EUROPEAN INVESTMENT FUND

ANNUAL REPORT 2012

Highlights

Operational highlights	2012	2011	2010	2009	2008
Yearly signatures (in EUR m)					
Equity signatures	1 350	1 126	930	733	409
Guarantee signatures*	1 180	1 461	611	191	909
Microfinance signatures	40	67	8	-	-
Total outstandings at 31.12.2012					
Private Equity assets under management	6 952	5 919	5 367	4 103	3 535
Guarantee exposure*	4 696	4 372	3 329	3 588	4 422
Microfinance	117	77	10	-	-

Financial highlights	2012	2011	2010	2009	2008
Key figures (in EUR m)					
Total assets	1 393	1 217	1 196	1 158	1 076
Subscribed capital	3 000	3 000	3 000	2 940	2 865
AAA/AA callable capital	2 852	2 321	2 321	2 277	2 239
Operating profit	56	53	65	58	62
Net profit	31	(10)	7	(7)	35
Key ratios (in %)					
Return on average equity	2.7	-	0.7	-	3.6
Liquid assets/total assets	77	77.1	78.3	81.1	81.7
Shareholders' equity/assets	80.5	79.9	85.0	88.8	94.3

* Maximum liability

Table of contents

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

Introduction

Foreword of the Chairman of the Board

In 2012, EIF continued to increase its wide-ranging impact on the financing of Europe's SMEs during this period of sustained economic downturn.

The importance of EIF's countercyclical role is manifested by the record number and amount of its Venture and Growth Capital commitments, which have increased threefold during the crisis period. This has been made possible by the substantial mandates from the EIB (Risk Capital Mandate and Mezzanine Facility for Growth) and the European Commission (CIP, JEREMIE, Progress Microfinance), which have also been successfully blended with additional funds committed by Member States and the private sector into the growing number of regional funds-of-funds managed by EIF from Portugal to Turkey, from the Baltics to the Western Balkans.

EIF also continued to play a critical role in stimulating bank lending to SMEs through its guarantee and credit enhancement activity in which risks are shared with commercial banks. This activity perfectly complements the SME lending activity of the EIB, and in 2012, there was an increasing number of joint operations. The roll-out of the Risk Sharing Instrument (RSI) as part of the EIB's RSFF programme is a good example of EIF's responsiveness to market needs. This instrument is being developed into a core support for innovative SMEs in partnership with selected commercial banks across Europe.

In 2012, EIF also demonstrated its important role in providing funding and guarantees for an increasing number of European microfinance institutions through the European Progress Microfinance Facility, funded by the EIB and the European Commission.

EIF's role as a partner of Member State governments and national promotional institutions, providing both expertise and financial resources, is of strategic importance and has been significantly expanded this year in response to the European Council's decision to strengthen the collaboration with national partners. The launch of the Baltic Innovation Fund and the Western Balkans Enterprise Development and Innovation Facility are examples of innovative regional initiatives involving multiple countries.

Looking forward, and in anticipation of continued but hopefully declining economic uncertainty, EIF will consolidate and strengthen its capabilities. There will be an increased focus on the joint activities of the EIB Group, and EIF will assist the EIB in deploying its resources with the emphasis on achieving a substantial impact on Europe's SMEs. In line with the past, partnerships with the shareholders and Member States will be further strengthened and, in the year of the build-up to the new European budget and Multi-annual Financial Framework, EIF will cooperate closely with the European Commission to develop the new generation of financial instruments in support of the Europe 2020 agenda, avoiding the gap in the market in the transition to the newly developed instruments.

On a personal note, I am honoured to have taken over the Chairmanship of EIF's Board of Directors this year from Philippe Maystadt. I would like to thank EIF's management and staff for its remarkable achievements in 2012 and I look forward continuing to build on these results.

Dario Scannapieco

Foreword of the Chief Executive

In a year in which the financing environment for micro, small and medium-sized enterprises remained precarious, EIF increased its Venture and Growth Capital investments and guarantees to record levels and catalysed EUR 12.3bn of new equity and loans across the EU and Accession Countries.

Thanks to the resources from the EIB, the European Commission and the Member States, EIF played an essential role in the provision of risk capital to the SME market. Cornerstone commitments of EUR 1.35bn were made in 63 early stage and growth finance-focused funds, an increase of 20% on 2011 figures, exceeding operating plan targets. Independent research also confirmed that a majority of the funds to which EIF commits would not have closed without us, and that the level of commitment in 2012 represented a significant percentage of total market activity.

EIF's guarantee and credit enhancement activity is a fundamental part of the EIB Group's support for lending to SMEs through banks. In 2012, EIF catalysed new loan portfolios of EUR 5.1bn with 43 banks and promotional institutions, deploying its wide product range including the European Commission's CIP and JEREMIE programmes in addition to securitisation transactions using own capital. A highlight of the year was the launch, with DG Research and Innovation and the EIB, of the Risk Sharing Instrument for Innovation (RSI), which is a new instrument under the EIB-managed Risk Sharing Finance Facility (RSFF). Contracts with seven major SME banks to generate EUR 690m of new loans have already been signed and, as a result of the success of this pilot, the capacity will be doubled for the next 12 months enabling portfolios totalling EUR 2.4bn to be guaranteed or counter-guaranteed across at least 18 Member States. Wherever possible, these guarantees will be complemented by EIB loans to benefit innovative SMEs. A further 13 microfinance institutions and banks were financed or guaranteed by the European Progress Microfinance Facility and the number of new, previously "unbankable", micro-entrepreneurs which benefit is accelerating.

A key concern of EIF is to ensure rapid utilisation of equity and loans by enterprises to stimulate growth and employment. Focus is therefore given to absorption rates across the various instruments and both funds and banks are incentivised to accelerate deployment. The target absorption rates were met in 2012 reflecting the impact of EIF's activities at SME level. Portraits of SMEs for which our support made a real difference are depicted throughout this document.

2012 saw four new regional Venture Capital fund-of-fund structures being launched and initiatives to blend EIF's resources with national budgets and Structural Funds to increase first loss loan guarantee capacity were accelerated, with a focus on programme countries. EIF also intensified its work with the Managing Authorities of the JEREMIE mandate countries to complete the investment programmes and drive utilisation.

The financial performance of EIF improved significantly, reflecting the strong risk management controls. Compared with the EUR 10.2m net loss of 2011, net profit rose to EUR 30.7m in 2012 as a result of lower provisions and impairments and giving a return on equity of 2.7%. The underlying operating profit was EUR 55.5m, up 5% on 2011 and the cost/income ratio was below EIF's target of 50%.

Looking forward, the need for EIF investment and guarantee support to meet the financing gaps of Europe's SMEs is expected to continue to rise. EIF will complement the EIB product offering and will deliver joint solutions in a seamless way, exploiting available synergies. The EIB Group's work with the European Commission, Council and Parliament will intensify as we jointly prepare to launch a new generation of financial instruments to achieve the aims of Europe 2020 for smart, sustainable and inclusive growth.

EIF will continue to build its partnerships with Member State governments and institutions and keep delivering solutions to the wide range of fund and bank customers across the EU and Accession Countries.

These extraordinary achievements are the result of the dedication, professionalism and teamwork of the talented staff, to whom I would like to express my deep gratitude.

Richard Pelly

Strategy and achievements in 2012

Although the global economic prospects have gradually improved and forecasts have shown a slight upward trend, political, financial and social uncertainty remained high in Europe in 2012. The lack of access to finance continued to be one of the most pressing problems for micro, small and medium-sized enterprises (SMEs) with banks further tightening their credit standards and risk-adverse investors still hesitant to commit capital.

In this climate, a large proportion of investment in high risk sectors is being driven by public and semi-public agencies that played a significant role in supporting the market. However, public support, although very important, cannot be regarded as the only solution and there is universal agreement that it needs to be catalytic in attracting private sources of capital to provide better access to finance for SMEs.

EIF achieves this as the largest institutional investor in European venture and growth capital funds, the major SME guarantor and the leading source of funding and risk sharing for microfinance in Europe. EIF plays a dual role of commercially-oriented investor as well as one committed to policy objectives, notably to support high-growth innovative SMEs across Europe and to encourage growth, entrepreneurship and employment.

Throughout 2012, EIF continued to increase its countercyclical role in providing financial instruments to boost entrepreneurship and innovation and sought partnerships with new strategic market players to extend its support to Europe's SMEs. It is a key priority for EIF to help develop a well-functioning Venture Capital market that attracts a wide range of private sector investors, and to introduce pioneering financing instruments in order to reach parts of the market currently not covered by public support.

As such, EIF provided support throughout the entire value chain of enterprise creation and development, offering targeted equity, guarantees and microfinance products and deploying them through a wide range of financial intermediaries for the benefit of European enterprises. EIF is also actively participating in the development and implementation of EU policy objectives and flagship initiatives, acting as a market-oriented institution which achieves an appropriate return on its capital through a good balance of fee and risk-based income.

EIF's highlights for 2012 were to:

- Support 130 000 SMEs in Europe through the equity and debt instruments provided to financial intermediaries.
- Achieve a record volume of equity commitment of EUR 1.3bn in 63 funds, exceeding the 2011 figure by 20%, and catalyse over EUR 7bn with other investors.
- Issue guarantees to 43 financial intermediaries to stimulate new loan portfolios of EUR 1.2bn and mobilise over EUR 5bn of additional resources.
- Sign EUR 40m of commitments in 13 microfinance institutions and banks, and mobilise EUR 114m in support of micro-entrepreneurs.
- Commit close to EUR 350m of Structural Funds to financial intermediaries for the benefit of SMEs across 14 JEREMIE Holding Funds, achieve a 22% rate of absorption (3 times higher than last year) and catalyse an additional EUR 720m.
- Successfully roll out new products (Risk Sharing Instrument and European Angels Fund).
- Develop new ways to work closely with national institutions to enhance and expand the geographical reach including for instance to the Baltic and Western Balkans regions.[1]

Despite the difficult market environment, EIF's AAA rating was affirmed by the rating agencies Fitch, Standard and Poor's and Moody's. This reflects the strength of the capital base and the shareholders as well as prudent risk management.

Improved access to finance for European SMEs – EIF's catalytic role

1. Cornerstone investor in venture and growth capital funds

EIF continued to invest along the full spectrum of SME equity financing committing to technology transfer, early stage and growth/mezzanine capital funds.

EIF provided risk finance to first time and established teams enhancing their capacity to support SMEs and helping them to reach critical mass and fulfil their investment strategy. In 2012, EIF's EUR 1.3bn engagement mobilised over EUR 7bn from other market players, demonstrating EIF's catalytic role.

[1] See regional development section page 37.

Highlights

- EIF has rapidly implemented initiatives instigated in 2012 which aimed at increasing its impact and broadening its geographical reach and investor base. The European Angels Fund (EAF) which was launched in Germany in March to help Business Angels (BA) increase their investment capacity in the form of co-investments for the financing of innovative SMEs has started successfully. At end 2012, commitments totalling EUR 17m with five BAs had already been signed. This project pilot has generated a great deal of interest throughout Europe and is currently being rolled out in other countries. For instance the EUR 30m Fondo Isabel la Católica was signed for Spain under EAF in November 2012, catalysing private sector involvement to support much needed growth and employment opportunities in the country.
- In 2012, in view of the increasing demand for Mezzanine funding, the "Mezzanine Dachfonds für Deutschland" (Mezzanine fund-of-fund for Germany, MDD) was established. MDD is a EUR 200m investment programme, targeting hybrid debt/equity fund investments in Germany.

2. Prime provider of guarantees and credit enhancement to catalyse SME lending

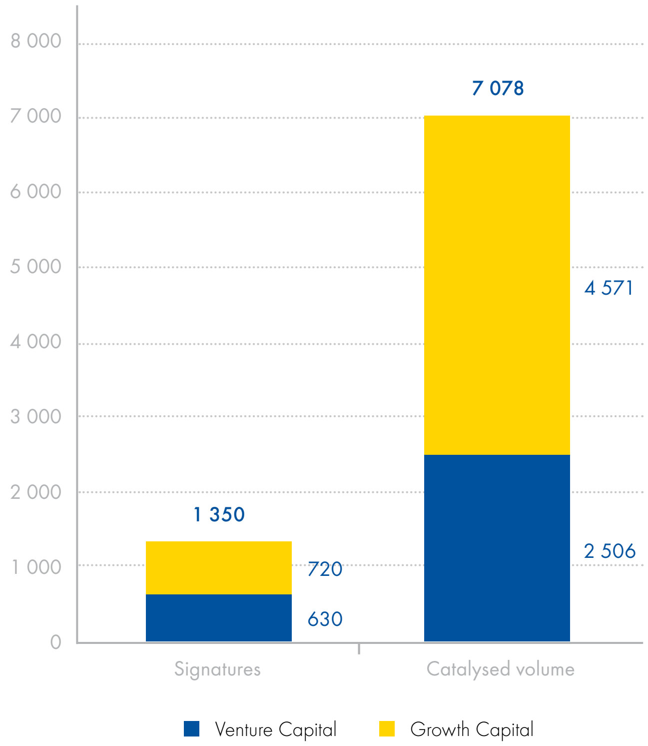
In 2012, EIF catalysed over EUR 5bn of lending to SMEs with close to EUR 1.2bn of guarantee commitments.

EIF continued to stimulate new lending volumes by deploying risk-sharing instruments under CIP and JEREMIE. In 2012, EUR 103m of CIP guarantees mobilised EUR 1.7bn of additional capital and EUR 254m of commitments under JEREMIE catalysed EUR 573m of funding to benefit SMEs.

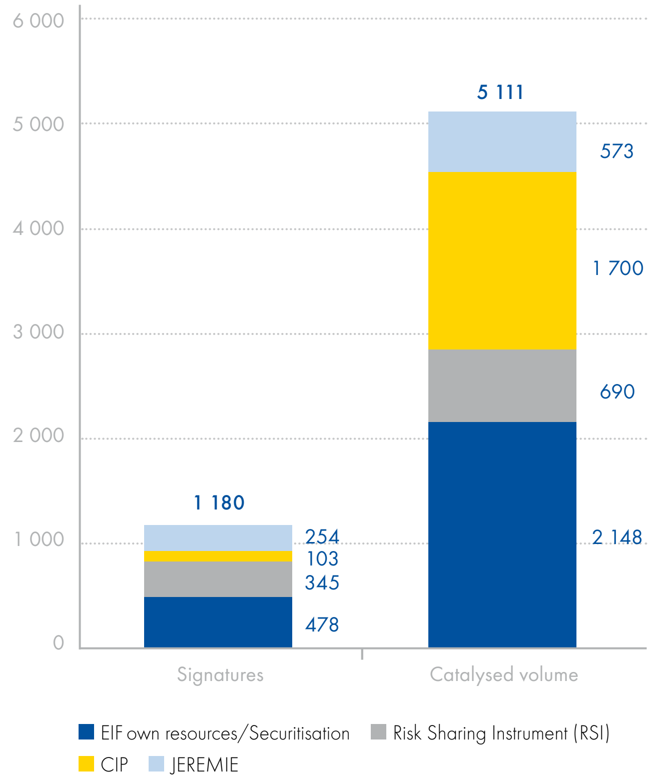
Highlights

- The Risk Sharing Instrument (RSI) facility which was launched at end 2011 was rolled out highly successfully in 2012. This instrument aims to encourage banks to provide loans and leases to SMEs undertaking research, development or innovation projects. RSI has proven successful, demonstrating that despite the current market situation Europe's SMEs are actively sourcing innovation. At end 2012, seven deals had been

2012 Equity signatures and mobilised amounts by stage – in EUR m



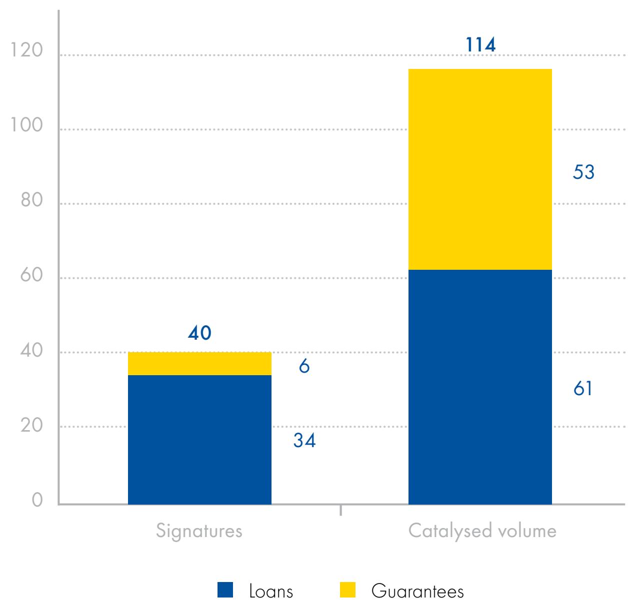
2012 Guarantee signatures and mobilised amounts by resource – in EUR m



signed for a total amount of EUR 345m, catalysing EUR 690m. An extension of the RSI pilot was launched in early 2013 with a view to meeting the high demand in this important market segment.

- Difficult market conditions and the introduction of a three-year refinance facility by the ECB have resulted in reduced securitisation activity and lower than expected credit enhancement volumes. A number of deals have been delayed but should materialise in early 2013, backed by the joint capacity of the EIB and EIF. Nevertheless, participating in the first ever SME covered bond and several other true sale securitisation transactions across Europe, EIF continued its efforts to re-establish the European SME asset-backed structured finance market. In 2012, EIF guaranteed EUR 478m of SME-backed structured finance papers and generated a multiplier effect amounting to EUR 2.1bn. Moreover, a number of guarantees/credit enhancement transactions with intermediaries in Germany, Italy and Turkey were concluded in 2012 in close cooperation with the EIB applying complementary financing solutions, thus maximising the impact of the EIB Group as a whole.

2012 Microfinance signatures and mobilised amounts by type – in EUR m



3. Supporting Europe's micro-enterprises

In 2012, EIF further expanded its microfinance activity, supporting those micro-entrepreneurs who often do not have access to the traditional banking system.

Highlights

- During 2012, EIF began to see the early signs of an impact on micro-lending generated by the microfinance investments (debt, equity, and guarantees) deployed in the previous year. New transactions amounting to EUR 40m in commitments to microlending institutions have catalysed EUR 114m. This slightly lower than last year amount of microfinance signatures is mainly explained by delays on a transaction which was signed in January 2013. Nevertheless, in the past three years alone, EIF's direct support for the microfinance sector has amounted to EUR 117m.
- EIF continued to provide technical assistance and financial support through the Joint Action to Support Microfinance Institutions in Europe Technical Assistance (JASMINE TA).

Regional development and partnerships with Member States and SME finance institutions

EIF's experience in partnering with national institutions is firmly established and forms a central part of its strategic development and regional business focus.

EIF has continued to roll out the European Recovery Programme (ERP) and the LfA Förderbank Bayern programme (LfA) in Germany, NEOTEC in Spain, Istanbul Venture Capital initiative (iVCi) in Turkey, Portugal Venture Capital initiative (PVCi) in Portugal, and UK Future Technologies Fund (UKFTF) in the United Kingdom, endowed with almost EUR 2bn in total investment capacity across these five countries. By end 2012, through these initiatives, EIF had already committed EUR 1.3bn in support of Venture and Growth Capital funds. Additionally, during the course of 2012, EIF launched four new initiatives amounting to EUR 400m in investment capacity and further evidencing its commitment to build partnerships and develop sustainable and complementary solutions in support of Venture Capital and growth markets.

In response to the recent request from the European Council to strengthen the collaboration with Member States, during the second half of 2012 EIF increased its efforts to partner with national players to enhance local equity activity. Firstly, one of the measures taken by EIF has been to accelerate the development of initiatives already in its pipeline. For instance, the EUR 100m Baltic Innovation Fund, the EUR 150m Dutch Venture Capital Initiative (DVI), the EUR 200m Mezzanine Dachfonds für Deutschland (MDD) and the EUR 145m Western Balkans Facility were launched at end 2012 or negotiated for launch in 2013. Secondly, EIF has intensified links with promotional institutions to jumpstart a number of altogether new initiatives in Austria, Poland, Spain and Turkey, which will materialise in 2013.

EIF's role as a manager of JEREMIE Holding Funds, IPA funds and regional funds-of-funds, has been essential to develop know-how transfer and capacity building throughout 2012. With EIF being committed to speed up the absorption of funds across its wide range of financial instruments, the JEREMIE Holding Funds are beginning to show significant impact at SME level.

Increased efforts were made to support countries most challenged by the crisis. In Greece for instance, using Structural Funds, EIF has enabled four seed and early stage Venture Capital funds totalling over EUR 52m to get off the ground. In all of them EIF has catalysed private sector capital into investments in the most dynamic Greek SMEs, a sign of a pick-up in confidence.

The EIB Group also supported Ireland in 2012. This is evidenced by an RSI guarantee of AIB's new EUR 80m Innovation Loans programme as well as the EUR 60m Venture Capital funding EIF has catalysed and the provision of a guarantee which enabled the launch of a new national microfinance institution, Microfinance Ireland, in partnership with the government and two big banks.

Looking forward

EIF, through the critical size and pan-European scope of its activities, its industry, sectorial and market expertise and know-how is in a unique position to deliver meaningful impact and meet the challenges European SMEs currently face, particularly through on-going cooperation and partnership with its ever expanding network of strategic partners.

Additionally, increased efforts will be devoted to maximising the impact of working jointly with the EIB, implementing complementary financing solutions provided to leverage on the full expertise within the EIB Group: the EIB as provider of liquidity and EIF as provider of risk capital solutions to the benefit of SMEs. Total resources available to EIF for this purpose are expected to rise through increases in the EIB equity mandates and the European Commission (EC) budget allocation for SME support. Additionally, in the context of the Multi-annual Financial Framework, EIF has been working in close cooperation with the EC to provide adequate risk finance to financial intermediaries that cater for the needs of SMEs.

Business year 2012

European market environment [2]

2012 and beyond – uncertain outlook for SMEs

The global economic prospects deteriorated in 2012 and downside risks remained high, resulting in disappointing growth rates in the EU Member States. According to Eurostat data, overall real GDP growth in the EU was negative in 2012 (-0.3%), with a significant drop in economic activity towards the end of the year. Despite some recent signs of stabilisation, only a gradual acceleration of economic activity is forecast by the European Commission for 2013, with real GDP expected to grow by around only 0.1%. Significant differences between the performances of Member States persist.

In line with general economic developments, the business climate for SMEs declined in 2012 and differences between EU Member States increased. Moreover, the uncertain general economic outlook led to increased downside risks for the activities of SMEs, and access to finance deteriorated further. The situation of core markets in which EIF is active is as follows:[3]

Equity

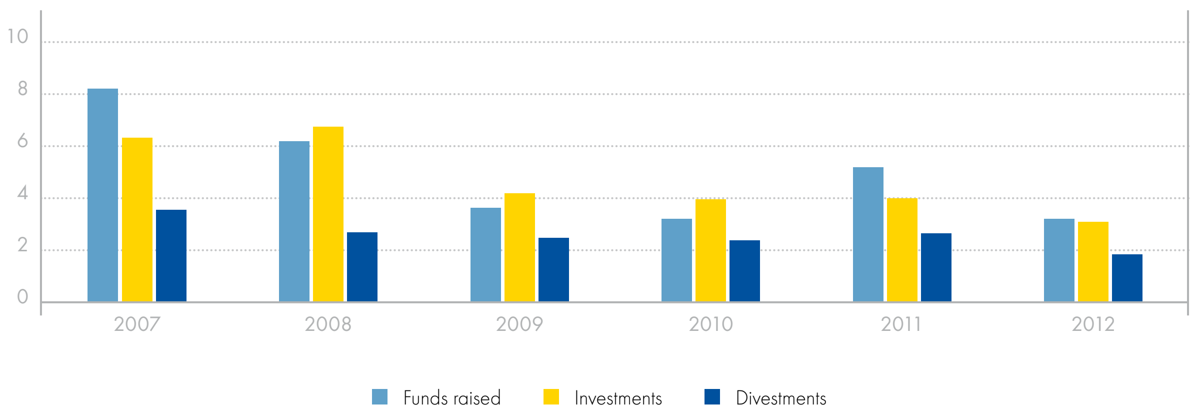
Following the substantial drop in 2008/2009, private equity investment had partially rebounded in the years 2010 and 2011. However, in terms of activity volumes, the recovery suffered a setback in 2012, based on preliminary EVCA data. Total private equity fundraising and investment decreased substantially by 47% and 26% respectively, compared to the year before. Together with these developments, overall private equity divestment amounts also fell considerably; the number of companies which benefited from private equity investment decreased by 26% to fewer than 4 600. With regard to the Venture Capital segment of the market, fundraising and investment dropped by 38% and 23% respectively, and Venture Capital divestment amounts declined by 32%.

