.

## European Commission mandate

In line with the European Commission CIP mandate, guarantees are provided against the beneficiary's undertaking to enable more financing to SMEs and to increase the risk-taking in their SME financing.

In 2008, the first full year of implementation, CIP activity accounted for EUR 1.3bn in guarantees, with a maximum liability of EUR 75m. This activity consists of nine guarantee signatures (seven under the Loan Guarantee window and two under the Micro-Credit window) covering six countries.

EIF has received applications from many of the countries eligible for the programme and CIP deals will remain an area of focus into 2009.

EURm

| Deal name | Resources | Geographic focus | Signatures |
|---|---|---|---|
| ADIE | EC | France | 45.0 |
| BEST SME 2008 | EIF | Netherlands | 60.0 |
| CERSA | EC | Spain | 322.0 |
| Cordusio SME 2008-1 | EIF | Italy | 254.2 |
| CoSMO Finance 2008 | EIF | Germany | 10.0 |
| Fonds de Participation | EC | Belgium | 22.2 |
| KfW Bankengruppe | EC | Germany | 146.0 |
| Microbank La Caixa | EC | Spain | 98.3 |
| Park Mountain Lease 2008-I | EIF | Multi-country | 109.9 |
| Pharma Finance 3 | EIF | Italy | 13.8 |
| ProCredit Bulgaria | EIF | Bulgaria | 20.0 |
| ProCredit Serbia 2008-1 | EIF | Serbia | 50.0 |
| Raiffeisen Leasing Polska | EIF | Poland | 33.5 |
| Rete Fidi Liguria | EIF | Italy | 88.4 |
| S-Core 2008-1 | EIF | Germany | 44.4 |
| SIAGI | EC | France | 48.8 |
| Slovene Enterprise Fund | EC | Slovania | 16.5 |
| SOCAMA | EC | France | 575.0 |
| UniCredit Bank Hungary | EC | Hungary | 35.0 |
| Zephyros Finance | EIF | Italy | 150.0 |
| Total | | | 2 142.9 |

# Case study
# Zephyros Finance

## Background

EIF guaranteed EUR 150m of senior asset-backed notes issued by Zephyros Finance Srl, an Italian securitisation vehicle. The securitised portfolio consists of small ticket financial leases to SMEs originated by Commercio e Finanza S.p.A, a small and dynamic leasing company targeting SMEs as core clients and belonging to a regional mid-sized bank, Cassa di Risparmio di Ferrara.

## Transaction profile

The initial portfolio of EUR 381m consists of 8 340 lease contracts to SMEs operating in the South of Italy and in particular in the Campania region (25%), where the originator is based.

The transaction is a good example of the role that EIF can play in enhancing access to finance to SMEs through market-oriented SME securitisation transactions. It also underlines EIF's support to a regional originator operating in an Objective I area, where the levels of economic disparities and economic developmental needs are more pronounced.

With the EIF wrap it was possible to place the full amount of the guaranteed notes with market investors and to obtain medium-term funding for the originator's ongoing leasing operations.

## Added value

- Facilitating access to capital markets for the originator which intends to use the proceeds of the transaction to continue developing its SME financing activity;
- given the current market conditions, EIF's involvement sends a strong, positive signal to market participants as to the ongoing EIF support for SME financing and the viability of publicly placed SME securitisation transactions;
- a large portion of the leases are to SMEs operating in the South of Italy, an Objective I region;
- the nature of the originator Commercio e Finanza, a small and dynamic leasing company targeting SMEs as core clients and belonging to a regional mid-sized bank, Carife;
- the envisaged replenishment features, which will allow the originator to include further leases in the securitised pool during the revolving period.

## Notes

The EIF guarantee is in the form of a wrap covering timely payment of interest and ultimate repayment of principal of Class A1 Notes. Both classes of senior notes (A1 and A2) are rated Aaa/AAA by Moody's and Fitch.

# Case study MicroBank

## Background

Microcredit is an essential start-up tool for helping entrepreneurs create and develop their own businesses.

EIF first partnered with MicroBank (a subsidiary of "la Caixa" – the largest savings bank in Europe), in a microcredit deal providing access to finance to micro-enterprises in Spain, in 2006. EIF and MicroBank recently signed a new agreement with a guarantee amount of EUR 98m, under the European Union's (EU) Competitiveness and Innovation Framework Programme (CIP).

## Profile

MicroBank is a social bank, primarily providing microcredit – through a network of 5 500 branches of "la Caixa" – and mentoring services to applicants with limited access to finance helping them to set up or develop their own business. A large number of its customers are micro-entrepeneurs, unemployed or receiving social revenues.

MicroBank provides loans of up to EUR 25 000 to be reimbursed within a maximum time period of seven years. Entrepreneurs not only get a loan, but can also rely on free of charge mentoring services to finalise business plans, cope with administrative formalities, accounting requirements or to give them business advice through MicroBank's partner bodies. MicroBank also created the internet based mentoring platform "the virtual campus".

## Added value

- The CIP guarantee risk-sharing agreement will contribute to enhance MicroBank lending capacity to the benefit of microcredit borrowers;
- the combination of funding and mentoring services allows a high level of loan reimbursement and success rate of micro-projects.

## Notes

EIF's goal is to make microfinance a fully-fledged segment of the European financial sector, alongside the more traditional ways of banking. EIF has an essential role to play in pursuing the development of microfinance throughout the enlarged Union, thus pursuing core EU objectives such as entrepreneurship, growth and job creation.

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# 4 Regional Business Development

JEREMIE: Joint European Resources for Micro to Medium Enterprises

# JEREMIE implementation

## EUR 704m signatures at 31 December 2008

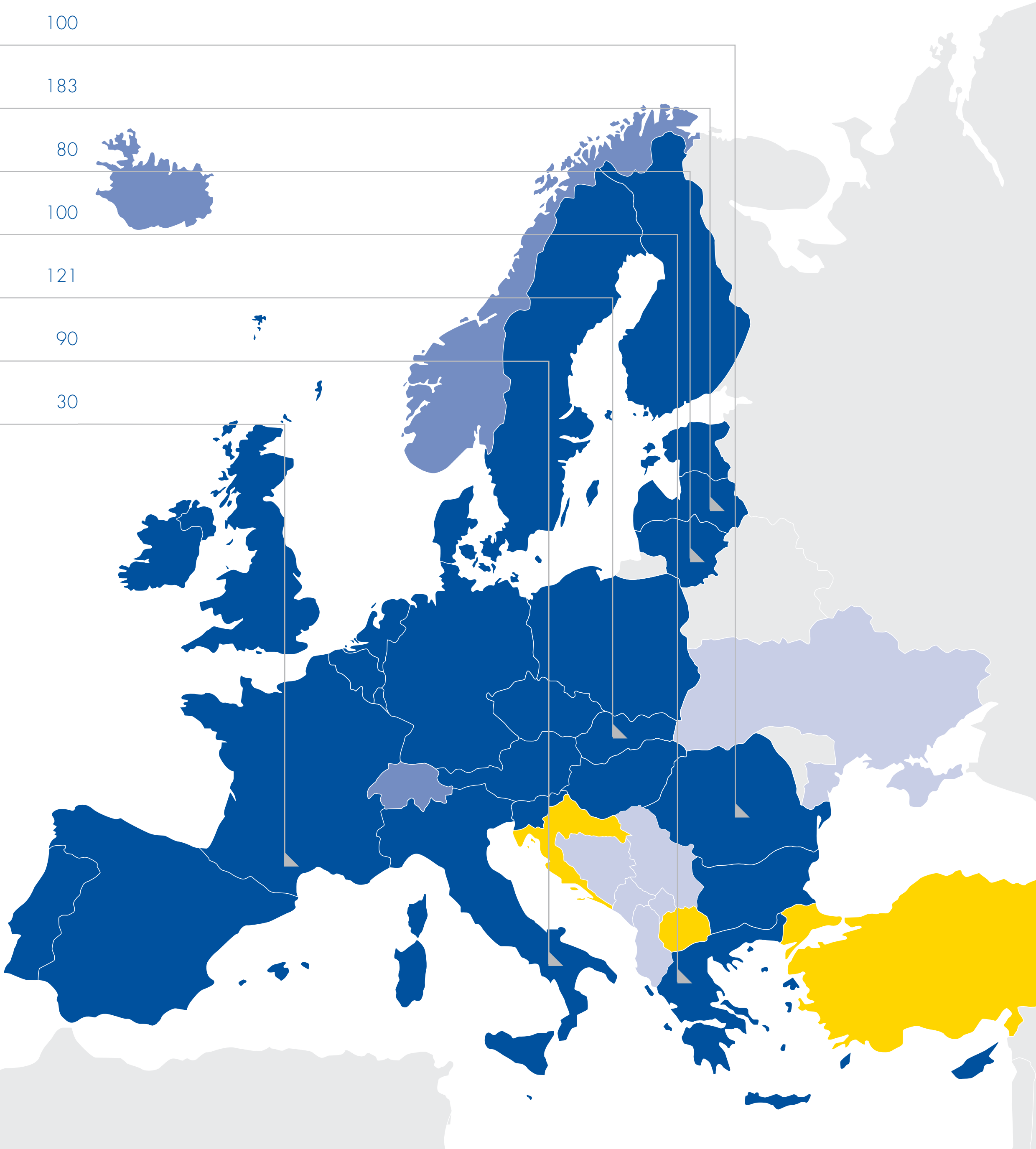
EU 27

Candidate Countries

EFTA Countries

Multi-Country / Other

| | EURm |
|---|---|
| Romania | 100 |
| Latvia * | 183 |
| Lithuania | 80 |
| Greece | 100 |
| Slovakia | 121 |
| Italy (Campania) | 90 |
| France (Languedoc-Roussillon) | 30 |



* The Project Steering Committee of the JEREMIE Holding Fund for Latvia expressed an intent to reduce the size of the funding to EUR 91.5m on 30 January 2009. Slovakia Framework Agreement signed on 22 December 2008 for EUR 121.2m.

# JEREMIE state of play

The JEREMIE ("Joint European Resources for Micro to Medium Enterprises") initiative offers EU Member States, through their national and regional Managing Authorities, the opportunity to use part of their EU Structural Fund allocation to indirectly finance SMEs, through financial intermediaries, by means of equity, loans or guarantees, through revolving Holding Funds. In accordance with the structural funds regulations, these Holding Funds can be managed either by the EIF or national institutions.

EIF partnered with the European Commission, represented by DG REGIO, in 2006 to prepare the ground for this initiative and that partnership remains strong today. The first steps of the initiative included assessing the demand for SME financial instruments in regions and Member States (evaluation studies), assisting Managing Authorities in the programming phase of the cohesion policy and advising interested Managing Authorities on practical arrangements for the implementation of these JEREMIE funds.

By end 2008, EIF finalised 53 national and regional evaluation studies, marking the end of the evaluation and preparatory phase of the initiative.

The main JEREMIE benefits are:

- **Flexibility**: Contributions from the Operational Programmes to the JEREMIE Holding Fund will be eligible for interim up-front payments by EU Structural Funds, giving Managing Authorities more flexibility in allocating these resources. Structural Fund contributions to the Holding Funds must be invested in SMEs by 2015.

- **Benefits of a portfolio approach**: The Holding Fund will be able to re-allocate the resources to one or more financial products in a flexible way, depending on the actual demand over time. The umbrella fund approach will allow a diversification of risks and expected returns due to financial products having different default rates, as well as active cash flow management to allow for a swift response to changing market requirements.

- **Recycling of funds**: The Holding Fund is of a revolving nature, receiving repayments from the financial intermediaries for further investments in the SME sector. This makes SME support via EU Structural Funds sustainable, unlike the pure grant approach.

- **Leverage**: A significant implied advantage of JEREMIE is its potential ability to engage the financial sector either at the Holding Fund level, with additional capital from financial institutions, or at the level of financial instruments, through co-financing, e.g. in both cases potentially in cooperation with the EIB.

- EIF's expertise as a Holding Fund manager can be of particular added value in the lesser-developed regions/Member States, where there is a need for capacity-building initiatives and transfer of know-how between local institutions and EIF.

- In those regions where JEREMIE is managed by another body, EIF can also be involved as an adviser, for a wide range of services such as cash flow management of Holding Funds, structure of Holding Funds, product design in line with European Regional Development Fund regulation, reporting and monitoring, corporate governance due diligence/second opinions, setting-up of financial vehicles, etc.

A number of Member States and regions have formalised their cooperation with EIF. To date, JEREMIE agreements have been signed totalling EUR 704m. In 2008, agreements were signed with Romania (EUR 100m), Latvia (EUR 183m*), Lithuania (EUR 80m) and Slovakia (EUR 121m). Two regional agreements were signed, one in France, with Languedoc-Roussillon (EUR 30m), and one in Italy, with Campania (EUR 90m). The JEREMIE Holding Funds, managed by EIF, will provide a wide range of financial instruments for SMEs, such as microcredit, guarantees, venture capital and equity-type instruments, or export-credit insurance.

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5

# Mandate Management, Product Development and Incubation

Pilot products for the future

# JASMINE

JASMINE ("Joint Action to Support Microfinance Institutions in Europe") is a new EU initiative promoted by the European Commission, at the end of 2007, which aims at the development of microcredit for entrepreneurs that are otherwise excluded from the banking sector in the EU.

Within the framework of the initiative, EIF will manage a two-year pilot facility to provide funding (equity and loans) and technical assistance to microcredit providers in the EU and Candidate Countries. For the funding, EIB has already committed EUR 20m through the Risk Capital Mandate (RCM), while technical assistance will be financed by the EC. Overall, the facility is expected to pool more than EUR 50m from a wide range of financial institutions, the European Commission and the European Parliament.

Evaluation studies have been conducted in 2008 to assess the demand and supply for microcredit in 12 EU countries by the European Microfinance Network and the Microfinance Centre, on behalf of the EIF. The overall estimated demand amounts to EUR 6bn in potential microcredit borrowers in the EU *.

Compared to the microfinance markets in South Asia, South America or Africa, the European market is less developed, highly heterogeneous and disposes of limited resources. However, the microcredit landscape of Europe is changing, notably in new Member States and some western countries, usually when the regulatory framework is conducive to this activity, with microcredit institutions aiming at self sustainability, increased microlending capacity and, in some cases, transformation into banks.

Against this background, JASMINE will target a wide range of microcredit providers to adapt to specific market conditions and identify the most suitable structures which will provide the optimal benefit for target microfinance institutions and microentrepreneurs. By equipping those microcredit institutions with state-of-the art internal processes, such as risk management techniques or lending policies, and additional funding capacity, this initiative will contribute to supporting some 10 to 15 microcredit institutions across the EU and help bridge the gap between microcredit providers and the banking sector.



* http://eur-lex.europa.eu/LexUriServ/site/en/com/2007/com2007_0708en01.pdf (p.18)

# Mezzanine

In December 2008, after extensive consultation with market participants, the EIB approved a Mezzanine Facility for Growth mandate asking EIF to invest EUR 1bn in hybrid debt/equity funds over the coming three years.

This facility by nature complements the existing EIF mandates, the EIB Risk Capital Mandate (RCM), the European Commission programmes and all the other mandates managed by the EIF.

The mezzanine facility will enlarge EIF's product offering. It aims at filling the SME or MidCaps financing gap by providing hybrid debt/equity products for the benefit of mature European small companies with strong market positions and further scope for growth, as well as high technology companies in their expansion stage.

