EUROPEAN
INVESTMENT
FUND

ANNUAL REPORT 2010

HIGHLIGHTS

EURm

2010 activity data (at 31 December 2010)		
Equity signatures	43 funds	930
Guarantee signatures	24 operations	1 628
Guarantee Joint-Group signatures	6 operations	273
Microfinance signatures	5 operations	8
JEREMIE Holding Fund signatures	2 agreements	95
Total outstandings		
Private Equity assets under management, of which:	351 funds	5 367
Own funds and mandates		4 655
Funds of funds		639
JEREMIE		73
Guarantee exposure	193 operations	14 701
Guarantees		14 125
Joint-Group operations		273
JEREMIE		304
Microfinance	6 operations	10

EURm

Management accounts	2010	2009
Simplified statement of comprehensive income		
Guarantee income	33	38
Equity income	33	21
Advisory & regional mandates	12	8
Treasury income	34	29
Total income	111	95
Staff costs	34	29
Overheads	12	8
Total expenses	45	37
Operating profit	65	58
Exceptional items (provisions and impairments)	-58	-65
Net income	7	-7
Return on average equity	1%	0
Dividends declared	3	0
Simplified statement of financial position		
Assets		
Cash	74	106
Investments	1 058	997
Other assets	65	54
Total assets	1 196	1 158
Liabilities		
Financial liabilities	134	91
Other liabilities	45	38
Equity	1 016	1 029
Total liabilities	1 196	1 158

Shareholders	
European Investment Bank	61.2%
European Union via the European Commission	30.0%
28 financial institutions	8.8%

Europe's Leading Developer
of Risk Financing
for Entrepreneurship
and Innovation

TABLE OF CONTENTS

1

INTRODUCTION

FOREWORD BY THE CHAIRMAN OF THE BOARD

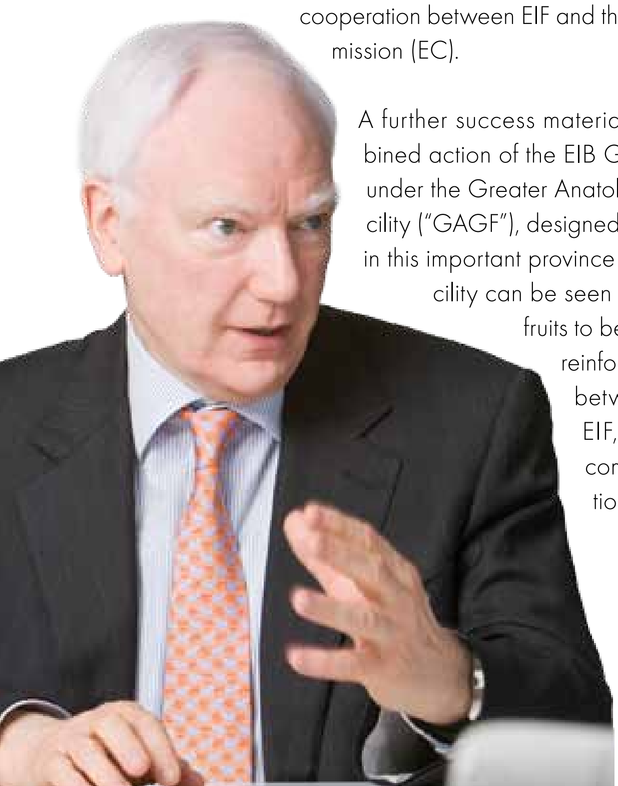
The enhancement of access to finance for Small and Medium-sized Enterprises (SMEs) across Europe is a major pillar in the EIB Group strategy. In 2010, as the leading European fund-of-fund investor in venture and growth capital and a major provider of SME loan portfolio guarantees and credit enhancement, EIF once more increased its level and range of support. Indeed, EIF used its full spectrum of products to bring the most adapted solutions to meet the challenges of the market.

"EIF is playing a critical role in stimulating **smart**, **sustainable** and inclusive economic **growth** throughout Europe."

The focus of EIF has clearly been to attract and catalyse private sector investment, especially on the venture and private equity side, where EIF achieved a record level of commitments. Country-specific mandates both saw successful starts, such as the appointment of EIF to manage the GBP 200m UK Future Technologies Fund and the commitment of an additional EUR 500m in the German ERP facility.

EIF continued to have considerable impact through the European Commission's Competitiveness and Innovation Framework Programme, with full usage of the guarantee and venture capital capacity. Additionally, under JEREMIE, the mobilisation of significant levels of finance using European Structural Funds through Holding Funds managed by EIF has largely extended EIF's geographical reach. These two instruments demonstrate the close cooperation between EIF and the European Commission (EC).

A further success materialised in the combined action of the EIB Group and the EC under the Greater Anatolia Guarantee Facility ("GAGF"), designed to support SMEs in this important province of Turkey. The facility can be seen as one of the first fruits to be reaped from the reinforced cooperation between the EIB and EIF, aiming to bring complementary solutions to the market.



EIF has also worked intensively to catalyse bank lending to SMEs by playing a leading role in the recovery of the securitisation market for SME loans. It played a key role in the two largest such transactions undertaken in Europe last year and there is clear evidence of this market reviving in 2011.

EIF has enjoyed increased support from its shareholders and mandators during the year, reflecting their confidence. This is exemplified by the signing of the EUR 200m European Progress Microfinance Facility mandated by the European Commission and the EIB. The EIB Board of Directors has also decided to increase the Risk Capital Mandate with EUR 1bn, thereby bringing it to a revolving amount of EUR 5bn.

Looking to the future, the Board has recently reviewed the equity and guarantee strategies of EIF. A key element will be to enhance its risk-taking capacity, focussing on market segments with particular needs, in cooperation with the European Commission, Managing Authorities and other International Finance Institutions. The staff is already working actively in support of the core objectives of the EU 2020 strategy and in particular the future innovation policy.

In summary, EIF will continue to extend its product offering and play a critical role in stimulating smart, sustainable and inclusive economic growth throughout Europe.

Philippe Maystadt

FOREWORD BY THE CHIEF EXECUTIVE

In the face of continuing challenges for micro, small and medium-sized enterprises throughout Europe, EIF again stepped up its countercyclical response in 2010 by increasing the volume of activities, introducing new products and instruments for specific market needs and extending its geographic reach.

In 2010, EIF continued its early stage investments and has proven once more its position as a cornerstone of European venture capital. Overall commitments to venture and growth capital funds in 2010 reached a record of EUR 930m. This has leveraged more than EUR 4.5bn of new capital for investment over the next few years.

> "Once more, EIF has proven its position as a **cornerstone** of **European** venture capital and has **catalysed** new lending to SMEs across Europe."

EIF has also continued its intensive effort to catalyse new lending to SMEs through banks and guarantee institutions throughout Europe. The Competitiveness and Innovation Programme (SMEG) facility was fully utilised once again mobilising EUR 1.1bn of new lending with a significant number of new commercial bank partners. EIF continues to be a leading player in the structuring and credit enhancing of SME loan portfolios providing liquidity and capital relief to banks. In 2010, it played a key role in the re-opening of this vital element of the capital markets.

During 2010, EIF intensified its regional business development activity and made considerable progress in the implementation of the 11 JEREMIE mandates. New funding agreements were put in place in Malta and Sicily, the latter using European Social Funds, and SMEs in the JEREMIE regions started to benefit from the programme in 2010.

In a period of a little more than a year, EIF finalised with the European Commission and the EIB the EUR 200m European Progress Microfinance Facility. Commitments under this newly created facility have already been made and a strong pipeline of loans, guarantees and equity investments into microfinance institutions across Europe has been developed.

In 2010, EIF reached an operating profit of EUR 65.4m which is 25% ahead of the Corporate Operating Plan (COP). The main drivers of this positive development are equity gains and guarantee income. This strong operating profit performance led to a net profit ahead of plan at EUR 7.2m despite higher than forecast provisions and impairments.

The overall economic conditions have remained very difficult for SMEs this year, and further downgrades in the ratings of certain transactions in which EIF is guarantor have occurred. A total level of new provisions for guarantees of EUR 53.8m together with some small equity portfolio impairments have resulted in total exceptional charges of EUR 58.1m. As in 2009, the level of calls under these guarantees is very low and, given the general improvement in the European economies, we are convinced that the total provisions that have now been made are very prudent.

Looking forward, EIF will continue the intensive work with the EIB and the European Commission to maximise the impact on smart, sustainable and inclusive growth in the context of Europe 2020. EIF has developed long-term strategies for its equity, guarantees and securitisation activities with a view to further increasing their impact and effectiveness.

A reputation for excellence, both internally as an employer and externally, is the ultimate success factor. Thus, continued focus is given to the improvement of our communication and the development of our talented and dedicated staff.

Finally, I would like to express my sincerest thanks to all the staff of EIF for their contribution to another year of exceptional achievement and to our shareholders, mandators and business partners for their excellent cooperation.

Richard Pelly

STRATEGIC STATEMENT

The European Investment Fund (EIF) is Europe's leading developer of risk financing for entrepreneurship and innovation. EIF delivers a wide spectrum of financing solutions for SMEs through selected intermediaries including venture and growth capital funds, banks and guarantee institutions which specifically target this market segment.

By taking SME risk, EIF promotes entrepreneurship, innovation, job creation and regional development.

EIF promotes **entrepreneurship**, **innovation**, job creation and **regional development.**

EIF plays a crucial role throughout the value chain of enterprise creation, from the earliest stages of intellectual property development to mid and later-stages. While EIF's equity instruments aim to improve the availability of risk capital for high-growth and innovative SMEs, EIF also targets the debt requirements of SMEs providing guarantees and credit enhancement and improving the lending capacity of financial intermediaries to benefit SMEs.

EIF's investments aim to leverage its own funds and those available through mandates (resources), given by the European Investment Bank (EIB) (the Risk Capital Mandate, or RCM, and the Mezzanine Facility for Growth, or MFG), the EU (including the Competitiveness and Innovation Framework Programme, or CIP, the Joint European Resources for Micro to Medium Enterprises or JEREMIE), Member States and other third parties.

Owned by the EIB (61.2%), the EU, through the European Commission (30%) and 28 public and private financial institutions (8.8%), EIF has dual statutory goals to support EU policy objectives and to make a reasonable return on capital for its shareholders through an appropriate pricing policy and a balance of fee and risk-based income.
In this context, EIF constantly collaborates with mandators (capital providers) and potential mandators to develop new innovative financial engineering products which respond to existing and future market and SME needs. Additionally, in line with its objectives, EIF aims to expand its reach to new regions and Member States to continue to improve access to finance for European SMEs.

EIF acquired in 2010 new capacity under the EU policy-driven initiative European Progress Microfinance Facility (EPMF). This facility has a particular focus on micro-borrowers, micro-entrepreneurs and groups with limited access to the conventional banking system and will serve as an umbrella initiative grouping the existing EIF microfinance activities.

Going forward, EIF will intensify its efforts to engage with corporates and strategic investors in view of developing and launching new as well as sector-specific products to address market needs. Moreover, participating in the EU 2020 Strategy and more specifically the Innovation Policy, EIF will be actively involved in an ambitious initiative developed at European level in the fields of intellectual property and patents to respond to the growing needs of SMEs.

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

THE EUROPEAN MARKET ENVIRONMENT

2010 was the year …

… in which policymakers around the world walked a tightrope as they tried to get their economies back on track. While policy stimulus, strong demand from emerging markets, and the inventory cycle gave a boost to many economies in the first half of the year, governments ran the risk of plunging their economies back into recession as they began to withdraw stimulus in order to prevent confidence crises and a ballooning in national debt.

At the same time, central bankers in many developed economies had to walk a fine line between deflation and inflationary risks, trying to offset weak domestic price and wage pressures against increasing growth and high international commodity prices. The aggressive monetary policy which ensued impacted on currencies in some cases, which some interpreted as strategic manipulation, a topic that dominated the G20 round.

2010 was also the year in which peripheral Eurozone countries struggled to adjust to the new economic environment. This resulted in a rising cost of government borrowing, making deficit financing difficult. The assistance provided by other members of the Eurozone has so far been sufficient to stave off collapse but the situation remains critical.

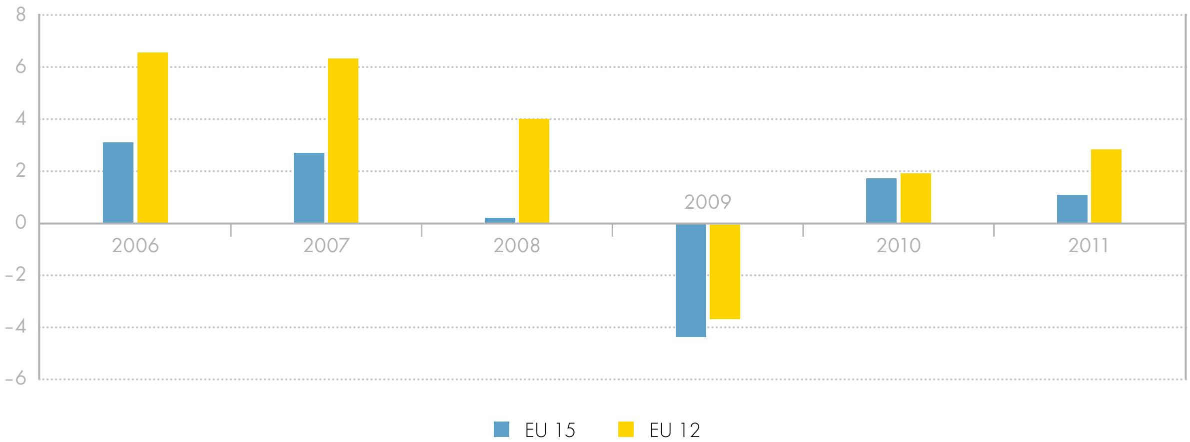
All these factors have resulted in a great degree of uncertainty in the global economy, and have impeded the recovery. According to the Economist Intelligence Unit, overall EU 27 growth for the year came in at around 1.7%, with both EU 15 and EU 12 experiencing similar rates; going forward, EU 12 is forecast to experience a more rapid recovery than EU 15.

Lacklustre performance going forward

In 2011, the sluggish and multi-speed nature of the recovery is likely to continue, with growth unlikely to be much greater than 1% in the EU 27, and in the region of 1.5% in 2012. As has been a feature of this downturn, there will be a significant difference between the performance of different Member States, with growth weakening in the Eurozone periphery, while being relatively healthy in certain countries, in particular Germany, which has been bolstered by export demand from emerging economies.

The factors that constrained the recovery in 2010 are still likely to have an impact in 2011, in particular continued fiscal retrenchment, uncertainty about household income and ongoing repair of banks' balance sheets. However, at this stage, it is unlikely that monetary policy will need

Figure 1: European Union GDP growth (in %)



Source: Economist Intelligence Unit

to be tightened significantly. Although the European Central Bank sees evidence of short-term upward pressure on the overall Eurozone inflation, stemming largely from increasing commodity prices, core inflation is expected to remain benign. Structural imbalances, particularly large current account deficits, continue to hold back a number of countries, and reflect longer term competitiveness issues that need to be addressed.

The situation of core markets in which EIF is active as Europe's leading developer of risk financing for entrepreneurship and innovation with a focus on SMEs is as follows:

Equity

There are some indications that private equity and venture capital (PE) activity in Europe has begun to pick up from the depths plumbed in 2009; in 2010 investment activity increased by 69% and divestment by 54%, albeit all from a very low base. By contrast, fundraising remained in the doldrums, virtually unchanged from 2009.

The improvements in 2010 should be seen in the context of the extreme economic uncertainty in 2009, which drove activity to historic lows; the economic environment has improved somewhat, but the industry is very different from what it was in 2005-07. Furthermore, much of the increase in investment activity in 2010 has been directed towards supporting existing portfolio companies rather than new acquisitions. Clearly, fundraising remains challenging, with Limited Partners continuing to find their portfolios are overweight with private equity assets as the value of the rest of their portfolios has declined (the denominator effect), and facing liquidity constraints. There are some signs that the exit environment is improving from the situation in 2008 and 2009, in which the IPO market was virtually closed and there was an almost complete absence of trade buyers.

The buyout sector, having been the sector hit hardest in 2009 due in no small part to the drying up of leverage, has been the quickest to rebound with the pick up in economic growth and improvements in financial markets.

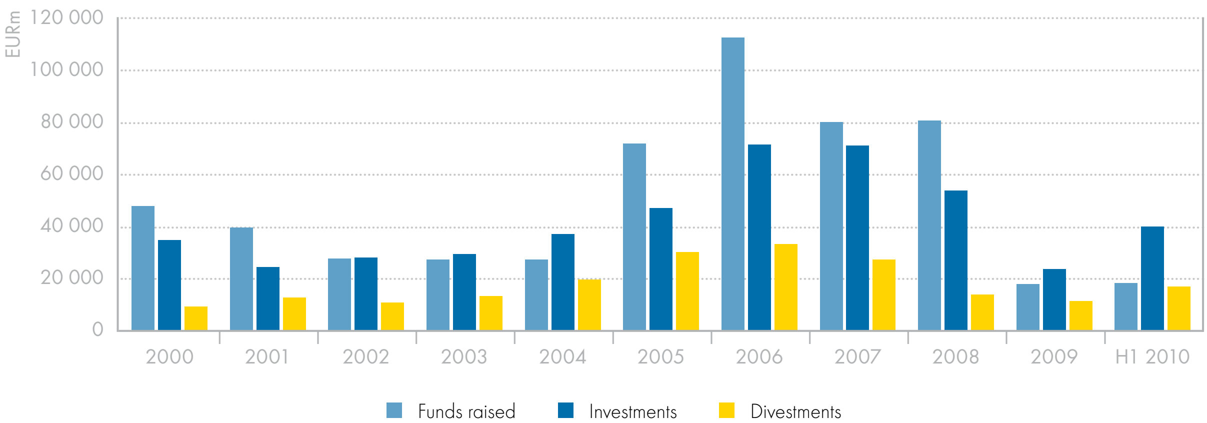
By contrast, the environment remains difficult at the venture end of the market, particularly for seed and start-up investment. The availability of equity for early stage funds has been reduced significantly, with much of the institutional fundraising activity at this end being driven by public or semi-public Limited Partners.

There are reasons to be positive about private equity's prospects for the coming year, as the stock of uninvested funds ('dry powder') remains high, and valuations are historically low meaning that there are good opportunities available to cash-rich investors in times of recession.

Structured finance/Securitisation

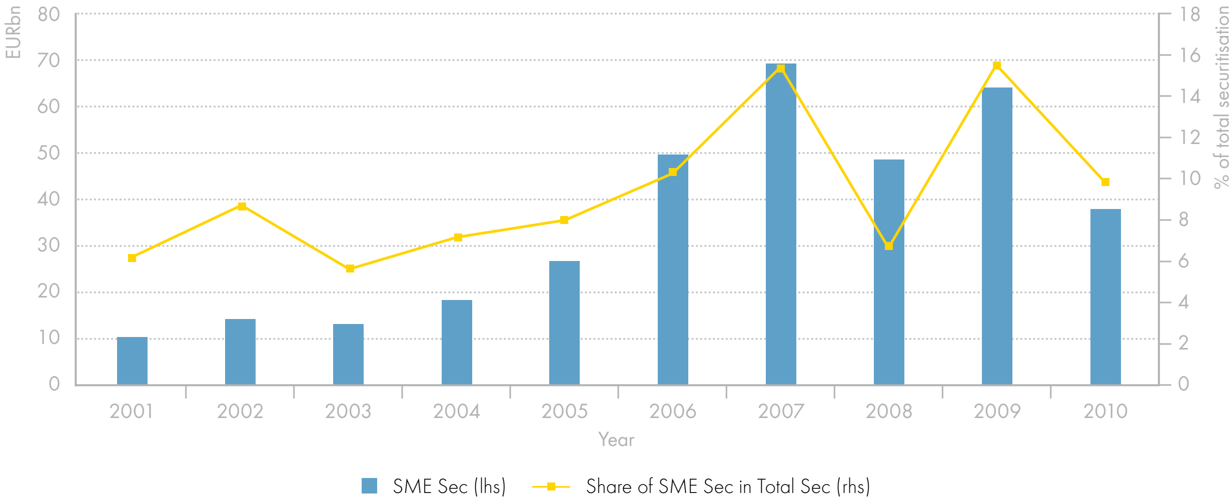
The European Structured Finance market grew steadily from the beginning of the decade until the outbreak of the crisis. During the crisis, issuance remained at high levels, but these

Figure 2: European PE activity by amount (in EURm)



Source: EVCA/PEREP Analytics for 2007-2010; EVCA/Thomson Reuters/PwC for previous years

Figure 3: SME securitisation volumes in Europe (in EURbn)
(SMEs securitisation and share of SME securitisation in total securitisation)



Source: based on data from AFME/ESF and KfW

volumes were almost exclusively driven by the eligibility of Asset Backed Securities (ABS) as collateral for European Central Bank (ECB) liquidity operations.

Given the dominance of the securitisation of residential mortgages, SME securitisation has remained a relatively limited but important segment of the European structured finance market (between 6% and 16% of total yearly issuance during the decade). Following a year without the public placement of an SME transaction, in 2010, the SME securitisation market has shown some signs of reopening, with two benchmark transactions successfully closed in UK and Germany. In both cases, EIF played a key role. However, the SME securitisation deal flow - both in terms of number of transactions and volumes placed with market investors - is expected to remain well below pre-crisis levels for some time.

With regard to existing transactions, and as anticipated in EIF's Annual Report 2009, the pressure to downgrade transactions, based on criteria revisions by the rating agencies and the performance on underlying loan level, continued in 2010. However, due to the focus on the actual performance of transactions rather than such technical changes, this trend might be reversed in 2011.

In general, a continuation of the gradual recovery of the European Structured Finance market is expected, however this will not only depend on the development of market fundamentals and the enhancement of investors' confidence but also strongly on the direct and indirect impact from regulatory preferences.[1]

Microfinance

Microfinance institutions have been affected by the adverse macro-economic conditions, generally through significantly higher incidence of bad debt among their clients and in some cases through increased difficulties in accessing external sources of funding. The target group for microfinance, namely the financially excluded but economically active, is faced with tightening credit supply by mainstream banks due to higher risk aversion and de-leveraging balance sheets. This creates an opportunity for microfinance, but also underlines the paramount importance of credit risk management in an industry that, in Western Europe at least, continues to be driven by socially motivated investors and entities providing microfinance as part of their social responsibility initiatives.

