EUROPEAN INVESTMENT FUND

ANNUAL REPORT 2013

Highlights

Operational highlights	2013	2012	2011	2010	2009
Yearly signatures (in EUR m)					
Equity signatures	1 468	1 350	1 126	930	733
Equity catalysed amount	7 147	7 078	6 061	4 589	
Guarantee signatures*	1 844	1 180	1 461	611	191
Guarantee catalysed amount	8 611	5 111	7 626	3 138	
Microfinance signatures	54	40	67	8	-
Microfinance catalysed amount	201	139	140	32	
Total outstandings at 31.12.2013 (in EUR m)					
Private equity assets under management	7 904	6 952	5 919	5 367	4 103
Guarantee exposure*	5 574	4 696	4 372	3 329	3 588
Microfinance	146	117	77	10	-

Financial highlights	2013	2012**	2011	2010	2009
Key figures (in EUR m)					
Total assets	1 473	1 393	1 217	1 196	1 158
Subscribed capital	3 000	3 000	3 000	3 000	2 940
Operating profit	59	56	53	65	58
Net profit/(loss)	47	31	(10)	7	(7)
AAA/AA callable capital (in %)	97	97	97	97	97
Key ratios (in %)					
Return on average equity	4.2	3.1	-	0.7	-
Liquid assets/total assets	75.4	77.0	77.1	78.3	81.1
Shareholders' equity/assets	79.1	78.2	79.1	85.0	88.8

* Maximum liability
** Restated under IAS 19

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Introduction

Foreword of the Chairman of the Board

The economic environment and conditions generally have continued to be challenging for European small and medium-sized enterprises (SMEs). Although signs of recovery are slowly emerging, equity and debt finance remain scarce. According to a European Commission survey, in 2013 one in three SMEs did not manage to obtain the full financing they had planned for the year and many saw the lack of finance as one of the biggest problems they had to face.

This situation has prompted the European Council to emphasise the need for appropriate solutions to respond to market demands. The Council underlined that more suitable and targeted financial resources should be made available to achieve a competitive, entrepreneurial, innovative and knowledge-based European economy and to boost SME growth. In June, the European Council specifically called for the capacity of EIF to be increased to meet this challenge.

In response, the European Investment Bank (EIB) has agreed to increase the risk-taking capacity of EIF by endorsing a capital increase of EUR 1.5bn. In addition, a major new mandate, the EIB Group Risk Enhancement Mandate (EREM), has been put in place which will complement EIF's guarantee and credit enhancement product offering to alleviate the financing problems of SMEs and stimulate Europe's economy.

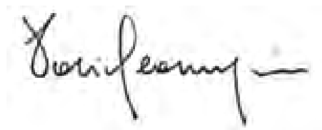
Throughout the year, EIF has continued to demonstrate its resolve to promote sustainable growth in Europe, reaching its financial targets, achieving record volumes of commitments, and catalysing substantial resources from other market players. Moreover, EIF and the EIB have been working hard to develop joint and complementary financing solutions for SMEs. These solutions will be deployed going forward and will help to broaden the impact on the SME market at Group level.

I would like to welcome two new shareholders to EIF's financial institutions shareholders group: Bank Gospodarstwa Krajowego (BGK) which is the first Polish institution to become an EIF shareholder, and Austria Wirtschaftsservice GmbH (aws), one of EIF's long-standing partners.

During the year we have welcomed two new members to EIF's Board of Directors, Alice Terracol and Franciscus Godts and it has been agreed that we will broaden the attendance at Board meetings by welcoming the alternate members. Additionally, in August 2013 Marjut Santoni joined EIF as the new Deputy Chief Executive.

In thanking Richard Pelly for the work during his tenure as Chief Executive of EIF I now welcome Pier Luigi Gilibert in his new role at the helm of the Fund wishing him the best for future success.

I would like to thank EIF's management and staff for this year's remarkable results and successes. Looking at 2013's achievements, I am confident that EIF will rise to the new challenges of 2014.



Dario Scannapieco

Foreword of the Chief Executive

EIF's role continued to be crucial in 2013 as was recognised by the main associations of SMEs across Europe. The key focus remains that of addressing market gaps with countercyclical long-term risk finance, stimulating the SME market and catalysing resources from other capital providers.

2013 was once again a year in which EIF achieved record levels of equity deployed for start-ups and established SMEs and of bank lending catalysed through the provision of first and second loss guarantees. Cornerstone commitments of EUR 1.47bn were made in 68 early stage and growth finance focused funds which raised a total of EUR 7.15bn. EIF also catalysed new loan portfolios of EUR 8.6bn with 69 guarantees and credit enhancement transactions, an increase of 65% over last year, and signed a record 26 microfinance operations for a total of EUR 53.8m.

These committed volumes are expected to leverage EUR 15.8bn of resources and surpassed the ambitious Operating Plan goals, maximising the impact on the growth of the SME sector.

EIF's financial performance was very strong, with operating income as planned at EUR 59m and net profits amounting to EUR 47m, generating a return on equity in excess of 4.2%.

2013 marked the end of the European Commission's (EC) current seven-year Financial Perspective and gives us an opportunity to reflect on the achievements and successes of initiatives and programmes managed by EIF. Between 2007 and 2013, EUR 1.1bn was signed with 88 financial institutions and fund managers, leveraging over EUR 11.3bn in funding over the seven-year lifespan of the European Union's Competitiveness and Innovation Framework Programme (CIP) and proving the value and market fit of an instrument that provided improved access to finance for start-up and growth SMEs.

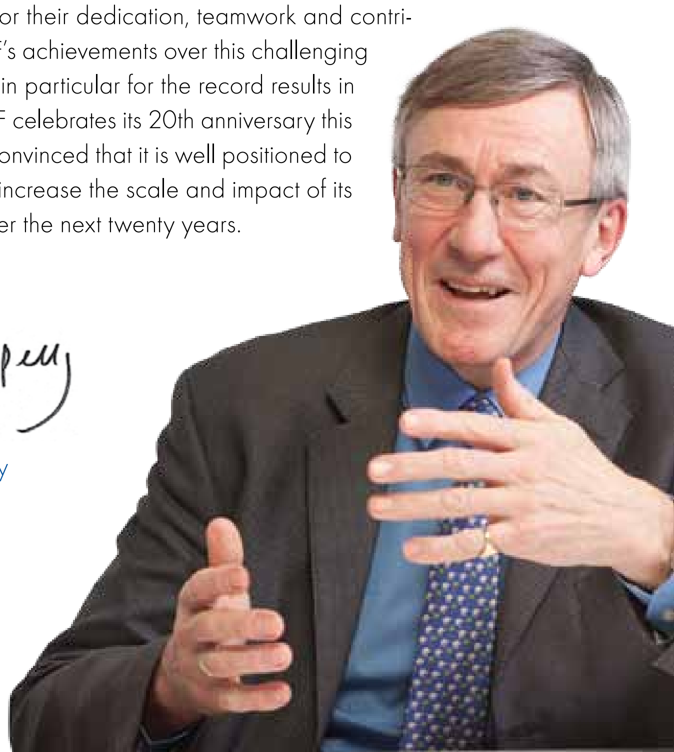
During the same period, EIF's regional development activity expanded in an unprecedented manner: 14 Holding Funds were signed under the Joint European Resources for Micro to Medium Enterprises (JEREMIE) programme for a total of EUR 1.2bn and 11 funds-of-funds advised and managed by EIF were launched or implemented, demonstrating EIF's successful collaboration with national partners and Member States and its ability to deliver a wide range of instruments tailored to the needs of individual countries across Europe.

As the EU initiatives are reaching the end of their lifecycle, EIF has been in intense dialogue with the EC to design and develop their successors. Thanks to these new mandates EIF will be able to further expand its activity and its impact in support of SMEs. More work is also being done with the EIB, the EC and key European and national policy makers and institutions to contribute to the policy, regulatory and financial environments and encourage the establishment of markets driven by innovative products and services for SMEs.

Looking forward, 2014 is a milestone year. The stakeholders of EIF have expressed unreserved confidence by supporting a 50% capital increase. The EIB has provided considerably increased resources for EIF's guarantee and credit enhancement activity via a new mandate which will provide large amounts of finance for SMEs. EIF is also in advanced discussions with the EC for the management of various financial instruments and resources in support of SMEs in the context of the new European Multiannual Financial Framework.

After six years as Chief Executive, I will be standing down at the 2014 Annual General Meeting. It has been an extraordinary privilege to lead such a unique institution and I would like to express my deepest gratitude to EIF's talented staff for their dedication, teamwork and contribution to EIF's achievements over this challenging period and in particular for the record results in 2013. As EIF celebrates its 20th anniversary this year, I am convinced that it is well positioned to continue to increase the scale and impact of its activities over the next twenty years.

Richard Pelly



Strategy and achievements

EIF is Europe's leading provider of risk finance for SMEs, delivering innovative financing solutions which include equity, debt and microfinance. These are deployed to SMEs through financial intermediaries across Europe.

EIF's specialised equity investment, guarantee and lending products respond to the current financing needs of European businesses. Its support covers the entire value chain of enterprise creation and development from seed through to growth and expansion stages.

Actively participating in the development and implementation of EU policy objectives and flagship initiatives, EIF acts as a market-oriented institution which achieves an appropriate return on its capital through a good balance of fee and risk-based income.

Throughout 2013, EIF played a crucial role in addressing the prevailing financing shortage of SMEs and continued to act countercyclically to stimulate the European economy.

EIF's key achievements in 2013

- Supported over 140 000 SMEs in Europe through a range of financial instruments provided to SME-focused intermediaries.

- Exceeded operating plan in terms of volumes and number of deals:
  - A record number of 68 new equity commitments totalling EUR 1.47bn was achieved maintaining market traction and catalysing EUR 7.15bn.
  - EUR 1.84bn in guarantees and credit enhancement was committed in 69 transactions, stimulating new loan portfolios and catalysing a total lending and leasing amount of EUR 8.61bn.
  - A record 26 microfinance operations were signed for a total of EUR 53.8m and more than EUR 201.3m was catalysed in support of micro-entrepreneurs.

- Focused on regional development, complementing existing national schemes, expanding partnerships with local players and optimising the effectiveness of EU budget by attracting additional finance providers:
  - The European Angels Fund (EAF) was ramped up in Germany and incorporated in two new countries, Austria and Spain.
  - Funds-of-funds focussing on the Baltics (Baltic Innovation Fund – BIF), the Netherlands (Dutch Venture Initiative – DVI), Poland (Polish Growth Fund of Fund – PGFF), the Western Balkans (Western Balkans Enterprise Development and Innovation Facility – WB EDIF) and a multi-country programme (Social Investment Accelerator – SIA) were launched and implemented.
  - First investments under BIF, DVI, PGFF and SIA were signed.
  - EUR 267.5m from Structural Funds was committed to financial intermediaries for the benefit of SMEs across 14 Joint European Resources for Micro to Medium Enterprises (JEREMIE) Holding Funds.

- Increased joint operations and complementary instruments with the EIB for enhanced impact and improved access to finance for SMEs.

Looking forward

EIF will continue to stimulate the SME market in Europe and boost entrepreneurship and innovation. With its know-how, market knowledge, scope and pan-European reach, EIF will pro-actively design financial solutions for SMEs and deliver instruments that respond to the challenges and demands of Europe's businesses. 2014 is expected to see the conclusion of negotiations on new EU mandates and their implementation.

The agreement of the EIB to commit to its majority share in a 50% capital increase is a critical development for EIF and comes seven years after the last capital increase. The European Commission and financial institutional shareholders have also given indications of support and a clear desire to sustain and strengthen EIF's tripartite capital structure, subject to their respective governance and approval processes. This new capital will increase EIF's ability to share risks and offer capital relief in bank lending, as well as enable EIF to co-invest with the increased resources to be provided by its mandators. It will, at the same time, reinforce EIF's capital strength to ensure that its AAA status is preserved.

Business year 2013

European market environment

Europe's sluggish and uneven economic performance continued in 2013. Top issues were still the concerns surrounding sovereign deficits and debts and weakly capitalised banks. According to the EC's and ECB's latest "survey on the access to finance of SMEs in the euro area"[1], access to finance remained the second most pressing problem for euro area SMEs. Moreover, it appeared to still be a more severe concern for SMEs than for large firms.

The relatively difficult access to finance for SMEs in those countries that are suffering most from the crisis remains particularly worrying, as SMEs account for relatively large shares of gross value added in these countries.

However, despite this negative environment the business expectations of European SMEs improved slightly and it is hoped that 2014 could be a turning point for the better.

The ECB lending survey shows that, on balance, the reporting euro area banks have further tightened their credit standards for non-financial corporations, but the additional net tightening was this time less pronounced for SMEs than for larger enterprises.

Private equity

The 2010 and 2011 recovery suffered a setback in 2012, which seemed to have continued in 2013. The European Venture Capital Association's (EVCA) preliminary figures show that all private equity market segments appear to have recorded another relatively poor year in terms of investment activity. These disappointing developments were at least partially driven by the difficult general economic environment. Fundraising also appeared to have experienced another weak year but divestment activity seemed to have improved somewhat for all private equity. EIF observed an increasing number of fast-growing European early stage companies which showed a strong pattern of growth and good potential to positively impact future performance.

Investors' current cautious sentiment towards venture capital (VC) showed in the shift in the investor base, a trend that has been going on for the past few years. Some of the gap left has been filled by business angels thanks to their proximity to the market. Additionally, government agencies which accounted for almost 40% of total VC fundraising in 2012 again remained the largest investor group in 2013, according to preliminary information from EVCA.

SME guarantees/securitisation

Credit guarantees are used widely across economies as important tools to ease financial constraints for SMEs and to alleviate market failures in SME financing.

Public support at European level has helped to improve the situation at least on the supply side and several new initiatives are in preparation for the Multiannual Financial Framework 2014-2020.

In the SME securitisation market, originators continued to mainly retain newly issued deals in order to create liquidity buffers and to use the assets as collateral with central banks. It can also be observed that, despite the financial and sovereign crisis, the European securitisation market continues to perform relatively well with the SME segment showing low default rates. Although conditions are still challenging, there is clearly a better sentiment developing in the market about the use of securitisation techniques to support the SME markets and this is linked to some positive signs related to the growth in economic activity. An additional encouraging sign is the regulators' positive stance on securitisation, although it is still too early to talk about a complete revival of the markets.

Microfinance

Based on the latest EIF market research, in terms of the number of micro-loans disbursed, the European microfinance sector as a whole has continued to grow in the past year which is also reflected in the increased lending and guarantee activity under the Progress Microfinance initiative. The microfinance institutions' (MFIs') demand for stable access to funding clearly remains as inter-bank lending and other sources of funding have not yet picked up again.

The ever decreasing bank lending, the limited capacity of national governments to support microfinance, the priority they attach to this sector and the strong market demand for microfinance still suggest that there is a clear rationale for intervention at EU level. Despite the positive effects of microfinance on employment and social inclusion, without access to stable funding or an increased capacity building component, the growth and sustainability prospects of the sector, particularly for smaller non-bank MFIs focused on social inclusion lending are likely to remain limited.

[1] http://www.ecb.europa.eu/pub/pdf/other/accesstofinancesmallmediumsizedenterprises201311en.pdf

Equity

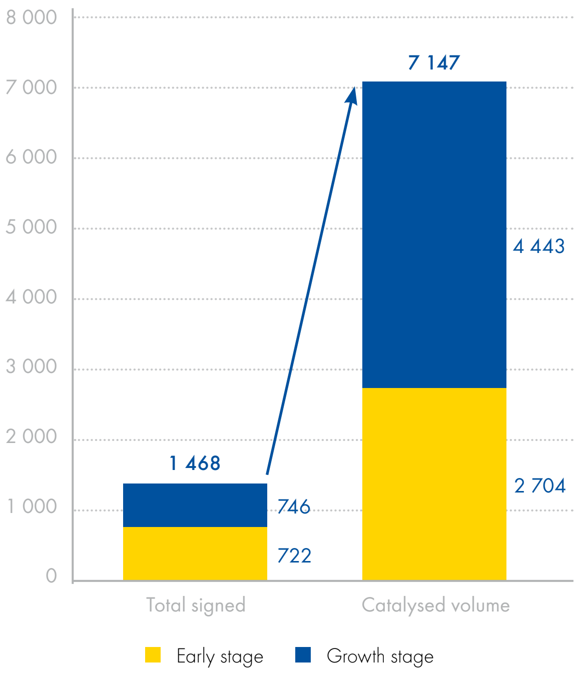
Overview and resources

EIF is the leading European investor in venture and growth capital funds, and a critical provider of capital for SMEs. Through its involvement, EIF actively contributes to the maintenance and development of a well-functioning and sustainable European private equity market, stimulating entrepreneurship and innovation.

In 2013 for the third year running, EIF achieved record volumes of signatures committing EUR 1.47bn (up from EUR 1.35bn in 2012 and EUR 1.12bn in 2011) to seed, venture and growth capital funds, hence reaffirming its support for the European SME segment. As a recognised investor EIF has committed resources to 68 funds, helping them to reach a critical mass and achieve closing.

Throughout the year EIF catalysed EUR 7.15bn of capital for the benefit of SMEs.

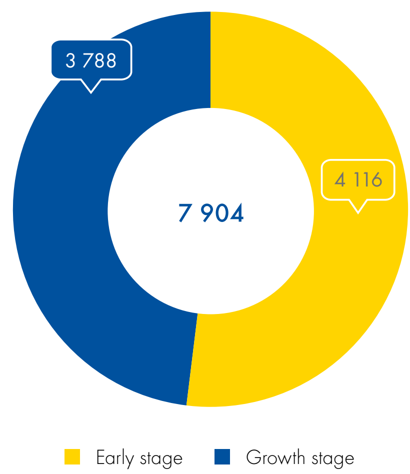
2013 equity signatures and catalysed amounts at 31.12.2013 – in EUR m



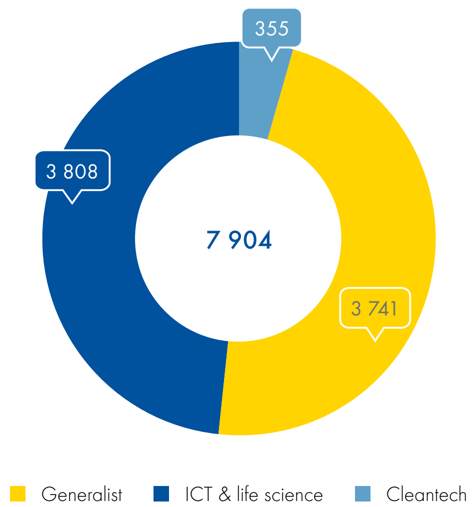
EIF developed and implemented pilots and initiatives involving partnerships with strategic counterparts and, increased capacity under the EIB Risk Capital Resources (RCR)[2] mandate enabled it to further extend the range and impact of its equity investing activities.

EIF's aim is to assist SMEs in their chosen area of expertise throughout their life cycle from the earliest stages of enterprise creation through to the development and expansion stages.

