

**Alba 4 SPV S.r.l.**

*(incorporated with limited liability under the laws of the Republic of Italy)*

**€ 74,600,000 Series A1 Guaranteed Asset-Backed Floating Rate Notes due July 2040**

**€ 76,900,000 Series B1 Asset-Backed Floating Rate Notes due July 2040**



This prospectus (the “**Prospectus**”) contains information relating to the issue by Alba 4 SPV S.r.l. (the “**Issuer**”) of the Euro 74,600,000 Series A1 Guaranteed Asset Backed Floating Rate Notes due July 2040 (the “**Series A1 Notes**”). In connection with the issuance of the Series A1 Notes, the Issuer will issue a tranche of junior notes for an amount of Euro 76,900,000 (the “**Series B1 Notes**” and, together with the Series A1 Notes, the “**Series 1 Notes**”).

Subject to and in compliance with the provisions set forth in the Terms and Conditions and the First Subscription Agreements (as defined below), the Issuer is allowed to issue up to Euro 75,400,000 Series A2 Guaranteed Asset Backed Floating Rate Notes due July 2040 (“**Series A2 Notes**”) and up to Euro 176,800,000 Series B2 Asset Backed Floating Rate Notes due July 2040 (“**Series B2 Notes**” and, together with the Series A2 Notes, the “**Series 2 Notes**”). The Series A1 Notes and the Series A2 Notes are together referred to as the “**Senior Notes**” or the “**Class A Notes**”. The Series B1 Notes and the Series B2 Notes are together referred to as the “**Junior Notes**” or the “**Class B Notes**”. All the Senior Notes and the Junior Notes issued at any relevant time by the Issuer shall be referred to as the “**Notes**”.

The Issuer is a limited liability company incorporated under the laws of the Republic of Italy pursuant to article 3 of Italian law No. 130 of 30 April 1999, as amended and supplemented from time to time (the “**Securitisation Law**”) having its registered office at Via V. Alfieri, 1, 31015 Conegliano (TV), Italy. The Issuer is enrolled in the register of the “*società veicolo*” held by the Bank of Italy and in the Companies Register of Treviso under No. 04571870262.

This Prospectus is issued pursuant to article 2, paragraph 3 of the Securitisation Law and constitutes a *prospetto informativo* for all the Notes in accordance with the Securitisation Law. This Prospectus is a prospectus with regard to Directive 2003/71/EC (the “**Prospectus Directive**”) of the European Parliament and of the Council of 4 November 2003 and relevant implementing measures in Ireland.

The Prospectus has been approved by the Central Bank of Ireland (the “**Central Bank**”), as competent authority under the Prospectus Directive. The Central Bank only approves this Prospectus as meeting the requirements imposed under Irish and EU law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange for the Series A1 Notes to be admitted to the Official List and trading on its regulated market. Such approval relates only to the Series A1 Notes, which are to be admitted to trading on the regulated market of the Irish Stock Exchange or other regulated markets for the purposes of Directive 2004/39/EC or which are to be offered to the public in any Member State of the European Economic Area.

**ARRANGER**

**Société Générale Corporate & Investment Banking**

*Dated 25 February 2013*

The principal source of funds available to the Issuer for the payment of interest and the repayment of principal on the Notes will be collections received in respect of a pool of monetary claims and other connected rights (the “**Receivables**”) arising out of lease contracts (the “**Lease Contracts**”) between Alba Leasing S.p.A. (the “**Originator**” or “**Alba Leasing**”), as lessor, and the lessees (the “**Lessees**”). The first pool of Receivables (the “**Initial Portfolio**”), arising from an initial portfolio of Lease Contracts originated by the Originator, has been transferred from the Originator to the Issuer pursuant to the terms of a Master Transfer Agreement (the “**Master Transfer Agreement**”) and a first transfer deed (the “**Initial Deed of Transfer**”), both entered into on 13 February 2013. Subject to the terms of the Master Transfer Agreement, the Originator is entitled to sell to the Issuer which, upon occurrence of the conditions set forth in the Master Transfer Agreement, shall purchase from the Originator (i) during the Ramp-Up Period, an additional portfolio of Receivables (the “**Additional Portfolio**”) and (ii) during the Revolving Period, subsequent portfolios of Receivables (the “**Subsequent Portfolios**”) and each of the Initial Portfolio, the Additional Portfolio and any Subsequent Portfolio, a “**Portfolio**”, and, collectively, the “**Portfolios**”), pursuant to transfer deeds to be entered into from time to time between the Issuer and the Originator in compliance with the terms of the Master Transfer Agreement (the “**Subsequent Deeds of Transfer**”) and, together with the Initial Deed of Transfer, the “**Deeds of Transfer**” and each a “**Deed of Transfer**”).

The purchase price of the Initial Portfolio will be funded through the net proceeds of the issue of the Series 1 Notes. The purchase price of any Subsequent Portfolios will be funded by using the collections received under the Receivables comprised in the Portfolios already purchased by the Issuer. Should the Originator sell to the Issuer the Additional Portfolio, the purchase price of that Portfolio will be funded by using, *inter alia*, the net proceeds of the Series 2 Notes. The principal source of funds available to the Issuer for the payment of interest and the repayment of principal on the Series 2 Notes, once they are issued, will be collections received under all and any Portfolio purchased by the Issuer pursuant to the Master Transfer Agreement.

By virtue of the operation of article 3 of the Securitisation Law and of the Transaction Documents, the Issuer’s right, title and interest in and to the Aggregate Portfolio and to any sums collected therefrom will be segregated from all other assets of the Issuer (including any other receivables purchased by the Issuer pursuant to the Securitisation Law) and, therefore, any cash-flow deriving therefrom (to the extent identifiable) will only be available, both prior to and following a winding up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders, to the Other Issuer Creditors and to any other creditor of the Issuer in respect of any costs, fees and expenses in relation to the Securitisation.

Interest in respect of the Notes will accrue on a daily basis and will be payable in Euro quarterly in arrears on the relevant First Quarterly Payment Date, being, in respect of the Series 1 Notes, 29 April 2013 and on each Quarterly Payment Date thereafter, being the 27<sup>th</sup> calendar day of January, April, July and October of each year (or, if such day is not a Business Day, the immediately following Business Day), in each case, in accordance with the applicable Priority of Payments. The rate of interest applicable to the Notes for each Interest Period will be equal to 3 month EURIBOR (except that (i) for the Initial Interest Period in respect of the Series 1 Notes, where an interpolated interest rate based on 2 months and 3 months deposits in Euro will be substituted for EURIBOR and (ii) for the Initial Interest Period in respect of the Series 2 Notes where an interpolated interest rate (if applicable) will be set forth in the Terms and Conditions of the Series 2 Notes), plus the following respective margins:

- Class A Notes: 0.90 per cent. per annum;
- Class B Notes: 2 per cent. *per annum*.

Before the relevant maturity date, the Notes will be subject to mandatory and/or optional redemption in whole or in part in certain circumstances provided for by Condition 8 (*Redemption, Purchase and Cancellation*). Unless previously redeemed in full or cancelled in accordance with the Terms and Conditions, the Notes will be redeemed on the Final Maturity Date. Save as provided in the Terms and Conditions, the Notes will be repaid on each Quarterly Payment Date falling in the Amortisation Period, subject to there being sufficient Issuer Available Funds, in accordance with the applicable Priority of Payments. The Notes, to the extent not redeemed in full by the Cancellation Date, shall be cancelled on such date.

The Series A1 Notes are expected, on issue, to be rated AAA (sf) by S&P. As of the date of this Prospectus, S&P is established in the European Union and was registered on 31 October 2011 in accordance with Regulation (EC) No. 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, as amended by Regulation (EU) No. 513/2011 of the European Parliament and of the Council of 11 May 2011 (the “**CRA Regulation**”) and is included in the list of credit rating agencies registered in accordance with the CRA Regulation published on the website of the European Securities and Markets Authority (for the avoidance of doubt, such website does not constitute part of this Prospectus). In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the European Union and registered under the CRA Regulation unless the rating is provided by a credit rating agency operating in the European Union before 7 June 2010 which has submitted an application for registration in accordance with the CRA Regulation and such registration is not refused. No rating will be assigned to the Junior Notes. ***A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal by the assigning rating organisation.***

All payments of principal and interest on the Notes will be made free and clear of any withholding or deduction for Italian withholding taxes, subject to the requirements of Legislative Decree No. 239 of 1 April 1996 as amended by Italian Law No. 409 of 23 November 2001 and as subsequently amended and supplemented, unless the Issuer is required by any applicable law to make such a withholding or deduction. If any withholding tax is applicable to the Notes, payments of interest on, and principal of the Notes will be made subject to such withholding tax, without the Issuer or EIF (as defined below) or any other person being obliged to pay any additional amounts to any holder of Notes of any Class as a consequence.

The Notes will be direct, secured and limited recourse obligations solely of the Issuer and will not be the responsibility of, or be guaranteed by, any other entity, other than the European Investment Fund (“**EIF**” or the “**Class A Guarantor**”) with respect to (i) the Series A1 Notes and (ii) subject to confirmation by the Class A Guarantor (which will act at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), pursuant and subject to the Class A Guarantee and Deed of Undertaking.

The Notes will be held in dematerialised form on behalf of the beneficial owners as of the relevant Issue Date until redemption or cancellation thereof by Monte Titoli S.p.A. (“**Monte Titoli**”) for the account of the relevant Monte Titoli Account Holders (as defined below). The expression “**Monte Titoli Account Holder**” means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli and includes any depository banks appointed by Clearstream Banking S. A. (“**Clearstream**”) and Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”). Monte Titoli shall act as depository for Clearstream and Euroclear. The Notes will at all times be evidenced by book-entries in accordance with the provisions of Article 83-bis of Italian Legislative Decree No. 58 of 24 February 1998 and with Resolution jointly issued by *Commissione Nazionale per le Società e la Borsa* (“**CONSOB**”) and the Bank of Italy on 22 February 2008, as amended from time to time. No physical document of title will be issued in respect of the Notes. The Senior Notes will be issued in the denomination of Euro 100,000. The Junior Notes will be issued in the denomination of Euro 100,000 and integral multiples of Euro 1,000 in excess thereof.

Alba Leasing S.p.A., in its capacity as Originator, will retain at the origination and maintain on an ongoing basis a material net economic interest of at least 5 per cent. in the Securitisation in order to retain the “first loss tranche” in accordance with option (d) of Article 122a of the EU Directive 2009/111/EC amending the EU Directive 2006/48/EC (“**Article 122a**”) or any permitted alternative method thereafter and provide adequate disclosure to the Noteholders in accordance with Article 122a.

**Capitalised words and expressions in this Prospectus shall, except otherwise specified or so far as the context otherwise requires, have the meanings set out herein and in the section entitled “*Terms and Conditions of the Series 1 Notes*” below.**

**For a discussion of certain risks and other factors that should be considered in connection with an investment in the Series 1 Notes, see the section headed “Risk Factors”.**

### **The Issuer**

*The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

### **The Originator, the Servicer and the Cash Manager**

*Alba Leasing S.p.A. accepts responsibility for the information included in this Prospectus in the sections headed “The Originator, the Servicer and the Cash Manager”, “Collection Policies and Recovery Procedures” and “The Portfolios” and any other information contained in this Prospectus relating to itself and the Portfolios. To the best of the knowledge and belief of Alba Leasing S.p.A. (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

### **The Calculation Agent**

*Securitisation Services S.p.A. accepts responsibility for the information included in this Prospectus in the section headed “The Calculation Agent”. To the best of the knowledge and belief of Securitisation Services S.p.A. (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

### **The Italian Account Bank, the English Account Bank, the Paying Agent and the Irish Agent**

*Each of The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV Dublin Branch accepts responsibility for the corporate information included in this Prospectus in the section headed “The Italian Account Bank, the English Account Bank, the Paying Agent and the Irish Agent”. To the best of the knowledge and belief of each of The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV Dublin Branch (which has taken all reasonable care to ensure that such is the case), such information is in accordance with the facts and does not omit anything likely to affect the import of such information.*

### **The Class A Guarantor**

*The European Investment Fund accepts responsibility for the information included in this Prospectus relating to itself and the Class A Guarantee and Deed of Undertaking in the sections headed “The Class A Guarantor”, “Summary of Principal Documents – The Class A Guarantee and Deed of Undertaking” and “General Information” (the “EIF Information”). To the best of the knowledge and belief of the European Investment Fund (which has taken all reasonable care to ensure that such is the case), such information is in accordance to the facts and does not omit anything likely to affect the import of such information.*

*The European Investment Fund accepts responsibility for the EIF Information but does not accept responsibility for any other part of this Prospectus.*

*No representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger or the Class A Guarantor (other than, in respect of the EIF Information) as to the accuracy or completeness of any information contained in this Prospectus or any other information supplied in connection with the Notes or their distribution.*

*Neither the Issuer, the Arranger, the Class A Guarantor nor any other party to any of the Transaction Documents, other than the Originator, has undertaken nor will undertake any investigations, searches or other actions to verify the details of the Receivables sold, or to be sold, by the Originator to the Issuer, nor has the Issuer nor any other party to any of the Transaction Documents, other than the Originator, undertaken, nor will they undertake, any investigations, searches or other actions to establish the existence of the Receivables and the creditworthiness of any debtor in respect of the Receivables. In the Master Transfer Agreement, the Originator shall give certain representations and warranties in*

*relation to itself and the Receivables and shall agree, subject to certain conditions, to indemnify the Issuer for the non-existence of the Receivables.*

*No person has been authorised to give any information or to make any representation not contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Issuer, Alba Leasing S.p.A. (in any capacity), the Arranger or any other party to the securitisation transaction. Neither the delivery of this Prospectus nor the offering, sale or delivery of any of the Notes shall, under any circumstances, constitute a representation or create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) of the Issuer or Alba Leasing S.p.A. or the Class A Guarantor or the information and data contained herein since the date of this Prospectus or that the information and data contained herein are correct as at any time subsequent to the date of this Prospectus.*

*The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus (or any part of it) comes are required by the Issuer to inform themselves about, and to observe any such restrictions. Neither this Prospectus nor any part of it constitutes an offer, and may not be used for the purpose of an offer, to sell any of the Notes, or a solicitation of an offer to buy any of the Notes, by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.*

*Neither the Issuer, the Originator, the Arranger, the Class A Guarantor nor the Representative of Noteholders accepts responsibility to investors for the regulatory treatment of their investment in the Notes (including (but not limited to) whether any transaction or transactions pursuant to which the Notes are issued from time to time is or will be regarded as constituting a “securitisation” for the purposes of Article 122a and the application of Article 122a to any such transaction) in any jurisdiction or by any regulatory authority. If the regulatory treatment of an investment in the Notes is relevant to an investor’s decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the “Risk factors – Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes” and “Capital Requirements Directive” section of this Prospectus for further information on Article 122a.*

*The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the **U.S. Securities Act**) or any other state securities laws and are subject to U.S. tax law requirements. Subject to certain exceptions, the Notes may not be offered or sold within the United States or for the benefit of U.S. persons (as defined in Regulation S under the U.S. Securities Act). The Notes may not be offered or sold directly or indirectly, and neither this document nor any other offering circular or any prospectus, form of application, advertisement, other offering material or other information relating to the Issuer or the Notes may be issued, distributed or published in any country or jurisdiction (including the Republic of Italy, the United Kingdom and the United States), except under circumstances that will result in compliance with all applicable laws, orders, rules and regulations. This document may not be used for any purpose other than that for which it is being published. For a further description of certain restrictions on offers and sales of the Notes and the distribution of this Prospectus, see the section headed “Subscription and Sale”.*

*The Notes may not be offered, sold or exchanged in the Republic of Italy (a) to/with persons or entities who are not qualified investors (investitori qualificati) as referred to in the Financial Laws Consolidated Act on the basis of the relevant criteria set out by the Prospectus Directive or (b) in circumstances which are not expressly exempted from compliance with the rules relating to public offers of financial products (offerta al pubblico di prodotti finanziari) provided for by the Financial Laws Consolidated Act and the relevant implementing regulations. No application has been or will be made and no other action has or will be taken by any person to obtain an authorisation from CONSOB for the public offering (offerta al pubblico) of the Notes in the Republic of Italy unless in compliance with the relevant Italian securities, tax and other applicable laws and regulation which would allow an offering of the Notes to the public in the Republic of Italy (offerta al pubblico) unless in compliance with the relevant Italian securities, tax and other applicable laws and regulations. Accordingly, the Notes*

*may not be offered, sold or delivered, and neither this document nor any other offering material relating to the Notes may be distributed, or made available, to the public in the Republic of Italy other than in the circumstances and to the extent set forth in section entitled "Subscription and Sale". Individual sales of the Notes to any persons in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.*

*Certain monetary amounts and currency translations included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them.*

*In this Prospectus, references to "€", "Euro" and "cents" are to the single currency introduced in the Member States of the European Community which adopted the single currency in accordance with the Treaty of Rome of 25 March 1957, as amended by, inter alia, the Single European Act 1986, the Treaty of European Union of 7 February 1992 establishing the European Union and the European Council of Madrid of 16 December 1995, and lawful currency on the Republic of Italy since 1 January 2002.*

*Neither this Prospectus nor any other information supplied in connection with the issue of the Notes should be considered as a recommendation or constituting an invitation or offer by the Issuer that any recipient of this Prospectus, or of any other information supplied in connection with the issue of the Notes, should purchase any of the Notes. Each investor contemplating purchasing any of the Notes must make its own independent investigation and appraisal of the financial condition and affairs of the Issuer.*

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## OVERVIEW OF THE TRANSACTION

*The following information is a summary of certain aspects of the transaction, the parties thereto, the assets underlying the Notes and the related documents and does not purport to be complete. Therefore, it should be read in conjunction with and is qualified in its entirety by reference to the more detailed information presented elsewhere in this Prospectus and in the Transaction Documents. Prospective investors should base their decisions on this Prospectus as a whole.*

### 1. PRINCIPAL FEATURES OF THE NOTES

#### The Notes

On the Initial Issue Date the Issuer will issue the Euro 74,600,000 Series A1 Guaranteed Asset Backed Floating Rate Notes due July 2040 (“**Series A1 Notes**”) and the Euro 76,900,000 Series B1 Asset Backed Floating Rate Notes due July 2040 (“**Series B1 Notes**”) and, together with the Series A1 Notes, the “**Series 1 Notes**”).

Subject to and in compliance with what indicated in the First Subscription Agreements and Condition 2 (*Issuance and Subscription of the Notes*), on the Subsequent Issue Date the Issuer is allowed to issue up to Euro 75,400,000 Series A2 Guaranteed Asset Backed Floating Rate Notes due July 2040 (“**Series A2 Notes**”) and up to Euro 176,800,000 Series B2 Asset Backed Floating Rate Notes due July 2040 (“**Series B2 Notes**”) and, together with the Series A2 Notes, the “**Series 2 Notes**”).

The Series A1 Notes and the Series A2 Notes, together the “**Senior Notes**” or the “**Class A Notes**”.

The Series B1 Notes and the Series B2 Notes, together the “**Junior Notes**” or the “**Class B Notes**”.

#### Initial Issue Date

Means 26 February 2013.

#### Subsequent Issue Date

Means, as the case may be:

- (i) the Quarterly Payment Date, or any other later date of the issuance of the Series 2 Notes under the terms of the Subscription Agreements; or
- (ii) the Monthly Payment Date,

falling during the Ramp-Up Period, on which, subject to what indicated in Condition 2 (*Issuance and Subscription of the Notes*), the Issuer will issue the Series 2 Notes.

“**Monthly Payment Date**” means the 27<sup>th</sup> day of each calendar month (other than months on which a Quarterly Payment Date falls) of each year, or any other later date of the issuance of the Series 2 Notes under the terms of the Subscription Agreements (or, if such day is not a Business Day, the immediately following Business Day).

“**Quarterly Payment Date**” means the First Quarterly Payment Date and thereafter the 27<sup>th</sup> day of January, April, July and October of each year, or, if such day is not a Business Day, the immediately following Business Day.

**Issue Date**

Means with reference to Series 1 Notes, the Initial Issue Date and with reference to Series 2 Notes, the Subsequent Issue Date, as the case may be.

**Issuance of the Notes**

On the Initial Issue Date, the Subscription Price of the Series A1 Notes and Series B1 Notes will be paid, respectively, by the Senior Notes Underwriter and the Junior Notes Underwriter, in accordance with the Terms and Conditions and the relevant Subscription Agreement in order to fund the Initial Purchase Price of the Initial Portfolio and the Debt Service Reserve Amount as of the Initial Issue Date.

Subject to and in accordance with the procedures set forth in the First Subscription Agreements and Condition 2 (*Issuance and Subscription of the Notes*), during the Ramp-Up Period, the Issuer, may, upon assignment to it of the Additional Portfolio, request the Senior Notes Underwriter and the Junior Notes Underwriter to subscribe, respectively, for the Series A2 Notes and the Series B2 Notes by delivering to each of them two written communications to be provided, respectively: (i) at least 31 days before the date indicated as Subsequent Issue Date (the “**Series 2 Notes Subscription Request**”) and (ii) as the case may be, (a) 5 (five) Business Days, in respect to the Series A2 Notes, or (b) 7 (seven) Business Days, in respect to the Series B2 Notes, before the date indicated as Subsequent Issue Date in the Series 2 Notes Subscription Request (the “**Series 2 Notes Funding Request**”). The Series 2 Notes Subscription Request and the Series 2 Notes Funding Request shall be sent by the Issuer, respectively, through the Originator and the Calculation Agent on its behalf, to the Senior Notes Underwriter and the Junior Notes Underwriter (with a copy to the Controlling Party) and shall include the information specified in the First Subscription Agreements. The proceeds deriving from the subscription of the Series A2 Notes and the Series B2 Notes by, respectively, the Senior Notes Underwriter and the Junior Notes Underwriter shall be applied by the Issuer to pay the Initial Purchase Price of the Additional Portfolio and the Series 2 Debt Service Reserve Amount.

The Series 2 Notes will be issued in the following amounts:

- (i) as regards the Series A2 Notes, the Senior Notes Ratio multiplied by the positive difference between the following amount

(such difference, the “**Net Funding Amount**”):

- (a) the Initial Purchase Price of the Additional Portfolio to be paid in accordance with the Master Transfer Agreement and the relevant Deed of Transfer; and
- (b) (1) in case the Subsequent Issue Date falls on, or immediately after, a Quarterly Payment Date, the Issuer Available Funds available, in accordance with the Pre-Enforcement Priority of Payments, for payment of the Portion of the Initial Purchase Price of the Additional Portfolio, as calculated by the Calculation Agent on the Quarterly Payments Report Date immediately preceding the relevant Quarterly Payment Date or as applicable (2) in case the Subsequent Issue Date falls on a Monthly Payment Date, the Principal Available Funds available for payment of the Initial Purchase Price of the Additional Portfolio pursuant to Condition 6.3 (*Priority of Payments - Monthly Payment Date Payments*), as calculated by the Calculation Agent on the Monthly Payments Report Date immediately preceding the relevant Monthly Payment Date;

*provided that* the Issuer may request the Senior Notes Underwriter to pay the Subscription Price of the Series A2 Notes for an amount not higher than the difference between the Senior Notes Maximum Amount and the then current Principal Amount Outstanding of the Series A1 Notes; and

- (ii) as regards the Series B2 Notes, the sum of:
  - (A) the positive difference between the Net Funding Amount and the Principal Amount Outstanding of the Series A2 Notes upon issue; and
  - (B) the relevant Series 2 Debt Service Reserve Amount.

In connection with the issuance of the Series 2 Notes, application may be made to list the Series A2 Notes on the Irish stock exchange.

“**Additional Portfolio**” means the additional portfolio of Receivables, not being a Subsequent Portfolio,

which will be purchased by the Issuer during the Ramp-Up Period according to the terms and conditions set forth under the Master Transfer Agreement.

**“Principal Available Funds”** means, on the Monthly Payments Report Date, the aggregate of (a) the principal component of all the Collections (including Agreed Prepayments and excluding, for the avoidance of doubt, the Residual Optional Instalment) (the **“Principal Collections”**) received by the Servicer in respect of the Monthly Settlement Period(s) falling after (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date; and (b) any amount credited to the Principal Accumulation Account on the immediately preceding Quarterly Payment Date under item (viii) of the Pre-Enforcement Priority of Payments and not utilised by the Issuer to pay the Initial Purchase Price of a Subsequent Portfolio, minus (c) the Provisioned Principal Amount.

**“Payments Report Date”** means the Quarterly Payments Report Date or the Monthly Payments Report Date, as the case may be.

**“Monthly Payments Report Date”** means the date falling 5 (five) Business Days prior to the Monthly Payment Date being the Subsequent Issue Date (without taking into account any deferral in the Monthly Payment Date in accordance with the Subscription Agreements).

**“Monthly Servicer Report Date”** means the fifth Local Business Day following the Monthly Settlement Date that falls immediately prior to the Monthly Payment Date being the Subsequent Issue Date (without taking into account any deferral in the Monthly Payment Date in accordance with the Subscription Agreements).

**“Monthly Settlement Date”** means the last day of each calendar month. The First Monthly Settlement Date falls on 28 February 2013.

**“Monthly Settlement Period”** means each one month period commencing on (but excluding) a Monthly Settlement Date and ending on (and including) the immediately following Monthly Settlement Date, provided that the first Monthly Settlement Period commences on the Valuation Date of the Initial Portfolio (excluded) and ends on the First Monthly Settlement Date (included).

**“Provisioned Principal Amount”** means, on the

Monthly Payments Report Date, the positive difference, if any, between (a) Euro 600,000 multiplied by the Provisioning Factor and (b) the Interest Available Funds with reference to such Monthly Payments Report Date.

“**Provisioning Factor**” means, on the Monthly Payments Report Date, the number of Monthly Settlement Period(s) elapsed since (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date divided by 3 (three).

“**Interest Available Funds**” means, on the Monthly Payments Report Date, the aggregate of the interest component of all the Collections received by the Servicer in respect of the Monthly Settlement Period(s) falling after (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date.

“**Quarterly Payments Report Date**” means the date falling 5 (five) Business Days prior to each relevant Quarterly Payment Date.

“**Senior Notes Ratio**” means the percentage (as communicated by the Controlling Party to the Calculation Agent 6 (six) Business Days after receipt by the Class A Guarantor from the Originator of the data tape in relation to the Receivables included in the Additional Portfolio) set out in the Series 2 Notes Funding Request delivered by the Calculation Agent, on behalf of the Issuer, prior to the Subsequent Issue Date pursuant to the First Senior Notes Subscription Agreement, *provided that*, in any case, the ratio between (a) the Principal Amount Outstanding of the Senior Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes and (b) the Principal Amount Outstanding of the Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes, *less* the sum of (i) the amount credited into the Debt Service Reserve Account on the immediately preceding Quarterly Payment Date or, if lower, Euro 2,238,000 and (ii) the Series 2 Debt Service Reserve Amount, shall not be higher than 60%.

## **Issue Price**

The Senior Notes will be issued at 100% of their principal amount.

The Junior Notes will be issued at 100% of their principal amount.

## Interest on the Notes

The Notes will bear interest on their Principal Amount Outstanding from and including the Issue Date at the EURIBOR (except that for the Initial Interest Period in respect of the Series 1 Notes where an interpolated interest rate based on 2 months and 3 months deposits in Euro will be substituted for EURIBOR and for the Initial Interest Period in respect of the Series 2 Notes where an interpolated interest rate (if applicable) will be set forth in the Terms and Conditions of the Series 2 Notes) plus the following respective margins in respect of each Class of Notes:

- Senior Notes: 0.90 per cent. *per annum*;
- Junior Notes: 2 per cent. *per annum*.

Interest in respect of the Notes will accrue on a daily basis and will be payable quarterly in arrears in Euro on each Quarterly Payment Date in accordance with the applicable Priority of Payments.

The first payment of interest in respect of the Series 1 Notes will be due on the Quarterly Payment Date falling on 29 April 2013, in respect of the period from (and including) the Initial Issue Date to (but excluding) such date; the first payment of interest in respect of the Series 2 Notes, if any, will be due on the Quarterly Payment Date falling after the Subsequent Issue Date, in respect of the period from (and including) the Subsequent Issue Date to (but excluding) such date (each, a “**First Quarterly Payment Date**”).

## Form and denomination of the Notes

The Notes will be issued in bearer form and held in dematerialised form on behalf of the beneficial owners, until redemption or cancellation thereof, by Monte Titoli for the account of the relevant Monte Titoli Account Holders. The Notes will be accepted for clearance by Monte Titoli with effect from the Issue Date. The Notes will at all times be in book entry form and title to the Notes will be evidenced by book entry in accordance with the provisions of (i) article 83 *bis* of the Financial Laws Consolidated Act; and (ii) Regulation 22 February 2008. No physical document of title will be issued in respect of the Notes.

The Senior Notes will be issued in the denomination of Euro 100,000; the Junior Notes will be issued in the denomination of Euro 100,000 and integral multiples of Euro 1,000 in excess thereof.

## Status and subordination

In respect of the obligations of the Issuer to pay interest and repay principal on the Notes, the Terms and Conditions provide that both prior to, and following, the service of a Trigger Notice:

- (i) the Senior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but in

priority to the Junior Notes;

- (ii) the Junior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but subordinated to the Senior Notes.

### **Withholding on the Notes**

As at the date of this Prospectus, payment of interest and other proceeds under the Notes may be subject to a Decree 239 Deduction. Upon the occurrence of any withholding or deduction for or on account of tax from any payment under the Notes, neither the Issuer nor the Class A Guarantor nor any other person shall have any obligation to pay any additional amount(s) to any holder of the Notes.

### **Mandatory Redemption**

Unless previously redeemed in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) or Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*), the Notes will be subject to mandatory redemption in full (or in part *pro rata*) on each Quarterly Payment Date falling in the Amortisation Period, and, in relation to the Series A1 Notes, on the Series 1 First Amortisation Date (for an amount equal to the Series 1 First Amortisation Amount), in accordance with the provisions of the Terms and Conditions, in each case if and to the extent that, on such dates, there are sufficient Issuer Available Funds which may be applied towards redemption of the Notes, in accordance with the Pre-Enforcement Priority of Payments.

### **Optional Redemption**

Unless previously redeemed in full, the Issuer may redeem all the Series A1 Notes and the Series A2 Notes (in whole but not in part) and the Series B1 Notes and the Series B2 Notes (in whole or, subject to the prior consent of the Junior Noteholders, in part) at their Principal Amount Outstanding, together with all accrued but unpaid interest thereon up to the date fixed for redemption, on the Series 1 Expected Maturity Extension Date and on each Quarterly Payment Date falling thereafter, in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) and the then applicable Priority of Payments.

Any such redemption shall be effected by the Issuer on giving not less than 30 days' prior notice in writing to the Representative of the Noteholders and the Noteholders (copying the Class A Guarantor) in accordance with Condition 18 (*Notices*) and provided that the Issuer has, prior to giving such notice, certified to the Representative of the Noteholders and produced satisfactory evidence to the Representative of the Noteholders that it will have the necessary funds, not subject to the interests of any person (other than the

Noteholders and/or the Other Issuer Creditors), to discharge all its outstanding liabilities in respect of the relevant Notes to be redeemed, any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Notes and, in any case, any Outstanding Guarantor Interest Payment Amounts and Outstanding Guarantor Principal Payment Amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking.

The Issuer may obtain the necessary funds in order to effect the early redemption of the Notes in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) through the sale of all or part of the Aggregate Portfolio. In this respect, pursuant to the Master Transfer Agreement, the Originator has been granted with an option right to purchase the Aggregate Portfolio in accordance with the terms and conditions provided thereunder. The relevant sale proceeds deriving from any disposal of the Aggregate Portfolio shall form part of the Issuer Available Funds.

“**Controlling Party**” means the Class A Guarantor, unless: (i) a Class A Guarantor Event of Default has occurred and is continuing; and/or (ii) the Class A Notes have been repaid in full and the amounts owed to the Class A Guarantor have been paid in full by the Issuer; it being understood that upon the occurrence of any of the above events, any reference to the Controlling Party shall be construed as a reference (to the extent applicable) to the Most Senior Class of Noteholders (which shall release the consent or instruction provided by the Transaction Documents on the basis of a resolution adopted in accordance with the Rules).

“**Class A Guarantor Event of Default**” means the occurrence of any of the following events:

- (i) if any Guaranteed Interest Amount or Guaranteed Principal Amount is not paid by EIF on the date stipulated for payment by the Class A Guarantor under the Class A Guarantee and Deed of Undertaking and remains unpaid for five (5) Business Days from the due date;
- (ii) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding up, or the appointment of an administrator or receiver (including an administrative receiver or manager) of the Class A Guarantor (or, as the case may be, of a material part of its property or assets); or
- (iii) the Class A Guarantor institutes a proceeding seeking a judgment of insolvency or

bankruptcy in respect of itself.

“**Expected Maturity Extension Date**” means:

- (i) in respect of the Series 1 Notes 27 April 2015 (the “**Series 1 Expected Maturity Extension Date**”); and
- (ii) in respect of the Series 2 Notes, the Quarterly Payment Date falling on or immediately after the 24<sup>th</sup> month after the Subsequent Issue Date (the “**Series 2 Expected Maturity Extension Date**”).

## **Redemption for Taxation**

If the Issuer at any time satisfies the Representative of the Noteholders, immediately prior to giving the notice referred to below (copying the Class A Guarantor), that on the next Quarterly Payment Date:

- (a) amounts payable in respect of the Senior Notes by the Issuer and/or amounts payable to the Issuer in respect of the Receivables included in the Aggregate Portfolio would be subject to withholding or deduction (other than a Decree 239 Deduction) for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Italy or any political or administrative sub-division thereof or any authority thereof or therein (hereinafter, the “**Tax Event**”); and
- (b) the Issuer will have the necessary funds (not subject to the interests of any person (other than the Noteholders and/or the Other Issuer Creditors)) to discharge all its outstanding liabilities in respect of (i) all the Notes to be redeemed and any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Notes (including, without limitation, any Outstanding Guarantor Interest Payment Amounts or Outstanding Guarantor Principal Payment Amount) or (ii) all the Senior Notes to be redeemed (but not the Junior Notes, provided that the Junior Noteholders have consented to such partial redemption), any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Senior Notes (including, without limitation, any Outstanding Guarantor Interest Payment Amounts) as well as any Outstanding Guarantor Principal Payment Amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking,

then the Issuer may, on any such Quarterly Payment Date at its option having given not less than 30 days' prior notice in writing to the Representative of the Noteholders, to the Noteholders and to the Class A Guarantor in accordance with Condition 18 (*Notices*), redeem, in accordance with the then applicable Priority of Payments, the Senior Notes (in whole but not in part) and the Junior Notes (in whole or, subject to the prior consent of the Junior Noteholders, in part) at their Principal Amount Outstanding, together with all accrued but unpaid interest thereon up to and including the relevant Quarterly Payment Date fixed for redemption, in accordance with Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*).

Following the occurrence of a Tax Event and in accordance with the Terms and Conditions, the Issuer may, or the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) may (or shall if so requested by an Extraordinary Resolution of the holders of the Senior Notes then outstanding) direct the Issuer to dispose of the Aggregate Portfolio or any part thereof to finance the early redemption of the relevant Notes under Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*). In this respect, pursuant to the Intercreditor Agreement, the Originator has been granted with a pre-emption right for the purchase of the Aggregate Portfolio in accordance with the terms and conditions provided thereunder. The relevant sale proceeds deriving from any disposal of the Aggregate Portfolio shall form part of the Issuer Available Funds.

#### **Expected Maturity Extension Indemnity**

On each Quarterly Payment Date, starting from the Quarterly Payment Date falling after, as applicable, the Series 1 Expected Maturity Extension Date and the Series 2 Expected Maturity Extension Date, in connection with the extension of the expected maturity of, respectively, the Series A1 Notes and the Series A2 Notes as a consequence of the non-exercise by the Issuer of the Optional Redemption of the Notes with respect to the immediately preceding Quarterly Payment Date, the Issuer shall pay to the relevant Senior Noteholders an amount (the “**Expected Maturity Extension Indemnity**”) equal to 0.20% multiplied by the Principal Amount Outstanding of the relevant Senior Notes as at such preceding Quarterly Payment Date (following payments to be made on such preceding Quarterly Payment Date in accordance with the applicable Priority of Payments).

#### **Source of Payment of the Notes**

The principal source of payment of interest and of repayment of principal on the Notes will be the Collections and Recoveries made in respect of the

Receivables arising out of Lease Contracts between the Originator, as lessor, and the Lessees, purchased and to be purchased by the Issuer from the Originator pursuant to the Master Transfer Agreement and the relevant Deeds of Transfer. Under the Master Transfer Agreement the Originator has represented and warranted, *inter alia*, that all the Lease Contracts have been executed in compliance with the standard form of lease contract used from time to time by the Originator.

### **Segregation of the Aggregate Portfolio**

By virtue of the operation of Article 3 of the Securitisation Law and of the Transaction Documents, the Issuer's right, title and interest in and to the Aggregate Portfolio and to any sums collected therefrom will be segregated from all other assets of the Issuer (including any other receivables purchased by the Issuer pursuant to the Securitisation Law) and, therefore, any cash-flow deriving therefrom (to the extent identifiable) will only be available, both prior to and following a winding up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders, to the Other Issuer Creditors and to any other creditor of the Issuer in respect of any costs, fees and expenses in relation to the Securitisation.

The Aggregate Portfolio may not be seized or attached in any form by creditors of the Issuer other than the Noteholders, until full discharge by the Issuer of its payment obligations under the Notes or cancellation of the Notes. Pursuant to the terms of the Intercreditor Agreement and the Mandate Agreement, the Issuer has empowered the Representative of the Noteholders, following the service of a Trigger Notice or upon failure by the Issuer to promptly exercise its rights under the Transaction Documents, to exercise all the Issuer's Rights, powers and discretion under the Transaction Documents taking such action in the name and on behalf of the Issuer as the Representative of the Noteholders may deem necessary to protect the interests of the Issuer, the Noteholders and the Other Issuer Creditors in respect of the Aggregate Portfolio and the Issuer's Rights. Italian law governs the delegation of such power.

In addition, security over certain monetary rights of the Issuer arising out of certain Transaction Documents and over any Eligible Investments has been granted by the Issuer in favour of the Representative of the Noteholders pursuant to the Deed of Pledge and the Deed of Charge for the benefit of the Noteholders and the Other Issuer Creditors.

### **Limited Recourse**

Notwithstanding any other provision of the Transaction Documents, each of the Noteholders and the Other Issuer Creditors, under the Intercreditor Agreement, has:

- (a) acknowledged and agreed that all obligations of the Issuer to such Noteholder and/or Other Issuer Creditor including, without limitation, the obligations under any Transaction Document to which such Noteholder and Other Issuer Creditor is a party (including any obligation for the payment of damages or penalties) but excluding in any case the obligation of payment of (i) the Initial Purchase Price of the Initial Portfolio (decreased of an amount equal to the Retention Amount) and the Initial Purchase Price of the Additional Portfolio to be paid through the Subscription Price of the Series A2 Notes received by the Issuer from the Senior Notes Underwriter, (ii) the Excess Indemnity Amount, (iii) any Residual Optional Instalment and (iv) any other amount which is expressly excluded from the Issuer Available Funds under the Transaction Documents, are limited recourse obligations of the Issuer and are limited to the lower of (x) the nominal amount of such obligation and (y) the Issuer Available Funds which may be applied for the relevant purpose in accordance with the applicable Priority of Payments; in this regard, without prejudice to what provided for in Condition 13 (*Trigger Events - Non Payment*) and, in respect of the Senior Notes, without prejudice to the Class A Guarantee and Deed of Undertaking, the Noteholders and the Other Issuer Creditors have agreed that if the Issuer Available Funds are insufficient to pay any amount due and payable to the Noteholders and the Other Issuer Creditors on any Quarterly Payment Date in accordance with the applicable Priority of Payments, the shortfall then occurring will not be due and payable until a subsequent Quarterly Payment Date on which the Issuer Available Funds may be used for such purpose in accordance with the relevant Priority of Payments, provided however that (i) any amount due to the Class A Guarantor shall be deemed discharged and cancelled in accordance with Clause 12.2(g) of the Intercreditor Agreement and (ii) any other claim towards the Issuer shall be deemed discharged and cancelled on the Cancellation Date; for the avoidance of doubt, any failure by the Issuer to make payments on any relevant date referred to in Condition 13(a) shall constitute a Trigger Event in accordance with Condition 13(a);

- (b) acknowledged and agreed that it will have a claim only (save as stated in paragraph (a) above) in respect of the Issuer Available Funds and at all times only in accordance with the applicable Priority of Payments and will not have any claim, by operation of law or otherwise, against, or recourse to, the Issuer's other assets or its contributed capital;
- (c) acknowledged and agreed that the limited recourse nature of the obligations under the Notes or any Transaction Documents produces the effect of a *contratto aleatorio* and accepts the consequences thereof, including but not limited to the provision of article 1469 of the Italian civil code and will have an existing claim against the Issuer only in respect of the funds referred to in (a)(x) and (a)(y) above (as applicable) which may be applied for the relevant purpose as at the relevant date and will not have any claim, by operation of funds referred to in (a)(x) or (a)(y) above) over its contributed equity capital or any other assets of the Issuer whatsoever;
- (d) acknowledged and agreed that all payments to be made by the Issuer to any Noteholder and Other Issuer Creditor on each Quarterly Payment Date, whether under any Transaction Document to which such Noteholder and Other Issuer Creditor is a party or otherwise, shall be made by the Issuer solely from the Issuer Available Funds (save as stated in paragraph (a) above);
- (e) undertaken not to make any claim or bring any action in contravention of the provisions of the Intercreditor Agreement; and
- (f) without prejudice to the provision set out in the Intercreditor Agreement, undertaken to enforce any judgment obtained by such Noteholder and Other Issuer Creditor in any action brought under any of the Transaction Documents to which such Noteholder and Other Issuer Creditor is a party or any other document relating thereto only against the Principal Available Funds or the Issuer Available Funds, as the case may be and not against any other assets or property or the contributed capital of the Issuer or of any quotaholder, director, auditor or agent of the Issuer;
- (g) agreed and acknowledged that upon the Representative of the Noteholders giving

written notice to the Noteholders and the Other Issuer Creditors that it has determined, in its sole opinion, that there is no reasonable likelihood of there being any further amounts to be realised in respect of the Aggregate Portfolio or the Security (whether arising from an enforcement of the Security or otherwise) which would be available to pay unpaid amounts outstanding under the Transaction Documents and the Servicer having confirmed the same in writing to the Representative of the Noteholders, the Noteholders and the Other Issuer Creditors shall have no further claim against the Issuer in respect of any such unpaid amounts and such unpaid amounts (subject to the consent of the Class A Guarantor in respect of any amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking including by way of subrogation) shall be discharged and cancelled in full. The provisions of this paragraph (g) are subject to none of the Noteholders and the Other Issuer Creditors objecting to such determinations of the Representative of the Noteholders and the Servicer for reasonably grounded reasons within 30 days of notice thereof. If any of the Noteholders and the Other Issuer Creditors objects such determination within such term, the Representative of the Noteholders may request an independent third party to verify and determine if there is no reasonable likelihood of there being any further amounts to be realised in respect of the Aggregate Portfolio or the Security which would be available to pay unpaid amounts outstanding under the Transaction Documents. Such determination shall be definitive and binding for the Noteholders and the Other Issuer Creditors.

The Notes will be direct, secured and limited recourse obligations solely of the Issuer and will not be the responsibility of, or be guaranteed by, any other entity, other than the Class A Guarantor in respect of (i) the Series A1 Notes and (ii) subject to confirmation by the Class A Guarantor (which will act at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), pursuant and subject to the Class A Guarantee and Deed of Undertaking. In particular, the Notes will not be obligations or responsibilities of, or guaranteed by, the Originator, the Servicer, the Lessees, the Representative of the Noteholders, the Calculation Agent, the Italian Account Bank, the English Account

Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Corporate Services Provider, the Back-Up Servicer, the Sole Quotaholder, the Senior Notes Underwriter, the Junior Notes Underwriter, the Subordinated Loan Provider or the Arranger. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes.

### **Non Petition**

Only the Representative of the Noteholders may pursue the remedies available under the general law or under the Transaction Documents to obtain payment of any obligation or enforce the Security and no Noteholder or Other Issuer Creditor shall be entitled to proceed directly against the Issuer to obtain payment of such obligations or to enforce the Security. In particular, each of the Noteholders and the Other Issuer Creditors (other than the Representative of the Noteholders) has agreed with and acknowledged to each of the Issuer and the Representative of the Noteholders, and the Representative of the Noteholders has agreed with and acknowledged to the Issuer, that none of the Noteholders and the Other Issuer Creditors (nor any person on their behalf, other than the Representative of the Noteholders where appropriate) is entitled:

- (a) otherwise than as permitted by the Transaction Documents, to direct the Representative of the Noteholders to enforce the Security or take any proceedings against the Issuer to enforce the Security;
- (b) save as expressly permitted by the Transaction Documents, to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to such Party;
- (c) both before and following the delivery of a Trigger Notice, until the date falling one year and one day after the date on which all the Notes and any other asset backed notes issued by the Issuer in the context of any Further Securitisation have been redeemed in full or cancelled, to cause, initiate or join any person in initiating an Insolvency Event in relation to the Issuer; and
- (d) both before and following the delivery of a Trigger Notice, to take or join in the taking of any corporate action, legal proceedings or other procedure or step that would result in the Priority of Payments not being complied with.

### **Senior Notes Put Option**

Under the terms of the First Senior Notes Subscription

Agreement, (i) Alba Leasing has irrevocably granted to the Option Beneficiary a put option pursuant to which the Option Beneficiary will have the option to sell (in whole but not in part) to Alba Leasing all the Series A1 Notes held by the Option Beneficiary on the relevant Expected Maturity Extension Date or on any Quarterly Payment Date falling thereafter and (ii) the parties thereto have agreed that the Second Senior Notes Subscription Agreement shall contain a put option pursuant to which the Option Beneficiary will have the option to sell (in whole but not in part) to Alba Leasing all the Series A2 Notes held by the Option Beneficiary on the relevant Expected Maturity Extension Date or on any Quarterly Payment Date falling thereafter.

“**Option Beneficiary**” means the Senior Notes Underwriter.

**Senior Notes Call Option**

Under the terms of the First Senior Notes Subscription Agreement, (i) the Option Beneficiary has irrevocably granted to Alba Leasing a call option pursuant to which Alba Leasing will have the option to buy (in whole but not in part) from the Option Beneficiary all the Series A1 Notes held by the Option Beneficiary on the relevant Expected Maturity Extension Date or on any Quarterly Payment Date falling thereafter and (ii) the parties thereto have agreed that the Second Senior Notes Subscription Agreement shall contain a call option pursuant to which Alba Leasing will have the option to buy (in whole but not in part) from the Option Beneficiary all the Series A2 Notes held by the Option Beneficiary on the relevant Expected Maturity Extension Date or on any Quarterly Payment Date falling thereafter.

**Final Maturity Date**

Unless previously redeemed in full or cancelled in accordance with the Terms and Conditions, the Notes are due to be repaid in full at their respective Principal Amount Outstanding on the Final Maturity Date.

**Cancellation Date**

The Notes will be cancelled on the Cancellation Date which is the earlier of:

- (a) the date on which the Notes have been redeemed in full;
- (b) the Final Maturity Date; and
- (c) the date on which the Representative of the Noteholders has certified to the Issuer and the Noteholders that, in its sole and reasonable opinion, there are no more Issuer Available Funds to be distributed as a result of no additional amount or asset relating to the Aggregate Portfolio being available to the Issuer at which date, subject to the consent of the Controlling Party, any amount

outstanding, whether in respect of interest, principal or other amounts in respect of the Notes, shall be finally and definitively cancelled.

**The Organisation of the Noteholders and the Representative of the Noteholders**

The Organisation of the Noteholders shall be established upon and by virtue of the issuance of the Notes and shall remain in force and in effect until repayment in full or cancellation of the Notes.

Pursuant to the Rules of the Organisation of the Noteholders, for as long as any Note is outstanding, there shall at all times be a Representative of the Noteholders. The appointment of the Representative of the Noteholders, as legal representative of the Organisation of the Noteholders, is made by the Noteholders subject to and in accordance with the Rules of the Organisation of the Noteholders, except for the initial Representative of the Noteholders appointed at the time of the issue of the Notes, who is appointed by the Senior Notes Underwriter and the Junior Notes Underwriter, subject to and in accordance with the provisions of the Subscription Agreements. Each Noteholder is deemed to accept such appointment.

**Class A Guarantee and Deed of Undertaking**

Pursuant and subject to the Class A Guarantee and Deed of Undertaking, the Class A Guarantor will grant a guarantee for the benefit of the Class A Noteholders in respect of the Series A1 Notes and, subject to confirmation by the Class A Guarantor (which will act at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation).

**Listing**

Application has been made to list the Series A1 Notes on the Irish stock exchange.

**Public Credit Rating**

The Senior Notes are expected, on issue, to be rated AAA (sf) by S&P. The Junior Notes are not expected to be assigned any credit rating.

**Governing Law**

The Notes will be governed by Italian law.

**Purchase of the Notes**

The Issuer may not purchase any Notes at any time.

**Selling restrictions**

There will be restrictions on the sale of the Notes and on the distribution of information in respect thereof.

**Material Net Economic Interest in the Securitisation**

Under the First Junior Notes Subscription Agreement and the Intercreditor Agreement Alba Leasing has undertaken (and will undertake in respect of the Series A2 Notes under the Second Junior Notes Subscription Agreement) to retain, on an on going basis, a material net economic interest which, in any event, shall not be less than 5% in this Securitisation in accordance with Article 122a of the CRD, as implemented into Italian

law by the Bank of Italy Supervisory Regulations.

As of the Initial Issue Date, such interest will, in accordance with Article, paragraph (1) sub d), of the CRD, be comprised of the retention by Alba Leasing of the Junior Notes.

After the Initial Issue Date, under the Transaction Documents Alba Leasing has undertaken to prepare quarterly reports in which information regarding to the Receivables will be disclosed publicly together with an overview of the retention of material net economic interest by Alba Leasing with a view of complying with Article 122a, paragraph (7) of the CRD and the Bank of Italy Supervisory Regulations.

## **2. ACCOUNTS**

### **Collection Account**

The Issuer has established the Collection Account with the Italian Account Bank into which all the Collections and Recoveries made in respect of the Aggregate Portfolio shall be credited, in accordance with the Servicing Agreement.

### **Payments Account**

The Issuer has established the Payments Account with the Italian Account Bank into which, *inter alia*, (i) on the Subsequent Issue Date the Subscription Price of the Series 2 Notes will be credited to the purpose of paying the Initial Purchase Price of the Additional Portfolio and to fund the Series 2 Debt Service Reserve Amount, and (ii) all amounts due to the Issuer under any Transaction Document (other than the Collections and the Recoveries) will be paid.

### **Principal Accumulation Account**

The Issuer has established the Principal Accumulation Account with the Italian Account Bank into which, *inter alia*, on each Quarterly Payment Date prior to the beginning of the Amortisation Period, certain Issuer Available Funds may be credited in accordance with the Pre-Enforcement Priority of Payments and the Transaction Documents.

### **Debt Service Reserve Account**

The Issuer has established the Debt Service Reserve Account with the Italian Account Bank into which (i) on the Initial Issue Date the Debt Service Reserve Amount shall be credited from the Payments Account; (ii) on each Quarterly Payment Date until (but excluding) the Release Date, the Issuer will credit the Issuer Available Funds in accordance with the Pre-Enforcement Priority of Payments and the Transaction Documents, to bring the balance of such account up to the Debt Service Reserve Amount; and (iii) on the Subsequent Issue Date, the Series 2 Debt Service Reserve Amount shall be credited from the Payments Account out of the proceeds of the issuance of the Series 2 Notes.

The amount standing to the credit of the Debt Service

Reserve Account will form part of the Issuer Available Funds on each Quarterly Payment Date.

The Release Date will be the earlier of

- (i) the Cancellation Date;
- (ii) the Quarterly Payment Date during the Amortisation Period on which the Issuer Available Funds to be applied on such date, *minus* all payments or provisions to be made under item (i) to (vi) of the Pre-Enforcement Priority of Payments are sufficient to redeem the Senior Notes in full; and
- (iii) the Quarterly Payment Date immediately succeeding the service of a Trigger Notice.

**“Series 2 Debt Service Reserve Amount”** means an amount equal to the difference, if positive, between (a) the initial Principal Amount Outstanding of the Senior Notes issued on or prior to the Subsequent Issue Date, multiplied by 3.0%; and (b) the Debt Service Reserve Amount.

**“Debt Service Reserve Amount”** means,

- (A) on the Initial Issue Date, an amount equal to Euro 2,238,000;
- (B) with respect to any Quarterly Payment Date until, but excluding, the Release Date, an amount equal to the higher of:
  - (i) the amount of Euro 2,238,000,
  - (ii) the initial Principal Amount Outstanding of the Senior Notes issued prior to such Quarterly Payment Date, multiplied by 3.0%;
- (C) on the Release Date and on any Quarterly Payment Date falling thereafter, 0 (zero).

### **Investment Account**

The Issuer has established the Investment Account with the English Account Bank into which, *inter alia*, amounts standing to the credit of the Collection Account, the Payments Account, the Principal Accumulation Account and the Debt Service Reserve Account shall be credited in accordance with the Cash Allocation, Management and Payment Agreement. All the amounts standing to the credit of the Investment Account will be applied on any Business Day by the English Account Bank for the purchase of Eligible Investments. The Eligible Investments deriving from the investment of funds standing to the credit of the

Investment Account shall be deposited in such Investment Account.

**Expenses Account**

The Issuer has established the Expenses Account with Banca Antonveneta S.p.A., Conegliano branch, into which, on the Initial Issue Date, the Retention Amount will be credited using the net proceeds of the Notes.

**Quota Capital Account**

The Issuer has established a quota capital account with Banca Antonveneta S.p.A., Conegliano branch, into which its contributed quota capital has been deposited.

**3. CREDIT STRUCTURE**

**Issuer Available Funds**

On each Quarterly Payment Date, the Issuer Available Funds shall comprise the aggregate amounts (without duplication) of:

- (a) all Collections received in respect of the immediately preceding Quarterly Settlement Period pursuant to the Servicing Agreement and credited to the Collection Account (including, for the avoidance of doubt, penalties and/or the Agreed Prepayments received and any other sums paid by the Lessees pursuant to the relevant Lease Contracts in respect of the Receivables), *less* any Principal Collections which has been applied (as Principal Available Funds) on the Monthly Payment Date falling in the Interest Period ending on such Quarterly Payment Date towards payment of the Portion of the Initial Purchase Price of the Additional Portfolio;
- (b) all Recoveries received in respect of the immediately preceding Quarterly Settlement Period pursuant to the Servicing Agreement and credited to the Collection Account;
- (c) all amounts received by the Issuer from the Originator pursuant to the Master Transfer Agreement or by the Servicer pursuant to the Servicing Agreement during the immediately preceding Quarterly Settlement Period (other than the Collections and the Recoveries) and credited to the Payments Account;
- (d) any interest accrued and credited on the Accounts (other than the Expenses Account and the Quota Capital Account) as of the last day of the immediately preceding Quarterly Settlement Period;
- (e) any amounts credited into the Debt Service Reserve Account during the Interest Period ending on such Quarterly Payment Date (excluded);

- (f) the net proceeds deriving from the Eligible Investments made out of the funds standing to the credit of the Accounts (other than the Expenses Account and the Quota Capital Account) in respect of the Quarterly Settlement Period immediately preceding such Quarterly Payment Date;
- (g) any amount credited to the Principal Accumulation Account on the immediately preceding Quarterly Payment Date under item (viii) of the Pre-Enforcement Priority of Payments and not utilised by the Issuer to pay the Initial Purchase Price of a Subsequent Portfolio and/or the Portion of the Initial Purchase Price of the Additional Portfolio, as the case may be prior to such Quarterly Payment Date;
- (h) following delivery of a Trigger Notice or upon exercise of the Optional Redemption or Redemption for Taxation, all proceeds from the sale of the Receivables (also if credited to the Accounts following the Quarterly Settlement Date immediately preceding such Quarterly Payment Date);
- (i) starting from the Quarterly Payment Date immediately following any relevant Expected Maturity Extension Date (included) and only towards payments under item (vi)(b) of the applicable Priority of Payments any Advance made by the Subordinated Loan Provider under the Subordinated Loan;
- (l) any other amount received in respect of the Securitisation during the Quarterly Settlement Period immediately preceding such Quarterly Payment Date, not included in any of the items above (but excluding any amount expressly excluded from the Issuer Available Funds pursuant to any of the items above and below);

*but excluding:* (i) any Residual Optional Instalment collected by the Issuer in the immediately preceding Quarterly Settlement Period and (ii) any Excess Indemnity Amount.

**“Quarterly Settlement Period”** means each three months period commencing on (but excluding) a Quarterly Settlement Date and ending on (and including) the immediately following Quarterly Settlement Date, provided that the first Quarterly Settlement Period commences on the Valuation Date of the Initial Portfolio (excluded) and ends on the First Quarterly Settlement Date (included).

“**Quarterly Settlement Date**” means the last calendar day of March, June, September and December of each year. The First Quarterly Settlement Date falls on 31 March 2013.

“**Settlement Date**” means a Monthly Settlement Date or a Quarterly Settlement Date, as the context requires.

“**Subsequent Portfolio**” means any portfolio of Receivables which will be purchased by the Issuer during the Revolving Period and which is not the Additional Portfolio.

## Trigger Events

The Terms and Conditions provide the following Trigger Events:

(a) *Non-payment by the Issuer:*

Default is made by the Issuer in the payment of any of the following amounts:

- (i) (1) on any Quarterly Payment Date, the Interest Amount accrued in relation to the Interest Period ending on (but excluding) such Quarterly Payment Date on the Most Senior Class of Notes then outstanding; and/or
- (2) the amount of principal due and payable on the Most Senior Class of Notes then outstanding ; and/or
- (3) the amount required to redeem in full the Senior Notes on the Senior Notes Maturity Date; and/or
- (4) the Outstanding Guarantor Interest Payment Amount (in full or in part), on any Quarterly Payment Date following the Quarterly Payment Date on which the Issuer has not paid the amount set out under item (i)(1) above

and such default is not remedied within a period of five Business Days from the due date thereof, regardless any payment made by the Class A Guarantor under the Class A Guarantee and Deed of Undertaking;

- (ii) any amount due to the Other Issuer Creditors under items (i) and (ii) of the Priority of Payments and such default is not remedied within a period of five Business Days from the due date thereof; or

(b) *Breach of other obligations by the Issuer:*

The Issuer defaults in the performance or observance of any of its obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party (other than any obligation specified in (a) above) which is, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), materially prejudicial to the interests of the Noteholders and such default remains unremedied for 30 days after the Representative of the Noteholders has given written notice thereof to the Issuer (being agreed that it shall give such a notice if so directed by the Class A Guarantor provided that it is the Controlling Party) requiring the same to be remedied (except where, in the reasonable opinion of the Representative of the Noteholders, such default is not capable of remedy in which case no term of 30 days will be given); or

- (c) *Breach of Representations and Warranties by the Issuer:*

Any of the representations and warranties given by the Issuer under any of the Transaction Documents to which it is party is, or proves to have been, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), incorrect or erroneous in any material respect when made, or deemed to be made, or at any time thereafter, unless it has been remedied within 30 days after the Representative of the Noteholders has served a notice to the Issuer requiring remedy (being agreed that it shall give such a notice if so directed by the Class A Guarantor provided that it is the Controlling Party); or

- (d) *Insolvency of the Issuer:*

An Insolvency Event occurs in respect of the Issuer; or

- (e) *Unlawfulness for the Issuer:*

It is or will become unlawful for the Issuer to perform or comply with any of its material obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party when compliance with such obligations is deemed by the Representative of the Noteholders to be material, subject to the Representative of the Noteholders having requested to the Class A Guarantor (provided

that it is the Controlling Party) confirmation that such compliance is material and the Class A Guarantor (provided that it is the Controlling Party) having given its confirmation thereto.

Upon the occurrence of a Trigger Event, the Representative of the Noteholders:

- (1) in the case of a Trigger Event under (a) above, (i) may at its sole discretion or (ii) shall if so directed by the Class A Guarantor (provided that it is the Controlling Party) or (iii) shall if a Class A Guarantor Event of Default has occurred and is continuing; and/or
- (2) in the case of a Trigger Event under (e) above, shall; and/or
- (3) in the case of a Trigger Event under (b), (c) or (d) above, may at its sole discretion or shall, if so directed by the Controlling Party,

serve a Trigger Notice to the Issuer; in each case, subject to the provisions of the Intercreditor Agreement. Upon the service of a Trigger Notice, the Issuer Available Funds shall be applied in accordance with the Post-Enforcement Priority of Payments.

Following the delivery of a Trigger Notice, the Issuer may (subject to the consent of the Representative of the Noteholders, which shall give such consent if so directed by the Controlling Party) or the Representative of the Noteholders may (or shall, if so directed by the Controlling Party) direct the Issuer to, dispose of the Aggregate Portfolio, subject to the terms and conditions of the Intercreditor Agreement, provided that the Originator shall have in such circumstance a pre-emption right to purchase the Aggregate Portfolio at the terms and conditions specified in the Intercreditor Agreement.

#### **Purchase Termination Events**

The Terms and Conditions provide the following Purchase Termination Events:

- (a) *Trigger Notice or Tax Event*

A Trigger Notice is delivered to the Issuer by the Representative of the Noteholder and/or a Tax Event has occurred.
- (b) *Breach of obligations by Alba Leasing*

Alba Leasing (in any role under the Transaction Documents) defaults in the performance of any of its obligations under the Master Transfer Agreement, the Servicing Agreement or under any other Transaction Document to which it is a party, if such default (i) is prejudicial to the interests of the Senior Noteholders or the Class A

Guarantor (provided that it is the Controlling Party); and (ii) remains unremedied within 20 (twenty) Business Days (or 5 (five) Business Days where the default relates to an obligation to pay of Alba Leasing) after the delivery by the Issuer (or the Representative of the Noteholders) of a written notice to Alba Leasing requiring the default to be remedied, provided that the Issuer and/or the Representative of the Noteholders shall be obliged to deliver such notice if so directed by the Class A Guarantor (provided that it is the Controlling Party).

(c) *Breach of Representations and Warranties by Alba Leasing*

Any of the representations and warranties given by Alba Leasing under any of the Master Transfer Agreement, the Servicing Agreement or under any other Transaction Document is breached or is untrue, incomplete or inaccurate if the relevant breach (i) is materially prejudicial to the interests of the Senior Noteholders or the Class A Guarantor (provided that it is the Controlling Party), and (ii) remains unremedied within 20 (twenty) Business Days (or 5 (five) Business Days, where the default relates to an obligation to pay) after the delivery by the Issuer of a written notice to Alba Leasing requiring the default to be remedied provided that the Issuer shall be obliged to deliver such notice if so directed by the Class A Guarantor (provided that it is the Controlling Party).

(d) *Insolvency of Alba Leasing*

Alba Leasing is declared insolvent or admitted to any bankruptcy proceedings or Alba Leasing has adopted a resolution aimed at obtaining the admission to any of such proceedings; a liquidator or administrative receiver is appointed or Alba Leasing has adopted a resolution aimed at obtaining such appointments; the whole or a substantial part of Alba Leasing's assets are subject to enforcement proceedings.

(e) *Debts' reschedule or moratorium*

Alba Leasing carries out any action for the purpose of rescheduling its own debts or postponing their relevant fulfilment, executes any extrajudicial arrangement with its creditors (including arrangements for the assignment of its assets to its creditors), files

any petition for the suspension of its own payments or any competent court grants to it a moratorium for the fulfilment of its own debts or the enforcement of any security granted by Alba Leasing, if the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), in its respective reasonable opinion, deems that any of the above events have or may have a material adverse effect on Alba Leasing's financial condition, provided that Alba Leasing has the right to renegotiate any subordinated loan granted to it by its controlling company.

(f) *Dissolution or liquidation*

A resolution has been adopted for the dissolution or liquidation of Alba Leasing, except if such resolution is adopted in connection with a corporate reorganisation.

(g) *Amendment of corporate purpose of Alba Leasing*

Alba Leasing resolves upon any material amendment of its corporate purpose (*oggetto sociale*) which may materially negatively affect its ability to perform its obligation under the Transaction Documents or the transfer of its registered office outside Italy.

(h) *Termination Alba Leasing's appointment as Servicer*

The Issuer terminates Alba Leasing's appointment as Servicer pursuant to the Servicing Agreement.

(i) *Alba Leasing's external auditor's assessment*

Alba Leasing's external auditors express a negative assessment in the certification report (*relazione di certificazione*) relating to the Alba Leasing's annual financial statements or declare the impossibility to express an assessment in respect thereof.

(j) *Failure to replenish the Debt Service Reserve Account*

At any Quarterly Payment Date, the Debt Service Reserve Account is not credited out of the Issuer Available Funds and in accordance with the applicable Priority of Payments, to bring the balance of such Account equal to the Debt Service Reserve Amount, as calculated on the Quarterly Payments Report Date immediately preceding the relevant Quarterly Payment

Date.

- (k) *Gross Cumulative Default Ratio*

The Gross Cumulative Default Ratio, as evidenced in the relevant Quarterly Servicer Report, exceeds the respective Relevant Trigger.
- (l) *Delinquency Ratio*

The Delinquency Ratio, as evidenced in the relevant Quarterly Servicer Report, exceeds 6% for two consecutive Quarterly Payment Dates.
- (m) *Asset Coverage Test*

The Asset Coverage Test is negative for two consecutive Quarterly Payments Report Dates immediately preceding any Quarterly Payment Date.
- (n) *Change in Law*

The Originator, by virtue of a change in the applicable legislation, is no longer able lawfully to fulfil its obligations under any of the Transaction Documents;
- (o) *Alba Leasing's change of control*

There is a change in the shareholding structure of Alba Leasing with respect to the Initial Issue Date such that the shareholders of Alba Leasing, cease, following the Initial Issue Date, holding, together, either directly or indirectly, at least 70 per cent. of the share capital of Alba Leasing, unless with a written consent of the Representative of the Noteholders acting on the instruction of the Class A Guarantor provided that it is the Controlling Party;
- (p) *Alba Leasing's principal shareholders*

There is a change in the shareholding structure of Alba Leasing so that, subsequent to the Initial Issue Date, Banca Popolare dell'Emilia Romagna – Società cooperativa and Banco Popolare – Società Cooperativa, being the main shareholders of Alba Leasing, no longer hold, in aggregate, both directly and indirectly, at least 50 per cent. of Alba Leasing's share capital, unless such change in shareholding is made with the written consent of the Representative of the Noteholders on the instruction of the Class A Guarantor provided that it is the Controlling Party;
- (q) *Transaction Document no longer in effect, null, void or terminated*

The Master Transfer Agreement, the Servicing Agreement or any other Transaction Document is no longer in effect, is declared null or void, or is terminated for any reason.

- (r) *Invalidity or unenforceability of the transfer of any Portfolio*

The validity or the enforceability of the transfer of a Portfolio to the Issuer is contested by Alba Leasing or by any third party in good faith and on reasonable grounds.

- (s) *Bank of Italy's sanctions*

The Bank of Italy (or any other supervisory competent authority) issues any injunction or measure of any nature against Alba Leasing, which, if finally confirmed, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), might have a material adverse effect substantially prejudicial on Alba Leasing, save that such injunction or measure is lawfully contested by Alba Leasing before the competent authorities.

- (t) *Alba Leasing Tier 1 Capital Ratio test*

The Tier 1 Capital Ratio of Alba Leasing, calculated on a six-month basis in accordance with the Bank of Italy Supervisory Regulations, is lower than 6% of its assets as set out in the last balance sheet approved and in the last semiannual financial statements.

- (u) *Termination of the Class A Guarantee and Deed of Undertaking*

The *Class A Guarantee and Deed of Undertaking* is terminated for any reason, other than at the request of the Senior Noteholders.

- (v) *Back-Up Servicer's requirements*

The Servicer and the replacement Back-Up Servicer (to be appointed by the Issuer pursuant to clause 11.5.2 of the Servicing Agreement after the appointment of Selmabipiemme being terminated) have not completed, by 3 months after the date of appointment of such replacement Back-Up Servicer, the activities to be executed in order to enable the replacement Back-Up Servicer to replace the Servicer timely by carrying out the duties which will be set out in the clause

and the annex of the new back-up servicing agreement having analogous content of clause 2.2.2 and annex 2 (*Timetable of Activities*), respectively, of the Back-Up Servicing Agreement.

(w) *Termination of the Back-Up Servicer's appointment*

The Back-Up Servicer becomes insolvent and is admitted to any applicable Insolvency Events or the appointment of the Back-Up Servicer is otherwise terminated and a replacement Back-Up Servicer that has obtained the prior consent of the Controlling Party and the Representative of the Noteholders has not been appointed within 60 calendar days starting from the date on which the Insolvency Events has started or the appointment of the Back-Up Servicer is terminated.

(x) *Indebtedness*

The indebtedness for borrowed money of Alba Leasing becomes due and payable prematurely by reason of an event of default (however described) of Alba Leasing, or Alba Leasing fails to make any payment in respect of any indebtedness for borrowed money on the due date, provided that the relevant indebtedness or non-payment exceed the amount of Euro 15,000,000.00.

(y) *Maximum Purchase Amount Shortfall*

With reference to any Quarterly Payment Date, the Maximum Purchase Amount is not fully paid pursuant to the Pre-Enforcement Priority of Payments, occurring such event if the aggregate of the amounts paid, or provisioned for, under items (viii)(A) and (viii)(c) of the Pre-Enforcement Priority of Payments is lower than the Maximum Purchase Amount.

Upon the occurrence of a Purchase Termination Event, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) shall (if so directed by the Controlling Party) deliver to the Issuer, the Calculation Agent, the Originator and the Senior Notes Underwriter a Purchase Termination Event Notice. Following the delivery of a Purchase Termination Event Notice, (i) the Revolving Period will end, (ii) the Originator will be no longer allowed to sell the Additional Portfolio or Subsequent Portfolios to the Issuer (which will be no longer allowed to purchase them from the Originator) and (iii)

the Amortisation Period will begin.

“**Gross Cumulative Default Ratio**” means, on each Monthly Settlement Date during the Ramp-Up Period or on each Quarterly Settlement Date, as the case maybe, the ratio between: (a) the aggregate of the Outstanding Amount (as of the date on which the relevant Lease Contract have become Defaulted Lease Contract) related to all the Receivables comprised in the Portfolios arising from Lease Contracts which have become Defaulted Lease Contracts in the period starting from the Valuation Date of the Initial Portfolio (excluded) and ending on such Monthly Settlement Date or Quarterly Settlement Date, as the case maybe (included); and (b) the aggregate of the Outstanding Principal of the Receivables comprised in the Initial Portfolio and in the Additional Portfolio (as the case may be) each at the relevant Valuation Date, *provided that* the Outstanding Principal of the Receivables comprised in the Additional Portfolio shall be taken into account for the computation of this item (b) only starting from the Monthly Settlement Date falling on, or immediately after, the 3<sup>rd</sup> month succeeding the Further Portfolio Transfer Date related to the Additional Portfolio.

“**Relevant Trigger**” means, with reference to each Quarterly Settlement Date and for the purpose of determining if the Gross Cumulative Default Ratio is triggered, a percentage equal to 3.15%, as evidenced in the relevant Quarterly Servicer Report.

“**Quarterly Servicer Report**” means a report which the Servicer has undertaken to deliver on each Quarterly Servicer Report Date, setting out the performance of the Receivables, to be prepared substantially in the form of schedule 2 of the Servicing Agreement.

“**Quarterly Servicer Report Date**” means the fifth Local Business Day following a Quarterly Settlement Date.

#### **Programme Termination Event**

The Terms and Conditions provide the following Programme Termination Events:

- (a) *Purchase Termination Event*  
Any Purchase Termination Event occurs.
- (b) *Breach of Test*  
The Gross Cumulative Default Ratio exceeds the applicable Ramp-Up Default Thresholds
- (c) *Material Adverse Effect*  
The occurrence of any Material Adverse Effect.

Upon the occurrence of a Programme Termination

Event, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) shall deliver to the Issuer, the Calculation Agent, the Originator and the Senior Notes Underwriter a Programme Termination Event Notice. Following the delivery of a Programme Termination Event Notice:

- (i) the Ramp-Up Period and the Revolving Period will end;
- (ii) the Originator will be no longer allowed to sell the Additional Portfolio or Subsequent Portfolios to the Issuer (which will be no longer allowed to purchase them from the Originator); and
- (iii) the Issuer will be no longer allowed to issue the Series 2 Notes (if not already issued).