[1] For more details on SME loan securitisation see EIF Working Paper 007/2010; http://www.eif.org/news_centre/research/index.htm

OVERVIEW OF ACTIVITY

EURm

Equity commitments *	2006	2007	2008	2009	2010
EIF Own Resources	84.5	70.7	19.2	42.7	46.8
EIB Risk Capital Mandate	597.7	379.4	187.6	362.6	356.2
EIB Mezzanine Facility for Growth				159.9	223.9
European Commission	89.4	49.7	134.3	43.4	71.6
CIP, MAP, G&E Tech Transfer Pilot Project					
Regional mandates	41.4	21.0	43.6	50.0	147.2
ERP-EIF Dachfonds, LfA-EIF Facility and JEREMIE					
Funds-of-funds activity		3.6	24.2	50.0	84.4
NEOTEC, UKFTF, iVCi and PVCi					
Total	812.9	524.3	408.9	708.6	930.2
Expected leveraged volume **					4 500.0

Guarantee commitments	2006	2007	2008	2009	2010
European Commission	1 028.2	8.0	1 308.7	2 224.3	1 139.3
Budgetary allocation	41.6	79.4	75.3	115.6	96.5
EIF Own Resources	1 194.3	1 389.2	834.2		260.0
Regional mandates (JEREMIE, GAGF)				75.0	501.5
Total	2 222.5	1 397.2	2 142.9	2 299.3	1 900.8
Expected leveraged volume **					3 040.0

Micro-credit commitments	2009	2010
Microfinance windows (RCM, EPPA, EPMF)	1.8	8.2
Expected leveraged volume **		60.0

JEREMIE	2006	2007	2008	2009	2010
Cumulative mandates (numbers)		1	7	10	12 ***
Cumulative total of fund agreements signed		100.0	704.0	1 082.7	1 176.5

* Including commitments in funds of funds structures in 2006 to 2010 and conditional commitments. Historical exchange rates.

** Expected leverage volumes have been calculated as from 2010 based on a methodology presented to the Board of Directors on 31 January 2011, document reference 11/240.

*** 12 mandates signed, of which 2 in Sicily

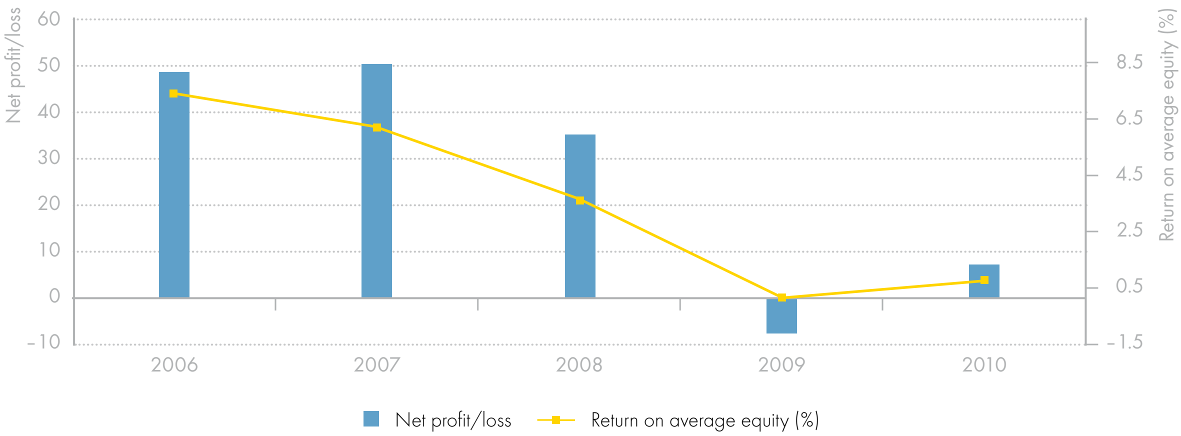
OVERVIEW OF FINANCIAL PERFORMANCE

EURm

Profit for the financial year (IFRS)	2006	2007	2008	2009	2010
Net profit	48.6	50.4	35.1	-7.4	7.2
Return on average equity (%)	7.3	6.2	3.6	0.0	0.7
Dividends declared	19.4	20.2	14.3	0.0	2.9 *
Net Asset Value **	692.5	985.4	1 014.1	1 028.7	1 016.5

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

Net result against return on equity



Source: Calculated in the balance sheet capital accounts

2

EQUITY

A cornerstone role in European venture and growth capital

GENERAL OVERVIEW

As one of the largest investors in European venture and growth capital, supporting both first time and well-known teams, EIF has built a strong track record. Its equity activity is based on the experience it has developed through its diversified portfolio of fund investments, being a reference investor with tangible catalytic effect. EIF's product offering is constantly adapted to market needs and EU policy goals, particularly in the context of the Europe 2020 strategy – the Innovation Union.

A key priority for EIF has been to help the establishment of a well-functioning, liquid venture capital market that attracts a wide range of private sector investors, and to contribute to the sustainability of investments in start-up, early and expansion stage companies and established growth SMEs. One of the objectives of EIF has been to optimise the use and deployment of available resources, including those entrusted by its mandators (EIB, the European Commission and third parties) when capital and budgetary resources at EU and national levels are limited. During the difficult fundraising conditions that have persisted since mid-2007, EIF has been willing to support first closings by committing stakes of up to 50% in Funds, but with the perspective of reducing its participation in an eventual second closing. Specifically under the Joint European Resources for Micro-to-Medium Enterprises (JEREMIE) mandate, EIF has the possibility to commit up to 70% of a venture capital (VC) fund at first close, and remain at this level.

EIF has sought to expand its market impact and reach through the establishment of joint investment facilities with public and private entities (ERP and LfA in Germany), through its country-specific funds-of-funds (NEOTEC in Spain, iVCi in Turkey, PVCi in Portugal, and the United Kingdom Future Technology Fund (UK-FTF). The signature of the UKFTF, set up in early 2010 to enhance access to finance for UK high tech SMEs, exemplifies EIF's efforts to maintain and enlarge its capacity deployed for the benefit of European SMEs. The table below shows the details of EIF's resources and mandates.

	Year signed	Total resource EURm	Total committed EURm	% committed
EIB Group				
RCM	2000	4 000	3 778	94%
MFG	2009	1 000	381	38%
Own resources		522	389	74%
European Commission				
G&E	1998	101	101	100%
MAP	2001	242	242	100%
CIP GIF (1 & 2)	2007	550	217	39%
Regional mandates and fund of fund activity *				
ERP	2004	1 000	642	64%
NEOTEC	2006	183	117	64%
iVCi	2007	160	21	13%
PVCi	2007	111	30	27%
LfA	2009	50	26	52%
UKFTF	2010	231	32	14%

* including EIB Group and EC commitments

A similar increased impact is being achieved through the management of Holding Funds under the JEREMIE initiative, a significant portion of whose funds are being directed towards equity investment in the Member States or regions concerned.

Besides this strong core activity, EIF has further developed new products and broadened the sources of capital and mandates and its geographical scope. The aim is to maximise EIF's impact on the SME market, to address and support all critical areas of the VC ecosystem, and to expand EIF's investor base and availability of capital.

As such, EIF will continue to build its sector-specific expertise and intensify its efforts to engage with corporates and strategic investors in view of developing and launching new products to address market needs. New products, addressing the non-institutionalised segment of the VC market, are currently under development. First pilot schemes of new products are expected to materialise within the next twelve months.

EURm

Fund Vehicle	Resources	Geographic focus	Commitment
3T Telecom Technologies Transfert	EC	France	10.0
Atlantic Bridge II	RCM/EIF	Multi-Country	30.0
Active Capital Partners II	RCM	Spain	4.1
Argos Expansion Fund	MFG	France	40.0
Baltcap Latvia Venture Capital Fund	JER	Latvia	20.0
Baltcap Lithuania SME Fund	JER	Lithuania	14.0
BLM European Opportunities Fund	MFG	Multi-Country	40.0
Cabiedes & Partners	RCM	Spain	1.8
Chalmers Innovation Fund	RCM/EIF/EC	Sweden	3.0
Cipio Partners Fund VI	RCM/EIF	Multi-Country	30.0
Creathor Venture Fund III	EC/ERP	Germany	30.0
Earlybird 2010 GmbH & Co. KG	RCM/EIF/ERP/LfA	Multi-Country	40.0
EMBL Technology Fund II	RCM/EIF/ERP	Multi-Country	25.0
Emerging Europe Accession Fund	RCM/EIF	Central and Eastern Europe	25.0
Forbion Capital Fund II	RCM/EIF/ERP/LfA	Multi-Country	35.1
GEM Benelux II	RCM/EIF	Multi-Country	25.0
Gilde Healthcare III	RCM/EIF	Multi-Country	30.0
Global Cleantech Capital II	RCM/EIF	Multi-Country	30.0
Growth Capital III	MFG	United Kingdom	40.0
HPE PRO Institutional Fund	EC	Multi-Country	25.0
IFE III Mezzanine	MFG	France	25.0
Imprimatur Capital Seed Fund	JER	Latvia	3.0
Imprimatur Capital Start Up Fund	JER	Latvia	11.7
Inflexion 2010 Buyout Fund	RCM/EIF	United Kingdom	30.3
JEREMIE LR SAS	JER	France	11.0
Leuven CD3 II	EIF	Belgium	8.0
Life Sciences Partners IV B.V.	RCM/EIF/ERP	Multi-Country	1.1
LitCapital Fund	JER	Lithuania	14.0
Litorina Kapital IV	RCM/EIF	Sweden	25.3
Middle Market Fund IV	RCM/EIF	France	14.0
Minority Capital Partners	MFG	Multi-Country	39.4
Nauta Tech III, SCR	RCM	Spain	2.4
NorthCap IVS Fund III	EC	Multi-Country	20.1
Resource Eastern European Equity Partners	RCM/EIF	Central and Eastern Europe	40.0
The Third Alcuin Fund	MFG	United Kingdom	39.5
Vendis Capital	RCM/EIF	Multi-Country	25.0
Verslo Angelu Fondas I (Strata Mes)	JER	Lithuania	8.0
Wisequity III	RCM/EIF	Italy	30.0
Subtotal			845.8

Fund-of-Funds activity			
Active II	NEOTEC/Fondo ICO	Spain	10.9
Acton GmbH & Co. Heureka KG	UKFTF	Multi-Country	5.0
Advent Ventures Life Sciences V	UKFTF	Multi-Country	17.3
Cabiedes & Partners	NEOTEC/Fondo ICO	Spain	4.9
DFJ Esprit Capital III LP	UKFTF	Multi-Country	10.0
Explorer III	PVCi	Portugal	15.0
Fondo Inter-Risco II	PVCi	Portugal	15.0
Nauta Tech III, SCR	NEOTEC/Fondo ICO	Spain	6.3
Subtotal			84.4
Total *			930.2

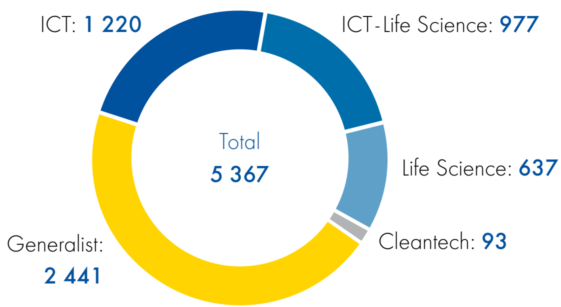
* including conditional commitments

TOTAL PORTFOLIO

Total net equity commitments amounted to close to EUR 5.4bn at the end of 2010. With investments in some 350 funds and over 300 Fund Manager teams, EIF is a major player in the European venture capital market, as well as a significant provider of finance to equity funds which invest in more established growth companies.

As shown in the table on the previous page, EIF made, across all funding sources, a total of EUR 930m in equity commitments throughout 2010, increasing its investments by close to 30% from the previous year and significantly amplifying impact on SME-focused funds in a wide variety of sectors.

Sector focus (at 31 December 2010, EURm)



EIF provided a high level of support to the market by backing teams in the early process of their fundraising. It has been instrumental, despite the continuing difficult market conditions, in providing reliable sources of funding to early stage funds, catalysing closure at critical fund sizes and attracting co-investors. In parallel, EIF has also invested in later stage funds (lower mid-market and mezzanine) and backed first time teams and emerging players in small or less developed markets.

EIF has consistently pursued EU objectives promoting entrepreneurship, growth, innovation and job creation. It has also demonstrated a market-oriented approach, actively investing in early-stage innovative and growth SME-focused funds across a large number of European countries, thereby contributing to the development of a balanced European venture capital and equity industry.

Early stage

Technology Transfer

It is EIF's intention to promote and stimulate the knowledge transfer and intellectual property markets across Europe and bridge the gap between research and the market. In line with its objective to foster the development of innovation in Europe, EIF's Technology Transfer (TT) investment activity matured in 2010, a year which saw EIF's pioneering investments into new Member States.

A key event was the establishment of a Knowledge Transfer Strategic Partnership signed between EIF/EIB, Caisse des Dépôts et Consignations (CDC, France), Cassa depositi et prestiti (CDP, Italy), Centro para el Desarrollo Tecnológico e Industrial (CDTI, Spain), Innovationsbron (Sweden), KfW-Bankengruppe (Germany) and Veraventure (Finland). With this Strategic Partnership, EIF and like-minded public investors are tackling some of the challenges faced by the Knowledge Transfer sector across Europe, exploring new initiatives such as Intellectual Property (IP) Patent Funds and IP Marketplaces.

In 2010, building on its first successes, EIF renewed its support to CD3, the Centre for Drug Design and Discovery TT platform and investment fund created by KU Leuven University (Belgium) and backed by EIF in 2006. This commitment demonstrates EIF's engagement in setting up long-term partnerships with first-class academic institutions and research centres. Early signs of validating CD3's model were seen in 2010 with the first programme developed at CD3 out-licensed to Pfizer, generating income for both KU Leuven and EIF.

A total of EUR 36m (of which EUR 15m under the JEREMIE initiative) were committed into TT in 2010.

Venture Capital

The provision of equity to venture capital funds is a means for EIF to foster innovation, entrepreneurship and economic growth. EIF launched its first equity activities exclusively focused on Venture Capital (VC) in the mid-1990s and has since then become the leading European fund-of-fund investor in this segment and acquired a reputation as major player in the European venture capital market.

Through its investment history, EIF has acquired a broad expertise and experience and has built up its knowledge of the performance of players in the market, of successful fund structures, and of potential pitfalls to avoid. In 2010, based on this experience and unlike many other European investors, EIF increased its stakes committed to high quality funds, thus assisting to preserve the valuable European venture capital infrastructure in a period of capital attrition and responding to the financial needs of SMEs.

Increase of total equity investments of

30%

in 2010

During the year, EIF signed EUR 332m of commitments in 18 venture capital funds and, going forward, in concerted efforts with all stakeholders, will continue to work towards a self-sufficient European venture capital industry.

Growth capital

Lower Mid-Market

The lower mid-market activity of EIF covers growth, expansion and mid-market funds, offering SMEs in their growth phase access to equity finance. EIF typically participates early in the fundraising process to attract other investors and to help the fund managers reach optimal fund sizes. Throughout 2010, EIF has supported established managers and, for this market segment, notably stepped up its commitment, compensating the decrease or disappearance of sponsors and large investors. Additionally, EIF increased its support to first closings managed by emerging or first time teams providing high added value by expanding the equity offer for SMEs.

In 2010, EIF signed EUR 338m in 14 Lower Mid-Market funds, strongly increasing its overall contribution when the fundraising involvement from institutional investors was still at very low levels.

Mezzanine

The Mezzanine Facility for Growth is a EUR 1bn fund-of-funds mandate granted by EIB which targets hybrid debt/equity funds throughout Europe, with a view to playing a catalytic role in this market segment.

The purpose of this particular asset class is to provide alternative financing to support, for instance, shareholding reorganisation or expansion for more mature businesses and late stage or expansion technology companies. Mezzanine funding can be tailored to meet the specific financing requirements of these companies and, is well adapted to long term financing.

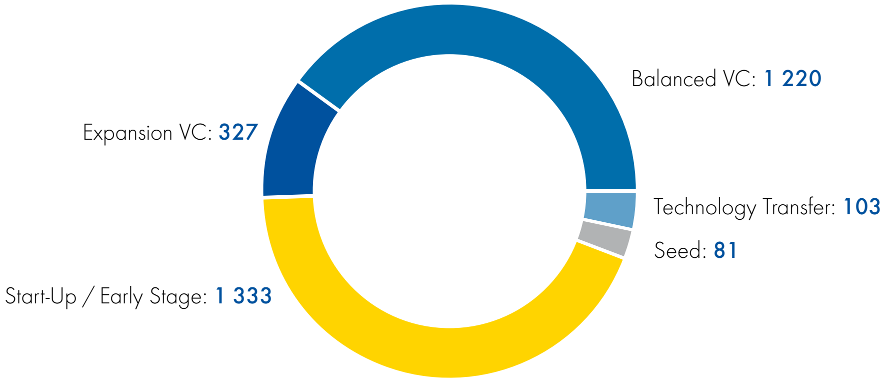
EIF is generally involved early in the launch of mezzanine funds, taking a significant participation at first closing and playing a critical role in achieving a first closing at viable fund size.

In 2010, EIF committed a total of EUR 224m in six mezzanine funds, spreading its contribution evenly between first time teams composed of experienced professionals and established teams raising new funds. Three of these funds backed by EIF in 2009 made further closings in 2010, allowing EIF to increase its commitment. This demonstrated EIF's catalytic role and confirmed that its participation not only allowed first closings but also facilitated new investors' appetite to further extend fund sizes and increase support to European SMEs. EIF has also been able to support established players as well as emerging teams with focus on SMEs in new markets, expanding its geographical reach to Central and Eastern European countries.

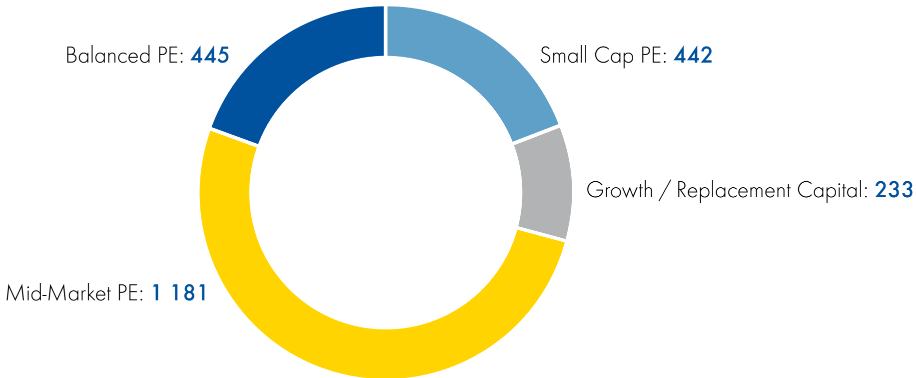
The graphs below demonstrate the spectrum of SME development stages covered by EIF:

Stage focus (at 31 December 2010, EURm)

Early stage



Growth capital



Total	5 367

EIB GROUP RESOURCES

EIF has been managing EIB resources for equity (venture and growth capital) 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 an enlarged Europe (EU 27, EU Candidate and potential Candidate Countries, EFTA countries). EIF's venture capital operations are conducted through this evergreen facility, and are complemented by EU Competitiveness and Innovation Framework Programme 2007-2013 (CIP) and EIF own resource co-investments.

EIF also manages the Mezzanine Facility for Growth (MFG) on behalf of the EIB. MFG is deployed to respond to the increasing funding needs of SMEs and is invested in hybrid debt/equity funds throughout Europe.

Increase of RCM by EUR 1bn

In 2010, commitments under RCM, MFG and EIF resources totalled EUR 626.9m. In terms of cash flow, disbursements for the year reached EUR 335.2m, with reflows of EUR 216.8m (capital repayments of EUR 149.8m and revenue repayments of EUR 67m).

At the end of 2010, the EIB Board of Directors decided to increase the Risk Capital Mandate by EUR 1bn, thereby bringing it to a revolving amount of EUR 5bn.

Since inception, total disbursements have amounted to nearly EUR 3.2bn with total reflows of EUR 1.3bn (capital repayments of EUR 1.1bn and revenue repayments of EUR 223.9m).

EURm

RCM, MFG + EIF own resources	2006	2007	2008	2009	2010	Total since inception
Commitments	682.2	450.1	206.8	565.2	626.9	5 057.4
Disbursements	349.9	371.0	324.6	205.5	335.2	3 261.0
Capital repayments	208.2	203.0	160.0	63.8	149.8	1 097.0
Revenue repayments	29.9	58.3	33.9	7.7	67.0	223.9

Growth Capital Fund III

A one-stop shop

"The **backing, advice** and **expertise** which we received from the EIF have been key to our success. We now have the **capacity** to carry out our strategy and provide flexible **structured equity** to UK SMEs".

Bill Crossan
Managing Partner, Growth Capital Fund III

Introduction

EIF has long acted as cornerstone investor in funds which specifically target mid-market technology SMEs, as they offer businesses tailor-made financing solutions to further enhance their development.

The crisis and the scarcity of bank lending made access to financial sources suited to more mature businesses' specific needs difficult. It, however, also opened opportunities for providers of integrated financing tools.

Growth Capital Partners (GCP), in which UK mezzanine fund, Growth Capital Fund III, EIF has invested, are one of such providers. They have developed an innovative investment model of combined debt and equity designed as a "one-stop shop" for SMEs which can now get the capital provision they need all from one source of funding.

The hybrid debt/equity nature of the product GCP offer provides an alternative to traditional lending. It is designed to meet the specific financing requirements of companies which are more advanced in their development and is well adapted to long-term financing.

Added value

With this investment, EIF addresses the financing needs of SMEs in the UK lower mid-market segment. This is especially relevant under the current market conditions where the volume of transactions in this segment has decreased substantially, in large parts due to the limited availability of debt financing.

EIF is supporting an experienced team whose investment strategy and efficient capital provision model is expected to have a positive impact on SMEs, entrepreneurship and job creation in the UK, thus participating to the market recovery.

EIF also gave GCP the support to build a solid investors and capital base. This transaction underlines EIF's role in encouraging the best fund management teams to develop and carry out their strategies in an independent way so that SMEs can get the best possible backing they need.

EUROPEAN COMMISSION RESOURCES

In 2010, the EIF continued to invest the budgetary envelope of EUR 1.1bn equally split between guarantees and equity as part of the CIP 2007-2013 Programme to enhance SME access to finance. The programme, which is particularly important for EIF's support to venture capital, covers a wide geographical area, the EU 27, EEA, and other European countries such as Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and, since the start of 2009, Turkey and Serbia, extending the targets of EIF support and the budget available for SMEs.

Enhancing **access** to **finance**

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

Throughout 2010, EIF implemented the equity segment of the CIP known as GIF (High Growth and Innovative SME Facility) [2] and fulfils its objective to improve access to finance for the start-up and growth of SMEs, and investment in innovation activities including eco-innovation.

EIF made CIP commitments amounting to EUR 71.6m (EUR 46.6m under GIF 1 and EUR 25m under GIF 2) in 2010. In terms of 2010 cash flow, for all Commission mandates (CIP, Multiannual Programme for Enterprise and Entrepreneurship 2001-2006, or MAP, and the Growth and Employment scheme, or G&E) EUR 50.6m was disbursed, with reflows of EUR 9m.

This activity brings the net signatures of the European Commission portfolios (G&E, CIP and MAP) to EUR 523.7m at end-2010.

EURm

CIP, MAP and G&E	2006	2007	2008	2009	2010	Total since inception
Commitments	89.4	49.7	134.3	43.4	71.6	523.7
Disbursements	23.2	38.7	50.7	52.3	50.6	315.4
Capital repayments	7.6	12.8	3.6	3.9	6.8	59.0
Revenue repayments	3.9	1.9	0.2	0.1	2.1	20.5

[2] GIF comprises two business lines, GIF 1 which covers early stage (seed and start-up) investments investing in specialised venture capital funds and GIF 2 which covers expansion stage investments by investing in specialised risk capital funds.

