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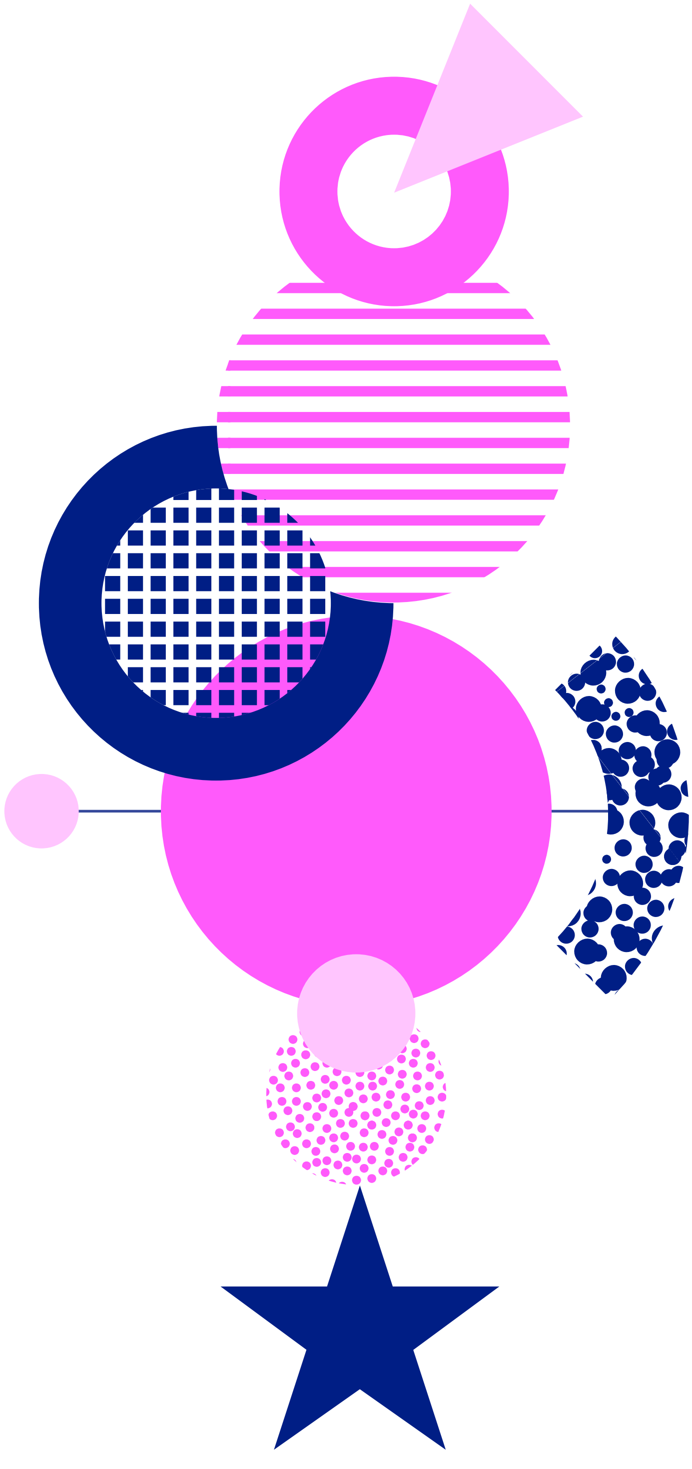
Financial Statements 2019



EIF Financial Statements 2019

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Independent Auditor's Report

To the Audit Board of the
European Investment Fund
37B, avenue J.F. Kennedy
L-2968 Luxembourg

Report of the Réviseur d'Entreprises Agréé

Report on the audit of the financial statements

Opinion

We have audited the financial statements of European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies as set out on pages 15 to 80.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements » section of our report.

We are also independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In arriving at our audit opinion above, we determined there were two key audit matters as follows:

Recognition of Commission income

Why the matter was considered to be one of the most significant in the audit?

Commission income, representing remuneration for management of mandates entrusted by mandators such as the European Commission or the Member States to EIF for the purpose of implementation of financial instruments on their behalf, is a significant component of the operating profit with EUR 160.5 million of commission income recognized by EIF for the year ended 31 December 2019.

Under contractual agreements, EIF is tasked with deployment and management of mandators' resources for extended periods of time, generally receiving consideration upfront within the first years after the setup of the mandates. EIF developed and implemented a deferred income mechanism for revenue recognition based on input method to consider the timing of cash inflows and stage of completion of these contracts led. As at 31 December 2019, the aggregate amount which EIF expects to be entitled to over the contract life ("transaction price") allocated to the unsatisfied part of the performance obligation amounts to EUR 436.4 million of which EUR 192.3 million has already been invoiced and deferred in contract liabilities The latter includes EUR 97.7 million transferred from retained earnings following the initial application of IFRS 15 in 2018. The Fund expects to recognise such revenue over the remaining expected life of the mandates under management.

Deferred income models for revenue recognition are complex and specific to each mandate and the recognition criteria under IFRS 15 involve significant judgments and estimates to be applied by Management in its assessment of revenue to be recognized in the relevant period. Inappropriate judgments made in relation to the methodology

and inputs used or the assumptions taken may have a material impact on the amount of commission income to be recognized in the statement of comprehensive income.
The key inputs and assumptions used by Management in its assessment of the revenue to be recognised are detailed in Note 2.12 as well further disclosures are presented in Notes 4.4, 5.3 and 7.3 to the financial statements.

How our audit addressed the area of focus?
Our procedures over the commission income included, but were not limited to:

- We obtained an understanding of management's processes and controls for determining the transaction price that EIF expects to be entitled to over the contract life and of the timing of the satisfaction of performance obligation. This included discussing with Management the model preparation governance structure and protocols around their oversight of the cost assessment and corporate operational plan review process and corroborating our understanding by attending meetings with appropriate personnel of EIF.
- We have identified key controls in the process, assessed the design adequacy and tested the operating effectiveness of some of key controls. In addition, we obtained the ISAE 3402 report on EIF's internal controls, compared our understanding of identified key controls in the process and inspected the conclusions reached based on the testing of operating effectiveness of those controls and noted no observations or exceptions in the report which allow us to rely on controls over fee accruals calculation, invoicing and preparation and annual review of deferred income models.
- We compared the revenue recognition methodology to IFRS 15 and EIF's internal guidelines. We sought explanations from Management where there are judgments applied in their application of the guidelines, discussed and assessed their appropriateness and relevance.
- For a selection of mandates, we reconciled the management fees structure in the models to relevant contractual arrangements, assessed the assumptions made to derive the input parameters used in the deferred income models and adequateness of their application, reconciled the input parameters linked to past performance to annual operational reports issued to mandators.
- For the selected mandates, we evaluated the fee indicators expected to be triggered in the future according to the Corporate Operational Plan with particular focus on adequateness of constraints applied to the variable component of the transaction price by the Management. We assessed that Corporate Operation Plans are correctly and timely updated to reflect amendments to the contractual arrangements, if any, and the current market absorption of financial instruments deployed under those agreements.
- For the selected mandates, we compared the cost assessment over their lifetime to the prior year assessment in order to identify and investigate changes in revenue recognition pattern and recalculated the revenue to be recognized for the current financial year.

Valuation of Financial guarantees

Why the matter was considered to be one of the most significant in the audit?
Financial guarantee portfolio, for which an ongoing credit quality risk monitoring process has been set up to manage the EIF's exposure, comprises both portfolio guarantees and structured financed transactions (together referred to as "G&S transactions"). As at 31 December 2019, EIF's financial guarantees provisions amount to EUR 11.7 million and financial guarantee assets to EUR 26.6 million. Nevertheless, EIF's exposure at risk amounts to EUR 10,724 million as at 31 December 2019.
Under IFRS 9, at initial recognition, financial guarantees are recognised at fair value plus transaction costs that are directly attributable to issuance of the financial guarantees.
The receiver leg of the financial guarantees is measured at fair value by discounting future cash flows and the payer leg of the financial guarantees is subsequently measured at the higher of the amount of the loss allowance determined in accordance with IFRS 9 or the amount initially recognised, i.e. the net present value of expected premium inflows less, where appropriate, cumulative amortisation recognised in accordance with IFRS 15.
Any increase or decrease in the liability relating to financial guarantees, apart from the recognition of new financial guarantees, is recognised in the profit or loss under "Net result from financial guarantee operations".
Any increase or decrease in the fair value of the receiver leg of the financial guarantees is recognised in the profit or loss under "Net result from financial

instruments at fair value through profit or loss". The expected credit loss is recognised in the profit or loss under "Expected credit loss allowance". Management of EIF has developed a set of tools to measure the credit exposure on G&S portfolio and to analyse and monitor portfolio guarantees and structured finance transactions using Exposure at Default and an internal rating system based on Expected Loss and Weighted Average Life.
The implementation of IFRS 9 has required, in particular, the setup of a three-stage model for impairment based on changes in credit quality since initial recognition that leads to change in expected credit loss (ECL) measurement. The Expected Credit Loss is measured on either a 12-months (12M) or Lifetime basis depending on the staging of the exposure.
EIF assigns an internal rating based on quantitative parameters and qualitative aspects to each G&S transaction to estimate the credit quality in accordance with an expected loss concept. Significant judgments and estimates are thus required to be applied by Management in the assessment and measurement of the financial guarantees and related provisions, especially in cases where there are differences between the rating levels assigned to these transactions among external rating agencies and EIF's internal rating, or where the G&S transactions are not externally rated at all. Inappropriate judgments made in relation to the methodology and inputs used or the assumptions taken may have a material impact on the valuation of the financial guarantees portfolio.
The key inputs and assumptions used by management in its assessment of the valuation of financial guarantee and related provisions are detailed in Note 2.4 as well further disclosures are presented in Notes 3.3 and 5.1 to the financial statements.

How our audit addressed the area of focus?
Our procedures over the valuation of the Financial Guarantees included, but were not limited to:

- We obtained an understanding of management's processes and controls for determining the valuation of financial guarantees. This included discussing with Management the risk management activities, valuation governance structure and protocols around their oversight of the valuation process and corroborating our understanding by attending meetings with appropriate personnel of EIF. We also involved specialists to review the Internal Rating Model developed by EIF that reflects its assessment of the expected loss of the underlying portfolios of SME loans covered by guarantee agreements with financial intermediaries. The experts were also involved to review the three-stage model for impairment and its impact in the expected credit loss measurement.
- We have identified key controls in the process, assessed the design adequacy and tested the operating effectiveness of some of key controls. In addition, we have obtained the ISAE 3402 report on EIF's internal controls, compared our understanding of identified key controls in the process, assessed adequacy of their design and implementation and inspected the conclusions reached based on the testing of operating effectiveness of those controls. We did not note significant observations or exceptions in the report that would prevent us to rely on relevant controls over the financial guarantees process.
- We compared management's valuation methodology to IFRS 9 and EIF's internal guidelines. We sought explanations from management where there are judgments applied in their application of the guidelines, discussed and assessed their appropriateness and relevance.
- On a sample basis, we assessed the assumptions made to derive the input parameters used in the Internal Rating Model and adequateness of their application, reconciled the input parameters described in the model documentation, and evaluated the assignment of the internal rating. For externally rated G&S transactions we compared the internal rating to ratings assigned by such agencies and checked that it was in line with EIF policy (second worst). We assessed that internal ratings are correctly and timely updated based on market events. We further assessed additional assumptions made to derive the valuation such as the weighted average life, expected maturity date, tranche full profile of guarantee contracts and present value of guarantee fee income and cross-checked these assumptions with market data where applicable. On a sample basis, we reconciled guarantee calls paid during the year to payment demand notices from financial intermediaries.
- We recalculated the provision for financial guarantees based on the expected credit loss three-stage model for impairment.

Other information

The Management is responsible for the other information. The other information comprises the information stated in the annual report and the statement by the Audit Board but does not include the financial statements and our report of "Réviseur d'Entreprises agréé" thereon.
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the financial statements

The Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs 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.
In preparing the financial statements, the Management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of "Réviseur d'Entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Luxembourg,
March 11, 2020

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

M. Tabart

Statement by the Audit board

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund ("EIF" or the "Fund"),

- acting in accordance with the customary standards of the audit profession,
- having designated KPMG Luxembourg, Société coopérative 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, 2019 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 15 to 80 ("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 11 March 2020 drawn up by KPMG Luxembourg, Société coopérative 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 2019,
- 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,
March 11, 2020

The Audit Board

Jacek Dominik   Georgiana Van Rompuy   Ignacio Vicente

Statement of financial position
as at 31 December 2019 (expressed in EUR)

Assets	Notes	31.12.2019	31.12.2018
Cash and cash equivalents	4.1	241 576 989	309 711 531
Financial instruments at Amortised Cost:			
Debt investments	4.2		
of which Treasury portfolio	4.2.1	1 237 899 381	1 239 394 177
of which Microfinance Loans	4.2.2	6 167 015	4 804 971
		1 244 066 396	1 244 199 148
Financial instruments at Fair Value through Profit or Loss:	4.3		
Private equity investments	4.3.1	776 176 179	570 157 016
Debt investments	4.3.2	252 106 004	200 397 423
		1 028 282 183	770 554 439
Financial guarantees	5.1	26 638 964	0
Other assets	4.4	424 339 525	339 821 599
Property and equipment	4.5	333 672	379 975
Total Assets		2 965 237 729	2 664 666 692
Liabilities			
Provisions for financial guarantees	5.1	11 697 223	47 370
Retirement benefit obligations	5.2	599 116 823	386 692 823
Other liabilities and provisions	5.3	364 352 631	286 896 070
Total liabilities		975 166 677	673 636 263
Equity			
Share capital	5.4		
Subscribed		4 500 000 000	4 500 000 000
Uncalled		(3 600 000 000)	(3 600 000 000)
		900 000 000	900 000 000
Share premium		437 772 286	437 772 286
Statutory reserve	5.5	389 272 605	338 248 314
Retained earnings	5.5		
of which result brought forward after allocation approved by AGM		416 521 661	350 456 727
of which the remeasurement of the defined benefit obligations		(329 163 622)	(163 007 622)
		87 358 039	187 449 105
Profit for the financial year		175 668 122	127 560 724
Total Equity		1 990 071 052	1 991 030 429
Total Equity and Liabilities		2 965 237 729	2 664 666 692

The notes on pages 15 to 80 are an integral part of these financial statements

Statement of comprehensive income for the year ended 31 December 2019 (expressed in EUR)

	Notes	31.12.2019	31.12.2018
Interest and similar income	7.1	19 305 892	21 918 973
Income from private equity investments		21 617 105	32 514 909
Net result from financial guarantee operations	7.2	55 285 358	65 744 340
Commission income	7.3	160 460 702	148 996 258
Net result on financial operations	7.4	1 408 708	1 251 505
Other operating income	7.5	187 296	58 782
General administrative expenses	7.6		
Staff costs:			
of which wages and salaries		(68 562 161)	(66 152 012)
of which social security and contribution costs		(55 766 542)	(58 048 504)
		(124 328 703)	(124 200 516)
Other administrative expenses		(36 690 961)	(41 519 472)
		(161 019 664)	(165 719 988)
Depreciation and amortisation	4.5	(46 303)	(58 567)
Operating profit for the financial year		97 199 094	104 706 212
Net result from financial instruments at fair value through profit or loss			
of which private equity investments	4.3	57 698 350	29 081 038
of which financial guarantees	5.1	19 066 934	7 985 036
of which debt investments	4.4	304 124	120 279
		77 069 408	21 216 281
Expected credit loss allowance			
of which financial guarantees	5.1	1 341 198	1 714 153
of which debt investments	4.2	58 422	(75 922)
		1 399 620	1 638 231
Profit generated by the change in the fair value		78 469 028	22 854 512
Net profit for the financial year		175 668 122	127 560 724
Other comprehensive income			
- Re-measurement of defined benefit obligation not reclassified subsequently to profit/(loss)	5.2	(166 156 000)	13 856 000
Total comprehensive income for the financial year		9 512 122	141 416 724

The notes on pages 15 to 80 are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2019 (expressed in EUR)

Attributable to equity holders of the Fund

		Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Profit/(loss) for the financial year	Total Equity
Balance as at 01.01.2018 (after adoption of IFRS 9 and IFRS 15)		4 500 000 000	(3 600 000 000)	900 000 000	437 772 286	294 199 970	118 368 116	110 120 860	1 860 461 232
Total comprehensive income									
Profit/(loss) for the financial year		0	0	0	0	0	0	127 560 724	127 560 724
Re-measurement of defined benefit obligation	5.2	0	0	0	0	0	13 856 000	0	13 856 000
Transactions with owners									
Appropriation of profit inc. dividend	5.5	0	0	0	0	44 048 344	55 224 989	(110 120 860)	(10 847 527)
Balance as at 31.12.2018		4 500 000 000	(3 600 000 000)	900 000 000	437 772 286	338 248 314	187 449 105	127 560 724	1 991 030 429
Total comprehensive income									
Profit/(loss) for the financial year		0	0	0	0	0	0	175 668 122	175 668 122
Re-measurement of defined benefit obligation	5.2	0	0	0	0	0	(166 156 000)	0	(166 156 000)
Transactions with owners									
Appropriation of profit inc. dividend	5.5	0	0	0	0	51 024 291	66 064 934	(127 560 724)	(10 471 499)
Balance as at 31.12.2019		4 500 000 000	(3 600 000 000)	900 000 000	437 772 286	389 272 605	87 358 039	175 668 122	1 990 071 052