“**Ramp-Up Default Thresholds**” means, with reference to each Monthly Settlement Date during the Ramp-Up Period and for the purpose of determining if the Gross Cumulative Default Ratio is triggered, the following percentage limits applicable for any relevant Monthly Settlement Date:

Monthly Settlement Date	Ramp-Up Default Threshold
28/02/2013	2.15%
31/03/2013	2.35%
30/04/2013	2.55%
31/05/2013	2.75%
30/06/2013	2.95%

“**Material Adverse Effect**” means any event which – in the opinion of the Representative of the Noteholders (acting reasonably) - has a material and adverse effect on (a) the Issuer financial condition or operations or its ability to comply with its payment obligations in respect of the Notes, or (b) the Originator ability to comply with its obligations in respect of the Transaction Documents.

**Monthly Payment Date Payments**

On the Subsequent Issue Date falling on a Monthly Payment Date (if any), the Principal Available Funds shall be applied to pay to the Originator all amounts due and payable as Initial Purchase Price in respect of the Additional Portfolio.

**Pre-Enforcement Priority of Payments**

On each Quarterly Payment Date prior to the delivery of a Trigger Notice, the Issuer Available Funds shall be applied in making or providing for the following payments in accordance with the following Priority of Payments (in each case, only if and to the extent that payments of a higher priority have been made in full,

with the exception of any Advance made under the Subordinated Loan which shall be used exclusively to pay the Expected Maturity Extension Indemnity due and payable to the Senior Noteholders):

- (i) in or towards satisfaction of any and all costs and taxes due and payable by the Issuer required to be paid to maintain the rating of the Senior Notes and in connection with the listing, registration and deposit of the Notes (as the case maybe), or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
- (ii) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of
  - (a) any due and payable Expenses (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
  - (b) the replenishment of the Expenses Account by an amount to bring the balance of such account up to the Retention Amount;
- (iii) in or towards satisfaction of the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders;
- (iv) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Italian Account Bank, the English Account Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Calculation Agent, the Corporate Services Provider, the Back-Up Servicer and the Servicer, to the extent not specifically provided under the following items;
- (v) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of the Interest Amounts due and payable in respect of the Senior Notes; and
  - (b) of any Class A Guarantee Fee due to the Class A Guarantor, plus any interest (if any) accrued and unpaid

thereon;

- (vi) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of all the Outstanding Guarantor Interest Payment Amounts and any interest accrued but unpaid thereon; and
  - (b) of any Expected Maturity Extension Indemnity due and payable to the Senior Noteholders;
- (vii) until the Release Date (excluded), to credit to the Debt Service Reserve Account an amount (if any) to bring the balance of such account up to the Debt Service Reserve Amount;
- (viii) during the Ramp-Up Period and the Revolving Period, to pay to the Originator all amounts due and payable (including any amount past due) as (A) Initial Purchase Price in respect of any Subsequent Portfolio and (B) Portion of the Initial Purchase Price of the Additional Portfolio (where applicable), purchased on the Further Portfolio Transfer Date immediately preceding such Quarterly Payment Date pursuant to the Master Transfer Agreement, *provided that* (a) should the Formalities in respect of a Subsequent Portfolio not be perfected within the relevant Quarterly Payment Date, the relevant amounts will be credited to the Principal Accumulation Account and paid once the Formalities will be completed in accordance with the Transaction Documents, (b) should the Relevant CPs not be satisfied or waived within the third Business Day preceding the relevant Quarterly Payment Date, the Portion of the Initial Purchase Price of the Additional Portfolio will be credited to the Principal Accumulation Account and paid on the Subsequent Issue Date in accordance with the Transaction Documents, (c) any positive difference between the Maximum Purchase Amount and the Initial Purchase Price of the relevant Subsequent Portfolio will be credited to the Principal Accumulation Account; and (d) the Portion of the Initial Purchase Price of the Additional Portfolio to be paid under this item (viii) shall not exceed the Principal Deficiency Amount;
- (ix) (i) on the Series 1 First Amortisation Date during the Revolving Period, to pay, *pari passu* and *pro rata* according to the

respective amounts thereof, the Series 1 First Amortisation Amount due and payable on the Series A1 Notes; and (ii) during the Amortisation Period, to pay, *pari passu* and *pro rata* according to the respective amounts thereof, the Principal Amount Outstanding of the Senior Notes;

- (x) to pay to the Class A Guarantor any Outstanding Guarantor Principal Payment Amount plus any accrued but unpaid interest thereon;
- (xi) in or towards satisfaction of the interest due and payable (including any deferred interest amounts) on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (xii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts (other than the Deferred Purchase Price and to the extent not already provided under the other items of this Priority of Payments) due and payable (including any amount past due) by the Issuer to (a) the Senior Noteholders as indemnity due under the relevant Subscription Agreement and as any other amount due under the Transaction Documents and (b) after payments due under item (a) above, any Other Issuer Creditor and any Junior Noteholder pursuant to the Transaction Documents;
- (xiii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of interest due and payable in respect of the Junior Notes;
- (xiv) to repay the principal due and payable on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (xv) during the Amortisation Period, upon the redemption in full of the Senior Notes in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of principal due and payable in respect of the Junior Notes; and
- (xvi) in or towards satisfaction of the Deferred Purchase Price due and payable to the Originator in respect of the Aggregate Portfolio,

*provided that:*

- (a) should the Calculation Agent not receive the

Quarterly Servicer Report within the third Business Day following the relevant Quarterly Servicer Report Date, it shall prepare the relevant Payments Report by applying any amount standing to the credit of the Issuer's Accounts to pay item from (i) to (vii) of the Pre-Enforcement Priority of Payments, provided that, (i) in respect to any amount to be calculated on the basis of the Quarterly Servicer Report, the Calculation Agent shall take into account the amounts indicated in the latest available Quarterly Servicer Report (the "**Latest Report**") and (ii) any amount that would otherwise have been payable under items from (eight) to (sixteen) of the Pre-Enforcement Priority of Payments:

- 1 will not be included in such Payments Report and shall not be payable on the relevant Quarterly Payment Date;
- 2 shall be payable in accordance with the applicable Priority of Payments on the first following Quarterly Payment Date on which there are enough Issuer Available Funds and on which details for the relevant calculations will be timely provided to the Calculation Agent (for the avoidance of doubt, interest shall not accrue on any amount unpaid and deferred); and
- 3 failure to pay any principal amount under the Notes on the relevant Quarterly Payment Date shall not be deemed as a Trigger Event;

(b) the Calculation Agent on the immediately following Payments Report Date, subject to having received the relevant Quarterly Servicer Report, shall prepare a Payments Report which shall provide for the necessary adjustment in respect of payments made on the basis of the Latest Report and in respect of amounts unpaid in the preceding Quarterly Payment Date.

The Issuer shall, if necessary, make the payments set out under items (i) and (ii) (a) of the Pre-Enforcement Priority of Payments also during the relevant Interest Period.

#### **Post-Enforcement Priority of Payments**

Following the delivery of a Trigger Notice, the Issuer Available Funds shall be applied on each Quarterly Payment Date in making or providing for the following payments in the following Priority of

Payments (in each case only if and to the extent that payments of a higher priority have been made in full, with the exception of any Advance made under the Subordinated Loan which shall be used exclusively to pay the Expected Maturity Extension Indemnity due and payable to the Senior Noteholders):

- (i) in or towards satisfaction of any and all costs and taxes due and payable by the Issuer required to be paid to maintain the rating of the Senior Notes and in connection with the listing, registration and deposit of the Notes (as the case maybe), or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such taxes);
- (ii) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of
  - (a) any due and payable Expenses (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
  - (b) replenishment of the Expenses Account by an amount to bring the balance of such account up to the Retention Amount;
- (iii) in or towards satisfaction of the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders;
- (iv) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Italian Account Bank, the English Account Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Calculation Agent, the Corporate Services Provider, the Back-Up Servicer and the Servicer, to the extent not specifically provided under the following items;
- (v) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of the Interest Amounts due and payable in respect of the Senior Notes; and
  - (b) of any Class A Guarantee Fee due to

- the Class A Guarantor, plus any interest accrued and unpaid thereon;
- (vi) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
    - (a) of any Outstanding Guarantor Interest Payment Amount plus any accrued but unpaid interest thereon; and
    - (b) of any Expected Maturity Extension Indemnity due and payable to the Senior Noteholders;
  - (vii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of the Principal Amount Outstanding of the Senior Notes;
  - (viii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any Outstanding Guarantor Principal Payment Amount plus any accrued but unpaid interest thereon;
  - (ix) in or towards satisfaction of the interest due and payable (including any deferred interest amounts) on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
  - (x) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts (other than the Deferred Purchase Price and to the extent not already provided under the other items of this Priority of Payments) due and payable (including any deferred amounts) by the Issuer to (a) the Senior Noteholders as indemnity due under the relevant Subscription Agreement and as any other amount due under the Transaction Documents and (b) after payments due under item (a) above, any Other Issuer Creditor and any Junior Noteholder pursuant to the Transaction Documents;
  - (xi) in or towards satisfaction of interest due and payable in respect of the Junior Notes;
  - (xii) to repay the principal due and payable on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
  - (xiii) upon the redemption in full of the Senior Notes, in or towards satisfaction of principal due and payable in respect of the Junior Notes; and

- (xiv) in or towards satisfaction of the Deferred Purchase Price due and payable to the Originator in respect of the Aggregate Portfolio.

#### **4. REPORTS**

##### **Servicer's Reports**

Under the Servicing Agreement, the Servicer has undertaken to prepare the Monthly Servicer Report (only with reference to the Subsequent Issue Date) and the Quarterly Servicer Report, setting out detailed information in relation to, *inter alia*, (i) the Collections and the Recoveries in respect of the Receivables comprised in the Aggregate Portfolio and (ii) information on the material net economic interest in the Securitisation in accordance with Article 122a of the CRD.

##### **English Account Bank Report**

Under the Cash Allocation, Management and Payment Agreement, the English Account Bank has undertaken to prepare, no later than one Business Day prior to each Monthly Servicer Report Date and Quarterly Servicer Report Date (or at any time upon request by the Representative of the Noteholders or the Calculation Agent), the English Account Bank Report setting out details of the Eligible Investments.

##### **Payments Report**

Under the Cash Allocation, Management and Payment Agreement, the Calculation Agent has undertaken to prepare (i) on each Quarterly Payments Report Date the Quarterly Payments Report setting out, *inter alia*, the Issuer Available Funds and each of the payments and allocations to be made by the Issuer on the immediately following Quarterly Payment Date, in accordance with the applicable Priority of Payments, and (ii) on the Monthly Payments Report Date immediately preceding the Monthly Payment Date being the Subsequent Issue Date, the Monthly Payments Report setting out, *inter alia*, the Principal Available Funds to be applied for payment of the Initial Purchase Price of the Additional Portfolio purchased on the Further Portfolio Transfer Date immediately preceding such Monthly Payment Date.

##### **Investors Report**

Under the Cash Allocation, Management and Payment Agreement, the Calculation Agent has undertaken to prepare on each Investor Report Date the Investors Report setting out certain information with respect to the Notes.

#### **5. TRANSFER AND ADMINISTRATION OF THE AGGREGATE PORTFOLIO**

##### **Phases of the Transaction**

The Transaction consists of the following phases:

- (a) a phase, being the Ramp-Up Period, which will start on the Initial Issue Date and will end on the earlier of (i) 30 July 2013 (ii) the date on which a Programme Termination Event

Notice or a Trigger Notice is delivered (excluded) (iii) the date on which the Principal Amount Outstanding of the Senior Notes is equal to Euro 150,000,000 (the “**Senior Notes Maximum Amount**”) and (iv) the day immediately after the Subsequent Issue Date (the “**Ramp-Up Period End Date**”);

- (b) a phase, being the Revolving Period, which will commence on the Initial Issue Date and will end on the earlier of (i) the date on which a Purchase Termination Event Notice or a Programme Termination Event Notice or a Trigger Notice is delivered (excluded) and (ii) the Quarterly Payment Date falling on or immediately after the expiry of the 180 day period beginning on the Subsequent Issue Date (included) (the “**Revolving Period End Date**”); and
- (c) a phase, being the Amortisation Period which will commence on the Revolving Period End Date (excluded), and will end on the earlier of (i) the date on which the Notes are redeemed in full, (ii) the Final Maturity Date and (iii) the Cancellation Date.

#### **Master Transfer Agreement**

On 13 February 2013, the Issuer entered into with the Originator the Master Transfer Agreement, setting out the terms and conditions for the transfer without recourse (*pro soluto*) of the Initial Portfolio, the Additional Portfolio and the Subsequent Portfolios from the Originator to the Issuer.

#### **Aggregate Portfolio**

The Aggregate Portfolio is comprised of any Receivable included in the Initial Portfolio, Additional Portfolio and Subsequent Portfolios (each, a “**Portfolio**”) purchased by the Issuer pursuant to the Master Transfer Agreement and the relevant Deeds of Transfer.

#### **The Initial Portfolio**

The Issuer has purchased from the Originator the Initial Portfolio on 13 February 2013 (with economic effect from the relevant Valuation Date (excluded), in accordance with the terms and conditions of the Master Transfer Agreement and the relevant Initial Deed of Transfer.

In order to fund the Initial Purchase Price of the Initial Portfolio the Issuer will issue the Series 1 Notes on the Initial Issue Date.

#### **The Additional Portfolio and The Subsequent Portfolios**

Subject to the terms of the Master Transfer Agreement, the Originator is entitled to sell to the Issuer which shall purchase (i) during the Ramp-Up Period the Additional Portfolio and (ii) during the

Revolving Period, any Subsequent Portfolios. The Initial Purchase Price of the Additional Portfolio will be paid out of the Issuer Available Funds or, as applicable, Principal Available Funds and out of the proceeds deriving from subscription of the Series 2 Notes, *provided that* (a) the Initial Purchase Price of the Additional Portfolio shall not be higher than the Additional Portfolio Maximum Purchase Amount and (b) the Portion of the Initial Purchase Price of the Additional Portfolio to be paid in accordance with the Pre-Enforcement Priority of Payments shall not exceed the Principal Deficiency Amount. The Initial Purchase Price of any Subsequent Portfolio will be paid by the Issuer out of the Issuer Available Funds in accordance with the Pre-Enforcement Priority of Payments and the provisions of the Master Transfer Agreement and the relevant Deed of Transfer. Pursuant to the Master Transfer Agreement, the Initial Purchase Price of any Subsequent Portfolio shall not be higher than the Maximum Purchase Amount.

**“Additional Portfolio Maximum Purchase Amount”** means Euro 250,000,000.

**“Maximum Purchase Amount”** means on each Quarterly Payments Report Date and with reference to the immediately succeeding Quarterly Payment Date during the Revolving Period, the Principal Deficiency Amount, provided that, with reference to the Quarterly Payment Date falling on 27 January 2014 (the **“Series 1 First Amortisation Date”**), the Maximum Purchase Amount shall be equal to the Principal Deficiency Amount minus an amount equal to Euro 5,000,000 (the **“Series 1 First Amortisation Amount”**).

**“Principal Deficiency Amount”** means the amount, as calculated by the Calculation Agent on each Quarterly Payments Report Date, based on the relevant Quarterly Servicer Report, with reference to the immediately succeeding Quarterly Payment Date, equal to the difference, if positive, between:

- (a) the Principal Amount Outstanding of the Notes on the Quarterly Payments Report Date immediately preceding such Quarterly Payment Date; and
- (b) the Outstanding Amount of the Receivables comprised in the Collateral Portfolio which do not derive from Delinquent Lease Contracts, as calculated with reference to the immediately preceding Quarterly Settlement Date, plus the amount to be credited into the Debt Service Reserve Account on such Quarterly Payment Date.

## Further Portfolio Sale Conditions

Under the Master Transfer Agreement the assignment and transfer of each Additional Portfolio and/or Subsequent Portfolio is subject to the satisfaction of the Further Portfolio Sale Conditions, being, *inter alia*, the following conditions (i) referred to the Aggregate Portfolio inclusive of the Receivables that are included in the relevant Additional Portfolio and/or Subsequent Portfolio purported to be transferred to the Issuer on any Further Portfolio Transfer Date, (ii) calculated with reference to the relevant Settlement Date immediately preceding the relevant Further Portfolio Transfer Date, or, with reference to the Receivables part of the Additional Portfolio or Subsequent Portfolio offered to be purchased on such Further Portfolio Transfer Date, with reference to the relevant Valuation Date and (iii) where applicable, being understood that, with reference to Debtors being entities part of the same companies group, it shall be taken into account the Outstanding Principal of the Receivables owed both by the relevant Debtor and the entities part of the relevant companies group as resulting from the consolidated balance sheet:

- (i) the amount of the Outstanding Principal of the Receivables included in Pool 1 is at least equal to 7% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (ii) the amount of the Outstanding Principal of the Receivables included in Pool 3 does not exceed 23% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (iii) the amount of the Outstanding Principal of the Receivables included in Pool 4 does not exceed 5% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (iv) the amount of the Outstanding Principal of the Receivables owed by the Debtor having the highest Outstanding Principal does not exceed 1.50% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (v) the amount of the Outstanding Principal of the Receivables owed by the 10 (ten) Debtors having the highest Outstanding Principal does not exceed 13% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (vi) the amount of the Outstanding Principal of the Receivables owed by the 50 (fifty) Debtors having the highest Outstanding

- Principal does not exceed 40% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (vii) the amount of the Outstanding Principal of the Receivables owed by the 100 (one hundred) Debtors having the highest Outstanding Principal does not exceed 55% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (viii) the amount of the Outstanding Principal of the Receivables arising from Leasing Contracts named “PrestoLeasing” and from Leasing Contracts secured by DK Guarantees is at least equal to 40% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (ix) the amount of the Outstanding Principal of the Receivables arising from Leasing Contracts executed through banks being shareholders of the Originator is at least equal to 85% of the amount of the Outstanding Principal of the Receivables included in the relevant Further Portfolio;
  - (x) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts executed with Debtors domiciled in Calabria, Campania, Apulia, Basilicata, Abruzzo, Molise, Sicily and Sardinia does not exceed 25% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xi) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts executed with Debtors domiciled in Emilia Romagna, Liguria, Piedmont, Valle d'Aosta, Lombardy, Trentino Alto Adige, Veneto and Friuli Venezia Giulia exceeds 60% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xii) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts having a fixed rate interest does not exceed 2% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xiii) the amount of the Outstanding Principal of the Receivables owed by the Debtors

- belonging to the same Industry having the highest Outstanding Principal does not exceed 15% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (xiv) the amount of the Outstanding Principal of the Receivables owed by the Debtors belonging to the two Industries having the highest Outstanding Principal does not exceed 27% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xv) the Aggregate Portfolio does not include Receivables from Leasing Contracts toward Debtors operating in the Excluded Industries.
  - (xvi) the average interest rate (*tasso esterno contrattuale su base mensile*) of the Receivables having a fixed rate interest comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal, is equal to at least 5%;
  - (xvii) the average spread of the Receivables having a floating rate interest comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal, is equal to at least 3.50% (such spread being equal to the difference between (a) the external interest rate (*tasso esterno contrattuale su base mensile*) and (b) the benchmark value (*valore del parametro di riferimento su base mensile*));
  - (xviii) the average residual term of the Receivables comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal (taking into account the last Instalment sold to the Issuer), does not exceed 105 months.

“**Industry**” means the economic sector where the Lessee carries out its business activity.

“**Excluded Industries**” means the Industries identified by the following Ateco codes: 68, 411, 412, 551, 552, 681, 682, 683, 4.110, 4.120, 4.312, 4.329, 4.339, 4.399, 5.510, 5.520, 6.810, 6.820, 6.831, 6.832, 41.100, 41.200, 43.120, 43.290, 43.390, 43.990, 55.100, 55.201, 55.202, 55.203, 55.204, 55.205, 68.100, 68.200, 68.310, 68.320, 411.000, 412.000, 431.200, 432.901, 432.902, 432.909, 433.901, 433.909, 439.901, 439.902, 439.909, 551.000, 552.010, 552.020, 552.030, 552.040, 552.051, 552.052, 681.000, 682.001, 682.002, 683.100, 683.200.

## Pools

The Aggregate Portfolio shall comprise Receivables deriving from Lease Contracts of the following assets:

- (a) Pool 1 or **Motorvehicle Pool**: vehicles, motor-vehicles, cars, light lorries, commercial vehicles, industrial vehicles or other motorised vehicles excluding aircrafts;
- (b) Pool 2 or **Equipment Pool**: instrumental assets (e.g. machineries, equipment and plants);
- (c) Pool 3 or **Real Estate Pool**: real estate properties; and
- (d) Pool 4 or **Other Vehicles Pool**: ships, vessels or trains.

## Eligibility Criteria

The Receivables comprised in each Portfolio assigned and that will be assigned from time to time to the Issuer shall satisfy, *inter alia*, (unless otherwise specified) all the following common criteria (“**Common Criteria**”):

- (i) the relevant Lease Contracts are entered into by Alba Leasing in its role of lessor;
- (ii) the relevant Lease Contracts provide an effective date of the leasing falling not before 1 January 2010,
- (iii) the relevant Lease Contracts are denominated in Euro;
- (iv) the Instalments related to the Lease Contracts are due by the relevant Lessee: (a) with reference to the Initial Portfolio, on or after 1 March 2013; and (b) with reference to the Additional Portfolio and any Subsequent Portfolio, on or after the 1<sup>st</sup> month succeeding the relevant Valuation Date;
- (v) the Instalments related to the Lease Contracts are payable by the relevant Lessee through direct debit (*RID*) or wire bank transfer (*RIB*);
- (vi) the relevant Lease Contracts provide for the payment of the relevant Instalments on a monthly, two-monthly, quarterly or semi-annual basis;
- (vii) the relevant Lease Contracts provide for a fixed interest rate or, in case of floating interest rate, the relevant indexation is linked to a one-month Euribor, three-month Euribor or six-month Euribor;
- (viii) the relevant Lease Contracts are governed by Italian law;
- (ix) the relevant Lease Contracts have not been entered into under law 28 November 1965,

No. 1329 (so called “*Legge Sabatini*”, as subsequently amended and supplemented), as set forth in the relevant Lease Contract (if any), or on the basis of any other facility or contribution by the State or public administrations or public entities, or private companies being directly or indirectly controlled by a public administration, nor on the basis of any provision, giving right to any *droit de suite (diritto di seguito)*, property or other privilege in favour of such entities, save for the facilities or contributions provided by Italian law No. 240 of 21 May 1981, (*Provvidenze a favore dei consorzi e delle società consortili tra piccole e medie imprese nonché delle società consortili miste*) (codes 200 and 205), by Law of Province of Bolzano dated 8 January 1993, No. 1 (*Interventi provinciali per lo sviluppo dell'economia cooperativa*) (code 536), by the Law of Region Veneto No. 5 of 9 February 2001 (code 496), by the *Programma Operativo Regionale (POR-FESR) 2007-2013* of the Region Veneto and by DGR Veneto No. 3495 of 17 November 2009 (code 495), by the *Programma Operativo Regionale (POR-FESR) 2007-2013* of the Region Liguria, by DGR Liguria No. 1278 of 26 October 2007 (code 440), by Law 23 December 1996, No. 662 (*Misure di razionalizzazione della finanza pubblica*) (code 494), by Law of the Province of Bolzano – Alto Adige 13 November 1986, No. 27 (*Credito al Commercio*), subsequently repealed by Law of Province of Bolzano – Alto Adige 13 February 1997, No. 4, (code 535), by Law of Province of Trento 13 December 1999, No. 6 (*Interventi della Provincia per il sostegno dell'economia e della nuova imprenditorialità locale, femminile e giovanile. Aiuti per i servizi alle imprese, alle reti d'impresa, all'innovazione e all'internazionalizzazione. Modificazioni della legge sulla programmazione provinciale*) (Code 547), by Law of the Region Veneto 17 January 2002, No. 2 (code 499); by Law No. 598/1994 (code 300) and by the *Programma Operativo Regionale (POR-FESR) 2007 – 2013* of the Region Umbria (code 590);

- (x) whose Debtor declared, in the relevant Lease Contracts, to be domiciled in Italy;
- (xi) the Debtors are not employees or shareholders of the Originator, nor public

- administrations or public entities, nor private companies, being directly or indirectly controlled by a public administration;
- (xii) the Debtors are not subject to any bankruptcy or insolvency proceedings, nor are in default of payment of any instalment, due to the Originator, after 30 days from the relevant due date;
  - (xiii) whose Debtors have duly and timely paid all the Instalments or there are no Instalments due and unpaid for more than 30 days from the relevant due date;
  - (xiv) the Lease Contracts provide the obligation of the relevant Lessees to enter into an insurance policy issued by a primary insurance company in order to guarantee the Asset, and, with reference to the Lease Contracts entered into from the 1<sup>st</sup> of October 2012, to constitute an appendix (*appendice di vincolo*) in favour of the Originator;
  - (xv) the Assets under the Lease Contracts include: (a) real estate properties located in Italy; (b) trains, ships, vessels; (c) vehicles, motor-vehicles, cars, light lorries, trucks, commercial vehicles, industrial vehicles, or other vehicles excluding aircrafts registered or having a numberplate in Italy, or (d) instrumental assets (*beni strumentali*) (such as machineries, equipments and plants);
  - (xvi) no enforcement proceedings, precautionary or similar measure in relation to the Assets under a Lease Contract have been notified to the relevant Lessee by the Originator;
  - (xvii) none of the Debtors has ever notified a report (*denuncia*) of theft in respect of the Assets;
  - (xviii) the building of the Assets has been completed and the Assets have been delivered to the relevant Lessee;
  - (xix) the Lease Contracts provide the relevant Debtor to be obliged to perform all the due payments also in case the Asset should not meet the requirements for its scope of use, should be destroyed or should not be at disposal of the relevant Debtor for any reason not ascribable to the Originator (c.d. “*Net Lease*”);
  - (xx) the Lease Contracts expressly provide the possibility in favour of the relevant Debtor to purchase the relevant Asset at the expiration of the Lease Contract (c.d. “*Financial*”).

*Leases*”);

- (xxi) the Lease Contracts provide instalments (a) to be paid in accordance with a “french” amortisation plan providing for all instalments, or series of instalments, of constant amounts and (b) consisting of a principal component and an interest component;
- (xxii) the residual contractual duration of the Lease Contracts is not extended over a period of:
  - 1 75 months for those Lease Contracts concerning Motorvehicle Pool;
  - 2 120 months for those Lease Contracts concerning Equipment Pool;
  - 3 216 months for those Lease Contracts concerning Real Estate Pool; and
  - 4 120 months for those Lease Contracts concerning Other Vehicles;
- (xxiii) in relation to which the payment date of the last Instalment (as indicated in the relevant Lease Contract) does not fall on after 31 March 2031, *provided that* in relation to the Further Portfolios, no Receivable shall have Instalments due after 30 September 2031;
- (xxiv) only in relation to any Subsequent Portfolio, the Debtors have fully and timely paid at least one Instalment;
- (xxv) the Lease Contracts have been entered into with Debtors in the context of the relevant Debtors’ ordinary course of business;
- (xxvi) only in relation to the Further Portfolios the payment of the Instalments (also with regard to the sole principal component) at the relevant Valuation Date is not suspended in compliance with *moratorium (accordi di moratoria)* entered into between the Originator and the relevant Lessee.

Without prejudice to the satisfaction of the Common Criteria, each Portfolio shall also satisfy the relevant additional criteria (if any) set forth by the Originator in respect of such Portfolio (the “**Specific Criteria**”) which will integrate the Common Criteria in accordance with the Master Transfer Agreement and the relevant Deed of Transfer. It remains understood that the Specific Criteria shall not conflict with the Common Criteria.

**Representation and Warranties  
in relation to the Aggregate Portfolio**

Under the Master Transfer Agreement, the Originator has given certain representations and warranties to the Issuer in relation to, *inter alia*, itself and the Receivables comprised in the Aggregate Portfolio and have agreed to indemnify the Issuer in respect of certain liabilities incurred by the Issuer as a result of the purchase and ownership of such Receivables.

**Aggregate Portfolio Call Option**

Pursuant to the Master Transfer Agreement, the Issuer has granted to the Originator a call option pursuant to which the Originator will have the option to purchase from the Issuer the Receivables which are comprised in the Aggregate Portfolio as of the date on which the call option is exercised by the Originator.

**Servicing Agreement**

Pursuant to the Servicing Agreement entered into on 13 February 2013 between the Issuer and Alba Leasing, as Servicer, the latter has agreed to administer and service the Receivables comprised in the Aggregate Portfolio in accordance with the terms thereof and in compliance with the Securitisation Law.

The Servicer will be the “*soggetto incaricato della riscossione dei crediti ceduti e dei servizi di cassa e pagamento*” pursuant to Article 2, paragraph 3(c) of the Securitisation Law and, therefore, shall take the responsibility provided for by Article 2, paragraph 6 *bis*, of the Securitisation Law.

**Back-Up Servicing Agreement**

Pursuant to the Back-Up Servicing Agreement, the Back-Up Servicer has agreed to act as substitute Servicer subject to, *inter alia*, the appointment of Alba Leasing as Servicer being terminated, in accordance with the terms of the Servicing Agreement.

**6. OTHER TRANSACTION DOCUMENTS**

**Intercreditor Agreement**

Pursuant to the Intercreditor Agreement, the Issuer, the Representative of the Noteholders, EIF and the Other Issuer Creditors have agreed to, *inter alia*:

- (a) the application of the Issuer Available Funds, in accordance with the applicable Priority of Payments;
- (b) the limited recourse nature of the obligations of the Issuer; and
- (c) the circumstances in which the Representative of the Noteholders will be entitled to exercise certain rights in relation to the Aggregate Portfolio.

**Cash Allocation, Management and  
Payment Agreement**

Pursuant to the Cash Allocation, Management and Payment Agreement, the Calculation Agent, the Italian Account Bank, the English Account Bank the Paying Agent, the Irish Agent and the Cash Manager have

agreed to provide the Issuer with certain agency services and certain calculation, notification and reporting services together with account handling services in relation to monies and securities from time to time standing to the credit of the Accounts.

Pursuant to the terms of the Cash Allocation, Management and Payment Agreement, amounts standing from time to time to the credit of the Investment Account may be invested in Eligible Investments in accordance with the terms thereof.

**Mandate Agreement**

Pursuant to the Mandate Agreement, the Representative of the Noteholders will be authorised, subject to the delivery of a Trigger Notice, to exercise, in the name and on behalf of the Issuer, all the Issuer's non-monetary rights arising out of certain Transaction Documents to which the Issuer is a party.

**Letter of Undertaking**

Pursuant to the Letter of Undertaking, the Originator has undertaken to provide the Issuer with all necessary monies in order for the Issuer to pay certain losses, costs, expenses or liabilities indicated therein.

**Quotaholder Agreement**

Pursuant to the Quotaholder Agreement, the Sole Quotaholder has given certain undertakings in relation to the management of the Issuer and the exercise of its rights as Sole Quotaholder of the Issuer.

**Corporate Services Agreement**

Pursuant to the Corporate Services Agreement, the Corporate Services Provider has agreed to provide the Issuer with certain administrative and corporate services.

**Subordinated Loan Agreement**

Pursuant to the Subordinated Loan Agreement, the Subordinated Loan Provider has granted to the Issuer the Subordinated Loan in an aggregate amount of Euro 2,000,000. The Subordinated Loan may be drawn-down by the Issuer by way of various Advances each of which will:

- (a) be made on each Advance Date; and
- (b) have an amount equal to the relevant Expected Maturity Extension Indemnity due and payable by the Issuer on the Quarterly Payment Date immediately succeeding the relevant Advance Date.

The Parties agree and acknowledge that upon termination of the Facility Availability Period, no further amount shall be advanced by the Subordinated Loan Provider to the Issuer under the Subordinated Loan.

The Issuer shall repay the outstanding principal amount due under the Subordinated Loan Agreement on each Quarterly Payment Date, subject to the terms and conditions of such agreement and within the limits of the Issuer Available Funds available for such

purpose under the applicable Priority of Payments.

#### **Deed of Pledge**

Pursuant to the Deed of Pledge, as security for the Secured Obligations the Issuer has pledged in favour of the Noteholders and the Other Issuer Creditors all existing and future monetary claims and rights deriving from certain Transaction Documents (other than the Receivables, the Collections and the Recoveries).

#### **Deed of Charge**

Pursuant to the Deed of Charge, the Issuer has granted in favour of the Representative of the Noteholders for itself and as trustee for the Noteholders and the Other Issuer Creditors, *inter alia*, (i) an English law charge over the Investment Account; (ii) an English law assignment by way of security of all the Issuer's rights under the Eligible Investments made from funds standing to the credit of the Investment Account; and (iii) a floating charge over all of the Issuer's assets which are located in England and Wales not effectively assigned or charged by the security interests described under (i) or (ii) above.

#### **Class A Guarantee and Deed of Undertaking**

Pursuant to the Class A Guarantee and Deed of Undertaking entered into on or about the Initial Issue Date, the Class A Guarantor (subject to the terms and conditions set forth therein) has unconditionally and irrevocably guaranteed and undertaken that it shall, with respect of the Series A1 Notes and, subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), and irrespective of the limited recourse nature of the Class A Notes:

- (A) on each date (each, a “**Guaranteed Interest Due Date**”) being the later of (i) the Business Day prior to the relevant Quarterly Payment Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 of the Class A Guarantee and Deed of Undertaking, in respect of the relevant Quarterly Payment Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1 of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Interest Amount to the Guaranteed Payments Recipient; and
- (B) on the date (the “**Guaranteed Principal Due Date**”) being the later of (i) the Business Day prior to the Final Maturity Date and (ii) the date

occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 of the Class A Guarantee and Deed of Undertaking, in respect of the Final Maturity Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1 of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Principal Amount to the Guaranteed Payments Recipient.

For these purposes:

“**Guaranteed Interest Amount**” means, in respect of each Guaranteed Interest Due Date, any amount (if positive) equal to (a) Class A Interest Amount for the relevant Quarterly Payment Date, less (b) the Class A Interest Available Funds for the relevant Quarterly Payment Date;

“**Class A Interest Amount**” means, in respect of each Quarterly Payment Date, the interest due and payable on the Class A Notes on such date (for the avoidance of doubt calculated without taking into account the provisions of clause 12.2(a) (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement and of Condition 9.2 (*Limited Recourse of Issuer*)) pursuant to Conditions from 7.1 to 7.7 (*Interest*);

“**Class A Interest Available Funds**” means, on any Quarterly Payment Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (v)(a) of the Pre-Enforcement Priority of Payments;
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (v)(a) of the Post-Enforcement Priority of Payments.

“**Guaranteed Principal Amount**” means, in respect of the Guaranteed Principal Due Date, any amount (if positive) equal to (a) the Class A Principal Amount for the Final Maturity Date, less (b) the Class A Principal Available Funds for the Final Maturity Date.

“**Class A Principal Amount**” means, in respect of the Final

Maturity Date, the Principal Amount Outstanding of the Class A Notes on such date;

“**Class A Principal Available Funds**” means, in respect of the Final Maturity Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (ix)(ii) of the Pre-Enforcement of Priority of Payments to pay principal due and payable under the Class A Notes on such date; or
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (vii) of the Post-Enforcement Priority of Payments to pay principal due and payable under the Class A Notes on such date.

In return for the issue of the guarantee, the Issuer will irrevocably and unconditionally undertake to pay to the Class A Guarantor any fees payable to it under the Class A Guarantee and Deed of Undertaking (the “**Class A Guarantee Fee**”) on each Quarterly Payment Date in accordance with the applicable Priority of Payments.

In accordance with the provision of the Class A Guarantee and Deed of Undertaking, subject to the Class A Guarantor giving not more than 30 Business Days and not less than 10 Business Days prior written notice (the “**Class A Prepayment Demand**”) to the Issuer, the Calculation Agent, the Paying Agent, and the Representative of the Noteholders, the Class A Guarantor has the right (but not the obligation) (the “**Class A Guarantor Prepayment Option**”):

- (a) if the Relevant Party has delivered a duly completed Class A Payment Demand; and/or
- (b) following the delivery by the Representative of the Noteholders to the Issuer of a Trigger Notice,

to elect to pay to the Guaranteed Payments Recipient, on the Business Day prior to the first Quarterly Payment Date which falls at least 10 Business Days following receipt of a Class A Prepayment Demand (the “**Class A Prepayment Date**” and the “**Class A Relevant Payment Date**”, respectively), the Principal Amount Outstanding of the Senior Notes (together with any accrued but unpaid interest thereon pursuant to Condition 7 (*Interest*) up to (but excluding) the Class A Relevant Payment Date) (the “**Class A Prepayment Amount**”).

Where:

**“Guaranteed Payments Recipient”** means the Paying Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of a Trigger Notice) the Representative of the Noteholders;

**“Relevant Party”** means the Calculation Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of a Trigger Notice or the failure of the Calculation Agent to deliver a Class A Payment Demand and/or to fulfill any other obligation under the Class A Guarantee and Deed of Undertaking provided that the Class A Guarantor has received such Trigger Notice or has been notified of such failure by the Representative of the Noteholders) the Representative of the Noteholders.

## **RISK FACTORS**

*The following is a description of certain aspects of the issue of the Series 1 Notes of which prospective Noteholders should be aware. However, it is not intended to be exhaustive and prospective Noteholders should make their own independent valuation of all of the risk factors and should also read the detailed information set forth elsewhere in this Prospectus and in the Transaction Documents. Additional risks and uncertainties not presently known to the Issuer or that it currently believes to be immaterial could also have a material impact on its business operations.*

### **1. THE ISSUER**

#### **1.1 Liquidity and Credit Risk**

The Issuer is subject to the risk of delay arising between the scheduled payment dates and the date of receipt of payments due from the Lessees. The Issuer is also subject to the risk of, among other things, default in payments by the Lessees, and the failure of the Servicer to collect and recover sufficient funds in respect of the Portfolios in order to enable the Issuer to discharge all amounts payable under the Notes.

In respect of the Class A Notes, these risks are mitigated by the liquidity and credit support provided by (a) the subordination of the Class B Notes (see for further details “*Subordination*” below), (b) the Debt Service Reserve Amount; and (c) the obligation of the Class A Guarantor to pay the interest and principal on the Class A Notes pursuant and subject to the terms of the Class A Guarantee and Deed of Undertaking. However, it should be noted that there is a risk that the Class A Guarantor may not be able to perform its obligations under the Class A Guarantee and Deed of Undertaking.

There can be no assurance that the levels of credit support and the liquidity support provided by the subordination of the Class B Notes, the Debt Service Reserve Amount and the guarantee provided by the Class A Guarantor under the Class A Guarantee and Deed of Undertaking will be adequate to ensure punctual and full receipt of amounts due under the Class A Notes.

In each case the performance by the Issuer of its obligations thereunder is dependent on the solvency of the Servicer (or any permitted successors or assignees appointed under the Servicing Agreement) as well as the timely receipt of any amount required to be paid to the Issuer by the various agents and counterparts of the Issuer pursuant to the terms of the Transaction Documents.

It is not certain that the Servicer will duly perform at all times its obligations under the Servicing Agreement and that a suitable alternative Servicer could be available to service the Portfolios if the Servicer becomes insolvent or its appointment under the Servicing Agreement is otherwise terminated. In order to mitigate the servicing risk in respect of the Portfolios, the Back-Up Servicer has been appointed before the Initial Issue Date and the Back-Up Servicer shall service the Portfolios and assume and/or perform the duties and obligations of the Servicer on the same terms as are provided for in the Servicing Agreement. However it is not certain that, in case of termination of the appointment of the Servicer under the Servicing Agreement, the Back-Up Servicer will fulfill its obligations to service the Portfolios.

In some circumstances (including after service of a Trigger Notice), the Issuer could attempt to sell the Portfolios, but there is no assurance that the amount received on such a sale would be sufficient to repay in full all amounts due to the Noteholders.

#### **1.2 Issuer's ability to meet its obligations under the Notes**

The Issuer will not as of the Initial Issue Date have any significant assets other than the Portfolios and the other Issuer's Rights. The ability of the Issuer to meet its obligations in respect of the Notes will be dependent on the extent of collections and recoveries from the

Portfolios and any other amounts payable to the Issuer pursuant to the terms of the Transaction Documents to which it is a party.

There is no assurance that, over the life of the Notes or at the redemption date of the Notes (whether on the Final Maturity Date, upon redemption by acceleration of maturity following the delivery of a Trigger Notice, or otherwise), there will be sufficient funds to enable the Issuer to pay interest on the Notes, or to repay the Notes in full.

If there are not sufficient funds available to the Issuer to pay in full all principal and interest and any other amounts due in respect of the Notes, then the Noteholders will have no further claims against the Issuer in respect of any such unpaid amounts. After the Notes have become due and payable following the delivery of a Trigger Notice, the only remedy available to the Noteholders and the Other Issuer Creditors is the exercise by the Representative of Noteholders of the Issuer's Rights under the Transaction Documents.

### **1.3 No independent investigation in relation to the Portfolios**

None of the Issuer, the Arranger, the Class A Guarantor nor any other party to the Transaction Documents (other than the Originator) has undertaken or will undertake any investigation, searches or other actions to verify the details of the Portfolios sold by the Originator to the Issuer, nor has any such party undertaken, nor will any of them undertake, any investigations, searches or other actions to establish the creditworthiness of any Debtor.

None of the Issuer, the Arranger, the Class A Guarantor nor any other party to the Transaction Documents (other than the Originator) has carried out any due diligence in respect of the Lease Contracts in order to, without limitation, ascertain whether or not the Lease Contracts contain provisions limiting the transferability of the Receivables.

The Issuer will rely instead on the representations and warranties given by the Originator in the Master Transfer Agreement. The remedies of the Issuer in respect of the occurrence of a breach of a representation and warranty which materially and adversely affects the value of a Receivable will be **(a)** the requirement that the Originator indemnifies the Issuer for the damage deriving therefrom **(b)** or repurchase the relevant Receivable in relation to which a misrepresentation has occurred. See the section headed "*Summary of Principal Documents*", below. There can be no assurance that the Originator will have the financial resources to honour such obligations.

### **1.4 Receivables of unsecured creditors of the Issuer**

By operation of the Securitisation Law, the right, title and interest of the Issuer in and to the Portfolios will be segregated from all other assets of the Issuer (including, for the avoidance of doubt, any other portfolio purchased by the Issuer pursuant to the Securitisation Law) and amounts deriving therefrom (once, and until, credited to one of the Issuer's accounts under this Securitisation and not commingled with other sums) will be available on a winding up of the Issuer only to satisfy the obligations of the Issuer to the Noteholders and to pay other costs of the Securitisation. Amounts derived from the Portfolios (once, and until, credited to one of the Issuer's accounts under this Securitisation and not commingled with other sums) will not be available to any other creditors of the Issuer.

In order to ensure such segregation: (i) the Issuer has undertaken (and is obligated pursuant to the Bank of Italy regulations) to open and to keep separate accounts in relation to each securitisation transaction; (ii) the Servicer shall be able to individuate at any time, pursuant to the Bank of Italy regulations, specific funds and transactions relating to each securitisation and shall keep appropriate information and accounting systems to this purpose; (iii) the parties to the Securitisation have undertaken not to credit to the Accounts amounts other than those set out in the Cash Allocation, Management and Payment Agreement.

Moreover, the provisions of article 3 of the Securitisation Law concerning the *patrimonio separato* are not likely to apply in circumstances where the cash-flow referred to above is commingled with the assets of a party other than the Issuer (such as, for example, the Servicer).

Thus, if any such party becomes insolvent, any such cash-flow held by it could not be included in the *patrimonio separato*.

However, no guarantee can be given on the fact that the parties to the Securitisation will comply with the law provisions and contractual provisions which have been inserted in the relevant Transaction Documents in order to ensure the segregation of assets. Furthermore, under Italian law, any other creditor of the Issuer would be able to commence insolvency or winding up proceedings against the Issuer in respect of any unpaid debt. Notwithstanding the foregoing, the corporate object of the Issuer as contained in its by-laws is limited and the Issuer has also agreed to certain covenants in the Intercreditor Agreement and the Terms and Conditions restricting the activities that may be carried out by the Issuer and has furthermore covenanted not to enter into any transactions that are not contemplated in the Transaction Documents.

### **1.5 Limited enforcement rights**

The protection and exercise of the Noteholders' rights against the Issuer and the security under the Notes is one of the duties of the Representative of the Noteholders. The Rules of the Organisation of the Noteholders limit the ability of individual Noteholders to commence proceedings against the Issuer by conferring on the Meeting of the Noteholders the power to resolve on the ability of any Noteholder to commence any such individual actions.

### **1.6 Rights of set-off and other rights of the Debtors**

Under general principles of Italian law, the Lessees are entitled to exercise rights of set-off in respect of amounts due under any Lease Contract against any amounts payable by the Originator to the relevant Lessee if and to the extent that such counterclaims have arisen before the publication of the notice of assignment of the relevant Receivables in the Official Gazette pursuant to article 58 of the Consolidated Banking Act and registration of such assignment with the competent Companies' Register. Under the terms of the Master Transfer Agreement, the Originator has agreed to indemnify the Issuer in respect of any failure to collect or recover Receivables as a result of the exercise by any Debtor (or a receiver of any of the foregoing) of a right of set-off. Notice of the assignment of the Receivables comprised in the Portfolios was published in the Official Gazette and registration of the assignment with the relevant Companies' Register has been made on or prior to the date of this Prospectus.

### **1.7 Servicing of the Portfolios and potential conflicts of interest**

Pursuant to the Servicing Agreement and as of its date of execution, the Servicer will service the Portfolios. The net cash flows from the Portfolios may be affected by decisions made, actions taken and the collection procedures adopted pursuant to the provisions of the Servicing Agreement by the Servicer (or any permitted successors or assignees appointed under the Servicing Agreement).

In order to mitigate the servicing risk in respect of the Portfolios, the Back-Up Servicer has been appointed before the Initial Issue Date; however it is not certain that, in case of termination of the appointment of the Servicer under the Servicing Agreement, the Back-Up Servicer will fulfill its obligations to service the Portfolios. For further details see section headed "*Summary of Principal Documents*".

The parties to the Transaction Documents perform multiple roles within the Transaction. Accordingly, conflicts of interest may exist or may arise as a result of the parties to this Transaction: (a) having engaged or engaging in the future in transactions with other parties of the Transaction; (b) having multiple roles in this Transaction; and/or (c) executing other transactions for third parties. In any case, this risk factor is mitigated by the provisions indicated in the risk factor illustrated in the following paragraph 2.11.

### **1.8 Further securitisations**

The Issuer may purchase and securitise further portfolios of monetary receivables in addition to the Portfolios. Pursuant to Article 3 of the Securitisation Law, the assets relating to each

individual securitisation transaction will, by operation of law, be segregated from all other assets of the company that purchases the receivables. On a winding up of such company, such assets will only be available to holders of notes issued to finance the acquisition of the relevant receivables and to certain creditors claiming payment of debts incurred by such company in connection with the securitisation of the relevant assets.

The implementation by the Issuer of any such further securitisation is subject to the conditions specified under Condition 5.2 (*Covenants - Further Securitisations*). According to such condition, it is a condition precedent, *inter alia*, to any such securitisation that (i) the Rating Agency (a) has been notified in writing of the Issuer's intention to carry out a Further Securitisation, and (b) has issued a written confirmation that the relevant Further Securitisation would not adversely affect the current rating of any of the Senior Notes.

## **1.9 Tax treatment of the Issuer**

Taxable income of the Issuer is determined in accordance with Italian Presidential Decree No. 917 of 22 December 1986. Pursuant to the regulations issued by the Bank of Italy on 14 February 2006 (*Istruzioni per la Redazione dei Bilanci degli Intermediari Finanziari Iscritti nell' "Elenco Speciale", degli Imel, delle SGR e delle SIM*), the assets, liabilities, costs and revenues of the Issuer in relation to the securitisation of the Portfolios will be treated as off-balance sheet assets, liabilities, costs and revenues, to be reported in the notes to the financial statements. Based on the general rules applicable to the calculation of the net taxable income of a company, such taxable income should be calculated on the basis of accounting, i.e. on-balance sheet, earnings, subject to such adjustments as are specifically provided for by applicable income tax rules and regulations. On this basis, no taxable income should accrue to the Issuer in the context of the transfer to the Issuer of the Portfolios. This opinion has been expressed by scholars and tax specialists and has been confirmed by the tax authority (Circular No. 8/E issued by the Italian Tax Authority (*Agenzia delle Entrate*) on 6 February 2003) on the grounds that the net proceeds generated by the securitised assets may not be considered as legally available to an issuer insofar as any and all amounts deriving from the underlying assets are specifically destined to satisfy the obligations of such issuer to the noteholders, the originator and any other creditors of the issuer in respect of the securitisation of the underlying assets in compliance with applicable laws.

It is, however, possible that the Ministry of Economy and Finance or another competent authority may issue further regulations, letters or rulings relating to Law 130 which might alter or affect the tax position of the Issuer as described above in respect of all or certain of its revenues and/or items of income also through the non-deduction of costs and expenses.

As confirmed by the Italian Tax Authority (*Agenzia delle Entrate*) Resolution No. 139/E of 17 November 2004, issued in relation to the EU Court of Justice sentence of June 26, 2003 on case C-305/01, the transfer of the Portfolios to the Issuer qualifies as a financial service rendered by the Issuer to the Originator, to be subject to VAT at the zero per cent. rate (*operazione esente IVA*) because it does not represent a mere credit recovery activity which would be subject to VAT at a 21 percent rate. The characterisation of the transfer of Portfolios as a financial service is supported by the evidence that the transfer takes place in the context of a financial transaction where (a) the Originator transfers the Portfolios to the Issuer in order to enable the latter to raise funds (through the issuance of Notes collateralised by the Portfolios) to be advanced to the Originator as transfer price of the Portfolios; (b) the Issuer will effectively be entitled to retain for itself all collection and recoveries proceeds of the Portfolios to the extent necessary to repay the principal amount of the Notes and to pay interest thereon and all costs borne by the Issuer in the context of the Transaction. It is however possible that future rulings, guidelines, regulations or letters of the Italian Tax Authority (*Agenzia delle Entrate*) or other competent authorities might propose a different interpretation. The Portfolio is not transferred for a consideration due by the Originator to the Issuer, nor at a discount below the face value of the receivables. As a consequence of this and according to Circular No. 32/E of 11 March 2011, the Italian Tax Authority (*Agenzia delle Entrate*) would argue that the transaction does not qualify for VAT

purposes as operazione esente (VAT exempt) and qualify instead as operazione fuori campo (out of the scope of VAT). Should for any reason the Transfer Agreements or the Master Transfer Agreement be subject, either voluntarily or in case of use or enunciation, to registration, 0.5% registration tax will be payable by the relevant parties thereto on the nominal value of the transferred receivables.

Pursuant to Legislative Decree No. 141/2010 which modified article 3, paragraph 3, of Law 130, the Issuer is not any longer requested to be registered as financial intermediary under article 106 of the Consolidated Banking Act while it is enrolled in the register for securitization vehicles held by the Bank of Italy pursuant to the Bank of Italy's regulation dated 29 April 2011. The Italian Tax Authority (*Agenzia delle Entrate*) has not changed its tax guidelines and the Issuer has been advised that the current tax regime has not been modified by the new regulations of Bank of Italy.

## **2. THE NOTES**

### **2.1 Liability under the Notes**

The Notes will be direct, secured and limited recourse obligations solely of the Issuer and will not be the responsibility of, or be guaranteed by, any other entity (other than the Class A Guarantor, with respect to (i) the Series A1 Notes and (ii) subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), pursuant and subject to the Class A Guarantee and Deed of Undertaking). In particular, without prejudice to the Class A Guarantee and Deed of Undertaking, the Notes will not be obligations or responsibilities of, or guaranteed by, the Originator, the Servicer, the Debtors, the Representative of the Noteholders, the Calculation Agent, the Italian Account Bank, the English Account Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Corporate Services Provider, the Back Up Servicer, the Sole Quotaholder, the Senior Notes Underwriter, the Junior Notes Underwriter, the Subordinated Loan Provider, the Arranger or the Class A Guarantor. Furthermore, none of such persons accepts any liability whatsoever in respect of any failure by the Issuer to make payment of any amount due on the Notes (except for the Class A Guarantor, in the case of the Series A1 Notes and, subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes, to the extent provided for by the the Class A Guarantee and Deed of Underataking).

The Issuer will not as at the Initial Issue Date have any significant assets for the purpose of meeting its obligations under the Securitisation, other than the Portfolios, any amounts and/or securities standing to the credit of the Accounts and its rights under the Transaction Documents to which it is a party. Consequently, there is a risk that, over the life of the Notes or at the redemption date of the Notes (whether on the Final Maturity Date, upon redemption by acceleration of maturity following the service of a Trigger Notice or otherwise), the funds available to the Issuer may be insufficient to pay interest on the Notes or to repay the Notes in full.

### **2.2 Subordination of the Notes**

In respect of the obligations of the Issuer to pay interest and repay principal on the Notes, the Terms and Conditions provide that both prior to, and following, the service of a Trigger Notice:

- (i) the Senior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but in priority to the Junior Notes;
- (ii) the Junior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but subordinated to the Senior Notes;

### **2.3 Yield and payment considerations**

The yield to maturity of the Notes will depend on, *inter alia*, the amount and timing of repayment of principal under the Receivables (including prepayments).

The yield to maturity of the Notes may be affected by a higher than anticipated prepayment rate under the Receivables. Such rate cannot be predicted and is influenced by a wide variety of economic, social and other factors, including prevailing market interest rates and margin offered by the banking system, the availability of alternative financing and local and regional economic conditions and recently enacted legislation which simplifies the refinancing of loans and possible future legislations enacted to the same purpose. Therefore, no assurance can be given as to the level of prepayments that will occur under the Portfolios.

#### **2.4 Projections, forecasts and estimates**

Estimates of the weighted average life of the Class A Notes included herein, together with any other projections, forecasts and estimates in this Prospectus are forward-looking statements. Projections are necessarily speculative in nature, and it can be expected that some or all of the assumptions underlying the projections will not materialise or will vary significantly from actual results. Accordingly, actual results may vary from the projections, and the variations may be material. The potential Noteholders are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Prospectus and are based on assumptions that may prove to be inaccurate. No-one undertakes any obligation to update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Prospectus.

#### **2.5 Interest rate risk**

The Receivables have or may have interest payments calculated on a fixed rate basis or a floating rate basis (which may be different from the EURIBOR applicable under the Class A Notes, and may have different fixing mechanism), whilst the Class A Notes will bear interest at a rate based on the 3 Month EURIBOR determined on each Interest Determination Date, subject to and in accordance with the Terms and Conditions. As a result, there could be a rate mismatch between interest accruing on the Class A Notes and on the Portfolios. As a result of such mismatch, an increase in the level of the 3Month EURIBOR could adversely impact the ability of the Issuer to make payments on the Class A Notes.

#### **2.6 Additional Credit Enhancement for the Class A Notes**

In respect of the Class A Noteholders, additional credit enhancement is provided by way of a financial guarantee by the Class A Guarantor under which the Class A Guarantor (subject to the terms and conditions set forth therein) has unconditionally and irrevocably guaranteed and undertaken for the benefit of the Class A Noteholders that it shall, with respect of the Series A1 Notes and, subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), and irrespective of the limited recourse nature of the Class A Notes:

- (A) on each date (each, a “**Guaranteed Interest Due Date**”) being the later of (i) the Business Day prior to the relevant Quarterly Payment Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 of the Class A Guarantee and Deed of Undertaking, in respect of the relevant Quarterly Payment Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1 of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Interest Amount to the Guaranteed Payments Recipient; and
- (B) on the date (the “**Guaranteed Principal Due Date**”) being the later of (i) the Business Day prior to the Final Maturity Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 of the Class A Guarantee and Deed of Undertaking, in respect of the Final Maturity Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1

of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Principal Amount to the Guaranteed Payments Recipient.

## **2.7 Prepayment option of the Class A Guarantor**

The Class A Guarantee and Deed of Undertaking includes a prepayment option under which the Class A Guarantor has the right (but not the obligation), (i) following the delivery of an Trigger Notice, or (ii) if the relevant Party has delivered a duly completed Class A Payment Demand, to elect by giving not more than 30 and not less 10 Business Days prior notice to pay to the Guaranteed Payments Recipient, on the Business Day prior to the first Quarterly Payment Date which falls at least 10 Business Days following receipt of a Class A Prepayment Demand (the “**Class A Prepayment Date**” and the “**Class A Relevant Payment Date**”, respectively), the Principal Amount Outstanding of the Senior Notes (together with any accrued but unpaid interest thereon pursuant to Condition 7 (*Interest*) up to (but excluding) the Class A Relevant Payment Date) (the “**Class A Prepayment Amount**”).

Noteholders holding Class A Notes may therefore receive payments in respect of their Class A Notes earlier than would otherwise be the case in such circumstances. Investors should note that in these circumstances, the Issuer shall be obliged to pay all amounts which would otherwise have been payable to the Class A Noteholders by the Issuer on any subsequent Quarterly Payment Date, to the Class A Guarantor, who shall be subrogated to the rights of the Class A Noteholders.

## **2.8 Limited nature of credit ratings assigned to the Class A Notes**

Each rating assigned by the Rating Agency is based, among other things, on the availability of credit enhancement provided through the financial guarantee pursuant to the Class A Guarantee and Deed of Undertaking.

The ratings do not address, among others, the following:

- the possibility of the imposition of Italian or European withholding tax; or
- the marketability of the Class A Notes, or any market price for the Class A Notes; or
- whether an investment in the Class A Notes is a suitable investment for the Noteholder.

A rating is not a recommendation to purchase, hold or sell the Class A Notes. The Rating Agency may lower its ratings or withdraw its ratings if, in the sole judgment of the Rating Agency, the credit quality of the Class A Notes has declined or is in question. If any rating assigned to the Class A Notes is lowered or withdrawn, the market value of the Class A Notes may be affected.

Pursuant to the Class A Guarantee and Deed of Undertaking, the Class A Guarantor guarantees the Guaranteed Interest Amount and the Guaranteed Principal Amount in respect of the Series A1 Notes and, subject to confirmation by the Class A Guarantor, the Series A2 Notes. The payment of the Guaranteed Interest Amount and the Guaranteed Principal Amount will therefore depend upon the Class A Guarantor performing its obligations under the Class A Guarantee and Deed of Undertaking. The insolvency of the Class A Guarantor or a default by it under the Class A Guarantee and Deed of Undertaking would adversely affect the likelihood of Class A Noteholders receiving the relevant interest and principal payments and could result in a downgrade of the ratings of the Class A Notes.

## **2.9 Suitability**

Prospective investors should determine whether an investment in the Class A Notes is appropriate in their particular circumstances and should consult with their legal, business and tax advisers to determine the consequences of an investment in the Class A Notes and to arrive at their own evaluation of the investment.

Investment in the Class A Notes is only suitable for investors who:

- (i) have the requisite knowledge and experience in financial and business matters to evaluate such merits and risks of an investment in the Class A Notes;
- (ii) have access to, and knowledge of, appropriate analytical tools to evaluate such merits and risks in the context of their financial situation;
- (iii) are capable of bearing the economical risk of an investment in the Class A Notes; and
- (iv) recognise that it may not be possible to dispose of the Class A Notes for a substantial period of time, if at all.

Prospective investors in the Class A Notes should make their own independent decision whether to invest in the Class A Notes and whether an investment in the Class A Notes is appropriate or proper for them, based upon their own judgement and upon advice from such advisers as they may deem necessary.

Prospective investors in the Class A Notes should not rely on or construe any communication (written or oral) of the Issuer or the Originator or the Servicer or the Arranger as investment advice or as a recommendation to invest in the Class A Notes, it being understood that information and explanations related to the Terms and Conditions shall not be considered to be investment advice or a recommendation to invest in the Class A Notes.

No communication (written or oral) received from the Issuer, the Servicer, the Originator or the Arranger or from any other person shall be deemed to be an assurance or guarantee as to the expected results of an investment in the Class A Notes.

#### **2.10 Absence of secondary market and limited liquidity**

There is not at present an active and liquid secondary market for the Class A Notes. The Class A Notes have not been and will not be registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Although an application has been made to the Irish Stock Exchange for the Series A1 Notes to be admitted to the official listing and trading on its regulated market, there can be no assurance that a secondary market for the Series A1 Notes will develop or, if a secondary market does develop in respect of any of the Series A1 Notes, that it will provide the Series A1 Noteholders with the liquidity of investments or that it will continue until the final redemption or cancellation of such Series A1 Notes. In addition, illiquidity means that a Noteholder may not be able to find a buyer to buy its Notes readily or at prices that will enable the Noteholder to realise a desired yield. Illiquidity can have a severe adverse effect on the market value of the Notes. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of those Notes.

Prospective Noteholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Notes.

Moreover, the current liquidity crisis has stalled the primary market for a number of financial products and for certain jurisdictions, including instruments similar to the Notes. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for instruments similar to the Notes will recover at the same time or to the same degree as such other recovering global credit market sectors. In particular the secondary market for instruments similar to the Notes is continuing to experience disruptions resulting from, among other factors, reduced investor demand for such securities. This has had a materially adverse impact on the market of such kind of securities and resulted in the secondary market for such securities experiencing very limited

liquidity. Structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities have been experiencing funding difficulties and have been forced to sell asset-backed securities into the secondary market. The price of credit protection on asset backed securities through credit derivatives has risen materially. Limited liquidity in the secondary market may continue to have an adverse effect on the market value of asset-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the requirements of limited categories of investors. Consequently, whilst these market conditions continue to persist, an investor in the Notes may not be able to sell or acquire credit protection on its Notes readily and market values of the Notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to Noteholders.

### **2.11 The Representative of the Noteholders**

The Terms and Conditions and the Intercreditor Agreement contain provisions regarding the fact that the Representative of the Noteholders shall, as regards the exercise and performance of all its powers, authorities, duties and discretion, have regard to the interests of all Class of Noteholders and the Other Issuer Creditors provided that if, in the opinion of the Representative of the Noteholders **(i)** there is a conflict between their interests, the Representative of the Noteholders will have regard solely to the interests of the Noteholders; or **(ii)** there is a conflict between the interests of the holders of different Classes, the Representative of the Noteholders will consider only the interests of the holders of the Most Senior Class of Notes then outstanding; or **(iii)** if there is a conflict between the interests of the Other Issuer Creditors, then the Representative of the Noteholders shall have regard to the interests of whichever of the Other Issuer Creditors ranks higher in the Priority of Payment for the payment of the amounts therein specified, in any case without prejudice to the Class A Guarantor Reserved Matters.

### **2.12 Substitute tax under the Notes**

Payments of interest and other proceeds under the Notes may in certain circumstances, described in the section headed “*Taxation in the Republic of Italy*” of this Prospectus, be subject to a Decree 239 Deduction. In such circumstance, any beneficial owner of an interest payment relating to the Notes of any Class will receive amounts of interest payable on the Notes net of a Decree 239 Deduction. Decree 239 Deduction, if applicable, is levied at the rate of 20 per cent. or such lower rate as may be applicable under the relevant double taxation treaty.

In the event that any Decree 239 Deduction or any other deduction or withholding for or on account of tax is imposed in respect of payments to Noteholders of amounts due pursuant to the Notes, the Issuer will not be obliged to gross-up or otherwise compensate Noteholders for the lesser amounts the Noteholders will receive as a result of the imposition of any such deduction or withholding, or otherwise to pay any additional amounts to any of the Noteholders.

### **2.13 EU Directive on the taxation of savings income**

On June 3, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States are required starting from July 1, 2005, to provide to the tax authorities of another Member State the details of payments of interest (or similar income) paid by a person within its jurisdiction, qualifying as paying agent under the Directive, to an individual resident in that other Member State, except that, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain Third Countries). A number of non-EU countries and territories, including Switzerland, have agreed to adopt similar measures.

Luxembourg and Austria may however elect to introduce automatic exchange of information during the transitional period, in which case they will no longer apply the withholding tax.

The Council Directive was implemented in Italy by Legislative Decree No. 84 of 18 April 2005.

Pursuant to said decree, subject to a number of important conditions being met, with respect to interest paid to individuals who qualify as beneficial owners of the interest payment and are resident for tax purposes in another EU Member State or in a dependent or associated territory under the relevant international agreement, Italian paying agents (e.g., banks, SIMs, SGRs., financial companies and fiduciary companies resident in Italy for tax purposes, permanent establishments in Italy of non-resident persons as well as any other person resident in Italy for tax purposes paying interest for professional or commercial reasons) shall report to the Italian tax authorities details of the relevant payments and personal information of the individual beneficial owner. Such information is transmitted by the Italian tax authorities to the competent foreign tax authorities of the State of residence of the beneficial owner.

The same details of payments of interest (or similar income) shall be provided to the tax authorities of a number of non-EU countries and territories, which have agreed to adopt similar measures with effect from the same date.

#### **2.14 Change of law**

The structure of the transaction and, *inter alia*, the issue of the Notes and the rating assigned to the Class A Notes are based on Italian law, tax and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and practice. No assurance can be given that Italian law, tax or administrative practice will not change after the Initial Issue Date or that any such change will not adversely impact the structure of the transaction and the treatment of the Notes.

### **3. GENERAL RISKS**

#### **3.1 Benefit of the Leased Assets**

Under the Lease Contracts, the Originator is the owner of the leased Assets and the ownership over the leased Assets is not transferred to the Issuer together with the Receivables. In spite of this, the Issuer can nevertheless obtain the benefit of the proceeds generated by the sale or the re-lease of the leased Assets in the event that the original Lease Contract is terminated. This is provided through the assignment by the Originator to the Issuer of any sale proceeds or future rentals deriving from the sale or the re-lease of the leased Assets, being such assignment enforceable upon execution of the sale or the re-lease agreement and perfection of the relevant assignment formalities. It should however be noted that the benefit of the leased Assets could not survive the bankruptcy or the compulsory liquidation of the Originator. For further details, see paragraph below headed “*Right to Future Receivables*” of this section headed “*Risk Factors*”

#### **3.2 Effect on Lease Contracts of Insolvency of the Lessees or the Originator**

Article 59 of Legislative Decree No. 5 of 9 January 2006 amended the Italian Bankruptcy Law by introducing a supplemental Article 72-*quater* (“**Article 72-quater**”) specifically regulating the impact of the insolvency of a lessee or a lessor under financial lease agreements.

Pursuant to Article 72-*quater*, the effects of the insolvency of a lessee on a financial lease agreement are regulated by Article 72 of the Italian Bankruptcy Law (“**Article 72**”).

Pursuant to Article 72, where a contract is still unexecuted or has not been completely executed by either party, when either of such parties is declared bankrupt (i.e. the lessee), the execution of the contract remains suspended until the bankruptcy receiver (“*curatore*”), with the authorisation of the committee of creditors (“*comitato dei creditori*”), declares to either: (a) succeed under the contract by assuming all of the relevant contractual obligations; or (b) terminate such contract.

However, the contracting party (i.e. the lessor) can request the official receiver (“*giudice delegato*”) to assign to the bankruptcy receiver a time limit of not more than 60 (*sixty*) calendar

days (for making the declaration mentioned above), upon the expiry of which (without such declaration having been made), the contract is intended to be terminated.

Article 72-*quater* further provides that if the temporary continuation of the business is provided, the contract continues to be in force unless the bankruptcy receiver declares the termination of the contract.

In the event of termination of the contract, the lessor is entitled to the restitution of the leased asset and is obliged to pay to the official receivership the difference, if any, between: (a) the higher amount received by the lessor from the sale or from some other disposal of the leased asset; and (b) the outstanding claims of the lessor in respect of the principal under the lease contract, provided that, however, any instalments paid by the lessee prior to the insolvency are not subject to claw-back, in accordance with Article 67, third paragraph, item (a) of the Italian Bankruptcy Law.

The lessor, in turn, has the right to prove his claim in bankruptcy for the difference between: (a) his claim (under the lease contract) as of the date of the bankruptcy; and (b) the amount received from the new assignment of the leased asset. With reference to the bankruptcy of companies authorised to carry out financial activity in the form of financial leases (such as the Originator), Article 72-*quater* provides that the contract continues; the lessee maintains the option to purchase, on the expiry of the contract, the leased asset, subject to the payment of the relevant instalments and the agreed purchase price.

### **3.3 Risks associated with prepayments in case of insolvency of Lessees**

In the event of insolvency of a Lessee, prepayments made by such Lessee (to the extent the same Lessee is subject to the Italian Bankruptcy Law) under the relevant Lease Contract may be declared ineffective pursuant to article 65 of the Italian Bankruptcy Law (“**Article 65**”) which provides that a payment of a debt not yet due and payable, which falls due and payable on or after the date of declaration of bankruptcy of a debtor is ineffective towards the creditors of the bankruptcy estate if such payment is made by the debtor in the two-years preceding the declaration of bankruptcy (including, accordingly, any prepayments made under a financial leasing agreement).

While the Securitisation Law provides that claw-back provisions set forth in article 67 of the Italian Bankruptcy Law do not apply to payments made by the Lessee to the Issuer in respect of the Receivables, it does not contain any specific exemption provisions in respect of Article 65. Therefore, it cannot be excluded that Article 65 would apply to payments made in respect of the Receivables before the relevant due date.

Under the Transaction Documents Alba Leasing has represented that the Lease Contracts do not provide for the faculty of the relevant Lessees to early terminate such Lease Contracts.

### **3.4 Right to future receivables**

Under the terms of the Master Transfer Agreement, the Originator has undertaken to transfer to the Issuer the proceeds deriving from the sale of the leased Asset under any Lease Contract which has been early terminated, or the receivables deriving from a new lease contract entered into in relation to such leased Asset. In the event that the Originator is or becomes insolvent, the court will treat the Issuer’s claims to such future sale proceeds or receivables under any such new lease contract as “future” receivables. The Issuer’s claims to any future receivables: (a) that have not yet arisen at the time of the Originator’s admission to the relevant insolvency proceedings; or (b) which have arisen at such time but in respect of which the transfer formalities have not been completed before such date, might not be effective and enforceable against the insolvency receiver of the Originator.

### **3.5 Terms of the lease contracts**

Although the Lease Contracts entered into by the Originator with the Lessees are based on the standard terms and conditions of the Originator (as represented by the Originator under the

Master Transfer Agreement), there can be no guarantee that the Lease Contracts do not contain any terms or conditions that adversely affect in any manner the value of the Receivables or the enforceability of the Lease Contracts.

### 3.6 Italian Usury Law

Italian Law No. 108 of 7 March 1996 (“*Disposizioni in materia di usura*”) (the “**Usury Law**”) introduced legislation preventing lenders from applying interest rates equal to or higher than the thresholds set on a quarterly basis by a decree issued by the Italian Treasury (the “**Usury Thresholds**”) (the latest of such decrees having been issued on 21 December 2012).

In addition, even though the applicable Usury Thresholds are not exceeded, interests and other advantages and/or remunerations might be held usurious if: (i) they are disproportionate to the sum lent (taking into account, in evaluating such condition, the specific terms and conditions of the transaction and the average rate usually applied to similar transactions); and (ii) the person who paid or accepted to pay the relevant amounts was, at the time it made such payment or undertook the obligation, in financial and economic difficulties.

On 29 December 2000, the Italian Government issued law decree No. 394 (“*Interpretazione autentica della legge 7 marzo 1996, n. 108*”) (the “**Decree 394/2000**”), turned into Law No. 24 of 28 February 2001 (“*Conversione in legge, con modificazioni, del decreto-legge 29 dicembre 2000, n. 394, concernente interpretazione autentica della legge 7 marzo 1996, n. 108, recante disposizioni in materia di usura*”), which clarified the uncertainty over the interpretation of the Usury Law and provided, *inter alia*, that interest will be deemed to be usurious only if the interest rate agreed by the parties exceeded the Usury Thresholds at the time when the loan agreement or any other credit facility was entered into or the interest rate was agreed. Decree 394/2000 also provided that as an extraordinary measure due to the exceptional fall in interest rates in 1998 and 1999, interest rates due on instalments payable after 2 January 2001 on fixed rate loans (other than subsidised loans) already entered into on the date such decree came into force (such date being 31 December 2000) are to be substituted, except where the parties have agreed to more favourable terms, with a lower interest rate set in accordance with parameters fixed by such decree by reference to the average gross yield of multiannual treasury bonds (*Buoni Tesoro Poliennali*) in the period from January 1986 to October 2000.

The Italian Constitutional Court (*Corte Costituzionale*) has rejected, with decision No. 29/2002 (deposited on 25th February 2002), a constitutional exception raised by the Court of Benevento concerning article 1, paragraph 1, of the Usury Law. In so doing, the Constitutional Court has confirmed the constitutional validity of the provisions of the Usury Law which holds that the interest rates may be deemed to be void due to usury only if they infringe the Usury Law at the time they are agreed upon between the borrower and the lender and not as at the time such rates are actually paid by the borrower.

The Originator shall represent and warrant in the Master Transfer Agreement that the Lease Contracts have been executed in compliance with the Usury Law. See description of the Master Transfer Agreement under Section “*Summary of Principal Documents*”.