Energate

A gate to energy in Estonia

"The **financial support** and **advice** provided helped us to make this project a reality and to establish that wind farms are the **energy providers of tomorrow**".

Hardi Sui
CEO, Energate

Introduction

Being at the forefront of regional development, entrepreneurship and innovation, is part of EIF's core objectives and is reflected in the companies backed by the funds in which EIF invests.

"Energate, a gate to energy" is what this company promises, describing in a nutshell its activity.

Since 2008, Energate had successfully operated last mile natural gas distribution in Estonia for customers around Tallinn and Tartu, including those in the most remote locations, and was ready for new challenges.

CEO Hardi Sui believed that Energate's future lay beyond their traditional activity and wanted to embark in innovative renewable energies projects so that his company could become the Estonian gate to green energy. In the greater scheme of things, he was convinced that the development of renewable energy would have a part to play in the regional growth of Estonia.

Added value

Keen to prepare for the set-up of an 18MW wind farm project in south-west Estonia, he found the perfect strategic partner in Baltcap, a private equity firm who believed in his business model. Backed by EIF and thanks to the CIP resources of the European Commission, Baltcap provided the capital Hardi Sui needed to realise his plans.

The additional financing capacity made the building of the infrastructure for six wind turbines to be later integrated in the energy network possible.

OVERVIEW OF JOINT VENTURES AND FUNDS-OF-FUNDS

Through its joint ventures and funds-of-funds activities, EIF made a decisive impact on SME finance availability on a wide geographical scale:

ERP-EIF Dachfonds

The ERP-EIF Dachfonds is a fund-of-funds investing in venture capital funds focusing mainly on German-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), which committed 50% of the Facility, matched by co-investments from EIF, EIB and EU resources.

ERP-EIF Dachfonds has established itself as one of the most important pillars of the German VC market. Asserting its role of cornerstone investor, it backed experienced teams as well as promising emerging teams and was often instrumental in many funds reaching viable first closing sizes. As a result of its successful implementation - originally launched at a total volume of EUR 500m – the Dachfonds was increased in May 2010 to EUR 1bn by the BMWi and the EIF.

In 2010, the ERP-EIF Dachfonds committed EUR 120m in four funds, three of these commitments (EUR 90m) still being conditional. The ERP-EIF Dachfonds is currently 64% committed with signatures and conditional commitments totalling EUR 642m in 20 funds.

LfA-EIF Facility

Signed in May 2009, LfA-EIF supports venture capital funds which focus on the Bavaria region of Germany, and which target high-tech early and development stage companies. EIF manages this co-investment facility on behalf of the LfA Förderbank Bayern, which provided EUR 25m matched by co-investments from EIF, EIB and the EU.

In the first 1.5 years since inception, the LfA-EIF Facility has been successfully ramped up and already achieved major objectives: besides supporting one emerging fund manager, investments of the Facility have been decisive in several funds reaching viable first closing sizes and have been critical in three fund management teams establishing local presence.

As of end of 2010, the LfA-EIF Facility has committed some EUR 26m in four funds, of which one commitment (EUR 5m) is still conditional. It is now 52% committed.

Istanbul Venture Capital Initiative (iVCi)

Founded in 2007, Istanbul Venture Capital Initiative (iVCi) is the first and only dedicated fund-of-funds and co-investment program for Turkey. A successful example of a national-international and public-private partnership, it had its final closing at EUR 160m in March 2009 with the participation of six investors: SME Development Association of Turkey (KOSGEB), Technology Development Foundation of Turkey (TTGV), Development Bank of Turkey (TKB), National Bank of Greece Group (NBG Group), Garanti Bank of Turkey and EIF.

Since the launch of iVCi, EIF has evaluated over 25 fund proposals targeting Turkish fund managers, six of which were approved by the iVCi Investment Committee. So far, two of these investments have been signed for total commitments of EUR 21m. This amount will be match-funded by third party investors resulting in over EUR 50m of equity resources being deployed for investments into Turkish SMEs.

In 2010, EIF organised two Strategic Network Meetings as part of the iVCi Strategic Network Platform which gathers together prominent representatives from the PE & VC industry to discuss important issues related to the development of the PE & VC in Turkey. Topics for discussion include the Regulatory Environment in Venture Capital and Private Equity, and the Establishment of a Turkish Private Equity / Venture Capital Association.

As a result of continued scrutiny and monitoring of the market, EIF has, through iVCi, extended its visibility within the Turkish financial private equity and venture capital markets, and gained access to all segments of the industry. iVCi now has a full pipeline of new fund proposals ranging from early stage venture capital investments to mid-size company buy outs in a wide variety of sectors.

Portugal Venture Capital initiative (PVCi)

At the end of 2007, EIF launched, 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). EIF is responsible for the management of PVCi, which invests in Portuguese and international funds with a primary focus on Portugal.

In 2010, the first two transactions were signed for a total amount of EUR 30m. Another investment was also approved by the Investment Committee in December 2010.

United Kingdom Future Technology Fund (UK FTF)

The UK FTF L.P. was launched by the UK Prime Minister as part of the Government's strategy for venture capital funds investing in technology companies with high growth potential across important sectors such as life sciences, digital and advanced manufacturing. In such context, in September 2009 EIF responded to an open call for tender, and was then selected in December 2009 and subsequently appointed - in February 2010 - to serve as investment adviser to UK FTF L.P.

UK FTF L.P. is GBP 200m in size made up of equal commitments by the UK government and EIF (RCM). Although having been in the ramp-up phase and having started the investment activity in an extremely difficult fundraising environment for venture capital funds, UKFTF L.P. has to date signed three investments in high potential funds: DFJ Esprit Capital III, Acton GmbH & Co. Heureka KG and Advent Ventures Life Sciences Fund. As such, the Fund played an important role in supporting venture capital teams in their fundraising efforts and bringing the funds to closings in a timely manner and thus into investment mode. The pipeline for 2011 continues to be strong with several investments planned over the year.

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), now part of the Spanish Ministry of Science and Innovation.

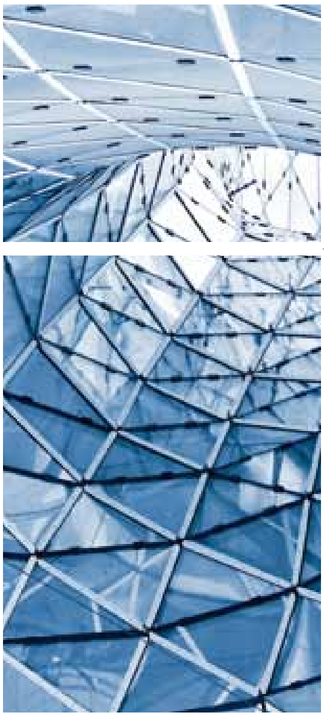
This high-tech and innovation vehicle, which includes a fund-of-fund and a co-investment facility, was subscribed to by CDTI, EIF and several other private investors, mainly Spanish blue chip companies. It closed at EUR 183m in June 2006, EUR 50m of which was committed by the EIF.

In 2010, two new transactions were signed for a total of approximately EUR 30m, with EUR 6m funded by EIF, EIB and European Commission resources. At the end of 2010, NEOTEC approved deals for a total amount of EUR 117m.

DAHLIA

Dahlia is a pan-European fund-of-funds, jointly sponsored by EIF and Natixis Private Equity (NPE), to which EIF committed EUR 75m and Natixis EUR 225m. A feature of the initiative is that it combines primary and secondary investments, building upon the respective strengths of EIF and Natixis in these particular market segments.

Over 60% of Dahlia funding has now been committed, with a target of full investment by the end of 2011.



Advent Life Sciences

Bringing life to future technologies

"This **new capacity** will help us make a difference to the **technology** and **innovation** sectors and gives us the opportunity to support, **develop** and transform UK businesses into European frontrunners."

Raj Parekh
General Partner, Advent Life Sciences

Introduction

The UK Future Technologies Fund (UK FTF), a fund-of-fund managed by EIF and backed by the UK government, has £200m to invest.

It invests in venture capital funds which target UK innovative SMEs specialising in a range of technologies such as life sciences, digital technology, and advanced manufacturing.

Although only launched in February 2010, UK FTF has already signed three milestone investments with key players in the UK market at end-2010. This includes the £15m committed to Advent Life Sciences, Advent Venture Partner's (AVP) first fund totally focussed on life sciences.

AVP have been involved in SME financing in the advanced technologies sector for over 20 years and have extensive market knowledge, experience and recognition which make them one of the major and most established players on the UK venture capital market.

Advent Life Sciences' investment strategy is a perfect fit with UK FTF's stage and sector target: it particularly concentrates on innovative early to mid-stage UK and European companies that provide technologies or products in a range of sectors within life sciences.

With this new fund focussing solely on life sciences Advent aims to respond to the sector's increasing need for resources and for help to develop, being insufficiently served by private and institutional investors.

Added value

UK FTF's involvement in Advent Life Sciences gives a strong positive signal to the market and raises interest of other investors that may not have been attracted to a sector that was particularly hard hit by the crisis.

The transaction underlines EIF's engagement to innovation, particularly in the life sciences sector. In addition, the investment contributes to EIF's aim of driving economic growth and making an impact on the development of Europe's future technologies.

OUTSTANDING EQUITY PORTFOLIO

at 31 December 2010 (in EURm)

Grand total

5 367

Austria	54
Belgium	83
Bulgaria	13
Cyprus	7
Czech Republic	28
Denmark	95
Estonia	7
Finland	115
France	768
Germany	558
Greece	15
Hungary	16
Ireland	89
Italy	267
Latvia	36
Lithuania	40
Luxembourg	21
Malta	8
Netherlands	109
Poland	92
Portugal	155
Romania	36
Slovakia	4
Spain	424
Sweden	280
United Kingdom	1 306

Norway	25
Switzerland	81

Croatia	3
Turkey	274
EU accession countries	70

Other	288

3

GUARANTEES & CREDIT ENHANCEMENT

A prime provider of credit enhancement to catalyse SME lending

GENERAL OVERVIEW

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

For own risk transactions, EIF employs its own capital to credit enhance tranches of SME loan or lease securitisation transactions placed on the capital market transactions. In addition, EIF provides credit insurance cover for SME loan and lease 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 consequences, EIF shares the risk and facilitates capital relief of financial institutions, therefore increasing their lending capacity to SMEs.

1 million

SMEs supported so far

EIF manages the SME Guarantee Facility (SMEG) as part of the Competitiveness & Innovation Framework Programme (CIP) on behalf to the European Commission (EC). Under this facility, the EC provides guarantees and counter-guarantees of part of the expected loss for portfolios of SME loans or leases to financial institutions. Final losses stemming from SME loans granted during a predefined period are covered on a pari passu basis with the financial intermediaries up to the expected loss set at inception of the agreement.

The objective of the programme is, as for the venture capital side, to enhance access to finance of SMEs which would not usually be granted a loan by financial institutions or at substantially less favourable terms with a view to fostering productivity, competitiveness and innovation capacity throughout the EU.

The SMEG facility comprises four business lines, known as "windows":

- Loan Guarantees cover portfolios of mid to long-term loans and leases to SMEs;
- Micro-Credit Guarantees cover portfolios of micro-credits to encourage financial institutions to provide financing to micro-enterprises, especially start-ups;
- Equity/Quasi-Equity Guarantees cover portfolios of investments in, and mezzanine financing of, respectively, early stage SMEs;
- Securitisation consists of guarantees to support securitisation transactions by financial institutions to mobilise additional debt financing for SMEs.

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

TOTAL PORTFOLIO

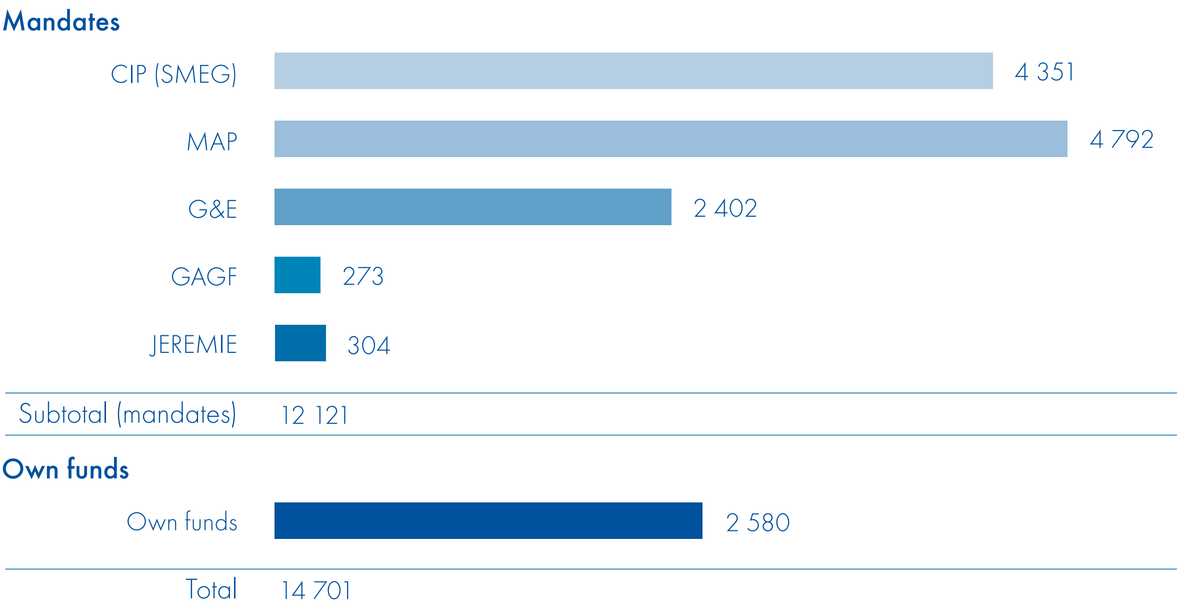
EIF's guaranteed portfolio (own risk and mandated business together) amounted to EUR 14.7bn at the end of 2010, consisting of 193 transactions spread across Europe.

The guaranteed portfolio under the European Commission mandates activity (CIP, MAP and G&E)[3] amounted to EUR 11.5bn at end December 2010 (corresponding to a maximum first loss liability of EUR 719m), up from EUR 10.7bn in 2009 (corresponding to a maximum first loss liability of EUR 620m) as the market demand for guarantees under the CIP facility remained strong.

During 2010, EIF has intensified its regional business development activity and has made considerable progress in the implementation of the GAGF and JEREMIE mandates. EIF has signed EUR 273m under the GAGF mandate (six transactions) and EUR 304m under the JEREMIE mandate (11 transactions).

EIF's own risk portfolio mainly consists of credit enhancement products. At end-2010, net own risk guarantees (including outstanding and undrawn amounts) amounted to EUR 2.6bn, which was down from EUR 2.9bn the year before as a result of guarantees having reached maturity. Underlying portfolio assets consist of a variety of financing instruments to SMEs, such as commercial loans, subordinated loans, venture financing, leasing receivables, micro-credit, loan guarantees, etc.

Product breakdown at 31 December 2010 (in EURm)



[3] CIP follows two prior EC programmes with similar objectives, the Multi-annual Programme and Growth & Employment available between 1998 and 2007.

In 2010, the level of guaranteed portfolio signed totalled EUR 1.9bn, demonstrating EIF's role as a prime provider of credit enhancement to catalyse SME lending.

EURm

Deal name	Resources	Geographic focus	Commitment
Akbank T.A.S	GAGF	Turkey	50.0
Alpha Bank	JEREMIE	Greece	30.0
Bank of Cyprus	JEREMIE	Cyprus	10.0
BCR	JEREMIE	Romania	42.5
Caixa Capital Micro - EQ	EC	Spain	4.0
CERSA	EC	Spain	301.0
Créalia	JEREMIE	France	2.0
Denizbank A.S.	GAGF	Turkey	50.0
EFL - Europejski Fundusz Leasingowy	EC	Poland	42.9
Finansbank	EC	Turkey	67.8
Finansbank Micro	EC	Turkey	187.2
Geldilux TS 2010	EIF	Germany	200.0
Istrian Development Agency	EC	Croatia	2.7
KfW	EC	Germany	176.0
Kredi Garanti Fonu	GAGF	Turkey	22.5
Kredi Garanti Fonu Isletme ve Arastirma	EC	Turkey	45.0
LfA Förderbank Bayern for the benefit of 4 German regional promotional banks	EC	Germany	70.5
Pekao S.A.	EC	Poland	129.6
Pekao S.A. Micro	EC	Poland	37.6
Raiffeisen Romania	JEREMIE	Romania	20.5
Sandown Gold PLC	EIF	United Kingdom	60.0
SEB Bank Latvia	JEREMIE	Latvia	30.0
SIAGI 2	EC	France	75.0
Siauliu Bankas AB Lithuania	JEREMIE	Lithuania	20.0
SwedBank Latvia	JEREMIE	Latvia	22.0
SwedBank Lithuania	JEREMIE	Lithuania	52.0
T. Vakiflar Bankasi T.A.O.	GAGF	Turkey	50.0
Turkiye Halbankasi A.S.	GAGF	Turkey	50.0
Yapi Ve Kredi Banakasi A.S.	GAGF	Turkey	50.0
Total			1 900.8
Total cap amount for EC and GAGF deals			122.1

Le Grand Pré

Finance on a plate

"Opening my **own restaurant** was my **dream** and this **funding** has given me the opportunity to make it **come true**."

Raoul Reicherath
Chef, Le Grand Pré

Introduction

With many financial institutions tightening their credit policies post crisis, the CIP SME Guarantee Facility has played a major role in addressing the SME needs for debt finance and aiming at enhancing their access to credit.

Raoul Reicherath always wanted to have and run his "own" business and had explored the market far and wide.

Together with his wife, he set his sights on opening a restaurant in a charming farmhouse in the Vaucluse region of France, and when he heard about the opportunity to be granted a guaranteed loan from the financial intermediary SIAGI, backed by the EIF under the CIP programme, he jumped at the opportunity.

Added value

Thanks to the EUR 149,049 loan, Raoul could expand his business and now employs five people for his busy dining and kitchen area. He is hoping to add another two to his team in the near future.

With the necessary financial support, the foundations of his business are set and he can now concentrate on creating new dishes and culinary delights for the pleasure of his customers, just as he has always wanted. Now that he has received a loan he hopes to start cooking up a new special service. Maybe this will become a new Michelin-starred restaurant – who knows?

EUROPEAN COMMISSION RESOURCES

The SME Guarantee Facility (SMEG) under CIP, which EIF is managing for the EC, aims to enhance access to finance for SMEs throughout the EU, in Iceland, Norway and Liechtenstein, as well as in Croatia, FYROM, Montenegro, Serbia, and Turkey. The SME guarantee is made available to CIP intermediaries as a free of charge guarantee covering part of the first loss (i.e. the expected losses) of a portfolio of new SME loans. To qualify for such a cover, financial institutions commit to offer enhanced access to finance for SMEs by taking SME risk exposure which is additional to what they would usually accept through, e.g. reduced collateral requirements, increased loan volumes or lending to hitherto excluded SME segments (like, for instance, start-up enterprises). The intermediary retains, typically, 50% of the first loss in the guaranteed portfolio.

90 000

SMEs have benefited from CIP guarantees so far

Throughout 2010, EIF continued to deploy the programme's guarantee instruments with a total of more than 90 000 SMEs having already benefited from the CIP guarantees. It is expected that a total number of approximately 120 000 SMEs will be supported over time by the already committed budget. With many financial institutions tightening their credit policies post crisis, the CIP SME Guarantee Facility played an even more crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance. At end-2010, EIF had signed CIP agreements with 27 intermediaries in 15 countries and the large majority (more than 90%) of the supported SMEs were micro-enterprises and 57% of them were in the start-up phase.

The CIP SME Guarantee Facility has achieved a substantial leverage on the allocated budget of approximately 18 times the guaranteed loan amount, i.e. EUR 1 of budget allocation supports EUR 18 of SME loans.

The 2010 transactions present a lower leverage than previous years due to the higher expected default levels resulting from the financial crisis. In this environment, CIP intervenes with higher budgetary allocations to provide higher loss coverage, thus supporting lenders to continue to finance SMEs.

Supported loan volume in the first 3 years of operations (as of 31 December 2010)

EURm

	2008	2009	2010
Guarantee commitments	75.3	115.6	96.1
Guaranteed loan volume	1 309	2 299	1 187

Caixa Capital Micro

Bridging financing gaps for start-ups

"The support of EIF is an endorsement of our **innovative** approach to financing **pre-seed** SMEs. It will help the development of numerous young and innovative micro-companies in Spain which would not have otherwise had **access to finance**."

Carlos Trenchs
CEO, Caixa Capital Risc

Introduction

One window of the guarantee facility available under CIP aims at enhancing mezzanine financing to SMEs with high growth potential who have difficulties in accessing sources of finance because they are too young in their development to raise equity finance.

This facility was the perfect opportunity for Caixa Capital Risc, "la Caixa" Group's venture capital management company, to offer a convertible loan product tailor-made for early stage micro-enterprises, with a view to bridging a financing gap.

Strengthening the support given to entrepreneurs, EIF and Caixa Capital Micro, the newly created vehicle, signed a guarantee agreement under CIP aiming to help provide these convertible loans for pre-seed and start-up companies in Spain.

Innovative young enterprises and newly created micro-enterprises can now have access to up to EUR 8m of convertible loans, guaranteed under the CIP programme.

Via these participative loans convertible to capital, EUR 50 000 are invested into the project's own funds, the project itself being the sole guarantee for the investment. In contrast to other types of finance, the company is not assessed in the start-up phase and the total amount is paid upon signing the contract.

The loans can be converted to equity stakes if the borrower company manages to raise a venture capital funding round within three years of receiving the loan.

Added value

This transaction will allow Caixa Capital Micro to make investments in over 150 newly created, innovative micro-companies based in Spain over the course of a three year period and, to date, eight companies have already benefited from the project. These include for example, a university spin-off active in the biotechnology sector and focusing on development of products aiming to improve food safety and an IT company developing software solutions for business performance optimisation.

The signature with Caixa Capital Micro exemplifies how EIF, through CIP, can provide specific tailor-made solutions to meet market and SME needs.

With the risk sharing provided by the CIP guarantee, many promising companies will be able to access finance and develop their activities, living up to their high growth potential. It underlines EIF's key role as promoter of innovation, entrepreneurship and credit enhancement for SMEs.

CREDIT ENHANCEMENT AND SECURITISATION

EIF credit support enables banks to obtain liquidity and achieve capital relief thus allowing them to expand their SME lending activity.

With its securitisation transactions, EIF acts as guarantor of tranches of SME securitisation transactions.

Commitments translate into more than

40 000

SMEs supported in 2010

The European securitisation market has gone through an extremely difficult period in the last three years with very few transactions placed with market investors. EIF has contributed to the gradual reopening of the SME securitisation market in Europe, which in the second half of 2010 has seen the first SME transactions emerging with actual placement to third party investors. The first public SME transaction was originated by Lloyds Banking Group and comprised GBP 807m of loans to UK SMEs. EIF contributed with a guarantee for a mezzanine tranche to further credit enhance the senior notes and give senior note investors additional comfort for the transaction.