EIF's experience as a fund of funds manager promoting best market practice will ensure efficient deployment of the facility.

EIF investment in mezzanine funds will send a positive signal to the markets, directly contributing to the EIB objective of promoting access to finance for companies facing difficulties in raising liquidities.

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# 6 Governance

Governing bodies and key people

# Capital and shareholders *

EIF has an authorised capital of EUR 3 000m, divided into 3 000 shares of EUR 1m each. On 31 December 2008, 135 of these shares were authorised but not yet issued. Of the issued 2 865, EIB held 63.6%, the European Community represented by the European Commission 27.4% and a number of European banks and financial institutions 9%. It is planned that the EU will gradually increase its shareholding to 30% of the total.

| Country | Financial Institutions | No. of shares |
|---|---|---|
| Austria | | |
| | Bank Austria Creditanstalt AG | 3 |
| | Erste Bank der Osterreichishen Sparkassen AG | 3 |
| | Raiffeisen Zentralbank Oesterreich AG | 3 |
| | Raiffeisen International Bank-Holding AG | 2 |
| Bulgaria | | |
| | Bulgarian Development Bank A.D. | 3 |
| Croatia | | |
| | Croatian Bank for Reconstruction and Development (HBOR) | 5 |
| Denmark | | |
| | Vaekstfonden | 3 |
| | FIH | 8 |
| Finland | | |
| | Finnvera Plc | 6 |
| France | | |
| | Caisse des Dépôts et Consignations (CDC) | 30 |
| | Dexia Credit Local | 10 |
| Germany | | |
| | Kreditanstalt für Wiederaufbau | 68 |
| | Landeskreditbank Baden-Wüttenberg-Förderbank | 8 |
| | LfA Förderbank Bayern | 7 |
| | Nordrhein-Westfalen Bank (NRW.BANK) | 3 |
| | Sächsische Aufbaubank - Förderbank (SAB) | 5 |



* at 31 December 2008

| | | |
|---|---|---|
| **Hungary** | | |
| | Hungarian Development Bank Ltd | 5 |
| **Italy** | | |
| | Dexia Crediop S.p.A. | 5 |
| | IMI Investimenti S.p.A. | 15 |
| | Intesa Sanpaolo S.p.A. | 8 |
| **Luxembourg** | | |
| | Banque et Caisse d'Epargne de l'Etat | 5 |
| | BIP Investment Partners S.A. | 4 |
| **Malta** | | |
| | Bank of Valletta p.l.c. | 8 |
| **Netherlands** | | |
| | NIBC | 3 |
| **Portugal** | | |
| | Banco BPI S.A. | 9 |
| **Spain** | | |
| | Instituto de Crédito Oficial (ICO) | 8 |
| | Agencia de Innovación y Desarrollo de Andalucía (IDEA) | 4 |
| **Sweden** | | |
| | Stiftelsen Industrifonden | 3 |
| **Turkey** | | |
| | Industrial Development Bank of Turkey (TSKB) | 5 |
| **United Kingdom** | | |
| | Barclays Bank PLC | 5 |
| | Scottish Enterprise | 3 |
| **Total** | | **257** |

# Board of Directors *





Philippe MAYSTADT

| | | |
|---|---|---|
| Philippe de FONTAINE VIVE CURTAZ | David McGLUE | Ralph MÜLLER |
| Tytti NORAS | Werner OERTER | Heinz ZOUREK |



* at 24 April 2009

| | |
|---|---|
| **Chairman** | |
| Philippe MAYSTADT | President, European Investment Bank, Luxembourg |
| **Members** | |
| Philippe de FONTAINE VIVE CURTAZ | Vice-President, European Investment Bank, Luxembourg |
| David McGLUE | Former Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg |
| Ralph MÜLLER | Ministerialrat, Leiter des Referates Haushalt der EU und der EIB Gruppe, Bundesministerium der Finanzen, Berlin |
| Tytti NORAS | Legal Counsellor, Ministry of Finance, Helsinki |
| Werner OERTER | Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main |
| Heinz ZOUREK | Director General, Directorate-General for Enterprise and Industry, European Commission, Brussels |
| **Alternates** | |
| Dirk AHNER | Director General, Directorate-General for Regional Policy, European Commission, Brussels |
| Marc AUBERGER | Directeur Général, CDC Capital Investissement, Paris |
| Peter BASCH | Acting Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg |
| Thomas HACKETT | Director General, Directorate for Bank Lending Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg |
| Rémy JACOB | Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg |
| Gaston REINESCH | Director General, Ministry of Finance, Luxembourg |

# Management and key people*


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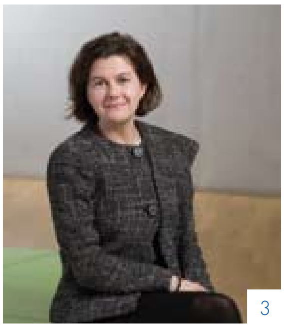
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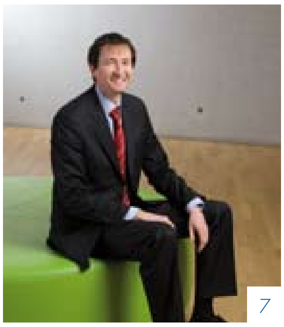
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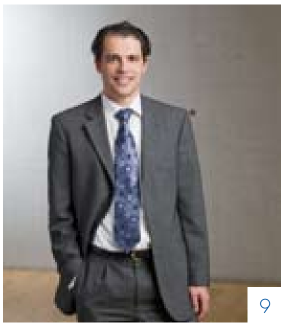
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Chief Executive: Richard PELLY [1]
Deputy Chief Executive: Jean-Marie MAGNETTE [2]
Secretary: Maria LEANDER [3]

Director, Transaction and Relationship Management: John A. HOLLOWAY [4]

## Transaction and Relationship Management (TRM)

Head of Lower Mid-Market: Jean-Philippe BURCKLEN [5]
Principal: Christine PANIER [6]
Head of Venture Capital: Ulrich GRABENWARTER [7]
Deputy Head: David WALKER [8]
Head of ERP Team: Matthias UMMENHOFER [9]
Head of Guarantees and Securitisation: Alessandro TAPPI [10]
Deputy Head: Christa KARIS [11]

## Project and Change Management Office (PCMO)

Management Advisor: José GRINCHO [12]

* at 24 April 2009


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Director, Mandate Management, Product Development and Incubation: Marc SCHUBLIN [13]

Mandate Management, Product Development and Incubation (MMPDI)

Head of Product Development and Incubation: Jacques DARCY [14]

Head of Mandate Management: Birthe BRUHN-LEON [15]

Regional Business Development (RBD)

Head of RBD: Hubert COTTOGNI [16]

Risk Management and Monitoring (RMM)

Head of RMM: Federico GALIZIA [17]

Finance

Head of Finance: Frédérique SCHEPENS [18]

Legal

Head of Legal: Maria LEANDER [3]

Deputy Head: Marco MARRONE [19]

Compliance

Head of Compliance: Jobst NEUSS [20]

# Audit Board *

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

Member: Ortwin KLAPPER
Former Chief Executive Officer,
Bank Austria Creditanstalt Leasing Group

Member: Gabriela PANTRING
Managing Director, Head of Corporate Steering, NRW.BANK, Düsseldorf

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



* at 24 April 2009

# Audit and controls

EIF's principal audit and control mechanisms include both internal and external auditors working under the 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's 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).

In early 2009, EIF's Rules of Procedure were modified to align the description of the Audit Board's remit contained in the Rules of Procedure with the Statutes. This was carried out in order to clarify the conditions under which the Audit Board issues its yearly statement on audited accounts and to clarify the Audit Board's remit regarding audit tasks not referred to in the Statutes.

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 the audit of the participation's value.

In 2008, following the decision by the Audit Board to pursue a common audit firm with EIB (this was made possible by the existence of a termination clause foreseen for this event in the current external audit contract), a Group joint invitation to tender exercise was launched. The EIF Audit Board and the EIB Audit Committee followed the consultation procedure required by their respective Rules of Procedure and the contract was awarded to a new EIB Group external auditor for a period of four years, commencing with the audit of the financial statements of the Fund for year ending 31 December 2009, with a possibility of an extension for no more than three years.

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.

Efforts are being made to close an outstanding issue in connection with a portfolio guarantee provided on behalf of the European Commission, under a mandate granted to EIF. This issue is expected to be resolved, including any financial implication, in the course of 2009.

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.

# Risk management

Risk management is an integral component of the corporate culture at EIF. Though EIF pursues European Union policy objectives, it acts commercially under market conditions with the statutory obligation to ensure an appropriate return for its shareholders. Its businesses require the development of market instruments that entail certain risks. Hence, a risk management mindset needs to permeate all areas of EIF's business functions and processes.

Thanks to this state of organisational risk awareness and readiness, EIF was able to rapidly increase its response as the financial crisis deepened and spread over the course of 2008. At the level of single transactions, monitoring efforts were stepped up. At the portfolio level, more severe structured stress tests were applied and communicated to EIF's governing bodies.

A detailed overview of EIF's risk management activities, the impact of the crisis and the additional risk mitigation measures put in place as a response can be found in section 3 of the notes to the annual accounts for IFRS 7. This section contains further details on EIF's risk assessment for venture capital, portfolio guarantees and treasury activities, covering credit, liquidity and market risks.

In what follows, we restrict ourselves to highlighting the key organisational responsibilities and activities pertaining to risk management. This well established setup has proven valuable in attending to an increasingly difficult external environment.

The senior management for EIF ensures that risk management is implemented according to best practice and "four eyes principle". An independent Risk Management function, the Risk Management and Monitoring (RMM) division, is under the responsibility of the Deputy Chief Executive and directly reports to him. However, the role of risk management at EIF does not rest exclusively with one division. All of EIF's functions are involved in the process, which includes notably a constant collaboration between the RMM division and Transaction and Relationship Management (TRM) on transactions risk-return assessment or pricing.

The main tasks of the RMM division consist in reviewing and facilitating the implementation of new processes and methodologies to access the risk-return profile of the Fund's investment activities. As part of the new investment proposals process, the RMM division performs an independent analysis of each transaction and issues an opinion to the Investment and Risk Committee. In this context, it reviews credit ratings (portfolio guarantees) and expected performance gradings (private equity) assigned by the front office to these investments. RMM is responsible for the monitoring of guarantee activities under the European Commission's mandates. Moreover, RMM performs portfolio reviews for EIF's private equity investments and guarantee instruments.

# EIF Compliance and Operational Risk

Following the modification of EIF's governance structure, the reporting line of the Compliance function was shifted to the Deputy Chief Executive. This direct link to a statutory organ of EIF strengthened the organisational integration and independence of the Compliance function.

As a result of the internal reorganisation, the Compliance function became responsible for the co-ordination of operational risk within the Fund. This task is performed in close co-operation with the EIF Risk Management and Monitoring division and the Operational Risk function in EIB. The Head of the Compliance function has furthermore assumed the role of the Data Protection Officer.

The remit of the Compliance function follows the principles of the integrity policy of the EIB Group and is based on the standards issued by the Basel Committee on Banking Regulation.

In line with the requirements of the EIF Board of Directors, all transaction proposals submitted to the Board of Directors must contain a compliance position related, at least, to (i) integrity checks on EIF's counterparts and, where applicable, co-investors, (ii) a verification of the regulatory status of EIF's counterparts and (iii) a verification of compliance with the applicable policy guidelines.

It is furthermore part of the remit of the Compliance function to assess the compliance of proposed tenders for supplies, services or works with applicable procurement law. This has become particularly important in the context of the increasing number of Funding Agreements entered into under the JEREMIE initiative.

In 2008, the Compliance function played a key role in relation to various policy proposals which were approved by the EIF Board of Directors:

- the fund of funds guidelines set the framework parameters for the involvement of EIF in fund of funds structures;
- the revised EIF Staff Code of Conduct updated the conduct rules applicable to EIF staff on the basis of the revised Staff Code of Conduct implemented in EIB in 2006;
- the EIF Anti-Fraud Policy set out the principles followed by EIF in relation to fraud, corruption, money laundering and the financing of terrorism and other illegal practices;
- the EIF Offshore Policy explained the assessment standards applied by EIF to investments involving offshore or cross-border elements.
- for the first time, an inventory of operational risk was established for events that occurred in 2007.

The Compliance function was reinforced in 2008 through one additional staff member and a further increase is foreseen for the year 2009 with the recruitment of one post to focus on operational risk and compliance issues.

EIF also provides compliance assessment services to third party mandates managed or advised by the Fund. In this context, specific attention was paid to the establishment of Anti-Money Laundering/Know-Your-Customer procedures for the Spanish fund of funds NEOTEC, in order to align these procedures with the requirements of national law.

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7 IFRS financial statements 2008

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# 7 | Finance

## IFRS financial statements 2008

# Independent Auditor's Report

To the Audit Board of the
EUROPEAN INVESTMENT FUND
96 boulevard Konrad Adenauer 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 31 December 2008, 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.

## 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 the European Investment Fund as of 31 December 2008, 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 and YOUNG
Société Anonyme
Réviseur d'Entreprises

Luxembourg, 10 March 2009

*Olivier Jordant*

*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),

- acting in accordance with the customary standards of the audit profession,
- having designated ERNST & YOUNG Société Anonyme Réviseur d'Entreprises as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- 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 10 March 2009 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 2008,
- having examined and discussed reports and opinions issued by the EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,
- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

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

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- 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 Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 10 March 2009
THE AUDIT BOARD

*Tony Murphy* *Gabriela Pantring* *Ortwin Klapper*

# Balance sheet

## at 31 December 2008

EUR

| Assets | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Cash and cash equivalents | 4.1 | 383 502 584 | 291 604 538 |
| Investments: | | | |
| Debt securities and other fixed income securities | 4.2 | 495 733 011 | 522 470 401 |
| Shares and other variable income securities | 4.3 | 158 714 823 | 167 876 521 |
| | | 654 447 834 | 690 346 922 |
| Non-current assets held for sale | 4.4 | 7 139 812 | 0 |
| Other assets | 4.5 | 28 465 987 | 33 072 223 |
| Intangible assets | 4.6 | 1 869 793 | 1 161 484 |
| Property and equipment | 4.7 | 433 673 | 8 245 595 |
| Total assets | | 1 075 859 683 | 1 024 430 762 |

| Liabilities | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Financial liabilities | 5.1 | | |
| Financial guarantees | | 18 990 527 | 11 439 133 |
| Derivatives | | 2 604 242 | 1 579 264 |
| Provisions for guarantees | 5.2 | 8 983 874 | 5 056 087 |
| | | 30 578 643 | 18 074 484 |
| Retirement benefit obligations | 5.3 | 16 984 934 | 13 232 407 |
| Other liabilities and provisions | 5.4 | 14 223 570 | 7 758 556 |
| Total liabilities | | 61 787 147 | 39 065 447 |

| Equity | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Share capital | 5.5 | | |
| Subscribed | | 2 865 000 000 | 2 770 000 000 |
| Uncalled | | (2 292 000 000) | (2 216 000 000) |
| | | 573 000 000 | 554 000 000 |
| Share premium | | 132 012 377 | 117 909 669 |
| Statutory reserve | 5.6 | 124 490 745 | 104 329 810 |
| Retained earnings | 5.6 | 146 435 341 | 136 353 969 |
| Fair value reserve | 5.7 | 3 022 993 | 22 369 530 |
| Profit for the financial year | 5.6 | 35 111 080 | 50 402 337 |
| Total equity | | 1 014 072 536 | 985 365 315 |
| Total equity and liabilities | | 1 075 859 683 | 1 024 430 762 |

The notes on pages 64 to 127 are an integral part of these financial statements.

