EUROPEAN INVESTMENT FUND

ANNUAL REPORT 2011

Highlights

Operational highlights	2011	2010	2009	2008	2007
Yearly signatures (in EUR m)					
Equity signatures	1 126	930	733	409	521
Guarantee signatures*	1 461	611	191	909	84
Microfinance signatures	67	8	-	-	-
Total outstandings at year-end (in EUR m)					
Private Equity assets under management	5 919	5 367	4 103	3 535	4 388
Guarantee exposure*	4 372	3 329	3 588	4 422	4 704
Microfinance	77	10	-	-	-

Financial highlights	2011	2010	2009	2008	2007
Key figures (in EUR m)					
Total assets	1 217	1 196	1 158	1 076	1 024
Subscribed capital	3 000	3 000	2 940	2 865	2 770
AAA/AA callable capital	2 321	2 321	2 277	2 239	2 095
Operating profit	53	65	58	62	61
Net profit	(10)	7	(7)	35	50
Key ratios (in %)					
Return on average equity	n/a	0.7	n/a	3.6	6.2
Liquid assets/total assets	13.2	6.2	9.2	35.6	28.5
Shareholders' equity/assets	79.9	85.0	88.8	94.3	96.2
Share of AAA/AA in callable capital	96.7	96.7	96.8	78.2	75.6
Share of callable AAA/AA in shareholders' equity	223.0	223.0	221.0	221.0	213.0

* Maximum liability.

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

Introduction

Foreword of the Chairman of the Board

In the context of difficult economic and financial conditions which have had far-reaching consequences, the counter-cyclical role of the European Investment Fund (EIF) in the market in 2011 was, and continues to be, of significant importance. By offering an extended range of products with an increased geographical reach, EIF has shown determination in addressing the lack of financing available for small and medium-sized enterprises (SMEs) across Europe.

Using its specific experience and expertise within the European Investment Bank (EIB) Group, EIF pursued and developed its equity and guarantee activities, including by addressing market gaps in its new role as a major microfinance provider in Europe.

EIF's growing role in the venture capital market is evidenced by the record level of signatures of equity investments in 2011. Indeed, EIF played an instrumental role in the successful launch of many funds last year, catalysing private sector investment and providing crucial support to this market in times of crisis.

EIF had a fundamental impact on the SME securitisation market in 2011, acting as a driving force behind the reestablishment of this market and participating in most SME loan and lease transactions which were publicly or privately placed with investors. The considerable demand for both funding and risk sharing from banks across the European Union underlines the need for EIF's role to provide SMEs with the financing that is currently lacking.

Within this context, EIF launched a new pilot scheme, the Risk Sharing Instrument for innovative and research-oriented SMEs and small mid-caps, a joint initiative with the EIB and the European Commission which will enable EIF to further strengthen its structured finance activity. Furthermore, the foundations for the forthcoming establishment of new initiatives were also laid in 2011, notably for an impact financing facility, a Luxembourgish innovation fund, and the realisation of new partnerships in co-investment platforms with Business Angels.

Looking forward, and in a climate of continued economic uncertainty, EIF will consolidate and strengthen the products and instruments which have been developed to date. In so doing, EIF intends to maximise the impact of its resources, including its stable AAA rating, to the benefit of medium, small and micro enterprises within its geographical scope, whilst seeking to fully capitalise on the impact which can be achieved jointly with the EIB.

Philippe Maystadt

Foreword of the Chief Executive

EIF's role was critical in 2011 in view of the extraordinary economic and political developments in Europe. EIF completed a record number of transactions, providing over EUR 13bn in equity and loan support for micro, small and medium-sized enterprises which continued to suffer from a severe shortage of risk capital.

Over EUR 1.1bn of new equity commitments were made, a 20% increase compared with 2010, catalysing EUR 6bn in new risk finance for Europe's fastest growing innovative companies. This represented a very significant proportion of all risk capital raised in Europe for SMEs and underlines the widely agreed view that EIF, backed in particular by the Risk Capital Mandate (RCM) from the EIB, plays a critical role in the start-up and growth phases of companies. This was accompanied by a number of new initiatives including structures designed to catalyse Business Angels and corporate venture investors. Throughout the year, EIF was active across a wide geographic spectrum with the development of new fund structures in Luxembourg, the Netherlands, the Nordic region, Turkey and the Western Balkans. Additional Structural Funds under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) were also committed to equity investment in Bulgaria, Greece and Romania. This partnership with Member States is core to EIF's future strategy.

EIF also had a record year in its contribution to meeting the gap in lending capacity from Europe's commercial banks. Continued development and strengthening of EIF's securitisation capability has been fully justified by the value added role demonstrated in 2011. EIF initiated and played a catalytic role as credit enhancer in all the externally placed transactions in the year; the first risk transfer/capital support transaction to take place since end 2008 was closed, giving a sign of a revival for this form of support for key SME banks. The guarantee resources under the EU Competitiveness and Innovation Framework programme (CIP) were fully utilised and new loan and guarantee instruments were contracted in nine countries by the JEREMIE Holding Funds managed by EIF. The investment of the European Progress Microfinance funds is well underway and EIF is now widely recognised as a key provider of equity and loan capital to the growing number of microfinance institutions within the EU.

2011 also saw intensive activity in the planning and development of instruments for the Multiannual Financial Framework and Europe 2020 with the objective of maximising support for smart, sustainable and inclusive growth.

EIF's financial performance reflected the economic environment. Operating profit of EUR 53m was slightly below the plan, reflecting lower than expected guarantee fees and equity gains, whilst costs were contained at the plan levels.

After provisions and impairments, EIF recorded a net loss of EUR 10.2m, which was caused, to a large extent, by its exposure to the Danish banking sector through a securitisation transaction completed in 2007. The outlook for a number of the underlying small banks in this structure has deteriorated and hence the Board of Directors approved new provisions which account for a large percentage of the total net new provisions for the year.

Standard & Poors, Fitch and Moody's confirmed EIF's AAA rating and the 'stable outlook'. This reflects the strength of the capital base and prudent risk management.

The pipeline of demands for EIF services and support in 2012 is expected to be bigger than ever. At the same time, EIF is committing to a tightly controlled cost base to reflect the challenges faced by all its stakeholders. This leads to even greater demands being made on the extraordinarily talented and dedicated staff whom I would like to thank for their remarkable achievements in 2011.

Richard Pelly

Strategy and achievements in 2011

As a result of the economic crisis and uncertainty regarding sovereign risks, 2011 was a year in which new bank finance for SMEs and institutional investment in venture capital were significantly reduced.

As Europe's leading developer of risk financing, EIF has increased its counter-cyclical role in providing financial instruments to boost entrepreneurship and innovation.

EIF has continued to provide this support throughout the entire value chain of enterprise creation from early to development stages by offering a tool box of targeted products ranging from equity to guarantees and microfinance. These instruments are deployed through selected intermediaries for the benefit of European enterprises in a counter-cyclical way.

EIF has actively participated in the development 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.

European entrepreneurs need sustainable financial support and in this context, highlights of EIF's achievements have been to:

- Increase the overall volume of its equity commitments and loan guarantees by 70% compared with 2010, financing more than 50,000 new SMEs
- Catalyse a total of 49[1] new funds, with overall target fund sizes amounting to EUR 6bn
- Issue guarantees to 47[2] financial intermediaries to stimulate new loan portfolios of EUR 7.6bn
- Complete equity, funding and guarantee transactions with 15 microfinance institutions establishing EIF as one of the most important providers of microfinance support within the EU in 2011
- Commit over EUR 461m of Structural Funds to financial intermediaries for the benefit of SMEs across 14 JEREMIE Holding Funds.

EIF's products were deployed throughout the year, assisting in the remediation of the liquidity crisis and underpinning the provision of new venture capital and mezzanine finance for European SMEs. In cooperation with mandators and in response to SMEs' current needs, EIF provided a stimulus to growth, job creation and competitiveness and achieved its Community Objectives as demonstrated through its impact on the market.

in EUR m

	2011	2010	Variation
Commitments			
Equity	1 126	930	+21%
Guarantees	1 461	619	+136%
Microfinance	67	8	+718%
Total	**2 654**	**1 557**	**+70%**
Catalysed volume			
Equity	6 061	4 588	+32%
Guarantees	7 626	3 170	+141%
Microfinance	140	32	+340%
Total	**13 827**	**7 790**	**+77%**
Number of deals	113	78	+45%

Despite the difficult market environment, EIF's AAA rating and stable outlook was confirmed by the rating agencies Standard & Poors, Fitch and Moody's.

However, due largely to two securitisation transactions placed on the Danish market which were concluded in 2007, EIF recorded a net loss of EUR 10.2m.

Improved access to finance for European SMEs – EIF´s key role in the European market

Cornerstone investor and provider of venture and growth capital for European SMEs

EIF provided risk finance to first time and established venture capital teams enhancing their capacity to support SMEs and helping them to reach critical mass. In 2011, through a record commitment of EUR 1.1bn in 49 venture and growth funds, an overall EUR 6bn was mobilised.

EUR 6bn
of equity catalysed

[1] Including signatures under JEREMIE.
[2] Including signatures under JEREMIE.

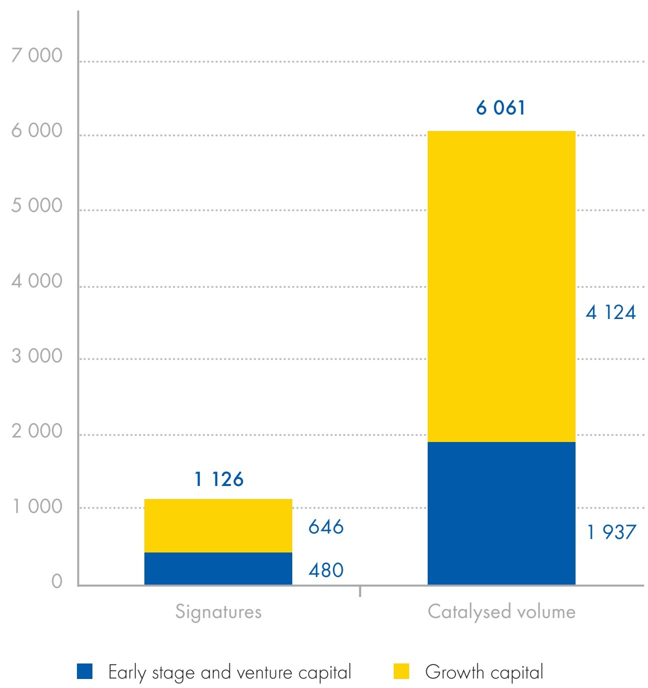
To further increase its impact, throughout the year EIF developed new innovative products, started working with new counterparts (such as Business Angels (BA) and corporate investors) laying the foundation for future partnerships, and extended its support to additional market players.

Additionally, EIF applied its experience of a diverse range of legal structures so as to best suit mandators' and investors' needs, particularly in the regions.

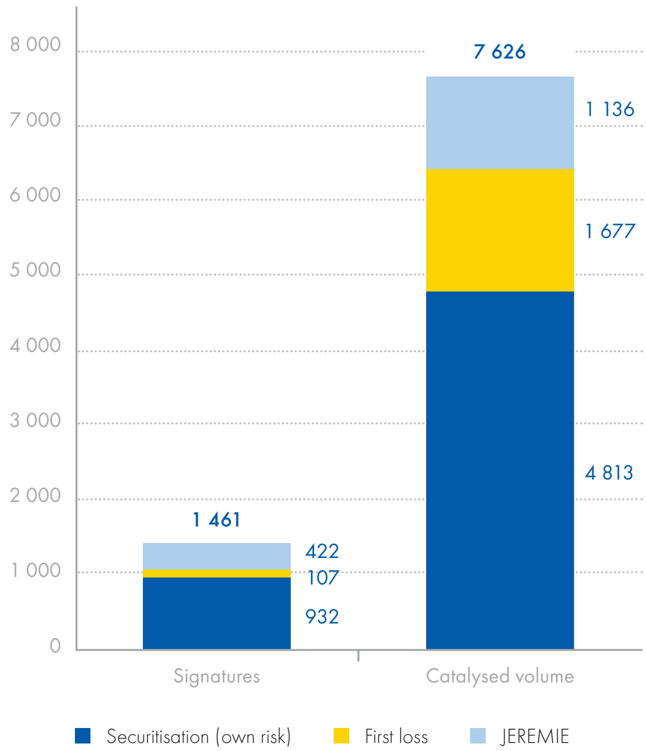
and EUR 422m guarantee commitments under JEREMIE catalysed EUR 1.1bn of funding.

Aiming to re-establish the credit enhancement and securitisation market despite difficult market conditions, EIF participated in true sale securitisations and signed EUR 932m in 2011 generating a multiplier effect amounting to EUR 4.8bn.

2011 Equity signatures by stage – in EUR m



2011 Guarantee signatures by type – in EUR m



Prime provider of guarantees and credit enhancement to catalyse SME lending

In 2011, EIF catalysed EUR 7.6bn of lending to SMEs with EUR 1.46bn of guarantee commitments in 47 new transactions.

EIF continued to stimulate an increase in the volumes of loans and leases by deploying risk-sharing instruments under CIP and JEREMIE and raising the number of bank partners to a record level of over 150. EUR 107m of CIP guarantees mobilised EUR 1.6bn of additional capital

EIF also completed guarantee/credit enhancement transactions in cooperation with the EIB maximising the impact of the EIB Group as a whole.

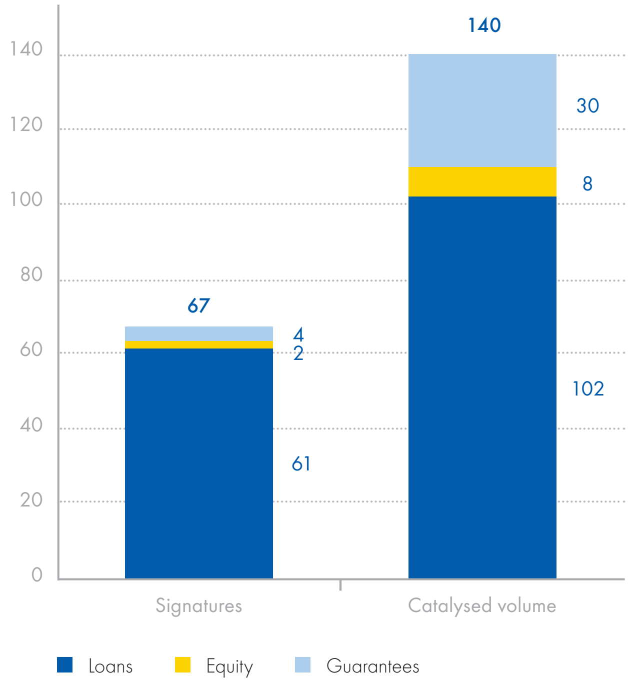
Funder of Europe's micro-enterprises through microfinance institutions

EIF has established itself as one of the leading microfinance providers in Europe, supporting through microfinance institutions those borrowers who do not have access to the traditional banking system and with the principle objective of fostering social inclusion and job creation.

The European Progress Microfinance products were successfully rolled out: 14 agreements were signed with 12 micro-lenders in nine countries across the EU for total commitments of over EUR 64.4m. These encouraging results, which meet the 2011 target, have generated a total volume of over EUR 130m in new micro-loans.

Overall, EUR 67.1m of microfinance signatures catalysed EUR 140m of additional resources.

2011 Microfinance signatures by type – in EUR m



EIF also provided technical assistance and financial support through other programmes and initiatives such as the Joint Action to Support Microfinance Institutions in Europe Technical Assistance (JASMINE TA).

Additionally, with the signature of the Sicily Holding Fund, under the European Social Fund (ESF) in December 2010, EIF extended its support for micro-enterprises across mandates.

Regional development and financial engineering

Through its regional development activities, EIF has supported less developed regions in Europe with targeted financial instruments in order to help them develop their risk capital markets and achieve sustainable growth. In 2011, EIF signed two new Holding Fund agreements bringing total assets under management to EUR 1.22bn with 14 Holding Funds in ten European countries.

In particular and firmly establishing its position as a counter-cyclical finance provider, EIF stepped up its engagement in Greece with six new contracts signed in 2011.

EIF was also active in other parts of Europe, providing excellence in country-focussed funds-of-funds management, including the fast deployment of the United Kingdom Future Technologies Fund (UKFTF) resources with five signatures in under a year and EUR 77m deployed.

Within the Instrument for Pre-accession Assistance (IPA) context, EIF's first initiative in Turkey, the Greater Anatolia Guarantee Facility (GAGF), already reached 2,700 SMEs representing a total of EUR 150m of lending in its first nine months of operation. In addition, EUR 91.5m was signed in Turkey via the Istanbul Venture Capital initiative, iVCi.

Outlook

In the current discussions concerning the next European Union programming period (2014-2020), EIF has been working intensively with the European Commission to prepare for the future and a number of new instruments are envisaged. EIF will continue to support the EU 2020[3] objectives of smart, sustainable and inclusive growth by developing various innovative pilot projects.

Pilot instruments include a risk sharing instrument (RSI) to be used in coordination with the EIB to provide debt finance for innovative businesses in the context of the EU 2020 strategy. EIF has also designed new equity pilot initiatives such as a Business Angels fund in Germany, a Luxembourgish innovation platform, and a social impact investment fund-of-fund.

EIF will continue to expand its reach to new counterparts and regions, establishing new country-specific initiatives to respond to the needs of local markets, attracting additional resources from its mandators and developing targeted products and tools.

EIF will intensify its cooperation and partnership with national promotional institutions to ensure the complementarity of EU programmes and national schemes.

[3] The EU 2020 strategy promotes smart, sustainable and inclusive growth for the EU Member States and sets a number of objectives in the fields of innovation, employment, social inclusion, education and energy.

Business year 2011

European market environment

2011 was the year ...