It is expected that 2011 will see an increase in transactions, most of which will continue to focus on funding-related issues. The challenging environment for SME securitisation will persist, however, and large new issuance volumes are not expected to return given the still relatively high spreads investors require for SME securitisation notes. There are, on the other hand, clear signals that financial intermediaries do want to return, with primary market activity and will use the securitisation market to complement wholesale funding options. EIF will seek to proactively contribute to the reopening of the market and continue to act in a countercyclical way.

Despite the market turmoil in the past and continuing challenges for SME securitisations, EIF has signed almost EUR 1.1bn of new commitments in the period 2008-2010 (EUR 260m in 2010) and has built up a significant pipeline for 2011. EIF has achieved on average a "leverage" of 7.5, meaning that its guarantee commitments have translated into the support of approximately EUR 8bn of SME lending and over 40 000 SMEs supported.

NEW GUARANTEE PRODUCTS

EIF developed in 2010 new financial products in order to leverage EU structural funds with the view to enabling SME financing in countries less supported by the traditional EIF products: a risk sharing loan and a portfolio guarantee instrument under JEREMIE; a counter-guarantee and a portfolio guarantee combined with EIB global loans under the Greater Anatolia Guarantee Facility in Turkey.

Targeted products meeting specific market needs

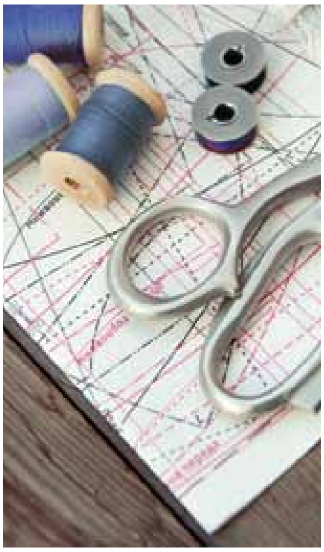
Under the JEREMIE risk sharing loan facility (FRSP), the EIF provides funding to financial institutions for the financing of a new portfolio of SME loans (such loans to be co-financed by the financial institution) and shares part of the credit risk relating to the portfolio. EIF signed six JEREMIE risk sharing loan facilities in 2010.

Under the JEREMIE First Loss Portfolio Guarantee (FLPG), EIF covers part of the credit risk relating to a new portfolio of loans and/or leases granted by a financial intermediary to SMEs. The first two JEREMIE portfolio guarantees were signed in Romania in December 2010.

An example of a high value-added joint operation signed in 2010 was the Greater Anatolia Guarantee Facility (GAGF) to support SMEs in some of the less developed provinces of Turkey. Home to 25% of the country's SMEs, these provinces only receive a very small proportion of Turkey's SME lending. GAGF, which is a joint initiative of the EIB Group, the EU Commission and the Turkish Ministry of Industry and Trade, utilises a combination of counter-guarantee, direct portfolio guarantees and funding, providing a risk sharing mechanism as well as capacity building to financial intermediaries providing access to finance to SMEs.

In October 2010, EIF signed one counter-guarantee agreement for micro-loans and five guarantee agreements with Turkish banks for an aggregate guarantee amount of EUR 27m and a corresponding aggregate loan portfolio volume of EUR 537.5m. As a joint EIB Group operation, EIB is providing funding to these five banks for a total amount of EUR 250m to finance the GAGF guaranteed portfolios.

EIF actively develops similar funded or unfunded guarantees to the benefit of SMEs, meeting specific market needs by providing targeted products and endorsing a role of financial engineering provider especially in view of the Europe 2020 objectives which will require a wider scope in terms of geographies and sectors.



Banca Comerciala Romana and
Raiffeisen Bank Romania

Tailor-made financing in Romania

"We already offer a large portfolio of *bread and butter* products to local SMEs. Our cooperation with EIF will provide our clients with additional tools for development".

Steven van Groningen
CEO, Raiffeisen Bank Romania

"It is our objective to provide sustained funding to all good businesses viable on longer term. This agreement strengthens and diversifies our funding base for the benefit of Romanian SMEs".

Dominic Bruynseels
CEO, Banca Comerciala Romana

Introduction

In 2010, EIF designed and implemented new and innovative financial products to leverage EU structural funds, extending EIF's geographical scope and response to specific market needs. One particular product, the First Loss Portfolio Guarantee (FLPG), was developed to encourage financial institutions to extend new loans to eligible SMEs at favourable conditions. The guarantee provided covers new loans, with losses being shared equally with the intermediary at a fixed guarantee rate, thus encouraging additional SME lending. Moreover, Member States are able to decide the level of guarantee charged and the groups targeted and supported.

Strongly committed to pursue its regional development strategy under the JEREMIE mandate, EIF started implementing FLPG in Romania where, in December 2010, two top rank banks, Banca Comerciala Romana (BCR) and Raiffeisen Bank Romania (RBRO), were chosen to deploy the product.

Both banks are key players on the SME market in Romania. BCR is the largest banking institution in the country, reaching out to close to four million customers in both the retail and corporate sectors. RBRO has a strong focus on SME lending, is the third largest bank in Romania and has a broad geographical coverage.

Added value

With FLPG, both banks are able to offer financing to SMEs at lower margins and with substantially reduced collateral requirements, allowing the two institutions to on-lend to SMEs and provide finance at a time of tough lending conditions.

Through their partnership with EIF, BCR and RBRO are well positioned to deliver expected lending volumes of close to EUR 315m, and provide together loans to some 2 500 borrowers, therefore enhancing growth and development of small businesses in the region.

This transaction is a good example of EIF playing a key role in fostering access to finance in regions and Member States where there is a need for capacity-building initiatives that provide local intermediaries with tailor-made financial tools for the benefit of SMEs.

OUTSTANDING GUARANTEE PORTFOLIO

at 31 December 2010 (in EURm)

Grand total

14 701

Austria	297
Belgium	367
Bulgaria	138
Cyprus	10
Czech Republic	168
Denmark	244
Estonia	16
Finland	212
France	1 867
Germany	1 472
Greece	114
Hungary	55
Ireland	3
Italy	4 355
Latvia	89
Lithuania	187
Luxembourg	< 1
Malta	1
Netherlands	736
Poland	762
Portugal	247
Romania	116
Serbia	50
Slovakia	25
Slovenia	89
Spain	1 855
Sweden	354
United Kingdom	382

Pan-EU & Multi country	27
Turkey	450
Croatia	3

Other	9

4

MICROFINANCE

Supporting Europe's micro-entrepreneurs

GENERAL OVERVIEW

Microfinance consists mainly of micro-credits, typically very small loans[4] tailored towards micro-enterprises[5] and people who want to become self-employed but do not have access to traditional banking services.

Given that 99% of start-ups are micro or small enterprises and that one-third of those were launched by unemployed individuals, effective support for the European microfinance sector is an important instrument in developing this young market segment. Microfinance is expected to have considerable impact on job creation and entrepreneurship, particularly in the aftermath of the financial crisis.

EIF has been involved in the microfinance sector since 2000, mainly via guarantees and securitisation activities. Guarantees were concluded with a broad selection of financial intermediaries, ranging from non-bank financial institutions that are close to sustainability to well established microfinance intermediaries (MFI). EIF has developed its know-how in the field through progressively managing additional mandates, which include the European Parliament Preparatory Action (EPPA), RCM Micro, CIP, JEREMIE and the Joint Action to Support Microfinance Institutions in Europe (JASMINE).

In 2010, EIF significantly scaled up its microfinance activity with the launch of the European Progress Microfinance Facility (EPMF) which now serves as an "umbrella" initiative to group EIF's microfinance activities. Under this initiative, EIF manages a wide range of financial instruments aimed at supporting the diverse needs of Europe's microfinance intermediaries.

The table below shows EIF's microfinance signatures in 2010.

Equity and loan activity	Resources	Geographic focus	Signatures
PerMicro	EPPA	Italy	1.0
Vaba Banka	RCM	Croatia	5.0
Qredits	EPPA	The Netherlands	0.8
Subtotal			6.8
Guarantee activity			
MicroStart	EPMF	Belgium	0.1
Qredits	EPMF	The Netherlands	1.3
Subtotal			1.4
Total			8.2

[4] Below EUR 25 000.
[5] Any enterprise with less than 10 employees and less than EUR 2m yearly turnover.

RESOURCES FOR MICROFINANCE

European Progress Microfinance Facility (EPMF)

EPMF aims to increase access to finance for micro-entrepreneurs including the self-employed and has a particular focus on, but is not restricted to, groups with limited access to the traditional banking system. Its launch in 2010 marked a major development for EIF's microfinance activities which, in addition to capacity, also gained the structural framework needed to absorb its smaller microfinance pilot predecessors including EPPA and RCM Micro.

The EPMF initiative, comprising EUR 200m of funding from the EC and the EIB, allows EIF which manages the initiative on their behalf, to make a substantial contribution towards filling a funding gap in the EU microfinance market while proving its management expertise of microfinance initiatives.

EPMF is implemented by EIF through two separate mandates. First, the provision of micro-credit portfolio guarantees to MFIs under a direct mandate with the EC. Second, further financial instruments such as debt, equity, and risk sharing are deployed to MFIs through a Luxembourg "fonds commun de placement" (FCP) structure managed by EIF.

Because of the highly diverse needs of the European microfinance market, EPMF has been specifically designed to respond to the various market needs across EU countries through a number of tailored instruments. Over the next six years, EPMF will provide financial instruments to support MFIs located within the EU 27, which will then on-lend to local micro-entrepreneurs and micro-enterprises.

Soon after the launch of EPMF, EIF swiftly started operations with MFIs, initially under the facility's guarantee segment. The first MFIs to benefit from support under EPMF were MicroStart, a Belgian start-up venture aimed at underprivileged urban communities in two Brussels neighbourhoods, and Qredits, a young foundation in the Netherlands focussed on individuals with difficulties accessing the conventional credit market.

Complementing EIF's other microfinance products, EPMF positions EIF as one of the leading microfinance providers in Europe and contributes to the EU 2020 strategy by promoting smart, sustainable, and inclusive growth.

CIP SME Guarantee Facility for Microfinance

With the SMEG, and through EIF, the EU also partially guarantees portfolios of micro-credit financing granted by financial institutions (FI) to very small enterprises. The risk-sharing arrangements established between EIF and each FI aim to stimulate micro-lending.

Depending on the type of FI and its activity, EIF can issue either direct guarantees that provide micro-credits to SMEs or counter-guarantees that issue guarantees covering micro-credits extended by microfinance institutions.

JASMINE

JASMINE is a joint initiative the EC and the EIB Group launched in September 2008 to support non-bank micro-credit providers in the EU and to increase the provision of micro-credit to micro-entrepreneurs. JASMINE was conceived as an umbrella initiative providing technical assistance, capacity building and funding to selected MFIs across Europe. JASMINE comprises:

The European Parliament Preparatory Action (EPPA)

In March 2010, the European Commission and EIF signed the EUR 4m EPPA mandate. The European Parliament had encouraged the European Commission to launch this preparatory action to promote a more favourable environment for micro-credit in the European Union and as a complement to the JASMINE pilot facility. EPPA supports higher risk financing to non-bank MFIs and provides seed financing to newly created MFIs with strong social credentials but which have not yet reached sustainability.

EIF signed its first direct equity transaction under EPPA with PerMicro, an Italian non-bank MFI that mainly provides micro-credit to groups which do not have access to the traditional banking system, including the immigrant population of northern Italy.

A loan transaction was also signed with Qredits, a Dutch private foundation founded/started in 2008 by a group of public (e.g. Ministry of Social Affairs and Employment and Ministry of Economic Affairs) and private partners (ABN AMRO, Fortis Bank, ING and Rabobank).

Two additional operations under EPPA were also approved by the EIF Board of Directors in 2010 and will be implemented in 2011.

JASMINE Technical Assistance (JASMINE TA)

Under the JASMINE TA, funded by the European Commission, EIF is providing non-financial products to EU microfinance practitioners. It is focused on assessments/ratings as well as training services to selected non-bank MFIs. The objective is to act as a catalyst to help them improve their access to institutional and commercial funding in order to expand and become sustainable.

In 2009, 15 non-bank MFIs were selected from Bulgaria (3), France (1), Hungary (3), Poland (1), Italy (1), Romania (4), UK (1) and Spain (1) and were receiving assessments and tailor-made trainings throughout 2010. These beneficiaries were identified based on a call for expression of interest launched by EIF in September 2009 to non-bank micro-credit providers in the EU 27. Moreover, a growing number of the JASMINE TA beneficiaries have received or are in the process of receiving funding from EIF-managed microfinance mandates.

The JASMINE TA implementation will continue until its expiration at the end of 2011. Discussions on a possible successor TA programme will take place throughout 2011, based on an evaluation of the pilot programme.

PerMicro

Finance for socially vulnerable groups

"EIF's investment in PerMicro provides a huge opportunity for us to demonstrate the **added value** of our project and our work. It proves that microfinance plays a primary role in enhancing **growth** and **social inclusion**".

Corrado Ferretti
President, PerMicro

Introduction

99% of the two million start-up enterprises that are created every year in Europe are micro or small enterprises; one third of these enterprises are launched by the unemployed.

These small enterprises, often established by self-employed micro-entrepreneurs, have difficulties in accessing finance through the traditional banking system especially when they are immigrants, women or belong to a socially vulnerable group.

This market need could generate over 700 000 new loans, worth approximately EUR 6bn in the short term. This is where PerMicro and EIF step in with the signature of one of the first microfinance operations under EPPA.

PerMicro is a young non-banking financial institution specialised in microfinance. It is operating in Italy, where 95% of SMEs are micro-enterprises, and has a strong focus on the country's northern region.

PerMicro mainly targets Italian or foreign micro-entrepreneurs and minority groups who often face the difficulty of not being able to obtain traditional bank credit. It aims to develop a sustainable microfinance business model with a clear social focus.

Added value

EIF invested EUR 1m in PerMicro and with these resources made available, PerMicro can offer micro-loans of up to EUR 25 000 to micro-entrepreneurs starting-up or developing existing businesses, including self-employment.

This transaction will enhance access to finance for micro-entrepreneurs in Italy and reaffirms EIF's support to the microfinance sector in Europe and its efforts to boost economic growth, employment and social inclusion.

This is EIF's first direct equity investment into a non-bank microfinance institution, complementing EIF's product offering in support of micro-enterprises.

5

REGIONAL BUSINESS DEVELOPMENT

Enhancing access to finance for SMEs across Europe

GENERAL OVERVIEW

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. These allocations are channelled through revolving Holding Funds which can be managed either by EIF or national institutions.

Addressing specific needs of local markets

The intention is to move away from subsidies and leverage EU Structural Funds available by means of innovative financial engineering products, such as equity, loans or guarantees providing a diversified range of financial products for the benefit of SMEs. This will help to reach a much improved ratio of investment versus subsidy, i.e. the volume of sustainable financing solutions supported will substantially increase compared to the "traditional" use of subsidies. Moreover, the equity investments, loans or guarantees will generate revenue which will be available for re-use for investments in SMEs even beyond the final availability date of the EU Structural Funds ("evergreen concept"). Finally, the diversified range of financial products offered will help to reach market segments which have so far not been reached by traditional means.

JEREMIE offers many benefits to national and regional management authorities:

Flexibility: Contributions from the Operational Programmes to the JEREMIE Holding Fund are 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 is able to re-allocate the resources to one or more financial products in a flexible way, depending on the actual demand over time. An umbrella fund approach allows a diversification of risks and expected returns due to financial products having different profiles, i.e. 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 puts SME support via EU Structural Funds on a more sustainable basis, unlike the pure grant approach.

Leverage: JEREMIE has the 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.

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

Advisory: In those regions where JEREMIE is managed by another institution, EIF can also be involved as an adviser, for a wide range of services such cash flow management, the 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.

Working toward achieving JEREMIE's objectives, to date, EIF has set up Holding Funds in 11 countries and regions of Europe providing them with a comprehensive toolbox of financial products for SMEs. As of year-end 2010, the JEREMIE mandates under EIF management amount to a total of EUR 1.18bn.

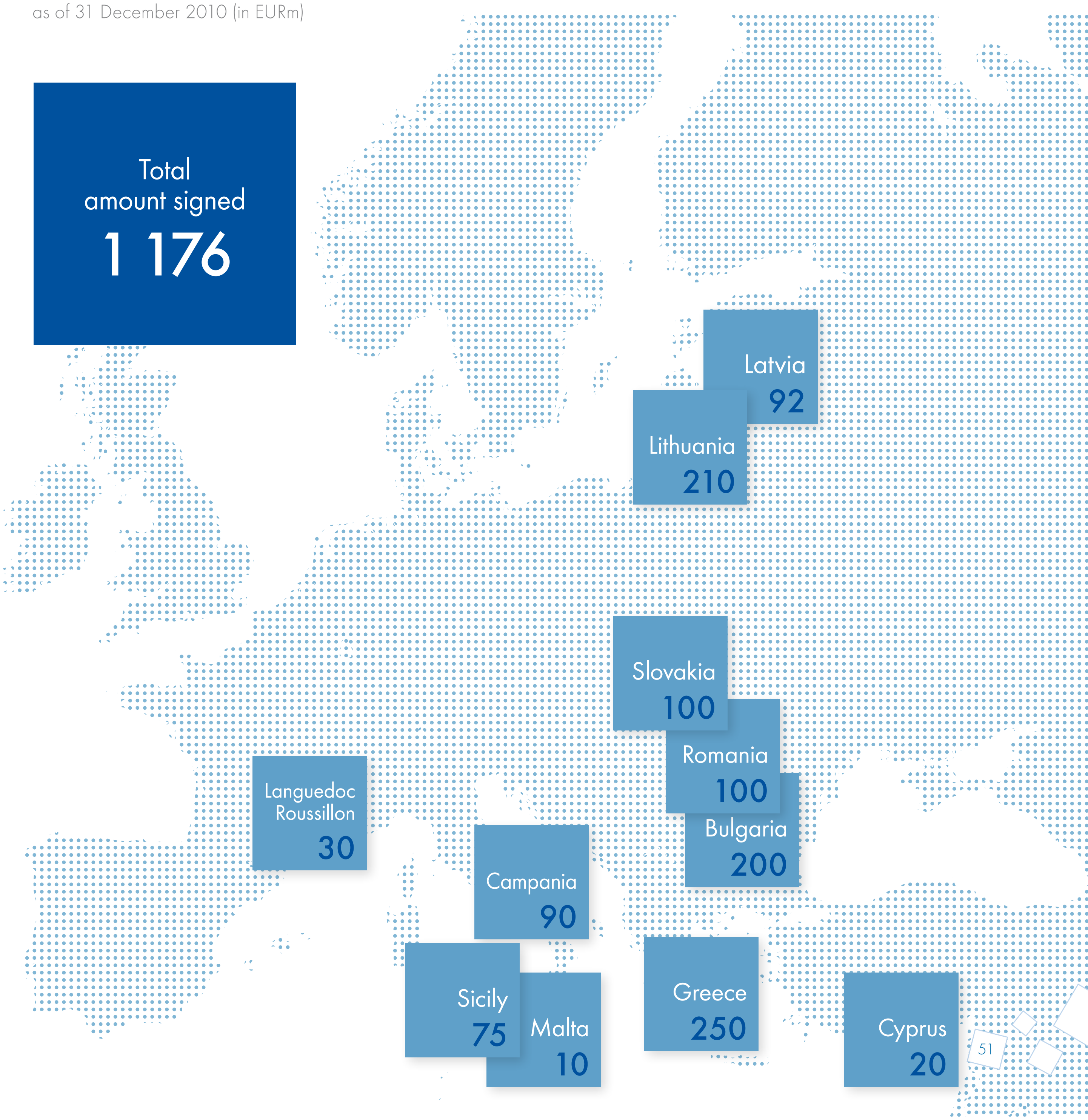
One of EIF's significant achievements in 2010 was the set-up of a JEREMIE Holding Fund in the Sicily region under the European Social Fund (ESF). The Funding Agreement for this pilot project was signed in December 2010 and marks EIF´s move into a new and challenging territory, adding a social component to the JEREMIE product offering.

As part of the JEREMIE initiative, EIF developed new products mobilising EU structural funds towards SME financing: the Funded Risk Sharing Product (FRSP) and the First Loss Portfolio Guarantee (FLPG) (as described under the guarantee section). Overall, 16 Calls for Expression of Interest to select Financial Intermediaries for venture capital or risk-sharing instruments in the respective countries and regions have been launched which resulted in 15 signatures for a total of EUR 311m in 2010.

These developments demonstrate that EIF's role extends beyond the implementation of the JEREMIE Holding Funds to establish and develop strong relationships in all markets in which it is active, often through a local presence. It is also building its knowledge of the specific needs of local markets, promoting the full range of EIF products and services and developing new targeted products.

HOLDING FUNDS UNDER MANAGEMENT

as of 31 December 2010 (in EURm)



6

GOVERNING BODIES & KEY STAFF

CAPITAL AND SHAREHOLDERS

at 31 December 2010

EIF has an authorised capital of EUR 3bn, divided into 3 000 shares of EUR 1m each. On 31 December 2010, EIB held 61.2%, the European Union represented by the European Commission 30% and 28 European banks and financial institutions 8.8% of the shares.