# Income statement

## for the year ended 31 December 2008

EUR

| Income statement | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Net interest and similar income | 7.1 | 38 494 827 | 30 231 070 |
| Income from securities | | | |
| Income from investments in shares and other variable income securities | 4.3 | 4 598 262 | 6 674 654 |
| Net income from guarantee operations | 7.2 | 18 492 375 | 21 349 024 |
| Commission income | 7.3 | 23 405 855 | 29 072 382 |
| Net loss on financial operations | 7.4 | (5 081 325) | (1 020 711) |
| Other operating income | | 24 675 | 18 955 |
| General administrative expenses | 7.5 | | |
| Staff costs: | | | |
| - wages and salaries | | (19 241 179) | (17 317 160) |
| - social security costs | | (3 237 576) | (2 130 900) |
| | | **(22 478 755)** | **(19 448 060)** |
| Other administrative expenses | | (7 546 298) | (6 665 063) |
| | | **(30 025 053)** | **(26 113 123)** |
| Depreciation of property, plant and equipment and intangible assets | 4.6; 4.7 | (894 486) | (1 219 062) |
| Impairment losses on available-for-sale investments | | (13 904 050) | (8 590 852) |
| **Profit for the financial year** | | **35 111 080** | **50 402 337** |

The notes on pages 64 to 127 are an integral part of these financial statements.

# Cash flow statement

## for the year ended 31 December 2008

EUR

| A - Cash flow from operating activities | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Profit for the financial year* | | 35 111 080 | 50 402 337 |
| Increase in accrued interest on debt securities | 4.2 | 1 266 700 | 465 186 |
| Interest received from debt securities | | (26 172 698) | (17 648 283) |
| Impairment on debt securities and other fixed income securities | 4.2 | 98 579 | 197 156 |
| Increase in shares and other variable income securities | 4.3 | (23 700 054) | (28 789 755) |
| Impairment on shares and other variable income securities | 4.3 | 13 904 051 | 8 393 697 |
| Depreciation for intangible assets, property and equipment | 4.6; 4.7 | 894 486 | 1 219 062 |
| Increase in other assets | 4.5 | 4 917 312 | (13 149 978) |
| Increase in retirement benefit obligations | 5.3 | 3 752 527 | 3 053 499 |
| Decrease in effective interest rate on debt securities portfolio | | (1 065 404) | (4 187 074) |
| Decrease/(increase) in other liabilities and provisions | 5.4 | 6 465 014 | (1 050 152) |
| Decrease/(increase) in amortization of financial guarantees | | 7 551 394 | (3 788 076) |
| Increase in fair value of Derivatives | | 1 024 978 | 435 564 |
| Provisions for guarantees | | 3 927 787 | 0 |
| Net cash from operating activities | | 27 975 752 | (4 446 817) |

| B - Cash flow from investing activities | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Purchase of intangible assets | 4.6 | (998 769) | (892 952) |
| Net movements on purchase of property, plant and equipment | 4.7 | (242 993) | (289 576) |
| Interest received from debt securities | | 26 172 698 | 17 648 283 |
| Decreases/(increases) in debt securities and other fixed income securities | | 26 048 680 | (12 990 590) |
| Net cash from investing activities | | 50 979 616 | 3 475 165 |

| C - Cash flow from financing activities | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Dividends paid | 5.6 | (20 160 030) | (19 430 000) |
| Capital increase | | 33 102 708 | 259 139 527 |
| Net cash from financing activities | | 12 942 678 | 239 709 527 |

| Summary statement of cash flows | Notes | 31.12.2008 | 31.12.2007 |
|---|---|---|---|
| Cash and cash equivalents at beginning of financial year | | 291 604 538 | 52 866 663 |
| Net cash from | | | |
| Operating activities | | 27 975 752 | (4 446 817) |
| Investing activities | | 50 979 616 | 3 475 165 |
| Financing activities | | 12 942 678 | 239 709 527 |
| Cash and cash equivalents at the end of financial year | 4.1 | 383 502 584 | 291 604 538 |

The notes on pages 64 to 127 are an integral part of these financial statements.



* Profit for the financial year includes dividends received of EUR 4 598 262 (2007: EUR 6 674 654)

# Statement of changes in equity

## for the year ended 31 December 2008

EUR

| | Note | Subscribed capital | Callable capital | Share capital | Share premium | Statutory reserve | Retained earnings | Fair value reserve | Profit for the year before appropriation | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|
| Balance as at 01.01.2007 | | 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 | 692 519 687 |
| Appropriation of prior year's profit inc. dividend | 5.6 | 0 | 0 | 0 | 0 | 19 430 186 | 9 715 280 | 0 | (48 575 466) | (19 430 000) |
| Share issue | 5.5 | 770 000 000 | (616 000 000) | 154 000 000 | 105 139 527 | 0 | 0 | 0 | 0 | 259 139 527 |
| Fair value reserve | 5.7 | 0 | 0 | 0 | 0 | 0 | 0 | 2 733 764 | 0 | 2 733 764 |
| Profit for the year | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 50 402 337 | 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 | 985 365 315 |
| Appropriation of prior year's profit inc. dividend | 5.6 | 0 | 0 | 0 | 0 | 20 160 935 | 10 081 372 | 0 | (50 402 337) | (20 160 030) |
| Share issue | 5.5 | 95 000 000 | (76 000 000) | 19 000 000 | 14 102 708 | 0 | 0 | 0 | 0 | 33 102 708 |
| Fair value reserve | 5.7 | 0 | 0 | 0 | 0 | 0 | 0 | (19 346 537) | 0 | (19 346 536) |
| Profit for the year | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 35 111 080 | 35 111 080 |
| Balance as at 31.12.2008 | | 2 865 000 000 | (2 292 000 000) | 573 000 000 | 132 012 377 | 124 490 745 | 146 435 341 | 3 022 993 | 35 111 080 | 1 014 072 536 |

The notes on pages 64 to 127 are an integral part of these financial statements.

# Notes to the accounts

for the year ended 31 December 2008 (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 96, boulevard Konrad Adenauer, L-2968 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 two candidate countries. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from 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 2009.

# 2. Significant accounting policies and basis of preparation

## 2.1 Basis of preparation

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

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.

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) as adopted by the European Union.

### Changes in presentation

The accounting policies adopted are consistent with those used in the previous year. Compared to the previous year, changes have been made in the presentation and classification of the guarantees (Note 5.1) and the foreign exchange impact on impaired available-for-sale investments (Note 4.3):

- Guarantees operations which were disclosed on a gross basis in the caption "Financial Guarantees receivables" on the assets side of the balance sheet and in the caption "Financial Guarantees payables" on the liabilities side of the balance sheet as of 31 December 2007, are presented on a net basis as of 31 December 2008. For comparative purposes the same presentation was applied as of 31 December 2007.

The change of presentation has the effect of reducing the total assets by EUR 66 210 505 (2007: EUR 48 592 549). The change has no impact on the income statement and on the statement of changes equity as of 31 December 2008 and 31 December 2007. In addition, a change in the disclosure of Derivatives operations at 31 December 2007 in the balance sheet has been made and has resulted in the reclassification of EUR 435 130 from caption "Assets" to "Liabilities".

- Foreign exchange impact on impaired available-for-sale investments which was accounted for in the caption "net loss on financial operations" as of 31 December 2007 are integrated in the caption "impairment losses on available-for sale investments" as of 31 December 2008. For comparative purposes the same presentation was applied as of 31 December 2007.

The change of presentation has the effect of a transfer of EUR 1 443 626 (2007: EUR 888 169) from "net loss on financial operations" to "impairment losses on available for sale investments". The change has no impact on the balance sheet, the statement of changes in equity and on profit for the financial year.

## 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 recognized in the income statement or within the equity reserves. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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.

#### 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 the income statement.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method and 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 financial assets, 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 SECURITIES

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) Fair value considerations:

Under the valuation technique, the fair value of venture capital (VC) 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 Centure Capital Valuation Guidelines, IPEV Guidelines, as published by the EVCA) and more detailed monitoring and review will be required.

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 IPEV Guidelines for which a specific review is performed to ensure that the NAV is a reliable estimate 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 estimate 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.

Although it is assumed for category I that the NAV is a reliable estimation of the fair value and specific review is performed for categories II and III, it must be stated that underlying investments have been estimated in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation and current market conditions, actual results in the future could differ from the fund manager's estimate of values and the difference may be material to the financial statements.

From a risk management perspective, the EIF has developed over the last years, a tool-set to design, manage and monitor VC fund portfolios. This tool-set is based on an internal model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort supported by the development of a proprietary IT system and integrated software (front to back) improves the investment decision process and the management of portfolio's financial risks and of liquidities.

EIF's internal grading methodology allows determining 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 |

The peer group is defined as the group of funds that have the same risk profile and exposure as the graded fund.

### 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. |

**b)** Impairment considerations:

Investments in shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence of impairment. On each official reporting date, the EIF analyses unrealised losses for impairment so as to determine whether they shall be recognised as impairment losses in the income statement or as changes in the fair value reserve.

The decline in value will be estimated as significant or prolonged when funds are graded P-D. In addition EIF defines quantitative thresholds for assessing what is significant and what is prolonged which allows the classification of the funds as follows:

- funds with no indication of impairment;
- funds with an indication of potential impairment which are reviewed for impairment by the Fund Risk committee;
- funds showing an objective evidence of impairment

Investments belonging to category III are valued at cost less impairment. When an investment falls under this category, 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" or in the "Available-for-Sale portfolio";
- money market instruments and long-term debt instruments with remaining maturities of less than three months are included in the "Operational 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.

### 2.3.4 INVESTMENT IN INTERESTS 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).

EIF has elected to use the venture capital and similar entities exemption and not consolidate under this exemption. In this case, the holdings 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 of the obligation to pay 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.

Subsequent to initial recognition, Financial 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 guarantee operations".

### 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 whose value changes in response to the change in a specified underlying, 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 acts as guarantor 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 Other assets

Other assets include the funds designated to cover the pension liability and accrued commission income which have been classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

## 2.6 Property and equipment and intangible assets

### 2.6.1 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 |

### 2.6.2. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost minus accumulated amortisation and impairment losses. Property and equipment are reviewed for indications of impairment at the balance sheet date.

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

| | |
|---|---|
| Fixtures and Fittings: | 3 to 10 years |
| Office Equipment: | 3 to 5 years |
| Computer Equipment and Vehicles: | 3 years |

### 2.6.3 NON CURRENT ASSETS HELD FOR SALE

Non-current assets classified as held for sale include assets reclassified from property and equipment for which the sale is highly probable and the asset is available for immediate sale in its current condition. They are classified as held for sale as their carrying amounts will be recovered through a sale transaction rather than through continuing use and are measured at the lower of carrying amount and fair value less costs to sell.

## 2.7 Employee benefits

### 2.7.1 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.

### 2.7.2 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.

### 2.7.3 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 the caption "Staff Costs", resulting in a provision for the estimated liability at the balance sheet date.

## 2.8 Other liabilities and provisions

Other liabilities are classified according to the substance of the contractual arrangements entered into. Trade payables are non-interest bearing liabilities and are stated at amortised cost.

Provisions are recognised when the EIF has a present obligation, legal or constructive, as a result of a past event, and it is probable that the EIF will be required to settle that obligation.

## 2.9 Net interest income and expenses

Interest income and interest expenses 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.

## 2.10 Net income from guarantee operations

Net income from guarantee operations and guarantee commissions mainly includes:

- guarantee commissions received on Derivatives contracts and net income arising from changes in the fair value of Derivatives;
- interest income on the discounting of the expected premium inflows and any amortisation of the Financial Guarantees.

## 2.11 Commission income

This caption 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 over the period in which the service is provided.

## 2.12 Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established. They are included in the caption income from investments in shares and other variable income securities.

## 2.13 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 in other administrative expenses 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.

## 2.14 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 judgments are continually evaluated and based on historical experience and other factors. Actual results may differ from those estimates and judgmental decisions.

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments and estimates are applied for the fair value of Financial Guarantees and Derivatives as well as for the equity investments. Further details are included in the below notes.

Judgments 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;
- other provisions (see note 2.8);
- actuaries' assumptions related to the measurement of pension liabilities (see note 2.7.1 and 5.3).

Estimates: Post-retirement benefits

The costs of the defined benefit plan and the post-retirement medical plan as well as the present value of the post-retirement benefits are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

## 2.15 Changes in accounting policy

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 IFRIC interpretation during the year. Adoption of this revised interpretation did not have any effect on the financial performance or position of the Fund. They did however give rise to additional disclosures.

The principal effect of this change is as follows:

IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The interpretation addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. The EIF has amended its policy accordingly. The EIF's post retirement benefit plans are unfunded as defined by IFRS and so the interpretation has no impact on its financial position.

The following new standards and interpretations were issued with an effective date for financial periods beginning on or after 1 January 2008 but are not applicable to the Fund:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions;
- IFRIC 12 Service Concession Arrangements

The following IFRS and IFRIC interpretations were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. When applicable to the Fund, the Fund plans to adopt this interpretation at the date of endorsement by the European Union and does not anticipate any significant impacts on its financial statements.

- IFRS 2 Share-based Payment (revised);
- IFRS 8 Operating Segments;
- IFRIC 13 Customer Loyalty Programmes;
- IAS 23 Borrowing Costs (revised);
- Improvements to IFRSs issued in May 2008 by the IASB:

  › IAS 1 Presentation of Financial Statements
  › IAS 16 Property, Plant and Equipment
  › IAS 23 Borrowing Costs
  › IAS 28 Investment in Associates
  › IAS 31 Interests in Joint Ventures
  › IAS 36 Impairment of Assets
  › IAS 38: Intangible Assets

# 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.

An independent Risk Management and Monitoring (RMM) division reports directly to the Deputy 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 three teams: a Venture Capital (VC) Risk Management team, a Portfolio Guarantees and Securitisation (G&S) Risk Management team and a Monitoring and Administration (MA) team covering both business lines. 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, iVCi and PVCi).

RMM's functions include 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 are 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 G&S 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 front office;
- issues independent opinions on all transaction proposals;
- independently reviews internal ratings (G&S)/grades (VC) assigned by front office;
- applies stress testing scenarios on both portfolios; and
- checks limits.

The Investment and Risk Management Committee chaired by the Deputy Chief Executive is responsible for reviewing the portfolio and on an ad-hoc basis to approve transactions prior to the Board.

## 3.2 The international financial crisis – impact on EIF's activities

### Guarantees

EIF's own risk portfolio, due to its wide diversification, is likely to be impacted by the systemic risks stemming from the expected deterioration of the European credit and economic environment. Banks are becoming more reluctant to lend and are tightening their lending criteria. This bank behaviour is expected to have negative effects on SME access to finance and more generally on the business cycle.

EIF expects SME default rates to increase significantly – also considering that recent default rate levels have been well below historical default rates.