... in which policymakers were heavily focussed on fighting increased concerns about sovereign debt sustainability in particular in the eurozone. Financial and fiscal uncertainties increased and the pace of economic growth slowed down. In the second half of 2011, real GDP growth even turned negative for many EU Member States. This situation entailed the possibility for an easing of monetary policy towards the end of the year. Even if actual inflation exceeded by far the European Central Bank's (ECB) definition of price stability, the perspectives tended towards a significant moderation of inflation. Moreover, downside risks to the economic outlook and financial market disruptions had considerably increased.

These factors have resulted in a great degree of uncertainty in the global economy, and have impeded the recovery. According to EC data, overall real GDP growth in the EU leveled at around 1.5%.

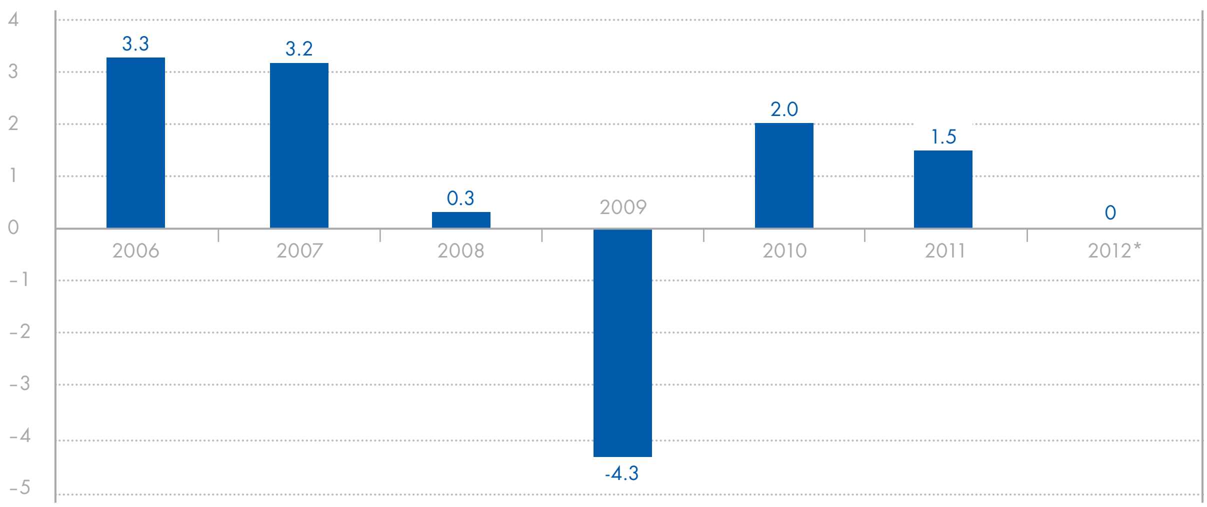
Lacklustre performance going forward

The Member States' sluggish growth rates are likely to continue. According to the European Commission forecast, real GDP will on average only stagnate in the EU in 2012; however, a mild recovery is expected towards the end of the year. There will again be a significant difference between the performances of Member States, with mainly southern eurozone countries likely to experience further recession in 2012. Moreover, the downside risks to economic growth remain heavily elevated for Europe as a whole, mainly due to the financial and fiscal uncertainties.

SME environment

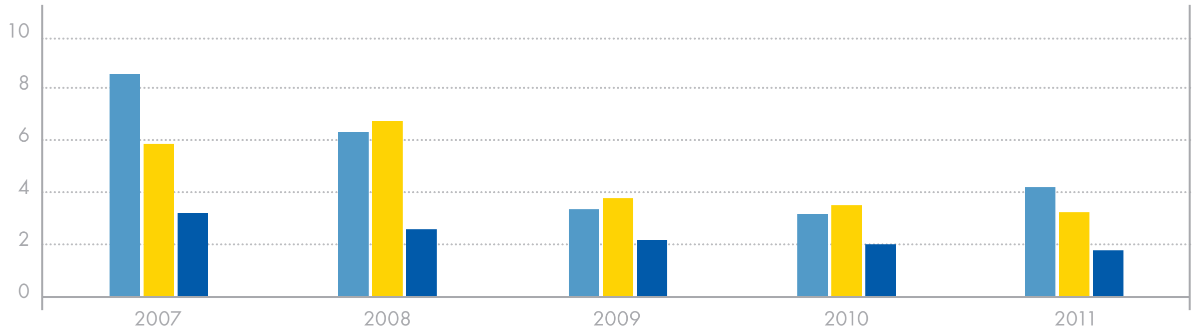
Within the EU-27, 99.8% of enterprises are SMEs; Eurostat counts 20.9 million of them and they account for two out of three jobs (66.7%). In 2011, the business climate for SMEs showed a relatively stable situation, but with increasing differences between EU Member States. Moreover, the uncertain general economic outlook led to increased downside risks for the activities of SMEs.

European Union real GDP growth – in %



*Source: European Commission (*forecast)*

European Venture Capital activity by amount – in EUR bn



Source: EVCA/PEREP_Analytics

According to the ECB, access to finance remained a more pressing problem for eurozone SMEs than for larger firms. Towards the end of the year, SMEs reported a decreased availability of bank loans and expected this to continue.

The situation of core markets in which EIF is active is as follows:

Equity

There are indications that the moderate pick-up of private equity in Europe which was recorded in 2010 continued in 2011. However, this recent market improvement should be seen in the context of the extreme economic uncertainty of 2009, which had driven activity to historic lows. On balance, the industry is still far from the pre-crisis levels of 2005-07.

Moreover, the recent improvements mainly reflect a partial rebound of the buyout sector which had strongly suffered during the economic slowdown. In contrast, the environment remained difficult at the venture end of the market where activities largely continued to follow their downward trend in 2011. According to preliminary figures, venture investment further decreased to EUR 3.3bn while venture exits fell to EUR 1.8bn. In contrast, venture fundraising increased to EUR 4.2bn. However, this was mainly driven by public or semi-public investors. Venture performance has remained weak, apart from those funds in the top quartile, emphasising the importance of careful selection by investors.

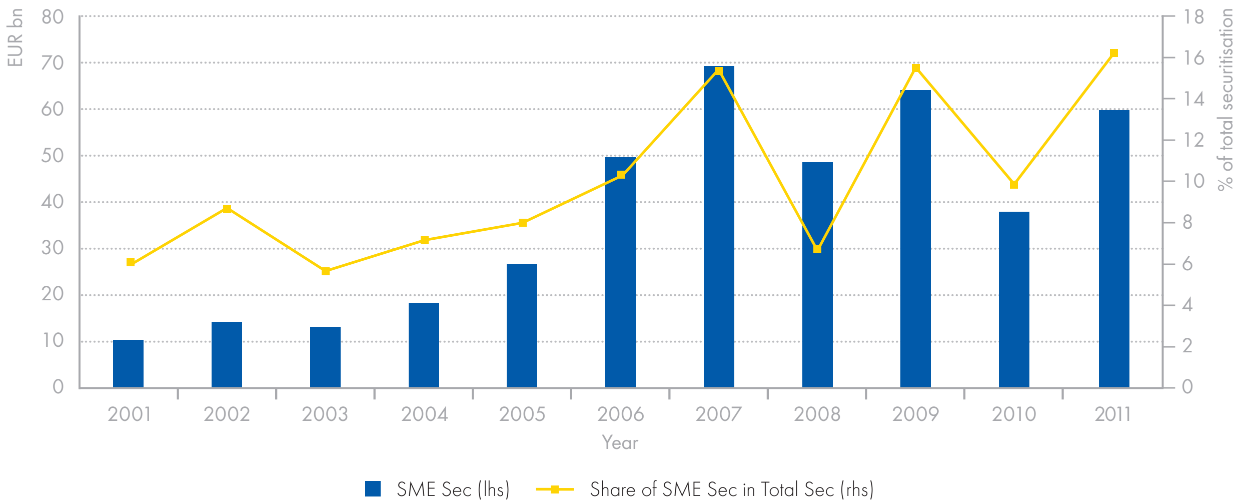
The fact that much of the institutional fundraising activity has been driven by public or semi-public Limited Partners proves that government agencies played their role and supported the market in a counter-cyclical way. In addition, some of the gap left by the fall in venture capital investment has been filled by increased business angel activity; their proximity to the market has been beneficial during this difficult period.

The 2012 perspectives remain uncertain as the blurred outlook for the general economic and financial environment will also strain prospects for private equity and venture capital. However, a crisis is also a source of opportunities since, as valuations decrease, acquisitions can be completed at more favourable prices.

Structured finance/securitisation

During the crisis, European securitisation 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

SME securitisation volumes in Europe



Source: based on data from AFME and KfW

limited but nevertheless important segment of the European structured finance market (between 6% and 16% of total yearly issuance during the decade). In 2011, the share of SME securitisation was around 16%. In 2011, in terms of volumes, European SME issuance was significantly stronger than in 2010.

Following the year 2009 in which there was no public placement of an SME transaction, in 2010 and 2011 the SME securitisation market showed some signs of re-opening with EIF playing a key role in some benchmark transactions.

Improved transparency is going to be important for the further recovery of the market. In this context, the ECB intends to progressively introduce requirements in its collateral framework for ABS originators to provide loan-level data on the assets underlying these instruments and to distribute standardised securitisation information to market participants. Moreover, there are market-driven initiatives to introduce quality standards, such as the Prime Collateral Securities (PCS) initiative. This initiative aims at labelling certain SME securitisations as a brand with key attributes such as quality, simplicity, transparency and liquidity, including commonly agreed standards and definitions.

Microfinance

One key objective of the Europe 2020 strategy is the more efficient use of EU funds to support social inclusion and fight poverty including a more efficient utilisation of micro-credits. According to Eurostat data, the incidence of poverty and social exclusion is greater in Eastern Europe, but also in those Western and Southern European countries which are suffering most from the impact of the current sovereign debt crises.

Microfinance aims at supporting the development of self-employment and micro-enterprises, the latter forming by far the majority of all companies. In the EU, according to Eurostat, 92% of all enterprises have fewer than ten employees. However, recent ECB surveys and business climate indicators revealed stronger difficulties in accessing finance and a less favourable business situation for micro-enterprises than for other SMEs in 2011.

The providers of microfinance are challenged by adverse macro-economic conditions. During the financial and economic crisis, their clients showed higher bad debt rates, and latest surveys reveal the lack of access to long-term funding as the most pressing problem of microfinance providers.

Moreover, microfinance institutions are challenged by structural issues. The European microfinance market is still young and quite heterogeneous, due to the diversity of legal frameworks, institutional environments and microfinance providers in European countries. In 2011, the European Commission published a European Code of Good Conduct which contains recommendations and standards for the provision of micro-credit in order to foster best practice in the microfinance sector. EIF is supporting the development of microfinance into a fully-fledged segment of the European financial sector by providing funding, guarantees but also technical assistance through JASMINE to a broad range of financial intermediaries.

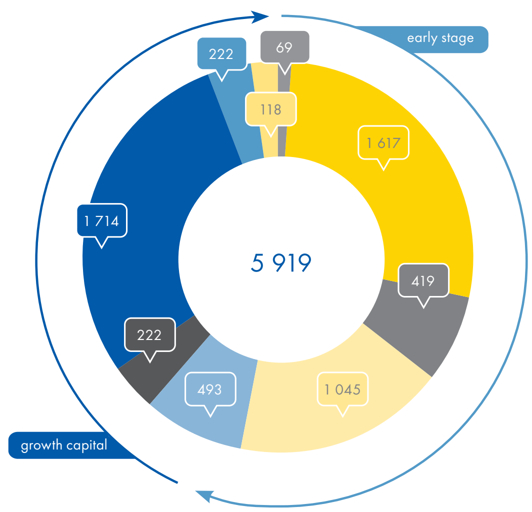
Equity

General overview

EIF is the reference catalytic investor in Europe. Its aim, in line with EU policies and objectives, is to stimulate entrepreneurship and innovation by contributing towards the establishment of a sustainable European venture and growth capital market. To achieve this, EIF addresses market gaps and opportunities by working with like-minded private and public investors. It demonstrates a market-oriented business approach, actively investing in innovative SME-focussed funds across a large number of European countries. By committing to early stage and growth funds EIF provides risk capital to European businesses and assists them through their life cycle.

Stage focus

Total commitments at 31 December 2011 – in EUR m



2011 was another record year for EIF. Volumes of equity signatures soared to an all time high of EUR 1.1bn, a 20% increase compared with 2010. This development emphasises EIF's counter-cyclical intervention and its key role as the European cornerstone investor, providing the highest level of support to the market by backing teams early in their fundraising process. During the year, EIF was instrumental in deploying reliable and smart sources of funding to early stage funds, catalysing closure at critical fund sizes and attracting private sector co-investors. In parallel, it invested in growth funds (lower mid-market and mezzanine) and backed first-time teams and emerging players in smaller or less developed markets.

Throughout the year, EIF worked in close cooperation with its mandators and other third parties to increase resources available to SMEs and achieve maximum impact in a difficult market. As a result, a EUR 1bn increase of the EIB Risk Capital Mandate (RCM) was signed as well as the doubling of the LfA Förderbank Bayern (LfA) resources. Intense work has taken place with the European Commission to pave the way for the next programming period beginning in January 2014. These increased allocations constitute an endorsement from mandators of EIF's capability to respond to market needs.

Additionally, EIF has closely monitored the private equity ecosystem, seeking opportunities to develop new and pioneering financing instruments in order to provide support for parts of the market currently not covered by EIF. New sector-specific fund-of-fund initiatives involving corporate and strategic investors and new products either addressing the needs of academic institutions or giving access to non-institutional investors are planned to be developed. Some pilots were put in place during 2011, with the objective of enlarging EIF's base of co-investors and to seize market opportunities by enhancing the activity.

EUR 1.1bn
of EIF commitments

EIF is committed to regional development. By complementing national support schemes for SMEs, the effectiveness of EU budget resources is optimised, attracting additional capital from other investors and often helping to de-risk transactions. As such, throughout 2011, EIF deployed specific financing solutions for the benefit of European enterprises through the partnerships formed with public and private entities (the German Ministry of Economics and LfA in Germany) and country-specific funds-of-funds (NEOTEC in Spain, iVCi in Turkey, PVCi in Portugal, and UKFTF in the United Kingdom). As these funds are becoming fully invested, EIF has begun to lay the foundations for renewed and future expansion to new regions.

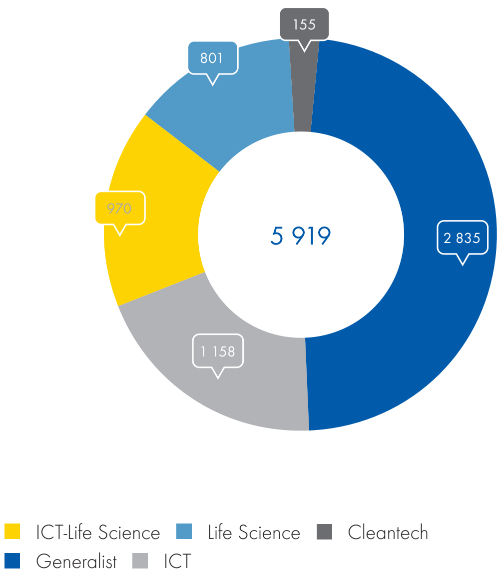
Portfolio

Total net equity commitments amounted to EUR 5.9bn at the end of 2011. With investments in some 373 funds and over 300 fund manager teams, EIF remains the major fund-of-fund investor in the European venture and growth capital market and provider of risk finance for micro, small and medium-sized enterprises.

In 2011 alone, a record EUR 1.1bn was committed, catalysing an additional EUR 6bn which significantly amplified the impact on SME-focused funds and on a wide range of sectors.

Sector focus

Total commitments at 31 December 2011 – in EUR m



Activity

Early stage capital

Technology Transfer: fostering innovation

"Technology Transfer suffers from a funding and expertise gap. EIF is helping to promote the work research centers and universities like us are doing by bridging the gap between research with a commercial potential and the market."

Timo Lehes, Investment Manager, Chalmers Innovation

Over the past few years, EIF has fostered the development of technology transfer and innovation in Europe with various landmark investments in high-tech sectors ranging from informatics to telecommunications to oncology and life sciences more generally.

Throughout 2011, expansion to new EU markets continued by introducing the technology transfer product to new Member States.

The Knowledge Transfer Strategic Partnership[4] proved a very useful forum for EIF and like-minded public investors. The objective is to discuss and jointly address the challenges faced by the knowledge transfer sector across Europe, exploring new initiatives such as Intellectual Property (IP) patent funds and IP marketplaces in support of SMEs. EU academic institutions from Central and Eastern Europe are expected to join as well.

In 2011, EIF invested in Vives II, the second fund set up to commercialise technologies from the Belgian Université Catholique de Louvain. This deal attracted considerable attention from investors and managed to raise EUR 43m in highly challenging market conditions.

Venture Capital: smart capital for smart ventures

In 2011, EIF pursued a deliberate counter-cyclical investment strategy to balance the decreasing activity of private sector investors in a very challenging market environment. This helped emerging and established teams to raise their funds in a timely manner and reach critical fund sizes. Besides being able to capitalise on excellent investment opportunities,

[4] Agreement signed between EIF/EIB, Caisse des Dépôts et Consignations (CDC, France), Cassa depositi e prestiti (CDP, Italy), Centro para el Desarrollo Tecnológico e Industrial (CDTI, Spain), Innovationsbron (Sweden), KfW-Bankengruppe (Germany) and Veraventure (Finland) with the aim of tackling some of the challenges faced by the knowledge transfer sector across Europe.

this helped to ensure the availability of equity to finance young European innovative technology companies

Compared to the previous year, EIF increased its total commitments into Venture Capital (VC) funds by almost 30% in 2011 with a total of EUR 465m committed into 23 funds. This catalysed a total of EUR 1.9bn of commitments in these funds.