Total equity portfolio by stage at 31.12.2013 – in EUR m



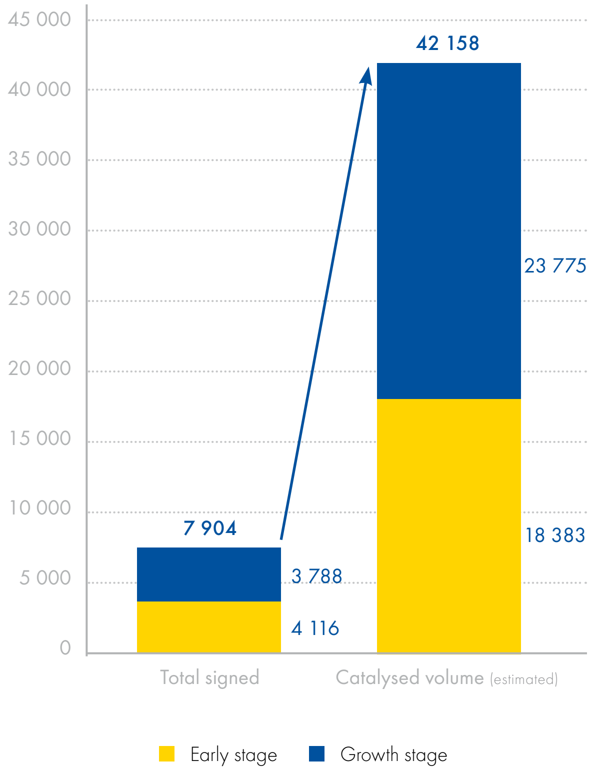
Total equity portfolio by sector at 31.12.2013 – in EUR m



[2] See page 10

At end 2013 EIF's total outstanding equity portfolio amounted to EUR 7.9bn, catalysing EUR 42.16bn of resources in 481 funds.

Total equity signatures and catalysed amounts since inception at 31.12.2013 – in EUR m



To pursue its equity activities, EIF invests its own funds as well as resources managed on behalf of mandators. These are deployed through various programmes including the EIB Risk Capital Resources (RCR) mandate and the EC CIP GIF programme.

EIB Risk Capital Resources

In 2013 the Risk Capital Mandate (RCM) mandate allocated to EIF by the EIB became the RCR mandate and now combines the EUR 5bn RCM allocation and the increased EUR 2bn Mezzanine Facility for Growth (MFG) mandate, providing a total of EUR 7bn.

Like RCM, RCR is used to support technology and industrial innovation and targets early to lower mid-market funds with a specific focus on the enlarged Europe (EU 28, EU candidate, potential candidate and EFTA countries) but with its scope extended to cover small mid-caps to complement EIB's product offering.

At the end of 2013, RCR's outstanding volumes amounted to EUR 5.2bn committed directly or via funds-of-funds in 369 funds.

EIF resources

Since 2013 RCR resources have been complemented by EIF own resources co-investments of 5%. 2013 own resources commitments to support the co-investment with RCR amounted to EUR 60m.

European Commission CIP GIF resources

2013 marked the end of the EC CIP GIF commitment period. CIP GIF was particularly important as it enabled EIF to provide risk funding to venture and growth funds and to improve access to finance to numerous SMEs. In total 42 funds benefited from CIP resources, which since 2007 had in turn invested in 340 SMEs at end-2013. CIP GIF also played a crucial role in the context of the EU 2020 Innovation Union by encouraging the development of innovation in Europe.

EIF is currently working with the EC to lay the foundations for a new programme to support innovative SMEs.

Activity portfolio

Early stage capital

Technology transfer: from the lab to the market

Technology transfer (TT) remains an EIF strategic focus and a means of encouraging collaboration between research organisations and industry, the licensing of intellectual property rights, and the creation of start-up businesses and university spin-out companies.

As a result of the TT market evolution towards increased professionalisation, there was a strong underlying deal flow in the leading academic seed and licensing operators segment throughout the year and on-going TT investment funding is projected to continue to grow at a sustained rate. A new appetite for TT and acceleration funding in emerging markets also became apparent in 2013.

In this context, EIF was very active in terms of investments achieving EUR 110.7m in nine transactions and backing top-tier teams.

Going forward, discussions are advancing with the EC Directorate-General for Research and Innovation to set up a Technology Transfer Finance Facility to be deployed alongside the Capacity-Building Technology Transfer scheme. Assuming EC funding can be invested on a subordinated basis, this facility, with its more aggressive risk profile, would open up a new market for EIF and address the needs of a larger number of European TT players particularly in their proof-of-concept phases. The overall amount of this pilot facility is under discussion. Looking ahead to 2014, EIF will continue with its policy of support for leading TT intermediaries while maintaining a risk profile commensurate with risk mitigation requirements. As a result of the EU's smart growth strategy, Member States are also expected to dedicate substantial resources to this area of activity.

Venture capital: smart capital for smart ventures

Although the European VC market is showing promising signs of improvement, there is still a financing gap for companies in their post start-up phase that need equity to grow and scale up. In this context, EIF continued to step up its support for the early stage technology segment of the SME market in 2013, backing emerging and established VC teams, as well as co-investing with business angels and family offices and addressing the need for VC financing of technology companies.

EUR 601.5m was invested in 26 VC funds, of which EUR 11.8m was committed for co-investments with business angels and family offices.

One example which encapsulates EIF's crucial role is its commitment to Atomico III, a technology-focused VC firm co-founded and led by Niklas Zennstrom. EIF was a cornerstone investor in Atomico II and was also the first to commit funds to Atomico III, with a cornerstone investment of EUR 40m. This catalysed further fundraising and led to the successful closing of the fund in 2013. The team managed to secure an impressive group of international investors to help European entrepreneurs and technology companies to achieve global success and develop innovative products that disrupt established industries. As a result, Atomico III was oversubscribed and was the largest VC fund closed in Europe in 2013.

EIF recorded an unexpected and encouraging exit activity in its VC portfolio in 2013. There were more than 15 successful exits with company valuations amounting to over EUR 100m and the total enterprise value of these significant exits exceeding EUR 17bn in technology sectors such as cleantech, hardware, digital/software and life science.

Throughout the year, EIF strengthened its efforts to develop and roll out new VC products with a view to increasing its reach to and impact on the European VC ecosystem and catalysing private sector investors. After two years of operation, the EUR 70m European Angels Fund (EAF) in Germany is expected to be almost fully committed by 2014 and will be increased to EUR 135m, demonstrating the co-investment opportunities provided by business angels and family offices. Based on this rapid market uptake and the experience gained, in December 2013 the European Angels Fund was incorporated in another two countries, namely Spain ("EAF Spain - Fondo Isabel la Católica") and Austria ("EAF Austria - aws Business Angel Fonds"), with the first business angels signing co-investment agreements. Discussions are well advanced with other Member States, and the EAF is expected to be rolled out in other countries in 2014.

Pro-actively extending its reach to other market players and constantly maximising its value added and impact, EIF has been working closely with corporate investors to set up the Corporate Innovation Platform (CoriP), an initiative that facilitates cooperation between fund managers, corporates and entrepreneurs. Great interest is being generated in the "Digital Life" module of the facility with a number of large and well-known corporates keen to participate. The other three themes addressed by CoriP ("Health & Wellbeing", "Smart Things" and "Sustainability") will be rolled out subsequently, after the initial CoriP launch.

Five months after its first closing in August 2013, the Dutch Venture Initiative (DVI) is being rapidly deployed. Just over a third of the total EUR 150m is already committed in seven funds, thereby increasing the number of active VC funds in the Netherlands and providing the next generation of high-tech businesses with a unique opportunity to develop.

Growth stage capital

Lower-midmarket: supporting established SMEs

EIF continued with its lower mid-market activity, offering SMEs in their growth phase access to equity finance. By participating early in the fund managers' fundraising process, EIF retained a major role in helping many teams, including first-time funds, to reach their target size. Although the most challenging years following the crisis seem to be behind and the growth market is slowly recovering, in the current cautious investment climate EIF's stable, reliable and long term sources of equity finance for SMEs played an important role. In 2013, EUR 636m was committed for growth funds, catalysing EUR 4.1bn of capital.

Successes in 2013 included the launch and rapid roll out of the Baltic Innovation Fund and Polish Growth Fund of Fund initiatives; the establishment of the first private equity fund in the South-East Anatolia region of Turkey, supporting fast-growing businesses in one of the most challenging geographical environments of that country; the commitment to the Enterprise Expansion Fund, the EBRD-managed growth capital fund targeting Western Balkans companies and the successful completion, within the contractual deadlines, of the Portugal Venture Capital Initiative investment programme.

The increase and evolution of the RCR mandate gave EIF additional capacity and flexibility to help enterprises reach the next level of development. In an effort to pro-actively support small enterprises in the Southern European countries where the impact of the financial crisis was felt most acutely, EIF has been focusing on the development of the lower mid-market deal pipeline. This resulted in significant progress in all targeted countries and new equity fund investments in Spain and Italy.

Mezzanine: financing growth with hybrid debt/equity instruments

EIF continued to play a catalytic role in the mezzanine market segment by committing capital to new hybrid debt/equity and credit-oriented funds, enabling new market players to become established, increasing the visibility of the asset class to (new) investors and providing alternative sources of finance to SMEs and small mid-caps as well as to late stage technology companies. The main aim of EIF's strategy in this segment is to provide final beneficiaries with more flexible financial resources, which they may need for financing growth, potential shareholding reorganisation or financial restructuring. In 2013, a total of EUR 110m was committed in mezzanine funds catalysing EUR 300m of capital.

In 2013, the EIB doubled EIF's mezzanine-dedicated resources which now total EUR 2bn. These additional resources expand EIF's capacity to support mezzanine funds in the EU. For the first time, EIF supported managers of hybrid and credit-oriented funds in Greece, Ireland and Portugal, adding to the current coverage of the EU by investee funds. The mandate evolution has enabled finance to be extended to funds investing in small- to mid-caps, complementing the EIB Group tool-kit and enabling commitments to market leaders in France to be considered.

Last, but not least, EIF's portfolio recorded its first exit from the investment in a Turkish company jointly funded under EIF's mezzanine programme with a co-investment under EIF's dedicated fund-of-funds for Turkey, iVCi. Additional amounts were also committed under the EUR 200m[3] Mezzanine Dachfonds für Deutschland (MDD), which was launched in 2012 and targets hybrid credit-oriented funds active in Germany. On the back of these successful results, EIF's intention is to potentially roll out the MDD model to other countries where private debt as an asset class for SMEs is set to develop.

[3] EUR 200m of investment capacity: MDD is jointly financed by BMWi, LfA Förderbank and NRW.BANK for EUR 100m. EIF manages this EUR 100m facility and is committed to co-invest with MDD at least the same amount through RCR.

In 2013 EIF confirmed its importance as a market catalyst at the forefront of market trends in the hybrid debt/equity segment, and is currently designing and developing new instruments (such as credit platforms) and co-investment facilities, which are expected be available in the course of 2014.

Social impact investing

EIF has established itself as a highly regarded think-tank dealing with policy action in support of social entrepreneurship in Europe, notably on topics such as impact metrics and innovative financial instruments for the social sector. In May 2013, the EUR 52m Social Impact Accelerator fund-of-funds (SIA) was launched to help build a functioning eco-system for social entrepreneurship and social innovation in Europe. EIF's objective is to become the reference point for impact investing at European level. The first commitment has already been signed, as EIF backed the German-based Social Venture Fund which invests in social enterprises with innovative and entrepreneurial-driven solutions for urgent social and environmental challenges.

This signature is the first of many in this new area of activity within EIF's portfolio which provides innovative ways to tackle current societal challenges in Europe.

The power of polymer cleaning

There are relatively few things we do today that we did 50, 100 or 500 years ago. However, washing clothes with water and detergent is one of them. But climate change and an ever-growing population are affecting the way we use our natural resources, and how we manage the world's water supply and meet current and future demand is one of the global issues facing governments, businesses and society.

Xeros offers a solution to this growing problem and demonstrates what can be achieved to create a more sustainable society with its ground-breaking technology that takes the water out of the wash through its polymer bead cleaning process. Xeros proposes an alternative to traditional water-based and solvent-based laundering systems and garment cleaning technologies. By combining the polymer beads' molecular structure with a proprietary detergent solution, the result is a superior cleaning system even better than water. The Xeros system delivers these cleaning results by utilising less water, less energy and less detergent.

Top Technology Ventures, the manager of IP Venture, one of the leading early stage UK funds backed by EIF, demonstrated its belief in the Xeros team by helping to finance the development and testing of the Xeros prototypes, and the encouraging results now make it possible to envisage a commercial launch. The aim of Xeros' CEO Bill Westwater and his team is to one day save a million swimming pools' worth of water in the UK alone.

Company: **Xeros**
Country: **UK**
Investment in IP Venture Fund I & II

Second-hand trading made easy

Ever felt like clearing out some of those CDs that you haven't listened to since the 1990s and which have been gathering dust in a cardboard box, forgotten somewhere in the attic? Then you may well want to turn to momox.

momox is a German-based company which provides an efficient way to recycle and re-use CDs, books, DVDs and games by enabling users to sell them on a trade-in platform that is free of charge, transparent, quick, secure and sustainable. All the customer has to do is enter the item's barcode online to receive an immediate purchase offer. The seller then sends the goods to momox without any delivery charges. momox will pay as soon as the items are received. Here, no waste, everything is sold-on for others to enjoy.

It all started ten years ago when founder and self-made entrepreneur Christian Wegner decided to set up a business trading second-hand CDs, DVDs, computer and console games from one of the back rooms of his apartment with just a computer and EUR 1 500 of his own money to spend. Soon the flat was full, so Christian had to rent the apartment next door and some storage space on the fourth floor of a building that had no elevator... and volumes grew and grew.

"It's been a fantastic journey and we have grown much beyond what we had imagined or hoped" says Heiner Kroke, momox's CEO "We were fortunate enough to find investors such as Acton partners, a fund backed by EIF, who believed in our business model and gave us financial support and equally valuable hands-on advice and access to a large network of contacts. Now we have our own website, we work with global companies such as Amazon and have expanded to Austria, France, the UK and even the US".

The company today has two warehouses with a capacity of over 70 000m^2 and employs 650 people. Since May 2006, over 860 000 customers have traded-in more than 51 500 000 items.

Company: **momox**
Country: **Germany**
Investment in Acton Heureka I and II

At the forefront of healthcare

Nothing is more valuable than good health, so getting efficient, professional, trustworthy and comprehensive healthcare when things go wrong is crucial. This is a service that Pihlajalinna, one of Finland's largest health-care providers, strives to achieve.

Founded in 2001, Pihlajalinna initially focused on placing locum doctors on behalf of local authorities in the Tampere region. Today staffing services are only a minor part of Pihlajalinna's business and over recent years, with the help of Finnish fund manager Sentica, a team which is supported by EIF, Pihlajalinna has expanded its geographical reach and service offering. Pihlajalinna now offers private healthcare services including occupational health, dental clinics and surgical services. The fastest growing segment of the business is outsourcing services provided for municipalities which may include outpatient clinics or fully outsourced social care and healthcare services.

"Pihlajalinna has taken on board highly qualified professionals and well regarded operators who by joining forces with us enabled us to provide across the board services to patients in each of the clinics we operate. This enables us to dispense quality care as our aim is to offer the best to our patients" says Mikko Wiren CEO and founder of Pihlajalinna.

Pihlajalinna operates medical centres and hospitals in the Helsinki and Tampere regions as well as several clinics in other parts of Finland including Pieksämäki, Kankaanpää, Jyväskylä, Lappeenranta and Levi. Fully outsourced services in social and healthcare are provided for example for Mänttä-Vilppula.

The company, which is partly owned by its staff, today employs over 1 500 healthcare professionals and its estimated sales for 2012 totalled approximately EUR 49m and for 2013 over EUR 100m.

Company: **Pihlajalinna**
Country: **Finland**
Investment in Sentica Buyout Fund III & IV

Guarantees and securitisation

Overview and resources

EIF is a prime provider of guarantees to catalyse bank lending to support SMEs. With its AAA-rated first-loss guarantee and credit enhancement/securitisation instruments, EIF shares the risk taken by banks and financial institutions, and thereby stimulates an increase in the loans and leases they grant to SMEs.

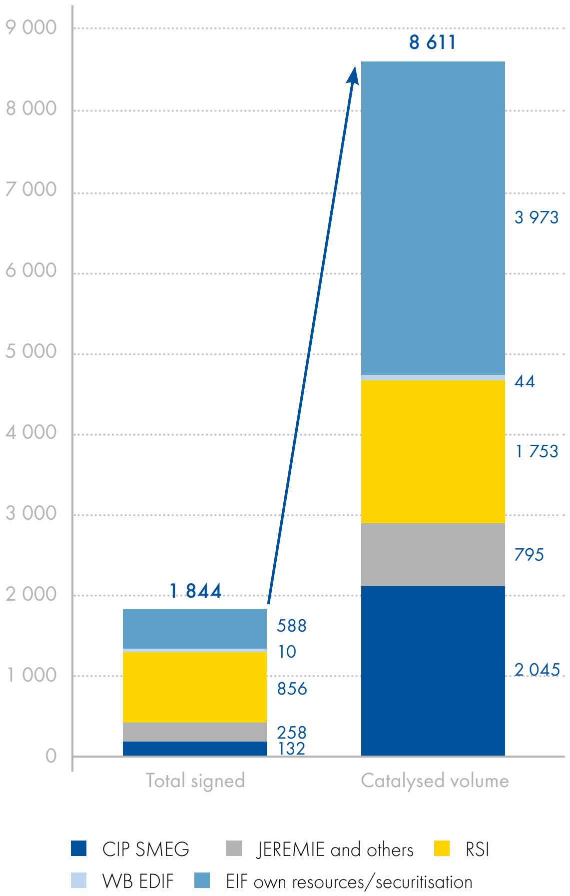
EIF's guarantee and securitisation transactions are split into "own risk" and "mandate" activities:

"Own risk" means that EIF uses its own capital to credit enhance tranches of SME loan or lease securitisation transactions, facilitating SME risk transfer from financial institutions and enabling access to term funding through the placement of guaranteed asset-backed securities with capital market investors.

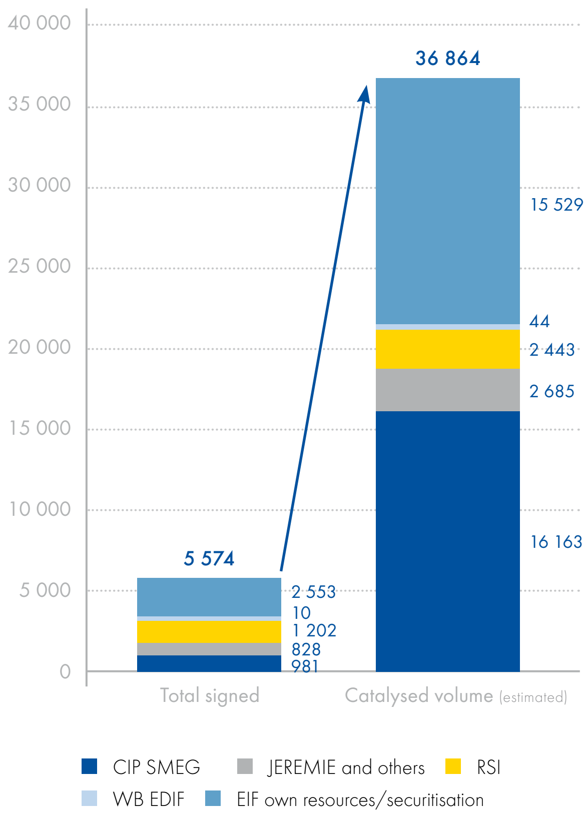
With the "mandate" activities EIF manages resources– depending on the type of mandate – on behalf of the European Commission or Member States, facilitating the granting of loans and leases to SMEs and sharing a significant level of first loss with the financial intermediaries. EIF's role as counter-guarantor of mutual guarantee institutions as well as national guarantee agencies is crucial in the distribution of risk in many countries.

2013 was a record year in terms of the overall number of guarantee and securitisation transactions signed and total resources catalysed. In all, 69 new transactions amounting to EUR 1.84bn were signed across a large number of European countries and EUR 8.61bn was catalysed via EIF's guarantee and securitisation activity. These volumes emphasise EIF's prime position as a major European SME guarantee player, adding value through its commitments but also the catalytic effect of its participation in SME guarantee transactions.