### 3.7 Compounding of interest (*Anatocismo*)

According to article 1283 of the Italian Civil Code, in respect of a monetary receivables, interests accrued for at least six months can be capitalized and provided that the capitalization has been agreed after the date when they have become due or from the date when the relevant legal proceedings are commenced in respect of that monetary claim, save there are no contrary recognized customary practices (*usi*). Banks in Italy have traditionally capitalized accrued interests on a quarterly basis on the grounds that such practice could be characterized as a customary practices. Certain judgments from Italian Courts (including Judgments No. 2374/99 and No. 2593/03 of the Italian Supreme Court) have held that such practice do not meet the legal definition of customary practices. In this respect, it should be noted that article 25, paragraph 2, of the Decree No. 342 (the “**Decree**”) has delegated to the Interministerial Committee of Credit and Saving (the “**CICR**”) powers to fix the conditions for the

capitalization of accrued interests. As a matter of fact, the CICR, pursuant to article 3 of a Resolution dated 9 February 2000 (the “**Resolution**”), has provided, in relation to loans involving a deferred repayment that, in case of breach by the debtor, the amount due on the maturity of each instalment, shall produce interests from such date up to the date of the actual payment, if so provided by the relevant contract. Moreover, article 25, paragraph 3, of the Decree provides that the provisions relating to the capitalization of accrued interest set forth in contracts entered into before the date of the Resolution are valid and effective up to the date thereof and after such date shall be consistent to the provisions of the Resolution. Such Decree has been challenged, however, before the Italian Constitutional Court on the grounds that it falls outside the scope of the powers delegated under the *Legge Delega*, and article 25 paragraph 3 of the Decree has been declared unconstitutional by decision No. 425 of 9/17 October 2000 issued by the Italian Constitutional Court. On the basis of the foregoing, it cannot be excluded that borrowers may, where appropriate, challenge the practice of capitalising interest by banks on the grounds set forth by the Italian Supreme Court in the above mentioned decision and, therefore, that a negative effect on the returns generated from the residential and commercial mortgage loan could derive.

Under the terms of the Master Transfer Agreement, the Originator has undertaken to indemnify the Issuer in respect of any losses, costs and expenses that may be incurred by the Issuer in connection with any challenge in respect of the Receivables. See description of the Master Transfer Agreement under Section “*Summary of Principal Documents*”.

### **3.8 The Securitisation Law**

As of the date of this Prospectus, only limited interpretation of the application of the Securitisation Law has been issued by Italian governmental or regulatory authorities; therefore, it is possible that further regulations, relating to the Securitisation Law or the interpretation thereof, are issued in the future, the impact of which cannot be predicted by the Issuer or any other party to the Transaction Documents, as of the date of this Prospectus.

### **3.9 Recharacterisation of English Law fixed security interests**

There is a possibility that an English court could find that the fixed security interests expressed to be created by the Deed of Charge governed by English law could take effect as floating charges as the description given to them as fixed charges is not determinative.

Where the Issuer is free to deal with the secured assets, or any proceeds received on realisation of the secured assets, without the consent of the chargee, the court would be likely to hold that the security interest in question constitutes a floating charge, notwithstanding that it may be described as a fixed charge.

Whether the fixed security interests will be upheld as fixed security interests rather than floating security interests will depend, amongst other things, on whether the Representative of the Noteholders (acting as security trustee) has the requisite degree of control over the Issuer's ability to deal in the relevant assets and the proceeds thereof and, if so, whether such control is exercised by the Representative of the Noteholders in practice.

If the fixed security interests are recharacterised as floating security interests, the claims of (i) the unsecured creditors (if any) of the Issuer in respect of that part of the net property of the Issuer which is ring fenced as a result of the Enterprise Act 2002 and (ii) certain statutorily defined preferential creditors of the Issuer may have priority over the rights of the Representative of the Noteholders to the proceeds of enforcement of such security. In addition, the expenses of an administration would also rank ahead of the claims of the Representative of the Noteholders as floating charge holder.

A receiver appointed by the Representative of the Noteholders would be obliged to pay preferential creditors out of floating charge realisations in priority to payments to the Secured Creditors (including the Noteholders). Following the coming into force of the insolvency provisions of the Enterprise Act 2002, the only remaining categories of preferential debts are

certain amounts payable in respect of occupational pension schemes, employee remuneration and levies on coal and steel production.

If the Representative of the Noteholders was prohibited from appointing an administrative receiver by virtue of the amendments made to the Insolvency Act 1986 by the Enterprise Act 2002, or failed to exercise its rights to appoint an administrative receiver within the relevant notice period and the Issuer were to go into administration, the expenses of the administration would also rank ahead of the claims of the Representative of the Noteholders as floating charge holder.

Furthermore, in such circumstances, the administrator would be free to dispose of floating charge (and fixed charge) assets without the leave of the court, although the Representative of the Noteholders would have the same priority in respect of the property of the company representing the proceeds of disposal of such floating charge assets, as it would have had in respect of such floating charge assets.

### **3.10 The “anti-deprivation” principle**

The validity of contractual priorities of payments such as those contemplated in this transaction (the Priority of Payments) has been challenged recently in the English and U.S. courts. The hearings have arisen due to the insolvency of a secured creditor (in that case a swap counterparty) and have considered whether such payment priorities breach the “anti-deprivation” principle under English and U.S. insolvency law. This principle prevents a party from agreeing to a provision that deprives its creditors of an asset upon its insolvency. It was argued that where a secured creditor subordinates itself to noteholders in the event of its insolvency, that secured creditor effectively deprives its own creditors. The Court of Appeal in *Perpetual Trustee Co Ltd v BNY Corporate Trustee Services Ltd* 2009 EWCA Civ 1160, dismissed this argument and upheld the validity of similar priorities of payment, stating that the anti-deprivation principle was not breached by such provisions. This was further supported in *Belmont Park Investments PTY Limited v BNY Corporate Trustee Services Ltd and Lehman Brothers Special Financing Inc* 2011 UKSC 38, in which the Supreme Court upheld the priority provisions at issue in determining that such priority provisions were part of a complex commercial transaction entered into in good faith without any intention to evade insolvency law in which the changing priority of payments were an essential part of the transaction understood by the parties and did not contravene the anti-deprivation principle.

The U.S. Bankruptcy Court for the Southern District of New York has granted Lehman Brothers Special Finance Inc.'s motion for summary judgement to the effect that the provisions do infringe the anti-deprivation principle in a U.S. insolvency. The Court acknowledged that this has resulted in the U.S. courts coming to a decision “directly at odds with the judgement of the English Courts”. BNY Corporate Trustee Services Ltd was granted leave to appeal but the case subsequently settled out of court. Notwithstanding the New York settlement, the decision of the US Bankruptcy Court remains inconsistent with the decision reached by the Supreme Court of England and Wales in the Belmont case as referred to above and therefore uncertainty remains as to how a conflict of the type referred to above would be resolved by the courts. Given the current state of U.S. and English law, this is likely to be an area of continued judicial focus particularly in respect of multi-jurisdictional insolvencies.

Additionally, there can be no assurance as to how such subordination provisions would be viewed in other jurisdictions such as Italy or whether they would be upheld under the insolvency laws of any such relevant jurisdiction. If a subordination provision included in the Transaction Documents was successfully challenged under the insolvency laws of any relevant jurisdiction and any relevant foreign judgement or order was recognised by the Italian courts, there can be no assurance that these actions would not adversely affect the rights of the Noteholders, the market value of the Class A Notes and/or the ability of the Issuer to satisfy all or any of its obligations under the Class A Notes.

### **3.11 Forward-looking statements**

Words such as “intend(s)”, “aim(s)”, “expect(s)”, “will”, “may”, “believe(s)”, “should”, “anticipate(s)” or similar expressions are intended to identify forward-looking statements and subjective assessments. Such statements are subject to risks and uncertainties that could cause the actual results to differ materially from those expressed or implied by such forward-looking statements. The reader is cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Prospectus and are based on assumptions that may prove to be inaccurate. No-one undertakes any obligation to update or revise any forward-looking statements contained herein to reflect events or circumstances occurring after the date of this Prospectus.

### **3.12 Regulatory capital framework**

The regulatory capital framework published by the Basel Committee on Banking Supervision (the “**Basel Committee**”) in 2006 (the “**Basel II Framework**”) has not been fully implemented in all participating countries. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Notes for investors who are or may become subject to capital adequacy requirements that follow the framework.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as “**Basel III**”), including new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. In particular, the changes refer to, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the “**Liquidity Coverage Ratio**” and the “**Net Stable Funding Ratio**”). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The European authorities have indicated that they support the work of the Basel Committee on the approved changes in general, and the European Commission's corresponding proposals to implement the changes (through amendments to the Capital Requirements Directive known as “**CRD IV**”) have been presented on 20 July 2011. The changes approved by the Basel Committee may have an impact on incentives to hold the Notes for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Notes.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Notes and as to the consequences to and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

### **3.13 Regulatory initiatives may result in increased regulatory capital requirements and/or decreased liquidity in respect of the Notes**

In Europe, the U.S. and elsewhere there is increased political and regulatory scrutiny of the asset-backed securities industry. This has resulted in a raft of measures for increased regulation which are currently at various stages of implementation and which may have an adverse impact on the regulatory capital charge to certain investors in securitisation exposures and/or the incentives for certain investors to hold asset-backed securities, and may thereby affect the liquidity of such securities. Investors in the Notes are responsible for analysing their own regulatory position and none of the Issuer, the Originator, the Arranger and the Class A Guarantor makes any representation to any prospective investor or purchaser of the Notes regarding the regulatory capital treatment of their investment on the relevant Issue Date or at any time in the future.

In particular, in Europe, investors should be aware of Article 122a of the Capital Requirements Directive (“**Article 122a**”) which applies in general to new securitisations issued on or after 1

January 2011 and, after 31 December 2014, to existing securitisations where new underlying exposures are added or substituted after 31 December 2014. Article 122a restricts an EU regulated credit institution from investing in asset-backed securities unless the originator, sponsor or original lender in respect of the relevant securitisation has explicitly disclosed to the EU regulated credit institution that it will retain, on an ongoing basis, a net economic interest of not less than 5% in respect of certain specified credit risk tranches or asset exposures as contemplated by Article 122a. Article 122a also requires an EU regulated credit institution to be able to demonstrate that it has a comprehensive and thorough understanding of the key terms and risks of the transaction and it has undertaken certain due diligence in respect of, amongst other things, its note position and the underlying exposures and that procedures are established for such activities to be conducted on an on-going basis. Failure to comply with one or more of the requirements set out in Article 122a will result in the imposition of a penal capital charge on the notes acquired by the relevant investor.

There remains considerable uncertainty with respect to Article 122a and it is not clear what will be required to demonstrate compliance to national regulators. Investors who are uncertain as to the requirements that will need to be complied with in order to avoid the additional regulatory charges for non compliance with Article 122a should seek guidance from their regulator. Similar requirements to those set out in Article 122a are expected to be implemented for other EU regulated investors (such as investment firms, insurance and reinsurance undertakings and certain hedge fund managers) in the future.

Article 122a of the Capital Requirements Directive and any other changes to the regulation or regulatory treatment of the Notes for some or all investors may negatively impact the regulatory position of individual investors and, in addition, have a negative impact on the price and liquidity of the Notes in the secondary market.

With respect to the fulfillment by the Originators of the requirements of the Article 122a please refer to section headed "*Capital Requirements Directive*".

### **3.14 Political and economic Developments in the Republic of Italy and European Union**

A severe or extended downturn in the Republic of Italy's economy could adversely affect the results of operations and the financial condition of the Originator which could in turn affect the ability to perform its obligations under the Transaction Documents to which it is a party and, solely with reference to macro-economic conditions affecting the Republic of Italy, the ability of Debtors to repay the Receivables.

### **3.14 U.S. foreign account tax compliance act withholding**

The U.S. Foreign Account Tax Compliance Act ("**FATCA**") generally imposes a new reporting regime and potentially a 30.00 per cent withholding tax with respect to certain payments to certain non-U.S. financial institutions (including entities such as the Issuer) that do not enter into and comply with an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide certain information about the holders of its debt or equity. The new withholding regime will be phased in beginning in 2014.

In particular, this withholding tax may be triggered if (i) the issuer is a foreign financial institution ("**FFI**") (as defined by FATCA), which enters into and complies with an agreement with the IRS to provide certain information on its account holders (a term which includes the holders of its debt or equity interests that are not regularly traded on an established securities market) (making the issuer a "participating FFI"), (ii) any payment by the issuer is considered to be attributable to any U.S. source "withholdable payment" to the issuer, and (iii) (a) an investor does not provide information sufficient for the participating FFI to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of such issuer, or (b) any FFI through which payment on the notes or other payments are made is not a participating FFI.

The application of FATCA is not yet clear and therefore is unclear how the FATCA reporting

and withholding regime may affect interest, principal or other amounts due under the Notes or any payment to be made by any paying agent or any other party to this Transaction. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest or principal on the Notes or other payments from a party to this Transaction as a result of a holder's failure to comply with these rules or as a result of the presence in the payment chain of a non-participating FFI, none of the Issuer, any paying agent or any other person would, pursuant to the Terms and Conditions or any other Transaction Documents, be required to pay additional amounts as a result of the deduction or withholding of such tax.

Holders of notes should consult their own tax advisors about the application of FATCA and on how the above rules may apply to, or affect, payments to be received under the Notes or any other payments to be made by the Parties to this Transaction.

**The Issuer believes that the risks described above are the principal risks inherent in the Securitisation for the Class A Noteholders but the inability of the Issuer to pay interest or repay principal on the Series 1 Notes may occur for other reasons and the Issuer does not represent that the above statements on the risks of holding the Series 1 Notes are exhaustive. While the various structural elements described in this Prospectus are intended to lessen some of these risks for the Class A Noteholders, there can be no assurance that these measures will be sufficient or effective to ensure payment to the Class A Noteholders of interest or principal on the Series A1 Notes on a timely basis or at all.**

## THE PRINCIPAL PARTIES

<b>Issuer</b>	<p><b>Alba 4 SPV S.r.l.</b>, a company incorporated under the laws of Italy as a <i>società a responsabilità limitata</i> with a sole quotaholder, whose registered office is at Via V. Alfieri, 1, 31015 Conegliano (TV), Italy, quota capital of euro 10,000.00, fully paid up and entirely held by the Sole Quotaholder, registered in the Register of Enterprises of Treviso with Tax and VAT registration number 04571870262, enrolled in the register of special purpose vehicles held by Bank of Italy pursuant to the regulation issued by the Bank of Italy on 29 April 2011 under No. 35058.7.</p> <p>The Issuer has an issued quota capital of Euro 10,000, which is entirely held by the Sole Quotaholder.</p>
<b>Originator</b>	<p><b>Alba Leasing S.p.A.</b>, a company incorporated as a <i>società per azioni</i> under the laws of the Republic of Italy, whose registered office is at Via Sile 18, 20139 Milan, with paid-in share capital of Euro 325,000,000, Fiscal Code and registration with the Companies Register in Milan No. 06707270960 (“<b>Alba Leasing</b>”).</p>
<b>Servicer</b>	<p><b>Alba Leasing</b>. The Servicer will act as such pursuant to the Servicing Agreement.</p>
<b>Arranger</b>	<p><b>Société Générale</b>, a French limited liability company (<i>société anonyme</i>) the registered office of which is at 29 Boulevard Haussman, 75009 Paris, France, and whose head office is at 17 cours Valmy, 97972 Paris-La-Défense Cedex, France, registered in France with the Commercial register under number 552120222 (“<b>SocGen</b>”).</p>
<b>Back-Up Servicer</b>	<p><b>Selmabipiemme Leasing S.p.A.</b>, a company incorporated as a <i>società per azioni</i> under the laws of the Republic of Italy, with paid-in share capital of Euro 41,305,000, whose registered office is at Via Battistotti Sassi, 11/A, fiscal code and V.A.T. No. 00882980154, and enrolled in the register held by the Bank of Italy pursuant to article 107 of the Consolidated Banking Act (“<b>Selmabipiemme</b>”). Selmabipiemme will act as back-up servicer under the Back-Up Servicing Agreement .</p>
<b>Calculation Agent</b>	<p><b>Securitisation Services S.p.A.</b>, a joint stock company incorporated in the Republic of Italy with its registered office at Via Alfieri 1, 31015 Conegliano (TV), Italy, registered in the Register of Enterprises of Treviso with Tax and VAT registration number 03546510268, enrolled under number 31816 with the register held by the Bank of Italy pursuant to article 106 of Legislative Decree No. 385 of 1 September 1993 the Consolidated</p>

Banking Act and enrolled in the special register held by Bank of Italy pursuant to article 107 of the Consolidated Banking Act, share capital of Euro 1,595,055 fully paid-up, directed and coordinated (*soggetta all'attività di direzione e coordinamento*) by Finanziaria Internazionale Holding S.p.A. (“**Securitisation Services**”) in its capacity as calculation agent. The Calculation Agent will act as such pursuant to the Cash Allocation, Management and Payment Agreement.

**Italian Account Bank**

**The Bank of New York Mellon (Luxembourg) S.A., Italian Branch**, a company incorporated under the laws of the Grand Duchy of Luxembourg, acting through its Italian branch, having its registered office at Via Carducci No. 31, 20123 Milan, Italy (“**BNYM Italian Branch**”). BNYM Italian Branch will act as Italian Account Bank pursuant to the Cash Allocation, Management and Payment Agreement.

**English Account Bank**

**The Bank of New York Mellon, London Branch**, a New York banking corporation acting through its London branch, whose registered office is at One Canada Square, London E14 5AL, United Kingdom (“**BNYM London Branch**”). BNYM London Branch will act as English Account Bank pursuant to the Cash Allocation, Management and Payment Agreement.

**Paying Agent**

**BNYM Italian Branch** will act as such pursuant to the Cash Allocation, Management and Payment Agreement.

**Irish Agent**

**The Bank of New York Mellon SA/NV, Dublin Branch**, a banking corporation organised pursuant to the laws of Belgium, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, acting through its Dublin Branch (registered in Ireland with branch number 907126) and having its registered branch office at Hanover Building, Windmill Lane, Dublin 2, Ireland (“**BNYM Irish**”) as Irish agent (the "**Irish Agent**"). BNYM Irish will act as Irish Agent pursuant to the Cash Allocation, Management and Payment Agreement.

**Cash Manager**

**Alba Leasing** in its capacity as cash manager. The Cash Manager will act as such pursuant to the Cash Allocation, Management and Payment Agreement.

**Corporate Services Provider**

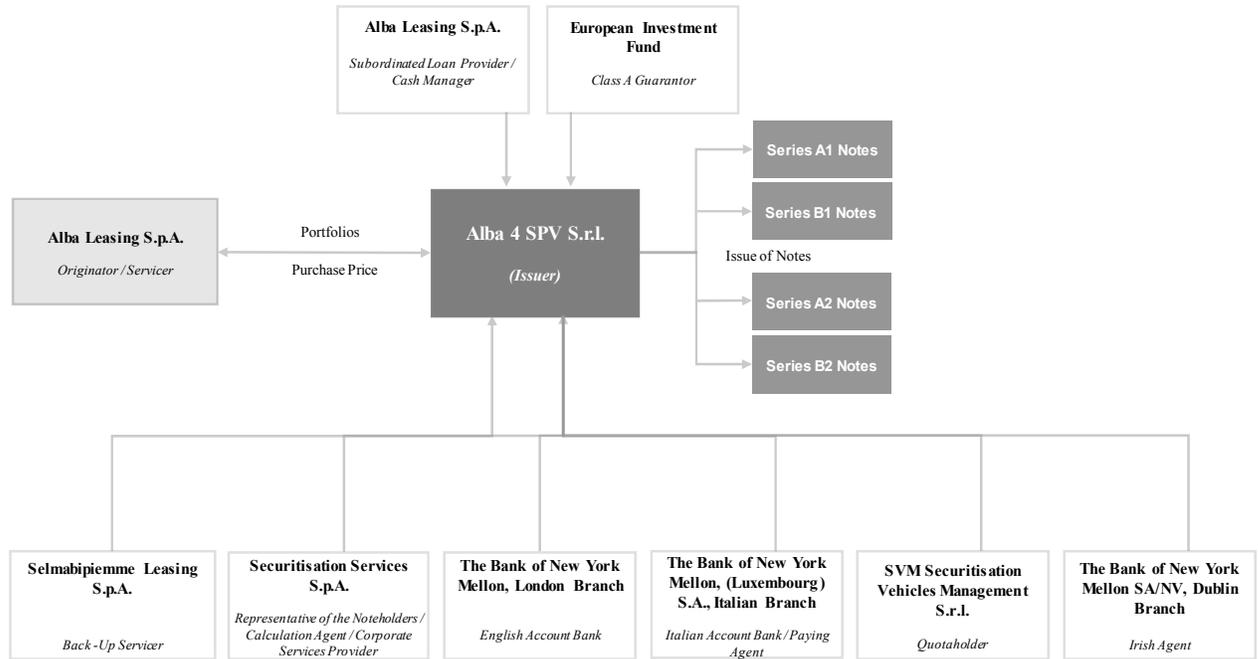
**Securitisation Services** in its capacity as corporate services provider. The Corporate Services Provider will act as such pursuant to the Corporate Services Agreement.

**Representative of the Noteholders**

**Securitisation Services**, in its capacity as representative of the noteholders. The Representative of the Noteholders will act as such pursuant to the Subscription Agreements.

<b>Subordinated Loan Provider</b>	<b>Alba Leasing</b> in its capacity as subordinated loan provider. The Subordinated Loan Provider will act as such pursuant to the Subordinated Loan Agreement.
<b>Sole Quotaholder</b>	<b>SVM Securitisation Vehicles Management S.r.l.</b> , a limited liability company with a sole quotaholder ( <i>socio unico</i> ), incorporated under the laws of the Republic of Italy, whose registered office is at Conegliano (TV), via V. Alfieri n. 1, Italy, Fiscal Code and enrolment with the Companies' Register of Treviso under No. 03546650262, with quota capital of Euro 30.000,00 fully paid-up (" <b>SVM</b> "). SVM will act as Sole Quotaholder pursuant to the Quotaholder Agreement.
<b>Senior Notes Underwriter</b>	<b>Antalis S.A.</b> a company incorporated under the laws of France, whose registered office is at 127 rue Amelot, 75011, Paris, France (" <b>Antalis</b> "), as underwriter of the Series A1 Notes. Antalis will act as such pursuant to the Senior Notes Subscription Agreements.
<b>Junior Notes Underwriter</b>	<b>Alba Leasing</b> . The Junior Notes Underwriter will act as such pursuant to the Junior Notes Subscription Agreement.
<b>Class A Guarantor</b>	<b>European Investment Fund</b> , an international financial institution, having its registered office at 96 boulevard Konrad Adenauer, Luxembourg, Grand Duchy of Luxembourg (" <b>EIF</b> " or the " <b>Class A Guarantor</b> "). The Class A Guarantor will act as such pursuant to the Class A Guarantee and Deed of Undertaking.
<b>Rating Agency</b>	Standard & Poor's Credit Market Services Italy S.r.l. (" <b>S&amp;P</b> ").
<b>Listing Agent</b>	<b>BNYM Irish</b> will act as such pursuant to the Transaction Documents.

## TRANSACTION DIAGRAM



## THE ORIGINATOR, THE SERVICER AND THE CASH MANAGER

Alba Leasing SpA (“**Alba Leasing**”) is the new leasing company incorporated at the beginning of 2010 following the turnaround of Banca Italease Group. Banca Italease assigned to Alba Leasing its outstanding performing portfolio of approximately € 4.9 billion originated through the banking channel.

Alba Leasing is owned by Banca Popolare Emilia Romagna (owning 36.43% of the share capital, rated BBB by Fitch and BB+ by S&P), Banco Popolare Group (owning 32.79% of the share capital, rated BBB by Fitch, BBB- by S&P and Baa3 by Moody’s), Banca Popolare di Sondrio (owning 20.95% of the share capital, rated BBB+ by Fitch) and Banca Popolare di Milano (owning 9.83% of the share capital, rated BBB- by Fitch, BB+ by S&P and Baa3 by Moody’s).

The total shareholder capital of Alba Leasing stands at € 325 million, included the capital increase of € 70 million approved by the executive board and paid on 28/01/2013.

Alba Leasing’s mission is to become in the medium/long-term a best practicing entity in terms of business effectiveness and operational efficiency, leveraging on a unique track record on the Italian leasing market (40 years of experience).

According to *Assilea* data (as at 31/12/2012), Alba ranked among the top ten Italian leasing companies, with a market share of 4.22%, with a focus on the equipment sector, reaching a market share of 7.46%.

The main origination channel of Alba Leasing is through the shareholder networks spread around Italy (approx. 4,700 branches and 2 million customers).

Since 2010, Alba Leasing has originated € 2,480 million in new leasing contracts (average ticket size €83,000), with the following breakdown:

- Equipment € 1,636 mn (66%)
- Real estate € 574 mn (23%)
- Automotive € 217 mn (9%)
- Other (air/naval/rail) € 53 mn (2%)

As of 30/06/2012, the total outstanding portfolio accounted approximately € 4.2 billion.

Alba Leasing’s strategies include:

- (a) wide and efficient coverage throughout Italy, which means:
  - (i) Origination mainly through bank channel (no brokers)
  - (ii) Wide range of leasing products, tailored to customer needs
  - (iii) Small ticket average and low emphasis on real estate business
  - (iv) Active origination platform with the support of other local banks, with a bilateral agreement
- (b) Operative efficiency, by means of the optimization of internal procedures
- (c) New internal rating scoring, capable of monitoring credit risk and the level of defaults, with primary focus on small tickets

Alba Leasing is able to provide a large variety of leasing products to its customers (inclusive of energy leasing and leasing to public sector). The new production is originated through an innovative internal process capable of assessing, in a very detailed way, the risk exposure.

**The information contained in this section “*The Originator, the Servicer and the Cash Manager*” relates to Alba Leasing S.p.A. and has been obtained from it. This information has been**

**accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by Alba Leasing S.p.A., no facts have been omitted which would render the reproduced information inaccurate or misleading. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of Alba Leasing S.p.A. since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to such date.**

## COLLECTION POLICIES AND RECOVERY PROCEDURES

### 1. Management of the Collections

#### (a) Instalments billing procedure

The invoicing frequency is monthly, and it is managed in a fully automatic mode ("batch"). The procedure elaborates the document by drawing out the monthly instalment from the original financial plan.

Almost all the contracts provide for instalments due date on 1st day of the month.

#### (b) Indexing

The indexed contracts provides for indexation through "*Ricalcolo*".

Such indexing procedure implies a change in the financial plan of the contract. The residual debts, thus, will be based on a new parameter. All new originations are indexed through "*Ricalcolo*", and the due date is always the 1° day of the month.

"*Ricalcolo*" indexing is managed through automatic-weekly procedure and is billed monthly.

#### (c) RID process

The process of direct debit (RID) issuing can occur (i) Automatic / scheduled or (ii) generated by events.

(i) The automatic process combines in a single bill all "open items" not yet issued relating to a contract.

(ii) The issuance of a RID "generated by events" could occur between two scheduled automatic RID procedure.

RID / RIBA are credited at their maturity date, i.e. the first day of the month.

Each RID / RIBA is characterized by a unique identification code that will allow associating it with its return flow.

The reception mode of the flows "Unsolved" RID / RIBA is automatic.

#### (d) After-sale events

The events generating changes to the contract (in relation to after-sale events) are manually managed by the user, while the bills are issued automatically at the first opportunity (together with the bills of the ordinary installments).

The bills in relation to after-sale events, are settled through direct payment (without any RID/RIBA flow).

### 2. Credit Recovery Process

The credit recovery process consists in the following phases:

1. **Recognition of Failure to pay:** "failure to pay" are identified by the EPC system; iff the client pays with RID/RIBA, the system is able to makes daily checks and verify the reception of an "Unsolved" flows.
2. **Preliminary management of the failure to pay:** "failure to pay" events are differentiated between
  - (a) "supposed" failure to pay and (b) "actual" failure to pay:
    - the "supposed failure to pay" are managed in order to verify lack of procedural/internal errors which might have triggered the system without involvement of the client

- In any case, after 20 days by the classification of the contract in EPC tool, the system automatically considers the file as “actual” failure to pay.
3. **Credit Recovery:** for “actual failure to pay” events the procedure provides for a different credit recovery process based on the amount:

- (a) “**Grandi Rischi**” (over €250,000): the recovery actions are customized (direct contact with the client, without the appointment of phone collection companies) in order to produce a more effective result, based on team working involving (i) *U.O. Crediti Problematici*, (ii) Alba Leasing Client Manager and the (iii) Shareholding Bank’s Client Manager. If the client doesn’t agreed with the offered solutions (i.e. regularisation and payment delays), Alba Leasing send a pre-resolution letter. The file is then send to *Contenzioso department (office)*.
- (b) “**Rischi Standard**” (up to €250,000): the recovery actions in relation to this category are based on (i) a first internal dunning activity (carried out by Alba Leasing or by the Shareholding Banks if the contract has been originated through this channel), followed by (ii) activities carried out by external credit recovery companies (call centers) and, finally (iii) surveys provided by external assessment of credit risk companies for an extra-judicial recovery.

The procedure monitors all the possible results coming from the recovery activity, i.e. (i) regularization, (ii) payment delays, (iii) advanced cancellation of the contract, (iv) return of the asset and (v) bilateral agreement asset sale. If the client doesn’t agreed with the offered solutions, the file is send to *Contenzioso department (office)*.

Generally, the following activities are carried on in the context of the Credit Recovery phase:

- At the same time of the classification of the overdue payment in the EPC tool, (i) automatic reminder (first letter to the client) and phone calls to the client (directly or through the Shareholder Banks or through Call Centers) are triggered;
- after 31 days: a second automatic reminder is sent to the customer and the file is sent to a Credit Recovery Company (which may spend a maximum of 30 days in order to contact the client and recovery the credit);
- 60 days after the payment date the file is sent to the internal Client Manager in order to assess the global risk and the recovery actions to be taken;
- 90 days after the payment date, Alba Leasing sends to the client an ad-hoc Pre-termination communication
- Thereafter, if the non-judicial procedure doesn’t produce any positive result, Alba Leasing terminates the contract: litigation procedure is enacted (only for contracts with outstanding debt higher than € 2,500).

4. **Bankruptcy Procedures:** activities carried out in relation to delinquent and default contracts, for which Alba Leasing has opted to proceed with extra-judicial or judicial activities (including Litigation procedures).

Litigation activities are aimed to recover the property (*Decreto Ingiuntivo* and *Precetto di Restituzione*) and to obtain the payment of the outstanding amount (*Decreto Ingiuntivo* and *Precetto di Pagamento*).

If outstanding debt is lower than €2,500, the amount is directly written off.

All activities about Credit Recovery Process are centralized on *U.O. Recupero Crediti Problematici*.

Phases 1. to 3. above are carried on by *Recupero Crediti department (office)*, while activities under 4. above are carried on by *Contenzioso department (office)*. In particular:

- *Recupero Crediti department (office)* is in charge of:
  - Recovery phase in relation to unpaid receivables;
  - Detection of the failure to pay event and distinction between “supposed” and “actual”;
  - Management of files in Pre-litigation phase, with the aim of recovery the unpaid (directly or through external advisors);
  - Management of the payments received by delinquent / defaulted clients;
  - Proposal and evaluation of the expected loss in relation to the various clients;
  - Preparation and updating of internal regulations and procedures (in relation to Credit Recovery’s matters);
  
- *Contenzioso department (office) (supported by U.O. Legale e Affari Societari)* is in charge of:
  - Preparation and periodical updates of documentation;
  - Providing legal / advisory support and super visioning both the litigation procedures and credit recovery process;
  - Management of legal procedures;
  - Management of relationships with Public Authorities (i.e. fiscal entity);
  - Management of judicial and extra-judicial procedures;
  - Preparation and update of internal regulations and procedures;
  - Management of client’s claims.

## THE PORTFOLIOS

Each Portfolio purchased by the Issuer has been selected on the basis of the relevant criteria set out below.

### 1. SELECTION CRITERIA OF THE INITIAL PORTFOLIO

The Receivables included in the Initial Portfolio as at the relevant Valuation Date, (or the different date specified in the relevant criterion) must meet the following criteria (the “Criteria”) in order to ensure that the Receivables have the same legal and financial characteristics. The Criteria of the Initial Portfolio are as follows:

- (i) the relevant Lease Contracts are entered into by Alba Leasing in its role of lessor;
- (ii) the relevant Lease Contracts provide an effective date of the leasing falling not before 1 January 2010,
- (iii) the relevant Lease Contracts are denominated in Euro;
- (iv) the Instalments related to the Lease Contracts are due by the relevant Lessee on or after 1 March 2013;
- (v) the Instalments related to the Lease Contracts are payable by the relevant Lessee through direct debit (*RID*) or wire bank transfer (*RIB*);
- (vi) the relevant Lease Contracts provide for the payment of the relevant Instalments on a monthly, two-monthly, quarterly or semi-annual basis;
- (vii) the relevant Lease Contracts provide for a fixed interest rate or, in case of floating interest rate, the relevant indexation is linked to a one-month Euribor, three-month Euribor or six-month Euribor;
- (viii) the relevant Lease Contracts are governed by Italian law;
- (ix) the relevant Lease Contracts have not been entered into under law 28 November 1965, No. 1329 (so called “*Legge Sabatini*”, as subsequently amended and supplemented), as set forth in the relevant Lease Contract (if any), or on the basis of any other facility or contribution by the State or public administrations or public entities, or private companies being directly or indirectly controlled by a public administration, nor on the basis of any provision, giving right to any *droit de suite* (*diritto di seguito*), property or other privilege in favour of such entities, save for the facilities or contributions provided by Italian law No. 240 of 21 May 1981, (*Provvidenze a favore dei consorzi e delle società consortili tra piccole e medie imprese nonché delle società consortili miste*) (codes 200 and 205), by Law of Province of Bolzano dated 8 January 1993, No. 1 (*Interventi provinciali per lo sviluppo dell'economia cooperativa*) (code 536), by the Law of Region Veneto No. 5 of 9 February 2001 (code 496), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Veneto and by DGR Veneto No. 3495 of 17 November 2009 (code 495), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Liguria, by DGR Liguria No. 1278 of 26 October 2007 (code 440), by Law 23 December 1996, No. 662 (*Misure di razionalizzazione della finanza pubblica*) (code 494), by Law of the Province of Bolzano – Alto Adige 13 November 1986, No. 27 (*Credito al Commercio*), subsequently repealed by Law of Province of Bolzano – Aldo Adige 13 February 1997, No. 4, (code 535), by Law of Province of Trento 13 December 1999, No. 6 (*Interventi della Provincia per il sostegno dell'economia e della nuova imprenditorialità locale, femminile e giovanile. Aiuti per i servizi alle imprese, alle reti d'impresa, all'innovazione e all'internazionalizzazione. Modificazioni della legge sulla programmazione provinciale*) (Code 547), by Law of the Region Veneto 17 January 2002, No. 2 (code 499); by Law No. 598/1994 (code 300) and by the *Programma Operativo Regionale* (POR-FESR) 2007 – 2013 of the Region Umbria (code 590);

- (x) whose Debtor declared, in the relevant Lease Contracts, to be domiciled in Italy;
- (xi) the Debtors are not employees or shareholders of the Originator, nor public administrations or public entities, nor private companies, being directly or indirectly controlled by a public administration;
- (xii) the Debtors are not subject to any bankruptcy or insolvency proceedings, nor are in default of payment of any instalment, due to the Originator, after 30 days from the relevant due date;
- (xiii) whose Debtors have duly and timely paid all the Instalments or there are no Instalments due and unpaid for more than 30 days from the relevant due date;
- (xiv) the Lease Contracts provide the obligation of the relevant Lessees to enter into an insurance policy issued by a primary insurance company in order to guarantee the Asset, and, with reference to the Lease Contracts entered into from the 1<sup>st</sup> of October 2012, to constitute an appendix (*appendice di vincolo*) in favour of the Originator;
- (xv) the Assets under the Lease Contracts include: (a) real estate properties located in Italy; (b) trains, ships, vessels; (c) vehicles, motor-vehicles, cars, light lorries, trucks, commercial vehicles, industrial vehicles, or other vehicles excluding aircrafts registered or having a numberplate in Italy, or (d) instrumental assets (*beni strumentali*) (such as machineries, equipments and plants);
- (xvi) no enforcement proceedings, precautionary or similar measure in relation to the Assets under a Lease Contract have been notified to the relevant Lessee by the Originator;
- (xvii) none of the Debtors has ever notified a report (*denuncia*) of theft in respect of the Assets;
- (xviii) the building of the Assets has been completed and the Assets have been delivered to the relevant Lessee;
- (xix) the Lease Contracts provide the relevant Debtor to be obliged to perform all the due payments also in case the Asset should not meet the requirements for its scope of use, should be destroyed or should not be at disposal of the relevant Debtor for any reason not ascribable to the Originator (c.d. “*Net Lease*”);
- (xx) the Lease Contracts expressly provide the possibility in favour of the relevant Debtor to purchase the relevant Asset at the expiration of the Lease Contract (c.d. “*Financial Leases*”);
- (xxi) the Lease Contracts provide instalments (a) to be paid in accordance with a “french” amortisation plan providing for all instalments, or series of instalments, of constant amounts and (b) consisting of a principal component and an interest component;
- (xxii) the residual contractual duration of the Lease Contracts is not extended over a period of:
  - 1 75 months for those Lease Contracts concerning Motorvehicle Pool;
  - 2 120 months for those Lease Contracts concerning Equipment Pool;
  - 3 216 months for those Lease Contracts concerning Real Estate Pool; and
  - 4 120 months for those Lease Contracts concerning Other Vehicles;
- (xxiii) in relation to which the payment date of the last Instalment (as indicated in the relevant Lease Contract) does not fall on after 31 March 2031;
- (xxiv) the Lease Contracts have been entered into with Debtors in the context of the relevant Debtors’ ordinary course of business;
- (xxv) excluding from the sale the receivables related to the installments not identified by a code "ALB04MMAA" subject to disclosure to debtors and sent by "postel" or similar

with maturity date comprised between 1 March 2013 and the date whose month and year are identified in the code abovementioned, respectively, as “mm” and “aa”.

## 2. **SELECTION CRITERIA AND CONDITIONS FOR SALE OF THE RECEIVABLES OF THE ADDITIONAL PORTFOLIO AND THE SUBSEQUENT PORTFOLIOS**

Subject to the terms of the Master Transfer Agreement, the Originator is entitled to sell to the Issuer which shall purchase:

- (i) during the Ramp-Up Period the Additional Portfolio; and
- (ii) during the Revolving Period, the Subsequent Portfolios;

provided that the Additional Portfolio and any Subsequent Portfolio satisfy the conditions set out below (the “**Further Portfolio Sale Conditions**”):

- (i) the amount of the Outstanding Principal of the Receivables included in Pool 1 is at least equal to 7% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (ii) the amount of the Outstanding Principal of the Receivables included in Pool 3 does not exceed 23% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (iii) the amount of the Outstanding Principal of the Receivables included in Pool 4 does not exceed 5% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (iv) the amount of the Outstanding Principal of the Receivables owed by the Debtor having the highest Outstanding Principal does not exceed 1.50% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (v) the amount of the Outstanding Principal of the Receivables owed by the 10 (ten) Debtors having the highest Outstanding Principal does not exceed 13% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (vi) the amount of the Outstanding Principal of the Receivables owed by the 50 (fifty) Debtors having the highest Outstanding Principal does not exceed 40% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (vii) the amount of the Outstanding Principal of the Receivables owed by the 100 (one hundred) Debtors having the highest Outstanding Principal does not exceed 55% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (viii) the amount of the Outstanding Principal of the Receivables arising from Leasing Contracts named “PrestoLeasing” and from Leasing Contracts secured by DK Guarantees is at least equal to 40% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (ix) the amount of the Outstanding Principal of the Receivables arising from Leasing Contracts executed through banks being shareholders of the Originator is at least equal to 85% of the amount of the Outstanding Principal of the Receivables included in the relevant Further Portfolio;
- (x) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts executed with Debtors domiciled in Calabria, Campania, Apulia, Basilicata, Abruzzo, Molise, Sicily and Sardinia does not exceed 25% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (xi) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts executed with Debtors domiciled in Emilia Romagna, Liguria, Piedmont, Valle d'Aosta, Lombardy, Trentino Alto Adige, Veneto and Friuli Venezia Giulia exceeds

- 60% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
- (xii) the aggregate amount of the Outstanding Principal of the Receivables arising from the Lease Contracts having a fixed rate interest does not exceed 2% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xiii) the amount of the Outstanding Principal of the Receivables owed by the Debtors belonging to the same Industry having the highest Outstanding Principal does not exceed 15% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xiv) the amount of the Outstanding Principal of the Receivables owed by the Debtors belonging to the two Industries having the highest Outstanding Principal does not exceed 27% of the amount of the Outstanding Principal of the Receivables included in the Collateral Portfolio;
  - (xv) the Aggregate Portfolio does not include Receivables from Leasing Contracts toward Debtors operating in the Excluded Industries;
  - (xvi) the average interest rate (*tasso esterno contrattuale su base mensile*) of the Receivables having a fixed rate interest comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal, is equal to at least 5%;
  - (xvii) the average spread of the Receivables having a floating rate interest comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal, is equal to at least 3.50% (such spread being equal to the difference between (a) the external interest rate (*tasso esterno contrattuale su base mensile*) and (b) the benchmark value (*valore del paramentro di riferimento su base mensile*));
  - (xviii) the average residual term of the Receivables comprised in the Collateral Portfolio, weighted by the respective Outstanding Principal (taking into account the last Instalment sold to the Issuer), does not exceed 105 months.

Furthermore, provided that the Additional Portfolio and any Subsequent Portfolio shall be “*individuabile in blocco*” pursuant to the provisions of the Securitisation Law, as set out in the Master Transfer Agreement, the Common Criteria for the Additional Portfolio and the Subsequent Portfolios will be the following, provided that in any case the Additional Portfolio and any Subsequent Portfolio shall satisfy the purchase conditions listed above:

- (i) the relevant Lease Contracts are entered into by Alba Leasing in its role of lessor;
- (ii) the relevant Lease Contracts provide an effective date of the leasing falling not before 1 January 2010,
- (iii) the relevant Lease Contracts are denominated in Euro;
- (iv) the Instalments related to the Lease Contracts are due by the relevant Lessee on or after the 1<sup>st</sup> month succeeding the relevant Valuation Date;
- (v) the Instalments related to the Lease Contracts are payable by the relevant Lessee through direct debit (*RID*) or wire bank transfer (*RIB*);
- (vi) the relevant Lease Contracts provide for the payment of the relevant Instalments on a monthly, two-monthly, quarterly or semi-annual basis;
- (vii) the relevant Lease Contracts provide for a fixed interest rate or, in case of floating interest rate, the relevant indexation is linked to a one-month Euribor, three-month Euribor or six-month Euribor;
- (viii) the relevant Lease Contracts are governed by Italian law;
- (ix) the relevant Lease Contracts have not been entered into under law 28 November 1965, No. 1329 (so called “*Legge Sabatini*”, as subsequently amended and supplemented), as

set forth in the relevant Lease Contract (if any), or on the basis of any other facility or contribution by the State or public administrations or public entities, or private companies being directly or indirectly controlled by a public administration, nor on the basis of any provision, giving right to any *droit de suite* (*diritto di seguito*), property or other privilege in favour of such entities, save for the facilities or contributions provided by Italian law No. 240 of 21 May 1981, (*Provvidenze a favore dei consorzi e delle società consortili tra piccole e medie imprese nonché delle società consortili miste*) (codes 200 and 205), by Law of Province of Bolzano dated 8 January 1993, No. 1 (*Interventi provinciali per lo sviluppo dell'economia cooperativa*) (code 536), by the Law of Region Veneto No. 5 of 9 February 2001 (code 496), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Veneto and by DGR Veneto No. 3495 of 17 November 2009 (code 495), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Liguria, by DGR Liguria No. 1278 of 26 October 2007 (code 440), by Law 23 December 1996, No. 662 (*Misure di razionalizzazione della finanza pubblica*) (code 494), by Law of the Province of Bolzano – Alto Adige 13 November 1986, No. 27 (*Credito al Commercio*), subsequently repealed by Law of Province of Bolzano – Alto Adige 13 February 1997, No. 4, (code 535), by Law of Province of Trento 13 December 1999, No. 6 (*Interventi della Provincia per il sostegno dell'economia e della nuova imprenditorialità locale, femminile e giovanile. Aiuti per i servizi alle imprese, alle reti d'impresa, all'innovazione e all'internazionalizzazione. Modificazioni della legge sulla programmazione provinciale*) (Code 547), by Law of the Region Veneto 17 January 2002, No. 2 (code 499); by Law No. 598/1994 (code 300) and by the *Programma Operativo Regionale* (POR-FESR) 2007 – 2013 of the Region Umbria (code 590);

- (x) whose Debtor declared, in the relevant Lease Contracts, to be domiciled in Italy;
- (xi) the Debtors are not employees or shareholders of the Originator, nor public administrations or public entities, nor private companies, being directly or indirectly controlled by a public administration;
- (xii) the Debtors are not subject to any bankruptcy or insolvency proceedings, nor are in default of payment of any instalment, due to the Originator, after 30 days from the relevant due date;
- (xiii) whose Debtors have duly and timely paid all the Instalments or there are no Instalments due and unpaid for more than 30 days from the relevant due date;
- (xiv) the Lease Contracts provide the obligation of the relevant Lessees to enter into an insurance policy issued by a primary insurance company in order to guarantee the Asset, and, with reference to the Lease Contracts entered into from the 1<sup>st</sup> of October 2012, to constitute an appendix (*appendice di vincolo*) in favour of the Originator;
- (xv) the Assets under the Lease Contracts include: (a) real estate properties located in Italy; (b) trains, ships, vessels; (c) vehicles, motor-vehicles, cars, light lorries, trucks, commercial vehicles, industrial vehicles, or other vehicles excluding aircrafts registered or having a numberplate in Italy, or (d) instrumental assets (*beni strumentali*) (such as machineries, equipments and plants);
- (xvi) no enforcement proceedings, precautionary or similar measure in relation to the Assets under a Lease Contract have been notified to the relevant Lessee by the Originator;
- (xvii) none of the Debtors has ever notified a report (*denuncia*) of theft in respect of the Assets;
- (xviii) the building of the Assets has been completed and the Assets have been delivered to the relevant Lessee;
- (xix) the Lease Contracts provide the relevant Debtor to be obliged to perform all the due payments also in case the Asset should not meet the requirements for its scope of use,

should be destroyed or should not be at disposal of the relevant Debtor for any reason not ascribable to the Originator (c.d. “*Net Lease*”);

- (xx) the Lease Contracts expressly provide the possibility in favour of the relevant Debtor to purchase the relevant Asset at the expiration of the Lease Contract (c.d. “*Financial Leases*”);
- (xxi) the Lease Contracts provide instalments (a) to be paid in accordance with a “french” amortisation plan providing for all instalments, or series of instalments, of constant amounts and (b) consisting of a principal component and an interest component;
- (xxii) the residual contractual duration of the Lease Contracts is not extended over a period of:
  - 1 75 months for those Lease Contracts concerning Motorvehicle Pool;
  - 2 120 months for those Lease Contracts concerning Equipment Pool;
  - 3 216 months for those Lease Contracts concerning Real Estate Pool; and
  - 4 120 months for those Lease Contracts concerning Other Vehicles;
- (xxiii) in relation to which the payment date of the last Instalment (as indicated in the relevant Lease Contract) does not fall on after 30 September 2031;
- (xxiv) the Lease Contracts have been entered into with Debtors in the context of the relevant Debtors’ ordinary course of business;
- (xxv) only in relation to any Subsequent Portfolio, the Debtors have fully and timely paid at least one Instalment;
- (xxvi) the payment of the Instalments (also with regard to the sole principal component) at the relevant Valuation Date is not suspended in compliance with *moratorium (accordi di moratoria)* entered into between the Originator and the relevant Lessee.

In addition to the Common Criteria set forth above, the following Specific Criteria may be specified by the Originator in relation to the Additional Portfolio and the Subsequent Portfolios provided that in any case the Additional Portfolio and any Subsequent Portfolio shall satisfy the purchase conditions listed above:

- (i) excluding from the sale the receivables related to the installments not identified by a code "ALB04MMAA" subject to disclosure to debtors and sent by "postel" or similar with maturity date comprised between *INSERT DATE* and the date whose month and year are identified in the code abovementioned, respectively, as “mm” and “aa”.

#### **Statistical Information regarding the Initial Portfolio**

The following tables describe the characteristics of the Initial Portfolio compiled from information provided by the Originator in connection with the acquisition of the Receivables by the Issuer on 13 February 2013. The information in the following tables reflects the position as at the Valuation Date of the Initial Portfolio being 1 February 2013. The characteristics of the Initial Portfolio as at the Initial Issue Date may vary from those set out in the tables as a result, *inter alia*, of repayment or repurchase of the Receivables prior to the Initial Issue Date (in relation to the Assets, the relevant value refers to the purchase price of the Asset as at the relevant origination date of the Lease Contract and has not been subject to any revaluation for the purpose of the issue of the Notes).

Unless stated otherwise, in the following range breakdown tables the lower boundary is intended included, the upper boundary is intended excluded.

<b>Initial Portfolio Outstanding Principal</b>		149,241,765.14
<b>Number of Lease Contracts</b>		1,943
<b>Number of Lessees</b>		1,484
<b>Average Outstanding Principal</b>		76,809.97
<b>Max Outstanding Principal</b>		2,176,603.35
<b>Weighted average spread (floating rate portf.)<sup>a</sup></b>		4.54%
<b>Weighted average interest rate (fixed rate portf.)<sup>a</sup></b>		6.28%
<b>Weighted average original LTV<sup>b</sup></b>		87.97%
<b>Weighted average original term (yrs)<sup>c</sup></b>		8.06
<b>Weighted average remaining term (yrs)<sup>d</sup></b>		7.64
<b>Leased Asset type</b>	Pool No. 1	13.09%
	Pool No. 2	62.11%
	Pool No. 3	22.01%
	Pool No. 4	2.79%
<b>Top Debtors</b>	1	1.49%
	10	6.95%
	50	12.36%
	100	34.68%
<b>Top Industries</b>	1	11.50%
	2	22.89%
	5	49.84%
<b>Geographical area<sup>e</sup></b>	North	69.53%
	Centre	17.64%
	South	12.83%
<b>Origination channel</b>	Banks	99.15%
	Shareholders banks	91.33%
<b>Interest rate type</b>	Fixed Rate	0.20%
	Floating Rate	99.80%
<b>Payment Frequency</b>	Monthly	92.37%
	Quarterly	7.30%
	Bi-Monthly + Semi-Annual	0.33%

a. weighted by the Outstanding Principal of the relevant Lease Contract

b. ratio between the original financed amount (incl. Residual Optional Instalment) and the value of the Asset, weighted by the original financed amount of the relevant Lease Contract

c. number of months from the origination date (data di stipula) to the payment date of the last Instalment of each Lease Contract, weighted by the Outstanding Principal of the relevant Lease Contract

d. number of months from the Valuation Date to the payment date of the last Instalment of each Lease Contract, weighted by the Outstanding Principal of the relevant Lease Contract

e. North: Emilia-Romagna, Friuli-Venezia Giulia, Liguria, Lombardia, Piemonte, Trentino-Alto Adige, Valle d'Aosta, Veneto.

Centre: Abruzzo, Lazio, Marche, Toscana, Umbria.

South: Basilicata, Calabria, Campania, Molise, Puglia, Sardegna, Sicilia.

Mention Regions in each Geographical area

Pool	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Motorvehicle Pool	601	30.93%	19,529,705.26	13.09%
Equipment Pool	1257	64.69%	92,692,583.60	62.11%
Real Estate Pool	63	3.24%	32,853,404.82	22.01%
Other Vehicle Pool	22	1.13%	4,166,071.46	2.79%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Payment frequency	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Monthly	1862	95.83%	137,858,110.95	92.37%
Bi-monthly	1	0.05%	361,414.49	0.24%
Quarterly	77	3.96%	10,890,999.88	7.30%
Semi-annual	3	0.15%	131,239.82	0.09%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Payment mean	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Wire bank transfer (RIB)	23	1.18%	1,217,331.46	0.82%
Direct debit (RID)	1920	98.82%	148,024,433.68	99.18%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Origination channel	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Bank	1912	98.40%	147,966,635.68	99.15%
Direct	15	0.77%	1,210,619.38	0.81%
Supplier	16	0.82%	64,510.08	0.04%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Originated by	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Shareholders banks	1778	91.51%	136,298,571.39	91.33%
Other	165	8.49%	12,943,193.75	8.67%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Origination year	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
2010	4	0.21%	3,705,181.07	2.48%
2011	61	3.14%	10,261,527.66	6.88%
2012	1762	90.68%	123,678,958.38	82.87%
2013	116	5.97%	11,596,098.03	7.77%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Maturity year	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
2013	11	0.57%	22,861.46	0.02%
2014	7	0.36%	139,943.67	0.09%
2015	98	5.04%	3,782,877.93	2.53%
2016	440	22.65%	15,143,485.16	10.15%
2017	751	38.65%	41,441,701.99	27.77%
2018	355	18.27%	29,410,079.42	19.71%
2019	146	7.51%	16,805,670.76	11.26%
> 2019	135	6.95%	42,495,144.75	28.47%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Original LTV	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
0.5-0.6	7	0.36%	257,262.42	0.17%
0.6-0.7	34	1.75%	4,047,442.58	2.71%
0.7-0.8	107	5.51%	11,652,179.13	7.81%
0.8-0.9	411	21.15%	46,349,496.48	31.06%
0.9-1	1384	71.23%	86,935,384.53	58.25%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Outstanding Principal	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
0-75,000	1471	75.71%	42,836,217.44	28.70%
75,000-150,000	274	14.10%	29,004,668.86	19.43%
150,000-225,000	88	4.53%	15,489,372.06	10.38%
225,000-300,000	35	1.80%	9,123,865.06	6.11%
300,000-375,000	22	1.13%	7,261,275.27	4.87%
375,000-450,000	14	0.72%	5,893,559.46	3.95%
450,000-525,000	6	0.31%	3,004,678.14	2.01%
>= 525,000	33	1.70%	36,628,128.85	24.54%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Residual term (months)	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
0-12	14	0.72%	29,871.91	0.02%
12-24	4	0.21%	132,933.22	0.09%
24-36	124	6.38%	4,752,159.43	3.18%
36-48	414	21.31%	14,174,203.66	9.50%
48-60	751	38.65%	41,441,701.99	27.77%
60-72	355	18.27%	29,410,079.42	19.71%
72-84	146	7.51%	16,805,670.76	11.26%
84-96	50	2.57%	5,911,404.92	3.96%
>= 96	85	4.37%	36,583,739.83	24.51%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Lessee's province	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Abruzzo	46	2.37%	3,733,160.39	2.50%
Basilicata	24	1.24%	901,505.43	0.60%
Calabria	37	1.90%	2,220,233.79	1.49%
Campania	74	3.81%	3,120,884.10	2.09%
Emilia-Romagna	397	20.43%	35,656,709.40	23.89%
Friuli-Venezia Giulia	10	0.51%	725,033.15	0.49%
Lazio	141	7.26%	11,464,895.01	7.68%
Liguria	34	1.75%	1,449,010.30	0.97%
Lombardia	547	28.15%	42,105,939.91	28.21%
Marche	16	0.82%	651,999.41	0.44%
Molise	7	0.36%	173,648.02	0.12%
Piemonte	121	6.23%	9,866,250.19	6.61%
Puglia	76	3.91%	7,900,460.16	5.29%
Sardegna	5	0.26%	212,158.28	0.14%
Sicilia	62	3.19%	4,625,910.66	3.10%
Toscana	168	8.65%	9,731,776.64	6.52%
Trentino-Alto Adige	10	0.51%	1,312,246.32	0.88%
Umbria	13	0.67%	738,511.13	0.49%
Valle d'Aosta	2	0.10%	27,981.18	0.02%
Veneto	153	7.87%	12,623,451.67	8.46%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Industry	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
Metal goods (excl. machinery and transport)	158	8.13%	17,165,251.69	11.50%
Wholesale trade	197	10.14%	17,000,162.10	11.39%
Retail trade	200	10.29%	14,430,149.29	9.67%
Other sales and distribution services	273	14.05%	14,340,423.75	9.61%
Transportation services	191	9.83%	11,444,327.77	7.67%
Industrial and agricultural machinery	88	4.53%	9,786,143.01	6.56%
Other	836	43.03%	65,075,307.53	43.60%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

Spread % (floating rate portfolio)	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
1-2	4	0.21%	2,629,094.64	1.77%
2-3	10	0.52%	4,106,085.48	2.76%
3-4	130	6.72%	23,243,963.05	15.61%
4-5	710	36.69%	75,000,071.46	50.35%
5-6	1022	52.82%	40,255,640.27	27.03%
6-7	55	2.84%	3,604,956.68	2.42%
7-8	4	0.21%	108,891.87	0.07%
<b>Total</b>	<b>1935</b>	<b>100.00%</b>	<b>148,948,703.45</b>	<b>100.00%</b>

Lease Contract Type	N° Lease Contracts	% N° Lease Contracts	Outstanding Principal	% Outstanding Principal
"PrestoLeasing" or DK Guarantees	1581	81.37%	79,517,336.68	53.28%
Other	362	18.63%	69,724,428.46	46.72%
<b>Total</b>	<b>1943</b>	<b>100.00%</b>	<b>149,241,765.14</b>	<b>100.00%</b>

## **USE OF PROCEEDS**

The total proceeds of the issue of the Series 1 Notes, are expected to be, on the Initial Issue Date, Euro 151,500,000 and will be applied by the Issuer to:

- (i) pay to the Originator the Initial Purchase Price of the Initial Portfolio, in accordance with the Master Transfer Agreement, and;
- (ii) to fund the Debt Service Reserve Amount and the Retention Amount as of the Initial Issue Date.

## WEIGHTED AVERAGE LIFE OF THE SERIES A1 NOTES

The estimated weighted average life of the Series A1 Notes cannot be predicted as the actual rate and timing at which amounts will be collected in respect of the Portfolios, the issuance of the Series 2 Notes and a number of other relevant facts are unknown.

Weighted average life refers to the average amount of time that will elapse from the date of issuance of a security to the date of distribution to the investor of amounts distributed in net reduction of principal of such security (assuming no losses).

The following table shows the estimated weighted average life of the Series A1 Notes and was prepared based on the characteristics of the Receivables included in the Aggregate Portfolio as at the Valuation Date of the Initial Portfolio and on additional assumptions, including the following:

- (a) no Trigger Event and no Programme Termination Event has occurred;
- (b) the Class A Notes will not be redeemed in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) or Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*);
- (c) there are no Lease Contracts which are Delinquent Lease Contracts or Defaulted Lease Contracts;
- (d) the Receivables will be subject to a constant annual prepayment at the rates set out in the table below;
- (e) no purchases, sale and/or renegotiations on the Aggregate Portfolio will be made;
- (f) no issuance of the Series A2 Notes occurs;
- (g) Subsequent Portfolios are assigned to the Issuer up to the Quarterly Payment Date falling on October 2013; the Initial Purchase Price of each Subsequent Portfolio is equal to the Principal Deficiency Amount;
- (h) no Senior Notes Put Option or Senior Notes Call Option is exercised.

<b>Constant Prepayment Rate (CPR)</b> <i>(% per annum)</i>	<b>Series A1 Notes</b>	
	<b>Expected Average Life</b> <i>(years)</i>	<b>Expected Maturity</b>
0%	2.17	July 2016
0.5%	2.15	July 2016
2%	2.08	July 2016
5%	1.95	April 2016

The actual characteristics and performance of the Receivables are likely to differ from the assumptions used in constructing the above table, which is hypothetical in nature and is provided only to give a general sense of how the cash flows might behave under varying prepayment scenarios. Any difference between such assumptions and the actual characteristics and performance of the Receivables will cause

the weighted average life of the Class A Notes to differ (and such difference could be material) from the corresponding information in the table above.

**The estimated average life of the Series A1 Notes is subject to factors largely outside the control of the Issuer and consequently no assurance can be given that the assumptions and estimates above will prove in any way to be realistic and they must therefore be viewed with caution.**

## THE ISSUER

### INTRODUCTION

The Issuer was incorporated in the Republic of Italy as a special purpose vehicle pursuant to Article 3 of the Securitisation Law, as a limited liability company (*società a responsabilità limitata*) on 16 January 2013 under the name of Alba 4 SPV S.r.l. and enrolled in the register of the *società veicolo* held by Bank of Italy under No. 35058.7. The registered office of the Issuer is at Via V. Alfieri n.1, 31015 Conegliano (Treviso). The fiscal code and enrolment number with the companies register of Treviso is 04571870262. The Issuer's telephone number is +39 0438 360963.

The Issuer has no employees, operates under Italian law and under its by-laws it shall expire on 31 December 2100.

The authorised capital of the Issuer is Euro 10,000. The issued capital of the Issuer is Euro 10,000 fully paid up and fully owned by SVM Securitisation Vehicles Management S.r.l..

Since the date of its incorporation, the Issuer has not commenced operations other than those incidental to its incorporation, authorising the issue of the Notes and the entering into the documents referred to in this Prospectus and matters which are incidental or ancillary to the foregoing.

### PRINCIPAL ACTIVITIES

The scope of the Issuer, as set out in Article 4 of its By-laws (*statuto*), is exclusively to purchase monetary receivables in the context of securitisation transactions, and to fund such purchases by issuing asset-backed securities or by other forms of limited recourse financing, all pursuant to Article 3 of the Securitisation Law.

So long as any of the Notes remains outstanding, the Issuer shall not, without the consent of the Representative of the Noteholders and as provided for in the Terms and Conditions and the Intercreditor Agreement, *inter alia*, incur any other indebtedness for borrowed moneys or engage in any business, pay any dividends, repay or otherwise return any equity capital, consolidate or merge with any person or convey or transfer its property or assets to any person.

The Issuer will covenant to observe, *inter alia*, those restrictions which are detailed in the Terms and Conditions.

### DIRECTORS AND AUDITORS

The sole director (*amministratore unico*) of the Issuer (the **Director**) is Mrs. Nausica Pinese.

The Director was appointed on 16 January 2013 until resignation or revocation.

The Director is domiciled for this purpose at the registered office of the Issuer at Via V. Alfieri, 1, 31015 Treviso (TV), Italy.

No statutory auditors (*sindaci*) have been appointed.

## CAPITALISATION

The capitalisation of the Issuer as at the Initial Issue Date is as follows:

<b>Issued share capital</b>	
Registered capital divided into quotas (fully paid)	€10,000
<b>Loan capital</b>	
Series A1 Guaranteed Asset-Backed Floating Rate Notes due July 2040	€74,600,000
Series B1 Asset-Backed Floating Rate due July 2040	€76,900,000
Total loan capital	<b>€151,500,000</b>

Save for the foregoing, at the date of this Prospectus, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## FINANCIAL STATEMENTS

Since its date of incorporation the Issuer has not commenced operations and no statutory financial statements have been made up as at the date of this Prospectus. The Issuer's financial year end is 31 December of each calendar year. The Issuer intends to publish its first financial statements for the period ending 31 December 2013 and such financial statements will be available no later than the end of April 2014.

## ACCOUNTING TREATMENT OF THE RECEIVABLES

Pursuant to the applicable regulations of the Bank of Italy, the accounting information relating to the Securitisation and to the previous Securitisations will be contained in the Issuer's "*nota integrativa*" which, together with the balance sheet and the profit and loss statement form part of the financial statements of an Italian limited liability company ("*società a responsabilità limitata*").

## THE CALCULATION AGENT

Securitisation Services S.p.A. is a company incorporated under the laws of the Republic of Italy as a società per azioni, share capital of Euro 1,595,055 fully paid up, having its registered office at Via V. Alfieri 1, 31015 Conegliano (TV), Italy, fiscal code and enrolment in the companies' register of Treviso number 03546510268, currently registered under number 31816 in the general register and in the special register held by the Bank of Italy pursuant to, respectively, articles 106 and 107 of the Consolidated Banking Act, subject to the activity of direction and coordination (soggetta all'attività di direzione e coordinamento) pursuant to article 2497 of the Italian civil code of Finanziaria Internazionale Holding S.p.A.

Securitisation Services S.p.A. is a professional Italian dealer specialising in managing and monitoring securitisation transactions. In particular, Securitisation Services S.p.A. acts as servicer, corporate servicer, calculation agent, programme administrator, cash manager, representative of the noteholders, back-up servicer, back-up servicer facilitator, back-up calculation agent in several structured finance deals.

Securitisation Services S.p.A.'s activities are audited by Finanziaria Internazionale Holding, which focuses on the accuracy of the deal checklists and the adequacy of back-up coverage.

**The information contained in this section “*The Calculation Agent*” relates to Securitisation Services S.p.A. and has been obtained from it. This information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by Securitisation Services S.p.A., no facts have been omitted which would render the reproduced information inaccurate or misleading. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of Securitisation Services S.p.A. since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to such date.**

## **THE ITALIAN ACCOUNT BANK, THE ENGLISH ACCOUNT BANK, THE PAYING AGENT AND THE IRISH AGENT**

(i) The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, (ii) The Bank of New York Mellon, London Branch, (iii) The Bank of New York Mellon SA/NV Dublin Branch shall act, respectively, as (i) Paying Agent and Italian Account Bank; (ii) English Account Bank and (iii) Irish Agent pursuant to the Cash Allocation, Management and Payment Agreement.

### **1. *The Bank of New York Mellon (formerly The Bank of New York)***

The Bank of New York Mellon, a wholly owned subsidiary of The Bank of New York Mellon Corporation, is incorporated, with limited liability by Charter, under the Laws of the State of New York by special act of the New York State Legislature, Chapter 616 of the Laws of 1871, with its Head Office situate at One Wall Street, New York, NY 10286, USA and having a branch registered in England & Wales with FC No 005522 and BR No 000818 with its principal office in the United Kingdom situated at One Canada Square, London E14 5AL.

The Bank of New York Mellon's corporate trust business services \$12 trillion in outstanding debt from 55 locations around the world. It services all major debt categories, including corporate and municipal debt, mortgage-backed and asset-backed securities, collateralized debt obligations, derivative securities and international debt offerings. The Bank of New York Mellon's corporate trust and agency services are delivered through The Bank of New York Mellon and The Bank of New York Mellon Trust Company, N.A.

The Bank of New York Mellon Corporation is a global financial services company focused on helping clients manage and service their financial assets, operating in 34 countries and serving more than 100 markets. The company is a leading provider of financial services for institutions, corporations and high-net-worth individuals, providing superior asset management and wealth management, asset servicing, issuer services, clearing services and treasury services through a worldwide client-focused team. It has more than \$23 trillion in assets under custody and administration and more than \$1.1 trillion in assets under management. Additional information is available at [bnymellon.com](http://bnymellon.com).

### **2. *The Bank of New York Mellon (Luxembourg) S.A.***

The Bank of New York Mellon (Luxembourg) S.A. was incorporated in the Grand Duchy of Luxembourg as a société anonyme on 15 December 1998 under the Luxembourg Law of 10th August 1915 on commercial companies, as amended, and has its registered office at 2-4 rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg. It is an indirect wholly-owned subsidiary of The Bank of New York Mellon Corporation.

On 20 January 1999 the The Bank of New York Mellon (Luxembourg) S.A. received its banking licence in accordance with the Luxembourg Law of 5 April 1993 on the financial sector, as amended, and has engaged in banking activities since then. On 19 October 2006 the The Bank of New York Mellon (Luxembourg) S.A. has enhanced its banking licence to cover as well the activities of administrative agent of the financial sector.

The Bank of New York Mellon (Luxembourg) S.A. is supervised by the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier.

### **3. *The Bank of New York Mellon SA/NV Dublin Branch***

The Bank of New Mellon SA/NV is a Belgian limited liability company established September 30, 2008 under the form of a Société Anonyme/Naamloze Vennootschap. It was granted its banking license by the former CBFA on March 10 2009. It has its headquarters and main establishment at 46 rue Montoyerstraat, 1000 Bruxelles/Brussel. The Bank of New York Mellon SA/NV is a subsidiary of BNY Mellon (BNYM), the main banking subsidiary of The BNY Mellon Corporation. It is under the prudential supervision of the National Bank of Belgium and

regulated by the Belgian Financial Services and Markets Authority in respect of Conduct of Business. The Bank of New York Mellon SA/NV engages in Global Custody, Local Custody, Global Clearing, Global Collateral Management, Global Markets, Securities Lending and Depot Bank. The Bank of New York Mellon SA/NV operates from locations in Belgium, the Netherlands, Germany, London, Luxembourg, Paris and Dublin.

#### **4. Resignation events**

Each of the Paying Agent, the Calculation Agent, the Italian Account Bank, the English Account Bank and the Cash Manager may resign its appointment, without giving any reason and without being responsible (save in case of its gross negligence or wilful misconduct) for any damages, costs, expenses, losses or liabilities whatsoever which may be occasioned as a result of such resignation, upon giving not less than 60 (sixty) calendar days' prior written notice to the Issuer (with a copy, in the case of an Agent other than the Paying Agent, to the Paying Agent) *provided, however, that:*

- (a) if such resignation would otherwise take effect less than 30 (thirty) days before the Final Maturity Date or other date for redemption of the Notes or any Quarterly Payment Date in relation to the Notes, it shall not take effect until the thirtieth day following such date; and
- (b) without prejudice to the provisions of Clause 25(a) of the Cash Allocation, Mangement and Payment Agreement, such resignation shall not take effect until a successor has been duly appointed in accordance with the terms of the Cash Allocation, Mangement and Payment Agreement, including clause 28 (*Additional and Successor Agents*) of the Cash Allocation, Mangement and Payment Agreement, and (in the case of resignation of the Paying Agent only) notice of such appointment has been given to the Noteholders in accordance with Condition 18 (*Notices*), it being understood that the Issuer shall appoint such successor without delay. In case the Issuer fails to appoint a successor within 60 (sixty) calendar days following the relevant notice of resignation, the resigning Agent may, on behalf of the Issuer, appoint a successor provided that (a) prior notice to that effect is given to the Representative of the Noteholders and the Rating Agency indicating the identity of the proposed successor and (b) the Representative of the Noteholders does not object on such proposed successor within 10 (ten) Business Days following receipt of the relevant notice.

#### **5. Termination events**

If any of the following events occurs in respect of any of the Paying Agent, the Irish Agent, the Calculation Agent, the Italian Account Bank, the English Account Bank or the Cash Manager:

- (a) any of the Agents, as the case may be, becomes legally incapable of acting in accordance with the Cash Allocation, Mangement and Payment Agreement,
- (b) a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or any part of the undertaking, assets and revenues of any of the Agents;
- (c) any of the Agent admits in writing its insolvency or inability to pay its debts as they fall due;
- (d) an administrator or liquidator of any of the Agents or the whole or any part of the undertaking, assets and revenues of such Agent is appointed (or application for any such appointment is made);
- (e) any of the Agents takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its indebtedness;
- (f) an order is made or an effective resolution is passed for the winding-up of any of the Agents,
- (g) any event occurs which has an analogous effect to any of the foregoing,
- (h) any of the Agents (except for the Calculation Agent, the Irish Agent and the Cash Manager)

- ceases to be, or to be deemed, an Eligible Institution;
- (i) any withholding or deduction for or on account of tax from any payments to be made by the Agent to the Issuer under the Transaction Documents is imposed, only to the extent that both the following conditions are met: (i) such deduction or withholding becomes applicable because of the relevant Agent (including, without limitation, in the event that this is the consequence of the Issuer not being in the position to provide the information required by the relevant competent authority for the purpose of the FATCA withholding tax); and (ii) a replacement of the relevant Agent would avoid such application, and it has a substantial economic adverse effect for the Notes and/or the Transaction);
- (j) any change to the Specified Office of any Agent occurs, provided that the Issuer and the Representative of the Noteholders have grounds to believe that such change may prejudice the Noteholders' rights under the Transaction; and
- (k) in respect of the Cash Manager only, the appointment of the Servicer under the Servicing Agreement is terminated pursuant to the Servicing Agreement,

*then* the Representative of the Noteholders (as directed by the Class A Guarantor provided that it is the Controlling Party) or the Issuer may, provided that (in the case of the Issuer) the Representative of the Noteholders consents in writing to such termination (as directed by the Class A Guarantor provided that it is the Controlling Party), at once or at any time subsequently while such event continues, by notice in writing to the relevant Agent, copied to the other Parties, the Class A Guarantor and the Rating Agency, terminate the appointment of the relevant Agent under the terms of the Cash Allocation, Management and Payment Agreement, with effect from a date (not earlier than the date of the notice) specified in the notice.