Country	Financial Institutions	No. of shares
Austria		11
	Bank Austria Creditanstalt AG	3
	Erste Bank der Österreichischen Sparkassen AG	3
	Raiffeisen Bank International AG	5
Bulgaria		3
	Bulgarian Development Bank A.D.	3
Croatia		5
	Croatian Bank for Reconstruction and Development (HBOR)	5
Denmark		11
	Vaekstfonden	3
	FIH	8
Finland		6
	Finnvera Plc	6
France		40
	Caisse des Dépôts et Consignations (CDC)	30
	Dexia Credit Local	10
Germany		98
	KfW Bankengruppe	68
	Landeskreditbank Baden-Württemberg-Förderbank (L-Bank)	8
	LfA Förderbank Bayern	7
	Nordrhein-Westfalen Bank (NRW.BANK)	10
	Sächsische Aufbaubank - Förderbank (SAB)	5
Hungary		5
	Hungarian Development Bank Ltd	5
Italy		28
	Dexia Crediop S.p.A.	5
	IMI Investimenti S.p.A.	15
	Intesa Sanpaolo S.p.A.	8
Luxembourg		5
	Banque et Caisse d'Epargne de l'Etat	5
Malta		16
	Bank of Valletta p.l.c.	16
Netherlands		3
	NIBC	3
Portugal		9
	Banco BPI S.A.	9
Spain		12
	Instituto de Crédito Oficial (ICO)	8
	Agencia de Innovación y Desarrollo de Andalucía (IDEA)	4
Turkey		5
	Industrial Development Bank of Turkey (TSKB)	5
United Kingdom		8
	Barclays Bank PLC	5
	Scottish Enterprise	3
Total		265

BOARD OF DIRECTORS

at 31 December 2010

Board of Directors *(from centre clockwise)*: Philippe Maystadt (Chairman), Gerassimos Thomas, Carlo Monticelli, Tytti Noras, Matthias Kollatz-Ahnen, Heinz Zourek, Marc Auberger

Chairman

Philippe MAYSTADT	President, European Investment Bank, Luxembourg

Members

Marc AUBERGER	Director General, Qualium Investissement, Paris
Matthias KOLLATZ-AHNEN	Vice-President, European Investment Bank, Luxembourg
Carlo MONTICELLI	Head of International Financial Relations in the Treasury Department, Ministry of Economy and Finance, Rome
Tytti NORAS	Legal Counsellor, Ministry of Finance, Helsinki
Gerassimos THOMAS	Director, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
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
Peter BASCH	Principal Advisor, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Pierluigi GILIBERT	Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg
Zdeněk HRUBÝ	General Director, Ministry of Public Finance, Prague
Rémy JACOB	Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg
Werner OERTER	Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main
Gaston REINESCH	Director General, Ministry of Finance, Luxembourg

MANAGEMENT & KEY STAFF

at 31 December 2010

Management Committee *(from centre clockwise)*: Richard Pelly (Chief Executive), Jean-Marie Magnette (Deputy Chief Executive), Hubert Cottogni, Frédérique Schepens, Federico Galizia, Martine Lepert, Marc Schublin, John Holloway, Maria Leander

Management Committee

Richard PELLY	Chief Executive
Jean-Marie MAGNETTE	Deputy Chief Executive
Hubert COTTOGNI	Head of Regional Business Development
Federico GALIZIA	Head of Risk Management and Monitoring
John HOLLOWAY	Director, Transaction and Relationship Management
Maria LEANDER	Company Secretary and Head of Legal
Martine LEPERT	Head of Human Resources
Frédérique SCHEPENS	Head of Finance
Marc SCHUBLIN	Director, Mandate Management, Product Development and Incubation

Key staff

Birthe BRUHN-LEON	Head of Mandate Management
Jean-Philippe BURCKLEN	Head of Lower Mid-Market
Jacques DARCY	Head of Technology Transfer and Intellectual Property
Per-Erik ERIKSSON	Head of Microfinance Investments
José GRINCHO	Head of Information and Project Management Office
Jobst NEUSS	Head of Compliance and Operational Risk
Alessandro TAPPI	Head of Guarantees and Securitisation
Matthias UMMENHOFER	Head of Venture Capital

AUDIT BOARD

at 31 December 2010

Audit Board: Ortwin Klapper (Chairman, *centre*), Bernard Magenhann *(right)*, Helmut Stermann *(left)*

Chairman

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

Members

Bernard MAGENHANN	Head of Unit, Internal Audit Capability - DG HR, European Commission, Brussels
Helmut STERMANN	Deputy Director, Landeskreditbank Baden-Württemberg, Karlsruhe

AUDIT AND CONTROLS

EIF's principal audit and control mechanisms include both internal and external auditors, the activities of which are coordinated by the Audit Board.

Internal Audit examines and evaluates the relevance and effectiveness of the internal control systems and the procedures involved whilst the external auditors provide assurance on the financial statements.

In addition, as both a European Union body and a financial institution, EIF cooperates with other independent control bodies such as the Internal Audit of the European Commission and the European Court of Auditors entrusted with such tasks under the Treaty or other regulations.

The European Court of Auditors is responsible for examining the accounts of all revenue and expenditure of the European Union and the results of its audits are published. Whilst EIF has its own independent external audit structure, the deployment of European funds under mandates, such as the Competitiveness and Innovation Framework Programme, is also subject to control by the European Court of Auditors.

The Audit Board has the statutory responsibility of the audit of the accounts of the EIF, as stated in EIF Statutes (Article 22) and Rules of Procedure (Article 17). In order to discharge this duty the Audit Board may have recourse to external auditors, as stated in the Rules of Procedure (Article 19). The audit of the financial statements of the Fund for the year ending 31 December 2010 was carried out by the external auditor, KPMG, appointed following the conclusion of the EIB Group joint invitation to tender exercise in 2008.

In relation to the European Commission's shareholder participation in EIF, the Court of Auditors operates within a specific tripartite agreement providing a framework for the audit of the participation's value.

The Audit Board annually 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, and that the financial statements 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. This information is included in the Annual Report submitted by the Board of Directors to the General Meeting.

The Audit Board conducts its activity following the standards of the audit profession. An Annual Report from the Audit Board to the General Meeting provides a summary of the Audit Board's activities during the past year and of its opinions on the financial statements. This report is published on the EIF website **www.eif.org**. The General Meeting takes note of the conclusions of the Audit Board before approving the EIF Annual Report.

RISK MANAGEMENT AND LEGAL

Risk management

Risk management is embedded in the corporate culture of EIF. In its pursuit of European Union policy objectives, EIF acts under market conditions with the statutory obligation to ensure an appropriate return for its shareholders. Its business requires the deployment of market instruments that entail certain risks. Hence, a risk management mindset permeates all areas of EIF's business functions and processes.

Thanks to its organisational risk awareness and preparedness, EIF has been able to rapidly respond as the financial crisis deepened and spread over the course of 2008 and 2009. During this period, at the level of single transactions, monitoring efforts were stepped up and, at the portfolio level, more comprehensive stress tests were implemented and communicated to EIF's governing bodies.

An overview of EIF's risk management activities can be found in section 3 of the notes to the annual accounts for IFRS 7, which contains further details on EIF's risk assessment for private equity, portfolio guarantees and treasury activities, covering credit, liquidity and market risks.

Below are the principal 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 of EIF ensures that risk management is implemented according to best practice and "four eyes principle". Notably, transaction risk-return assessment is proposed by the Transaction and Relationship Management (TRM) and reviewed by Risk Management and Monitoring (RMM). The latter operates independently of the front office functions and reports directly to the Deputy Chief Executive, who in turn is appointed by the EIF's Board of Directors.

The main tasks of RMM consist of reviewing and facilitating the implementation of new processes and methodologies to manage the risk-return profile of the Fund's existing and new investment activities. As part of the new investment proposals process, RMM performs an independent analysis of each transaction and issues an opinion to the Chief Executive and the Deputy Chief Executive. In this context, it reviews credit ratings (portfolio guarantees) and expected performance gradings (private equity) proposed by TRM to these investments. RMM is carrying out the monitoring of guarantee activities in close collaboration with the front office. RMM performs portfolio reviews for EIF's private equity investments and guarantee instruments, which are periodically submitted to EIF's governing bodies.

The Investment and Risk Committee (IRC) is the key forum for the approval of investments proposals to the Board of Directors. It is chaired by the Deputy Chief Executive and attended by the heads of RMM, TRM, Legal, Finance and Compliance. Furthermore, IRC also undertakes decisions related to the monitoring, management and restructuring of transactions. Risk policies, portfolio reviews, audit recommendations and other items of pertinence are submitted in first instance to the IRC.

In conclusion, the role of risk management at EIF does not rest exclusively with RMM. All of EIF's functions are involved in the process, which includes a constant collaboration not only between RMM and TRM, but also with Mandate Management and Product Development and Incubation (MMPDI), Legal, Finance and Compliance on the development of new products or mandates, as well as the other functions represented in the IRC.

Legal

EIF is supported by a strong in-house legal team whose remit, within its area of responsibility, is to pursue the strategic goals and to protect and preserve the legal integrity of the Fund. This is achieved through the provision of legal advice in connection with all EIF activities as well as institutional, strategic and policy related matters.

As concerns transactions, this includes the structuring and negotiations of transactions and new initiatives, the development of new products, as well as support in connection with matters linked to the management of the existing EIF portfolio.

In addition, the legal service also plays an important role in ensuring that the Fund conducts its activities in accordance with its Statutes, applicable law and relevant contractual obligations, such as requirements set out in mandates provided to EIF, and consistently with its mission and values.

COMPLIANCE AND OPERATIONAL RISK

The remit of EIF Compliance & Operational Risk (COR) includes the assessment of compliance risk and operational risk within EIF; the Head of COR also takes care of data protection issues in EIF. This combination allows a comprehensive analysis of non-financial risks within one service function of EIF.

With these responsibilities, COR forms part of the integrated ex-ante risk assessment and ex-post risk monitoring under the responsibility of the Deputy Chief Executive.

Compliance

Role and Position

The reference to compliance risk in EIF follows the definition set out in the paper on "Compliance and the compliance function in banks" issued by the Basel Committee on Banking Supervision in April 2005. It comprises consequently the assessment of the risk of legal or regulatory sanctions, material financial loss or loss of reputation. In this context, COR addresses issues relating to (i) institutional compliance, such as corporate governance or public procurement, (ii) transactional compliance, in particular compliance with applicable rules and guidelines for EIF transactions and (iii) conduct compliance, mainly as regards the conduct rules incorporated in the EIF codes of conduct.

As regards compliance issues, COR has, upon its initiative, direct access to the EIF Board of Directors.

In addition COR also plays a central advisory role in the context of the structuring and managing of Calls for the Expression of Interest which form the basis of the solicitation process for transactions under the EU Structural Funds mandate JEREMIE.

Key Policy Papers

In the context of the overall concept of business ethics and sustainability, the EIF Board of Directors has approved, in its meeting of 13 July 2010, the "Guidelines on EIF Restricted Sectors". These guidelines define key economic sectors, which shall not be supported through EIF transactions due to the inherent reputation risk. The policy excludes arms production and arms trading, tobacco, distilled alcoholic beverages, gambling, internet casinos and illegal downloading as well as reproductive human cloning from EIF support and postulates enhanced monitoring on the ethical aspects of transactions targeting BioTech, Genetically Modified Organisms and therapeutical human cloning.

Furthermore, the EIF Board of Directors approved the application of the EIB Group Complaints Mechanism, which opens ways to the public to complain against maladministration practices.

Finally, COR strengthened the awareness of EIF Staff on compliance-related matters through the organisation of an increased number of training sessions.

Operational Risk

Role and Position

At EIF, operational risk is defined as the risk of loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events.

While the management of operational risk is the primary responsibility of each function or service leader, the implementation of an integrated operational risk management framework forms part of the remit of COR.

In this context, COR has developed a risk and control assessment methodology which comprises the identification and the risk assessment of the main EIF processes as well as the definition of risk-mitigation plans. On this basis, COR started the development of the Internal Control Framework 2010, which will allow a process-based assessment of operational risk within EIF.

Key Policy Papers

The EIF Board of Directors, in its meeting of 12 April 2010 approved the EIF Operational Risk Management Charter.

Data Protection

Role and Position

In compliance with the provisions of the Regulation (EC) 45/2001 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data by Community institutions and bodies and on the free movement of such data ("Regulation 45/2001"), the Head of COR had been appointed EIF data protection officer in 2007 for a period of three years; this appointment was extended in 2010 for another period of three years. According to the terms and conditions of an inter-institutional agreement, the EIF data protection officer and the EIB data protection officer mutually replace each other.

The Regulation 45/2001 contains the key obligations of EU institutions and bodies in relation to the protection of personal data and sets out the procedure for the notification of data processing to the European Data Protection Supervisor. One notification was made to the EDPS in 2010 concerning the processing of personal data in connection with EIF transactions.

Key Policy Papers

In 2010, the implementing rules on the basis of the EU regulation 45/2001 were approved by EIF Management. These rules describe the procedural framework for the implementation of the obligations of EIF in connection with data protection issues.

RECONCILIATION OF MANAGEMENT ACCOUNTS AND FINANCIAL STATEMENTS

Exceptional items as per Management accounts	EURm	Note to Financial Statements 2010
Equity impairments	-4.5	Note 4.3
Foreign exchange gain	0.2	Note 7.4
Guarantee provisions	-53.8	
Total provisions and impairments	-58.1	
Detailed reconciliation of guarantee provisions	**EURm**	
Net increase in the financial guarantees	21.5	Note 7.2
Guarantee fees (Expected Loss CATI)	28.9	
Expected Loss Downgrades CATII (IAS39)	-7.3	a
Expected Loss CATIII (IAS37)	-46.4	b
Total as per Financial Statements	-24.9	Note 7.2
Reconciliation with Management Accounts	**EURm**	
Total Expected Loss CATII+CATIII	-53.8	a+b
Total as per management accounts	-53.8	

7

FINANCIAL STATEMENTS

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 European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 66 to 113.

Management responsibility for the financial statements

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 and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the Réviseur d'Entreprises agréé

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 for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 agréé, 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 agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2010, 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.

Luxembourg, 9 March 2011

KPMG Audit S.à r.l.
Cabinet de révision agréé

Thierry RAVASIO

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 KPMG Audit S.à r.l. 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 9 March 2011 drawn up by KPMG Audit S.à r.l. Réviseur d'Entreprises,

- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial year ending 31 December 2010,

- 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 statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the financial statements 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, 9 March 2011

THE AUDIT BOARD

Ortwin KLAPPER	Bernard MAGENHANN	Helmut STERMANN

STATEMENT OF FINANCIAL POSITION

at 31 December 2010

EUR

Assets	Notes	31.12.2010	31.12.2009
Cash and cash equivalents	4.1	73 603 254	106 266 117
Investments:			
Debt securities and other fixed income securities	4.2	863 578 881	832 313 566
Shares and other variable income securities	4.3	194 384 535	165 027 737
		1 057 963 416	**997 341 303**
Non-current assets held for sale		0	7 139 812
Other assets	4.4	56 822 861	44 788 915
Intangible assets	4.5	1 384 777	2 183 144
Equipment	4.6	81 655	217 437
Investment property	4.6	6 329 080	0
Total assets		1 196 185 043	1 157 936 728

Liabilities			
Financial liabilities	5.1		
Financial guarantees		26 902 034	26 723 389
Provisions for guarantees	5.2	107 469 393	64 630 966
Retirement benefit obligations	5.3	25 803 632	21 144 222
Other liabilities and provisions	5.4	19 523 417	16 703 747
Total liabilities		179 698 476	129 202 324

Equity			
Share capital	5.5		
Subscribed		3 000 000 000	2 940 000 000
Uncalled		(2 400 000 000)	(2 352 000 000)
		600 000 000	**588 000 000**
Share premium	5.5	152 185 703	143 191 123
Statutory reserve	5.6	138 535 177	138 535 177
Retained earnings	5.6	146 084 055	153 457 561
Fair value reserve	5.7	(27 550 423)	12 924 049
Profit/(loss) for the financial year		7 232 055	(7 373 506)
Total equity		1 016 486 567	1 028 734 404
Total equity and liabilities		1 196 185 043	1 157 936 728

The notes on pages 70 to 113 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

EUR

	Notes	31.12.2010	31.12.2009
Interest and similar income	7.1	31 483 224	28 617 478
Income from investments in shares and other variable income securities	4.3	10 878 493	932 384
Net result from guarantee operations	7.2	(24 918 778)	(20 341 639)
Commission income	7.3	37 149 456	26 844 238
Net gain/(loss) on financial operations	7.4	2 180 690	(1 351 432)
Other operating income	7.5	335 157	34 687
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(30 118 764)	(25 636 186)
- social security and contribution costs		(4 990 135)	(3 890 535)
		(35 108 899)	**(29 526 721)**
Other administrative expenses		(8 470 136)	(6 832 821)
		(43 579 035)	**(36 359 542)**
Depreciation and amortisation	4.5, 4.6	(1 763 626)	(552 813)
Impairment losses on available-for-sale investments	4.3	(4 533 526)	(5 196 867)
Profit/(loss) for the financial year		7 232 055	(7 373 506)

EUR

Other comprehensive income		
- Net change in fair value of available-for-sale financial assets	(40 954 211)	11 299 835
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)	479 739	(1 398 779)
	(40 474 472)	**9 901 056**
Total comprehensive income for the financial year	(33 242 417)	2 527 550

The notes on pages 70 to 113 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

Attributable to equity holders of the Fund

EUR

	Note	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit/(loss) for the year	Total Equity
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
Total comprehensive income										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	(7 373 506)	(7 373 506)
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	9 901 056	0	9 901 056
Transactions with owners										
Appropriation of profit inc. dividend	5.6	0	0	0	0	14 044 432	7 022 220	0	(35 111 080)	(14 044 428)
Share issue	5.5	75 000 000	(60 000 000)	15 000 000	11 178 746	0	0	0	0	26 178 746
Balance as at 31.12.2009		2 940 000 000	(2 352 000 000)	588 000 000	143 191 123	138 535 177	153 457 561	12 924 049	(7 373 506)	1 028 734 404
Total comprehensive income										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	7 232 055	7 232 055
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(40 474 472)	0	(40 474 472)
Transactions with owners										
Appropriation of loss	5.6	0	0	0	0	0	(7 373 506)	0	7 373 506	0
Share issue	5.5	60 000 000	(48 000 000)	12 000 000	8 994 580	0	0	0	0	20 994 580
Balance as at 31.12.2010		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	138 535 177	146 084 055	(27 550 423)	7 232 055	1 016 486 567

The notes on pages 70 to 113 are an integral part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2010

EUR

Cash flows from operating activities	Notes	31.12.2010	31.12.2009
Profit/(loss) for the financial year		7 232 055	(7 373 506)
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	1 763 626	552 813
Impairment loss on shares and other variable income securities	4.3	4 533 526	5 196 867
Interest income on debt securities and other fixed income securities	7.1	(29 072 530)	(23 885 776)
Change in financial guarantees		2 554 636	11 487 834
Net gain/loss on sale of debt securities and other fixed income securities	7.4	(2 002 257)	1 328 508
Provision for financial guarantees		45 729 749	53 277 911
Provision for retirement benefit obligations		(1 631 002)	0
		29 107 803	**40 584 651**
Change in shares and other variable income securities	4.3	(24 262 193)	(17 297 162)
Guarantee calls paid	5.2	(5 267 313)	0
Change in other assets and liabilities	4.5, 5.4	(2 923 864)	(10 178 372)
		(32 453 370)	(27 475 534)
Net cash from operating activities		(3 345 567)	13 109 117

Cash flows used in investing activities			
Acquisition of debt securities and other fixed income securities	4.2	(360 000 091)	(449 476 970)
Proceeds from sale of debt securities and other fixed income securities	4.2	283 974 537	128 167 142
Interest received on debt securities and other fixed income securities		25 518 245	19 242 953
Acquisition of intangible assets and property and equipment	4.5, 4.6	(18 745)	(649 928)
Net cash used in investing activities		(50 526 054)	(302 716 803)

Cash flows from financing activities			
Dividend paid		0	(14 044 432)
Capital increase		20 994 580	26 178 746
Cash flows from financing activities		20 994 580	12 134 314

Cash and cash equivalents at the beginning of the year	4.1	106 266 117	383 502 584
Effect of exchange rate fluctuations on cash and cash equivalents		214 178	236 905
Net cash from			
Operating activities		(3 345 567)	13 109 117
Investing activities		(50 526 054)	(302 716 803)
Financing activities		20 994 580	12 134 314
Cash and cash equivalents at the end of the year	4.1	73 603 254	106 266 117

The notes on pages 70 to 113 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2010 (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, management and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- associated activities.

The Fund operates as a partnership whose 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 financial statements of the EIB Group. The consolidated financial statements are available at the registered office of the EIB at 98-100, boulevard Konrad Adenauer, L-2950 Luxembourg.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

2.1 Basis of preparation

2.1.1 Statement of compliance

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), as endorsed by the European Union.

The Fund's financial statements have been authorised for issue by the Board of Directors on 9 March 2011.

2.1.2 Basis of measurement

The financial statements have been prepared on an historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets which are measured at fair value
- financial instruments at fair value through profit or loss which are measured at fair value
- the defined benefit obligation is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

2.1.3 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment when applying the Fund's policies. Use of available information and application of judgment 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2.3 and 3.

Judgments and estimates are principally made in the following areas:

- Impairment of available-for-sale equity investments;
- Determination of fair values of equity investments;
- Determination of provisions and liabilities for financial guarantees;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits.

2.1.4 Changes in accounting policies and presentation

The accounting policies adopted have been applied consistently with those used in the previous year.

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

2.1.5 Foreign currency translation

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

Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the profit or loss or within equity.

Non-monetary items, which include "Equipment" and "Intangible 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. 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 exchange rate prevailing at the reporting date of the financial statements, as issued by the European Central Bank. Exchange differences are recognised in the profit or loss in the year in which they arise.

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

2.2 Cash and cash equivalents

Cash and cash equivalents comprise short term, highly liquid securities and interest-earnings deposits with original maturities of three months or less.

2.3 Investments

2.3.1 Classification and Measurement

Classification

Except for investment in joint ventures (see note 2.3.4), the Fund classifies its investments in the Available-For-Sale category (hereafter "AFS"). The classification of the investments is determined at initial recognition.

Initial recognition and derecognition

Purchases and sales 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 when EIF has substantially transferred all risks and rewards of ownership.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include securities lending.

Subsequent measurement

The financial assets are subsequently measured at fair value, and any changes in fair value are directly recognised in the fair value reserve in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss.

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

Impairment of financial assets

EIF assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant and/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 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 profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments previously recognised in the profit or loss are not reversed through the profit or loss. In contrast, if in a subsequent year, 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 profit or loss.

2.3.2 Shares and other variable income securities

Investments in private equity funds are included in "Shares and other variable income securities". They are acquired for a long term in the normal course of the Fund's activities.

a) Fair value considerations:

Under the valuation technique, the fair value of private equity (PE) funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example the International Private Equity and Venture Capital valuation guidelines, IPEVC Guidelines, as published by the European Venture Capital Association "EVCA") and more detailed monitoring and review will be required.

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

- Category I – funds that have adopted the fair value requirements of IAS 39 or IPEVC Guidelines.

- 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.

- 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 and II that the NAV is a reliable estimation of the fair value and specific review is performed, 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.

b) Impairment considerations:

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 have occurred. On each official reporting date, EIF analyses unrealised losses so as to determine whether they should be recognised as impairment losses in the profit or loss or as changes in the fair value reserve.

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 Investment Risk Committee;

- funds showing 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 is determined by applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, where 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, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted.

2.3.3 Debt securities and other fixed income securities

Securities held by the Fund are all quoted on an active market. Consequently, the fair value of financial instruments is based on bid prices at the statement of financial position 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 profit or loss.

2.3.4 Interests in Joint Ventures and associates

EIF complies with conditions to use the private equity and similar entities exemption in IAS 28 and IAS 31 and does not use equity accounting on, or proportionately consolidate investments in joint ventures. Upon initial recognition, holdings in the joint ventures or associates are designated as at fair value through the profit or loss, and measured subsequently at fair value in accordance with IAS 39, with changes in fair value recognised in the profit or loss during the year of the change.

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. 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).

The participations acquired 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 are generally investments jointly subscribed by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such fund. As a consequence, any membership by an investor in a governing body of such fund does not in principle entitle such investor to influence 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 capital repayments 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 generally prevents individual investors from bilaterally executing 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 aforementioned industry practice, ensuring that EIF neither controls nor exercises any form of significant influence within the meaning of IAS 27 and IAS 28 over any of these investments, including those investments in which EIF holds over 20% of the voting rights either on its own account or on behalf of any of its mandates.

2.4 Guarantee operations

Financial guarantee contracts are contracts that require EIF 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.

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 i.e. NPV less, where 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 linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche.

The best estimate of expenditure is determined in accordance with IAS 37 Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated on the basis of all relevant factors and information existing at the statement of financial position date.

Any increase or decrease in the liability relating to Financial guarantees is recognised in the profit or loss under "Net result from guarantee operations".

2.5 Other assets

Other assets include the funds designated to cover the pension liability, accrued commission income and debtors and are accounted for at amortised cost.

2.6 Intangible assets, Equipment and Investment property

2.6.1 Intangible assets

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

Direct costs associated with the development of software are capitalised provided that these costs are separately identifiable, the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the year 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 date of the statement of financial position.