The notes on pages 15 to 80 are an integral part of these financial statements

Cash Flow Statement for the year ended 31 December 2019 (expressed in EUR)

Cash flows from operating activities	Notes	31.12.2019	31.12.2018
Profit for the financial year		175 668 122	127 560 724
Adjustments for:			
Depreciation and amortisation	4.5	46 303	58 567
Net result from financial instruments at fair value through profit or loss	4.3	(77 069 408)	(21 216 281)
Expected credit loss allowance	4.2, 5.1	(1 399 620)	(1 638 231)
Interest income on debt investments	7.1	(13 385 934)	(15 955 766)
Net result on sale of private equity investments	7.4	2 681 258	(739 441)
Net result on sale of debt investments	7.4	0	63 815
Provision for financial guarantees	5.1	5 703 204	(13 081 349)
Provision for retirement benefit obligations		29 147 417	22 859 131
		121 391 342	97 911 169
Change in private equity investments	4.3.1	(151 002 071)	(74 059 275)
Financial guarantee calls paid	5.1	(284 183)	(226 241)
Change in other assets and liabilities		10 059 218	12 822 774
		(141 227 036)	(61 462 742)
Net cash from operating activities		(19 835 694)	36 448 427
Cash flows from investing activities			
Acquisition of debt investments	4.2, 4.3.2	(440 122 549)	(316 612 310)
Proceeds from sale or matured debt investments	4.2, 4.3.2	386 343 753	297 553 086
Interest received on debt investments		15 951 447	18 945 761
Net cash from investing activities		(37 827 349)	(113 463)
Cash flows used in financing activities			
Dividend paid	5.5	(10 471 499)	(10 692 500)
Cash flows used in financing activities		(10 471 499)	(10 692 500)
Cash and cash equivalents at the beginning of the year	4.1	309 711 531	284 069 067
Net cash from			
- Operating activities		(19 835 694)	36 448 427
- Investing activities		(37 827 349)	(113 463)
- Financing activities		(10 471 499)	(10 692 500)
Cash and cash equivalents at the end of the year	4.1	241 576 989	309 711 531

The notes on pages 15 to 80 are an integral part of these financial statements

01. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "the EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 37B, 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.

02. 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 11 March 2020.

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 as at 31 December 2019:

- Private equity investments which are measured at fair value through profit or loss (hereafter "FVTPL");
- Debt investments which are measured at fair value through profit or loss;
- Expected credit loss on the financial assets and financial liabilities measured at amortised cost (hereafter "AC");
- The defined benefit liability is recognised as the present value of expected future payments;
- The payer leg of the financial guarantees is measured at the higher of the amount initially recognised less amortisation (when appropriate) under IFRS 15 and the loss allowance determined in accordance with IFRS 9. The receiver leg is measured at fair value through profit or loss by discounting the future cash flows according to IFRS 9.

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 judgement when applying the Fund's policies. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2.3, 2.4, 2.7 and 3.

Judgements and estimates are principally made in the following areas:

- Determination of expected credit loss allowance of debt investments at amortised cost as disclosed in note 2.3.1 and 2.3.2;
- Determination of fair value of private equity investments as disclosed in notes 2.3.3.1 and 2.3.3.2;
- Determination of control over investees as described in note 2.3.3.3;
- Determination of fair value of debt investments at fair value through profit or loss as disclosed in note 2.3.4;
- Determination of expected credit losses for financial guarantees as disclosed in note 2.4;
- Determination of contract liabilities and commission income as disclosed in notes 2.8 and 2.12;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits as described in note 5.2;
- Determination and disclosures of unconsolidated structured entities and investment entities in which the Fund has an interest as described in note 6.

In respect of unconsolidated structured entities and investment entities in which the Fund has an interest, further disclosures are described in note 6.
Regarding the EIF's exposure to the United Kingdom throughout 2019, the EIF has monitored the developments of the political situation in the United Kingdom and the negotiations between the United Kingdom and the European Union, in the context of the UK's decision to withdraw from the EU. In this respect, it has been assessed that these events have not materially affected the financial position and performance of the Fund as at 31 December 2019 nor have an impact on its going concern.

2.1.4 Changes in accounting policies and presentation

The accounting policies adopted have been applied consistently with those used in the previous year apart from the change in presentation for financial guarantees in the statement of comprehensive income as described below.

During 2019, the methodology for calculating the Exposure at Risk (EaR) was amended in order to better reflect exposures from revolving facilities in the underlying portfolios. In prior years, EaR of such facilities had not been adjusted for repayments despite such being available for future drawdown. The total EaR for the year ended 31 December 2019 amounts to EUR 10 724 025 747 based on the new methodology. Had this not been applied, the EaR would have amounted to EUR 10 690 324 556 (2018: EUR 8 536 699 526).

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 in 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-earning deposits with short maturities of three months or less from the date of acquisition, which are measured at amortised cost. No expected credit loss allowance is recognised for cash and cash equivalents as they are considered to have low credit risk.

2.3 Financial assets

2.3.1 Classification and measurement

2.3.1.1 Initial recognition, measurement and derecognition

All EIF financial assets composed of debt investments at amortised cost, private equity investments at fair value through profit or loss, and debt investments at fair value through profit or loss, are measured initially at fair value plus transaction costs where applicable. The subsequent measurement is dependent on the classification.

Financial assets are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof.

All financial assets are derecognised when the contractual cash flows from such financial assets have expired or when EIF has substantially transferred all risks and rewards of ownership.

2.3.1.2 Classification

On initial recognition, a financial asset is classified and measured at amortised cost, fair value through other comprehensive income (hereafter “FVOCI”) or at fair value through profit or loss. Under IFRS 9, classification starts with determining whether the financial asset shall be considered as a debt instrument or an equity instrument.

Debt instruments are those instruments that meet the definition of a financial liability from the issuer’s perspective.

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective; that is, instruments that do not contain a contractual obligation to deliver cash or other financial assets, that evidence a residual interest in the issuer’s net assets and that do not give the holder the right to put the instrument back to the issuer for cash or another financial asset or that is automatically put back to the issuer on occurrence of an uncertain future event.

Classification and subsequent measurement of debt instruments depend on:

- The EIF's business model for managing the asset; and
- The contractual cash flow characteristics of the asset.

A debt instrument is classified at AC if it meets both the following conditions and is not designated at FVTPL at initial recognition:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI criteria) on the principal amount outstanding.

A debt instrument is classified at FVOCI only if it meets both the following conditions and is not designated at FVTPL at initial recognition:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specific dates to cash flows that are fulfilling the SPPI criteria.

The above requirements should be applied to an entire financial asset, even if it contains an embedded derivative.

On initial recognition of an equity instrument that is not held for trading, the Fund may irrevocably elect to present subsequent changes in other comprehensive income. This election is made on an investment-by-investment basis.

All other financial assets with the exception of financial guarantees (see note 2.4) are classified and measured at FVTPL.

Business model assessment

The Fund makes an assessment of the objective of a business model in which a debt instrument is held at a portfolio level because this best reflects the way the business is managed and information provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management´s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the management;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectation about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the stated objective for managing the financial assets is achieved and how cash flows are realised.

The EIF business model is to hold future cash flows.

SPPI criteria

For the purpose of this assessment, “principal” is defined as the fair value of the debt instrument on initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Fund considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. The information considered includes:

- Contingent events that would change the amount and timing of cash flows;
- Performance participation features;
- Prepayment terms;
- Terms that limit the Fund`s claim to cash flows from specified assets; and
- Features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

2.3.1.3 Fair value measurement

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 ongoing 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 hereafter.

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

2.3.1.4 Expected credit loss measurement

The Fund assesses on a forward-looking basis the expected credit loss associated with its financial assets that are not measured at FVTPL. In the statement of financial position, the expected credit loss allowance is netted against the gross amounts.

Expected credit loss is recognised for the treasury portfolio, the microfinance loans and the financial guarantees. For more details, see note 3.3.1.5.

No expected credit loss allowance is recognised for cash and cash equivalents and accounts receivables as they are considered to have low credit risk.

2.3.2 Debt investments at amortised cost

Debt investments at amortised cost are composed of the treasury portfolio and microfinance loans. They are held by the Fund with the intention to collect contractual cash flows and classified at amortised cost. As part of the Fund's business model, disposals of these debt investments at amortised cost are considered to be infrequent or insignificant in volume.

As classified and measured at amortised cost, a 12 month or lifetime expected credit loss depending on the allocated staging is calculated and accounted for at each reporting date. See note 3.3.1.5.

2.3.3 Private equity investments at fair value through profit or loss

Private equity investments (hereafter "PE") at fair value through profit or loss include private equity investment funds and the EIF's exposure in the European Fund for Strategic Investments SME window through sub-window 1 of the private credit tailored for SMEs product and its senior tranche exposure through sub-window 2 of the equity product.

2.3.3.1 Fair value measurement of the Private equity investments

Private equity (PE) investments are measured at FVTPL and disclosed in accordance with the fair value hierarchy required by IFRS 13. 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 IFRS 9 or International Private Equity and Venture Capital guidelines (IPEV valuation guidelines). 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 IFRS 9, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IFRS 9.
- Category B - funds that have adopted other valuation guidelines or standards that can be considered as in line with IFRS 9 from which an equivalent NAV can be calculated.
- Category C – funds that have not adopted the fair value requirements of IFRS 9 or any other valuation guidelines complying with IFRS 9. These investments are further classified as:
  - Category C.1 – the valuation of investments under this sub-category is re-performed internally by either Equity Investments & Guarantees department or Equity Transaction & Portfolio Services division, depending on the service in charge of the funds.

- Category C.2 – investments under this sub-category are internally fair valued by analysing the information communicated by fund managers when providing the NAV on a quarterly basis.

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. Due to the inherent uncertainty of valuations, and current market conditions, actual results in the future could differ from the fund managers' estimates of values and such differences 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.

2.3.3.2 Fair value measurement of the EIF's senior tranche exposure

Given the nature of EIF's exposure in the European Fund for Strategic Investments SME window through sub-window 1 of the private credit tailored for SMEs product and its senior tranche exposure through sub-window 2 of the equity product, valuation technique (level 3) according to the fair value hierarchy are applied. The fair value is composed of the net paid in representing the drawdowns paid net of any repayment and of the 2.5% of internal rate return expected on the underlying portfolio calculated in arears. At each reporting date, the internal rate return is reviewed and adjusted according to the performance of the underlying investments. Finally, the carrying amount of EIF's senior tranche exposure may be adjusted by an expected loss in case the junior tranche owned by a third party is fully utilised to cover future losses.

2.3.3.3 Interests in joint ventures and associates

The EIF complies with the conditions necessary to use the venture capital organisations and similar entities measurement exemption included in IFRS 11 and IAS 28.11 and consequently decides not to use equity accounting in respect of any investments in joint ventures or associates: 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, with changes in fair value recognised in the profit or loss during the year of the change.

Joint ventures are contractual agreements whereby the 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 the 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 subscribed to by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such funds. As a consequence, any membership by an investor in a governing body of such a fund does not, in principle, entitle said 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.

The EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the aforementioned industry practice. In addition, the Fund is exposed to variability of returns from these investments. Therefore, in considering whether it has control, the Fund considers whether it manages key decisions that most significantly affect these investments' returns. As a result and according to IFRS 10, the Fund has concluded that it does not control those vehicles.

2.3.4 Debt investments at fair value through profit or loss

These financial assets consist of Asset-Backed Securities with SME loans in the underlying portfolios which take the form of notes issued by Special Purpose Vehicles ("SPV") or financial institutions.

At the reporting date, the whole portfolio does not pass the SPPI test and is thus classified and measured at FVTPL.

2.4 Financial guarantee operations

Financial guarantee contracts are contracts that require the 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 consist of a receiver leg and a payer leg. The financial guarantees are presented in the statement of financial position by offsetting the receiver leg with the payer leg. They 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. The EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction.

Subsequent to initial recognition, the payer leg of the financial guarantees is measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; or
- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IFRS 15 Revenue from contracts with customers.

The receiver leg is then measured at fair value through profit or loss by discounting the future cash flows according to IFRS 9.

The EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions. The transaction is fully amortised following full repayment of a securitisation tranche.

In the event that the measurement of a financial guarantee contract results in a net asset position, then the operation is presented in the statement of financial position under "Financial guarantees". In the event that this results in a net liability, then the guarantee is presented in the statement of financial position under "Provisions for financial guarantees".

Any increase or decrease in the fair value of financial guarantees is recognised in the profit or loss under "Net result from financial instruments at fair value through profit or loss".

Other increases or decreases, such as amortisation of the payer leg but not including the recognition of new financial guarantees, are recognised in the profit or loss under "Net result from financial guarantee operations".

The expected credit loss is recognised in the profit or loss under "Expected credit loss allowance".

2.5 Other assets

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

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Fund performs services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

2.6 Property and Equipment

2.6.1 Property and 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
Buildings:	30 years

2.6.2 Impairment of non-financial assets

The 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

The 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 on 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. They include contract liabilities that correspond to advance commission income that the Fund receives for services that will be performed in the future. As the service is delivered over time, it will be recognised as revenue on the income statement. For the description of revenue recognition, see note 2.12.

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 Private equity investments

Income from Private equity investments includes capital dividends and repayments which are recognised when the EIF's investment cost is fully reimbursed.

2.11 Net result from financial guarantee operations

Net result from financial guarantee operations includes:

- Amortisation of the payer leg of the financial guarantees;
- Intermediation and risk cover fees, including for risk-sharing mandates;
- Net guarantee calls.

2.12 Commission income

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

A mandate is a delegation agreement (hereafter "agreement") signed between the EIF and a Mandator under which the EIF is designated responsibility for the implementation of a desired programme designed in order to support small and medium-sized businesses access finance, in return for which it is entitled to receive management fees and commissions.

The EIF receives remuneration from mandate management and advisory activities under an agreement with a set of clearly defined service requirements.

Commission income is recognised when control of the services is transferred at an amount that reflects the consideration that the EIF expects to be entitled to in exchange for these services.

Fees and commissions are recognised on an accruals basis when the service foreseen under an agreement has been provided. 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.

The EIF considers services promised under agreements to be a series of distinct services that are satisfied over time (continuous service) and the same methodology is used to measure progress. Given the service criteria to be met, the EIF accounts for all of the services that make up the series as a single performance obligation.

The amount of commission income received is fixed or variable, based on certain criteria depending on different variable components such as percentage of the EU contribution committed or linked to this single performance obligation. If the consideration includes a variable amount, the EIF estimates the amount of consideration to which it will be entitled to in exchange for transferring the services to the customer.

Regarding the performance obligations satisfied over time, the EIF uses the "Input Method" to recognise income on the basis of its efforts or inputs to the satisfaction of these performance obligations and recognise over the time such fees.

Part of the management fees earned by the EIF can be seen as incentive or performance fees. They usually relate to the deployment of the mandate rather than on returns or profits resulting from the investments.

However, maximum amounts, or "caps" on management fees are applicable to certain mandates managed by the EIF. Where this applies, management fees will likely cease to be received before the end of the mandate, which is typically in 15 to 25 years, and will be paid over a limited timeframe such as in the first few years of the mandate, and which is therefore not correlated with the services performed and costs incurred by the EIF.

The EIF uses a deferred income policy (further referred to as "contract liabilities mechanism") to address the issue of misalignment in cost of managing the mandates as incurred by EIF and the revenue recognised due to the administrative and performance fees cap issue that is further compounded by billing indicators being concentrated during the availability periods of the mandates.

The contract liabilities mechanism is based on the total costs to be incurred by the EIF in relation to the mandate using ex-ante financial models for all new mandates as part of their approval process. The three main drivers of the ex-ante model are actual data in terms of: (i) number of transactions, (ii) mandate size, and (iii) duration of the mandate together with the total income to be recognised each year to ensure cost coverage or at least to meet the expected cost/income ratio determined as part of the mandate approval process. This deferral policy ensures sustainable operations and revenue recognition based on percentage of completion of the contract.