2013 guarantee and securitisation signatures and catalysed amounts at 31.12.2013– in EUR m



Total guarantee and securitisation signatures and catalysed amounts since inception at 31.12.2013 – in EUR m



Of the 2013 signatures, EUR 588m of guarantees were own risk securitisation guarantees, EUR 856.5m were signed under the Risk Sharing Instrument (RSI) and EUR 132.1m under the European Commission's CIP SMEG (maximum first loss liability), corresponding to a notional volume of EUR 2.04bn for CIP SMEG.

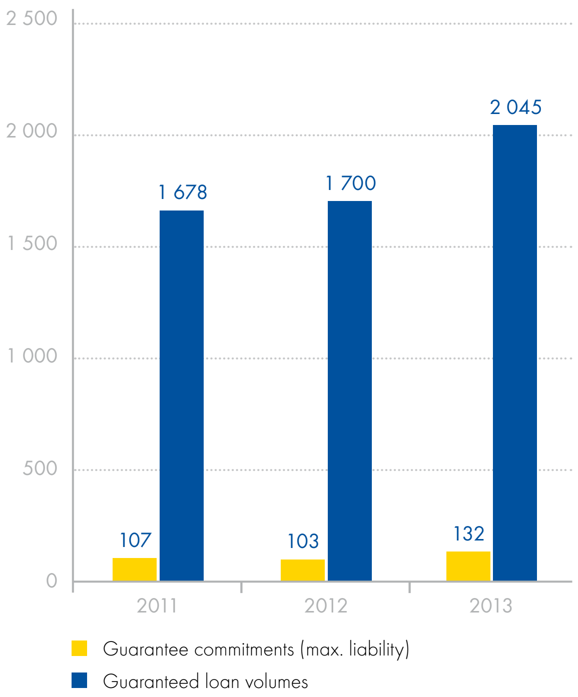
At end-2013, total outstanding guarantee and securitisation commitments since inception amounted to EUR 5.57bn in 306 agreements. Of this total EUR 2.6bn involved own risk securitisation transactions and EUR 3bn mandate transactions, including close to EUR 1bn under RSI, mobilising a total of EUR 36.4bn and demonstrating EIF's continuing catalytic role. These volumes were achieved through the provision of ever-expanding risk-sharing, capital protection and funding solutions, ranging from first-loss portfolio guarantees to credit enhancement of senior and mezzanine tranches in asset-backed securities transactions.

Activity portfolio

CIP SMEG: enhancing SME access to finance

2013 marked the last year during which new guarantee transactions could be entered into under the successful seven-year CIP SMEG programming period. The fully utilised budgetary resources have so far supported more than 290 000 SMEs, were committed in 70 transactions in 23 countries and catalysed in excess of EUR 9bn of lending

Supported loan volumes between 2011-2013 – in EUR m



volumes. Based on the experience gained with previous programmes, EIF is actively negotiating the management of new EU resources that will provide easier access to lending for SMEs under the recently adopted Multiannual Financial Framework through initiatives including the Competitiveness of Enterprises and SMEs (COSME) programme.

RSI: boosting innovative projects

The Risk Sharing Instrument (RSI) is a joint initiative of EIF, the EIB and the EC. It is financed by the EU under the 7th Framework Programme for Research and Technological Development and was exceptionally successful in 2013. The instrument, which was pro-actively developed by EIF to expand its financing product offering for SMEs proved that it could meet current market needs and was speedily introduced to financial intermediaries with absorption and deployment to SMEs following swiftly. At end-2013, 25 transactions totalling EUR 1.2bn had been signed in 14 countries, including programme countries, with EUR 856.5m committed in 2013. After only a year, the facility's capacity was topped up and a counter-guarantee within the product offering was included. Going forward, discussions are currently taking place for EIF's participation in a successor scheme for the 2014-2020 period.

Credit enhancement/securitisation

During 2013, EIF remained an active player in the securitisation market, helping it towards recovery by investing EUR 588m in a variety of transactions in Europe, including Germany, France, Italy and Spain and in candidate countries such as Turkey, where EIF boosted market activity.

The SME securitisation activity is an important segment of the European structured finance market. As the recovery of the market remained sluggish, the need for a revitalised and sound securitisation capital market became increasingly important for market players and policy makers as it forms part of the global response to the difficulties SMEs are facing in obtaining finance. In this context, EIF's role as a credit enhancement provider is set to grow further. This is exemplified by the first project launched under the ABS initiative at end 2013.

The ABS credit enhancement is a joint EIF/EIB initiative that builds on the complementarity of the product range and activities offered at EIB Group level to support securitisation programmes for SMEs and mid-caps. The initiative enables the EIB Group to have a greater impact in terms of SME financing and capital relief for the originating financial intermediaries and in turn to create extra capacity to lend to SMEs. First transactions are expected to be signed in 2014.

Belgian chocolate with an entrepreneurial flavour

Karen opened her chocolate boutique in Antwerp in 2007 and has never looked back since. She runs the business herself and has kept it afloat through hard work and dedication to a cause that many people are passionate about: chocolate. Karen graduated as a jeweller and goldsmith but could not find the job she was looking for. After searching to no avail, she started working in a local shop knowing that it wasn't really the job of her dreams. In a bid to find her dream job, she started following evening classes to become a chocolate confectioner. In the meantime, she worked in a coffee shop to make ends meet while planning how she could start her own business. Her passion for chocolate was luckily coupled with a passion for entrepreneurship, so when the opportunity came to turn her dream into a reality, she went to the EIF-supported Belgian financial intermediary FdP (Participatiefonds/Fonds de Participation) for finance and left with EUR 12 000 "feeling like a kid in a sweet shop"! Karen hopes to keep the passion alive and is already planning on diversifying her business offering by looking to start making specialities on demand for those sweet-toothed customers in Antwerp.

Company: **Karelicious**
Country: **Belgium**
EU-guaranteed loan from Participatiefonds

High tech rice manufacturing

Did you know that each grain of rice that you eat has been milled? And do you know what is involved in the milling process? The oldest milling company in Portugal has been milling rice since 1920, meticulously removing the outer shell/husk, stones and impurities from the raw product in order to supply edible grains of rice. Ernesto runs one of the most technologically advanced fully automated rice mills in the world, milling rice from local paddy fields and imported brown rice, and selling edible rice to the food industry.

An investment in a state-of-the-art industrial plant, enabled Ernesto to grow and enlarge his company's product range, which currently includes innovative value-added products such as cooked and pre-cooked rice meals, as well as broken rice products for a variety of sectors – from baby food to animal bedding. The EUR 500 000 working capital loan granted by EIF-supported Banco Português de Investimento under the RSI programme enabled Ernesto to meet his increased working capital requirement and expand his customer base.

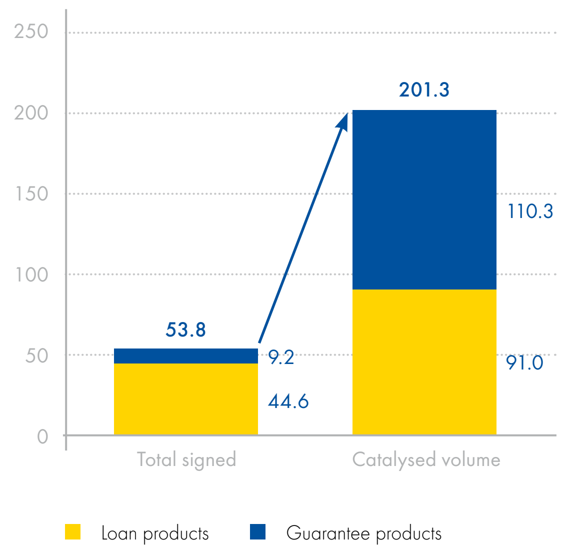
- Company: Ernesto Morgado
- Country: Portugal
- EU-supported loan from Banco Português de Investimento

Microfinance

Overview and resources

EIF strengthens the infrastructure of the microfinance market by providing Europe's microfinance institutions (MFIs) with both funded and unfunded financial instruments under Progress Microfinance, and non-financial support under the Joint Action to Support Microfinance Institutions in Europe (JASMINE). Through these long-term market-building efforts, EIF aims to improve the availability of resources for micro-entrepreneurs who often lack access to the commercial credit market. The product offering is tailored to the specific needs of MFIs ranging from equity and loans to guarantees and technical assistance.

2013 microfinance signatures and catalysed amounts at 31.12.2013– in EUR m



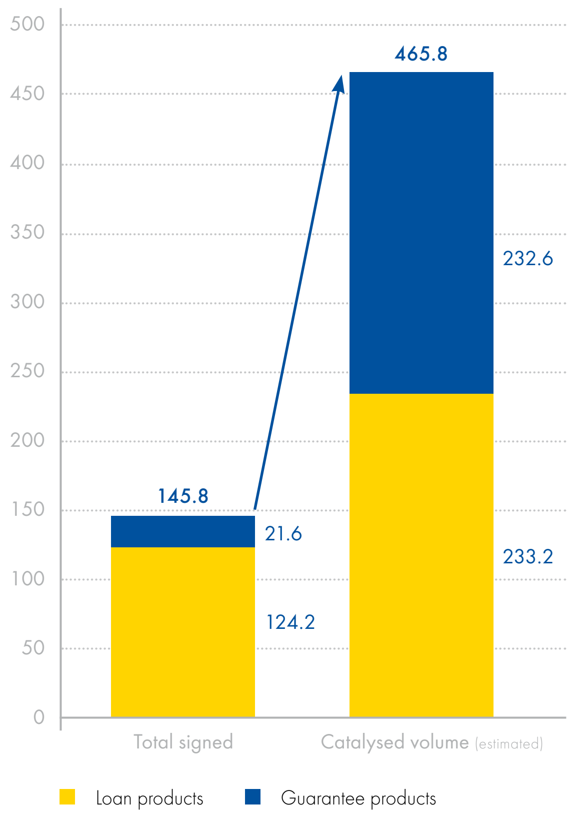
A record 26 microfinance transactions were signed in 2013, a substantial increase compared to last year. Of those, 25 signatures were under the EC and EIB-funded Progress Microfinance programme and one transaction came under the European Parliament Preparatory Action (EPPA). These new commitments amounted to some EUR 53.8m and, thanks to the financial instruments' design, are expected to catalyse more than EUR 201.3m of new micro-credits over the next two to three years. This brings the overall microfinance portfolio since inception to a total of EUR 145.8m, supporting over 12 800 micro-entrepreneurs in the EU-28 to date.

Activity portfolio

Progress Microfinance

Examples of Progress Microfinance transactions in 2013 include the signature of a guarantee agreement with Colonya Caixa d'Estalvis de Pollença aimed at supporting micro-enterprises and self-employed entrepreneurs in Spain and a guarantee agreement with Fair Finance, an MFI in the UK that provides a socially responsible and affordable micro-credit alternative to high-cost lending for disadvantaged entrepreneurs in London. Other transactions include local currency funding for small non-bank MFIs operating in Poland and Romania as well as funding for a small cooperative bank in Greece. The coverage of the French market further improved thanks to a first funding transaction with Adie and a first guarantee for Initiative France. New countries were covered in 2013, including Denmark and Slovakia via guarantees for Vaekstfonden and OTP Banka Slovensko.

Total microfinance signatures and catalysed amounts since inception at 31.12.2013 – in EUR m



In 2013, EIF participated in the Smart Aid index, which evaluates whether funders' internal systems are well-equipped and efficient enough to support financial inclusion effectively. The overall outcome for EIF was good, with particularly strong scores on performance-based funding agreements and the use of a multi-product strategy adapted to the diverse European microfinance landscape.

Joint Action to Support Microfinance Institutions in Europe

Progress Microfinance is complemented by the activity under the Joint Action to Support Microfinance Institutions in Europe (JASMINE). JASMINE helps non-bank microfinance institutions with technical assistance to improve their access to institutional and commercial funding in order to expand and become sustainable. In 2013, 30 microfinance providers within the EU, mainly non-bank MFIs, were selected by EIF to receive technical assistance. All participants received either a free of charge rating or credit assessment by Microfinanza or Planet Rating followed by dedicated training offered by the MicroFinance Center. As part of JASMINE technical assistance, in 2013 EIF also organised around ten seminars open to European microfinance providers and focusing on sustainable microcredit models. Since its inception JASMINE has provided assistance to 84 beneficiaries and over 930 dedicated training sessions have been given.

A different kind of tea shop

In 1996 Katarzyna decided to set up her own business in Cracow, Poland, offering advertising services and designing posters and leaflets. She then started making and selling decorating frames, salt dough figures and glass prints which proved so popular that she needed to expand the premises and move to a central location in town close to the market square. Here she opened a gift and tea shop where customers could buy cards, local souvenirs and hand-painted frames while drinking cups of tea or coffee and eating local desserts.

To keep up with the demand, Katarzyna needed to buy kitchen equipment. Fortunately she managed to obtain a EUR 5 320 loan from the EIF-backed intermediary Inicjatywa Mikro to help her do so. The loan helped her to grow the business and to keep her colleague Malgorzata employed.

Company: **Katarzyna Nowakowska**
Country: **Poland**
EU-supported loan from Inicjatywa Mikro

Regional development

Leveraging public-private partnerships through financial engineering

Key elements of EIF's strategy to support European SMEs are to address the market fragmentation and financing gaps and reduce interest rate spreads across Member States and regional economies.

One of EIF's key instruments for regional development is the Joint European Resources for Micro to Medium Enterprises (JEREMIE). JEREMIE is an initiative of the EC and EIF to promote financial engineering products using Structural Funds, enhancing SME access to finance in European regions. With JEREMIE, EU Member States and regions use part of their Structural Funds resources and national funds to provide risk financing to SMEs.

As a manager of JEREMIE Holding Funds since 2007, EIF has a crucial role to play in developing knowledge transfer, capacity building, and creating opportunities to efficiently use EU Structural Funds to finance SMEs with equity, loans or guarantees. EIF's involvement has been essential to the public authorities and the market as is demonstrated by the sheer volumes committed since inception: 14 Holding Funds are under management and 64 debt/guarantee and equity transactions signed with 52 different financial intermediaries in nine European countries and regions are currently deploying some EUR 1bn of Structural Funds resources catalysing nearly EUR 3bn for SMEs. In 2013, the committed amount exceeded EUR 267.5m, including top-ups for successful existing transactions.

In terms of its impact, the product offering for financial intermediaries proved that it could meet the needs of local SMEs. The new funded product, the "Portfolio Risk Sharing Loan" (PRSL), for instance, enabled over 700 companies in Bulgaria to receive finance totalling in excess of EUR 100m. In 2013 the first guarantee agreements were signed in Slovakia and in Greece, support for entrepreneurs in the form of equity was scaled up through Open Fund and through EUR 20m allocated for risk-sharing loans with NBG. Resources in the form of risk-sharing loans were made available to companies in Spain (Extremadura), and finally agreements with four banks in Romania are expected to lead to EUR 120m in loans to SMEs.

JEREMIE Holding Funds under management and amounts committed at 31.12.2013 (active transactions only) – in EUR m*

Country/region		Equity	FLPG	FRSP	Total	Catalysed amount
Greece	250.0	50.9		113.4	164.2	299.4
Romania	150.0	10.6	62.0	60.0	132.6	445.1
Lithuania	67.1	56.5			56.5	75.1
Slovakia	100.0	19.0	43.0		61.9	265.9
Languedoc-Roussillon	30.0	11.0	14.0	2.0	27.0	143.5
Campania	90.0			83.1	83.1	180.5
Cyprus	20.0		0.8	18.0	18.8	41.3
Bulgaria	349.0	43.4	60.2	185.0	288.6	723.6
Sicily	60.0			53.0	53.0	130.0
Malta	12.0		10.8		10.8	62.6
Sicily ESF	15.0			13.5	13.5	25.0
Calabria	45.0			42.0	42.0	84.0
PACA	20.0		18.5		18.5	131.7
Extremadura	18.9			9.4	9.4	15.7
Total	1 227.0	191.3	209.3	594.4	980.0	2 623.5

Latvia	54.7	absorbed portion of transferred Holding Funds
Lithuania	13.5	
Total	1 295.0	

* ESF: European Social Fund, PACA: Provence Alpes Côte d'Azur, FLPG: First Loss Portfolio Guarantee, FRSP: Funded Risk Sharing Product.

The positive market acceptance of EIF's financial engineering products and a full commitment to public-private partnerships resulted in national Holding Funds increasing their capacity (Romania for an extra EUR 50m, Malta for EUR 2m and Extremadura, Spain, for EUR 8.9m). In 2013 EIF also saw its first Holding Fund management agreements extended to 2024 in Lithuania and to 2022 in Romania, with others to follow in 2014. Capacity increase and management agreement extensions are in negotiation encapsulating EIF's positive catalytic role and the trust built up with the Managing Authorities.

With the first generation of Structural Funds availability period ending in December 2015, emphasis will be placed on full disbursement of all committed facilities.

Disbursing to local SMEs – JEREMIE absorption

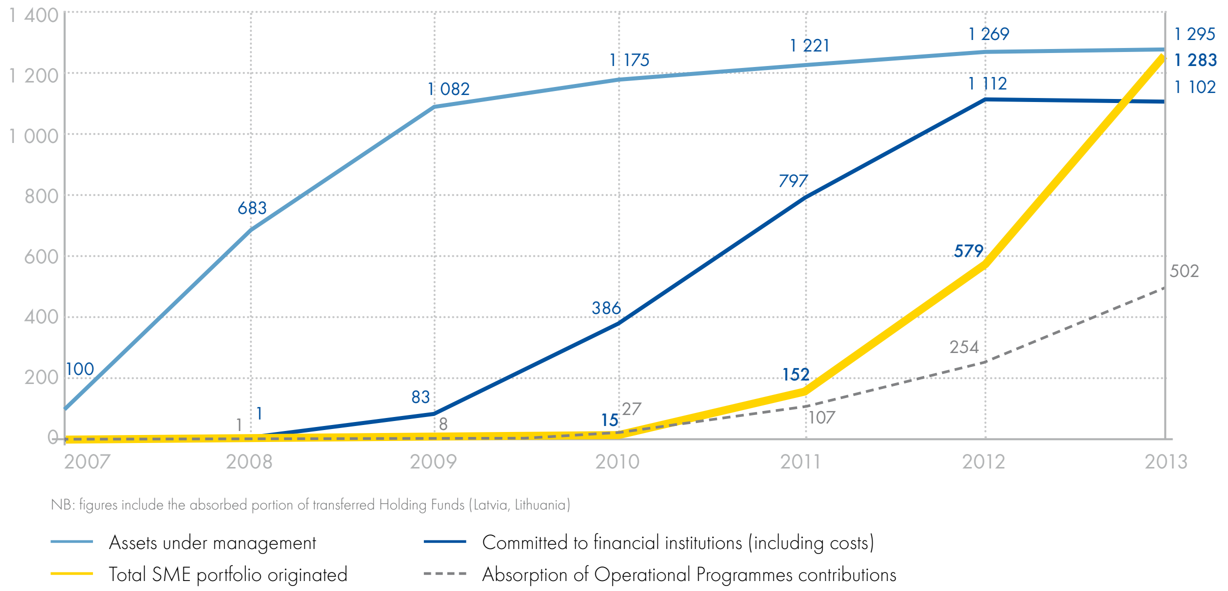
JEREMIE's regional absorption rate stood at 40% or EUR 502m at end-2013. In 2013 a strong emphasis was placed on increasing absorption, with several regions demonstrating a rise in utilisation following discussions with banks and Managing Authorities to identify possible contractual changes to help increase the rate at which resources reach beneficiary SMEs.