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

Internally generated software	3 years
Purchased software	2 to 5 years

2.6.2 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Equipment is reviewed for indications of impairment at the date of the statement of financial position.

Depreciation 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 Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses and is reviewed for signs of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful life:

Buildings	30 years

2.6.4 Impairment of non-financial assets

EIF assesses at each reporting date the carrying amounts of the non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If the carrying amount exceeds the estimated recoverable amount, impairment losses are recognised in the profit or loss.

2.7 Employee benefits

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.

2.7.1 Post-employment benefits

Pension fund

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

Actuarial gains and losses are amortised over the average remaining working life of the population through the profit or loss.

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 Fund. These funds are transferred to the EIB for management with the EIB's own assets and appear on the Fund's statement of financial position as an asset under the heading "Other assets".

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

Optional supplementary provident scheme

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the contributions from staff and the corresponding liability is recorded in "Other liabilities".

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. Health insurance liabilities are determined based on actuarial calculations calculated annually by qualified external actuaries.

2.7.2 Short-term employee benefits

Employee entitlements to short-term benefits are recognised when they accrue to employees. A provision is made for the estimated liability for any outstanding short-term benefit entitlement as a result of services rendered by employees up to the date of the statement of financial position.

2.7.3 Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the year is included in the profit or loss under the heading "Staff costs", resulting in a provision for the estimated liability at the date of the statement of financial position.

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

2.9 Interest and similar income

Interest income and similar income is recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the 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 Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital repayments which are recognised when EIF's right to receive payment is established.

2.11 Net result from guarantee operations

Net result from guarantee operations mainly includes:

- Guarantee premiums received;
- Interest income on the discounting of the expected premium inflows and any amortisation of the financial guarantees;
- Changes in estimates of provisions for financial guarantees accounted for under IAS 37.

2.12 Commission income

This heading is mainly made up of fees and commissions on mandates and advisory activities and excludes guarantee premiums.

Fees and commissions are 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 pro-rata basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

2.13 Leases

The leases entered into by EIF as a lessee or a lessor are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments or receipts made under operating leases are recognised to the profit or loss in other administrative expenses or other operating income 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 New standards and interpretations not adopted

The following IFRS applicable to EIF were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. The Fund plans to adopt them at the date of endorsement by the European Union. The Fund is in the process of analysing the impact of these standards on their operations as well as the date at which they plan to adopt the standards.

- IAS 27 – Consolidated and separate financial statements
  This standard was revised following the amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. It deals with the impairment of investments in subsidiaries, joint ventures and associates in separate financial statements. The standard is effective for financial years beginning on or after 1 January 2011.

- IFRS 9 – Financial instruments
  This standard is the first step in a three-part project by the IASB to replace IAS 39 financial instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- Revised IAS 24 – Related Party disclosures
  This revised standard will modify requirements for entities under control, joint control or significant influence of a government ("government-related entities") in respect of certain related party disclosures and will consequently require provision of certain information concerning individually or collectively significant transactions with the government or other government-related entities. This standard specifies retrospective application for annual periods on or after 1 January 2011, although it may be early adopted.

3. FINANCIAL RISK MANAGEMENT

3.1 Overview of EIF Risk Management

EIF aligns its risk management systems with changing economic conditions, regulatory standards and best market practices. Internal systems are in place to monitor, manage and report on the main risks inherent to its operations.

An independent Risk Management and Monitoring division (RMM) reports directly to the Deputy Chief Executive who in turn is appointed by EIF's Board of Directors. This segregation of duties and a "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the European Investment Bank (EIB) Group context, RMM operates in close contact with the EIB's Risk Management Directorate. RMM is divided into three units: a Private Equity (PE) Risk Management unit, a Portfolio Guarantees & Securitisation (G&S) Risk Management unit and an Operations (OPS) unit (formerly known as Monitoring and Administration team) covering both business lines. RMM covers own resources, and mandates managed by EIF on behalf of the related parties (i.e. the EIB and the EC) and other mandators. For more details on EIF mandates please see note 6.

RMM covers EIF's PE and G&S activities, monitors risk regularly on individual transactions as well as at the portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in EIF's operations;
- issues independent opinions on all new transaction proposals;
- independently reviews internal ratings (G&S)/ grades (PE) assigned to transactions;
- performs ongoing deal surveillance, monitoring and administration;
- applies stress testing scenarios on both G&S and PE portfolios;
- checks risk limits;
- assesses regulatory and economic capital allocations, and
- monitors, benchmarks and forecasts portfolio evolution.

The Investment & Risk Committee (IRC) chaired by the Deputy Chief Executive is responsible for reviewing and deciding on new transactions and all risk and investment-related aspects of the existing EIF portfolio, inter alia: reviewing the relevant market risk events, reviewing the portfolio and transaction rating/grading movements, deciding on impairment of transactions and, on an ad-hoc basis, agreeing on presenting transactions to the Board of Directors for their approval.

3.2 Private Equity (PE)

3.2.1 Background

EIF's PE business resembles a fund of PE funds, i.e. EIF acts as a limited partner. These minority stakes in funds catalyse commitments from a wide range of investors. EIF's PE operations are focused on early-stage and seed capital, and on mid- and later-stage investments. These latter have a lower risk profile.

Valuation review

Monitoring includes the valuation review of PE funds. This process is divided into several stages to achieve what is known as Operational Adjustment:

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation.
- Valuations: assessment as to 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 PE funds.
    - Monitoring visits.
    - Any significant information with potential valuation impact.
    - Subsequent event reviews.

- **Impairments of investments:** as stated in note 3.1, the IRC decides on the transaction impairment.

- **Classification of funds:** depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

EIF has developed a set of tools to design, monitor and manage portfolio of PE funds. This set of tools is based on an internal process and 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 Information Technology (IT) system and integrated software (front to back) improves the investment decision process and the management of portfolio's financial and liquidity risks.

EIF's internal grading methodology allows RMM PE to determine the monitoring coverage and intensity, as well as the range for the expected performance. Twice a year each fund is benchmarked against industry statistics and significant deviations between the benchmarking and the expected performance grades are investigated.

The grades are defined as follows:

Expected performance grade	
P - A	The fund's performance is expected to fall into the first quartile of the benchmark.
P - B	The fund's performance is expected to fall into the second quartile of the benchmark.
P - C	The fund's performance is expected to fall into the third quartile of the benchmark.
P - D	The fund's performance is expected to fall into the fourth quartile of the benchmark.

Operational status grade	
O - A	No adverse signals so far.
O - B	Some adverse signals, but not expected to have a material impact on the fund's valuation.
O - C	Adverse signals; without changes/improvements likely to lead to a material impact on the fund's valuation.
O - D	Critical events that had a material adverse impact on the fund's valuation.

3.2.2 Portfolio overview

At the end of 2010, total PE own risk investments in terms of net commitments (i.e. commitments made to underlying funds minus capital repayments) amounted to EUR 388.9m (2009: EUR 341.4m).

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 PE funds, with private sector investors providing at least 50% of the capital. All investments are made on a pari passu basis with other investors, granting them no specific rights (or obligations) to EIF. All of EIF's risk stemming from its own-risk PE operations is fully covered by shareholders' equity.

As a sub-ceiling, PE net commitments may not exceed 50% of equity, excluding fair value reserve, equivalent to EUR 1 046.8m. Hence, the EUR 388.9m of net commitments at year end 2010 was below the EUR 520.6m limit. Of the EUR 490.5m of own-risk funds committed at year end 2010, EUR 321.0m had been disbursed (including equalisation fees). PE investments are valued quarterly according to the industry valuation guidelines. Using the methodology described in note 3.2.1, EIF records value adjustments on a line by line basis, either through the profit or loss in the case of impairment or through equity. Consequently, net disbursed own-risk funds (at cost and using the closing exchange rates prevailing at the reporting date of the financial statements) of EUR 219.4m (2009: EUR 194.7m) are valued at EUR 194.4m in EIF's 2010 statement of financial position (2009: EUR 165.0m).

3.2.3 Significance of financial instruments for financial position and performance

Activities

In terms of EIF's PE own-risk portfolio activities, 2010 shows an increase in commitments, disbursements and reflows:

EIF yearly cash flow activity (EUR m)

			Reflows	
	Commitments	Disbursements	Capital Repayments	Dividends
31.12.2010	60.1	38.9	14.8	10.9
31.12.2009	31.1	23.5	6.2	0.9

The proportion of funds considered as impaired has increased from 23.6% to 25.2% of the EIF portfolio based on committed funds.

PE assets not impaired vs. impaired (EUR m)

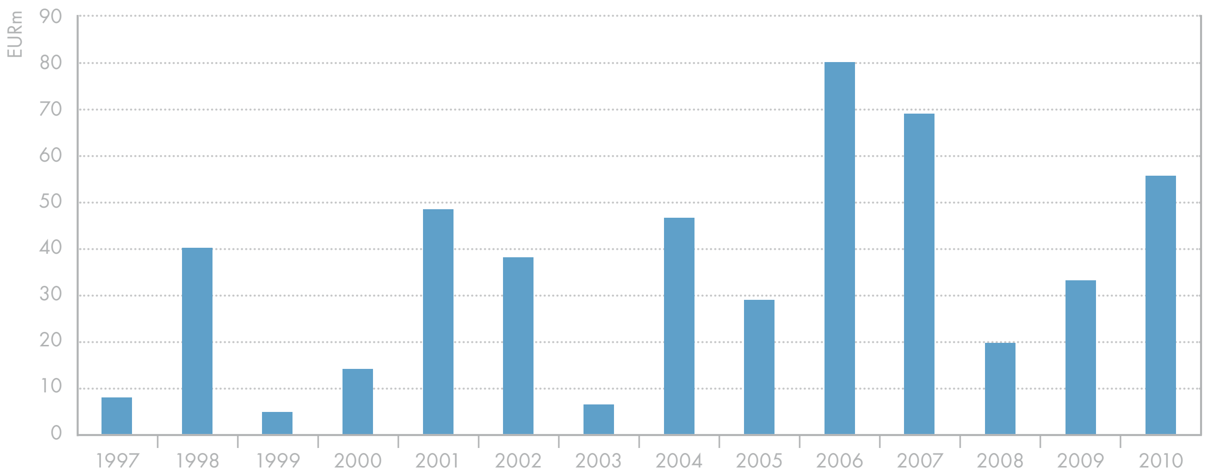
	Commitments		
Funds	31.12.2010	31.12.2009	Variation
Not impaired	366.9	328.8	11.6%
Impaired	123.6	101.3	22.0%
Impairment (%)	25.2%	23.6%	

Diversification

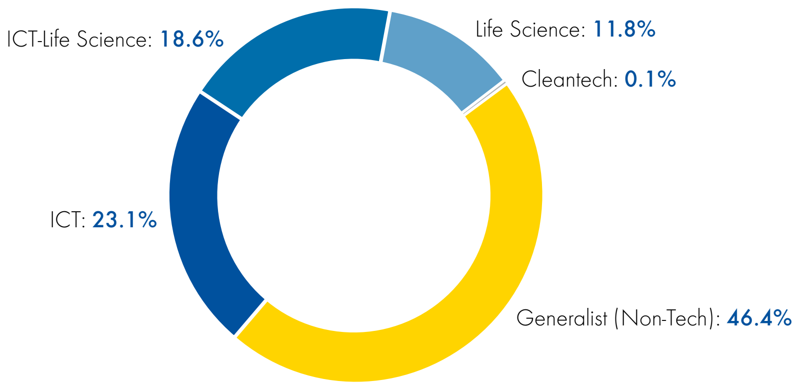
As of 31 December 2010, EIF has committed EUR 490.5m in 189 PE funds with the biggest exposure amounting to EUR 12.9m (2.6% of total commitments). These PE funds have invested in more than 2 600 underlying portfolio companies.

In terms of vintage year, sector and stage, the portfolio is well balanced, as illustrated by the following breakdown by commitment as of 31 December 2010 (historical information translated at the current exchange rate):

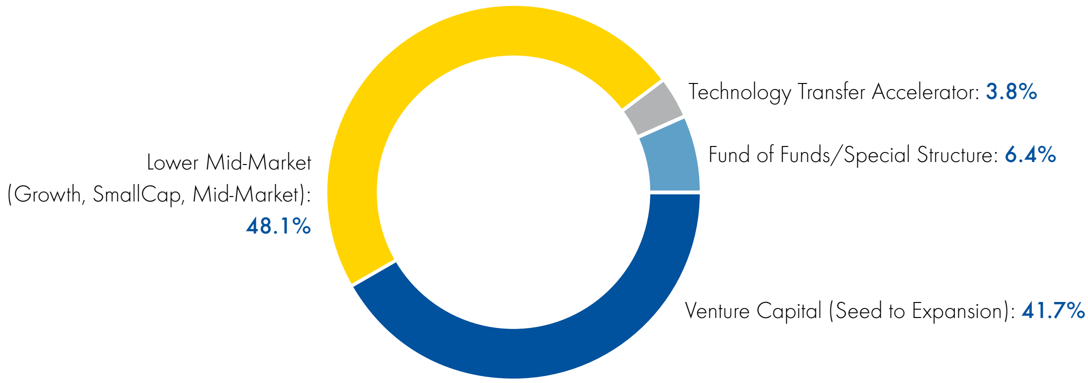
Commitments by vintage year (in EURm)



Breakdown by sector commitments



Breakdown by stage commitments



In terms of maturity, the commitment weighted average age of the EIF portfolio stands at 6.2 years at year end 2010.

3.3 Portfolio Guarantees & Securitisation ("G&S")

3.3.1 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 helps to finance SMEs.

For its G&S business, EIF has developed a set of tools to analyse portfolio guarantee and structured finance transactions in line with common market practices. Before EIF legally enters into a guarantee transaction, the G&S division, within the Transaction and Relationship Management (TRM) department, proposes an internal rating to each new own risk guarantee tranche in accordance with the EIF's internal rules and procedures. When analysing a new transaction, and in order to estimate the expected losses and consequently assign an internal rating to a tranche, the most appropriate rating model is used in compliance with the internal rules. The rating is based on internal models, which analyse and summarise the tranche's credit quality based on an expected loss concept. The EIF rating is based on quantitative parameters and qualitative aspects. The following quantitative factors are examples of variables having an impact on the determination of an EIF internal rating: weighted average rating of the underlying portfolio and its volatility, base default rate, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, level of diversification in the underlying pool of assets. The credit risk estimation also takes into account various qualitative factors, such as: reliability and completeness of the available data, size, quality and time horizon of the statistical samples, discontinuity in the origination criteria and servicing procedures, macro-economic effects.

Majority of EIF own risk guarantee tranches are also rated by at least one external rating agency. In case there are differences in the rating levels among external rating agencies and EIF's internal rating, EIF applies a retained rating rule for the calculation of capital. The rule is derived from and aligned to Basel II regulatory capital requirements rating treatment, which is as follows:

- if there is only one assessment by an external rating agency, that assessment should be used to determine the risk weight of the tranche (i.e. capital allocation),
- if there are assessments by two external rating agencies, which map into different risk weights, the higher risk weight is applied,
- if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights is applied.

To allocate capital for an own risk guarantee tranche, an EIF internal rating is disregarded from the retained rating rule only when the tranche is rated at least by one of the external rating agencies.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk-adjusted and consequently vary according to the assigned rating. EIF's conservative capital allocation rules have already incorporated Basel II principles for several years. EIF, having a status of a Multilateral Development Bank, does not report to the national supervisor, "Commission de Surveillance du Secteur Financier" (CSSF) but has adopted rules which are in line with the Basel II framework.

The implementation of the Ratings Based Approach (RBA) for EIF's G&S exposures has been carried out with the technical assistance of the CSSF and in close cooperation with the EIB.

As it is the responsibility of G&S within the TRM department to propose an EIF rating, which is based on an internal model, RMM – in the course of the independent opinion process, at closing 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 to the official EIF internal rating models.

A transaction is eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB1 (iAaa and iB1 are mapped to Moody's Aaa and B1, respectively). The individual performance of tranches guaranteed by EIF is reviewed at least quarterly after closing. For the most relevant rating input variables a trigger value is defined and the internal rating model is typically re-run when the transaction performance breaches those limits. The EIF's rating model may also be re-run before a trigger breach when circumstances (such as a sudden deterioration of the performance) suggest that the EIF's rating may already be affected.

Transactions can be placed under review if there has been any external rating downgrade, any substantial change in the performance of the underlying portfolio or any other element of concern which calls for additional scrutiny (e.g. negative news regarding the servicer or originator), even without any external rating action. EIF puts on a 'watch list' any transaction with an internal rating below iBa2 level.

Watch Listed and Under Review transactions are closely scrutinised for a possible breach of EIF triggers, which typically motivates a prompt re-run of the rating model. EIF also monitors a set of early warning signals for each transaction, the appearance of which flags up the need for increased surveillance and possibly preliminary action. EIF early warning signals are based on the performance parameters of each transaction (e.g. actual cumulative default rate, actual cumulative average recovery rate), which are compared to a given predetermined threshold level or base case scenario.

The monitoring process includes for instance: checking the compliance of counterparties with any relevant contractual covenants and triggers, assessing the expected evolution of operation's performance compared to estimates set prior to its signature, applying rating stress testing scenarios and assessing whether the level of capital allocation and provisions made for each operation are still adequate.

As circumstances require, dedicated professionals within the RMM G&S unit submit proposals to the IRC to flag transaction as Under Review with positive or negative outlook and/or to initiate a model re-run.

Furthermore, a committee consisting of staff with adequate skills and appointed by the IRC may be set up in order to propose and negotiate solutions to minimise EIF's losses in underperforming deals.

The monitoring activities also include the analysis of the G&S portfolio as a whole (Portfolio Review).

3.3.2 Portfolio overview

At the end of 2010, total G&S own risk transactions amounted to EUR 2 580.2m (2009: EUR 2 893.0m) in terms of exposure at risk (i.e. commitment less repayments).

EIF's own-risk operations consist mainly of the credit enhancement product type which, at the end of 2010, represented 94.5% (EUR 2 438.4m) of total exposure at risk own-risk guarantees. The credit enhancement product serves as an unconditional debt service guarantee (or as a credit default swap), with full or partial coverage of a specific tranche of an SME loan portfolio, and a maximum weighted average term of 15 years. The guarantee is called upon when losses in the portfolio would otherwise have caused a shortfall on a due payment of interest and/or principal on the guaranteed tranche.

In the past EIF also underwrote credit insurance and structured investment vehicles products. As of 31 December 2010, credit insurance products and structured investment vehicles investments accounted for 5.3% (EUR 135.5 m) and 0.2% (EUR 6.3 m) of all own-risk outstanding guarantees, respectively.

3.3.3 Portfolio quality and performance

As of 31 December 2010, 77.8% (83.0% at year end 2009) of the overall portfolio in relation to the number of transactions was at investment-grade level (rating from Aaa to Baa3 inclusive); 63.2% were rated by at least one external rating agency with the remainder relying on EIF's internal rating. The credit enhancement portfolio's average rating deteriorated to Ba2 as a result of limited new origination coupled with downgrades in the existing portfolio.

As of 31 December 2010, 78.7% of the reviewed transactions had a "stable" outlook ("performance as expected") and 21.3% had a negative outlook. 15 tranches were downgraded by EIF in 2010. The total exposure at risk for EIF's own risk guarantees amounts to EUR 2 580.2m, breaking down as follows:

EURm

	Weighted Average Rating		Exposure at risk (commitment minus repayment)		% of total	
	2010	2009	2010	2009	2010	2009
Credit Enhancement	Ba2	Baa3	2 438.4	2 739.8	94.5%	94.7%
Credit Insurance	Aa2	Aa3	135.5	131.8	5.3%	4.6%
SIV	Ba2	Ba2	6.3	17.5	0.2%	0.6%
Defaulted		D	0.0	3.9	0.0%	0.1%
Total			2 580.2	2 893.0	100.0%	100.0%

The decrease in the exposure at risk in 2010 is mainly due to terminated deals. Two new transactions were signed in 2010 for a total amount of EUR 260.0 m. During 2010, guarantees have been called for a total amount paid of EUR 6.7 m mainly stemming from two transactions. The additional provisions on the portfolio (in particular arising from the downgrades) amounted to EUR 48.1 m (see note 5.2.). The portfolio's overall initial weighted average life stabilised at 5.4 years at end 2010, the same as at end 2009.

3.4 Treasury

3.4.1 Background

Treasury management has been outsourced to EIB under a treasury management agreement and is carried out according to EIF treasury guidelines. These EIF guidelines define EIF intention to hold the treasury portfolio to maturity, reflect the investment strategy, and mirror closely the relevant sections of the EIB's own treasury guidelines. Quarterly meetings between the EIB and EIF take place to review the performance of the treasury portfolio and relevant market events.

EIF does not borrow funds. EIF operations use shareholders' equity, which is the basis for PE investments and capital allocation for G&S.

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, administrative expenditure, and earn a reasonable return on assets invested with due regard to the minimisation of risk.

3.4.2 Portfolio overview

The treasury portfolio is broken down into the following separate sub-portfolios:

- current accounts;
- money market instruments;
- available for sale portfolio (made up of long-term debt instruments, floating rate and fixed rate instruments).

EUR

	31.12.2010	31.12.2009
Current accounts	31 183 332	33 311 981
Money market instruments	42 419 922	72 954 136
Available for sale portfolio	863 578 881	832 313 566
Total Treasury portfolio	937 182 135	938 579 683

3.5 Nature and extent of risks arising from financial instruments

The following table provides information relating to the main financial assets and financial liabilities by categories of financial instruments:

EUR

31.12.2010	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	73 603 254	0	0	0	73 603 254
Investments:					
Debt securities and other fixed income securities	0	0	863 578 881	0	863 578 881
Shares and other variable income securities	0	3 375 484	191 009 051	0	194 384 535
Total Financial Assets	73 603 254	3 375 484	1 054 587 932	0	1 131 566 670
Financial liabilities					
Financial guarantees	0	0	0	26 902 034	26 902 034
Total Financial Liabilities	0	0	0	26 902 034	26 902 034

EUR

31.12.2009	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	106 266 117	0	0	0	106 266 117
Investments:					
Debt securities and other fixed income securities	0	0	832 313 566	0	832 313 566
Shares and other variable income securities	0	2 759 064	162 268 673	0	165 027 737
Total Financial Assets	106 266 117	2 759 064	994 582 239	0	1 103 607 420
Financial liabilities					
Financial guarantees	0		0	26 723 389	26 723 389
Total Financial Liabilities	0	0	0	26 723 389	26 723 389

3.5.1 Credit risk

Credit risk is the risk that another party will cause a financial loss to EIF by failing to discharge an obligation.

Credit risk concerns the EIF's G&S activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial paper and deposits. There is no credit exposure for EIF own risk PE portfolio as investments in PE funds represent equity investments and related financing structures and are always made through an equity-like participation. The Fund uses the following instruments, policies, and processes to manage the credit risk.

3.5.1.A. Portfolio Guarantees & Securitisation

Credit risk arises mainly from EIF's G&S transactions funded by own resources.

This risk is managed by risk management policies covered by the statutes and Credit Risk Policy Guidelines.
The statutes of the Fund limit own-risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0m at end 2010. Hence, the EUR 2 580.2m exposure at risk at end 2010 was well below the statutory limit of EUR 9 000.0m.

EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified G&S portfolio in terms of product range, counterparty exposure, obligor exposure, geographic coverage, and industry concentration.

In the context of EIF's own risk G&S operations, the credit risk is tracked from the outset on a deal-by-deal basis whilst adopting a different model analysis approach depending on the granularity and homogeneity of the underlying portfolios.

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) on individual transactions and originator level (maximum aggregate exposures for originators and originator groups).

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, depending on the financial model used to analyse the transaction, industry exposures can be reflected in implicit correlation or can be indirectly captured based on assumption of default rate volatility, as a key model input variable.

As of 31 December 2010, EIF's overall own risk G&S portfolio was spread over 16 countries. The largest nominal individual country net exposures were Italy, United Kingdom and Germany, which jointly accounted for 44.4% of total guarantee commitments.

Consideration of sector exposures also forms part of EIF's overall portfolio analysis.

Counterparty risk in the own resources portfolio is mitigated by the quality of EIF counterparties, which are usually major market players, and by rating triggers on the counterparty which require, in case of breach, actions such as substitution of the counterparty or collateralisation of its obligation. 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 G&S, including extreme case assumptions, are regularly carried out to determine the ability of the capital base to sustain adverse shocks.

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) in G&S corresponds to the nominal exposure at risk of EUR 2 580.2m.

3.5.1.B. Treasury

The Fund is exposed to credit risk relating to its assets held in the Treasury portfolios. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio, the eligibility criteria for counterparties are fixed according to their nature, to their credit quality (as measured by their external credit ratings) and to their own funds.

Any currency arbitrage is ruled out by the statutes.

The following table shows the maximum exposure to credit risk for treasury.

Breakdown by class of statement of financial position (EUR)

EUR

	Maximum exposure 2010	Maximum exposure 2009
Cash and cash equivalents	73 603 254	106 266 117
Debt securities and other fixed income securities	863 578 881	832 313 566
Total Credit Risk Exposure	937 182 135	938 579 683

The following table outlines the credit quality of the Fund's debt securities as of 31 December 2010 and 2009, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2010		31.12.2009	
Rating	Amount in EUR	In percentage	Amount in EUR	In percentage
Aaa	352 119 579	40.8%	491 233 789	59.0%
Aa1	54 509 085	6.3%	12 203 603	1.5%
Aa2	96 135 522	11.1%	46 580 486	5.6%
Aa3	8 982 575	1.0%	44 253 843	5.3%
A1	113 486 436	13.1%	132 305 845	15.9%
A2	9 414 792	1.1%	9 351 699	1.1%
A3	42 536 459	4.9%	0	0.0%
Baa1	103 212 844	12.0%	91 307 785	11.0%
Baa2	0	0.0%	0	0.0%
Baa3	4 988 681	0.6%	5 076 516	0.6%
Ba1	78 192 908	9.1%	0	0.0%
Total	863 578 881	100.0%	832 313 566	100.0%

The exposures in Ba1 rating consist of EU sovereign bonds. In the course of the year 2010 the treasury portfolio suffered unrealised losses of EUR 50.3m, which stemmed mainly from sovereign and government guaranteed bonds downgrades.

As of 31 December 2010, EIF's debt securities portfolio was spread over 22 countries. The largest nominal individual country exposures were Spain, Italy and Ireland, which jointly accounted for 44.5% of total nominal commitments.

No financial assets carried at amortised cost were past due or impaired either at 31 December 2010 or 31 December 2009.

3.5.2 Liquidity risk

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, PE commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to the minimisation of risk (for further details on market risk for treasury, please refers to note 3.5.3.1.C).

3.5.2.A. Private Equity

The PE market is illiquid by nature as the vehicles are closed-end funds typically with a 10-year lifespan. After the first closing, it is difficult for an investor to offload their position, needing to find a buyer in the secondary market. However, PE funds have a finite life and are self-liquidating. This results in a continuous stream of reflows, the magnitude of which mostly depends on the market conditions and the proportion of the portfolio that is in its divestment phase.

The total net commitments to PE funds amounting to EUR 388.9m in 2010 are limited to 50% of shareholders' equity. EIF's portfolio is diversified in terms of vintage years, which has a smoothing effect on its cash flows (see EIF's own resource portfolio broken down by vintage year in note 3.2.3).

The table below shows the Fund's PE undrawn amounts (commitments minus disbursements and excluding equalisation fees) of EUR 169.9m classified into relevant maturity groupings based on the remaining period to the expected maturity date. It is presented using a prudent expectation of maturity dates.

EUR

Private Equity	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2010	5 603 117	3 810 771	10 994 729	149 555 041
As of 31.12.2009	2 340 308	3 030 571	11 588 657	130 413 035

3.5.2.B. Portfolio Guarantees & Securitisation

The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensure a high degree of liquidity to cover unexpected losses arising from the G&S activity.

At year end 2010, the total Fund's G&S exposure at risk amounted to EUR 2 580.2m. However, for liquidity risk management purpose, G&S exposure at risk is analysed with reference to its expected maturity date and per the total expected loss.

At the year end 2010, the total expected losses for all G&S own risk transactions stood at EUR 142.3m. The expected losses may materialise anytime until the tranches' expected maturity dates. However, EIF does not expect to receive guarantee calls for the amount of EUR 142.3m within the next 3 months as most of the G&S transactions follow a debt service guarantee framework, meaning the guarantee covers timely payment of interest and ultimate (i.e. at the legal maturity date) payment of principal. It is not uncommon to have legal maturity dates for these instruments set 20 – 30 years after the expected maturity dates.

Within the next 3 months tranches with a sum of expected losses of EUR 2.2m will reach their expected maturity dates. Therefore, repayments of tranches will decrease the total expected losses of the current outstanding G&S own risk portfolio.

EUR

Guarantees	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2010	142 300 863	140 122 579	123 651 246	42 999 690
As of 31.12.2009	91 403 807	78 946 143	65 474 796	10 612 275

During 2010 the capital charge for the G&S portfolio increased significantly driven by the deterioration of some underlying assets.

Liquidity risk: Portfolio guarantees & securitisation

EURm

	31.12.2010	31.12.2009
Capital Charges	110.3	163.1
Guarantees Drawn	3 160.3	3 231.5
Guarantees Undrawn	48.6	55.6
Exposure at risk	2 580.2	2 893.0
Yearly guarantee calls	6.7	0.8

3.5.3 Market risk

Market risk is the risk that the net present value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and security prices.

3.5.3.1. Market risk: interest rate risk

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

3.5.3.1.A. Private Equity

As PE fund investments are financed by equity and are not leveraged, direct sensitivity to interest rate is not a consideration.

3.5.3.1.B. Portfolio Guarantees & Securitisation

Transactions in which EIF acts as guarantor are typically in illiquid markets and representative market prices are not available. EIF has therefore developed a mark-to-model approach to value these transactions, using external and internal ratings, information gathered through regular monitoring, and discounted cash flow analysis.

The value of guarantee transactions is not directly subject to fluctuations with interest rates during the life of the transactions. The interest rate risk impact on underlying portfolios is indirectly assessed during the quarterly review of the transaction's performance. A change of a transaction rating usually implies a revision of the transaction's expected loss, capital charge and transaction valuation.

3.5.3.1.C. Treasury

Approximately 76.7% of liquid assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long-term revenues.

Moreover, speculative operations are not authorised. Investment decisions are based on the interest rates available in the market at the time of investment.

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

EUR

At 31.12.2010	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash and cash equivalents	73 603 254	0	0	0	0	73 603 254
AFS - Debt securities and other fixed income securities	26 070 241	100 987 208	518 442 047	178 168 380	39 911 005	863 578 881
Total	99 673 495	100 987 208	518 442 047	178 168 380	39 911 005	937 182 135
Percentage	10.6%	10.8%	55.3%	19.0%	4.3%	100.0%

EUR

At 31.12.2009	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash and cash equivalents	106 266 117	0	0	0	0	106 266 117
AFS - Debt securities and other fixed income securities	13 605 484	205 843 498	401 592 792	145 115 976	66 155 816	832 313 566
Total	119 871 601	205 843 498	401 592 792	145 115 976	66 155 816	938 579 683
Percentage	12.8%	21.9%	42.8%	15.5%	7.0%	100.0%

The average effective interest rate on term deposit in EUR was 0.9% for 2010 (2009: 0.5%). The average effective interest rate on the AFS securities portfolio in EUR was 3.7% for 2010 (2009: 3.1%).

Sensitivity of earnings

The sensitivity of earnings is an estimate of the change over 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 fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury 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 as the previous one as of 31 December 2010. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2009, the earnings of the EIF treasury portfolio would have increased by EUR 2.0m if interest rates rose by 100 basis points or decreased by the same amount if interest rates fell by 100 basis points. For the positions in place as of 31 December 2010, the earnings of the EIF treasury portfolio would increase by EUR 1.2m if interest rates rose by 100 basis points and decrease by the same amount if interest rates fell by 100 basis points.

Value at Risk

As of 31 December 2010, the Value at Risk of the EIF treasury portfolio was EUR 2.9m (EUR 1.7m in 2009). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0% and a 1-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 1.0%. 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.

3.5.3.2. Market risk: foreign currency risk

EIF may invest in financial instruments denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than euro (EUR).

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

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

The table below shows the currency exposure (in EUR) of EIF's main financial assets and financial liabilities.

EUR

At 31.12.2010	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	71 398 973	786 437	887 029	530 815	2 204 281	73 603 254
Investments						
Debt securities and other fixed income securities	863 578 881	0	0	0	0	863 578 881
Shares and other variable income securities	146 391 507	35 039 418	4 994 221	7 959 389	47 993 028	194 384 535
Total assets	1 081 369 361	35 825 855	5 881 250	8 490 204	50 197 309	1 131 566 670
Financial liabilities						
Financial guarantees	15 033 265	11 729 325	0	139 444	11 868 769	26 902 034
Total liabilities	15 033 265	11 729 325		139 444	11 868 769	26 902 034
Foreign currencies in % of net assets		2.4%	0.6%	0.8%	3.8%	
Net commitments to private equity	285 466 362	78 864 075	8 283 012	16 264 062	103 411 149	388 877 511
Guarantees' exposure at risk	2 024 152 125	221 600 868	0	334 487 605	556 088 473	2 580 240 598
Total Off BS	2 309 618 487	300 464 943	8 283 012	350 751 667	659 499 622	2 969 118 109

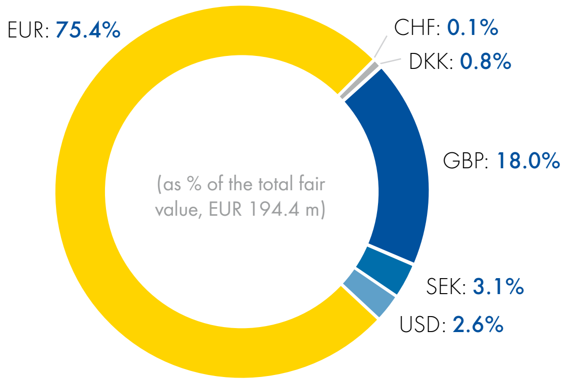
EUR

At 31.12.2009	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	100 955 737	3 667 809	408 424	1 234 147	5 310 380	106 266 117
Investments						
Debt securities and other fixed income securities	832 313 566	0	0	0		832 313 566
Shares and other variable income securities	127 126 490	26 924 520	5 249 660	5 727 067	37 901 247	165 027 737
Total assets	1 060 395 793	30 592 329	5 658 084	6 961 214	43 211 627	1 103 607 420
Financial liabilities						
Financial guarantees	17 011 251	9 546 123	0	166 015	9 712 138	26 723 389
Total liabilities	17 011 251	9 546 123	0	166 015	9 712 138	26 723 389
Foreign currencies in % of net assets		2.0%	0.6%	0.7%	3.3%	
Net commitments to private equity	259 953 190	60 823 036	8 367 405	12 270 954	81 461 395	341 414 585
Guarantees' exposure at risk	2 271 449 395	305 829 728	0	315 897 115	621 726 843	2 893 176 238
Total Off BS	2 531 402 585	366 652 764	8 367 405	328 168 069	703 188 238	3 234 590 823

"Other assets" and "Other liabilities and provisions" are denominated in EUR (for more details please see note 4.4 and 5.4).

3.5.3.2.A. Private Equity

On the PE side, at 31 December 2010, currency exposure for the PE funds can be broken down as follows:



For 2010, changes due to foreign exchange rates for shares and other variable income amount to EUR 2 499 130, of which EUR 2 294 406 has been posted to the fair value reserve (2009: respectively EUR 2 358 344 and EUR 1 320 601).

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.

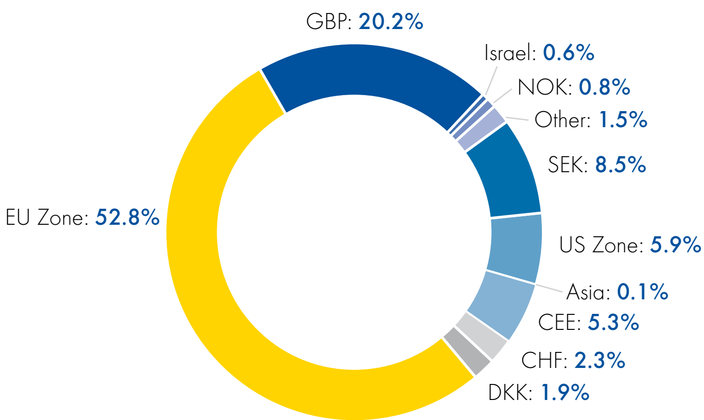
Foreign exchange rate risk

Impact in EUR

	GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
31.12.2010	5 684 746	(4 201 769)
31.12.2009	4 581 704	(3 386 477)

It should be noted however, that these impacts are measured at a fund level (impact on the net asset values denominated in out-currency). Accordingly, they do not take into account indirect potential effects on the underlying portfolio companies which could be in out-currencies. In practice fund managers try to hedge any positions they hold in currency other than the fund's main currencies.

In addition, the underlying investments are also diversified and the indirect exposure of EIF broadly follows the exposure at fund level, as illustrated by the graph below:

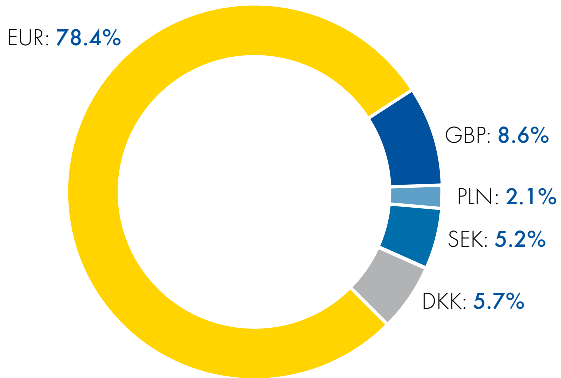


3.5.3.2.B. Portfolio Guarantees & Securitisation

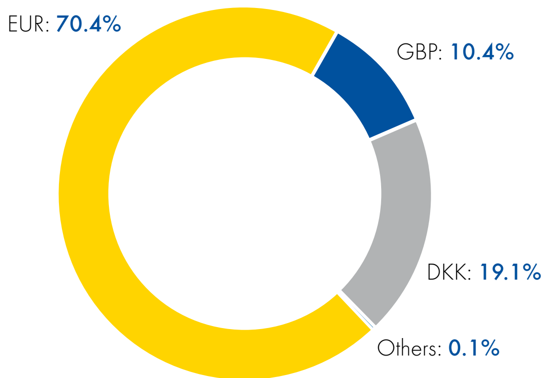
As of end 2010, 78.4% of exposure at risk (70.4% of expected loss) was in EUR. The GBP and DKK are the two main foreign currency exposures representing 8.6% and 5.7% of exposure at risk, respectively (10.4% and 19.1% of expected loss, respectively).

Own Risk Portfolio breakdowns by currency and Assets Fair Value at 31 December 2010:

Exposure at risk breakdown



Expected loss breakdown



EIF is monitoring its non-euro exposure and 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 margin.

3.5.3.2.C. Treasury

Foreign currency risk is deemed negligible regarding EIF's debt securities portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR.

3.5.3.3. Market risk: other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the markets.

3.5.3.3.A. Private Equity

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to risk analysis. Market risk analysis requires an estimation of the correlation between the asset class assessed and the changes in market risks other than those arising from interest rate risk or currency risk. This can be done based on the capital asset pricing model. This model uses 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, such data is lacking for PE and in particular Venture Capital. Analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the IRR, the standard performance measure used for PE funds, is capital-weighted, while for public market assets it is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

The EIF uses a beta derived from the betas of three listed PE indices, LPX Europe Price Index, LPX Venture Price Index and LPX Buyout Price Index, to estimate the sensitivity of the valuation of EIF's PE investment to market prices. Regression has been carried out using the Dow Jones Euro Stoxx 50 over the last two years.

Using the most conservative beta from the three indices mentioned above and assuming market price movements of ±10%, the final sensitivity (i.e beta x ±10%) is applied to the net asset value to give an adjusted net asset value, which is then compared to the net paid in. The calculated value adjustment is then recorded using the methodology described in note 3.2.1. EIF's PE investment value would be impacted as follows:

Public market risk: all private equity

	+10% Retained Beta 1.3 Final Sensitivity: +13%			-10% Retained Beta 1.3 Final Sensitivity: -13%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2010	378 829	22 363 253	22 742 082	(14 592 133)	(8 129 976)	(22 722 110)
31.12.2009	270 701	20 274 657	20 545 358	(6 105 450)	(15 569 320)	(21 674 770)

3.5.3.3.B. Portfolio Guarantees and Securitisation

As EIF's G&S transactions are not actively traded on public markets, direct sensitivity to price risk is not a consideration.

3.6 Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the EIF measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 2.3.2.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

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

The fair value hierarchy reflects the significance of the inputs used in making the measurements. These levels differ from the category classification mentioned under 2.3.2a:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

EUR

At 31.12.2010	Level 1	Level 3	Total
Financial assets			
Financial investments - AFS	864 451 939	190 135 993	1 054 587 932
Financial assets designated at fair value through P&L	0	3 375 484	3 375 484
	864 451 939	193 511 477	1 057 963 416

EUR

At 31.12.2009	Level 1	Level 3	Total
Financial assets			
Financial investments - AFS	833 146 329	161 435 910	994 582 239
Financial assets designated at fair value through P&L	0	2 759 064	2 759 064
	833 146 329	164 194 974	997 341 303

Details of the movements of financial assets in 2010 are given in notes 4.2 and 4.3.

There was no transfer of financial assets between Level 1 and Level 3 in 2010. Out of Level 3, disbursements amounted to EUR 37.6m, capital repayments amounted to EUR 12.9m and terminated deals amounted to EUR 1.7m.

4. DETAILED DISCLOSURES RELATING TO ASSET HEADINGS

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.8% (2009: 0.5%). These deposits have an average remaining maturity of 33 days (2009: 26 days).

Cash and cash equivalents is as follows:

EUR

	31.12.2010	31.12.2009
Current accounts	31 183 332	33 311 981
Money market instruments	42 419 922	72 954 136
	73 603 254	106 266 117

4.2 Debt securities and other fixed income securities

The Fund's portfolio includes long-term debt instruments i.e. bonds, notes and other obligations.

EUR

	31.12.2010	31.12.2009
Available-for-Sale portfolio	847 111 106	817 899 583
Accrued interests	16 467 775	14 413 983
	863 578 881	832 313 566

Debt securities and other fixed income securities held by the Fund are all quoted on an active market.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties; the fair value of securities lent at year-end amounts to EUR 94 711 487 (2009: EUR 51 225 956).

Movement in debt securities and other fixed income securities

EUR

	2010	2009
Fair value at 1 January	832 313 566	495 733 011
Additions	360 000 091	449 476 970
Disposals	(281 972 280)	(129 495 650)
Effective interest rate adjustment	3 554 286	1 082 109
Change in Fair value reserve	(50 316 782)	15 517 126
Fair value at 31 December	863 578 881	832 313 566

The total fair value reserve recognised in equity at the end of 2010 is EUR (42 709 617) (2009: EUR 7 607 165).

Debt securities and other fixed income securities include accrued interest of EUR 16 467 775 (2009: EUR 14 413 983) and are classified as Level 1.

In 2010, there was no impairment on the portfolio (2009: EUR 0).

Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR 2 002 257 (2009: EUR (1 328 508)), of which none relates to Level 3.

4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

EUR

	2010	2009
Investment at cost at 1 January	205 499 005	191 515 919
Disbursements	38 850 610	23 424 940
Capital repayments	(14 802 596)	(6 127 778)
Terminated deals	(1 710 648)	(3 314 076)
Investment at cost at 31 December	227 836 371	205 499 005
Fair value adjustment and foreign exchange adjustment at 1 January	(40 471 268)	(32 801 096)
Terminated deals	1 710 648	3 142 765
Adjustments to Fair value reserve	9 842 310	(5 616 070)
Impairment	(4 533 526)	(5 196 867)
Value adjustment and foreign exchange adjustment at 31 December	(33 451 836)	(40 471 268)
	194 384 535	165 027 737

Investments in PE funds generated total capital repayments of EUR 10 878 493 (2009: EUR 932 384), which relates to Level 3.

Terminated deals include deals matured during 2010. They represent EUR 1 710 648 (2009: EUR 3 142 765) which includes the remaining net paid in of EUR 1 710 648 (2009: EUR 2 919 212) and the foreign exchange impact of EUR 0 (2009: EUR 223 553).

The fair value changes recorded in the fair value reserve amount to EUR 9 842 310 (2009: EUR (5 616 070)) and include the impact of changes in the value of investments EUR 7 547 903 (2009: EUR (6 936 671)) and in the foreign exchange rates on the investments EUR 2 294 407 (2009: EUR 1 320 601).

A portion of the total fair value of shares and other variable income securities amounting to EUR 873 058 (2009: 832 763) is classified as Level 1.

Investments belonging to Category III amount to EUR 3 377 259 (2009: EUR 132 938).

The fair value as of 31 December 2010 includes an amount of EUR 3 375 484 (2009: EUR 2 759 064) related to Investment in joint ventures.

4.4 Other assets

Other assets are made up of the following:

EUR

	31.12.2010	31.12.2009
Accounts receivable relating to pensions managed by the EIB	31 000 848	23 216 814
Advanced payments	25 085	0
Accrued commission & other income	21 389 882	14 768 798
Fees receivable on financial guarantees	3 865 429	4 915 786
Other debtors	541 617	1 887 517
	56 822 861	44 788 915

Accounts receivable 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 on behalf of the Fund. See also note 5.3.