Additional negative impacts are also expected with regard to recovery rates and as a result of the negative correlation between default and recovery rates.

EIF's guarantees are valued as "marked-to-model". The main impact on the valuation stems from the assigned rating and the possible subsequent rating changes.

EIF has increased its monitoring efforts to identify potential negative rating migrations in a timely manner. The improvement of the monitoring is a continuous process and addresses nonetheless the current financial crisis.

EIF has strengthened the stress testing methodology, i.e. its scenario analysis with regard to portfolio rating movements and related impacts on capital allocation, expected losses, as well as on the P&L.

### Venture capital

EIF's own risk VC portfolio, due to its wide diversification, is likely to be impacted by the market risks stemming from the deterioration of the European economies and public markets.

EIF's VC investments are valued according to best market practice and applicable industry valuation guidelines.

EIF has intensified its monitoring done on the valuations reported by VC fund managers, but also on other specific risks linked to the current crisis. EIF has also run more stringent stress test scenarios on its VC funds portfolios to assess the impact of a worsening and/or continuation of the current crisis.

### Treasury

EIF Treasury management has benefited from the same measures taken by the EIB to manage its portfolio during the financial crisis (EIF treasury management is outsourced to EIB under a treasury management agreement).

Since the beginning of the credit and liquidity crisis in early August 2007, specific risk mitigation still in force today-have been put in place in line with those implemented for the EIB:

- suspension of the riskiest investments (ABSs, RMBS) and greater selectivity in the choice of investments;
- monitoring of the performance of the markets;
- reducing the maturity of the investments and, in line with the investment guidelines, suspension of credit limits of counterparties impacted by rating downgrades.

In this context and in line with the asset management guidelines, disposal decisions were taken in relation to the downgrading of securities held in the portfolio, with certain losses incurred.

Organisationally within the EIB and EIF, action was taken to set up inter-Directorate working parties and management committees with a view to facilitating communication and rapid reaction at times of financial market instability.

## 3.3 Venture capital

### 3.3.1 BACKGROUND

EIF is a fund of venture capital funds, taking equity participations in funds. EIF's minority stakes in funds have catalyzed commitments from a wide range of investors. EIF's VC operations are mainly focused on early-stage and seed capital. However, the portfolio is also expanding in well-established mid- and later-stage investments, which, generally speaking, have a lower risk profile.

#### Valuation review under IFRS

Part of the monitoring is the valuation review of VC funds under IFRS. This process includes different steps to get to 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 best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:

    - "Flash reviews" of regular financial reporting received from VC funds;
    - monitoring visits;
    - any significant information with potential evaluation impact;
    - subsequent events reviews.

- 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.
- Risk Committee: this committee comprises the Chief Executive, the Deputy Chief Executive, the Head of front office, the Head of risk management and the Head of finance. The committee approves the impairment classification.

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

### 3.3.2 PORTFOLIO OVERVIEW

#### All mandates

At the end of 2008, EIF's total cumulative VC investments amounted to EUR 4.5bn in terms of commitments. The investments were made in 299 funds and helped mobilize total capital of over EUR 27.89bn with other investors. The majority of EIF's VC 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. EIF also manages VC investments on behalf of the EC under G&E, MAP and since recently CIP mandates. The cumulative portfolio that EIF manages on behalf of EC was EUR 421m at the end of December 2008.

EIF has also put in place joint investment facilities with five public and/or private partners.

#### EIF own resources

At the end of 2008, own-risk VC commitment (i.e. commitments given to underlying funds to invest) amounted to EUR 411m (2007: 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 VC 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 then no specific rights (or obligations) to EIF. All of EIF's risk existing from its own-risk VC operations is fully covered by shareholders' equity. As a subceiling, VC commitments may not exceed 50% of shareholders' equity, equivalent to EUR 498 502 555 at year-end 2008. Of the EUR 411m of own-risk funds committed at that time, EUR 272m had been disbursed. VC investments are evaluated quarterly according to the best market practice industry valuation guidelines. Following the methodology described in the note 3.3.1, 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 178m (vs. EUR 164m at the end of 2007) are valued at EUR 159m in EIF's 2008 balance sheet (vs. EUR 168m at the end of 2007).

### 3.3.3 SIGNIFICANCE OF FINANCIAL INSTRUMENTS FOR FINANCIAL POSITION AND PERFORMANCE

#### Activities

In terms of EIF VC portfolio activities, the year 2008 presents a decrease for the figures (signatures, disbursements and reflows):

EIF yearly cash flow activity (in EURm)

| | Signatures | Disbursements | Capital repayments | Income and dividends |
|---|---|---|---|---|
| 31.12.2008 | 18.9 | 38.5 | 15.3 | 4.6 |
| 31.12.2007 | 70.6 | 47.6 | 18.9 | 6.7 |

The proportion of funds considered as impaired have increased from 14% to 23% of the EIF portfolio (see table) based on committed funds.

VS assets not impaired vs. impaired (in EURm) — Signatures

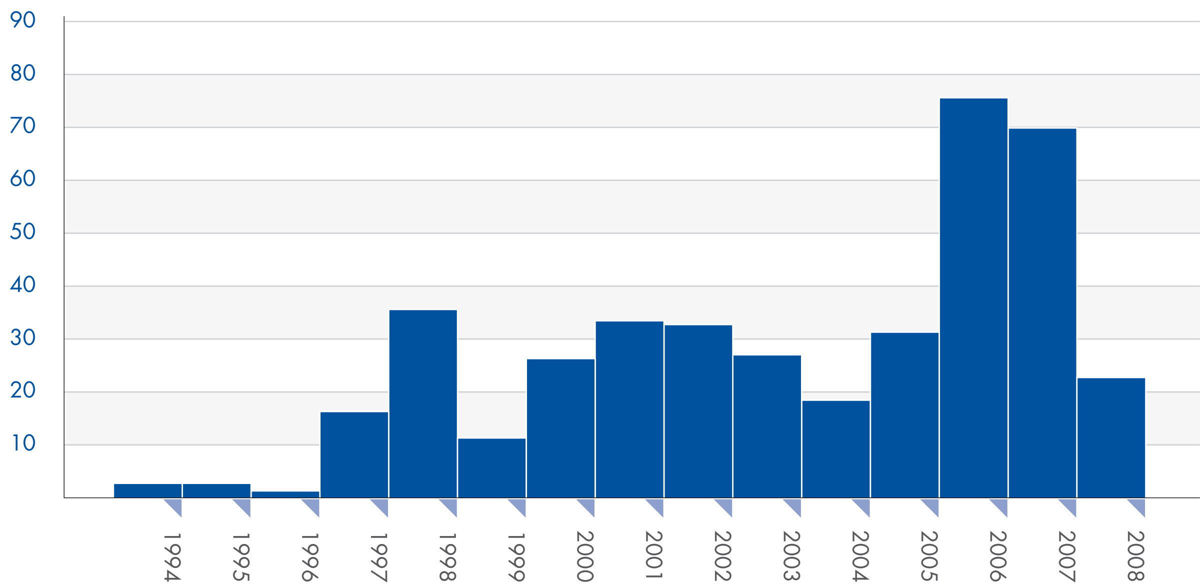
| Funds | Dec 2007 | Dec 2008 | +/- |
|---|---|---|---|
| Not impaired | 347.0 | 309.2 | -8.91% |
| Impaired | 56.3 | 91.6 | +62.8% |
| Impaired (%) | 14% | 23% | |

### Diversification

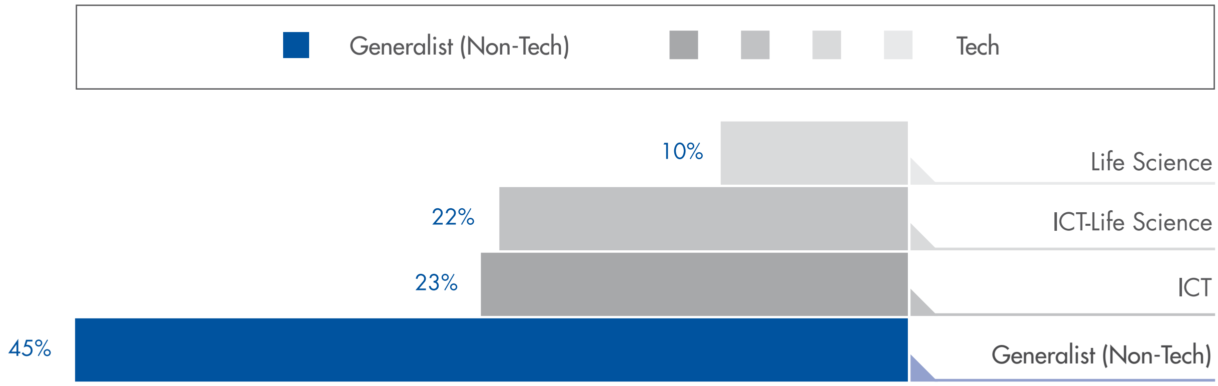
EIF own resource portfolio can be considered as well diversified. As of 31 December 2008, EIF has committed EUR 411m in 168 private equity funds with the biggest exposure amounting to EUR 15m (4% of total signatures). These PE funds have invested in more than 1 400 underlying portfolio companies.

In terms of vintage year, sector and stage the portfolio is well balanced, illustrated by the followings split by signature as at 31 December 2008:

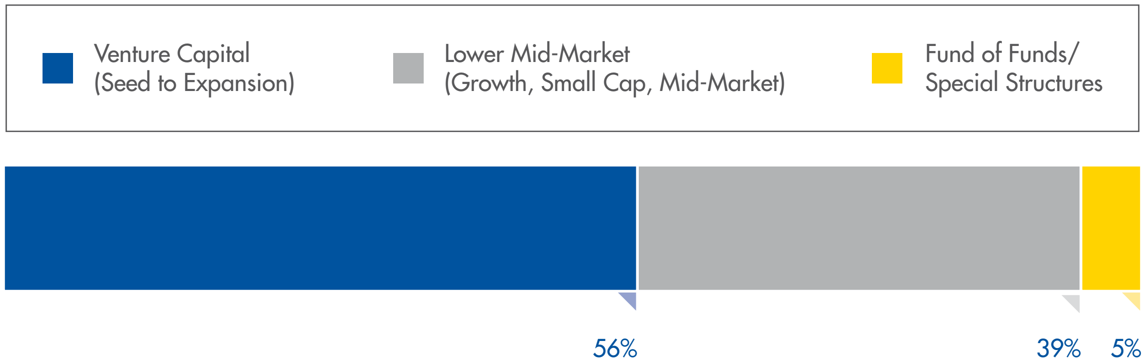
Vintage year (signatures in EURm)



Split per sector (signatures) in percentage




Split per stage (signatures) in percentage




Finally, in terms of maturity, the EIF portfolio is still young. Its commitment weighted average age has increased from 4.2 years in 2007 to 5 years in 2008.

## 3.4 Portfolio Guarantees and Securitisation ("G&S")

### 3.4.1 BACKGROUND

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

For its G&S 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, G&S, within the Transaction and Relationship Management 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 taken into consideration the Basel II ideas. These rules have now been tailor-made in line with the Basel II framework.

The implementation of the Ratings Based Approach (RBA) for EIF's G&S exposures has been done under the technical assistance of the "Commission de Surveillance du Secteur Financier" (CSSF) and in close cooperation with the EIB.

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. For each of the input variables a trigger value is defined and the internal rating model is re-run when the transaction performance triggers those limits.

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 G&S transactions are monitored regularly. The monitoring process includes:

- ongoing risk review of each existing G&S 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 G&S operation in terms of its performance compared to ex-ante estimates set prior to signature of the operation;
- apply rating stress testing scenarios and assess 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. The potential downgrades are followed-up by a Watch List Operation Committee (consisting of staff from the G&S Division, RMM and the Legal Service) which proposes actions to the Investment and Risk Management Committee;
- analysis of the Guarantee Portfolio as a whole (Portfolio Review);
- on-site monitoring visits;
- valuation of G&S in line with IFRS accounting rules (Financial Guarantees and Derivatives).

### 3.4.2 PORTFOLIO OVERVIEW

Of the EUR 12.3bn G&S exposure at risk at the end of 31 December 2008, EUR 3.8bn (of which outstanding is EUR 3.7bn) (31%) are for “own risk” activities. The remaining EUR 8.5bn (69%) relate to “trust” activities on behalf of the EC. These trust activities include EUR 4.8bn under MAP, EUR 2.4bn under the SME Guarantee Facility (SME GF) and EUR 1.3bn under CIP.

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

- Credit Enhancement products accounted for 96.1% of total own-risk outstanding guarantees (EUR 3.58bn) as of end 2008. Credit enhancement is EIF’s core own-risk guarantee activity, accounting for EUR 834m of own-risk signatures in 2008. 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 3.4% of all own-risk outstanding guarantees (EUR 127.2m) as of end 2008. In these cases, the fund guarantees up to 50% of a loan or loan portfolio extended to SMEs by a financial institution. 24% of this portfolio (EUR 30.6m) 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 17.7m) at end 2008. 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.

### 3.4.3 PORTFOLIO QUALITY AND PERFORMANCE

End of 2008, the quality of the overall portfolio related to the number of transactions was at investment-grade level (90 % against 89.2 % at end 2007). The weighted average internal rating was Baa2 (of which 75 % was confirmed by rating agencies and the remaining relied on EIF's internal rating). A very low level of exposure to SIVs represented the riskiest portion of the portfolio, carrying an average internal rating of Ba1, while the safest guarantee facilities were Credit Insurance (A1) and Credit Enhancement (Baa2+).

At the end of 2008, 86% of the transactions reviewed had a "neutral" outlook ("performance as expected"); 14% transactions had a negative outlook and 5 transactions were downgraded.

The total exposure at risk (commitment less repayments) for EIF's own risk guarantees amounts to EUR 3.8m with the following split:

| | Weighted | Average Rating | Exposure at risk (commitment minus repayment in EURm) | | % of total | |
|---|---|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Credit Enhancement | Baa2 | Baa1 | 3 658 | 3 367 | 95.30% | 93.34% |
| Credit Insurance | A1 | A2 | 160 | 212 | 4.17% | 5.86% |
| SIV | Ba1 | Ba1 | 17 | 25 | 0.45% | 0.70% |
| Defaulted | D | D | 3 | 3 | 0.08% | 0.10% |
| **Total** | | | **3 838** | **3 607** | **100%** | **100%** |

In 2008, no new contract was classified as defaulted. During the year 2008, guarantees have been called on 6 deals for a total amount paid of EUR 0.4m. The portfolio's overall weighted average life was stabilised at 4.7 years at end 2008, compared with 4.9 years at end 2007.

## 3.5 Treasury

### 3.5.1 BACKGROUND

Treasury management has been outsourced to EIB under a treasury management agreement and is carried out according to EIF treasury guidelines.

EIF's operations are not cash based but rather use 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, PE commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk (see also section 3.1 on special risk mitigation measure adopted in the context of the financial crisis).

### 3.5.2 PORTFOLIO OVERVIEW

The treasury portfolio is split into four distinct sub-portfolios:

- the operational portfolio (containing short-term instruments);
- the investment portfolio and available-for-sale portfolio (made up of long-term debt instruments; floating-rate and fixed rate instruments);
- a cash portfolio.