The EIF takes into account the fee structure of all relevant mandates and exercises its judgement concerning revenue recognition as follows:

- Determination of the transaction price
  For mandates in scope of the contract liabilities mechanism where the management fees are capped in their respective contracts and contain a significant portion of variable consideration, management's judgement is required to derive the amount which the EIF expects to be entitled to over the contract life (the "transaction price"), particularly in respect of the uncertainty related to performance fees.
  These fees are only included in the transaction price to the extent that it is highly probable that their inclusion will not result in a significant reversal in the future when the uncertainty has been subsequently resolved.
  The EIF estimates the transaction price through financial modelling based on expected deployment of the mandates and market absorption of their products having regards to its experience with similar financial instruments and on their actual performance compared to its corporate operational plan. Significant judgement is applied to those fee indicators that are considered to be outside of the EIF's control.

- Determination of the timing of the satisfaction of performance obligation
  In determining the stage of completion of mandate management contracts, the EIF applies judgement in respect of the expected costs for the duration of these contracts, which serves as input in the deferred income models to determine the timing of the transaction price recognition in the commission income. The EIF has developed a cost assessment methodology that takes into account the expected costs at various stages of lifecycle of the mandates based on the efforts needed. The transaction price is then allocated to each period on a constant cost/income ratio that is revised annually based on the actual performance of the mandate.

2.13 New standards and interpretations not yet adopted or not yet effective

The following IFRS and IFRIC interpretations applicable to the 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.

Amendments to IFRS 9, IAS 39 and IFRS 7 - Interest rate benchmark reform:

Interest rate benchmarks such as interbank offered rates (IBORs) play an important role in global financial markets. Market developments have undermined the reliability of some existing benchmarks. In this context, the Financial Stability Board has published a report setting out recommendations to reform some major benchmarks and replace them by alternative, nearly risk-fee rates. The Fund is in the process of analysing the impact of this standard on its operations.

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:

31.12.2019	Amortised cost	Fair value through profit and loss	Financial guarantees	Total
Cash and cash equivalents	241 576 989	0	0	241 576 989
Financial instruments at Amortised Cost:				
Debt investments	1 244 066 396	0	0	1 244 066 396
Financial instruments at Fair Value through Profit and Loss:				
Private equity investments	0	776 176 179	0	776 176 179
Debt investments	0	252 106 004	0	252 106 004
Financial guarantees	0	0	26 638 964	26 638 964
Total Financial Assets	1 485 643 385	1 028 282 183	26 638 964	2 540 564 532
Provisions for financial guarantees	0	0	11 697 223	11 697 223
Total Financial Liabilities	0	0	11 697 223	11 697 223

31.12.2018	Amortised cost	Fair value through profit and loss	Financial guarantees	Total
Cash and cash equivalents	309 711 531	0	0	309 711 531
Financial instruments at Amortised Cost:				
Debt investments	1 244 199 148	0	0	1 244 199 148
Financial instruments at Fair Value through Profit and Loss:				
Private equity investments	0	570 157 016	0	570 157 016
Debt investments	0	200 397 423	0	200 397 423
Financial guarantees	0	0	0	0
Total Financial Assets	1 553 910 679	770 554 439	0	2 324 465 118
Provisions for financial guarantees	0	0	47 370	47 370
Total Financial Liabilities	0	0	47 370	47 370

3.1.1 Types of risk

The 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 concerns the EIF's Guarantee and Securitisation ("G&S") activity, treasury instruments such as fixed income securities and floating rate notes held in the treasury portfolio, commercial paper, deposits, microfinance loans and debt investments at fair value through profit or loss. There is a limited credit exposure for the EIF Private Equity 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 EIF will encounter difficulties 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.

The 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 currency risk is kept at a low level with 8.7% of net assets in 2019 (2018: 7%) through a policy of limiting its investment in non-euro denominated instruments. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

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

At 31.12.2019 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	228 582 016	2 648 763	6 064 507	4 281 703	12 994 973	241 576 989
Financial instruments at Amortised Cost:						
Debt investments	1 244 066 396	0	0	0	0	1 244 066 396
Financial instruments at Fair Value through Profit and Loss:						
Private equity investments	616 392 910	79 710 436	54 987 305	25 085 528	159 783 269	776 176 179
Debt investments	252 106 004	0	0	0	0	252 106 004
Financial guarantees	24 299 058	555 960	123 013	1 660 933	2 339 906	26 638 964
Total assets	2 365 446 384	82 915 159	61 174 825	31 028 164	175 118 148	2 540 564 532
Provisions for financial guarantees	11 672 428	0	0	24 795	24 795	11 697 223
Total liabilities	11 672 428	0	0	24 795	24 795	11 697 223
Foreign currencies in % of net assets		4.2%	3.1%	1.6%	8.8%	
Net commitments to private equity	1 036 793 174	72 907 144	83 427 284	38 259 401	194 593 829	1 231 387 003
Guarantees' Exposure at Risk	8 041 607 534	117 390 604	168 381 526	2 396 646 083	2 682 418 213	10 724 025 747
Total Off BS	9 078 400 708	190 297 748	251 808 810	2 434 905 484	2 877 012 042	11 955 412 750

At 31.12.2018 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	297 419 745	3 223 964	8 716 665	351 157	12 291 786	309 711 531
Financial instruments at Amortised Cost:						
Debt investments	1 233 154 288	0	11 044 860	0	11 044 860	1 244 199 148
Financial instruments at Fair Value through Profit and Loss:						
Private equity investments	452 266 804	67 104 647	29 043 110	21 742 455	117 890 212	570 157 016
Debt investments	200 397 423	0	0	0	0	200 397 423
Financial guarantees	0	0	0	0	0	0
Total assets	2 183 238 260	70 328 611	48 804 635	22 093 612	141 226 858	2 324 465 118
Provisions for financial guarantees	(327 105)	482 515	(120 617)	12 577	374 475	47 370
Total liabilities	(327 105)	482 515	(120 617)	12 577	374 475	47 370
Foreign currencies in % of net assets		3.5%	2.4%	1.1%	7.0%	
Net commitments to private equity	654 118 343	76 195 769	58 058 047	28 901 034	163 154 849	817 273 192
Guarantees' Exposure at Risk	7 118 479 816	360 147 697	112 736 596	945 335 417	1 418 219 710	8 536 699 526
Total Off BS	7 772 598 159	436 343 465	170 794 643	974 236 451	1 581 374 559	9 353 972 718

"Other assets" and "Other liabilities and provisions" are denominated in EUR (for more details please see note 4.4 and 5.3).

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 – Interest rate risk factors specific to activities are disclosed in the respective sections below.

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 – Other price risk factors specific to activities are disclosed in the respective sections below.

3.2 Private equity investments

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 related to PE assets, to monitor its evolution and consistency with the EIF's objectives and to propose corrective actions in case of divergence.

Such investments include private equity investment funds and the EIF's exposure in the European Fund for Strategic Investments SME window through sub-window 1 of the private credit tailored for SMEs product and its senior tranche exposure through sub-window 2 of the equity product.

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

3.2.1.1 Portfolio Design Process

Designing a portfolio consistent with the EIF's objectives and constraints is a key element of the EIF's investment activity. No liquid 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 Operations Risk Management division ("ORM") 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 Equity Investments & Guarantees ("EIG") department. ORM is involved in the investment process from its early stages. Following an initial screening of investment opportunities, ORM is called to express its opinion on EIG's request to proceed with a full due diligence. Subsequently ORM reviews all the investment proposals prepared by EIG 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. Investment decisions are taken by the Board of Directors or under delegation from the Board of Directors to the Chief Executive.

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 reports sent by the fund managers as a basis for valuation (typically on a quarterly basis).
- 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.
- Classification of funds: depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.3.1.

Portfolio Monitoring

Through portfolio monitoring, ORM 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 the EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This approach, supported by adequate Information Technology ("IT") systems, 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 advserse impact on the fund's valuation

3.2.2 Credit risk

Investments in PE funds 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 PE portfolio 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 General Partners in deciding the timing of the capital calls, the schedule of the future liquidity requirements of EIF 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 EIF 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 a substantial discount to the fund's Net Asset Value ("NAV").

Chart 1: Vintage Year Diversification of the EIF PE Portfolio

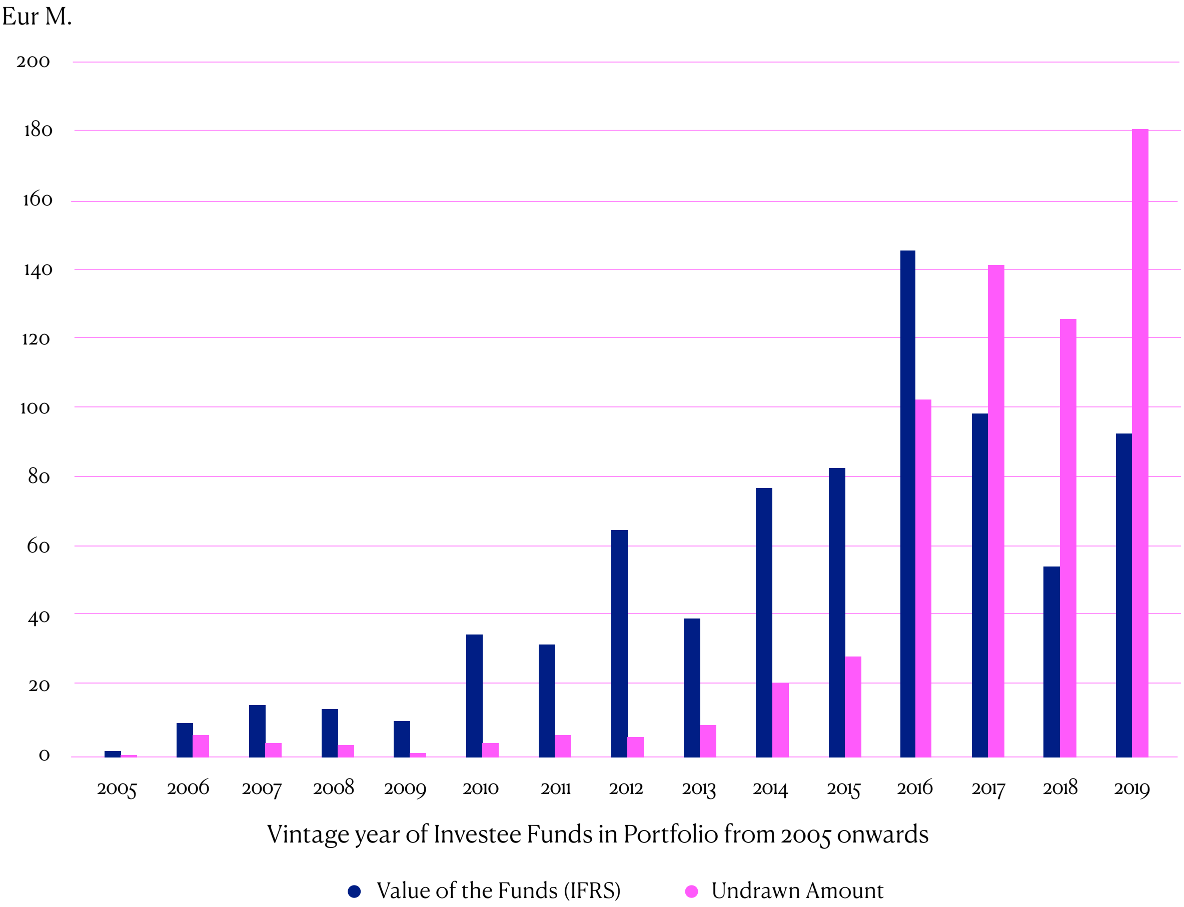


Table 1: Undrawn commitments of the EIF PE portfolio; split by time remaining to the end of the contractual lifetime* of the investee funds

EUR

Private Equity	Not more than 3 months	Three months to one year	One year to 5 years	More than 5 years	Total
As of 31.12.2019	8 019 572	4 986 628	63 040 334	599 536 259	675 582 793
As of 31.12.2018	6 380 451	5 120 295	40 718 150	519 827 912	572 046 808

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

Table 2: Capital calls and reflows which resulted from the EIF PE portfolio

EUR M.	Capital Calls	Reflows
2019	225.6	66.1
2018	154.6	78.8

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 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 the EIF's PE investment to market prices. Regression has been carried out using the Dow Jones Euro Stoxx 50 over the last three 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:

31.12.2019

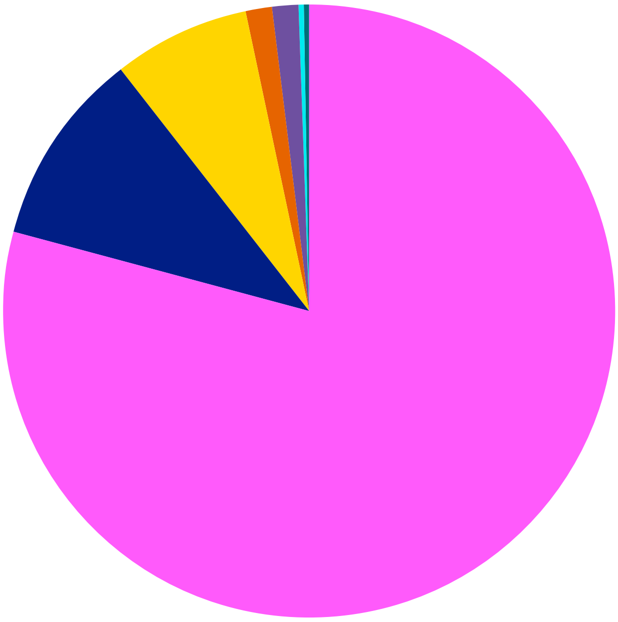
Public market risk: All Private Equity	
+10%	-10%
Retained Beta 0.744	
Final Sensitivity: +7.44%	Final Sensitivity: -7.44%
Profit or loss account	Profit or loss account
(EUR)	(EUR)
50 501 197	(50 501 197)

31.12.2018

Public market risk: All Private Equity	
+10%	-10%
Retained Beta 0.68	
Final Sensitivity: +6.8%	Final Sensitivity: -6.8%
Profit or loss account	Profit or loss account
(EUR)	(EUR)
36 267 531	(36 267 531)

3.2.4.2 Foreign currency risk

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



- EUR 79.3%
- GBP 10.3%
- USD 7.1%
- DKK 1.5%
- SEK 1.4%
- NOK 0.2%
- CHF 0.2%
- HUF 0.0%

(as % of the total fair value, EUR 776.2m)

For 2019, changes due to foreign exchange rates for private equity investments amount to EUR 3 618 986 (2018: EUR (5 212 082)), which has been recognised in the Statement of Comprehensive Income.

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

31.12.2019

Foreign exchange rate risk	
GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
Profit or loss account	Profit or loss account
(EUR)	(EUR)
11 956 565	(11 956 565)

31.12.2018

Foreign exchange rate risk	
GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
Profit or loss account	Profit or loss account
(EUR)	(EUR)
10 065 697	(10 065 697)

31.12.2019

Foreign exchange rate risk	
USD increase of 15% vs. EUR	USD decrease of 15% vs. EUR
Profit or loss account	Profit or loss account
(EUR)	(EUR)
8 248 096	(8 248 096)

31.12.2018

Foreign exchange rate risk	
USD increase of 15% vs. EUR	USD decrease of 15% vs. EUR
Profit or loss account	Profit or loss account
(EUR)	(EUR)
4 356 467	(4 356 467)

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 PE portfolio the main types of idiosyncratic risks identified are strategy risk, geographic risk, fund risk, sector risk and technology risk.

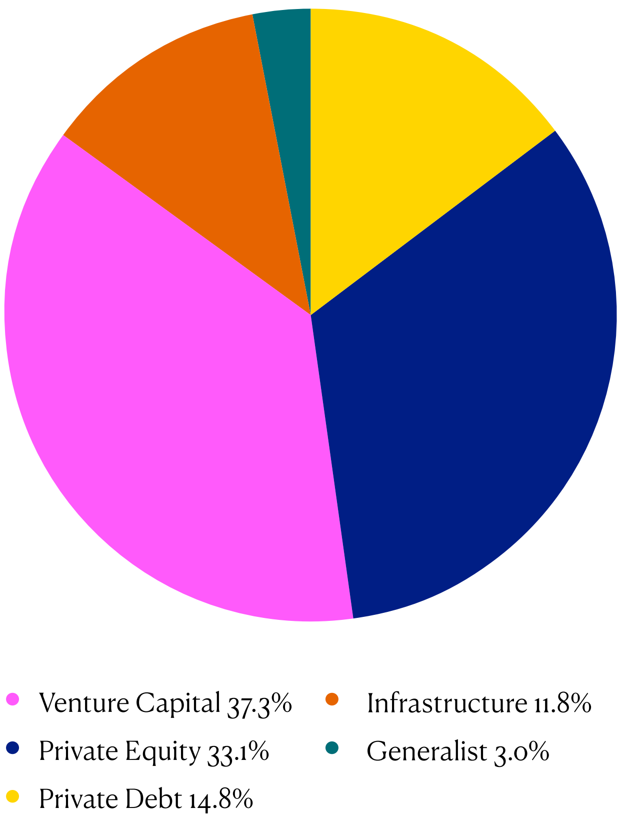
3.2.5.1 Strategy risk

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 five main investment strategies:

1. Venture Capital: such definition covers strategies targeting venture capital investments ranging between the Early and Late stage;
2. Private equity: such definition covers strategies targeting Equity and Mezzanine investments at Growth and Buyout stages and targeting Small and Medium size Enterprises ("SMEs");
3. Private Debt: such definition covers strategies targeting direct investments in senior or unitranche (secured or unsecured) loans/bonds or in subordinated securities, quasi-equity and hybrid debt instruments;
4. Infrastructure: such definition covers strategies targeting committing equity capital toward tangible, physical assets, whether existing or development phase that are expected to exhibit stable, predictable cashflows over a long-term investment horizon;
5. Generalist: such definition covers strategies of one or more above categories, usually via dedicated fund-of-funds vehicle.