Supporting candidate and potential candidate countries

EIF also supports countries engaged in EU accession negotiations, such as Turkey. The Instrument for Pre-accession Assistance (IPA) is designed to assist potential EU candidate countries through European partnerships and encourage private sector involvement, combining a commercial approach with policy objectives. In this framework, EIF advises two innovative SME funding instruments the Greater Anatolia Guarantee Facility (GAGF) and the G43 Anatolia Venture Capital Fund for which an experienced fund manager, the Abraaj Group, with a well-established presence in Turkey has been selected.

In June 2013, EIF and the Small and Medium Enterprises Development Organisation of Turkey (KOSGEB) joined forces to establish a new fund-of-funds initiative to stimulate growth and innovation in Turkey. The Turkish Growth and Innovation Fund (TGIF) will succeed the Istanbul Venture Capital Initiative (iVCi), Turkey's first fund-of-funds, which was launched in 2007 and which is now fully committed. TGIF will be advised by EIF and invest in growth capital funds, whilst also tapping into the dynamic early stage segment that is rapidly developing in Turkey.

JEREMIE estimated impact as of December 2013 – in EUR m



NB: figures include the absorbed portion of transferred Holding Funds (Latvia, Lithuania)

In 2013, The Western Balkans Enterprise Development and Innovation Facility (WB EDIF) was implemented. WB EDIF is an EU-funded initiative aimed at increasing the financial resources made available to SMEs based in the Western Balkans, as well as providing technical assistance for strategic investments, particularly in infrastructure, energy efficiency and private sector development supporting socio-economic development and EU accession across the region.

WB EDIF was launched by the EC, EIF, the EIB and the European Bank for Reconstruction and Development (EBRD), all acting as co-lead international financial institutions, with subsequent involvement from KfW and DEG. The EUR 145m of initial capital put together under WB EDIF will translate into over EUR 300m of finance benefitting SMEs based in the Western Balkan countries. The first deals have already been signed under the initiative.[4]

Collaborating with national and regional governments and promotional institutions

The scale and scope of EIF's activity as well as its catalytic role and influence in developing best practice and corporate governance have established it as the leading risk financing institution in Europe. To further enhance its leveraging of public funds, EIF manages and advises a number of funds-of-funds for third parties, including national and regional governments as well as private and strategic investors.

EIF's expertise in partnering with national institutions forms a central part of its strategic development and regional business focus. The objective is to complement existing national schemes designed to support SMEs and to optimise the use of EU and national resources. To that end, EIF has rolled out several dedicated funds and investment structures across

Regional mandates and fund-of-funds activity (excluding JEREMIE)[5]

	Year signed	End of commitment period	Total resource (EUR m)	Total committed (EUR m)	Committed (in %)	Total disbursed (EUR m)	Disbursed (in %)
ERP/Germany	2004	2015	1 000	824	82%	455	46%
NEOTEC/Spain	2006	2012	183	174	95%	105	58%
iVCi/Turkey	2007	2012	160	153	96%	66	42%
PVCi/Portugal	2007	2013	111	95	85%	31	28%
LfA/Germany	2009	2019	100	68	68%	27	27%
UKFTF/UK	2010	2014	231	208	90%	47	20%
MDD/Germany*	2012	2015	100	45	45%	6	6%
EAF/Multi-Country	2012	2017	70	25	36%	4	6%
BIF/Baltics	2012	2016	100	55	55%	-	-
DVI/Netherlands	2012	2017	150	53	35%	6	4%
PGFF/Poland	2013	2018	90	20	22%	-	-
SIA/Multi-Country	2013	2018	52	10	19%	-	-

NB: including EIB Group and EC commitments

* Not including RCR in MDD

[4] For first investments see page 34

[5] BIF: Baltic Innovation Fund, DVI: Dutch Venture Initiative, EAF: European Angels Fund, ERP: ERP-EIF Dachfonds, LfA-EIF Facility, iVCi: Istanbul Venture Capital Initiative, MDD: Mezzanine Dachfonds für Deutschland, PGFF: Polish Growth Fund of Funds, PVCi Portugal Venture Capital Initiative, SIA: Social Impact Accelerator, UK FTF: UK Future Technologies Fund.

Europe and in partnership with leading national institutions and other financial institutions. Such resources have been developed in Austria, the Baltic countries, Germany, the Netherlands, Poland, Portugal, Spain, Turkey and the UK.

In 2013 several such investment structures were launched and implemented:

The Baltic Innovation Fund (BIF)

BIF is a fund-of-funds initiative launched by EIF in close co-operation with the governments of Lithuania, Latvia and Estonia in 2012 to boost equity investments made into Baltic SMEs with high growth potential. BIF is the first fund-of-funds structure involving more than one Member State, enabling the critical level of commitments required to be reached via a contribution from the Baltic States of EUR 20m each and EIF's EUR 40m investment. Moreover, the investment capital that comes from Structural Funds reflows deployed through financial engineering instruments is re-invested in the Baltic SME market, with a particular emphasis on innovation. In 2013 the first investments were also made under BIF, enabling resources to reach SMEs in Lithuania, Latvia and Estonia.[6]

The Dutch Venture Initiative (DVI)

DVI is a EUR 150m fund-of-funds initiative launched jointly by EIF and Participatiemaatschappij Oost Nederland ("PPM Oost", a regional venture capital company that is part of the East Netherlands Development Agency) with the support of the Dutch Ministry of Economic Affairs to stimulate equity investments into innovative and/or high-tech early and development stage enterprises in the Netherlands. DVI combines a EUR 50m commitment from EIF with EUR 100m from PPM Oost.

DVI intends to build a balanced portfolio of venture capital and growth funds with a clear investment focus on the Netherlands. Funds supported by DVI invest in Netherlands-based, high-tech or innovative early and development stage companies and may focus on different areas of technology areas (ICT, life sciences, cleantech, emerging and converging technologies).[6]

The Polish Growth Fund of Fund (PGFF)

PGFF is a EUR 90m fund-of-funds initiative launched in April 2013 by EIF in close co-operation with Bank Gospodarstwa Krajowego (BGK) to stimulate equity investments in growth-focused enterprises in Poland, each investee fund in which PGFF invests having to commit at least twice the invested amount into Poland-based businesses.

This initiative will further develop the VC and private equity markets in Poland and create a long-term investment scheme that will attract additional private finance and deliver a significant stimulus to the market. Two transactions had already been signed at end-2013.

[6] For first investments see page 33

A brotherly passion for semiconductors

The world could hardly function nowadays without semi-conductors. They have a wealth of unexpected applications in everyday life: microwaves, radios, computers, televisions, CD players, air conditioners, cars, security devices, medical appliances and even the humble pocket calculator all work thanks to semi-conductors. They are the chosen field of expertise of "Brolis Semiconductors". This Lithuanian company specialises in the design and development of long-wave-length mid-infrared laser diodes and molecular beam epitaxy technology, which is applied in the medical diagnostics, dermatology, materials processing, gas sensors, combustion process control and home security night vision sectors.

The idea to set up "Brolis" – which means "brother" in Lithuanian – was conceived when Augustinas and Kristijonas Vizbaras were finishing their doctorates in physics at Munich University. In 2011, together with their brother Dominykas, convinced that their technical know-how could be put to good use in their home country Lithuania, they set up "Brolis Semiconductors". To make their project a reality they secured funding from the EIF-backed venture capital fund "LitCapital", which operates under the JEREMIE Holding Fund in Lithuania. LitCapital saw the potential of the start -up and gave the brothers financial backing and advice. The company is now well-established and provides quality competitive services, products and management to a growing portfolio of clients.

- Company: **Brolis Semiconductors**
- Country: **Lithuania**
- JEREMIE-funded commitment in LitCapital

2013 signatures

Equity signatures

Fund vehicle	Resource	Geographical focus	Commitment in EUR m
Ambienta II	CIP GIF	Multi-Country	20.0
Environmental Technologies Fund II	CIP GIF	Multi-Country	10.5
Icos Capital Fund III	CIP GIF	Multi-Country	20.0
Inventure Fund II Ky	CIP GIF	Multi-Country	12.5
SINTEF Ventures IV	CIP GIF	Norway	13.6
United Ventures One	CIP GIF	Italy	12.8
WHEB Partners III	CIP GIF	Multi-Country	15.0
Neulogy Ventures	JEREMIE	Slovakia	19.0
Openfund II	JEREMIE	Greece	2.8
Practica Venture Capital KUB	JEREMIE	Lithuania	3.6
3TS TCEE Growth Fund III	RCR/EIF own resources	Central and Eastern Europe	30.0
Abingworth Bioventures VI	RCR/EIF own resources	Multi-Country	7.8
Activa Capital III	RCR/EIF own resources	France	30.0
Acton GmbH & Co. Heureka II KG	RCR/EIF own resources	Multi-Country	20.0
Aglaia Oncology Fund II	RCR/EIF own resources	Multi-Country	20.0
Alven Capital IV	RCR/EIF own resources	France	30.0
Ambienta II	RCR/EIF own resources	Multi-Country	10.0
Armada Mezzanine Fund IV	RCR/EIF own resources	Multi-Country	40.0
Auriga Bioseeds I	RCR/EIF own resources	France	12.0
Balderton Capital V	RCR/EIF own resources	Multi-Country	20.2
BPM Mezzanine Fund	RCR/EIF own resources	Multi-Country	15.0
Bridges Ventures III	RCR/EIF own resources	United Kingdom	5.9
Business Angels - EAF-Germany: 3 deals	RCR/EIF own resources	Germany	5.2
Consilium Private Equity Fund III	RCR/EIF own resources	Italy	30.0
Corpfin Capital Fund IV	RCR/EIF own resources	Spain	25.0
Earlybird Digital East Fund	RCR/EIF own resources	Multi-Country	3.8
Enterprise Expansion Fund	RCR/EIF own resources	Bosnia & Herzegovina	5.0
Environmental Technologies Fund II	RCR/EIF own resources	Multi-Country	18.7
Euromezzanine 7	RCR/EIF own resources	Multi-Country	60.0
Forbion Capital Fund III	RCR/EIF own resources	Multi-Country	15.0
Go Capital Amorçage	RCR/EIF own resources	France	15.0
Harbert European Growth Capital Fund	RCR/EIF own resources	Multi-Country	40.0
Industries & Finances Investissements 3	RCR/EIF own resources	France	20.0
Inventure Fund II Ky	RCR/EIF own resources	Multi-Country	12.5
IP Venture Fund II	RCR/EIF own resources	United Kingdom	23.7
IPF Fund 1	RCR/EIF own resources	Multi-Country	20.0
ISIS Growth Fund	RCR/EIF own resources	United Kingdom	19.0
IT Translation (INRIA)	RCR/EIF own resources	France	10.0
Lakestar I LP	RCR/EIF own resources	Multi-Country	18.0
Mentha Capital Fund IV	RCR/EIF own resources	Netherlands	20.0
Mid Europa Fund 4	RCR/EIF own resources	Central and Eastern Europe	40.0
MML Growth Capital Partners Ireland	RCR/EIF own resources	Ireland	40.0
NeoMed Innovation V	RCR/EIF own resources	Multi-Country	30.0
OxyCapital Mezzanine Fund	RCR/EIF own resources	Portugal	20.0
Portobello Fund III	RCR/EIF own resources	Spain	30.0
Praesidian Capital Europe I-A	RCR/EIF own resources	Multi-Country	29.4
RJD Private Equity Fund III	RCR/EIF own resources	United Kingdom	17.8
Robolution Capital Fund	RCR/EIF own resources	Multi-Country	30.0
Rock Spring Ventures EU LP	RCR/EIF own resources	United Kingdom	10.0
Scope Growth III	RCR/EIF own resources	Multi-Country	15.0
Serena Fund II	RCR/EIF own resources	Multi-Country	30.0
SHS IV MedTech	RCR/EIF own resources	Germany	10.0
SouthBridge Europe Mezzanine Fund (ex REA Mezzanine Fund)	RCR/EIF own resources	Greece	30.0
Star III	RCR/EIF own resources	Italy	5.0
Trocadero Croissance & Transmission II	RCR/EIF own resources	France	40.0
United Ventures One	RCR/EIF own resources	Italy	7.2
Verdane Capital VIII	RCR/EIF own resources	Multi-Country	25.1
VIB Innovation Fund	RCR/EIF own resources	Belgium	20.0
WHEB Partners III	RCR/EIF own resources	Multi-Country	5.0
Total investments in equity funds			1 166.1
Total catalysed volume in equity funds			5 997.5

Equity signatures

Funds-of-funds activity[7]	Resource	Geographical focus	Commitment in EUR m
BaltCap Private Equity Fund II	BIF	Multi-Country	20.0
BPM Mezzanine Fund	BIF	Multi-Country	15.0
Livonia Partners Fund	BIF	Multi-Country	20.0
Aglaia Oncology Fund II	DVI	Multi-Country	5.0
Forbion Capital Fund III	DVI	Multi-Country	10.0
Gilde Healthcare III	DVI	Multi-Country	8.0
Icos Capital Fund III	DVI	Multi-Country	10.0
Karmijn Kapitaal	DVI	Netherlands	5.0
Newion Investments II	DVI	Multi-Country	5.0
Prime Ventures IV	DVI	Multi-Country	10.0
Business Angels - EAF-Austria	EAF	Austria	2.0
Business Angels - EAF-Spain	EAF	Spain	1.8
Acton GmbH & Co. Heureka II KG	ERP	Multi-Country	20.0
Business Angels - EAF-Germany: 3 deals	ERP	Germany	2.8
Lakestar I LP	ERP	Multi-Country	18.0
SHS IV MedTech	ERP	Germany	10.0
WHEB Partners III	ERP	Multi-Country	20.0
Forbion Capital Fund III	ERP/LfA	Multi-Country	15.0
Earlybird Digital East Fund	iVCi	Multi-Country	18.8
IPF Fund 1	MDD/LfA	Multi-Country	10.0
21 Concordia	PGFF	Poland	10.0
Avallon MBO Fund II	PGFF	Poland	10.0
OxyCapital Mezzanine Fund	PVCi	Portugal	10.0
Social Venture Fund II	SIA	Multi-Country	10.0
Abingworth Bioventures VI	UK FTF	Multi-Country	15.6
Balderton Capital V	UK FTF	Multi-Country	20.2
Total investments in funds by funds-of-funds			302.3
Total catalysed volume in funds-of-funds			1 150.0
Total			1 468.4
Total catalysed volume			7 147.5

[7] BIF: Baltic Innovation Fund, DVI: Dutch Venture Initiative, EAF: European Angels Fund, ERP: ERP-EIF Dachfonds, LfA-EIF Facility, iVCi: Istanbul Venture Capital Initiative, MDD: Mezzanine Dachfonds für Deutschland, PGFF: Polish Growth Fund of Funds, PVCi Portugal Venture Capital Initiative, SIA: Social Impact Accelerator, UK FTF: UK Future Technologies Fund.

Guarantees and securitisation signatures

Deal name	Resource	Geographical focus	Commitment in EUR m
Alior Bank	CIP SMEG	Poland	5.0
ATI ITALIA PMI 2	CIP SMEG	Italy	20.7
Bank of Valetta	CIP SMEG	Malta	0.6
Bûrgschaftsbanken	CIP SMEG	Germany	2.0
CERSA 2	CIP SMEG	Spain	7.4
FederAscomfidi Unicredit (Sec.)	CIP SMEG	Italy	1.3
Federconfidi Unicredit (Sec.)	CIP SMEG	Italy	1.2
Finansbank	CIP SMEG	Turkey	12.3
Hamag Invest	CIP SMEG	Croatia	5.2
Isodev	CIP SMEG	France	7.0
LANDESBANKEN	CIP SMEG	Germany	2.2
Microbank 2	CIP SMEG	Spain	11.3
PEKAO S.A. 2	CIP SMEG	Poland	8.4
Procredit Romania	CIP SMEG	Romania	3.8
Socama 2 -LGF	CIP SMEG	France	24.0
Ziraat Bankasi	CIP SMEG	Turkey	19.8
Alba	EIF own resources	Italy	75.4
Alba 4 SPV s.r.l	EIF own resources	Italy	74.6
Berica	EIF own resources	Italy	150.0
BNPP*	EIF own resources	France	0.0
CAJAS RURALES UNIDAS (CAJAMAR)	EIF own resources	Spain	95.4
Denizbank	EIF own resources	Turkey	57.4
Geldilux 2013	EIF own resources	Germany	85.0
Sekerbank CB	EIF own resources	Turkey	50.0
Denizbank	GAGF	Turkey	4.5
Halkbank	GAGF	Turkey	4.5
Vakifbank	GAGF	Turkey	4.5
VAKIFLAR BANKASI	GAGF	Turkey	2.3
Bank of Valetta	JEREMIE	Malta	2.0
BPCE increase	JEREMIE	France	2.7
Raiffeisen	JEREMIE	Romania	2.0
Raiffeissen (increase)	JEREMIE	Romania	12.0
SLSP	JEREMIE	Slovakia	13.2
SZRB Slovakia	JEREMIE	Slovakia	7.0
Tatra Slovakia	JEREMIE	Slovakia	10.5
Unicredit Bank Slovakia	JEREMIE	Slovakia	12.3
Banco di Napoli (Calabria)	JEREMIE	Italy	21.0
Bank of Cyprus	JEREMIE	Cyprus	8.0
BRD ScoGen Group	JEREMIE	Romania	10.0
NBG	JEREMIE	Greece	20.0
Unicredit MCC Campania (top up)	JEREMIE	Italy	7.0
Banca Transilvania	JEREMIE	Romania	10.0
Banco Santander	JEREMIE	Spain	9.4
DSK	JEREMIE	Bulgaria	20.0
ProCredit Romania	JEREMIE	Romania	20.0
Raiffeisen Bank Romania	JEREMIE	Romania	20.0
Raiffeisen Bulgaria	JEREMIE	Bulgaria	10.0
UniCredit Bulbank AD	JEREMIE	Bulgaria	25.0
Alba Leasing	RSI	Italy	60.0
aws	RSI	Austria	11.5
Banco Espírito Santo	RSI	Portugal	80.0
Bank Inter (inc.)	RSI	Spain	20.0
Bank Pekao	RSI	Poland	39.9
BPCE	RSI	France	125.0
BPI	RSI	Portugal	80.0
BPI France Financement	RSI	France	80.0
Creval	RSI	Italy	50.0
Deutsche Bank PBC S.A.	RSI	Poland	24.9
Deutsche Bank	RSI	Germany	60.0
FIBank	RSI	Bulgaria	7.5
Halkbank	RSI	Turkey	50.0
IKB Leasing Hungary	RSI	Hungary	25.0
Komercni Banka	RSI	Czech Republic	77.0
Raiffeisen Leasing	RSI	Poland	28.6
Sparbanken Oresund	RSI	Sweden	17.2
Unicredit Bank Austria AG	RSI	Austria	20.0
ProCredit Albania	WB EDIF	Albania	3.5
ProCredit Bosnia-Herzegovina	WB EDIF	Bosnia & Herzegovina	3.3
ProCredit Kosovo	WB EDIF	Kosovo	3.2
Total			1 844.3
Total catalysed volume			8 610.9

*Extension of existing contract

Microfinance signatures

Deal name	Resource	Geographical focus	Commitment in EUR m
Adie	Progress	France	5.0
Banco Espirito Santo	Progress	Portugal	8.8
BCC Bellegra	Progress	Italy	1.3
Caja Rurales Unidas	Progress	Spain	8.0
Cooperative Bank of Peloponnese	Progress	Greece	4.0
Coopest	Progress	Belgium	2.5
FAER of RON	Progress	Romania	1.0
Finmolise	Progress	Italy	1.0
GLE	Progress	United Kingdom	0.9
Inicjatywa Mikro	Progress	Poland	3.2
SKB Leasing	Progress	Slovenia	9.0
Banca Transilvania	Progress	Romania	1.7
Banka Koper	Progress	Slovenia	0.6
Colonya Caixa Pollenca	Progress	Spain	0.3
EZBOB	Progress	United Kingdom	0.4
Fair Finance	Progress	United Kingdom	0.2
FM Bank -Start ups	Progress	Poland	1.3
FM Bank- Vulnerable Group	Progress	Poland	0.9
Initiative France	Progress	France	0.5
JOBS Micro Financing Institution	Progress	Bulgaria	0.2
Laboral Kutxa	Progress	Spain	0.8
Microstart	Progress	Belgium	0.2
Millenium BCP	Progress	Portugal	0.5
OTP Banka Slovensko	Progress	Slovakia	1.3
Vaekstfonden	Progress	Denmark	0.2
PerMicro	EPPA	Italy	0.2
Total			53.8
Total catalysed volume			201.3

Looking forward

EIF is actively developing long-term strategies for its core business activities, expanding its partnerships with strategic market players, further broadening its product range and collaborating with national institutions and governments to boost entrepreneurship and innovation.