Throughout the year, in line with its equity strategy, EIF strengthened its efforts to develop new VC products with a view to increasing its reach to and impact on the European VC ecosystem and attracting private sector investors. As a result, a first pilot project – the European Angels Fund (EAF) – was developed. Further products are in the definition or pre-launch stages and can be expected to become operational in 2012.

2011 was also the year in which EIF made its first commitment into the impact-investing segment signing a cornerstone investment in Bridges Ventures third fund. This signature illustrates EIF's support for European social entrepreneurship and innovation going forward. It also marks EIF's intention to become an important player in this emerging and innovative asset class.

"EIF plays a key role in building a truly European venture capital ecosystem supporting entrepreneurship and innovation. Early stage venture capitalists, particularly in the ICT sector, need smart LPs like EIF to help them increase their capacity to finance start-ups and boost young innovative companies' growth."

Stéphane Richard, Chairman & CEO, France Telecom – Orange, Maurice Levy, CEO, Publicis

Growth capital

Lower mid-market: supporting established SMEs

EIF continued to deploy its lower mid-market activity offering SMEs in their growth phase access to equity finance.

EIF particularly supported first closings managed by emerging or first-time teams, thereby expanding the market offering of equity finance for SMEs. The share of investments in first-time teams and emerging teams was higher in 2011 than in the previous year, demonstrating EIF's increased contribution to this segment of the market.

In 2011, EIF signed EUR 409m in 19 lower mid-market funds[5], strongly supporting teams with significant contributions at a time when interest from institutional investors was still at very low levels. This amount catalysed a total of EUR 2.8bn of commitment.

Additionally, EIF's proactive involvement in this sector has partially offset the lower interest from institutional investors in supporting new projects, which is reflected in the substantially lower number of EIF investments where another institutional investor acted as sponsor of the fund. EIF further supported emerging teams gaining their independence from their previous sponsors, thereby helping new teams on the market.

Mezzanine: an alternative solution for long-term financing

EIF continued to play a catalytic role in the mezzanine market segment, committing capital to mezzanine funds (hybrid debt-equity funds) through the EIB's EUR 1bn Mezzanine Facility for Growth (MFG). This mezzanine instrument, which is well adapted to long-term financing, provided alternative support to more mature businesses and late stage technology companies helping them, for instance, through their shareholding reorganisation or expansion.

In 2011, EIF committed a total of EUR 236m in six hybrid debt-equity funds, spreading its contribution between two first-time teams composed of experienced professionals and four established teams raising new funds.

Five of the funds backed by EIF in 2010 and 2009 made further closings in 2011, demonstrating EIF's catalytic role in allowing first closings and in generating new investors' interest which amounted to EUR 1.2bn.

"EIF's expertise with direct lending funds and active support were instrumental for us to hold a first closing at a sufficiently large size to carry out our investment strategy and deploy resources into end beneficiaries."

Florian Lahnstein, CEO and Founding Partner, RiverRock

[5] Plus two co-signatures with MFG.

Equity resources and mandates

EIB resources

RCM's core objective is to support technology and industrial innovation through early stage, expansion and lower mid-market capital, with an emphasis on specialist funds investing in the EU and generalist funds in an enlarged Europe (EU 27, EU Candidate and potential Candidate Countries, EFTA countries). EIF has been managing the RCM on behalf of the EIB since 2000.

In October 2011, the EIB increased the funds available through RCM, the largest mandate under EIF management and the core pillar in EIF's equity activity, from EUR 4bn to EUR 5bn. This increase came with a revised mandate framework that allows EIF to apply its expertise more broadly in new segments while continuing, in close cooperation with the EIB, to support the stabilisation of the overall European equity market.

EUR 487m was drawn from RCM during the year, and after capital repayments of EUR 238m, the net figure was EUR 249m. After accounting adjustments the RCM year end headroom stood at EUR 995m.

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

Since the launch of MFG in 2009, EUR 619m have been committed, and total disbursements have amounted to EUR 65.9m with total reflows of EUR 8.4m (capital repayments of EUR 8.3m and revenue repayments of EUR 0.1m).

EIF own resources

RCM resources are always complemented by EIF own resource co-investments.

During 2011 EIF committed EUR 50m to support the co-investment obligation with the RCM. EUR 31m of capital repayments were received, hence the net drawing on own resources was EUR 19m. At 31 December 2011, EIF own resources available for investment into its equity business stood at EUR 113m.

European Commission resources

GIF (High Growth and Innovative SME Facility), the equity window of the CIP 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 to EIF's support for 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. CIP GIF also expands EIF's range of instruments in support of developing SME market segments and products, including technology transfer and Business Angels. During 2011, due to lack of investors'

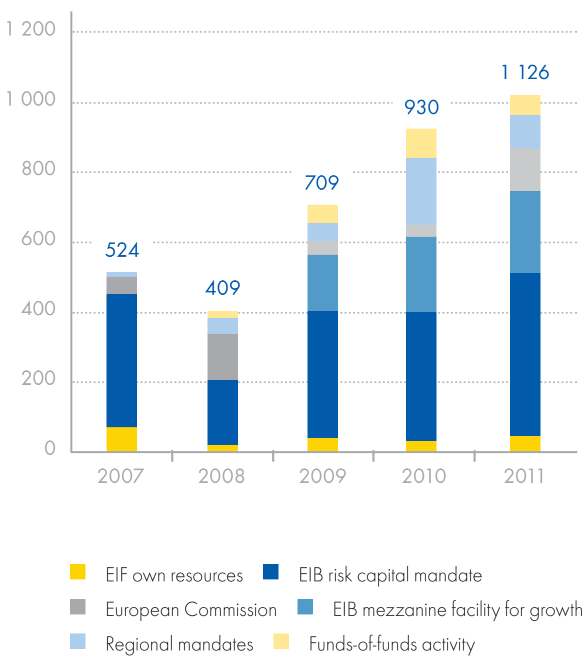
	Year signed	End of commitment period	Total resource (EUR m)	Total committed (EUR m)	Committed (%)	Total disbursed (EUR m)	Disbursed (%)
EIF							
EIF own resources	n/a	Revolving	515	420	81%	374	73%
EIB							
RCM	2000	Revolving	5 000	4 004	80%	3 187	64%
MFG	2009	2013	1 000	619	62%	66	7%
European Commission							
G&E	1998	2002	123	123	100%	105	85%
MAP	2001	2006	242	242	100%	159	66%
CIP GIF (1 & 2)	2007	2013	623	345	55%	110	18%

appetite for the asset class, CIP GIF funds were in high demand and the allocation was fully utilised. GIF also played a crucial role in the context of the EU 2020 Innovation Union[6] by supporting the growth and development of innovation in Europe. Throughout 2011, EIF signed CIP GIF commitments amounting to EUR 127m (EUR 96.6m under GIF 1 and EUR 30.3m under GIF 2[7]).

In terms of 2011 cash flows, for all Commission mandates (CIP, Multiannual Programme for Enterprise and Entrepreneurship 2001-2006, or MAP, and the Growth and Employment scheme, or G&E), EUR 60m was disbursed, with reflows of EUR 16.4m.

This activity brings the net signatures of all of the European Commission portfolios (including G&E, MAP and CIP) to EUR 710m at end 2011.

Yearly equity commitments by resource – in EUR m



Funds-of-funds

EIF is advising or managing 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 expand EIF's market impact and reach and provide a wide choice of financial solutions tailored to complement existing national schemes.

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 were committed, matched by co-investments from EIF, EIB and EU resources. Throughout the year, with a commitment of EUR 75m in three funds (Munich Venture Partners II, UnternehmerTUM and HBM BioCapital II), the ERP-EIF Dachfonds helped first-time teams as well as established teams to reach viable first closing sizes and further asserted its role as cornerstone investor in the German VC segment. ERP-EIF Dachfonds has to date supported 23 VC funds and managed to catalyse around EUR 1.9bn of commitments by other investors. It is currently 62% committed with signatures and conditional commitments totalling EUR 617m.

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, which provided EUR 25m matched by co-investments from EIF, EIB and the EU for an original total size of EUR 50m. During 2011, the facility committed EUR 12.5m to three funds (Munich Venture Partners II, UnternehmerTUM and Creathor III) and outlined its catalytic role when backing first-time teams and established managers in the region. 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. To date, the LfA-EIF Facility has committed some EUR 43m in nine funds, of which one commitment (EUR 5m) is still conditional. It is now 43% committed.

[6] The Innovation Union's aim is to speed up and improve the way Member States conceive, develop, produce and access new products, industrial processes and services. It is one of the seven flagships of the EU 2020 strategy regarded as one of the engines to boost growth and job creation.
[7] GIF comprises two business lines, GIF 1 which covers early stage (seed and start-up) investments investing in specialised venture capital funds and GIF 2 which covers expansion stage investments by investing in specialised risk capital funds.

United Kingdom Future Technologies Fund (UK FTF) is a GBP 200m fund-of-funds combining equal commitments by the UK government and EIF and 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 2011, UK FTF signed two investments: Gilde Healthcare III (EUR 10m) and SEP IV (GBP 30m). These two funds add to investments previously made in DFJ Esprit Capital III, Acton GmbH & Co. Heureka KG and Advent Ventures Life Sciences Fund. To date, UK FTF has total commitments of EUR 77m, and managed to catalyse over EUR 550m.

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 2011, six investments including ADM CEECAT Fund, Darby Converging Europe Fund III, Clean Energy Transition Fund and Mediterra Fund I were approved by the iVCi Investment Committee, representing EUR 91.5m. In total to date, iVCi holds a portfolio of seven investments representing total signed commitments of EUR 112.5m which underlines its vital role in supporting the growth of Turkish enterprises. iVCi has been a cornerstone in most of its investments to date and has catalysed six times its resources from other investors into the funds it has supported.

Portugal Venture Capital initiative (PVCi) is a EUR 111m private equity / venture capital fund-of-funds launched by EIF, 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 2011, PVCi made two new investments, in Portugal-based funds for a total amount of EUR 20m, Vallis Sustainable Investments I (EUR 15m) and Inter-Risco II (EUR 5m). The Investment Committee of PVCi has now approved four investments worth EUR 65m, out of which EUR 50m have materialised despite a severe adverse fundraising environment. The investment period has been extended until April 2013.

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 Technológico Industrial), now part of the Spanish Ministry of Science and Innovation, and several private investors, mainly Spanish blue chip companies. During 2011, NEOTEC played an incremental role in further developing the Spanish VC market committing EUR 20m to Cross Road Biotech II. In addition, NEOTEC approved EUR 35m in two Spanish ICT funds. To date, NEOTEC has approved 12 funds, including co-investments, for a total of EUR 134.3m, of which EUR 129m have been signed accounting for 70% of the fund size and catalysing over EUR 700m of commitments from other investors.

	Year signed	End of commitment period	Total resource (EUR m)	Total committed (EUR m)	Committed (%)	Total disbursed (EUR m)	Disbursed (%)
Regional mandates and funds-of-funds activity*							
ERP	2004	Revolving	1 000	617	62%	314	31%
NEOTEC	2006	2012	183	129	70%	65	36%
iVCi	2007	2012	160	113	70%	22	14%
PVCi	2007	2013	111	50	45%	13	12%
LfA	2009	2016	100	43	43%	12	12%
UKFTF	2010	2014	231	77	33%	15	6%

* Including EIB Group and EC commitments.

Equity signatures 2011

in EUR m

Fund vehicle	Resources	Geographic focus	Commitment
Arcadia Small Cap Fund	CIP	Italy	11.3
Bullnet Capital Fund II	CIP	Spain	0.3
Karmijn Kapitaal	CIP	Netherlands	7.5
Louvain VIVES II	CIP	Multi-country	15.0
Newion Investments II	CIP	Multi-country	15.0
Notion Capital II	CIP	United Kingdom	19.6
Open Ocean Fund III	CIP	Multi-country	15.0
Pontis Growth Capital Fund II	CIP	Multi-country	10.0
WestBridge SME Fund	CIP	United Kingdom	11.5
Munich Ventures Partners Fund II	CIP/ERP/LfA	Germany	30.0
Unternehmer TUM Fonds	CIP/ERP/LfA	Germany	12.5
3TS Catalyst Romania Fund	JER*	Romania	17.5
New Europe Venture Equity II	JER*	Bulgaria	21.0
ADM CEECAT Fund	MFG	Turkey	40.0
Darby Converging Europe Fund III	MFG	Multi-country	35.0
Kreos Capital IV (Expert Fund)	MFG	Multi-country	60.0
Palio Superflex Fund I	MFG	United Kingdom	30.8
Precision Lending Fund I	MFG	Multi-country	30.0
VSS European Strategic Capital	MFG	Multi-country	40.0
Cabiedes & Partners	RCM	Spain	0.4
Crossroads Biotech Fund	RCM	Spain	5.5
360 Capital 2011	RCM/EIF own resources	Multi-country	30.0
Alto Capital III	RCM/EIF own resources	Italy	17.5
Bridgepoint Development Capital	RCM/EIF own resources	Multi-country	20.0
Bridges Ventures III	RCM/EIF own resources	United Kingdom	22.9
BV5	RCM/EIF own resources	France	20.0
Creandum III	RCM/EIF own resources	Multi-country	35.0
E-Capital III	RCM/EIF own resources	Belgium	12.4
Euroknights VI	RCM/EIF own resources	Multi-country	50.0
Healthcap VI	RCM/EIF own resources	Multi-country	30.0
Initiative & Finance I	RCM/EIF own resources	France	22.0
NIBC Growth Capital Fund II	RCM/EIF own resources	Multi-country	30.0
Partech Fund VI	RCM/EIF own resources	Multi-country	30.0
Priveq IV	RCM/EIF own resources	Multi-country	30.2
Progressio Investimenti II	RCM/EIF own resources	Italy	19.9
Qure Invest Life Sciences Fund	RCM/EIF own resources	Multi-country	6.0
Steadfast Capital Fund II	RCM/EIF own resources	Germany	15.0
Steadfast Capital Fund III	RCM/EIF own resources	Germany	30.0
Sunstone Lifescience Ventures III	RCM/EIF own resources	Multi-country	30.9
Sunstone Technology Ventures III	RCM/EIF own resources	Multi-country	29.6
HBM BioCapital II	RCM/EIF own resources/ERP	Multi-country	40.0
Creathor Venture Fund III	RCM/EIF own resources/LfA	Germany	5.0
Subtotal			954.4
Funds-of-funds activity			
ADM CEECAT Fund	iVCi	Turkey	24.0
Clean Energy Transition Fund	iVCi	Turkey	15.0
Darby Converging Europe Fund III	iVCi	Turkey	17.5
Mediterra Capital Partners	iVCi	Turkey	20.0
Pera Private Equity Fund	iVCi	Turkey	15.0
Bullnet Capital Fund II	Neotec/Fondo ICO	Spain	0.9
Cabiedes & Partners	Neotec/Fondo ICO	Spain	1.1
Crossroads Biotech Fund	Neotec/Fondo ICO	Spain	14.5
Fondo Inter-Risco II (incr.)	PVCi	Portugal	5.0
Vallis Sustainable Investments I	PVCi	Portugal	15.0
Gilde Heathcare III	UKFTF	Multi-country	10.0
Scottish Equity Partners IV	UKFTF	United Kingdom	33.6
Subtotal			171.6
Total**			1 126

* Also summarised by country in the JEREMIE highlights 2011 of the Regional business development section (page 29).
** Including conditional commitments.

Guarantees and credit enhancement

General overview

EIF is a prime provider of credit enhancement to catalyse SME lending. With its 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.

EUR 1.4bn catalysed EUR 7.6bn of lending to SMEs in 2011

EIF guarantee operations can be broadly 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 facilitating 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.

"We had an important and successful collaboration with EIF on our second securitsation transaction. We found in EIF a skilled and reliable partner ready to support the financing of SMEs."

Stefano Rossi, CFO, Alba Leasing S.p.A

As part of its mandate activity, EIF manages the SME Guarantee Facility (SMEG) under CIP on behalf of the EC. Under this facility, losses are covered using the 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 of four measures or windows:

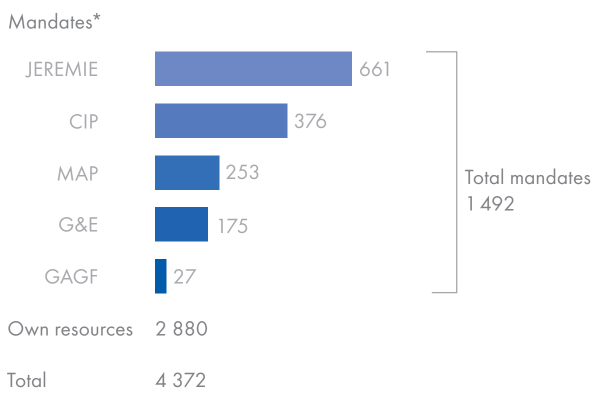
- Loan Guarantees cover portfolios of mid- to long-term loans and leases to SMEs;
- Micro-Credit Guarantees cover portfolios of micro-credits to encourage financial institutions to provide financing to micro-enterprises, especially start-ups;
- Equity/Quasi-Equity Guarantees cover portfolios of investments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

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

Portfolio

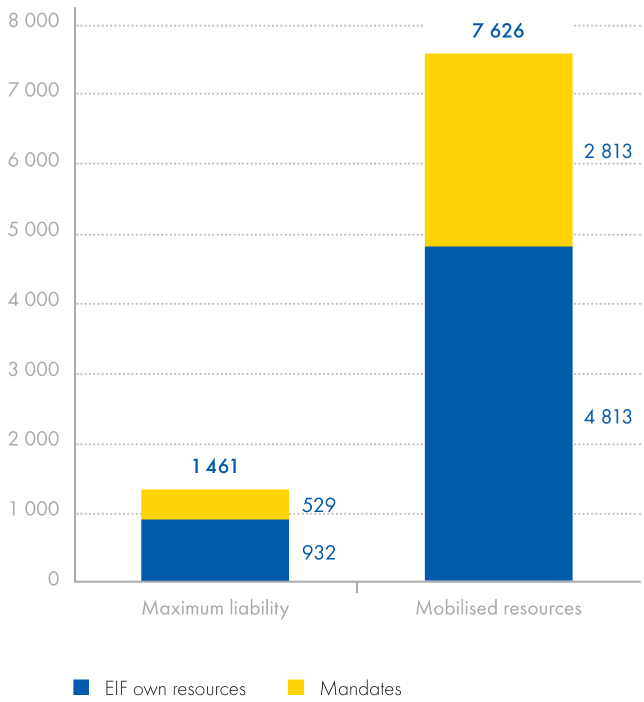
Total outstanding guarantee commitments amounted to close to EUR 4.4bn in 221 transactions at the end of 2011. Of this total, EUR 2.9bn were dedicated to own risk and EUR 1.5bn to mandate programmes*, mobilising more than EUR 30bn, demonstrating EIF's increased catalytic role in SME lending.