If any of the Paying Agent or the Irish Agent decides to change its Specified Office, it shall give notice to the Issuer and the Representative of the Noteholders (with a copy to the other Agents) of the address of the new Specified Office stating the date on which such change is to take effect, which date shall be not less than 30 (thirty) days after the date of such notice.

The Issuer shall at its own expense (i) not less than 14 (fourteen) days prior to the date on which any change to the Specified Office of the Paying Agent or the Irish Agent is to take effect (unless the appointment of the relevant Agent is to terminate pursuant to any of the foregoing provisions of clause 27 (*Termination*) of the Cash Allocation, Management and Payment Agreement or prior to the date of such change) or (ii) not less than 30 (thirty) days prior to the date on which the appointment of any successor Paying Agent or Irish Agent is to take effect, give notice thereof to the Noteholders according to Condition 18 (*Notices*), other than in case specific matter of urgency does not allow such time limits to be met.

**The information contained in paragraphs (1), (2) and (3) above relates to each of The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV Dublin Branch and has been obtained from it. This information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from the information published by each of The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV Dublin Branch, no facts have been omitted which would render the reproduced information inaccurate or misleading. The delivery of this Prospectus shall not create any implication that there has been no change in the affairs of each of The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, The Bank of New York Mellon, London Branch and The Bank of New York Mellon SA/NV Dublin Branch since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to such date.**

## THE CLASS A GUARANTOR

### Introduction

The European Investment Fund (the “**Fund**” or “**EIF**”) was incorporated on 14 June 1994 as an international financial institution. The main activity of the Fund is to support the establishment, growth and development of small and medium-sized enterprises (“**SMEs**”). Within the European Investment Bank (“**EIB**”) Group, the Fund is the specialised financial institution for guarantees and equity instruments, which it provides using its own resources and those available within the framework of mandates entrusted to it by the EIB, the European Union represented by the Commission of the European Communities (the “**Commission**”) and other third parties. The address of its registered office is 96, Boulevard Konrad Adenauer, L-2968 Luxembourg. The telephone number of EIF’s registered office is +35 224 851.

The task of the Fund is to contribute to the pursuit of the objectives of the European Union. The Fund pursues 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; and
- 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 statutes establishing the Fund (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 are based on sound banking principles or other sound commercial principles and practices as applicable. Without prejudice to the provisions of Article 28 of the Statutes, the said activities are 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 acts independently and under market conditions with a statutory obligation to target appropriate returns for its shareholders. It may conduct its activities in the European Union as well as in candidate and potential candidate countries to the European Union and in the European Free Trade Association. According to the Statutes, EIF “shall...contribute to the pursuit of the objectives of the European Union” working “to generate an appropriate return on its resources”, while selecting independently the operations it supports. Its role in promoting growth, employment, a knowledge-based economy, entrepreneurship, innovation, and regional development has been underscored by the European Council and by the European Parliament.

As at the date of this Prospectus, EIF is owned by the EIB (62.1%), the European Union (30.0%) and 24 financial institutions (7.9%, these being: Unicredit Bank Austria AG, Erste Group Bank AG, Raiffeisen Bank International AG, Bulgarian Development Bank A.D., Croatian Bank for Reconstruction and Development (HBOR), Vaekstfonden, Caisse des Dépôts et Consignations (CDC), KfW Bankengruppe, Landeskreditbank Baden Württemberg-Förderbank, LfA Förderbank Bayern, NRW.BANK, Sächsische Aufbaubank - Förderbank (SAB), Hungarian Development Bank Ltd, IMI Investimenti S.p.A., Intesa Sanpaolo S.p.A., Banque et Caisse D’Epargne de L’Etat, Bank of Valletta p.l.c., NIBC, Banco BPI S.A., Instituto de Crédito Oficial (ICO), Agencia de Innovación y Desarrollo

de Andalucía (IDEA), Industrial Development Bank of Turkey (TSKB), Barclays Bank PLC and Scottish Enterprise or as stated on EIF's website from time to time).

In terms of the Fund governance, control and evaluation is carried out by several different authorities including the Chief Executive, the Board of Directors, the General Meeting and the Audit Board.

The Chief Executive is responsible for the day-to-day management of EIF and reports to the Board of Directors.

The Board of Directors brings together designated members of the three shareholding groups 10 to 12 times a year and is responsible for approving EIF's operations. The Board is accountable only to the General Meeting. As at 1 February 2013, the Board of Directors is composed of the following members: Dario Scannapieco (Chairman), Pim Van Ballekom, Christophe Bories, Tytti Noras, Daniel Calleja Crespo, Gerassimos Thomas and Werner Oerter, and the following alternate members: Alfonso Querejeta, Zdeněk Hruby, Pierluigi Gilibert, Walter Deffaa, Peter Basch and Marc Auberger. The business address of the directors is 96 Boulevard Konrad Adenauer, L-2968 Luxembourg.

The General Meeting is composed of one representative of the EIB (usually its President or one of its Vice-Presidents), one member of the Commission representing the European Union, as well as a representative from each financial institution holding EIF's shares. All shareholders meet once a year at the Annual General Meeting in particular to approve EIF's Annual Report and accounts as audited by the Audit Board. Shareholders also meet for information sessions during the year.

The Audit Board is an independent body appointed by, and answerable directly to, the General Meeting. The Audit Board's role is to confirm that EIF's operations have been carried out in compliance with the procedures laid down in the Statutes and in EIF's Rules of Procedure. They also verify that the accounts give a true and fair view of EIF's assets and liabilities and the results of EIF's operations. As at 1 February 2013, the Audit Board is composed of: Gerard Smyth (Chairman), Branimir Berkovic and Sunil Beersing.

EIF benefits from AAA-ratings. These are annually assessed by Fitch, Standard & Poor's and Moody's in relation to its unguaranteed, unsubordinated and unsecured long term debt obligations.

As at 31 December 2012, EIF's authorised capital amounted to EUR 3 billion, divided into 3,000 shares with a nominal value of EUR 1,000,000 each. The authorised and subscribed share capital of EUR 3,000,000,000 representing 3,000 shares is called and paid in for an amount of EUR 600,000,000 representing 20% of the authorised and subscribed share capital. Further payments of the subscribed but not paid in capital require the approval of the General Meeting. As at 31 December 2011, the result for the financial year amounted to EUR -10.2 million. As at 31 December 2012, the unaudited result for the financial year amounted to EUR 30.7 million.

Of the EUR 13.83 billion guarantee exposure at the end of December 2011, EUR 2.88 billion (20.82%) relates to "own risk" activities. The remaining EUR 10.95 billion (79.18%) relates to "trust" activities on behalf of the Commission. These trusts activities include guarantees under Multi-Annual Program for Enterprise ("MAP") and under SME Guarantee Facility which in turn is under the umbrella of MAP, replaced by the Competitiveness and Innovation Framework Programme in 2008.

### **Financial Information relating to EIF**

Copies of the financial statements of EIF and the relevant auditors reports as at, and for the years ended on 31 December 2010 and 31 December 2011 are included in this Prospectus in Annex 1 to Annex 4 and are available in EIF's 2010 and 2011 Annual Reports which are published and available on EIF's

website, at the seat of EIF at 96 Boulevard Konrad Adenauer, L-2968 Luxembourg and, so long as any of the Class A Notes remain listed on the Irish Stock Exchange and outstanding, at the registered office of the Principal Paying Agent. EIF does not issue interim audited financial statements. The financial statements of EIF as at and for the year ended 31 December 2010 and 31 December 2011 have been audited by KPMG Audit S.à r.l. (included in Annex 3 of this Prospectus) and KPMG Luxembourg S.à r.l. (included in Annex 4 of this Prospectus) respectively.

## SUMMARY OF PRINCIPAL DOCUMENTS

*The description of the principal Transaction Documents set out below is a summary of certain features of the agreements and is qualified by reference to the detailed provisions of the relevant agreements. Prospective Noteholders may inspect a copy of each Transaction Document upon request at the registered office of the Representative of the Noteholders. Capitalised terms used in the description below, to the extent not defined in this Prospectus, shall have the meanings ascribed to them in the Master Definition Agreement.*

### 1. THE MASTER TRANSFER AGREEMENT

#### General

On 13 February 2013, the Issuer and the Originator entered into the Master Transfer Agreement setting out, *inter alia*, the terms and conditions for the sale of the Initial Portfolio, the Additional Portfolio and any Subsequent Portfolio, transferred and that will be transferred by the Originator to the Issuer.

#### The Initial Portfolio

Under the Master Transfer Agreement and the Initial Deed of Transfer, the Issuer purchased, on 13 February 2013, the Initial Portfolio from the Originator (with economic effects as of 1 February 2013), the Initial Purchase Price of which was funded through the net proceeds of the Series 1 Notes.

#### Additional Portfolio and Subsequent Portfolios

Subject to the terms of the Master Transfer Agreement, the Originator is entitled to sell to the Issuer which, upon occurrence of the conditions set forth in the Master Transfer Agreement, shall purchase from the Originator (i) during the Ramp-Up Period, an additional portfolio of Receivables (the “**Additional Portfolio**”) and (ii) during the Revolving Period, subsequent portfolios of Receivables (the “**Subsequent Portfolios**”) and each of the Initial Portfolio, the Additional Portfolio and any Subsequent Portfolio, a “**Portfolio**”, and, collectively, the “**Portfolios**”), pursuant to transfer agreements to be entered into from time to time between the Issuer and the Originator in compliance with the terms of the Master Transfer Agreement (the “**Subsequent Deed of Transfers**”) and together with the Initial Deed of Transfer, the “**Deeds of Transfer**” and each a “**Deed of Transfer**”).

The Initial Purchase Price of the Additional Portfolio will be paid by the Issuer out of the Issuer Available Funds or, as applicable, the Principal Available Funds and out of the proceeds deriving from subscription of the Series 2 Notes. The Initial Purchase Price of any Subsequent Portfolio will be paid by the Issuer out of the Issuer Available Funds in accordance with the applicable Priority of Payments.

According to the Master Transfer Agreement, (i) the Initial Purchase Price of the Additional Portfolio shall not be higher than the Additional Portfolio Maximum Purchase Amount, and (ii) the Initial Purchase Price of any Subsequent Portfolio shall not be higher than the Maximum Purchase Amount.

#### Key features of the sales of the Portfolios

The Initial Portfolio has been transferred, and the Additional Portfolio and each Subsequent Portfolio will be transferred, without recourse (*pro soluto*), in accordance with the Securitisation Law and subject to the satisfaction of certain conditions set forth in the Master Transfer Agreement.

The Initial Portfolio has been selected and each of the Additional Portfolio and the Subsequent Portfolios will be selected, as the case may be, on the basis of the Criteria (for further details, see the section entitled “*The Portfolios*”).

**Representations and warranties as to matters affecting the Originator**

The Master Transfer Agreement contains representations and warranties given by the Originator as to matters of law and fact affecting the Originator including, among others:

- (a) the Originator is a legal entity, validly incorporated and which is existing and solvent in accordance with Italian law;
- (b) the Originator has taken all actions and obtained all authorisations necessary for the execution and the completion of the Master Transfer Agreement and all other Transaction Documents to which it is a party;
- (c) the execution and the completion by the Originator of the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which it is a party do not breach nor violate: (i) its constitutional documents or by-laws; (ii) any relevant laws or regulations in force; (iii) contracts, deeds, agreements or other documents which are binding upon the Originator; or (iv) any judicial proceedings, decisions, arbitral awards, injunctions or any decrees which are binding or influential upon the Originator or upon its assets;
- (d) the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which the Originator is a party (i) constitute obligations which are, valid and binding on the Originator and which are validly enforceable against it, subject to the terms and conditions thereof and (ii) have been entered into by the Originator in the course of its commercial activity;
- (e) no disputes, judicial proceedings, arbitral proceedings or legal actions exist, are pending or are threatened against the Originator in respect of its assets (including the Receivables) or its business activities nor are there any commenced or threatened disputes, judicial proceedings, arbitral proceedings or legal actions before any court or applicable regulatory authority which could prejudice on the capacity of the Originator to definitively and irrevocably transfer, with no possibility of revocation, the Receivables in accordance with the terms of the Master Transfer Agreement, or which could prejudice the Originator from diligently fulfilling its obligations under the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which it is a party;
- (f) no facts or circumstances exist which could render the Originator insolvent or otherwise unable to diligently fulfil its obligations or which could expose it to insolvency proceedings, nor has any step been taken for liquidation or winding up of the Originator, nor have any other acts been taken against the Originator which may prejudice its ability to acquire or sell the Receivables or to fulfil the obligations undertaken by the Issuer under the terms of the Master Transfer Agreement or fulfil its obligations under any other Transaction Documents of the Series 1 Notes to which the Originator is a party, nor shall the execution of the Master Transfer Agreement any other Transaction Documents of the Series 1 Notes to which it is a party cause the Originator to become insolvent;
- (g) the financial statement as at 31 December 2011 has been prepared in compliance with the general accounting standards, in accordance with the Italian law, and has been positively certified by external auditors acknowledged at international level;
- (h) there has been no material adverse change in the financial and administrative condition of the Originator since the date of its most recent audited balance sheet which may prejudice the Originator’s ability to comply with and diligently fulfil its obligations under the Master Transfer Agreement and all other Transaction Documents of the

Series 1 Notes to which it is a party; and

- (i) the Originator is not in breach of the terms of any contract (including, by way of example, the Lease Contracts) to which it is a party, save for breaches which would not prejudice its ability to comply with and diligently fulfil its obligations under the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which it is a party.

### **Representations and warranties in relation to the Receivables**

The Master Transfer Agreement contains representations and warranties of the Originator in respect of the Receivables originated by it comprised in each Portfolio sold to the Issuer, including, among others, that:

- (a) the Receivables are existent and constitute valid, legal and binding obligations of the Lessee and/or any Guarantors, in the amounts set out in the relevant Offer Notice;
- (b) the prospectus of the Receivables attached to each Offer Notice provides in relation to the Receivables comprised in the relevant Portfolio all information required by the terms of the Master Transfer Agreement and such information are true, correct and complete;
- (c) as at the relevant Valuation Date and Transfer Date, none of the Receivables relates to a Delinquent Lease Contract or a Defaulted Lease Contract;
- (d) all permits, approvals and authorisations have been obtained from and all registrations have been made with the relevant authorities, which are necessary for the transfer of the Receivables and for the payment of the same by the relevant Lessees;
- (e) to the best of the Originator's knowledge, the Receivables comprised in the relevant Portfolio constitute a portfolio of homogenous monetary rights within the meaning and for the purposes of Securitisation Law;
- (f) the Originator has selected the Receivables comprising the relevant Portfolio faithfully respecting the applicable Criteria;
- (g) the Receivables derive from Lease Contracts which have been duly executed by duly authorised individuals with all rights, powers and authorisation to do so;
- (h) each Lease Contract is governed by Italian law;
- (i) each Lease Contract, as well as any other contract, agreement, deed or document related thereto, has been executed in compliance with all applicable laws and regulations, including, but not limited to, the laws and regulations governing leasing activities and the usury law;
- (j) each Lease Contract has been executed in compliance with the contractual standards utilised from time to time for lease contracts by the Originator and has been amended, among the relevant signing date and the transfer date, on the basis of the Collection Procedures and the Transaction Documents of Series 1 Notes (in case of Initial Portfolio) or (ii) the Transaction Documents of the Series 1 Note and the relevant Deed of Transfer (in case of a Subsequent Portfolio) or (iii) the Transaction Documents (in case of Additional Portfolio);
- (k) the Originator has possession of all complete and diligently kept books, registers, information and documents relating to each of its Lease Contracts, Receivables, Lessees and Assets;
- (l) as at the relevant Valuation Date and Transfer Date, there are no disputes, judicial proceedings (civil or administrative), arbitral proceedings or legal proceedings in course, pending or threatened in relation to the Lease Contracts or the Receivables which may prejudice, affect or invalidate, in any way the transfer of Receivables and/or the exercise of the rights relating to the Receivables;

- (m) as far as the Originator is aware on the basis of the information provided at the date of entering into of the relevant Lease Contract, all the real estate Assets comply with all applicable planning and building laws and regulations and all historical and architectural restrictions or, otherwise, a valid petition of amnesty with reference to any existing irregularity had been duly filed with the competent authorities;
- (n) as far as the Originator is aware, the real estate Assets have been completed and are not under construction and conform with the description set out in the relevant Lease Contract and have been registered at the competent land registry or, otherwise, an application for such registration has been duly filed;
- (o) as far as the Originator is aware, all real estate Assets comply with all applicable laws and regulations concerning health and safety and environmental protection (*legislazione in materia di igiene, sicurezza e tutela ambientale*);
- (p) the Lessors have entered into the Lease Contracts in the course of their commercial activity;
- (q) all the insurance policies are legal and valid pursuant to the terms thereof. According to each insurance policy, the Originator is the beneficiary (unless for such insurance policies covering Leasing Contracts entered into within the 1<sup>st</sup> October 2012 in relation to which the loss payee clause is not provided in favour of the Originator). Such insurance policies cover a value, for real estate Assets and other Assets other than motor vehicles, of at least the amount financed by the Lease Contract and for motor vehicles, of at least the market value for such motor vehicle.
- (r) the assignment by the Lessees of the rights owing to them under the insurance policies does not impact upon the validity of the insurance policies or the rights so assigned;
- (s) there is no possibility of set-off of receivables eventually claimed by the Lessees towards the Originator and the Receivables;
- (t) as far as the Originator is aware, the Assets of the Lease Contracts are not under enforcement proceedings or similar legal actions by third parties;
- (u) none of the Lease Contracts expressly provides for the possibility for the relevant Lessee to terminate in advance the relevant Lease Contract.

Each of the representations and warranties of the Originator under schedule 4-Part I of the Master Transfer Agreement has been made as of the date of entering into of the Master Transfer Agreement, and each of the representations and warranties of the Originator under schedule 4-Part II of the Master Transfer Agreement shall be deemed to be made with regard to each Portfolio as of the date on which the relevant Offer Notice has been sent (or with regard to the different date indicated in specific representation warranties). In addition, each of the representations and warranties of the Originator under schedule 4-Part I of the Master Transfer Agreement shall be deemed to be repeated and confirmed on each date of entering into of the relevant Deed of Transfer, with reference to the facts and circumstances then subsisting, being understood that each reference, in the representations and warranties of the Originator under schedule 4-Part I of the Master Transfer Agreement, to the “Transaction Documents of the Series 1 Notes” shall be deemed referred to (i) if at the relevant Transfer Date a Subsequent Portfolio is assigned, the Transaction Documents of the Series 1 Notes and the relevant Deed of Transfer, or, after the assignment of an Additional Portfolio, to the Transaction Document; (ii) if at the relevant Transfer Date an Additional Portfolio is assigned, to the Transaction Documents.

**Option to repurchase individual Receivables in respect of which the relevant representation or warranty has been breached**

As an alternative to the obligation of the Originator (provided by clause 20 (*Obblighi di Indennizzo dell’Originator*) of the Master Transfer Agreement) to indemnify the Issuer in the

circumstances indicated therein, under clause 19 (*Opzione di acquisto sui singoli Crediti*) of the Master Transfer Agreement, the Issuer has granted to the Originator, pursuant to article 1331 of the Italian Civil Code, the right to repurchase individual Receivables in respect of which a misrepresentation (related to any representation made under schedule 4-Part II of the Master Transfer Agreement) occurred, such right to be exercised within a period of 15 Local Business Days from the date on which the Originator has received an Indemnity Request (as defined below).

If the Originator does not exercise such option within the time limit stated by clause 19 (*Opzione di acquisto sui singoli Crediti*) of the Master Transfer Agreement or does not pay the repurchase price in relation to such Receivables in accordance with clause 19.3 (*Prezzo di Riacquisto*) of the Master Transfer Agreement, the Issuer will have the right to be indemnified in accordance with clause 20 (*Obblighi di Indennizzo dell'Originator*) of the Master Transfer Agreement.

#### **Indemnity obligations of the Originator**

Pursuant to clause 20 (*Obblighi di Indennizzo dell'Originator*) of the Master Transfer Agreement, the Originator has agreed to indemnify and hold harmless the Issuer from and against all damages, loss, claims, liabilities, costs and expenses incurred by it arising from, *inter alia*:

- (a) breach by the Originator of its obligations under the Master Transfer Agreement or any other Transaction Document to which it is a party or any laws or regulation applicable to the Master Transfer Agreement or the Servicing Agreement;
- (b) any representation or warranty made by the Originator under the Master Transfer Agreement, each Deed of Transfer or the Servicing Agreement being false, incomplete or incorrect;
- (c) the failure to collect or recover any Receivables as a consequence of the legitimate exercise by a Lessee of any set-off claim against such Originator.

#### **Representations and warranties as to matters affecting the Issuer**

The Master Transfer Agreement contains representations and warranties given by the Issuer as to matters of law and fact affecting the Issuer including, among others:

- (a) the Issuer is a limited liability company validly incorporated, which is existing and solvent in accordance with Italian law;
- (b) the Issuer has taken all actions and obtained all authorisations necessary for the execution and the completion of the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which it is a party;
- (c) the execution and the completion by the Issuer of the Master Transfer Agreement and all other Transaction Documents of the Series 1 Notes to which it is a party do not breach nor violate: (i) its constitution documents or by-laws; (ii) any relevant laws or regulations in force; (iii) contracts, deeds, agreements or other documents which are binding upon the Issuer; or (iv) any judicial proceedings, decisions, arbitral awards, injunctions or any decrees which are binding or influential upon the Issuer or upon its assets;
- (d) the Master Transfer Agreement, the other Transaction Documents of the Series 1 Notes and any further action described therein, constitute legal, valid and binding obligations which are fully and immediately enforceable against the Issuer subject to the terms and condition thereof; and
- (e) the Issuer is solvent and, to the best of its knowledge, information and belief, no facts or circumstances exist which could render the Issuer insolvent or otherwise unable to fulfil its obligations or which could expose it to insolvency proceedings, nor has the Issuer taken any steps to initiate its liquidation or winding up, nor have any other acts

been taken against the Issuer which may prejudice the ability of the Issuer to acquire or sell the Receivables or to fulfil the obligations undertaken by the Issuer under the terms of the Master Transfer Agreement or of any other Transaction Documents of the Series 1 Notes to which the Issuer is a party, nor shall the execution of the Master Transfer Agreement any other Transaction Documents of the Series 1 Notes to which the Issuer is a party cause the Issuer to become insolvent.

### **Purchase Price**

The Purchase Price of each Receivable comprised in each Portfolio shall be the aggregate of: (a) the Initial Purchase Price; (b) the Deferred Purchase Price; and (c) if any, the Purchase Price of the Residual Optional Instalment.

### **Option to repurchase all of the Receivables comprised in the Portfolios**

Under the Master Transfer Agreement, the Issuer has irrevocably granted to the Originator an option (the “**Aggregate Portfolio Call Option**”), pursuant to article 1331 of Italian Civil Code, to repurchase (in whole but not in part) the aggregate of the Portfolios.

The Aggregate Portfolio Call Option can be exercised on the Series 1 Expected Maturity Extension Date or on any Quarterly Payment Date falling thereafter.

In order to exercise the Aggregate Portfolio Call Option, Alba Leasing shall:

1. send a written notice to the Issuer at least 15 Local Business Days before the relevant Quarterly Payment Date;
2. have obtained all the necessary approvals and authorizations;
3. deliver to the Issuer the following documents:
  - (i) a certificate signed by its legal representative stating that it is solvent;
  - (ii) a solvency certificate (*certificato di iscrizione nella sezione ordinaria*) issued by the Companies Register office and dated not more than 30 days before the date on which the Option will be exercised; and
  - (iii) a certificate, issued by the bankruptcy Court competent for the territory in which is based the legal office of such purchaser, stating that no applications for commencement of insolvency proceedings against such purchaser has been made in the last five years and dated not more than 20 before the date on which the Option will be exercised.

Pursuant to the Intercreditor Agreement, Alba Leasing will be entitled to exercise the Aggregate Portfolio Call Option provided that the Issuer will have, upon receipt of the purchase price of the Receivables (determined in accordance with Article 29.4 of the Master Transfer Agreement) sufficient funds (taking into account any other Issuer Available Funds available on the Quarterly Payment Date on which the Notes will be redeemed) to discharge in full all amounts owing to the holders of the relevant Notes to be redeemed in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*), and amounts ranking in priority thereto or *pari passu* therewith.

Following the exercise of the Option by Alba Leasing, the Issuer shall promptly exercise its option to early redeem the Notes in accordance with the terms set out under Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*).

### **Governing Law and Jurisdiction**

The Master Transfer Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Master Transfer Agreement.

## 2. INITIAL DEED OF TRANSFER

Pursuant to the Initial Deed of Transfer, the Originator has transferred to the Issuer, and the Issuer has purchased from the Originator, without recourse (*pro soluto*) and as a block (*in blocco*) and with economic effect as from 1 February 2013, the Initial Portfolio.

The Receivables comprised in the Initial Portfolio are listed, with details of, *inter alia*, principal amount outstanding, applicable interest rate and residual price, as a schedule to the Initial Deed of Transfer.

### The Criteria of the Initial Portfolio

Under the Initial Deed of Transfer, the Originator has represented to the Issuer that the Receivables comprised in the Initial Portfolio have been selected by applying the following Criteria as at the relevant Valuation Date:

- (i) the relevant Lease Contracts are entered into by Alba Leasing in its role of lessor;
- (ii) the relevant Lease Contracts provide an effective date of the leasing falling not before 1 January 2010;
- (iii) the relevant Lease Contracts are denominated in Euro;
- (iv) the Instalments related to the Lease Contracts are due by the relevant Lessee on or after 1 March 2013;
- (v) the Instalments related to the Lease Contracts are payable by the relevant Lessee through direct debit (*RID*) or wire bank transfer (*RIB*);
- (vi) the relevant Lease Contracts provide for the payment of the relevant Instalments on a monthly, two-monthly, quarterly or semi-annual basis;
- (vii) the relevant Lease Contracts provide for a fixed interest rate or, in case of floating interest rate, the relevant indexation is linked to a one-month Euribor, three-month Euribor or six-month Euribor;
- (viii) the relevant Lease Contracts are governed by Italian law;
- (ix) the relevant Lease Contracts have not been entered into under law 28 November 1965, No. 1329 (so called "*Legge Sabatini*", as subsequently amended and supplemented), as set forth in the relevant Lease Contract (if any), or on the basis of any other facility or contribution by the State or public administrations or public entities, or private companies being directly or indirectly controlled by a public administration, nor on the basis of any provision, giving right to any *droit de suite* (*diritto di seguito*), property or other privilege in favour of such entities, save for the facilities or contributions provided by Italian law No. 240 of 21 May 1981, (*Provvidenze a favore dei consorzi e delle società consortili tra piccole e medie imprese nonché delle società consortili miste*) (codes 200 and 205), by Law of Province of Bolzano dated 8 January 1993, No. 1 (*Interventi provinciali per lo sviluppo dell'economia cooperativa*) (code 536), by the Law of Region Veneto No. 5 of 9 February 2001 (code 496), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Veneto and by DGR Veneto No. 3495 of 17 November 2009 (code 495), by the *Programma Operativo Regionale* (POR-FESR) 2007-2013 of the Region Liguria, by DGR Liguria No. 1278 of 26 October 2007 (code 440), by Law 23 December 1996, No. 662 (*Misure di razionalizzazione della finanza pubblica*) (code 494), by Law of the Province of Bolzano – Alto Adige 13 November 1986, No. 27 (*Credito al Commercio*), subsequently repealed by Law of Province of Bolzano – Aldo Adige 13 February 1997, No. 4, (code 535), by Law of Province of Trento 13 December 1999, No. 6 (*Interventi della Provincia per il sostegno dell'economia e della nuova imprenditorialità locale, femminile e giovanile. Aiuti per i servizi alle imprese, alle reti d'impresa, all'innovazione e all'internazionalizzazione. Modificazioni della legge sulla programmazione provinciale*) (Code 547), by Law of the Region Veneto 17 January

2002, No. 2 (code 499); by Law No. 598/1994 (code 300) and by the *Programma Operativo Regionale* (POR-FESR) 2007 – 2013 of the Region Umbria (code 590);

- (x) whose Debtor declared, in the relevant Lease Contracts, to be domiciled in Italy;
- (xi) the Debtors are not employees or shareholders of the Originator, nor public administrations or public entities, nor private companies, being directly or indirectly controlled by a public administration;
- (xii) the Debtors are not subject to any bankruptcy or insolvency proceedings, nor are in default of payment of any instalment, due to the Originator, after 30 days from the relevant due date;
- (xiii) whose Debtors have duly and timely paid all the Instalments or there are no Instalments due and unpaid for more than 30 days from the relevant due date;
- (xiv) the Lease Contracts provide the obligation of the relevant Lessees to enter into an insurance policy issued by a primary insurance company in order to guarantee the Asset, and, with reference to the Lease Contracts entered into from the 1<sup>st</sup> of October 2012, to constitute an appendix (*appendice di vincolo*) in favour of the Originator;
- (xv) the Assets under the Lease Contracts include: (a) real estate properties located in Italy; (b) trains, ships, vessels; (c) vehicles, motor-vehicles, cars, light lorries, trucks, commercial vehicles, industrial vehicles, or other vehicles excluding aircrafts registered or having a numberplate in Italy, or (d) instrumental assets (*beni strumentali*) (such as machineries, equipments and plants);
- (xvi) no enforcement proceedings, precautionary or similar measure in relation to the Assets under a Lease Contract have been notified to the relevant Lessee by the Originator;
- (xvii) none of the Debtors has ever notified a report (*denuncia*) of theft in respect of the Assets;
- (xviii) the building of the Assets has been completed and the Assets have been delivered to the relevant Lessee;
- (xix) the Lease Contracts provide the relevant Debtor to be obliged to perform all the due payments also in case the Asset should not meet the requirements for its scope of use, should be destroyed or should not be at disposal of the relevant Debtor for any reason not ascribable to the Originator (c.d. “*Net Lease*”);
- (xx) the Lease Contracts expressly provide the possibility in favour of the relevant Debtor to purchase the relevant Asset at the expiration of the Lease Contract (c.d. “*Financial Leases*”);
- (xxi) the Lease Contracts provide instalments (a) to be paid in accordance with a “french” amortisation plan providing for all instalments, or series of instalments, of constant amounts and (b) consisting of a principal component and an interest component;
- (xxii) the residual contractual duration of the Lease Contracts is not extended over a period of:
  - 1 75 months for those Lease Contracts concerning Motorvehicle Pool;
  - 2 120 months for those Lease Contracts concerning Equipment Pool;
  - 3 216 months for those Lease Contracts concerning Real Estate Pool; and
  - 4 120 months for those Lease Contracts concerning Other Vehicles;
- (xxiii) in relation to which the payment date of the last Instalment (as indicated in the relevant Lease Contract) does not fall on after 31 March 2031;
- (xxiv) the Lease Contracts have been entered into with Debtors in the context of the relevant Debtors’ ordinary course of business;

excluding from the sale the receivables related to the installments not identified by a code "ALB04MMAA" subject to disclosure to debtors and sent by "postel" or similar with maturity date comprised between 1 March 2013 and the date whose month and year are identified in the code abovementioned, respectively, as "mm" and "aa".

#### **The Purchase Price**

As consideration for the acquisition of the Initial Portfolio pursuant to the Initial Deed of Transfer, the Issuer shall pay to the Originator, on the Initial Issue Date, the Initial Purchase Price of the Initial Portfolio, calculated as the aggregate of the Outstanding Principal of the Receivables included in the Initial Portfolio.

#### **Governing Law and Jurisdiction**

The Initial Deed of Transfer and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Master Transfer Agreement.

### **3. SERVICING AGREEMENT**

#### **General**

Pursuant to the Servicing Agreement entered into on 13 February 2013, between the Originator and the Issuer, the Servicer agreed to administer and service the Receivables comprised in the Portfolios in compliance with the Securitisation Law and, in particular, to (i) collect and recover amounts due in respect of the Receivables; (ii) administer relationships with the Lessees; and (iii) carry out certain activities in relation to the Receivables, in accordance with the Servicing Agreement and the Collection Policies.

The Servicer will also be responsible for carrying out, on behalf of the Issuer, in accordance with the Servicing Agreement and the Collections Policies, any activities related to the management of the Defaulted Lease Contracts and the Delinquent Lease Contracts, including activities in connection with the enforcement and recovery of the Defaulted Lease Contracts and the Delinquent Lease Contracts.

Under the terms of the Servicing Agreement, the Servicer may delegate to third parties certain activities concerning the Receivables, without prejudice however to the responsibilities of the Servicer for any activities so delegated.

#### **Obligations of the Servicer**

Under the terms of the Servicing Agreement the Servicer has undertaken, among others:

- (a) to supervise the compliance by the Lessees with their payment obligations provided for by the Lease Contracts;
- (b) to administer and make Collections in accordance with the provisions of the Servicing Agreement and the Collection Policies;
- (c) to exercise the rights owing to the Issuer relating to the Receivables and to carry out all the actions against the Lessors which are necessary or appropriate in order to defend such rights;
- (d) to take all necessary acts to maintain the validity and enforceability of the Receivables and any relevant security;
- (e) to carry out the management, administration and collection of the Receivables and to manage the recovery of the Defaulted Lease Contracts;
- (f) to maintain effective accounting and auditing procedures so as to ensure the compliance with the provisions of the Servicing Agreement;
- (g) not to authorise, other than in certain limited circumstances specified in the Servicing

Agreement, any waiver in respect of any Receivables or other security interest, lien or privilege pursuant to or in connection with the Lease Contracts and not to authorise any modification thereof which may be prejudicial to the Issuer's interests unless such waiver or modification is imposed by law, by judicial or other authority or is authorised by the Issuer;

- (h) to ensure that the interest rates applicable in accordance with the Lease Contracts do not breach the Usury Law;
- (i) comply with the provisions of the Italian anti-money laundering laws and comply with the other obligations of such laws, including to (a) provide the Corporate Servicer Provider with all the information required in order to maintain the sole database (*archivio unico informatico*); (b) monitoring the clients; and (c) provide the competent authorities with all required information;
- (j) ensure the segregation of the Collections from the other assets of the Servicer and from other securitisation transactions;
- (k) prepare and deliver the Servicer's Reports, as better specified below.

The activities to be carried out by the Servicer include also the processing of administrative and accounting data in relation to the Receivables and the management of such data. The Servicer has represented to the Issuer that it has all skills, software, hardware, information technology and human resources necessary to comply with the efficiency standards required by the Servicing Agreement.

The Servicer has undertaken to use all due diligence to maintain all accounting records in respect of the Receivables and on the Defaulted Lease Contracts and shall supply all relevant information to the Issuer to enable it to prepare its financial statements.

The Issuer and the Representative of the Noteholders have the right to inspect and take copies of the documentation and records relating to the Receivables in order to verify the performance by the Servicer of its obligations pursuant to the Servicing Agreement to the extent the Servicer has been informed reasonably in advance of such inspection.

#### **Payment of Collections and Recoveries into the Collection Account**

Under the terms of the Servicing Agreement, the Servicer shall collect the Receivables on behalf of the Issuer and shall, subject to below, pay any such Collections (or procure the payment thereof) into the Collection Account on the Local Business Day immediately succeeding the date on which such sums have been received, except for any Late Payments, Agreed Prepayments and Residual Optional Instalments which - to the extent that the sum of such Late Payments, Agreed Prepayments and Residual Optional Instalments does not exceed Euro 300,000.00 - shall be paid into the Collection Account on or before the last Local Business Day of the calendar month in which such Late Payments, Agreed Prepayments and Residual Optional Instalments have been received by the Servicer. In the event that during any calendar month the sum of Late Payments and Agreed Prepayments exceeds Euro 300,000.00, then the Servicer will credit such amount (or procure that such sums be credited) to the Collection Account on the Local Business Day immediately following the date on which the above limit of Euro 300,000.00 has been exceeded.

#### **Servicer Account**

Under the terms of the Servicing Agreement, the Servicer has undertaken to open with an Eligible Institution a bank account (the "**Servicer Account**") for the deposit of all the sums due in respect of the Receivables. The Servicer has undertaken to procure that (i) all the sums due in respect of the Receivables are paid directly into the Servicer Account (ii) no right of set-off can be exercised by the Servicer and the Servicer Account in respect of the sums standing to the credit of such bank account; and (iii) any Collection paid into the Servicer Account shall be transferred, upon instruction of the Servicer, into the Collection Account on a daily basis and, in

any event, no later than 17.00 (Milan time) of the Local Business Day following the date on which the relevant payment into such bank account is made.

### **Performance**

Under the terms of the Servicing Agreement, the Servicer shall perform the duties provided for by the Servicing Agreement and take any steps and decisions in relation to the management, servicing, recovery and collection of the Receivables in compliance with:

- (a) the Collection Policies;
- (b) the Securitisation Law and any other applicable laws and regulations with the best of its care (*diligenza*) and professional integrity (*correttezza professionale*) requested to an operator of its quality and in accordance with the prudent practice of a qualified servicer; and
- (c) the instructions which may be given by the Issuer in accordance with the Servicing Agreement.

Pursuant to the Servicing Agreement, the Servicer has undertaken (i) to perform its duties in compliance with the applicable law and any instructions received from the Issuer (or, where relevant, the Representative of Noteholders), and (ii) to act at all times in good faith and with utmost professional diligence. The Servicer's obligations include also maintaining accurate and complete records and operating an efficient filing and data-storage system and providing access to the same in accordance with the terms thereof.

### **Delegation of activities**

The Servicer is entitled to delegate to one or more entities certain activities entrusted to it pursuant to the Servicing Agreement provided that the Servicer will remain directly responsible for the performance of all duties and obligations delegated to any of such entities and will be liable for the conduct of all of them.

### **Report of the Servicer**

The Servicer has undertaken to prepare and deliver the Monthly Servicer Report (only with reference to the Ramp-Up Period) and the Quarterly Servicer Report to the Issuer, the Account Banks, the Calculation Agent, the Class A Guarantor, the Back-Up Servicer, the Corporate Services Provider, the Representative of the Noteholders, the Rating Agency and the Senior Notes Underwriter, on each Monthly Servicer Report Date and Quarterly Servicer Report Date, respectively.

### **Renegotiation**

Pursuant to the terms of the Servicing Agreement, the Issuer has authorised the Servicer to renegotiate and reschedule the Lease Contracts where the Servicers may consider opportune in light of the Collection Policies or in line with prudent financial practices, according to the terms and conditions and within the limits provided by the Servicing Agreement.

The Servicer shall in any case not be entitled to renegotiate Lease Contracts whose receivables have been assigned to the Issuer partially pursuant to clause 12 (*Cessione parziale di canoni*) of the Master Transfer Agreement.

### **Repurchase of Receivables**

As an alternative to the renegotiation power granted to the Servicer under the Servicing Agreement (or, with respect to the Lease Contracts whose receivables have been assigned to the Issuer partially, in order to allow the Originator to make such renegotiation), the Servicer has been granted the power to repurchase Receivables from the Issuer. The amount of repurchases shall not exceed the percentage limits indicated in the Servicing Agreement.

### **Servicing Fee**

In return for the services provided by the Servicer, the Issuer will pay to the Servicer the

following Servicing Fee, out of the Issuer Available Funds, in accordance with the applicable Priority of Payments:

- (a) for the administration, management and collection of the Receivables and any other activities carried out under the Servicing Agreement (other than the recovery and compliance activities specified, respectively, in paragraphs (b) and (c) below): a fee equal to 0.05 per cent. (plus VAT, if applicable) of the Collections received by the Servicer in respect of the Receivables (other than Recoveries) during the Quarterly Settlement Period immediately preceding the relevant Quarterly Payment Date;
- (b) for the administration, management and collection of Receivables in relation to the Defaulted Lease Contracts and Delinquent Lease Contracts: on a quarterly basis a fee equal to 0.005 per cent. (plus VAT, if applicable), of the Outstanding Amount of the Receivables relating to any Lease Contract classified as a Defaulted Lease Contract or Delinquent Lease Contract on the last day of the Quarterly Settlement Period immediately preceding the relevant Quarterly Payment Date, subject to a quarterly minimum fee of Euro 500.00 (plus VAT, if applicable); and
- (c) for the activity of compliance (i.e. compliance with duties imposed by the applicable regulation and/or reporting and communication duties), on each Quarterly Payment Date a fee equal to Euro 500.00 (plus VAT, if applicable).

#### **Servicer Termination Events**

Pursuant to the Servicing Agreement, the Issuer may, with the prior consent of the Representative of the Noteholders, or shall, if so requested in writing by the Representative of the Noteholders (which may, or if so directed by the Controlling Party shall, do so), terminate the appointment of the Servicer if events takes place, including *inter alia*:

- (a) subject to applicable law, an order is made by any competent judicial authority providing for the admission of the Servicer to any insolvency proceedings or a resolution is passed by the Servicer for the admission of the Servicer to any insolvency proceedings;
- (b) failure on the part of the Servicer to deposit or pay any amount required to be paid or deposited within 5 Local Business Days after the due date thereof, except where such failure is attributable to strikes, technical delays or other justified reason;
- (c) failure by the Servicer to comply with any other terms and conditions of the Servicing Agreement which failure to comply is not remedied within a period of 20 Local Business Days from the date on which the Servicer receives written notice of such non-compliance from the Issuer;
- (d) any of the representation and warranties given by the Servicer under the Servicing Agreement is incorrect or incomplete, unless the Servicer provides a remedy within 20 Local Business Days from the date on which such representation or warranty is contested.

As a result of such termination, the appointment of the Back-Up Servicer as Successor Servicer pursuant to the Back-Up Servicing Agreement shall become effective.

#### **Assignment**

Under the terms of the Servicing Agreement, the Servicer may not assign the Servicing Agreement or transfer any or all of its rights, benefits and/or obligations under the Servicing Agreement to any entity without the prior written consent of the Issuer.

#### **Governing Law and Jurisdiction**

The Servicing Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the

## Servicing Agreement

### 4. BACK-UP SERVICING AGREEMENT

Pursuant to the Back-Up Servicing Agreement entered into on or about the Initial Issue Date, between Selmabipiemme, as Back-Up Servicer, Alba Leasing, as Servicer and the Issuer, the Back-Up Servicer has agreed to be appointed and act as substitute Servicer under the same terms and conditions as those on which the Servicer was appointed under the Servicing Agreement (excluding for (i) the fees for acting as substitute Servicer which have been agreed separately on the Back-Up Servicing Agreement; and (ii) the compliance with the requirements under the Privacy Law, in relation to which the Back-Up Servicer would be entitled to act as *responsabile del trattamento dei dati*).

The parties to the Back-Up Servicing Agreement have acknowledged that the mandate granted to the Back-Up Servicer, in case such entity shall act as substitute Servicer, shall not include the activity of renegotiation of the Receivables provided by clause 15 (*Rinegoziazione dei Contratti di Leasing*) of the Servicing Agreement.

Pursuant to the terms of the Back-Up Servicing Agreement, the Back-Up Servicer shall substitute Alba Leasing as Servicer in the event that:

- (a) the Servicer is removed from its duty pursuant to the Servicing Agreement; or
- (b) the Servicer renounced the mandate granted to it in accordance with the relevant provisions of the Servicing Agreement.

Pursuant to the terms of the Back-Up Servicing Agreement, the Back-Up Servicer has represented and warranted, *inter alia*, that it satisfies the requirements for a Back-Up Servicer provided for by the Back-Up Servicing Agreement.

The fees due to Selmabipiemme for the role of Back-Up Servicer shall be due and payable by Alba Leasing. Should the appointment of Selmabipiemme as substitute Servicer become effective, then the relevant servicing fee shall be due and payable by the Issuer.

#### **Governing Law and Jurisdiction**

The Back-Up Servicing Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Back-Up Servicing Agreement.

### 5. THE SUBORDINATED LOAN AGREEMENT

Alba Leasing is the subordinated loan provider (the “**Subordinated Loan Provider**”), pursuant to a subordinated loan agreement to be entered into on or prior to the Initial Issue Date between Alba Leasing and the Issuer (the “**Subordinated Loan Agreement**”), pursuant to which the Subordinated Loan Provider grants to the Issuer a Euro term subordinated loan in an aggregate amount of Euro 2,000,000 (the “**Subordinated Loan**”) to fund exclusively the Expected Maturity Extension Indemnity due to the Senior Noteholders on the Quarterly Payment Date immediately succeeding any Advance Date, in each case in accordance with the terms and conditions of the Transaction Documents. The Subordinated Loan will be repaid in accordance with the applicable Priority of Payments. The aggregate amount of the Subordinated Loan will be drawn down by the Issuer by way of various Advances, each of which: (i) will be made on an Advance Date; and (ii) will have an amount equal to the relevant Expected Maturity Extension Indemnity payable to the Senior Noteholders on the Quarterly Payment Date immediately succeeding the relevant Advance Date.

The Subordinated Loan Agreement and all non contractual obligations arising out or in connection with the Subordinated Loan Agreement shall be governed by and construed in accordance with Italian law.

In the event of any disputes arising out of or in connection with the Subordinated Loan Agreement and all non contractual obligations arising out of or in connection with the Subordinated Loan Agreement, the Parties shall submit to the exclusive jurisdiction of the Courts of Milan, Italy.

## **6. THE CASH ALLOCATION, MANAGEMENT AND PAYMENT AGREEMENT**

On or about the Initial Issue Date, Issuer, the Calculation Agent, the Italian Account Bank, the English Account Bank, the Paying Agent, the Irish Agent, the Cash Manager, the Originator, the Servicer, the Corporate Services Provider and the Representative of the Noteholders have entered into the Cash Allocation, Management and Payment Agreement.

Pursuant to the Cash Allocation, Management and Payment Agreement, Calculation Agent, the Italian Account Bank, the English Account Bank, the Paying Agent, the Irish Agent and the Cash Manager have agreed to provide the Issuer with certain calculation, notification, reporting and agency services, together with certain account handling, investment and cash management services.

### **Governing Law and Jurisdiction**

Except as provided below, (i) the Cash Allocation, Management and Payment Agreement and all non contractual obligations arising out of or in connection with the Cash Allocation, Management and Payment Agreement governed by, and shall be construed according to Italian law; and (ii) the courts of Milan shall have exclusive jurisdiction in respect to any and all disputes arising between the parties out of or in connection with the validity, effectiveness, interpretation, enforceability and/or rescission of the Cash Allocation, Management and Payment Agreement.

The provisions of the Cash Allocation, Management and Payment Agreement concerning the establishment, maintenance and operation of the Investment Account are governed and subject to the English law. The courts of England have jurisdiction to settle any dispute arising out of, or in connection with, the provisions of the Cash Allocation, Management and Payment Agreement concerning the establishment, maintenance and operation of the Investment Account (including a dispute regarding the existence, validity or termination of such provisions or the consequences of its nullity), provided that the Representative of the Noteholders is not prevented in relation to any such document from taking proceedings in any other courts having jurisdiction.

## **7. INTERCREDITOR AGREEMENT**

On or about the Initial Issue Date, the Issuer, the Representative of the Noteholders (on its own behalf and as agent of the Noteholders) and the Other Issuer Creditors have entered into the Intercreditor Agreement.

Pursuant to the Intercreditor Agreement, the Issuer, the Representative of the Noteholders (on its own behalf and as agent of the Noteholders) and the Other Issuer Creditors have agreed to, *inter alia*, (i) the application of the Issuer Available Funds in accordance with the applicable Priority of Payments; (ii) the limited recourse nature of the obligations of the Issuer; and (iii) the circumstances in which the Representative of the Noteholders will be entitled to exercise certain rights in relation to the Portfolios.

### **Disposal of the Aggregate Portfolio following the delivery of a Trigger Notice**

Pursuant to the Intercreditor Agreement, following the delivery of a Trigger Notice and in accordance with the Terms and Conditions, the Issuer may (subject to the consent of the Representative of the Noteholders, which shall give such consent if so directed by the Controlling Party) or the Representative of the Noteholders may (or shall, if so directed by the Controlling Party) direct the Issuer to, dispose of the Aggregate Portfolio if:

1. a sufficient amount would be realised from such disposal to allow (taking into account

any other Issuer Available Funds of the Issuer) discharge in full of all amounts owing to the Senior Noteholders and amounts ranking in priority thereto or *pari passu* therewith (including, without limitation, any Outstanding Guarantor Interest Payment Amounts) as well as any Outstanding Guarantor Principal Payment Amounts due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking or, if such amount would not be realised, a certificate issued by a reputable bank or financial institution stating that the purchase price for the Aggregate Portfolio is adequate (based upon such bank or financial institution's evaluation of the Aggregate Portfolio) has been obtained by the Issuer or by the Representative of the Noteholders;

2. the relevant purchaser has obtained all the necessary approvals and authorisations;
3. the relevant purchaser has produced:
  - (i) a certificate signed by its legal representative stating that such purchaser is solvent, dated as of the date on which the ;
  - (ii) a solvency certificate (*certificato di iscrizione nella sezione ordinaria*) issued by the competent Companies Register office and dated not more than ten days before the date on which the Aggregate Portfolio will be disposed; and
  - (iii) a certificate, issued by the Court competent for the territory in which is based the legal office of such purchaser, stating that no applications for commencement of insolvency proceedings against such purchaser has been made in the last five years,

provided that, without prejudice to the conditions under letter (a), (b) and (c) above, the Originator shall have in such circumstance a pre-emption right to purchase the Portfolios.

In addition, the Representative of the Noteholders may, at its discretion, carry out any further research or investigation for obtaining satisfactory evidence of the solvency of the relevant purchaser.

#### **Disposal of the Aggregate Portfolios following the occurrence of a Tax Event**

Pursuant to the Intercreditor Agreement, following the occurrence of a Tax Event and in accordance with the Terms and Conditions,

- (A) the Issuer may, or
- (B) the Representative of the Noteholders may (or shall if (i) so requested by the Class A Guarantor to the extent it is the Controlling Party or (ii) if the Class A Guarantor is no longer the Controlling Party, by an Extraordinary Resolution of the holders of the Senior Notes then outstanding) direct the Issuer to dispose of the Aggregate Portfolio or any part thereof to finance the early redemption of the relevant Notes under Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*) if:
  - (a) a sufficient amount would be realised from such disposal to allow (taking into account any other Issuer Available Funds of the Issuer) discharge in full of all amounts owing to the holders of the relevant Notes to be redeemed in accordance with Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for taxation*), and amounts ranking in priority thereto or *pari passu* therewith and, in any case, any Outstanding Guarantor Interest Payment Amounts and any Outstanding Guarantor Principal Payment Amounts due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking;
  - (b) the relevant purchaser has obtained all the necessary approvals and authorisations; and
  - (c) the relevant purchaser has produced:
    - (i) a certificate signed by its legal representative stating that such

purchaser is solvent;

- (ii) a solvency certificate (*certificato di iscrizione nella sezione ordinaria*) issued by the competent Companies Register and dated not more than one month before the date on which the Aggregate Portfolio will be disposed; and
- (iii) a certificate, issued by the Court competent for the territory in which is based the legal office of such purchaser, stating that no applications for commencement of insolvency proceedings against such purchaser has been made in the last five years and dated not more than twenty days before the date on which the Portfolios will be disposed,

provided that, without prejudice to the conditions under letter (a), (b) and (c) above, the Originator shall have in such circumstance a Pre-emption Right in accordance with clause 20.1 (*Disposal of the Aggregate Portfolios following the delivery of a Trigger Notice*) of the Intercreditor Agreement.

In addition, the Representative of the Noteholders may, at its discretion, carry out any further research or investigation for obtaining satisfactory evidence of the solvency of the relevant purchaser.

It is understood that, if the Representative of the Noteholders directs the Issuer to dispose of the Aggregate Portfolio or any part thereof in the absence of an Extraordinary Resolution of the Senior Noteholders as described above and the Representative of the Noteholders does not receive from the Issuer a full and unconditional acceptance of its proposal within 5 (five) Business Days following the delivery of the relevant proposal, any disposal of the Aggregate Portfolio shall be resolved by the Class A Guarantor if it is the Controlling Party or if the Class A Guarantor is not the Controlling Party, by the Extraordinary Resolution of the holders of the Senior Notes then outstanding in accordance with the Rules of the Organisation of the Noteholders and then the Issuer shall dispose of the Aggregate Portfolio in accordance with such resolution.

#### **Governing Law and Jurisdiction**

The Intercreditor Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Intercreditor Agreement.

## **8. THE DEED OF PLEDGE**

### **General**

On or about the Initial Issue Date the Issuer and the Representative of the Noteholders (acting on behalf of the Noteholders and the Other Issuer Creditors) have entered into the Deed of Pledge in order to ensure the segregation of and create a pledge over the rights of the Issuer arising out of certain Transaction Documents (in the event of any possible restrictive interpretation of the Securitisation Law).

Pursuant to the Deed of Pledge, without prejudice and in addition to any security, guarantees and other rights provided by the Securitisation Law securing the discharge of the Issuer's obligations towards the Noteholders and the Other Issuer Creditors, the Issuer has pledged in favour of the Noteholders and the Other Issuer Creditors all monetary claims and rights and all the amounts payable from time to time (including payment for claims, indemnities, damages, penalties, credits and guarantees) to which the Issuer is or will be entitled to from time to time pursuant to certain Transaction Documents (except for the Receivables and the relevant Collections and Recoveries).

### **Governing Law and Jurisdiction**

The Deed of Pledge and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Deed of Pledge.

## **9. THE DEED OF CHARGE**

### **General**

On or about the Initial Issue Date the Issuer and the Representative of the Noteholders (acting on behalf of the Noteholders and of the Other Issuer Creditors) have entered into the English law Deed of Charge in order to ensure the segregation of and create security over the rights of the Issuer arising out of the Eligible Investments and all the amounts and securities from time to time standing to the credit of the Investment Account and any other future accounts which the Issuer may open in England or Wales pursuant to the Transaction Documents, and all monies payable in respect thereof and all other rights, benefits and proceeds deriving therefrom.

### **Governing Law and Jurisdiction**

The Deed of Charge is governed by English Law and the courts of England shall have exclusive jurisdiction in relation to any disputes arising in respect of the Deed of Charge.

## **10. THE MANDATE AGREEMENT**

### **General**

On or about the Initial Issue Date, the Issuer and the Representative of the Noteholders have entered into the Mandate Agreement. Pursuant to the Mandate Agreement, subject to the occurrence of a Trigger Event and the delivery of a Trigger Notice, the Representative of the Noteholders, acting in such capacity, shall be authorised to exercise all the Issuer's non-monetary rights arising out of the Transaction Documents to which the Issuer is a party.

### **Governing Law and Jurisdiction**

The Mandate Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Mandate Agreement.

## **11. THE CORPORATE SERVICES AGREEMENT**

On or about the Initial Issue Date, the Issuer, the Corporate Services Provider and the Representative of the Noteholders have entered into the Corporate Services Agreement.

### **General**

Pursuant to the Corporate Services Agreement, the Corporate Services Provider has agreed to provide the Issuer with certain corporate administration and management services. These services include, *inter alia*, the safekeeping of documentation pertaining to meetings of the Issuer's quotaholders and directors, maintaining the quotaholders' register, preparing VAT and other tax and accounting records, preparing the Issuer's annual balance sheet, administering all matters relating to the taxation of the Issuer and liaising with the Representative of the Noteholders.

### **Governing law and jurisdiction**

The Corporate Services Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Corporate Services Agreement.

## **12. THE LETTER OF UNDERTAKING**

### **General**

On or about the Initial Issue Date, the Originator, the Issuer and the Representative of the Noteholders have entered into the Letter of Undertaking.

Pursuant to the Letter of Undertaking, the Originator has undertaken to provide the Issuer with all necessary monies in order for the Issuer to pay certain losses, costs, expenses or liabilities indicated therein.

### **Governing law and jurisdiction**

The Letter of Undertaking and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Letter of Undertaking.

## **13. THE QUOTAHOLDER AGREEMENT**

### **General**

On or about the Initial Issue Date, the Issuer, the Sole Quotaholder, and the Representative of the Noteholders have entered into the Quotaholder Agreement.

Pursuant to the Quotaholder Agreement, the Sole Quotaholder has given certain undertakings in relation to the management of the Issuer and the exercise of its rights as Sole Quotaholder of the Issuer.

The Sole Quotaholder has also agreed not to dispose of, or charge or pledge, the quotas in the Issuer without the previous written consent of the Representative of the Noteholders.

### **Governing law and jurisdiction**

The Quotaholder Agreement and all non contractual obligations arising out or in connection with such agreement are governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of the Quotaholder Agreement.

## **14. THE FIRST SENIOR NOTES SUBSCRIPTION AGREEMENT**

### **General**

Pursuant to the terms of a senior notes subscription agreement entered into on or prior to the Initial Issue Date among the Issuer, the Originator, the Calculation Agent, the Representative of the Noteholders, the Senior Notes Underwriter (the “**First Senior Notes Subscription Agreement**”), the Senior Notes Underwriter has agreed, upon the terms and subject to the conditions specified therein, to subscribe the Series A1 Notes and pay the Subscription Price of the Series A1 Notes. Pursuant to the First Senior Notes Subscription Agreement, Securitisation Services has been appointed as legal representative of the Senior Noteholders.

### **Governing law and jurisdiction**

The First Senior Notes Subscription Agreement is governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of such agreement.

## **15. THE FIRST JUNIOR NOTES SUBSCRIPTION AGREEMENT**

### **General**

Pursuant to the terms of a junior notes subscription agreement entered into on or prior to the Initial Issue Date Issuer, the Representative of the Noteholders, the Originator, the Calculation Agent and the Junior Notes Underwriter (the “**First Junior Notes Subscription Agreement**”), the Junior Notes Underwriter has agreed, upon the terms and subject to the conditions specified

therein, to to subscribe the Series B1. Pursuant to the First Junior Notes Subscription Agreement, Securitisation Services has been appointed as legal representative of the Junior Noteholders.

#### **Governing law and jurisdiction**

The First Junior Notes Subscription Agreement is governed by, and shall be construed according to Italian law and the Courts of Milan shall have exclusive jurisdiction in relation to any disputes arising in respect of such agreement.

### **16. THE CLASS A GUARANTEE AND DEED OF UNDERTAKING**

Pursuant to the Class A Guarantee and Deed of Undertaking entered into on or about the Initial Issue Date, the Class A Guarantor (subject to the terms and conditions set forth therein) has unconditionally and irrevocably guaranteed and undertaken that it shall, with respect of the Series A1 Notes and, subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation), and irrespective of the limited recourse nature of the Class A Notes:

- (A) on each date (each, a “**Guaranteed Interest Due Date**”) being the later of (i) the Business Day prior to the relevant Quarterly Payment Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 (*Instructions and Payment*) of the Class A Guarantee and Deed of Undertaking, in respect of the relevant Quarterly Payment Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1 (*Method of Communication*) of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Interest Amount to the Guaranteed Payments Recipient; and
- (B) on the date (the “**Guaranteed Principal Due Date**”) being the later of (i) the Business Day prior to the Final Maturity Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 (*Instructions and Payment*) of the Class A Guarantee and Deed of Undertaking, in respect of the Final Maturity Date (which Class A Payment Demand shall be deemed - in accordance with subclause 20.1 (*Method of Communication*) of the Class A Guarantee and Deed of Undertaking - to be received on the next Business Day if received by the Class A Guarantor after 10:00 a.m. (Luxembourg time)), pay on first demand (*a prima domanda*) an amount equal to the Guaranteed Principal Amount to the Guaranteed Payments Recipient.

For these purposes:

“**Guaranteed Interest Amount**” means, in respect of each Guaranteed Interest Due Date, any amount (if positive) equal to (a) Class A Interest Amount for the relevant Quarterly Payment Date, less (b) the Class A Interest Available Funds for the relevant Quarterly Payment Date

“**Class A Interest Amount**” means, in respect of each Quarterly Payment Date, the interest due and payable on the Class A Notes on such date (for the avoidance of doubt calculated without taking into account the provisions of clause 12.2(a) (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement and of Condition 9.2 (*Limited Recourse of Issuer*)) pursuant to Conditions from 7.1 to 7.7 (*Interest*);

“**Class A Interest Available Funds**” means, on any Quarterly Payment Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item

- (v)(a) of the Pre-Enforcement Priority of Payments;
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (v)(a) of the Post-Enforcement Priority of Payments.

“**Guaranteed Principal Amount**” means, in respect of the Guaranteed Principal Due Date, any amount (if positive) equal to (a) the Class A Principal Amount for the Final Maturity Date, less (b) the Class A Principal Available Funds for the Final Maturity Date.

“**Class A Principal Amount**” means, in respect of the Final Maturity Date, the Principal Amount Outstanding of the Class A Notes on such date;

“**Class A Principal Available Funds**” means, in respect of the Final Maturity Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (ix)(ii) of the Pre-Enforcement of Priority of Payments to pay principal due and payable under the Class A Notes on such date; or
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (vii) of the Post-Enforcement Priority of Payments to pay principal due and payable under the Class A Notes on such date.

In return for the issue of the guarantee, the Issuer will irrevocably and unconditionally undertake to pay to the Class A Guarantor any fees payable to it under the Class A Guarantee and Deed of Undertaking (the “**Class A Guarantee Fee**”) on each Quarterly Payment Date in accordance with the applicable Priority of Payments.

In accordance with the provision of the Class A Guarantee and Deed of Undertaking, subject to the Class A Guarantor giving not more than 30 Business Days and not less than 10 Business Days prior written notice (the “**Class A Prepayment Demand**”) to the Issuer, the Calculation Agent, the Paying Agent and the Representative of the Noteholders, the Class A Guarantor has the right (but not the obligation) (the “**Class A Guarantor Prepayment Option**”):

- (a) if the Relevant Party has delivered a duly completed Class A Payment Demand; and/or
- (b) following the delivery by the Representative of the Noteholders to the Issuer of a Trigger Notice,

to elect to pay to the Guaranteed Payments Recipient, on the Business Day prior to the first Quarterly Payment Date which falls at least 10 Business Days following receipt of a Class A Prepayment Demand (the “**Class A Prepayment Date**” and the “**Class A Relevant Payment Date**”, respectively), the Principal Amount Outstanding of the Class A Notes (together with any accrued but unpaid interest thereon pursuant to Condition 7 (*Interest*) up to (but excluding) the Class A Relevant Payment Date) (the “**Class A Prepayment Amount**”).

For the purposes hereof:

“**Guaranteed Payments Recipient**” means the Italian Paying Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of an Trigger Notice) the Representative of the Noteholders;

“**Relevant Party**” means the Calculation Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of a Trigger Notice or the failure of the Calculation Agent to deliver a Class A Payment Demand and/or to fulfill any other obligation under the Class A Guarantee and Deed of Undertaking provided that the Class A Guarantor has received such Trigger Notice or has been notified of such failure by the Representative of the

Noteholders) the Representative of the Noteholders;

Pursuant to clause 3.1 of the Class A Guarantee and Deed of Undertaking, in consideration of the obligations of the Class A Guarantor thereunder and subject to subclause 3.2, the Issuer undertakes to reimburse the Class A Guarantor in the case of paragraphs (a) and (b) below and to pay to the Class A Guarantor in the case of paragraph (c) below an amount equal to:

(a) any Guaranteed Interest Amount paid by the Class A Guarantor in accordance with subclause 2.1(a) of the Class A Guarantee and Deed of Undertaking, on the relevant Guaranteed Interest Due Date if such date falls on a Quarterly Payment Date, otherwise on the Quarterly Payment Date immediately succeeding the relevant Guaranteed Interest Due Date or, if not repaid in full on such Quarterly Payment Date, on the Quarterly Payment Date(s) thereafter to (and including) the Final Cancellation Date in accordance with the applicable Priority of Payments;

(b) any Guaranteed Principal Amount paid by the Class A Guarantor in accordance with subclause 2.1(b) of the Class A Guarantee and Deed of Undertaking, on the Guaranteed Principal Due Date if such date falls on a Quarterly Payment Date, otherwise on the Quarterly Payment Date immediately succeeding the Guaranteed Principal Due Date or, if not repaid in full on such Quarterly Payment Date, on the Quarterly Payment Date(s) thereafter to (and including) the Final Cancellation Date in accordance with the applicable Priority of Payments; and

(c) any interest and principal that would have been due and payable to the Class A Noteholders in accordance with the applicable Priority of Payments had the Class A Guarantor not exercised its option to pay the Class A Prepayment Amount in accordance with subclause 2.3 of the Class A Guarantee and Deed of Undertaking, on the Quarterly Payment Date immediately succeeding such payment by the Class A Guarantor or, if not repaid in full on such Quarterly Payment Date, on the Quarterly Payment Date(s) thereafter to (and including) the Final Cancellation Date in accordance with the applicable Priority of Payments.

Pursuant to clause 4.1 of the Class A Guarantee and Deed of Undertaking, the Issuer and the Representative of the Noteholders (in its capacity as agent in the name of and on behalf of each Class A Noteholder) each acknowledge and agree that, following any payment of any Guaranteed Interest Amount in accordance with subclause 2.1(a) of the Class A Guarantee and Deed of Undertaking (irrespective of whether the Guaranteed Payments Recipient has applied such payment towards interest due on the Class A Notes) and to the extent that the Class A Guarantor has not been reimbursed in full by the Issuer in accordance with subclause 3.1(a) of the Class A Guarantee and Deed of Undertaking in respect of such payment, the Class A Guarantor shall to the extent permitted under applicable law be fully subrogated to the rights of the Class A Noteholders and the Representative of the Noteholders (in its capacity as agent in the name of and on behalf of each Class A Noteholder) against the Issuer to the extent of such payment.

Pursuant to clause 4.2 of the Class A Guarantee and Deed of Undertaking, The Issuer and the Representative of the Noteholders (in its capacity as agent in the name of and on behalf of each Class A Noteholder) each acknowledge and agree that, following payment of **(a)** the Guaranteed Principal Amount in accordance with subclause 2.1(b) or **(b)** the Class A Prepayment Amount pursuant to the Class A Guarantor's election under subclause 2.3 of the Class A Guarantee and Deed of Undertaking (irrespective of whether the Guaranteed Payments Recipient has applied such payment towards principal and/or interest due on the Class A Notes) and to the extent that the Class A Guarantor has not been reimbursed or paid in full by the Issuer in accordance with subclauses 3.1(b) and 3.1(c) of the Class A Guarantee and Deed of Undertaking) respectively in respect of such payment, the Class A Guarantor shall to the extent permitted under applicable law be fully subrogated to the rights of the Class A Noteholders and the Representative of the Noteholders (in its capacity as agent in the name of and on behalf of each Class A Noteholder) against the Issuer to the extent of such payment.

The obligations of the Class A Guarantor under the Class A Guarantee and Deed of Undertaking in respect of the Series A1 Notes is subject to the satisfaction of the conditions precedent set out under clause 9 (*Conditions Precedent*) thereunder.

The obligations of the Class A Guarantor under the Class A Guarantee and Deed of Undertaking in respect of the Series A2 Notes are conditional upon the execution by the Class A Guarantor (in its entire discretion) and delivery to the Issuer, the Calculation Agent, the Originator and the Representative of the Noteholders of a certificate in the form attached thereto. The parties to the Class A Guarantee and Deed of Undertaking agree and acknowledge that pursuant to the First Subscription Agreements the delivery by the Class A Guarantor of such certificate constitutes a condition precedent (which cannot be waived by any of the parties thereto) to the issuance of the Series 2 Notes.

The Class A Guarantee and Deed of Undertaking will be governed by and will be construed in accordance with Italian law.

## **17. THE MASTER DEFINITIONS AGREEMENT**

### **General**

Pursuant to the terms of a master definitions agreement entered into on or prior to the Initial Issue Date between all the parties to each of the Transaction Documents (the “**Master Definitions Agreement**”), the definitions of certain terms used in the Transaction Documents have been set out.

### **Governing law and jurisdiction**

For the purposes of the Transaction Documents governed by Italian Law, the Master Definitions Agreement shall be governed by, and shall be construed in accordance with the laws of the Republic of Italy.

For the purposes of the Transaction Documents governed by English Law, the Master Definitions Agreement shall be governed by, and shall be construed in accordance with the laws of England.

## TERMS AND CONDITIONS OF THE SERIES 1 NOTES

*The following is the entire text of the terms and conditions of the Series A1 Notes and the Series B1 Notes (as defined below) (the “**Terms and Conditions**”). In these Terms and Conditions, references to the “**holder**” or to the “**Noteholder**” of a Series A1 Note and Series B1 Note or to a Series A1 Noteholder and a Series B1 Noteholder are to the ultimate owners of the Series A1 Notes and the Series B1 Notes, as the case may be, issued in bearer form and held in dematerialised form and evidenced as book entries with Monte Titoli S.p.A. (“**Monte Titoli**”) in accordance with the provisions of (i) article 83-bis of the Legislative Decree No. 58 of 24 February 1998 and (ii) Regulation jointly issued on 22 February 2008 by the Commissione Nazionale per le Società e la Borsa (“**CONSOB**”) and the Bank of Italy, as amended from time to time. The Series 1 Noteholders are deemed to have notice of and are bound by, and shall have the benefit of, inter alia, the terms of the Rules of the Organisation of Noteholders (as defined below).*

*In these Terms and Conditions, references to (i) any agreement or other document shall include such agreement or other document as may be modified from time to time in accordance with the provisions contained therein and any deed or other document expressed to be supplemental thereto, as modified from time to time; and (ii) any laws or regulation shall be interpreted and construed to include any amendments and implementation thereof as of the date of these Terms and Conditions.*

### INTRODUCTION

The Euro 74,600,000 Series A1 Guaranteed Asset Backed Floating Rate Notes due July 2040 (the “**Series A1 Notes**”) and the Euro 76,900,000 Series B1 Asset Backed Floating Rate Notes due July 2040 (the “**Series B1 Notes**”) and, together with the Series A1 Notes, the “**Series 1 Notes**”) have been issued by Alba 4 SPV S.r.l. (the “**Issuer**”) on the Initial Issue Date (as defined below) in the context of a securitisation transaction (the “**Securitisation**”) to finance the purchase of the Initial Portfolio (as defined below) of the Receivables arising out of Lease Contracts entered into between Alba Leasing S.p.A. (the “**Originator**”), as lessor, and the Lessees thereunder.

Subject to and in compliance with the provisions set forth in Condition 2 (*Issuance and Subscription of the Notes*) and in the First Subscription Agreements, on the Subsequent Issue Date (as defined below) the Issuer may issue up to Euro 75,400,000 Series A2 Guaranteed Asset Backed Floating Rate Notes due July 2040 (“**Series A2 Notes**”) and up to Euro 176,800,000 Series B2 Asset Backed Floating Rate Notes due July 2040 (“**Series B2 Notes**”) and, together with the Series A2 Notes, the “**Series 2 Notes**”).

The Series 2 Notes shall have the characteristics indicated in these Terms and Conditions of the Series 1 Notes and in the First Subscription Agreements, provided that the relevant denomination, the issue date, the first payment date and the interest rate for the first interest period shall be determined in the terms and conditions which will be issued in relation to the Series 2 Notes and included in the prospectus of such notes.

The Series A1 Notes and the Series A2 Notes are together referred to as the “**Senior Notes**” or the “**Class A Notes**”. The Series B1 Notes and the Series B2 Notes are together referred to as the “**Junior Notes**” or the “**Class B Notes**”.

Capitalised words and expressions in these Terms and Conditions shall, except otherwise specified or so far as the context otherwise requires, have the meanings set out herein in Condition 1 (*Definitions and Interpretation*) below.

Any reference, in these Terms and Conditions, to the “**Notes**” shall be a reference, on any given date, to all the Senior Notes and the Junior Notes which has been issued by the Issuer up to any such date.

Any reference, in these Terms and Conditions, to a “**Class**” of Notes or a “**Class**” of holders of Notes shall be a reference to the Senior Notes or the Junior Notes, as the case may be, or to the respective holders thereof.

Any reference, in these Terms and Conditions, to a “**Series**” of Notes or a “**Series**” of holders of Notes shall be a reference to the Series 1 Notes or the Series 2 Notes, as the case may be, or to the respective holders thereof.

Upon issuance, the Senior Notes will be listed on the Irish stock exchange and are expected to be rated AAA (sf) by S&P. The Junior Notes will not be listed on any stock exchange and are not expected to be assigned any public credit rating.

The principal source of payment of interest and of repayment of principal on the Notes will be the Collections and Recoveries made in respect of the Receivables arising out of the Lease Contracts entered into between the Originator, as lessor, and the Lessees thereunder.

The Receivables have been and will be purchased by the Issuer from the Originator pursuant to the terms of a master transfer agreement entered into on the Signing Date between the Issuer and the Originator (the “**Master Transfer Agreement**”), and the relevant Deeds of Transfer (as defined below).

Pursuant to an initial deed of transfer (the “**Initial Deed of Transfer**”) entered into on the Signing Date between the Issuer and the Originator in accordance with the Master Transfer Agreement, the Issuer has purchased from the Originator on a without recourse (*pro soluto*) basis an initial portfolio of Receivables (the “**Initial Portfolio**”) arising out of the Lease Contracts, the relevant Initial Purchase Price of which has been funded out of the proceeds deriving from the issuance of the Series 1 Notes.