During the financial crisis, there was not only a sharp retrenchment in the availability of debt and equity capital, but also the mezzanine market for smaller companies suffered, a segment that remains under-developed in Europe.

Nevertheless EIF observes an increasing number of companies in the early-stage segment which show an unprecedented pattern of growth. Should this trend continue, the medium-term perspective of the European Venture Capital market could be more positive than the backward-looking statistics suggest.

In addition, the fact that much of the institutional fundraising activity has been driven by public or semi-public limited partners proves that government agencies are playing their role and supporting the market in a counter-cyclical way. Equally, strategic investors such as Business Angels are filling some of the gap left by the fall in Venture Capital investment; their proximity to the market during this

European Venture Capital activity by amount – in EUR bn



Source: EVCA/PEREP_Analytics; Preliminary data

[2] Year-end figures based on preliminary data.
[3] More details and an overview of the main markets relevant to EIF are provided in EIF's latest European Small Business Finance Outlook: http://www.eif.org/news_centre/research/index.htm

difficult period has been vital in incentivising other market players, including corporates, to invest in European Venture Capital, which can also lead to significant improvements for this market segment.

Guarantees, securitisation and microfinance

The European Central Bank (ECB) reports a further net tightening in credit standards applied by euro area banks for loans to non-financial corporations. According to the ECB, SMEs complained of a deterioration in the availability of bank loans. Moreover, access to finance remained a more pressing problem for SMEs than for larger firms. The ECB's interest rate statistics seem to indicate greater prudence by banks with smaller firms, in particular in the countries most affected by the sovereign debt crisis. Given that SMEs have no direct access to the capital markets, banks are the most important source of external SME finance and hence banks' limitations have a direct impact on SME lending capacity. Difficult access to finance for SMEs creates a significant barrier to innovation and growth for the entire economy as banks often consider financing innovation too risky for their portfolios.

1. Guarantees

In general, guarantees are a key tool to enhance access to finance for SMEs and a recent OECD study confirms that in many countries SME guarantees and guarantee schemes represent key policy tools to address SME financing gaps.

2. Securitisation

With regard to the European SME securitisation market, during the crisis, issuance remained at high levels, but these volumes were almost exclusively driven by the eligibility of Asset-Backed Securities (ABS) as collateral for ECB liquidity operations. Given the dominance of the securitisation of residential mortgages, SME securitisation remained a relatively limited but nevertheless important segment of the European structured finance market (between 6% and 16% of total yearly issuance during the decade). As regards counterparts, it is important to look not only at banks when analysing SME securitisation, but also at leasing companies and trade receivables financing, which form part of the SME securitisation market.

Despite the financial and sovereign crisis, the European securitisation market and particularly its SME segment, has performed relatively well so far. These low losses are based not only on the typically high granularity/diversification of these transactions, but also on structural features that have helped to counterbalance the negative effects of the deteriorating European economy (i.e. increased SME default rates).

3. Microfinance

Although the European microfinance sector grew in terms of volume and number of loans disbursed between 2009 and 2011, in the current severe financial and economic crisis, microfinance borrowers typically find capital harder to obtain – not to mention the additional challenges faced by certain vulnerable groups such as ethnic minorities or female entrepreneurs. Recent survey results reveal greater difficulties to access finance for micro-enterprises than for other SMEs. Moreover, the situation further deteriorated during last year, and the ECB noted another significant increase in the bank loan rejection rate for micro-firms.

However, higher levels of unemployment and significantly increased numbers of people at risk of poverty in many European countries are likely to increase the demand for microfinance both for traditional banks and microfinance institutions focused on social inclusion.

There is no common microfinance business model in Europe and the microfinance market is still immature and fragmented. Even if there is a certain trend towards professionalisation and self-sustainability, the prospects of the sector are limited without access to stable funding. According to recent survey results, microfinance institutions (MFIs) expect general public support for the microfinance sector to decline in the coming years, due to budget restrictions and high deficits at national and regional level.

EIF supports the development of microfinance in Europe by providing funding, guarantees and technical assistance to a broad range of financial intermediaries thereby maximising the outreach to European micro-entrepreneurs.

Equity

General overview

In the early and growth capital stages, EIF is the reference catalytic investor in Europe, contributing to the establishment of a sustainable European equity market by stimulating entrepreneurship and innovation, addressing market gaps and opportunities and working with like-minded private and public investors. EIF demonstrates a market-oriented approach, actively investing in venture and growth capital funds and assisting micro, small and medium-sized enterprises throughout their life cycle. EIF endorses the European Union 2020 strategy[4], which promotes innovation, a knowledge-based society, economic development and social inclusion in support of smart, sustainable and inclusive growth.

Volumes of equity signatures rose to a record EUR 1.3bn, a 20% increase compared with 2011. EIF was instrumental in deploying reliable funding to early and growth capital funds, enabling closing at critical fund sizes, attracting private sector co-investors and backing teams in an increasing number of European countries including smaller or less developed markets. In Greece for example, EIF financed two seed funds using Structural Fund resources for a total amount of EUR 17.5m which will be deployed for the benefit of local SMEs in their very early stages of development.

EIF also continued to expand its equity activity in partnership with Member States and Regions, implementing targeted instruments in close cooperation with national institutions and complementing existing financing schemes. Initiatives were launched in the Baltics, Germany, the Netherlands, Spain and the Western Balkans. Committed to regional development, EIF deployed resources through partnerships in Germany (the ERP-EIF Dachfonds and the LfA facility), Portugal (PVCi), Spain (NEOTEC), Turkey (iVCi) and the UK (UK FTF). As some of these funds are becoming increasingly fully invested, EIF is negotiating successor facilities. In 2012, EIF developed pioneering financing instruments that provide support to parts of the market traditionally not covered by EIF. Pilot schemes involving corporate and strategic investors were developed and new products giving access to non-institutional investors were rolled out. EIF successfully responded to the need for innovative products to allow leveraging of the investment capacity and engagement of new counterparts. Additionally, throughout the year, intense work took place with the EIB and the EC, to pave the way for the next programming period.

Early stage capital

1. Technology Transfer: taking innovation to the market

EIF fosters the development of European Technology Transfer (TT) markets through investments in a variety of technology sectors. 2012 was a very active year in terms of investments completed and of screening opportunities to expand to new markets. This includes Bulgaria, Greece and Lithuania where EIF signed its first technology transfer deals.

The Knowledge Transfer Strategic Partnership, in which EIF plays a leading role alongside other European multilateral development institutions, concentrated on the development of proof-of-concept funding and intellectual property patent facilities in support of SMEs.

In 2012, EIF committed over EUR 132m in ten different TT operations throughout Europe which represents an important increase compared with 2011. This level of activity has catalysed over EUR 282m from other sources. However, a key challenge for EIF looking forward will be to secure and keep attracting funds dedicated to Technology Transfer from investors so that this key, high impact area for EU competitiveness and innovation is adequately supported.

2. Venture Capital: smart capital for smart ventures

In 2012, EIF committed EUR 497m in 24 Venture Capital funds across Europe. This catalysed a total of EUR 2.2bn from other investors in these funds.

EIF also strengthened its efforts to develop new products to increase its outreach to high-potential technology SMEs and to mobilise further private capital and engagement in the ecosystem.

In March 2012, the European Angels Fund (EAF) was launched in Germany. This EUR 70m co-investment fund leverages the investment capacity of Business Angels and other non-institutional investors. After the successful launch in Germany, EAF was extended to Spain in December with further countries to follow in the coming year.

[4] One of the seven flagship initiatives of the EU 2020 strategy is the Innovation Union, which aims to speed up and improve the way Member States conceive, develop, produce and access new products, industrial processes and services. It is regarded as one of the engines to boost growth and job creation.

Furthermore, EIF has stepped up its engagement with corporate investors and has facilitated the cooperation between fund managers and industrial sponsors. In this context, EIF has developed a new initiative to be launched in 2013, the Corporate Innovation Platform, offering corporate investors efficient access to the European Venture Capital and innovation space and facilitating cooperation between SMEs, investors and corporates.

EIF also extended its partnerships with promotional institutions and governments, providing tailored and efficient responses to local market needs. The objective is to ensure alignment, complement and optimise value creation and increase the impact of existing public resources. In 2012, the Baltic Innovation Fund (BIF) and the Dutch Venture Initiative (DVI) were launched, adding to the existing successful partnerships in other European countries.

Growth Capital

1. Lower mid-market: supporting established SMEs

The lower mid-market activity of EIF covers growth, expansion and transmission capital 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.

In 2012, EIF continued to play a critical role as a private equity investor supporting lower mid-market funds, assisting established SMEs in accessing alternative sources of financing.

Over EUR 365m were committed to 20 lower mid-market equity funds (compared to EUR 253m in 12 funds in 2011), including first time teams as well as established managers, across most of the European Union and Accession Countries. This amount catalysed over EUR 3.3bn of commitments from other investors.

2. Mezzanine: an alternative solution for long-term financing

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

In 2012 EIF substantially increased the total volume invested under MFG, with a total of EUR 320m committed to eight hybrid debt/equity funds, a 50% increase over the volumes achieved in 2011.

EIF's investments catalysed over EUR 1.3bn of commitments and in most cases EIF's investment was vital for the successful closing of these mezzanine funds. Projects were supported for the first time in countries such as Italy and Spain, where new funding possibilities are much needed by SMEs.

In June 2012, EIF signed the Mezzanine Dachfonds für Deutschland (MDD), a EUR 200m investment scheme targeting hybrid debt/equity fund investments in Germany. MDD is a joint initiative between EIF, the Bavarian government and the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie – BMWi). It is half funded by BMWi, the LfA Förderbank (Development Bank of Bavaria), and NRW. BANK (Development Bank of North Rhine-Westphalia) while the other half is funded by EIF through the Mezzanine Facility for Growth (MFG). The objective of this initiative is to soften the impact of the "wall of debt" experienced by many German mid-caps. This refers to the subordinated financing provided by a number of German banks through standard mezzanine programmes during the period 2004-2007, which is expected to reach maturity in 2012-2015 and lead to challenging financing needs for these SMEs.

Equity portfolio and resources

Total net equity commitments amounted to EUR 6.9bn at the end of 2012, mobilising close to EUR 38bn of additional capital from other sources. With investments in some 435 funds and over 300 fund manager teams, EIF is the stand-out fund-of-fund investor in the European venture and growth capital market, achieving impact on SME-focused funds throughout Europe and in a wide range of sectors (see graph below).

1. EIB resources

The core objective of the EUR 5bn Risk Capital Mandate (RCM) 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 has been managing the RCM on behalf of the EIB since 2000.

EIF also manages the Mezzanine Facility for Growth (MFG) on behalf of the EIB. MFG is a EUR 1bn facility invested in hybrid debt/equity funds across Europe.

During the year, EIF made EUR 498m of new commitments from RCM, and after capital repayments of EUR 126m, the total net committed amount was EUR 371m.

In 2012, EIF made EUR 320m of new commitments from MFG. Total disbursements have amounted to EUR 98m with first reflows of EUR 1m this year.

After the approval of the EIB's Board of Directors in December, an increase of EUR 1bn in MFG is currently being finalised.

2. EIF own resources

RCM resources have historically been complemented by EIF own resource co-investments of 10%.

In 2012, EIF committed EUR 54m to support the co-investment obligation with RCM. EUR 19m of capital repayments were received, hence the net drawing on own resources was EUR 35m.

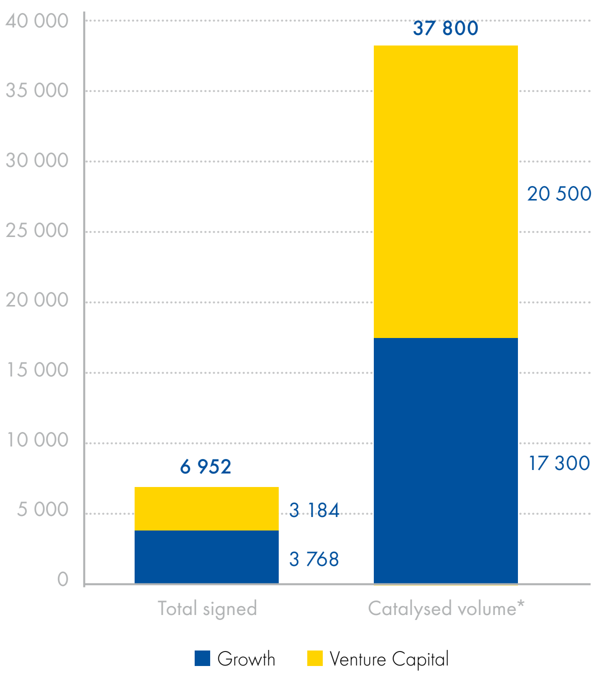
3. European Commission resources

GIF (High Growth and Innovative SME Facility), the equity window of the CIP 2007-2013 programme, is dedicated to supporting the competitiveness and innovation of European enterprises in the enlarged Europe (including the EU 27, EU Candidate and potential Candidate Countries, EFTA countries). It is particularly important for EIF's support to Venture and Growth Capital funds and is used as a vital resource to improve access to finance for the start-up and growth of European SMEs.

Throughout 2012, GIF continued to play a crucial role in the context of the EU 2020 Innovation Union by supporting the growth and development of innovation in Europe. During the year, EIF made EUR 70m of new commitments from CIP GIF.

This activity brings the net commitments of all of the European Commission portfolios (including G&E, MAP and CIP) to EUR 803m at end 2012.

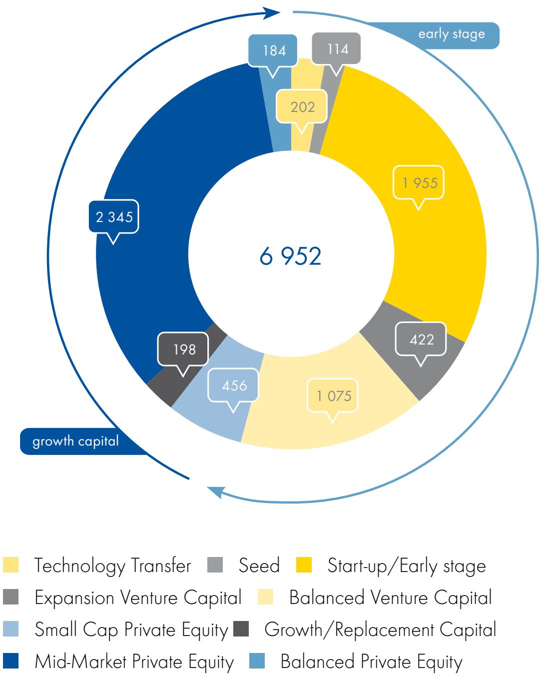
Total equity signatures and mobilised amounts by resource – in EUR m



* estimated amount

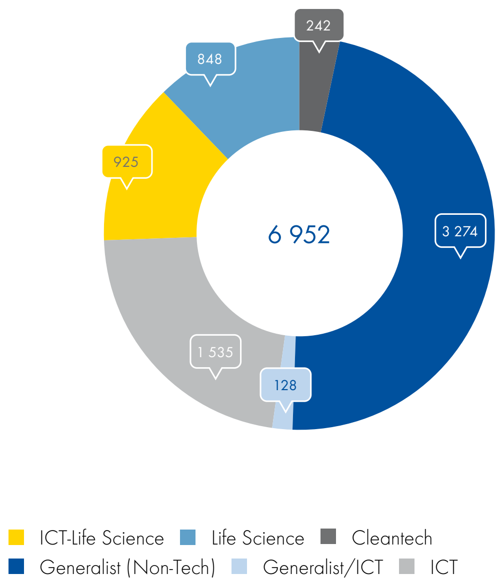
Stage focus

Total commitments at 31 December 2012 – in EUR m



Sector focus

Total commitments at 31 December 2012 – in EUR m



Equity signatures 2012

in EUR m

Fund vehicle	Resource	Geographic focus	Commitment
Aster II	CIP	Multi-country	20.0
Demeter IDEA Cleantech Seed Fund	CIP	France	20.0
Emertec Cleantech Seed Fund (FACE)	CIP	France	15.0
Power Fund III	CIP	Multi-country	20.0
Eleven Fund	JER	Bulgaria	12.8
Elikonos Fund I	JER	Greece	15.0
Launchub Fund	JER	Bulgaria	9.6
LitCapital I	JER	Lithuania	3.5
Odyssey Fund I	JER	Greece	20.0
Open Fund II Venture Capital Mutual Fund	JER	Greece	7.0
Piraeus Equity Advisors	JER	Greece	10.5
Practica Seed/Venture Capital (2 transactions)	JER	Lithuania	17.0
Beechbrook Mezzanine Fund II	MFG	Multi-country	40.0
Capzanine III	MFG	Multi-country	60.0
Emisys	MFG	Multi-country	30.0
Indigo Capital France	MFG	France	60.0
MCP Private Capital Fund I	MFG	Multi-country	40.0
Oquendo Mezzanine II	MFG	Spain	40.0
Prefequity Fund I	MFG	United Kingdom	30.0
SME Mezzanine Fund	MFG	Germany	20.0
21 Concordia	RCM/EIF own resources	Poland	20.0
Accent Equity 2012 (SEK280m)	RCM/EIF own resources	Multi-country	31.4
Actera Partners II	RCM/EIF own resources	Turkey	7.9
Alto Capital III	RCM/EIF own resources	Italy	7.5
Atomico Ventures III	RCM/EIF own resources	Multi-country	20.0
Avallon MBO Fund II	RCM/EIF own resources	Poland	15.0
BAMS Angels Fund II	RCM/EIF own resources	Belgium	6.0
Bridgepoint Development Capital I	RCM/EIF own resources	Multi-country	16.0
CRT Pioneer Fund	RCM/EIF own resources	United Kingdom	14.7
DN Capital - Global Venture Capital III	RCM/EIF own resources	Multi-country	5.0
Dunedin Buyout Fund III	RCM/EIF own resources	United Kingdom	24.8
EAF Germany: 5 deals	RCM/EIF own resources	Germany	8.3
Elaia Alpha Fund	RCM/EIF own resources	France	20.0
Fountain Healthcare Partners Fund II	RCM/EIF own resources	Multi-country	30.0
Highland Europe Technology Growth Fund	RCM/EIF own resources	Multi-country	30.0
Holtzbrinck Ventures Fund V	RCM/EIF own resources	Multi-country	17.5
Inflexion 2012 Co-Investment Fund	RCM/EIF own resources	UK+Ireland	12.4
ISIS V	RCM/EIF own resources	UK+Ireland	17.9
Karmijn Kapitaal	RCM/EIF own resources	The Netherlands	9.0
Kennet IV	RCM/EIF own resources	Multi-country	20.0
Lyceum Capital Fund III	RCM/EIF own resources	United Kingdom	22.3
NorthEdge Fund	RCM/EIF own resources	United Kingdom	31.0
Prime Ventures IV	RCM/EIF own resources	Multi-country	30.0
Scope Growth III	RCM/EIF own resources	Multi-country	15.0
Sentica Buyout Fund IV	RCM/EIF own resources	Finland	15.0
Sofinnova VII	RCM/EIF own resources	Multi-country	40.0
Star III Private Equity Fund	RCM/EIF own resources	Italy	15.0
Ventech Capital F	RCM/EIF own resources	Multi-country	30.0
Wellington Partners IV Life Science Fund	RCM/EIF own resources	Multi-country	20.0
Total investments in equity funds			1 042.2
Investments in funds-of-funds			307.6
Total			1 349.8

JEREMIE signatures also summarised by country in the 2012 JEREMIE highlights part of the regional development section (pages 31-33).
Funds-of-funds signatures are detailed in the regional development section (pages 34-36).

Cancer Research Technology Limited

taking therapies from the lab to the patient

Snapshot

Cancer is a leading cause of death worldwide. It is estimated that in the UK alone, more than one in three people develops some form of cancer during their lifetime, and more than one in four will die from it, so there is a tremendous need to develop new cancer therapies. Unfortunately, the early development and commercialisation of cancer drug discoveries remain underfunded. In March 2012, EIF and Cancer Research Technology Limited (CRT), the technology development and commercialisation arm of Cancer Research UK, joined forces to create a GBP 50m investment fund, the CRT Pioneer Fund (CPF), to address the unmet funding needs and to bridge the gap between academia and pharma/biotech companies in the UK.

The Fund

CRT is the commercial arm of Cancer Research UK, the world's leading charity dedicated to beating cancer through research. It is a world leader in the discovery, development and commercialisation of cancer treatments. Cancer Research UK's mission is to "save lives by preventing, controlling and curing cancer" and it does this through translating discoveries into cancer therapeutics. For example, Cancer Research UK's scientists and clinicians have contributed to some of the top cancer therapeutics worldwide, such as temozolomide (for treating aggressive brain tumours), carboplatin (ovarian cancer), trastuzumab, also known as Herceptin (breast cancer), and abiraterone (prostate cancer). Through their research, they have contributed to the discovery or development of nearly 50 drugs. The CPF was launched as an innovative model to find new ways of supporting early-stage drug discovery, as many of these promising projects frequently lack sufficient resources to bring potential new therapeutics closer to the market for the benefit of patients.

The CPF links the projects coming out of primarily Cancer Research UK funded research and moves them into clinical trials principally via the in-house Drug Discovery Office. The Fund works closely with scientists and clinicians across the Cancer Research UK scientific community; the active involvement of the researchers and clinicians is central to the Fund's ability to move projects forward. In many cases CPF will be the only funding source to move projects to the end of Phase I trials before licensing-out to pharma/biotech companies for onward development and commercialisation, enabling world-leading science to benefit patients and the economy. Through CPF, Cancer Research UK can build on progress already made and provide a stepping stone to producing the cancer therapeutics of the future.

EIF's added value

A key feature of the CPF model that EIF helped to set up is that investments are made into projects instead of companies (SMEs), which therefore creates a highly capital efficient operation. Projects are in-licensed to CPF, further developed and have the goal of being out-licensed to pharma or biotech companies in the future.

With this investment, innovative therapeutics can be progressed within CR-UK from the lab all the way to clinical trials, translating CR-UKs scientific research into potential new treatments more rapidly than before.

Through its commitment, EIF supports the commercialisation of high quality European research helping it to reach the marketplace, and participates in establishing an EU-wide knowledge economy. It also positions this European initiative at the forefront of cancer drug development worldwide.

Lucibel
innovation in the spotlight

Company snapshot

LED technology is about to revolutionise the lighting industry. It offers endless advantages in terms of consumption, cost reduction and eco-friendliness. Adapted to the traditional lighting industry to replace energy-consuming, short-lived conventional light bulbs, the technology is now ready to become a truly "smart thing": innovative, wireless, remotely programmable and extremely high-performing.

Serial entrepreneur Frédéric Granotier recognised the cutting-edge features of LED technology at the right time. In May 2011 he shifted the production line of his French technology start-up company Lucibel from energy-saving lamps to the design, assembly and commercialisation of next-generation digital lighting and LED components. Something over a year later, thanks to its top range R&D unit and its strong team of entrepreneurs and industry experts, Lucibel now offers end-users the best of the LED revolution: ecological, cheap and innovative high quality products able to compete with market leaders in this sector. Demonstrating its capability to rapidly design and market new products, the company achieved about EUR 4m in revenues in 2011 on a global scale.

All 30 employees are shareholders of the company, which now commercialises its new generation of innovative lighting LED products in over 15 countries. Frédéric Granotier puts his company's success down to its main characteristics: respect for the client, disruptive innovation, entrepreneurship, commitment and enthusiasm.