Product breakdown at 31 Dec 2011 – in EUR m



* Including the two EC programmes prior to CIP – the Multiannual Programme (MAP) and Growth & Employment (G&E) available between 1998 and 2007 – JEREMIE and the Greater Anatolia Guarantee Facility (GAGF).

2011 guarantee commitments and mobilised resources – in EUR m



In 2011, EIF signed 47 new transactions across Europe which amounted to over EUR 1.46bn. EUR 932m were dedicated to own risk guarantees and EUR 107m to guarantees under CIP (maximum first loss liability), corresponding to a notional volume of EUR 1.7bn for CIP, up from EUR 1.1bn at end 2010, indicating that the market demand for guarantees under the CIP facility remained strong. During 2011, EIF accelerated its regional business development activity under mandate and signed EUR 422m of guarantees under the JEREMIE mandate (20 transactions).

New products

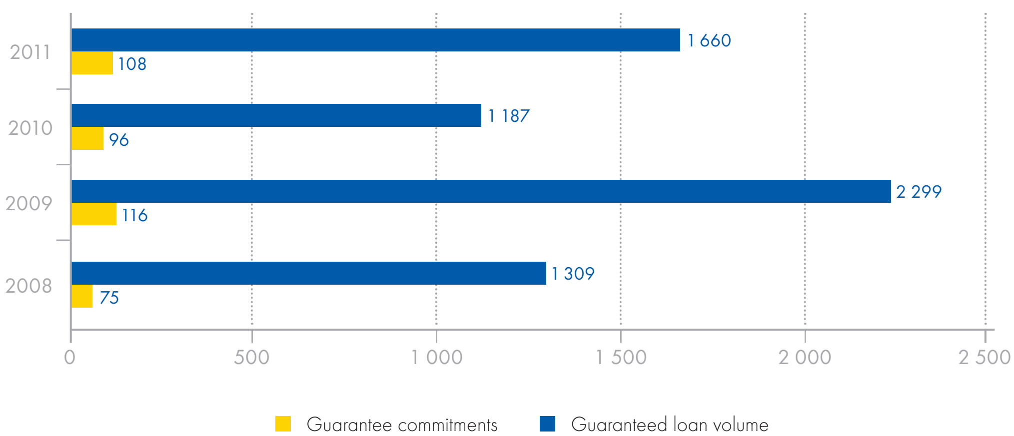
In 2011, EIF launched the RSI* Facility. RSI is an EIF, EIB and European Commission (DG Research and Innovation) joint pilot guarantee scheme aimed at improving access to debt finance for innovative SMEs and small mid-caps (enterprises with fewer than 500 employees) in support of research, development and innovation projects. RSI complements the scope of the existing Risk Sharing Finance Facility (RSFF), which is managed by the EIB and mainly addresses large corporates and mid-caps. With RSI, EIF makes available loans and financial leases through selected financial intermediaries. Serving as a basis for the EU 2014-2020 programming period, RSI complements other existing EU SME support schemes, such as the CIP SMEG programme.

Guarantees resources and mandates

European Commission mandate: catalysing SME lending

The CIP SMEG programme, 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

Supported loan volume under SMEG – in EUR m



* RSI: Risk-Sharing Instrument

made available to CIP intermediaries as a free-of-charge guarantee covering part of the first loss (i.e. the expected losses) of a portfolio of new SME loans. To qualify for such cover, financial institutions commit to offer enhanced access to finance for SMEs by taking SME risk exposure which is additional to what they would usually accept through for example reduced collateral requirements, increased loan volumes 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 2011, EIF continued to deploy the programme's guarantee instruments with a total of more than 155 000 SMEs having already benefited from the CIP guarantees. It is expected that a total number of approximately 300 000 SMEs will be supported over time by the already committed budget. With many financial institutions tightening their credit policies post crisis, CIP SMEG played a crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance. At end 2011, EIF had signed more than 50 CIP agreements in 18 different countries, the large majority (more than 90 %) of the supported SMEs being micro-enterprises and 60 % of them in their start-up phase.

CIP 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 supports EUR 16 of SME loans.

Own resources/credit enhancement and securitisation: driving the market

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

Throughout 2011, EIF continued to be an active participant in the still evolving SME securitisation market and supported transactions in a wide range of geographies, including Bulgaria, France, Germany, Italy, the Netherlands, Portugal, Sweden and the United Kingdom. The total volume of guarantee signings in the securitisation space in 2011 amounted to EUR 932m and supported SME lending volumes of EUR 4.8bn.

EIF expects a continuation of the activity in SME securitisations in Europe. While there are some caveats given the currently volatile credit environment, EIF foresees an increasing number of financial institutions tapping the secured funding markets, either in the form of securitisations or potentially SME covered bonds. While securitisation spreads have generally not tightened in 2011 and in fact widened for some countries, the scarce availability of unsecured funding options will make securitisation more attractive on a relative basis. Most of the securitisations will be focussed on generating funding, while risk transfer transactions, i.e. whereby banks release capital for new SME lending, might make a gradual return.

"Securitisation plays an important role in the long-term funding of our SME loan portfolio. In this regard, EIF has been both an innovative and supportive partner to the ProCredit group for many years, and we hope to further strengthen this partnership in the future."

Helen Alexander, Member of the Managing Board, ProCredit Holding AG

EIF will continue to support this market with new guarantee signings and new product initiatives targeting both top tier international banks and smaller, national financial institutions and leasing companies, while continuing to promote best market practice in SME-related securitisations in the public domain. With this combined effort, EIF will target an ongoing improvement for the financing conditions of SMEs.

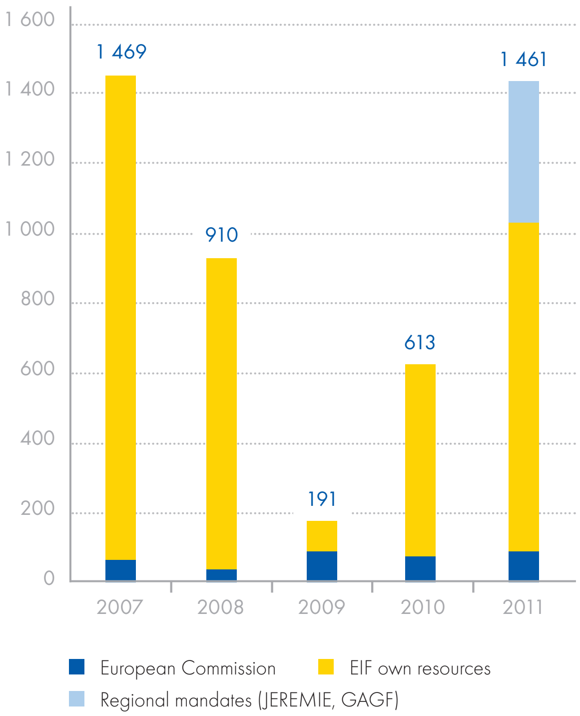
Financial products under JEREMIE: sharing the risk

In 2011, EIF continued to deploy its financial products in order to catalyse EU structural funds with a view to enabling SME financing in countries less supported by the traditional EIF products, namely risk-sharing loans and portfolio guarantee instruments under JEREMIE.

Under the JEREMIE First Loss Portfolio Guarantee (FLPG), EIF covers part of the credit risk relating to a new portfolio of loans and/or leases granted by a financial intermediary to SMEs. An overall EUR 139m cap amount was signed under FLPG in Bulgaria, Cyprus, France, Lithuania, Malta and Romania.

In addition, EIF further implemented the JEREMIE risk sharing loan facility, the Funded Risk Sharing Product (FRSP), whereby EIF provides funding to banks for the financing of new portfolios of SME loans (such loans to be co-financed by the financial institutions) and shares part of the credit risk relating to the portfolios. EIF signed nine JEREMIE risk sharing loan facilities in 2011 for a total amount of EUR 283m in Greece, Italy and Lithuania.

Yearly guarantee commitments by resource – in EUR m



Guarantee signatures 2011

in EUR m

Deal name	Resources	Geographic focus	Commitment
Bank BPH	CIP	Poland	3.4
BNP Paribas Bank Polska	CIP	Poland	8.7
BPCE - SOCAMAs	CIP	France	16.5
Cacanska Banka	CIP	Serbia	2.0
Crnogorska Komercijalna Banka (Montenegro)	CIP	Montenegro	2.1
Dexia Bank Belgium	CIP	Belgium	5.2
GE Budapest Bank	CIP	Hungary	2.8
GE Budapest Lizing	CIP	Hungary	1.7
GE Capital Equipment Finance (loan)	CIP	France	1.4
GE Capital Equipment Finance (micro)	CIP	France	1.6
KfW	CIP	Germany	27.2
National Guarantee Fund	CIP	Bulgaria	3.6
Nuevo Micro Bank	CIP	Spain	15.0
Polfund	CIP	Poland	1.7
Polski Fundusz Gwarancijny - Poland	CIP	Poland	0.3
Vaekstfonden	CIP	Denmark	4.8
Ziraat Bankasi	CIP	Turkey	9.1
Acrobaleno Finance 2	EIF own resources	Italy	117 .0
Alba Leasing	EIF own resources	Italy	150.0
Atlantes	EIF own resources	Portugal	79.2
BNP Paribas 2011	EIF own resources	France	25.7
Frispar företagskredit	EIF own resources	Sweden	33.0
Geldilux TS 2011	EIF own resources	Germany	150.0
ProCredit Bulgaria 2011	EIF own resources	Bulgaria	72.5
Sandown Gold 2011	EIF own resources	United Kingdom	155.0
Stichting Eleven Cities 7	EIF own resources	Netherlands	70.0
Stichting Eleven Cities 7	EIF own resources	Netherlands	80.0
Bank of Cyprus	JEREMIE FLPG*	Cyprus	8.0
Bank of Valletta	JEREMIE FLPG*	Malta	8.8
Banque Populaire du Sud	JEREMIE FLPG*	France	14.0
Cibank	JEREMIE FLPG*	Bulgaria	22.4
Nordea Bank Finland - Lithuania Branch	JEREMIE FLPG*	Lithuania	8.0
ProCredit Bulgaria	JEREMIE FLPG*	Bulgaria	8.0
Raiffeisen (Bulgaria) EAD	JEREMIE FLPG*	Bulgaria	13.0
Siauliu Bankas	JEREMIE FLPG*	Lithuania	4 .0
Unicredit Bulbank - Bulgaria	JEREMIE FLPG*	Bulgaria	10.0
UniCredit Tiriac Bank	JEREMIE FLPG*	Romania	17.5
United Bulgarian Bank	JEREMIE FLPG*	Bulgaria	25.0
Alpha Bank (ICT)	JEREMIE FRSP*	Greece	30.0
Alpha Bank	JEREMIE FRSP*	Greece	30.3
Banca Nazionale del Lavoro	JEREMIE FRSP*	Italy	44 .0
Emporiki Bank of Greece (ICT)	JEREMIE FRSP*	Greece	30.0
National Bank of Greece (SME)	JEREMIE FRSP*	Greece	30.0
National Bank of Greece (ICT)	JEREMIE FRSP*	Greece	30.0
Siauliu Bankas	JEREMIE FRSP*	Lithuania	10.0
Unicredit Campania	JEREMIE FRSP*	Italy	70.0
Unicredit Sicily	JEREMIE FRSP*	Italy	9 .0
Total			1 461.4

* Also summarised by country in the JEREMIE highlights 2011 of the Regional business development section (page 29).

Microfinance

General overview

During 2011, EIF's microfinance activity transitioned from a low-scale pilot activity to 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 to 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. As part of its microfinance strategy, 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 initial testing phase of the European Code of Good Conduct for Microfinance that 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 heterogeneous market and a wide range of different types of MFIs applying different sets of lending models. The variety of products available under the European Progress Microfinance Facility (Progress Microfinance) in particular, aims at addressing these particular market needs. Over time, EIF has the ambition to become the key player in the European microfinance market.

2011 marked a giant leap for EIF in the scaling up of its microfinance activities. EIF began the deployment of newly developed debt, equity, and guarantee instruments tailored to the needs of Europe's MFIs and designed to maximise the catalytic effect at the micro-borrower level.

During 2011, the first full operational year of Progress Microfinance, EIF concluded 14 agreements with 12 micro-lenders in nine countries across the EU and committed over EUR 64.4m to support the microfinance sector under the new facility alone. This support generated a total volume of over EUR 130m in new micro-loans.

At the end of 2011, EIF estimated that EUR 24m in micro-loans had already been disbursed to final beneficiaries. This figure corresponds to approximately 2,400 new micro-loans already originated through support under Progress Microfinance.

> *"Conditions have been particularly difficult for microfinance institutions recently. We found in EIF a reliable long-term partner that is able to help us provide tailor made solutions for the specific financing needs of local micro-entrepreneurs."*
>
> *Ioan Vlasa, CEO, FAER IFN S.A*

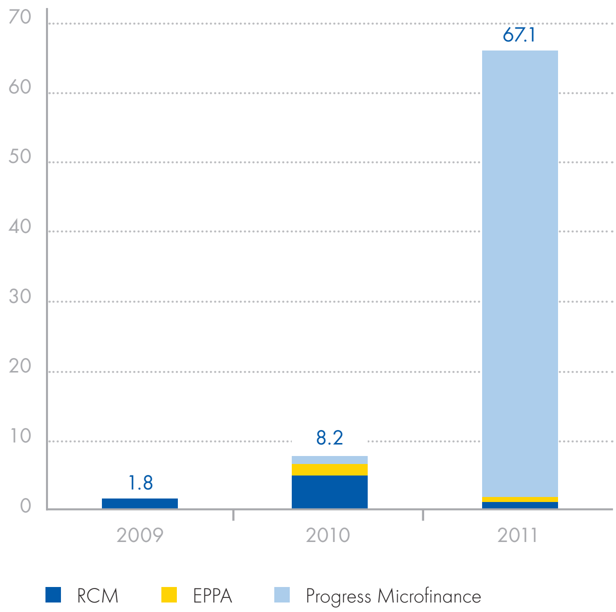
Portfolio

At end 2011, the total portfolio amounted to over EUR 67.1m, catalysing EUR 140m and enabling close to 8,800 loans.

The transactions closed in 2011 clearly indicate a strong demand among non-bank MFIs for long-term funding. Banks in Western and Eastern Europe are also keen to embark into microfinance, building on their small business lending track-record. Such downscaling is often limited to pilot testing or social responsibility activities. Microfinance guarantee transactions closed in 2011 demonstrate the catalytic effect that can be achieved with capped guarantee instruments.

Early successes under the newly launched Progress Microfinance initiative have been complemented by continued microfinance achievements initiated under the CIP, the European Parliament Preparatory Action (EPPA), and RCM microfinance programmes, which served as a basis for EIF's early microfinance pilot activities. Technical assistance made available under JASMINE Technical Assistance (TA), in particular, has demonstrated important non-financial complementarity with the funding and guarantee instruments under Progress Microfinance. In the future, it is expected that JASMINE TA will deepen coordination with Progress Microfinance to enhance the synergies between the two facilities.

Yearly microfinance commitments – in EUR m



Microfinance resources and mandates

European Progress Microfinance Facility (Progress Microfinance)

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

12 micro-lenders in 9 countries under Progress Microfinance in 2011

Progress Microfinance, comprising to date EUR 203m of funding originating from the EC and the EIB, allows EIF, which manages the initiative on their behalf, to make a substantial contribution towards filling a funding gap in the EU microfinance market, as well as providing risk coverage through the guarantee instrument, while proving its management expertise in microfinance initiatives.

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

Given its solid commitment to supporting the emerging microfinance sector in Europe, EIF has already begun exploring ways of further enhancing outreach under Progress Microfinance and extending the initiative beyond 2016.

CIP SME Guarantee Facility (SMEG) for microfinance

With CIP SMEG, and through EIF, the EU also provides capped guarantees on portfolios of micro-credit financing granted by financial institutions (FI) to very small enterprises with a commercial focus. The risk-sharing arrangements established between EIF and each FI aim to stimulate micro-lending and enhance access to finance for micro-entrepreneurs in Europe.

SMEG therefore complements Progress Microfinance, which is deployed in EU-27 countries only and in support of more socially-focussed micro-loan portfolios with relatively small cap amounts. EIF's active approach to managing both programmes in a complementary manner is underpinned by specific allocation prioritisation guidelines.

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 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, 25 non-bank MFIs have benefited from JASMINE TA. Out of those non-bank MFIs, seven have also received funding and/or risk coverage under EPPA (four) and Progress Microfinance (three).

"EIF has helped us with financial support but going beyond that also provided technical assistance. With this support, we managed to improve our visibility and the quality of the products and services we offer our target groups".

Georgi Breskovski, CEO, Mikrofond

In 2011, microfinance development services were implemented under JASMINE to help market building through tools facilitating transparency, information sharing and standardisation of products. From 2012 onwards, JASMINE TA will also be extended to banks active in the microfinance space and to greenfield MFIs.