Working closely with the EIB to complement the existing product offering, EIF will continue developing new joint solutions that achieve maximum impact on Europe's SMEs. In doing so, it will further broaden its role as the risk-taking arm of the EIB Group and significantly expand its activities thanks to the future increase in capital and mandate resources.

EIF will further catalyse new lending for SMEs, increasing its support for the SME securitisation market and capitalising on the mandates dedicated to credit enhancement. To that end and in response to the European Council recommendation, EIF has been entrusted with a dedicated EIB Group Risk Enhancement Mandate (EREM) which will encourage further SME lending in the EU. EREM is a mandate of up to EUR 4bn that will back additional guarantees to be issued by EIF over the next seven years. An increase in the credit enhancement capacity in particular is intended to encourage access to finance for SMEs and mid-caps via financial and guarantee institutions. By complementing existing products and instruments at EIB Group level, EREM is expected to benefit SMEs and small mid-caps, and is also targeting specific initiatives such as youth employment, microfinance and social impact finance, smaller financial institutions and other areas as agreed within the EIB Group.

The EIB Group is also collaborating closely with the European Commission, to pave the way for the new generation of financial instruments to achieve the Europe 2020 objectives for smart, sustainable and inclusive growth. In this context, EIF will call on the EC budget for central EU instruments, swiftly implementing the successor risk-sharing programmes including COSME, Horizon 2020, and other instruments that will boost research and development, innovation, employment, education and social cohesion in Europe. The RSI first-loss successor scheme and Erasmus Master Student Loan Guarantee Facility are other potential initiatives to which EIF is preparing to contribute.

Going forward, EIF intends to expand its regional development activity capitalising on the experience acquired through its involvement in the management of financial engineered instruments co-financed by Structural Funds and fund-of-funds managers and through strategic partnerships established during the last programming period. Discussions have begun with several regions and Member States to plan for the second generation of financial instruments (JEREMIE's successor programme) and assess market needs so that investment solutions can be designed through standardised funding agreements and partnerships with national agencies.

EIF will also intensify partnerships with national promotional institutions to collectively develop and deliver effective financing solutions for European SMEs.

A new SME initiative that will blend Structural Funds resources and the centralised EU guarantee budget to support lending to SMEs is currently under discussion.

EIF is also developing added value and quick impact equity products for implementation in 2014 in the tech transfer, business angels, corporate partnerships, debt funds and social impact investing segments.

Governance

Capital and shareholders

at 31 December 2013

EIF has an authorised capital of EUR 3 000m, divided into 3 000 shares of EUR 1m each. On 31 December 2013, EIB held 62.1%, the European Union represented by the European Commission 30% and 25 European banks and financial institutions 7.9%.

Country	Financial Institutions	No. of shares
Austria		12
	UniCredit Bank Austria AG	3
	Erste Group Bank AG	3
	Raiffeisen Bank International AG	5
	Austria Wirtschaftsservice Gesellschaft mbH (aws)	1
Bulgaria		3
	Bulgarian Development Bank A.D.	3
Croatia		5
	Croatian Bank for Reconstruction and Development (HBOR)	5
Denmark		3
	Vaekstfonden	3
France		30
	Caisse des Dépôts et Consignations (CDC)	30
Germany		98
	KfW Bankengruppe	68
	Landeskreditbank Baden-Württemberg-Förderbank (L-Bank)	8
	LfA Förderbank Bayern	7
	NRW.BANK	10
	Sächsische Aufbaubank - Förderbank (SAB)	5
Hungary		5
	Hungarian Development Bank Ltd	5
Italy		23
	IMI Investimenti S.p.A.	15
	Intesa Sanpaolo S.p.A.	8
Luxembourg		5
	Banque et Caisse d'Epargne de l'Etat (BCEE)	5
Malta		16
	Bank of Valletta p.l.c.	16
Poland		3
	Bank Gospodarstwa Krajowego (BGK)	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		237

Management team

at 31 December 2013

From left to right: Hubert Cottogni, Federico Galizia, Marjut Santoni (Deputy Chief Executive), Frédérique Schepens, Richard Pelly (Chief Executive), Martine Lepert, John Holloway, Maria Leander, Marc Schublin, José Grincho, Alessandro Tappi

Management team

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

Board of Directors

at 31 December 2013

Chairman

Dario SCANNAPIECO	Vice-President, European Investment Bank, Luxembourg

Members

Daniel CALLEJA CRESPO	Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels
Franciscus GODTS	Head of Department, International and European Financial Affairs, Ministry of Finance, Brussels[8]
Werner OERTER	Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main
Alice TERRACOL	Head of Bilateral Relations and Financial Instruments Office, Directorate General for the Treasury, Ministry for Economic Affairs, Finance and Industry, Paris[8]
Gerassimos THOMAS	Director, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Pim VAN BALLEKOM	Vice-President, European Investment Bank, Luxembourg

Alternates

Marc AUBERGER	Director, CDC International, Paris
Peter BASCH	Principal Adviser, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Walter DEFFAA	Director-General, Directorate-General for Regional Policy, European Commission, Brussels
Pier Luigi GILIBERT	Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg[9]
Katarína KASZASOVÁ	Director General, State Reporting Section, Ministry of Finance of the Slovak Republic, Bratislava[8]
Alfonso QUEREJETA	Secretary General, European Investment Bank, Luxembourg
Wolfgang NITSCHE	Deputy Head of the Division for Coordination of European Integration Matters and Trade Policy, Bundesministerium für Finanzen, Vienna[8]

Audit Board

at 31 December 2013

Chairman

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

Members

Branimir BERKOVIC	Senior Executive Director, Croatian Bank for Reconstruction and Development, Croatia

Vacant position as of 31.12.2013[10] (Rudi DRIES, Deputy Head of Unit, DG IAS.B, European Commission, Brussels, was appointed by the General meeting on 28.01.2014).

[8] In connection with the expiry of the terms of their mandates on the EIB's Board of Directors, two members resigned from the Board during their EIF mandates: Christophe BORIES (April 2013) and Tytti NORAS (July 2013) and two alternate members resigned: Gaston REINESCH (December 2012), and Zdeněk HRUBÝ (April 2013). Alice TERRACOL, Franciscus GODTS, Katarina KASZASOVÁ and Wolfgang NITSCHE were appointed by the General Meeting in August 2013 to complete the mandates of the afore-mentioned members and alternates.

[9] On 3 February 2014, Pier Luigi GILIBERT was appointed as EIF Chief Executive and, on the same date, his resignation as alternate member of the Board took effect.

[10] Sunil BEERSING resigned from the Audit Board during his EIF mandate (November 2013).

Audit and controls – Risk and portfolio management

Audit and controls

EIF's first layer of control comprises the financial, operational and compliance controls and risk management system implemented by management, which are intended to:

- facilitate the Fund's effective and efficient operation by enabling EIF to respond appropriately to significant business, operational, financial, compliance and other risks in order to achieve its objectives,
- help ensure the quality of internal and external reporting, and
- help ensure compliance with the Fund's Statutes and Rules of Procedure.

The second layer of control includes both internal and external audit, the activities of which are coordinated by the Audit Board.

The Audit Board is an independent body appointed by, and directly answerable to the EIF General Meeting. The Audit Board 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 2013, the Audit Board held eight 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 2013 was carried out by the external auditor, KPMG, appointed following the conclusion of the EIB Group joint invitation to tender exercise in 2008.

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

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

The Audit Board relies on a number of sources of assurance in giving its annual confirmation that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure. These are the management assurance statement on the adequacy of the internal control system, the work carried out by the various EIF functions such as Internal Audit, Risk Management & Operations and Compliance & Operational Risk and the work of the external auditor.

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

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

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

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

Risk and portfolio management

EIF's Board of Directors explicitly adopted a risk management objective in the Corporate Operational Plan, that is, to "maintain value creating risk management and the AAA rating". This is to be achieved in a business environment involving risk taking, as EIF acts under market conditions with the dual statutory obligation to pursue European Union policy objectives while ensuring an appropriate return for its shareholders. EIF's Board of Directors approves all operations entered into by EIF.

Risk management is embedded in EIF's corporate culture and is based on a three-lines-of-defence model which permeates all areas of EIF's business functions and processes: (i) front office, (ii) independent risk functions and (iii) audit and assurance. The Investment and Risk Committees (IRCs) chaired by the Head of Risk and Portfolio Management advise the Chief Executive and the Deputy Chief Executive on each and every transaction. The IRCs also oversee risk and investment-related aspects of the EIF portfolio, approving transaction rating/grading, impairment and provisioning actions, relevant market risk events and potential stress testing. Finally, the IRCs oversee the enterprise risk arising from EIF's role as a fund manager. Risk and Portfolio management actions form part of the assurance process to the EIF Audit Board, and contribute to the overall risk management of the EIB Group.

EIF's strong culture of risk management has continuously preserved its AAA stable assessment, recently confirmed by Standard and Poor's, Moody's and Fitch's Ratings.

Legal – Compliance and operational risk

Legal

EIF is supported by a strong in-house legal team whose remit, within its area of responsibility, is to pursue the strategic goals and to protect and preserve the legal integrity of the Fund. This is achieved through the provision of legal advice based on the expertise and specialist knowledge of the team throughout the lifecycle of all EIF's transactional activities and in connection with institutional, strategic and policy-related matters, a dual objective which is reflected in the Legal team's internal structure.

With regards to transactions, Legal's dedicated debt and equity teams work on all stages of deal implementation, from structuring and product development to the approval of the Investment and Risk Committee and EIF's Board of Directors, and throughout the contractual negotiations, always in close collaboration with other EIF services. Legal's proactive approach to identifying and preventing legal risk is a key element in the development and structuring of transactions of varying complexity, as well as in the conception of new products and mandates. Following the conclusion of contracts, Legal provides support in the post-signature management of the existing EIF portfolio. It is also active in maintaining an up-to-date view of the EU legislation that is relevant across the scope of EIF's activities.

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

Compliance and operational risk

The remit of the Compliance and Operational Risk division (COR) includes the assessment of compliance risks and operational risks within EIF; the Head of COR also acts as the Data Protection Officer. With these responsibilities, COR forms part of the integrated ex-ante risk assessment and ex-post risk monitoring under the responsibility of the Chief Executive/Deputy Chief Executive. As regards compliance issues, COR has, direct access to the Board of Directors. With the combination of compliance risk with operational risk and data protection issues, COR aims to complement the financial risk assessment of the Risk Management and Monitoring department with an assessment of the main elements of EIF non-financial risk.

Compliance

The reference to compliance risk at EIF follows the definition set out in the paper on "Compliance and the compliance function in banks" issued by the Basel Committee on Banking Supervision in April 2005. On that basis, COR assesses the (i) institutional, (ii) transactional and (iii) conduct aspects of EIF compliance risks.

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

In this context, the efforts to strengthen the integrity risk assessment include recourse to external investigation services as well as specific integrity due diligence by COR. COR also controls compliance with procurement and related rules and policies as well as with the conduct rules applicable to EIF bodies and staff. Furthermore, it acts as interlocutor for and provides advice on the handling of complaints made through the EIB complaints mechanism. Finally, COR assesses the structural characteristics of financial intermediaries with a view to enhancing governance transparency and avoiding EIF support for aggressive tax planning schemes.

Key compliance policies

COR has closely followed the developments in OECD Global Forum on Transparency and Exchange of Information for Tax Purposes, which view at elaborating an internationally agreed tax standard and assessing compliance with such standard by OECD member jurisdictions. Over the years EIF has followed strict requirements as regards the fiscal transparency of transaction structures proposed to EIF in the context of its business. The ranking published by the Global Forum at its meeting of 21/22 November 2013 describing the degree of compliance with the internationally agreed tax standard by OECD member states and jurisdictions, was considered at EIB Group level, which sets the tone for the approach taken by EIF. On this basis, each transactional structure proposed to EIF is scrutinised in detail by COR with a view to ensuring full fiscal transparency and compliance with the parameters developed by the OECD and approved by the Global Forum.

Operational risk

At EIF operational risk is defined, on the basis of the Operational Risk Management Charter, as the risk of loss or reputational damage resulting from inadequate or failed internal processes, people and systems or from external events. While the management of operational risk is the primary responsibility of each function or service leader, the implementation of an integrated operational risk management framework forms part of the remit of COR.

In this context, COR has developed a risk and control assessment methodology which comprises the identification and rating of the main operational risks for each process as well as the definition of risk-mitigation plans. The risk and control assessment is completed by the periodical collection and analysis of operational risk events, including the identification of their root cause and the definition of a risk-mitigating action.

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

In 2013 COR assumed responsibility for the secretariat of the EIF Enterprise Risk Committee and introduced a regular reporting on compliance and operational risk issues to the relevant Investment and Risk Committees.

COR further contributes to the assessment of risks in relation to new mandates and other business initiatives.

Data protection

In compliance with the provisions of Regulation (EC) No. 45/2001 of the European Parliament and of the Council on the protection of individuals with regard to the processing of personal data by Community institutions and bodies and on the free movement of such data, the Head of COR was appointed EIF data protection officer in 2007. According to the terms and conditions of an interinstitutional agreement, the EIF data protection officer and the EIB data protection officer can replace one another.

Regulation 45/2001 contains the key obligations of EU institutions and bodies in relation to the protection of personal data and sets out the procedure for the notification of data processing to the European Data Protection Supervisor (EDPS).

Financial statements 2013

Independent Auditor's Report

To the Audit Board of the European Investment Fund
15, avenue J. F. Kennedy
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, 2013 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 50 to 98.

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, 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Luxembourg, 12 March 2014

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, which comprise the statement of financial position as at December 31, 2013 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 50 to 98 ("the Financial Statements") and such documents which it deemed necessary to examine in the discharge of its duties,

- having examined and discussed the report dated 12 March 2014 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 2013,

- 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 give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 12 March 2014

THE AUDIT BOARD

Gerard SMYTH	Branimir BERKOVIC	Rudi DRIES

Statement of financial position

as at 31 December 2013

EUR

Assets	Notes	31.12.2013	31.12.2012 (Restated*)	01.01.2012 (Restated*)
Cash and cash equivalents	4.1	180 768 509	165 504 411	160 660 806
Investments:				
Debt securities and other fixed income securities	4.2	929 375 811	907 055 554	778 368 598
Shares and other variable income securities	4.3	269 994 854	243 007 653	212 233 535
		1 199 370 665	1 150 063 207	990 602 133
Other assets	4.3, 4.4	87 103 058	71 798 607	58 957 150
Intangible assets	4.5	522 387	375 383	1 128 213
Equipment	4.6	3 060	15 043	27 780
Investment property	4.6	5 206 629	5 580 779	5 954 929
Total assets		1 472 974 308	1 393 337 430	1 217 331 011
Liabilities				
Financial liabilities				
Financial guarantees	5.1	20 309 374	24 361 298	24 022 036
Provisions for financial guarantees	5.2	177 087 198	174 992 902	161 867 126
Retirement benefit obligations	5.3	72 489 544	75 683 709	44 404 000
Other liabilities and provisions	5.4	38 308 051	29 188 936	24 480 524
Total liabilities		308 194 167	304 226 845	254 773 686
Equity				
Share capital	5.5			
Subscribed		3 000 000 000	3 000 000 000	3 000 000 000
Uncalled		(2 400 000 000)	(2 400 000 000)	(2 400 000 000)
		600 000 000	600 000 000	600 000 000
Share premium		152 185 703	152 185 703	152 185 703
Statutory reserve	5.6	153 696 287	141 427 997	141 427 997
Retained earnings	5.6	130 783 148	103 711 713	136 946 641
Fair value reserve	5.7	80 656 410	60 360 446	(58 768 088)
Profit/(loss) for the financial year		47 458 593	31 424 726	(9 234 928)
Total equity		1 164 780 141	1 089 110 585	962 557 325
Total equity and liabilities		1 472 974 308	1 393 337 430	1 217 331 011

*see note 2.1.4

The notes on pages 54 to 98 are an integral part of these financial statements.