Subject to the terms of the Master Transfer Agreement, the Originator is entitled to sell to the Issuer which, upon occurrence of the conditions set forth in the Master Transfer Agreement, shall purchase from the Originator (i) during the Ramp-Up Period, an additional portfolio of Receivables (the “**Additional Portfolio**”); and (ii) during the Revolving Period, subsequent portfolios of Receivables (the “**Subsequent Portfolios**” and each of the Initial Portfolio, the Additional Portfolio and any Subsequent Portfolio, a “**Portfolio**”, and, collectively, the “**Portfolios**” or the “**Aggregate Portfolio**”), pursuant to transfer deeds to be entered into from time to time between the Issuer and the Originator in compliance with the terms of the Master Transfer Agreement (the “**Subsequent Deeds of Transfer**” and together with the Initial Deed of Transfer, the “**Deeds of Transfer**” and each a “**Deed of Transfer**”).

The Initial Purchase Price of the Initial Portfolio will be funded through the proceeds of the issuance of the Series 1 Notes on the Initial Issue Date. The Initial Purchase Price of the Additional Portfolio will be paid by the Issuer, in whole or in part, out of the proceeds deriving from the issuance of the Series 2 Notes on the Subsequent Issue Date. The Initial Purchase Price of any Subsequent Portfolio will be paid by the Issuer out of the Issuer Available Funds in accordance with the Pre-Enforcement Priority of Payments.

By virtue of the operation of article 3 of the Securitisation Law and of the Transaction Documents, the Issuer's right, title and interest in and to the Aggregate Portfolio and to any sums collected therefrom will be segregated from all other assets of the Issuer (including any other receivables purchased by the Issuer pursuant to the Securitisation Law) and, therefore, any cash-flow deriving therefrom (to the extent identifiable) will only be available, both prior to and following a winding up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders, to the Other Issuer Creditors and to any other creditor of the Issuer in respect of any costs, fees and expenses in relation to the Securitisation.

Under the terms of the Master Transfer Agreement, the Originator has given certain representations and warranties to the Issuer in relation to, *inter alia*, itself and the Receivables comprised in each Portfolio and has agreed to indemnify the Issuer in respect of certain liabilities incurred by the Issuer as a result of the purchase and ownership of such Receivables.

In addition, pursuant to the Master Transfer Agreement, the Issuer has granted to the Originator a call option pursuant to which the Originator will have the option to purchase from the Issuer the Receivables which are comprised in the Aggregate Portfolio as of the date on which the call option is exercised by the Originator (the “**Aggregate Portfolio Call Option**”).

Under the terms of a servicing agreement entered into on the Signing Date between the Issuer and Alba

Leasing (the “**Servicing Agreement**”), Alba Leasing has been appointed as Servicer to carry out the administration, management, collection and recovering of the Receivables comprised in the Aggregate Portfolio in accordance with the terms thereof and in compliance with the Securitisation Law.

Under the terms of a back-up servicing agreement entered into on or prior to the Initial Issue Date between the Issuer, the Back-up Servicer and the Servicer (the “**Back-Up Servicing Agreement**”), the Back-Up Servicer has agreed to act as substitute Servicer subject to, *inter alia*, the appointment of Alba Leasing as Servicer being terminated, in accordance with the terms of the Servicing Agreement.

Under the terms of a corporate services agreement entered into on or prior to the Initial Issue Date between the Issuer, the Corporate Services Provider and the Representative of the Noteholders (the “**Corporate Services Agreement**”), the Corporate Services Provider has agreed to provide the Issuer with certain administrative and corporate services.

Under the terms of a letter of undertaking entered into on or prior to the Initial Issue Date between the Issuer, the Originator and the Representative of the Noteholders (the “**Letter of Undertaking**”), the Originator has undertaken to provide the Issuer with all necessary monies in order for the Issuer to pay certain losses, costs, expenses or liabilities indicated therein.

Under the terms of an intercreditor agreement entered into on or prior to the Initial Issue Date between the Issuer, the Class A Guarantor and the Other Issuer Creditors (the “**Intercreditor Agreement**”) provision has been made as to, *inter alia*, (i) the application of the Issuer Available Funds in accordance with the Priority of Payments, (ii) the limited recourse nature of the obligations of the Issuer, and (iii) the circumstances in which the Representative of the Noteholders will be entitled to exercise certain rights in relation to the Aggregate Portfolio.

Under the terms of a cash allocation, management and payment agreement entered into on or prior to the Initial Issue Date between the Issuer, the Calculation Agent, the Italian Account Bank, the English Account Bank, the Paying Agent, the Irish Agent, the Cash Manager, the Originator, the Servicer, the Corporate Services Provider and the Representative of the Noteholders (the “**Cash Allocation, Management and Payment Agreement**”), the Calculation Agent, the Italian Account Bank, the English Account Bank, the Paying Agent, the Irish Agent and the Cash Manager have agreed to provide the Issuer with certain agency services and certain calculation, notification and reporting services together with account handling services in relation to monies and securities from time to time standing to the credit of the Accounts. Pursuant to the terms of the Cash Allocation, Management and Payment Agreement, amounts standing from time to time to the credit of the Investment Account may be invested in Eligible Investments in accordance with the terms and conditions provided thereunder.

Under the terms of a mandate agreement entered into on or prior to the Initial Issue Date between the Issuer and the Representative of the Noteholders (the “**Mandate Agreement**”), the Representative of the Noteholders has been authorised, subject to the delivery of a Trigger Notice, to exercise, in the name and on behalf of the Issuer, all the Issuer's non-monetary rights arising out of certain Transaction Documents to which the Issuer is a party.

Under the terms of a deed of pledge entered into on or prior to the Initial Issue Date between the Issuer and the Representative of the Noteholders (the “**Deed of Pledge**”), as security for the Secured Obligations the Issuer has, *inter alia*, pledged in favour of the Noteholders and the Other Issuer Creditors all existing and future monetary claims and rights deriving from certain Transaction Documents (other than the Receivables, the Collections and the Recoveries).

Pursuant to a deed of charge (governed by English Law) entered into on or prior to the Initial Issue Date between the Issuer and the Representative of the Noteholders (the “**Deed of Charge**”), the Issuer has granted in favour of the Representative of the Noteholders for itself and as trustee for the Noteholders and the Other Issuer Creditors, *inter alia*, (i) an English law charge over the Investment Account; (ii) an English law assignment by way of security of all the Issuer's rights under the Eligible Investments made from funds standing to the credit of the Investment Account; and (iii) a floating charge over all of the Issuer's assets which are located in England and Wales not effectively assigned or charged by the security interests described under (i) or (ii) above.”

Under the terms of a first senior notes subscription agreement entered into on or prior to the Initial Issue Date between the Issuer, the Originator, the Calculation Agent, the Representative of the Noteholders and the Senior Notes Underwriter (the “**First Senior Notes Subscription Agreement**”), (i) the Issuer has undertaken to issue the Series A1 Notes, the Senior Notes Underwriter has undertaken to subscribe for such Series A1 Notes and Securitisation Services S.p.A. has been appointed as legal representative of the Series A1 Noteholders, subject to and in accordance with the terms and conditions set out therein; and (ii) the parties thereto have agreed the terms and conditions for the issuance and the subscription of the Series A2 Notes, including the execution of a second senior notes subscription agreement (the “**Second Senior Notes Subscription Agreement**”) to such purpose, which *inter alia* will provide for the appointment of Securitisation Services S.p.A. as legal representative of the Series A2 Noteholders.

Under the terms of a first junior notes subscription agreement entered into on or prior to the Initial Issue Date between the Issuer, the Originator, the Representative of the Noteholders, the Calculation Agent and the Junior Notes Underwriter (the “**First Junior Notes Subscription Agreement**” and, together with the First Senior Notes Subscription Agreement, the “**First Subscription Agreements**” and each of them a “**First Subscription Agreement**”), (i) the Issuer has undertaken to issue the Series B1 Notes, the Junior Notes Underwriter has undertaken to subscribe for such Series B1 Notes and Securitisation Services S.p.A. has been appointed as legal representative of the Series B1 Noteholders, subject to and in accordance with the terms and conditions set out therein; and (ii) the parties thereto have agreed the terms and conditions for the issuance and the subscription of the Series B2 Notes, including the execution of a second junior notes subscription agreement (the “**Second Junior Notes Subscription Agreement**” and, together with the Second Senior Notes Subscription Agreement, the “**Second Subscription Agreements**” and each of them a “**Second Subscription Agreement**”) to such purpose, which *inter alia* will provide for the appointment of Securitisation Services S.p.A. as legal representative of the Series B2 Noteholders.

Under the terms of a guarantee entered into on or prior to the Initial Issue Date between, *inter alios*, the Issuer, the Class A Guarantor and the Representative of the Noteholders (the “**Class A Guarantee and Deed of Undertaking**”), the Class A Guarantor has guaranteed and undertaken to pay to the Paying Agent or (following the delivery of a Trigger Notice) the Representative of the Noteholders interest and principal amounts due to the Series A1 Noteholders and, subject to confirmation by the Class A Guarantor, to the Series A2 Noteholders, on the terms and conditions therein specified. Among the condition precedent to the issuance of the Series 2 Notes, the First Subscription Agreements provide for the confirmation by the Class A Guarantor that the Series A2 Notes are guaranteed by the Class A Guarantee and Deed of Undertaking; such condition precedent cannot be waived by any of the parties to the First Subscription Agreements.

Under the terms of a master definitions agreement entered into on or about the Initial Issue Date between all the parties to the Transaction Documents (the “**Master Definitions Agreement**”), the definitions of certain terms used in such Transaction Documents have been set out.

The Issuer has established:

- (1) with the Italian Account Bank, the following accounts: (i) the Collection Account; (ii) the Payments Account; (iii) the Debt Service Reserve Account; and (iv) the Principal Accumulation Account;
- (2) with Banca Antonveneta S.p.A. the following accounts: (i) the Expenses Account; and (ii) the Quota Capital Account; and
- (3) with the English Account Bank, the Investment Account.

The Issuer will manage such accounts as provided by the terms and conditions set out in the Cash Allocation, Management and Payment Agreement and the other Transactions Documents.

These Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Transaction Documents. Copies of the Transaction Documents are available for inspection during normal business hours at the office of the Representative of the Noteholders, being, as at the Initial Issue Date, Securitisation Services S.p.A., Via V. Alfieri 1, 31015 Conegliano (Treviso), Italy.

The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Transaction Documents applicable to them. In particular, each Noteholder recognises that the Representative of the Noteholders is its representative and accepts to be bound by the terms of those Transaction Documents which have been signed by the Representative of the Noteholders as if it had signed such documents itself.

The rights and powers of the Noteholders may only be exercised in accordance with the Rules of Organisation of the Noteholders which are attached to these Terms and Conditions as Exhibit 1 and which are deemed to form part an integral and substantial part of these Terms and Conditions and the Noteholders shall be bound by the provisions of such Rules of Organisation of the Noteholders as if they had been set out herein in full.

## 1. DEFINITIONS AND INTERPRETATION

In these Terms and Conditions, unless otherwise specified or unless the context otherwise requires:

- (a) the exhibit hereto constitute an integral and essential part of these Terms and Conditions and shall have the force of and shall take effect as covenants; and
- (b) headings and subheadings are for ease of reference only and shall not affect the construction of these Terms and Conditions.

In these Terms and Conditions and otherwise in the Prospectus the following expressions shall, except where the context otherwise requires and save where defined therein, have the following meanings:

“**Account**” means any of the Eligible Accounts and the Expenses Account, and “**Accounts**” means any of them.

“**Account Banks**” means the Italian Account Bank and the English Account Bank, collectively, and “**Account Bank**” means any of them.

“**Additional Portfolio**” means the additional portfolio of Receivables, not being a Subsequent Portfolio, which will be purchased by the Issuer during the Ramp-Up Period according to the terms and conditions set forth under the Master Transfer Agreement.

“**Additional Portfolio Maximum Purchase Amount**” means Euro 250,000,000.

“**Advance**” means each advance of the Subordinated Loan which shall be made available by the Subordinated Loan Provider in favour of the Issuer on the relevant Advance Date for the amount set out in the relevant Request and equal to the Expected Maturity Extension Indemnity due and payable by the Issuer on the Quarterly Payment Date falling immediately after such Advance Date.

“**Advance Date**” means, during the Facility Availability Period and with reference to any Advance, the Business Day preceding each relevant Quarterly Payments Report Date, starting from the Quarterly Payments Report Date immediately following the Series 1 Expected Maturity Extension Date.

“**Agents**” means the Paying Agent, the Irish Agent, the Calculation Agent, the Account Banks, and the Cash Manager, and “**Agent**” means each of them.

“**Aggregate Portfolio**” means, on any given date, all the Receivables comprised in the Initial Portfolio, in the Additional Portfolio and in all the Subsequent Portfolios sold by the Originator to the Issuer up to any such date, pursuant to the Master Transfer Agreement.

“**Aggregate Portfolio Call Option**” means the call option that the Issuer has granted to the Originator under the Master Transfer Agreement, pursuant to which the Originator will have the option to purchase from the Issuer the Receivables which are comprised in the Aggregate Portfolio as of the date on which the call option is exercised by the Originator in accordance with the terms of the Master Transfer Agreement.

“**Agreed Prepayments**” means a portion of the Prepayment Amount payable to the Originator by a Lessee upon the early termination of a Lease Contract, equal to the sum of:

- (a) the accrued and unpaid Instalments plus any penalties; and
- (b) the nominal value of all future Instalments and of the Residual Optional Instalment, both discounted back at a rate which is equal to:
  - (i) in case of a Floating Rate Lease Contract, the Index Rate provided in such Lease Contract for the calculation of the last Instalment paid (as of the early termination date) by the relevant Lessee, less 1%; and
  - (ii) in case of a Fixed Rate Lease Contract, the lower between:
    - (x) the three month Euribor calculated on the first Local Business Day of the month preceding the month on which the early repayment is due to be made, less 1%; and
    - (y) the three month Euribor rate applicable at the time of the execution of the relevant Lease Contract, less 1%;

*provided that* any such early termination is subject to the prior consent of the Originator and the payment by the relevant Lessee of an amount equal to or greater than the Prepayment Amount.

It remain understood that the Agreed Prepayment (as defined above) shall be equal at least to the Outstanding Amount as at the date of the early termination of the relevant Lease Contract and the portion of the Prepayment Amount that the Originator is entitled to receive shall be equal to the lower between:

- (x) the Residual Optional Instalment plus any instalments in respect of which such Originator remains owner, discounted back at the applicable rate referred to above; and
- (y) the Prepayment Amount less the Agreed Prepayment.

“**Alba 4 SPV**” means Alba 4 SPV S.r.l., a limited liability company with a sole quotaholder incorporated under the laws of the Republic of Italy, whose registered office is at Via Vittorio Alfieri No. 1, 31015 Conegliano (TV), Italy, Fiscal Code and registration with the Companies' Register of Treviso No. 04571870262, with quota capital of Euro 10,000, (fully paid up), enrolled in the register of the società veicolo held by Bank of Italy pursuant to the Bank of Italy's Regulation dated 29 April 2011, and having as its sole corporate object the realisation of securitisation transactions pursuant to Article 3 of the Securitisation Law.

“**Alba Leasing**” means Alba Leasing S.p.A., a joint stock company incorporated under the laws of the Republic of Italy, whose registered office is at Via Sile No. 18, 20139 Milan, Italy, with paid in share capital of Euro 325,000,000, Fiscal Code and registration with the Companies' Register of Milan No. 06707270960.

“**Amortisation Period**” means the period commencing on the Revolving Period End Date (excluded), and ending on the earlier of (i) the date on which the Notes are redeemed in full, (ii) the Final Maturity Date, and (iii) the Cancellation Date.

“**Antalis**” means Antalis S.A., a company incorporated under the laws of France, whose registered office is at 127 rue Amelot, 75011, Paris, France.

“**Arranger**” means Société Générale.

“**Article 72**” means article 72 of the Italian Bankruptcy Law.

“**Article 72-quater**” means article 72-*quater* of the Italian Bankruptcy Law.

“**Asset**” means any real estate asset, registered and unregistered movable properties leased under a Lease Contract.

“**Asset Coverage Test**” means the difference, calculated on each Payments Report Date immediately preceding a Quarterly Payment Date (taking into account all payments expected to

be made on such Quarterly Payment Date), between (a) and (b) where:

- (a) is equal to the sum of:
- (i) the aggregate of the Outstanding Amount of all Receivables comprised in the Collateral Portfolio (including (A) the Additional Portfolio in case the Subsequent Issue Date falls on such Quarterly Payment Date or immediately after, or (B) any Subsequent Portfolio, the Initial Purchase Price of which is due, subject to the relevant Formalities having been perfected, on such Quarterly Payment Date); *plus*
  - (ii) the balance of the Debt Service Reserve Account as of such Quarterly Payment Date (taking into account the Series 2 Debt Service Reserve Amount in case the Subsequent Issue Date falls on such Quarterly Payment Date or immediately after); *plus*
  - (iii) the balance of the Principal Accumulation Account as of such Quarterly Payment Date (in any case net of any amount utilised or to be utilised towards payment of the Initial Purchase Price of the Additional Portfolio or the Subsequent Portfolio indicated under item (i) above);

and

- (b) is equal to:
- (i) the Principal Amount Outstanding of the Notes on such Quarterly Payment Date (following the repayment of principal to be made on such Quarterly Payment Date and taking into account the Series 2 Notes to be issued on such Quarterly Payment Date or immediately after);

*multiplied by*

- (ii) 0.98.

“**Authorised Person**” means any person who is designated in writing by the Issuer from time to time to give Instructions to the Agents under the terms of the Intercreditor Agreement.

“**Back-Up Servicer**” means Selmabipiemme Leasing S.p.A. or any other entity acting as back-up servicer pursuant to the Back-Up Servicing Agreement from time to time.

“**Back-Up Servicing Agreement**” means the back-up servicing agreement entered into on or about the Initial Issue Date between Alba Leasing, the Issuer and the Back-Up Servicer, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Back-Up Servicing Event**” means each of the events provided by clause 2 (*Appointment of the Back-Up Servicer*) of the Back-Up Servicing Agreement.

“**Bank of Italy Supervisory Regulations**” means the Supervisory Regulations for the Banks and/or the Supervisory Regulations for Financial Intermediaries, as the case may be.

“**BNYM Irish**” means The Bank of New York Mellon SA/NV, Dublin Branch, a banking corporation organised pursuant to the laws of Belgium, with company number 0806.743.159, whose registered office is at 46 Rue Montoyerstraat, B-1000 Brussels, Belgium, acting through its Dublin Branch (registered in Ireland with branch number 907126) and having its registered branch office at Hanover Building, Windmill Lane, Dublin 2, Ireland.

“**BNYM Italian Branch**” means The Bank of New York Mellon (Luxembourg) S.A., Italian Branch, a company incorporated under the laws of the Grand Duchy of Luxembourg, acting through its Italian branch, having its registered office at Via Carducci No. 31, 20123 Milan, Italy.

“**BNYM London Branch**” means The Bank of New York Mellon, London Branch, a New York banking corporation acting through its London branch, whose registered office is at One

Canada Square, London E14 5AL, United Kingdom.

“**Business Day**” means any day (other than Saturday or Sunday) on which banks are open for business in Milan, Dublin, London, Luxembourg and Paris and the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET 2) System (or any successor thereto) is open.

“**Calculation Agent**” means Securitisation Services or any other entity acting as calculation agent pursuant to the Cash Allocation, Management and Payment Agreement from time to time.

“**Call Option Notice**” means a notice substantially in the form of Schedule 13 of the First Senior Notes Subscription Agreement.

“**Cancellation Date**” means the earlier of:

- (a) the date on which the Notes have been redeemed in full;
- (b) the Final Maturity Date; and
- (c) the date on which the Representative of the Noteholders has certified to the Issuer and the Noteholders that, in its sole and reasonable opinion, there are no more Issuer Available Funds to be distributed as a result of the Issuer having no additional amount or asset relating to the Aggregate Portfolio. Subject to the consent of the Controlling Party, any amount outstanding, whether in respect of interest, principal or other amounts in respect of the Notes, shall be finally and definitively cancelled on such date.

“**Capital Requirements Directive**” means the CRD.

“**Cash Allocation, Management and Payment Agreement**” means the cash allocation management and payment agreement entered into on or about the Initial Issue Date between, *inter alios*, Issuer, the Calculation Agent, the Italian Account Bank, the English Account Bank, the Paying Agent, the Irish Agent, the Cash Manager, the Originator, the Class A Guarantor, the Corporate Services Provider and the Representative of the Noteholders, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Cash Manager**” means Alba Leasing S.p.A. or any other entity acting as cash manager pursuant to the Cash Allocation, Management and Payment Agreement from time to time.

“**Central Bank**” means the Central Bank of Ireland.

“**Class**” shall be a reference to a class of Notes, being the Senior Notes and the Junior Notes and “**Classes**” shall be construed accordingly.

“**Class A Guarantee and Deed of Undertaking**” means the Class A guarantee and deed of undertaking to be entered into on or about the Initial Issue Date between, *inter alios*, the Class A Guarantor, the Representative of the Noteholders and the Issuer, pursuant to which the Class A Guarantor has guaranteed and undertaken to pay to the Paying Agent or (following the delivery of a Trigger Notice) the Representative of the Noteholders interest and principal amounts due to the Series A1 Noteholders and, subject to confirmation by the Class A Guarantor, the Series A2 Noteholders, on the terms and conditions therein specified.

“**Class A Guarantee Fee**” means any fees payable by the Issuer to the Class A Guarantor under the Class A Guarantee Fee Letter in consideration of the Class A Guarantor's undertaking to pay the amounts referred to in the Class A Guarantee and Deed of Undertaking.

**Class A Guarantee Fee Letter** means the fee letter dated on or about the signing date of the Class A Guarantee and Deed of Undertaking between the Issuer, the Originator and the Class A Guarantor.

“**Class A Guarantor**” means the EIF in its capacity as Class A guarantor under the Class A Guarantee and Deed of Undertaking.

“**Class A Guarantor Event of Default**” means the occurrence of any of the following events:

- (i) if any Guaranteed Interest Amount or Guaranteed Principal Amount is not paid by EIF on the date stipulated for payment by the Class A Guarantor under the Class A Guarantee and Deed of Undertaking and remains unpaid for 5 (five) Business Days from the due date;
- (ii) a court of competent jurisdiction enters a final and non-appealable order, judgment or decree for the winding up, or the appointment of an administrator or receiver (including an administrative receiver or manager) of the Class A Guarantor (or, as the case may be, of a material part of its property or assets); or
- (iii) the Class A Guarantor institutes a proceeding seeking a judgment of insolvency or bankruptcy in respect of itself.

“**Class A Guarantor Prepayment Option**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class A Guarantor Reserved Matters**” means, any amendment, modification, derogation, waiver (including the grant of any grace period), release or exercise of any other right or grant of any consent with respect to the Terms and Conditions and/or any provision of any other Transaction Document, which (in the opinion of the Class A Guarantor, acting reasonably) would, or could reasonably be expected to, increase or adversely affect the Class A Guarantor’s obligations or liabilities under the Class A Guarantee and Deed of Undertaking or which (in the opinion of the Class A Guarantor, acting reasonably) would, or could reasonably be expected to, otherwise be materially prejudicial to the interests of the Class A Guarantor.

“**Class A Interest Amount**” means, in respect of each Quarterly Payment Date, the interest due and payable on the Class A Notes on such date (for the avoidance of doubt calculated without taking into account the provisions of clause 12.2(a) (*Enforcement of Security, Non Petition and Limited Recourse*) of the Intercreditor Agreement and of Condition 9.2 (*Limited Recourse of Issuer*)) pursuant to Conditions from 7.1 to 7.7 (*Interest*).

“**Class A Interest Available Funds**” means, on any Quarterly Payment Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (v)(a) of the Pre-Enforcement Priority of Payments;
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (v)(a) of the Post-Enforcement Priority of Payments.

“**Class A Noteholder**” mean any Senior Noteholder.

“**Class A Notes**” means the Senior Notes.

“**Class A Payment Demand**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class A Prepayment Amount**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class A Prepayment Date**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class A Prepayment Demand**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class A Principal Amount**” means, in respect of the Final Maturity Date, the Principal Amount Outstanding of the Class A Notes on such date.

“**Class A Principal Available Funds**” means, in respect of the Final Maturity Date:

- (a) if no Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (ix)(ii) of the Pre-Enforcement Priority of Payments to pay principal due and payable under the Class A Notes on such date; or
- (b) if a Trigger Notice has been served, the Issuer Available Funds (other than any Advance made available by the Subordinated Loan Provider) that are available to be applied or have been applied, as the case may be, on such date in accordance with item (vii) of the Post-Enforcement Priority of Payments to pay principal due and payable under the Class A Notes on such date.

“**Class A Relevant Payment Date**” has the meaning ascribed to it under the Class A Guarantee and Deed of Undertaking.

“**Class B Notes**” means the Junior Notes.

“**Clearstream**” means Clearstream Banking, société anonyme with registered office at 42 Avenue JF Kennedy, L-1855 Luxembourg, Luxembourg.

“**Collateral Portfolio**” means, on any given date, all the Receivables arising from Lease Contracts that are not, as of such date, Defaulted Lease Contracts.

“**Collection Account**” (*Conto Incassi*) means the Euro denominated account opened with the Italian Account Bank IBAN IT21Y0335101600008411309780, or any other Euro denominated account opened with any Eligible Institution, in accordance with the Cash Allocation, Management and Payment Agreement, to which all the Collections and Recoveries made and the Indemnities paid in respect of the Portfolios will be credited, in accordance with the Servicing Agreement.

“**Collection Policies**” (*Procedura di Riscossione*) means the documents setting forth the procedures for the collection and recovery of the Receivables annexed to the Servicing Agreement.

“**Collections**” means any amount received in respect of the Receivables comprised in the Portfolios.

“**Common Criteria**” means the criteria indicated in article 5.2.1 (*Criteri Comuni*) of the Master Transfer Agreement.

“**CONSOB**” means *Commissione Nazionale per le Società e la Borsa*.

“**Consolidated Banking Act**” means Legislative Decree No. 385 of 1 September 1993, as subsequently amended and implemented from time to time.

“**Consolidated Financial Act**” means Legislative Decree No. 58 of 24 February 1998, as subsequently amended and implemented from time to time.

“**Contractual Interest Rate**” means the interest rate provided in each Lease Contract, as subsequently amended or renegotiated by the Originator with the relevant Lessee.

“**Contractual Rights**” has the meaning ascribed to such term in clause 2.1 (*Subject Matter*) of the Mandate Agreement.

“**Controlling Party**” means the Class A Guarantor, unless: (i) a Class A Guarantor Event of Default has occurred and is continuing; and/or (ii) the Class A Notes have been repaid in full and the amounts owed to the Class A Guarantor have been paid in full by the Issuer; it being understood that upon the occurrence of any of the above events, any reference to the Controlling Party shall be construed as a reference (to the extent applicable) to the Most Senior Class of Noteholders (which shall release the consent or instruction provided by the Transaction Documents on the basis of a resolution adopted in accordance with the Rules).

“**Controlling Party Reserved Matters**” means any action that, pursuant to the Transaction Documents, is subject to receipt of a written instruction or the prior written consent of the Controlling Party.

“**Corporate Services Agreement**” means the corporate services agreement entered into on or about the Initial Issue Date between the Issuer, the Corporate Services Provider and the Representative of the Noteholders, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Corporate Services Provider**” means Securitisation Services or any other entity acting as corporate services provider pursuant to the Corporate Services Agreement from time to time.

“**CRA Regulation**” means the Regulation (EC) No 1060/2009.

“**CRD**” means Directive 2006/48/EC (as amended and supplemented from time to time) of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions.

“**Criteria**” means the criteria used for the selection of the Receivables.

“**Custody Terms and Conditions**” means the custody terms and conditions of the English Account Bank set out under Schedule 5 to the Cash Allocation, Management and Payment Agreement.

“**Debt Service Reserve Account**” means the Euro denominated account IBAN IT39E0335101600008411289780 which will be held with the Italian Account Bank or any other account held with an Eligible Institution for the deposit of the Debt Service Reserve Amount and the Series 2 Debt Service Reserve Amount in accordance with the Cash Allocation, Management and Payment Agreement.

“**Debt Service Reserve Amount**” means

- (A) on the Initial Issue Date, an amount equal to Euro 2,238,000;
- (B) with respect to any Quarterly Payment Date until, but excluding, the Release Date, an amount equal to the higher of:
  - (i) the amount of Euro 2,238,000,
  - (ii) the initial Principal Amount Outstanding as of the relevant Issue Date of the Senior Notes issued prior to such Quarterly Payment Date, multiplied by 3.0%;
- (C) on the Release Date and on any Quarterly Payment Date falling thereafter, 0 (zero).

“**Debtor**” means the Lessee or any other person or entity liable for payment in respect of a Receivable.

“**Decree 239 Deduction**” means any withholding or deduction for or on account of “*imposta sostitutiva*” under Decree No. 239.

“**Decree No. 239**” means Italian Legislative Decree No. 239 of 1 April 1996, as amended and supplemented from time to time and any related regulations.

“**Deed of Charge**” means the English law deed of charge entered into on or about the Initial Issue Date between the Issuer and the Representative of the Noteholders (acting on behalf of the Noteholders and as agent of the Other Issuer Creditors), as from time to time modified in accordance with the provisions herein contained and including any agreement or other document expressed to be supplemental thereto.

“**Deed of Pledge**” means the Italian law deed of pledge entered into on or about the Initial Issue Date between the Issuer and the Representative of the Noteholders (acting on behalf of the Noteholders and as agent of the Other Issuer Creditors), as from time to time modified in accordance with the provisions therein contained and including any agreement or other

document expressed to be supplemental thereto.

“**Deed of Transfer**” means each deed of transfer to be entered into between the Issuer and the Originator in accordance with the terms and conditions of the Master Transfer Agreement in order to transfer each Portfolio.

“**Defaulted Instalment**” means any Instalment which remains unpaid for more than 180 days after the date scheduled for payment thereof in the relevant Lease Contract or which arises out from Lease Contracts which have been classified as *sofferenze* pursuant to the Collection Policies.

“**Defaulted Lease Contract**” means a Lease Contract with respect to which there is at least one Defaulted Instalment and a number of Delinquent Instalments equal to or higher than (i) 6 (six) in relation to Lease Contracts which provide for monthly payments; (ii) 3 (three) in relation to Lease Contracts which provide for two-month payments; (iii) 2 (two) in relation to Lease Contracts which provide quarterly payments; or (iv) 1 (one) in relation to Lease Contracts which provide for semi-annual payments.

“**Defaulted Receivables**” means the Receivables which arise from Defaulted Lease Contracts, and “**Defaulted Receivable**” means each of them.

“**Deferred Purchase Price**” means the second portion, if any, of the purchase price due by the Issuer in respect of each Receivable being equal to the difference (if positive), on each Quarterly Payments Report Date with reference to the immediately following Quarterly Payment Date, between:

- (i) the Issuer Available Funds, and
- (ii) the sum of any amount due and payable on such Quarterly Payment Date by the Issuer out of the Issuer Available Funds in priority to the Deferred Purchase Price in accordance with the applicable Priority of Payments,

provided that, in case such definition is referred to a single Portfolio, it will indicate the sum of the Deferred Purchase Prices of the Receivables comprised in such Portfolio.

“**Delinquency Ratio**” means, on each Quarterly Settlement Date, the ratio between:

- (a) the Outstanding Amount of all the Receivables arising from Delinquent Lease Contracts comprised in the Collateral Portfolio as of the last day of the relevant Quarterly Settlement Period; and
- (b) the Outstanding Amount of all the Receivables comprised in the Collateral Portfolio as of the last day of the relevant Quarterly Settlement Period, *provided that* the Outstanding Amount of the Receivables part of the Additional Portfolio shall be taken into account for the computation of this item (b) only starting from the Quarterly Settlement Date falling on, or immediately after, the 1<sup>st</sup> month succeeding the relevant Further Portfolio Transfer Date.

“**Delinquent Instalment**” means, in respect of any Receivables, any Instalment which remains unpaid by the related Lessee for 30 days or more after the scheduled date for payment thereof and which is not a Defaulted Instalment.

“**Delinquent Lease Contract**” means a Lease Contract with respect to which there is one or more Delinquent Instalment(s) but which is not a Defaulted Lease Contract.

“**DK Guarantees**” means any guarantee issued by a bank in favour of the Originator (a) to secure the payment of the amount due by a Lessee under the relevant Leasing Contract, and (b) qualified by the Originator as “DK Guarantee” (and such qualification has been notified to the Issuer).

“**EIB**” means the European Investment Bank.

“EIF” means European Investment Fund, an international financial institution, having its registered office at 96 Boulevard Konrad Adenauer, L-2968 Luxembourg, Grand Duchy of Luxembourg.

“**Eligibility Criteria**” (*Criteria*) means the objective criteria for the identification of the Receivables comprised in each Portfolio, as set out in the Master Transfer Agreement and the relevant Offer Notice.

“**Eligible Account**” means each of the Collection Account, the Payments Account, the Debt Service Reserve Account, the Principal Accumulation Account and the Investment Account, and “**Eligible Accounts**” means all of them.

“**Eligible Institution**” means any depository institution organised under the laws of any State which is a member of the European Union or of the United States with at least the following ratings:

- (i) with respect to S&P: a long-term rating of at least “A” or, in case its short term rating is not at least equal to “A-1”, a long-term rating of at least “A+”; and
- (ii) with respect to Moody’s: a short term rating of at least “P-1” and a long-term rating of at least “A2”.

“**Eligible Investments**” means:

- (1) any Euro denominated senior (unsubordinated) debt security, bank account deposit (including, for the avoidance of doubt, time deposits) or other debt instrument or repurchase transactions on such debt instruments having the following characteristics:
  - (a) the debt securities or other debt instruments are issued by or in the case of time deposits are held with, or fully and unconditionally guaranteed on an unsubordinated basis by, an institution whose unsecured and unsubordinated debt obligations are rated at least either:
    - (A) to the extent such Eligible Investment has a maturity not exceeding 30 calendar days, (i) “A-1” by S&P in respect of short-term debt or “A-” by S&P in respect of long-term debt; and (ii) “P-1” by Moody’s in respect of short-term debt or “A3” by Moody’s in respect of long-term debt;
    - (B) to the extent such Eligible Investment has a maturity exceeding 30 calendar days, (i) “A” by S&P in respect of long-term debt, or, in case the relevant short term rating is not at least equal to “A-1”, a long-term rating of at least “A+”; and (ii) “P-1” by Moody’s in respect of short-term debt and “A2” by Moody’s in respect of long-term debt; and
  - (b) such investments are (i) immediately repayable on demand, disposable without penalty or have a maturity date falling on or before the next succeeding Eligible Investment Maturity Date and (ii) have, prior to the redemption in full of the Notes, at any time a fixed principal amount at maturity at least equal to the principal amount invested or in case of repayment or disposal, the principal amount upon repayment or disposal is at least equal to the principal amount invested, or
- (2) any Euro denominated money market funds which permit daily liquidation of investments and which (i) are rated AAAM by S&P and (ii) are rated Aaa/MR1+ by Moody’s;

*provided that*, such investments:

- (a) in no case shall be made, in whole or in part, actually or potentially, in (A) tranches of other asset-backed securities; or (B) credit-linked notes, swaps or other derivatives

instruments, or synthetic securities; or (C) any other instrument not allowed by the European Central Bank monetary policy regulations applicable from time to time for the purpose of qualifying the Senior Notes as eligible collateral;

- (b) in any case, if consisting of repurchase transactions shall be made with a repo counterparty being an Eligible Institution; and
- (c) in case of downgrade below the rating allowed with respect to S&P or Moody's, the Issuer shall sell the securities, if it could be achieved without a loss, otherwise the relevant security shall be allowed to mature.

**"Eligible Investment Maturity Date"** means the Business Day prior to each Quarterly Payments Report Date, or as applicable, Monthly Payments Report Date.

**"English Account Bank"** means BNYM London Branch, or any other entity acting, from time to time, as English account bank pursuant to the Cash Allocation, Management and Payment Agreement.

**"English Account Bank Report"** means the report setting out the details of the Eligible Investments which shall be delivered by the English Account Bank to the Issuer, the Cash Manager, the Calculation Agent, the Representative of the Noteholders and the Corporate Services Provider, no later than one Business Day prior to each Quarterly Servicer Report Date, or, as applicable, Monthly Servicer Report Date (or at any time upon request by the Representative of the Noteholders) according to article 7.9. (*English Account Bank Report*) of the Cash Allocation Management and Payment Agreement.

**"Equipment Pool"** means the Pool No. 2.

**"EURIBOR"** means the Euro-Zone inter-bank offered rate for three month Euro deposits, as it appears on the Reuters page Euribor 01 (*Tasso Telematico*) or (aa) such other page as may replace Reuters page Euribor01 on that service for the purpose of displaying such information or (bb) if that service ceases to display such information, such page as displays such information on such equivalent service (or, if more than one, that one which is approved by the Representative of the Noteholders, with the prior written consent of the Class A Guarantor provided that it is the Controlling Party) as may replace the Reuters page Euribor01 at or about 11.00 a.m. (Brussels time) on the relevant date from which interests start to accrue.

**"Euro"**, **"€"** and **"cents"** refer to the single currency introduced in the Member States of the European Community which adopted the single currency in accordance with the Treaty of Rome of 25 March 1957, as amended by, *inter alia*, the Single European Act 1986, the Treaty of the European Union of 7 February 1992 establishing the European Union and the European Council of Madrid of 16 December 1995, and lawful currency in the Republic of Italy since 1 January 2002.

**"Euroclear"** means Euroclear Bank S.A./N.V. with registered office at 1 Boulevard du Roi Albert II, B - 1210 Brussels, as operator of the Euroclear System.

**"European Union Insolvency Regulation"** means European Council Regulation (EC) No. 1346 of 29 May 2000 on insolvency proceeding, as amended and supplemented from time to time.

**"Euro-Zone"** means the region comprised of Member States of the European Union that adopted the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992).

**"Excess Indemnity Amount"** means the excess indemnity amount to be paid by the Issuer to the Originator in accordance with clause 16 (*Importi recuperati in relazione ai crediti a seguito di azione esecutive*) of the Servicing Agreement.

**"Excluded Industries"** means the Industries identified by the following Ateco codes: 68, 411, 412, 551, 552, 681, 682, 683, 4.110, 4.120, 4.312, 4.329, 4.339, 4.399, 5.510, 5.520, 6.810,

6.820, 6.831, 6.832, 41.100, 41.200, 43.120, 43.290, 43.390, 43.990, 55.100, 55.201, 55.202, 55.203, 55.204, 55.205, 68.100, 68.200, 68.310, 68.320, 411.000, 412.000, 431.200, 432.901, 432.902, 432.909, 433.901, 433.909, 439.901, 439.902, 439.909, 551.000, 552.010, 552.020, 552.030, 552.040, 552.051, 552.052, 681.000, 682.001, 682.002, 683.100, 683.200.

**“Expected Maturity Extension Date”** means:

- (i) in respect of the Series 1 Notes, the Series 1 Expected Maturity Extension Date; and
- (ii) in respect of the Series 2 Notes, the Series 2 Expected Maturity Extension Date.

**“Expected Maturity Extension Indemnity”** means the amount that the Issuer shall pay to the relevant Senior Noteholders on each Quarterly Payment Date starting from the Quarterly Payment Date falling after, as applicable, the Series 1 Expected Maturity Extension Date and the Series 2 Expected Maturity Extension Date, in connection with the extension of the expected maturity of, respectively, the Series A1 Notes and the Series A2 Notes as a consequence of the non-exercise by the Issuer of the Optional Redemption of the Notes with respect to the immediately preceding Quarterly Payment Date, and being equal to 0.20% multiplied by the Principal Amount Outstanding of the relevant Senior Notes as at such preceding Quarterly Payment Date (following payments to be made on such preceding Quarterly Payment Date in accordance with the applicable Priority of Payments).

**“Expenses”** means any documented fees, costs and expenses required to be paid to any third party creditor (other than the Noteholders and the Other Issuer Creditors) arising in connection with the Transaction, and any other documented costs and expenses required to be paid in order to preserve the existence of the Issuer or to maintain it in good standing, or to comply with applicable legislation.

**“Expenses Account”** means the Euro denominated account opened with Banca Antonveneta S.p.A., Conegliano Branch, IBAN IT 71 Z 05040 61621 000001307361 or any other account opened in accordance with the Cash Allocation, Management and Payment Agreement.

**“Extraordinary Resolution”** means a resolution passed at a Meeting of the relevant Noteholders, duly convened and held in accordance with the provisions contained in the Rules of the Organisation of the Noteholders, by a majority of not less than three quarters of the votes cast.

**“Facility Availability Period”** means the period commencing on the Series 1 Expected Maturity Extension Date (excluded) and ending on the Cancellation Date (excluded), or, if earlier, upon redemption in full of the Senior Notes.

**“Final Cancellation Date”** has the meaning ascribed to that term in the Class A Guarantee and Deed of Undertaking.

**“Final Maturity Date”** means the Quarterly Payment Date falling in July 2040.

**“Final Redemption Date”** means the earlier to occur between: (i) the date when any amount payable on the Receivables will have been paid, and (ii) the date when all the Receivables then outstanding will have been entirely written off or sold by the Issuer.

**“Financial Laws Consolidated Act”** means Italian Legislative Decree No. 58 of 24 February 1998, as amended and supplemented from time to time.

**“First Junior Notes Subscription Agreement”** means the junior notes subscription agreement in relation to the Series B1 Notes entered into on or about the Initial Issue Date, between the Issuer, the Junior Notes Underwriter, the Originator, the Calculation Agent and the Representative of the Noteholders, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto and regulating, *inter alia*, the terms and conditions for the subscription and issuance of the Series B2 Notes.

**“First Monthly Settlement Date”** means the day falling on 28 February 2013.

“**First Quarterly Payment Date**” means the Quarterly Payment Date falling on 29 April 2013.

“**First Quarterly Settlement Date**” means the day falling on 31 March 2013.

“**First Senior Notes Subscription Agreement**” means the senior notes subscription agreement in relation to the Series A1 Notes entered into on or about the Initial Issue Date, between the Issuer, the Senior Notes Underwriter, the Originator, the Calculation Agent and the Representative of the Noteholders, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto and regulating, *inter alia*, the terms and conditions for the subscription and issuance of the Series A2 Notes.

“**First Subscription Agreements**” means the First Senior Notes Subscription Agreement and the First Junior Notes Subscription Agreement.

“**Fixed Rate Lease Contracts**” means the Lease Contracts which provide for fixed interest rate.

“**Floating Rate Lease Contracts**” means the Lease Contracts which provide for floating interest rate.

“**Formalities**” means with regard to each Portfolio, jointly (i) the publication of the notice of the assignment of the relevant Portfolio in the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) and (ii) the deposit of the request of registration of such notice with the competent companies' register.

“**FSMA**” means the Financial Services and Markets Act 2000.

“**Further Notes**” has the meaning ascribed to such term in the Intercreditor Agreement.

“**Further Portfolio**” means the Additional Portfolio or any of the Subsequent Portfolio, as the case may be.

“**Further Portfolio Sale Conditions**” means each of the “*Condizioni Per Procedere All'acquisto dei Portafogli Successivi*” as set out in schedule 2 of the Master Transfer Agreement.

“**Further Portfolio Transfer Date**” means in respect of the Additional Portfolio or a Subsequent Portfolio, as the case may be, the date on which the Originator has received by the Issuer the notice of the relevant acceptance of the transfer pursuant to the Master Transfer Agreement.

“**Further Securities**” has the meaning ascribed to such term in the Intercreditor Agreement.

“**Further Securitisation**” means any further securitisation transaction which may be carried out by the Issuer pursuant to the Securitisation Law and in accordance with Condition 5.2 (*Covenants - Further Securitisations*).

“**Gross Cumulative Default Ratio**” means, on each Monthly Settlement Date during the Ramp-Up Period or on each Quarterly Settlement Date, as the case maybe, the ratio between: (a) the aggregate of the Outstanding Amount (as of the date on which the relevant Lease Contract have become Defaulted Lease Contract) related to all the Receivables comprised in the Portfolios arising from Lease Contracts which have become Defaulted Lease Contracts in the period starting from the Valuation Date of the Initial Portfolio (excluded) and ending on such Monthly Settlement Date or Quarterly Settlement Date, as the case maybe (included); and (b) the aggregate of the Outstanding Principal of the Receivables comprised in the Initial Portfolio and in the Additional Portfolio (as the case may be) each at the relevant Valuation Date, *provided that* the Outstanding Principal of the Receivables comprised in the Additional Portfolio shall be taken into account for the computation of this item (b) only starting from the Monthly Settlement Date falling on, or immediately after, the 3<sup>rd</sup> month succeeding the Further Portfolio Transfer Date related to the Additional Portfolio.

“**Guarantee Discharge Date**” means the date on which all amounts due and payable by and to

the Class A Guarantor pursuant to the Class A Guarantee and Deed of Undertaking have been satisfied in full.

**“Guaranteed Interest Amount”** means, in respect of each Guaranteed Interest Due Date, any amount (if positive) equal to (a) Class A Interest Amount for the relevant Quarterly Payment Date, less (b) the Class A Interest Available Funds for the relevant Quarterly Payment Date.

**“Guaranteed Interest Due Date”** means the later of (i) the Business Day prior to the relevant Quarterly Payment Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 (*Instructions and Payments*) of the Class A Guarantee and Deed of Undertaking, in respect of the relevant Quarterly Payment Date.

**“Guaranteed Payments Recipient”** means the Paying Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of a Trigger Notice) the Representative of the Noteholders.

**“Guaranteed Principal Amount”** means, in respect of the Guaranteed Principal Due Date, any amount (if positive) equal to (a) the Class A Principal Amount for the Final Maturity Date, less (b) the Class A Principal Available Funds for the Final Maturity Date.

**“Guaranteed Principal Due Date”** means the later of (i) the Business Day prior to the Final Maturity Date and (ii) the date occurring four Business Days following receipt by the Class A Guarantor from the Relevant Party of a duly completed and executed Class A Payment Demand, in accordance with clause 5 (*Instructions and Payments*) of the Class A Guarantee and Deed of Undertaking, in respect of the Final Maturity Date.

**“Guarantor”** means any person, other than the Debtor, who has granted any security in favour of the Originator in respect of any Receivables, or its permitted successors or assignees.

**“Indemnified Person”** has the meaning ascribed to such term under clause 13.1 (*Issuer’s indemnification undertaking*) of the First Senior Notes Subscription Agreement.

**“Indemnities”** means the “*Indennizzi da Perdita*” and the “*Indennizzi da Polizze*”, each terms as defined in the Master Definitions Agreement.

**“Index Rate”** means the base component of the interest rate applicable to each Floating Rate Lease Contract.

**“Industry”** means the economic sector where the Lessee carries out its business activity.

**“Initial Deed of Transfer”** means the Deed of Transfer entered into between the Issuer and the Originator on 13 February 2013 pursuant to the Master Transfer Agreement.

**“Initial Interest Period”** means the first Interest Period that shall begin, in relation to each Series of Notes, on (and include) the relevant Issue Date and end on (but exclude) the immediately following Quarterly Payment Date.

**“Initial Issue Date”** means 26 February 2013, or any other subsequent date agreed in writing among the Issuer and the Senior Notes Underwriter.

**“Initial Portfolio”** means the initial portfolio of Receivables purchased by the Issuer pursuant to the Master Transfer Agreement and the Initial Deed of Transfer.

**“Initial Portfolio Transfer Date”** means, in respect of the Initial Portfolio, the date on which the Originator has received by the Issuer the notice of the relevant acceptance pursuant to the Master Transfer Agreement.

**“Initial Purchase Price”** means in respect of each Receivable the initial purchase price due by the Issuer in relation to each Receivable, equal to the Outstanding Principal of such Receivable as of the relevant Valuation Date or, in case such term is referred to a Portfolio, the sum of the initial purchase price of the Receivables comprised in such Portfolio.

**“Initial Purchase Price of the Initial Portfolio”** means Euro 149,241,765.14.

“**Insolvency Event**” means in respect of any company or corporation that:

- (a) such company or corporation has become subject to any applicable bankruptcy, liquidation, administration, insolvency, composition or reorganisation (including, without limitation, “*fallimento*”, “*liquidazione coatta amministrativa*”, “*concordato preventivo*” and “*amministrazione straordinaria*”, each such expression bearing the meaning ascribed to it by the laws of the Republic of Italy, and including also any equivalent or analogous proceedings under the law of any jurisdiction in which such company or corporation is deemed to carry on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration) or similar proceedings or the whole or any substantial part of the undertaking or assets of such company or corporation are subject to a *pignoramento* or similar procedure having a similar effect (other than in the case of the Issuer, any portfolio of assets purchased by the Issuer for the purposes of further securitisation transactions), unless in the reasonable opinion of the Representative of the Noteholders, such proceedings are being disputed in good faith with a reasonable prospect of success; or
- (b) an application for the commencement of any of the proceedings under (a) above is made in respect of or by such company or corporation or such proceedings are otherwise initiated against such company or corporation and, in the reasonable opinion of the Representative of the Noteholders, the commencement of such proceedings are not being disputed in good faith with a reasonable prospect of success; or
- (c) such company or corporation takes any action for a re-adjustment of deferment of a substantial part of its obligations or makes a general assignment or a general arrangement or composition with or for the benefit of its creditors (other than, in the case of the Issuer, the Other Issuer Creditors) or is granted by a competent court a moratorium in respect of a substantial part of its indebtedness or any guarantee of any indebtedness given by it or applies for suspension of payments; or
- (d) an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution in any form of such company or corporation (except a winding-up for the purposes of or pursuant to a solvent amalgamation or reconstruction) or any of the events under Article 2484 of the Italian civil code occurs with respect to such company or corporation.

“**Instalment**” means each periodic lease instalment (excluding in any case the Residual Optional Instalment) due from Lessees under the Lease Contracts (net of VAT) the Receivables of which have been assigned under the terms of the Master Transfer Agreement. In case the receivables arising out of any Lease Contract are assigned only in part to the Issuer, Instalment shall mean only such periodic lease instalments which are included in the object of the relevant assignment.

“**Instructions**” means any written notices, written directions or written instructions received by the Agents in accordance with the provisions of the Intercreditor Agreement from an Authorised Person or from a person reasonably believed by the Agents to be an Authorised Person.

“**Insurance Policy**” means any insurance policies executed by a Debtor or by the Originator with respect to, or as condition of, a Lease Contract, including, without limitation, the policies for the coverage of the risks regarding the Assets.

“**Intercreditor Agreement**” means the intercreditor agreement entered into on or about the Initial Issue Date between the Issuer and the Other Issuer Creditors, as amended from time to time in accordance with the provisions contained therein and including any agreement or other document expressed to be supplemental thereto.

“**Interest Amount**” means the Euro amount accrued on the Notes in respect of each Interest Period, calculated according to Condition 7.3 (*Interest - Determination of the Rate of Interest*

and Calculation of the Interest Amount).

“**Interest Available Funds**” means, on the Monthly Payments Report Date, the aggregate of the interest component of all the Collections received by the Servicer in respect of the Monthly Settlement Period(s) falling after (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date.

“**Interest Determination Date**” means (i) with respect to the Initial Interest Period the date falling two Business Days prior to the relevant Issue Date, and (ii) with respect to each subsequent Interest Period, the date falling two Business Days prior to the Quarterly Payment Date at the beginning of such Interest Period.

“**Interest Period**” means (a) the Initial Interest Period, and (b) each interest period from (and including) a Quarterly Payment Date to (but excluding) the next following Quarterly Payment Date.

“**Investment Account**” means the Euro denominated account opened with the English Account Bank IBAN: GB74IRVT70022553090880 or any other account opened with any Eligible Institution in accordance with the Cash Allocation, Management and Payment Agreement.

“**Investor Report**” means the quarterly report setting out certain information with respect to the Portfolios and the Notes which shall be delivered by the Calculation Agent to, *inter alios*, the Issuer, the Representative of the Noteholders, the Servicer, the Paying Agent, the Account Banks, the Cash Manager, the Corporate Services Provider, the Class A Guarantor, the Senior Notes Underwriter, the Rating Agency and the Originator on each Investor Report Date pursuant to the Cash Allocation, Management and Payments Agreement.

“**Investor Report Date**” means the fifth Business Day after each Quarterly Payment Date.

“**Irish Agent**” means BNYM Irish or any other entity acting as irish agent pursuant to the Cash Allocation, Management and Payment Agreement from time to time.

“**Issue Date**” means the Initial Issue Date or the Subsequent Issue Date, as the case may be.

“**Issue Price**” means 100 per cent.

“**Issuer**” means Alba 4 SPV.

“**Issuer Available Funds**” means, on each Quarterly Payment Date, the aggregate amounts (without duplication) of:

- (a) all Collections received in respect of the immediately preceding Quarterly Settlement Period pursuant to the Servicing Agreement and credited to the Collection Account (including, for the avoidance of doubt, penalties and/or the Agreed Prepayments received and any other sums paid by the Lessees pursuant to the relevant Lease Contracts in respect of the Receivables), *less* any Principal Collections which has been applied (as Principal Available Funds) on the Monthly Payment Date falling in the Interest Period ending on such Quarterly Payment Date, towards payment of the Portion of the Initial Purchase Price of the Additional Portfolio;
- (b) all Recoveries received in respect of the immediately preceding Quarterly Settlement Period pursuant to the Servicing Agreement and credited to the Collection Account;
- (c) all amounts received by the Issuer from the Originator pursuant to the Master Transfer Agreement or by the Servicer pursuant to the Servicing Agreement during the immediately preceding Quarterly Settlement Period (other than the Collections and the Recoveries) and credited to the Payments Account;
- (d) any interest accrued and credited on the Accounts (other than the Expenses Account and the Quota Capital Account) as of the last day of the immediately preceding Quarterly Settlement Period;

- (e) any amounts credited into the Debt Service Reserve Account during the Interest Period ending on such Quarterly Payment Date (excluded);
- (f) the net proceeds deriving from the Eligible Investments made out of the funds standing to the credit of the Accounts (other than the Expenses Account and the Quota Capital Account) in respect of the Quarterly Settlement Period immediately preceding such Quarterly Payment Date;
- (g) any amount credited to the Principal Accumulation Account on the immediately preceding Quarterly Payment Date under item (viii) of the Pre-Enforcement Priority of Payments and not utilised by the Issuer to pay the Initial Purchase Price of a Subsequent Portfolio and/or the Portion of the Initial Purchase Price of the Additional Portfolio, as the case may be prior to such Quarterly Payment Date;
- (h) following delivery of a Trigger Notice or upon exercise of the Optional Redemption or Redemption for Taxation, all proceeds from the sale of the Receivables (also if credited to the Accounts following the Quarterly Settlement Date immediately preceding such Quarterly Payment Date);
- (i) starting from the Quarterly Payment Date immediately following any relevant Expected Maturity Extension Date (included) and only towards payments under item (vi)(b) of the applicable Priority of Payments any Advance made by the Subordinated Loan Provider under the Subordinated Loan;
- (l) any other amount received in respect of the Securitisation during the Quarterly Settlement Period immediately preceding such Quarterly Payment Date, not included in any of the items above (but excluding any amount expressly excluded from the Issuer Available Funds pursuant to any of the items above and below);

*but excluding:* (i) any Residual Optional Instalment collected by the Issuer in the immediately preceding Quarterly Settlement Period and (ii) any Excess Indemnity Amount.

**“Issuer's Rights”** means any and all the Issuer's rights and powers under the Transaction Documents.

**“Italian Account Bank”** means BNYM Italian Branch or any other entity acting as Italian account bank pursuant to the Cash Allocation, Management and Payment Agreement from time to time.

**“Italian Bankruptcy Law”** means Royal Decree No. 267 of 16 March 1942, as amended and supplemented from time to time.

**“Junior Noteholder”** means any holder of a Junior Note and **“Junior Noteholders”** means all of them.

**“Junior Notes”** means, collectively, the Series B1 Notes and the Series B2 Notes.

**“Junior Notes Underwriter”** means Alba Leasing.

**“Late Payments”** means payments in respect of Receivables which have been made after the due date thereof.

**“Latest Report”** means the latest available Quarterly Servicer Report.

**“Lease Contract”** means each financial leasing agreement between the Originator and a Lessee for the lease of an Asset (as subsequently amended and supplemented), from which the Receivables comprised in the Portfolios (satisfying and as selected pursuant to the Eligibility Criteria) arise.

**“Lessees”** means the parties which have signed the Lease Contracts with the Originator, and **“Lessee”** means each of them.

**“Letter of Undertaking”** means the letter of undertaking entered into on or about the Initial Issue Date among the Issuer, the Representative of the Noteholders and the Originator, in

accordance with the provisions therein contained, and including any agreement or other document expressed to be supplemental thereto.

**“Loan Principal Amount Outstanding”** means, on any given date, the principal amount outstanding of the Subordinated Loan, being equal to the aggregate of any Advance drawn up to any such given date, less the aggregate amount of all principal repayments which have been made in respect of the Subordinated Loan up to any such given date.

**“Local Business Day”** means any day (other than Saturday or Sunday) on which banks are open for business in Milan and the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET 2) System (or any successor thereto) is open.

**“Mandate Agreement”** means the mandate agreement entered into on or about the Initial Issue Date between the Issuer and the Representative of the Noteholders, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

**“Master Definitions Agreement”** means the master definitions agreement entered into on or about the Initial Issue Date between all the parties to each of the Transaction Documents, as from time to time modified in accordance with the provisions therein contained and including any agreement, deed or other document expressed to be supplemental thereto.

**“Master Transfer Agreement”** means the master transfer agreement entered into on the Signing Date, as amended from time to time in accordance with the provisions contained therein, between the Issuer and the Originator setting forth the terms and conditions of the transfer from the Originator to the Issuer of the Initial Portfolio, the Additional Portfolio and any Subsequent Portfolio pursuant to the Subsequent Deeds of Transfer, and including any agreement or other document expressed to be supplemental thereto.

**“Material Adverse Effect”** means any event which – in the opinion of the Representative of the Noteholders (acting reasonably) - has a material and adverse effect on (a) the Issuer financial condition or operations or its ability to comply with its payment obligations in respect of the Notes, or (b) the Originator ability to comply with its obligations in respect of the Transaction Documents.

**“Maximum Purchase Amount”** means on each Quarterly Payments Report Date and with reference to the immediately succeeding Quarterly Payment Date during the Revolving Period, the Principal Deficiency Amount, provided that, with reference to the Series 1 First Amortisation Date, the Maximum Purchase Amount shall be equal to the Principal Deficiency Amount minus the Series 1 First Amortisation Amount.

**“Meeting”** means a meeting of Noteholders duly convened (whether originally convened or resumed following an adjournment) and held in accordance with the provisions contained in the Rules of the Organisation of the Noteholders.

**“Minimum Rating”** means (a) a short-term rating at least equal to “A-3” by S&P and (b) a long-term rating at least equal to “BBB-” by S&P.

**“Monte Titoli”** means Monte Titoli S.p.A..

**“Monte Titoli Account Holder”** means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli.

**“Monthly Payment Date”** means the 27<sup>th</sup> day of each calendar month (other than months on which a Quarterly Payment Date falls) of each year, or any other later date of the issuance of the Series 2 Notes under the terms of the Subscription Agreements (or, if such day is not a Business Day, the immediately following Business Day).

**“Monthly Payments Report”** means the monthly report setting out all payments and information set forth in the Cash Allocation, Management and Payments Agreement.

**“Monthly Payments Report Date”** means the date falling 5 (five) Business Days prior to the

Monthly Payment Date being the Subsequent Issue Date (without taking into account any deferral in the Monthly Payment Date in accordance with the Subscription Agreements).

“**Monthly Servicer Report**” means a report which the Servicer has undertaken to deliver on the Monthly Servicer Report Date with respect to the Subsequent Issue Date, setting out the performance of the Receivables, to be prepared substantially in the form of schedule 3 of the Servicing Agreement.

“**Monthly Servicer Report Date**” means the fifth Local Business Day following the Monthly Settlement Date that falls immediately prior to the Monthly Payment Date being the Subsequent Issue Date (without taking into account any deferral in the Monthly Payment Date in accordance with the Subscription Agreements).

“**Monthly Settlement Date**” means the last day falling at the end of each calendar month.

“**Monthly Settlement Period**” means each one month period commencing on (but excluding) a Monthly Settlement Date and ending on (and including) the immediately following Monthly Settlement Date, provided that the first Monthly Settlement Period commences on the Valuation Date of the Initial Portfolio (excluded) and ends on the First Monthly Settlement Date (included).

“**Moody's**” means Moody's Investors Service.

“**Most Senior Class of Noteholders**” means, at any given date, the holders of the Most Senior Class of Notes.

“**Most Senior Class of Notes**” means the Class of Notes outstanding which ranks highest in accordance with the applicable Priority of Payments.

“**Motorvehicle Pool**” means the Pool No. 1.

“**Net Funding Amount**” has the meaning ascribed to that term in the First Subscription Agreements.

“**Norton Rose Opinion**” has the meaning set forth in subclause 9.4 of the Class A Guarantee and Deed of Undertaking.

“**Noteholders**” means the holders of the Senior Notes and the Junior Notes, collectively, and “**Noteholder**” means any of them.

“**Notes**” means, collectively, the Senior Notes and the Junior Notes issued from time to time, and “**Note**” means any of them.

“**Notice in GU**” means, in relation to each Portfolio, the notice published on the Official Gazette of the Republic of Italy (*Gazzetta Ufficiale della Repubblica Italiana*) of the transfer of the Receivables included in such Portfolio.

“**Offer Notice**” means in respect of each Portfolio, the relevant sale notice as provided for by the Master Transfer Agreement and “**Offer Notices**” means all of them.

“**Official Gazette**” means the *Gazzetta Ufficiale della Repubblica Italiana*.

“**Option Beneficiary**” means the Senior Notes Underwriter.

“**Option Completion Date**” means the date on which the sale of the relevant Senior Notes to Alba Leasing shall take place following the exercise of the Senior Notes Put Option or the Senior Notes Call Option (as the case may be), such date to be, in respect of each Series of Notes:

- (i) the relevant Expected Maturity Extension Date, in case Alba Leasing or the Option Beneficiary (as the case may be) receives the relevant Option Notice prior to the relevant Expected Maturity Extension Date; and
- (ii) the Quarterly Payment Date specified by the Option Beneficiary or by Alba Leasing (as the case may be) in the relevant Option Notice, in case such Option Notice is received

on or after the relevant Expected Maturity Extension Date.

“**Option Notice**” means the Call Option Notice or the Put Option Notice, as the case may be.

“**Option Period**” means the period comprised between the (i) relevant Expected Maturity Extension Date (included) and (ii) the date (excluded) on which the Option Beneficiary receives copy of the option notice relating to the Aggregate Portfolio Call Option, following the exercise of such option by Alba Leasing; *provided that* if, following the delivery of such notice, Alba Leasing does not repurchase the Aggregate Portfolio and does not pay to the Issuer the relevant repurchase price strictly in accordance with the terms and conditions of the Master Transfer Agreement, then the Option Period shall immediately restart and thereafter shall end on the Cancellation Date (excluded).

“**Optional Redemption**” has the meaning set out in Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*).

“**Organisation of the Noteholders**” means the association of the Noteholders, organised pursuant to the Rules of the Organisation of the Noteholders.

“**Originator**” means Alba Leasing.

“**Other Issuer Creditors**” means the Originator, the Representative of the Noteholders, the Paying Agent, the Irish Agent, the Calculation Agent, the Account Banks, the Servicer, the Cash Manager, the Corporate Services Provider, the Sole Quotaholder, the Back-Up Servicer, the Subordinated Loan Provider, the Senior Notes Underwriter, the Junior Notes Underwriter and the Class A Guarantor.

“**Other Vehicles Pool**” means the Pool No. 4.

“**Outstanding Amount**” means, on any date and with respect to each Receivable, the sum of:

- (a) all the Principal Instalments due but unpaid, outstanding as of such date pursuant to the amortisation schedule of the relevant Lease Contract, and
- (b) the Outstanding Principal.

“**Outstanding Guarantor Interest Payment Amount**” means, in respect of each Quarterly Payment Date, an amount equal to the aggregate of all Guaranteed Interest Amounts paid by the Class A Guarantor on any preceding Guaranteed Interest Due Date(s), less the aggregate of all payments already received by the Class A Guarantor from the Issuer under item (vi)(a) of the Pre-Enforcement Priority of Payment or, after service of a Trigger Notice, under item (vi)(a) of the Post-Enforcement Priority of Payment in respect of such amounts.

“**Outstanding Guarantor Principal Payment Amount**” means (a) in respect of each Quarterly Payment Date occurring after the Final Maturity Date, an amount equal to the Guaranteed Principal Amount paid by the Class A Guarantor on the Final Maturity Date, less the aggregate of all payments already received by the Class A Guarantor from the Issuer under item (x) of the Pre-Enforcement Priority of Payment or, after service of a Trigger Notice, under item (viii) of the Post-Enforcement Priority of Payment in respect of such amount or (b) in respect of each Quarterly Payment Date occurring after the Class A Prepayment Date, an amount equal to the Class A Prepayment Amount paid by the Class A Guarantor on the Class A Prepayment Date, less the aggregate of all payments already received by the Class A Guarantor from the Issuer under item (x) of the Pre-Enforcement Priority of Payment or, after the application of the Post-Enforcement Priority of Payment, under item (viii) of the Post-Enforcement Priority of Payment in respect of such amount (as the case may be).

“**Outstanding Principal**” means, on any date and with respect to each Receivable, the difference between

- (a) the sum of all the Instalments plus the Residual Optional Instalment that are not yet due as of such date pursuant to the amortization schedule of the relevant Lease Contract, discounted at the Contractual Interest Rate

and

(b) the Residual Optional Instalment.

“**Paying Agent**” means BNYM Italian Branch, or any other entity acting as paying agent pursuant to the Cash Allocation, Management and Payment Agreement from time to time.

“**Payments Account**” means the Euro denominated account IBAN: IT32C0335101600008411269780 opened with the Italian Account Bank or any other account opened in accordance with the Cash Allocation, Management and Payment Agreement with any Eligible Institution for the deposit, *inter alia*, of all amounts received from any party to a Transaction Documents to which the Issuer is a party, other than amounts expressly provided to be paid on other Accounts.

“**Payments Report**” means the Quarterly Payments Report or the Monthly Payments Report, as the case may be.

“**Payments Report Date**” (*Data del Rapporto di Pagamento*) means the Quarterly Payments Report Date or the Monthly Payments Report Date, as the case may be.

“**Pledged Claims**” has the meaning ascribed to such term in clause 2.1 (*Pledged Claims*) of the Deed of Pledge.

“**Pledgor**” means the Issuer.

“**Pool**” means, as the case may be, the Pool No. 1, the Pool No. 2, the Pool No. 3 and the Pool No. 4.

“**Pool No. 1**” means those Receivables originated under Lease Contracts the related Assets of which are vehicles, motor-vehicles, cars, light lorries, commercial vehicles, industrial vehicles or other motorised vehicles excluding aircrafts.

“**Pool No. 2**” means those Receivables originated under Lease Contracts the related Assets of which are instrumental assets (e.g. machinery, equipment and/or plants).

“**Pool No. 3**” means those Receivables originated under Lease Contracts the related Assets of which are real estate properties.

“**Pool No. 4**” means those Receivables originated under Lease Contracts the related Assets of which are ships, vessels or trains.

“**Portfolio**” means, as the case may be, the Initial Portfolio, the Additional Portfolio or any Subsequent Portfolio.

“**Portion of the Initial Purchase Price of the Additional Portfolio**” means, with reference to the Additional Portfolio, the portion of the Initial Purchase Price of such Portfolio to be paid out of the Principal Available Funds or the Issuer Available Funds, as the case may be, in accordance with the Transaction Documents.

“**Post-Enforcement Priority of Payments**” means the order of priority in which the Issuer Available Funds shall be applied after the delivery of a Trigger Notice in accordance with Condition 6.2 (*Priority of Payments - Post-Enforcement Priority of Payments*).

“**Pre-emption Right**” has the meaning ascribed to such term in clause 20.1(c) of the Intercreditor Agreement.

“**Pre-Enforcement Priority of Payments**” means the order of priority in which the Issuer Available Funds shall be applied prior to the delivery of a Trigger Notice in accordance with Condition 6.1 (*Priority of Payments - Pre-Enforcement Priority of Payments*).

“**Prepayment Amount**” means in relation to a Lease Contract, the amount payable to the Originator by the relevant Lessee upon the early termination of such Lease Contract, equal to the sum of:

(a) the accrued and unpaid instalments plus any relevant penalties; and

- (b) the nominal value of all future instalments and of the Residual Optional Instalment, discounted back at a rate which is equal to:
- (i) in case of a Floating Rate Lease Contract, the Index Rate provided in such Lease Contract for the calculation of the last Instalment paid (as of such early termination date) by the relevant Lessee, less 1%; and
  - (ii) in case of a Fixed Rate Lease Contract, the lower between,
    - (x) the three month Euribor calculated on the first Local Business Day of the month preceding the month on which the early repayment is being made, less 1%; and
    - (y) the three month Euribor rate applicable at the time of the execution of the relevant Lease Contract less 1%.

**“Principal Accumulation Account”** means the Euro denominated account IBAN: IT84D0335101600008411279780 opened with the Italian Account Bank or any other account opened with any Eligible Institution in accordance with the Cash Allocation, Management and Payment Agreement.

**“Principal Amount Outstanding”** means with respect to any Note on any date, the principal amount thereof upon issue less the aggregate amount of all principal repayments made in respect of that Note prior to such date.

**“Principal Available Funds”** means, on the Monthly Payments Report Date, the aggregate of (a) the principal component of all the Collections (including Agreed Prepayments and excluding, for the avoidance of doubt, the Residual Optional Instalment) (the **“Principal Collections”**) received by the Servicer in respect of the Monthly Settlement Period(s) falling after (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date; and (b) any amount credited to the Principal Accumulation Account on the immediately preceding Quarterly Payment Date under item (viii) of the Pre-Enforcement Priority of Payments and not utilised by the Issuer to pay the Initial Purchase Price of a Subsequent Portfolio, minus (c) the Provisioned Principal Amount.

**“Principal Deficiency Amount”** means the amount, as calculated by the Calculation Agent on each Quarterly Payments Report Date, based on the relevant Quarterly Servicer Report, with reference to the immediately succeeding Quarterly Payment Date, equal to the difference, if positive, between:

- (a) the Principal Amount Outstanding of the Notes on the Quarterly Payments Report Date immediately preceding such Quarterly Payment Date; and
- (b) the Outstanding Amount of the Receivables comprised in the Collateral Portfolio which do not derive from Delinquent Lease Contracts, as calculated with reference to the immediately preceding Quarterly Settlement Date, plus the amount to be credited into the Debt Service Reserve Account on such Quarterly Payment Date.

**“Principal Instalments”** means, with respect to each Receivable, the principal component of the Instalments of such Receivables (excluding for the avoidance of doubt the Residual Optional Instalment).

**“Priority of Payments”** means the Pre-Enforcement Priority of Payments or the Post-Enforcement Priority of Payments, as the case may be.

**“Privacy Law”** means (i) Italian Law No. 675 of 31 December 1996, (together with any relevant implementing regulations as integrated from time to time by the *Autorità Garante per la Protezione dei Dati Personali*) as subsequently amended, modified or supplemented from time to time, with reference to the period starting on the entry into force of such law and ending on the repealing of such law by the entry into force of Legislative Decree No. 196 of 30 June 2003, published in the Official Gazette No. 174 of 29 July 2003, Ordinary Supplement No.

123/L (the “**Personal Data Protection Code**”) and (ii) after such repeal of Italian Law n. 675 of 31 December 1996, the Personal Data Protection Code (together with any relevant implementing regulations as integrated from time to time by the *Autorità Garante per la Protezione dei Dati Personali*) as subsequently amended, modified or supplemented from time to time.

“**Pro Rata Share**” (*Quota Parte*) means, in respect of each Receivables, the percentage equivalent to the ratio between:

- (a) the sum of:
  - (i) the value, discounted at the relevant estimate date and determined in accordance with the relevant Index Rate, of the Instalments and of the Residual Optional Instalment not yet due as such date; and
  - (ii) the aggregate sum of all the Instalments and the Residual Optional Instalment comprised in such Receivable, due but unpaid as of such date and any relevant penalty payments (net of VAT); and
- (b) all Instalments and the Residual Optional Instalment comprised in such Receivable, not yet due, discounted at the relevant estimate date in accordance with the relevant Index Rate, plus the Instalments and the Residual Optional Instalment due but unpaid comprised in the Lease Contract, plus and any relevant penalty payments, plus the Residual Optional Instalment, plus accrued VAT.

“**Programme Termination Event**” means any of the events described in Condition 16 (*Programme Termination Event*).