European Parliament Preparatory Action (EPPA)

In March 2010, the EC and EIF signed the EUR 4m EPPA mandate. The European Parliament had encouraged the EC to launch this preparatory action to promote a more favourable environment for micro-credit in the EU and to complement the JASMINE pilot facility. EPPA supports higher risk financing for non-bank MFIs and provides seed financing to newly created MFIs with strong social credentials but which have not yet reached sustainability. EIF has closed four out of five transactions under EPPA, three of which in 2011.

Microfinance signatures 2011

in EUR m

Deal name	Resources	Geographic focus	Commitment
Equity and loan activity			
Cooperative Central Bank	Progress Microfinance	Cyprus	8.0
FAER IFN S.A.	Progress Microfinance	Romania	1.0
ICREF	Progress Microfinance	Spain	8.0
Inicjatywa Mikro	Progress Microfinance	Poland	3.9
Jobs Micro Financing Institution	Progress Microfinance	Bulgaria	6.0
Mikrofond	Progress Microfinance	Bulgaria	3.0
Pancretan Bank	Progress Microfinance	Greece	8.8
Patria Credit	Progress Microfinance	Romania	8.0
Siauliu Bankas	Progress Microfinance	Lithuania	5.0
Volksbanken Slovenia*	Progress Microfinance	Slovenia	8.8
Inicjatywa Mikro	EPPA	Poland	0.7
Microstart	EPPA	Belgium	0.8
Coopest	RCM	Belgium	1.2
Subtotal			63.1
Guarantee activity			
Banco Comercial Portugues - Millennium	Progress Microfinance	Portugal	0.3
FM Bank	Progress Microfinance	Poland	1.9
Pancretan Bank	Progress Microfinance	Greece	0.9
Patria Credit	Progress Microfinance	Romania	1.0
Subtotal			4.0
Total			67.1

* *Subject to regulatory approval.*

Regional business development

General overview

Regional business development involves the acquisition and management of third party mandates entrusted to EIF by the national or regional authorities in the Member States and countries with prospective EU membership. As the manager of JEREMIE Holding Funds, regional funds-of-funds and IPA funds, EIF brings its expertise and value-added in terms of capacity building and know-how transfer.

EIF primarily manages Holding Funds established under the JEREMIE initiative, a joint initiative of the EC, EIF and EIB to promote SME access to finance and financial engineering products in European regions. The initiative offers EU Member States, through their national or regional managing authorities, the opportunity to use part of their EU structural funds to finance SMEs by means of equity, loans or guarantees, through a revolving holding fund acting as an umbrella fund. It operates as a "tool-box" to create, through selected local financial intermediaries, financial instruments for the benefit of micro, small and medium-sized enterprises.

Similarly, the Instrument for Pre-accession Assistance (IPA), offers assistance to countries engaged in the accession to the EU process. Assistance is provided on the basis of the European partnerships of the potential candidates and the accession partnerships of the candidate countries. Financial engineering for regional development and support for SMEs and innovation is a specific measure under IPA.

"With the support of initiatives such as JEREMIE, being committed to promote regional development and entrepreneurship, we are able to provide investment into Lithuanian SMEs early in their growth stages and at the time when they need it most."

Šarūnas Šiugžda, Founder and Managing Partner, LitCapital

2011 was a significant year for EIF. JEREMIE Holding Funds began to have a real impact at SME level in several Member States, mainly due to the increase in the number of transactions with financial intermediaries. The implementation of the first instruments for IPA also started in 2011. At the same time, 2011 marked the completion of the investment period of two of EIF's fund-of-funds activities – namely iVCi in Turkey, and NEOTEC in Spain – with PVCi's activity ongoing. In addition, a second IPA mandate in Turkey, the EUR 16m G43 Anatolian VC Fund Project as well as new mandates in the Provence-Alpes-Côte d'Azur (PACA) region of South East France and the Calabria region of Italy were signed, with respective commitments of EUR 20m and EUR 45m.

EIF currently manages 16 mandates under JEREMIE and IPA for a combined total of EUR 1.3bn and has signed transactions with 27 new financial intermediaries in the regions served. Through the JEREMIE Holding Funds, a total amount of EUR 1.4bn has been catalysed and this figure is expected to rise to EUR 3bn by the end of 2012.

"JEREMIE has provided us with adequate risk protection which enables us to offer SMEs better access to finance at attractive terms and contribute to their growth, innovation and job creation."

Charles Borg, CEO, Bank of Valletta

EIF's regional business development activities

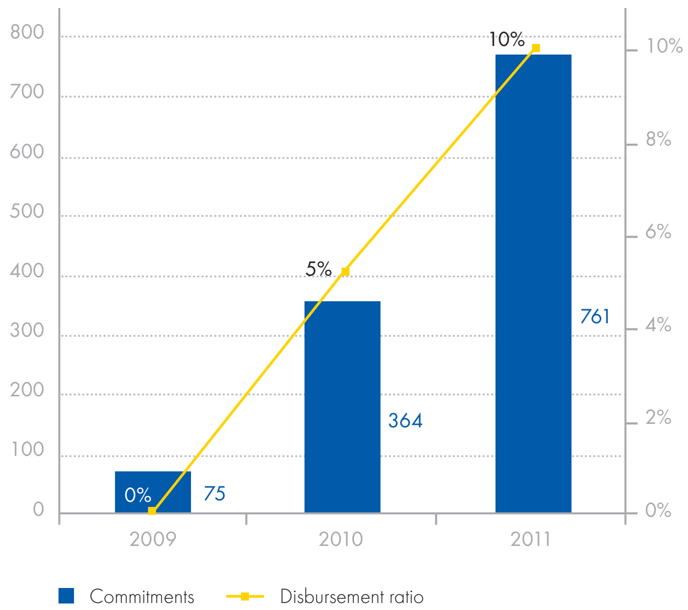
In managing regional business development, EIF aims to use its expertise and experience to create market impact through considered local implementation of financial instruments utilising EU structural funds, other national government, regional or local resources, and third party funds. This involves working closely with local stakeholders to tailor respective investment strategies according to the needs of the market and to implement them via selected financial intermediaries.

First results are materialising at the level of the SMEs, as evidenced by a growing number of investment loans being made by the financial intermediaries to the SMEs.

Both the JEREMIE and 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 that ensure a full alignment of interests. The instruments include equity investments through venture capital fund managers, often focussed on the earlier stage investment rounds of high-growth companies, and also involve the banking sector, through co-lending or guarantee transactions which stimulate greater volumes of lending to SMEs within agreed target sectors, and on improved terms. By applying its financial engineering know-how to JEREMIE and IPA resources, EIF facilitates SMEs access to smart money whilst ensuring that the concept of revolving financing enables a long-term impact for the economies in question.

As the graph below shows, commitments and disbursement ratios under JEREMIE have doubled since 2010.

JEREMIE commitments and disbursements flows – in EUR m



JEREMIE highlights 2011[8]

EU-27

Bulgaria – JEREMIE Holding Fund (EUR 199m)
In July, five FLPG[9] transactions and one equity deal were signed. The combined amount of loans to SMEs available via these agreements equals EUR 392m.

Cyprus – JEREMIE Holding Fund (EUR 20m)
One FLPG transaction complemented the FRSP products already provided last year which generated a strong 40% uptake. Overall SME financing of EUR 70m is expected to be generated under both operations, of which at least EUR 35m will be dedicated to start-ups and newly established businesses.

France – Two regional JEREMIE Holding Funds (combined total of EUR 50m).
In June a third instrument under the mandate in the Languedoc-Roussillon region, FLPG, was signed leading to overall support of more than 70 SMEs under the Holding Fund by the end of the year.

Additionally, EIF signed a new mandate for EUR 20m in December with the region of Provence-Alpes-Côte d'Azur (PACA) which focuses on financing SMEs belonging to technology clusters as well as companies implementing energy efficiency projects.

Greece – JEREMIE Holding Fund (EUR 250m)
Six contracts (FRSP[10]) were signed with three banks providing for an overall volume of EUR 360m available for SME lending. The instruments aim at helping to stimulate the economy in very difficult times and are offered to SMEs on particularly beneficial terms. These actions will be further enhanced and supported by VC and seed capital transactions to be signed in H1 2012 to encourage the creation of a VC ecosystem in Greece.

Italy – Four JEREMIE Holding Funds (combined total of EUR 210m).
In the Sicily region, EIF manages two Holding Funds with ERDF[11] and ESF[12] resources. Under the first mandate, EIF signed two transactions for a total of EUR 53m, for the provision of microloans, with the aim of supporting growth and strengthening entrepreneurship in Sicily. An overall volume of EUR 106m will be available for SME lending. These operations will be followed by microfinance products under the ESF mandate for which significant progress has been made.

In October, EIF signed a EUR 70m agreement in the Campania region, one of the largest operations under JEREMIE, undertaken to build a new SME loan portfolio of about EUR 140m at reduced interest rates to local SMEs.

Additionally, in October 2011, EIF signed a new funding agreement with the Region of Calabria to implement a EUR 45m Holding Fund with a particular focus on start-ups and innovative micro-businesses.

[8] Information on specific JEREMIE transactions concluded in 2011 can be found under the equity and guarantee sections.
[9] For the names of the intermediaries with whom FLPG transactions were concluded in 2011, please consult the guarantee signatures on page 24.
[10] For the names of the intermediaries with whom FRSP transactions were concluded in 2011, please consult the guarantee signatures on page 24.
[11] European Regional Development Fund.
[12] European Social Fund.

Latvia – JEREMIE Holding Fund (EUR 91.5m)
In 2011, Latvian enterprises benefited from investments and loans provided by five selected financial intermediaries amounting to a total of EUR 70m. Seed and other early stage equity investments have been made into various high potential companies in a wide range of areas from nano-coating technologies to innovative concrete flooring mechanisms. At the end of 2011 EIF successfully transferred the JEREMIE assets to the Managing Authority.

Lithuania – JEREMIE Holding Fund (EUR 191m)*
Two new FLPG agreements signed in support of the creation of a new SME portfolio of EUR 75m complemented the implementation of FRSP which started in 2010 and has proved successful within the Lithuanian market with a high level of interest from SMEs. One of the intermediaries has deployed the FRSP contractual allocation of EUR 20m in full and an extended amount has been agreed.

Malta – JEREMIE Holding Fund (EUR 10m)
One FLPG agreement was signed providing for over EUR 50m of new loans to Maltese SMEs, including micro-businesses. During 2011, loans for approximately 20% of the expected portfolio volume were already provided.

Romania – JEREMIE Holding Fund (EUR 100m)
With a third FLPG transaction and an allocation under a venture capital operation EIF has fully committed the Holding Fund. In the course of the year Romanian SMEs started to receive loans in support of their development in a difficult market situation.

Slovakia – JEREMIE Holding Fund (EUR 100m)
The impact of the resources deployed for SMEs is expected to materialise during the course of 2012, as calls for FLPG and VC have been successfully launched.

JEREMIE Holding Funds under management and amounts committed (at 31 December 2011)

in EUR m

			Commitments to financial intermediaries				
Name	Signature	Total assets under management	Equity	FLPG	FRSP	Total	Mobilised equity & loans
Greece	2007	250.0	–	–	180.3	180.3	360.7
Romania	2008	100.0	17.5	80.5	–	98.0	427.5
Latvia	2008	91.5	34.7	–	44.0	78.7	138.5
Lithuania	2008	191.0 *	36.0	12.0	90.0	138.0	303.4
Slovakia	2008	100.0	–	–	–	–	–
Languedoc-Roussillon	2008	30.0	11.0	14.0	2.0	27.0	143.5
Campania	2008	90.0	–	–	70.0	70.0	140.0
Cyprus	2009	20.0	–	8.0	10.0	18.0	69.4
Bulgaria	2009	199.0	21.0	78.4	–	99.4	422.0
Sicilia	2009	60.0	–	–	53.0	53.0	106.0
Malta	2010	10.0	–	8.8	–	8.8	51.0
ESF Sicilia	2010	15.0	–	–	–	–	–
Calabria	2011	45.0	–	–	–	–	–
PACA	2011	20.0	–	–	–	–	–
Total		1 221.5	120.2	201.7	449.3	771.2	2 161.9
Number of transactions			8	14	16	38	

* A reduction to EUR 170m will be implemented.

Outside the EU

Turkey – Two IPA initiatives (EUR 48.3m)
With GAGF, EIF catalysed EUR 500m worth of loans to SMEs, including EUR 250m of EIB lending through five local partners: Akbank, Denizbank, Halkbank, Vakibank and Yapi Kredi, in addition to the support of the microfinance activity of Kredi Garanti Fonu (KGF). The EUR 150m portfolio supported consists of 2,700 SME loans. EIF also began the implementation of the capacity building component for KGF.

The second IPA project, signed in 2011, entails the support of a VC fund targeting the 43 regions in the most disadvantaged areas of Turkey. The project named G43 Anatolia VC Fund is modelled on EIF's previous experience with similar initiatives in other European regions.

Each of these cases illustrates how EIF works closely with Member States and regions. Through this cooperation, the needs of SMEs within the marketplace are better understood, enabling the creation of specific portfolios of financial instruments that ensure the involvement of the private sector through various multiplier effect mechanisms, achieving a greater impact on SME financing volumes. In so doing, EIF delivers significant added value by stimulating financing activity even when market conditions are difficult, thereby contributing towards offsetting cyclical declines.

New initiatives

EIF strives to expand the impact and influence of its regional business development activity across the European Union and beyond. For example, in 2011, EIF initiated the creation of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF) alongside DG Enlargement and the European Bank for Reconstruction and Development, EBRD. This innovative SME financing platform is currently being set up to deploy financial engineering instruments (venture capital and guarantees) providing greater levels of access to finance to this underdeveloped region. This facility is expected to have a significant impact in the Western Balkans, notably by:

- Supporting innovation through early stage equity investments;
- Providing access to finance for SMEs currently outside the banking sector radar due their limited financial history, size etc;
- Developing the VC ecosystem in the region and disseminating best market practices regarding equity investments;
- Facilitating reforms in the legal framework in the region when it comes to SME financing, through a dedicated Technical Assistance pillar.

The WB EDIF initiative is fully in line with the Europe 2020 strategy aiming at smart, sustainable and inclusive growth as well as with the Innovation Union and the Small Business Act[13]. Importantly, within this initiative, the European Commission, multiple International Financial Institutions (IFIs) and beneficiary countries are joining forces and resources for a common goal which is to develop a greater level of private sector engagement in SME financing.

Similarly, EIF has proposed the creation of a dedicated fund-of-funds vehicle to be called the 'Nordic Innovation Fund' to be set up and funded in collaboration with five Nordic governments. This initiative aims at delivering much-needed equity investments to be made via selected fund managers in high growth potential companies across the Nordic region. The focus will be to explore and expand the leading-edge developments that this region enjoys in the sectors of cleantech, life sciences and ICT/mobile. The unique feature of this regional business development proposal is the multi-country approach that builds upon the collaborative foundations created by the Nordic Council of Ministers. A similar initiative is also under consideration for the Baltic region.

Discussions are taking place with the Cypriot authorities for the development of a National Guarantee Fund for SMEs.

Furthermore, regional business development activities are playing a critical role in the deployment of EIF core products since, with the proximity to the market that has been achieved through local offices, origination efforts are more targeted and efficient.

[13] Adopted in June 2008, the Small Business Act for Europe (SBA) reflects the EC's political will to recognise the central role of SMEs in the EU economy and for the first time puts into place a comprehensive SME policy framework for the EU and its Member States.

In 2011 EIF commenced work on additional mechanisms to reinvest recycled, repaid or revolved funds, i.e. funds paid back to EIF from SME loans or investments via the JEREMIE initiative. This capital inflow will be used to foster additional financial engineering activities in the associated EU regions, thereby further benefitting the SME community.

EIF's regional business development activities are diverse and of increasing importance. These activities comprise an in-depth understanding of the different stages of developing effective SME financing ecosystems. They also include the devising of market-oriented solutions to improve the volumes of financing that make their way, through close collaboration with a growing network of financial intermediaries, to the SMEs which are so crucial to Europe's employment and growth prospects.

Governance

Capital and shareholders

at 31 December 2011

EIF has an authorised capital of EUR 3,000m, divided into 3 000 shares of EUR 1m each. On 31 December 2011, EIB held 61.9%, the European Union represented by the European Commission 30% and 25 European banks and financial institutions 8.1%.

Country	Financial Institutions	No. of shares
Austria		11
	Unicredit Bank Austria AG	3
	Erste Bank der Österreichischen Sparkassen AG	3
	Raiffeisen Bank International AG	5
Bulgaria		3
	Bulgarian Development Bank A.D.	3
Croatia		5
	Croatian Bank for Reconstruction and Development (HBOR)	5
Denmark		3
	Vaekstfonden	3
Finland		6
	Finnvera Plc	6
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
	Nordrhein-Westfalen Bank (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		242

Board of Directors

at 31 December 2011

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

Chairman

Philippe MAYSTADT	President, European Investment Bank, Luxembourg

Members

Marc AUBERGER	Director-General, Qualium Investissement, Paris
Matthias KOLLATZ-AHNEN	Vice-President, European Investment Bank, Luxembourg
Carlo MONTICELLI	Treasury Department, Ministry of Economy and Finance, Rome
Tytti NORAS	Legal Counsellor, Ministry of Finance, Helsinki
Gerassimos THOMAS	Director, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Heinz ZOUREK	Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels

Alternates

Dirk AHNER*	Director-General, Directorate-General for Regional Policy, European Commission, Brussels
Peter BASCH	Principal Advisor, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Pierluigi GILIBERT	Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg
Zdeněk HRUBÝ	General Director, Ministry of Public Finance, Prague
Rémy JACOB	Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg
Werner OERTER	Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main
Gaston REINESCH	Director General, Ministry of Finance, Luxembourg

* D. Ahner retired from the European Commission end 2011 and consequently resigned from his position as alternate member as of 22 December 2011.