Statement of comprehensive income

for the year ended 31 December 2013

EUR

	Notes	31.12.2013	31.12.2012 (Restated)
Interest and similar income	7.1	30 610 141	33 391 019
Income from investments in shares and other variable income securities		5 934 306	4 009 453
Net gain/(loss) from financial guarantee operations	7.2	19 830 975	10 003 748
Commission income	7.3	58 733 178	50 306 952
Net loss on financial operations	7.4	(471 086)	(2 351 830)
Other operating income	7.5	69 263	719 302
General administrative expenses	7.6		
Staff costs:			
- wages and salaries		(28 294 401)	(28 074 904)
- social security and contribution costs		(16 384 087)	(11 351 574)
		(44 678 488)	**(39 426 478)**
Other administrative expenses		(17 396 101)	(16 450 705)
		(62 074 589)	**(55 877 183)**
Depreciation and amortisation	4.5, 4.6	(577 454)	(1 139 717)
Impairment losses on available-for-sale investments	4.3	(4 596 141)	(7 637 018)
Profit for the financial year		47 458 593	31 424 726

Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		18 823 354	111 140 626
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		1 472 610	7 987 908
- Re-measurement of defined benefit obligation not reclassified subsequently to profit/(loss)	5.3	14 047 000	(24 000 000)
		34 342 964	**95 128 534**
Total comprehensive income for the financial year		81 801 557	126 553 260

The notes on pages 54 to 98 are an integral part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2013

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 31.12.2011 (as previously reported)		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
Impact of change in accounting policy	2.1.4, 5.3	0	0	0	0	0	(10 582 870)	0	983 000	(9 599 870)
Balance as at 31.12.2011 (restated)		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	141 427 997	136 946 641	(58 768 088)	(9 234 928)	962 557 325
Total comprehensive income										
Profit for the financial year		0	0	0	0	0	0	0	31 424 726	31 424 726
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	119 128 534	0	119 128 534
Re-measurement of defined benefit obligation	2.1.4, 5.3	0	0	0	0	0	(24 000 000)	0	0	(24 000 000)
Transactions with owners										
Appropriation of profit	5.6	0	0	0	0	0	(9 234 928)	0	9 234 928	0
Balance as at 31.12.2012 (restated)		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	141 427 997	103 711 713	60 360 446	31 424 726	1 089 110 585
Total comprehensive income										
Profit for the financial year		0	0	0	0	0	0	0	47 458 593	47 458 593
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	20 295 964	0	20 295 964
Re-measurement of defined benefit obligation	5.3	0	0	0	0	0	14 047 000	0	0	14 047 000
Transactions with owners										
Appropriation of profit including dividend	5.6	0	0	0	0	12 268 290	13 024 435	0	(31 424 726)	(6 132 001)
Balance as at 31.12.2013		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	153 696 287	130 783 148	80 656 410	47 458 593	1 164 780 141

The notes on pages 54 to 98 are an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2013

EUR

Cash flows from operating activities	Notes	31.12.2013	31.12.2012 (Restated*)
Profit for the financial year		47 458 593	31 424 726
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	577 454	1 139 717
Impairment loss on shares and other variable income securities	4.3	4 596 141	7 637 018
Interest income on debt securities and other fixed income securities	7.1	(27 206 115)	(29 768 664)
Change in financial guarantees	5.1	(3 676 326)	1 252 887
Net result on sale of debt securities and other fixed income securities	7.4	0	2 730 074
Provision for financial guarantees	5.2	7 030 087	12 309 653
Provision for retirement benefit obligations		4 720 387	(579 885)
		33 500 221	**26 145 526**
Change in shares and other variable income securities	4.3	(13 285 719)	(23 328 818)
Financial guarantee calls paid	5.2	(5 311 389)	(97 500)
Change in other assets and liabilities	4.4, 5.4	693 030	(273 451)
		(17 904 078)	**(23 699 769)**
Net cash from operating activities		15 596 143	2 445 757

Cash flows from investing activities			
Acquisition of debt securities and other fixed income securities	4.2	(209 291 540)	(298 566 770)
Proceeds from sale or matured debt securities and other fixed income securities	4.2	185 778 891	273 584 590
Interest received on debt securities and other fixed income securities		29 686 656	27 313 426
Acquisition of intangible assets and property and equipment	4.5, 4.6	(338 325)	0
Net cash from investing activities		5 835 682	2 331 246

Cash flows used in financing activities			
Dividend paid		(6 132 001)	0
Cash flows used in financing activities		(6 132 001)	0

Cash and cash equivalents at the beginning of the year	4.1	165 504 411	160 660 806
Effect of exchange rate fluctuations on cash and cash equivalents		(35 726)	66 602
Net cash from			
Operating activities		15 596 143	2 445 757
Investing activities		5 835 682	2 331 246
Financing activities		(6 132 001)	0
Cash and cash equivalents at the end of the year	4.1	180 768 509	165 504 411

The notes on pages 54 to 98 are an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2013

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

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

The Fund shall pursue this task through activities consisting of:

- The provision of guarantees as well as of other comparable instruments for loans and other financial obligations in whatever form is legally permissible,

- The acquisition, holding, managing and disposal of participations in any enterprise subject to the conditions laid down in paragraph 2 (i) of Article 12 of the EIF's Statutes ("the Statutes").

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

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

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

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

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

2. Significant accounting policies and basis of preparation

2.1 Basis of preparation

2.1.1 Statement of compliance

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

The Fund's financial statements have been authorised for issue by the Board of Directors on 12 March 2014.

2.1.2 Basis of measurement

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

- available-for-sale financial assets which are measured at fair value
- financial instruments held at fair value through profit or loss
- the defined benefit liability is recognised as the present value of expected future payments.
- Financial guarantees are measured at the higher of the amount initially recognised i.e. Net present value ("NPV") less, where appropriate cumulative amortisation and the provision amount in accordance with IAS 37.

2.1.3 Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2.3, 2.7 and 3.

Judgments and estimates are principally made in the following areas:

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

2.1.4 Changes in accounting policies and presentation

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

The Fund has adopted the amended IAS 19 Employee Benefits (2011) during the year. Adoption of this revised standard had an effect on the financial performance and position of the Fund as summarised in the table below. Comparatives have been re-presented to conform to the new standard. The revised standard also gives rise to additional disclosures.

	As previously reported	IAS 19 impact	As restated
	EUR	EUR	EUR
1 January 2012	Impact of changes in accounting policies		
Liabilities			
Retirement benefit obligations	34 804 130	9 599 870	44 404 000
Equity			
Retained earnings	147 529 511	(10 582 870)	136 946 641
Profit/(loss) for the financial year	(10 217 928)	983 000	(9 234 928)
31 December 2012	Impact of changes in accounting policies		
Liabilities			
Retirement benefit obligations	42 837 839	32 845 870	75 683 709
Equity			
Retained earnings	137 311 583	(33 599 870)	103 711 713
Profit/(loss) for the financial year	30 670 726	754 000	31 424 726

The Fund has also adopted IFRS 13 Fair Value Measurement during the year. This standard provides guidance for measuring fair value and increases transparency by requiring detailed disclosures about fair value derived using models. Adoption of this new standard did not have any effect on the financial performance or position of the Fund. It 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 short maturities of three months or less from the date of acquisition.

2.3 Investments

2.3.1 Classification and measurement

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

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

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

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

Impairment of financial assets
EIF assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss. For equity securities, a significant and/or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired.

Impairment losses on equity instruments previously recognised in the profit or loss are not reversed through the profit or loss. In contrast, if in a subsequent year, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the profit or loss.

2.3.2 Shares and other variable income securities

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

Fair value measurement
Private equity (PE) investments are classified as Available-For-Sale and measured at fair value through equity and disclosed in accordance with the fair value hierarchy required by IFRS 13 as described in note 3.5. Given the nature of PE, market prices are often not readily available

and in the absence of these, valuation techniques (level 3 according to the fair value hierarchy) are applied.

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

- Category A - funds that have adopted the fair value requirements of IAS 39 or International Private Equity and Venture Capital guidelines (IPEVC). The fair value is calculated by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39;
- Category B - funds that have adopted other valuation guidelines (such as the former 2001 European Venture Capital Association (EVCA) guidelines) or standards that can be considered as in line with IAS 39 from which an equivalent NAV can be calculated;
- Category C – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines complying with IAS 39. These investments are valued at cost less impairment.

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

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

Impairment considerations

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

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

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

For impaired investments in category C the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25 % depending on the operational and performance grading of the respective funds.

2.3.3 Debt securities and other fixed income securities

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

Premiums paid over the maturity value and discounts received in comparison to the maturity value of securities are recognised in profit or loss over the expected life of the instrument through the use of the effective interest rate method.

2.3.4 Interests in joint ventures and associates

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

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

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

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

2.4 Guarantee operations

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

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

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

- the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two-thirds of the Weighted Average Life (WAL) of the transaction, followed by a linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche.

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

Any increase or decrease in the liability relating to financial guarantees other than the payment of guarantee calls is recognised in the profit or loss under "Net result from guarantee operations".

2.5 Other assets

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

2.6 Intangible assets, equipment and investment property

2.6.1 Intangible assets

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

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

Internally generated software	3 years
Purchased software	2 to 5 years

2.6.2 Equipment

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

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

Fixtures and fittings	3 to 10 years
Office equipment	3 to 5 years
Computer equipment and vehicles	3 years

2.6.3 Investment property

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

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

Buildings	30 years

2.6.4 Impairment of non-financial assets

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

2.7 Employee benefits

2.7.1 Post-employment benefits

Pension fund
EIF operates an unfunded pension plan of the defined benefit type, providing retirement benefits based on final salary. The cost of providing this benefit is calculated by the actuary using the projected unit credit cost method. The defined benefit liability is recognised as the present value of expected future payments.

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are debited or credited to equity in other comprehensive income in the period in which they arise.

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

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

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

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

2.7.2 Short-term employee benefits

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

2.7.3 Other long-term employee benefits

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

2.8 Other liabilities and provisions

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

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

2.9 Interest and similar income

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

2.10 Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital dividends and repayments which are recognised when EIF's investment cost is fully reimbursed.

2.11 Net result from guarantee operations

Net result from guarantee operations includes:

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

2.12 Commission income

This heading includes fees and commissions on mandates and advisory activities and excludes guarantee premiums.

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

2.13 Leases

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

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

2.14 New standards and interpretations not yet adopted

The following IFRS and IFRIC interpretations applicable to EIF were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. The Fund plans to adopt them at the date of endorsement by the European Union.

- IFRS 9 – Financial instruments
  This standard is the first step in a three-part project by the IASB to replace IAS 39 financial instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for financial years beginning on or after 1 January 2015, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.
  The Fund is in the process of analysing the impact of this standard on its operations.

- 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 2014, although it may be early adopted.
  The Fund is in the process of analysing the impact of this standard on its operations.

- Amendment to IFRS 10 – Consolidated financial statements, IFRS 12 – Disclosure of Interests in other entities and IAS 27 – Consolidated financial statements
  These amendments provide an exemption from consolidation of subsidiaries under IFRS 10 for entities which meet the definition of an "investment entity", such as certain investment funds. The amendments are effective for the financial year beginning on or after 1 January 2014, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.
  The Fund is in the process of analysing the impact of this standard on its operations.

- 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 2014, although it may be early adopted.
  The Fund is in the process of analysing the impact of this standard on its operations.

3. Financial risk management

3.1 Introduction

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

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

EUR

31.12.2013	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash and cash equivalents	180 768 509	0	0	0	180 768 509
Investments:					
Debt securities and other fixed income securities	0	0	929 375 811	0	929 375 811
Shares and other variable income securities	0	5 162 705	264 832 149	0	269 994 854
Total financial assets	180 768 509	5 162 705	1 194 207 960	0	1 380 139 174
Financial liabilities					
Financial guarantees	0	0	0	20 309 374	20 309 374
Total financial liabilities	0	0	0	20 309 374	20 309 374

EUR

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

3.1.1 Types of risk

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

3.1.1.1 Credit risk

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

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

3.1.1.2 Liquidity risk

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

3.1.1.3 Market risk

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

Market risk - Currency risk

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

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

The Fund's exchange rate risk is kept at a low level (below 6% of net assets) through a policy of limiting its investment in non-euro denominated instruments. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

The table on page 64 shows the currency exposure (in EUR) of EIF's financial assets and financial liabilities.

Market risk – Interest rate risk

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

Market risk – Other price risk

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

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

3.2 Private Equity (PE)

3.2.1 Risk management process

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

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

At 31.12.2013	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	EUR Total
Cash and cash equivalents	176 183 826	3 762 698	323 714	498 271	4 584 683	180 768 509
Investments						
Debt securities and other fixed income securities	929 375 811	0	0	0	0	929 375 811
Shares and other variable income securities	199 532 326	50 854 431	8 610 405	10 997 692	70 462 528	269 994 854
Total assets	1 305 091 963	54 617 129	8 934 119	11 495 963	75 047 211	1 380 139 174
Financial liabilities						
Financial guarantees	10 217 612	8 747 024	0	1 344 738	10 091 762	20 309 374
Total liabilities	10 217 612	8 747 024	0	1 344 738	10 091 762	20 309 374
Foreign currencies in % of net assets		3.9%	0.8%	0.9%	5.6%	
Net commitments to private equity	361 154 081	67 969 056	8 362 205	24 738 047	101 069 308	462 223 390
Guarantees' exposure at risk	2 681 562 973	101 402 599	0	497 889 442	599 292 041	3 280 855 014
Total Off Balance Sheet	3 042 717 054	169 371 655	8 362 205	522 627 489	700 361 349	3 743 078 404

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

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

3.2.1.1 Portfolio design process

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

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

3.2.1.2 Investment process

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

3.2.1.3 Monitoring process

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

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

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation;
- Valuations: assessment as to whether valuations done by the fund managers are in line with best market practice and applicable industry valuation guidelines. The monitoring aims to determine in good faith the fair value of the investments;
- Impairments of investments: the Investment and Risk Committee ("IRC") decides on the impairment of transactions;
- Classification of funds: depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

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

The grades are defined as follows:

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

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

3.2.2 Credit risk

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

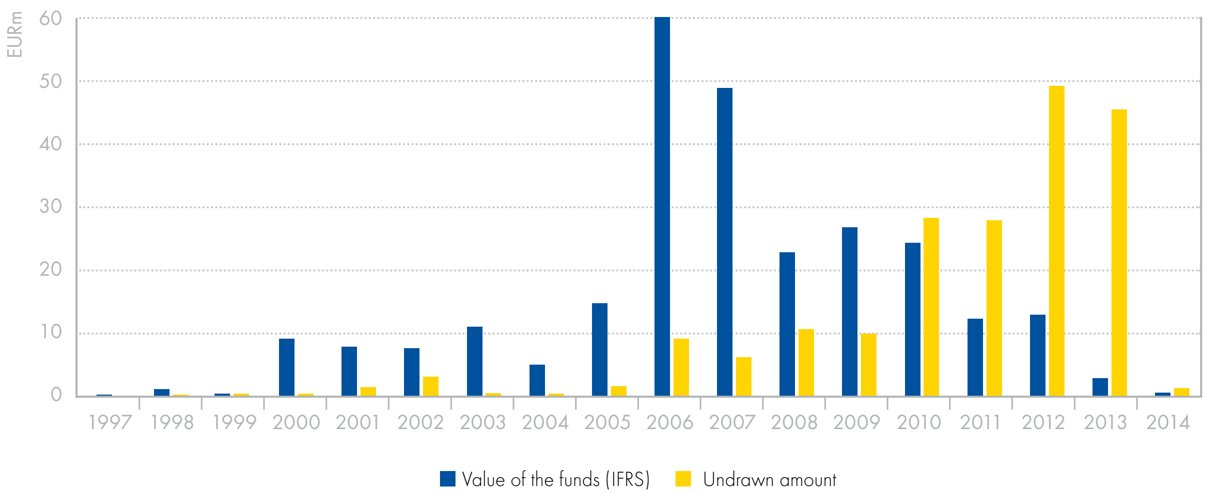
3.2.3 Liquidity risk

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

1. The contractual duration of the Limited Partnership, often being 10 to 12 years;
2. The investment period, often being defined as the first 5 years of the life of the Partnership. After the end of the investment period the General Partner cannot make new investments. Capital calls post investment period are generally made for follow-on investments in existing investee companies or to cover the fees and costs of the Limited Partnership.

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

Vintage year diversification of the EIF own risk PE portfolio (in EUR m)



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

EUR

Private Equity	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2013	3 738 578	1 145 365	10 595 876	182 242 753	197 722 572
As of 31.12.2012	4 499 189	1 853 969	6 525 907	172 128 003	185 007 068

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

Capital calls and reflows which resulted from the EIF own risk PE portfolio

EURm

	Capital calls	Reflows
2013	39.5	32.1
2012	42.2	22.9

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

3.2.4 Market risk

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

3.2.4.1 Equity risk

Equity risk analysis requires an estimation of the sensitivity of the value of a stock towards a change in value in the overall market where this stock is traded. This can be done based on the Capital Asset Pricing Model. This model uses the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns of an asset against a public market index.

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to equity risk analysis. While public market asset managers can use reliable statistical data to support their analysis, such data is lacking for PE and in particular for Venture Capital. The analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market, and the inherent lower transparency of the PE market in general. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the Internal Rate of Return ("IRR"), the standard performance measure used for PE funds, is capital-weighted, while the performance measure of public market assets is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

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

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

Public market risk: all private equity

EUR

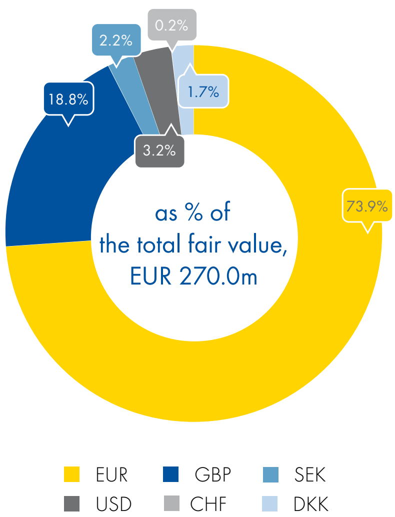
	+10% Retained Beta 0.8 Final Sensitivity: +8%			-10% Retained Beta 0.8 Final Sensitivity: -8%		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2013	1 100 804	20 486 222	21 587 026	(8 325 243)	(13 261 783)	(21 587 026)

EUR

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

3.2.4.2 *Foreign currency risk*

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



For 2013, changes due to foreign exchange rates for shares and other variable income amount to EUR 1 474 493, of which EUR 1 275 693 has been posted to the fair value reserve (2012: respectively EUR 1 101 404 and EUR 3 174 312) and EUR 198 801 has been transferred to the Statement of comprehensive income following the recognition of impairment on the PE portfolio at year end (2012: 2 072 908).

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

Foreign exchange rate risk in EUR

	GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
31.12.2013	9 044 340	(7 028 769)
31.12.2012	7 937 623	(5 866 939)

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

3.2.5 Idiosyncratic risks

Idiosyncratic or non-systematic risk is a risk unique to a certain asset. This is a type of risk that can typically be managed via portfolio diversification. In the case of the EIF own risk PE portfolio the main types of idiosyncratic risks identified are strategy risk, geographic risk, fund risk, sector risk and technology risk.

3.2.5.1 Strategy risk

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

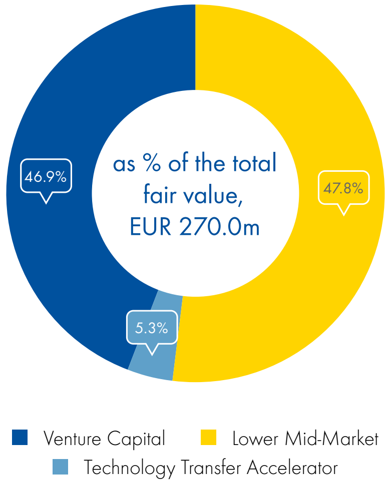
1. Technology Transfer Accelerator (TTA): such definition covers strategies targeting investments at Seed and Pre-Seed stages directed at the commercialisation of new technologies developed by universities and research centres;

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

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

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

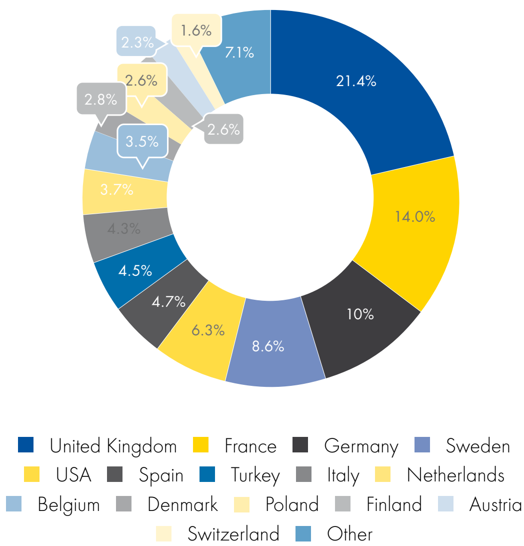
EIF own risk PE portfolio: fair value split by investment strategy



3.2.5.2 Geographic risk

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

EIF own risk portfolio: split of investee companies by country of domiciliation



3.2.5.3 Fund risk

Fund risk refers to the risk of over or under performance due to factors linked to a specific PE fund in portfolio (e.g.: the departure of a key executive from the management team of a fund). As shown below the EIF Own Risk PE portfolio is well diversified across a large number of funds. The largest fund in portfolio represents 2.9% of the portfolio fair value (2012: 4.1%) and the largest 10 funds represent in aggregate 21.6% (2012: 23.5%).