“**Programme Termination Event Notice**” means the notice to be delivered to the Issuer, the Originator, the Servicer and the Calculation Agent by the Representative of the Noteholders upon occurrence of a Programme Termination Event, indicating that (i) the Programme Termination Event has occurred; (ii) the Originator is not anymore entitled to sell the Receivables to the Issuer (which is not anymore entitled to purchase Receivables from the Originator); (iii) the Revolving Period and the Ramp-Up Period have elapsed.

“**Prospectus**” means the prospectus relating to the Series 1 Notes approved by the Central Bank of Ireland and dated on or about the Initial Issue Date.

“**Prospectus Directive**” means Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 as amended thereto.

“**Provisioned Principal Amount**” means, on the Monthly Payments Report Date, the positive difference, if any, between (a) Euro 600,000 multiplied by the Provisioning Factor and (b) the Interest Available Funds with reference to such Monthly Payments Report Date.

“**Provisioning Factor**” means, on the Monthly Payments Report Date, the number of Monthly Settlement Period(s) elapsed since (i) the Valuation Date of the Initial Portfolio, in case the relevant Subsequent Issue Date falls prior to the First Quarterly Payment Date, or, (ii) otherwise, the Quarterly Settlement Date which immediately precedes the Subsequent Issue Date divided by 3 (three).

“**Purchase Price**” means the purchase price of the Initial Portfolio, the Additional Portfolio or any Subsequent Portfolio pursuant to clause 6.1 of the Master Transfer Agreement.

“**Purchase Price of the Residual Optional Instalment**” means, in respect of each Quarterly Payment Date and with respect to each Receivable, an amount equal to the Residual Optional Instalment of such Receivable collected by the Issuer upon the exercise by the relevant lessee of the option to purchase the relevant Asset, or in case such a term refers to a Portfolio, the sums of the purchase prices of the residual optional instalments of such Portfolio.

“**Purchase Termination Event**” means any of the events described in Condition 15 (*Purchase Termination Events*).

“**Purchase Termination Event Notice**” means the notice to be delivered to the Issuer, the Originator, the Senior Notes Underwriter and the Calculation Agent by the Representative of the Noteholders (if so directed by the Controlling Party) upon occurrence of a Purchase Termination Event, indicating that (i) the Revolving Period will end, (ii) the Originator will be no longer allowed to sell the Additional Portfolio or Subsequent Portfolios to the Issuer (which will be no longer allowed to purchase them from the Originator) and (iii) the Amortisation Period will begin.

“**Put Option Notice**” means a notice substantially in the form of Schedule 12 of the First Senior Notes Subscription Agreement.

“**Quarterly Payment Date**” means the First Quarterly Payment Date and thereafter the 27<sup>th</sup> day of January, April, July and October of each year or, if such day is not a Business Day, the immediately following Business Day.

“**Quarterly Payments Report**” means the quarterly report setting out all payments and information set forth in the Cash Allocation, Management and Payments Agreement.

“**Quarterly Payments Report Date**” means the date falling 5 (five) Business Days prior to each relevant Quarterly Payment Date.

“**Quarterly Servicer Report**” means a report which the Servicer has undertaken to deliver on each Quarterly Servicer Report Date, setting out the performance of the Receivables, to be prepared substantially in the form of schedule 2 of the Servicing Agreement.

“**Quarterly Servicer Report Date**” means the fifth Local Business Day following a Quarterly Settlement Date.

“**Quarterly Settlement Date**” means the last calendar day of March, June, September and December of each year.

“**Quarterly Settlement Period**” means each three months period commencing on (but excluding) a Quarterly Settlement Date and ending on (and including) the immediately following Quarterly Settlement Date, *provided that* the first Quarterly Settlement Period commences on the Valuation Date of the Initial Portfolio (excluded) and ends on First Quarterly Settlement Date (included).

“**Quota Capital Account**” means the Euro denominated account opened by the Issuer with Banca Antonveneta S.p.A., Conegliano Branch, IBAN IT 65 N 05040 61621 000001306896, to which the contributed quota capital of the Issuer is deposited, or any other account that shall be opened by the Issuer in substitution of such account in accordance with the Cash Allocation, Management and Payment Agreement.

“**Quotaholder Agreement**” means the quotaholder agreement entered into between the Issuer, the Representative of the Noteholders, and the Sole Quotaholder on or about the Initial Issue Date, including any agreement or other document expressed to be supplemental thereto.

“**Ramp-Up Default Thresholds**” means, with reference to each Monthly Settlement Date during the Ramp-Up Period and for the purpose of determining if the Gross Cumulative Default Ratio is triggered, the following percentage limits applicable for any relevant Monthly Settlement Date:

Monthly Settlement Date	Ramp-Up Default Threshold
28/02/2013	2.15%
31/03/2013	2.35%
30/04/2013	2.55%
31/05/2013	2.75%
30/06/2013	2.95%

“**Ramp-Up Period**” means the period commencing on the Initial Issue Date and ending on the Ramp-Up Period End Date.

“**Ramp-Up Period End Date**” means the earlier of (i) 30 July 2013, (ii) the date on which a Programme Termination Event Notice or a Trigger Notice is delivered (excluded), (iii) the date on which the Principal Amount Outstanding of the Senior Notes is equal to the Senior Notes Maximum Amount and (iv) the day immediately after the Subsequent Issue Date.

“**Rate of Interest**” shall have the meaning ascribed to it in Condition 7.2 (*Interest - Rate of Interest*).

“**Rating Agency**” means S&P.

“**Real Estate Pool**” means the Pool No. 3.

“**Receivable**” means with reference to each Portfolio, each and any claims (save as stated below) arising from the Lease Contracts (and each contract, deed, agreement or document related to those Lease Contracts), satisfying the relevant Eligibility Criteria of the relevant Portfolio on the relevant Valuation Date excluding any amount due before the relevant Valuation Date (excluded), including, without limitation:

- (i) the Instalments;
- (ii) the Agreed Prepayments and the Prepayment Amounts;
- (iii) the Residual Optional Instalment;
- (iv) default interest and/or other interest arising as a consequence of payment deferrals granted by the Originator, in each case, accrued and unpaid until the date of purchase of such Receivable and any other such interest payments which are to mature thereafter, on all amounts outstanding from the Lessees under the Lease Contracts;
- (v) amounts due as penalties;
- (vi) any increase in Instalments as a result of any amendment to the Lease Contracts;

but excluding in all cases:

- (a) amounts due by way of VAT;
- (b) expenses due by the Lessee pursuant to the relevant Lease Contract; and
- (c) default interests in respect of amounts due under (a) and (b) above,

provided always that if only part of the Instalments under a Lease Contract have been assigned, the receivables under item (iv) and (v) above will be deemed to have been assigned only with respect to the relevant Pro Rata Share.

“**Records**” has the meaning ascribed to such term in the Cash Allocation, Management and Payment Agreement.

“**Recoveries**” means the recoveries, surety payments, insurance proceeds and penalties received in respect of any Defaulted Receivables, and “**Recovery**” means each such recovery.

“**Recourse Amount**” has the meaning ascribed to such term in clause 13.4(a) of the Intercreditor Agreement.

“**Redemption for Taxation**” has the meaning set out in Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*).

“**Reference Banks**” means three (3) major banks in the Euro-Zone inter-bank market selected by the Issuer with the approval of the Representative of the Noteholders in accordance with Condition 7.7 (*Interest - Reference Banks and Paying Agent*). The initial Reference Banks shall be JP Morgan, BNP Paribas and Barclays Bank plc.

“**Regulation S**” means Regulation S promulgated under the U.S. Securities Act.

“**Regulation 22 February 2008**” means the regulation, regarding post-trading systems, issued by the Bank of Italy and the CONSOB on 22 February 2008, as subsequently amended and supplemented from time to time.

“**Release Date**” means the earlier of: (i) the Cancellation Date; and (ii) the Quarterly Payment Date during the Amortisation Period on which the Issuer Available Funds to be applied on such date, minus all payments or provisions to be made under item (i) to (vi) of the Pre-Enforcement Priority of Payments, are sufficient to redeem the Senior Notes in full and (iii) the Quarterly Payment Date immediately succeeding the service of a Trigger Notice.

“**Relevant CPs**” means all the conditions precedent to the issuance of the Series A2 Notes indicated under schedule 3 of the First Senior Notes Subscription Agreement (other than the condition precedent indicated under item 1(ii) (*Class A Guarantor Confirmation*) of such schedule) and the conditions precedent to the subscription of the Series A2 Notes indicated under n. 1 (*Transaction Documents of the Series A2 Notes*) and n. 6 (*Effective transfer of the Additional Portfolio*) of schedule 4 of the First Senior Notes Subscription Agreement.

“**Relevant CPs Notice**” means a notice confirming the satisfaction of the Relevant CPs to be sent in accordance with clause 3.2.4 (*Delivery of the Relevant CPs Notice*) of the First Senior Notes Subscription Agreement by the Issuer to the Senior Notes Underwriter and the Representative of the Noteholders with a copy to the Junior Notes Underwriter no later than 4:00 p.m. (Milan time) on the third Business Day prior to the Subsequent Issue Date detailed in the Series A2 Notes Subscription Request, or such later date on which all the Relevant CPs have been satisfied.

“**Relevant Documents**” has the meaning ascribed to such term in the Deed of Pledge.

“**Relevant Party**” means the Calculation Agent (acting as agent of the Representative of the Noteholders) or (following the delivery of a Trigger Notice or the failure of the Calculation Agent to deliver a Class A Payment Demand and/or to fulfill any other obligation under the Class A Guarantee and Deed of Undertaking provided that the Class A Guarantor has received such Trigger Notice or has been notified of such failure by the Representative of the Noteholders) the Representative of the Noteholders.

“**Relevant Trigger**” means, with reference to each Quarterly Settlement Date and for the purpose of determining if the Gross Cumulative Default Ratio is triggered, a percentage equal to 3.15%, as evidenced in the relevant Quarterly Servicer Report.

“**Representative of the Noteholders**” means Securitisation Services or any other entity acting as representative of the Noteholders pursuant to the Subscription Agreements and/or the Terms and Conditions from time to time.

“**Request**” means in relation to any Advance the request to be made substantially in the form of Schedule 1 (*Form of Request*) of the Subordinated Loan Agreement or in such other form as may be agreed from time to time by the parties of such agreement.

“**Requirements**” has the meaning ascribed to such term in clause 8 (*Notices*) of the Back-Up Servicing Agreement.

“**Residual Optional Instalment**” means the residual price (*riscatto*) due from a Lessee at the end of the contractual term of a Lease Contract (if the Lessee elects to exercise its option to purchase the related Asset) the Receivables of which have been assigned under the terms of the Master Transfer Agreement. In case the transfer of one or more Portfolios have as object only part of the receivables deriving from the relevant Lease Contracts, Residual Optional Instalments shall refer only to the one comprised in the relevant transfer.

“**Responsabile del Trattamento**” has the meaning ascribed to such term in clause 9.2 (*Confidentiality*) of the Corporate Services Agreement.

“**Retained Amount**” has the meaning ascribed to such term in clause 6.1 (c) of the Cash Allocation, Management and Payment Agreement.

“**Retention Amount**” means Euro 25,000.

“**Revolving Period**” means the revolving period, which will commence on the Initial Issue Date and will end on the Revolving Period End Date.

“**Revolving Period End Date**” means the earlier of (i) the date on which a Purchase Termination Event Notice or a Programme Termination Event Notice or a Trigger Notice is delivered (excluded) and (ii) the Quarterly Payment Date falling on or immediately after the expiry of the 180 day period beginning on the Subsequent Issue Date (included).

“**Rules of the Organisation of the Noteholders**” means the rules of the organisation of the Noteholders attached as Exhibit 1 to the Terms and Conditions, as from time to time modified in accordance with the provisions contained therein and including any agreement or other document expressed to be supplemental thereof.

“**S&P**” means Standard & Poor’s Credit Market Services Italy S.r.l.

“**Second Junior Notes Subscription Agreement**” means the junior notes subscription agreement in relation to the Series B2 Notes entered into on or about the Subsequent Issue Date, between the Issuer, the Junior Notes Underwriter, the Originator, the Calculation Agent and the Representative of the Noteholders (substantially in the form attached to the First Junior Notes Subscription Agreement), as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Second Senior Notes Subscription Agreement**” means the senior notes subscription agreement in relation to the Series A2 Notes entered into on or about the Subsequent Issue Date, between the Issuer, the Senior Notes Underwriter, the Originator, the Option Beneficiary, the Calculation Agent and the Representative of the Noteholders, (substantially in the form attached to the First Senior Notes Subscription Agreement) as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Second Subscription Agreements**” means the Second Senior Notes Subscription Agreement and the Second Junior Notes Subscription Agreement.

“**Secured Creditors**” means the Noteholders and the Other Issuer Creditors.

“**Secured Obligations**” means all of the Issuer’s obligations *vis-à-vis* the Secured Creditors under the Notes and the Transaction Documents.

“**Securitisation**” means the securitisation of the Receivables made by the Issuer through the issuance of the Notes pursuant to articles 1 and 5 of the Securitisation Law.

“**Securitisation Law**” means Italian Law No. 130 of 30 April 1999, as amended and supplemented from time to time.

“**Securitisation Services**” means Securitisation Services S.p.A., a joint stock company incorporated in the Republic of Italy with its registered office at Via Alfieri 1, 31015 Conegliano (TV), Italy, registered in the Register of Enterprises of Treviso with Tax and VAT registration number 03546510268, enrolled under number 31816 with the register held by the Bank of Italy pursuant to article 106 of Legislative Decree No. 385 of 1 September 1993 the Consolidated Banking Act and enrolled in the special register held by Bank of Italy pursuant to article 107 of the Consolidated Banking Act, share capital of Euro 1,595,055 fully paid-up, directed and coordinated (*soggetta all’attività di direzione e coordinamento*) by Finanziaria Internazionale Holding S.p.A..

“**Security**” means, collectively, the security created under the Deed of Pledge and under the Deed of Charge.

“**Security Documents**” means, collectively, the Deed of Pledge and the Deed of Charge.

“**Security Interest**” means any mortgage, charge, pledge, lien, right of set-off, special privilege (*privilegio speciale*), assignment by way of security, retention of title or any other security interest whatsoever or any other agreement or arrangement having the effect of conferring security.

“**Selmabipiemme**” means Selmabipiemme Leasing S.p.A., a company incorporated as a *società per azioni* under the laws of the Republic of Italy, with paid-in share capital of Euro 41,305,000, whose registered office is at Via Battistotti Sassi, 11/A, fiscal code and V.A.T. No. 00882980154, and enrolled in the register held by the Bank of Italy pursuant to article 107 of the Consolidated Banking Act, in its capacity as back-up servicer under the Back-Up Servicing Agreement.

“**Senior Noteholder**” means any holder of a Senior Note and “**Senior Noteholders**” means all of them.

“**Senior Notes**” means, collectively, the Series A1 Notes and the Series A2 Notes.

“**Senior Notes Call Option**” has the meaning ascribed to such term in the First Senior Notes Subscription Agreement related to the Senior Notes.

“**Senior Notes Maturity Date**” means the Quarterly Payment Date falling in April 2027.

“**Senior Notes Maximum Amount**” means Euro 150,000,000.

“**Senior Notes Maximum Amount Condition**” means the condition being fulfilled when, as at the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes, the sum of (i) the Principal Amount Outstanding of the Series A1 Notes and (ii) the Subscription Price of the Series A2 Notes is not higher than the Senior Notes Maximum Amount.

“**Senior Notes Put Option**” has the meaning ascribed to such term in the First Senior Notes Subscription Agreement.

“**Senior Notes Ratio**” means the percentage (as communicated by the Controlling Party to the Calculation Agent 6 (six) Business Days after receipt by the Class A Guarantor from the Originator of the data tape in relation to the Receivables included in the Additional Portfolio) set out in the Series 2 Notes Funding Request delivered by the Calculation Agent, on behalf of the Issuer, prior to the Subsequent Issue Date pursuant to the First Senior Notes Subscription Agreement, *provided that*, in any case, the ratio between (a) the Principal Amount Outstanding of the Senior Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes and (b) the Principal Amount Outstanding of the Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes, *less* the sum of (i) the amount credited into the Debt Service Reserve Account on the immediately preceding Quarterly Payment Date or, if lower, Euro 2,238,000 and (ii) the Series 2 Debt Service Reserve Amount, shall not be higher than 60%.

“**Senior Notes Ratio Limit Condition**” means the condition being fulfilled when the ratio between (a) the Principal Amount Outstanding of the Senior Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes and (b) the Principal Amount Outstanding of the Notes, as calculated with reference to the Subsequent Issue Date and taking into account the issuance of the Series 2 Notes, *less* the sum of (i) the amount credited into the Debt Service Reserve Account on the immediately preceding Quarterly Payment Date or, if lower, Euro 2,238,000 and (ii) the Series 2 Debt Service Reserve Amount is not higher than 60%.

“**Senior Notes Underwriter**” means Antalis.

“**Series 1 Expected Maturity Extension Date**” means 27 April 2015.

“**Series 1 First Amortisation Date**” means Quarterly Payment Date falling on 27 January 2014.

“**Series 1 First Amortisation Amount**” means an amount equal to Euro 5,000,000.

“**Series 1 Notes**” means, jointly, the Series A1 Notes and the Series B1 Notes.

“**Series 2 Debt Service Reserve Amount**” means an amount equal to the difference, if positive, between (a) the initial Principal Amount Outstanding of the Senior Notes issued on or prior to the Subsequent Issue Date, multiplied by 3.0%; and (b) the Debt Service Reserve Amount.

“**Series 2 Expected Maturity Extension Date**” means the Quarterly Payment Date falling on or immediately after the 24<sup>th</sup> month after the Subsequent Issue Date.

“**Series 2 Notes**” means, jointly, the Series A2 Notes and the Series B2 Notes.

“**Series 2 Notes Funding Request**” means a written communication to be provided, as the case may be, (i) 5 Business Days, in respect to the Series A2 Notes, or (ii) 7 Business Days, in respect to the Series B2 Notes, before the date indicated as Subsequent Issue Date, during the Ramp-Up Period, by the Issuer (through the Calculation Agent on its behalf), to the Senior Notes Underwriter and to the Junior Notes Underwriter in order to subscribe, respectively, for the Series A2 Notes and the Series B2 Notes.

“**Series 2 Notes Subscription Request**” means a written communication to be provided at least 31 days before the date indicated as Subsequent Issue Date, during the Ramp-Up Period, by the Issuer (through the Originator on its behalf) to the Senior Notes Underwriter and to the Junior Notes Underwriter in order to subscribe, respectively, for the Series A2 Notes and the Series B2 Notes.

“**Series A1 Notes**” means the Euro 74,600,000 Series A1 Guaranteed Asset Backed Floating Rate Notes due July 2040 issued on the Initial Issue Date.

“**Series A1 Noteholders**” means the ultimate owners of the Series A1 Notes, each a “**Series A1 Noteholder**”.

“**Series A2 Notes**” means the up to Euro 75,400,000 Series A2 Guaranteed Asset Backed Floating Rate Notes due July 2040 which the Issuer is entitled to issue on the Subsequent Issue Date, subject to and in compliance with the provision set forth in Condition 2 (*Issuance and Subscription of the Notes*) and in the First Senior Notes Subscription Agreement and the Second Senior Notes Subscription Agreement.

“**Series A2 Notes Funding Request**” has the meaning ascribed to that term in the First Senior Notes Subscription Agreement.

“**Series A2 Notes Subscription Request**” has the meaning ascribed to that term in the First Senior Notes Subscription Agreement.

“**Series A2 Notes Underwriter Confirmation**” has the meaning ascribed to that term in the First Senior Notes Subscription Agreement.

“**Series B1 Notes**” means the Euro 76,900,000 Series B1 Asset Backed Floating Rate Notes due July 2040 issued on the Initial Issue Date.

“**Series B1 Noteholders**” means the ultimate owners of the Series B1 Notes, each a “**Series B1 Noteholder**”.

“**Series B2 Notes**” means the up to Euro 176,800,000 Series B2 Asset Backed Floating Rate Notes due July 2040 which the Issuer is entitled to issue on the Subsequent Issue Date, subject to and in compliance with the provision set forth in Condition 2 (*Issuance and Subscription of the Notes*) and in the First Junior Notes Subscription Agreement and the Second Junior Notes Subscription Agreement.

“**Series B2 Notes Funding Request**” has the meaning ascribed to that term in the First Junior Notes Subscription Agreement.

“**Series B2 Notes Subscription Request**” has the meaning ascribed to that term in the First Junior Notes Subscription Agreement.

“**Series B2 Notes Underwriter Confirmation**” has the meaning ascribed to that term in the First Junior Notes Subscription Agreement.

“**Servicer**” means Alba Leasing or any other entity acting as Servicer pursuant to the Servicing Agreement from time to time.

“**Servicer Account**” means the Euro denominated account with IBAN: IT 27 K 05000 01600 CC0016764000 established in the name of the Servicer with the Servicer Account Bank, or with any other bank having the Minimum Rating, for the collection of the Receivables, managed by the Servicer pursuant to the Servicing Agreement.

“**Servicer Account Bank**” means the Istituto Centrale delle Banche Popolari Italiane (ICBPI) and any its successor and assignees.

“**Servicer Report Date**” means the Monthly Servicer Report Date or the Quartely Servicer Report Date, as the case may be.

“**Servicer Termination Event**” has the meaning ascribed to it in clause 11.2 of the Servicing Agreement.

“**Servicer’s Fee**” means the fee due to the Servicer pursuant to clause 10 of the Servicing Agreement.

“**Servicer's Reports**” means the Quarterly Servicer Report and the Monthly Servicer Report.

“**Services**” has the meaning ascribed to such term in clause 2 (*Appointment and Services of the Corporate Services Provider*) of the Corporate Services Agreement.

“**Servicing Agreement**” means the servicing agreement entered into on the Signing Date between the Issuer and the Servicer in order to administer and service the Receivables comprised in the Portfolios and as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Settlement Date**” means a Monthly Settlement Date or a Quarterly Settlement Date, as the case may be.

“**Settlement Period**” means the Monthly Settlement Period or the Quarterly Settlement Period, as the case may be.

“**Signing Date**” means 13 February 2013, being the date on which the Master Transfer Agreement and the Servicing Agreement have been entered into.

“**SocGen**” means Société Générale, a French limited liability company (société anonyme) whose registered office is at 29 Boulevard Haussman, 75009 Paris, France, and whose head office is at 17 cours Valmy, 97972 Paris-La Défense Cedex – France, enrolled in France in the Commercial Register under number 552120222.

“**Sole Quotaholder**” means SVM.

“**Specific Criteria**” means the criteria indicated in article 5.2.2 (*Criteri Specifici*) of the Master Transfer Agreement.

“**Specified Office**” means the office of (i) the Italian Account Bank located at Via Carducci No. 31, 20123 Milan, Italy; or (ii) the English Account Bank located at One Canada Square, London E14 5AL, United Kingdom; or (iii) the Paying Agent located at Via Carducci No. 31, 20123 Milan, Italy; or (iv) the Irish Paying Agent located at 4th Floor, Hanover Building, Windmill Lane, Dublin 2, Ireland; or (v) the Calculation Agent located at Via Alfieri 1, 31015 Conegliano (TV), Italy; or (vi) the Cash Manager located at Via Sile No.18, 20139 Milan, Italy, as the case may be, or the different offices changed in accordance with the Cash Allocation, Management and Payment Agreement.

“**Sub-Delegate**” has the meaning ascribed to it in clause 8 (*Sub-Delegation*) of the Corporate Services Agreement.

“**Subject Matter of the Mandate**” has the meaning ascribed to such term in clause 2.1 (*Subject Matter*) of the Mandate Agreement.

“**Subject Matter of the Pledge**” has the meaning ascribed to such term in article 1.1 of the Deed of Pledge.

“**Subordinated Loan**” means the limited recourse loan granted to the Issuer by the Subordinated Loan Provider pursuant to the Subordinated Loan Agreement.

“**Subordinated Loan Agreement**” means the subordinated loan agreement entered into on or about the Initial Issue Date between the Issuer and the Subordinated Loan Provider, as from time to time modified in accordance with the provisions therein contained and including any agreement or other document expressed to be supplemental thereto.

“**Subordinated Loan Provider**” means Alba Leasing, in its capacity as subordinated loan provider pursuant to the Subordinated Loan Agreement and any of its permitted successors and assignees.

“**Subscription Agreements**” means, collectively, the First Subscription Agreements and the Second Subscription Agreements.

“**Subscription Price**” means the Subscription Price of the Series A1 Notes, the Subscription Price of the Series A2 Notes, the Subscription Price of the Series B1 Notes and/or the Subscription Price of the Series B2 Notes, as the case may be.

“**Subscription Price of the Series 1 Notes**” means the subscription price of the Series 1 Notes to be paid subject to and in accordance with the terms of the First Subscription Agreements.

“**Subscription Price of the Series 2 Notes**” means the subscription price of the Series 2 Notes to be paid subject to and in accordance with the terms of the Subscription Agreements.

“**Subscription Price of the Series A1 Notes**” means the subscription price of the Series A1 Notes to be paid subject to and in accordance with the terms of the First Senior Notes Subscription Agreement .

“**Subscription Price of the Series A2 Notes**” means the subscription price of the Series A2 Notes to be paid subject to and in accordance with the terms of the First Senior Notes Subscription Agreement and the Second Senior Notes Subscription Agreement.

“**Subscription Price of the Series B1 Notes**” means the subscription price of the Series B1 Notes to be paid subject to and in accordance with the terms of the First Junior Notes Subscription Agreement.

“**Subscription Price of the Series B2 Notes**” means the subscription price of the Series B2 Notes to be paid subject to and in accordance with the terms of the First Junior Notes Subscription Agreement and the Second Junior Notes Subscription Agreement.

“**Subsequent Deed of Transfer**” means, each Offer Notice of the Additional Portfolio or a Subsequent Portfolio, as the case may be, and the relevant acceptance.

“**Subsequent Issue Date**” means, as the case maybe:

- (i) the Quarterly Payment Date, or any other later date of the issuance of the Series 2 Notes under the terms of the Subscription Agreements; or
- (ii) the Monthly Payment Date,

falling during the Ramp-Up Period, on which, subject to the requirements set out in Condition 2 (*Issuance and Subscription of the Notes*) and in the First Subscription Agreements, the Issuer will issue the Series 2 Notes.

“**Subsequent Portfolio**” means any portfolio of Receivables which will be purchased by the Issuer during the Revolving Period and which is not the Additional Portfolio.

“**Successor Corporate Services Provider**” has the meaning ascribed to such term in clause 11

(*Termination*) of the Corporate Services Agreement.

“**Successor Servicer**” has the meaning ascribed to definition “*Successore del Servicer*” contained in clause 11.4 of the Servicing Agreement.

“**Supervisory Regulations**” means the Supervisory Regulations for the Banks or the Supervisory Regulations for Financial Intermediaries as the context requires.

“**Supervisory Regulations for the Banks**” means (i) the “*Istruzioni di Vigilanza per le banche*” issued by the Bank of Italy by Circular No. 229 of 21 April 1999; and (ii) the “*Nuove disposizioni di vigilanza prudenziale per le banche*” issued by the Bank of Italy by Circular No. 263 of 27 December 2006, as amended and supplemented from time to time.

“**Supervisory Regulations for Financial Intermediaries**” means the “*Istruzioni di Vigilanza per gli Intermediari Finanziari*” issued by the Bank of Italy by Circular No. 216 of 5 August 1996, as amended and supplemented from time to time.

“**Supplemental Deed**” has the meaning ascribed to such term in the Exhibit 2 attached to the Deed of Pledge.

“**SVM**” means SVM Securitisation Vehicles Management S.r.l., a limited liability company with a sole quotaholder (*socio unico*), incorporated under the laws of the Republic of Italy, whose registered office is at Conegliano (TV), via V. Alfieri n. 1, Italy, Fiscal Code and enrolment with the Companies' Register of Treviso under No. 03546650262, with quota capital of Euro 30.000,00 fully paid-up.

“**Tax**” means any present or future tax, levy, impost, duty, charge, fee, deduction or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of any Tax Authority and **Taxes, taxation, taxable** and comparable expressions shall be construed accordingly.

“**Tax Authority**” means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world exercising a fiscal, revenue, customs or excise function including the Irish Revenue Commissioners, H.M. Revenue and Customs, the Italian Revenue Agency (*Agenzia delle Entrate*) and the Luxembourg direct and indirect tax administrations (*Administration des contributions directes* and *Administration de l'Enregistrement et des Domaines*).

“**Tax Deduction**” means any deduction or withholding for or on account of Tax.

“**Tax Event**” shall have the meaning ascribed to such term in Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*).

“**Terms and Conditions**” means these terms and conditions of the Series 1 Notes, and “**Condition**” means any of those.

“**Terms and Conditions of the Series 2 Notes**” means the terms and conditions of the Series 2 Notes which will be included in the Prospectus of the Series 2 Notes dated on or about the Subsequent Issue Date.

“**Tier 1 Capital Ratio**” means the ratio identified in the circular of the Bank of Italy No. 263 of 27 December 2006, as modified and supplemented from time to time, and by the law applicable from time to time.

“**Titolare del Trattamento**” has the meaning ascribed to such term in clause 9.2 (*Confidentiality*) of the Corporate Services Agreement.

“**Transaction**” means the securitisation transaction of the Receivables made by the Issuer through the issuance of the Notes.

“**Transaction Documents**” means the Master Transfer Agreement, the Initial Deed of Transfer, each Subsequent Deed of Transfer, the Servicing Agreement, the Back-Up Servicing

Agreement, the Intercreditor Agreement, the Cash Allocation, Management and Payment Agreement, the Mandate Agreement, the Deed of Pledge, the Deed of Charge, the Corporate Services Agreement, the Subscription Agreements, the Quotaholder Agreement, the Class A Guarantee and Deed of Undertaking, the Subordinated Loan Agreement, the Master Definitions Agreement, the Letter of Undertaking, the Terms and Conditions and any other deed, act, document or agreement executed in the context of the Securitisation, including for the avoidance of doubt any deed, act, document and agreement entered into in connection with the issuance and subscription of the Series 2 Notes.

“**Transaction Documents of the Series 1 Notes**” means the Master Transfer Agreement, the Initial Deed of Transfer, the Servicing Agreement, the Back-Up Servicing Agreement, the Intercreditor Agreement, the Cash Allocation, Management and Payment Agreement, the Mandate Agreement, the Deed of Pledge, the Deed of Charge, the Corporate Services Agreement, the First Subscription Agreements, the Quotaholder Agreement, the Class A Guarantee and Deed of Undertaking, the Subordinated Loan Agreement, the Master Definitions Agreement, the Letter of Undertaking, the Terms and Conditions of the Series 1 Notes and any other deed, act, document or agreement to be entered into in connection with the issuance and subscription of the Series 1 Notes.

“**Transaction Documents of the Series 2 Notes**” means the Subsequent Deed of Transfer related to the Additional Portfolio, the supplementary Deed of Pledge, the Second Subscription Agreements, the Class A Guarantee and Deed of Undertaking as extended to the Series A2 Notes in accordance with the provisions thereto, the Terms and Conditions of the Series 2 Notes and any other deed, act, document or agreement to be entered into in connection with the issuance and subscription of the Series 2 Notes.

“**Transfer Date**” means the Initial Portfolio Transfer Date or the Further Portfolio Transfer Date, as the case may be.

“**Transparency Directive**” means Directive 2004/109/EC of the European Parliament and of the Council of 15 December 2004.

“**Trigger Event**” means any of the events described in Condition 13 (*Trigger Events*).

“**Trigger Event Report**” means the Payments Report that the Calculation Agent shall deliver upon request of the Representative of the Noteholders upon the occurrence of a Trigger Event, according to clause 11 (*Reporting Obligations of the Calculation Agent*) of the Cash Allocation, Management And Payment Agreement.

“**Trigger Notice**” means the notice described in Condition 13 (*Trigger Events*).

“**Underwriters**” means the Senior Notes Underwriter and the Junior Notes Underwriter, collectively, and “**Underwriter**” means any of them.

“**U.S. Securities Act**” means the U.S. Securities Act of 1933, as amended and the rules and regulations promulgated pursuant thereto.

“**Usury Law**” means Italian Law No. 108 of 7 March 1996 (*Disposizioni in materia di usura*) and the law decree n. 394 of 29 December 2000 as converted by law n. 24 of 28 February 2001 (including the provisions set forth in article 1, paragraph 2 and 3 of the aforementioned decree), as subsequently amended and supplemented.

“**Usury Thresholds**” means the usury thresholds set on a quarterly basis by a decree issued by the Italian Treasury (the latest of such decrees having been issued on 21 December 2012).

“**Valuation Date**” means the valuation date of each Portfolio indicated in the relevant Offer Notice.

## 2. ISSUANCE AND SUBSCRIPTION OF THE NOTES

The Notes will be issued as follows:

- (A) on the Initial Issue Date, the Issuer, in order to fund the Initial Purchase Price of the Initial Portfolio and the Debt Service Reserve Amount as of the Initial Issue Date, will issue the Series A1 Notes and Series B1 Notes; and
- (B) during the Ramp-Up Period, the Issuer may, upon assignment to it of the Additional Portfolio and in order to fund the relevant Initial Purchase Price and the Series 2 Debt Service Reserve Amount, issue the Series A2 Notes and the Series B2 Notes.

The Series 2 Notes will be issued and subscribed in accordance with, and subject to the terms of, the Subscription Agreements. In particular, the Series 2 Notes will have the characteristics indicated in these Terms and Conditions of the Series 1 Notes and in the First Subscription Agreements, provided that the relevant denomination, the issue date, the first payment date and the interest rate for the first interest period shall be determined in the terms and conditions which will be issued in relation to the Series 2 Notes and included in the prospectus of such notes.

### **3. FORM, DENOMINATION AND TITLE**

#### **3.1 Form**

The Notes will be issued in bearer form and held in dematerialised form on behalf of the beneficial owners, until redemption or cancellation thereof, by Monte Titoli for the account of the relevant Monte Titoli Account Holder. Monte Titoli shall act as depository for Clearstream and Euroclear.

#### **3.2 Denomination**

The Senior Notes will be issued in the denomination of Euro 100,000.

The Junior Notes will be issued in the denomination of Euro 100,000 and integral multiples of Euro 1,000 in excess thereof.

#### **3.3 Title**

The Notes will be accepted for clearance by Monte Titoli with effect from the relevant Issue Date. The Notes will at all times be evidenced by, and title thereto will be transferable by means of, book entries in accordance with the provisions of (i) article 83-*bis* of the Legislative Decree No. 58 of 24 February 1998; and (ii) Regulation 22 February 2008. No physical document of title will be issued in respect of the Notes.

#### **3.4 Security Documents**

Each Note is issued subject to and has the benefit of the Security Documents.

### **4. STATUS, PRIORITY AND SEGREGATION**

#### **4.1 Status**

The Notes constitute secured limited recourse obligations of the Issuer and, accordingly, the extent of the obligation of the Issuer to make payments under the Notes is conditional upon the receipt and recovery by the Issuer of amounts due, and is limited to the extent of any amounts received or recovered by the Issuer, in each case, in respect of the Portfolios and the other Issuer's Rights. Notwithstanding any other provision of these Terms and Conditions, the obligation of the Issuer to make any payment under the Notes shall be equal to the lesser of (a) the nominal amount of such payment and (b) the Issuer Available Funds which may be applied for the relevant purpose in accordance with the applicable Priority of Payments, provided that, if the Issuer Available Funds are insufficient to pay any amount due and payable to the Noteholders on any Quarterly Payment Date in accordance with the applicable Priority of Payments and without prejudice to Condition 13 item (i) (*Trigger Events - Non-payment*) and in respect of the Senior Notes without prejudice to the Class A Guarantee and Deed of Undertaking, the shortfall then occurring will not be due and payable until a subsequent Quarterly Payment Date on which the Issuer Available Funds may be used for such purpose in

accordance with the relevant Priority of Payments and provided however that any claim towards the Issuer shall be deemed waived and cancelled on the Cancellation Date.

Without prejudice to the foregoing, any payment obligations of the Issuer under the Notes which has remained unpaid to the extent referred to above upon the Cancellation Date, shall be deemed extinguished and the relevant claims irrevocably relinquished, waived and surrendered by the Noteholders to the Issuer and the Noteholders will have no further recourse to the Issuer in respect of such obligations. The Noteholders acknowledge that the limited recourse nature of the Notes produces the effects of a “*contratto aleatorio*” under Italian law and are deemed to accept the consequences thereof, including but not limited to the provisions under Article 1469 of the Italian Civil Code.

The Series A1 Notes and, subject to confirmation by the Class A Guarantor (acting at its absolute discretion), the Series A2 Notes (which shall not be issued without such a confirmation) have, or will have as the case may be, also the benefit of the guarantee issued by the Class A Guarantor pursuant to the Class A Guarantee and Deed of Undertaking under which the Class A Guarantor unconditionally and irrevocably has undertaken *vis-à-vis* the Issuer to provide a guarantee in favour of the Class A Noteholders with reference to the Guaranteed Interest Amount and the Guaranteed Principal Amounts, on the terms and conditions therein specified.

#### **4.2 Segregation**

The Notes are secured by certain assets of the Issuer pursuant to the Security Documents and in addition, by operation of the Securitisation Law, the Issuer's right, title and interest in and to the Portfolios is segregated from all other assets of the Issuer. Amounts deriving from the Portfolios will only be available, both prior to and following the winding-up of the Issuer, to satisfy the obligations of the Issuer to the Noteholders and the Other Issuer Creditors in accordance with the applicable Priority of Payments and to any third party creditors in respect of costs, fees and expenses incurred by the Issuer to such third party creditors in relation to the Transaction and to the corporate existence and good standing of the Issuer.

#### **4.3 Ranking**

In respect of the obligations of the Issuer to pay interest and repay principal on the Notes, both prior to, and following, the service of a Trigger Notice:

- (i) the Senior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but in priority to the Junior Notes;
- (ii) the Junior Notes will rank *pari passu* and rateably without any preference or priority among themselves for all purposes, but subordinated to the Senior Notes.

#### **4.4 Conflict of interest**

The Intercreditor Agreement and the Rules of the Organisation of the Noteholders contain provisions regarding the protection of the respective interests of all Noteholders in connection with the exercise of the powers, authorities, rights, duties and discretions of the Representative of the Noteholders under or in relation to the Notes or any of the Transaction Documents. If, however, in the opinion of the Representative of the Noteholders, there is a conflict between the interests of the Noteholders of different Classes of Notes, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement and without prejudice to the Class A Guarantor Reserved Matters) shall have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding.

### **5. COVENANTS**

#### **5.1 Covenants by the Issuer**

For so long as any amount remains outstanding in respect of the Notes of any Class, the Issuer shall not, save (a) with the prior written consent of the Representative of the Noteholders (and

subject to the provisions of the Intercreditor Agreement) and the prior written consent of the Controlling Party, or (b) as provided in or contemplated by any of the Transaction Documents:

- 5.1.1 *Negative pledge*: create or permit to subsist any Security Interest whatsoever over the Aggregate Portfolio or any part thereof or over any of its other assets (save for any Security Interest created in connection with any Further Securitisation and to the extent that such Security Interest is created over assets which form part of the segregated assets of such Further Securitisation) or sell, lend, part with or otherwise dispose of all or any part of the Aggregate Portfolio or any of its other assets; or
- 5.1.2 *Restrictions on activities*:
- (i) engage in any activity whatsoever which is not incidental to or necessary in connection with any Further Securitisation or with any of the activities in which the Transaction Documents provide or envisage that the Issuer will engage; or
  - (ii) have any società *controllata* (subsidiary) or società *collegata* (affiliate) (as defined in Article 2359 of the Italian Civil Code) or any employees or premises; or
  - (iii) at any time approve or agree or consent to any act or thing whatsoever which may be materially prejudicial to the interests of the Noteholders and/or the Class A Guarantor provided that it is the Controlling Party under the Transaction Documents and shall not do, or permit to be done, any act or thing in relation thereto which may be materially prejudicial to the interests of the Noteholders and/or the Class A Guarantor provided that it is the Controlling Party under the Transaction Documents; or
  - (iv) become the owner of any real estate asset; or
- 5.1.3 *Dividends or Distributions*: pay any dividend or make any other distribution or return or repay any equity capital to its quotaholders, or increase its capital, save as required by the applicable law; or
- 5.1.4 *De-registrations*: ask for de-registration from the register of the società *veicolo* held by Bank of Italy, for as long as any applicable law or regulation requires an issuer of notes issued under the Securitisation Law or companies incorporated pursuant to the Securitisation Law to be registered therein; or
- 5.1.5 *Borrowings*: incur any indebtedness in respect of borrowed money whatsoever or give any guarantee in respect of indebtedness or of any obligation of any person, other than for the purposes of the Securitisation or any Further Securitisation; or
- 5.1.6 *Merger*: consolidate or merge with any other person or convey or transfer its properties or assets substantially as an entirety to any other person; or
- 5.1.7 *No variation or waiver*: subject to the provisions of the Intercreditor Agreement, permit any of the Transaction Documents to which it is party to be amended, terminated or discharged if such amendment, termination or discharge may negatively affect the interest of the Noteholders and/or of the Class A Guarantor provided that it is the Controlling Party, or exercise any powers of consent or waiver pursuant to the terms of any of the other Transaction Documents to which it is a party which may negatively affect the interest of the Noteholders and/or of the Class A Guarantor provided that it is the Controlling Party, or permit any party to any of the Transaction Documents to which it is a party to be released from such obligations, if such release may negatively affect the interest of the Noteholders and/or of the Class A Guarantor provided that it is the Controlling Party; or
- 5.1.8 *Bank Accounts*: have an interest in any bank account other than the Accounts, the Quota Capital Account or any bank account opened in relation to any Further

Securitisation; or

- 5.1.9 *Statutory Documents*: amend, supplement or otherwise modify its *statuto* or *atto costitutivo*, except where such amendment, supplement or modification is required by compulsory provisions of Italian law or by the competent regulatory authorities; or
- 5.1.10 *Centre of Main Interest*: become resident, including without limitation for tax purposes, in any country outside Italy or cease to be managed and administrated in Italy or cease to have its “centre of main interest” (as that term is used in Article 3(1) of the European Union Insolvency Regulation) in Italy; or
- 5.1.11 *Branch outside Italy*: establish any branch or “establishment” (as that term is used in Article 2(h) of the European Union Insolvency Regulation) outside the Republic of Italy; or
- 5.1.12 *Corporate Records*: cease to maintain corporate records, financial statements or books of account separate from those of any other person or entity; or
- 5.1.13 *Corporate Formalities*: cease to comply with all necessary corporate formalities.

## 5.2 Undertaking of the Issuer

So long as any of the Issuer’s obligations under the Notes or any Transaction Documents remains outstanding, the Issuer shall, save to the extent permitted by the Transaction Documents or with the prior written consent of the Representative of the Noteholders and the Class A Guarantor (provided that it is the Controlling Party):

- 5.2.1. notify the Representative of the Noteholders and the Class A Guarantor (provided that it is the Controlling Party), to the best of the Issuer’s knowledge, of the occurrence of any event which would give the Issuer the right to terminate the appointment of any of its agents under any Transaction Document to which it is a party (to the purpose of this Condition 5.2, the “**Termination Event**”) or of any event which would be (with the expiry of a grace period, the giving of notice or the making of any determination under such Transaction Document or any combination of them) a Termination Event and the steps, if any, being taken to remedy it. The Issuer shall promptly supply to the Representative of the Noteholders and the Class A Guarantor (provided that it is the Controlling Party) such information regarding its financial condition as the Representative of the Noteholders and the Class A Guarantor (provided that it is the Controlling Party) may reasonably request; or
- 5.2.2. (i) preserve and/or exercise and/or enforce all of its rights and perform and observe all of its obligations under the Transaction Documents, and (ii) promptly upon receipt of a request of the Representative of the Noteholders (who shall make such request if so directed by the Class A Guarantor provided that it is the Controlling Party), take all necessary or advisable action in order to enforce its rights under the Transaction Documents vis-à-vis the Originator, the Servicer and/or any other party to the Transaction Documents.

## 5.3 Further Securitisations

Nothing in these Terms and Conditions or the Transaction Documents shall prevent or restrict the Issuer from carrying out other securitisation transactions pursuant to the Securitisation Law or, without limiting the generality of the foregoing, implementing, entering into, making or executing any document, deed or agreement in connection with any other securitisation transaction (each, a “**Further Securitisation**”), provided that, subject to the provisions of the Intercreditor Agreement, the Issuer confirms in writing to the Representative of the Noteholders or the Representative of the Noteholders (which, for such purpose, may rely on the advice of any certificate or opinion of or any information obtained from any lawyer, accountant, banker, broker or other expert) is otherwise satisfied that:

- (a) the transaction documents entered into in the context of the relevant Further

Securitisation constitute valid, legally binding and enforceable obligations of the parties thereto under the relevant governing law;

- (b) in the context of the relevant Further Securitisation the Sole Quotaholder gives undertakings in relation to the management of the Issuer, the exercise of its rights as quotaholder or the disposal of the quotas of the Issuer which are the same as or, in the sole discretion of the Representative of the Noteholders, equivalent to the undertakings provided for in the Quotaholder Agreement;
- (c) the terms and conditions of the notes issued under the Further Securitisation contain provisions to the effect that the obligations of the Issuer whether in respect of interest, principal, premium or other amounts in respect of such notes, are limited recourse obligations of the Issuer, limited to some or all of the assets comprised therein;
- (d) all the participants to the relevant Further Securitisation and the holders of the notes issued in the context of such Further Securitisation (a) will accept non-petition provisions and limited recourse provisions in all material respects equivalent to those provided in Condition 9 (*Non Petition and Limited Recourse*) and (b) will agree and acknowledge that the obligations of the Issuer to such party in connection with such Further Securitisation are limited recourse obligations of the Issuer, limited to some or all of the assets of such Further Securitisation and that each creditor in respect of such Further Securitisation or the representative of the holders of such further notes will agree to limitations on its ability to take action against the Issuer, including in respect of insolvency proceedings relating to the Issuer, on terms in all significant respects equivalent to those contained in the Intercreditor Agreement;
- (e) the security deeds or agreements entered into in connection with the relevant Further Securitisation do not comprise or extend over any of the Receivables or any of the Issuer's Rights;
- (f) the notes to be issued in the context of the relevant Further Securitisation:
  - (i) are not cross-collateralised or cross-defaulted with the Notes or any note issued by the Issuer in the context of any other previous Further Securitisations; and
  - (ii) include provisions which are the same as or, in the sole discretion of the Representative of the Noteholders, equivalent to those provided for by the Terms and Conditions;
- (g) the relevant Further Securitisation does not adversely affect the rating of any of the Senior Notes and the Rating Agency has issued a written confirmation thereof;
- (h) the assets relating to the relevant Further Securitisation are segregated in accordance with the Securitisation Law;
- (i) the consent of the Controlling Party has been previously obtained.

In giving any confirmation on the foregoing, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) may require the Issuer to make such modifications or additions to the provisions of any of the Transaction Documents (as may itself consent thereto on behalf of the Noteholders) or may impose such other conditions or requirements as the Representative of the Noteholders may deem expedient or appropriate (in its reasonable discretion) in the interests of the Noteholders and may rely on any written confirmation from the Issuer or as to the matters contained therein.

For the avoidance of doubt, the provisions contained in Article 28 of the Rules of the Organisation of the Noteholders (*Exoneration of the Representative of the Noteholders*) will also apply (where appropriate) to the Representative of the Noteholders when acting under this Condition 5.3 (*Covenants - Further Securitisations*).

## 6. PRIORITY OF PAYMENTS

### 6.1 Pre-Enforcement Priority of Payments

On each Quarterly Payment Date prior to the delivery of a Trigger Notice, the Issuer Available Funds shall be applied in making or providing for the following payments in accordance with the following Priority of Payments (in each case, only if and to the extent that payments of a higher priority have been made in full, with the exception of any Advance made under the Subordinated Loan which shall be used exclusively to pay the Expected Maturity Extension Indemnity due and payable to the Senior Noteholders):

- (i) in or towards satisfaction of any and all costs and taxes due and payable by the Issuer required to be paid to maintain the rating of the Senior Notes and in connection with the listing, registration and deposit of the Notes (as the case maybe), or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
- (ii) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of
  - (a) any due and payable Expenses (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
  - (b) the replenishment of the Expenses Account by an amount to bring the balance of such account up to the Retention Amount;
- (iii) in or towards satisfaction of the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders;
- (iv) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Italian Account Bank, the English Account Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Calculation Agent, the Corporate Services Provider, the Back-Up Servicer and the Servicer, to the extent not specifically provided under the following items;
- (v) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of the Interest Amounts due and payable in respect of the Senior Notes; and
  - (b) of any Class A Guarantee Fee due to the Class A Guarantor, plus any interest (if any) accrued and unpaid thereon;
- (vi) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of all the Outstanding Guarantor Interest Payment Amounts and any interest accrued but unpaid thereon; and
  - (b) of any Expected Maturity Extension Indemnity due and payable to the Senior Noteholders;
- (vii) until the Release Date (excluded), to credit to the Debt Service Reserve Account an amount (if any) to bring the balance of such account up to the Debt Service Reserve Amount;
- (viii) during the Ramp-Up Period and the Revolving Period, to pay to the Originator all amounts due and payable (including any amount past due) as (A) Initial Purchase Price in respect of any Subsequent Portfolio and (B) Portion of the Initial Purchase Price of the Additional Portfolio (where applicable), purchased on the Further Portfolio Transfer Date immediately preceding such Quarterly Payment Date pursuant to the Master Transfer Agreement, *provided that* (a) should the Formalities in respect of a Subsequent

Portfolio not be perfected within the relevant Quarterly Payment Date, the relevant amounts will be credited to the Principal Accumulation Account and paid once the Formalities will be completed in accordance with the Transaction Documents, (b) should the Relevant CPs not be satisfied or waived within the third Business Day preceding the relevant Quarterly Payment Date, the Portion of the Initial Purchase Price of the Additional Portfolio will be credited to the Principal Accumulation Account and paid on the Subsequent Issue Date in accordance with the Transaction Documents, (c) any positive difference between the Maximum Purchase Amount and the Initial Purchase Price of the relevant Subsequent Portfolio will be credited to the Principal Accumulation Account; and (d) the Portion of the Initial Purchase Price of the Additional Portfolio to be paid under this item (viii) shall not exceed the Principal Deficiency Amount;

- (ix) (i) on the Series 1 First Amortisation Date during the Revolving Period, to pay, *pari passu* and *pro rata* according to the respective amounts thereof, the Series 1 First Amortisation Amount due and payable on the Series A1 Notes; and (ii) during the Amortisation Period, to pay, *pari passu* and *pro rata* according to the respective amounts thereof, the Principal Amount Outstanding of the Senior Notes;
- (x) to pay to the Class A Guarantor any Outstanding Guarantor Principal Payment Amount plus any accrued but unpaid interest thereon;
- (xi) in or towards satisfaction of the interest due and payable (including any deferred interest amounts) on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (xii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts (other than the Deferred Purchase Price and to the extent not already provided under the other items of this Priority of Payments) due and payable (including any amount past due) by the Issuer to (a) the Senior Noteholders as indemnity due under the relevant Subscription Agreement and as any other amount due under the Transaction Documents and (b) after payments due under item (a) above, any Other Issuer Creditor and any Junior Noteholder pursuant to the Transaction Documents;
- (xiii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of interest due and payable in respect of the Junior Notes;
- (xiv) to repay the principal due and payable on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (xv) during the Amortisation Period, upon the redemption in full of the Senior Notes in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of principal due and payable in respect of the Junior Notes; and
- (xvi) in or towards satisfaction of the Deferred Purchase Price due and payable to the Originator in respect of the Aggregate Portfolio,

*provided that:*

- (a) should the Calculation Agent not receive the Quarterly Servicer Report within the third Business Day following the relevant Quarterly Servicer Report Date, it shall prepare the relevant Payments Report by applying any amount standing to the credit of the Issuer's Accounts to pay item from (i) to (vii) of the Pre-Enforcement Priority of Payments, provided that, (i) in respect to any amount to be calculated on the basis of the Quarterly Servicer Report, the Calculation Agent shall take into account the amounts indicated in the latest available Quarterly Servicer Report (the "**Latest Report**") and (ii) any amount that would otherwise have been payable under items from (eight) to (sixteenth) of the Pre-Enforcement Priority of Payments:

1 will not be included in such Payments Report and shall not be payable on the relevant Quarterly Payment Date;

- 2 shall be payable in accordance with the applicable Priority of Payments on the first following Quarterly Payment Date on which there are enough Issuer Available Funds and on which details for the relevant calculations will be timely provided to the Calculation Agent (for the avoidance of doubt, interest shall not accrue on any amount unpaid and deferred); and
  - 3 failure to pay any principal amount under the Notes on the relevant Quarterly Payment Date shall not be deemed as a Trigger Event;
- (b) the Calculation Agent on the immediately following Payments Report Date, subject to having received the relevant Quarterly Servicer Report, shall prepare a Payments Report which shall provide for the necessary adjustment in respect of payments made on the basis of the Latest Report and in respect of amounts unpaid in the preceding Quarterly Payment Date.

The Issuer shall, if necessary, make the payments set out under items (i) and (ii) (a) of the Pre-Enforcement Priority of Payments also during the relevant Interest Period.

## 6.2 Post-Enforcement Priority of Payments

Following the delivery of a Trigger Notice, the Issuer Available Funds shall be applied on each Quarterly Payment Date in making or providing for the following payments in the following Priority of Payments (in each case only if and to the extent that payments of a higher priority have been made in full, with the exception of any Advance made under the Subordinated Loan which shall be used exclusively to pay the Expected Maturity Extension Indemnity due and payable to the Senior Noteholders):

- (i) in or towards satisfaction of any and all costs and taxes due and payable by the Issuer required to be paid to maintain the rating of the Senior Notes and in connection with the listing, registration and deposit of the Notes (as the case maybe), or any notice to be given to the Noteholders or the other parties to the Transaction Documents (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such taxes);
- (ii) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of
  - (a) any due and payable Expenses (to the extent that the amount then standing to the balance of the Expenses Account is insufficient to pay such Expenses);
  - (b) replenishment of the Expenses Account by an amount to bring the balance of such account up to the Retention Amount;
- (iii) in or towards satisfaction of the fees, costs and expenses of, and all other amounts due and payable to, the Representative of the Noteholders;
- (iv) in or towards satisfaction *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts due and payable to the Italian Account Bank, the English Account Bank, the Cash Manager, the Paying Agent, the Irish Agent, the Calculation Agent, the Corporate Services Provider, the Back-Up Servicer and the Servicer, to the extent not specifically provided under the following items;
- (v) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,
  - (a) of the Interest Amounts due and payable in respect of the Senior Notes; and
  - (b) of any Class A Guarantee Fee due to the Class A Guarantor, plus any interest accrued and unpaid thereon;
- (vi) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof,

- (a) of any Outstanding Guarantor Interest Payment Amount plus any accrued but unpaid interest thereon; and
- (b) of any Expected Maturity Extension Indemnity due and payable to the Senior Noteholders;
- (vii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of the Principal Amount Outstanding of the Senior Notes;
- (viii) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any Outstanding Guarantor Principal Payment Amount plus any accrued but unpaid interest thereon;
- (ix) in or towards satisfaction of the interest due and payable (including any deferred interest amounts) on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (x) in or towards satisfaction, *pari passu* and *pro rata* according to the respective amounts thereof, of any amounts (other than the Deferred Purchase Price and to the extent not already provided under the other items of this Priority of Payments) due and payable (including any deferred amounts) by the Issuer to (a) the Senior Noteholders as indemnity due under the relevant Subscription Agreement and as any other amount due under the Transaction Documents and (b) after payments due under item (a) above, any Other Issuer Creditor and any Junior Noteholder pursuant to the Transaction Documents;
- (xi) in or towards satisfaction of interest due and payable in respect of the Junior Notes;
- (xii) to repay the principal due and payable on the Subordinated Loan in accordance with the Subordinated Loan Agreement;
- (xiii) upon the redemption in full of the Senior Notes, in or towards satisfaction of principal due and payable in respect of the Junior Notes; and
- (xiv) in or towards satisfaction of the Deferred Purchase Price due and payable to the Originator in respect of the Aggregate Portfolio.

### **6.3 Monthly Payment Date Payments**

On the Subsequent Issue Date falling on a Monthly Payment Date (if any), the Principal Available Funds shall be applied to pay to the Originator all amounts due and payable as Initial Purchase Price in respect of the Additional Portfolio.

## **7. INTEREST**

### **7.1 Quarterly Payment Dates and Interest Periods**

The Notes will bear interest on their Principal Amount Outstanding from and including the relevant Issue Date at an annual rate equal to the Rate of Interest (as defined below).

Interest in respect of the Notes will accrue on a daily basis and will be payable quarterly in arrears in Euro on each Quarterly Payment Date in accordance with the applicable Priority of Payments in respect of the Interest Period ending on such Quarterly Payment Date.

Interest in respect of any Interest Period or any other period will be calculated on the basis of the actual number of days elapsed and a 360 day year.

Interest shall cease to accrue on any part of the Principal Amount Outstanding of the Notes as from (and including) the due date for redemption of such part unless payment of principal due and payable but unpaid is improperly withheld or refused, whereupon interest shall continue to accrue on such principal (after as well as before judgment) at the rate of interest from time to time applicable to the relevant Class of Notes until the monies in respect thereof have been received by the Representative of the Noteholders or the Paying Agent on behalf of the relevant

Noteholders and notice to that effect is given in accordance with Condition 18 (*Notices*).

## **7.2 Rate of Interest**

The rate of interest applicable from time to time in respect of the Notes (the “**Rate of Interest**”) will be determined by the Paying Agent in respect of each Interest Period on the relevant Interest Determination Date.

There shall be no maximum or minimum Rate of Interest. The Rate of Interest applicable to the Notes for each Interest Period shall be:

- (i) in respect of the Senior Notes, the aggregate of: (a) the EURIBOR (except that for the Initial Interest Period in respect of the Series A1 Notes where an interpolated interest rate based on 2 months and 3 months deposits in Euro will be substituted for EURIBOR and for the Initial Interest Period in respect of the Series 2 Notes where an interpolated interest rate (if applicable) will be set forth in the Terms and Conditions of the Series 2 Notes) and (b) the following margin: 0.90 per cent. *per annum*;
- (ii) in respect of the Junior Notes, the aggregate of: (a) the EURIBOR (except that for the Initial Interest Period in respect of the Series B1 Notes where an interpolated interest rate based on 2 months and 3 months deposits in Euro will be substituted for EURIBOR and for the Initial Interest Period in respect of the Series 2 Notes where an interpolated interest rate (if applicable) will be set forth in the Terms and Conditions of the Series 2 Notes) and (b) the following margin: 2 per cent. *per annum*.

## **7.3 Determination of the Rate of Interest and Calculation of the Interest Amount**

On each Interest Determination Date, the Paying Agent shall:

- (a) determine the Rate of Interest applicable to the Notes for the Interest Period beginning after such Interest Determination Date (or, in respect of the Initial Interest Period, beginning on and including the relevant Issue Date);
- (b) calculate the Euro amount (the “**Interest Amount**”) that will accrue on the Notes of each Class in respect of the immediately following Interest Period. The Interest Amount in respect of any Interest Period shall be calculated by applying the relevant Rate of Interest as provided for by Condition 7 (*Interest*) to the Principal Amount Outstanding of the Notes on the Quarterly Payment Date at the commencement of such Interest Period (after deducting therefrom any payment of principal due on that Quarterly Payment Date) and by multiplying the product of such calculation by the actual number of days to elapse in the relevant Interest Period divided by 360, and rounding the resultant figure to the nearest cent (half a cent being rounded up).

## **7.4 Publication of the Rate of Interest and the Interest Amount**

The Paying Agent shall cause the Rate of Interest and the Interest Amount applicable to each Interest Period (specifying (i) the Quarterly Payment Date to which such Interest Amount refers to; (ii) the number of days of the relevant Interest Period; and (iii) the first day and last day thereof, to be notified promptly after their determination to Monte Titoli, Euroclear, Clearstream, the Issuer, the Servicer, the Representative of the Noteholders, the Italian Account Bank, the English Account Bank, the Calculation Agent, the Class A Guarantor, the Cash Manager and the Corporate Services Provider and will cause the same to be published in accordance with Condition 18 (*Notices*) as soon as possible after the relevant Interest Determination Date, but in no event later than the first Business Day of the next following Interest Period in respect of such relevant Interest Determination Date.

## **7.5 Determination or calculation by the Representative of the Noteholders**

If the Paying Agent does not at any time for any reason determine the Rate of Interest and/or calculate the Interest Amount in accordance with the foregoing provisions of this Condition 7 (*Interest*), then the Representative of the Noteholders as legal representative of the Organisation of the Noteholders shall:

- (a) determine the Rate of Interest at such rate as (having regard to the procedure described above) it shall consider fair and reasonable in all the circumstances; and/or
- (b) calculate the Interest Amount in the manner specified in Condition 7.3 (*Interest - Determination of the Rate of Interest and Calculation of the Interest Amount*) above,

and any such determination and/or calculation shall be deemed to have been made by the Paying Agent.

#### **7.6 Notifications to be final**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7 (*Interest*), whether by the Reference Banks (or any of them), the Paying Agent, the Issuer or the Representative of the Noteholders shall (in the absence of manifest error, wilful default (*dolo*) or gross negligence (*colpa grave*)) be binding on the Reference Banks, the Paying Agent, the Calculation Agent, the Issuer, the Italian Account Bank, the English Account Bank, the Representative of the Noteholders, the Class A Guarantor and all the Noteholders and (in such absence as aforesaid) no liability to the Noteholders shall attach to the Reference Banks, the Paying Agent, the Calculation Agent, the Issuer or the Representative of the Noteholders in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretion hereunder.

#### **7.7 Reference Banks and Paying Agent**

The Issuer shall ensure that, so long as any of the Notes remain outstanding, there shall at all times be three Reference Banks and a Paying Agent. The initial Reference Banks shall be JP Morgan, BNP Paribas and Barclays Bank plc. In the event of any such bank being unable or unwilling to continue to act as a Reference Bank, the Issuer shall appoint such other bank as may have been previously approved in writing by the Representative of the Noteholders to act as such in its place. Any resignation of the Paying Agent shall not take effect until a successor has been duly appointed in accordance with the Transaction Documents. If a new Paying Agent is appointed a notice will be published in accordance with Condition 18 (*Notices*).

#### **7.8 Unpaid Interest**

Without prejudice to Condition 13 item (i) (*Trigger Events - Non-payment*), in the event that the Issuer Available Funds available to the Issuer on any Quarterly Payment Date (in accordance with the applicable Priority of Payments), for the payment of interest on the Notes on such Quarterly Payment Date are not sufficient to pay in full the relevant Interest Amount, the amount by which the aggregate amount of interest paid on such Quarterly Payment Date falls short of the Interest Amount which would otherwise be due, shall be aggregated with the amount of, and treated for the purposes of these Terms and Conditions as if it were, Interest Amount accrued on the Notes on the immediately following Quarterly Payment Date. Any such unpaid amount shall not accrue additional interest.

The Paying Agent shall give notice in writing to the Issuer, the Servicer, the Representative of the Noteholders and Monte Titoli of any unpaid Interest Amount as resulting from any Payments Report and cause notice to that effect to be given to the Noteholders the in accordance with Condition 18 (*Notices*), no later than 3 (three) Business Days prior to any Quarterly Payment Date on which the Interest Amount on the Notes will not be paid in full.

### **8. REDEMPTION, PURCHASE AND CANCELLATION**

#### **8.1 Final Maturity Date**

Unless previously redeemed in full as provided for in this Condition 8 (*Redemption, Purchase and Cancellation*), the Issuer shall redeem in full the Notes at their Principal Amount Outstanding on the Final Maturity Date.

The Issuer may not redeem the Notes in whole or in part prior to the Final Maturity Date except

as provided for in Condition 8.2 (*Redemption, Purchase and Cancellation - Mandatory Redemption*), 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) or 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*), below and without prejudice to Condition 13 (*Trigger Events*).

## **8.2 Mandatory Redemption**

Unless previously redeemed in accordance with Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) or Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*), the Notes will be subject to mandatory redemption in full (or in part *pro rata*) on each Quarterly Payment Date falling in the Amortisation Period, and, in relation to the Series A1 Notes, on the Series 1 First Amortisation Date (for an amount equal to the Series 1 First Amortisation Amount), in accordance with this Condition 8 (*Redemption, Purchase and Cancellation*), in each case if and to the extent that, on such dates, there are sufficient Issuer Available Funds (including, for avoidance of doubt, proceeds deriving from any sales of the Aggregate Portfolio) which may be applied towards redemption of the Notes, in accordance with the Pre-Enforcement Priority of Payments.

## **8.3 Optional Redemption**

Unless previously redeemed in full, the Issuer may redeem all the Senior Notes (in whole but not in part) and the Series B1 Notes and the Junior Notes (in whole or, subject to the prior consent of the Junior Noteholders, in part) at their Principal Amount Outstanding, together with all accrued but unpaid interest thereon up to the date fixed for redemption, on the Series 1 Expected Maturity Extension Date and on each Quarterly Payment Date falling thereafter, in accordance with this Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) and the then applicable Priority of Payments.

Any such redemption shall be effected by the Issuer on giving not less than 30 days' prior notice in writing to the Representative of the Noteholders and the Noteholders (copying the Class A Guarantor) in accordance with Condition 18 (*Notices*) and provided that the Issuer has, prior to giving such notice, certified to the Representative of the Noteholders and produced satisfactory evidence to the Representative of the Noteholders that it will have the necessary funds, not subject to the interests of any person (other than the Noteholders and/or the Other Issuer Creditors), to discharge all its outstanding liabilities in respect of the relevant Notes to be redeemed, any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Notes and, in any case, any Outstanding Guarantor Interest Payment Amounts and Outstanding Guarantor Principal Payment Amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking.

The Issuer may obtain the necessary funds in order to effect the early redemption of the Notes in accordance with this Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) through the sale of all or part of the Aggregate Portfolio. In this respect, pursuant to the Master Transfer Agreement, the Originator has been granted with an option right to purchase the Aggregate Portfolio in accordance with the terms and conditions provided thereunder. The relevant sale proceeds deriving from any disposal of the Aggregate Portfolio shall form part of the Issuer Available Funds.

## **8.4 Redemption for Taxation**

If the Issuer at any time satisfies the Representative of the Noteholders, immediately prior to giving the notice referred to below (copying the Class A Guarantor), that on the next Quarterly Payment Date:

- (a) amounts payable in respect of the Senior Notes by the Issuer and/or amounts payable to the Issuer in respect of the Receivables included in the Aggregate Portfolio would be subject to withholding or deduction (other than a Decree 239 Deduction) for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by Italy or any political

or administrative sub-division thereof or any authority thereof or therein (hereinafter, the “Tax Event”); and

- (b) the Issuer will have the necessary funds (not subject to the interests of any person (other than the Noteholders and/or the Other Issuer Creditors)) to discharge all its outstanding liabilities in respect of (i) all the Notes to be redeemed and any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Notes (including, without limitation, any Outstanding Guarantor Interest Payment Amounts or Outstanding Guarantor Principal Payment Amount) or (ii) all the Senior Notes to be redeemed (but not the Junior Notes, provided that the Junior Noteholders have consented to such partial redemption), any amounts required to be paid under the applicable Priority of Payments in priority to or *pari passu* with such Senior Notes (including, without limitation, any Outstanding Guarantor Interest Payment Amounts) as well as any Outstanding Guarantor Principal Payment Amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking.

Following the occurrence of a Tax Event and in accordance with the Terms and Conditions, the Issuer may, or the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) may (or shall if so requested by an Extraordinary Resolution of the holders of the Senior Notes then outstanding) direct the Issuer to dispose of the Aggregate Portfolio or any part thereof to finance the early redemption of the relevant Notes under this Condition 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*). In this respect, pursuant to the Intercreditor Agreement, the Originator has been granted with a pre-emption right for the purchase of the Aggregate Portfolio in accordance with the terms and conditions provided thereunder. The relevant sale proceeds deriving from any disposal of the Aggregate Portfolio shall form part of the Issuer Available Funds.

## **8.5 Calculation of Issuer Available Funds and Principal Amount Outstanding**

8.5.1 On each Quarterly Payments Report Date immediately preceding a Quarterly Payment Date, the Calculation Agent shall determine (on the basis, *inter alia*, of (i) the information set out in the Quarterly Servicer Report provided by the Servicer, (ii) the information set out in the English Account Bank Report provided by the English Account Bank, (iii) the statements and the balances provided by each of the Account Banks in relation to the Accounts held with it, (iv) the amounts of costs, expenses, fees to be paid on the relevant Quarterly Payment Date to be provided by the Corporate Services Provider, (v) the Rate of Interest and the Interest Amount to be provided by the Paying Agent, and (vi) the Senior Notes Ratio to be provided by the Class A Guarantor) (without responsibility for the contents of the information provided by any of such other Party), *inter alia*:

- (a) the amount of any principal payment due to be made on the Notes of each Class on the next following Quarterly Payment Date;
  - (b) the Principal Amount Outstanding of the Notes of each Class on the next following Quarterly Payment Date (after deducting any principal payment due to be made on that Quarterly Payment Date) and the portion of Interest Amount that will not be paid in full on the following Quarterly Payment Date (if any);
  - (c) the amount of the Debt Service Reserve Amount and the amount required to bring the balance then standing to the credit of the Debt Service Reserve Account to the Debt Service Reserve Amount;
  - (d) the Issuer Available Funds specifying (i) the Maximum Purchase Amount and the Additional Portfolio Maximum Purchase Amount; (ii) the Principal Deficiency Amount; and (iii) the amount available on the immediately following Quarterly Payment Date for the purchase of the Additional Portfolio and/or a Subsequent Portfolio (if applicable);

- (e) if the immediately following Quarterly Payment Date is the Subsequent Issue Date, the Net Funding Amount, the initial principal amount of the Series A2 Notes and of the Series B2 Notes to be issued on the relevant Subsequent Issue Date, the relevant Series A2 Notes Subscription Price and the Series B2 Notes Subscription Price to be requested to the Senior Notes Underwriter and the Junior Notes Underwriter, respectively, the Series 2 Debt Service Reserve Amount, the Senior Notes Ratio Limit Condition and the Senior Notes Maximum Amount Condition;
- (f) prior to the Amortisation Period, (A) the Initial Purchase Price of any Subsequent Portfolio to be paid on the immediately following Quarterly Payment Date and, if applicable, (B) the Initial Purchase Price of the Additional Portfolio to be paid on the immediately following Quarterly Payment Date and (if the Subsequent Issue Date has been deferred pursuant to the terms of the Subscription Agreements) on the Subsequent Issue Date falling immediately thereafter (on the basis of (i) the relevant Offer Notice and the relevant Issuer's acceptance, (ii) evidence given by the Corporate Service Provider (in accordance with clause 2.6 (*Purchase of the Additional Portfolio and Subsequent Portfolios*) of the Intercreditor Agreement) that the Formalities related to the transfer of such Portfolio have been finalised and if applicable (iii) the Relevant CPs Notice);
- (g) prior to the Amortisation Period, the Maximum Purchase Amount exceeding the Initial Purchase Price of the Subsequent Portfolio to be paid on the immediately following Quarterly Payment Date;
- (h) if the immediately following Quarterly Payment Date is the Series 1 First Amortisation Date, the Series 1 First Amortisation Amount to be paid on such Quarterly Payment Date;
- (i) the Deferred Purchase Price of the Receivables comprised in the Portfolios due on the immediately following Quarterly Payment Date and all other payments due to be done by the Issuer on the immediately following Quarterly Payment Date;
- (j) the interest due and payable in respect of the Subordinated Loan on the immediately following Quarterly Payment Date and the principal amount outstanding of such loan as of the relevant Quarterly Payments Report Date; being agreed that the Calculation Agent shall promptly notify the outcome of such determination to the Issuer, the Subordinated Loan Provider, the Representative of the Noteholders and the Senior Notes Underwriter and the Subordinated Loan Provider will confirm to the Calculation Agent such amount (being also agreed that if the Subordinated Loan Provider does not give such a confirmation on the relevant Quarterly Payments Report Date the calculation made by the Calculation Agent shall be considered as final);
- (k) the Class A Guarantee Fee and any interest accrued but unpaid thereon, to be paid on the immediately following Quarterly Payment Date, as such amount has been previously confirmed to the Calculation Agent by the Class A Guarantor subject to the Class A Guarantor having received a prior written notice from the Calculation Agent at least 3 (three) days before the Quarterly Payments Report Date (being agreed that if the Class A Guarantor does not give such a confirmation on the relevant Quarterly Payments Report Date the calculation made by the Calculation Agent shall be considered as final);
- (l) the Outstanding Guarantor Interest Payment Amounts and any interest accrued but unpaid thereon, to be paid on the immediately following Quarterly Payment Date;

- (m) the Outstanding Guarantor Principal Payment Amounts and any interest accrued but unpaid thereon, to be paid on the immediately following Quarterly Payment Date; and
  - (n) the Expected Maturity Extension Indemnity to be paid to Senior Noteholders on the immediately following Quarterly Payment Date (to the extent that such a Quarterly Payment Date falls after the Series 1 Expected Maturity Extension Date).
- 8.5.2 Each determination by or on behalf of the Issuer of Issuer Available Funds, any principal payment on the Notes and the Principal Amount Outstanding of the Notes shall in each case (in the absence of wilful default (*dolo*), gross negligence (*colpa grave*), bad faith or manifest error) be final and binding on all persons.
- 8.5.3 The Issuer will, on each Quarterly Payments Report Date, cause each determination of a principal payment on the Notes (if any) and Principal Amount Outstanding on the Notes to be notified by the Calculation Agent (through the Quarterly Payments Report) to the Representative of the Noteholders, the Servicer, the Paying Agent, the Italian Account Bank, the English Account Bank, the Irish Agent, the Cash Manager, the Corporate Services Provider, the Class A Guarantor, the Senior Notes Underwriter and the Originator. The Issuer will cause notice of each determination of a principal payment on the Notes and of Principal Amount Outstanding on the Notes to be given to Monte Titoli, Euroclear and Clearstream and in accordance with Condition 18 (*Notices*).
- 8.5.4 The principal amount redeemable in respect of each Note shall be a *pro rata* share of the aggregate amount of Issuer Available Funds determined in accordance with Condition 8.2 (*Redemption, Purchase and Cancellation - Mandatory Redemption*) to be available for redemption of the Notes of the same Class as such Note on such date, calculated with reference to the ratio between (A) the then Principal Amount Outstanding of such Note and (B) the then Principal Amount Outstanding of all the Notes of the same Class (rounded down to the nearest cent), provided always that no such principal payment may exceed the Principal Amount Outstanding of the relevant Note.
- 8.5.5 If no principal payment on the Notes or Principal Amount Outstanding on the Notes is determined by or on behalf of the Issuer in accordance with the preceding provisions of this Condition 8.5 (*Redemption, Purchase and Cancellation - Calculation of Issuer Available Funds and Principal Amount Outstanding*), such principal payment on the Notes and Principal Amount Outstanding on the Notes shall be determined by the Representative of the Noteholders in accordance with this Condition 8 (*Redemption, Purchase and Cancellation*) and each such determination or calculation shall be deemed to have been made by the Issuer.