Management team and key staff

at 31 December 2011

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

Management team

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

Key staff

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

Audit Board

at 31 December 2011

Audit Board: Bernard Magenhann (Chairman, *centre*), Helmut Stermann *(right)*, Gerard Smyth *(left)*

Chairman

Bernard MAGENHANN	Head of Unit, Internal Audit Capability – DG HR, European Commission, Brussels

Members

Gerard SMYTH	Secretary and Director of Audit Office of the Comptroller and Auditor General, Dublin
Helmut STERMANN	Deputy Director, Landeskreditbank Baden-Württemberg, Karlsruhe

Audit and controls

The first layer of the EIF's control mechanism is based on the processes implemented by management and the effectiveness of the internal controls defined in the mitigation of risks. The second layer includes both internal and external auditors, 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 2011, 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 2011 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 actions 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 & Monitoring 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 the 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 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 legal

Risk management

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

As a direct result of its organisational risk awareness and preparedness, EIF has been able to remain engaged 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 Board of Directors and the 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. An overview of EIF's risk management activities can be found in section 3 of the notes to the annual accounts for IFRS 7, which contains further details on EIF's risk assessment for private equity, portfolio guarantees and treasury activities, covering credit, liquidity and market risks.

Below are the principal organisational responsibilities and activities pertaining to risk management. This well-established setup has proved valuable in an increasingly difficult external environment:

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

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

The Investment and Risk Committee (IRC) chaired by the Deputy Chief Executive is 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 transactions and supporting the decision of the Chief Executive and the Deputy Chief Executive to present transactions to the Board of Directors for their approval.

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

Legal

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

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

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

Compliance and operational risk

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

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

Compliance

Role and position

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

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

EIF COR issues a position on each transaction proposed to EIF's Board of Directors which relates to the assessment of the regulatory status of EIF counterparts, individual integrity issues and the compliance of a transaction with the underlying transactional guidelines.

Key compliance policies

Key compliance policies in EIF relate to the assessment of counterparty structures to ensure regulatory cover on anti-money laundering and "know your customer" issues as well as full tax transparency avoiding non-transparent off-shore and cross-border structures. Furthermore, the compliance function in EIF is responsible for the core business ethics followed by the institution, especially concerning ethical restrictions on targeted economic sectors.

EIF COR also controls compliance with procurement and related rules as well as the conduct rules applicable to EIF bodies and staff.

Finally, EIF COR systematically organises training and awareness sessions for EIF staff.

Operational risk

Role and position

At EIF, operational risk is defined, on the basis of the EIF Operational Risk Management Charter, as the risk of reputational damage or loss 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 EIF COR.

In this context, EIF COR has developed a risk and control assessment methodology which comprises the identification and the 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.

Data protection

Role and position

In line with the provisions of Regulation (EC) 45/2001 of the European Parliament and of the Council on the protection of individuals relating to the processing of personal data by Community institutions and bodies and on the free movement of such data ("Regulation 45/2001"), the Head of EIF 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 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.

Financial statements 2011

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, 2011 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 44 to 93.

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, 2011, 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, 14 March 2012

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 14 March 2012 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 2011,
- 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, 14 March 2012

THE AUDIT BOARD

Gerard SMYTH	Bernard MAGENHANN	Helmut STERMANN

Statement of financial position

as at 31 December 2011

EUR

Assets	Notes	31.12.2011	31.12.2010
Cash and cash equivalents	4.1	160 660 806	73 603 254
Investments:			
Debt securities and other fixed income securities	4.2	778 368 598	863 578 881
Shares and other variable income securities	4.3	212 233 535	194 384 535
		990 602 133	**1 057 963 416**
Other assets	4.4	58 957 150	56 822 861
Intangible assets	4.5	1 128 213	1 384 777
Equipment	4.6	27 780	81 655
Investment property	4.6	5 954 929	6 329 080
Total assets		1 217 331 011	1 196 185 043

Liabilities			
Financial liabilities	5.1		
Financial guarantees		24 022 036	26 902 034
Provisions for guarantees	5.2	161 867 126	107 469 393
Retirement benefit obligations	5.3	34 804 130	25 803 632
Other liabilities and provisions	5.4	24 480 524	19 523 417
Total liabilities		245 173 816	179 698 476

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	138 535 177
Retained earnings	5.6	147 529 511	146 084 055
Fair value reserve	5.7	(58 768 088)	(27 550 423)
Profit/(loss) for the financial year		(10 217 928)	7 232 055
Total equity		972 157 195	1 016 486 567
Total equity and liabilities		1 217 331 011	1 196 185 043

The notes on pages 48 to 93 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2011

EUR

	Notes	31.12.2011	31.12.2010
Interest and similar income	7.1	34 953 522	31 483 224
Income from investments in shares and other variable income securities	4.3	3 758 414	10 878 493
Net loss from guarantee operations	7.2	(31 727 489)	(24 918 778)
Commission income	7.3	43 175 030	37 149 456
Net gain/(loss) on financial operations	7.4	(74 237)	2 180 690
Other operating income	7.5	669 495	335 157
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(33 705 121)	(30 118 764)
- social security and contribution costs		(7 503 803)	(4 990 135)
		(41 208 924)	**(35 108 899)**
Other administrative expenses		(13 452 860)	(8 470 136)
		(54 661 784)	**(43 579 035)**
Depreciation and amortisation	4.5, 4.6	(1 204 822)	(1 763 626)
Impairment losses on available-for-sale investments	4.3	(5 106 057)	(4 533 526)
Profit/(loss) for the financial year		(10 217 928)	7 232 055

EUR

Other comprehensive income		
- Net change in fair value of available-for-sale financial assets	(32 252 765)	(40 954 211)
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)	1 035 100	479 739
	(31 217 665)	**(40 474 472)**
Total comprehensive income for the financial year	(41 435 593)	(33 242 417)

The notes on pages 48 to 93 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2011

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 31.12.2009		2 940 000 000	(2 352 000 000)	588 000 000	143 191 123	138 535 177	153 457 561	12 924 049	(7 373 506)	1 028 734 404
Total comprehensive income										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	7 232 055	7 232 055
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(40 474 472)	0	(40 474 472)
Transactions with owners										
Appropriation of loss	5.6	0	0	0	0		(7 373 506)	0	7 373 506	0
Share issue	5.5	60 000 000	(48 000 000)	12 000 000	8 994 580	0	0	0	0	20 994 580
Balance as at 31.12.2010		3 000 000 000	2 400 000 000	600 000 000	152 185 703	138 535 177	146 084 055	(27 550 423)	7 232 055	1 016 486 567
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

The notes on pages 48 to 93 are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2011

			EUR
Cash flows from operating activities	**Notes**	**31.12.2011**	**31.12.2010**
Profit/(loss) for the financial year		(10 217 928)	7 232 055
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	1 204 822	1 763 626
Impairment loss on shares and other variable income securities	4.3	5 106 057	4 533 526
Interest income on debt securities and other fixed income securities	7.1	(31 844 395)	(29 072 530)
Change in financial guarantees		(2 118 854)	2 554 636
Net gain/loss on sale of debt securities and other fixed income securities	7.4	(82 215)	(2 002 257)
Provision for financial guarantees		55 232 657	45 729 749
Provision for retirement benefit obligations		(2 097 794)	(1 631 002)
		15 182 350	**29 107 803**
Change in shares and other variable income securities	4.3	(13 288 221)	(24 262 193)
Guarantee calls paid	5.2	(1 596 066)	(5 267 313)
Change in other assets and liabilities	4.4, 5.4	13 921 109	(2 923 864)
		(963 178)	(32 453 370)
Net cash from operating activities		14 219 172	(3 345 567)
Cash flows used in investing activities			
Acquisition of debt securities and other fixed income securities	4.2	(146 067 911)	(360 000 091)
Proceeds from sale or matured debt securities and other fixed income securities	4.2	189 418 488	283 974 537
Interest received on debt securities and other fixed income securities		32 819 018	25 518 245
Acquisition of intangible assets and property and equipment	4.5, 4.6	(520 232)	(18 745)
Net cash used in investing activities		75 649 363	(50 526 054)
Cash flows from financing activities			
Dividend paid		(2 893 779)	0
Capital increase		0	20 994 580
Cash flows from financing activities		(2 893 779)	20 994 580
Cash and cash equivalents at the beginning of the year	4.1	73 603 254	106 266 117
Effect of exchange rate fluctuations on cash and cash equivalents		82 796	214 178
Net cash from			
Operating activities		14 219 172	(3 345 567)
Investing activities		75 649 363	(50 526 054)
Financing activities		(2 893 779)	20 994 580
Cash and cash equivalents at the end of the year	4.1	160 660 806	73 603 254

The notes on pages 48 to 93 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2011

1. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 96, boulevard Konrad Adenauer, L-2968 Luxembourg.

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

- the provision of guarantees to financial institutions that cover credits to small and medium sized entities ("SME");
- the acquisition, holding, management and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- associated activities.

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

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

The EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated financial statements of the EIB Group. The consolidated financial statements are available at the registered office of the EIB at 98-100, boulevard Konrad Adenauer, L-2950 Luxembourg.

2. Significant accounting policies and basis of preparation

2.1 Basis of preparation

2.1.1 Statement of compliance

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

The Fund's financial statements have been authorised for issue by the Board of Directors on 14 March 2012.

2.1.2 Basis of measurement

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

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

2.1.3 Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment when applying the Fund's policies. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

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

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

Judgments and estimates are principally made in the following areas:

- Impairment of available-for-sale equity and debt investments; and specifically, as disclosed in note 2.3.1, 3.5.1.B and 4.2, the non-impairment of sovereign guaranteed bond holdings;
- Determination of fair values of equity investments;
- Determination of provisions and liabilities for financial guarantees;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits.

2.1.4 Changes in accounting policies and presentation

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

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

2.1.5 Foreign currency translation

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

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

Non-monetary items are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing exchange rate prevailing at the reporting date of the financial statements, as issued by the European Central Bank. Exchange differences are recognised in the profit or loss in the year in which they arise.

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

2.2 Cash and cash equivalents

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

2.3 Investments

2.3.1 Classification and Measurement

Classification

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

Initial recognition and derecognition

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

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

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

Subsequent measurement

The financial assets are subsequently measured at fair value, and any changes in fair value are directly recognised in 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.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method and is recognised in the profit or loss. Capital repayments on equity investments are recognised in the profit or loss when the Fund's investment cost is fully reimbursed.

Impairment of financial assets

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

2.3.2 Shares and other variable income securities

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

a) Fair value considerations:

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

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

- Category A – funds that have adopted the fair value requirements of IAS 39 or IPEVC Guidelines.
- Category B – funds that have adopted other valuation guidelines (such as the former 2001 EVCA) or standards that can be considered as in line with IAS 39.
- Category C –funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

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

b) Impairment considerations:

Shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred. On each official reporting date, EIF analyses unrealised losses so as to determine whether they should be recognised as impairment losses in the profit or loss or as changes in the fair value reserve.

In addition EIF defines quantitative thresholds for assessing what is significant and what is prolonged which allows the classification of the funds as follows:

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

Investments belonging to category C are valued at cost less impairment. When an investment falls under this category, the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25 % depending on the operational and performance grading of the respective funds.

The fair value is determined by applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, where available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available NAV and the year-end reporting, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted.

2.3.3 Debt securities and other fixed income securities

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

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

2.3.4 Interests in Joint Ventures and associates

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

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

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

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the aforementioned industry practice, ensuring that EIF neither controls nor exercises any form of significant influence within the meaning of IAS 27 and IAS 28 over any of these investments, including those investments in which EIF holds over 20 % of the voting rights either on its own account or on behalf of any of its mandates.

2.4 Guarantee operations

Financial guarantee contracts are contracts that require EIF to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the Financial guarantees. At initial recognition, the fair value of the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction.

Subsequent to initial recognition, Financial guarantees are measured at the higher of:

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

- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two-thirds of the Weighted Average Life (WAL) of the transaction, followed by a linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche. The best estimate of expenditure is determined in accordance with IAS 37. Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated on the basis of all relevant factors and information existing at the statement of financial position date.

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

2.5 Other assets

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

2.6 Intangible assets, Equipment and Investment property

2.6.1 Intangible assets

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

Direct costs associated with the development of software are capitalised provided that these costs are separately identifiable, the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the year in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the date of the statement of financial position. Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally generated software:	3 years
Purchased software:	2 to 5 years

2.6.2 Equipment

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

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

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

2.6.3 Investment property

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

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

Buildings	30 years

2.6.4 Impairment of non-financial assets

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

2.7 Employee benefits

Actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

2.7.1 Post employment benefits

Pension fund

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

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

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the Fund. These funds are transferred to the EIB for management with the EIB's own assets and appear on the Fund's statement of financial position as an asset under the heading "Other assets".

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

Optional Supplementary provident scheme

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

Health insurance scheme

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

2.7.2 Short-term employee benefits

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

2.7.3 Other long-term employee benefits

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

2.8 Other liabilities and provisions

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

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

2.9 Interest and similar income

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

2.10 Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital 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 mainly includes:

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

2.12 Commission income

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

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

2.13 Leases

The leases entered into by EIF as a lessee or a lessor are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments or receipts made under operating leases are recognised to the profit or loss in other administrative expenses or other operating income on a straight-line basis over the period of the lease.

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

2.14 New standards and interpretations not 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. The Fund is in the process of analysing the impact of these standards on their operations as well as the date at which they plan to adopt the standards.

- Amendment to IAS 1 – Presentation of financial statements:

  The amendments to IAS 1 change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However other titles are allowed. The standard is effective for financial years beginning on or after 1 July 2012, 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.

- 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.

- 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 date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- 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 date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- 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 date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

3 Financial Risk Management

3.1 Overview of EIF Risk Management

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

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

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

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

The Investment & Risk Committee (IRC) chaired by the Deputy Chief Executive is responsible for reviewing 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 transactions and supporting the decision of the Chief Executive and the Deputy Chief Executive to present transactions to the Board of Directors for their approval.

3.2 Private Equity (PE)

3.2.1 Background

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

Valuation review

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

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation.

- Valuations: assessment as to whether valuations are in line with best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:

  - Reviews of financial reporting received from PE funds.
  - Monitoring visits.
  - Any significant information with potential valuation impact.
  - Subsequent event reviews.

- Impairments of investments: as stated in note 3.1, the IRC decides on the transactions impairments.

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

EIF has developed a set of tools to design, monitor and manage portfolio of PE funds. This set of tools is based on an internal process and model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort supported by the development of a proprietary Information Technology (IT) system and by an integrated software (front to back) improves the investment decision process and the management of portfolio's financial and liquidity risks.

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

The grades are defined as follows:

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

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

3.2.2 Portfolio overview

At the end of 2011, total PE own risk investments in terms of net commitments (i.e. commitments made to underlying funds minus capital repayments) amounted to EUR 406.4 m (2010: EUR 388.9 m).

EIF maintains a balanced portfolio with a focus on technology-oriented early-stage and general mid- and later-stage funds. EIF does not directly acquire participations in companies, but instead invests in selected PE funds, with private sector investors providing at least 50 % of the capital. All investments are made on a pari passu basis with other investors, granting them no specific rights (or obligations) to EIF.

All of EIF's risk stemming from its own-risk PE operations is fully covered by shareholders' equity. As a sub-ceiling, PE net commitments may not exceed 50 % of equity, excluding fair value reserve, equivalent to EUR 1 030.9 m (2010: EUR 1 046.8 m). Hence, the EUR 406.4 m of net commitments at year end 2011 (2010: EUR 388.9 m) was below the EUR 515.5 m limit (2010: EUR 522.0 m). Of the EUR 536.5 m of own-risk funds committed at year end 2011 (2010: EUR 490.5 m), EUR 363.2 m had been disbursed (including equalisation fees) against EUR 321.0 m as at 31 December 2010.

PE investments are valued quarterly according to the industry valuation guidelines. Using the methodology described in note 3.2.1, EIF records value adjustments on a line by line basis, either through the profit or loss in the case of impairment or through equity. Consequently, net disbursed own-risk funds (at cost and using the closing exchange rates prevailing at the reporting date of the financial statements) of EUR 233.2 m (2010: EUR 219.4 m) are valued at EUR 212.2 m in EIF's 2011 statement of financial position (2010: EUR 194.4 m).

3.2.3 Significance of financial instruments for financial position and performance

Activities

In terms of EIF's PE own-risk portfolio activities, 2011 shows an increase in disbursements and capital repayments, and decrease in commitments and dividends:

EIF yearly cash flow activity (EUR m)

			Reflows	
	Commitments	Disbursements	Capital Repayments	Dividends
31.12.2011	46.0	41.2	28.0	3.8
31.12.2010	60.1	38.9	14.8	10.9

The proportion of funds considered as impaired has decreased from 25.2 % to 23.8 % of the EIF portfolio based on committed funds.