The five strategies follow different dynamics and involve different risk and return profiles. The EIF portfolio currently has a balanced exposure to Venture Capital and Private Equity, with a smaller exposure to Private Debt, Infrastructure and Generalist funds.

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



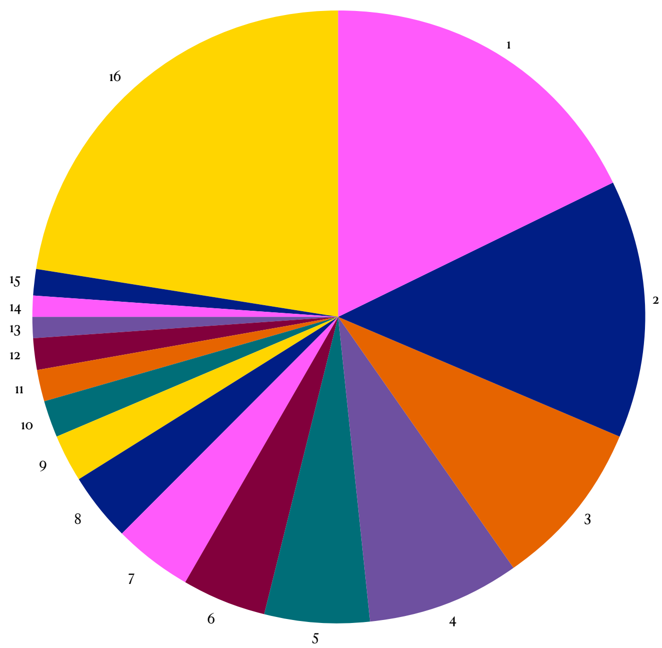
(as % of the total fair value, EUR 776.2m)

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 principally focused on Europe, with limited outside exposure. The resulting geographic exposure of the EIF PE portfolio is shown below:

EIF Own Risk Portfolio: Split of Investee Companies by Country of Domiciliation

(based on the valuation reported in the latest available report by the investee funds)



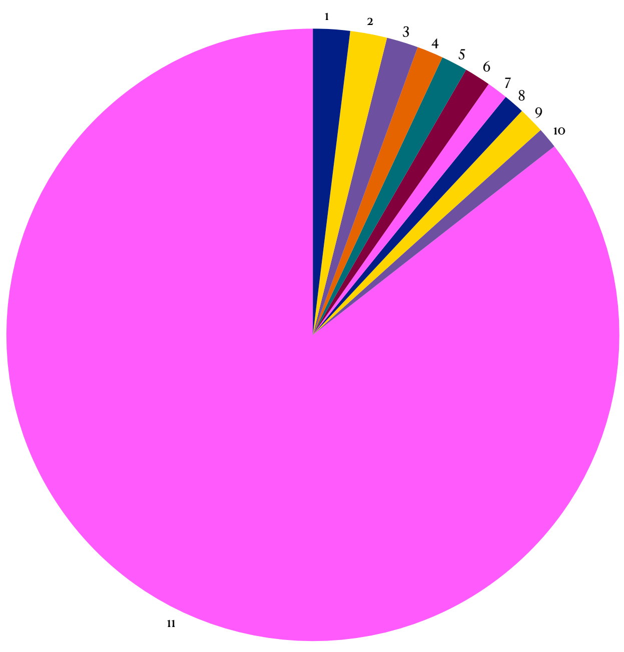
1. United Kingdom 17.9%
2. France 13.8%
3. United States 8.9%
4. Germany 8.1%
5. Spain 5.5%
6. Sweden 4.5%
7. Netherlands 4.1%
8. Italy 3.6%
9. Belgium 2.6%
10. Denmark 1.8%
11. Cayman Islands 1.7%
12. Switzerland 1.6%
13. Poland 1.2%
14. Ireland 1.2%
15. Finland 1.2%
16. Others 22.5%

3.2.5.3 Fund risk

Fund risk refers to the risk of over/under-performance due to factors linked to a specific PE fund in a portfolio (e.g.: the departure of a key executive from the management team of a fund). As shown below, the EIF PE portfolio is well diversified across a large number of funds. The largest fund in the EIF's portfolio represents 2.0% of the portfolio fair value (2018: 2.5%) and the largest 10 funds represent in aggregate 14.5% (2018: 16.0%).

EIF Own Risk PE Portfolio: Largest PE Funds in Portfolio

(Total fund in portfolio =649)



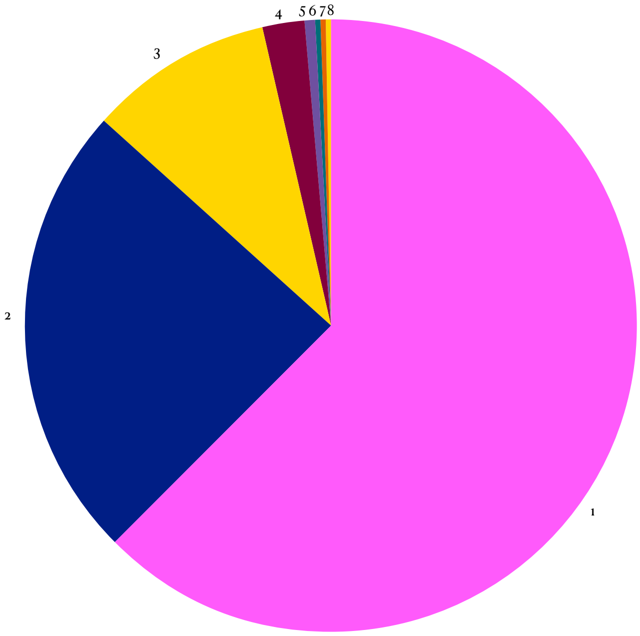
1. Fund 1 - 2.1%
2. Fund 2 - 1.9%
3. Fund 3 - 1.6%
4. Fund 4 - 1.6%
5. Fund 5 - 1.4%
6. Fund 6 - 1.2%
7. Fund 7 - 1.2%
8. Fund 8 - 1.2%
9. Fund 9 - 1.2%
10. Fund 10 - 1.1%
11. Other - 85.5%

(as % of the total fair value, EUR 776.2m)

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 PE portfolio is to the Information and Communication Technologies and Life Science sectors. Such exposure is by design and is the result of the portfolio allocation to private equity funds.

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



1. Generalist 62.5%
2. ICT 24.2%
3. Life Science 9.7%
4. Infrastructure 2.4%
5. Financial Services 0.5%
6. Energy and Environment 0.3%
7. Business and Industrial Products and Services 0.2%
8. Cleantech /Manufacturing 0.1%
9. Consumer Products, Services and Retail 0.1%

(as % of the total fair value, EUR 776.2m)

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 the stage of investment is, the higher the technology risk is. 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 47.5m (2018: 30.1m) and represented 6.1% of the fair value of the EIF PE portfolio (2018: 5.3%).

3.3 Portfolio Guarantees and Securitisation (“G&S”)

3.3.1 Introduction

The EIF has developed a set of tools for its G&S business to measure credit risk and to analyse and monitor portfolio guarantees and structured finance transactions in line with common market practices.

Assets arising from financial guarantees are included within Financial guarantees. Liabilities arising from financial guarantees are included within Provisions for financial guarantees.

During 2019, the methodology for calculating the EaR was amended. For more details, see note 2.1.4.

3.3.1.1 Credit risk measurement

The estimation of credit exposure on the G&S portfolio is complex and requires the use of models in which not all input parameters may be observable in the market. In particular, there is a reliance on the estimations for the underlying portfolio of the likelihood of different levels of defaults occurring, the timing of defaults, and their associated losses, which often depend strongly on the correlation between obligors. The exposure can vary with changes in market conditions, expected cash flows and the passage of time. The EIF measures credit risk on the G&S portfolio using Exposure at Default (“EAD”) and an internal rating system based on Expected Loss (“EL”) and Weighted Average Life (“WAL”).

3.3.1.2 Credit risk grading

EIF uses an internal rating system that reflects its assessment of the Expected Loss of an individual its exposure over the WAL of that exposure. In each case both the EL and WAL are calculated using a probability weighted average of the outcomes of large number of scenarios.

Where the internal rating is particularly sensitive to model inputs an override may be applied to cap the rating to ensure the assigned internal rating is robust to small perturbations of the assumptions.

The internal rating models are tailored to each specific transaction with two primary models in use. The principal determinant of which model is used is the granularity of the obligor exposures in the underlying portfolio which then determines whether the EIF considers that reliable estimates of performance can be achieved through a consideration of the characteristics of the aggregated portfolio or whether idiosyncratic risk can play a significant part in the attribution of losses to the EIF exposure.

EIF Risk Management has developed detailed guidelines on the derivation of inputs to the internal models based on transaction experience and benchmarking to industry/literature practises, however, there remains reliance on the use of expert judgement given the range of counterparties, products, structures and jurisdictions that the policy objectives of the EIF can trigger.

The EIF applies a rating scale ranging from iAaa, for the highest investment grade exposures, down to iCaa3, for the weakest non-defaulted positions, and iCa which is considered as an internal default event under internal procedures. The EIF scale is calibrated with the intention of mapping directly to the equivalent expected loss rating of Moody's. The risk management activity can be split into two parts: an initial risk assessment and ongoing risk monitoring.

3.3.1.3 Initial risk assessment

In the context of the independent opinion process, ORM reviews the investment proposal provided by EIG in accordance with the 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 the EIF's internal rating initially proposed by EIG. A transaction is only eligible for investment if, at the time the EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB2 (iAaa and iB2 are mapped to Moody's Aaa and B2, respectively).

The EIF assigns an internal rating to each new transaction to estimate the credit quality based on an expected loss concept. The 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 the 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.

To allocate capital for an EIF guarantee tranche, EIF computes the economic capital allocation rates based on its internal guidelines, which follow a conservative approach that define a minimum level of capital that needs to be allocated to EIF investments and operations to target a 1-year 99.99% level of confidence that investment/operational losses can be absorbed. The rating used to calculate the economic capital allocation is the EIF internal rating.

3.3.1.4 Ongoing risk monitoring

The performance of a transaction is reviewed regularly – at least on a quarterly basis. Information on the amortisation of the portfolio, realised default levels, recovery rates etc. is gathered for each transaction based on monthly or quarterly external reports. This information is then used to feed the point-in-time credit risk model every quarter, to generate expected losses (for guarantee transactions) and fair value figures (for cash investments in ABS transactions) used for the IFRS9 reporting. In addition, the through the cycle model for EIF's Internal Rating is run on trigger breach basis, as detailed below. This latter model review leads to a revision of the risk assumptions for the EIF internal rating going forward, as well as for the point-in-time credit risk model going forward.

EIF's surveillance triggers 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, if applicable.

In case of breach of such triggers and depending on the magnitude and expected consequence(s) of such a 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. Officers within ORM submit proposals to the relevant Investment Risk Committee ("IRC") to flag transactions as Under Review, Positive or Negative Outlook and/or to initiate an EIF model re-run. Permission to carry out the EIF's rating model re-run may also be requested from the IRC before an EIF's trigger is breached (upon request by EIG or ORM) when other circumstances suggest that the EIF's internal rating may already be affected.

The EIF systematically puts Under Review any transaction with an internal rating downgraded to below iBa2 level. Transactions flagged Under Review, Negative Outlook or Positive Outlook are closely scrutinised for a possible breach of EIF's surveillance trigger as they have the potential to trigger a model re-run and an internal rating action proposal, which in turn could impact the expected loss.

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

Transaction status	31.12.2019		31.12.2019*		31.12.2018	
	EUR	%	EUR	%	EUR	%
Defaulted	11 354 998	0.1%	11 354 998	0.1%	13 131 803	0.1%
Under review	74 513 973	1.1%	74 513 973	0.7%	113 108 344	1.1%
Performing	10 501 981 433	97.5%	10 468 280 242	97.9%	8 297 245 386	97.5%
Positive outlook	136 175 343	1.3%	136 175 343	1.3%	113 213 993	1.3%
Total Exposure at Risk	10 724 025 747	100.0%	10 690 324 556	100.0%	8 536 699 526	100.0%

* *See note 2.1.4*

The surveillance activity includes the following tasks:

- checking compliance of the counterparties with any relevant contractual covenants and triggers,
- assessing the evolution of an 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 made for each operation is adequate,
- following up on any external rating agencies' actions (if necessary) 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),
- proposing potential status changes or rating actions to the relevant IRC, if necessary,
- assessing the staging and the expected credit loss for financial guarantee transactions,
- assessing the expected credit loss and the fair value for ABS investments in line with IFRS 9.

The restructuring activity is carried out by dedicated professionals within ORM. ORM 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 the 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 EIG or decided by the IRC Chairman during the IRC meeting.

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

3.3.1.5 Expected credit loss measurement

IFRS 9 outlines a three-stage model for impairment based on changes in credit quality since initial recognition that leads to change in expected credit loss ("ECL") measurement as summarised below:

- Stage 1: not credit impaired on initial recognition – measured using 12m ECL;
- Stage 2: a significant increase in credit risk ("SICR") since initial recognition but not credit-impaired – measured using lifetime ECL;
- Stage 3: instrument is credit-impaired – measured using lifetime ECL.

3.3.1.5.1 SICR – Stage 2 exposures

The following re-staging attributes are used to determine whether an SICR, and hence a transition from stage 1 to stage 2, has occurred and described in further detail thereafter:

ID	Re-staging attribute
1	Re-classification as a Special High Risk (SHR) transaction
2	Higher of Watch-listing and Unit-logarithm criterion
3	For guarantees only: guarantee fee payment delinquency > 30 days past due
4	For non-investment grade exposures: 3 notch or higher internal rating downgrade compared to the initial internal rating assigned and the current rating is below iBaa3

SHR transaction: specific triggers that relate to underperformance (short of a default event) belonging to one of the following categories:

1. Accounting
2. Rating action
3. Event resolution
4. Business continuity
5. Contagion

Examples of SHR events include but are not limited to:

- Creation of a specific provision;
- Internal rating downgrade to iBa3;
- Negative credit enhancement of securitisation exposure;
- Deferral of interest (non-senior securitisation);
- Servicer/originator affected by a recovery plan/ corrective measures or bankruptcy;
- Activation of a back-up servicer.

Watch-listing criterion: if EIF places any watch-listed exposure under negative implications. The following criteria are used for Watch-listing:

Initial Expected Loss	Current Expected Loss	Additional Criteria to be met	Removal from Watch-list
Is 2% or lower	Is higher than 2%	None	Expected loss reduces below 2%
Is higher than 2% and less than 3%	Is higher than or equal to 3%	"Material credit event" diagnosed	Either condition is no longer satisfied.
Is higher than 3% and less than 5%	Is higher than or equal to 5%		
Is higher than 5% and less than 7%	Is higher than or equal to 7%		
Is higher than 7% and less than 10%	Is higher than or equal to 10%		
Is higher than 10% and less than 15%	Is higher than or equal to 15%		
Is higher than 15% and less than 20%	Is higher than or equal to 20%		
Is higher than 20% and less than 25%	Is higher than or equal to 25%		
Is higher than 25%	Is higher than 25%	None	Expected loss reduces below 25%

Unit-logarithm criterion: this criterion is met when the natural logarithm of the current exposure PD (multiplied by 100) is (i) positive and (ii) increased by one or more since initial recognition. Practically this equates to an increase in the PD by a factor of 2.72 and the current exposure being non-investment grade.

Whenever the SICR event no longer applies an exposure can return from Stage 2 to Stage 1.

3.3.1.5.2 Internal default events – Stage 3 exposures

Transition to stage 3 is governed by the occurrence of an internal default event ("IDE").