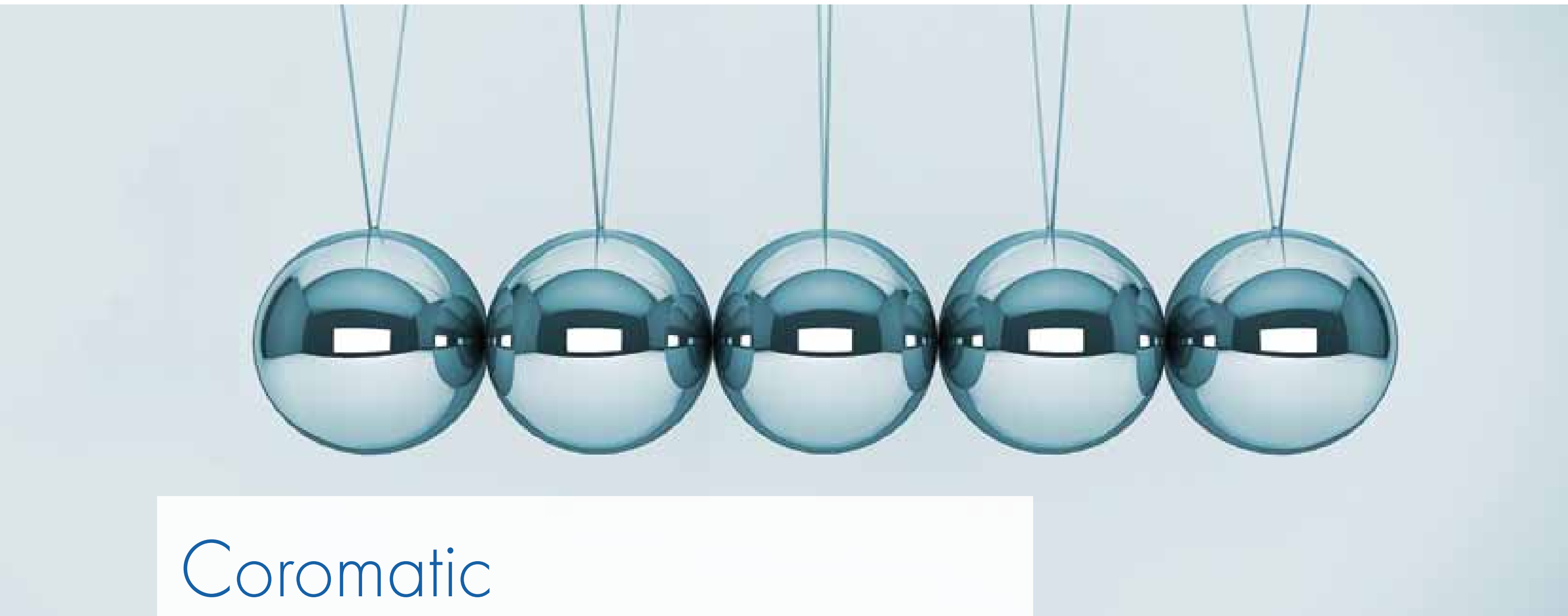
Fund manager

At the critical time when Lucibel shifted to LED technology, Aster Capital invested into the company as first Venture Capital fund investor. The Paris-based fund manager targets early-stage cleantech investments with a specific focus on highly innovative enterprises developing ground-breaking technologies in the fields of energy, new materials and environment. The distinctive set-up of Aster, which involves the three major industrial corporates Schneider Electric, Alstom and Solvay acting as sponsors, facilitated Lucibel's rapid growth on an international scale by benefiting from Schneider Electric's strong brand name, market access and distribution channels.

Since the Aster investment, Lucibel has closed several business deals such as the acquisition of a company in Spain and in France and the creation of a joint venture to address local French public communities' lighting needs. Additionally, Lucibel has been developing and launching new products on the market, issuing 26 patents for their innovative technologies, and has strengthened its team with two new highly experienced management recruits.

EIF's added value

EIF committed EUR 20m in Aster II, Aster Capital's latest fund, thus reaffirming its role as leading European innovation-supporting investor and extending its collaboration with strategic market players in the corporate world fully in line with EIF's strategy of developing new tools to facilitate the engagement of corporates with the Venture Capital ecosystem. The Lucibel story demonstrates that the privileged partnership between a quality fund manager such as Aster Capital and internationally renowned corporates significantly benefits technology start-up companies and broadly contributes to European economic and technological growth in line with EIF's objective of supporting entrepreneurship and the development of ground-breaking disruptive innovation in Europe.



Coromatic
securing long-term business continuity

Company snapshot

Most businesses today depend on IT and an uninterrupted power supply for their operations. To avoid systems failure and the resulting costly disruptions to operations and production, they need a reliable partner providing crucial business continuity infrastructure services.

Coromatic is a Nordic group of companies covering Sweden, Norway, Denmark and Finland with a leading position in IT continuity and reliable power supply. It offers a large spectrum of services ranging from physical IT security and continuity planning to maintenance, back-up power supply and communication. Based on its clients' business demands, it offers tailor-made turn-key data centre solutions and adjacent services, taking on a full service commitment and ensuring that neither its customers' IT nor their power supply fails.

In 2012, as part of its aspiration to develop "green" IT, Coromatic saved for its clients enough energy to heat 1 000 Swedish households for an entire year. To encourage companies to "go green" as well, in 2008 Coromatic initiated the "Green Data Centre of the Year Award" which assigns a prize to Swedish companies which save energy through smart use of everything from location to optimisation of their systems to achieve a higher level of efficiency.

Fund manager

Litorina is a leading Swedish fund manager investing in small to medium-sized companies with a strong market position and growth potential. It invested in Coromatic in 2007 and exited its investment in 2011.

Part of Coromatic's success story is down to Litorina's contribution. As a hands-on fund manager helping portfolio companies to reach the next level of their development, Litorina initiated the formation of the Coromatic Group, through a series of Nordic bolt-on acquisitions. In addition, Litorina provided help and advice to Coromatic at governance, management, employment and financial levels. With Litorina's support, Coromatic grew its revenues from SEK 325m in 2007 to around SEK 850m in 2011, with strong profitability. It was transformed from a local service provider with limited exposure to its neighbouring countries into a strong regional player, with the prospect of further expanding internationally. The Group's headcount went from just over 100 employees in 2007 to around 250 employees at the time of exit. The sale of the Group generated proceeds in excess of three times the fund's initial investment.

EIF's added value

EIF has built a longstanding relationship with the Litorina team by supporting it since it was first established in 1998 and through four generations of funds. This strong relationship is a good example of EIF's approach to the market, endorsing its role of stable, long-term investor that supports good managers through the economic cycle. It also provides a powerful positive signalling effect to potential new investors in Litorina-managed funds. With a consistent focus on growth-oriented projects in the more mature segment of the SME market, Litorina's strategy provides a very good fit with EIF's objective of supporting and developing the SME market in Europe, making success stories such as Coromatic possible.

Guarantees and credit enhancement/securitisation

General overview

EIF is a prime provider of guarantees to catalyse SME lending. With its first loss guarantees and credit enhancement/securitisation financing solutions, EIF protects its financial intermediaries' capital by sharing the risk taken, with a view to stimulating and increasing the volume of loans they grant to SMEs.

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

For own risk transactions, EIF employs its own capital to credit enhance tranches of SME loan or lease securitisation transactions and to provide guarantee 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 as well as by enabling access to term-funding through the placement of guaranteed asset-backed securities with capital market investors. As a consequence, EIF facilitates capital relief and contributes to the funding needs of financial institutions, thus increasing their lending capacity to SMEs.

As part of its mandate activity, EIF manages a number of mandates on behalf of the EC and Member States (SME Guarantee Facility under CIP (SMEG), the Risk Sharing Instrument (RSI), JEREMIE and the Great Anatolia Guarantee Facility (GAGF)[5]).

Under SMEG, losses are covered using EC budgetary resources specifically allocated to this programme. The guarantees and counter-guarantees issued cover part of the expected loss for portfolios of SME loans or leases originated by financial institutions. Final losses stemming from new 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 SMEG facility comprises four measures or "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, early stage SMEs;
- Securitisation consists of guarantees to support securitisation transactions by financial institutions to mobilise additional debt financing for SMEs.

SMEG is widely recognised as an efficient tool with a high multiplier effect of EIF capped guarantees.

EIF also facilitates the granting of loans and leases through selected financial intermediaries with the Risk Sharing Instrument (RSI). RSI is a pilot guarantee scheme launched in late 2011 that supports the financing of R&D and/or innovation-driven SMEs and small mid-caps. RSI is a joint initiative of EIF, the EIB and the EC.

It is to be noted that 2013 will be the last year that new agreements can be signed under the CIP and RSI programmes. Successor programmes which would be available from 2014 are already envisaged for CIP (COSME) and for RSI (Horizon 2020).

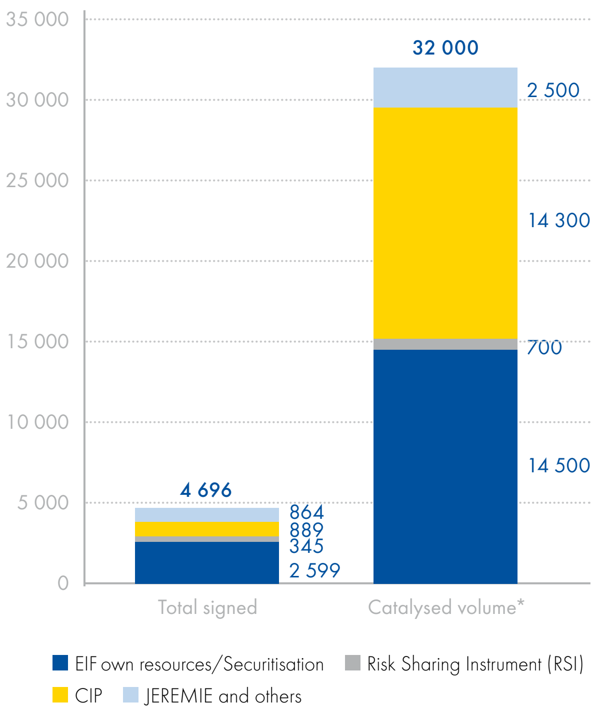
Guarantees and credit enhancement/ securitisation portfolio and resources

Total outstanding guarantee commitments amounted to over EUR 4.7bn in 255 transactions at the end of 2012. Of this total, over EUR 2.6bn of guarantees were out of own resources and EUR 2.1bn under mandate programmes[6], mobilising a total of EUR 32bn which demonstrates EIF's increased catalytic role in SME lending (see graph page 23).

In 2012, EIF signed 43 new transactions across Europe, which amounted to over EUR 1.2bn. EUR 478m of guarantees were own risk securitisation guarantees, EUR 345m were signed under RSI and EUR 103m under SMEG (maximum first loss liability), corresponding to a notional volume of EUR 1.7bn for SMEG, up from EUR 1.6bn at end 2012, indicating that the market demand for SMEG remained strong.

[5] JEREMIE and GAGF details can be found in the regional development section on pages 31-33.
[6] including the two EC programmes prior to CIP (the Multiannual Programme (MAP) and Growth & Employment (G&E) available between 1998 and 2007), RSI, JEREMIE and GAGF.

Total guarantee signatures and mobilised amounts by resource – in EUR m



* Estimated as of December 2012

During 2012 the first SME covered bonds, RSI and SMEG securitisation signatures were negotiated, demonstrating EIF's expanding guarantees product offer in response to SMEs risk financing needs. Additionally, EIF continued to increase its regional development activity under mandate and signed EUR 254m of risk sharing instruments under the JEREMIE mandate.

1. Mandate activity

CIP SMEG: enhancing SME access to finance

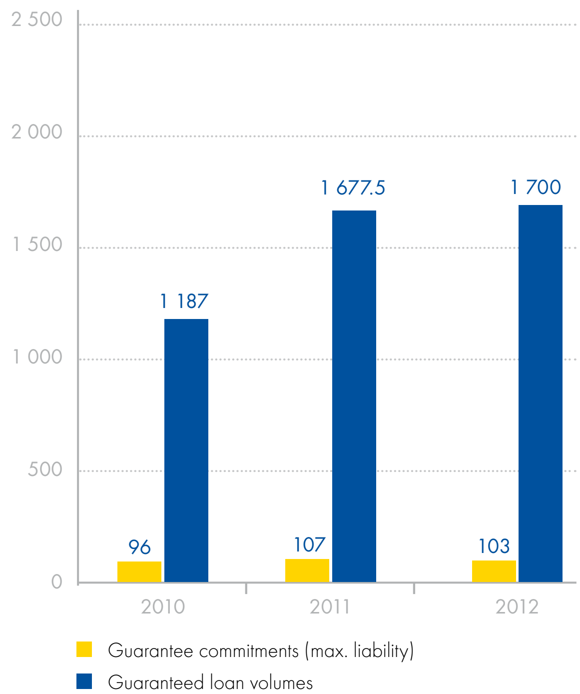
The SME Guarantee Facility (SMEG) under CIP, which EIF is managing for the EC, aims to enhance access to finance for SMEs throughout the EU, Iceland, Norway and Liechtenstein, as well as in Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey. The SME guarantee is made available to CIP intermediaries, which are public and private guarantee institutions, banks and leasing companies, as a free of charge guarantee covering part of the first loss (i.e. the expected losses) of a portfolio of new SME loans or guarantees covering SME loans.

To qualify for such cover, SMEG intermediaries commit to offer enhanced access to finance for SMEs by taking SME risk exposure which is additional to what they would usually accept through, for example, reduced collateral requirements, increased guarantee rates, or lending to hitherto excluded SME segments (such as start-up enterprises). The intermediary retains, typically, 50% of the first loss in the guaranteed portfolio.

Throughout 2012, EIF continued to deploy the programme's guarantee instruments with a total of approximately 203 000 SMEs having already benefited from SMEG guarantees. It is expected that a total number of approximately 300 000 SMEs will be supported over time by the already committed budget. SMEG continued to play a crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance.

At end 2012, EIF had signed more than 40 SMEG direct guarantee agreements and 25 SMEG counter-guarantee agreements in 23 different countries, the large majority (more than 90%) of the supported SMEs being micro-enterprises and 58% of them in their start-up phase.

Supported loan volumes – in EUR m



For the first time, in 2012 EIF negotiated transactions under the SMEG securitisation window. These transactions aim at stimulating new lending by providing capital relief to UniCredit (Italy) and three national federations of Italian mutual guarantee institutions (the "Confidi"). It is foreseen that the transactions will be signed in 2013.

SMEG has achieved a substantial multiplier effect on the allocated budget of approximately 16 times the guaranteed loan amount, i.e. EUR 1 of budget allocation directly or indirectly mobilises EUR 16 of SMEG-guaranteed SME loans, further complemented by resources made available by the financial intermediaries.

Risk Sharing Instrument (RSI): boosting research and innovation

Following the launch of the Call for Expressions of Interest in February 2012, EIF has been actively deploying resources under the RSI facility.

With RSI, EIF, in return for a risk fee, provides guarantees to banks and leasing companies that lend to SMEs and small mid-caps in support of their research, development and innovation projects. The guarantee covers 50% of each loan. The objective is to allow the RSI to reach up to 1 000 beneficiaries with a total loan volume of up to EUR 1bn.

At end 2012, seven RSI transactions had been signed for a total amount of EUR 345m, which demonstrates that despite adverse market conditions European SMEs are still investing in innovation.

2. Own resources/credit enhancement and securitisation: driving the market

EIF credit support on tranches of SME securitisation transactions enables banks to either obtain liquidity on a maturity matched basis or achieve capital relief, thus allowing them to expand their SME lending activity.

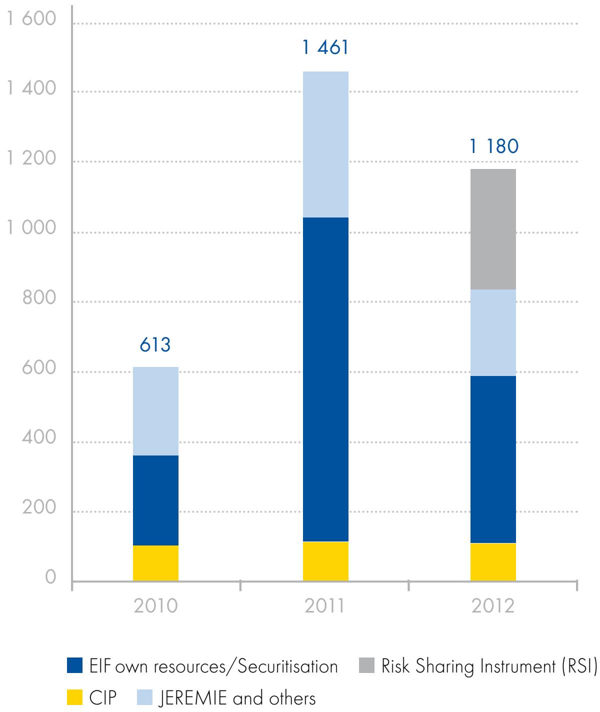
Throughout 2012, EIF continued to be an active participant in the still evolving SME securitisation market and invested in transactions in a wide range of geographies, including: Germany, Serbia, Spain, Sweden and Turkey. The guaranteed volume of securitisation and covered bond tranches for the year amounted to close to EUR 480m and supported SME lending volumes of EUR 2.1bn.

The future shape of the structured finance market remains uncertain. EIF expects European banks to increase their reliance on secured funding, including securitisation and covered bonds. Given the uncertain regulatory landscape, the volatile credit environment, and the difficult sovereign and bank credit outlook, the relatively scarce availability of unsecured funding options will make securitisation more attractive on a relative basis in the medium term.

Even though most securitisations are focusing on generating funding, risk transfer transactions, in both funded and unfunded form, are gathering momentum.

EIF will continue to support the SME structured finance market targeting both top tier international banks as well as smaller, national financial institutions and leasing companies, while continuing to promote best market practice in SME-related securitisations in the public domain.

Yearly guarantee and debt commitments by resource – in EUR m



Guarantees and credit enhancement/securitisation signatures 2012

in EUR m

Deal name	Resource	Geographic focus	Commitment
Geldilux 2011	EIF own resources	Germany	17.0
ICO Liquidity Facility Guarantee	EIF own resources	Spain	200.0
IKB Leasing	EIF own resources	Germany	84.8
LICO Leasing	EIF own resources	Spain	78.0
Procredit Serbia 2012	EIF own resources	Serbia	48.0
Sekerbank Covered Bond	EIF own resources	Turkey	50.0
ABN Amro	RSI	The Netherlands	60.0
AIB	RSI	Ireland	40.0
Banco Popolare	RSI	Italy	60.0
Bankinter	RSI	Spain	60.0
Cassa di Risparmio di Cento	RSI	Italy	20.0
Ceska Sporitelna	RSI	Czech Republic	45.0
Unicredit Bank Austria	RSI	Austria	60.0
Agentshap NL	CIP	The Netherlands	8.5
AWS	CIP	Austria	6.3
CERSA (2 transactions)	CIP	Spain	27.0
CSOB - loan	CIP	Slovakia	3.2
CSOB - micro	CIP	Slovakia	6.2
FdP	CIP	Belgium	4.9
Federfidi Lombarda	CIP	Italy	5.2
Finansbank	CIP	Turkey	4.5
Garanti Bank	CIP	Turkey	4.2
GE Money Czech	CIP	Czech Republic	4.0
KfW	CIP	Germany	20.4
KredEx	CIP	Estonia	1.8
Privredna Banka Zagreb	CIP	Croatia	1.8
SPGM/MCGF	CIP	Portugal	5.2
Banques Populaires et Caisses d'Epargne Holding	JER guarantees (FLPG)	France	15.7
SIA Unicredit Leasing Lithuanian Branch	JER guarantees (FLPG)	Lithuania	6.0
Allianz Bank Bulgaria	JER loans (FRSP)	Bulgaria	15.0
Banca Populare Etica S.c.p.A. (Campania)	JER loans (FRSP)	Italy	6.1
Banca Populare Etica S.c.p.A. (Sicily ESF)	JER loans (FRSP)	Italy	7.2
Banca Popolare di Sviluppo S.c.p.A	JER loans (FRSP)	Italy	2.9
ConfeserFidi Soc.Cons. A.R.L.	JER loans (FRSP)	Italy	6.3
EFG Eurobank Ergasias S.A.	JER loans (FRSP)	Greece	29.0
First Investment Bank AD	JER loans (FRSP)	Bulgaria	35.0
Banca del Mezzogiorno-MedioCredito Centrale S.p.A	JER loans (FRSP)	Italy	21.0
Procredit Bank (Bulgaria) AD	JER loans (FRSP)	Bulgaria	50.0
SEB Bankas (2 transactions)	JER loans (FRSP)	Lithuania	20.0
Siauliu Bankas	JER loans (FRSP)	Lithuania	10.0
Société Générale Expressbank JSC	JER loans (FRSP)	Bulgaria	30.0
Total			1 180.1

JEREMIE operations summarised by country in the 2012 JEREMIE highlights part of the regional development section (pages 31-33).
CIP and JEREMIE guarantees: commitment equals maximum liability (cap amount).

Cangur
helping pet owners to get out and about

Company snapshot

Many pet owners find themselves in situations where they need someone urgently to look after their pets. And when the neighbours are away and family and friends are busy, the situation starts to get critical. Having owned a family of turtles, birds, hamsters, snails and dogs, Montse knew what it was like to have to turn down invitations for weekends away, evening socials and other events due to 'family commitments'. At the back of her mind she was convinced that, if a service existed which could provide care, food and even veterinary support for animals, then pet owners' lives could be drastically improved.

After approaching Microbank La Caixa in 2007, for a loan of EUR 15 000, Montse bought a house in Ametlla del Vallès near Barcelona where she started looking after around 30 cats and dogs each month. Six years later, she now provides a temporary home to on average 650 pets per year and the business is still growing. She is now providing home sitting services in the region and has plans to bring the business to towns and cities further afield in the near future.

Montse's hard work and dedication has paid off and even led to the business receiving the award for the Best Microfinance supported company in 2008 from the International Foundation of Women Entrepreneurs (FIDEM).

The bank

MicroBank is 100% owned by CaixaBank. The microcredit project started in late 2003 with a view to granting micro loans to sectors of the population that had problems obtaining traditional bank financing.

In 2007, CaixaBank created MicroBank, the only bank in Spain specialised in microfinance, promoting microcredit activity which fosters productive activity and job creation and assisting the personal and family development of those at risk of exclusion. MicroBank facilitates access to credit for people and micro-enterprises that have difficulties in raising funds through traditional banking institutions.

Regulated by the Bank of Spain and with registered offices in Barcelona, MicroBank provides financing for the self-employed, micro-entreprises, individuals and families (but no consumer loans).

The decision to create MicroBank was mainly based on the need to meet a still largely unmet demand for microcredits coming from small entrepreneurs and/or microenterprises from across the country starting up and/or expanding their businesses but with limited access to finance, just like Montse. MicroBank has the mission to combine its social goal with its financial and economic sustainability in order to broaden its activity and be able to provide a proper response to increasing demand.

EIF's added value

MicroBank is fully committed to microfinance at national level, and thanks to the CaixaBank branch network it covers an important part of the unmet demand for micro-loans throughout Spain. As a result of these agreements, the CIP guarantee enabled MicroBank to continue and expand its micro-lending scheme in Spain, providing more than 40 000 micro-credits for a total amount of EUR 428.6m of loans to entrepreneurs and micro-enterprises since the beginning of its activity. According to a report carried out by the business school ESADE, it is estimated that these micro-credits have contributed to the creation or safeguarding of more than 60 000 jobs.

Zeta Biopharma
state-of-the-art plants for the pharma industry

Company snapshot

Zeta Biopharma is a plant construction company in Austria with 237 employees providing process technology for biopharmaceutical applications by supplying global pharmaceutical companies with individually designed plants.

Zeta's production plants are used by large pharma companies to develop vaccines, injections and pharmaceutical drugs used to fight diseases worldwide. The company is one of only two in Europe to use innovative technology for freeze and thaw containers for storage and transport of substances for the pharmaceutical industry. These liquids can be frozen in a controller storage facility for years and are often sent to markets worldwide.

The plants are manufactured in modular design with state-of-the-art equipment at the production site in Lieboch, Graz, and are dispatched to operation sites across Europe and beyond under sterile conditions, where they are then installed and commissioned by qualified staff and engineers.