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Cash portfolio | 30 543 163 | 21 874 539 |
| Operational portfolio | 352 959 421 | 269 729 999 |
| | 383 502 584 | 291 604 538 |
| Investment and available-for-sale portfolio | 495 733 011 | 522 470 401 |
| **Total treasury portfolio** | **879 235 595** | **814 074 939** |

The portfolio's average maturity is 2.66 years (2007: 3.79 years). In recent years, the EIF core business has surpassed treasury as the main income provider, accounting for 55% of total income in 2008 (2007: 66%).

## 3.6 Nature and extent of risks arising from financial instruments

The following tables provide information relating to the categories of financial instruments:

EUR

| 31.12.2008 | Loans and receivable | Fair value through profit and loss | Available for sale | Financial guarantees | Non-financial assets/ liabilities | Total | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 383 502 584 | 0 | 0 | 0 | 0 | 383 502 584 | 383 502 584 |
| Investments: | | | | | | | |
| Debt securities and other fixed income securities | 0 | 0 | 495 733 011 | 0 | 0 | 495 733 011 | 495 733 011 |
| Shares and other variable income securities | 0 | 2 625 429 | 156 089 394 | 0 | 0 | 158 714 823 | 158 714 823 |
| Non current assets held for sale | 0 | 0 | 0 | 0 | 7 139 812 | 7 139 812 | 7 139 812 |
| Other assets (note 4.5) | 10 632 934 | 0 | 0 | 0 | 17 833 053 | 28 465 987 | 28 465 987 |
| **Total assets** | **394 135 518** | **2 625 429** | **651 822 405** | **0** | **24 972 865** | **1 073 556 217** | **1 073 556 217** |
| Financial liabilities | | | | | | | |
| Financial guarantees | 0 | | 0 | 18 990 527 | 0 | 18 990 527 | 18 990 527 |
| Derivatives | 0 | 2 604 242 | 0 | 0 | 0 | 2 604 242 | 2 604 242 |
| Provisions for guarantees | | | | | 8 983 874 | 8 983 874 | 8 983 874 |
| **Total liabilities** | **0** | **2 604 242** | **0** | **18 990 527** | **8 983 874** | **30 578 643** | **30 578 643** |

EUR

| 31.12.2007 | Loans and receivable | Fair value through profit and loss | Available for sale | Financial guarantees | Non-financial assets/ liabilities | Total | Fair value |
|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 291 604 538 | 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 | 522 470 401 | 522 470 401 |
| Shares and other variable income securities | 0 | 1 599 263 | 166 277 258 | 0 | 0 | 167 876 521 | 167 876 521 |
| Other assets (note 4.5) | 19 739 594 | 0 | 0 | 0 | 13 332 629 | 33 072 223 | 33 072 223 |
| **Total assets** | **311 344 132** | **1 599 263** | **688 747 659** | **0** | **13 332 629** | **1 015 023 683** | **1 015 023 683** |
| Financial liabilities | | | | | | | |
| Financial guarantees | 0 | 0 | 0 | 11 439 133 | 0 | 11 439 133 | 11 439 133 |
| Derivatives | 0 | 1 579 264 | 0 | 0 | 0 | 1 579 264 | 1 579 264 |
| Provisions for guarantees | 0 | 0 | 0 | 0 | 5 056 087 | 5 056 087 | 5 056 087 |
| **Total liabilities** | **0** | **1 579 264** | **0** | **11 439 133** | **5 056 087** | **18 074 484** | **18 074 484** |

### 3.6.1 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 table below shows the maximum exposure to credit risk without taking into account any collateral:

Split by classes of balance sheet and off balance sheet (in EUR)

| | Maximum exposure 2008 | Maximum exposure 2007 |
|---|---|---|
| Cash and cash equivalent | 383 502 584 | 291 604 538 |
| Investments - AFS | | |
| Debt securities and other fixed income securities | 495 733 011 | 522 470 401 |
| Financial liabilities | | |
| Financial guarantees | 18 990 527 | 11 439 133 |
| Derivatives | 2 604 242 | 1 579 264 |
| **Total BS** | **900 830 364** | **827 093 336** |
| Guarantees | 3 838 815 813 | 3 606 967 244 |
| Fiduciary operations | 11 714 808 220 | 10 467 106 367 |
| Assets held on behalf of third parties | 742 254 398 | 423 136 577 |
| **Total off BS** | **16 295 878 431** | **14 497 210 188** |
| **Total credit risk exposure** | **17 196 708 795** | **15 324 303 524** |

#### 3.6.1.A Venture capital

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

#### 3.6.1.B Portfolio guarantees and securitisation

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

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

The statutes of the Fund limit own-risk guarantees to 3.0x subscribed capital, which amounted to EUR 2.9bn at end 2008. Hence, the EUR 3.8bn exposure at risk at end 2008 was well below the statutory limit of EUR 8.7bn.

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 2008, EIF's overall own risk guarantee portfolio was spread over 20 countries. The largest nominal individual country net exposures were Italy, Belgium, UK and Portugal, which jointly accounted for 53% of total guarantee commitments.

### Own funds guarantees: exposures at risk by country as of 31.12.2008

| Country | Ccy | 2008 EURm | 2008 Share | 2007 Share |
|---|---|---|---|---|
| Austria | EUR | 1 | 0.0% | 0.1% |
| Belgium | EUR | 467 | 12.2% | 13.1% |
| Bulgaria | EUR | 70 | 1.8% | 1.4% |
| Denmark | DKK; EUR | 162 | 4.2% | 4.5% |
| Finland | EUR | 15 | 0.4% | 0.5% |
| France | EUR | 53 | 1.4% | 1.7% |
| Germany | EUR | 150 | 3.9% | 10.5% |
| Greece | EUR | 61 | 1.6% | 1.7% |
| Ireland | EUR | 4 | 0.1% | 0.1% |
| Italy | EUR | 894 | 23.3% | 13.7% |
| Netherlands | EUR | 194 | 5.1% | 4.0% |
| Non EU | EUR | 20 | 0.5% | 0.5% |
| Pan EU and Multi | EUR | 599 | 15.6% | 14.6% |
| Poland | PLN | 89 | 2.3% | 2.2% |
| Portugal | EUR | 279 | 7.3% | 7.7% |
| Serbia | EUR | 50 | 1.3% | 0.0% |
| Spain | EUR | 211 | 5.5% | 6.3% |
| Sweden | SEK | 125 | 3.3% | 4.0% |
| United Kingdom | GBP; EUR | 395 | 10.2% | 13.2% |
| Total | | 3 839 | 100% | 100% |

In the context of EIF's own risk guarantees operations, the credit risk is tracked since the very beginning on a deal-by-deal basis whilst adopting a different model analysis approach depending on the granularity and homogeneity of the underlying portfolios.

The 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, industry 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.

Furthermore, concentration 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 5 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 regularly carried out to determine the ability of the capital base to sustain adverse shocks.

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

### 3.6.1.C Treasury

The Fund is exposed to residual credit risk relating to its liquid assets portfolio. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio under the 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.

The following tables outline the credit quality by investment grade of the Fund's debt securities as on 31 December 2008 and 2007, based on external ratings. Figures are presented without accrued interests.

| AFS - Debt securities and other fixed income securities | 2008 | | 2007 | |
|---|---|---|---|---|
| Rating | Amount in EUR | In percentage | Amount in EUR | In percentage |
| AAA | 332 070 748 | 68.33% | 379 388 527 | 74.18% |
| AA1 | 0 | 0.00% | 12 541 320 | 2.45% |
| AA2 | 19 461 862 | 4.00% | 23 278 108 | 4.55% |
| AA3 | 36 078 102 | 7.42% | 38 649 549 | 7.56% |
| AA+ | 0 | 0.00% | 0 | 0.00% |
| A1 | 48 966 722 | 10.08% | 11 247 280 | 2.20% |
| A2 | 44 963 456 | 9.25% | 41 417 450 | 8.10% |
| A3 | 0 | 0.00% | 0 | 0.00% |
| BAA1 | 0 | 0.00% | 4 811 728 | 0.94% |
| BAA2 | 4 420 961 | 0.91% | 0 | 0.00% |
| NR * | | 0.00% | 98 579 | 0.02% |
| P1 ** | 0 | 0.00% | 0 | 0.00% |
| Total | 485 961 851 | 100% | 511 432 541 | 100% |

EIF treasury portfolio has delivered a performance within the expectations.

### 3.6.2 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.

* Non-rated

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

The tables below show 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. Guarantees commitments are analysed with reference to their expected maturity date.

EUR

| Maturity at 31.12.2008 | Not more than three months | Three months to one year | One year to five years | More than five years | Undefined maturity | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalent | 383 502 584 | 0 | 0 | 0 | 0 | 383 502 584 |
| Investments | | | | | | |
| Debt securities and other fixed income securities | 11 465 733 | 101 124 388 | 259 575 018 | 123 567 872 | 0 | 495 733 011 |
| Shares and other variable income securities | 3 394 570 | 3 212 310 | 65 201 355 | 86 906 588 | 0 | 158 714 823 |
| Non-current assets held for sale | 0 | 7 139 812 | 0 | 0 | 0 | 7 139 812 |
| Other assets | 7 614 072 | 0 | 2 924 089 | 17 927 826 | 0 | 28 465 987 |
| Intangible assets | 198 241 | 525 588 | 1 145 964 | 0 | 0 | 1 869 793 |
| Property, equipment | 57 352 | 158 883 | 208 674 | 8 764 | 0 | 433 673 |
| **Total assets** | **406 232 552** | **112 160 981** | **329 055 100** | **228 411 050** | **0** | **1 075 859 683** |
| Financial liabilities | | | | | | |
| Financial guarantees | 79 654 | 819 482 | 14 442 448 | 3 648 943 | 0 | 18 990 527 |
| Derivatives | 149 | 257 611 | 939 789 | 1 406 693 | 0 | 2 604 242 |
| Provisions for guarantees | 2 153 622 | 0 | 6 830 252 | 0 | 0 | 8 983 874 |
| Retirements benefit obligations | 0 | 0 | 0 | 16 984 934 | 0 | 16 984 934 |
| Other liabilities and provisions | 6 616 028 | 3 506 496 | 0 | 4 101 046 | 0 | 14 223 570 |
| Equity | 0 | 0 | 0 | 0 | 1 014 072 536 | 1 014 072 536 |
| **Total liabilities** | **8 849 453** | **4 583 589** | **22 212 489** | **26 141 616** | **1 014 072 536** | **1 075 859 683** |
| Net liquidity position at 31.12.2008 | 397 383 099 | 107 577 391 | 306 842 610 | 202 269 436 | (1 014 072 536) | 0 |
| Cumulative liquidity position at 31.12.2008 | 397 383 099 | 504 960 490 | 811 803 100 | 1 014 072 536 | 0 | 0 |
| Commitments to venture capital | 34 172 142 | 23 810 943 | 134 962 799 | 217 917 078 | 0 | 410 862 962 |
| Guarantees | 609 261 744 | 379 737 730 | 1 955 768 091 | 894 048 248 | 0 | 3 838 815 813 |
| **Total off BS** | **643 433 886** | **403 548 673** | **2 090 730 890** | **1 111 965 326** | **0** | **4 249 678 775** |

EUR

| Maturity at 31.12.2007 | Not more than three months | Thee months to one year | One year to five years | More than five 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 | 26 263 699 | 73 880 810 | 226 810 079 | 195 515 813 | 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 |
| Other assets | 13 554 019 | 0 | 4 144 063 | 15 374 141 | 0 | 33 072 223 |
| Intangible assets | 592 | 51 068 | 1 109 824 | 0 | 0 | 1 161 484 |
| Property, equipment | 4 394 | 29 275 | 415 657 | 7 796 269 | 0 | 8 245 595 |
| **Total assets** | **334 506 135** | **87 042 192** | **304 882 479** | **297 999 955** | | **1 024 430 762** |
| Financial liabilities | | | | | | |
| Financial guarantees | 0 | 439 797 | 10 147 746 | 851 590 | 0 | 11 439 133 |
| Derivatives | 0 | 582 930 | 65 920 | 930 414 | 0 | 1 579 264 |
| Provisions for guarantees | 0 | 0 | 5 056 087 | 0 | 0 | 5 056 087 |
| Retirements benefit obligations | 0 | 0 | 0 | 13 232 407 | 0 | 13 232 407 |
| Other liabilities and provisions | 1 880 898 | 2 844 388 | 50 000 | 2 983 270 | 0 | 7 758 556 |
| Equity | 0 | 0 | 0 | 0 | 985 365 315 | 985 365 315 |
| **Total liabilities** | **1 880 898** | **3 867 115** | **15 319 753** | **17 997 681** | **985 365 315** | **1 024 430 762** |
| Net liquidity position at 31.12.2007 | 332 625 237 | 83 175 077 | 289 562 727 | 280 002 275 | (985 365 315) | 0 |
| Cumulative liquidity position at 31.12.2007 | 332 625 237 | 415 800 314 | 705 363 041 | 985 365 315 | 0 | 0 |
| Commitments to venture capital | 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** |

Guarantees issued on behalf of the EIF can also be analysed with reference to their current contractual maturity as follows:

EUR

| | Total Drawn | Undrawn | Total at 31.12.2008 | Total Drawn | Undrawn | Total at 31.12.2007 |
|---|---|---|---|---|---|---|
| Up to five years | 343 115 823 | 30 799 194 | 373 915 017 | 462 218 868 | 42 879 931 | 505 098 799 |
| From five years to ten years | 1 584 257 058 | 19 225 705 | 1 603 482 763 | 1 328 407 368 | 43 087 734 | 1 371 495 102 |
| From ten years to 15 years | 786 654 567 | 16 641 150 | 803 295 717 | 1 018 783 584 | 29 022 657 | 1 047 806 241 |
| Over 15 years | 1 014 885 573 | 43 236 744 | 1 058 122 317 | 683 378 414 | 0 | 683 378 414 |
| | **3 728 913 021** | **109 902 793** | **3 838 815 814** | **3 492 788 234** | **114 990 322** | **3 607 778 556** |

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 0 (2007: EUR 1 627 750) have been issued in favour of the EIB.

The drawn-down portion of the guarantees issued includes an amount of EUR 949 857 representing the present value of future interest for guarantees contracts in default (2007: EUR 811 311).

### 3.6.2.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 lifetime. 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.

The total commitments to venture capital funds are limited to 50% of shareholders' equity. EIF portfolio is well diversified in terms of vintage years which has a smoothing effect on its cash-flows. (see EIF own resource portfolio split by vintage year under section 3.3.3).

### 3.6.2.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 2008, the capital charge represented 51% of the limit versus 54% in 2007.

EURm

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Capital charges | 256 | 259 |
| Capital ceiling | 499 | 483 |
| Utilisation | 51% | 54% |
| Headroom | 243 | 224 |
| Guarantees drawn | 4 412 | 4 153 |
| Guarantees undrawn | 110 | 115 |
| Maximum exposure | 3 839 | 3 607 |
| Yearly guarantee calls | 0.4 | 0.6 |

### 3.6.2.C Treasury

At the end of 2008, 68.33% of the Fund's liquid asset exposure was rated 'AAA'. 11.43% were rated 'AA'-entities. In view of the quality of the securities held (averaging 'AA+'), liquidity risk on this portfolio is not significant.