3.2.5.4 Sector risk

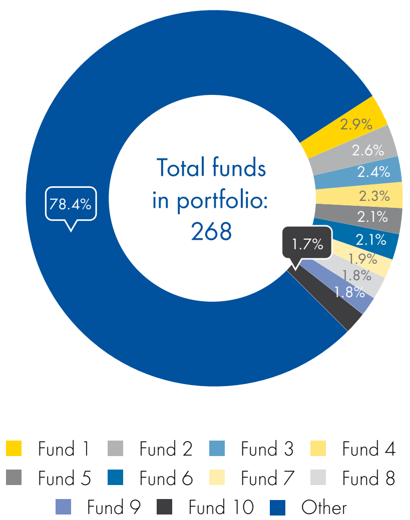
Sector risk is defined as the risk resulting from under/over weighting a specific sector. The largest sector exposure (excluding Generalist) of the EIF Own Risk PE portfolio is to the Information Technology and Life science sectors. Such exposure is by design and is the result of the portfolio allocation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

3.2.5.5 Technology risk

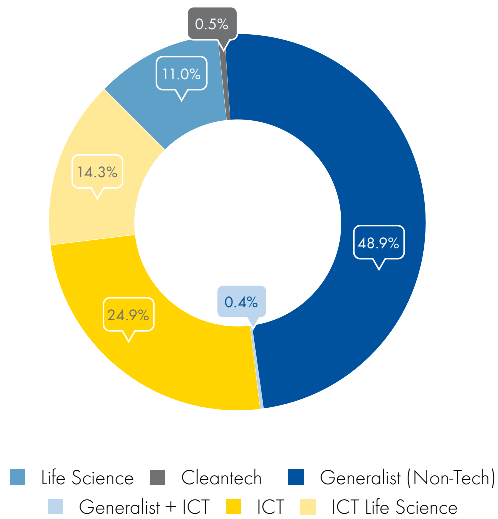
PE funds investing in Venture Capital and Technology Transfer are significantly affected by technology risk, defined as the risk of successfully developing and commercialising a new technology. The earlier is the stage of investment, the higher the technology risk. Due to its often binary nature, technology risk is difficult to model but can be effectively managed through adequate diversification.

Regarding the technology risk; the fair value of the 10 largest technology investee companies (based on the last available report) amounted to EUR 25.2 million (2012: 13.5m) and represented 9.5% of the fair value of the EIF's portfolio (2012: 5.6%).

EIF own risk PE portfolio: largest PE funds in portfolio



EIF own risk portfolio: fair value split by sector focus of investee funds



3.3 Portfolio Guarantees and Securitisation (G&S)

3.3.1 Introduction

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

3.3.1.1 Initial risk assessment

In the context of the independent opinion process, the Credit Risk and Portfolio Management ("RPM-CRPM") reviews the investment proposal provided by the Transaction and Relationship Management ("TRM") department in accordance with EIF's internal rules and procedures. This review includes a detailed analysis of the risks related to the new G&S transaction, the methodologies applied and EIF's internal rating initially proposed by TRM. A transaction is only eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB1 (iAaa and iB1 are mapped to Moody's Aaa and B1, respectively).

EIF assigns an internal rating to each new transaction to estimate the credit quality based on an expected loss concept. EIF's internal rating is based on quantitative parameters and qualitative aspects. The following quantitative factors are examples of variables having an impact on the determination of an EIF's internal rating: weighted average rating of the underlying portfolio and volatility of the default rates distribution, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, and level of diversification in the underlying pool of assets. The credit risk estimation also takes into account various qualitative factors, such as: reliability and completeness of the available data, size, quality and time horizon of the statistical samples, discontinuity in the origination criteria and servicing procedures, macro-economic effects.

The majority of EIF's financial guarantees are typically rated by at least one external rating agency. In case there are differences in the rating levels among external rating agencies and EIF's internal rating, EIF applies a retained rating approach defining how the rating to calculate the value of the financial guarantee is selected amongst any available external rating(s) and the assigned EIF's internal rating. To allocate capital for an own risk guarantee tranche, EIF's internal rating is disregarded from the retained rating rule and only used when the tranche is not rated at least by one external rating agency. Valuation and capital charge are functions of the expected loss, i.e. they are risk-adjusted and consequently vary according to the assigned rating.

EIF's conservative capital allocation rules have already incorporated Bank for International Settlements ("BIS") methodologies for several years. EIF, having a status of a Multilateral Development Bank, does not report to the national supervisor, "Commission de Surveillance du Secteur Financier" ("CSSF"), but has adopted rules which are in line with the BIS framework. The implementation of the Ratings Based Approach ("RBA") for EIF's G&S exposures has been carried out with the technical assistance of the CSSF and in close cooperation with the EIB.

3.3.1.2 On-going risk monitoring

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

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

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

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

EUR

Transaction status	31.12.2013		31.12.2012	
Defaulted	49 558 648	1.5%	49 782 420	1.7%
Negative outlook	375 842 610	11.5%	421 254 671	14.9%
Under review	197 026 616	6.0%	300 618 605	10.6%
Performing	2 658 427 140	81.0%	2 058 305 370	72.7%
Positive outlook	0	0.0%	1 950 450	0.1%
Total Exposure at risk	3 280 855 014	100.0%	2 831 911 516	100.0%

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

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

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

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

The restructuring activity is performed through dedicated professionals within the RPM-CRPM. RPM-CRPM is in charge of proposing, during the IRC, the assignment of a Work Out Committee status ("WOC") to a transaction, whenever there is a high likelihood that a loss may arise for EIF and that specific actions may be taken to avoid or minimise such loss - typically for underperforming deals. The assignment of a WOC status can be also proposed by TRM or decided by the IRC Chairman during the IRC meeting.

For the purpose of handling WOC status transactions, RPM-CRPM may request the assistance of professionals from TRM, Legal Service or Compliance. The IRC Chairman may also specifically designate such persons. RPM-CRPM coordinates the actions on WOC status transactions and shall inform regularly the IRC of developments in relation to such transactions.

The overall goal of a dedicated management of WOC status transactions is to minimize the loss which may arise out of the deterioration of the performance of such transactions.

3.3.2 Credit risk

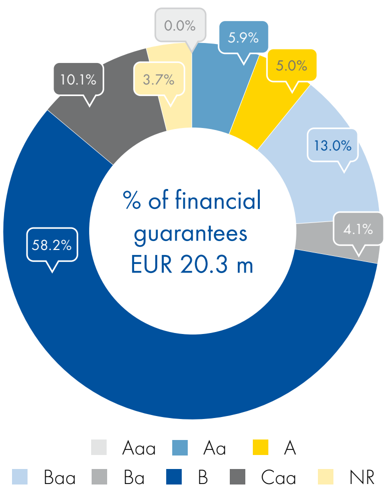
The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) corresponds to the exposure at risk as of 31 December 2013 of EUR 3 280.9 m (2012: EUR 2 831.9 m).

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

The statutes of the Fund limit own risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0 m at end 2013. Hence, the EUR 3 280.9 m exposure at risk at end 2013 was below the statutory limit of EUR 9 000.0 m.

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

The credit risk is tracked from the outset on a deal-by deal basis by adopting a different model analysis depending on the granularity and homogeneity of the underlying portfolio. The graph below shows the split of the financial guarantees in terms of credit quality (based on EIF's retained rating approach) as of 31 December 2013:



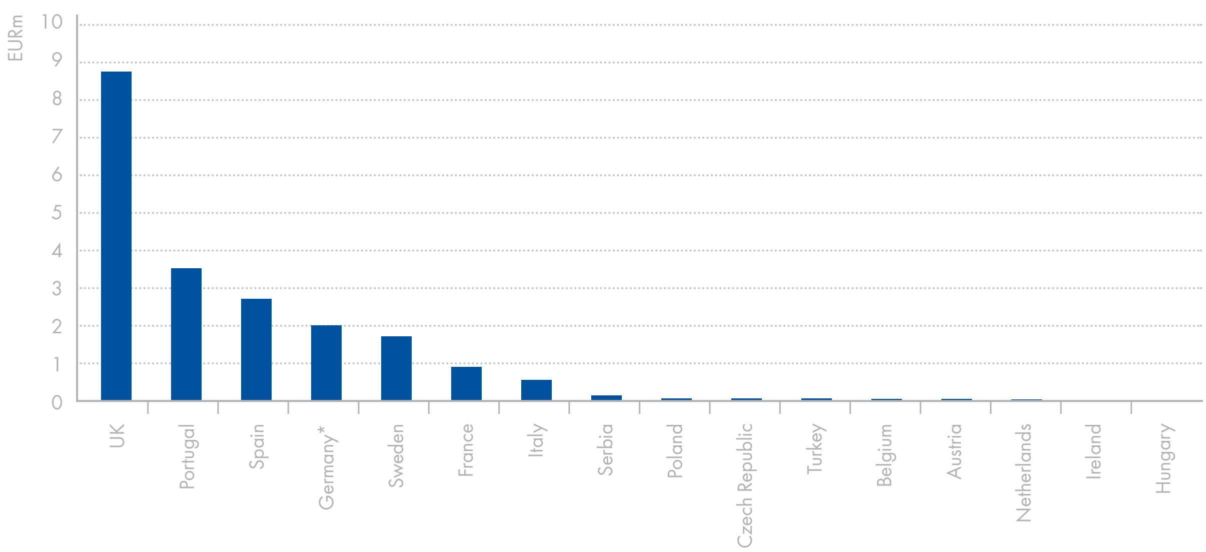
3.3.2.1 Geographic coverage

As of 31 December 2013, EIF's financial guarantees were spread over 16 countries (2012: 14 countries).

The graph below shows the geographic distribution of EIF's financial guarantees (EUR 20.3 m as of 31 December 2013) showing that the largest weight is to the United Kingdom (43.3%), followed by Portugal (17.4%), Spain (13.4%) and Germany (10.2%).

3.3.2.2 Concentration risk

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



*Including Multi-Country

3.3.2.3 Industry sector exposures

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

3.3.2.4 Counterparty risk

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

3.3.3 Liquidity risk

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

The following table shows an analysis of the financial guarantees (EUR 20.3 m as of 31 December 2013) split by the expected maturity dates of the transactions they are related to:

EUR

Guarantees	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2013	833 329	758 208	15 142 237	3 575 600	20 309 374
As of 31.12.2012	61 657	345 206	17 667 107	6 287 328	24 361 298

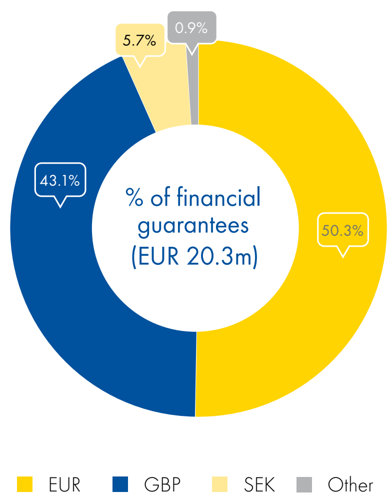
3.3.4 Market risk

3.3.4.1 Market risk: interest rate risk

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

3.3.4.2 Market risk: foreign currency risk

As of 31 December 2013, 50.3% of the financial guarantees are in EUR (2012: 50.6%) and 43.1% in GBP (2012: 46.4%).



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

in EUR

Currency	Financial liability	Impact increase	Impact decrease
GBP	8 747 024	(1 140 916)	1 543 592
SEK	1 160 728	(151 399)	204 834

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

3.3.4.3 Market risk: other price risk

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

3.4 Treasury

3.4.1 Introduction

Treasury management has been fully outsourced to EIB under a treasury management agreement mandating the responsible EIB services to perform selection, execution, settlement and monitoring of transactions. Management follows treasury guidelines annexed to the agreement which define EIF intention to hold the treasury portfolio to maturity, reflect the investment strategy, and mirror closely the relevant sections of the EIB's own treasury guidelines. Quarterly meetings between the EIB and EIF take place to review the performance of the treasury portfolio and relevant market events.

3.4.2 Portfolio overview

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

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

EIF does not borrow funds.

EUR

	31.12.2013	31.12.2012
Current accounts	76 211 056	65 101 569
Money market instruments and short term securities	104 557 453	100 402 842
Available for sale portfolio	929 375 811	907 055 554
Total treasury portfolio	1 110 144 320	1 072 559 965

3.4.3 Credit risk

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

Any currency arbitrage is ruled out by the statutes.

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

EUR

	Maximum exposure 2013	Maximum exposure 2012
Cash and cash equivalents	180 768 509	165 504 411
Debt securities and other fixed income securities	929 375 811	907 055 554
Total credit risk exposure	1 110 144 320	1 072 559 965

The following table outlines the credit quality of the Fund's debt securities and other fixed income securities as of 31 December 2013 and 2012, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2013		31.12.2012	
Minimum issue rating	Fair Value in EUR	In percentage	Fair Value in EUR	In percentage
Aaa	248 214 523	26.70%	206 635 097	22.78%
Aa1	128 463 150	13.82%	131 522 571	14.50%
Aa2	41 022 571	4.41%	20 137 222	2.22%
Aa3	40 410 881	4.35%	27 575 090	3.04%
A1	46 711 435	5.03%	26 754 280	2.95%
A2	44 026 304	4.74%	19 214 500	2.12%
A3	53 496 114	5.76%	74 375 805	8.20%
Baa1	93 923 170	10.11%	13 881 965	1.53%
Baa2	105 685 756	11.37%	127 741 789	14.08%
Baa3	56 118 031	6.04%	60 343 429	6.65%
Ba1	10 542 085	1.13%	123 665 945	13.63%
Ba3	30 746 039	3.31%	29 785 075	3.28%
Unrated	30 015 752	3.23%	45 422 786	5.01%
Total	929 375 811	100.00%	907 055 554	100.00%

The exposures in rating range of Ba1 - C mainly consist of EU sovereign bonds. A breakdown of the EU sovereign bond exposure is given in the table below.

As of 31 December 2013, EIF's debt securities portfolio was spread over 22 countries. The largest individual country exposures were Germany, The Netherlands, Spain, Italy and Ireland, which jointly accounted for 53 % of total nominal value.

EUR

Fair value	31.12.2013	31.12.2012
EU sovereigns		
Ireland	94 030 364	123 665 945
Italy	93 145 354	115 089 603
Netherlands	70 528 450	7 457 929
European Union	55 718 568	16 218 684
Austria	54 551 445	51 458 015
France	51 257 803	15 413 943
Spain	41 441 583	70 390 977
Germany	37 855 759	27 575 003
Portugal	30 746 039	29 785 075
Greece	30 015 752	45 422 786
Slovakia	24 272 155	17 496 681
Luxembourg	16 062 850	16 772 238
Poland	11 611 953	-
Slovenia	10 434 890	10 121 869
Czech Republic	5 216 060	5 428 501
	626 889 025	552 297 249
Corporate bonds and non EU sovereign	302 486 786	354 758 303
Total	929 375 811	907 055 552

3.4.4 Liquidity risk

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

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

3.4.5 Market risk – interest rate risk

In nominal terms approximately 68.6 % of all assets held have a duration of 5 years or less, (2012: 73.4%)

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 31.12.2013	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	180 768 509	0	0	0	0	180 768 509
AFS - Debt securities and other fixed income securities	33 134 653	106 566 005	423 701 556	361 969 147	4 004 450	929 375 811
Total	213 903 162	106 566 005	423 701 556	361 969 147	4 004 450	1 110 144 320
Percentage	19.3%	9.7%	38.2%	32.6%	0.4%	100.0%

EUR

At 31.12.2012	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash and cash equivalents	165 504 411	0	0	0	0	165 504 411
AFS - Debt securities and other fixed income securities	60 091 504	127 711 039	418 412 034	295 123 288	5 717 689	907 055 554
Total	225 595 915	127 711 039	418 412 034	295 123 288	5 717 689	1 072 559 965
Percentage	20.3%	11.6%	37.7%	26.6%	0.5%	100.0%

The average yield at cost of the money market instruments was 0.14 % for 2013 (2012: 0.03 %). The average yield at cost on the AFS securities portfolio in EUR was 2.74 % for 2013 (2012: 3.22 %).

Sensitivity of earnings

The sensitivity of earnings is an estimate of the change over the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life as the previous one as of 31 December 2012. For the positions in place as of 31 December 2013, the earnings of the EIF treasury portfolio would increase by EUR 1.1m (2012: EUR 1.6m) 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 2013, the Value at Risk of the EIF treasury portfolio was EUR 1.9 m (EUR 1.3 m in 2012). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0 % and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0 %. Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

3.5 Fair value of financial assets and financial liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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 transactions take place with sufficient frequency and volume to provide pricing information on an on-going 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 31.12.2013	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities and other fixed income securities				
Financial investments - AFS	899 360 059	30 015 752	0	929 375 811
Shares and other variable income securities				
Financial investments - AFS	886 490	0	263 945 659	264 832 149
Financial assets designated at fair value through P&L	0	0	5 162 705	5 162 705
	900 246 549	30 015 752	269 108 364	1 199 370 665

At 31.12.2012	Level 1	Level 2	Level 3	Total
Financial assets				
Debt securities and other fixed income securities				
Financial investments - AFS	861 632 768	45 422 786	0	907 055 554
Shares and other variable income securities				
Financial investments - AFS	1 108 112	0	238 022 856	239 130 967
Financial assets designated at fair value through P&L	0	0	3 876 686	3 876 686
	862 740 880	45 422 786	241 899 541	1 150 063 207

The Fund's policy is to recognise the transfers between Levels as of the date of the event or change in circumstances that caused the transfer.

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

Details of the movements of financial assets in 2013 are given in notes 4.2 and 4.3.
There was no transfer of financial assets between Level 1 and Level 3 in 2013 or 2012.

4. Detailed disclosures relating to asset headings

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.14 % (2012: 0.03 %). These deposits have an average remaining maturity of 27 days (2012: 33 days).

		EUR
	31.12.2013	31.12.2012
Current accounts	76 211 056	65 101 569
Money market instruments and short term securities	84 559 434	100 402 842
Short-term securities	19 998 019	0
	180 768 509	165 504 411

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
	31.12.2013	31.12.2012
Available-for-Sale portfolio	914 049 152	890 488 154
Accrued interests	15 326 659	16 567 399
	929 375 811	907 055 554

Movement in debt securities and other fixed income securities:		EUR
	2013	2012
Fair value at 1 January	907 055 554	778 368 598
Additions	209 291 540	261 480 027
Disposals/ matured	(185 778 891)	(239 227 921)
Effective interest rate adjustment	(2 480 541)	2 455 239
Change in Fair value reserve	1 288 149	103 979 611
Fair value at 31 December	929 375 811	907 055 554

The total fair value reserve recognised in equity at the end of 2013 and attributable to debt securities and other fixed income securities is EUR 21 590 846 (2012: EUR 20 302 697).

Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR 0 (2012: EUR (2 730 074)), of which none relates to Level 3.

No impairment was recorded on the portfolio in either 2013 or 2012.

4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

	2013	EUR 2013 of which Level 3
Investment at cost at 1 January	262 651 266	259 683 047
Disbursements	39 532 697	39 532 697
Capital repayments	(26 211 252)	(25 679 358)
Transferred to other assets	(4 249 240)	(4 249 240)
Investment at cost at 31 December	271 723 471	269 287 146
Fair value adjustment and foreign exchange adjustment at 1 January	(19 643 613)	(17 783 507)
Transferred to other assets	3 471 053	3 471 053
- changes in the value of investments	20 088 905	19 778 634
- foreign exchange impact on investments	(1 275 693)	(1 275 693)
Impairment	(4 369 269)	(4 369 269)
Value adjustment and foreign exchange adjustment at 31 December	(1 728 617)	(178 783)
	269 994 854	269 108 364

	2012	EUR 2012 of which Level 3
Investment at cost at 1 January	239 956 357	236 988 139
Disbursements	42 171 316	42 171 316
Capital repayments	(18 908 920)	(18 908 920)
Terminated deals	(567 487)	(567 487)
Investment at cost at 31 December	262 651 266	259 683 048
Fair value adjustment and foreign exchange adjustment at 1 January	(27 722 822)	(25 775 410)
Terminated deals	567 304	567 304
- changes in the value of investments	11 974 611	11 887 305
- foreign exchange impact on investments	3 174 312	3 174 312
Impairment	(7 637 018)	(7 637 018)
Value adjustment and foreign exchange adjustment at 31 December	(19 643 613)	(17 783 507)
	243 007 653	241 899 541

In 2013 earn-out agreements were signed for the disposal of 4 transactions. Consequently the net book value of these transactions was transferred out of the shares and other variable income securities and booked as receivables in other assets. Additionally losses of EUR 226 872 were booked as impairment upon transfer.