The bank

UniCredit Bank Austria is the leading bank in Austria and Central and Eastern Europe. It has been a member of UniCredit, one of the largest European banking groups, since 2005. Bank Austria passed the extensive application and due diligence process for RSI regarding its SME strategy, financial standing, risk models, origination power and marketing initiatives, and proved in particular its bundled know-how in export and investment promotion funding and advisory services and is therefore a key partner for EIF to start this important new EU facility in Austria. This allows the bank to support companies like Zeta in Austria. During the recent financial and economic crisis, Bank Austria was the only major bank in Austria that did not use state aid to strengthen its capital. Bank Austria is a universal bank offering its customers access to international financial markets. It serves as UniCredit's hub for the banking network in Central and Eastern Europe, a region where the Group is the clear market leader. Bank Austria supports Austria's economy by providing special offers for innovative SMEs – from advisory services in the start-up phase to financing solutions including funding all the way to business planning and succession planning.

EIF's added value

The EUR 2.5m working capital loan granted by UniCredit Bank Austria with a 50% EIF guarantee under the pilot Risk Sharing Instrument programme covers Zeta's high working capital requirements during the long lead times in plant engineering and manufacturing. The RSI guarantee perfectly complements the national research promotion schemes in Austria and helps the company to implement additional R&D projects and to finance faster growth.

Microfinance

General overview

In the EU 27, 92% of companies are micro-enterprises with fewer than 10 employees. The ability of a financial system to reach these small entities is crucial for the achievement of general socio-economic improvement. However, with the crisis and the resulting lack of availability of finance the need for public support for this emerging sector in Europe is vital. In this framework, in 2012 EIF further consolidated its microfinance activity into a fully dedicated EIF business segment.

As part of its active role in developing Europe's microfinance market, EIF provides both financial instruments and non-financial support measures to build up the capacity of Europe's microfinance institutions (MFIs), which range from very small non-bank MFIs, smaller banks and commercial lenders to guarantee institutions. Through its support for MFIs, EIF aims to improve on-lending to micro-entrepreneurs and the self-employed, including vulnerable social groups who often lack access to the commercial credit market.

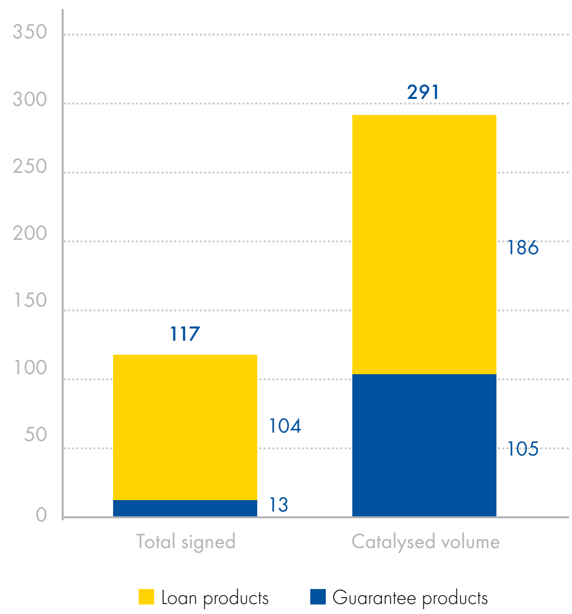
EIF's positioning in the microfinance market is closely linked to its wider commitment to the EU 2020 strategy to promote inclusive growth. EIF actively seeks to target institutions that successfully reach out to underserved client groups in order to promote self-entrepreneurship and job creation as drivers of social inclusion. Through its due diligence process, EIF aims to identify and partner with MFIs that apply responsible lending practices vis-à-vis their micro-borrowers. In this regard, EIF follows closely the testing phase of the European Code of Good Conduct for Microfinance, which was launched with the participation of a number of non-bank MFIs in 2011.

EIF's product offering in the microfinance field is tailored to the specific European context, which is characterised by a wide range of different types of MFIs applying different lending models. These range from equity and loans to guarantees and technical assistance and are deployed through a number of facilities.

Microfinance portfolio and resources

At end 2012, a total of EUR 117m had been committed to microfinance intermediaries in the EU (through support under Progress Microfinance), with EUR 291m achieved in terms of expected micro-loan volumes (see graph below). Based on the current amounts signed to date, the expected forecast of microloan volumes will reach 19 000 over the life of the facility and assuming its full utilisation.

Total microfinance signatures and mobilised amounts by resource – in EUR m



1. European Progress Microfinance Facility (Progress Microfinance)

The products available under the European Progress Microfinance Facility (Progress Microfinance), the EUR 203m facility funded by the EC and the EIB and managed by EIF, aim at addressing the specific current needs of the microfinance market. During 2012, EIF began to see the impact of the facility on micro-lending generated through the numerous microfinance investments (debt, equity, and guarantees) deployed. EIF completed 14 new agreements with 13 micro-lenders in eight countries across the EU. These new transactions, which amounted to EUR 40m in commitments, have resulted in a total of EUR 117m in EIF support for the microfinance sector in the past three years.

The successes under the Progress Microfinance initiative have been complemented by continued microfinance achievements initiated under SMEG and JEREMIE.

2. Joint Action to Support Microfinance Institutions in Europe (JASMINE)

JASMINE is a joint initiative of the EC and the EIB Group (EIB and EIF) launched in September 2008 to provide technical assistance to non-bank micro-credit providers in the EU with a view to increasing the provision of micro-credit to micro-entrepreneurs. The objective of the Technical Assistance (TA) facility is to act as a catalyst to help MFIs improve their access to institutional and commercial funding in order to expand and become sustainable.

To date, 55 micro-credit providers have benefited from JASMINE TA. Out of those microfinance institutions, nine have also received funding and/or risk coverage under Progress Microfinance. With more than 50% of the intermediaries receiving funding from EIF-managed microfinance mandates being JASMINE beneficiaries, JASMINE is proving to play an evident catalytic role, providing valuable assistance to European microcredit providers.

Microfinance signatures 2012

Deal name	Type	Geographic focus	Commitment
Adie	Guarantee	France	2.3
Banca di Credito Cooperativo Mediocrati	Loan	Italy	3.0
Banca Popolare di Milano	Loan	Italy	8.8
Banca Transilvania	Loan	Romania	7.5
Créasol	Loan	France	1.0
Créasol (increase)	Loan	France	1.0
Crédal	Guarantee	Belgium	0.3
Emil Banca Credito Cooperativo	Loan	Italy	2.0
Erste Bank	Guarantee	Austria	0.5
First Step	Guarantee	Ireland	0.2
Microfinance Ireland	Guarantee	Ireland	1.4
Qredits	Guarantee	The Netherlands	1.7
Società Europea Finanza Etica ed Alternativa	Loan	Italy	2.0
Societe Generale Expressbank	Loan	Bulgaria	8.5
Total			40.1

Farming in Romania
helping families to eat locally

Company snapshot

With rising food prices, weather-affected supply chains and occasional food safety concerns, many people would like to be able to grow their own food and live a self-sufficient lifestyle. Claudy Macau and his wife were firm believers in the benefits of 'eating locally' and decided to take this belief a step further. After losing their jobs in a mining company, he and his wife (41 and 44 years old) decided to return to their home village of Poiana Mare in Romania to start a small farm. In 2011 they borrowed a EUR 5 000 loan from the Romanian microfinance provider Patria Credit to expand their greenhouses. One month later they signed a contract to supply around 35 tonnes of vegetables to the biggest cash and carry retailer in Romania for this year. They have already started employing three temporary employees for two days a week. Their 11 greenhouses currently house over 20 000 cucumbers, green peppers, tomatoes, cabbages, onions and other vegetables which, in addition to cash and carry sales, are also sold at markets in two nearby cities. After a bumper year in 2011, Claudy Macau bought a high-capacity water pump and had another fruitful year in 2012.

The bank

Patria Credit is a non-bank financial institution, controlled by the Romanian American Enterprise Fund and the Balkan Accession Fund, which provides lending to micro and small enterprises and to agricultural producers. Patria Credit has been operating since 1996 and is one of the most important financial intermediaries for micro-enterprises and low-income borrowers in Romania. Patria Credit is the non-bank market leader in microfinance in Romania with activities across the whole country. It started its operations in 1996 as an NGO, with the mission to provide loans to micro-enterprises and individuals without access to banks. In 2007, it was acquired by the Romanian American Enterprise Fund (RAEF) and by the Balkan Accession Fund (BAF). As of today, it has equity of EUR 18m and a loan portfolio of EUR 54m. At the end of January 2013, the company was serving over 12 000 customers through a network of 40 branches and in 2012 alone granted more than 4 600 loans to micro-enterprises and small individual farmers in Romania.

EIF's added value

Under the Progress Microfinance Facility, Patria Credit has disbursed over 1 890 loans since September 2011, amounting to EUR 5.78m. Patria would not have been able to finance this amount without Progress Microfinance as this amount would not have been supplied to borrowers from its own funds in the absence of the credit facility. Patria has also disbursed another 110 loans to micro-enterprises, totalling EUR 1.8m, from the Progress guarantee facility.

Regional development and partnerships

Part of EIF's success in supporting Europe's SME market lies in its strategy of collaborating with national partners and Member States as a way to address particular market gaps. Through partnerships with national and regional counterparts, including governments and private and strategic investors, EIF is delivering a wide range of financial instruments tailored to the diverse needs of markets in individual countries across Europe.

Delivering financial engineering with Structural Funds

JEREMIE (Joint European Resources for Micro to Medium Enterprises)

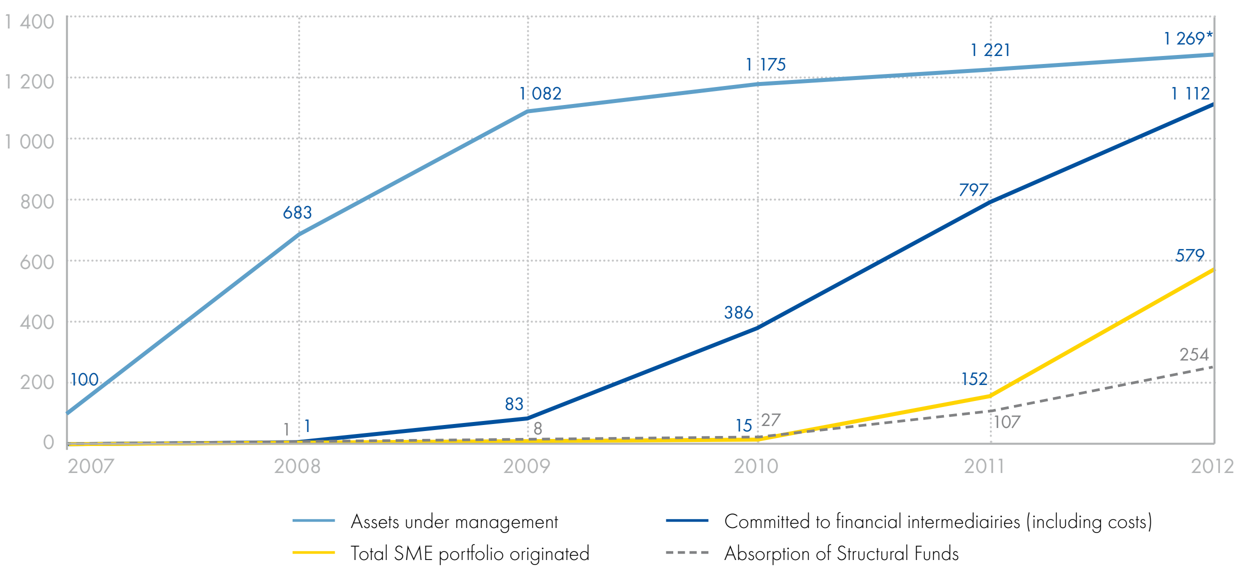
JEREMIE is a joint initiative of the EC, EIF and EIB to promote SME access to finance and financial engineering products in European regions. With JEREMIE, EU Member States and regions have the opportunity to use part of their EU Structural Funds to provide risk financing to SMEs. The objective is to develop carefully targeted financial instruments for EU Member States encouraging growth, particularly in less developed regions, with the help of revolving instruments rather than grants and providing impartial advice that helps regional and national authorities manage their resources.

As a manager of JEREMIE Holding Funds, EIF's role is essential to develop know-how transfer, capacity building and mandate development at the level of public authorities and the market.

2012 was another significant year for EIF. Commitments were made by the EIF to speed up the absorption of funds across its wide range of financial instruments, and the JEREMIE Holding Funds began to demonstrate real impact at SME level in several Member States. Particular focus was given to the debt and guarantee transactions within the JEREMIE Holding Funds in order to find ways to boost the level of financing reaching SMEs. As a result of the rapid implementation of a number of contractual modifications, the absorption of the JEREMIE funds has been closely monitored and reached 22% in 2012, a significant increase compared with 2011. Other initiatives, including certain product enhancements, have been identified and are being implemented. The utilisation of resources as of December 2012 is as shown in the graph below.

2012 highlights include, the first two equity transactions in Bulgaria committed by EIF under JEREMIE. One of the transactions is the EUR 12.8m first-time accelerator fund "Eleven", the other being the EUR 9.6m "LAUNCHub", both of which focus on pre-seed and seed investments and

JEREMIE estimated impact as of December 2012



* including the increase in the Bulgarian Holding Fund by EUR 150m.

are expected to have a positive impact on the entrepreneurial and innovative ecosystem in Bulgaria positioning it as the hub for starting a business in the Balkans.

Through the JEREMIE initiative, EIF directly manages 14 Holding Funds, totalling EUR 1.27bn of Structural Funds under management. In 2012 alone, 24 transactions were signed with 19 new financial intermediaries in the regions served. Through the JEREMIE Holding Funds, a total amount of EUR 2.7bn has been catalysed.

2012 highlights[7]

EIF has continued to build on its experience, strengths and expertise to structure and manage tailored and bespoke programmes in close collaboration with Member States and Regions.

EU 27

Bulgaria – JEREMIE Holding Fund (EUR 349m)
In June 2012, EIF signed a new agreement in Bulgaria for the allocation of an additional EUR 150m to implement a "Portfolio Risk Sharing Loan" instrument available to SMEs in the following year. This signature brings the total amount of funds managed by EIF on behalf of the Government of Bulgaria under the JEREMIE initiative in Bulgaria to EUR 349m.

At the end of 2012, Bulgarian SMEs had benefited from EUR 90m under the initiative in the form of equity investments and loans. Notably, in 2012 EIF committed into two accelerator funds focusing on high-tech SMEs in their start-up phases. These two funds had already invested in 25 start-up businesses by the end of 2012.

Cyprus – JEREMIE Holding Fund (EUR 20m)
Although the "First Loss Portfolio Guarantee" instrument is not showing a great deal of utilisation so far, the "Funded Risk Sharing Products" have already disbursed 90% of the available resources.

France – Two regional JEREMIE Holding Funds (combined total of EUR 50m)
Through the three instruments implemented in Languedoc-Roussillon, 32% of the money available was deployed in 2012 providing overall support to more than 400 SMEs.

Additionally, for the region of Provence-Alpes-Côte d'Azur EIF signed a "First Loss Portfolio Guarantee" transaction, which will allow the selected financial institution to build a portfolio of more than EUR 111m to finance SMEs in technology clusters as well as companies implementing energy efficiency projects.

Greece – JEREMIE Holding Fund (EUR 250m)
Utilisation of more than 50% for some of the "Funded Risk Sharing Products" signed in 2011 has been achieved, helping more than 1 300 SMEs to be granted loans. Early and seed Venture Capital transactions were also signed in the last quarter of 2012 with a significant number of private investors aiming to encourage the creation of a proper ecosystem in Greece.

Italy – Four regional JEREMIE Holding Funds (combined total of EUR 210m)
In the Campania region, during 2012 the first EUR 21.5m was allocated to some 100 SMEs. In addition, EIF signed two "Funded Risk Sharing Product" agreements with microfinance institutions, which in turn will provide loans to SMEs.

In the Sicily region, EIF manages two Holding Funds with ERDF[8] and ESF[9] resources for a total amount of EUR 75m. Under the first mandate, after a challenging start, the first SMEs are finally benefiting from the loans. Under the second mandate, EIF signed two transactions for a total of EUR 13.5m, for the provision of loans to SMEs that are active in the field of social improvement and social inclusion. An overall volume of EUR 25m will be available for SME lending.

In addition, EIF signed one "Funded Risk Sharing Product" transaction for a total of approximately EUR 21m, for the provision of loans in the region of Calabria, with a particular focus on start-ups and innovative businesses.

Lithuania – JEREMIE Holding Fund (EUR 170m)
Two new equity transactions for a total of EUR 17m as well as one new "First Loss Portfolio Guarantee" (leasing) agreement for EUR 6m were signed. The implementation of the JEREMIE Holding Fund has already achieved substantial impact: the portfolio of the debt and guarantee instruments has already grown to create 640 SME loans and leases for an estimated total of EUR 126m, and the

[7] Lists of specific JEREMIE transactions concluded in 2012 can be found in the equity and guarantee sections on pages 18 and 25.
[8] European Regional Development Fund.
[9] European Social Fund.

equity fund managers have made 30 investments amounting to approximately EUR 14.4m.

Malta – JEREMIE Holding Fund (EUR 10m)
One "First Loss Portfolio Guarantee" agreement has been implemented providing over EUR 50m of new loans to Maltese SMEs, including micro-businesses. During 2012, thanks to the active role of the financial intermediary selected by EIF, loans for approximately 54% of the expected portfolio volume were provided to SMEs.

Romania – JEREMIE Holding Fund (EUR 100m)
During the course of the year, EIF has expanded its reach to the Romanian SME market, with well over 1 000 small and medium-sized businesses now benefiting from the JEREMIE programme. The amount of funds allocated to SMEs exceeded EUR 115m, surpassing the allocation made to the JEREMIE Holding Fund. This financing proved to be critical for Romanian companies at a time of a particularly difficult market situation and EIF will continue providing this financing during 2013 and generate additional leverage on the allocation.

Additionally, in 2012 EIF committed into a risk capital fund, Catalyst Romania, managed by 3TS.

Slovakia – JEREMIE Holding Fund (EUR 100m)
The impact of the resources deployed for SMEs is expected to materialise during the course of 2013, as the selection process under the calls for "First Loss Portfolio Guarantee" and Venture Capital instruments have been successfully concluded.

Spain – JEREMIE Holding Fund in Extremadura (EUR 10m)
In December, EIF signed the first JEREMIE mandate in Spain. Through this pilot project, the selected financial intermediary will build a portfolio of new loans to SMEs based in Extremadura.

Outside the EU

The Instrument for Pre-accession Assistance (IPA) offers assistance to countries engaged in the accession to the EU process on the basis of the European partnerships with potential candidates and the accession partnerships with Candidate Countries.

JEREMIE Holding Funds under management and amounts committed (31 Dec 2012)

in EUR m

			Commitments to financial intermediaries				
Name	Signature	Total	Equity	Guarantees FLPG	Guarantees FRSP	Grand Total	Mobilised equity & loans
Greece	Jun 2007	250	52.5		181.5	234.0	438.5
Romania	Feb 2008	100	17.5	66.0		83.5	355.0
Latvia	Jul 2008	Transferred	34.7		44.0	78.7	138.5
Lithuania	Oct 2008	170*	52.9	18.0	110.0	180.9	395.0
Slovakia	Dec 2008	100					
Languedoc-Roussillon	Oct 2008	30	11.0	14.0	2.0	27.0	143.5
Campania	Dec 2008	90			79.0	79.0	169.8
Cyprus	Apr 2009	20		8.0	10.0	18.0	70.6
Bulgaria	May 2009	349	43.4	78.4	130.0	251.8	704.6
Sicilia	Nov 2009	60			53.0	53.0	130.0
Malta	Mar 2010	10		8.8		8.8	51.0
ESF Sicilia	Dec 2010	15			13.5	13.5	25.0
Calabria	Oct 2011	45			21.0	21.0	42.0
PACA	Dec 2011	20		15.7		15.7	111.0
Extremadura	Dec 2012	10					
Total		1 269	212.0	208.9	644.0	1 064.9	2 774.5

* Transfer effective January 2013

IPA instruments are designed to encourage private sector involvement by engaging the intermediaries in contractual arrangements that combine a commercial approach with policy objectives and ensure a full alignment of interests.

Turkey – Two IPA initiatives (EUR 48.3m)
With the Greater Anatolia Guarantee Facility (GAGF), EIF catalysed EUR 500m of loans to SMEs in the less developed regions of Turkey, including EUR 250m of EIB lending through five local partners: Akbank, Denizbank, Halkbank, Vakibank and Yapi Kredi, in addition to the support of the microcredit guarantee activity of Kredi Garanti Fonu (KGF). In 2012, EIF launched an extensive visibility campaign to raise SME awareness. In the two years of implementation, GAGF has reached more than 4 000 SMEs so far and achieved an 82% absorption rate. In December 2012, recognising the success of the initiative, the EC (DG Regio) decided to commit an additional EUR 20m to the facility, which is combined with EUR 200m of lending for SMEs from the EIB. This extension is expected to create an additional EUR 400m of loan volume for SMEs in disadvantaged regions in Turkey.

In early 2012, the G43 Anatolia Venture Capital Fund, a Venture Capital initiative targeting the least developed regions of Turkey and using IPA funds, was launched by the Turkish Minister of Science, Industry and Technology. Following a public call for expressions of interest, Abraaj Capital was selected as fund manager.

Each of these cases illustrates EIF's close collaboration with Member States, Regions and Candidate Countries. Through this cooperation, the needs of SMEs are addressed in a targeted way, enabling the creation of specific portfolios of financial instruments that ensure the involvement of the private sector through various multiplier effect mechanisms, achieving greater impact on SME financing volumes. In doing so, EIF delivers significant added value by stimulating financing activity even when the market conditions are difficult, thereby contributing towards offsetting cyclical declines.

Collaborating with national and regional counterparts

EIF's expertise in partnering with national institutions is firmly established and forms a central part of its strategic development and regional business focus. EIF advises and manages a number of funds-of-funds for third party investors, including national and regional governments as well as private and strategic investors. The objective is to support EU policy objectives and provide a wide choice of financial solutions tailored to complement existing national schemes to support SMEs. EIF has rolled out several dedicated facilities equipped with increased investment capacity across Europe and in partnership with leading national institutions.

ERP-EIF Dachfonds is a EUR 1bn 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), from which EUR 500m was committed, matched by co-investments from EIF, EIB and EU resources.

Throughout the year, with a commitment of EUR 80m in four funds (including Wellington Partners Ventures IV Life Science Fund, Power Fund III and DN Capital GVC III), the ERP-EIF Dachfonds helped established teams to reach viable first closing sizes and further asserted its role as a cornerstone investor in the German Venture Capital segment.

ERP-EIF Dachfonds has to date supported 26 Venture Capital funds and managed to catalyse around EUR 2.3bn of commitments by other investors. It is currently 68% committed with signatures and conditional commitments totalling EUR 675m. To leverage the German non-institutional Venture Capital segment, the ERP-EIF Dachfonds has committed EUR 70m into the European Angels Fund (EAF).

NEOTEC is a Spanish-based EUR 183m fund-of-funds in which EIF committed EUR 50m. It was launched with the sponsorship of EIF and the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), now part of the Spanish Ministry of Science and Innovation, and several private investors, mainly Spanish blue chip companies. During 2012, NEOTEC played an incremental role in further developing the Spanish Venture Capital market, committing a total of EUR 45m. In addition, NEOTEC approved EUR 10m in Fondo Isabel la Católica.

To date, NEOTEC has approved 13 funds, including co-investments, for a total of EUR 174m, of which EUR 129m has been signed accounting for 70% of the fund size and catalysing over EUR 700m of commitments from other investors.

Istanbul Venture Capital Initiative (iVCi) is Turkey's dedicated fund-of-funds and co-investment programme. A successful example of a national-international and public-private partnership, it had its final closing at EUR 160m 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. EIF is the adviser to iVCi. In total to date, iVCi holds a portfolio of eight investments representing total signed commitments of EUR 134m, which underlines its vital role in supporting the growth of Turkish enterprises. A successor initiative to iVCi is being planned for 2013.