IDE transaction: specific triggers that relate to underperformance (short of a default event) belonging to one of the following categories:

1. Cash flow
2. Accounting
3. Rating action
4. Event resolution
5. Business continuity
6. Contagion

EIF considers a transaction to be in default when:

- Counterparty is overdue more than 90 calendar days on any material credit obligation;
- Payment under the guarantee is triggered;
- Impairment is made (cash positions);
- Internal rating downgrade to iCa;
- External rating downgraded to default status;
- Restructuring of obligation to avoid a default;
- EIF sells the credit obligation at a material credit-related economic loss;
- In relation to a Diversified Payment Rights (DPR) transaction, the Counterparty refers to the bank providing second recourse for the ABS notes. In such case, the Counterparty has sought or has been placed in bankruptcy or similar protection. For banks, this also occurs on a case by case basis when a bank is placed under administration or similar protection by the central bank or other national supervisory authority for financial institutions. In addition, for banks, this condition occurs when the bank is under resolution or required to "bail-in" depositors and/or other creditors;

- In relation to a DPR transaction, where the counterparty is a regulated entity, a permanent and full revocation of authorisation to perform regulated activities by the national regulator, when it is due to a distressed situation of the counterparty and not related to an operational or structural change;
- Other triggers as assessed on an individual basis by risk analysts.

Lifetime ECLs are the ECLs that result from all possible IDE over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which EIF is exposed to credit risk. 12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months). Financial instruments for which a 12-month ECL is recognised are referred to as "Stage 1" financial instruments. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as "Stage 2" financial instruments. Financial instruments for which a lifetime ECL is recognised and which are credit-impaired are referred to as "Stage 3" financial instruments. Stage 3 exposures can return to Stage 2 or Stage 1 once no IDE event remains applicable.

3.3.1.5.3 Measuring ECL

The Expected Credit Loss is measured on either a 12-month (12M) or Lifetime basis depending on the staging of the exposure in question determined in accordance with the procedure above.

The G&S portfolio consists predominantly of securitisation exposures with an underlying asset pool of a highly diversified nature in which the EIF position is initially protected by a layer of credit enhancement in the form of subordination or overcollateralisation that provides a buffer to cover some multiple of the expected losses on the portfolio.

Since, under the base case assumptions it would be expected that the ECL 12M and Lifetime would generally be zero, for Stage 1 and Stage 2 exposures, EIF calculates the ECL by applying a probability weighted scenario analysis to the performance of these exposures. As losses are often not applied directly as writedowns, or may only be applied sometime after the corresponding assets have defaulted, EIF further calculates ECL values based on a discounted measure of the undercollateralisation of the exposure with a positive ECL being registered if the EIF exposure becomes uncollateralised at any point over the measurement horizon (12M or lifetime).

The cash flow model for ECL calculation is tailored to each specific transaction, projects exposures and cash flows forwards for the transaction lifetime, and is updated on a quarterly basis to reflect current transaction conditions and forward looking information. Data on current transaction conditions is updated based on information provided in servicer reports and any other information available to EIF from time to time. Fields that can be updated based on servicer reports typically include *inter alia*:

- Outstanding tranche balances;
- Outstanding asset balances: bank and reserve accounts, performing collateral, delinquent collateral (30+, 60+ 90+), defaulted balance;
- Cumulative default and loss rates;
- Status of performance triggers;
- Prepayment rates.

Where model input fields related to current transaction conditions cannot be updated based on reported information directly, values are renormalised from quarter-to-quarter based on the passage of time. This procedure may be applied to portfolio amortisation assumptions in the absence of granular information. Assumptions related to future performance, particularly asset pool mean cumulative default rate and prepayment rates, blend initial assumptions and actual performance, giving greater weight to actual performance as seasoning increases. The cumulative default rate assumption is also influenced by the forward looking information.

The ECL values are taken directly from the model implying the Exposure at Default ("EaD"), Probability of Default ("PD") and Loss Given Default ("LGD") of each exposure are aggregated in a complex scenario dependent manner.

The assumptions underlying the ECL calculation were introduced in the current reporting period.

3.3.1.5.4 Forward looking information

In addition to reproducing the current transaction conditions, the ECL and determination of a SICR is based on projections which incorporate certain forward looking information which are updated on a quarterly basis.

The following forward looking information is included in the model:

- Macro economic projection based on GDP – provided by the Economics department of the European Investment Bank on a quarterly basis;
- Risk free interest rate forward curve – updated from Bloomberg on a monthly basis.

GDP projections are provided for EU countries. The EIF also uses a further curve to cater for the limited non-European exposure. The projection most relevant to the exposure jurisdiction is used to determine an adjustment to the mean cumulative default curve based on historical data. Where more than one region is relevant to a transaction the overall adjustment is calculated by weighting the adjustment of each regional share.
The risk free rate impacts the model through a change on both cash flows due under the structure to which EIF is exposed, since assets and/or liabilities incorporate floating rate instruments, and through the discounting in the ECL calculation.
Sensitivity Analysis: of these parameters the GDP is the most significant assumption affecting the ECL allowance due to the direct impact on the performance of the underlying companies.

3.3.2 Credit risk

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls or foreign currency fluctuations) corresponds to the Exposure at Risk as of 31 December 2019 of EUR 10 724.0m (2018: EUR 8 536.7 m).

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

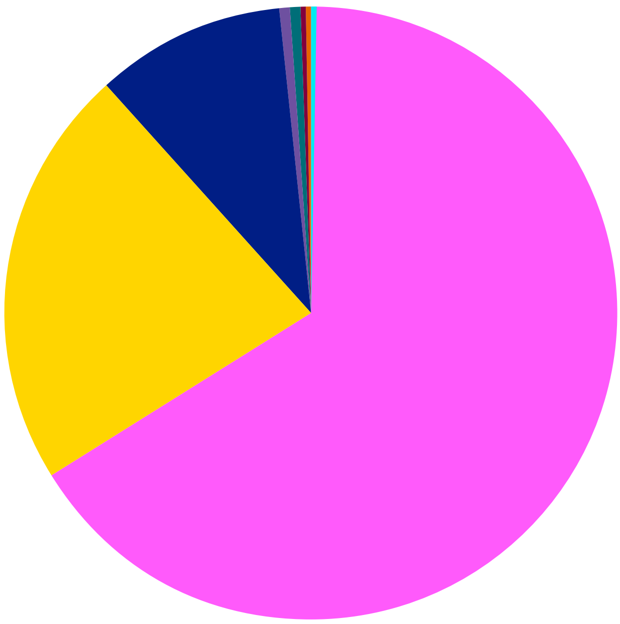
The statutes of the EIF limit guarantee operations to three times the subscribed capital, which amounted to EUR 4 500m at year-end 2019 (2018: EUR 4 500m). Hence, the EUR 10 724.0m Exposure at Risk at year-end 2019 (2018: EUR 8 536.7m), together with the funded exposure of EUR 252.1m in respect of ABS investments (2018: EUR 200.4m) was below the statutory limit of EUR 13 500 m (2018: EUR 13 500m).

The EIF Credit Risk Policy Guidelines ensure that the EIF continues to develop a diversified G&S portfolio with regard to credit quality, geographic coverage, concentration risk, obligor exposure 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 below table shows the split of the financial guarantees in terms of credit quality using Exposure at Risk (based on the EIF's Internal Rating approach) as of 31 December 2019:

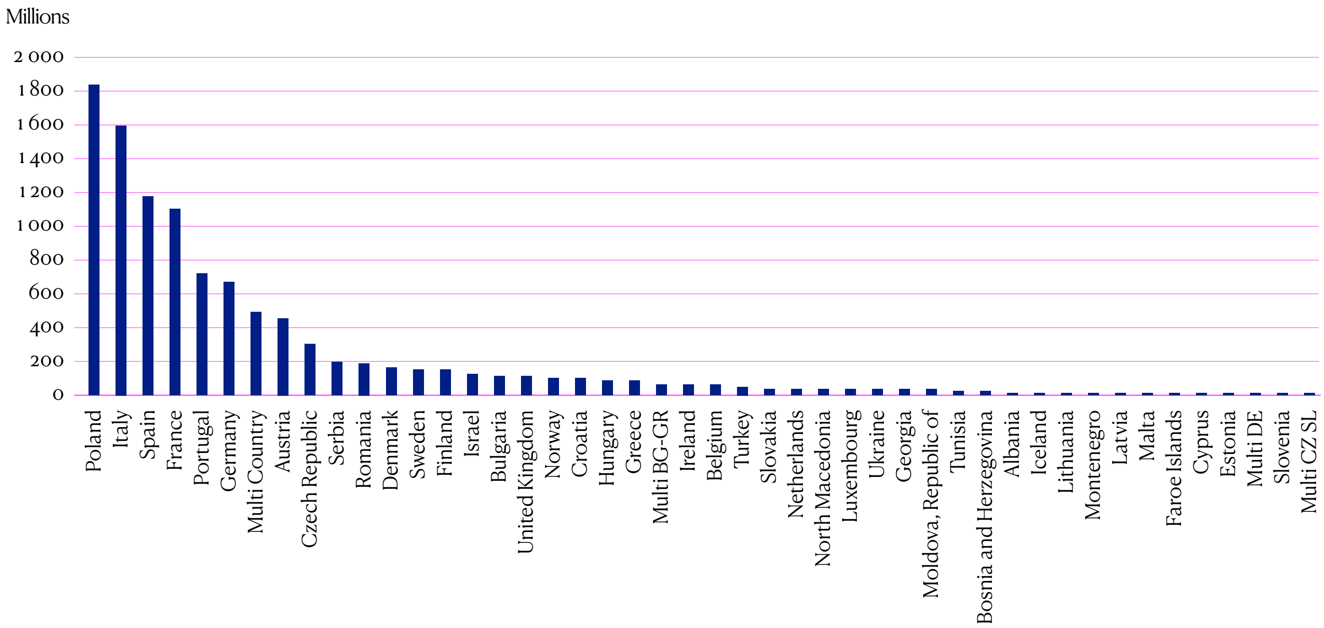
% of Exposure at Risk (EUR 10 724.0m)



3.3.2.1 Geographic Coverage

As of 31 December 2019, the EIF's financial guarantees were spread over 42 countries (2018: 40 countries).

The table below shows the geographic distribution of the EIF's financial guarantees for Exposure at Risk (EUR 10 724.0m as of 31 December 2019) showing that the largest weight is to Poland (17.0%), followed by Italy (14.8%) and Spain (10.9%):



3.3.2.2 Concentration risk

To limit the concentration risk in the portfolio, the EIF has internal limits based on capital allocation at both individual transaction and originator level (maximum aggregate exposures for originators and originator groups). Furthermore, the EIF has introduced transaction and originator group exposure limits. Transaction limits define maximum possible exposure dependent on underlying rating and Weighted Average Life ("WAL"). Originator group limits constrain the exposure per originator group by considering the group rating. Concentration risk on a deal-by-deal basis is also limited because of the granular nature of the EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, industry sectors and regional diversification.

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 the 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.

3.3.2.4 Counterparty risk

Counterparty risk in the own resources portfolio is mitigated by the quality of the 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. Another key mitigant of the counterparty risk is the general use of structures with a true sale of assets (for the cash flow transactions).

Additionally, interruption of servicing is alleviated by the set-up of a back-up servicer agreement in securitisation deals.

3.3.3 Liquidity risk

The nature of the EIF's G&S business implies in general a low level of liquidity risk. Furthermore, the EIF's treasury guidelines (see note 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 Exposure at Risk for financial guarantees split by the expected maturity dates of the transactions to which they are related:

	Expected maturity of guarantee			
Exposure at Risk (EUR)	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2019	34 770 525	1 570 486 676	9 118 768 546	10 724 025 747
As of 31.12.2019 (*)	34 770 525	1 570 486 676	9 085 067 355	10 690 324 556
As of 31.12.2018	73 695 937	1 557 781 668	6 905 221 921	8 536 699 526

* *See note 2.1.4*

3.3.4 Market risk

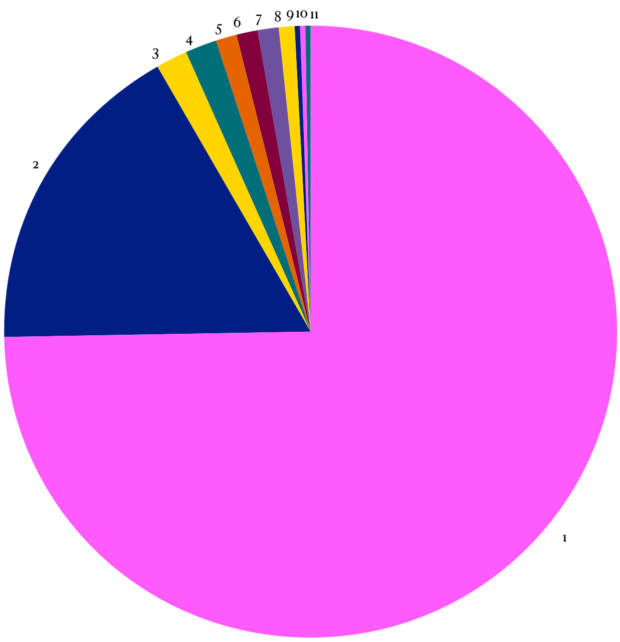
3.3.4.1 Market risk: Interest rate risk

The value of guarantee transactions is not subject to fluctuations with interest rates as long as a transaction is performing. However, transactions for which the 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

The split by currency for the EIF guarantees using Exposure at Risk is as follows:

% Exposure at Risk (EUR 10 724.0m)



1. EUR - 74.9%
2. PLN - 17.0%
3. DKK - 1.7%
4. USD - 1.6%
5. GPB - 1.1%
6. SEK- 1.1%
7. NOK - 1.0%
8. RON - 0.8%
9. TND - 0.3%
10. CZK - 0.3%
11. HUF - 0.2%

The following table shows the impact on the financial guarantees position regarding a 15% increase/decrease in the currency rate for currencies representing more than 5% of the total exposure:

Currency	Exposure at Risk (EUR)	Impact increase	Impact decrease
PLN	1 820 450 453	(237 450 059)	321 255 962

The 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

EIF's G&S transactions are not sensitive to price risk.

3.4 Debt investments

Debt investments are classified either at amortised cost, which corresponds to the treasury portfolio and the microfinance loans detailed in sections 3.4.1 and 3.4.2 respectively, or at fair value through profit or loss, which corresponds to the ABS Investments detailed in section 3.4.3.

For debt investments at amortised cost, the expected credit loss allowance is measured using the inputs, assumptions and techniques described below.

Lifetime ECL measurement applies to stage 2 and stage 3 assets, while 12-month ECL measurement applies to stage 1 assets.

The expected credit losses were calculated based on the following variables:

- Probability of default ("PD"),
- Loss Given default ("LGD"),
- Exposure at default ("EAD").

The probability of default represents the likelihood of a counterpart defaulting on its financial obligation, either over the next 12 months, or over the remaining lifetime of the obligation. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

Ratings are the primary input in the determination of the term structure of probability of default for exposures. The EIF collects performance and default information about its credit risk exposures. The collected data are segmented by type of industry and by type of region. Different industries and regions reacting in a homogenous manner to credit cycles are analysed together.

The EIF employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The loss given default represents the EIF's expectation of the ratio of the loss on an exposure due to the default of a counterparty to the amount outstanding at default. Loss given default can be also defined as "1 - Recovery Rate". LGD estimates are determined mainly by geography and by type of counterparty, with five main exposure classes: Sovereigns, Public Institutions, Financial Institutions, Corporate and Project Finance. LGD values can be further adjusted based on the product and contract specific features of the exposure.

The EIF incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of expected credit losses.

For the measurement of ECL, the EIF has developed a conditional modelling approach for calculating PD term structures involving:

- the definition of an economically reasonable link function between the credit cycle, and
- a set of three macro-economic scenarios (one baseline and two symmetrical ones) with each of them attributed a certain realisation probability and with GDP growth rate as a variable.

The EAD represents the expected exposure in the event of a default EAD and is based on the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract.

3.4.1 Treasury portfolio

3.4.1.1 Introduction

Treasury management of the long-term treasury portfolio has been outsourced to the EIB under a treasury management agreement mandating the EIB services to perform selection, execution, settlement and monitoring of transactions. Management follows treasury guidelines annexed to the agreement which define the EIF's 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 the EIF take place to review the performance of the treasury portfolio, relevant market events and to discuss any adjustment to be approved by the EIF in relation to the annual investment strategy.

Additionally, the Asset & Liquidity Committee ("ALC") analyse liquidity issues of strategic relevance with the objective of maintaining the balance between risk and return objectives. As part of its responsibilities, the ALC advise on the management of the EIF Treasury Portfolio entrusted to the EIB for management.

3.4.1.2. Portfolio overview:

The cash and cash equivalents and the treasury portfolio are broken down as follows:

	31.12.2019 EUR	31.12.2018 EUR
Current accounts	182 704 083	235 677 603
Money market instruments	58 872 906	74 033 928
Long term bank deposits	0	17 445 672
Long term treasury portfolio	1 237 899 381	1 221 948 505
Total Cash and cash equivalents and Treasury portfolio	1 479 476 370	1 549 105 708

The EIF does not borrow funds.

3.4.1.3 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 by selecting sound counterparties and issuers with a minimum rating at the outset set above investment grade. The EIF considers that the credit risk on treasury portfolio has not increased significantly since initial recognition due to the inherent low credit risk.