## **8.6 Notice of Redemption**

Any notice of redemption as set out in Condition 8.3 (*Redemption, Purchase and Cancellation - Optional Redemption*) and 8.4 (*Redemption, Purchase and Cancellation - Redemption for Taxation*) must be given in accordance with Condition 18 (*Notices*) and shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the Notes in accordance with this Condition 8 (*Redemption, Purchase and Cancellation*).

## **8.7 No purchase by Issuer**

The Issuer is not permitted to purchase any of the Notes.

## **8.8 Cancellation**

Subject to the provisions of the Intercreditor Agreement, the Notes will be deemed to be discharged in full and any amount in respect of principal, interest or other amounts due and

payable in respect of the Notes will (unless payment of any such amounts is improperly withheld or refused) be finally and definitively cancelled and waived on the Cancellation Date. Upon cancellation the Notes may not be resold or re-issued.

## **9. NON PETITION AND LIMITED RECOURSE**

### **9.1 Non Petition**

Only the Representative of the Noteholders may pursue the remedies available under the general law or under the Transaction Documents to obtain payment of the obligations of the Issuer deriving from any of the Transaction Documents or enforce the Security and no Noteholder shall be entitled to proceed directly against the Issuer to obtain payment of such obligations or to enforce the Security. In particular no Noteholder:

- 9.1.1 is entitled, otherwise than as permitted by the Transaction Documents, to direct the Representative of the Noteholders to enforce the Security or take any proceedings against the Issuer to enforce the Security;
- 9.1.2 shall, save as expressly permitted by the Transaction Documents, have the right to take or join any person in taking any steps against the Issuer for the purpose of obtaining payment of any amount due from the Issuer to it;
- 9.1.3 shall be entitled, until the date falling one year and one day after the date on which all the Notes and any other asset-backed notes issued in the context of any Further Securitisation transaction by the Issuer have been redeemed in full or cancelled in accordance with their terms and conditions, to initiate or join any person in initiating an Insolvency Event in relation to the Issuer; and
- 9.1.4 shall be entitled to take or join in the taking of any corporate action, legal proceedings or other procedure or step which would result in the Priority of Payments not being complied with.

### **9.2 Limited recourse obligations of Issuer**

Notwithstanding any other provision of the Transaction Documents, all obligations of the Issuer to the Noteholders are limited in recourse as set out below:

- 9.2.1 each Noteholder will have a claim only in respect of the Issuer Available Funds and at all times only in accordance with the Priority of Payments and will not have any claim, by operation of law or otherwise, against, or recourse to, the Issuer's other assets over its contributed capital;
- 9.2.2 the limited recourse nature of the obligations of the Issuer produces the effect of a *contratto aleatorio* and each Noteholder accepts the consequences thereof, including but not limited to the provision of article 1469 of the Italian civil code;
- 9.2.3 sums payable to each Noteholder in respect of the Issuer's obligations to such Noteholder shall be limited to the lesser of (a) the aggregate amount of all sums due and payable to such Noteholder; and (b) the Issuer Available Funds, net of any sums which are payable by the Issuer in accordance with the Priority of Payments in priority to or *pari passu* with sums payable to such Noteholder;
- 9.2.4 each Noteholder undertakes not to make any claim or bring any action in contravention of the provisions of this Condition 9.2;
- 9.2.5 subject to Condition 8.5 (*Redemption, Purchase and Cancellation - Calculation of Issuer Available Funds and Principal Amount Outstanding*) if the Issuer Available Funds are insufficient to pay any amount due and payable by the Issuer on any Quarterly Payment Date in accordance with the applicable Priority of Payments, without prejudice to Condition 13 (*Trigger Events - Non-payment*) and, in respect of the Senior Notes, without prejudice to the Class A Guarantee and Deed of Undertaking,

then the relevant shortfall will not be due and payable until a subsequent Quarterly Payment Date on which the Issuer Available Funds may be used for such purpose in accordance with the relevant Priority of Payments, provided however that (i) any amount due to the Class A Guarantor shall be deemed discharged and cancelled in accordance with paragraph 9.2.6 below and (ii) any other claim towards the Issuer shall be deemed discharged and cancelled on the Cancellation Date; for the avoidance of doubt, any failure by the Issuer to make payments on any relevant date referred to in Condition 13(a) shall constitute a Trigger Event in accordance with Condition 13(a); and

- 9.2.6 upon the Representative of the Noteholders giving written notice to the Noteholders and the Other Issuer Creditors that it has determined, in its sole opinion, that there is no reasonable likelihood of there being any further amounts to be realised in respect of the Aggregate Portfolio or the Security (whether arising from an enforcement of the Security or otherwise) which would be available to pay unpaid amounts outstanding under the Transaction Documents and the Servicer having confirmed the same in writing to the Representative of the Noteholders, the Noteholders and the Other Issuer Creditors shall have no further claim against the Issuer in respect of any such unpaid amounts and such unpaid amounts (subject to the consent of the Class A Guarantor in respect of any amount due to the Class A Guarantor under the Class A Guarantee and Deed of Undertaking including by way of subrogation) shall be discharged and cancelled in full. The provisions of this Condition 9.2.6 are subject to none of the Noteholders and the Other Issuer Creditors objecting to such determinations of the Representative of the Noteholders and the Servicer for reasonably grounded reasons within 30 days of notice thereof. If any of the Noteholders and the Other Issuer Creditors objects such determination within such term, the Representative of the Noteholders may request an independent third party to verify and determine if there is no reasonable likelihood of there being any further amounts to be realised in respect of the Aggregate Portfolio or the Security which would be available to pay unpaid amounts outstanding under the Transaction Documents. Such determination shall be definitive and binding for the Noteholders and the Other Issuer Creditors.

## **10. PAYMENTS**

### **10.1 Payments through Monte Titoli**

Payment of principal and interest in respect of the Notes will be made in Euro and credited, according to the instructions of Monte Titoli, by the Paying Agent on behalf of the Issuer to the accounts of the relevant Monte Titoli Account Holder and thereafter credited by such Monte Titoli Account Holder from such aforementioned accounts to the accounts of the beneficial owners of those Notes, in accordance with the rules and procedures of Monte Titoli, Euroclear and Clearstream.

### **10.2 Payments subject to fiscal laws**

Payments of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto.

### **10.3 Payments on business days**

Noteholders will not be entitled to any interest or other payment in consequence of any delay after the due date in receiving any amount due as a result of the due date not being a business day in the place of payment to such Noteholder (or the relevant Monte Titoli Account Holder).

### **10.4 Change of Paying Agent**

The Issuer reserves the right at any time to revoke the appointment of the Paying Agent by not less than 60 (sixty) calendar days' prior written notice *provided, however*, that such revocation shall not take effect until a successor has been duly appointed in accordance with the Cash

Allocation, Management and Payments Agreement and notice of such appointment has been given to the Noteholders in accordance with Condition 18 (*Notices*).

**11. TAXATION**

All payments in respect of the Notes will be made without withholding or deduction for or on account of any present or future taxes, duties or charges of whatsoever nature other than a Decree 239 Deduction or any other withholding or deduction required to be made by applicable law. Neither the Issuer nor the Class A Guarantor shall be obliged to pay any additional amount to any Noteholder as a consequence of any such withholding or deduction.

**12. PRESCRIPTION**

Claims against the Issuer for payments in respect of the Notes shall be prescribed and shall become void unless made within ten years (in the case of principal) or five years (in the case of interest) from the date on which a payment in respect thereof first becomes due and payable, unless a case of interruption or suspension of the prescription applies in accordance with Italian law.

**13. TRIGGER EVENTS**

(a) *Non-payment by the Issuer:*

Default is made by the Issuer in the payment of any of the following amounts:

- (i) (1) on any Quarterly Payment Date, the Interest Amount accrued in relation to the Interest Period ending on (but excluding) such Quarterly Payment Date on the Most Senior Class of Notes then outstanding; and/or
- (2) the amount of principal due and payable on the Most Senior Class of Notes then outstanding; and/or
- (3) the amount required to redeem in full the Senior Notes on the Senior Notes Maturity Date; and/or
- (4) the Outstanding Guarantor Interest Payment Amount (in full or in part), on any Quarterly Payment Date following the Quarterly Payment Date on which the Issuer has not paid the amount set out under item (i)(1) above

and such default is not remedied within a period of five Business Days from the due date thereof, regardless any payment made by the Class A Guarantor under the Class A Guarantee and Deed of Undertaking;

- (ii) any amount due to the Other Issuer Creditors under items (i) and (ii) of the Priority of Payments and such default is not remedied within a period of five Business Days from the due date thereof; or

(b) *Breach of other obligations by the Issuer:*

The Issuer defaults in the performance or observance of any of its obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party (other than any obligation specified in (a) above) which is, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), materially prejudicial to the interests of the Noteholders and such default remains unremedied for 30 days after the Representative of the Noteholders has given written notice thereof to the Issuer (being agreed that it shall give such a notice if so directed by the Class A Guarantor provided that it is the Controlling Party) requiring the same to be remedied (except where, in the reasonable opinion of the Representative of the Noteholders, such default is not capable of remedy in which case no term of 30

days will be given); or

(c) *Breach of Representations and Warranties by the Issuer:*

Any of the representations and warranties given by the Issuer under any of the Transaction Documents to which it is party is, or proves to have been, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), incorrect or erroneous in any material respect when made, or deemed to be made, or at any time thereafter, unless it has been remedied within 30 days after the Representative of the Noteholders has served a notice to the Issuer requiring remedy (being agreed that it shall give such a notice if so directed by the Class A Guarantor provided that it is the Controlling Party); or

(d) *Insolvency of the Issuer:*

An Insolvency Event occurs in respect of the Issuer; or

(e) *Unlawfulness for the Issuer:*

It is or will become unlawful for the Issuer to perform or comply with any of its material obligations under or in respect of the Notes or any of the Transaction Documents to which it is a party when compliance with such obligations is deemed by the Representative of the Noteholders to be material, subject to the Representative of the Noteholders having requested to the Class A Guarantor (provided that it is the Controlling Party) confirmation that such compliance is material and the Class A Guarantor (provided that it is the Controlling Party) having given its confirmation thereto.

Upon the occurrence of a Trigger Event, the Representative of the Noteholders:

- (1) in the case of a Trigger Event under (a) above, (i) may at its sole discretion or (ii) shall if so directed by the Class A Guarantor (provided that it is the Controlling Party) or (iii) shall if a Class A Guarantor Event of Default has occurred and is continuing; and/or
- (2) in the case of a Trigger Event under (e) above, shall; and/or
- (3) in the case of a Trigger Event under (b), (c) or (d) above, may at its sole discretion or shall, if so directed by the Controlling Party,

serve a Trigger Notice to the Issuer; in each case, subject to the provisions of the Intercreditor Agreement. Upon the service of a Trigger Notice, the Issuer Available Funds shall be applied in accordance with the Post-Enforcement Priority of Payments.

Following the delivery of a Trigger Notice, the Issuer may (subject to the consent of the Representative of the Noteholders, which shall give such consent if so directed by the Controlling Party) or the Representative of the Noteholders may (or shall, if so directed by the Controlling Party) direct the Issuer to, dispose of the Aggregate Portfolio, subject to the terms and conditions of the Intercreditor Agreement, provided that the Originator shall have in such circumstance a pre-emption right to purchase the Aggregate Portfolio at the terms and conditions specified in the Intercreditor Agreement.

For the purposes of this Condition 13 (*Trigger Events*) the Issuer undertakes to notify the Representative of the Noteholders, the Class A Guarantor (provided that it is the Controlling Party) and the Controlling Party as soon as it becomes aware of the occurrence of a Trigger Event.

#### 14. ENFORCEMENT

- (1) At any time after a Trigger Notice has been served, the Representative of the Noteholders may (with the consent of the Class A Guarantor provided that it is the Controlling Party), or shall if so directed by the Controlling Party (and, in each case, subject to the provisions of the Intercreditor Agreement), take such steps and/or

institute such proceedings against the Issuer as it may think fit to ensure repayment of the Notes and payment of accrued interest thereon in accordance with the Priority of Payments set out in Condition 6.2 (*Priority of Payments – Post-Enforcement Priority of Payments*).

- (2) All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of Condition 13 (*Trigger Events*) or this Condition 14 (*Enforcement*) by the Representative of the Noteholders shall (in the absence of manifest error, wilful default (*dolo*) or gross negligence (*colpa grave*)) be binding on the Issuer and all Noteholders and (in such absence as aforesaid) no liability to the Noteholders or the Issuer shall attach to the Representative of the Noteholders in connection with the exercise or non-exercise by it of its powers, duties and discretion hereunder.
- (3) Each Noteholder, by acquiring title to a Note, and each Other Issuer Creditor, by executing the Transaction Documents to which it is expressed to be a party, is deemed to agree and acknowledge that:
  - (i) the Representative of the Noteholders has entered into (a) the Deed of Pledge for itself and as agent in the name of and on behalf of each Noteholder from time to time and each of the Other Issuer Creditors thereunder (b) the Deed of Charge for itself and as trustee for the Noteholders and the Other Issuer Creditors and (c) the Class A Guarantee and Deed of Undertaking in the name and on behalf of each Class A Noteholder;
  - (ii) by virtue of the transfer to it of the relevant Note, each Noteholder, and by virtue of the execution of each Transaction Document (including the Class A Guarantee and Deed of Undertaking) to which it is respectively a party, each of the Noteholders and the Other Issuer Creditors shall be deemed to have granted to the Representative of the Noteholders, as its agent, the right (a) to exercise in such manner as the Representative of the Noteholders in its sole opinion deems appropriate, on behalf of such Noteholder and/or Other Issuer Creditor (as the case may be), all of that Noteholder's and/or Other Issuer Creditors's (as the case may be) rights under the Securitisation Law in respect of the Portfolios and all amounts and/or other assets of the Issuer arising from the Portfolios and the Transaction Documents and (b) to enforce its rights as a Noteholder or Other Issuer Creditor (as the case may be) for and on its behalf under the Deed of Pledge and in relation to the Security Interests;
  - (iii) the Representative of the Noteholders, in its capacity as agent in the name of and on behalf of the Noteholders of each Class and of each Other Issuer Creditor, shall be the only person entitled under these Terms and Conditions and under the Transaction Documents to institute proceedings against the Issuer and/or to enforce or to exercise any rights in connection with the Security Interests or to take any steps against the Issuer or any of the other parties to the Transaction Documents for the purposes of enforcing the rights of the Noteholders under the Notes of each Class and (in the case of Class A Noteholders) under the Class A Guarantee and Deed of Undertaking and/or of the Other Issuer Creditors with respect to the other Transaction Documents and recovering any amounts owing under the Notes, (in the case of the Class A Notes) under the Class A Guarantee and Deed of Undertaking or under the Transaction Documents;
  - (iv) the Representative of the Noteholders will have exclusive rights under the Class A Guarantee and Deed of Undertaking to make demands, give notices, exercise or refrain from exercising rights to and take or refrain from taking action against the Class A Guarantor in its capacity as agent in the name of and on behalf of the Class A Noteholders;

- (v) the Representative of the Noteholders shall have exclusive rights under the Deed of Pledge to make demands, give notices, exercise or refrain from exercising any rights and to take or refrain from taking any action (including, without limitation, the release or substitution of security) in respect of the Security Interests;
- (vi) no Noteholder or Other Issuer Creditor shall be entitled to proceed directly against the Issuer nor take any steps or pursue any action whatsoever for the purpose of recovering any debts due or owing to it by the Issuer or take, or join in taking, steps for the purpose of obtaining payment of any amount expressed to be payable by the Issuer or the performance of any of the Issuer's obligations under these Terms and Conditions and/or the Transaction Documents or, petition for or procure the commencement of an Insolvency Event or the winding-up, insolvency, extraordinary administration or compulsory administrative liquidation of the Issuer or the appointment of any kind of insolvency official, administrator, liquidator, trustee, custodian, receiver or other similar official in respect of the Issuer for any, all, or substantially all the assets of the Issuer or in connection with any reorganisation or arrangement or composition in respect of the Issuer, pursuant to any applicable law;
- (vii) the Representative of the Noteholders will exercise its rights and powers and perform its duties and obligations under the Transaction Documents in any case subject to clause 5 (*Controlling Party*) of the Intercreditor Agreement,

unless (in each case under (ii), (iii), (iv) and (v) above) a Trigger Notice has been served and the Representative of the Noteholders, having become bound so to do, fails to do so within a reasonable period and such failure shall be continuing, (provided that any such failure shall not be conclusive per se of a default or breach of duty by the Representative of the Noteholders), provided that the Noteholder may then only proceed subject to the provisions of these Terms and Conditions, provided however that nothing in this Condition 14 (*Enforcement*) shall prevent the Noteholders and the Other Issuer Creditors from taking any steps against the Issuer which do not amount to the commencement or to the threat of commencement of legal proceedings against the Issuer or to procuring the appointment of an administrative receiver for or to the making of an administration order against or to the winding up or liquidation of the Issuer and provided further that this Condition 14 (*Enforcement*) shall not prejudice the right of any Noteholder or Other Issuer Creditor to prove a claim in the insolvency of the Issuer where such insolvency follows the institution of an Insolvency Event by a third party;

- (i) no Noteholder or any the Other Issuer Creditor shall at any time exercise any right of netting, set-off or counterclaim in respect of its rights against the Issuer such rights being expressly waived or exercise any right of claim of the Issuer by way of a subrogation action (*azione surrogatoria*) pursuant to Article 2900 of the Italian Civil Code; and
- (ii) the provisions of this Condition 14 (*Enforcement*) shall survive and shall not be extinguished by the redemption (in whole or in part) and/or cancellation of the Notes and waives to the greatest extent permitted by law any rights directly to enforce its rights against the Issuer.

## 15. PURCHASE TERMINATION EVENTS

The occurrence of each and any of the following events on any date will constitute a purchase termination event (a "**Purchase Termination Event**") in accordance with the Master Transfer Agreement:

- (a) *Trigger Notice or Tax Event*

A Trigger Notice is delivered to the Issuer by the Representative of the Noteholder

and/or a Tax Event has occurred.

(b) *Breach of obligations by Alba Leasing*

Alba Leasing (in any role under the Transaction Documents) defaults in the performance of any of its obligations under the Master Transfer Agreement, the Servicing Agreement or under any other Transaction Document to which it is a party, if such default (i) is prejudicial to the interests of the Senior Noteholders or the Class A Guarantor (provided that it is the Controlling Party); and (ii) remains unremedied within 20 (twenty) Business Days (or 5 (five) Business Days where the default relates to an obligation to pay of Alba Leasing) after the delivery by the Issuer (or the Representative of the Noteholders) of a written notice to Alba Leasing requiring the default to be remedied, provided that the Issuer and/or the Representative of the Noteholders shall be obliged to deliver such notice if so directed by the Class A Guarantor (provided that it is the Controlling Party).

(c) *Breach of Representations and Warranties by Alba Leasing*

Any of the representations and warranties given by Alba Leasing under any of the Master Transfer Agreement, the Servicing Agreement or under any other Transaction Document is breached or is untrue, incomplete or inaccurate if the relevant breach (i) is materially prejudicial to the interests of the Senior Noteholders or the Class A Guarantor (provided that it is the Controlling Party), and (ii) remains unremedied within 20 (twenty) Business Days (or 5 (five) Business Days, where the default relates to an obligation to pay) after the delivery by the Issuer of a written notice to Alba Leasing requiring the default to be remedied provided that the Issuer shall be obliged to deliver such notice if so directed by the Class A Guarantor (provided that it is the Controlling Party).

(d) *Insolvency of Alba Leasing*

Alba Leasing is declared insolvent or admitted to any bankruptcy proceedings or Alba Leasing has adopted a resolution aimed at obtaining the admission to any of such proceedings; a liquidator or administrative receiver is appointed or Alba Leasing has adopted a resolution aimed at obtaining such appointments; the whole or a substantial part of Alba Leasing's assets are subject to enforcement proceedings.

(e) *Debts' reschedule or moratorium*

Alba Leasing carries out any action for the purpose of rescheduling its own debts or postponing their relevant fulfilment, executes any extrajudicial arrangement with its creditors (including arrangements for the assignment of its assets to its creditors), files any petition for the suspension of its own payments or any competent court grants to it a moratorium for the fulfilment of its own debts or the enforcement of any security granted by Alba Leasing, if the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), in its respective reasonable opinion, deems that any of the above events have or may have a material adverse effect on Alba Leasing's financial condition, provided that Alba Leasing has the right to renegotiate any subordinated loan granted to it by its controlling company.

(f) *Dissolution or liquidation*

A resolution has been adopted for the dissolution or liquidation of Alba Leasing, except if such resolution is adopted in connection with a corporate reorganisation.

(g) *Amendment of corporate purpose of Alba Leasing*

Alba Leasing resolves upon any material amendment of its corporate purpose (*oggetto sociale*) which may materially negatively affect its ability to perform its obligation under the Transaction Documents or the transfer of its registered office outside Italy.

(h) *Termination Alba Leasing's appointment as Servicer*

The Issuer terminates Alba Leasing's appointment as Servicer pursuant to the Servicing Agreement.

(i) *Alba Leasing's external auditor's assessment*

Alba Leasing's external auditors express a negative assessment in the certification report (*relazione di certificazione*) relating to the Alba Leasing's annual financial statements or declare the impossibility to express an assessment in respect thereof.

(j) *Failure to replenish the Debt Service Reserve Account*

At any Quarterly Payment Date, the Debt Service Reserve Account is not credited out of the Issuer Available Funds and in accordance with the applicable Priority of Payments, to bring the balance of such Account equal to the Debt Service Reserve Amount, as calculated on the Quarterly Payments Report Date immediately preceding the relevant Quarterly Payment Date.

(k) *Gross Cumulative Default Ratio*

The Gross Cumulative Default Ratio, as evidenced in the relevant Quarterly Servicer Report, exceeds the respective Relevant Trigger.

(l) *Delinquency Ratio*

The Delinquency Ratio, as evidenced in the relevant Quarterly Servicer Report, exceeds 6% for two consecutive Quarterly Payment Dates.

(m) *Asset Coverage Test*

The Asset Coverage Test is negative for two consecutive Quarterly Payments Report Dates immediately preceding any Quarterly Payment Date.

(n) *Change in Law*

The Originator, by virtue of a change in the applicable legislation, is no longer able lawfully to fulfil its obligations under any of the Transaction Documents;

(o) *Alba Leasing's change of control*

There is a change in the shareholding structure of Alba Leasing with respect to the Initial Issue Date such that the shareholders of Alba Leasing, cease, following the Initial Issue Date, holding, together, either directly or indirectly, at least 70 per cent. of the share capital of Alba Leasing, unless with a written consent of the Representative of the Noteholders acting on the instruction of the Class A Guarantor provided that it is the Controlling Party;

(p) *Alba Leasing's principal shareholders*

There is a change in the shareholding structure of Alba Leasing so that, subsequent to the Initial Issue Date, Banca Popolare dell'Emilia Romagna – Società cooperativa and Banco Popolare – Società Cooperativa, being the main shareholders of Alba Leasing, no longer hold, in aggregate, both directly and indirectly, at least 50 per cent. of Alba Leasing's share capital, unless such change in shareholding is made with the written consent of the Representative of the Noteholders on the instruction of the Class A Guarantor provided that it is the Controlling Party;

(q) *Transaction Document no longer in effect, null, void or terminated*

The Master Transfer Agreement, the Servicing Agreement or any other Transaction Document is no longer in effect, is declared null or void, or is terminated for any reason.

(r) *Invalidity or unenforceability of the transfer of any Portfolio*

The validity or the enforceability of the transfer of a Portfolio to the Issuer is contested by Alba Leasing or by any third party in good faith and on reasonable grounds.

(s) *Bank of Italy's sanctions*

The Bank of Italy (or any other supervisory competent authority) issues any injunction or measure of any nature against Alba Leasing, which, if finally confirmed, in the reasonable opinion of the Representative of the Noteholders or the Class A Guarantor (provided that it is the Controlling Party), might have a material adverse effect substantially prejudicial on Alba Leasing, save that such injunction or measure is lawfully contested by Alba Leasing before the competent authorities.

(t) *Alba Leasing Tier 1 Capital Ratio test*

The Tier 1 Capital Ratio of Alba Leasing, calculated on a six-month basis in accordance with the Bank of Italy Supervisory Regulations, is lower than 6% of its assets as set out in the last balance sheet approved and in the last semiannual financial statements.

(u) *Termination of the Class A Guarantee and Deed of Undertaking*

The *Class A Guarantee and Deed of Undertaking* is terminated for any reason, other than at the request of the Senior Noteholders.

(v) *Back-Up Servicer's requirements*

The Servicer and the replacement Back-Up Servicer (to be appointed by the Issuer pursuant to clause 11.5.2 of the Servicing Agreement after the appointment of Selmabipiemme being terminated) have not completed, by 3 months after the date of appointment of such replacement Back-Up Servicer, the activities to be executed in order to enable the replacement Back-Up Servicer to replace the Servicer timely by carrying out the duties which will be set out in the clause and the annex of the new back-up servicing agreement having analogous content of clause 2.2.2 and annex 2 (*Timetable of Activities*), respectively, of the Back-Up Servicing Agreement.

(w) *Termination of the Back-Up Servicer's appointment*

The Back-Up Servicer becomes insolvent and is admitted to any applicable Insolvency Events or the appointment of the Back-Up Servicer is otherwise terminated and a replacement Back-Up Servicer that has obtained the prior consent of the Controlling Party and the Representative of the Noteholders has not been appointed within 60 calendar days starting from the date on which the Insolvency Events has started or the appointment of the Back-Up Servicer is terminated.

(x) *Indebtedness*

The indebtedness for borrowed money of Alba Leasing becomes due and payable prematurely by reason of an event of default (however described) of Alba Leasing, or Alba Leasing fails to make any payment in respect of any indebtedness for borrowed money on the due date, provided that the relevant indebtedness or non-payment exceed the amount of Euro 15,000,000.00.

(y) *Maximum Purchase Amount Shortfall*

With reference to any Quarterly Payment Date, the Maximum Purchase Amount is not fully paid pursuant to the Pre-Enforcement Priority of Payments occurring such event if the aggregate of the amounts paid, or provisioned for, under items (viii)(A) and (viii)(c) of the Pre-Enforcement Priority of Payments is lower than the Maximum Purchase Amount.

Upon the occurrence of a Purchase Termination Event, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) shall (if so directed by the Controlling

Party) deliver to the Issuer, the Calculation Agent, the Originator and the Senior Notes Underwriter a Purchase Termination Event Notice. Following the delivery of a Purchase Termination Event Notice, (i) the Revolving Period will end, (ii) the Originator will be no longer allowed to sell the Additional Portfolio or Subsequent Portfolios to the Issuer (which will be no longer allowed to purchase them from the Originator) and (iii) the Amortisation Period will begin.

## **16. PROGRAMME TERMINATION EVENT**

The occurrence of each and any of the following events on any date will constitute a programme termination event (a “**Programme Termination Event**”) in accordance with the Master Transfer Agreement:

(a) *Purchase Termination Event*

Any Purchase Termination Event occurs.

(b) *Breach of Test*

The Gross Cumulative Default Ratio exceeds the applicable Ramp-Up Default Thresholds

(c) *Material Adverse Effect*

The occurrence of any Material Adverse Effect .

Upon the occurrence of a Programme Termination Event, the Representative of the Noteholders (subject to the provisions of the Intercreditor Agreement) shall deliver to the Issuer, the Calculation Agent, the Originator and the Senior Notes Underwriter a Programme Termination Event Notice. Following the delivery of a Programme Termination Event Notice:

- (i) the Ramp-Up Period and the Revolving Period will end;
- (ii) the Originator will be no longer allowed to sell the Additional Portfolio or Subsequent Portfolios to the Issuer (which will be no longer allowed to purchase them from the Originator); and
- (iii) the Issuer will be no longer allowed to issue the Series 2 Notes (if not already issued).

## **17. THE REPRESENTATIVE OF THE NOTEHOLDERS**

### **17.1 The Organisation of Noteholders**

The Organisation of the Noteholders shall be established upon and by virtue of the issuance of the Notes and shall remain in force and in effect until repayment in full or cancellation of the Notes.

### **17.2 Appointment of the Representative of the Noteholders**

Pursuant to the Rules of the Organisation of the Noteholders, for as long as any Note is outstanding, there shall at all times be a Representative of the Noteholders. The Representative of the Noteholders is the legal representative (*rappresentante legale*) of the Organisation of the Noteholders. The appointment of the Representative of the Noteholders, as legal representative of the Organisation of the Noteholders, is made by the Noteholders subject to and in accordance with the Rules of the Organisation of the Noteholders, except for the initial Representative of the Noteholders appointed at the time of issue of the relevant Senior Notes, who is appointed (or with respect to the Series 2 Notes, will be appointed) by both the Senior Notes Underwriter and the Junior Notes Underwriter in the Subscription Agreements. Each Noteholder is deemed to accept such appointment.

### **17.3 Successor to the Representative of the Noteholders**

Pursuant to the provisions of the Rules of the Organisation of the Noteholders, the Representative of the Noteholders: (x) can be removed by the Noteholders at any time,

provided a successor Representative of the Noteholders is appointed; and (y) can resign at any time. Such successor to the Representative of the Noteholders shall be:

- (a) a bank incorporated in any jurisdiction of the European Union or a bank incorporated in any other jurisdiction acting through an Italian branch or through a branch situated in a European Union country; or
- (b) a company or financial institution registered under article 106 of the Consolidated Banking Act; or
- (c) any other entity permitted by specific provisions of Italian law applicable to the securitisation of monetary rights and/or by any regulations, instructions, guidelines and/or specific approvals issued by the competent Italian supervising authorities.

#### **17.4 Provisions relating to the Representative of the Noteholders**

The Rules of the Organisation of the Noteholders contain provisions governing, *inter alia*, the terms of appointment, indemnification and exoneration from responsibility (and relief from responsibility) of the Representative of the Noteholders (including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction and providing for the indemnification of the Representative of the Noteholders in certain other circumstances) and provisions which govern the termination of the appointment of the Representative of the Noteholders and amendments to the terms of such appointment.

### **18. NOTICES**

#### **18.1 Notices through Monte Titoli**

Any notice regarding the Notes, as long as the Notes are held through Monte Titoli, shall be deemed to have been duly given if given through the systems of Monte Titoli. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner referred to above.

#### **18.2 Notices on the Irish Stock Exchange**

As long as the Senior Notes are listed on the official list of the Irish Stock Exchange and the rules of such exchange so require, any notice to the Senior Noteholders given by or on behalf of the Issuer shall also be published on the website of the Irish Stock Exchange ([www.ise.ie](http://www.ise.ie)) and shall also be considered sent for the purposes of Directive 2004/109/CE of the European Parliament and of the Council of 15 December 2004. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner referred to above.

In addition, so long as the Senior Notes are listed on the Irish Stock Exchange, any notice regarding the Senior Notes to the relevant Noteholders shall be given in any other manner as required by the regulation applicable from time to time, including, in particular the Transparency Directive.

#### **18.2 Other method of giving Notice**

The Representative of the Noteholders shall be at liberty to sanction some other method of giving notice to the Noteholders if, in its opinion, such other method is reasonable having regard to market practice then prevailing and provided that notice of such other method is given to the Noteholders in such manner as the Representative of the Noteholders shall require.

### **19. GOVERNING LAW AND JURISDICTION**

#### **19.1 Governing Law**

The Notes and all non-contractual obligations arising out or in connection with the Notes are governed by, and shall be construed according to, Italian law.

**19.2 Jurisdiction**

The Courts of Milan shall have exclusive jurisdiction in respect to any and all disputes arising out of, or in connection with, the validity, effectiveness, interpretation, enforceability and/or rescission of the Notes.

**EXHIBIT 1**  
**TO THE TERMS AND CONDITIONS OF THE NOTES**  
**RULES OF THE ORGANISATION OF THE NOTEHOLDERS**

**TITLE I**  
**GENERAL PROVISIONS**

**1 General**

1.1 *Establishment*

The Organisation of the Noteholders is created concurrently with the issue by Alba 4 SPV S.r.l. of, and subscription for, the Euro 74,600,000 Series A1 Guaranteed Asset Backed Floating Rate Notes due July 2040 and the Euro 76,900,000 Series B1 Asset Backed Floating Rate Notes due July 2040 and is governed by these Rules of the Organisation of the Noteholders (the “**Rules**”).

1.2 *Validity*

These Rules shall remain in force and effect until full repayment or cancellation of all the Notes.

1.3 *Integral part of the Notes*

These Rules are deemed to be an integral part of each Note issued by the Issuer.

**2 Definitions and interpretations**

2.1 *Interpretation*

2.1.1 Unless otherwise provided in these Rules, any capitalised term shall have the meaning attributed to it in the Terms and Conditions.

2.1.2 Any reference herein to an “Article” shall be a reference to an article of these Rules.

2.1.3 Headings and subheadings used herein are for ease of reference only and shall not affect the construction of these Rules.

2.2 *Definitions*

In these Rules, the terms set out below shall have the following meanings:

“**Basic Terms Modification**” means any proposal to:

- (a) change the date of maturity of the Notes of any Class;
- (b) change any date fixed for the payment of principal or interest in respect of the Notes of any Class;
- (c) reduce or cancel the amount of principal or interest payable on any date in respect of the Notes of any Class (other than any reduction or cancellation permitted under the Terms and Conditions) or alter the method of calculating the amount of any payment in respect of the Notes of any Class on redemption or maturity;
- (d) change the quorum required at any Meeting or the majority required to pass any Resolution;
- (e) change the currency in which payments are due in respect of any Class of Notes;
- (f) alter the priority of payments affecting the payment of interest and/or the repayment of principal in respect of any of the Senior Notes;
- (g) effect the exchange, conversion or substitution of the Notes of any Class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the

Issuer or any other person or body corporate, formed or to be formed;

(h) a change to this definition.

“**Blocked Notes**” means Notes which have been blocked by an authorised intermediary in an account with a clearing system.

“**Block Voting Instruction**” means in relation to a Meeting, the document obtained by the Paying Agent stating *inter alia*:

- (a) that the Blocked Notes specified therein will not be released until a specified date which falls after the conclusion of the Meeting;
- (b) that the Paying Agent has been instructed by the holder of the relevant Notes to cast the votes attributable to such Blocked Notes in a particular way on each resolution to be put to the relevant Meeting and that during the period of 48 hours before the time fixed for the Meeting such instructions may not be amended or revoked; and
- (c) authorising a Proxy to vote in accordance with such instructions.

“**Chairman**” means, in relation to any Meeting, the individual who takes the chair in accordance with Title II, Article 7 of these Rules.

“**Extraordinary Resolution**” means a resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules to resolve on the objects set out in Article 18.

“**Meeting**” means a meeting of Noteholders of any Class or Classes (whether originally convened or resumed following an adjournment).

“**Monte Titoli Account Holder**” means any authorised financial intermediary institution entitled to hold accounts on behalf of its customers with Monte Titoli including any depository banks appointed by Euroclear and Clearstream.

“**Ordinary Resolution**” means a resolution passed at a Meeting, duly convened and held in accordance with the provisions contained in these Rules to resolve on the object set out in Article 17.

“**Proxy**” means any person to which the powers to vote at a Meeting have been duly granted under a Voting Certificate or a Block Voting Instruction.

“**Resolution**” means an Ordinary Resolution and/or an Extraordinary Resolution, as the case may be.

“**Terms and Conditions**” means the terms and conditions of the Notes, as from time to time modified in accordance with the provisions herein contained and including any agreement or other document expressed to be supplemental thereto, and any reference to a numbered “**Condition**” is to the corresponding numbered provision thereof.

“**Voter**” means, in relation to any Meeting, the holder of a Voting Certificate or a Proxy.

“**Voting Certificate**” means, in relation to any Meeting, a certificate issued by the Monte Titoli Account Holder in accordance with Regulation 22 February 2008, as subsequently amended and supplemented, stating *inter alia*:

- (a) that the Blocked Notes specified therein will not be released until a specified date which falls after the conclusion of the Meeting; and
- (b) that the bearer of such certificate is entitled to attend and vote at such Meeting in respect of such Blocked Notes.

“**24 hours**” means a period of 24 hours including all or part of a day on which banks are open for business both in the place where any relevant Meeting is to be held and in the place where the Paying Agent has its specified office.

“**48 hours**” means 2 consecutive periods of 24 hours.

### **3 Purpose of the Organisation**

#### *3.1 Membership*

Each Noteholder is a member of the Organisation of the Noteholders.

#### *3.2 Purpose*

The purpose of the Organisation of the Noteholders is to co-ordinate the exercise of the rights of the Noteholders and, more generally, to take any action necessary or desirable to protect the interest of the Noteholders.

## **TITLE II**

### **MEETINGS OF NOTEHOLDERS**

### **4 Voting Certificates and Validity of the Proxies and Voting Certificates**

#### *4.1 Participation in Meetings*

Noteholders may participate in any Meeting by obtaining a Voting Certificate or by depositing a Block Voting Instruction at the specified office of the Representative of the Noteholders not later than 24 hours before the relevant Meeting.

#### *4.2 Validity*

A Block Voting Instruction or a Voting Certificate shall be valid only if deposited at the specified office of the Representative of the Noteholders, or at any other place approved by the Representative of the Noteholders, at least 24 hours before the time of the relevant Meeting. If a Block Voting Instruction or a Voting Certificate is not deposited before such deadline, it shall not be valid unless the Chairman decides otherwise before the Meeting proceeds to discuss the items on the agenda. If the Representative of the Noteholders so requires, a notarised copy of each Voting Certificate or Block Voting Instruction and satisfactory evidence of the identity of each Proxy named therein shall be produced at the Meeting but the Representative of the Noteholders shall not be obliged to investigate the validity of a Voting Certificate, a Block Voting Instruction or the identity of any Proxy.

#### *4.3 Mutually exclusive*

A Voting Certificate and a Block Voting Instruction cannot be outstanding simultaneously in respect of the same Note.

#### *4.4 Blocking and release of Notes*

References to the blocking or release of Notes shall be construed in accordance with the usual practices (including blocking the relevant account) of Monte Titoli (or any other applicable clearing system).

### **5 Convening the Meeting**

#### *5.1 Meetings convened by the Representative of the Noteholders*

The Representative of the Noteholders may convene a Meeting at any time.

The Representative of the Noteholders shall convene a Meeting at any time it is requested to do so in writing by (a) the Issuer, or (b) the Class A Guarantor (provided that it is the Controlling Party) (b) Noteholders representing at least one-tenth of the aggregate Principal Amount Outstanding of all the Notes outstanding for the Class in respect of which the Meeting is to be convened.

#### *5.2 Request from the Issuer*

Whenever the Issuer requests the Representative of the Noteholders to convene a Meeting, it

shall immediately send a communication in writing to that effect to the Representative of the Noteholders specifying the proposed day, time and place of the Meeting and the items to be included in the agenda.

5.3 *Request from the Class A Guarantor*

If at any time the Class A Guarantor requests the convocation of a meeting in relation to a Class A Guarantor Reserved Matter and the Representative of the Noteholders (subject to it being indemnified and/or secured to its satisfaction) fails to convene a Meeting of the Noteholders in order to resolve upon such matter, then the Class A Guarantor (provided that is the Controlling Party) shall be entitled to convene a Meeting of the Noteholders to discuss such matter.

5.4 *Time and place of the Meeting*

Every Meeting will be held on a date and at a time and place selected or approved by the Representative of the Noteholders.

**6 Notice of Meeting and Documents Available for Inspections**

6.1 *Notice of meeting*

At least 21 days' notice (exclusive of the day on which notice is delivered and of the day on which the relevant Meeting is to be held), specifying the day, time and place of the Meeting, must be given by the Paying Agent (upon instruction from the Representative of the Noteholders) to the relevant Noteholders, with copy to the Issuer and the Representative of the Noteholders.

6.2 *Content of the notice*

The notice of any resolution to be proposed at the Meeting shall specify at least the following information:

- (a) day, time and place of the Meeting, on first and second call;
- (b) agenda of the Meeting; and
- (c) nature of the Resolution.

6.3 *Validity notwithstanding lack of notice*

Notwithstanding the formalities required by this Article 6, a Meeting is validly held if the entire Principal Amount Outstanding of the relevant Class or Classes of Notes is represented thereat and the Issuer and the Representative of the Noteholders are present.

6.4 *Documentation Available for Inspection*

All the documentation (including, if possible, the full text of the resolution to be proposed at the Meeting) which is necessary, useful or appropriate for the Noteholders consciously to (i) determine whether or not to take part in the relevant Meeting and (ii) exercise their right to vote on the items on the agenda, shall be deposited at the specified office of the Representative of the Noteholders at least 7 days before the date set for the relevant Meeting.

**7 Chairman of the Meeting**

7.1 *Appointment of the Chairman*

The Meeting is chaired by an individual (who may, but need not be, a Noteholder) appointed by the Representative of the Noteholders. If the Representative of the Noteholders fails to make such appointment or the individual so appointed declines or is not present within 15 minutes after the time fixed for the Meeting, the Meeting shall be chaired by the person elected by the majority of the Voters present, failing which, the Issuer shall appoint a Chairman.

7.2 *Duties of the Chairman*

The Chairman ascertains that the Meeting has been duly convened and validly constituted, manages the business of the Meeting, monitors the fairness of proceedings, leads and

moderates the debate and defines the terms for voting.

7.3 *Assistance*

The Chairman may be assisted by outside experts or technical consultants, specifically invited to assist in any given matter, and may appoint one or more vote-counters, who are not required to be Noteholders.

**8 Quorum**

8.1 *Quorum and Passing of Resolution*

The quorum (*quorum constitutivo*) at any Meeting shall be:

- (a) in respect of a Meeting convened to vote on an Ordinary Resolution:
  - (i) on first call, one or more Voters holding or representing at least one half of the Principal Amount Outstanding of the outstanding Notes for the Class in respect of which the Meeting is convened; or
  - (ii) on second call, following any adjournment pursuant to Article 9, such fraction of the Principal Amount Outstanding of the outstanding Notes as is represented or held by Voters present at the Meeting;
- (b) in respect of a Meeting convened to vote on an Extraordinary Resolution, other than in respect of a Basic Terms Modification:
  - (i) on first call, one or more Voters holding or representing at least two thirds of the Principal Amount Outstanding of the Notes outstanding for the Class in respect of which the Meeting is convened; or
  - (ii) on second call, following any adjournment pursuant to Article 9, such fraction of the Principal Amount Outstanding of the outstanding Notes as is represented or held by Voters present at the Meeting;
- (c) in respect of a Meeting convened to vote on an Extraordinary Resolution in respect of a Basic Terms Modification:
  - (i) on first call, one or more Voters holding or representing at least three quarters of the Principal Amount Outstanding of the outstanding Notes for the Class in respect of which the Meeting is convened; or
  - (ii) on second call, following any adjournment pursuant to Article 9, one or more Voters holding or representing at least one half of the Principal Amount Outstanding of the outstanding Notes for the Class in respect of which the Meeting is convened.

8.2 *Passing of a Resolution*

A Resolution shall be deemed validly passed if voted by the following majorities:

- (a) in respect of an Ordinary Resolution, a majority of the votes cast; and
- (b) in respect of an Extraordinary Resolution, a majority of not less than three quarters of the votes cast.

**9 Adjournment for lack of quorum**

If a quorum is not reached within 30 minutes after the time fixed for any Meeting:

- (a) if such Meeting was requested by Noteholders, the Meeting shall be dissolved; or
- (b) in any other case, the Meeting (unless the Issuer and the Representative of the Noteholders otherwise agree) shall be adjourned to a new date no earlier than 14 days and no later than 42 days after the original date of such Meeting, and to such place and time as the Chairman determines with the approval of the Representative of the

Noteholders, provided however that no meeting may be adjourned more than once for want of quorum.

**10 Adjourned Meeting**

Except as provided in Article 9, the Chairman may, with the prior consent of any Meeting, and shall if so directed by any Meeting, adjourn such Meeting to another time and place. No business shall be transacted at any adjourned meeting except business which might have been transacted at the Meeting from which the adjournment took place.

**11 Notice following adjournment**

11.1 *Notice required*

If a Meeting is adjourned in accordance with the provisions of Article 9, Articles 5 and 6 above shall apply to the resumed meeting except that:

- (a) 10-days' notice (exclusive of the day on which the notice is delivered and of the day on which the Meeting is to be resumed) shall be sufficient; and
- (b) the notice shall specifically set out the quorum requirements which will apply when the Meeting resumes.

11.2 *Notice not required*

It shall not be necessary to give notice to resume any Meeting adjourned for reasons other than those described in Article 9.

**12 Participation**

The following categories of persons may attend and speak at a Meeting:

- (a) Voters;
- (b) the director(s) and the auditors of the Issuer;
- (c) the Representative of the Noteholders;
- (d) financial and/or legal advisers to the Issuer and the Representative of the Noteholders; and
- (e) any other person authorised by the Issuer, the Representative of the Noteholders or by virtue of a resolution of the relevant Meeting.

**13 Voting by show of hands**

13.1 *First instance vote*

Every question submitted to a Meeting shall be decided in the first instance by a vote by show of hands.

13.2 *Demand of poll*

If, before the vote by show of hands, the Issuer, the Representative of the Noteholders, the Chairman or one or more Voters who represent or hold at least one-tenth of the aggregate Principal Amount Outstanding of the relevant Class or Classes of Notes request to vote by poll, the question shall be voted on in compliance with the provisions of Article 14. No request to vote by poll shall hinder the continuation of the Meeting in relation to the other items on the agenda.

13.3 *Approval of a resolution*

A resolution is only passed on a vote by show of hands if the Meeting has been validly constituted and the relevant resolution is unanimously approved by all the Voters at the Meeting. The Chairman's declaration that on a show of hands a resolution has been passed or rejected shall be conclusive. Whenever it is not possible to approve a resolution by show of hands, voting shall be carried out by poll.

## **14 Voting by poll**

### *14.1 Demand for a poll*

A demand for a poll shall be valid if it is made by the Chairman, the Issuer, the Representative of the Noteholders or one or more Voters representing or holding not less than one-tenth of the Principal Amount Outstanding of the outstanding Notes entitled to vote at the Meeting. A poll may be taken immediately or after any adjournment as decided by the Chairman, but any poll demanded on the election of a Chairman or on any question of adjournment shall be taken immediately. A valid demand for a poll shall not prevent the continuation of the relevant Meeting for any other business.

### *14.2 Conditions of a poll*

The Chairman sets the conditions for voting by poll, including for counting and calculating the votes, and may set a time limit by which all votes must be cast. Any vote which is not cast in compliance with the conditions set by the Chairman shall be null. After voting ends, the votes shall be counted and after the counting the Chairman shall announce to the Meeting the outcome of the vote.

## **15 Votes**

### *15.1 Votes*

Each Voter shall have:

- (a) one vote, when voting by a show of hands; and
- (b) one vote for each Euro 1,000 of Principal Amount Outstanding of each Note represented or held by the Voter, when voting by poll.

### *15.2 Exercise of multiple votes*

Unless the terms of any Block Voting Instruction or Voting Certificate borne by a Proxy state otherwise, a Voter shall not be obliged to exercise all the votes to which such Voter is entitled or to cast all the votes which he exercises in the same manner.

### *15.3 Voting tie*

In case of a voting tie, the Chairman shall have the casting vote.

## **16 Voting by Proxy**

### *16.1 Validity*

Any vote by a Proxy appointed in accordance with the relevant Block Voting Instruction or Voting Certificate shall be valid even if such Block Voting Instruction or Voting Certificate or any other instruction pursuant to which it has been given had been amended or revoked provided that none of the Paying Agent, the Issuer, the Representative of the Noteholders or the Chairman has been notified in writing of such revocation at least 24 hours prior to the time set for the relevant Meeting.

### *16.2 Adjournment of Meeting*

Unless revoked, the appointment of a Proxy in relation to a Meeting shall remain valid also in relation to a resumption of such Meeting following an adjournment, unless such Meeting was adjourned for lack of quorum pursuant to Article 9. If a Meeting is adjourned pursuant to Article 9, any person appointed to vote in such Meeting must be re-appointed by virtue of a Block Voting Instruction or Voting Certificate in order to vote at the resumed Meeting.

## **17 Ordinary Resolutions**

Save as provided by Article 18 and subject to the provisions of Article 19 and the provisions of the Intercreditor Agreement, a Meeting shall have the power exercisable by Ordinary Resolution to:

- (a) waive (including to waive a prior breach) any breach by the Issuer of its obligations arising under the Transaction Documents or the Notes, or waive a Trigger Event, if such waivers are not previously authorised by the Representative of the Noteholders in accordance with the Transaction Documents;
- (b) determine any other matters submitted to the Meeting, other than matters required to be subject of an Extraordinary Resolution, in accordance with the provisions of these Rules and the Transaction Documents; and
- (c) authorise the Representative of the Noteholders or any other person to execute all documents and do all things necessary to give effect to any Ordinary Resolution.

## **18 Extraordinary Resolutions**

The Meeting, subject to Articles 19 and 32 and the provisions of the Intercreditor Agreement, shall have power exercisable by Extraordinary Resolution to:

- (a) approve any Basic Terms Modification;
- (b) approve any proposal by the Issuer or the Representative of the Noteholders for any alteration or waiver of the rights of the Noteholders against the Issuer;
- (c) approve any scheme or proposal related to the mandatory exchange or substitution of any Class of Notes;
- (d) save as provided by Article 29, approve any amendments of the provisions of (i) these Rules, (ii) the Terms and Conditions, (iii) the Intercreditor Agreement, (iv) the Cash Allocation, Management and Payment Agreement, or (v) any other Transaction Document in respect of the obligations of the Issuer under or in respect of the Notes which is not a Basic Terms Modification be proposed by the Issuer, the Representative of the Noteholders and/or any other party thereto;
- (e) discharge or exonerate (including prior or retrospective discharge or exoneration) the Representative of the Noteholders from any liability in relation to any act or omission for which the Representative of the Noteholders has or may become liable pursuant or in relation to these Rules, the Terms and Conditions or any other Transaction Document;
- (f) grant any authority, order or sanction which, under the provisions of these Rules or under the Terms and Conditions, must be granted by Extraordinary Resolution (including the issue of a Trigger Notice as a result of a Trigger Event pursuant to Condition 14 (*Enforcement*));
- (g) authorise and ratify the actions of the Representative of the Noteholders in compliance with these Rules, the Intercreditor Agreement and any other Transaction Document;
- (h) authorise the Representative of the Noteholders or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- (i) appoint and remove the Representative of the Noteholders (with the prior written consent of the Class A Guarantor – provided that it is the Controlling Party – which shall not be unreasonably withheld); and
- (j) authorise or object to individual actions or remedies of Noteholders under Article 23,

## **19 Relationship between Classes and conflict of interests**

### **19.1 Basic Terms Modification**

No Extraordinary Resolution involving a Basic Terms Modification that is passed by the Holders of one Class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the Holders of each of the other Classes of Notes (to the extent that there are Notes outstanding in any of such other Class).

19.2 *Extraordinary Resolution other than in respect of a Basic Terms Modification or Ordinary Resolution*

No Extraordinary Resolution of any Class of Notes to approve any matter other than a Basic Terms Modification or a matter to be approved by an Ordinary Resolution shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other Classes of Notes ranking at that time senior to such Class with respect to the repayment of the principal pursuant to Condition 4.3 (*Status, Priority and Segregation - Ranking*) and in accordance with the applicable Priority of Payments (to the extent that there are Notes outstanding ranking senior to such Class).

19.3 *Binding nature of the Resolutions*

Any Resolution passed at a Meeting of the Noteholders of one or more Classes of Notes duly convened and held in accordance with these Rules shall be binding upon all Noteholders of such Class or Classes, whether or not present at such Meeting and whether or not dissenting and whether or not voting and, except in the case of Meeting relating to a Basic Terms Modification, any Resolution passed at a meeting of the then Most Senior Class of Noteholders duly convened and held as aforesaid shall also be binding upon all the other Class of Noteholders. In each such case, all of the relevant Classes of Noteholders shall be bound to give effect to any such resolutions accordingly.

19.4 *Conflict between Classes*

If, however, in the opinion of the Representative of the Noteholders, there is a conflict between interests of

- (i) different Classes of Noteholders, then the Representative of the Noteholders is required to have regard to the interests of the Most Senior Class of Noteholders only;
- (ii) the Noteholders and of the Other Issuer Creditors, the Representative of the Noteholders will have regard to the interests of whichever Noteholder and/or Other Issuer Creditor ranks higher in the applicable Priority of Payments.

19.5 *Resolution of the Junior Noteholders*

For the avoidance of doubt, amendments or modifications which (in the opinion of the Representative of the Noteholders) do not affect (directly or indirectly) the payment of interest and/or the repayment of principal in respect of any of the Senior Notes and/or any other interest or rights of the Senior Noteholders may be passed at a Meeting of the Junior Noteholders without any sanction being required by the holders of the Senior Notes.

19.6 *Joint Meetings*

Subject to the provisions of these Rules and the Terms and Conditions, if the Representative of the Noteholders considers it is not detrimental to the holders of any relevant Class of Notes, joint meetings of the Class A Noteholders and of the Class B Noteholders may be held to consider the same Resolution and the provisions of these Rules shall apply *mutatis mutandis* thereto.

19.7 *Separate and combined Meetings of the Noteholders*

Subject to the aforesaid provisions of this Article 19, the following provisions shall apply where outstanding Notes belong to more than one Class:

- (a) business which, in the sole opinion of the Representative of the Noteholders, affects only one Class of Notes shall be transacted at a separate Meeting of the Noteholders of such Class;
- (b) business which, in the opinion of the Representative of the Noteholders, affects more than one Class of Notes but does not give rise to an actual or potential conflict of interest between the Noteholders of one such Class of Notes and the Noteholders of the other Class of Notes shall be transacted either at separate Meetings of the Noteholders

of each such Class of Notes or at a single Meeting of the Noteholders of all such Classes of Notes, as the Representative of the Noteholders shall determine in its absolute discretion; and

- (c) business which, in the opinion of the Representative of the Noteholders, affects the Noteholders of more than one Class of Notes and gives rise to an actual or potential conflict of interest between the Noteholders of one such Class of Notes and the Noteholders of the other Class of Notes shall be transacted at separate Meetings of the Noteholders of each such Class.

In this paragraph “**business**” includes (without limitation) the passing or rejection of any Resolution.

#### 19.8 *Notice of Resolution*

Within 14 days after the conclusion of each Meeting, the Issuer shall give notice, in accordance with Condition 18 (*Notices*), of the result of the votes on each resolution put to the Meeting. Such notice shall also be sent by the Issuer (or its agents) to the Paying Agent and the Representative of the Noteholders.

### 20 **Challenge of Resolution**

Any absent or dissenting Noteholder has the right to challenge Resolutions which are not passed in compliance with the provisions of these Rules.

### 21 **Minutes**

Minutes shall be made of all resolutions and proceedings of each Meeting. The Minutes shall be signed by the Chairman and shall be prima facie evidence of the proceedings therein recorded. Unless and until the contrary is proved, every Meeting in respect of which minutes have been signed by the Chairman shall be regarded as having been duly convened and held and all resolutions passed or proceedings transacted shall be regarded as having been duly passed and transacted.

### 22 **Written Resolution**

Notwithstanding the formalities required by Article 6, a Meeting is validly held if a resolution in writing is signed by or on behalf of all Noteholders of the relevant Class or Classes who at any relevant time are entitled to participate in a Meeting in accordance with the provisions of these Rules, whether contained in one document or several documents in the same form, each signed by or on behalf of one or more of such Noteholders (the “**Written Resolution**”).

A Written Resolution shall take effect as if it were an Extraordinary Resolution or an Ordinary Resolution, in respect of matters to be determined by Extraordinary Resolution or Ordinary Resolution, as the case may be.

### 23 **Individual Actions and Remedies**

#### 23.1 *Individual actions of the Noteholders*

Each Noteholder is deemed to have accepted and is bound by the limited recourse and non petition provisions of Condition 9 (*Non Petition and Limited Recourse*). Accordingly, the right of each Noteholder to bring individual actions or use other individual remedies to enforce his/her rights under the Notes or the Transaction Documents will be subject to a Meeting passing an Extraordinary Resolution authorising such individual action or other remedy. In this respect, the following provisions shall apply:

- (a) the Noteholder intending to enforce his/her rights under the Notes or the Transaction Documents will notify the Representative of the Noteholders of his/her intention;
- (b) the Representative of the Noteholders will, without delay, call a Meeting in accordance with these Rules at the expense of such Noteholder;
- (c) if the Meeting passes a resolution objecting to the enforcement of the individual action

or remedy, the Noteholder will be prevented from taking such action or remedy (without prejudice to the fact that after a reasonable period of time, the same matter may be resubmitted for review of another Meeting); and

- (d) if the Meeting of Noteholders authorises such individual action or remedy, the Noteholder will not be prohibited from taking such individual action or remedy.

23.2 *Individual actions subject to Resolution*

No Noteholder will be permitted to take any individual action or remedy to enforce his/her rights under the Notes or the Transaction Documents unless a Meeting has been held to resolve on such action or remedy in accordance with the provisions of this Article 23.

23.3 *Breach of Condition 9 (Non Petition and Limited Recourse)*

No Noteholder shall be permitted to take any individual action or remedy to enforce his/her rights under the Notes or the Transaction Documents in the event that such action or remedy would cause or result in a breach of Condition 9 (*Non Petition and Limited Recourse*).

23.4 *Exclusive power of the Representative of the Noteholders*

Save as provided in this Article 23, only the Representative of the Noteholders may pursue the remedies available under the general law or the Transaction Documents to obtain payment of obligations or to enforce the Security and no Noteholder shall be entitled to proceed directly against the Issuer to obtain or enforce such remedies.

**24 Further Regulations**

Subject to all other provisions contained in these Rules, the Representative of the Noteholders may, without the consent of the Issuer, prescribe such further regulations regarding the holding of Meetings and attendance and voting at them and/or the provisions of a Written Resolution as the Representative of the Noteholders in its sole discretion may decide.

**TITLE III**

**THE REPRESENTATIVE OF THE NOTEHOLDERS**

**25 Appointment, Removal and Remuneration**

25.1 *Appointment*

The appointment of the Representative of the Noteholders takes place by Extraordinary Resolution of the Most Senior Class of Noteholders in accordance with the provisions of this Article 25, except for the appointment of the first Representative of the Noteholders which will be Securitisation Services.

25.2 *Requirements for the Representative of the Noteholders*

The Representative of the Noteholders shall be:

- (a) a bank incorporated in any jurisdiction of the European Union, or a bank incorporated in any other jurisdiction acting through an Italian branch; or
- (b) a company or financial institution enrolled with the register held by the Bank of Italy pursuant to Article 106 of the Consolidated Banking Act; or
- (c) any other entity which is not prohibited from acting in the capacity of Representative of the Noteholders pursuant to the law.

25.3 *Directors and auditors of the Issuer*

The directors and auditors of the Issuer cannot be appointed as the Representative of the Noteholders, and if appointed as such they shall be automatically removed.

25.4 *Duration of appointment*

Unless the Representative of the Noteholders is removed by Extraordinary Resolution pursuant to Title II above or it resigns in accordance with Article 27, it shall remain in office until full repayment or cancellation of all the Notes.

25.5 *Removal*

Subject to the provisions hereto and the provisions of the Intercreditor Agreement, the Representative of the Noteholders may be removed by Extraordinary Resolution of the Most Senior Class of Noteholders at any time.

25.6 *Office after termination*

In the event of a termination of the appointment of the Representative of the Noteholders for any reason whatsoever, such Representative of the Noteholders shall remain in office until a substitute Representative of the Noteholders, which shall be a subject among those listed in Article 25.2, paragraphs (a), (b), and (c) above, accepts its appointment, and the powers and authority of the Representative of the Noteholders whose appointment has been terminated shall, pending the acceptance of its appointment by the substitute, be limited to those necessary to perform the essential functions required in connection with the Notes.

25.7 *Remuneration*

The Issuer shall pay to the Representative of the Noteholders for its services as Representative of the Noteholders, an annual fee for its services as Representative of the Noteholders from the Initial Issue Date, as agreed either in the initial agreement(s) for the issue of and subscription for the Notes or in separate fee letter. Such fees shall accrue from day to day and shall be payable in accordance with the applicable Priority of Payments.

**26 Duties and Powers of the Representative of the Noteholders**

26.1 *Legal representative of the Organisation of the Noteholders*

The Representative of the Noteholders is the legal representative of the Organisation of the Noteholders and has the power to exercise the rights conferred on it pursuant to the Transaction Documents in order to protect the interests of the Noteholders.

26.2 *Meetings and implementation of Resolutions*

Subject to Article 28, the Representative of the Noteholders is responsible for implementing all resolutions of the Noteholders and has the right to convene Meetings to propose any course of action which it considers from time to time necessary or desirable.

26.3 *Delegation*

26.3.1 The Representative of the Noteholders may also, whenever it considers to be expedient and in the interests of the Noteholders, whether by power of attorney or otherwise, delegate to any person(s) all or any of the powers, authorities and discretion vested in it as aforesaid. Any such delegation may be made upon such terms and conditions and subject to such regulations (including power to sub-delegate) as the Representative of the Noteholders may think fit, provided that: (a) the Representative of the Noteholders shall use all reasonable care and skill in the selection of the sub-agent, sub-contractor or representative which must fall within one of the categories set forth in Article 25.2 herein; and (b) the sub-agent, sub-contractor or representative shall undertake to perform the obligations of the Representative of the Noteholders in respect of which it has been appointed.

26.3.2 The Representative of the Noteholders shall in any case be responsible for any loss incurred by the Issuer as a consequence of any misconduct or default on the part of such delegate or sub-delegate. The Representative of the Noteholders shall as soon as reasonably practicable give notice to the Issuer of the appointment of any delegate and the renewal, extension and termination of such appointment and shall procure that any delegate shall also as soon as reasonably practicable give notice to the Issuer of any sub

delegate.

26.3.3 The Representative of the Noteholders shall act in accordance with the provisions of article 1176, second paragraph of the Italian Civil Code.

26.4 *Judicial proceedings*

The Representative of the Noteholders is authorised to represent the Organisation of the Noteholders, *inter alia*, in any judicial proceedings.

**27 Resignation of the Representative of the Noteholders**

27.1 *Resignation*

The Representative of the Noteholders may resign at any time by giving at least three calendar months' written notice to the Issuer and the Rating Agency, with no need to provide any specific reason for the resignation and without being responsible for any costs incurred as a result of such resignation.

27.2 *Effectiveness*

The resignation of the Representative of the Noteholders shall not become effective until a new Representative of the Noteholders has been appointed by an Extraordinary Resolution of the Most Senior Class of Noteholders and such new Representative of the Noteholders has accepted its appointment provided that if the Noteholders fail to select a new Representative of the Noteholders within three months of written notice of resignation delivered by the Representative of the Noteholders, the Representative of the Noteholders may appoint a successor which is a qualifying entity pursuant to Article 25.

**28 Exoneration of the Representative of the Noteholders**

28.1 *Limited obligations*

The Representative of the Noteholders shall not assume any obligations or responsibilities in addition to those expressly provided herein and in the Transaction Documents.

28.2 *Other limitations*

Without limiting the generality of Article 28.1, the Representative of the Noteholders:

- (i) shall not be under any obligation to take any steps to ascertain whether a Trigger Event or any other event, condition or act, the occurrence of which would cause a right or remedy to become exercisable by the Representative of the Noteholders hereunder or under any other Transaction Document has occurred, and until the Representative of the Noteholders has actual knowledge or express notice to the contrary, it shall be entitled to assume that no Trigger Event has occurred;
- (ii) shall not be under any obligation to monitor or supervise the observance and performance by the Issuer or any other parties of their obligations contained in the Terms and Conditions and hereunder or, as the case may be, in any Transaction Document to which each such party is a party, and until it shall have actual knowledge or express notice to the contrary, the Representative of the Noteholders shall be entitled to assume that the Issuer and each other party to the Transaction Documents are carefully observing and performing all their respective obligations;
- (iii) except as otherwise required under these Rules or the Transaction Documents, shall not be under any obligation to give notice to any person of its activities in performance of the provisions of these Rules or any other Transaction Document;
- (iv) shall not be responsible for (or for investigating) the legality, validity, effectiveness, adequacy, suitability or genuineness of these Rules or of any Transaction Document, or of any other document or any obligation or rights created or purported to be created hereby or thereby or pursuant hereto or thereto, and (without prejudice to the generality of the foregoing) it shall not have any responsibility for or have any duty to make any

investigation in respect of or in any way be liable whatsoever for:

- (1) the nature, status, creditworthiness or solvency of the Issuer;
  - (2) the existence, accuracy or sufficiency of any legal or other opinion, search, report, certificate, valuation or investigation delivered or obtained or required to be delivered or obtained at any time in connection herewith;
  - (3) the suitability, adequacy or sufficiency of any collection procedure operated by the Servicer or compliance therewith;
  - (4) the failure by the Issuer to obtain or comply with any licence, consent or other authority in connection with the purchase or administration of the Aggregate Portfolio; and
  - (5) any accounts, books, records or files maintained by the Issuer, the Servicer, and the Paying Agent or any other person in respect of the Aggregate Portfolio or the Notes;
- (v) shall not be responsible for the receipt or application by the Issuer of the proceeds of the issue of the Notes or the distribution of any of such proceeds to the persons entitled thereto;
- (vi) shall not be responsible for the maintenance of any rating of the Class A Notes by the Rating Agency or any other credit or rating agency or any other person;
- (vii) shall not be responsible for (or for investigating) any matter which is the subject of any recital, statement, warranty or representation by any party other than the Representative of the Noteholders contained herein or in any Transaction Document or any certificate, document or agreement relating to thereto or for the execution, legality, validity, effectiveness, enforceability or admissibility in evidence thereof;
- (viii) shall not be bound or concerned to examine or enquire into or be liable for any defect or failure in the right or title of the Issuer in relation to the Aggregate Portfolio or any part thereof, whether such defect or failure was known to the Representative of the Noteholders or might have been discovered upon examination or enquiry or whether capable of being remedied or not;
- (ix) shall not be liable for any failure, omission or defect in registering or filing or procuring registration or filing of or otherwise protecting or perfecting these Rules or any Transaction Document;
- (x) shall not be under any obligation to guarantee or procure the repayment of the Aggregate Portfolio or any part thereof;
- (xi) shall not be obliged to evaluate the consequences that any modification of these Rules or any of the Transaction Documents or exercise of its rights, powers and authorities may have for any individual Noteholder;
- (xii) shall not (unless and to the extent ordered to do so by a court of competent jurisdiction) be under any obligation to disclose to any Noteholder, any Other Issuer Creditor or any other party any confidential, financial, price sensitive or other information made available to the Representative of the Noteholders by the Issuer or any other person in connection with these Rules and no Noteholder, Other Issuer Creditor or any other party shall be entitled to take any action to obtain from the Representative of the Noteholders any such information;
- (xiii) shall not be responsible for reviewing or investigating any report relating to the Aggregate Portfolio provided by any person;
- (xiv) shall not be responsible for or have any liability with respect to any loss or damage arising from the realisation of the Aggregate Portfolio or any part thereof;

- (xv) shall not be responsible for (except as otherwise provided in the Terms and Conditions or in the Transaction Documents) making or verifying any determination or calculation in respect of the Aggregate Portfolio and the Notes; and
- (xvi) shall not be deemed responsible for having acted pursuant to instructions received from the Meeting, even if it is later discovered that the Meeting had not been validly convened or constituted, and that such resolution had not been duly approved or was not otherwise valid or binding for the Noteholders.

### 28.3 *Discretion*

#### 28.3.1 The Representative of the Noteholders:

- (i) save as expressly otherwise provided herein and in the Intercreditor Agreement, shall have absolute discretion as to the exercise, non-exercise or refraining from exercise of any right, power and discretion vested in the Representative of the Noteholders by these Rules or by operation of law, and the Representative of the Noteholders shall not be responsible for any loss, cost, damage, expense or inconvenience resulting from the exercise, non-exercise or refraining from exercise thereof except insofar as the same are incurred as a result of its wilful default (*dolo*) or gross negligence (*colpa grave*);
- (ii) in connection with matters in respect of which the Representative of the Noteholders is entitled to exercise its discretion hereunder, the Representative of the Noteholders has the right - but not the obligation - to convene a Meeting or Meetings in order to obtain the Noteholders' instructions as to how it should act. Prior to undertaking any action, the Representative of the Noteholders shall be entitled to request that the Noteholders indemnify it and/or provide it with security to its satisfaction against all actions, proceedings, claims and demands which may be brought against it and against all costs, charges, damages, expenses and liabilities which it may incur by taking such action;
- (iii) may certify whether or not a Trigger Event is in its opinion prejudicial to the interest of the Noteholders and any such certification shall be conclusive and binding upon the Issuer, the Noteholders, the Other Issuer Creditors and any other subject party to the Transaction Documents;
- (iv) may determine whether or not a default in the performance by the Issuer of any obligation under the provisions of these Rules, the Notes or any other Transaction Documents may be remedied, and if the Representative of the Noteholders certifies that any such default is, in its opinion, not capable of being remedied, such certificate shall be conclusive and binding upon the Issuer, the Noteholders, the Other Issuer Creditors and any other party to the Transaction Documents;

28.3.2 Any consent or approval given by the Representative of the Noteholders under these Rules and any other Transaction Document may be given on such terms and subject to such conditions (if any) as the Representative of the Noteholders deems appropriate.

### 28.4 *Certificates*

#### The Representative of the Noteholders:

- (i) may act on the advice of or a certificate or opinion of or any information obtained from any lawyer, accountant, banker, broker, credit or rating agency or other expert whether obtained by the Issuer, the Representative of the Noteholders or otherwise, and shall not be responsible for any loss incurred by so acting in the absence of gross negligence (*colpa grave*) or wilful default (*dolo*) on the part of the Representative of the Noteholders;
- (ii) may call for, and shall be at liberty to accept as sufficient evidence of any fact or matter,

a certificate duly signed by the Issuer, and the Representative of the Noteholders shall not be bound in any such case to call for further evidence or be responsible for any loss that may be incurred as a result of acting on such certificate unless it has information which casts a doubt on the truthfulness of the certificates signed by the Issuer;

- (i) shall have the right to call for (or have the Issuer call for) and to rely on written attestations issued by any one of the parties to the Intercreditor Agreement or by any Other Issuer Creditor. The Representative of the Noteholders shall not be required to seek additional evidence and shall not be held responsible for any loss, liability, cost, damage, expense, or charge incurred as a result of having failed to do so;
- (ii) may, for the purpose of exercising any right, power, trust, authority, duty or discretion under or in relation to the Transaction Documents or the Notes, in considering whether such exercise would be materially prejudicial to the interests of the Other Issuer Creditors, take into account, amongst other things, any written confirmation from the Rating Agency that the then current ratings of the Notes would not be adversely affected by such exercise.