Portugal Venture Capital initiative (PVCi) is a EUR 111m private equity/Venture Capital fund-of-funds launched by EIF together with private financial institutions, public bodies and selected foundations. EIF is responsible for the management of PVCi, which invests in Portuguese and international funds with a primary focus on Portugal. In 2012, PVCi made two new investments in funds: one in Pathena, a Venture Capital fund, and another in Capital Growth Fund, a lower mid-market fund where total investments of up to EUR 35m were approved. The Investment Committee of PVCi has now approved five investments for a total approved amount of EUR 85m, although there is still capacity to approve one or two additional deals until the end of the Investment Period (April 2013). Besides being a significant catalyst in the fundraising of its portfolio funds, the PVCi's resources have currently achieved a multiplier of seven.

LfA-EIF Facility 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 (Development Bank of Bavaria), which provided EUR 25m matched by co-investments from EIF, EIB and the EU for an original total size of EUR 50m. To allow a continuation of its important role in supporting local enterprises, the facility was increased by LfA and EIF from EUR 50m to EUR 100m in 2011.

During 2012, the facility committed EUR 10m into two funds (Holtzbrinck V and Wellington IV LS) emphasising its catalytic role in the region by backing established fund managers. To date, the LfA-EIF Facility has committed EUR 53m in eleven funds and is now 53% committed. To support the activity of Business Angels and non-institutional

Regional mandates and funds-of-funds activity (excluding JEREMIE)*

	Year signed	End of commitment period	Total resource (EUR m)	Total committed (EUR m)	Committed	Total disbursed (EUR m)	Disbursed
ERP	2004	Revolving	1000	685	69%	381	38%
NEOTEC	2006	2012	183	174	95%	89	49%
iVCi	2007	2012	160	150	94%	50	32%
PVCi	2007	2013	111	85	76%	18	16%
LfA	2009	2016	100	53	53%	19	19%
UKFTF	2010	2014	231	192	83%	29	13%
MDD	2012	2015	100	35	35%	3	3%
EAF	2012	2017	70	17	24%	2	2%
BIF	2012	2016	100	0	0%	0	0%
DVI	2012	2017	150	0	0%	0	0%

* including EIB Group and EC commitments

investors in Bavaria, the facility has committed EUR 10m into the European Angels Fund (EAF).

United Kingdom Future Technologies Fund (UK FTF) is a GBP 200m fund-of-funds combining equal commitments by the UK Government and EIF and the EIB. It was launched as part of the UK Government's strategy to support venture capital funds investing in technology companies with high growth potential across important sectors such as life sciences, digital and advanced manufacturing. EIF is investment adviser to UK FTF L.P. In 2012, UK FTF signed four investments: Atomico Ventures, DN Capital GVC III, Dawn Capital II and Kennet IV for a total amount of EUR 95m. These funds add to investments previously made in DFJ Esprit Capital III, Acton GmbH & Co. Heureka KG, Advent Ventures Life Sciences Fund, Gilde Healthcare III and SEP IV. To date, UK FTF has made total investments of around EUR 192m, and managed to catalyse around EUR 1bn. In 2012 funds-of-funds initiatives were launched which expanded EIF's collaboration with Member States and national institutions:

Mezzanine Dachfonds für Deutschland (MDD) is a EUR 200m investment programme which targets hybrid debt/equity fund investments in Germany. MDD is half-funded by BMWi and LfA Förderbank and half by MFG[10]. Since its signature, two investments have already materialised.

European Angels Fund (EAF) is a pan-European scheme for co-investment and has two compartments so far:

A EUR 70m co-investment fund in Germany, which provides equity to Business Angels and other non-institutional investors for the financing of innovative companies in the seed, early or growth stage. It is funded by EIF, BMWi and LfA Förderbank Bayern and is advised by EIF. Launched in March 2012 as a pilot project in close cooperation with Business Angel Netzwerk Deutschland (BAND), the Fund has to date committed EUR 17m through co-investment agreements with several Business Angels.

Regional mandates and funds-of-funds signatures in 2012 (excluding JEREMIE)

in EUR m

Fund vehicle	Resource	Geographic focus	Commitment
DN Capital - Global Venture Capital III	ERP	Multi-country	5.0
EAF Germany: 5 deals	ERP/LfA	Germany	8.8
Holtzbrinck Ventures Fund V	ERP/LfA	Multi-country	17.5
Power Fund III	ERP/LfA	Multi-country	5.0
Wellington Partners IV Life Science Fund	ERP/LfA	Multi-country	15.0
Actera Partners II	iVCi	Turkey	30.4
G43	iVCi/IPA	Turkey	16.0
RiverRock European Opportunities Fund	MDD	Multi-country	15.0
SME Mezzanine Fund	MDD	Germany	20.0
EAF-Spain	Neotec	Spain	10.0
Adara Ventures II	Neotec	Spain	15.0
Seaya Capital	Neotec	Spain	20.0
Growth Capital Fund I	PVCi	Portugal	15.0
Pathena Fund	PVCi	Multi-country	20.0
Atomico Ventures III	UKFTF	Multi-country	20.0
Dawn Capital Fund II	UKFTF	United Kingdom	30.0
DN Capital - Global Venture Capital III	UKFTF	Multi-country	25.0
Kennet IV	UKFTF	Multi-country	20.0
Total			307.6

[10] See also page 16.

Following the successful ramp-up phase, the EAF has been and will be further extended to additional geographies in the course of the next two years: a second compartment was signed in November 2012, EAF-Fondo Isabel la Católica for Spain. This EUR 30m fund advised by the EIF provides equity to Business Angels and other non-institutional investors for the financing of innovative Spanish companies in the form of co-investments.

Baltic Innovation Fund (BIF) forms part of a long-term partnership involving cooperation with publicly-owned national development institutions KredEx in Estonia, the Latvian Guarantee Agency (LGA) in Latvia, and INVEGA in Lithuania. This EUR 100m facility will catalyse over EUR 200m to focus on enhancing the availability of Venture Capital and private equity financing for early and growth stage companies based in the Baltic countries as a way of stimulating job creation and economic competitiveness in the region through a scalable transnational approach that serves as a unique, first-time model.

Dutch Venture Initiative (DVI) is a EUR 150m[11] Venture Capital fund-of-funds which will invest in funds in the Netherlands targeting later stage fast growing innovative or high-tech businesses. The fund will target companies in the ICT, cleantech, medtech, renewable energy and life sciences sectors through primary investments in the next generation of Dutch venture funds. DVI is the result of the cooperation between EIF and PPM Oost, whose contribution is supported by the Dutch Government.

In 2012 EIF also launched one new regional initiative:

Western Balkan Enterprise Development and Innovation Facility (WB EDIF) is a novel and comprehensive set of complementary measures that will enhance access to finance for SMEs, promote the emergence and growth of innovative and high-potential companies, and support the build-up of the regional Venture Capital ecosystem. The EUR 145m[12] of initial capital pulled together under this facility by the EU, international financial institutions, beneficiaries and bilateral donors may effectively translate into over EUR 300m of direct financing for SMEs in the region.

Expanding cooperation

EIF will further expand its strategic partnerships with national institutions through new targeted funds-of-funds and is in parallel laying the foundations of the next generation initiatives for established programmes. In Spain for example, NEOTEC 2 is currently under negotiation, and in Turkey the Growth & Innovation Fund (successor of iVCi) is in its planning phase. Furthermore, EIF expects to expand its Europe-wide focus on Business Angels with the European Business Angels Fund and is planning to launch further compartments for a number of countries.

In addition, EIF will continue to ensure that resources are fully committed and disbursed to SMEs. With its dedicated regional strategy and organisation, EIF has been able to reach out to an increased number of new local financial intermediaries, many of which were unfamiliar with public support schemes and which have become a critical success factor in providing risk provision and liquidity in the crisis. Both the next generation of Structural Fund mandates and EIF's funds-of-funds activity will benefit from this infrastructure.

In the framework of the 2014-2020 Structural Funds programming period, EIF has begun to develop a dedicated roadmap encompassing a targeted number of Managing Authorities.

Advanced discussions have already taken place with several regions in relation to planning for the new programming period. This will enable continued support for the Cohesion Policy by leveraging expertise through market knowledge and applying best practice.

Finally, EIF will continue to explore new channels for intensifying its cooperation with national partners. Several sources for future opportunities are currently being explored in an effort to promote market development based on the local expertise of national institutions.

[11] At first closing.
[12] Including an expected envelope of EUR 4m for technical assistance.

Video streaming in Bulgaria
cable-free viewing

Company snapshot

You have just come back from a week in the sun and cannot wait to show a group of friends your holiday pictures but all of your photos are on your tiny, razor-thin smartphone. iMediaShare solves this problem in seconds. Without a cable or a widescreen projector you can simply stream the photos directly to your widescreen TV and share them with the group. The same goes for TV programmes, videos and other content you might have on your phone. Founded by a team of experienced IT entrepreneurs, iMediaShare has developed a cloud-based video streaming platform providing an easy and convenient way to watch online videos on TV, instantly and free of charge. iMediaShare is one of the first batch of innovative start-up companies financed by LAUNCHub in 2012, under the JEREMIE Acceleration and Seed Instrument. By the end of 2012, iMediaShare had one US patent granted and one in review and had already received four innovation awards. In the same year, there were over 3.5 million downloads from the site and more than one million active users each month, growing at 12% month on month. Over ten million media files are streamed from this site per month. With the EUR 200 000 LAUNCHub investment, the company will continue to grow its user base via niche content currently unavailable on TV screens and rich content discovery options.

The Fund

LAUNCHub is a EUR 9m seed and acceleration fund, supported by a mentor-led programme that invests in start-up companies, mainly from the ICT sector in Bulgaria and the region. LAUNCHub partners with the largest early-stage micro seed investment fund and mentoring programme in Europe – Seedcamp – and with the Cisco Entrepreneurship Institute Bulgaria. LAUNCHub also partners with Mozilla, Web FWD and DreamIt Venture. LAUNCHub is currently managing an Entrepreneurship Acceleration and Seed Financing Instrument under the JEREMIE Holding Fund in Bulgaria.

EIF's new Entrepreneurship Acceleration and Seed Financing Instrument is composed of two complementary compartments: the acceleration compartment, which provides initial financing for proof-of-concept testing; and the seed compartment, which provides follow-on financing to successful graduates from the acceleration compartment as well as to other viable early stage opportunities.

EIF's added value

Under the JEREMIE Bulgaria Holding Fund mandate, LAUNCHub manages a EUR 9m ICT-focused fund, aiming to make around 120 investments over the next four years. Investments into individual portfolio companies will typically be in the range of EUR 30 000 to EUR 200 000 per investee. The instrument is unique for the Balkan region and is expected to help to establish Bulgaria as the hub for innovation and start-up businesses in the Balkans.

Governance

Capital and shareholders

at 31 December 2012

EIF has an authorised capital of EUR 3 000m, divided into 3 000 shares of EUR 1m each. On 31 December 2012, the EIB held 62.1%, the European Union represented by the European Commission 30% and 24 European banks and financial institutions 7.9%.

Country	Financial Institutions	No. of shares
Austria		11
	UniCredit Bank Austria AG	3
	Erste Group Bank 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		3
	Vaekstfonden	3
France		30
	Caisse des Dépôts et Consignations (CDC)	30
Germany		98
	KfW Bankengruppe	68
	Landeskreditbank Baden-Württemberg-Förderbank (L-Bank)	8
	LfA Förderbank Bayern	7
	NRW.BANK	10
	Sächsische Aufbaubank - Förderbank (SAB)	5
Hungary		5
	Hungarian Development Bank Ltd	5
Italy		23
	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		236

Board of Directors

at 31 December 2012

Board of Directors *(from centre clockwise)*: Dario Scannapieco (Chairman), Tytti Noras, Werner Oerter, Pim Van Ballekom, Daniel Calleja Crespo, Christophe Bories, Gerassimos Thomas

Chairman

Dario SCANNAPIECO	Vice-President of the European Investment Bank, Luxembourg

Members

Christophe BORIES	Head of Bilateral Affairs and Financial Instruments Office, Directorate General for the Treasury, Ministry for Economic Affairs, Finance and Industry, Paris
Daniel CALLEJA CRESPO	Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels
Tytti NORAS	Legal Counsellor, Ministry of Finance, Helsinki
Werner OERTER	Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main
Gerassimos THOMAS	Director, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Pim VAN BALLEKOM	Vice-President of the European Investment Bank, Luxembourg

Alternates

Marc AUBERGER	Directeur Général, Qualium Investissement, Paris
Peter BASCH	Principal Adviser, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Walter DEFFAA	Director-General, Directorate-General for Regional Policy, European Commission, Brussels
Pierluigi GILIBERT	Director General, Directorate for Operations in the European Union and Candidate Countries, EIB
Zdeněk HRUBÝ	General Director, Ministry of Public Finance, Prague
Alfonso QUEREJETA	Secretary General of the European Investment Bank, Luxembourg
Gaston REINESCH[13]	Former Director General of the Ministry of Finance, Luxembourg

[13] G. Reinesch resigned from his position as alternate member with effect on 21 December 2012.

Management team and key staff

at 31 December 2012

Management team (*from left to right*): Marc Schublin, Frédérique Schepens, Hubert Cottogni, Richard Pelly (Chief Executive), Alessandro Tappi, Maria Leander, John Holloway, Martine Lepert, Federico Galizia

Management team

Richard PELLY	Chief Executive
Hubert COTTOGNI	Head of Regional Business Development
Federico GALIZIA	Head of Risk Management and Operations
John HOLLOWAY	Director, Transaction and Relationship Management
Maria LEANDER	Head of Corporate Secretariat & Legal
Martine LEPERT	Head of Human Resources
Frédérique SCHEPENS	Head of Finance
Marc SCHUBLIN	Director, Strategic Development and EU Policies
Alessandro TAPPI	Head of Guarantees, Securitisation and Microfinance

Key staff

Jean-Philippe BURCKLEN	Head of Lower Mid-Market
Rémi CHARRIER	Head of Strategic Development, Guarantees and Debt
Graham COPE	Head of Region, Regional Business Development
Jacques DARCY	Head of Technology Transfer and Intellectual Property
Per-Erik ERIKSSON	Head of Microfinance Investments
Uli GRABENWARTER	Head of Strategic Development, Equity
José GRINCHO	Head of Information and Project Management Office
Maurice HICKEY	Head of Operations, Risk Management
Marco MARRONE	Deputy Head of Legal
Jobst NEUSS	Head of Compliance and Operational Risk
Markus SCHILLO	Head of Private Equity Risk, Risk Management
Matthias UMMENHOFER	Head of Venture Capital

Audit Board

at 31 December 2012

Audit Board: Gerard Smyth (Chairman, *Centre*), Sunil Beersing *(Right)*, Branimir Berkovic *(Left)*

Chairman

Gerard SMYTH	Assistant Secretary, Income and Capital Taxes Division, Office of Revenue Commissioners, Ireland

Members

Branimir BERKOVIC	Senior Executive Director, Croatian Bank for Reconstruction and Development, Croatia
Sunil BEERSING	Head of Unit, Internal Audit Service, European Commission, Belgium

Audit and controls

EIF's first layer of control is based on the processes implemented by management and the effectiveness of the internal controls defined in the mitigation of risks. The second layer of control includes both internal and external audit, the activities of which are coordinated by the Audit Board.

The Audit Board is an independent body appointed by, and directly answerable to, the EIF General Meeting. It consists of three members, each nominated by one of the EIF shareholding groups: the EIB, the European Commission and the financial institutions.

Appointments to the Audit Board last for three consecutive financial years and are renewable, with the term of one member expiring each year. In 2012, the Audit Board held nine meetings.

The Audit Board is required to confirm annually 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 confirmation is included in the Annual Report submitted by the Board of Directors to the General Meeting.

In order to discharge its duty in relation to the financial statements, the Audit Board may have recourse to external auditors, as provided for in the Rules of Procedure (Article 19). The audit of the financial statements of the Fund for the year ending 31 December 2012 was carried out by the external auditor, KPMG, appointed following the conclusion of the EIB Group joint invitation to tender exercise in 2008.

The Audit Board meets regularly with KPMG, reviews the annual audit plan and considers reports from KPMG on the progress of the audit and the audit findings. The Audit Board considers the points raised in the annual management letter and monitors EIF Management's responses to these.

Internal Audit (which is outsourced to EIB Internal Audit) examines and evaluates the design and effectiveness of the internal control systems. The Audit Board meets regularly with the internal auditor, approves the internal audit plan, reviews reports from the internal auditor and monitors the implementation of agreed action points that are contained in internal audit reports.

The Audit Board relies on a number of sources of assurance in giving its annual confirmation that 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. These are the management assurance statement on the adequacy of the internal control system, the work carried out by the various EIF functions such as Internal Audit, Risk Management & Operations and Compliance & Operational Risk and the work of the external auditor.

The Audit Board conducts its activity in accordance with 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 opinion on the financial statements. This report is published on EIF's website www.eif.org. The General Meeting takes note of the conclusions of the Audit Board before approving the EIF Annual Report.

In addition, as both a European Union body and a financial institution, EIF cooperates with other independent control bodies such as the Internal Audit Service of the European Commission and the European Court of Auditors, which are 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.

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.

Risk management and operations

Risk Management and Monitoring (RMM)

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.

The senior management of EIF ensures that risk management is implemented according to best practice and the "four eyes principle". The Risk Management function operates independently of the front office functions and reports directly to the Deputy Chief Executive, who in turn is appointed by EIF's Board of Directors.

As a direct result of its organisational risk awareness and preparedness, EIF has retained its AAA rating even as the financial crisis has deepened and spread over the course of recent years. During this challenging period, to be able to maintain vigilance and responsiveness, and at the same time allow continued business origination, monitoring efforts were stepped up both at the level of critical transactions and the overall portfolio. Proactive management of existing transactions was reinforced and more comprehensive stress tests were implemented. The EIF Board of Directors and Audit Board were kept fully abreast of developments as they occurred and presented with scenarios most likely to impact the EIF accounts. The EIF Corporate Operational Plan (COP) includes as a medium-term objective the maintenance of EIF's AAA rating and to this effect the COP integrates scenarios for EIF capitalisation over the planning horizon.

RMM covers all EIF's activities, monitors risk regularly on individual transactions as well as at the portfolio level, and assesses new and existing transactions. Its function is three fold:

Independence: Based on an independent analysis of each transaction, RMM issues an opinion to the Chief Executive and the Deputy Chief Executive as part of the new investment proposal process. It also independently reviews internal ratings (guarantees and securitisation (G&S)/grading private equity (PE)) assigned to new and existing transactions.

Risk/return: RMM reviews and facilitates the implementation of the risk management processes and methodologies to manage the risk-return profile of the Fund's existing and new investment activities.

Monitoring: RMM is responsible for EIF private equity investment and guarantee instrument portfolio reviews, which are periodically submitted to EIF's governing bodies, and for deal surveillance, monitoring and administration. Additionally RMM applies stress testing scenarios to both G&S and PE portfolios, checks risk limits, assesses regulatory and economic capital allocations, and monitors, benchmarks and forecasts portfolio evolution.

Operations

Within Risk Management, the Operations Division is responsible – for both the EIF debt and equity business lines – for back office administration, transaction and cash processing and associated record keeping, reconciliation and control activities. It also monitors the eligibility checking of debt and equity transactions against contractual and regulatory requirements through a combination of desk monitoring, transaction sampling, and on-site monitoring visits to financial intermediaries and performs periodical and ad-hoc reporting for the debt and equity business lines for external mandators and/or internal clients.

Investment and Risk Committees

The Investment and Risk Committees (IRCs), chaired by the Deputy Chief Executive and including representatives from EIF's functions, are responsible for reviewing 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, advising on impairment of PE transactions, reviewing internal rating action proposals for G&S transactions and supporting the decisions of the Chief Executive and the Deputy Chief Executive to present transactions to the Board of Directors for their approval. In addition, the IRCs oversee the Enterprise Risk arising from EIF's role as a fund manager.

In conclusion, the role of risk management at EIF does not rest exclusively with the Risk Management Function. All of EIF's functions are involved in the process.

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 based on the expertise and specialist knowledge of the team throughout the lifecycle of all EIF's transactional activities and in connection with institutional, strategic and policy-related matters.

As concerns transactions, Legal's instrument-oriented teams work in close collaboration with the front office functions from the structuring and product development stage through to the approval of the Investment and Risk Committees and EIF's Board of Directors, and throughout the contractual negotiations. Legal's proactive approach to identifying and preventing legal risk is a key element in the development and structuring of transactions of varying complexity, as well as in the conception of new products and mandates. Following the conclusion of contracts, Legal provides support in the post-signature management of the existing EIF portfolio. Legal is also active in maintaining an up-to-date view of EU legislation as relevant across the scope of EIF's activities.

In terms of institutional and corporate matters, Legal supports the implementation of good corporate governance and ensures that the Fund conducts its activities in accordance with its Statutes, its mission and values, applicable law and relevant contractual obligations. As a European Union body, a member of EIB Group and as a financial institution, institutional matters concerning EIF include a wide range of areas and at times necessitate cooperation with EIF's shareholders as well as specific attention to the development of EU policy, legislative and governance frameworks.

Compliance and operational risk

The remit of the Compliance and Operational Risk division (COR) includes the assessment of compliance risks and operational risks within EIF; the Head of COR also acts as the Data Protection Officer.

With these responsibilities, COR forms part of the integrated ex-ante risk assessment and ex-post risk monitoring under the responsibility of the Chief Executive/Deputy Chief Executive. As regards compliance issues, COR has, upon its initiative, direct access to the Board of Directors.

The key focus of the risk assessment performed by COR is the assessment of potential reputation risk for EIF; in the combination of compliance risk with operational risk and data protection issues, COR aims at complementing the financial risk assessment of the Risk Management and Monitoring department with assessment of the main elements of EIF non-financial risk.

Compliance

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. On that basis, COR assesses the (i) institutional, (ii) transactional and (iii) conduct aspects of EIF compliance risks.

COR issues a position on each transaction proposed to the EIF Board of Directors which considers (i) the regulatory status of EIF counterparts, (ii) individual integrity issues and (iii) the compliance of a transaction with the underlying transactional guidelines.

In this context, the efforts to strengthen the integrity risk assessment included recourse to external investigation services as well as specific integrity due diligence by COR.

COR also controls compliance with procurement and related rules and policies as well as with the conduct rules applicable to EIF bodies and staff. Furthermore, it acts as interlocutor and provides advice on the handling of complaints made through the EIB Complaints Mechanism.

COR systematically organises training and awareness sessions for EIF Staff. In 2012, an in-depth training on fraud and corruption was organised with the support of an external service provider.

Finally, COR also assesses the structural characteristics of financial intermediaries with a view to enhancing governance transparency and avoiding EIF support for aggressive tax planning schemes.

Key compliance policies

In May 2012, the Board of Directors approved the EIF Transparency Policy as proposed by COR. This policy links into the EIB Group Transparency Policy and implements the standards of the EU policy initiatives and legislative framework on transparency and public disclosure of information, notably as laid down in Regulation (EC) No 1049/2001 regarding public access to European Parliament, Council and Commission documents and the "European Transparency Initiative".

Operational risk

At EIF, operational risk is defined, on the basis of the Operational Risk Management Charter, 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 rating of the main operational risks for each process as well as the definition of risk-mitigation plans. The risk and control assessment is completed by the periodical collection and analysis of operational risk events, including the identification of their root cause and the definition of a risk-mitigating action.

Since 2012, COR has reported on operational risk issues as well as on the status of implementation of risk-mitigating actions at the quarterly meetings of the Investment and Risk Committees on Enterprise Risk.

Finally, COR supports the building of a risk management culture through the organisation of operational risk awareness sessions informing staff of their responsibilities with regard to their contribution to the operational risk management framework.

Data protection

In compliance with the provisions of Regulation (EC) No 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, the Head of COR was 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 can mutually replace each other.

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 (EDPS).

The spring exercise 2012 by the EDPS confirmed a high standard of compliance with data protection requirements by EIF.

Financial Statements 2012

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, 2012 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 49 to 99.