## 3.6.3 MARKET RISK

### 3.6.3.1 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.

### 3.6.3.1.A Venture capital

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

### 3.6.3.1.B Portfolio guarantees and securitisation

Transactions in which EIF acts as guarantor are typically in non 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 rates during transactions' life since valuations are carried under IAS 37 provisions rules.

Conversely, the guarantee transactions classified as Derivatives (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. However, the interest rates used by the model are only applied to calculate the present value of expected premiums. Fluctuations in the interest rates do not carry any fluctuation to the EIF profit and loss accounts.

The interest rate risk impact on underlying portfolios is indirectly assessed by the portfolio quarterly review of the transactions' performance.

At the end of 2008, own risk guarantees transactions classified as "Derivatives" amount to EUR 1.2bn and represent 31.6% of total guarantee exposure at risk (EUR 3.8bn). Capital allocation charges for Derivatives amounting to EUR 54.7m represent 21.3 % of total guarantee capital allocation charges (EUR 256m).

### 3.6.3.1.C Treasury

Approximately 80% of the liquid assets 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):

| EUR | Fixed rate | | | | Variable rate | Total |
|---|---|---|---|---|---|---|
| 31.12.2008 | Less than three months | Three months to one year | One to five years | More than five years | | |
| Cash and cash equivalents | 383 502 584 | 0 | 0 | 0 | 0 | 383 502 584 |
| AFS - Debt securities and other fixed income securities | 10 892 068 | 96 282 103 | 209 243 693 | 107 300 813 | 72 014 334 | 495 733 011 |
| Total | 394 394 652 | 96 282 103 | 209 243 693 | 107 300 813 | 72 014 334 | 879 235 595 |
| Percentage | 44.86% | 10.95% | 23.80% | 12.20% | 8.19% | 100% |

| EUR | Fixed rate | | | | Variable rate | Total |
|---|---|---|---|---|---|---|
| 31.12.2007 | Less than three months | Three months to one year | One to five years | More than five years | | |
| 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% |

The average effective interest rate on term deposit in EUR is 4.49% for the year 2008 (2007: 4.05%). The average effective interest rate on the AFS securities portfolio in EUR is 4.35% for 2008 (2007: 4.54%).

### Sensitivity of earnings

The sensitivity of the earnings is an estimate of 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 December 2008. Positions in floating rate assets are assumed to have quarterly repricings. With the positions in place as of 31 December 2007, the earnings of the EIF treasury portfolio would increase by EUR 2.8m if interest rates 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 December 2008, the earnings of the EIF treasury portfolio would increase by EUR 3.4m if interest rates increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points.

### Value at risk

As of 31 December 2008, the value-at-risk of the EIF treasury portfolio was EUR 1.9m (EUR 1.6m as of 31 December 2007). 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%. Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk. In the current context of financial crisis and highly volatile markets, the evolution of the VaR of own funds reflects the effective increase of the volatility of interest rate.

### 3.6.3.2 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.

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

EUR

| 31.12.2008 | EUR | Pound Sterling | US Dollars | Other currencies | Sub total except EUR | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalent | 379 729 500 | 2 640 867 | 547 475 | 584 742 | 3 773 084 | 383 502 584 |
| Investments | | | | | | |
| Debt securities and other fixed income securities | 495 733 011 | 0 | 0 | 0 | 0 | 495 733 011 |
| Shares and other variable income securities | 125 888 187 | 22 047 946 | 5 674 338 | 5 104 352 | 32 826 636 | 158 714 823 |
| Non-current assets held for sale | 7 139 812 | 0 | 0 | 0 | 0 | 7 139 812 |
| Other assets | 28 465 987 | 0 | 0 | 0 | 0 | 28 465 987 |
| Intangible assets | 1 869 793 | 0 | 0 | 0 | 0 | 1 869 793 |
| Property, equipment | 433 673 | 0 | 0 | 0 | 0 | 433 673 |
| Total assets | 1 039 259 963 | 24 688 813 | 6 221 813 | 5 689 094 | 36 599 720 | 1 075 859 683 |
| Financial liabilities | | | | | | |
| Financial guarantees | 17 975 676 | 906 813 | 0 | 108 038 | 1 014 851 | 18 990 527 |
| Derivatives | 1 654 479 | 949 763 | 0 | 0 | 949 763 | 2 604 242 |
| Provisions for guarantees | 4 723 443 | 484 798 | 0 | 3 775 633 | 4 260 431 | 8 983 874 |
| Retirements benefit obligations | 16 984 934 | 0 | 0 | 0 | 0 | 16 984 934 |
| Other liabilities and provisions | 14 223 570 | 0 | 0 | 0 | 0 | 14 223 570 |
| Total liabilities | 55 562 102 | 2 341 374 | 0 | 3 883 671 | 6 225 045 | 61 787 147 |
| Commitments to venture capital | 314 185 778 | 70 741 172 | 12 433 714 | 13 502 298 | 96 677 184 | 410 862 962 |
| Guarantees | 3 187 942 884 | 301 532 627 | 0 | 349 340 302 | 650 872 929 | 3 838 815 813 |
| Total off BS | 3 502 128 662 | 372 273 799 | 12 433 714 | 362 842 600 | 747 550 113 | 4 249 678 775 |

EUR

| 31.12.2007 | EUR | Pound Sterling | US Dollars | Other currencies | Sub total except EUR | Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalent | 285 336 884 | 2 277 354 | 2 587 458 | 1 402 842 | 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 |
| Non-current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 |
| 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, equipment | 8 245 595 | 0 | 0 | 0 | 0 | 8 245 595 |
| Total assets | 972 554 481 | 37 330 834 | 7 737 985 | 6 807 462 | 51 876 281 | 1 024 430 762 |
| Financial liabilities | | | | | | |
| Financial guarantees | 6 190 150 | 5 248 983 | 0 | 0 | 5 248 983 | 11 439 133 |
| Derivatives | 962 719 | 616 545 | 0 | 0 | 616 545 | 1 579 264 |
| Provisions for guarantees | 5 056 087 | 0 | 0 | 0 | 0 | 5 056 087 |
| Retirements benefit obligations | 13 232 407 | 0 | 0 | 0 | 0 | 13 232 407 |
| Other liabilities and provisions | 7 758 556 | 0 | 0 | 0 | 0 | 7 758 556 |
| Total liabilities | 33 199 919 | 5 865 528 | 0 | | 5 865 528 | 39 065 447 |
| Commitments to venture capital | 299 555 513 | 90 517 442 | 11 754 636 | 11 459 859 | 113 731 937 | 413 287 450 |
| Guarantees | 2 857 823 627 | 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 | 4 021 066 005 |

### 3.6.3.2.A Venture Capital

On the venture capital side, at 31 December 2008, currency exposure for the investments funds can be split as follows:


(as % of the total fair value, EUR 159m)

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 2008.

For 2008, changes in foreign exchange rates for shares and other variable income amount to EUR 9 412 160 out of which EUR 7 968 533 have been recorded in the fair value reserve.

The sensitivity analysis is performed for all currencies representing more than 5% of the total exposure. As of year end, only Pound Sterling falls into this category and has been stress tested with an increase/decrease of 15% vs. the euro.

Foreign exchange rate risk at 31.12.08 (in EUR)

| GBP +15% | | GBP -15% | |
|---|---|---|---|
| Profit and loss account | Equity (Fair value reserve) | Profit and loss account | Equity (Fair value reserve) |
| 496 478 | 857 233 | 143 150 | 857 366 |

Foreign exchange rate risk at 31.12.07 (in EUR)

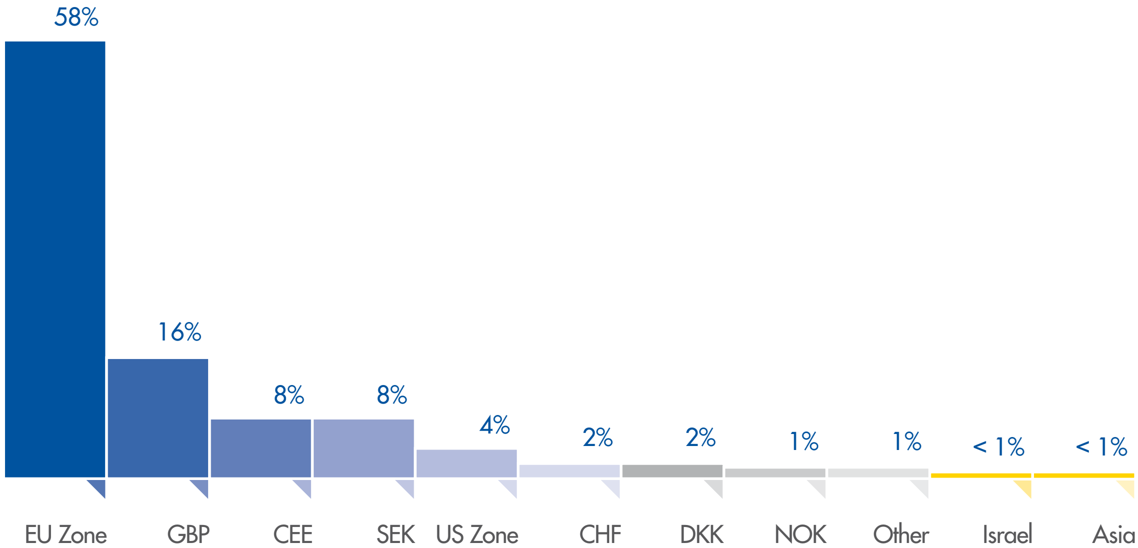
| GBP +10% | | GBP -10% | |
|---|---|---|---|
| Profit and loss account | Equity (Fair value reserve) | Profit and loss account | Equity (Fair value reserve) |
| 487 116 | 1 404 834 | 487 116 | 1 404 834 |

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

| | DKK | GBP | SEK | USD | CHF |
|---|---|---|---|---|---|
| 31.12.08 | 7.450 6 | 0.952 5 | 10.87 | 1.391 7 | 1.485 |
| 31.12.07 | 7.458 3 | 0.733 35 | 9.441 5 | 1.472 1 | |

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 portfolio 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:




3.6.3.2.B Portfolio guarantees and securitisation

The own risk guarantees portfolio is mainly denominated in euros. As of end 2008, 83% of exposure at risk (90% of fair value) were in euros. The GBP is the main foreign currency exposure and represented 8% of exposure at risk (9% of fair value).

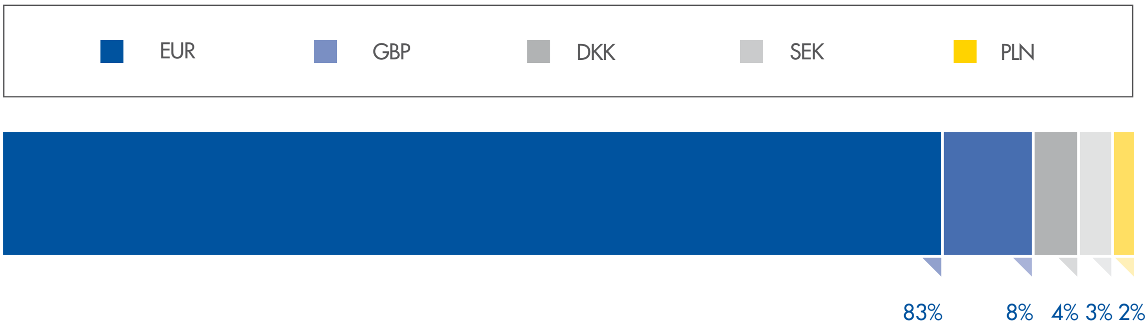
Non-euro guarantees operations considered as "Financial Guarantees" do not carry any exchange rate risk with impact on EIF P&L accounts.

Non-euro G&S operations considered as "Derivatives" are required to be revaluated monthly. However, the currency risk is limited to the revaluation of the non-euro expected loss which is not material in size (EUR 0.2m for 2008).

Own risk portfolio breakdowns by currency and assets fair value at 31 December 2008:

Breakdown of assets fair value

Exposure at risk breakdown




EIF is monitoring its non-euro exposure, performs regular stress tests with regard to currency risk and the impact on unexpected loss. Additional capital charges on non-euro 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.

### 3.6.3.2.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.

### 3.6.3.3 Market risk: public market risk

#### 3.6.3.3.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 PE 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.

The EIF uses the beta of a listed PE index, LPX Europe in order to estimate the sensitivity of the valuation of EIF's private equity investment to market prices.

Using the beta from LPX Europe and assuming market price movements of +/- 10%, EIF's private equity investments' value would be impacted as follows:

Public market risk: all private equity (in EUR)

| | +10%<br>Beta 1.3<br>Final sensitivity: +13% | | | -10%<br>Beta 1.3<br>Final sensitivity: -13% | | |
|---|---|---|---|---|---|---|
| | Profit and loss account | Equity (fair value reserve) | Total effect on equity | Profit and loss account | Equity (fair value reserve) | Total effect on equity |
| 31.12.08 | 370 227 | 21 356 608 | 21 726 836 | (5 998 656) | (15 386 227) | (21 384 883) |
| 31.12.07 | 908 738 | 12 337 191 | 13 245 929 | (940 745) | (12 438 782) | (13 379 527) |

The above 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 in. The calculated value adjustment will then be recorded following the methodology described in the "background" part.

## 3.7 Fair value of financial assets and financial liabilities

These results can only be seen as indications of the potential sensitivity. Indeed, despite the notions of fair value, private equity is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by 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 following normally industry valuation guidelines.

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

| EUR | 2008 | | 2007 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | | | | |
| Loans and receivables | 394 135 518 | 394 135 518 | 311 344 133 | 311 344 133 |
| Financial investments - AFS | 651 822 405 | 651 822 405 | 687 423 673 | 687 423 673 |
| Financial assets designated at fair value through P&L | 2 625 429 | 2 625 429 | 1 511 249 | 1 511 249 |
| Total | 1 048 583 352 | 1 048 583 352 | 1 000 279 055 | 1 000 279 055 |
| Financial liabilities | | | | |
| Financial guarantees | 18 990 527 | 18 990 527 | 11 439 133 | 11 439 133 |
| Financial liabilities designated at fair value through P&L | 2 604 242 | 2 604 242 | 1 579 264 | 1 579 264 |
| Other liabilities | 5 105 933 | 5 105 933 | 1 357 583 | 1 357 583 |
| Total | 26 700 702 | 26 700 702 | 14 375 980 | 14 375 980 |

For loans and receivables as well as other liabilities, the carrying values approximate fair values.

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

EUR

| 31.12.2008 | Quoted market | Valuation techniques-non market observable input | Total |
|---|---|---|---|
| Financial assets | | | |
| Loans and receivables | 394 135 518 | 0 | 394 135 518 |
| Financial investments - AFS | 496 667 054 | 155 155 351 | 651 822 405 |
| Financial assets designated at fair value through P&L | 0 | 2 625 429 | 2 625 429 |
| | 890 802 571 | 157 780 780 | 1 048 583 352 |
| Financial liabilities | | | |
| Financial guarantees | 0 | 18 990 527 | 18 990 527 |
| Financial liabilities designated at fair value through P&L | 0 | 2 604 242 | 2 604 242 |
| | 0 | 21 594 769 | 21 594 769 |

EUR

| 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 | 161 383 538 | 687 423 673 |
| Financial assets designated at fair value through P&L | 0 | 1 511 249 | 1 511 249 |
| | 837 384 267 | 162 894 787 | 1 000 279 054 |
| Financial liabilities | | | |
| Financial guarantees | 0 | 11 439 133 | 11 439 133 |
| Financial liabilities designated at fair value through P&L | 0 | 1 579 264 | 1 579 264 |
| | 0 | 13 018 397 | 13 018 397 |

Fair value of derivative financial instruments.