Consequently, the loss allowances relating to treasury assets measured at amortised cost are determined at an amount equal to 12-month ECL.

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.

As at 31 December 2019, all investments in the treasury portfolio are made in EUR and USD (2018: EUR and USD).

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

	2019 EUR	2018 EUR
Cash and cash equivalents	241 576 989	309 711 531
Treasury portfolio	1 237 899 381	1 239 394 177
Total Credit Risk Exposure	1 479 476 370	1 549 105 708

Cash and cash equivalents include current accounts and money market instruments and short term securities. According to the EIF Liquidity Bank Credit Risk Eligibility Guidelines, they are made with financial institutions having a minimum rating of BBB/Baa2/BBB and F2/P-2/A-2 by Moody's, S&P and Fitch as applicable.

The long-term deposits are placed using the same guidelines with financial institutions having a minimum rating of BBB/Baa2/BBB and F2/P-2/A-2 by Moody's, S&P and Fitch as applicable.

The following tables outline the credit quality of the Fund's long-term treasury portfolio as of 31 December 2019 and 2018, based on external ratings and ECL:

Credit Risk Exposures by external rating
(Based on gross carrying amount)

		2019		
(in EUR)	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Long term portfolio				
Aaa	310 359 017	0	0	310 359 017
Aa1	47 868 629	0	0	47 868 629
Aa2	134 173 492	0	0	134 173 492
Aa3	158 844 459	0	0	158 844 459
A1	81 326 161	0	0	81 326 161
A2	137 995 490	0	0	137 995 490
A3	232 486 190	0	0	232 486 190
Baa1	54 103 364	0	0	54 103 364
Baa3	80 904 835	0	0	80 904 835
Loss allowance	(162 256)	0	0	(162 256)
Carrying amount at 31 December 2019	1 237 899 381	0	0	1 237 899 381

Credit Risk Exposures by external rating
(Based on gross carrying amount)

2018				
(in EUR)	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Long term portfolio				
Aaa	281 088 367	0	0	281 088 367
Aa1	66 354 537	0	0	66 354 537
Aa2	140 052 086	0	0	140 052 086
Aa3	128 844 108	0	0	128 844 108
A1	132 870 600	0	0	132 870 600
A2	163 190 094	0	0	163 190 094
A3	157 891 316	0	0	157 891 316
Baa1	60 334 834	0	0	60 334 834
Baa3	91 509 871	0	0	91 509 871
Loss allowance	(187 308)	0	0	(187 308)
Carrying amount at 31 December 2018	1 221 948 505	0	0	1 221 948 505

A breakdown of the credit risk exposure per country is given in the table below with a distinction between bonds issued by EU sovereigns and bonds issued by corporate entities and non-EU sovereigns.

	31.12.2019	31.12.2018
EU sovereigns		
Austria	25 406 721	25 575 171
European Union	15 063 218	37 633 300
France	18 004 623	63 267 680
Germany	28 374 239	35 418 716
Italy	80 904 835	91 509 872
Lithuania	6 072 753	0
Luxembourg	5 110 851	5 127 406
Poland	36 688 957	20 723 270
Slovakia	5 126 938	16 873 795
Slovenia	5 191 515	5 190 905
Spain	51 360 064	34 036 335
Total EU sovereigns	277 304 714	335 356 450
Corporate bonds and non EU sovereign		
Australia	60 566 405	45 132 050
Austria	13 458 061	4 993 145
Belgium	33 318 065	12 878 981
Canada	50 005 867	45 989 781
Denmark	13 018 741	16 651 129
European Union	12 243 101	0
Finland	18 465 345	15 688 577
France	148 802 116	112 485 184
Germany	113 816 750	144 972 825
Ireland	5 071 229	0
Italy	7 991 723	3 009 429
Japan	40 792 286	41 622 814
Netherlands	84 942 129	94 479 286
Norway	42 789 746	36 994 132
Philippines	10 002 891	10 000 244
Poland	8 821 787	8 825 256
Republic of Korea	5 000 134	0
Spain	73 100 359	10 086 931
Sweden	39 277 215	49 376 653
Switzerland	55 718 199	71 103 753
United Kingdom	54 917 725	62 756 701
United States	68 474 793	99 545 184
Total Corporate bonds and non EU sovereign	960 594 667	886 592 055
Total	1 237 899 381	1 221 948 505

As of 31 December 2019, the EIF long-term treasury portfolio was spread over 25 countries. The highest individual country exposures were France, Germany, Spain, Italy and the Netherlands, which jointly represented 49% of total nominal value (2018: the same countries represented 48% of the long-term treasury portfolio).

3.4.1.4 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.

3.4.1.5 Market risk – interest rate risk

In nominal terms, 88.7% of all assets held have a duration of 5 years or less (2018: 99.4 %).

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 at the time they reprice or mature:

At 31.12.2019 (in EUR)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Fixed rate					
Cash and cash equivalents	241 576 989	0	0	0	241 576 989
Treasury portfolio	73 443 598	250 177 369	705 036 902	166 848 537	1 195 506 406
Floating rate					
Treasury portfolio	0	0	42 392 975	0	42 392 975
Total	315 020 587	250 177 369	747 429 877	166 848 537	1 479 476 370
Percentage	21.3%	16.9%	50.5%	11.3%	100.0%

At 31.12.2018 (in EUR)	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Fixed rate					
Cash and cash equivalents	309 711 531	0	0	0	309 711 531
Treasury portfolio	100 174 815	207 032 808	874 762 043	9 964 148	1 191 933 814
Floating rate					
Treasury portfolio	0	5 019 572	42 440 791	0	47 460 363
Total	409 886 346	212 052 380	917 202 834	9 964 148	1 549 105 708
Percentage	26.5%	13.7%	59.2%	0.6%	100.0%

The average yield at cost on the securities portfolio in EUR was 0.89% for 2019 (2018: 1.05 %).

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 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 2019. For the positions in place as of 31 December 2019, the earnings of the EIF treasury portfolio would increase by EUR 1.2m (2018: EUR 1.7m) if interest rates rose by one percentage point and decrease by the same amount if interest rates fell by one percentage point.

Value at Risk

As of 31 December 2019, the Value at Risk of the EIF treasury portfolio was EUR 1.05m (2018: EUR 0.5 m). 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.

3.4.2 Microfinance Loans

The microfinance loans portfolio is made up of 15 transactions. All deals are in EUR and they are maturing between 2022 and 2028.

As the total amount of the portfolio is non material, a detailed risk management analysis was not performed.

3.4.3 ABS investments

Securitisation backed by SME financing is an asset class in which EIF has accumulated considerable and widely-recognised experience as part of its core guarantee and securitisation activity. It has, however, been observed that third party investors are not always available for the subscription of guaranteed notes, due to specific tranche features or to the sum of the EIF guarantee fee and the cash investor's return exceeding the tranche market return. EIF therefore envisaged filling the gap through a new product consisting in direct investments in asset-backed securities issued out of securitisations focusing on SME assets ("ABS Investments") within a limited scope and as an ancillary activity to the core EIF guarantee business.

The Board of Directors approved that EIF invest directly in asset-backed securities issued out of securitisations focusing on SME assets ("Direct Investments"), using EIF's own resources, initially up to EUR 200m on 17 November 2014 and a further EUR 300m on 30 January 2017, for a total of EUR 500m. The ABS Investments target:

- Mainly mezzanine classes of SME securitisations originated by financial intermediaries (i) for which there is a limited purposes and/or (ii) as a way to maximise the funding obtained from their securitisation transactions, in situations where there is limited or no third party investors' demand for EIF guaranteed notes;
- Residually and with EIF's own resources only, senior classes of SME focused securitisations (i) for which there is limited or no third party investors' demand for EIF guaranteed notes and (ii) which require a moderate direct investment.

In October 2017, the General Meeting of Shareholders also approved covered bond investments backed by SMEs or residential mortgage assets within the existing envelope for ABS Investments. The General Meeting of Shareholders determined that the maximum amount for any individual ABS or covered bond investment with EIF own resources shall in any event be limited to EUR 50m.

3.4.3.1 Risk assessment and on-going risk monitoring

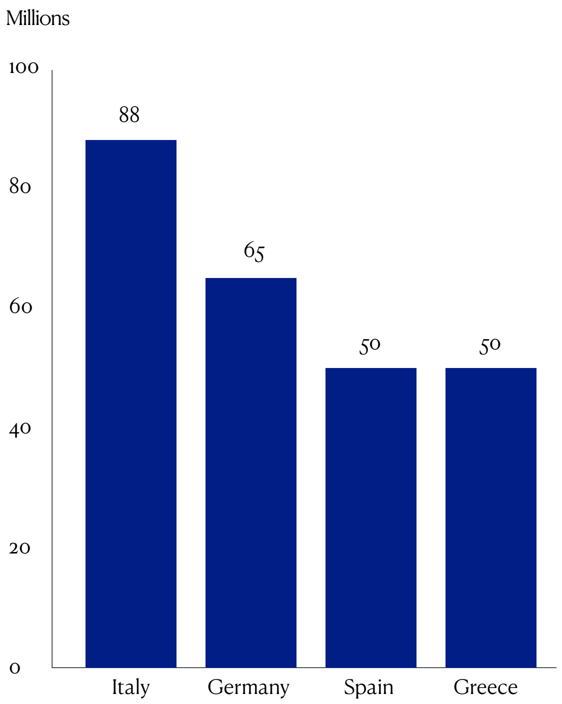
The EIF's ABS Investments follow the same independent opinion process and on-going risk monitoring as the transactions under EIF's portfolio guarantee and structured business (see note 3.3.1).

Transaction status	31.12.2019		31.12.2018	
	EUR	%	EUR	%
Performing	211 125 558	84%	146 470 605	73%
Positive outlook	40 980 446	16%	53 926 817	27%
Defaulted	0	0%	1	0%
Total Exposure at Risk	252 106 004	100%	200 397 423	100%

3.4.3.2 Credit Risk

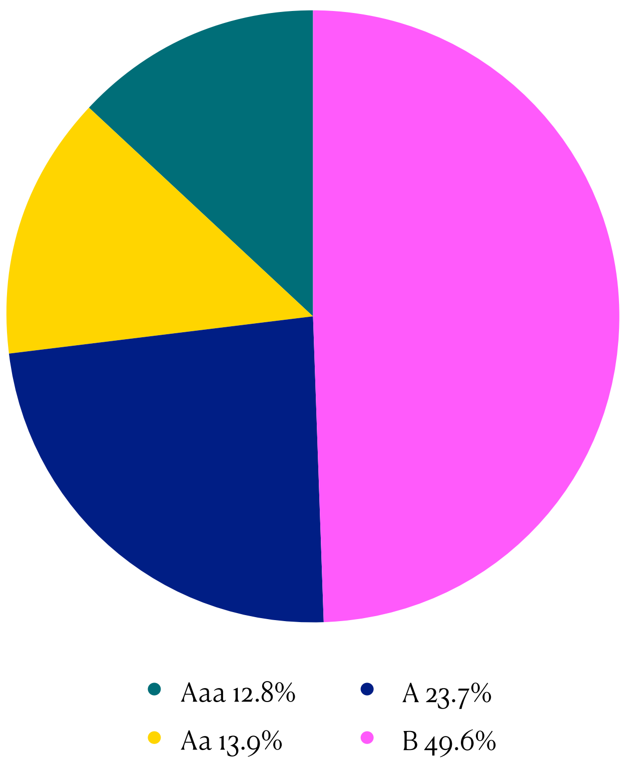
ABS Investments are exposed to credit risk by way of rating downgrade and default risk. EIF manages these risks by adhering to risk management policies laid out in its statutes, EIF Credit Risk Policy Guidelines and internal concentration limits (see note 3.3.2).

A breakdown of the portfolio by country exposure is given in the table below:



A breakdown of the portfolio per rating is given in the table below:

% of Fair Value (EUR 252.1m)



3.4.3.3 Liquidity risk

EIF invests in ABS Investments listed on a regulated exchange but without an active and liquid secondary market, implying a potential liquidity risk in case of settlement before maturity. Nevertheless, liquidity risk is limited for these investments as EIF intends to hold them until redemption.

The following table shows an analysis of the ABS portfolio split by the expected maturity dates of the transactions to which they are related:

EUR

	3 months to 1 year	1 year to 5 years	More than 5 years	Total
As of 31.12.2019	40 980 445	135 948 940	75 176 619	252 106 004
As of 31.12.2018	0	200 397 423	0	200 397 423

3.4.3.4 Market Risk

3.4.3.4.1 Market risk – Interest rate risk

ABS Investments are debt securities with either a variable interest rate plus a quoted spread or a fixed coupon. Floating rate securities carry little interest rate risk as its duration is usually close to zero (it converges to zero as reset date approaches), meaning that its price has very low sensitivity to changes in interest rates.

The following table illustrates the Fund's exposure to interest rate risk through the portfolio based on its repricing dates:

EUR			31.12.2019		
	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fixed rate	231	40 980 445	23 564 506	0	64 545 182
Floating rate	147 603	0	112 329 306	75 083 913	187 560 822
Total	147 834	40980445	135 893 812	75083913	252 106 004

EUR			31.12.2018		
	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Fixed rate	0	0	116 987 552	0	116 987 552
Floating rate	219 997	0	83 189 874	0	83 409 871
Total	219 997	0	200 177 426	0	200 397 423

3.4.3.4.2 Market risk - Foreign currency risk

As at 31 December 2019 EIF's transactions are invested in EUR only (2018: EUR and DKK). In 2018, there was one transaction denominated in DKK having a fair value of EUR 1.

3.4.4 Other

On 16 September 2019, the EIF entered into a mezzanine loan facility agreement in relation to the European Union Programme for Employment and Social Innovation (EaSI). As at 31 December 2019, the EIF has a commitment of EUR 23 million and no loan is disbursed.

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 ongoing 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. in relation to private equity investments.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement 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.

The fair value hierarchy reflects the significance of the inputs used in making the measurements. These levels differ from the category classification mentioned under 2.3.3.1:

- 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 solely through 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:

At 31.12.2019	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets				
Financial instruments at Fair Value through Profit and Loss:				
Private equity investments	0	0	776 176 179	776 176 179
Debt investments	0	252 106 004	0	252 106 004
	0	252 106 004	776 176 179	1 028 282 183

At 31.12.2018	Level 1 EUR	Level 2 EUR	Level 3 EUR	Total EUR
Financial assets				
Financial instruments at Fair Value through Profit and Loss:				
Private equity investments	0	0	570 157 016	570 157 016
Debt investments	0	200 397 423	0	200 397 423
	0	200 397 423	570 157 016	770 554 439

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.

Details of the movements of financial assets at fair value through profit or loss in 2019 are given in note 4.3.

There was no transfer of financial assets between Level 1 and Level 3 in 2019 or 2018.

04. Detailed disclosures relating to asset headings

4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 1.9 % (2018: 2.46 %). These deposits have an average remaining maturity of 14 days (2018: 16 days).

	31.12.2019 EUR	31.12.2018 EUR
Current accounts	182 704 083	235 677 603
Money market instruments	58 872 906	74 033 928
	241 576 989	309 711 531

4.2 Financial instruments at amortised cost

Financial instruments at amortised cost are made up of the treasury portfolio and long-term deposits for EUR 1 237 899 381 (2018: EUR 1 239 394 177) and microfinance loans for EUR 6 167 015 (2018: EUR 4 804 971).

4.2.1 Treasury portfolio and long term deposits

The treasury portfolio includes long-term debt instruments i.e. long-term bank deposits, bonds, notes and other obligations.

	2019 EUR	2018 EUR
Treasury portfolio	1 230 144 946	1 229 146 408
Accrued interest on treasury portfolio	7 754 435	10 247 769
	1 237 899 381	1 239 394 177

There are no long-term bank deposits as at 31 December 2019 (2018: EUR 17 405 021). In 2018, the effective interest rate on long-term bank deposits was 1.33%. These deposits had an average remaining maturity of 83 days.

Movement in treasury portfolio can be analysed as follows:

	31.12.2019 EUR	31.12.2018 EUR
Carrying amount at 1 January (after adoption of IFRS 9)	1 239 394 177	1 226 411 810
Additions	322 466 177	233 702 468
Disposals / matured	(321 492 691)	(217 639 925)
Expected credit loss allowance	25 052	(68 440)
Accrued interest	(2 493 334)	(3 011 736)
Carrying amount at 31 December	1 237 899 381	1 239 394 177

As of 31 December 2019, the expected credit loss allowance amounts to EUR 162 256 (2018: EUR 187 308).

As of 31 December 2019, the treasury portfolio is only composed of investments classified under Stage 1 of the ECL model (2018: only stage 1).

The fair value of the treasury portfolio and long term deposits as of 31 December 2019 amounts to EUR 1 251 368 591 (2018: EUR 1 255 578 000).