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, 2012, 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, 12 March 2013

KPMG Luxembourg 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 Luxembourg S.à r.l. cabinet de révision agréé 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 12 March 2013 drawn up by KPMG Luxembourg S.à r.l. cabinet de révision agréé,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial year ending 31 December 2012,
- 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, 12 March 2013

THE AUDIT BOARD

Gerard SMYTH	Branimir Berkovic	Sunil Beersing

Statement of financial position

as at 31 December 2012

EUR

Assets	Notes	31.12.2012	31.12.2011
Cash and cash equivalents	4.1	165 504 411	160 660 806
Investments:			
Debt securities and other fixed income securities	4.2	907 055 554	778 368 598
Shares and other variable income securities	4.3	243 007 653	212 233 535
		1 150 063 207	**990 602 133**
Other assets	4.4	71 798 607	58 957 150
Intangible assets	4.5	375 383	1 128 213
Equipment	4.6	15 043	27 780
Investment property	4.6	5 580 779	5 954 929
Total assets		1 393 337 430	1 217 331 011

Liabilities			
Financial liabilities			
Financial guarantees	5.1	24 361 298	24 022 036
Provisions for financial guarantees	5.2	174 992 902	161 867 126
Retirement benefit obligations	5.3	42 837 839	34 804 130
Other liabilities and provisions	5.4	29 188 936	24 480 524
Total liabilities		271 380 975	245 173 816

Equity			
Share capital	5.5		
Subscribed		3 000 000 000	3 000 000 000
Uncalled		(2 400 000 000)	(2 400 000 000)
		600 000 000	**600 000 000**
Share premium		152 185 703	152 185 703
Statutory reserve	5.6	141 427 997	141 427 997
Retained earnings	5.6	137 311 583	147 529 511
Fair value reserve	5.7	60 360 446	(58 768 088)
Profit/(loss) for the financial year		30 670 726	(10 217 928)
Total equity		1 121 956 455	972 157 195
Total equity and liabilities		1 393 337 430	1 217 331 011

The notes on pages 56 to 99 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2012

EUR

	Notes	31.12.2012	31.12.2011
Interest and similar income	7.1	33 391 019	34 953 522
Income from investments in shares and other variable income securities		4 009 453	3 758 414
Net gain/(loss) from financial guarantee operations	7.2	10 003 748	(31 727 489)
Commission income	7.3	50 306 952	43 175 030
Net loss on financial operations	7.4	(2 351 830)	(74 237)
Other operating income	7.5	719 302	669 495
General administrative expenses	7.6		
Staff costs:			
- wages and salaries		(28 074 904)	(27 630 234)
- social security and contribution costs		(12 105 574)	(12 429 049)
		(40 180 478)	**(40 059 283)**
Other administrative expenses		(16 450 705)	(14 602 501)
		(56 631 183)	**(54 661 784)**
Depreciation and amortisation	4.5, 4.6	(1 139 717)	(1 204 822)
Impairment losses on available-for-sale investments	4.3	(7 637 018)	(5 106 057)
Profit/(loss) for the financial year		30 670 726	(10 217 928)

Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		111 140 626	(32 252 765)
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		7 987 908	1 035 100
		119 128 534	**(31 217 665)**
Total comprehensive income for the financial year		149 799 260	(41 435 593)

The notes on pages 56 to 99 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2012

Attributable to equity holders of the Fund

EUR

	Notes	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 31.12.2010		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
Total comprehensive income										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	(10 217 928)	(10 217 928)
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(31 217 665)	0	(31 217 665)
Transactions with owners										
Appropriation of profit inc. dividend	5.6	0	0	0	0	2 892 820	1 445 456	0	(7 232 055)	(2 893 779)
Balance as at 31.12.2011		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	141 427 997	147 529 511	(58 768 088)	(10 217 928)	972 157 195
Total comprehensive income										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	30 670 726	30 670 726
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	119 128 534	0	119 128 534
Transactions with owners										
Appropriation of profit	5.6	0	0	0	0	0	(10 217 928)	0	10 217 928	0
Balance as at 31.12.2012		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	141 427 997	137 311 583	60 360 446	30 670 726	1 121 956 455

The notes on pages 56 to 99 are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2012

EUR

Cash flows from operating activities	Notes	31.12.2012	31.12.2011
Profit/(loss) for the financial year		30 670 726	(10 217 928)
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	1 139 717	1 204 822
Impairment loss on shares and other variable income securities	4.3	7 637 018	5 106 057
Interest income on debt securities and other fixed income securities	7.1	(29 768 664)	(31 844 395)
Change in financial guarantees	5.1	1 252 887	(2 118 854)
Net result on sale of debt securities and other fixed income securities	7.4	2 730 074	(82 215)
Provision for financial guarantees		12 309 653	55 232 657
Provision for retirement benefit obligations		174 115	(2 097 794)
		26 145 526	**15 182 350**
Change in shares and other variable income securities	4.3	(23 328 818)	(13 288 221)
Financial guarantee calls paid	5.2	(97 500)	(1 596 066)
Change in other assets and liabilities	4.4, 5.4	(273 451)	13 921 109
		(23 699 769)	(963 178)
Net cash from operating activities		2 445 757	14 219 172

Cash flows from investing activities			
Acquisition of debt securities and other fixed income securities	4.2	(298 566 770)	(146 067 911)
Proceeds from sale or matured debt securities and other fixed income securities	4.2	273 584 590	189 418 488
Interest received on debt securities and other fixed income securities		27 313 426	32 819 018
Acquisition of intangible assets and property and equipment	4.5, 4.6	0	(520 232)
Net cash from investing activities		2 331 246	75 649 363

Cash flows used in financing activities			
Dividend paid		0	(2 893 779)
Cash flows used in financing activities		0	(2 893 779)

Cash and cash equivalents at the beginning of the year	4.1	160 660 806	73 603 254
Effect of exchange rate fluctuations on cash and cash equivalents		66 602	82 796
Net cash from			
Operating activities		2 445 757	14 219 172
Investing activities		2 331 246	75 649 363
Financing activities		0	(2 893 779)
Cash and cash equivalents at the end of the year	4.1	165 504 411	160 660 806

The notes on pages 56 to 99 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2012

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 task of the Fund shall be to contribute to the pursuit of the objectives of the European Union.

The Fund shall pursue this task through activities consisting of:

- The provision of guarantees as well as of other comparable instruments for loans and other financial obligations in whatever form is legally permissible,
- The acquisition, holding, managing and disposal of participations in any enterprise subject to the conditions laid down in paragraph 2 (i) of Article 12 of these Statutes.

In addition, the Fund may engage in other activities connected with or resulting from these tasks as set out in Article 2 of the statutes. The activities of the Fund may include borrowing operations.

The activities of the Fund shall be based on sound banking principles or other sound commercial principles and practices as applicable. Without prejudice to the provisions of Article 28, the said activities shall be pursued in close co-operation between the Fund and its founder members or between the Fund and its actual members at the relevant time, as the case may be.

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 12 March 2013.

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 held at fair value through profit or loss;
- the defined benefit liability is recognised as the present value of expected future payments plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses;
- Financial guarantees are measured at the higher of the amount initially recognised i.e. Net present value ("NPV") less, where appropriate cumulative amortisation and the provision amount in accordance with IAS 37.

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 on-going 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, 2.7 and 3.

Judgments and estimates are principally made in the following areas:

- Determination of fair values of equity investments;
- Impairment of available-for-sale equity and debt investments, as disclosed in notes 2.3.1 and 2.3.2;
- Determination of provisions and liabilities for financial guarantees;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits as described in note 5.3.

2.1.4 Changes in accounting policies and presentation

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

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 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 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 other comprehensive income, 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.

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. If any such evidence exists, 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. 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.

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.

Fair value measurement:

Private equity (PE) investments are classified as Available-For-Sale and measured at fair value through equity and disclosed in accordance with the fair value hierarchy required by IFRS 7 as described in note 3.5. Given the nature of PE, market prices are often not readily available and in the absence of these, valuation techniques (level 3 according to the fair value hierarchy) are applied.

For the valuation of PE the Fund further breaks down these valuation techniques into three categories as follows:

- Category A - funds that have adopted the fair value requirements of IAS 39 or International Private Equity and Venture Capital guidelines (IPEVC). The fair value is calculated 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.
- Category B - funds that have adopted other valuation guidelines (such as the former 2001 European Venture Capital Association (EVCA) guidelines) or standards that can be considered as in line with IAS 39 from which an equivalent NAV can be calculated.
- Category C – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines complying with IAS 39. These investments are valued at cost less impairment.

Although it is assumed for category A and B that the NAV is a reliable estimation of the fair value and a 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.

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 adjusted for cash flows 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.

Impairment considerations:

Shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are only recognised 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.

For impaired investments in category C 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.

2.3.3 Debt securities and other fixed income securities

Securities held by the Fund are mainly 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 and discounts received in comparison to the maturity value of securities are recognised in profit or loss over the expected life of the instrument through use of the effective interest rate method.

2.3.4 Interests in Joint Ventures and associates

EIF complies with the conditions necessary to use the private equity and similar entities exemption in IAS 28 and IAS 31 and does not use equity accounting in respect of, 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 shares 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. Financial guarantee provisions correspond to the cost of settling the obligation, which is the expected loss, 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 other than the payment of guarantee calls 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 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 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 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

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. The defined benefit liability is recognised as the present value of expected future payments plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

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 this pension scheme, such estimates are subject to significant uncertainty.

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 financed by contributions from staff and the Fund. These amounts 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, performed 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 dividends and repayments which are recognised when EIF's investment cost is fully reimbursed.

2.11 Net result from guarantee operations

Net result from guarantee operations includes:

- Guarantee premiums received;
- Interest income on the discounting of the expected premium inflows and any amortisation of the financial guarantees;
- Valuation changes triggered by ratings downgrades/upgrades;
- Changes in estimates of provisions for financial guarantees accounted for under IAS 37.

2.12 Commission income

This heading includes 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 in 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 yet adopted

The following IFRS and IFRIC interpretations 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.

- Amendment to IAS 19 – Employee benefit
  The revision introduces certain amendments to the accounting for employee pensions, including recognition of defined benefit liability remeasurements in other comprehensive income and enhanced disclosure requirements for defined benefit pension plans. It also modifies accounting for termination benefits. The effective date of this standard is 1 January 2013.

The impact of the amendments will lead to:

- In the retained earnings, the recognition of an unrecognised net loss of EUR 9 600 000;
- In the Statement of Comprehensive Income, the recognition of a liability loss due to experience and changes in assumptions of EUR 24 000 000 for the year ended 31 December 2012 in Other Comprehensive Income;
- In the Statement of Comprehensive Income, the derecognition of the 2012 amortisation of unrecognised result amounting to EUR 754 000 in Profit and Loss.

- 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 2015, 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.

  The Fund is in the process of analysing the impact of this standard on its operations as well as the date at which it plans to adopt the standard.

- IFRS 10 – Consolidated financial statements and IFRS 12 – Disclosure of Interests in other entities

  IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 – Consolidated and Separate financial statements and SIC 12 – Consolidation – Special Purposes Entities. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted.

  The Fund is in the process of analysing the impact of this standard on its operations as well as the date at which it plans to adopt the standard.

- IFRS 11 – Joint arrangements

  This standard establishes principles for the financial reporting by parties to a joint arrangement and supersedes IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly controlled entities – Non monetary Contributions by Ventures. The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted.

  The Fund is in the process of analysing the impact of this standard on its operations as well as the date at which it plans to adopt the standard.

- IFRS 13 – Fair value measurement

  This standard provides clear and consistent guidance for measuring fair value and addressing valuation uncertainty in markets that are no longer active. This standard also increases the transparency of fair value measurements by requiring detailed disclosures about fair values derived using models. The standard is effective for the financial year beginning on or after 1 January 2013, although it may be early adopted.

  The Fund is in the process of analysing the impact of this standard on its operations as well as the date at which it plans to adopt the standard.

- Amendment to IFRS 10 – Consolidated financial statements, IFRS 12 – Disclosure of Interests in other entities and IAS 27 – Consolidated financial statements

  These amendments provide an exemption from consolidation of subsidiaries under IFRS 10 for entities which meet the definition of an "investment entity", such as certain investment funds. The amendments are effective for the financial year beginning on or after 1 January 2014, 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.

  The Fund is in the process of analysing the impact of this standard on its operations as well as the date at which it plans to adopt the standard.

3. Financial Risk Management

3.1 Introduction

This note presents information about the Fund's exposure to and its management and control of risks, specifically those associated with its financial instruments.

The following table provides information relating to the main financial assets and financial liabilities by categories of financial instruments for which the Fund is exposed to risks:

EUR

31.12.2012	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	165 504 411	0	0	0	165 504 411
Investments:					
Debt securities and other fixed income securities	0	0	907 055 554	0	907 055 554
Shares and other variable income securities	0	3 876 686	239 130 967	0	243 007 653
Total Financial Assets	165 504 411	3 876 686	1 146 186 521	0	1 315 567 618
Financial liabilities					
Financial guarantees	0	0	0	24 361 298	24 361 298
Total Financial Liabilities	0	0	0	24 361 298	24 361 298

EUR

31.12.2011	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	160 660 806	0	0	0	160 660 806
Investments:					
Debt securities and other fixed income securities	0	0	778 368 598	0	778 368 598
Shares and other variable income securities	0	3 663 081	208 570 454	0	212 233 535
Total Financial Assets	160 660 806	3 663 081	986 939 052	0	1 151 262 939
Financial liabilities					
Financial guarantees	0	0	0	24 022 036	24 022 036
Total Financial Liabilities	0	0	0	24 022 036	24 022 036

3.1.1 Types of risk

EIF is exposed to three primary categories of risk on its own resources, these are described in the following sections, first in general terms and then specifically by product line.

3.1.1.1 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 Guarantee and Securitisation ("G&S") activity and treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial paper and deposits. There is a limited credit exposure for EIF own risk Private Equity ("PE") portfolio as investments in PE funds represent equity investments and related financing structures and are always made through an equity-like participation.

3.1.1.2 Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

3.1.1.3 Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Market risk - Currency risk
Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

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 the Euro (EUR).

The Fund's exchange rate risk is kept at a low level (below 5% of net assets) through a policy of 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 on page 66 shows the currency exposure (in EUR) of EIF's financial assets and financial liabilities.

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

Market risk – Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Market risk – Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Market risk factors specific to activities are disclosed in the respective sections below.

3.2 Private Equity ("PE")

3.2.1 Risk Management Process

In the framework of the EIF private equity business, the objective of risk management is to identify and measure the risk of its portfolio of PE assets, to monitor its evolution and consistency with the EIF's objectives and to propose corrective actions in case of divergence.

Risk management is an integral part of the management of EIF's investment activities.

EUR

At 31.12.2012	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	163 974 827	1 204 764	208 664	116 156	1 529 584	165 504 411
Investments						
Debt securities and other fixed income securities	907 055 554	0	0	0	0	907 055 554
Shares and other variable income securities	184 056 788	44 763 694	5 077 357	9 109 814	58 950 865	243 007 653
Total assets	1 255 087 169	45 968 458	5 286 021	9 225 970	60 480 449	1 315 567 618
Financial liabilities						
Financial guarantees	12 337 586	11 298 382	0	725 330	12 023 712	24 361 298
Total liabilities	12 337 586	11 298 382	0	725 330	12 023 712	24 361 298
Foreign currencies in % of net assets		3.1%	0.5%	0.8%	4.4%	
Net commitments to private equity	321 225 219	85 591 865	7 770 741	26 805 113	120 167 719	441 392 938
Guarantees' exposure at risk	2 346 078 363	162 094 348	0	323 738 805	485 833 153	2 831 911 516
Total Off Balance Sheet	2 667 303 582	247 686 213	7 770 741	350 543 918	606 000 872	3 273 304 454

EUR

At 31.12.2011	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	155 203 433	3 084 769	630 600	1 742 003	5 457 373	160 660 806
Investments						
Debt securities and other fixed income securities	778 368 598	0	0	0	0	778 368 598
Shares and other variable income securities	160 269 662	40 056 975	5 186 685	6 720 214	51 963 873	212 233 535
Total assets	1 093 841 693	43 141 744	5 817 285	8 462 217	57 421 246	1 151 262 939
Financial liabilities						
Financial guarantees	11 370 091	11 728 689	0	923 254	12 651 943	24 022 034
Total liabilities	11 370 091	11 728 689	0	923 254	12 651 943	24 022 034
Foreign currencies in % of net assets		3.2%	0.6%	0.8%	4.6%	
Net commitments to private equity	297 156 906	77 204 786	8 268 906	23 779 817	109 253 509	406 410 415
Guarantees' exposure at risk	2 360 709 795	173 143 207	0	345 967 487	519 110 694	2 879 820 489
Total Off Balance Sheet	2 657 866 701	250 347 993	8 268 906	369 747 304	628 364 203	3 286 230 904

3.2.1.1 Portfolio Design Process

Designing a portfolio consistent with the EIF's objectives and constraints is a key step of the EIF investment activity. No liquid secondary market exists for investments in private equity funds. Therefore only marginal changes to the portfolio composition can be implemented after the portfolio has been built. At this stage Private Equity Risk Management ("PE RM") ensures that the target portfolio is consistent with:

- The return objectives of the EIF;
- The tolerance for risk of the EIF;
- The liquidity needs of the EIF.

3.2.1.2 Investment Process

The investment process of the EIF is led by the Transaction and Relationship Management ("TRM") department. PE RM is involved in the investment process from its early stages. Following an initial screening of investment opportunities, PE RM is called to express its opinion on TRM's request to proceed with a full due diligence. Subsequently PE RM reviews all the investment proposals prepared by TRM and issues an Independent Opinion to the Chief Executive on the merit of the proposed investment. All investment decisions are submitted to the Board of Directors for final approval.

3.2.1.3 Monitoring Process

Monitoring includes the valuation review of PE funds and the monitoring of the portfolio.

Valuation Review

This process is divided into several stages to achieve what is known as Valuation Adjustment:

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation.
- Valuations: assessment as to whether valuations done by the fund managers are in line with best market practice and applicable industry valuation guidelines. The monitoring aims to determine in good faith the fair value of the investments.
- Impairments of investments: the Investment and Risk Committee ("IRC") decides on the impairment of transactions.
- 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.

Portfolio Monitoring

Through portfolio monitoring PE RM assess the evolution of the portfolio composition relative to the return, risk and liquidity objectives of the EIF. The EIF has developed a set of tools to design, monitor and manage the 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 approach, supported by an Information Technology (IT) system and by a proprietary integrated software (front to back), improves the investment decision process and the management of the portfolio's financial risks.

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 Credit risk

Investments in PE funds represent equity investments and are always made through an equity-like participation. Even in the case where these are channelled through mezzanine loans, currently representing less than 1% of the portfolio, their risk profile is typically akin to an equity participation. Therefore the credit risk of the EIF own risk PE portfolio, defined as the portfolio of PE assets held in the EIF balance sheet, is deemed not significant.

3.2.3 Liquidity risk

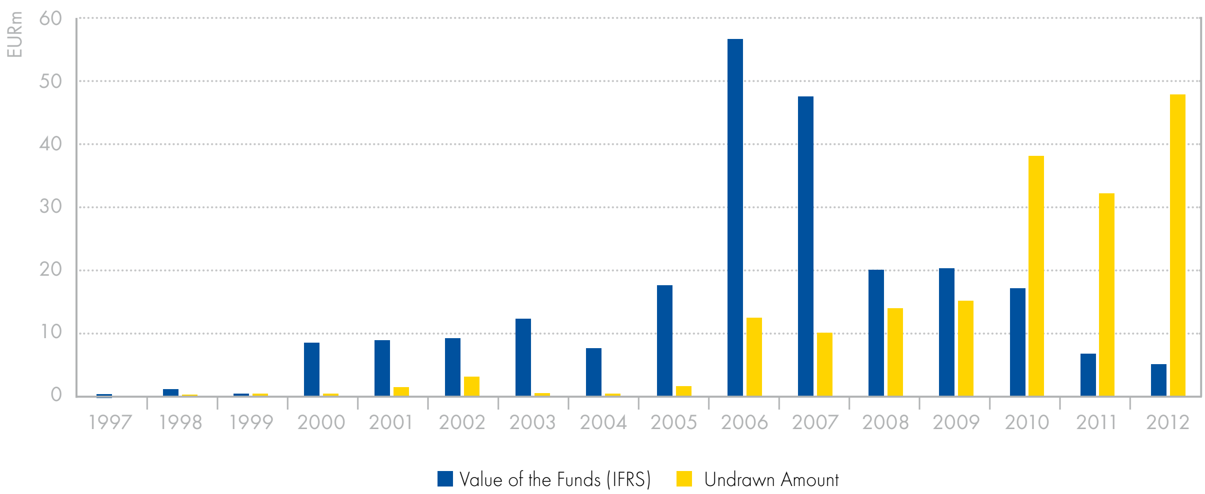
PE Funds are generally structured as Limited Partnerships, where the Limited Partners, such as the EIF, commit a certain amount of capital to be called at the discretion of the fund manager, which is acting as General Partner. Such Limited Partnerships are generally structured as closed-end funds; therefore the discretion of the General Partner in deciding the timing of the capital calls is generally restricted by:

1. The contractual duration of the Limited Partnership, often being 10 to 12 years;

2. The investment period, often being defined as the first 5 years of the life of the Partnership. After the end of the investment period the General Partner cannot make new investments. Capital calls post investment period are generally made for follow-on investments in existing investee companies or to cover the fees and costs of the Limited Partnership.

Due to the discretion of the General Partners in deciding the timing of the capital calls, the schedule of the future liquidity requirements of the EIF Own Risk PE portfolio cannot be precisely defined. However, as a result of the typical Limited Partnership structure described above, the majority of the capital is generally called during the investment period. Conversely, capital reflows resulting from the disposal of the investee companies generally take place after the investment period. Having a portfolio of investments in PE Funds which is well diversified across a wide range of vintage years, such as for the EIF own risk PE portfolio (see Chart 1), is an important component in the management of liquidity risk. Liquidity requirements resulting from capital calls of PE funds in the investment period can be matched by the stream of capital reflows generated by older PE funds in their divestment phase. The magnitude of this stream of reflows depends on the market conditions and the proportion of the portfolio that is in its divestment phase. It is also important to notice that, due to the inherent illiquid nature of the PE market, once a commitment has been signed it is difficult for a Limited Partner to sell its interest in a PE fund. Often the only way is by finding a buyer in the secondary market. This is usually only possible by offering to sell at large discount to the fund's Net Asset Value ("NAV").

Vintage Year Diversification of the EIF Own Risk PE Portfolio (in EUR m)



Undrawn commitments of the EIF Own Risk PE portfolio; split by time remaining to the end of the contractual lifetime* of the investee funds

EUR

Private Equity	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2012	4 499 189	1 853 969	6 525 907	172 128 003	185 007 068
As of 31.12.2011	5 024 901	2 489 617	24 097 520	142 226 385	173 838 423

*The duration of the contractual lifetime is generally 10 to 12 years starting from the inception of the fund. There's no obligation for a fund manager to call the full amount of capital committed by the investors.

Capital calls and reflows which resulted from the EIF Own Risk PE portfolio

EURm

	Capital Calls	Reflows
2012	42.2	22.9
2011	41.2	31.8

Considering the expansion of the PE investment activity of the last few years, it is expected that the medium-term balance of capital calls and reflows will remain negative.

3.2.4 Market risk

The main types of market risk affecting the EIF PE portfolio are equity risk and foreign currency risk. Most funds in the portfolio make little or no use of leverage; therefore interest rate risk does not directly affect the EIF Own Risk PE portfolio.

3.2.4.1 Equity risk

Equity risk analysis requires an estimation of the correlation of the change in value between a stock and the market where this stock is traded. 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 of an asset against a public market index.