Valuation techniques - non market observable input (in EUR)

| Derivatives | Fair value at 31.12.2008 | Fair value at 31.12.2007 |
|---|---|---|
| Negative value of Derivatives | (2 604 242) | (2 014 394) |
| Positive value of Derivatives | 0 | 435 130 |
| At December | (2 604 242) | (1 579 264) |

Derivatives nominal value amounts to EUR 1 216 570 808 (2007: EUR 1 268 070 381).

# 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.

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

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Repayable on demand | 30 543 163 | 21 874 539 |
| Up to three months | 352 959 421 | 269 729 999 |
| | 383 502 584 | 291 604 538 |

The effective interest rate on short-term bank deposits is 4.49% (2007: 4.05%). These deposits have an average maturity of 57 days (2007: 38 days).

## 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:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Available-for-sale portfolio | 149 137 396 | 128 936 612 |
| of which accrued interests | 1 529 023 | 1 398 823 |
| Investment portfolio | 346 595 615 | 393 533 789 |
| of which accrued interests | 8 242 136 | 9 639 036 |
| | 495 733 011 | 522 470 401 |

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 60 948 198 (2007: EUR 77 319 235). Derecognition criteria in accordance with IAS 39 are not fulfilled.

Movement in debt securities and other fixed income securities (in EUR)

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Fair value at 1 January | 522 470 401 | 510 033 602 |
| Additions | 75 115 790 | 104 291 000 |
| Disposals | (101 164 470) | (91 300 412) |
| Effective interest rate adjustement | (201 296) | 3 721 889 |
| Change in fair value reserve | (388 835) | (11 078 522) |
| Impairment | (98 579) | (197 156) |
| **Fair value at 31 December** | **495 733 011** | **522 470 401** |

The total amount of fair value changes that has been recognised in equity during the year 2008 is EUR -7 909 961 (2007: EUR -7 521 129).

In 2008, impairment for an amount of EUR 98 579 (2007: EUR 197 156) has been recorded. The cumulated impairments correspond to the total carrying value as at 31 December 2008.

## 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:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Investment at cost at 1 January | 167 815 866 | 139 026 112 |
| Additions | 39 561 022 | 47 694 091 |
| Disposals | (15 860 969) | (18 904 337) |
| Investment at cost at 31 December | 191 515 919 | 167 815 866 |
| Value adjustment and foreign exchange adjustment at 1 January | 60 656 | (5 357 934) |
| Adjustments to fair value reserve | (18 957 702) | 13 812 285 |
| Impairment | (13 904 050) | (8 393 696) |
| Value adjustment and foreign exchange adjustment at 31 December | (32 801 096) | 60 655 |
| | **158 714 823** | **167 876 522** |

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

During the year, dividends in the amount of EUR 4 598 262 (2007: EUR 6 674 654) 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 recorded in the fair value reserve, in accordance with the valuation method described in note 2.3.2, amounts to EUR (18 957 702) (2007: EUR 13 812 286) and includes the impact of the changes in the value of investments EUR (10 989 169) (2007: EUR 17 008 020) and the impact of the changes in the foreign exchange rates on the investments EUR (7 968 533) (2007: EUR (3 195 734)).

Investments belonging to the Category III are measured at cost less impairment, as no reliable fair value is available. These amount to EUR 192 277 (2007: EUR 247 500).

The Fair Value as at 31 December 2008 includes an amount of EUR 2 625 429 (2007: EUR 1 599 263) related to Investment in joint-venture. After initial recognition at fair value, changes in fair value are recognized in the income statement.

### Significant Influence

The participations entered by EIF for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments typically are investments jointly subscribed by a number of investors, none of which being in a position to individually take influence on the daily operations and the investment activity of such fund. As a consequence, any membership of an investor in a governing body of such fund does typically not give the right to take influence on the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on dividends or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders agreement also typically prevents individual investors from executing bilaterally material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information.

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the above stated industry practice, ensuring that EIF does neither control nor exercise any form of significant influence according to the definition of IAS 28 on any of these investments, including those investments in which EIF for its own account or on behalf of any of its mandates holds a participation in excess of 20% of the voting power.

## 4.4 Non-current assets held for sale

The assets concerned relate to a building that is held for sale at a carrying value of EUR 7 139 812 which is lower than the fair value less cost to sell.

## 4.5 Other assets

Other assets are made up of the following:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Accounts receivable relating to pensions managed by the EIB | 17 801 290 | 13 294 567 |
| Advanced payments | 1 920 | 8 220 |
| Accrued commission on management fees and other income | 9 807 870 | 14 572 826 |
| Other debtors | 854 907 | 5 196 610 |
| | 28 465 987 | 33 072 223 |

Accounts receivables relating to pensions managed by the EIB: following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), 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 5.3.

EUR

| | Total | Neither past due nor impaired | Past due but not impaired | | |
|---|---|---|---|---|---|
| | | | 0-6 months | 6-12 months | > 12 months |
| 2008 | 28 465 987 | 28 151 302 | 28 905 | 162 276 | 123 504 |
| 2007 | 33 072 223 | 26 647 018 | 864 124 | 5 000 000 | 561 081 |

## 4.6 Intangible assets

EUR

| 01.01.2007 | Internally generated software | Purchased software | Total |
|---|---|---|---|
| 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 | 1 065 780 | 95 704 | 1 161 484 |

EUR

| 01.01.2008 | Internally generated software | Purchased software | Total |
|---|---|---|---|
| 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 |
| Opening net book amount | 1 065 780 | 95 704 | 1 161 484 |
| Additions | 912 719 | 86 050 | 998 769 |
| Depreciation charge | (211 433) | (79 027) | (290 460) |
| Closing net book amount 2008 | 1 767 066 | 102 727 | 1 869 793 |

EUR

| 31.12.2008 | Internally generated software | Purchased software | Total |
|---|---|---|---|
| Cost | 4 007 301 | 582 560 | 4 589 861 |
| Accumulated depreciation | (2 240 235) | (479 833) | (2 720 068) |
| Net book amount | 1 767 066 | 102 727 | 1 869 793 |

There were no indications of impairment of intangible assets in either 2008 or 2007.

## 4.7 Property and equipment

EUR

| 01.01.2007 | Land and buildings | Fixtures and fittings | Office equipment | Computer equipment | Vehicles | Other fixed assets | Total |
|---|---|---|---|---|---|---|---|
| Cost | 8 590 527 | 357 469 | 938 398 | 656 879 | 84 073 | 8 764 | 10 636 110 |
| Accumulated depreciation | (764 846) | (240 032) | (527 132) | (408 044) | (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/write-off | 0 | 0 | 0 | 0 | 0 | 0 | |
| Depreciation charge | (374 150) | (24 951) | (94 224) | (162 638) | 0 | 0 | (655 964) |
| **Closing net book amount 2007** | **7 451 531** | **92 486** | **432 779** | **260 036** | **0** | **8 764** | **8 245 595** |

EUR

| 01.01.2008 | Land and buildings | Fixtures and fittings | Office equipment | Computer equipment | Vehicles | Other fixed assets | Total |
|---|---|---|---|---|---|---|---|
| Cost | 8 590 527 | 357 469 | 1 054 136 | 592 808 | 84 073 | 8 764 | 10 687 777 |
| Accumulated depreciation | (1 138 996) | (264 983) | (621 357) | (332 772) | (84 073) | 0 | (2 442 182) |
| **Net book amount** | **7 451 531** | **92 486** | **432 779** | **260 036** | **0** | **8 764** | **8 245 595** |
| Opening net book amount | 7 451 531 | 92 486 | 432 779 | 260 036 | 0 | 8 764 | 8 245 595 |
| Additions | | 0 | 17 447 | 225 547 | 0 | 0 | 242 994 |
| Disposals/write-off | * (7 139 813) | (67 535) | (243 543) | 0 | 0 | 0 | (7 450 890) |
| Depreciation charge | (311 718) | (24 951) | (92 292) | (175 065) | 0 | 0 | (604 026) |
| **Closing net book amount 2008** | **0** | **0** | **114 391** | **310 518** | **0** | **8 764** | **433 673** |

EUR

| 31.12.2008 | Land and buildings | Fixtures and fittings | Office equipment | Computer equipment | Vehicles | Other fixed assets | Total |
|---|---|---|---|---|---|---|---|
| Cost | 0 | 0 | 220 668 | 818 355 | 0 | 8 764 | 1 047 787 |
| Accumulated depreciation | 0 | 0 | (106 277) | (507 837) | 0 | 0 | (614 114) |
| **Net book amount** | **0** | **0** | **114 391** | **310 518** | **0** | **8 764** | **433 673** |

There were no indications of impairment of property and equipment in 2008.

Fixtures and fittings and office equipment with a carrying value of EUR 285 975 was written off relating to items with no further value in use after the move to the new office premises. The expense is included in the income statement within other administrative expenses.

* In 2008 the carrying value of Land and Buildings was transferred to Non-current assets held for sale (see note 4.4).

# 5. Detailed disclosures relating to liability and equity headings

## 5.1 Financial liabilities

The movements relating to Financial Guarantees payables are set out below:

EUR

| Net Financial Guarantees | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at the beginning of the financial year | 11 439 133 | 15 227 211 |
| Transfer relating to SME guarantees | 0 | 366 472 |
| Utilisation of the financial guarantees | ( 353 016) | (896 303) |
| Net increase/decrease in Financial Guarantees | 7 971 596 | (3 258 247) |
| Transfer to provision for guarantees | (67 186) | 0 |
| Balance at the end of the financial year | 18 990 527 | 11 439 133 |

EUR

| Derivatives | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at 1 January | 1 579 264 | 1 143 700 |
| Fair value changes | 1 024 978 | 435 564 |
| Balance at 31 December | 2 604 242 | 1 579 264 |

During the year 2008, a reclassification has been performed on the guarantee operations. Financial Guarantees and Derivatives, which were accounted for in the assets as "Financial Guarantees receivable" and "Derivatives" and in the liabilities as "Financial guarantee payables" and "Derivatives" are presented on a net basis at 31 December 2008 with comparative netted figures at 31 December 2007. The opening balance 2007 of the Financial Guarantees has also been adjusted to reflect the reclassification of the provisions for guarantees. This represents an amount of EUR 3 398 599.

## 5.2 Provisions for guarantees

EUR

| Provision for guarantees | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Balance at 1 January | 5 056 087 | 6 450 518 |
| Additions * | 6 276 536 | 1 122 670 |
| Release of provision | (2 348 749) | (2 517 101) |
| **Balance at 31 December** | **8 983 874** | **5 056 087** |

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial Guarantees or the Derivatives is transferred to the caption provisions for guarantees.

A reclassification of the 2007 provision for guarantees has been performed. This represents a total amount of EUR 5 056 087 at 31 December 2007 of which EUR 1 657 488 reclassified from caption "Other liabilities and provisions" and EUR 3 398 599 from “Financial Guarantees payables”.

## 5.3 Retirement benefit obligations

The retirement benefit obligations consist of the pension scheme and the health insurance scheme as follows:

EUR

| Retirement benefit obligations | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Pension scheme | 15 398 934 | 11 982 407 |
| Health insurance scheme | 1 586 000 | 1 250 000 |
| | **16 984 934** | **13 232 407** |

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

| Principal assumptions | 2008 | 2007 |
|---|---|---|
| Discount rate for obligations | 6.00% | 5.52% |
| Rate of future compensation increases | 4.50% | 4.00% |
| Rate of pension increases | 2.00% | 2.00% |
| Actuarial tables | Swiss BVG 2005 | Swiss BVG 2005 |

The pension commitment as evaluated in the independent actuary report dated February 2009 amounts to EUR 12 024 000. As of December 2008, the Fund has allocated EUR 16 387 845 (2007: 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 2008.

*Additions mainly include the increase of provisions on guarantees operations EUR 6 209 350 (2007: EUR 1 122 670) but also the value of the guarantees operations transferred from IAS 39 to IAS 37 for an amount of EUR 67 186 (2007: EUR 0).

The movements in the "retirement benefit obligations" rounded to the nearest EUR 1 000 are as follows:

EUR

| Net periodic benefit cost as at 31.12.2008 | EIF pension | Health insurance | Total 2008 |
|---|---|---|---|
| Current net service cost | 1 249 000 | 280 000 | 1 529 000 |
| Interest cost | 697 000 | 62 000 | 759 000 |
| Amortisation of unrecognised gains/losses | 37 000 | (6 000) | 31 000 |
| Net benefit expense | 1 983 000 | 336 000 | 2 319 000 |

EUR

| Net periodic benefit cost as at 31.12.2007 | EIF pension | Health insurance | Total 2007 |
|---|---|---|---|
| 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 |

Employer contribution

As the plan is treated as unfunded under IAS 19, the employer contributions are determined as the difference between the net benefit payments and the staff contributions. Any amounts used to purchase benefits by employees are treated as negative benefit payments. In the past, the employer contributions, determined as described above, have been negative as purchases have exceeded the regular benefit payments. This trend is expected to continue and no employer contributions are predicted for the next twelve months.

EUR

| Benefit liabilities as at 31.12.2008 | EIF pension | Health insurance | Total 2008 |
|---|---|---|---|
| Present value of funded obligation | 0 | 0 | 0 |
| Present value of unfunded obligation | 15 340 000 | 1 298 000 | 16 638 000 |
| Unrecognised net actuarial gains/(losses) | 59 000 | 288 000 | 347 000 |
| Net liabilty | 15 399 000 | 1 586 000 | 16 985 000 |

EUR

| Benefit liabilities as at 31.12.2007 | EIF pension | Health insurance | Total 2007 |
|---|---|---|---|
| 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 liabilty | 11 982 000 | 1 250 000 | 13 232 000 |

EUR

| Changes in defined benefit obligation as at 31.12.2008 | EIF pension | Health insurance | Total 2008 |
|---|---|---|---|
| Defined benefit obligation, beginning of year | 12 628 000 | 1 120 000 | 13 748 000 |
| Net service cost | 1 249 000 | 280 000 | 1 529 000 |
| Interest cost | 697 000 | 62 000 | 759 000 |
| Employee contributions | 812 000 | | 812 000 |
| Benefits paid | 622 000 | | 622 000 |
| Experience (gain)/loss | 653 000 | ( 6 000) | 647 000 |
| (Gain)/loss due to assumption changes | (1 321 000) | (158 000) | (1 479 000) |
| **Defined benefit obligation** | **15 340 000** | **1 298 000** | **16 638 000** |

EUR

| Changes in defined benefit obligation as at 31.12.2007 | EIF pension | Health insurance | Total 2007 |
|---|---|---|---|
| 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** |

History of asset values (in EUR)

| Amounts for the current and previous two periods are as follows: | 2008 | 2007 | 2006 |
|---|---|---|---|
| Fair value of plan assets, end of year | 0 | 0 | 0 |
| **Defined benefit obligation, end of year** | **(16 638 000)** | **(13 748 000)** | **(9 928 000)** |
| Surplus/(deficit) in the plan | (16 638 000) | (13 748 000) | (9 928 000) |
| Experience gains/(losses) on DBO | ( 653 000) | (406 000) | (430 000) |
| Experience gains/(losses) on plan assets | 0 | 0 | 0 |

The effect of a 1% increase or decrease to the medical trend costs on the current service cost and interest cost, or the post-employment benefit obligation, would not have a material impact on the EIF's accounts.