The following table discloses the ageing of other assets past due or not past due but not impaired:

EUR

	Total	Neither past due nor impaired	Past due but not impaired		
			0-6 months	6-12 months	> 12 months
2010	56 822 861	52 869 902	0	3 905 554	47 405
2009	44 788 915	44 536 019	7 982	52 790	192 124

4.5 Intangible assets

EUR

	Internally Generated Software	Purchased Software	Total
Cost	4 007 301	582 560	4 589 861
Accumulated amortisation	(2 240 235)	(479 833)	(2 720 068)
Carrying amount at 01.01.2009	1 767 066	102 727	1 869 793
Opening net book amount	1 767 066	102 727	1 869 793
Additions	649 928		649 928
Amortisation charge	(281 944)	(54 633)	(336 577)
Carrying amount at 31.12.2009	2 135 050	48 094	2 183 144

EUR

	Internally Generated Software	Purchased Software	Total
Cost	4 657 229	582 560	5 239 789
Accumulated amortisation	(2 522 179)	(534 466)	(3 056 645)
Carrying amount at 01.01.2010	2 135 050	48 094	2 183 144
Opening net book amount	2 135 050	48 094	2 183 144
Additions	9 268	0	9 268
Amortisation charge	(778 952)	(28 683)	(807 635)
Carrying amount at 31.12.2010	1 365 366	19 411	1 384 777

EUR

31.12.2010	Internally Generated Software	Purchased Software	Total
Cost	4 666 497	582 560	5 249 057
Accumulated amortisation	(3 301 131)	(563 149)	(3 864 280)
Carrying amount	1 365 366	19 411	1 384 777

There were no indications of impairment of intangible assets either in 2010 or 2009.

4.6 Equipment and investment property

EUR

	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	0	220 668	818 355	8 764	1 047 787
Accumulated depreciation	0	(106 277)	(507 837)	0	(614 114)
Net book amount at 01.01.2009	0	114 391	310 518	8 764	433 673
Opening net book amount	0	114 391	310 518	8 764	433 673
Depreciation charge	0	(46 780)	(169 456)	0	(216 236)
Net book amount at 31.12.2009	0	67 611	141 062	8 764	217 437

EUR

	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	0	220 668	818 355	8 764	1 047 787
Accumulated depreciation	0	(153 057)	(677 293)	0	(830 350)
Net book amount at 01.01.2010	0	67 611	141 062	8 764	217 437
Opening net book amount	0	67 611	141 062	8 764	217 437
Reclassification from non-current assets held for sale	7 139 812	0	0	0	0
Additions	0	9 477	0	0	9 477
Depreciation charge	(810 732)	(36 571)	(108 688)	0	(145 259)
Net book amount 31.12.2010	6 329 080	40 517	32 374	8 764	81 655

EUR

31.12.2010	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	7 139 812	230 145	818 355	8 764	1 057 264
Accumulated depreciation	(810 732)	(189 628)	(785 981)	0	(975 609)
Net book amount	6 329 080	40 517	32 374	8 764	81 655

There were no indications of impairment of equipment or investment property in either 2010 or 2009.

Following its assessment of the market, the Fund has decided in 2010 to hold the non-current asset for use and has found an opportunity for renting. Consequently, non-current assets previously classified in the statement of financial position as held for sale have been reclassified to “Investment property”. Upon reclassification, the building was remeasured at the lower of its recoverable amount and the carrying amount including depreciation that would have been recognised had the building never been classified as held for sale.

The fair value of the investment property is EUR 8.5m. The valuation was performed by external experts in October 2008 and is presumed not to have changed materially since.

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

	2010	2009
Balance at the beginning of the financial year	26 723 389	21 594 769
Guarantee calls	(232 105)	(797 244)
Net increase/decrease in Financial Guarantees	(4 542 895)	2 702 970
Up/ Downgrading	7 329 636	10 451 348
Transfer to provision for guarantees	(2 375 991)	(7 228 454)
Balance at the end of the financial year	26 902 034	26 723 389

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial guarantees is transferred to the heading Provisions for guarantees.

5.2 Provisions for guarantees

EUR

	2010	2009
Balance at 1 January	64 630 966	8 983 874
Additions	48 105 740	56 696 942
Utilised	(5 267 313)	0
Release of provision	0	(1 049 850)
Balance at 31 December	107 469 393	64 630 966

Additions include the increase in existing provisions on guarantee operations EUR 32 937 470 (2009: EUR 5 344 291), the value of the guarantee operations transferred from IAS 39 to IAS 37 in 2010 of EUR 2 062 362 (2009: EUR 7 228 454), and the additional provision on these transferred operations of EUR 13 105 908 (2009: EUR 44 124 197).

EUR 5 267 313 was utilised in 2010 for guarantee calls (2009: EUR 0).

5.3 Retirement benefit obligations

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

EUR

Retirement benefit obligations	31.12.2010	31.12.2009
Pension scheme	23 438 632	19 208 222
Health insurance scheme	2 365 000	1 936 000
	25 803 632	21 144 222

Commitments in respect of retirement benefits as of 31 December, 2010 have been valued by an independent actuary. The calculations are based on the following main assumptions:

EUR

Principal Assumptions	2010	2009
Discount rate for obligations	5.06%	6.19%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ICSLT	Swiss BVG 2005

It was decided in 2010 to use the ISCLT longevity table instead of the LPP 2005 tables in the actuarial calculations, as this table is considered more appropriate for the EIF as a European Institution.

The pension commitment as valued in the independent actuary report dated February 2011 amounts to EUR 23 438 632. As of December 2010, the Fund allocated EUR 27 445 003 (2009: EUR 21 154 591) to pensions assets to ensure full coverage of the commitments.

EUR

Net Periodic Benefit Cost as at 31.12.2010	EIF Pension	Health Insurance	Total 2010
Current net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Amortisation of unrecognised gains/losses	36 000	(17 000)	19 000
Net Benefit Expense	2 663 000	429 000	3 092 000

EUR

Net Periodic Benefit Cost as at 31.12.2009	EIF Pension	Health Insurance	Total 2009
Current net service cost	1 655 000	286 000	1 941 000
Interest cost	938 000	78 000	1 016 000
Amortisation of unrecognised gains/losses	(5 000)	(14 000)	(19 000)
Net Benefit Expense	2 588 000	350 000	2 938 000

EUR

Benefit Liabities as at 31.12.2010	EIF Pension	Health Insurance	Total 2010
Present value of unfunded obligation	35 457 000	3 351 000	38 808 000
Unrecognised net actuarial gains/(losses)	(12 018 000)	(986 000)	(13 004 000)
Net liabilty	23 439 000	2 365 000	25 804 000

EUR

Benefit Liabities as at 31.12.2009	EIF Pension	Health Insurance	Total 2009
Present value of unfunded obligation	19 677 000	1 587 000	21 264 000
Unrecognised net actuarial gains/(losses)	(469 000)	349 000	(120 000)
Net liabilty	19 208 000	1 936 000	21 144 000

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

EUR

Changes in Defined Benefit Obligation as at 31.12.2010	EIF Pension	Health Insurance	Total 2010
Defined benefit obligation, Beginning of year	19 677 000	1 587 000	21 264 000
Net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Employee contributions	1 365 000	0	1 365 000
Benefits Paid	203 000	0	203 000
Experience (Gain)/ Loss	1 137 000	162 000	1 299 000
(Gain)/ Loss due to assumption changes	10 448 000	1 156 000	11 604 000
Defined benefit obligation, End of year	35 457 000	3 351 000	38 808 000

EUR

Changes in Defined Benefit Obligation as at 31.12.2009	EIF Pension	Health Insurance	Total 2009
Defined benefit obligation, Beginning of year	15 340 000	1 298 000	16 638 000
Net service cost	1 655 000	286 000	1 941 000
Interest cost	938 000	78 000	1 016 000
Employee contributions	1 058 000	0	1 058 000
Benefits Paid	163 000	0	163 000
Experience (Gain)/ Loss	1 452 000	10 000	1 462 000
(Gain)/ Loss due to assumption changes	(929 000)	(85 000)	(1 014 000)
Defined benefit obligation, End of year	19 677 000	1 587 000	21 264 000

Amounts for the current and previous four periods are as follows:

EUR

History of asset values	2010	2009	2008	2007	2006
Defined Benefit Obligation, End of year	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)	(9 928 000)
Surplus/ (Deficit) in the Plan	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)	(9 928 000)
Experience Gains/ (losses) on DBO	(1 299 000)	(1 462 000)	(647 000)	(406 000)	(430 000)

The Defined Benefit Obligation (DBO) at the end of the year is calculated using the DBO at the beginning of the year, plus net service cost, plus interest cost, plus employee contributions, plus net benefits paid, plus liability due to experience, less gain due to assumption changes.

The effect of a 1% increase or decrease in 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 financial statements.

5.4 Other liabilities and provisions

EUR

	31.12.2010	31.12.2009
Related parties payables	4 255 232	3 654 767
Employee benefit payables	14 195 402	10 820 153
Trade creditors	1 072 783	2 228 827
	19 523 417	16 703 747

Employee benefit payables mostly include staff-related costs such as the 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, all of which have now 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 30 June and 31 July 2010 from authorised share capital as follows:

EUR

	31.12.2009	New shares issued 30.06.2010	New shares issued 31.07.2010	31.12.2010
Authorised Shares	3 000			3 000
of which: subscribed	2 940	39	21	3 000
un-subscribed	60	(39)	(21)	0

The authorised and subscribed share capital of EUR 3 000 000 000 representing 3 000 shares is called and paid in for an amount of EUR 600 000 000 representing 20% of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital require the approval of the General Meeting of Shareholders.

The 60 new shares were issued at a price of EUR 349 909.66 per share increasing the share premium reserve by EUR 8 994 580.

The subscribed share capital is detailed as follows:

EUR

	31.12.2010	31.12.2009
Subscribed and paid in (20%)	600 000 000	588 000 000
Subscribed but not yet called (80%)	2 400 000 000	2 352 000 000
	3 000 000 000	2 940 000 000

The capital is subscribed as follows:

Number of shares

	31.12.2010	31.12.2009
European Investment Bank	1 835	1 826
European Commission	900	861
Financial Institutions	265	253
	3 000	2 940

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 1 446 411 is required to be appropriated in 2011 with respect to the financial year ended 31 December, 2010.

There was no dividend distributed in 2010 relating to the year 2009 (2009: EUR 14 044 432). Dividends are distributed in line with Article 27 of the Fund's statutes.
Further details of the Fund's capital management requirements are explained in note 3.2 and note 3.5.2.B.

5.7 Fair value reserve

The fair value reserve includes the following:

EUR

	31.12.2010	31.12.2009
Fair value reserve on debt securities and other fixed income securities	(42 709 617)	7 607 165
Fair value reserve on shares and other variable income securities	15 159 194	5 316 884
	(27 550 423)	12 924 049

The fair value reserve contains fair value changes related to EIF treasury and private equity portfolios.

6. DISCLOSURES RELATING TO OFF-BALANCE SHEET ITEMS

6.1 Assets held for third parties

Assets held for third parties represent investments managed by the Fund and trust accounts opened and maintained in the name of the Fund but for the benefit of third parties. EIF acts as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties (EIB and EC see note 8.1 and 8.2, respectively) and other third parties (public and private entities) depending on the nature of the investment as detailed below.

EIB resources

The Fund manages EIB resources through the following mandates:

- European Technology Facilities (ETF) 1 and 2 implemented since 1998 which were fully invested by the end of 2008 and 2010, respectively.

- The Risk Capital Mandate (RCM) signed with the EIB in 2000 to support, on a revolving basis, technology and industrial innovation through early stage, expansion and lower mid-market capital. The portfolio includes EIB's then existing private equity portfolio that was transferred to EIF in the context of the mandate.

- Under the RCM Micro window signed with EIB in February 2009, the Fund provides financial support through equity instruments and funded or unfunded risk-sharing arrangements to micro-credit providers in EU and Accession Countries. The funding was made available by the EIB through the Risk Capital Mandate.

- The Mezzanine Facility for Growth (MFG) mandate signed in early 2009 for the Fund to invest in hybrid debt/equity funds over an initial period of three years. The MFG aims at filling the financing gap for European SME and lower mid cap companies by providing hybrid debt/equity products for the benefit of mature European small companies with strong market positions and growth potential as well as high technology companies in their expansion stage.

- EIB co-funding to the EPMF FCP is described in the European Commission resources section.

European Commission resources

- Under the European Union's Growth and Employment Initiative (G&E) and under the Multi-Annual Programme (MAP) for enterprises and entrepreneurship, the Fund manages resources on behalf and at the risk of the Commission. This resource is split equally between private equity and guarantee products. The equity segment known as ESU 1998 (G&E) and ESU 2001 (MAP) covers the ETF start-up investments. The guarantees segment known as SMEG 1998 (G&E) and SMEG 2001 (MAP), provides guarantees against the beneficiary's undertaking.

- Under the Technology Transfer Pilot Project (TTP), financed by the European Commission and signed in November 2008, the Fund has supported a technology transfer structure through pre-seed funding and seed funding, as well as funding in the context of licensing and Intellectual Property transaction.

- Under the Competitiveness and Innovation Framework Programme (CIP), the Fund manages resources on behalf and at the risk of the Commission. The equity segment of CIP known as GIF (High Growth and Innovative SME Facility) covers early stage (seed and start-up) investments and expansion stage (mid-market) investments. Under the guarantees segment of CIP, the SME Guarantee Facility (SMEG 2007), capped portfolio guarantees are provided against the beneficiary's undertaking to enable increased financing to SMEs and to increase the risk taking in the SME financing.

- Under the Joint Action to Support Microfinance Institutions in Europe (JASMINE) initiative the Fund manages the technical assistance initiative with European Commission resources.

- Under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) annual Contribution Agreements entered into with the European Commission, the Fund has been mandated to undertake technical assistance and networking activities to support the preparation and structuring of JEREMIE holding fund mandates in cooperation with EU Member States and regions.

- Within the involvement of the European Union in the Global Energy Efficiency and Renewable Energy

Fund (GEEREF), the EIF manages the European Union's participation in the fund as trustee and represents the Commission's interests. Secondly, the EIF holds a technical assistance mandate for AIDCO for which related activities are implemented by GEEREF Front Office.

- In 2010 the Fund signed the European Parliament Preparatory Action (EPPA) with DG REGIO, under which EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.

- The European Progress Microfinance Facility (EPMF) aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged. EPMF is implemented by EIF through two separate mandates: Under a direct mandate signed with the European Commission in July 2010, the EIF provides portfolio guarantees to micro-credit lenders. Further financial instruments such as debt, equity, and risk-sharing are deployed through a Luxembourg *fonds commun de placement* (FCP), managed by EIF in its capacity as management company. Initial funding for the FCP is provided by the Commission and the EIB.

- The EIF acts as trustee for the European Commission in two funds called EFSE (European Fund for South East Europe) and GGF (Green for Growth – former SE4F). EFSE does microfinance in South East Europe and the European Neighbourhood region and the fund was launched in 2006. The EC's participation managed via the EIF currently amounts to approximately EUR 100m. GGF has been set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, the EIF acts as trustee for the European Commission in the technical assistance facility of the GGF (GGF TA).

Other third party resources

- The Fund has sought to further enhance its market impact by establishing joint investment facilities with public and private entities through trust accounts; country, multi-country or sector-specific funds of funds, such as:

- Under the Joint European Resources for Micro to Medium Enterprises (JEREMIE), Member States have appointed EIF to manage JEREMIE funds as Holding Fund manager. The JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as private equity funds, guarantee funds and loan funds. The Fund has signed 11 JEREMIE Funding Agreements with Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta.

- Under the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the EIF acts as investment advisor with the objective to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF Front Office is located within the EIB and cooperates closely with the EIF services supporting the investment activities.

- Under the Greater Anatolia Guarantee Facility (GAGF) signed in May 2010, the Fund manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and the Republic of Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in Turkey's least developed provinces in partnership with major Turkish banks.

- ERP-EIF Dachfonds, which EIF manages on behalf of the German Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP);

- NEOTEC, a Fund-of-Funds, is a joint venture between EIF and a Spanish government entity, including significant Spanish Blue Chips as investors. It seeks to invest in technology funds in Spain and has already invested a large portion of its commitments.

- Istanbul Venture Capital Initiative (iVCi), a dedicated Turkish Fund-of-Funds advised by EIF.

- Portugal Venture Capital initiative (PVCi), a Fund-of-Funds focused on private equity and venture capital funds in Portugal. The investor base comprises main financial institutions in Portugal.

- LfA-EIF Facility, signed in 2009 is a joint EIF and Lfa Förderbank Bayern venture providing investments to support technology-oriented early and expansion stage companies in Bavaria, Germany.

- UK Future Technologies Fund (UK FTF), signed in 2010, is a Fund-of-Funds investing in venture capital funds in technology companies with high growth potential. EIF was confirmed as manager for two separate funds of funds together making up the UK Innovation Investment Fund (UKIIF).

The table below shows the Trust accounts held by the EIF on behalf of third parties, which includes cash at bank, money market balances as well as the relevant accruals:

EUR

	31.12.2010	31.12.2009
SMEG 1998	59 550 370	61 991 728
ESU 1998	9 896 169	6 572 619
SMEG 2001	44 748 228	72 590 532
ESU 2001	46 348 734	65 794 671
CIP/ SMEG 2007	80 966 776	93 703 050
CIP/ GIF	73 576 917	99 998 716
TTP	1 809 155	2 010 227
Progress FMA	6 004 173	0
EPPA	1 003 001	0
GEEREF Technical Support Facility	3 750 370	2 390 480
GEEREF Trusteeship	1 633 422	57 998 741
EFSE - Trust Account	27	10 000 066
GGF - Trust Account	120	27
GGF - Technical Assistance - Trust Account	5 000 045	0
Trust accounts with the Commission	334 287 507	473 050 857
GAGF	31 332 230	0
Trust accounts with the EIB	25 174 075	23 994 356
Trust account with the BWMi	517 280	102 145
Trust account with the LFA-GV	113 873	24 487
Trust account with member states/regions JEREMIE initiative	928 876 214	763 174 834
	1 320 301 179	1 260 346 679

Additional information on PE investments and G&S managed by EIF are given in notes 3.2.2 and 3.3.2.

7. DETAILED INFORMATION ON THE STATEMENT OF COMPREHENSIVE INCOME

7.1 Interest and similar income

Interest and similar income comprises:

EUR

	2010	2009
Interest on debt securities	29 072 530	23 885 776
Interest on money market instruments	272 241	3 129 835
Interest on bank current accounts	167 464	147 289
Other interest	1 970 989	1 454 578
	31 483 224	28 617 478

The above figures include discounts of EUR 1 485 097 (2009: EUR 1 061 199) and premiums amount to EUR 3 497 706 (2009: EUR 3 235 272).

7.2 Net result from guarantee operations

Net income from guarantee operations comprises:

EUR

	2010	2009
Net increase in the financial guarantees contracts	21 526 582	32 936 271
Provision for guarantees under IAS 37	(46 445 360)	(54 327 760)
Release of provision	0	1 049 850
	(24 918 778)	(20 341 639)

7.3 Commission income

Commission income is detailed as follows:

EUR

	2010	2009
Commissions on EIB mandates	12 091 848	11 660 548
Commissions on EC mandates	6 180 996	2 743 795
Commissions on Regional and Funds of Funds mandates	18 555 892	11 854 840
Other commissions	320 720	585 055
	37 149 456	26 844 238

7.4 Net gain/ loss on financial operations

Net gains/(losses) on financial operations amounting to EUR 2 180 690 (2009: EUR (1 351 432)) corresponds to realised gains/(losses) on the debt securities portfolio of EUR 2 002 257 (2009: EUR (1 328 508)) and gains/(losses) arising from transactions or cash positions in foreign currencies of EUR 178 432 (2009: EUR (22 924)).

7.5 Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 326 000 (2009: EUR 0).

Future minimum lease payments under non-cancellable operating leases

EUR

	Less than 1 year	1 to 5 years	More than 5 years	Total
2010	579 294	868 940	-	1 448 234
2009	-	-	-	-

7.6 General administrative expenses

Wages and salaries include expenses of EUR 2 797 706 (2009: EUR 3 080 059) incurred in relation to staff seconded from the EIB.

Key management compensation, including pension, for the year is EUR 1 624 894 (2009: EUR 1 573 758).

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 1 950 334 (2009: EUR 1 048 434).

Future minimum lease payments under non-cancellable operating leases

EUR

	Less than 1 year	1 to 5 years	Total
2010	2 669 948	3 577 142	6 247 090
2009	1 764 628	2 280 726	4 045 354

The number of persons, including 4 EIB secondees (2009: 8 EIB secondees), employed at the year-end is as follows:

EUR

	2010	2009
Chief Executive/Deputy Chief Executive	2	2
Employees	213	185
Total	215	187
Average of the year	196	172

8. RELATED PARTIES TRANSACTIONS

EIB is the majority owner of the Fund with 61.2% (2009: 62.1%) of the shares. The remaining percentage is held by the European Commission 30.0% (2009: 29.3%) and the Financial Institutions 8.8 % (2009: 8.6%).

8.1 European Investment Bank

Related party transactions with the EIB mainly concern the management by the Fund of the PE activity as described in notes 6. In addition, the EIB 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 EIB are disclosed as follows:

EUR

	31.12.2010	31.12.2009
ASSETS		
Other assets	33 614 684	26 946 561
LIABILITIES AND EQUITY		
Other liabilities and provisions	4 943 188	4 521 603
Share capital	367 000 000	365 200 000
INCOME		
Commission income	12 091 848	11 660 548
EXPENSES		
General administrative expenses	7 354 009	6 654 257
OFF BALANCE SHEET		
Guarantees Drawn	250 063 807	281 437 973
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	25 174 075	23 994 356
Net disbursed in private equity	1 880 592 079	1 714 399 857
Investments undrawn in private equity	1 554 753 533	1 261 737 957

8.2 European Commission

Related party transactions with the European Commission mainly concern the management by the Fund of private equity and guarantee activities as described in the notes 6. 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

	31.12.2010	31.12.2009
ASSETS		
Other assets	4 143 848	5 504 720
LIABILITIES AND EQUITY		
Other liabilities and provisions	16 051	69 033
Share capital	180 000 000	172 200 000
INCOME		
Commission income	6 335 436	2 743 795
EXPENSES		
General administrative expenses	131 953	139 220
OFF BALANCE SHEET		
Guarantees Drawn	8 990 672 110	8 025 814 964
Guarantees undrawn	2 704 562 598	2 675 088 511
Assets held for third parties	334 287 507	473 050 857
Net disbursed in private equity	245 410 387	200 200 515
Investments undrawn in private equity	204 955 912	209 944 263

9. 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 and indirect taxes.

CONTACTS AND REFERENCES

European Investment Fund
96, boulevard Konrad Adenauer
L-2968 Luxembourg

+352 42 66 88 1
+352 42 66 88 200
info@eif.org
www.eif.org

EIF is a member of the EIB Group

EIF also has offices in Athens, Bratislava, Bucharest, Madrid, Montpellier, Riga, Rome, Sofia and Vilnius

Europe Direct is a service to help you find answers to your questions about the European Union
Freephone: 00 800 67 89 10 11

Additional information is also available on the internet:
http://europa.eu.int

Photos by blitz agency s.à r.l., Luxembourg
www.blitz.lu

ISBN 978-92-861-1296-6
ISSN 1725-5392
DOI 10.2868/10143

Printed on white chlorine-free paper

FSC Mixed Sources
Product group from well-managed forests, and other controlled sources
www.fsc.org Cert no. EUR-COC-051203
© 1996 Forest Stewardship Council

European Investment Fund
96, boulevard Konrad Adenauer
L-2968 Luxembourg
(+352) 42 66 88 1
(+352) 42 66 88 200
www.eif.org

ISBN 978-92-861-1296-6