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to equity risk analysis. 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. The 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, and the inherent lower transparency of the PE market in general. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the Internal Rate of Return ("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. EIF's PE investment value would be impacted as follows:

Public market risk: private equity

EUR

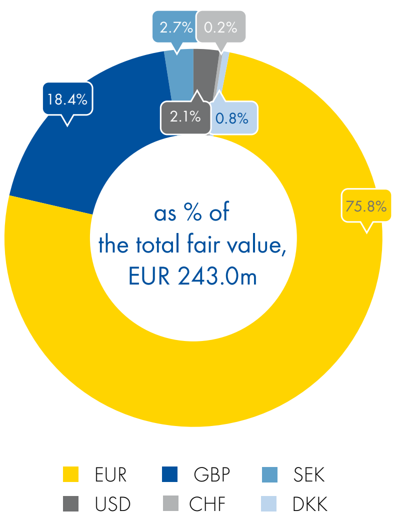
	+10% Retained Beta 0.9 Final Sensitivity: +9%			-10% Retained Beta 0.9 Final Sensitivity: -9%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2012	1 425 976	19 408 069	20 834 045	(7 557 425)	(13 276 620)	(20 834 045)

EUR

	+10% Retained Beta 1.1 Final Sensitivity: +11%			-10% Retained Beta 1.1 Final Sensitivity: -11%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2011	392 722	22 063 964	22 456 686	(13 981 838)	(8 474 847)	(22 456 686)

3.2.4.2 Foreign currency risk

The currency exposure of the EIF Own Risk PE portfolio, based on the currency denomination of the investee funds, can be broken down as follows:



For 2012, changes due to foreign exchange rates for shares and other variable income amount to EUR 1 101 404, of which EUR 3 174 312 has been posted to the fair value reserve (2011: respectively EUR 1 615 478 and EUR 1 237 229) and EUR (2 072 908) has been transferred to the Statement of comprehensive income following the recognition of impairment on the PE portfolio at year end.

A sensitivity analysis is performed for all currencies representing more than 5 % of the total exposure to assess the impact of currency movements. Only GBP falls into this category and the P&L impact of an increase/decrease of 15 % vs. the Euro has been simulated below:

Impact on fair value in EUR

	GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
31.12.2012	7 937 623	(5 866 939)
31.12.2011	6 980 106	(5 159 209)

It should be noted however, that these impacts are measured at the fund level. They do not take into account indirect potential effects on the underlying portfolio companies' value which could have a different currency exposure than the fund (e.g.: a fund denominated in GBP might invest in a company based in Germany or deriving most of its income in EUR).

3.2.5 Idiosyncratic risks

Idiosyncratic or non-systematic risk is a risk unique to a certain asset. In the case of the EIF Own Risk PE portfolio the main types of idiosyncratic risks identified are strategy risk, geographic risk, fund risk, sector risk and technology risk.

3.2.5.1 Strategy risk

Strategy risk is defined as the risk resulting from over/under weighting a specific investment strategy. The PE funds in the EIF portfolio can be generally grouped into three main investment strategies:

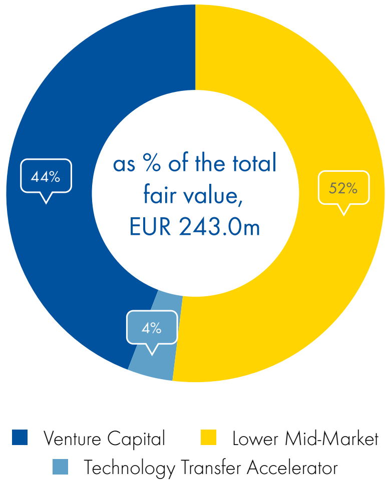
1. Technology Transfer Accelerator ("TTA"): such definition covers strategies targeting investments at Seed and Pre-Seed stages directed at the commercialisation of new technologies developed by universities and research centres;

2. Venture Capital: such definition covers strategies targeting venture capital investments ranging between the Early and Late stage;

3. Lower Mid-Market: such definition covers strategies targeting investments at the Growth, Buy Out and Mezzanine stages and targeting Small and Medium size Enterprises ("SMEs").

The three strategies follow different dynamics and involve different risk and return profiles. The EIF portfolio currently has a balanced exposure to Venture Capital and Lower Mid-Market funds, with a small exposure to TTA funds.

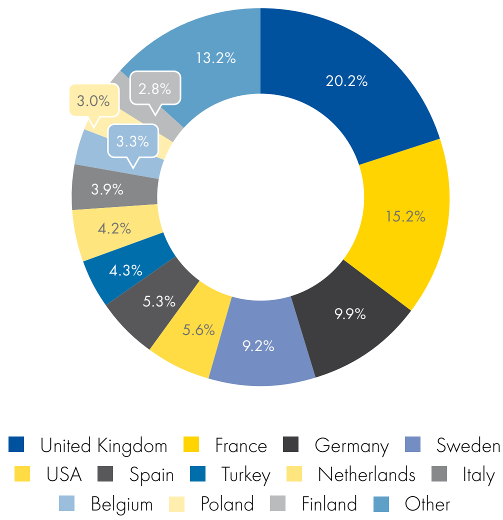
EIF Own Risk PE Portfolio: Fair Value Split by Investment Strategy



3.2.5.2 Geographic risk

Geographic risk is defined as the risk resulting from under/over weighting a specific country or region. The geographic scope of the EIF PE investment activity is currently focused in Europe, with limited outside exposure. The resulting geographic exposure of the EIF Own Risk PE portfolio is shown below:

EIF Own Risk portfolio: Split of Investee Companies by Country of Domiciliation*



* Based on the valuation reported in the latest available report by the investee funds

3.2.5.3 Fund risk

Fund risk refers to the risk of over or under performance due to factors linked to a specific PE fund in portfolio (e.g.: the departure of a key executive from the management team of a fund). As shown below the EIF Own Risk PE portfolio is well diversified across a large number of funds. The largest fund in portfolio represents 4.1% of the portfolio fair value and the largest 10 funds represent in aggregate 23.5%.

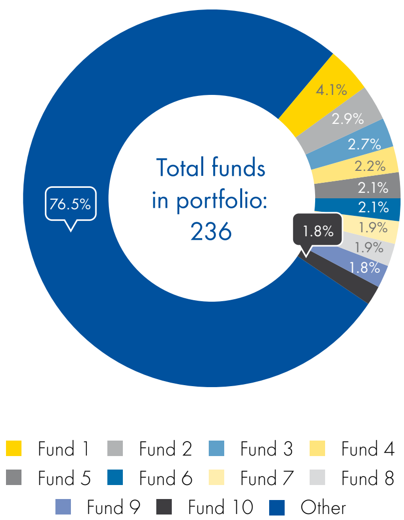
3.2.5.4 Sector risk

Sector risk is defined as the risk resulting from under/over weighting a specific sector. The largest sector exposure of the EIF Own Risk PE portfolio is to the Information Technology and Life science sectors. Such exposure is by design and is the result of the portfolio allocation to VC funds.

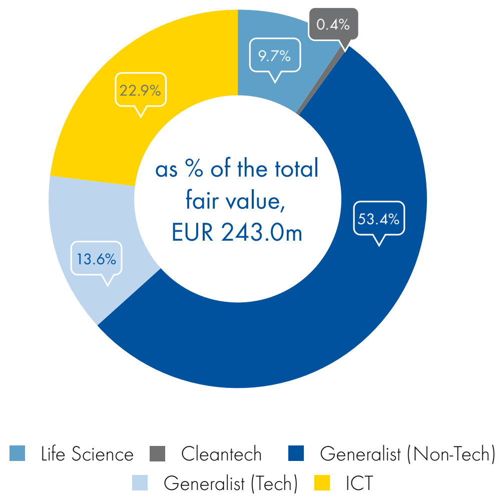
3.2.5.5 Technology risk

PE funds investing in Venture Capital and Technology Transfer are significantly affected by technology risk, defined as the risk of successfully developing and commercialising a new technology. The earlier is the stage of investment, the higher the technology risk. Due to its often binary nature, technology risk is difficult to model but can be effectively managed through adequate diversification. Regarding the technology risk; the fair value of the 10 largest technology investee companies (based on the last available report) amounted to EUR 13.5 million and represented 5.6% of the fair value of the EIF's portfolio.

EIF Own Risk PE Portfolio: Largest PE Funds in Portfolio



EIF Own Risk Portfolio: Fair Value Split by Sector Focus of Investee Funds



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

3.3.1 Introduction

EIF has developed a set of tools for its G&S business to analyse and monitor portfolio guarantee and structured finance transactions in line with common market practices. The risk management activity can be split into two parts: an initial risk assessment and an on-going risk monitoring.

3.3.1.1 Initial risk assessment

In the context of the independent opinion process, the Portfolio Guarantees & Securitisation Risk Management ("G&S RM") reviews the investment proposal provided by the Transaction and Relationship Management ("TRM") department in accordance with EIF's internal rules and procedures. This review includes a detailed analysis of the risks related to the new G&S transaction, the methodologies applied and EIF's internal rating initially proposed by TRM. A transaction is only 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).

EIF assigns an internal rating to each new transaction to estimate the credit quality based on an expected loss concept. EIF's internal 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's internal rating: weighted average rating of the underlying portfolio and volatility of the default rates distribution, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, and 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.

The majority of EIF' financial guarantees are typically 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 approach defining how the rating to calculate the value of the financial guarantee is selected amongst any available external rating(s) and the assigned EIF's internal rating. To allocate capital for an own risk guarantee tranche, EIF's internal rating is disregarded from the retained rating rule and only used when the tranche is not rated at least by one external rating agency. Valuation and capital charge 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 Bank for International Settlements ("BIS") methodologies 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 BIS 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.

3.3.1.2 On-going risk monitoring

The performance of a transaction is reviewed regularly – at least on a quarterly basis – and assessed based on EIF's surveillance triggers which take into account elements such as the level of cumulative defaults, the credit enhancement, the provisioning amount and any rating actions by external rating agencies.

In case of breach of such triggers and depending on the magnitude and expected consequence(s) of such breach, a transaction can either change its status (e.g. Under Review, Positive or Negative Outlook) or a model re-run is initiated to reassess EIF's internal rating. Dedicated professionals within the G&S RM submit proposals to the Investment Risk Committee ("IRC") to flag transactions as Under Review, Positive or Negative Outlook and/or to initiate an EIF's model re-run. The EIF's rating model re-run may also be requested to the IRC before an EIF's trigger is breached (upon request by TRM or G&S RM) when other circumstances suggest that the EIF's internal rating may already be affected.

EIF systematically puts Under Review any transaction with an internal rating below iBa2 level. Transactions flagged Under Review or Negative Outlook are closely scrutinised for a possible breach of EIF's surveillance triggers, which typically motivates a prompt re-run of the EIF's rating model. Transactions that are fully provisioned as their expected loss is assumed to be at 100% are assigned the status "Defaulted" for monitoring purpose.

The following table provides an overview about the status of EIF's own risk guarantee transactions in terms of Exposure at Risk:

EUR

Transaction status	31.12.2012		31.12.2011	
Defaulted	49 782 420	1.7%	38 775 680	1.3%
Negative outlook	421 254 671	14.9%	549 441 576	19.1%
Under review	300 618 605	10.6%	327 426 414	11.4%
Performing	2 058 305 370	72.7%	1 956 176 819	67.9%
Positive outlook	1 950 450	0.1%	8 000 000	0.3%
Total Exposure at risk	2 831 911 516	100.0%	2 879 820 489	100.0%

Financial guarantees with the status defaulted are fully provisioned. Those in the categories negative outlook, under review and positive outlook have the potential to trigger a model re-run and an internal rating action proposal which in turn could impact the expected loss.

To monitor EIF's surveillance triggers correctly, the surveillance activity includes the following tasks:

- checking compliance of the counterparties with any relevant contractual covenants and triggers,
- assessing the expected evolution of operation's performance compared to estimates set prior to its signature (e.g. actual cumulative default rate is compared to a given predetermined threshold level or default base case scenario),
- assessing whether the level of capital allocation and provisions made for each operation are always adequate,
- following-up any external rating agencies actions that might indicate a substantial change in the performance of the underlying portfolio,
- monitoring any other element of concern which calls for additional scrutiny (e.g. negative news regarding the servicer or originator).

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

The restructuring activity is performed by Portfolio Management Risk Management ("PM"). G&S RM is in charge of proposing, during the IRC, the assignment of a Work Out Committee status ("WOC") to a transaction, typically for underperforming deals for which there is a high likelihood that a loss may arise for EIF. The assignment of a WOC status can be also proposed by TRM or the IRC Chairman during the IRC meeting. PM may request the assistance of professionals from G&S RM, TRM, Legal Service or Compliance to handle the WOC status transactions and to propose and negotiate solutions to minimise EIF's losses arising out of the deterioration of performance of such transactions.

3.3.2 Credit risk

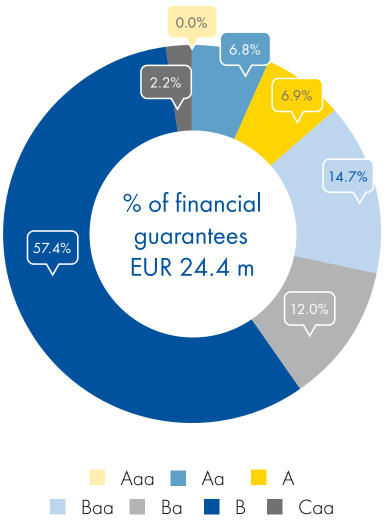
The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) corresponds to the exposure at risk as of 31 December 2012 of EUR 2 831.9 m (2011: EUR 2 879.8 m).

The credit risk is managed by risk management policies covered by the statutes and the EIF Credit Risk Policy Guidelines.

The statutes of the Fund limit own risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0 m at end 2012. Hence, the EUR 2 831.9 m exposure at risk at end 2012 was well below the statutory limit of EUR 9 000.0 m

The EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified G&S portfolio with regards to credit quality, geographic coverage, concentration risk, obligor exposure, industry sector diversification and counterparty risk.

The credit risk is tracked from the outset on a deal-by deal basis by adopting a different model analysis depending on the granularity and homogeneity of the underlying portfolio. The table below shows the split of the financial guarantees in terms of credit quality (based on EIF's retained rating approach) as of 31 December 2012:



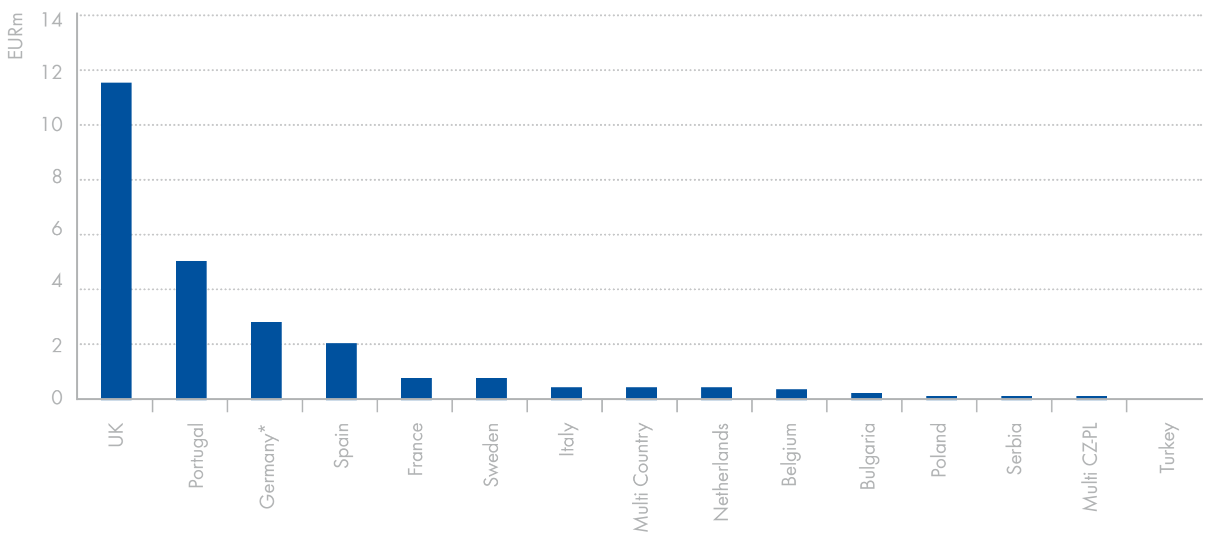
3.3.2.1 Geographic Coverage

As of 31 December 2012, EIF's financial guarantees were spread over 14 countries.

The table below shows the geographic distribution of EIF's financial guarantees (EUR 24.4 m as of 31 December 2012) showing that the largest weight is to the United Kingdom (47.3%), followed by Portugal (20.5%), Germany (11.4%) and Spain (8.0%).

3.3.2.2 Concentration risk

To limit the concentration risk in the portfolio, EIF has internal limits (based on capital allocation) on individual transactions and originator level (maximum aggregate exposures for originators and originator groups). EIF has also introduced on a pilot basis the following deal and originator limits. Deal limits dependent on the originator's rating, seniority and rating of the guaranteed tranche. Limits based on sensitivity analysis of potential financial impact. Originator limits dependant on its weight relative to EIF's portfolio. Concentration risk on a deal-by-deal basis is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, industry sectors and regional diversification.



*Including Multi DE

3.3.2.3 Industry sector exposures

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

3.3.2.4 Counterparty risk

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. 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.

3.3.3 Liquidity risk

The nature of EIF's G&S business implies a low level of liquidity risk. Furthermore, the EIF's treasury guidelines (see section 3.4) ensure a high degree of liquidity to cover potential guarantee calls arising from the G&S activity.

The following table shows an analysis of the financial guarantees (EUR 24.4 m as of 31 December 2012) split by the expected maturity dates of the transactions they are related to:

EUR

Guarantees	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2012	61 657	345 206	17 667 107	6 287 328	24 361 298
As of 31.12.2011	38 339	2 116 988	16 554 093	5 312 614	24 022 034

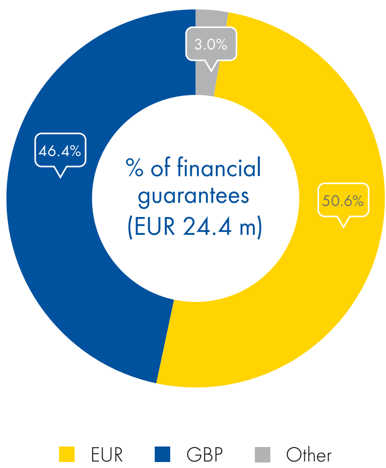
3.3.4 Market risk

3.3.4.1 Market risk: Interest rate risk

The value of guarantee transactions is not subject to fluctuations with interest rates as long as a transaction is performing. However, transactions for which EIF is being called on interest are typically generating exposure to short term interest rates through the coupon definition of the guaranteed tranche.

3.3.4.2 Market risk: Foreign currency risk

As of 31 December 2012, 50.6% of the financial guarantees are in EUR (2011: 47.3%) compared to 46.4% in GBP (2011: 48.8%).



The following table shows the impact on the financial guarantees position regarding a 15% increase/decrease in the currency rate:

in EUR

Currency	Financial liability	Impact increase	Impact decrease
GBP	11 298 382	87 081	-117 815
SEK	649 804	-2 036	2 755

EIF is monitoring its non-euro financial guarantees and performs regular stress tests with regard to currency risk.

3.3.4.3 Market risk: Other price risk

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

3.4 Treasury

3.4.1 Introduction

Treasury management has been fully outsourced to EIB under a treasury management agreement mandating the responsible EIB services to perform selection, execution, settlement and monitoring of transactions. Management follows treasury guidelines annexed to the agreement which 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.

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).

EIF does not borrow funds.

EUR

	31.12.2012	31.12.2011
Current accounts	65 101 569	55 612 129
Money market instruments	100 402 842	105 048 677
Available for sale portfolio	907 055 554	778 368 598
Total Treasury portfolio	1 072 559 965	939 029 404

3.4.3 Credit risk

The Fund is exposed to credit risk relating to its assets held in the Treasury portfolio. 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:

EUR

	Maximum exposure 2012	Maximum exposure 2011
Cash and cash equivalents	165 504 411	160 660 806
Debt securities and other fixed income securities	907 055 554	778 368 598
Total Credit Risk Exposure	1 072 559 965	939 029 404

The following table outlines the credit quality of the Fund's debt securities and other fixed income securities as of 31 December 2012 and 2011, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2012		31.12.2011	
Rating	Fair Value in EUR	In percentage	Fair Value in EUR	In percentage
Aaa	206 635 097	22.78%	309 052 145	39.71%
Aa1	131 522 571	14.50%	4 973 550	0.64%
Aa2	20 137 222	2.22%	44 583 417	5.73%
Aa3	27 575 090	3.04%	17 060 351	2.19%
A1	26 754 280	2.95%	121 843 783	15.65%
A2	19 214 500	2.12%	138 122 691	17.75%
A3	74 375 805	8.20%	4 863 132	0.62%
Baa1	13 881 965	1.53%	6 542 565	0.84%
Baa2	127 741 789	14.08%	0	0.00%
Baa3	60 343 429	6.65%	0	0.00%
Ba1	123 665 945	13.63%	97 875 833	12.57%
Ba2	0	0.00%	18 955 538	2.44%
Ba3	29 785 075	3.28%	2 822 337	0.36%
Ca	0	0.00%	11 673 256	1.50%
Unrated	45 422 786	5.01%	0	0.00%
Total	907 055 554	100.0%	778 368 598	100.0%

The exposures in rating range of Ba1 - C mainly consist of EU sovereign bonds. In the course of the year 2012 the treasury portfolio experienced unrealised gains of EUR 104.0 m (2011: EUR -41.0 m), which stemmed mainly from a market recovery on the value of sovereign and government guaranteed bonds. A breakdown of the EU sovereign bond exposure is given in the table below.

EUR

Fair value	31.12.2012	31.12.2011
EU sovereigns		
Ireland	123 665 945	97 875 833
Italy	115 089 603	153 089 497
Spain	70 390 977	84 534 819
Austria	51 458 015	30 726 130
Greece	45 422 786	11 673 256
Portugal	29 785 075	18 955 538
Germany	27 575 003	32 186 440
Slovakia	17 496 681	4 616 784
Luxembourg	16 772 238	5 570 679
European Union	16 218 684	10 490 102
France	15 413 945	22 636 283
Slovenia	10 121 869	4 420 408
Netherlands	7 457 929	7 489 486
Czech Republic	5 428 501	5 344 351
	552 297 251	489 609 606
Corporate bonds and non EU sovereign	354 758 303	288 758 992
Total	907 055 554	778 368 598

As of 31 December 2012, EIF's debt securities portfolio was spread over 18 countries. The largest individual country exposures were Ireland, Italy and Spain, which jointly accounted for 45 % of total nominal value.

3.4.4 Liquidity risk

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

The treasury funds are available and sufficient to meet the Fund's liquidity needs and the treasury guidelines are designed to ensure funds are available when needed. The guidelines also prescribe the order in which investments would be utilised to meet exceptional liquidity requirements, starting with cash, highly liquid money market instruments, then the regular maturities of longer investments as well as the option to sell securities or use them as collateral to generate liquidity if appropriate.

3.4.5 Market risk – interest rate risk

In nominal terms approximately 73.4 % of all assets held have an average duration of 5 years or less, (2011: 75.7%).

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 31.12.2012	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	165 504 411	0	0	0	0	165 504 411
AFS - Debt securities and other fixed income securities	60 091 504	127 711 039	418 412 034	295 123 288	5 717 689	907 055 554
Total	225 595 915	127 711 039	418 412 034	295 123 288	5 717 689	1 072 559 965
Percentage	21.0%	12.0%	39.0%	27.5%	0.5%	100.0%

EUR

At 31.12.2011	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	160 660 806	0	0	0	0	160 660 806
AFS - Debt securities and other fixed income securities	49 125 502	108 071 804	392 872 281	162 192 745	66 106 266	778 368 598
Total	209 786 308	108 071 804	392 872 281	162 192 745	66 106 266	939 029 404
Percentage	22.3%	11.5%	41.9%	17.3%	7.0%	100.0%

The average yield at cost on term deposits in EUR was 0.03 % for 2012 (2011: 0.94 %). The average yield at cost on the AFS securities portfolio in EUR was 3.22 % for 2012 (2011: 3.7 %).

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 2012. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2011, the earnings of the EIF treasury portfolio would have increased by EUR 1.9 m (2011: EUR 1.2 m) 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 2012, the earnings of the EIF treasury portfolio would increase by EUR 1.6 m (2011: EUR 1.9 m) 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 2012, the Value at Risk of the EIF treasury portfolio was EUR 1.3 m (EUR 2.3 m in 2011). 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 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 31.12.2012	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments - AFS	862 740 880	45 422 786	238 022 856	1 146 186 521
Financial assets designated at fair value through P&L	0	0	3 876 686	3 876 686
	862 740 880	45 422 786	241 899 541	1 150 063 207

At 31.12.2011	Level 1	Level 2	Level 3	Total
Financial assets				
Financial investments - AFS	776 567 067	2 822 337	207 586 398	986 975 802
Financial assets designated at fair value through P&L	0	0	3 626 331	3 626 331
	776 567 067	2 822 337	211 212 729	990 602 133

During 2012 four debt securities with a fair value of EUR 45 422 786 were transferred from Level 1 to level 2 because the market for these instruments could not be considered as an active market. However, there was sufficient information available to measure fair value of these securities based on observable market inputs.