4.2.2 Microfinance Loans

The loan portfolio includes microfinance loans.

	31.12.2019 EUR	31.12.2018 EUR
Loan portfolio	6 157 172	4 795 112
Accrued interest on loan portfolio	9 843	9 859
	6 167 015	4 804 971

Movement in loan portfolio can be analysed as follows:

	2019 EUR	2018 EUR
Carrying amount at 1 January (after adoption of IFRS 9)	4 804 971	2 645 918
Additions	2 762 122	2 925 269
Disposals / matured	(1 433 432)	(763 210)
Expected credit loss allowance	33 370	(7 482)
Accrued interest	(16)	4 476
Carrying amount at 31 December	6 167 015	4 804 971

The disbursed microfinance loan portfolio is composed of investments classified under Stage 1 of the ECL model as of 31 December 2019 and 2018.

At the year-end, there is no undisbursed microfinance loan (2018: EUR 2 527 500, including one microfinance loan under Stage 2 for EUR 500 000).

As of 31 December 2019, the expected credit loss allowance amounts to EUR 10 088 (2018: EUR 43 458, of which EUR 29 074 under Stage 2).

The fair value of the microfinance loans as of 31 December 2019 amounts to EUR 6 122 628 (2018: EUR 4 804 971).

4.3 Financial instruments at fair value through profit or loss

4.3.1 Private equity investments

Private equity investments at fair value through profit or loss are analysed as follows:

	2019 EUR	2018 EUR
Investment at cost at 1 January	457 421 611	384 323 178
Disbursements	191 930 529	132 690 432
Net disbursements in relation to EFSI EP - SW2	33 709 928	21 882 003
Capital repayments	(66 114 298)	(78 828 311)
Terminated deals	(1 004 849)	(2 645 691)
Secondary sale transactions - cost derecognition	(17 671 439)	0
Foreign exchange	(2 550 711)	0
Investment at cost at 31 December	595 720 771	457 421 611
Carrying amount at 1 January (after adoption of IFRS 9)	112 735 405	83 654 367
Adjustments to fair value during the financial year:		
Changes in fair value through profit or loss	55 228 749	27 592 609
Increase in fair value in relation to EFSI EP SW2	2 469 601	527 587
Terminated transactions - cumulated fair value adjustments until derecognition	1 005 135	960 842
Secondary sale transactions - cumulated fair value adjustments until derecognition	2 846 821	0
Foreign exchange	6 169 697	0
Value adjustment and foreign exchange adjustment at 31 December	180 455 408	112 735 405
Carrying amount at 31 December	776 176 179	570 157 016

As of 31 December 2019 and 2018, the private equity investments are all classified under level 3 of the fair value hierarchy.

During 2018, EIF entered into a secondary sale transaction for 13 funds, which was completed in the course of 2019. In addition, a further secondary sale transaction for 11 funds was entered into and completed in 2019.

The fair value as of 31 December 2019 includes an amount of EUR 5 196 892 (2018: EUR 5 810 078) related to investment in joint ventures.

4.3.2 Debt investments

Debt investments at Fair Value through Profit or Loss include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

	31.12.2019 EUR	31.12.2018 EUR
Debt portfolio	251 958 170	200 177 426
Accrued interest on debt portfolio	147 834	219 997
	252 106 004	200 397 423

Movement in debt investments can be analysed as follows:

	2019 EUR	2018 EUR
Carrying amount at 1 January (after adoption of IFRS 9)	200 397 423	199 489 072
Additions	114 894 250	79 984 573
Disposals / matured	(66 491 261)	(79 213 766)
Change in fair value	3 377 755	120 279
Accrued interest	(72 163)	17 265
Carrying amount at 31 December	252 106 004	200 397 423

As at 31 December 2019, the total debt investments at cost amount to EUR 251 566 846 (2018: EUR 203 163 857) and the accumulated change in fair value on debt investments amounts to EUR 391 324 (2018: EUR (2 986 431)).
The change in fair value of EUR 3 377 755 includes EUR 3 073 631 relating to the termination of a debt investment.

4.4 Other assets

Other assets are made up of the following:

	31.12.2019 EUR	31.12.2018 EUR
Accounts receivable relating to pensions managed by the EIB	192 407 367	163 024 029
Accrued commission & other income	187 019 808	135 364 333
Receivables from financial guarantees	28 289 691	12 858 766
Receivables from secondary sales transactions	0	2 838 446
Receivables from earn-out agreements	61 842	553 659
Other debtors	7 140 343	6 593 064
Contract assets	9 420 474	18 589 302
	424 339 525	339 821 599

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 5.2.

In 2017, EIF disposed of 7 funds in a secondary sale transaction. In accordance with the sale agreement, a portion of the sale price was deferred and an amount of EUR 9.6 million was recognised as receivable, of which EUR 2.8 million was still to be received as at 31 December 2018 and settled in full in 2019.

Contract assets represent the value of fees which EIF is ordinarily entitled to receive for the provision of services as part of the deployment of certain mandates but are conditional to certain events such as the receipt of additional contributions in these mandates.

The following table discloses the ageing of other assets:

	Total	Neither past due nor impaired	Past due but not impaired 0-6 months	6-12 months	> 12 months
	EUR	EUR	EUR	EUR	EUR
2019	424 339 525	424 198 371	11 903	6 198	123 053
2018	339 821 599	339 716 131	4 123	12 915	88 430

4.5 Property and Equipment

	Other properties EUR	Office Equipment EUR	Computer Equipment EUR	Total Equipment EUR
Cost	530 652	202 401	818 355	1 020 756
Accumulated depreciation	(105 509)	(201 266)	(818 355)	(1 019 621)
Carrying amount at 01.01.2018	425 143	1 135	0	1 135
Opening carrying amount	425 143	1 135	0	1 135
Depreciation charge	(45 822)	(481)	0	(481)
Carrying amount at 31.12.2018	379 321	654	0	654
Cost	530 652	202 401	818 355	1 020 756
Accumulated depreciation	(151 331)	(201 747)	(818 355)	(1 020 102)
Carrying amount at 01.01.2019	379 321	654	0	654
Opening carrying amount	379 321	654	0	654
Depreciation charge	(45 822)	(481)	0	(481)
Carrying amount 31.12.2019	333 499	173	0	173
31.12.2019				
Cost	530 652	202 401	818 355	1 020 756
Accumulated depreciation	(197 153)	(202 228)	(818 355)	(1 020 583)
Carrying amount	333 499	173	0	173

There were no indications of impairment of equipment or investment property in either 2019 or 2018.

05. Detailed disclosures relating to liabilities and equity headings

5.1 Financial guarantees

Financial guarantees, depending on whether the measurement of a financial guarantee contract results in a net asset or net liability position (see note 2.4), are presented as follows:

	31.12.2019 EUR	31.12.2018 EUR
Financial guarantees	(26 638 964)	0
Provisions for financial guarantees	11 697 223	47 370
	(14 941 741)	47 370

Movement in financial guarantees can be analysed as follows:

2019	Stage 1	Stage 2	Stage 3	Foreign exchange	Total
Provisions for financial guarantees as at 1 January	(11 475 880)	1 379 619	10 175 302	(31 671)	47 370
Transfer from Stage 1 to Stage 2	78 540	(78 540)	0		0
Transfer from Stage 2 to Stage 3	0	(255 774)	255 774		0
Amortisation of the payer leg	(51 174 586)	(340 822)	(882 966)		(52 398 374)
Adjustment of the receiver leg	40 698 479	83 100	1 032 249		41 813 828
Expected credit loss allowance	0	(895 127)	(446 071)		(1 341 198)
Amortisation of financial guarantees derecognised due to termination	(3 014 391)	0	(149 828)		(3 164 219)
Foreign exchange impact		0		100 852	100 852
Financial guarantees as at 31 December	(24 887 838)	(107 544)	9 984 460	69 181	(14 941 741)

2018	Stage 1	Stage 2	Stage 3	Foreign exchange	Total
Provisions for financial guarantees as at 1 January	(4 868 613)	3 180 833	10 317 116	0	8 629 336
Transfer from Stage 1 to Stage 2	0	0	0		0
Transfer from Stage 2 to Stage 3	0	(181 357)	181 357		0
Amortisation of the payer leg	(58 111 401)	(165 248)	(191 439)		(58 468 088)
Adjustment of the receiver leg	58 594 972	(35 750)	163 562		58 722 784
Expected credit loss allowance	0	(1 418 859)	(295 294)		(1 714 153)
Amortisation of financial guarantees derecognised due to termination	(7 090 838)	0	0		(7 090 838)
Foreign exchange impact		0	0	(31 671)	(31 671)
Provisions for financial guarantees as at 31 December	(11 475 880)	1 379 619	10 175 302	(31 671)	47 370

During the year 2019, two financial guarantees were transferred from Stage 1 to Stage 2 (2018: none) and an additional two financial guarantees were transferred from Stage 2 to Stage 3 (2018: 3).

The adjustment of the receiver leg corresponds to guarantee fees received and accrued during the year and value adjustments due to changes in credit ratings.

The change in the fair value of the receiver leg of financial guarantees amounts to EUR 19 066 934 (2018: EUR (7 985 036)).

As of 31 December 2019, the receiver leg and the payer leg offset for a total amount of EUR (14 941 741) (2018: EUR 47 370) as follows:

31.12.2019 in EUR	Receiver leg EUR	Payer leg EUR	Total EUR
Financial guarantees	(294 034 115)	(267 395 151)	(26 638 964)
Provisions for financial guarantees	(15 356 979)	(27 054 202)	11 697 223
	(309 391 094)	(294 449 353)	(14 941 741)
31.12.2018 in EUR			
Financial guarantees	0	0	0
Provisions for financial guarantees	(257 471 286)	(257 518 656)	47 370
	(257 471 286)	(257 518 656)	47 370

5.2 Retirement benefit obligations

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

Retirement benefit obligations	31.12.2019 EUR	31.12.2018 EUR
Pension scheme	525 431 823	342 571 823
Health insurance scheme	73 685 000	44 121 000
	599 116 823	386 692 823

Commitments in respect of retirement benefits as of 31 December, 2019 have been valued by an independent actuary. The calculations are based on the following main assumptions:

Principal Assumptions	2019	2018
Discount rate for obligations	1,30%	2.18%
Rate of future compensation increases	3.50%	3.50%
Rate of pension increases	1.75%	1.75%
Actuarial tables	ICSLT	ICSLT

The discount rate is based on the IBOXX index extrapolated at the average duration of EIF post-retirement obligations (approximately 20 years) using an estimated slope determined with ECB EURO Spot yield curve.

Regarding the inflation and indexation of pensions, the long-term consensus forecast of inflation in the Eurozone remained the basis. However, as ECB aims at inflation rates of below, but close to 2% over the medium-term, a 1.75% rate was retained.

In the current low growth macroeconomic situation, compensation increases in the European institutions and in the financial sector are likely to remain subdued. In this respect a 3.5% assumption was retained.

In the course of the last quarter 2019, the mortality table and the invalidity table were updated to 2018 version, extending the life expectation assumption for male and female in a range from +1.2 to +2.3 years. As a result of this change, this change in the model impacted the defined benefit obligation respectively by EUR 17.1m and EUR 3.8m.

The defined benefit obligation for pensions as valued in the independent actuary report dated 31 January 2020 amounts to EUR 525 431 823 (2018: EUR 342 571 823). As of December 2019 the Fund allocated EUR 133 810 739 (2018: EUR 118 459 306) to pension assets.

Amounts recognised in comprehensive income as at 31.12.2019	EIF Pension EUR	Health Insurance EUR	Total 2019 EUR
Current net service cost	24 048 000	7 103 000	31 151 000
Special termination benefits	50 000	0	50 000
Net interest cost	7 487 000	962 000	8 449 000
Net benefit expense recognised in profit or loss	31 585 000	8 065 000	39 650 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	1 420 000	(1 309 000)	111 000
Loss due to assumption changes	143 230 000	22 815 000	166 045 000
Loss arising from model change	0	0	0
Defined benefit obligation recognised in other comprehensive income	144 650 000	21 506 000	166 156 000
Total	176 235 000	29 571 000	205 806 000

Amounts recognised in comprehensive income as at 31.12.2018	EIF Pension EUR	Health Insurance EUR	Total 2018 EUR
Current net service cost	22 731 000	9 990 000	32 721 000
Special termination benefits	19 000	0	19 000
Net interest cost	6 263 000	1 190 000	7 453 000
Net benefit expense recognised in profit or loss	29 013 000	11 180 000	40 193 000
Re-measurement on the defined benefit obligation:			
Experience loss/(gain)	247 000	(3 839 000)	(3 592 000)
Gain due to assumption changes	(3 357 000)	(22 132 000)	(25 489 000)
Loss arising from model change	13 247 000	1 978 000	15 225 000
Defined benefit obligation recognised in other comprehensive income	10 137 000	(23 993 000)	(13 856 000)
Total	39 150 000	(12 813 000)	26 337 000

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

Changes in Defined Benefit Obligation as at 31.12.2019	EIF Pension	Health insurance	Total 2019
	EUR	EUR	EUR
Defined benefit obligation, Beginning of year	342 571 823	44 121 000	386 692 823
Net service cost	24 048 000	7 103 000	31 151 000
Net interest cost	7 487 000	962 000	8 449 000
Employee contributions	4 848 000	8 000	4 856 000
Benefits Paid	1 777 000	(15 000)	1 762 000
Special termination benefits	50 000	0	50 000
Experience Loss/ (gain)	1 420 000	(1 309 000)	111 000
Loss due to assumption changes	143 230 000	22 815 000	166 045 000
Defined benefit obligation, End of year	525 431 823	73 685 000	599 116 823

Changes in Defined Benefit Obligation as at 31.12.2018	EIF Pension	Health Insurance	Total 2018
	EUR	EUR	EUR
Defined benefit obligation, Beginning of year	300 372 823	56 942 000	357 314 823
Net service cost	22 731 000	9 990 000	32 721 000
Net interest cost	6 263 000	1 190 000	7 453 000
Employee contributions	4 456 000	7 000	4 463 000
Benefits Paid	(1 407 000)	(15 000)	(1 422 000)
Special termination benefits	19 000	0	19 000
Experience Loss/ (gain)	247 000	(3 839 000)	(3 592 000)
Gain due to assumption changes	(3 357 000)	(22 132 000)	(25 489 000)
Loss due to model changes	13 247 000	1 978 000	15 225 000
Defined benefit obligation, End of year	342 571 823	44 121 000	386 692 823

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

31 December 2019		Effect on the defined benefit obligation	
		EIF Pension	Health Insurance
Discount rate	0.5% increase	-14%	-16%
Discount rate	0.5% decrease	17%	20%
Life expectancy	1 year increase	3%	5%
Life expectancy	1 year decrease	-3%	-5%
Inflation	1% increase	24%	
Inflation	1% decrease	-18%	
Salary rate	1% increase	11%	
Salary rate	1% decrease	-9%	
Medical cost	1% increase		44%
Medical cost	1% decrease		-30%

31 December 2018		Effect on the defined benefit obligation	
		EIF Pension	Health Insurance
Discount rate	1% increase	-25%	-28 %
Discount rate	1% decrease	35%	42%
Life expectancy	1 year increase	3%	6%
Life expectancy	1 year decrease	-3%	-5%
Inflation	1% increase	22%	
Inflation	1% decrease	-17%	
Salary rate	1% increase	11%	
Salary rate	1% decrease	-9%	
Medical cost	1% increase		42%
Medical cost	1% decrease		-29%

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

31 December 2019	EIF Pension	Health Insurance
	years	years
Duration of active members	31.0	36.1
Duration of deferred members*	28.8	13.6
Duration of retired members	18.1	21.0

Life expectancy at age 60 for a Male using ICSLT (year 2019) mortality tables: 26.7 years

Life expectancy at age 60 for a Female using ICSLT (year 2019) mortality tables: 29.2 years

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

31 December 2018	EIF Pension	Health Insurance
	years	years
Duration of active members	29.4	34.4
Duration of deferred members*	28.9	29.2
Duration of retired members	16.3	20.0

Life expectancy at age 60 for a Male using ICSLT (year 2017) mortality tables: 25.2 years

Life expectancy at age 60 for a Female using ICSLT (year 2017) mortality tables: 26.9 years

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

5.3 Other liabilities and provisions

	31.12.2019 EUR	31.12.2018 EUR
Related parties payables	28 016 810	11 525 449
Employee benefit payables	87 611 243	75 884 845
Trade creditors	248 724 578	199 485 776
	364 352 631	286 896 070

Employee benefit payables mostly include staff-related costs such as the performance award, the optional supplementary provident scheme (OSPS) and the severance grant.

Trade creditors include EUR 192 271 903 of contract liabilities (2018: EUR 162 794 275). Contract liabilities represent accumulated income to be amortised over the expected life of the mandates under management.