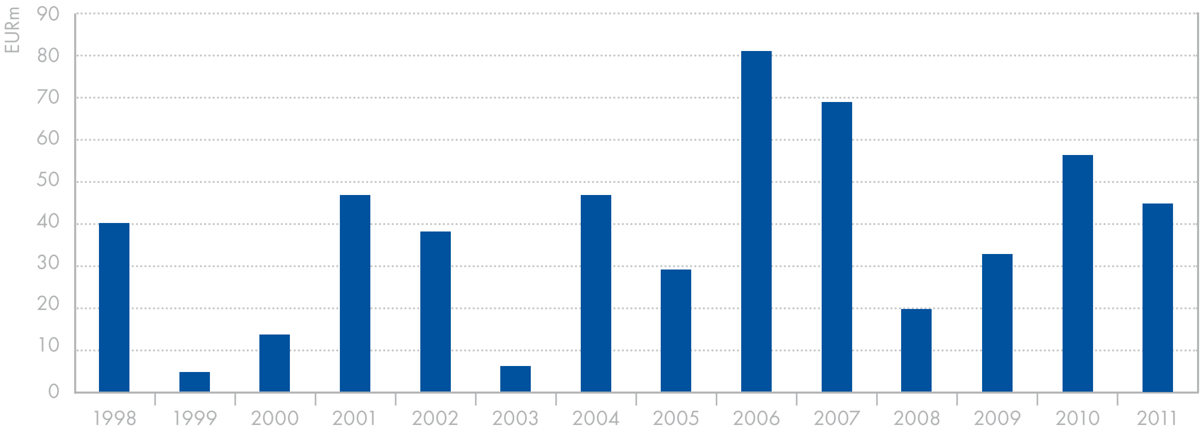
	Commitments		
Funds	31.12.2011	31.12.2010	Variation
Not impaired	408.7	366.9	11.4%
Impaired	127.8	123.6	3.4%
Total	536.5	490.5	9.4%
Impairment (%)	23.8%	25.2%	

Diversification

As of 31 December 2011, EIF has committed EUR 536.5m in 206 PE funds with the biggest exposure amounting to EUR 13.3m (2.5 % of total commitments). These PE funds have invested in more than 2 700 underlying portfolio companies.

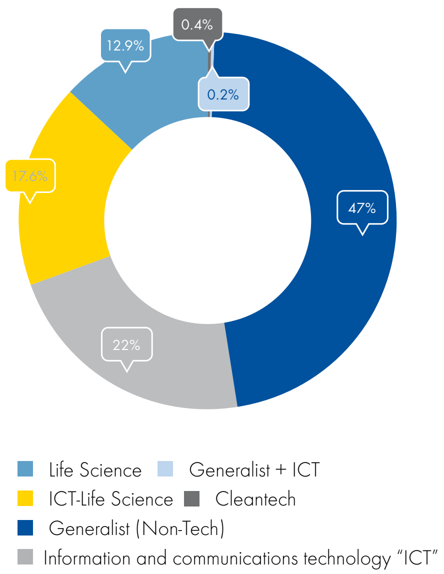
In terms of vintage year, sector and stage, the portfolio is well balanced, as illustrated by the following breakdowns by commitment as of 31 December 2011 (historical information translated at the current exchange rate):

Commitments by vintage year (in EUR m)

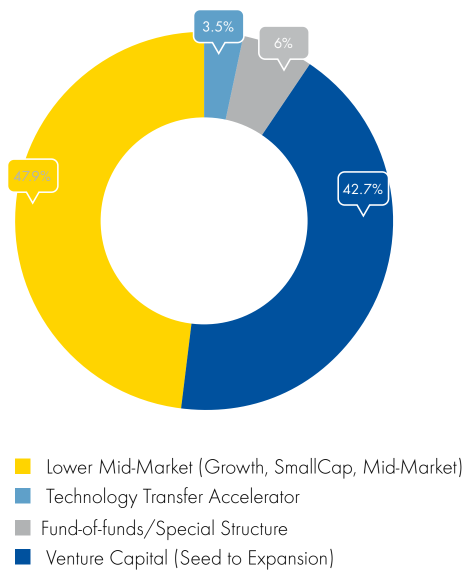


The commitment weighted average age of the EIF portfolio stands at 6.1 years at year end 2011 (2010: 6.2 years).

Commitments by sector of activity



Commitments by stage



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

3.3.1 Background

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

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

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

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

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

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

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

As it is the responsibility of G&S within the TRM department to propose an EIF rating, which is based on an internal model, RMM – in the course of the independent opinion process, at closing and in line with the Model Review Procedure – conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable to the official EIF internal rating models.

A transaction is eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB1 (iAaa and iB1 are mapped to Moody's Aaa and B1, respectively). The individual performance of tranches guaranteed by EIF is reviewed regularly on a quarterly basis.

The performance of a transaction is 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 gravity of such breach, a transaction can either change its status (Under Review with Positive or Negative Outlook) or a model re-run is initiated to reassess EIF's internal rating. Dedicated professionals within the RMM G&S unit submit proposals to the IRC to flag transactions as Under Review with 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 RMM) 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.

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 defaults are compared to a given predetermined threshold level or 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).

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

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

3.3.2 Portfolio overview

At the end of 2011, total G&S own risk transactions amounted to EUR 2 879.8m (2010: EUR 2 580.2m) in terms of exposure at risk (i.e. commitment less repayments).

EIF's own-risk operations consist mainly of the credit enhancement product type which, at the end of 2011, represented 94.0 % (EUR 2 706.9m) of total exposure at risk of own-risk guarantees (2010: 94.5% representing EUR 2 438.4m). The credit enhancement product serves as an unconditional debt service guarantee (or as a credit default swap), with full or partial coverage of a specific tranche of an SME loan portfolio, and a maximum weighted average term of 15 years. The guarantee is called upon when losses in the portfolio would otherwise have caused a shortfall on a due payment of interest and/or principal on the guaranteed tranche.

In the past EIF also underwrote credit insurance and structured investment vehicles products. As of 31 December 2011, credit insurance products and structured investment vehicles investments accounted for 5.9 % (EUR 169.8m) and 0.1 % (EUR 3.1m) of all own-risk outstanding guarantees, respectively.

3.3.3 Portfolio quality and performance

As of 31 December 2011, 80.2 % (77.8 % at year end 2010) of the overall portfolio was at investment-grade level (rating from Aaa to Baa3 inclusive); 68.2 % of the number of tranches (63.2% at year-end 2010) were rated by at least one external rating agency with the remainder relying on EIF's internal rating. The credit enhancement portfolio's average rating remained stable at Ba2 as a result of new high investment grade origination coupled with downgrades in the existing portfolio.

Each guarantee transaction is assessed and assigned into one of four categories as per the table below.

EUR

	31.12.2011		31.12.2010	
Under review - Negative	19.1%	549 441 576	19.8%	510 511 115
Under review	12.7%	366 202 094	34.4%	888 533 283
Performing	67.9%	1 956 176 819	45.5%	1 173 196 200
Positive outlook	0.3%	8 000 000	0.3%	8 000 000
Total -Exposure at risk	100.0%	2 879 820 489	100.0%	2 580 240 598

EUR m

	Weighted Average Rating		Exposure at risk (commitment minus repayment)		% of total	
	2011	2010	2011	2010	2011	2010
Credit Enhancement	Ba2	Ba2	2 706.9	2 438.4	94.0%	94.5%
Credit Insurance	Baa1	Aa2	169.8	135.5	5.9%	5.3%
SIV	Ba2	Ba2	3.1	6.3	0.1%	0.2%
Defaulted	-	-	0.0	0.0	0.0%	0.0%
Total			2 879.8	2 580.2	100.0%	100.0%

Eight new transactions and an increase of EIF guarantee for one transaction were signed in 2011 for a total amount of EUR 932.7m (two new transactions for a total amount of EUR 260.0m during 2010). During 2011, guarantees have been called for a total amount paid of EUR 3.8m (2010: EUR 6.7m) mainly stemming from three transactions. The additional provisions on the portfolio (in particular arising from the downgrades) amounted to EUR 71.9m (2010: EUR 48.1m) (see note 5.2.). The portfolio's overall initial weighted average life decreased to 4.6 years at end 2011 (2010: 5.4).

3.4 Treasury

3.4.1 Background

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.

EIF does not borrow funds.

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

3.4.2 Portfolio overview

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

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

EUR

	31.12.2011	31.12.2010
Current accounts	55 612 129	31 183 332
Money market instruments	105 048 677	42 419 922
Available for sale portfolio	778 368 598	863 578 881
Total Treasury portfolio	939 029 404	937 182 135

3.5 Nature and extent of risks arising from financial instruments

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

EUR

31.12.2011	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

EUR

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

3.5.1 Credit risk

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

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

The Fund uses the following instruments, policies, and processes to manage the credit risk.

3.5.1.A. Portfolio Guarantees & Securitisation

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

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

The statutes of the Fund limit own-risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0m at end 2011. Hence, the EUR 2 879.8m exposure at risk at end 2011 was well below the statutory limit of EUR 9 000.0m.

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

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

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

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

The industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, depending on the financial model used to analyse the transaction, industry exposures can be reflected in implicit correlation or can be indirectly captured based on assumption of default rate volatility, as a key model input variable.

As of 31 December 2011, EIF's overall own risk G&S portfolio was spread over 14 countries. The largest nominal individual country net exposures were Germany, Italy and the United Kingdom, which jointly accounted for 50.3 % of total guarantee commitments.

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

Counterparty risk in the own resources portfolio is mitigated by the quality of EIF counterparties, which are usually major market players, and by rating triggers on the counterparty which require, in case of breach, actions such as substitution of the counterparty or collateralisation of its obligation. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of G&S, including extreme case assumptions, are regularly carried out to determine the ability of the capital base to sustain adverse shocks.

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) in G&S corresponds to the nominal exposure at risk of EUR 2 879.8m (2010: EUR 2 580.2m).

3.5.1.B. Treasury

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 2011	Maximum exposure 2010
Cash and cash equivalents	160 660 806	73 603 254
Debt securities and other fixed income securities	778 368 598	863 578 881
Total Credit Risk Exposure	939 029 404	937 182 135

The following table outlines the credit quality of the Fund's debt securities and other fixed income securities as of 31 December 2011 and 2010, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2011		31.12.2010	
Rating	Amount in EUR	In percentage	Amount in EUR	In percentage
Aaa	309 052 145	39.7%	352 119 579	40.8%
Aa1	4 973 550	0.6%	54 509 085	6.3%
Aa2	44 583 417	5.7%	96 135 522	11.1%
Aa3	17 060 351	2.2%	8 982 575	1.0%
A1	121 843 783	15.7%	113 486 436	13.1%
A2	138 122 691	17.7%	9 414 792	1.1%
A3	4 863 132	0.6%	42 536 459	4.9%
Baa1	6 542 565	0.8%	103 212 844	12.0%
Baa2	0	0.0%	0	0.0%
Baa3	0	0.0%	4 988 681	0.6%
Ba1	97 875 833	12.6%	78 192 908	9.1%
Ba2	18 955 538	2.4%	0	0.0%
Ba3	2 822 337	0.4%	0	0.0%
Ca	11 673 256	1.5%	0	0.0%
Total	778 368 598	100.0%	863 578 881	100.0%

The exposures in rating range of Ba1 - Ca mainly consist of EU sovereign bonds. In the course of the year 2011 the treasury portfolio suffered unrealised losses of EUR 41.0m (2010: EUR 50.3m), which stemmed mainly from sovereign and government guaranteed bonds downgrades.

The financial statements contain no impairment in respect of sovereign and sovereign guaranteed bond holdings in the EIF treasury portfolio, as EIF is deemed to benefit from a preferred creditor status, as supported by the statutory documentation of EIF and the Statute of its parent institution EIB.

A breakdown of the EU sovereign bond exposure is given in the table below.

EUR

Fair value	31.12.2011	31.12.2010
Austria	30 726 130	22 337 097
Czech Republic	5 344 351	5 412 760
France	22 636 283	17 471 616
Germany	32 186 440	29 083 061
Greece	11 673 256	78 192 908
Hungary	0	4 988 681
Ireland	97 875 833	99 147 239
Italy	153 089 497	104 403 079
Luxembourg	5 570 679	5 128 349
Portugal	18 955 538	42 536 459
Slovakia	4 616 784	0
Slovenia	4 420 408	5 146 858
Spain	84 534 819	50 975 475
Netherlands	7 489 486	0
EU sovereigns	479 119 504	464 823 582
Corporate bonds and non EU sovereign	299 249 094	398 755 299
Total	778 368 598	863 578 881

As of 31 December 2011, EIF's debt securities portfolio was spread over 16 countries. The largest individual country exposures were Spain, Italy and Ireland, which jointly accounted for 53 % of total nominal value.

EIF did not participate in the private sector initiative (PSI) for Greece as its bond holdings were not included on the list of eligible securities in the context of the PSI initiative. No impairment is recorded on EIF's Greek available-for-sale sovereign and sovereign guaranteed bond holdings.

3.5.2 Liquidity risk

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

3.5.2.A. Private Equity

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

The total net commitments to PE funds amounting to EUR 406.4m in 2011 (2010: EUR 388.9m) are limited to 50 % of shareholders' equity. EIF's portfolio is diversified in terms of vintage years, which has a smoothing effect on its cash flows (see EIF's own resource portfolio broken down by vintage year in note 3.2.3).

The table below shows the Fund's PE undrawn amounts (commitments minus disbursements and excluding equalisation fees) of EUR 173.8m (2010: EUR 169.9m) classified into relevant maturity groupings based on the remaining period to the expected maturity date. It is presented using a prudent expectation of maturity dates.

EUR

Private Equity	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2011	5 024 901	2 489 617	24 097 520	142 226 385
As of 31.12.2010	5 603 117	3 810 771	10 994 729	149 555 041

3.5.2.B. Portfolio Guarantees & Securitisation

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

At year end 2011, the total Fund's G&S exposure at risk amounted to EUR 2 879.8m (2010: EUR 2 580.2m). However, for liquidity risk management purpose, G&S exposure at risk is analysed with reference to its expected maturity date and per the total expected loss.

At the year end 2011, the total expected losses for all G&S own risk transactions stood at EUR 190.2m (as shown in the table below). The expected losses may materialise anytime until the tranches' expected maturity dates. However, EIF does not expect to receive guarantee calls for the amount of EUR 190.2m within the next 3 months as most of the G&S transactions follow a debt service guarantee framework, meaning the guarantee covers timely payment of interest and ultimate (i.e. at the legal maturity date) payment of principal. It is not uncommon to have legal maturity dates for these instruments set 20 – 30 years after the expected maturity dates.

Within the Q1 2012 tranches with a sum of expected losses of EUR 0.3m will reach their expected maturity dates. Therefore, repayments of tranches will decrease the total expected losses of the current outstanding G&S own risk portfolio.

EUR

Guarantees	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2011	190 234 342	189 899 757	172 043 863	11 081 794
As of 31.12.2010	142 300 863	140 122 579	123 651 246	42 999 690

Liquidity risk: Portfolio guarantees & securitisation

EUR m

	31.12.2011	31.12.2010
Capital Charges	93.5	110.3
Guarantees Drawn	3 598.9	3 160.3
Guarantees Undrawn	85.8	48.6
Exposure at risk	2 879.8	2 580.2
Yearly guarantee calls	3.8	6.7

During 2011 the capital charge for the G&S portfolio decreased from EUR 110.3m to EUR 93.5m.

3.5.3 Market risk

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

3.5.3.1. Market risk: interest rate risk

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

3.5.3.1.A. Private Equity

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

3.5.3.1.B. Portfolio Guarantees & Securitisation

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

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

3.5.3.1.C. Treasury

Approximately 75.7 % of liquid assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long-term revenues (2010: 76.7%).

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

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

EUR

At 31.12.2011	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%

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

EUR

The average effective interest rate on term deposit in EUR was 0.9 % for 2011 (2010: 0.9 %). The average effective interest rate on the AFS securities portfolio in EUR was 3.7 % for 2011 (2010: 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 2011. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2010, the earnings of the EIF treasury portfolio would have increased by EUR 1.2m 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 2011, the earnings of the EIF treasury portfolio would increase by EUR 1.9m 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 2011, the Value at Risk of the EIF treasury portfolio was EUR 2.3m (EUR 2.9m in 2010). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0 % and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0 %. Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

3.5.3.2. Market risk: foreign currency risk

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

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

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

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 BS	2 657 866 701	250 347 993	8 268 906	369 747 304	628 364 203	3 286 230 904

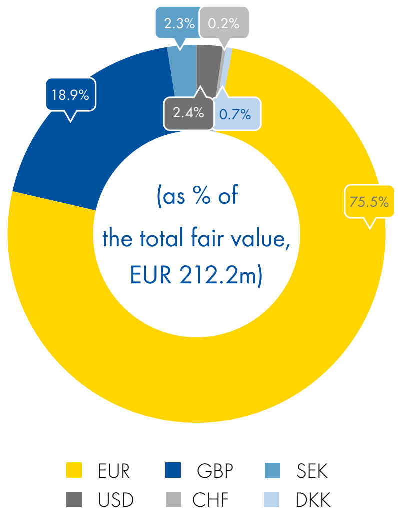
EUR

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

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

3.5.3.2.A. Private Equity

On the PE side, at 31 December 2011, currency exposure for the PE funds can be broken down as follows:



For 2011, changes due to foreign exchange rates for shares and other variable income amount to EUR 1 615 478, of which EUR 1 237 229 has been posted to the fair value reserve (2010: respectively EUR 2 499 130 and EUR 2 294 406).

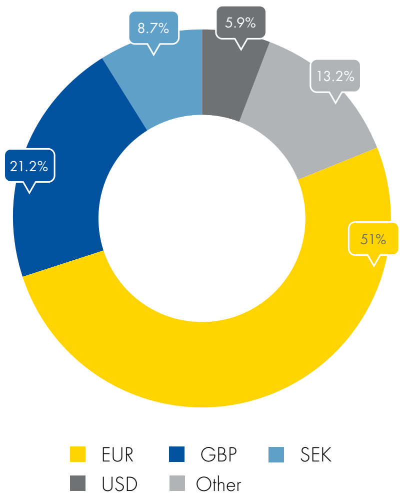
The sensitivity analysis is performed for all currencies representing more than 5 % of the total exposure. As of year end, only GBP falls into this category and has been stress tested with an increase/decrease of 15 % vs. the Euro.