Details of the movements of financial assets in 2012 are given in notes 4.2 and 4.3.

There was no transfer of financial assets between Level 1 and Level 3 in 2012 or 2011.

Out of Level 3, disbursements amounted to EUR 42.2 m (2011: EUR 41.2 m), capital repayments amounted to EUR 18.9 m (2011: EUR 28.0 m) and terminated deals amounted to EUR 0.6 m (2011: EUR 1.1 m).

4. Detailed disclosures relating to asset headings

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.03 % (2011: 0.94 %). These deposits have an average remaining maturity of 33 days (2011: 13 days).

EUR

	31.12.2012	31.12.2011
Current accounts	65 101 569	55 612 129
Money market instruments	100 402 842	105 048 677
	165 504 411	160 660 806

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

	31.12.2012	31.12.2011
Available-for-Sale portfolio	890 488 155	762 816 370
Accrued interests	16 567 399	15 552 228
	907 055 554	778 368 598

Movement in debt securities and other fixed income securities:

EUR

	2012	2011
Fair value at 1 January	778 368 598	863 578 881
Additions	261 480 027	146 067 911
Disposals/matured	(239 227 921)	(189 336 273)
Effective interest rate adjustment	2 455 239	(974 622)
Change in Fair value reserve	103 979 611	(40 967 299)
Fair value at 31 December	907 055 554	778 368 598

The total fair value reserve recognised in equity at the end of 2012 and attributable to debt securities and other fixed income securities is EUR 20 302 697 (2011: EUR (83 676 914)).

Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR (2 730 074) (2011: EUR 82 215), of which none relates to Level 3.

No impairment was recorded on the portfolio in either 2012 or 2011.

4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

EUR

	2012	2011
Investment at cost at 1 January	239 956 357	227 836 371
Disbursements	42 171 316	41 160 568
Capital repayments	(18 908 920)	(27 955 142)
Terminated deals	(567 487)	(1 085 440)
Investment at cost at 31 December	262 651 266	239 956 357
Fair value adjustment and foreign exchange adjustment at 1 January	(27 722 822)	(33 451 836)
Terminated deals	567 304	1 085 440
Adjustments to Fair value reserve		
Changes in the value of investments	11 974 611	8 512 402
Foreign exchange impact on investments	3 174 312	1 237 229
Impairment	(7 637 018)	(5 106 057)
Value adjustment and foreign exchange adjustment at 31 December	(19 643 613)	(27 722 822)
	243 007 653	212 233 535

A portion of the total fair value of shares and other variable income securities amounting to EUR 1 108 112 (2011: EUR 1 020 806) is classified as Level 1.

Investments belonging to Category C, which are valued at cost less impairment in the absence of additional compliant data, amount to EUR 3 854 165 (2011: EUR 3 854 165).

The fair value as of 31 December 2012 includes an amount of EUR 3 876 686 (2011: EUR 3 626 331) related to Investment in joint ventures.

4.4 Other assets

Other assets are made up of the following:

EUR

	31.12.2012	31.12.2011
Accounts receivable relating to pensions managed by the EIB	53 496 180	43 933 282
Advanced payments	371 527	34 163
Accrued commission & other income	14 145 372	11 832 823
Fees receivable on financial guarantees	2 940 649	2 747 529
Other debtors	844 879	409 353
	71 798 607	58 957 150

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:

EUR

	Total	Neither past due nor impaired	Past due but not impaired		
			0-6 months	6-12 months	> 12 months
2012	71 798 607	71 376 492	361 118	43 896	17 101
2011	58 957 150	57 834 147	10 849	1 092 533	19 620

4.5 Intangible assets

EUR

	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 at 01.01.2011	1 365 366	19 411	1 384 777
Opening net book amount	1 365 366	19 411	1 384 777
Additions	528 996	0	528 996
Amortisation charge	(766 149)	(19 411)	(785 560)
Carrying amount at 31.12.2011	1 128 213	0	1 128 213

EUR

	Internally Generated Software	Purchased Software	Total
Cost	5 195 493	582 560	5 778 053
Accumulated amortisation	(4 067 280)	(582 560)	(4 649 840)
Carrying amount at 01.01.2012	1 128 213	0	1 128 213
Opening net book amount	1 128 213		1 128 213
Amortisation charge	(752 830)	0	(752 830)
Carrying amount at 31.12.2012	375 383	0	375 383

EUR

31.12.2012	Internally Generated Software	Purchased Software	Total
Cost	5 195 493	251 578	5 447 071
Accumulated amortisation	(4 820 110)	(251 578)	(5 071 688)
Carrying amount	375 383	0	375 383

There were no indications of impairment of intangible assets either in 2012 or 2011.

In 2012 purchased software of an initial cost of EUR 330 982 was removed from the asset register. These assets were fully amortised and no longer used by the Fund.

4.6 Equipment and investment property

EUR

	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 at 01.01.2011	6 329 080	40 517	32 374	8 764	81 655
Opening net book amount	6 329 080	40 517	32 374	8 764	81 655
Disposal	0	0	0	(8 764)	(8 764)
Depreciation charge	(374 151)	(12 737)	(32 374)	0	(45 111)
Net book amount at 31.12.2011	5 954 929	27 780	0	0	27 780

EUR

	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	7 139 812	230 145	818 355	0	1 048 500
Accumulated depreciation	(1 184 883)	(202 365)	(818 355)	0	(1 020 720)
Net book amount at 01.01.2012	5 954 929	27 780	0	0	27 780
Opening net book amount	5 954 929	27 780	0	0	27 780
Depreciation charge	(374 150)	(12 737)	0	0	(12 737)
Net book amount 31.12.2012	5 580 779	15 043	0	0	15 043

31.12.2012					
Cost	7 139 812	202 401	818 355	0	1 020 756
Accumulated depreciation	(1 559 033)	(187 358)	(818 355)	0	(1 005 713)
Net book amount	5 580 779	15 043	0	0	15 043

There were no indications of impairment of equipment or investment property in either 2012 or 2011.

The fair value of the investment property is EUR 8.1 m as measured by an external expert in its report dated 5 October 2012. According to RICS valuation standards and to the generally accepted standard income approach and valuation methodology, the external expert made several specific assumptions and used comparable recent market transactions made on an arm's length basis to measure the fair value.

In 2012 office equipment of an initial cost of EUR 27 744 was removed from the asset register. These assets were fully depreciated and no longer used by the Fund.

5 Detailed disclosures relating to liabilities and equity headings

5.1 Financial liabilities

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

EUR

	31.12.2012	31.12.2011
Balance at the beginning of the financial year	24 022 036	26 902 034
Guarantee calls	0	(176)
Net increase/decrease in Financial Guarantees	80 775	(4 214 581)
Valuation changes triggered by ratings downgrades / upgrades	1 172 112	2 095 903
Transfer to provision for guarantees	(913 625)	(761 144)
Balance at the end of the financial year	24 361 298	24 022 036

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 financial guarantees".

5.2 Provisions for financial guarantees

EUR

	31.12.2012	31.12.2011
Balance at the beginning of the financial year	161 867 126	107 469 393
Transfer from financial guarantees	913 625	761 144
Additions	14 673 739	71 088 489
Utilised	(97 500)	(1 596 066)
Release of provision	(2 364 087)	(15 855 834)
Balance at the end of the financial year	174 992 902	161 867 126

5.3 Retirement benefit obligations

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

EUR

Retirement benefit obligations	31.12.2012	31.12.2011
Pension scheme	38 974 839	31 544 130
Health insurance scheme	3 863 000	3 260 000
	42 837 839	34 804 130

Commitments in respect of retirement benefits as of 31 December, 2012 have been valued by an independent actuary. The calculations are based on the following main assumptions:

EUR

Principal Assumptions	2012	2011
Discount rate for obligations	4.23%	5.58%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ICSLT	ICSLT

The discount rate is based on internal assumptions and on a market observable index, which are the iBoxx EUR Corporates AA 7-10 years index and the iBoxx EUR Corporates AA 10 years+ index. The first index is a composite of 17 financial bonds and 9 non-financial bonds and the second index is a composite of 3 financial bonds and 5 non-financial bonds. As at December 2012, the indexes amounted respectively to 2.03% and 2.69% (2011: 4.04% and 3.76%).

The net pension liability as valued in the independent actuary report dated February 2013 amounts to EUR 38 974 839 (2011: EUR 31 544 130). As of December 2012 the Fund allocated EUR 43 454 004 (2011: EUR 35 594 410) to pension assets.

Net Periodic Benefit Cost as at 31.12.2012	EIF Pension	Health Insurance	Total 2012
			EUR
Current net service cost	3 078 000	423 000	3 501 000
Interest cost	2 296 000	181 000	2 477 000
Amortisation of unrecognised result	755 000	(1 000)	754 000
Net Benefit Expense	6 129 000	603 000	6 732 000

Net Periodic Benefit Cost as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
			EUR
Current net service cost	3 182 000	678 000	3 860 000
Interest cost	1 794 000	170 000	1 964 000
Amortisation of unrecognised losses	936 000	47 000	983 000
Net Benefit Expense	5 912 000	895 000	6 807 000

Benefit Liabilities as at 31.12.2012	EIF Pension	Health Insurance	Total 2012
			EUR
Present value of unfunded obligation	68 640 000	7 044 000	75 684 000
Unrecognised net actuarial gains/(losses)	(29 665 000)	(3 181 000)	(32 846 000)
Net liability	38 975 000	3 863 000	42 838 000

Benefit Liabilities as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
			EUR
Present value of unfunded obligation	41 152 000	3 252 000	44 404 000
Unrecognised net actuarial gains/(losses)	(9 608 000)	8 000	(9 600 000)
Net liability	31 544 000	3 260 000	34 804 000

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 31.12.2012	EIF Pension	Health Insurance	Total 2012
Defined benefit obligation, Beginning of the financial year	41 152 000	3 252 000	44 404 000
Net service cost	3 078 000	423 000	3 501 000
Interest cost	2 296 000	181 000	2 477 000
Employee contributions	2 120 000	0	2 120 000
Benefits Paid	(818 000)	0	(818 000)
Experience Loss/(gain)	(769 000)	135 000	(634 000)
Loss due to assumption changes	21 581 000	3 053 000	24 634 000
Defined benefit obligation, End of the financial year	68 640 000	7 044 000	75 684 000

EUR

Changes in Defined Benefit Obligation as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
Defined benefit obligation, Beginning of the financial year	35 457 000	3 351 000	38 808 000
Net service cost	3 182 000	678 000	3 860 000
Interest cost	1 794 000	170 000	1 964 000
Employee contributions	2 015 000	0	2 015 000
Benefits Paid	178 000	0	178 000
Experience Loss	4 998 000	128 000	5 126 000
Gain due to assumption changes	(6 472 000)	(1 075 000)	(7 547 000)
Defined benefit obligation, End of the financial year	41 152 000	3 252 000	44 404 000

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

EUR

History of asset values	2012	2011	2010	2009	2008
Defined Benefit Obligation, End of the financial year	(75 684 000)	(44 404 000)	(38 808 000)	(21 264 000)	(16 638 000)
Deficit in the Plan	(75 684 000)	(44 404 000)	(38 808 000)	(21 264 000)	(16 638 000)
Experience gain/ (losses) on DBO	634 000	(5 126 000)	(1 299 000)	(1 462 000)	(647 000)

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, plus/ less result 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

	31.12.2012	31.12.2011
		EUR
Related parties payables	4 802 468	3 497 078
Employee benefit payables	22 054 956	18 736 262
Trade creditors	2 331 512	2 247 184
	29 188 936	24 480 524

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. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

The 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 subscribed share capital is detailed as follows:

	31.12.2012	31.12.2011
		EUR
Subscribed and paid in (20%)	600 000 000	600 000 000
Subscribed but not yet called (80%)	2 400 000 000	2 400 000 000
	3 000 000 000	3 000 000 000

The capital is subscribed as follows :

	31.12.2012	31.12.2011
		Number of shares
European Investment Bank	1 864	1 858
European Commission	900	900
Financial Institutions	236	242
	3 000	3 000

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 6 144 445 is required to be appropriated in 2013 with respect to the financial year ended 31-December, 2012.

There was no dividend distributed in 2012 relating to the year 2011(2011: EUR 2 893 779). Dividends are distributed in line with Article 27 of the Fund's statutes.

Under the terms of Article 26 of its Statutes, the Fund defines commitment ceilings in relation to its capital as follows:

- For guarantee operations commitments are limited to three times the amount of subscribed capital.
- Private equity net commitments may not exceed 50% of equity, excluding the fair value reserve.

5.7 Fair value reserve

The fair value reserve includes the following:

EUR

	31.12.2012	31.12.2011
Fair value reserve on debt securities and other fixed income securities	20 302 697	(83 676 914)
Fair value reserve on shares and other variable income securities	40 057 749	24 908 826
	60 360 446	(58 768 088)

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

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

EIF 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.
- **The Mezzanine Facility for Growth (MFG) mandate** signed in early 2009 for EIF 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 **Progress Microfinance FCP** is described in the EC resources section.

EC resources

- Under the European Union's Growth and Employment Initiative (G&E) and under the **Multi-Annual Programme (MAP)** for enterprises and entrepreneurship, EIF manages resources on behalf of and at the risk of the EC. 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.
- EIF acts as trustee for the EC in two funds called **EFSE (European Fund for South East Europe)** and **GGF (Green for Growth – former SE4F)**. EFSE provides microfinance in South East Europe and the European Neighbourhood region and was launched in 2006. GGF was set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, EIF acts as trustee for the EC in the technical assistance facility of the GGF (GGF TA), signed in December 2010.
- Under the **Competitiveness and Innovation Framework Programme (CIP)**, EIF manages resources on behalf of and at the risk of the EC since 2007. 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.
- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, EIF has been managing the European Union's participation in the fund as trustee and represents the EC's interests since December 2007. EIF also holds a technical support mandate for Development and Co-operation – EuropeAid ("DEVCO") for which related activities are implemented by GEEREF Front Office.
- Under the **Technology Transfer Pilot Project (TTP)**, financed by the EC and signed in November 2008, EIF 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 **Joint Action to Support Microfinance Institutions in Europe (JASMINE)** initiative, EIF manages, on a revolving basis and since [December] 2008, the technical assistance initiative with EC resources.

- In 2010 EIF 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** 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 EC in July 2010, 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 EC and the EIB.

- In the context of the Risk Sharing Finance Facility (RSFF), a joint initiative of the EC (DG Research & Innovation) and the EIB, EIF manages the **Risk Sharing Instrument (RSI Facility)** since December 2011. The aim of the RSI Facility is to create a pilot guarantee scheme for the benefit of innovative and research oriented SMEs and small mid-caps.

- The **Western Balkan Enterprise Development & Innovation Facility (WB EDIF)** is a joint initiative signed in December 2012 by the EC (DG ELARG), EIB Group and the European Bank for Reconstruction and Development (EBRD). It aims at improving access to finance for SMEs in the Western Balkans and to foster economic development in the region through the deployment of the Instrument for Pre-Accession Assistance (IPA) funds. Within WB EDIF, EIF acts as platform coordinator, Trustee on behalf of the EC for the Enterprise Expansion Fund (ENEF), and manager of the Guarantee Facility.

Other third party resources

EIF 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:

- **ERP-EIF Dachfonds**, signed in 2003, aims at widening the availability of venture capital for technology-oriented SMEs. EIF manages it on behalf of the German Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP);

- **NEOTEC**, a fund of funds signed in December 2006, is a joint venture between EIF and a Spanish government entity advised by EIF, 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.

- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)**, Member States appointed EIF to manage JEREMIE funds as Holding Fund manager since June 2007. 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. EIF is currently managing 14 JEREMIE Funding Agreements signed with Member States and regions: Greece, Romania, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta, Sicily ESF, Calabria, PACA, and Extremadura.

- The **Istanbul Venture Capital Initiative (iVCi)** is a dedicated Turkish fund of funds and co-investment programme advised by EIF. It was signed in November 2007 and is funded by several Turkish public entities, two banks and EIF. It aims at providing access to finance to Turkish companies and developing the venture capital industry in Turkey through investments in independently-managed funds and co-investments.

- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, EIF acts since December 2007 as investment advisor. GEEREF is supported by the EC, the Federal Government of Germany and the Kingdom of Norway and its objective is 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 business development is formally delegated to the EIB under a sub-advisory agreement.

- The **Portugal Venture Capital initiative (PVCi)**, signed in April 2008, is a fund of funds focused on private equity and venture capital funds in Portugal and incorporated in the form of a SICAV-SIF. The investor base comprises main financial institutions in Portugal.

- The **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.

- The **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).

- Under the **Greater Anatolia Guarantee Facility (GAGF)** signed in May 2010, EIF manages 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.

- Under the **G43 Anatolian Venture Capital Fund Project (G43 VC)**, signed in August 2011, EIF acts as Trustee for the Ministry of Science, Industry and Technology (MoSIT). This project entails deploying IPA funds and a Turkish National contribution for investment in the G43 Anatolian Venture Capital Fund dedicated to make investments in SMEs in South-eastern Anatolia region of Turkey."

- The **Mezzanine Dachfonds für Deutschland (MDD)** is an investment programme signed in June 2012 and funded by the German Federal Ministry of Economics and Technology (BMWi) and various institutions of the Federal states to subscribe into hybrid debt and equity funds investing in German SMEs and MidCaps.

- The **Baltic Innovation Fund (BIF)**, signed in September 2012, is a fund of funds, structured as a partnership, which invests in venture capital and private equity funds and focused on the Baltic region. It is funded jointly by the EIB Group and the governments of Estonia, Latvia and Lithuania.

EIF manages assets on behalf of third parties and related parties through either a private equity, guarantee or microfinance activities. As at 31 December 2012, Total assets under management, defined as the initial resources and contributions allocated to each mandate, amount to EUR 10.8 billion (2011: EUR 10.5 billion).

Assets held for third parties and related parties include trust accounts opened and maintained in the name of EIF but for the benefit of third parties as disclosed below including cash at bank, money market balances as well as the relevant accruals.

EUR

	31.12.2012	31.12.2011
SMEG 1998	59 604 096	59 953 681
ESU 1998	5 223 865	8 164 814
SMEG 2001	24 940 083	33 138 603
ESU 2001	20 591 322	32 776 626
CIP/SMEG 2007	124 103 776	107 604 886
CIP/GIF	102 621 255	97 725 878
TTP	1 604 986	1 687 381
Progress FMA	10 507 805	9 155 432
EPPA	706 125	1 468 111
GEEREF Technical Support Facility	1 923 192	2 483 932
GEEREF Trusteeship	4 119 606	1 568 600
GGF - Technical Assistance - Trust Account	4 731	4 737
RSI	131 481 175	0
Trust accounts with the European Commission	487 432 017	355 732 681
Trust account GAGF	50 066 787	31 400 004
Trust account G43	15 894 608	16 201 962
Trust accounts with the EIB	53 705 551	62 049 339
Trust account with the ERP Dachfonds	2 528 073	2 634 858
Trust account with the LFA-GV	519 008	166 333
Trust accounts with MDD	5 584	0
Trust account with member states/regions JEREMIE initiative	708 655 849	827 908 498
	1 318 807 477	1 296 093 675

7. Detailed disclosures related to the statement of comprehensive income

7.1 Interest and similar income

Interest and similar income comprises:

EUR

	2012	2011
Interest income on debt securities and other fixed income securities	29 768 664	31 844 395
Interest income on money market instruments	323 635	586 324
Interest income on bank current accounts	346 055	231 917
Other interest income	2 952 665	2 290 886
	33 391 019	34 953 522

Interest income on debt securities include discounts of EUR 3 647 396 (2011: EUR 2 376 637) and premiums amount to EUR (4 352 638) (2011: EUR (1 899 764)).

7.2 Net result from guarantee operations

Net result from guarantee operations comprises:

EUR

	2012	2011
Net increase in the financial guarantees contracts	23 488 179	25 609 190
Provision for guarantees under IAS 37	(15 848 518)	(73 192 513)
Release of provision	2 364 087	15 855 834
	10 003 748	(31 727 489)

7.3 Commission income

Commission income is detailed as follows:

EUR

	2012	2011
Commissions on EIB mandates	14 458 036	13 617 747
Commissions on EC mandates	12 264 061	7 636 042
Commissions on Regional and Funds of Funds mandates	23 156 118	21 340 961
Other commissions	428 737	580 280
	50 306 952	43 175 030

7.4 Net loss on financial operations

Net loss on financial operations is broken down as follows:

	2012	2011
Realised (loss)/gain on debt securities	(2 730 074)	82 215
Gains/(losses) arising from transactions or cash positions in foreign currencies	378 246	(156 452)
	(2 351 828)	(74 237)

7.5 Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 684 875 (2011: EUR 667 995).

7.6 General administrative expenses

Wages and salaries include expenses of EUR 2 029 133 (2011: EUR 2 075 956) incurred in relation to staff seconded from the EIB.

The number of persons, including 4 EIB secondees (2011: 4 EIB secondees), employed at the year-end is as follows:

	2012	2011
Chief Executive/Deputy Chief Executive	1	2
Employees	223	227
Total	224	229

EIF has identified members of the Board of Directors, members of the Audit Board and members of the Management Team as key management personnel.

Key management compensation for the period is disclosed as follows:

		EUR
	2012	2011
Short-term benefits[1]	2 348 830	2 254 206
Post employment benefits[2]	420 259	381 170
Total	2 769 089	2 635 376

(1) Short-term employee benefits comprise salaries and allowances, bonuses and social security contributions of key management personnel
(2) Post employment benefits comprise pensions and expenses for post employment health insurance paid to key management personnel

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 3 738 229 (2011: EUR 2 679 680).

Future minimum lease payments under non-cancellable operating leases

EUR

	Less than 1 year	1 to 5 years	Total
2012	858 511	92 169	950 681
2011	2 697 851	3 514 930	6 212 781

As the EIF will move to a new building in the coming weeks, the current rent agreement will be terminated accordingly and a new rent agreement, which is under discussion, will be implemented consequently.

8. Related parties transactions

EIB is the majority owner of the Fund with 62.1% (2011: 61.9%) of the shares. The remaining percentage is held by the European Commission 30.0% (2011: 30.0%) and the Financial Institutions 7.9% (2011: 8.1%).

Information relating to key management is disclosed in the note 7.6 relating to general administrative expenses.

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 the note 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

	31.12.2012	31.12.2011
ASSETS		
Other assets	56 957 152	46 597 333
LIABILITIES AND EQUITY		
Other liabilities and provisions	4 981 675	3 651 819
Share capital	372 800 000	371 600 000
INCOME		
Commission income	14 458 036	13 617 747
Interest income	2 952 666	2 290 887
Other income	658 695	649 536
EXPENSES		
General administrative expenses	10 630 430	9 791 731

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 note 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

	31.12.2012	31.12.2011
ASSETS		
Other assets	4 579 176	4 038 565
LIABILITIES AND EQUITY		
Other liabilities and provisions	16 051	16 051
Share capital	180 000 000	180 000 000
INCOME		
Commission income	12 264 061	7 636 042
EXPENSES		
General administrative expenses	149 957	129 315

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
15, avenue J.F. Kennedy
L-2968 Luxembourg

(+352) 24 85 – 1
(+352) 24 85 – 81301
info@eif.org
www.eif.org

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

For information on the European Investment Bank:
(+352) 43 79 – 1
info@eib.org
www.eib.org

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

ISBN 978-92-861-1731-2
ISSN 1725-5392
DOI 10.2867/18357

Printed on white chlorine-free paper

FSC www.fsc.org MIX Paper from responsible sources FSC® C103749

European Investment Fund
15, avenue J.F. Kennedy
L-2968 Luxembourg
(+352) 24 85 – 1
(+352) 24 85 – 81301
www.eif.org

© EIB – 04/2013 – QY-AA-13-001-EN-C – ISBN 978-92-861-1731-2 – ISSN 1725-5392 – DOI 10.2867/18357 – © EIB GraphicTeam