Movements in contract liabilities are as follows:

	31.12.2019 EUR	31.12.2018 EUR
Contract liabilities at 1 January (after adoption of IFRS 15)	162 794 275	133 961 361
Additions	75 388 915	72 771 508
Transfer to profit or loss	(45 911 287)	(43 938 594)
Contract liabilities at 31 December	192 271 903	162 794 275

Additions represent management fees invoiced during the year on existing mandates and new mandates signed during the year, which were not recognised in the profit or loss because of the deferral mechanism.

As at 31 December 2019, the aggregate amount of the transaction price allocated to the unsatisfied part of the performance obligation amounts to EUR 436 413 101 (2018: EUR 372 310 030) of which EUR 192 271 903 (2018: EUR 162 794 275) has already been invoiced and deferred in contract liabilities. The Fund expects to recognise such revenue over the remaining expected life of the mandates under management.

5.4 Share capital

The authorised capital amounts to EUR 4.5 billion, divided into 4 500 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.

As at 31 December 2019, the authorised and subscribed share capital of EUR 4 500 000 000 representing 4 500 shares is called and paid in for an amount of EUR 900 000 000 representing 20 % of the authorised and subscribed share capital.

The subscribed share capital is detailed as follows:

	31.12.2019 EUR	31.12.2018 EUR
Subscribed and paid in (20%)	900 000 000	900 000 000
Subscribed but not yet called (80%)	3 600 000 000	3 600 000 000
	4 500 000 000	4 500 000 000

The capital is subscribed as follows:

	31.12.2019 EUR	31.12.2018 EUR
European Investment Bank	2 634	2 639
European Commission	1 337	1 337
Financial Institutions	529	524
	4 500	4 500

5.5 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 35 133 624 is required to be appropriated in 2020 with respect to the financial year ended 31 December, 2019.

A dividend of EUR 10 471 499 (2018: EUR 10 847 527) was distributed following the approval of the General Meeting of Shareholders on 8 April 2019. 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 and ABS investments, 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.

06. Interest in unconsolidated structured entities and in investment entities

The EIF has interests in entities that have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Fund has interests in unconsolidated structured entities as described below.

Structured entities are used either to meet statutory obligations or to provide mandators with access to EIF expertise in relation to its primary activities. Structured entities or investment entities may be established as corporations, trusts or partnerships. Structured entities or investment entities generally:

- subscribe to equity issued by SMEs in the context of private equity transactions; or
- issue debt securities guaranteed either directly by the Fund or by a structured entity managed by the EIF on behalf of a mandator.

The table below describes the types of structured entities in which the EIF concluded that the Fund has an interest and no control:

Type of structured entity	Nature and purpose	Interest held by the Fund
Limited Partnership in relation to PE operations (see section 6.1)	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 Statutes	• Investments in shares issued by the Limited Partnership • Capital and revenues repayments
Special Purpose Vehicles ("SPV") in relation to financial guarantee operations (see section 6.2)	Provision of guarantees as well as of other comparable instruments for loans and other financial obligations in whatever form	• Fees for financial guarantee servicing
Special Purpose Vehicles ("SPV") in relation to ABS investments (see section 6.3)	Acquisition of ABS investments	• Interest income from ABS investments
Mandates in relation to management of facilities by the Fund on behalf of a mandator (see section 6.4 and section 6.5)	To deploy the resources allocated to the mandate by any Managing Authority and according to each individual agreement and to the EIF expertise	• Fees for mandates servicing

Below is a description of the Fund's involvement in unconsolidated structured entities by type. The Fund concluded that it does not control and therefore should not consolidate any entity described in sections 6.1, 6.2, 6.3, 6.4 and 6.5 as the Fund does not have power over the relevant activities of the entities.

6.1 Interest in structured entities in relation to Private Equity operations

Operations are typically structured as follows:

- An investment fund is setup with a General Partner (hereafter "GP") and with a number of Limited Partners (hereafter "LPs"), who form together the Limited Partnership. In addition, the Limited Partnership Agreement discloses the investment strategy foreseen within the entity and agreed between the GP and the LPs;
- When financing is brought by the LPs, full authority and power is given to the GP, which could delegate the investment part to an investment manager;
- The use of voting rights by the LPs is often foreseen to revocate the GP either with a cause or without cause. Even if an investment board within the entity is setup, it should be noted that such an investment board has a consultative role only and is not therefore one of the decision-making bodies of the Limited Partnership.

The Fund is an LP, it does not act as a GP and is from time to time a member of the consultative investment board. The Fund's interest typically ranges from 0.1% to 50%.

Maximum loss exposure from PE structured entities is limited to the amount of committed investment as disclosed in note 3.2.

For more quantitative details on PE operations, please refer to note 3.2.

6.2 Interest in structured entities in relation to financial guarantee operations

When the Fund enters into a securitisation transaction in the context of its activity of financial guarantee provided to the European financial institutions, the Fund could be exposed to a special purpose vehicle (hereafter "SPV") as follows:

- In the context of a bilateral guarantee

Under this type of financial guarantee, even if the Fund provides a bilateral guarantee for the benefit of the holder of the mezzanine/senior notes, the Fund is not a direct party to the securitisation transactions agreement to benefit from the operation. The Fund enters into a financial guarantee agreement directly with the beneficiary, which is typically the beneficiary of the securitisation transaction agreement. Through the financial guarantee agreement, the Fund has no negotiating power and no voting rights within the structure and the role of the Fund is to guarantee one of the tranches of a more global transaction.

In the context of such transactions, an SPV could be established to initially purchase a pool of receivables from the originator and to issue consequently several classes of notes, which will be guaranteed. On the other hand, if no SPV is established, the originator will issue the notes and will retain the pool of receivables.

- In the context of an embedded guarantee

Under this type of operation and contrary to a bilateral guarantee, an SPV shall be established to issue the notes and to be the owner of the pool of receivables. In such operations, the Fund, as guarantor, will be part of the structure of the transaction and will be part of the agreement without having any control over the SPV.

Maximum loss exposure from guarantee operations structured entities is limited to the total Exposure at Risk as disclosed in note 3.3.

As at December 31, 2019, the Fund is exposed to 81 bilateral guarantees (2018: 72) and to 3 embedded guarantees (2018: 3), which represent respectively EUR 10 704m (2018: EUR 8 495m) and EUR 20m (2018: EUR 41m) of the EIF's guarantees in terms of Exposure at Risk.

For more quantitative details on the guarantee portfolio, please refer to note 3.3.

6.3 Interest in structured entities in relation to ABS investments

When the Fund enters into a securitisation backed by SME financing, the Fund could be exposed to an SPV, which may be established to issue the ABS investment. In such operations, the Fund will make a direct investment in the ABS issued out by the SPV.

As at December 31, 2019, the Fund invested in 9 ABS investments issued by SPVs (2018: 9) for a total amount of EUR 252.1m, which are classified into the caption "Debt investments at fair value through profit or loss" (2018: 200.4m).

For more quantitative details on ABS investments, please refer to note 3.4.

6.4 Interest in structured entities in relation to management of facilities by the Fund on behalf of a mandator

The Fund 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 but also in relation to the Fund's expertise and in compliance with its Statutes. When the Fund manages a facility on behalf of a mandator, the management will be performed by the Fund either through a trusteeship or partnership depending on the requirements of the mandatory, which have been classified as follows:

- The EIB, which means EIB resources is managed by the Fund according to a defined scope;
- The European Commission, which means European Commission contributions managed by the Fund according to the financial regulation and to dedicated agreements;
- Other third parties: the Fund 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.

The EIF is entrusted with the management of the funds, operating under clear rules defined in an agreement, investing in entities whose maximum risk is defined in the agreement and performing the treasury asset management under guidelines defined in the agreement. The Fund is remunerated for its services through management fees (or on a cost recovery basis for some mandates) which are defined upfront in the agreement. In that context, the Fund classifies the mandates as follows and according to the nature of financial instruments foreseen under each individual agreement:

Mandator	Nature and purpose of the structured entity	Interest held by the Fund	Resources	Committed transactions
Services offered in the context of financial guarantee operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate financial guarantee transactions; - To monitor the financial guarantee transactions; - To report to the mandator accordingly.	Management fees for servicing	843 988 000	385 847 646
European Commission			5 907 442 245	5 180 655 986
Other third parties			2 290 549 530	1 581 046 457
Services offered in the context of private equity operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate private equity transactions; - To monitor the private equity transactions; - To report to the mandator accordingly.	Management fees for servicing	12 873 160 000	14 793 379 710
European Commission			4 624 593 499	3 073 844 043
Other third parties			3 925 736 979	2 969 210 276
Services offered in the context of microfinance operations				
European Investment Bank	On behalf of the mandator and according to the Fund's expertise: - To originate microfinance transactions; - To monitor the private equity transactions; - To report to the mandator accordingly.	Management fees for servicing	185 535 000	125 400 000
European Commission			26 000 000	17 662 218
Other third parties			0	0
Services offered in the context of multi-products structured entities				
European Commission	On behalf of the mandator and according to the Fund's expertise: - To originate multi products transactions; - To monitor the multi products transactions; - To report to the mandator accordingly.	Management fees for servicing	157 666 328	0
Other third party	On behalf of the mandator and according to the Fund's expertise: - To originate multi products transactions; - To monitor the multi products transactions; - To report to the mandator accordingly.	Management fees for servicing	1 104 581 605	964 270 454

(1) "Resources" means the net amount of the contribution already paid by the mandator to the Fund or the amount committed to be paid by the mandator.
(2) "Committed transactions" corresponds to the transactions committed by the Fund for the purpose of managing the mandate on behalf of the mandator.

6.5 Interest in investment entities in relation to management of facilities by the Fund on behalf of a mandator

Under certain circumstances and depending on the requirements of a mandatory, the EIF could establish a legal entity from which the EIF will act as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties and other third parties.

The EIF is entrusted with the management of the funds, operating under clear rules defined in an agreement, investing in entities whose maximum risk is defined in the agreement and performing the treasury asset management under guidelines defined in the agreement. The Fund is remunerated for its services through management fees (or on a cost recovery basis for some mandates) which are defined upfront in the agreement. In that context, the Fund classifies the mandates as follows and according to the nature of financial instruments foreseen under each individual agreement:

<table>
<tr><th>Mandator</th><th>Country</th><th>Nature and purpose of the structured entity</th><th>Interest held by the Fund</th><th>Resources[1]</th><th>Committed transactions</th></tr>
<tr><td>European Investment Bank</td><td>Multicountry with a focus on European Microfinance</td><td rowspan="8">On behalf of the mandator and according to the Fund's expertise:

- To act as investment adviser and to propose private equity transaction for the approval of governing bodies of the fund of funds;

- To originate private equity transactions;

- To monitor the private equity transactions;

- To report to the mandator accordingly.</td><td rowspan="8">Management fees for servicing</td><td>210 000 000</td><td>82 096 915</td></tr>
<tr><td>European Commission</td><td>Multicountry with a focus on Global Energy Efficiency and Renewable Energy Fund</td><td>465 679 409</td><td>255 216 754</td></tr>
<tr><td rowspan="6">Other third parties</td><td>Portugal</td><td>111 330 000</td><td>102 319 018</td></tr>
<tr><td>Spain</td><td>183 000 000</td><td>174 288 389</td></tr>
<tr><td>The Netherlands</td><td>402 500 000</td><td>387 000 000</td></tr>
<tr><td>The United Kingdom</td><td>235 072 879</td><td>230 391 190</td></tr>
<tr><td>Turkey</td><td>360 000 000</td><td>332 102 417</td></tr>
<tr><td>Multi-country</td><td>1 057 136 789</td><td>588 541 817</td></tr>
</table>

(1) "Resources" means the net amount of contribution already paid by the mandator to the Fund or the amount committed to be paid by the mandator.
(2) "Committed transactions" corresponds to the transactions committed by the Fund for the purpose of managing the mandate on behalf of the mandator.

As at 31 December 2019, total assets under management defined as the initial resources and contributions allocated to each mandate amounts to EUR 34.96 billion (2018 restated: EUR 32.27 billion).

07. Detailed disclosures related to the statement of comprehensive income

7.1 Interest and similar income

Interest and similar income comprises:

	2019 EUR	2018 EUR
Interest income on debt investments	13 385 934	15 955 766
Interest income on money market instruments	306 277	324 255
Interest income on bank current accounts	330 868	555 334
Other interest income	5 282 813	5 083 618
	19 305 892	21 918 973

Interest income on debt securities include discounts of EUR 529 592 (2018: EUR 486 676) and premiums amount to EUR (4 898 163) (2018: EUR (7 529 148).

7.2 Net result from financial guarantee operations

Net result from guarantee operations comprises:

	2019 EUR	2018 EUR
Amortisation of the payer leg	55 562 593	65 244 143
Intermediation and risk cover fees	6 948	726 439
Guarantee calls net of recoveries	(284 183)	(226 242)
	55 285 358	65 744 340

7.3 Commission income

Commission income is detailed as follows:

	2019 EUR	2018 EUR
Commissions on EIB mandates	66 499 888	62 911 631
Commissions on EC mandates	37 196 662	39 418 084
Commissions on Regional and Funds of Funds mandates	56 722 558	46 520 583
Other commissions	41 594	145 960
	160 460 702	148 996 258

Commission income include EUR 45 911 287 (2018: EUR 43 938 594), which was previously recognised in contract liabilities. See note 5.3.

7.4 Net result on financial operations

Net result on financial operations comprises EUR (2 681 258) of realised losses on the disposal of private equity investments following the completion of a Sale Purchase Agreement (2018: gain of EUR 739 441). Additional details of the secondary sale transaction are given in note 4.3.1 and additional details on the remaining amount to be received from the buyer on note 4.4.

Net result on financial operations also includes unrealised results arising from transactions or cash positions denominated in currency for a total of EUR 4 089 966 (2018: EUR 575 879).

In 2018, net result on financial operations included EUR 63 815 of realised loss on debt investments at amortised cost. See note 4.2.1.

7.5 Other operating income

Other operating income includes mainly attendance fees and commitment fees.

7.6 General administrative expenses

The number of persons employed at the year-end, including 1 EIF secondee to EIB (2018: 1), is as follows:

	2019	2018
Chief Executive/Deputy Chief Executive	2	2
Employees	526	487
	528	489

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

Key management compensation for the period is disclosed as follows:

	2019	2018
Short-term benefits (1)	2 753 428	3 184 308
Post employment benefits (2)	433 119	455 250
	3 186 547	3 639 558

(1) Short-term employee benefits comprise salaries and allowances, performance awards 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 contributions under the service level agreement with the EIB for the use of office space amounting to EUR 12 580 748 (2018: EUR 11 949 023).

08. Related party transactions

EIB is the majority owner of the Fund with 58.5% (2018: 58.7%) of the shares. The remaining percentage is held by the European Commission 29.7% (2018: 29.7%) and the Financial Institutions 11.8% (2018: 11.6%).

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

8.1 European Investment Bank

Related party transactions with the EIB concern mainly the management by the Fund of the PE activity as described in note 6. In addition and according to the service level agreement between the EIB and the EIB, the EIB manages the EIF treasury, IT, the pension fund and other services on behalf of the EIF. Relating expenses are taken into account in the general administrative expenses.

The amounts included in the financial statements and relating to the EIB are disclosed as follows:

	31.12.2019 EUR	31.12.2018 EUR
Assets		
Other assets	257 473 500	207 247 346
Liabilities and equity		
Other liabilities and provisions	7 636 781	4 717 240
Share capital (subscribed and paid-in)	526 800 000	527 800 000
Income		
Commission income	66 499 887	62 911 631
Interest income on pensions	5 282 813	5 083 617
Expenses		
General administrative expenses	19 362 011	26 084 989

8.2 European Commission

Related party transactions with the European Union represented by the European Commission concern mainly the management by the Fund of private equity and guarantee activities as described in the note 6. The amounts included in the financial statements and relating to the European Union represented by the European Commission are disclosed as follows:

	31.12.2019 EUR	31.12.2018 EUR
Assets		
Other assets	66 256 395	56 620 835
Liabilities and equity		
Other liabilities and provisions	88 069 202	71 148 676
Share capital (subscribed and paid-in)	267 400 000	267 400 000
Income		
Commission income	37 196 662	39 418 084

09. Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty on the Functioning of the European Union, 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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Additional information is also available on the internet: **http://europa.eu**

Disclaimer

Numbers in the EIF Annual Report are correct as at 31 December 2019 and any references to figures throughout the text apply to the same period unless otherwise stated. EIF's 2019 figures related to SME outreach and employment including the estimated numbers and sustained jobs are indicative only and are based on reports received from financial intermediaries between 1 October 2018 and 30 September 2019. EIF assumes no liability for the accuracy thereof. The EIF shall not be held responsible for the use that might be made with the information contained herein. Reproduction is authorised provided the source is acknowledged. For any use or reproduction of photos or other material that is not under the EIF's copyright, permission must be sought directly from the copyright holders.

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