Investments belonging to Category C, which are valued at cost less impairment in the absence of additional compliant data at reporting date have zero value at the end of 2013 (2012: EUR 3 854 165).

The fair value as of 31 December 2013 includes an amount of EUR 5 162 705 (2012: EUR 3 876 686) related to Investment in joint ventures.

4.4 Other assets

Other assets are made up of the following:

EUR

	31.12.2013	31.12.2012
Accounts receivable relating to pensions managed by the EIB	61 976 423	53 496 180
Advanced payments	457 496	371 527
Accrued commission & other income	19 860 968	14 145 372
Fees receivable on financial guarantees	3 270 062	2 940 649
Receivables from earn-out agreements	619 113	0
Other debtors	918 996	844 879
	87 103 058	71 798 607

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
2013	87 103 058	86 966 713	0	119 140	17 205
2012	71 798 607	71 376 492	361 118	43 896	17 101

4.5 Intangible assets

EUR

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

EUR

	Internally Generated Software	Purchased Software	Total
Cost	5 195 493	251 578	5 447 071
Accumulated amortisation	(4 820 110)	(251 578)	(5 071 688)
Carrying amount at 01.01.2013	375 383	0	375 383
Opening net book amount	375 383	0	375 383
Additions	338 325	0	338 325
Amortisation charge	(191 321)	0	(191 321)
Carrying amount at 31.12.2013	522 387	0	522 387

EUR

31.12.2013	Internally Generated Software	Purchased Software	Total
Cost	5 533 818	251 578	5 785 396
Accumulated amortisation	(5 011 431)	(251 578)	(5 263 009)
Carrying amount	522 387	0	522 387

There were no indications of impairment of intangible assets either in 2013 or 2012.

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

4.6 Equipment and investment property

EUR

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

EUR

	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	7 139 812	202 401	818 355	0	1 020 756
Accumulated depreciation	(1 559 033)	(187 358)	(818 355)	0	(1 005 713)
Net book amount at 01.01.2013	5 580 779	15 043	0	0	15 043
Opening net book amount	5 580 779	15 043	0	0	15 043
Depreciation charge	(374 150)	(11 983)	0	0	(11 983)
Net book amount 31.12.2013	5 206 629	3 060	0	0	3 060

31.12.2013					
Cost	7 139 812	202 401	818 355	0	1 020 756
Accumulated depreciation	(1 933 183)	(199 341)	(818 355)	0	(1 017 696)
Net book amount	5 206 629	3 060	0	0	3 060

There were no indications of impairment of equipment or investment property in either 2013 or 2012.

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

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

5 Detailed disclosures relating to liabilities and equity headings

5.1 Financial liabilities

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

EUR

	2013	2012
Balance at the beginning of the financial year	24 361 298	24 022 036
Net increase/decrease in Financial Guarantees	(4 577 148)	80 775
Remeasurement of the liability due to rating changes	900 822	1 172 112
Transfer to provision for guarantees	(375 598)	(913 625)
Balance at the end of the financial year	20 309 374	24 361 298

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 financial guarantees

EUR

	2013	2012
Balance at 1 January	174 992 902	161 867 126
Transfer from financial guarantees	375 598	913 625
Additions	22 140 304	14 673 739
Utilised	(5 311 389)	(97 500)
Release of provision	(15 110 217)	(2 364 087)
Balance at 31 December	177 087 198	174 992 902

5.3 Retirement benefit obligations

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

EUR

Retirement benefit obligations	31.12.2013	31.12.2012 (Restated)	01.01.2012 (Restated)
Pension scheme	65 007 082	68 639 709	41 152 000
Health insurance scheme	7 482 461	7 044 000	3 252 000
	72 489 543	75 683 709	44 404 000

Commitments in respect of retirement benefits as of 31 December, 2013 have been valued by an independent actuary. The calculations are based on the following main assumptions:

EUR

Principal assumptions	2013	2012
Discount rate for obligations	5.10%	4.23%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ICSLT	ICSLT

The discount rate is based on internal assumptions and on a market observable index, which are the iBoxx EUR Corporates AA 7-10 years index and the iBoxx EUR Corporates AA 10 years+ index. The first index is a composite of 15 financial bonds and 15 non-financial bonds (2012: 17 financials, 9 non-financial) and the second index is a composite of 4 financial bonds and 7 non-financial bonds (2012: 3 financials, 5 non-financial). As at December 2013, the indexes amounted respectively to 2.50% and 3.17% (2012: 2.03% and 2.69%)

The defined benefit obligation for pensions as valued in the independent actuary report dated February 2014 amounts to EUR 65 007 082 (2012: EUR 68 639 709). As of December 2013 the Fund allocated EUR 49 586 442 (2012: EUR 43 454 004) to pension assets.

EUR

Amounts recognised in comprehensive income as at 31.12.2013	EIF Pension	Health Insurance	Total 2013
Current net service cost	5 612 000	1 183 000	6 795 000
Net interest cost	2 903 000	298 000	3 201 000
Net benefit expense recognised in profit or loss	8 515 000	1 481 000	9 996 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	4 417 000	(54 000)	4 363 000
Gain due to assumption changes	(17 423 000)	(987 000)	(18 410 000)
Defined benefit obligation recognised in other comprehensive income	(13 006 000)	(1 041 000)	(14 047 000)
Total	(4 491 000)	440 000	(4 051 000)

EUR

Amounts recognised in comprehensive income as at 31.12.2012 (restated)	EIF Pension	Health Insurance	Total 2012
Current net service cost	3 078 000	423 000	3 501 000
Net interest cost	2 296 000	181 000	2 477 000
Net benefit expense recognised in profit or loss	5 374 000	604 000	5 978 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	(769 000)	135 000	(634 000)
Loss due to assumption changes	21 581 000	3 053 000	24 634 000
Defined benefit obligation recognised in other comprehensive income	20 812 000	3 188 000	24 000 000
Total	26 186 000	3 792 000	29 978 000

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 31.12.2013	EIF Pension	Health Insurance	Total 2013
Defined benefit obligation, beginning of year	68 640 000	7 044 000	75 684 000
Net service cost	5 612 000	1 183 000	6 795 000
Net interest cost	2 903 000	298 000	3 201 000
Employee contributions	2 158 000	0	2 158 000
Benefits Paid	(1 300 000)	(2 000)	(1 302 000)
Experience Loss/ (gain)	4 417 000	(54 000)	4 363 000
Gain due to assumption changes	(17 423 000)	(987 000)	(18 410 000)
Defined benefit obligation, end of year	65 007 000	7 482 000	72 489 000

EUR

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

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 net interest cost, plus employee contributions, plus net benefits paid, plus liability due to experience, plus/ less result due to assumption changes.

The sensitivity of the defined benefit obligation to possible changes at the reporting date to key actuarial assumptions, holding other assumptions constant, is shown below:

31 December 2013	Effect on the defined benefit obligation		
	In percentage	EIF Pension	Health Insurance
Discount rate	1% increase	-23%	-27%
Discount rate	1% decrease	32%	36%
Life expectancy	1 year increase	2%	4%
Life expectancy	1 year decrease	-3%	-5%
Inflation	1% increase	32%	
Inflation	1% decrease	-23%	
Salary rate increase	1% increase	31%	
Salary rate increase	1% decrease	-23%	
Medical cost increase	1% increase		40%
Medical cost increase	1% decrease		-30%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

years

31 December 2013	EIF Pension	Health Insurance
Duration of active members	29.1	36.7
Duration of deferred members*	33.7	-
Duration of retired members	13.8	17.9

Life expectancy at age 60 for a Male using ICSLT (year 2013) mortality tables: 25.2 years
Life expectancy at age 60 for a Female using ICSLT (year 2013) mortality tables: 27.4 years

* Staff members who have left the Fund before retirement age and have a right to a deferred pension.

5.4 Other liabilities and provisions

EUR

	31.12.2013	31.12.2012
Related parties payables	9 029 398	4 802 468
Employee benefit payables	26 013 436	22 054 956
Trade creditors	3 265 217	2 331 512
	38 308 051	29 188 936

Employee benefit payables mostly include staff-related costs such as the Bonus, the Optional Supplementary Provident 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

	31.12.2013	31.12.2012
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

	31.12.2013	31.12.2012
European Investment Bank	1 863	1 864
European Commission	900	900
Financial institutions	237	236
	3 000	3 000

5.6 Statutory reserve and retained earnings

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20 % of its annual net profit until the aggregate reserve amounts to 10 % of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 9 491 719 is required to be appropriated in 2014 with respect to the financial year ended 31-December, 2013.

The General Meeting of Shareholders of 22 April 2013 approved the distribution of a dividend amounting to EUR 6 132 001 (2012: EUR 0). Dividends are distributed in line with Article 27 of the Fund's statutes.

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

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

5.7 Fair value reserve

The fair value reserve includes the following:

EUR

	31.12.2013	31.12.2012
Fair value reserve on debt securities and other fixed income securities	21 590 846	20 302 697
Fair value reserve on shares and other variable income securities	59 065 564	40 057 749
	80 656 410	60 360 446

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

6. Disclosures relating to off-balance sheet items

6.1 Assets held for third parties

EIF acts as an integrated operational platform for SME finance, deploying **resources mandated for management by its related parties (EIB and EC see note 8.1 and 8.2, respectively)** and other third parties (public and private entities) depending on the nature of the investment as detailed below.

EIB resources

EIF manages EIB resources through the following mandates:

- **The Risk Capital Mandate (RCR)** mandate signed with the EIB in June 2013 is the result of the merge of **Risk Capital Mandate (RCM)** signed in 2000 and the **Mezzanine Facility for Growth (MFG)** mandate signed in March 2009. The RCR mandate aims at supporting, on a revolving basis, technology and industrial innovation through early stage, expansion and lower mid-market capital as well as filling the financing gap for European SMEs and 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 EC resources section.

EC resources

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

- EIF acts as trustee for the EC in two funds called **EFSE (European Fund for South East Europe)** and **GGF (Green for Growth – former SE4F)**. EFSE provides microfinance in South East Europe and the European Neighbourhood region and was launched in June 2006. GGF was set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, EIF acts as trustee for the EC in the technical assistance facility of the GGF (GGF TA), signed in December 2010.

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

- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, EIF has been managing the European Union's participation in the fund as trustee and represents the EC's interests since December 2007. EIF also holds a technical support mandate for Development and Co-operation – EuropeAid ("DEVCO") for which related activities are implemented by GEEREF Front Office.

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

- Under the **Joint Action to Support Microfinance Institutions in Europe (JASMINE)** initiative, EIF manages, on a revolving basis and since December 2008, the technical assistance initiative with EC resources.

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

- The **European Progress Microfinance Facility (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 EC in July 2010, EIF provides portfolio guarantees to micro credit lenders. Further financial instruments such as debt, equity, and risk-sharing are deployed through a **Luxembourg *fonds commun de placement*** **(FCP)**, managed by EIF in its capacity as management company. Initial funding for the FCP is provided by the EC and the EIB.

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

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

Other third party resources

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

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

- **NEOTEC**, a fund-of-funds signed in December 2006, is a joint venture between EIF and a Spanish government entity advised by EIF, including significant Spanish Blue Chips as investors. It seeks to invest in technology funds in Spain and has already invested a large portion of its commitments.

- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)**, Member States appointed EIF to manage JEREMIE funds as Holding

Fund manager since June 2007. The JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as private equity funds, guarantee funds and loan funds. EIF is currently managing 14 JEREMIE Funding Agreements signed with Member States and regions: Greece, Romania, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta, Sicily ESF, Calabria, Provence-Alpes-Côte d'Azur (PACA), and Extremadura.

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

- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, EIF has been acting since December 2007 as investment advisor. GEEREF is supported by the EC, the Federal Government of Germany and the Kingdom of Norway and its objective is to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF business development is formally delegated to the EIB under a sub-advisory agreement.

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

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

- The **UK Future Technologies Fund (UK FTF)**, signed in February 2010, is a fund-of-funds investing in venture capital funds focused on life science and technology companies with high growth potential. EIF was confirmed as manager for the larger of two separate funds (the other for cleantech investments) of funds together making up the UK Innovation Investment Fund (UKIIF). The UK government provides 50% of the commitments of UK FTF alongside the EIB Group.

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

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

- The **Mezzanine Dachfonds für Deutschland (MDD)** is an investment programme signed in June 2012 and funded by the German Federal Ministry of Economics and Technology (BMWi), LfA Förderbank and NRW.BANK to subscribe into hybrid debt/equity funds investing in German SMEs and mid cap companies.

- The **European Angels Fund (EAF)** is an initiative advised by the EIF which provides equity to Business Angels and other non-institutional investors for the financing of innovative companies in the form of co-investments. The initiative was launched for Germany in March 2012 through a virtual structure, and a fund vehicle in the form of S.C.A, SICAR was incorporated in November 2013 with two compartments to target Spain and Austria.

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

Garantiju Agentiira in Latvia and Investiciju ir verslo garantijosin Lithuania.

- The **Polish Growth Fund of Funds (PGFF)**, signed in April 2013, is a fund-of-funds, structured as a partnership, which invests in venture capital and private equity funds and focused on Poland. It is funded jointly by the EIB Group and the Bank Gospodarstwa Krajowego.

- The **Social Investment Accelerator (SIA)**, signed in June 2013, is the first pan-European public-private partnership supporting social enterprises. SIA was launched by the EIB Group with the collaboration of private sector investors. SIA is a pilot initiative which aims to address the growing need for availability of equity finance to support social enterprises by investing in social impact funds across Europe. It is funded jointly by the EIB Group, Deutsche Bank Group and Crédit Coopératif.

- The **Dutch Venture Initiative (DVI)**, signed in August 2013, is a fund-of-funds focused on private equity and venture capital funds in the Netherlands and incorporated in the form of a S.A.-SICAR. The Dutch government provides 66.67% of the commitments of DVI alongside the EIB Group for 33.33% of the commitments.

EIF manages assets on behalf of third parties and related parties through either a private equity, guarantee or microfinance activities. As at 31 December 2013, Total assets under management, defined as the initial resources and contributions allocated to each mandate, amount to EUR 11.1 billion (2012: EUR 9.8 billion).

Assets held for third parties and related parties include trust accounts opened and maintained in the name of EIF but for the benefit of third parties as disclosed below:

It includes cash at bank, money market balances as well as the relevant accruals.

EUR

	31.12.2013	31.12.2012
SMEG 1998	59 734 775	59 604 096
ESU 1998	7 784 819	5 223 865
SMEG 2001	19 177 522	24 940 083
ESU 2001	24 813 125	20 591 322
CIP/ SMEG 2007	126 152 781	124 103 776
CIP/ GIF	117 358 280	102 621 255
TTP	1 387 169	1 604 986
Progress FMA	15 125 159	10 507 805
EPPA	514 734	706 125
GEEREF Technical Support Facility	1 917 299	1 923 192
GEEREF Trusteeship	276 722	4 119 606
GGF - Technical Assistance - Trust Account	4 729	4 731
RSI	21 827 379	131 481 175
WB EDIF platform - trust Accounts	52 813 610	0
Sub-Total Trust accounts with the European Commission	448 888 103	487 432 017
Trust account GAGF	47 975 174	50 066 787
Trust account G43	15 693 935	15 894 608
Trust accounts with the EIB	74 367 771	53 705 551
Trust account with the ERP Dachfunds	2 822 717	2 528 073
Trust account with the LFA-GV	570 618	519 008
Trust accounts with MDD	5 151	5 584
Trust account with member states/regions JEREMIE initiative	594 970 939	708 655 849
Trust accounts with BIF	9 142	0
Trust accounts with PGFF	4 182 949	0
Total	1 189 486 499	1 318 807 477

7. Detailed disclosures related to the statement of comprehensive income

7.1 Interest and similar income

Interest and similar income comprises:

EUR

	2013	2012
Interest income on debt securities and other fixed income securities	27 206 115	29 768 664
Interest income on money market instruments	52 088	323 635
Interest income on bank current accounts	599 200	346 055
Other interest income	2 752 738	2 952 665
	30 610 141	33 391 019

Interest income on debt securities include discounts of EUR 1 245 595 (2012: EUR 3 647 396) and premiums amount to EUR (3 545 442) (2012: EUR (4 352 638)).

7.2 Net result from guarantee operations

Net result from guarantee operations comprises:

EUR

	2013	2012
Net income from financial guarantees contracts	27 350 771	23 488 179
Provision for guarantees under IAS 37	(22 630 013)	(15 848 518)
Release of provision	15 110 217	2 364 087
	19 830 975	10 003 748

7.3 Commission income

Commission income is detailed as follows:

EUR

	2013	2012
Commissions on EIB mandates	16 070 195	14 458 036
Commissions on EC mandates	17 445 245	12 264 061
Commissions on Regional and Funds of Funds mandates	24 552 236	23 156 118
Other commissions	665 502	428 737
	58 733 178	50 306 952

7.4 Net loss on financial operations

Net loss on financial operations is broken down as follows:

	2013	EUR 2012
Realised loss on debt securities	0	(2 730 074)
Gains/ (losses) arising from transactions or cash positions in foreign currencies	(471 086)	378 246
	(471 086)	(2 351 828)

7.5 Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 65 263 (2012: EUR 684 875).

7.6 General administrative expenses

Wages and salaries include expenses of EUR 1 954 315 (2012: EUR 2 029 133) incurred in relation to staff seconded from the EIB.

The number of persons, including 4 EIB secondees (2012: 4 EIB secondees), employed at the year-end is as follows:

	2013	2012
Chief Executive/Deputy Chief Executive	2	1
Employees	237	223
Total	239	224

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

Key management compensation for the period is disclosed as follows:

	2013	EUR 2012
Short-term benefits(1)	2 370 486	2 348 830
Post employment benefits(2)	429 505	420 259
Total	2 799 990	2 769 089

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

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 3 607 954 (2012: EUR 3 738 229).

Future minimum lease payments under non-cancellable operating leases

EUR

	Less than 1 year	1 to 5 years	Total
2013	1 184 502	49 145	1 233 647
2012	858 511	92 169	950 681

8. Related parties transactions

EIB is the majority owner of the Fund with 62.1% (2012: 62.1%) of the shares. The remaining percentage is held by the European Commission 30.0% (2012: 30.0%) and the Financial Institutions 7.9% (2012: 7.9%).

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

	31.12.2013	31.12.2012
Assets		
Other assets	67 943 786	56 957 152
Liabilities and equity		
Other liabilities and provisions	9 514 979	4 981 675
Share capital	372 600 000	372 800 000
Income		
Commission income	16 320 195	14 458 036
Interest income	2 752 738	2 952 666
Other income	38 036	658 695
Expenses		
General administrative expenses	10 890 134	10 630 430

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

	31.12.2013	31.12.2012
Assets		
Other assets	9 816 515	4 579 176
Liabilities and equity		
Other liabilities and provisions	16 051	16 051
Share capital	180 000 000	180 000 000
Income		
Commission income	17 445 245	12 264 061
Expenses		
General administrative expenses	171 776	149 957

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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