## 5.4 Other liabilities and provisions

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Trade creditors and provisions | 4 886 022 | 775 000 |
| Other taxation and social security costs | 3 510 | 1 182 |
| Other payables | 9 334 038 | 6 982 374 |
| | **14 223 570** | **7 758 556** |

Trade creditors and provisions mainly include payable amounts related to operations managed by EIF and other sundry items. Other payables mostly includes staff-related costs such Bonus, the Optional Supplementary Pension Scheme (OSPS) and the Severance Grant.

## 5.5 Share capital

The authorised capital amounts to EUR 3 billion, divided into 3 000 shares with a nominal value of EUR 1 000 000 each of which 2 865 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.

New shares were issued on the 30 June 2008 from authorised share capital as follows:

| | 31.12.2008 | 30.06.2008 New shares issued | 31.12.2007 |
|---|---|---|---|
| Authorised shares | 3 000 | | 3 000 |
| of which | | | |
| subscribed | 2 865 | 95 | 2 770 |
| un-subscribed | 135 | (95) | 230 |

The authorised and subscribed share capital of EUR 2 865 000 000 representing 2 865 shares is called and paid in for an amount of EUR 573 000 000 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.

The subscribed share capital is detailed as follows:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Subscribed and paid in (20%) | 573 000 000 | 554 000 000 |
| Subscribed but not yet called (80%) | 2 292 000 000 | 2 216 000 000 |
| | **2 865 000 000** | **2 770 000 000** |

The capital is subscribed as follows:

Number of shares

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| European Investment Bank | 1 822 | 1 822 |
| European Commission | 786 | 691 |
| Financial Institutions | 257 | 257 |
| | 2 865 | 2 770 |

## 5.6 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 7 022 216 is required to be appropriated in 2009 with respect to the financial year ended 31 December 2008. Movements in reserves and profit brought forward are detailed as follows:

EUR

| | Statutory reserve | Retained earnings | Profit for the financial year |
|---|---|---|---|
| Balance at the beginning of the financial year | 104 329 810 | 136 353 969 | 50 402 337 |
| Dividend paid | 0 | 0 | (20 160 030) |
| Other allocation of last financial year profit | 20 160 935 | 10 081 372 | (30 242 307) |
| Profit for the financial year | 0 | 0 | 35 111 080 |
| **Balance at the end of financial year** | **124 490 745** | **146 435 341** | **35 111 080** |

The General Meeting of Shareholders of 14 May 2008 approved the distribution of a dividend amounting to EUR 20 160 030 relating to the year 2007 (2006: EUR 19 430 000).

## 5.7 Fair value reserve

The fair value reserve includes the followings:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Fair value reserve on debt securities and other fixed income securities | (7 909 961) | (7 521 128) |
| Fair value reserve on venture capital shares and other variable income securities | 10 932 954 | 29 890 658 |
| | 3 022 993 | 22 369 530 |

# 6. Disclosures relating to off-balance sheet items

## 6.1 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.

EUR

| | Drawn | Undrawn | Total 2008 | Total 2007 |
|---|---|---|---|---|
| Up to five years | 55 217 360 | 0 | 55 217 360 | 112 831 414 |
| From five to ten years | 102 427 751 | 16 750 000 | 119 177 751 | 135 937 366 |
| From ten to fifteen years | 161 084 835 | 0 | 161 084 835 | 182 155 122 |
| Over fifteen years | 44 188 959 | 0 | 44 188 959 | 45 345 263 |
| | **362 918 905** | **16 750 000** | **379 668 905** | **476 269 165** |

The drawn-down portion of the guarantees issued includes an amount of EUR 10 558 800 (2007: EUR 19 014 126) representing the present value of future interest covered by guarantees.

## 6.2 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, the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi") and the Member States or regions in the framework of the Joint European Resources for Micro to Medium Enterprises ("JEREMIE") jointly developed by the Commission of the European Communities and EIF. Sums held in these accounts remain the property of the Commission, the EIB, the BMWi and the Member States or regions 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), GIF 2007 under the Competitiveness and Innovation Framework Programme and the Technology Transfer Pilot Project (TTP)), 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.

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. The Preparatory Action Facility 2004 was closed on 22 May 2008.

The support provided by the JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as venture capital funds, guarantee funds and loan funds, to enterprises. The EIF has signed JEREMIE Funding Agreements with the following Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia.

In the framework of the European Community in the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the EIF manages the participation of the European Community in the fund and represents the Commission's interests.

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Preparatory Action Facility 2004 | 0 | 16 767 |
| SMEG 1998 (SME Guarantee 1998) | 69 876 991 | 71 885 622 |
| ESU 1998 (ETF Start-up 1998) * | 13 584 862 | 28 509 679 |
| Seed Capital Action | 131 012 | 185 233 |
| SMEG 2001 (MAP Guarantee) | 73 579 928 | 118 671 399 |
| ESU 2001 (MAP Equity) * | 77 815 569 | 91 773 212 |
| CIP/SMEG 07 | 95 483 380 | 35 255 356 |
| CIP/GIF 07 | 69 341 505 | 36 447 745 |
| TTP | 2 000 938 | 0 |
| GEEREF Trusteeship | 45 929 105 | 0 |
| Trust accounts with the Commission ** | 447 743 290 | 382 745 013 |
| Trust accounts with the EIB | 11 279 987 | 40 372 364 |
| Trust account with the BWMi | 130 340 | 19 198 |
| Trust account with Member States/ regions JEREMIE initiative | 283 100 781 | 0 |
| | **742 254 398** | **423 136 575** |

* The figures above do not include the investment in venture capital, of EUR 44 578 139 for ESU 1998 (2007: EUR 44 597 618), EUR 68 703 612 for ESU 2001 (2007: EUR 53 806 983) and EUR 20 061 832 for GIF 07 (2007: EUR 0) 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.

## 6.3 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 Dachfonds 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.

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

EUR

| Guarantees committed on behalf of the Commission | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Under the SMEG 1998 * | | |
| Drawn | 2 400 280 834 | 2 407 638 575 |
| Undrawn | 0 | 1 664 115 |
| Under the SMEG 2001 * | | |
| Drawn | 4 786 634 503 | 4 629 662 857 |
| Undrawn | 0 | 276 876 349 |
| Under the SMEG 2007 * | | |
| Drawn | 164 687 322 | 0 |
| Undrawn | 1 144 037 678 | 0 |
| **Investments made on behalf of the Commission ** ** | **31.12.2008** | **31.12.2007** |
| Under ESU 1998: | | |
| Net disbursed | 55 405 030 | 55 992 520 |
| Undrawn | 4 182 900 | 8 727 939 |
| Under ESU 2001: | | |
| Net disbursed | 75 383 481 | 57 584 408 |
| Undrawn | 100 415 809 | 131 730 410 |
| Under GIF 2007: | | |
| Net disbursed | 20 470 347 | 0 |
| Undrawn | 118 709 818 | 10 000 000 |
| Under Seed Capital Action: | | |
| Net disbursed | 200 000 | 150 000 |
| Undrawn | 0 | 50 000 |
| **Investments made on behalf of the EIB ** ** | **31.12.2008** | **31.12.2007** |
| Under EIB Risk Capital Mandate | | |
| Net disbursed | 1 454 881 931 | 1 370 579 363 |
| Undrawn | 1 083 389 509 | 1 242 905 845 |
| Under European Technology Facility | | |
| Net disbursed | 120 954 616 | 124 725 313 |
| Undrawn | 22 116 482 | 28 434 532 |
| **Investments made on behalf of the external mandators ** ** | **31.12.2008** | **31.12.2007** |
| Under ERP-EIF Dachfonds | | |
| Net disbursed | 71 256 541 | 47 514 956 |
| Undrawn | 91 801 419 | 72 869 186 |
| Total | 11 714 808 220 | 10 467 106 367 |

- A value adjustment has been estimated at EUR 316 052 706 (2007: EUR 83 639 222) leading to a net adjusted value of EUR 1 259 783 841 (2007: EUR 1 411 665 454), on the investments managed on behalf of the EIB.
- A value adjustment has been estimated at EUR 17 915 276 (2007: EUR 15 172 327) leading to a net adjusted value of EUR 133 343 582 (2007: EUR 98 404 600 estimated amount), on the investments made on behalf of the Commission.

* 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.

# 7. Detailed information on the income statement

## 7.1 Net interest and similar income

Net interest and similar income comprises:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Interest on debt securities | 22 554 525 | 23 853 812 |
| Interest on term deposits | 13 774 189 | 4 778 046 |
| Interest on bank current accounts | 1 126 097 | 898 741 |
| Other interest | 1 040 016 | 700 471 |
| | **38 494 827** | **30 231 070** |

As mentioned in the note 2.9, the discounts and premiums are calculated with the effective interest rate method. The above figures are presented netted. Discounts amount to EUR 1 282 150 (2007: EUR 3 316 906) and premiums amount to EUR 1 156 726 (2007: EUR 1 732 099).

## 7.2 Net income from guarantees operations

Net income from guarantees operations comprises:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Net guarantees fees on derivatives | 10 520 096 | 7 579 840 |
| Loss/gain on fair value changes on derivatives | (1 024 978) | (870 260) |
| Interest (expenses)/income on amortisation of NPV | 1 854 697 | (341 388) |
| Release of provision | 2 348 749 | 2 517 101 |
| Write-off on guarantee receivable | (1 223 299) | 0 |
| Provision for guarantees under IAS 37 | (6 209 350) | (1 122 670) |
| Net increase in the financial guarantees contracts | 12 226 460 | 13 586 401 |
| | **18 492 375** | **21 349 024** |

## 7.3 Commission income

Commission income is detailed as follows:

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Commissions on mandates relating to venture capital operations | 16 357 090 | 14 798 524 |
| Commissions on mandates relating to guarantees | 2 790 820 | 8 412 985 |
| Income from advisory activity | 6 884 565 | 5 850 873 |
| Other provisions | (2 636 620) | 0 |
| Other commissions | 10 000 | 10 000 |
| | 23 405 855 | 29 072 382 |

## 7.4 Net loss on financial operations

Net loss on financial operations amounting to EUR 5 081 325 (2007: loss EUR 1 020 711) corresponds to losses arising from transactions or cash positions in foreign currencies, of which EUR 2 611 743 is realised loss on debt securities portfolio.

## 7.5 General administrative expenses

EUR

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Wages and salaries | 19 241 179 | 17 317 160 |
| Social security costs | 3 237 576 | 2 130 900 |
| | 22 478 755 | 19 448 060 |
| Other administrative expenses | 7 546 298 | 6 665 063 |
| | 30 025 053 | 26 113 123 |

Wages and salaries include expenses of EUR 3 144 151 (2007: EUR 4 078 735) incurred in relation to staff seconded from the EIB.

Key management compensation for the year is EUR 1 474 078 (2007: EUR 1 300 648).

Other administrative expenses include leased office space. Expenses relating to these operational leases amount to EUR 1 191 027 (2007: EUR 1 154 045).

EUR

| Future minimum lease payments under non-cancellable operating leases | Less than one year | One to five years | More than five years | Total |
|---|---|---|---|---|
| 2008 | 1 139 221 | 4 951 563 | 0 | 6 090 784 |
| 2007 | 1 053 359 | 4 213 437 | 1 053 359 | 5 320 155 |

The number of persons, including 12 EIB secondees (2007: 14 EIB secondees), employed at year-end is as follows:

| | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Chief Executive/Deputy Chief Executive | 2 | 1 |
| Employees | 155 | 141 |
| **Total** | **157** | **142** |
| Average of the year | 146 | 135 |

# 8. Related parties transactions

The European Investment Bank is the majority owner of the Fund with 63.6% of the shares. The remaining percentage is held by the European Commission (27.4%) and the Financial Institutions (9%).

## 8.1 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 6.3. 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:

EUR

| Assets | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Prepayments and accrued income | 388 358 | 795 703 |
| Other assets | 17 801 290 | 13 294 567 |
| **Liabilities** | **31.12.2008** | **31.12.2007** |
| Creditors | 61 892 | 84 122 |
| Other provisions | 1 148 218 | 1 482 798 |
| Accruals and deferred income | 170 000 | 180 000 |
| Capital paid in | 364 400 000 | 364 400 000 |
| **Off balance sheet** | **31.12.2008** | **31.12.2007** |
| Guarantees drawn | 312 976 362 | 410 445 884 |
| Guarantees undrawn | 16 250 000 | 16 250 000 |
| Assets held for third parties | 11 279 987 | 40 372 364 |
| Investments drawn in venture capital | 1 575 836 547 | 1 495 304 677 |
| Investments undrawn in venture capital | 1 105 505 990 | 1 271 340 376 |
| **Income** | **31.12.2008** | **31.12.2007** |
| Management fees | 8 348 975 | 8 540 072 |
| **Expenses** | **31.12.2008** | **31.12.2007** |
| Wages and salaries | 2 402 429 | 2 928 735 |
| IT expenses | 910 454 | 866 775 |
| Services | 1 609 858 | 1 134 982 |
| Treasury management fees | 406 496 | 337 176 |

## 8.2 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 6.3. 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:

EUR

| Assets | 31.12.2008 | 31.12.2007 |
|---|---|---|
| Accounts receivable | 7 582 063 | 8 078 322 |
| **Liabilities** | **31.12.2008** | **31.12.2007** |
| Accounts payable | 2 652 671 | 499 675 |
| Capital paid in | 157 200 000 | 138 200 000 |
| **Off balance sheet** | **31.12.2008** | **31.12.2007** |
| Guarantees drawn | 7 351 602 659 | 7 037 301 432 |
| Guarantees undrawn | 1 144 037 678 | 278 540 464 |
| Assets held for third parties | 401 814 184 | 382 745 013 |
| Net disbursed in venture capital | 151 458 858 | 113 726 928 |
| Investments undrawn in venture capital | 223 308 528 | 150 508 348 |
| **Income** | **31.12.2008** | **31.12.2007** |
| Management fees | 7 278 146 | 11 849 856 |
| **Expenses** | **31.12.2008** | **31.12.2007** |
| Treasury management fees | 138 950 | 57 528 |

## 9. Capital management

Even though the EIB Group is not subject to formal supervision, it has generally voluntarily submitted to major EU banking regulations and adopted market "best practice". In particular, this applies to the new banking regulation ("Basel II"), issued in 2004 by the Basel Committee on Banking Supervision, approved by the EU and the Member States in 2006, and applied in Internal Rating Based EU financial institutions since 1 January 2008 (2006/48/EC as of 14 June 2006).

The implementation of the "Ratings Based Approach (RBA)" for EIF's guarantee and securitisation exposures and the Simple Risk -weight Approach for EIF's VC portfolio has been done under the technical assistance of the Commission de Surveillance du Secteur Financier (CSSF) and in close cooperation with EIB.

In addition to the monitoring of Basel II minimum capital requirements, stress tests assess the sensitivity of capital requirements to changes in the macroeconomic environment and in the activities of the EIF.

## 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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