Foreign exchange rate risk

		Impact in EUR
	GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
31.12.2011	6 980 106	(5 159 209)
31.12.2010	5 684 746	(4 201 769)

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

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

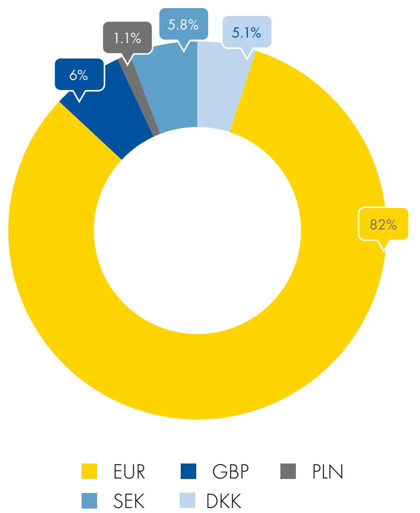


3.5.3.2.B. Portfolio Guarantees & Securitisation

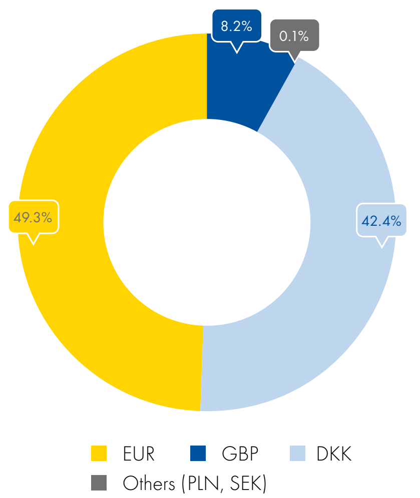
As of end 2011, 82.0 % of exposure at risk (49.3 % of expected loss) was in EUR. Due to the underperformance of two Danish transactions in the EIF portfolio, the exposure to DKK in terms of expected loss is higher than in terms of exposure at risk.

Own Risk Portfolio breakdowns by currency at 31 December 2011:

Exposure at risk breakdown



Expected Loss breakdown



EIF is monitoring its non-euro exposure and performs regular stress tests with regard to currency risk and the impact on unexpected loss. Additional capital charges on non-euro exposures are assumed and the outcome is compared with the available margin.

3.5.3.2.C. Treasury

Foreign currency risk is not applicable regarding EIF's debt securities portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR.

3.5.3.3. Market risk: other price risk

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

3.5.3.3.A. Private Equity

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to risk analysis. Market risk analysis requires an estimation of the correlation between the asset class assessed and the changes in market risks other than those arising from interest rate risk or currency risk. This can be done based on the capital asset pricing model. This model uses the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, such data is lacking for PE and in particular Venture Capital. Analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the IRR, the standard performance measure used for PE funds, is capital-weighted, while for public market assets it is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

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

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

Public market risk: all private equity

	+10% Retained Beta 1.1 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)
31.12.2010	378 829	22 363 253	22 742 082	(14 592 133)	(8 129 976)	(22 722 110)

3.5.3.3.B. Portfolio Guarantees and Securitisation

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

3.6 Fair value of financial assets and financial liabilities

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

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

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

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

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

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

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

EUR

At 31.12.2011	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

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

During 2011 one debt security with a fair value of EUR 2 822 337 was transferred from Level 1 to level 2 because the market for this instrument could not be considered as an active market. However, there was sufficient information available to measure fair value of this security based on observable market inputs.
Details of the movements of financial assets in 2011 are given in notes 4.2 and 4.3.
There was no transfer of financial assets between Level 1 and Level 3 in 2011 and 2010.
Out of Level 3, disbursements amounted to EUR 41.2m, capital repayments amounted to EUR 28.0m (2010: EUR 12.9m) and terminated deals amounted to EUR 1.1m (2010: EUR 1.7m).

4 Detailed disclosures relating to asset headings

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.94 % (2010: 0.8 %). These deposits have an average remaining maturity of 13 days (2010: 33 days).

Cash and cash equivalents is as follows:

EUR

	31.12.2011	31.12.2010
Current accounts	55 612 129	31 183 332
Money market instruments	105 048 677	42 419 922
	160 660 806	73 603 254

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

	31.12.2011	31.12.2010
Available-for-Sale portfolio	762 816 370	847 111 106
Accrued interests	15 552 228	16 467 775
	778 368 598	863 578 881

Debt securities and other fixed income securities held by the Fund are all quoted on an active market and are classified as level 1 except one security classified as level 2 in 2011 (note 3.6).

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties; the fair value of securities lent at year-end amounts to EUR 167 493 963 (2010: EUR 94 711 487).

Movement in debt securities and other fixed income securities:

EUR

	2011	2010
Fair value at 1 January	863 578 881	832 313 566
Additions	146 067 911	360 000 091
Disposals/ matured	(189 336 273)	(281 972 280)
Effective interest rate adjustment	(974 622)	3 554 286
Change in Fair value reserve	(40 967 299)	(50 316 782)
Fair value at 31 December	778 368 598	863 578 881

The total fair value reserve recognised in equity at the end of 2011 is EUR (83 676 914) (2010: EUR (42 709 617)). Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR 82 215 (2010: EUR 2 002 257), of which none relates to Level 3.

EIF did not participate in the private sector initiative (PSI) for Greece as its bond holdings were not included on the list of eligible securities in the context of the PSU initiative. No impairment is recorded on the portfolio and more specifically on EIF's Greek available-for-sale sovereign and sovereign guaranteed bond holdings.

4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

EUR

	2011	2010
Investment at cost at 1 January	227 836 371	205 499 005
Disbursements	41 160 568	38 850 610
Capital repayments	(27 955 142)	(14 802 596)
Terminated deals	(1 085 440)	(1 710 648)
Investment at cost at 31 December	239 956 357	227 836 371
Fair value adjustment and foreign exchange adjustment at 1 January	(33 451 836)	(40 471 268)
Terminated deals	1 085 440	1 710 648
Adjustments to Fair value reserve	9 749 631	9 842 310
Impairment	(5 106 057)	(4 533 526)
Fair value adjustment and foreign exchange adjustment at 31 December	(27 722 822)	(33 451 836)
	212 233 535	194 384 535

Investments in PE funds generated total revenue repayments of EUR 3 758 414 (2010: EUR 10 878 493), which relates to Level 3.

Terminated deals include deals matured during 2011. They represent EUR 1 085 440 (2010: EUR 1 710 648) which includes the remaining net paid in of EUR 1 085 440 (2010: EUR 1 710 648) and the foreign exchange impact of EUR 0 (2010: EUR 0).

The fair value changes recorded in the fair value reserve amount to EUR 9 749 631 (2010: EUR 9 842 310) and include the impact of changes in the value of investments EUR 8 512 402 (2010: EUR 7 547 903) and in the foreign exchange rates on the investments EUR 1 237 229 (2010: EUR 2 294 407).

A portion of the total fair value of shares and other variable income securities amounting to EUR 1 020 806 (2010: 873 058) is classified as Level 1.

Investments belonging to Category C amount to EUR 3 854 165 (2010: EUR 3 377 259).

The fair value as of 31 December 2011 includes an amount of EUR 3 626 331 (2010: EUR 3 375 484) related to Investment in joint ventures.

4.4 Other assets

Other assets are made up of the following:

EUR

	31.12.2011	31.12.2010
Accounts receivable relating to pensions managed by the EIB	43 933 282	31 000 848
Advanced payments	34 163	25 085
Accrued commission & other income	11 832 823	21 389 882
Fees receivable on financial guarantees	2 747 529	3 865 429
Other debtors	409 353	541 617
	58 957 150	56 822 861

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
2011	58 957 150	57 834 147	10 849	1 092 533	19 620
2010	56 822 861	52 869 902	0	3 905 554	47 405

4.5 Intangible assets

EUR

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

EUR

	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

31.12.2011	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	1 128 213	0	1 128 213

There were no indications of impairment of intangible assets either in 2011 or 2010.

4.6 Equipment and investment property

EUR

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

EUR

	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)
Additions	0	0	0	0	0
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

31.12.2011	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	5 954 929	27 780	0	0	27 780

There were no indications of impairment of equipment or investment property in either 2011 or 2010.

Based on market observable data, the fair value of the investment property is EUR 10.8m. Since 2008, no valuation was performed by external experts.

5 Detailed disclosures relating to liability and equity headings

5.1 Financial liabilities

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

EUR

	31.12.2011	31.12.2010
Balance at the beginning of the financial year	26 902 034	26 723 389
Guarantee calls	(176)	(232 105)
Net increase/decrease in Financial Guarantees	(4 214 581)	(4 542 895)
Up/ Downgrading	2 095 903	7 329 636
Transfer to provision for guarantees	(761 144)	(2 375 991)
Balance at the end of the financial year	24 022 036	26 902 034

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

5.2 Provisions for guarantees

EUR

	31.12.2011	31.12.2010
Balance at 1 January	107 469 393	64 630 966
Additions	71 849 633	48 105 740
Utilised	(1 596 066)	(5 267 313)
Release of provision	(15 855 834)	0
Balance at 31 December	161 867 126	107 469 393

Additions include the increase in existing provisions on guarantee operations of EUR 66 399 384 (2010: EUR 32 937 470), the value of the guarantee operations transferred from IAS 39 to IAS 37 in 2011 of EUR 761 144 (2010: EUR 2 062 362), and the additional provision on these transferred operations of EUR 4 689 106 (2010: EUR 13 105 908).

EUR (1 596 066) was utilised in 2011 for guarantee calls (2010: EUR 5 267 313).

Additions are increased due to provisions recognised for one specific and non granular financial guarantee transaction.

5.3 Retirement benefit obligations

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

		EUR
Retirement benefit obligations	31.12.2011	31.12.2010
Pension scheme	31 544 130	23 438 632
Health insurance scheme	3 260 000	2 365 000
	34 804 130	25 803 632

Commitments in respect of retirement benefits as of 31 December, 2011 have been valued by an independent actuary. The calculations are based on the following main assumptions:

		EUR
Principal Assumptions	2011	2010
Discount rate for obligations	5.58%	5.06%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ICSLT	ICSLT

The pension commitment as valued in the independent actuary report dated February 2012 amounts to EUR 31 544 130. As of December 2011 the Fund allocated EUR 35 594 410 (2010: EUR 27 445 003) to pensions assets to ensure full coverage of the commitments.

EUR

Net Periodic Benefit Cost as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
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

EUR

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

EUR

Benefit Liabities as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
Present value of unfunded obligation	41 151 000	3 252 000	44 403 000
Unrecognised net actuarial gains/(losses)	(9 607 000)	8 000	(9 599 000)
Net liability	31 544 000	3 260 000	34 804 000

EUR

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

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 31.12.2011	EIF Pension	Health Insurance	Total 2011
Defined benefit obligation, Beginning of 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	4 997 000	128 000	5 125 000
(Gain) due to assumption changes	(6 472 000)	(1 075 000)	(7 547 000)
Defined benefit obligation, End of year	41 151 000	3 252 000	44 403 000

EUR

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

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

History of asset values	2011	2010	2009	2008	2007
Defined Benefit Obligation, End of year	(44 403 000)	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)
Deficit in the Plan	(44 403 000)	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)
Experience Losses on DBO	(5 125 000)	(1 299 000)	(1 462 000)	(647 000)	(406 000)

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

EUR

	31.12.2011	31.12.2010
Related parties payables	3 497 078	4 255 232
Employee benefit payables	18 736 262	14 195 402
Trade creditors	2 247 184	1 072 783
	24 480 524	19 523 417

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:

EUR

	31.12.2011	31.12.2010
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 :

Number of shares

	31.12.2011	31.12.2010
European Investment Bank	1 858	1 835
European Commission	900	900
Financial Institutions	242	265
	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.

Due to the loss in 2011 there is no appropriation requirement in 2012 with respect to the financial year ended 31 December 2011.

The General Meeting of Shareholders of 9 May 2011 approved the distribution of a dividend amounting to EUR 2 893 779 relating to the year 2010 (2010: EUR 0). Dividends are distributed in line with Article 27 of the Fund's statutes.

Further details of the Fund's capital management requirements are explained in note 3.2 and note 3.5.2.B.

5.7 Fair value reserve

The fair value reserve includes the following:

EUR

	31.12.2011	31.12.2010
Fair value reserve on debt securities and other fixed income securities	(83 676 914)	(42 709 617)
Fair value reserve on shares and other variable income securities	24 908 826	15 159 194
	(58 768 088)	(27 550 423)

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

6 Disclosures relating to off-balance sheet items

6.1 Assets held for third parties

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

EIB resources

The Fund manages EIB resources through the following mandates:

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

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

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

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

European Commission resources

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

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

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

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

- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF manages the European Union's participation in the fund as trustee and represents the Commission's interests. Secondly, the EIF holds a technical support mandate for Development and Cooperation – EuropeAid ("DEVCO") for which related activities are implemented by GEEREF Front Office.

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

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

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

Other third party resources

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

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

- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF acts as investment advisor with the objective to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF business development is formally delegated to the EIB under a sub-advisory agreement.

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

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

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

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

- Under the G43 Anatolian Venture Capital Fund Project (G43 VC), signed in August 2011, the EIF is entrusted with a mandate by Central Finance Contracts

Unit of Turkey (CFCU). 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."

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

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

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

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

EUR

	31.12.2011	31.12.2010
SMEG 1998	59 953 681	59 550 370
ESU 1998	8 164 814	9 896 169
SMEG 2001	33 138 603	44 748 228
ESU 2001	32 776 626	46 348 734
CIP/ SMEG 2007	107 604 886	80 966 776
CIP/ GIF	97 725 878	73 576 917
TTP	1 687 381	1 809 155
Progress FMA	9 155 432	6 004 173
EPPA	1 468 111	1 003 001
GEEREF Technical Support Facility	2 483 932	3 750 370
GEEREF Trusteeship	1 568 600	1 633 422
EFSE - Trust Account		27
GGF - Trust Account		120
GGF - Technical Assistance - Trust Account	4 737	5 000 045
Trust accounts with the Commission	355 732 681	334 287 507
GAGF	31 400 004	31 332 230
G43 - Trust account	16 201 962	
Trust accounts with the EIB	62 049 339	25 174 075
Trust account with the BWMi	2 634 858	517 280
Trust account with the LFA-GV	166 333	113 873
Trust account with member states/regions JEREMIE initiative	827 908 498	928 876 214
	1 296 093 675	1 320 301 179

7 Detailed information on the statement of comprehensive income

7.1 Interest and similar income

Interest and similar income comprises:

EUR

	2011	2010
Interest on debt securities	31 844 395	29 072 530
Interest on money market instruments	586 324	272 241
Interest on bank current accounts	231 917	167 464
Other interest	2 290 886	1 970 989
	34 953 522	31 483 224

The above figures include discounts of EUR 2 376 637 (2010: EUR 1 485 097) and premiums amount to EUR (1 899 764) (2010: EUR 3 497 706).

7.2 Net result from guarantee operations

Net income from guarantee operations comprises:

EUR

	2011	2010
Net increase in the financial guarantees contracts	25 609 190	21 526 582
Provision for guarantees under IAS 37	(73 192 513)	(46 445 360)
Release of provision	15 855 834	0
	(31 727 489)	(24 918 778)

7.3 Commission income

Commission income is detailed as follows:

EUR

	2011	2010
Commissions on EIB mandates	13 617 747	12 091 848
Commissions on EC mandates	7 636 042	6 180 996
Commissions on Regional and Funds-of-funds mandates	21 340 961	18 555 892
Other commissions	580 280	320 720
	43 175 030	37 149 456

7.4 Net gain/ (loss) on financial operations

Net gain/(loss) on financial operations amounting to EUR (74 237) (2010: EUR 2 180 690) corresponds to realised gains on the debt securities portfolio of EUR 82 215 (2010: EUR 2 002 257) and gains/(losses) arising from transactions or cash positions in foreign currencies of EUR (156 452) (2010: EUR 178 432).

7.5 Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 667 995 (2010: EUR 326 000).

7.6 General administrative expenses

Wages and salaries include expenses of EUR 2 075 956 (2010: EUR 2 797 706) incurred in relation to staff seconded from the EIB.

The number of persons, including 4 EIB secondees (2010: 4 EIB secondees), employed at the year-end is as follows:

EUR

	2011	2010
Chief Executive/Deputy Chief Executive	2	2
Employees	227	213
Total	229	215

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

The compensation paid in 2011 to the key management as defined above, representing salaries and pension for the member of the Management Team and attendance fee for the others, amounts to EUR 2 091 476 (2010: EUR 1 875 563).

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 2 679 680 (2010: EUR 1 950 334).

Future minimum lease payments under non-cancellable operating leases

EUR

	Less than 1 year	1 to 5 years	Total
2011	2 697 851	3 514 930	6 212 781
2010	2 669 948	3 577 142	6 247 090

8 Related parties transactions

EIB is the majority owner of the Fund with 61.9 % (2010: 61.2 %) of the shares. The remaining percentage is held by the European Commission 30.0 % (2010: 30.0 %) and the Financial Institutions 8.1 % (2010: 8.8 %).

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 notes 6. In addition, the EIB manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the EIB are disclosed as follows:

		EUR
	31.12.2011	31.12.2010
ASSETS		
Other assets	46 597 333	33 614 684
LIABILITIES AND EQUITY		
Other liabilities and provisions	3 651 819	4 943 188
Creditors	2 646 250	3 779 901
Other liabilities and provisions	865 569	1 269 469
Accruals & deferred income	140 000	140 000
Share capital	371 600 000	367 000 000
INCOME		
Commission income	13 617 747	12 091 848
Other income	649 536	325 647
EXPENSES		
General administrative expenses	9 791 731	8 638 498

8.2 European Commission

Related party transactions with the European Commission mainly concern the management by the Fund of private equity and guarantee activities as described in the notes 6. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

EUR

	31.12.2011	31.12.2010
ASSETS		
Other assets	4 038 565	4 143 848
LIABILITIES AND EQUITY		
Other liabilities and provisions	16 051	16 051
Share capital	180 000 000	180 000 000
INCOME		
Commission income	7 636 042	6 335 436
EXPENSES		
General administrative expenses	129 315	131 953

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.

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