#### 28.5 *Ownership of the Notes*

28.5.1 In order to ascertain ownership of the Notes, the Representative of the Noteholders may fully rely on the certificates issued under Regulation dated 22 February 2008, jointly issued by CONSOB and the Bank of Italy (as subsequently amended and supplemented), which certificates are conclusive proof of the statements attested to therein.

28.5.2 The Representative of the Noteholders may assume without enquiry that no Notes are, at any given time, held by or for the benefit of the Issuer.

#### 28.6 *Certificates of Monte Titoli Account Holders*

The Representative of the Noteholders, in order to ascertain ownership of the Notes, may fully rely on the certificates issued by any Monte Titoli Account Holder in accordance with Regulation 22 February 2008, as amended from time to time, which certificates are to be conclusive proof of the matters certified therein.

#### 28.7 *Certificates of Clearing Systems*

The Representative of the Noteholders shall be at liberty to call for and to rely on as sufficient evidence of the facts stated therein, a certificate, letter or confirmation certified as true and accurate and signed on behalf of such clearing system as the Representative of the Noteholders considers appropriate, or any form of record made by any clearing system, to the effect that at any particular time or throughout any particular period any particular person is, or was, or will be, shown its records as entitled to a particular number of Notes.

#### 28.8 *Illegality*

No provision of these Rules shall require the Representative of the Noteholders to do anything which may be illegal or contrary to applicable law or regulations or to expend or otherwise risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its powers or discretion, and the Representative of the Noteholders may refrain from taking any action which would or might, in its opinion, be contrary to any law of any jurisdiction or any regulation or directive of any agency of any state, or if it has reasonable grounds to believe that it will not be reimbursed for any funds it expends, or that it will not be indemnified against any loss or liability which it may incur as a consequence of such action. The Representative of the Noteholders may do anything which, in its opinion, is necessary to comply with any such law, regulation or directive as aforesaid.

### **29 Amendments to the Transaction Documents**

#### 29.1 *Consent of the Representative of the Noteholders*

Subject to the provisions of the Intercreditor Agreement and (in case of any Class A Guarantor

Reserved Matter and provided that the Class A Guarantor is the Controlling Party) the prior written consent of the Class A Guarantor, the Representative of the Noteholders may agree to any amendment or modification to these Rules or to any of the Transaction Documents, without the prior consent or sanction of the Noteholders if in its opinion:

- (i) it is expedient to make such amendment or modification in order to correct a manifest error or an error of a formal, minor or technical nature; or
- (ii) save as provided under paragraph (i) above, such amendment or modification (which shall be other than in respect of a Basic Terms Modification or any provision in these Rules which makes a reference to the definition of “Basic Terms Modification”) is not materially prejudicial to the interest of the Most Senior Class of Noteholders and (ii) a prior written notice is given to the Rating Agency.

#### 29.2 *Binding nature of amendments*

Any such amendment or modification shall be binding on the Noteholders and the Other Issuer Creditors and, unless the Representative of the Noteholders otherwise agrees, the Issuer shall procure that such amendment or modification be notified to the Noteholders and the Other Issuer Creditors as soon as practicable thereafter.

Any consent, approval or waiver by the Representative of the Noteholders shall be notified to the Rating Agency.

### **30 Security Documents and the Class A Guarantee and Deed of Undertaking**

#### 30.1 *Exercise of rights under the Security Documents*

Without prejudice to Condition 14 (*Enforcement*), the Representative of the Noteholders shall have the right to exercise all the rights granted by the Issuer to Noteholders which have the benefit of the Deed of Pledge and of the Deed of Charge. The beneficiaries of the Deed of Pledge and of the Deed of Charge are referred to as the “**Secured Noteholders**”.

#### 30.2 *Rights of the Representative of the Noteholders in respect of the Security Documents*

The Representative of the Noteholders, acting on behalf of the Secured Noteholders, shall be entitled to:

- (a) appoint and entrust the Issuer to collect, in the Secured Noteholders' interest and on their behalf, any amounts deriving from the receivables and from the pledged receivables and rights, and shall be entitled to give instructions, jointly with the Issuer, to the respective debtors of the pledged receivables to effect the payments related to such receivables standing to the credit of the relevant Accounts or any other account opened in the name of the Issuer;
- (b) attest that the account(s) to which payments have been made in respect of the pledged receivables shall be deposit accounts for the purpose of Article 2803 of the Italian Civil Code, and procure that such account(s) is(are) operated in compliance with the provisions of the Cash Allocation, Management and Payment Agreement and the Intercreditor Agreement. For such purpose and until a Trigger Notice is served, the Representative of the Noteholders, acting in the name and on behalf of the Secured Noteholders, shall appoint the Issuer to manage the Accounts in compliance with the Cash Allocation, Management and Payment Agreement;
- (c) procure that all funds credited to the relevant Accounts from time to time are applied in accordance with the Cash Allocation, Management and Payment Agreement and the Intercreditor Agreement; and
- (d) procure that the funds from time to time deriving from the pledged receivables and the amounts standing to the credit of the relevant Accounts are applied towards satisfaction not only of the amounts due to the Secured Noteholders, but also of such amounts due and payable to any other parties that rank prior to the Secured Noteholders according to

the applicable Priority of Payments set forth in the Terms and Conditions, and to the extent that all amounts due and payable to the Secured Noteholders have been paid in full, that any remaining amount be used towards satisfaction of any amounts due to any other parties that rank below the Secured Noteholders.

30.3 *Waiver of the Secured Noteholders*

The Secured Noteholders irrevocably waive any right they may have in relation to any amount deriving from time to time from the pledged receivables or credited to the Accounts which is not in accordance with the provisions of this Article 30.

30.4 *Limitation of rights*

The Representative of the Noteholders shall not be entitled to collect, withdraw or apply, or issue instructions for the collection, withdrawal or application of, cash deriving from time to time from the pledged receivables under the Deed of Pledge except in accordance with the provisions of this Article 30 and the Intercreditor Agreement.

30.5 *Rights of the Representative of the Noteholders in respect of the Class A Guarantee and Deed of Undertaking*

Without prejudice to Condition 14 (*Enforcement*), the Representative of the Noteholders (in its capacity as agent in the name of and on behalf of the Senior Noteholders only) shall be the only person entitled under the Class A Guarantee and Deed of Undertaking to enforce or to exercise any rights of the Senior Noteholders against the Class A Guarantor or any of the other parties thereto or to take any steps against the Class A Guarantor or any of the other parties thereto for the purposes of enforcing the rights of the Senior Noteholders or recovering any amounts owing to the Senior Noteholders hereunder.

**31 Indemnity**

31.1 *Indemnification*

Pursuant to the Subscription Agreements, the Issuer has covenanted and undertaken (or, in respect of the Series 2 Notes, will covenant and undertake) to reimburse, pay or discharge (on a full indemnity basis) on written demand, to the extent not already reimbursed, paid or discharged by any Noteholder, all costs, liabilities, losses, charges, expenses, damages, actions, proceedings, claims and demands (including, without limitation, legal fees and any applicable value added tax due in addition to the agreed amounts or similar tax) properly incurred by or made against the Representative of the Noteholders or by any person appointed by it to whom any power, authority or discretion may be delegated by it, in relation to the preparation and execution of, the exercise or purported exercise of its powers, performance of its duties under and in any other manner in relation to these Rules and the Transaction Documents, including but not limited to legal and travelling expenses, and any stamp, issue, registration, documentary and other taxes or duties paid by the Representative of the Noteholders in connection with any action and/or legal proceedings brought or contemplated by the Representative of the Noteholders pursuant to the Transaction Documents, or against the Issuer, or any other person for enforcing any obligations due hereunder, or under these Rules, the Notes or the Transaction Documents, except insofar as the same are incurred because of the fraud, negligence or wilful misconduct of the Representative of the Noteholders or the abovementioned appointed persons. It remains understood and agreed that such costs, expenses and liabilities shall be reasonably incurred.

31.2 *Liability*

Notwithstanding any other provision of these Rules, the Representative of the Noteholders shall not be liable for any act, matter or thing done or omitted in any way in connection with the Transaction Documents, the Notes or these Rules except in relation to gross negligence (*colpa grave*) or wilful default (*dolo*) of the Representative of the Noteholders.

**32 Class A Guarantor Reserved Matters and Controlling Party Reserved Matters**

Notwithstanding the above:

- A. any resolutions under these Rules shall not be adopted by the Meeting and, if adopted, shall not be effective without (i) at least five (5) Business Days prior written notice thereof to be given by the Representative of the Noteholders to the Class A Guarantor (provided that it is the Controlling Party) and (ii)(a) the prior written consent of the Class A Guarantor provided that it is the Controlling Party in case of a Class A Guarantor Reserved Matter, and/or (ii) the prior written consent of the Controlling Party in case of a Controlling Party Reserved Matter; and
- B. any decision or any instruction to be given by the Noteholders to the Representative of the Noteholders (including, without limitation, by way of a Noteholders' meeting or a Written Resolution) shall not be effective without the prior written consent of the Class A Guarantor provided that it is the Controlling Party.

Irrespective of the Representative of the Noteholders calling a Noteholders' meeting, no amendment, waiver or derogation related to these Rules or the Transaction Documents would be effective without (i) the Class A Guarantor's prior written consent provided that it is the Controlling Party (to the extent such amendment, waiver or derogation affects a Class A Guarantor Reserved Matter); and/or (ii) the Controlling Party's prior written consent (to the extent such amendment, waiver or derogation affects a Controlling Party Reserved Matter).

#### **TITLE IV**

#### **THE ORGANISATION OF THE NOTEHOLDERS AFTER SERVICE OF A TRIGGER NOTICE**

##### **33 Powers**

It is hereby acknowledged that, upon the occurrence of a Trigger Event, pursuant to the Mandate Agreement, the Representative of the Noteholders, in its capacity as legal representative of the Organisation of the Noteholders, shall be entitled - also in the interest of the Other Issuer Creditors, pursuant to articles 1411 and 1723 of the Italian Civil Code - to exercise certain rights in relation to the Aggregate Portfolio. Therefore, the Representative of the Noteholders, in its capacity as legal representative of the Organisation of the Noteholders, will be authorised, pursuant to the terms of the Mandate Agreement, to exercise, in the name and on behalf of the Issuer and as *mandatario in rem propriam* of the Issuer, any and all of the Issuer's rights under certain Transaction Documents, including the right to give directions and instructions to the relevant parties to the relevant Transaction Documents.

#### **TITLE V**

#### **GOVERNING LAW AND JURISDICTION**

##### **34 Governing law and Jurisdiction**

###### *33.1 Governing law*

These Rules and all non-contractual obligations arising in any way whatsoever out of or in connection with these Rules will be governed by, and construed in accordance with, the laws of the Republic of Italy.

###### *33.2 Jurisdiction*

Any dispute arising from the interpretation and execution of these Rules or from the legal relationships established by these Rules will be submitted to the exclusive jurisdiction of the Courts of Milan.

## SELECTED ASPECTS OF ITALIAN LAW

### The Securitisation Law

The Securitisation Law was enacted on 30 April 1999 and was conceived to simplify the securitisation process and to facilitate the increased use of securitisation as a financing technique in the Republic of Italy.

It applies to securitisation transactions involving the “true” sale (by way of non-gratuitous assignment) of receivables, where the sale is to a company created in accordance with article 3 of the Securitisation Law and all amounts paid by the assigned debtors are to be used by the relevant company exclusively to meet its obligations under the notes issued to fund the purchase of such receivables and all costs and expenses associated with the securitisation transaction.

### The Assignment

The assignment of receivables under the Securitisation Law is governed by article 58, paragraphs 2, 3 and 4, of the Consolidated Banking Act. The prevailing interpretation of such provisions, which view has been strengthened by article 4 of the Securitisation Law, is that the assignment can be perfected against the originator, assigned debtors and third party creditors by way of publication of the relevant notice in the Official Gazette and registration in the companies’ register where the Issuer is enrolled, so avoiding the need for notification to be served on each assigned debtor. Furthermore, the Bank of Italy could require further formalities.

Upon compliance with the formalities set forth by the Securitisation Law, the assignment becomes enforceable against:

- (a) the assigned debtors and any creditors of the originator who have not, prior to the date of publication of the notice of assignment in the Official Gazette and registration of the assignment in the register of companies where the assignee is enrolled, commenced enforcement proceedings in respect of the relevant receivables;
- (b) (i) the liquidator or any other bankruptcy officials of the assigned debtors (so that any payments made by an assigned debtor to the purchasing company may not be subject to any claw-back action according to article 67 of Italian Royal Decree No. 267 of 16 March 1942 (*Disciplina del fallimento, del concordato preventivo e della liquidazione coatta amministrativa*) (the “**Italian Bankruptcy Law**”), and (ii) the liquidator of the originator (provided that the originator has not been subjected to insolvency proceeding prior to the date of publication of the notice of assignment in the Official Gazette and the registration of the assignment in the register of companies where the assignee is enrolled); and
- (c) other permitted assignees of the originator who have not perfected their assignment prior to the date of publication of the notice of assignment in the Official Gazette and the registration of the assignment in the register of companies where the assignee is enrolled.

The benefit of any privilege, guarantee or security interest guaranteeing or securing repayment of the assigned receivables will automatically be transferred to and perfected with the same priority in favour of the company which has purchased the receivables, without the need for any formality or annotation.

As from the date of publication of the notice of the assignment in the Official Gazette and registration of the assignment in the register of companies where the assignee is enrolled, no legal action may be brought against the receivables assigned or the sums derived therefrom other than for the purposes of enforcing the rights of the holders of the notes issued for the purpose of financing the acquisition of the relevant receivables and to meet the costs of the transaction.

## The Issuer

Under the regime normally prescribed for Italian companies under the Italian civil code, it is unlawful for any company (other than banks) to issue securities for an amount exceeding two times the company's share capital, save for certain exceptions. Under the provisions of the Securitisation Law, the standard provision described above is inapplicable to the Issuer.

The Issuer is subject to the provisions contained in the Securitisation Resolution, implementing Legislative Decree No. 141/2010, which requires that companies intending to carry out securitisation transactions in the Republic of Italy must be registered in the register (albo) held by Bank of Italy pursuant to article 4 of the Bank of Italy's regulation dated 29 April 2011.

## Italian Law on Leasing

The contract of financial leasing (*locazione finanziaria*) ("**Financial Leasing**") is a type of contract not expressly regulated by the Italian Civil Code that may be validly entered into pursuant to the general provisions of Article 1322 of the Italian Civil Code. According to such Article, the parties to a contract can enter into any contract not belonging to a type subject to specific legal regulation provided that such contract aims to fulfil interests that deserve to be protected by the legal system. The Italian courts have established that Financial Leasing contracts falls within the scope of this provision.

Under Financial Leasing contracts, the lessor leases to the lessee certain assets (for the purpose of this section, the "**Leased Property**"), which have been purchased by the lessor from, or have been constructed for the lessor by, a third party supplier, with the consideration to be paid by the lessee to the lessor determined by reference to the duration of the lease, the cost of the assets and remuneration for the financing provided by the lessor. Upon the expiry of the Financial Leasing contract, the lessee has the option to return the Leased Property to the lessor, to purchase the Leased Property upon payment of the agreed price (*riscatto*), or to enter into a new lease contract. Accordingly, three parties are generally involved in a financial leasing transaction (i.e., lessor, lessee and supplier) which involves the execution of two contracts: the Financial Leasing agreement between lessor and lessee and the transfer agreement between the supplier and the lessor. The Italian Supreme Court has established that although these contracts are separate, there is a contractual link between them arising from the fact that the assets acquired by the lessor from the supplier are selected and chosen by the lessee, who is responsible for their maintenance and is subject to the risk of their loss.

Financial Leasing is subject to the provisions of the Italian Civil Code on contracts in general and to those provisions regulating specific contracts that can be applied in analogy when, in view of the particular contractual discipline agreed by the parties, the circumstances are similar to those foreseen by such provisions.

In a number of decisions given by the Italian Supreme Court in 1989 and confirmed, *inter alia*, by a decision given by the *Sezioni Unite* of the Supreme Court in 1993 (Cass. Sez. Un., 7.1.93, No. 65), contracts of Financial Leasing are divided into two different types: firstly, "*leasing finanziario di godimento*", under which the payment of the agreed rentals represents only, in line with the intention of the parties involved, remuneration for the use of the Leased Property by the lessee; and secondly, "*leasing finanziario traslativo*", under which the parties foresee, at the time of the conclusion of the contract, that the Leased Property (in view of its nature, the envisaged use and the duration of the contract) is to retain, upon expiry of the contract, a residual value significantly higher than the "*riscatto*". Accordingly, it is reasonable to hold that rentals to be paid under "*leasing finanziario traslativo*" represent part of the consideration for the transfer of the Leased Property to the lessee following expiry of the contract upon payment of the "*riscatto*", and that the exercise of the purchase option and transfer of the Leased Property to the lessee upon expiry of the contract forms part of the original intention of the parties to the contract.

According to certain case law, the provisions of Article 1526 of the Italian Civil Code are to be applied by analogy to contractual relationships between lessors and lessees under the "*leasing finanziario traslativo*". Article 1526 of the Italian Civil Code establishes that in relation to a sale by instalments with retention of title, if the contract is terminated as a result of the non-performance by the purchaser of its obligations, the vendor must repay the instalments received, save for its right to an equitable

compensation for the use of the goods and damages. Such provisions of Article 1526 do not apply to “*leasing finanziario di godimento*” in respect of which the general provisions of the Italian Civil Code shall apply; according to Article 1458, paragraph 1, of the Italian Civil Code, termination of a lease contract for breach of contract has, as between the parties thereto, a retroactive effect unless the lease contract provides for continuing performance, in which case the termination does not affect those acts already performed by the parties.

Therefore, according to the above-referenced interpretation of the the case law, in the event of termination of a lease contract for breach by the lessee, under “*leasing finanziario di godimento*”, the lessor is entitled to have the Leased Property returned to him, to retain the amounts received in respect of the rental payments matured prior to termination and, in case of bankruptcy or insolvency of the lessee, to prove for the unpaid rental payments matured before the declaration of bankruptcy. On the contrary, in the event of termination of a “*leasing finanziario traslativo*”, the lessee (or the receiver in case of bankruptcy or insolvency of the lessee) has the right to receive from the lessor any amounts paid in respect of rental payments before termination but the lessee must return the Leased Property to the lessor and pay to the lessor an equitable compensation for use of the Leased Property and where appropriate, damages.

### **Forced sale of Debtor’s goods and real estate assets**

A lender may resort to a forced sale of the debtor’s (or guarantor’s) goods (“*pignoramento mobiliare*”) or real estate assets (“*pignoramento immobiliare*”), having previously been granted a “judicial” mortgage following a court order or injunction to pay amounts in respect of any outstanding debt or unperformed obligation.

Forced sale proceedings are directed against the debtor’s properties following notification of an “*atto di precetto*” to the borrower together with a “*titolo esecutivo*” obtained from a court. The attachment of the debtor’s movable properties is carried out at the debtor’s premises or on third party’s premises by a bailiff who removes the attached property or forbids the debtor from in any way transferring or disposing of the attached goods, and appoints a custodian thereof (in practice usually the debtor himself).

Not earlier than 10 (*ten*) calendar days but not later than 90 (*ninety*) calendar days from the attachment:

- (a) in case of a “*pignoramento mobiliare*”, the creditor may ask the court to deliver to himself all monies found at the debtor’s premises, to transfer properties consisting of listed or marketed equities and to sell with or without auction the remaining attached goods; and
- (b) in case of a “*pignoramento immobiliare*”, the mortgage lender may request the court to sell the mortgaged property.

The average length of a *pignoramento mobiliare*, from the court order or injunction of payment to the final sharing-out, is about 3 (*three*) years.

The average length of a *pignoramento immobiliare*, from the court order or injunction of payment to the final sharing-out, is between 6 (*six*) and 7 (*seven*) years. In the medium-sized central and northern Italian cities it can be significantly less whereas in major cities or in southern Italy the duration of the procedure can significantly exceed the average.

### **Insolvency Proceedings**

A commercial entrepreneur (*imprenditore che esercita un'attività commerciale*) qualifying under article 1 of the Bankruptcy Law may be subject to insolvency proceedings (*procedure concorsuali*). Insolvency proceedings under Bankruptcy Law may take the form of, *inter alia*, bankruptcy (*fallimento*) or a composition with creditors (*concordato preventivo*).

Bankruptcy proceedings are applicable to commercial entrepreneurs that are in state of insolvency. A debtor can be declared bankrupt (*fallito*) (either by its own initiative or upon the initiative of any of its

creditors) if it is not able to timely and duly fulfill its obligations. The debtor loses control over all its assets and of the management of its business which is taken over by a court-appointed receiver (*curatore fallimentare*).

Once judgment has been made by the court on the basis of the evidence of the creditors and the opinion of the *curatore fallimentare*, and the creditors' claims have been approved, the sale of the debtor's property is conducted in a manner similar to foreclosure proceedings or forced sale of goods, as the case may be. After insolvency proceedings are commenced, no legal action can be taken against the debtor and no foreclosure proceedings or forced sale proceedings may be initiated. Moreover, all action taken and proceedings already initiated by creditors are automatically suspended.

An entrepreneur which is in a crisis situation may propose to its creditors a creditors composition (*concordato preventivo*). The proposed composition plan may provide for the restructuring of debt and terms for the satisfaction of creditors, the transfer of business activities, the grouping of creditors in classes and their proposed treatment. The proposed composition plan must be accompanied by specific documentation relating to, inter alia, the financial situation of the enterprise and a report by an expert certifying that the data relating to the enterprise are true and the proposed composition plan is feasible.

A proposal for a composition plan is approved if it receives the favourable vote of creditors representing the majority of the claims admitted to vote; in case of classes of creditors, such majority shall be verified also in respect of the majority of the classes. If an approved composition plan is not challenged in court, the court will validate the composition plan by decree; such decree terminates the procedure.

## TAXATION

*The following is a general summary of current Italian law and practice relating to certain Italian tax considerations concerning the purchase, ownership and disposition of the Class A Notes. It does not purport to be a complete analysis of all tax considerations that may be relevant to your decision to purchase, own or dispose of the Notes and does not purport to deal with the tax consequences applicable to all categories of prospective beneficial owners of the Notes, some of which may be subject to special rules. The following summary does not discuss the treatment of the Notes that are held in connection with a permanent establishment or fixed base through which a non Italian resident beneficial owner carries on business or performs professional services in Italy.*

This summary is based upon tax laws and practice of Italy in effect on the date of this Prospectus which are however subject to a potential retroactive change. Prospective noteholders should consult their tax advisers as to the consequences under Italian tax law, under the tax laws of the country in which they are resident for tax purposes and of any other potentially relevant jurisdiction of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws.

Prospective noteholders should in any event seek their own professional advice regarding the Italian or other jurisdictions' tax consequences of the subscription, purchase, ownership and disposition of the Notes, including the effect of Italian or other jurisdictions' tax rules on residence of individuals and entities.

### 1. INCOME TAX

Under the current legislation, pursuant to the combined provision of Article 6, paragraph 1, of Law 130, Articles 1 and 2 of Legislative Decree No. 239 of 1 April 1996, as amended and restated (“**Decree No. 239**”) and Law Decree No. 138/2011 converted into Law No. 148/2011 the (“**Decree 138/2011**”), payments of interest and other proceeds in respect of the Class A Notes:

- (i) will be subject to *imposta sostitutiva* at the rate of 20 per cent. in the Republic of Italy levied as final tax if made to beneficial owners who are: (i) individuals resident in the Republic of Italy for tax purposes; (ii) Italian resident non-commercial partnerships; (iii) Italian resident public and private entities, other than companies, not carrying out commercial activities as their exclusive or principal purpose (including the Italian State and public entities); and (iv) Italian resident entities exempt from corporate income tax.

Payments of interest and other proceeds in respect of the Class A Notes will not be included in the general taxable base of the above mentioned individuals, partnerships and entities.

The *imposta sostitutiva* will be levied by the Italian resident qualified financial intermediaries that will intervene, in any way, in the collection of interest and other proceeds on the Class A Notes or in the transfer of the Class A Notes;

- (ii) will be subject to *imposta sostitutiva* at the rate of 20 per cent rate in the Republic of Italy levied as provisional tax if made to beneficial owners who are: (i) individuals resident in the Republic of Italy for tax purposes; (ii) Italian resident non-commercial partnerships; and (iii) Italian resident public and private entities, other than companies; any of them engaged in an entrepreneurial activity – to the extent permitted by law – to which the Class A Notes are connected;
- (iii) will not be subject to the *imposta sostitutiva* if made to beneficial owners who are: (i) Italian resident corporations, commercial partnerships or permanent establishments in Italy of non resident corporations to which the Class A Notes are effectively connected; (ii) Italian resident collective investment funds, SICAVs, Italian resident pension funds

referred to in Legislative Decree No. 124 of 21 April 1993, as further superseded by Legislative Decree 5 December 2005, No. 252 and Italian resident real estate investment funds established pursuant to article 37 of Legislative Decree No. 58 of February 24, 1998 and article 14-bis of law No. 86 of January 25, 1994; (iii) Italian resident individuals who have entrusted the management of their financial assets, including the Class A Notes, to an Italian authorised financial intermediary and have opted for the so-called *risparmio gestito* regime according to Article 7 of Legislative Decree No. 461 of 21 November 1997 - the “Asset Management Option” and (iv), non Italian resident with no permanent establishment in Italy to which the Class A Notes are effectively connected, provided that:

- (a) they are (i) resident of a country which allows an adequate exchange of information with Italy, which are those countries listed in a ministerial decree to be issued under article 168-bis of Presidential Decree No. 917 of 22 December 1986 and, until the year of enactment of the new decree, in the ministerial decree of 4 September 1996, as amended from time to time, or, in the case of qualifying institutional investors not subject to tax, they are established in such a country, (ii) supranational entities set up in accordance with an international treaty executed by Italy, or (iii) central banks of foreign countries, or other entities also managing the official reserves of such countries; and
- (b) the Class A Notes are deposited directly or indirectly: (i) with a bank or an Italian securities dealing firm (“SIM”) resident in Italy; (ii) with the Italian permanent establishment of a non-resident bank or brokerage company which is electronically connected with the Italian Ministry of Economy and Finance; or (iii) with a non-resident entity or company which has an account with a centralised clearance and settlement system which has a direct relationship with the Italian Ministry of Economy and Finance; and
- (c) as for recipients characterizing under category (a)(i) above, the banks or brokers mentioned in (b) above receive a self-declaration from the beneficial owner of the interest which states that the beneficial owner is a resident of that country. The self-declaration must be in conformity with the model approved by the Ministry of Economy and Finance (approved with Decree of the Ministry of Economy and Finance 12 December 2001, published on the Ordinary Supplement No. 287 to the Official Journal No. 301 of 29 December 2001) and its further amendments and is valid until revoked by the investor. A self statement does not have to be filed if an equivalent self-declaration (including Form 116/IMP) has already been submitted to the same intermediary for the same or different purposes; in the case of institutional investors not subject to tax, the institutional investor shall be regarded as the beneficial owner and the relevant self-declaration shall be produced by the management company; and
- (d) the banks or brokers mentioned in (b) and (c) above receive all necessary information to identify the non-resident beneficial owner of the deposited Class A Notes and all necessary information in order to determine the amount of interest that such beneficial owner is entitled to receive.

Non-resident holders are subject to the 20 per cent. tax (*imposta sostitutiva*) on interest and other proceeds on the Class A Notes if any or all of the above conditions (a), (b), (c) and (d) are not satisfied. In this case, *imposta sostitutiva* may be reduced under double taxation treaties, where applicable.

Italian resident individuals holding Class A Notes not in connection with an entrepreneurial activity who have opted for the Asset Management Option are subject to a annual substitute tax levied at the rate of 20 per cent (the “**Asset Management Tax**”) on the increase in value of the

managed assets accrued at the end of each tax year (which increase would include interest and other proceeds accrued on the Class A Notes). The Asset Management Tax is applied on behalf of the taxpayer by the managing authorised intermediary.

Interest and other proceeds accrued on the Class A Notes held by Italian resident corporations, commercial partnerships, individual entrepreneurs as well as Italian resident public and private entities, other than companies, holding Class A Notes in connection with entrepreneurial activities or permanent establishments in Italy of non-resident corporations to which the Class A Notes are effectively connected, are included in the taxable base for the purposes of: (i) corporate income tax (*imposta sul reddito delle società*, “IRES”); or (ii) individual income tax (*imposta sul reddito delle persone fisiche*, “IRPEF”) plus local surtaxes, if applicable; under certain circumstances, such interest is included in the taxable basis of the regional tax on productive activities (*imposta regionale sulle attività produttive*, “IRAP”).

Where the holder of the Class A Notes is an Italian resident investment fund subject to the tax regime provided by Law No. 77 of 23 March 1983 (“**Fund**”), interest payments relating to the Class A Notes are not subject to *imposta sostitutiva* but must be included in the management results of the Fund accrued at the end of each tax period. The Fund will not be subject to taxation on such result, but a substitutive tax, up to 20 per cent., will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

Starting from 1 January 2001, Italian resident pension funds are subject to an 11 per cent annual substitute tax (the “**Pension Fund Tax**”) on the increase in value of the managed assets accrued at the end of each tax year.

Any positive difference between the nominal redeemable amount of the Class A Notes and their issue price is deemed to be interest for capital income (redditi di capitale) tax purposes. In general terms, income from capital is treated as a separate classification of tax liability only for tax-payers who are not engaged in entrepreneurial activities.

### 1.1 Payments by the Class A Guarantor

There is neither case law nor general published guidelines rendered by the Italian Tax Authorities directly regarding the tax regime of payments in respect of notes made by a guarantor.

In accordance with a certain interpretation of Italian law, any interest payment made by the Class A Guarantor should be treated as a payment by the guaranteed Issuer and, accordingly, should be subject to the tax regime described in the previous paragraphs of this section.

According to a different interpretation payments made by the Class A Guarantor may:

- (i) be subject to tax at 20% rate when made to Italian resident individuals noteholders of the Class A Notes not engaged in a business activity;
- (ii) be included in the relevant noteholder’s yearly taxable income for IRES (and, as the case may be, IRAP) purposes when made to an Italian resident noteholder of the Class A Notes which is a corporation or a similar commercial entity (including a permanent establishment in Italy of a foreign entity to which the Class A Notes are effectively connected);
- (iii) contribute to determine the annual net accrued result of noteholders of the Class A Notes qualifying as Fund. Interest payments relating to the Class A Notes are not subject to *imposta sostitutiva* (see the previous paragraph “1. Income Tax”);
- (iv) contribute to determine the increase in value of the managed assets accrued at the end of the fiscal year of pension funds, which is subject to a 11% substitutive tax (see the previous paragraph “1. Income Tax”);
- (v) not be subject to Italian taxation, pursuant to Article 6 and Article 23, paragraph 1, letter b) of Presidential Decree No. 917 of 22 December, 1986, when made to non

Italian resident noteholders of the Class A Notes, (not acting through a permanent establishment in Italy to which the Class A Notes are effectively connected).

## 2. CAPITAL GAINS

Any capital gain realised upon the sale for consideration or redemption of Class A Notes would be treated for the purpose of corporate income tax and of individual income tax as part of the taxable business income of Noteholders (and, in certain cases, depending on the status of the Noteholders, may also be included in the taxable basis of IRAP), and therefore subject to tax in Italy according to the relevant tax provisions, if derived by Noteholders who are:

- (a) Italian resident corporations;
- (b) Italian resident commercial partnerships;
- (c) permanent establishments in Italy of foreign corporations to which the Class A Notes are effectively connected; or
- (d) Italian resident individuals carrying out a commercial activity, as to any capital gains realised within the scope of their commercial activity.

Pursuant to Legislative Decree No. 461 of 21 November 1997, any capital gain realised by Italian resident individuals holding Class A Notes not in connection with an entrepreneurial activity and by certain other persons upon the sale for consideration or redemption of the Class A Notes would be subject to an *imposta sostitutiva* at the rate of 20 per cent. Under the tax declaration regime, which is the standard regime for taxation of capital gains realised by Italian resident individuals not engaged in an entrepreneurial activity, *imposta sostitutiva* on capital gains will be chargeable, on a cumulative basis, on all capital gains, net of any incurred capital loss, realised by Italian resident individual noteholders holding Class A Notes not in connection with an entrepreneurial activity pursuant to all disposals on Class A Notes carried out during any given fiscal year. These individuals must report the overall capital gains realised in any tax year, net of any relevant incurred capital loss, in the annual tax declaration to be filed with the Italian tax authority for such year and pay *imposta sostitutiva* on such gains together with any balance income tax due for such year. Capital losses in excess of capital gains may be carried forward against capital gains realised in any of the four succeeding tax years. Specific provisions have been stated by Decree 138/2011 with reference to capital losses realized before January 1, 2012 to be carried forward against capital gains realized after January 1, 2012.

As an alternative to the tax declaration regime, Italian resident individual noteholders holding Class A Notes not in connection with an entrepreneurial activity may elect to pay *imposta sostitutiva* separately on the capital gains realised upon each sale or redemption of the Class A Notes (the “*Risparmio Amministrato*” regime). Such separate taxation of capital gains is permitted subject to: (i) the Class A Notes being deposited with Italian banks, società di intermediazione mobiliare (SIM) or certain authorised financial intermediaries; and (ii) an express election for the *Risparmio Amministrato* regime being timely made in writing by the relevant Noteholder. The financial intermediary, on the basis of the information provided by the taxpayer, accounts for *imposta sostitutiva* in respect of capital gains realised on each sale or redemption of Class A Notes (as well as in respect of capital gains realised at revocation of its mandate), net of any incurred capital loss, and is required to pay the relevant amount to the Italian tax authority on behalf of the taxpayer, deducting a corresponding amount from proceeds to be credited to the Noteholder. Under the *Risparmio Amministrato* regime, where a sale or redemption of Class A Notes results in a capital loss, such loss may be deducted from capital gains subsequently realised in the same tax year or in the following tax years up to the fourth. Specific provisions have been stated by Decree 138/2011 with reference to capital losses realized before January 1, 2012 to be carried forward against capital gains realized after January 1, 2012. Under the *Risparmio Amministrato* regime, the Noteholder is not required to report capital gains in its annual tax declaration.

Any capital gains realised by Italian resident individuals holding Class A Notes not in connection with an entrepreneurial activity who have elected for the Asset Management Option will be included in the calculation of the annual increase in net value of the managed assets accrued, even if not realised, at year end, subject to the Asset Management Tax to be applied on behalf of the taxpayer by the managing authorised intermediary. Under the Asset Management Option, any depreciation of the managed assets accrued at year end may be carried forward against an increase in the net value of the managed assets accrued in any of the four succeeding tax years. Under the Asset Management Option, the Noteholder is not required to report capital gains realised in its annual tax declaration.

Any capital gains realised by a Class A Noteholder which is a Fund (as defined above) will be included in the results of the relevant portfolio accrued at the end of the tax period. The Fund will not be subject to taxation on such result, but a substitutive tax, up to 20 per cent., will apply, in certain circumstances, to distributions made in favour of unitholders or shareholders.

Any capital gains realised by Noteholders who are Italian resident pension funds will be included in the calculation of the taxable basis of Pension Fund Tax.

The 20 per cent. *imposta sostitutiva* may in certain circumstances be payable on capital gains realised upon sale for consideration or redemption of Class A Notes by non Italian resident persons or entities without a permanent establishment in Italy to which the Class A Notes are effectively connected, if the Class A Notes are held in Italy.

However, pursuant to Article 23 of Presidential Decree of 22 December 1986, No. 917, any capital gains realised, by non-Italian residents without a permanent establishment in Italy to which the Class A Notes are effectively connected, through the sale for consideration or redemption of Class A Notes are exempt from taxation in Italy to the extent that the Class A Notes are listed on a regulated market in Italy or abroad and in certain cases subject to filing of required documentation, even if the Class A Notes are held in Italy. The exemption applies provided that the non Italian investor promptly file with the authorized financial intermediary an appropriate affidavit (*autodichiarazione*) stating that the investor is not resident in Italy for tax purposes.

In case the Class A Notes are not listed on a regulated market in Italy or abroad:

- (1) non Italian resident beneficial owners of the Class A Notes with no permanent establishment in Italy to which the Class A Notes are effectively connected are exempt from *imposta sostitutiva* in the Republic of Italy on any capital gains realised upon sale for consideration or redemption of the Class A Notes if they are resident, for tax purposes, in a country which allows an adequate exchange of information with Italy, which are those countries listed in a ministerial decree to be issued under article 168-bis of Presidential Decree No. 917 of December 22, 1986 and, until the year of enactment of the new decree, in the ministerial decree of 4 September 1996, as amended from time to time, or, in the case of qualifying institutional investors not subject to tax, they are established in such a country (see Article 5, paragraph letter a) of Italian Legislative Decree No. 461 of 21 November 1997); in this case, if non Italian residents without a permanent establishment in Italy to which the Class A Notes are effectively connected have opted for the *Risparmio Amministrato* regime or the Asset Management Option, exemption from Italian capital gains tax will apply upon condition that they file in due course with the authorised financial intermediary an appropriate self-declaration (*autocertificazione*) stating that they meet the requirements indicated above; and
- (2) in any event, non Italian resident persons or entities without a permanent establishment in Italy to which the Class A Notes are effectively connected that may benefit from a double taxation treaty with the Republic of Italy, providing that capital gains realised upon the sale or redemption of the Class A Notes are to be taxed only in the country of tax residence of the recipient, will not be subject to *imposta sostitutiva* in the Republic

of Italy on any capital gains realised upon sale for consideration or redemption of Class A Notes; in this case, if non Italian residents without a permanent establishment in Italy to which the Class A Notes are effectively connected have opted for the Risparmio Amministrato regime or the Asset Management Option, exemption from Italian capital gains tax will apply upon the condition that they file in due course with the authorised financial intermediary appropriate documents which include, *inter alia*, a statement issued by the competent tax authorities of the country of residence of the non Italian residents.

### **3. ANTI - ABUSE PROVISIONS AND GENERAL ABUSE OF LAW DOCTRINE**

As confirmed by the Italian Supreme Court (Corte di Cassazione), amongst all, in sentence No. 30055 of 23 December 2008, the Italian general anti-abuse provision of Article 37-bis of Presidential Decree No. 600 of 29 September 1973, the European Court of Justice doctrine of the “abuse of law” (also referred to as “abuse of rights”) and previous Supreme Court case law on the voidance of contracts simulated or entered into for a cause contrary to the law, can be used, jointly or alternatively, by the Italian Tax Authority to deny the Italian tax benefits or preferential regime possibly associated with the adoption of a given contractual or transactional structure, subject to the demonstration that such contract or transaction has been implemented essentially for the purpose of obtaining the associated Italian tax benefit or preferential regime. Consequently, it is not possible to exclude, if the parties involved are not able to demonstrate that this securitisation transaction has been implemented not essentially for the purpose of obtaining a tax saving or reduction and that there are alternative or concurring financial motivation that are not of a merely marginal or theoretical character, that the tax regime of the securitisation as herein outlined is disallowed by the Italian Tax Authority, thereby possibly causing, amongst other, the recharacterisation of the Notes as shares-like securities or in any case securities not having the legal nature of a bond.

### **4. INHERITANCE AND GIFT TAXES**

Italian inheritance and gift taxes were first abolished by Law No. 383 of 18 October, 2001 in respect of gifts made or succession proceedings started after 25 October, 2001 and then reintroduced by Law Decree No. 262 of 3 October 2006, converted with amendments into Law No. 286 of 24 November 2006, entered into force on 29 November 2006 and further modified by Law No. 296 of 27 December 2006, effective as of 1 January 2007.

Further to the above amendments to the legislation in force, the transfer by inheritance of the Notes is currently subject to inheritance tax at the following rates:

- (i) when the beneficiary is the spouse or a relative in direct lineage, the value of the Notes transferred to each beneficiary exceeding Euro 1,000,000 is subject to a 4 per cent. rate;
- (ii) when the beneficiary is a brother or sister, the value of the Notes exceeding Euro 100,000 for each beneficiary is subject to a 6 per cent. rate;
- (iii) when the beneficiary is a relative within the fourth degree or is a relative-in-law in direct and collateral lineage within the third degree, the value of the Notes transferred to each beneficiary is subject to a 6 per cent. rate;
- (iv) in any other case, the value of the Notes transferred to each beneficiary is subject to an 8 per cent. rate.

The transfer of the Notes by donation is subject to gift tax at the same rates as in case of inheritance.

### **5. EU DIRECTIVE ON THE TAXATION OF SAVINGS INCOME**

On June 3, 2003, the European Council of Economics and Finance Ministers adopted a Directive on the taxation of savings income under which Member States are required starting from July 1, 2005, to provide to the tax authorities of another Member State the details of payments of interest (or similar income) paid by a person within its jurisdiction, qualifying as

paying agent under the Directive, to an individual resident in that other Member State, except that, for a transitional period, Luxembourg and Austria are required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain Third Countries). Luxembourg and Austria may however elect to introduce automatic exchange of information during the transitional period, in which case they will no longer apply the withholding tax.

The Council Directive was implemented in Italy by Legislative Decree No. 84 of 18 April 2005. Pursuant to said decree Italian paying agents (e.g., banks, SIMs, SGRs., financial companies and fiduciary companies resident in Italy for tax purposes, permanent establishments in Italy of non-resident persons as well as any other person resident in Italy for tax purposes paying interest for professional or commercial reasons) are required to report to the Italian tax authorities details of interest payments made from 1 July 2005 to individuals which qualify as beneficial owners thereof and are resident for tax purposes in another EU Member State. Such information must be transmitted by the Italian tax authorities to the competent authorities of the State of residence of the beneficial owner of the interest payment by 30th June of the fiscal year following the fiscal year in which said interest payment is made.

Prospective investors resident in a Member State of the European Union should consult their own legal or tax advisers regarding the consequences of the Directive in their particular circumstances.

## 6. TAX MONITORING

Pursuant to Law Decree No. 167 of 28 June, 1990, converted by Law No. 227 of 4 August, 1990, as amended, individuals resident in Italy who, at the end of the fiscal year, hold investments abroad or have financial activities abroad must, in certain circumstances, disclose the aforesaid and related transactions to the Italian tax authorities in their income tax return (or, in case the income tax return is not due, in a proper form that must be filed within the same time as prescribed for the income tax return). Such obligation is not provided if, inter alia, each of the overall value of the foreign investments or financial activities held at the end of the fiscal year, and the overall value of the related transfers carried out during the relevant fiscal year, does not exceed Euro 10,000.

## 7. STAMP DUTY

Article 13, paragraph 2-ter, of the First Part of the Tariff attached to Presidential Decree No. 642 of 26 October 1972 (“**Stamp Duty Law**”), as amended by Law Decree No. 201 of 6 December 2011, converted into Law No. 214 of 22 December 2011, introduced a stamp duty on the value of the financial products and/or financial instruments included in the statement sent to the clients as of 1 January 2012 (“**Statement Duty**”). The statement is deemed to be sent to the clients once a year, irrespective of any legal or contractual obligation to do so. The Statement Duty is levied at the rate of 0.1 per cent in 2012 (but in any case not exceeding € 1,200.00) and 0.15 percent in 2013 and in any of the following years. According to a literal interpretation of the amended Article 13, the Statement Duty seems to be applicable to the value of the Notes included in any statement sent to the clients, as the Notes are to be characterized for tax purposes as “financial instruments”. The relevant taxable basis shall be determined as of the sending of each periodic statement and, therefore, shall be liquidated taking into account the period of the relevant statement.

The stamp duty must be levied on:

- (i) whoever executes or takes advantage (in Italian known as the “*caso d'uso*”) of the document included in the Tariff, as the main obligors (*obbligati in via principale*);
- (ii) whoever signs, receives, accepts or negotiates the document included in the Tariff, if the stamp duty has not already been properly paid, as the joint obligors (*obbligati in via solidale*).

The Italian Ministerial Decree dated May 24, 2012 stated that the Stamp Duty has to be applied by the financial intermediary which has the relationship with the clients and qualified it as an “*ente gestore*” (managing entity). Such “*ente gestore*”, according to the law, is the financial intermediary that has direct or indirect contact with the clients for the purposes of periodical reports relating to the relationship in place and the statement made in any form.

The Issuer seems not to fall within the list of the obligors, as set forth in the Stamp Duty Law, neither in the definition of “*ente gestore*”. However, the lack of an interpretation by the Italian Tax Authority with respect to securitization transactions and the broad scope of the Stamp Duty could lead the Italian Tax Authority to a different interpretation and may induce the Authority to include the Issuer among the obligors.

## **SUBSCRIPTION AND SALE**

Pursuant to the First Senior Notes Subscription Agreement entered into on or prior to the Initial Issue Date among the Issuer, the Originator, the Calculation Agent, the Representative of the Noteholders and the Senior Notes Underwriter:

- (i) the Senior Notes Underwriter shall subscribe and pay the Issuer for the Series A1 Notes at the issue price of 100% of their principal amount; and
- (ii) shall appoint the Representative of the Noteholders to act as the representative of the Senior Noteholders.

Pursuant to the First Junior Notes Subscription Agreement entered into on or prior to the Initial Issue Date among the Issuer, the Originator, the Calculation Agent, the Representative of the Noteholders and the Junior Notes Underwriter:

- (i) the Junior Notes Underwriter shall subscribe and pay the Issuer for the Series B1 Notes at the issue price of 100% of their principal amount; and
- (ii) shall appoint the Representative of the Noteholders to act as the representative of the Junior Noteholders.

## SELLING RESTRICTIONS

### United States of America

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**U.S. Securities Act**”) or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States, or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. The terms used in this paragraph have the meanings given to them by Regulation S under the U.S. Securities Act.

In addition, until 40 days after the commencement of this offering, an offer or sale of the Notes within the United States by a dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act.

### Republic of Italy

Each of the Issuer and the Underwriters under the Subscription Agreements has acknowledged that no action has or will be taken by it, its affiliates or any other person acting on its behalf which would allow an offering (or an “*offerta al pubblico di prodotti finanziari*”) of the Notes to the public in the Republic of Italy unless in compliance with the relevant Italian securities, tax and other applicable laws and regulations. Individual sales of the Notes to any persons in the Republic of Italy may only be made in accordance with Italian securities, tax and other applicable laws and regulations.

Each of the Issuer and the Underwriters under the Subscription Agreements has acknowledged that no application has been made by it to obtain an authorisation from CONSOB for the public offering of the Notes in the Republic of Italy.

Accordingly, each of the Issuer and the Underwriters has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, and has not distributed and will not distribute and has not made and will not make available in the Republic of Italy the Notes, this Prospectus nor any other offering material relating to Notes other than to qualified investors (“*investitori qualificati*”), as defined on the basis of the Directive 2003/71/EC (Directive of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading), as amended by 2010 PD Amending Directive (as defined below), pursuant to article 100, paragraph 1, letter (a), of Italian legislative decree No. 58 of 24 February 1998 (the “**Consolidated Financial Act**”) or in other circumstances where an express exemption from compliance with the restrictions to the offerings to the public applies, as provided under the Consolidated Financial Act or by art. 34-ter of CONSOB regulation No. 11971/1999, and in accordance with applicable Italian laws and regulations. In any case the Class B Notes may not be offered to individuals or entities not being qualified investors in accordance with the Securitisation Law. Additionally the Class B Notes may not be offered to any investor qualifying as “*cliente al dettaglio*” pursuant to CONSOB regulation No. 16190 of 29 October 2007.

Any offer, sale or delivery of the Notes in the Republic of Italy shall be made only by banks, investment firms or financial companies permitted to conduct such activities in Italy in accordance with Legislative Decree No. 385 of 1 September 1993, as amended, the Consolidated Financial Act, CONSOB Regulation No. 16190 of 29 October 2007 and any other applicable laws and regulations and in compliance with any other applicable notification requirement or limitation which may be imposed by CONSOB or the Bank of Italy.

In connection with the subsequent distribution of the Notes in the Republic of Italy, article 100-bis of the Consolidated Financial Act requires to comply also on the secondary market with the public offering rules and disclosure requirements set forth under the Consolidated Financial Act and relevant CONSOB implementing regulations, unless the above subsequent distribution is exempted from those

rules and requirements according to the Consolidated Financial Act and relevant CONSOB implementing regulations.

## France

This Prospectus has not been prepared in the context of a public offering in France within the meaning of Article L.411-1 of the *Code monétaire et financier* and Title I of Book II of the *Règlement Général of the Autorité des marchés financiers* (the “AMF”) and therefore has not been approved by, or registered or filed with the AMF. Consequently, neither this Prospectus nor any other offering material relating to the Notes has been and will be released, issued or distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of notes to the public in France.

It has also been represented and agreed in connection with the initial distribution of the Notes that:

- (i) there has been and there will be no offer or sale, directly or indirectly, of the Notes to the public in the Republic of France (*an appel public à l'épargne* as defined in Article L. 411-1 of the French Code monétaire et financier);
- (ii) offers and sales of Notes in the Republic of France will be made in compliance with applicable laws and regulations and only to (i) qualified investors (*investisseurs qualifiés*) as defined in Articles L. 411-2 and D. 411-1 to D. 411-3 of the French Code monétaire et financier; or (ii) a restricted circle of investors (*cercle restreint d'investisseurs*) as defined in Article L. 411-2 acting for their own account; or (iii) providers of investment services relating to portfolio management for the account of third parties as mentioned in Article L. 411-2 of the *Code monétaire et financier* (together the “Investors”).

Offers and sales of the Notes in the Republic of France will be made on the condition that (i) this Prospectus shall not be circulated or reproduced (in whole or in part) by the Investors and (ii) the Investors undertake not to transfer the Notes, directly or indirectly, to the public in France, other than in compliance with applicable laws and regulations pertaining to a public offering (and in particular Articles L.411-1, L.411-2, L.412-1 and L.621-8 of the *Code monétaire et financier*).

## United Kingdom

It has been represented and agreed under the Subscription Agreements that:

- (i) financial promotion: any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of such Notes has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (ii) general compliance: there has been and there will be compliance with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

## Capital Requirements Directive

The Originator has undertaken to the Issuer and the Noteholders for the benefit of each subsequent financial institution investing in one or more Notes, that it will (i) retain a material net economic interest of at least 5% in the Transaction in accordance with Article 122a of Directive 2006/48/EC, as amended by Directive 2009/111/EC, as the same may be amended from time to time (the “**Capital Requirements Directive**” or the “CRD”) and the Bank of Italy’s guidelines No. 263 of 27 December 2006 (*Nuove disposizioni di vigilanza prudenziale per le banche*) as subsequently amended to implement paragraph 7 of Article 122a of CRD so long as the Notes are outstanding; (ii) comply with the disclosure obligations imposed on sponsor and originator credit institutions under the Bank of

Italy's guidelines No. 263 of 27 December 2006 (*Nuove disposizioni di vigilanza prudenziale per le banche*) as subsequently amended to implement paragraph 7 of Article 122a of CRD; and (iii) use its best endeavours to make available to each Noteholder, upon its reasonable request, all such necessary information in the Originator's possession to comply with the Noteholder's on-going monitoring obligations arising as a direct and immediate consequence of paragraph 5 of Article 122a of CRD. For the purposes of this provision, a Noteholder's request of information shall be considered reasonable to the extent that the relevant Noteholder provides evidence satisfactory to the Originator that the additional information required by it is necessary to comply with paragraph 5 of Article 122a of CRD and the domestic implementing regulations to which such Noteholder is subject.

As at the Initial Issue Date, such retention requirement will be satisfied by the Originator holding the first loss tranche as required by Article 122a (comprising the Series B1 Notes). Any change to the manner in which such interest is held will be notified to the Noteholders in accordance with the Terms and Conditions. For further details see section headed "*Capital Requirements Directive*" below.

### **General Restrictions**

The Issuer and the Noteholders (including the Underwriters as initial holders of the Notes) shall comply with all applicable laws and regulations in each jurisdiction in or which it may offer or sell Notes. Furthermore, there will not be, directly or indirectly, offer, sell or deliver any Notes or distribution or publication of any prospectus, form of application, offering circular (including this Prospectus), advertisement or other offering material in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Unless otherwise herein provided, no action will be taken to obtain permission for public offering of the Notes in any country where action would be required for such purpose.

### **EEA Standard Selling Restriction**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**"), there has not been and there will not be an offer of the Notes to the public in that Relevant Member State other than on the basis of an approved prospectus in conformity with the Prospectus Directive or:

1. to any legal entity which is a qualified investor as defined in the Prospectus Directive;
2. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the Directive 2010/73/EU of the European Parliament and of the Council of 24 November 2010 (the "**2010 PD Amending Directive**"), 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive; or
3. in any other circumstances falling within Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Notes to the public" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

Any purchase, sale, offer and delivery of all or part of the Notes shall be made in compliance with Article 122a of CRD.

## CAPITAL REQUIREMENTS DIRECTIVE

Under the Intercreditor Agreement and the First Junior Notes Subscription Agreement, Alba Leasing, in its capacity as Originator, has undertaken to the Issuer and the Representative of the Noteholders (also on behalf of the Noteholders) that:

- (i) it will retain with effect from the Initial Issue Date and maintain on an ongoing basis at least 5 per cent of net economic interest in accordance with option (d) of Article 122(a) of the capital requirements directive (which comprises Directive 2006/48/CE and Directive 2006/49/CE), as amended by Directive 2009/111/EC and implemented in Italy by the Bank of Italy Circular no. 263 of 27 December 2006 (*Nuove disposizioni di vigilanza prudenziale per le banche*, as amended from time to time) (“**Article 122(a)**”), or any permitted alternative method thereafter. Alba Leasing will perform the obligation indicated above through the retention of whole or part of the Class B Notes. Any change to the manner in which this net economic interest is held will be notified to the Noteholders and the Representative of the Noteholders through the systems of Monte Titoli and, as long as the Class A Notes are listed on the Official List of the Irish Stock Exchange, be published on the website of the Irish Stock Exchange, in accordance with Condition 18 (*Notices*);
- (ii) it will provide adequate disclosure to the Noteholders and comply with any other undertakings or requirements provided for the originators of securitisation transactions under Article 122(a), as implemented from time to time;
- (iii) it will ensure that prospective investors will have readily available access to all information as it would be necessary to conduct comprehensive and well informed stress tests, in accordance with Article 122(a), as implemented from time to time.

Under the Intercreditor Agreement and the First Junior Notes Subscription Agreement, the Originator has undertaken that Noteholders and prospective investors will have readily available access to all information as it would be necessary to conduct comprehensive and well informed stress tests, in accordance with Article 122(a), as implemented from time to time. In particular, the Originator has undertaken that any of such information:

- (i) on the Initial Issue Date, will be included in the following sections of this Prospectus: “*Overview of the Transaction*”, “*Risk Factors*”, “*The Portfolios*”, “*Collection Policies and Recovery Procedures*”, “*Subscription and Sale*”, “*Summary of Principal Documents*”; and
- (ii) following the Initial Issue Date, will:
  - (A) on each Investors Report Date, be included in the Investors Report issued by the Calculation Agent, which will (A) contain, *inter alia*: (a) if provided by the Servicer through the Quarterly Servicing Report, statistics on prepayments, Delinquent Receivables and Defaulted Receivables, (b) details (provided, where applicable, by the Paying Agent) with respect to the Rate of Interest, the Interest Payment Amount, the Principal Amount Outstanding on the Notes, principal payments on the Notes and other payments made by the Issuer, and (c) if confirmed by the Originator through the Quarterly Servicing Report (as long as Alba Leasing is the Servicer in the context of the Transaction) information on the material net economic interest (of at least 5%) in the Securitisation maintained by the Originator in accordance with option (d) of Article 122(a) or any permitted alternative method thereafter; (B) be generally made available to the Noteholders and prospective investors by the Calculation Agent through the Calculation Agent’s web-site currently located at [www.securitisation-services.com](http://www.securitisation-services.com) and it is agreed and understood that the Calculation Agent shall not be liable for any omission or delay in making available such Investor Report which is due to electronic or technical failures relating to or connected with the internet network or the relevant website provider and which is not due to wilful misconduct (*dolo*) or gross negligence

(*colpa grave*) of the Calculation Agent. It is understood that the Investor Report shall be deemed to have been produced on behalf of the Originator, under the Originator's full responsibility, only with reference to the information listed in this item (A) that the Originator has the obligation to make available to investors under Article 122(a); and

(B) with reference to loan-by-loan information regarding each Lease Contract included in the Portfolio, be made available, upon request to the Originator, by the Calculation Agent, based on the information provided by the Originator to the Calculation Agent; and

(C) with reference to the further information which from time to time may be deemed necessary under Article 122(a) in accordance with the market practice and not covered under (A) and (B) above, be generally made available to the Noteholders and prospective investors by the Originator.

Under the Intercreditor Agreement and the First Junior Notes Subscription Agreement, the Originator has undertaken that the retention requirement is not to be subject to any credit risk mitigation, any short position or any other hedge, within the limits of Article 122(a).

## GENERAL INFORMATION

### 1. Authorisations

The Issuer has obtained all necessary consents, approvals and authorisations in Italy in connection with the issue and performance of the Notes. The issue of the Notes was authorised by the Issuer through the resolution of the Sole Quotaholder passed on 6 February 2013.

The Class A Guarantor has obtained all necessary approvals and authorisations in connection with its entering into the Class A Guarantee and Deed of Undertaking.

### 2. Listing and admission to trading

Application has been made to the Irish Stock Exchange for the Series A1 Notes to be admitted to the official list of the Irish Stock Exchange and trading on its regulated market.

### 3. No material litigation

Neither the Issuer nor the Class A Guarantor is involved in any litigation, arbitration, administrative or governmental proceeding which may have, or have had, during the twelve months preceding the date of this Prospectus, a significant effect on the respective financial position of the Issuer or the Class A Guarantor nor, as far as the Issuer or the Class A Guarantor is, respectively, aware, are any such proceedings pending or threatened.

### 4. No material adverse change

There has been no material adverse change, or any development reasonably likely to involve a material adverse change, in the condition (financial or otherwise), general affairs or prospects of the Issuer since the date of its incorporation.

Since the date of the latest audited financial statements of the Class A Guarantor there has been (i) no significant change in the financial or trading position of the Class A Guarantor (unless otherwise provided in this Prospectus) and (ii) no material adverse change in the financial position or prospects of the Class A Guarantor.

### 5. No borrowing or indebtedness

Save as set out in section “*Summary of Principal Documents*” in this Prospectus, the Issuer, as of the Issue Date, has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgages, charges or given any guarantees.

### 6. Financial statements

The Issuer will produce audited financial statements in respect of each financial year and will not produce interim financial statements. Copies of these documents are promptly deposited after their approval at the specified office of the Corporate Services Provider, where such documents are available for inspection and where copies of such documents may be obtained free of charge upon request during usual business hours.

The Issuer’s registered office is at Via V. Alfieri 1, 31015 Conegliano (Treviso), Italy and its telephone number is +39 0438 360962.

### 7. Clearing of the Notes

The Series A1 Notes have been accepted for clearance through Monte Titoli, Euroclear and Clearstream with the following ISINs and Common Codes:

ISIN: IT0004897366

Common Code: 089579171

The Series B1 Notes have been accepted for clearance through Monte Titoli and the ISIN is

IT0004897416.

The Notes of each Class shall be freely transferable, subject to the selling restrictions described in the section headed “*Subscription and Sale*”.

**8. Documents available for inspection**

As long as the Class A Notes are listed on the Irish Stock Exchange, copies of the following documents will be available, in physical form, for inspection and may be obtained free of charge during usual business hours at the specified office of the Corporate Services Provider at any time after the date of this Prospectus:

- (i) the by-laws (“*statuto*”) and deed of incorporation (“*atto costitutivo*”) of the Issuer and the statutes of the Class A Guarantor;
- (ii) the financial statements of the Issuer as at 31 December 2013 which will be available no later than the end of April 2014;
- (iii) the most recent financial statements of the Issuer and the accountants’ report thereon;
- (iv) the Master Transfer Agreement;
- (v) the Initial Deed of Transfer;
- (vi) the Servicing Agreement;
- (vii) the Back-Up Servicing Agreement;
- (viii) the Intercreditor Agreement;
- (ix) the Cash Allocation, Management and Payment Agreement;
- (x) the Mandate Agreement;
- (xi) the Deed of Pledge;
- (xii) the Deed of Charge;
- (xiii) the Corporate Services Agreement;
- (xiv) the First Senior Notes Subscription Agreement;
- (xv) the First Junior Notes Subscription Agreement;
- (xvi) the Quotaholder Agreement;
- (xvii) the Class A Guarantee and Deed of Undertaking;
- (xviii) the Subordinated Loan Agreement;
- (xix) the Master Definitions Agreement; and
- (xx) the Letter of Undertaking.

**9. Post-issuance information**

As long as any of the Class A Notes remains outstanding, the Issuer will provide the post-issuance information described in this paragraph 9. Copies of the Payments Reports and of the Investors Report shall be made available for collection at the registered offices of the Corporate Services Provider. The first Investors Report will be available at the registered office of the Corporate Services Provider on or about the Investors Report Date immediately succeeding the First Quarterly Payment Date. The Investors Report will be produced quarterly and will contain details of amounts paid on the Quarterly Payment Date to which it refers in accordance with the Priority of Payments, including the amount payable as principal and interest in respect of each Class A Note.

**10. Fees and expenses**

The estimated total expenses payable in connection with the admission of the Series A1 Notes

to the official list of the Irish Stock Exchange and trading on its regulated market amount to approximately Euro 5,041.20 (excluding application of VAT, if any) and will be borne by the Originator.

The estimated annual fees and expenses payable by the Issuer in connection with the Securitisation amount to approximately Euro 72,000 (excluding servicing fees and back-up servicing fees and any VAT, if applicable).

**11. Language**

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

**12. Information available in the internet web sites**

The websites referred to in this Prospectus and the information contained in such web-sites do not form part of this Prospectus. Neither the Issuer nor any of the parties listed under this prospectus take responsibility for the further information available in the websites referred to in this Prospectus.

**ANNEX 1**

**FINANCIAL STATEMENTS OF THE CLASS A GUARANTOR AS OF 31 DECEMBER, 2010**

# ANNUAL REPORT 2010



# HIGHLIGHTS

EURm

## 2010 activity data (at 31 December 2010)

Equity signatures	43 funds	930
Guarantee signatures	24 operations	1 628
Guarantee Joint-Group signatures	6 operations	273
Microfinance signatures	5 operations	8
JEREMIE Holding Fund signatures	2 agreements	95

## Total outstandings

Private Equity assets under management, of which:	351 funds	5 367
Own funds and mandates		4 655
Funds of funds		639
JEREMIE		73
Guarantee exposure	193 operations	14 701
Guarantees		14 125
Joint-Group operations		273
JEREMIE		304
Microfinance	6 operations	10

EURm

## Management accounts

	2010	2009
<b>Simplified statement of comprehensive income</b>		
Guarantee income	33	38
Equity income	33	21
Advisory & regional mandates	12	8
Treasury income	34	29
<b>Total income</b>	<b>111</b>	<b>95</b>
Staff costs	34	29
Overheads	12	8
<b>Total expenses</b>	<b>45</b>	<b>37</b>
<b>Operating profit</b>	<b>65</b>	<b>58</b>
Exceptional items (provisions and impairments)	-58	-65
<b>Net income</b>	<b>7</b>	<b>-7</b>
Return on average equity	1%	0
Dividends declared	3	0

## Simplified statement of financial position

<b>Assets</b>		
Cash	74	106
Investments	1 058	997
Other assets	65	54
<b>Total assets</b>	<b>1 196</b>	<b>1 158</b>
<b>Liabilities</b>		
Financial liabilities	134	91
Other liabilities	45	38
Equity	1 016	1 029
<b>Total liabilities</b>	<b>1 196</b>	<b>1 158</b>

## Shareholders

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

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

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# 1

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## INTRODUCTION



## FOREWORD BY THE CHAIRMAN OF THE BOARD

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

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

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

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

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

EIF has enjoyed increased support from its shareholders and mandators during the year, reflecting their confidence. This is exemplified by

the signing of the EUR 200m European Progress Micro-finance Facility mandated by the European Commission and the EIB. The EIB Board of Directors has also decided to increase the Risk Capital Mandate with EUR 1bn, thereby bringing it to a revolving amount of EUR 5bn.

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

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

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



*Philippe Maystadt*

## FOREWORD BY THE CHIEF EXECUTIVE

---

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

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

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

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

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

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

In 2010, EIF reached an operating profit of EUR 65.4m which is 25% ahead of the Corporate Operating Plan (COP). The main drivers of this positive development are equity gains and guarantee income. This strong operating

profit performance led to a net profit ahead of plan at EUR 7.2m despite higher than forecast provisions and impairments.

The overall economic conditions have remained very difficult for SMEs this year, and further downgrades in the ratings of certain transactions in

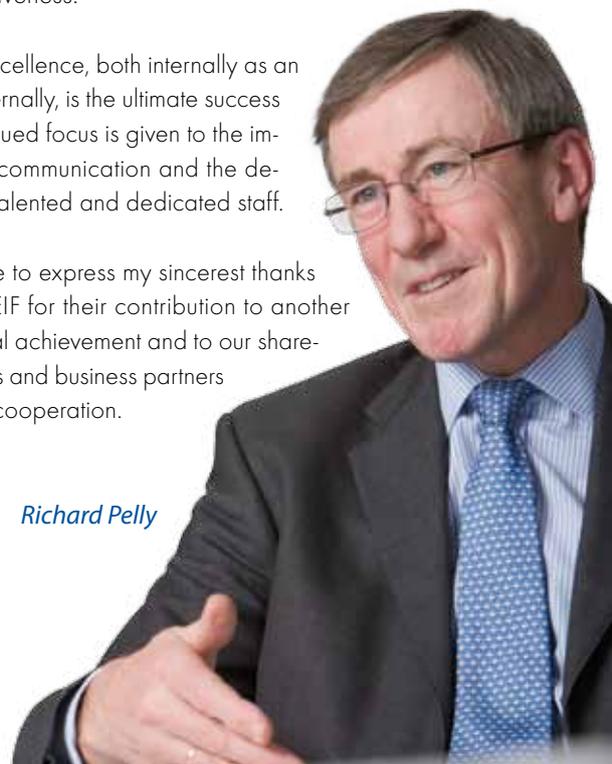
which EIF is guarantor have occurred. A total level of new provisions for guarantees of EUR 53.8m together with some small equity portfolio impairments have resulted in total exceptional charges of EUR 58.1m. As in 2009, the level of calls under these guarantees is very low and, given the general improvement in the European economies, we are convinced that the total provisions that have now been made are very prudent.

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

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

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

*Richard Pelly*



## STRATEGIC STATEMENT

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

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

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

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

Owned by the EIB (61.2%), the EU, through the European Commission (30%) and 28 public and private financial institutions (8.8%), EIF has dual statutory goals to support EU policy objectives and to make a reasonable return on

capital for its shareholders through an appropriate pricing policy and a balance of fee and risk-based income.

In this context, EIF constantly collaborates with mandators (capital providers) and potential mandators to develop new innovative financial engineering products which respond to existing and future market and SME needs. Additionally, in line with its objectives, EIF aims to expand its reach to new regions and Member States to continue to improve access to finance for European SMEs.

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

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

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

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

# THE EUROPEAN MARKET ENVIRONMENT

## 2010 was the year ...

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

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

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

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

## Lacklustre performance going forward

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

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

**Figure 1: European Union GDP growth (in %)**



Source: Economist Intelligence Unit

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

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

### Equity

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

The improvements in 2010 should be seen in the context of the extreme economic uncertainty in 2009, which drove activity to historic lows; the economic environment has improved somewhat, but the industry is very different from what it was in 2005-07. Furthermore, much of the increase in investment activity in 2010 has been directed towards supporting existing portfolio companies rather than new acquisitions. Clearly, fundraising remains challenging, with

Limited Partners continuing to find their portfolios are over-weight with private equity assets as the value of the rest of their portfolios has declined (the denominator effect), and facing liquidity constraints. There are some signs that the exit environment is improving from the situation in 2008 and 2009, in which the IPO market was virtually closed and there was an almost complete absence of trade buyers.

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

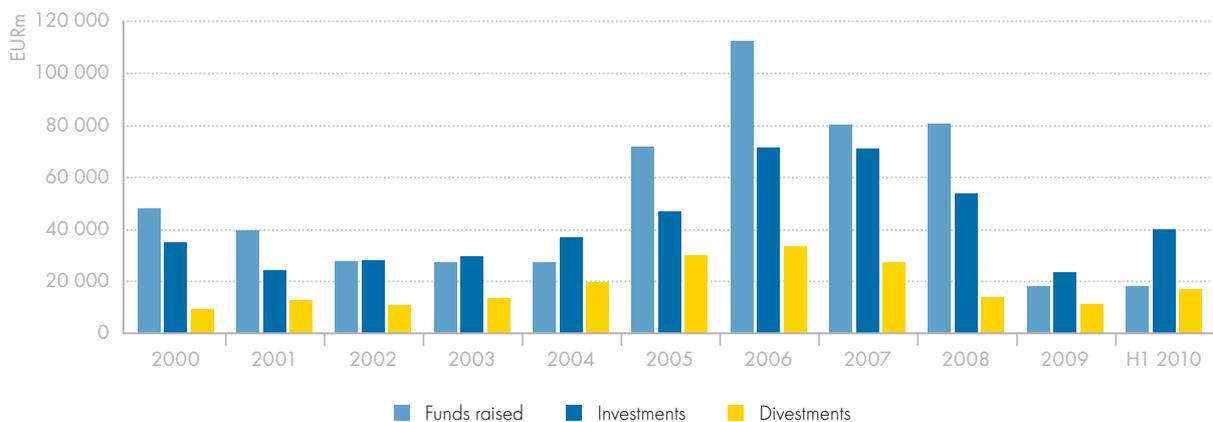
By contrast, the environment remains difficult at the venture end of the market, particularly for seed and start-up investment. The availability of equity for early stage funds has been reduced significantly, with much of the institutional fundraising activity at this end being driven by public or semi-public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

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

### Structured finance/Securitisation

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

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



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

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



Source: based on data from AFME/ESF and KfW

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

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

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

In general, a continuation of the gradual recovery of the European Structured Finance market is expected, however this will not only depend on the development of market fundamentals and the enhancement of investors' confi-

dence but also strongly on the direct and indirect impact from regulatory preferences.<sup>1</sup>

## Microfinance

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

<sup>1</sup> For more details on SME loan securitisation see EIF Working Paper 007/2010; [http://www.eif.org/news\\_centre/research/index.htm](http://www.eif.org/news_centre/research/index.htm)

## OVERVIEW OF ACTIVITY

EURm

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

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

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

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

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

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

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

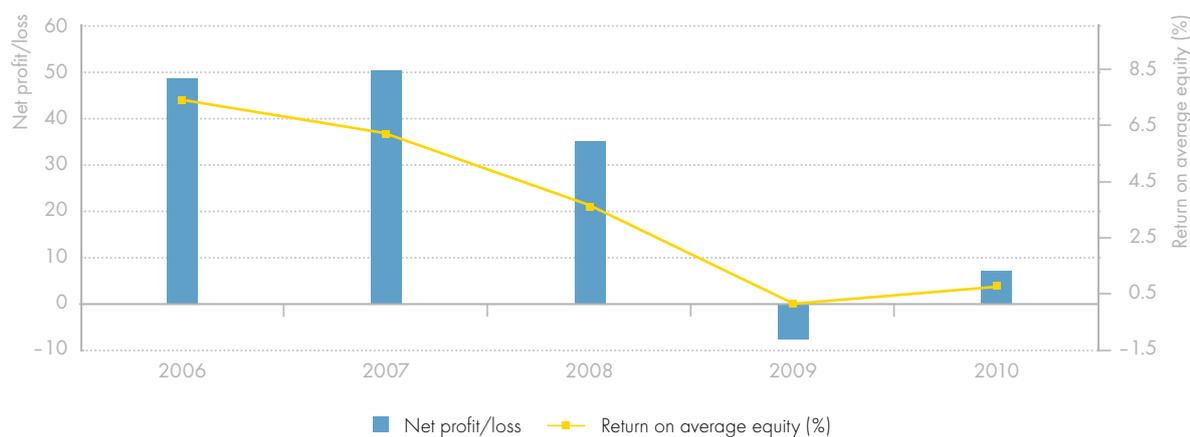
# OVERVIEW OF FINANCIAL PERFORMANCE

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

\* Subject to approval by the AGM

\*\* Before appropriation of dividends

## Net result against return on equity



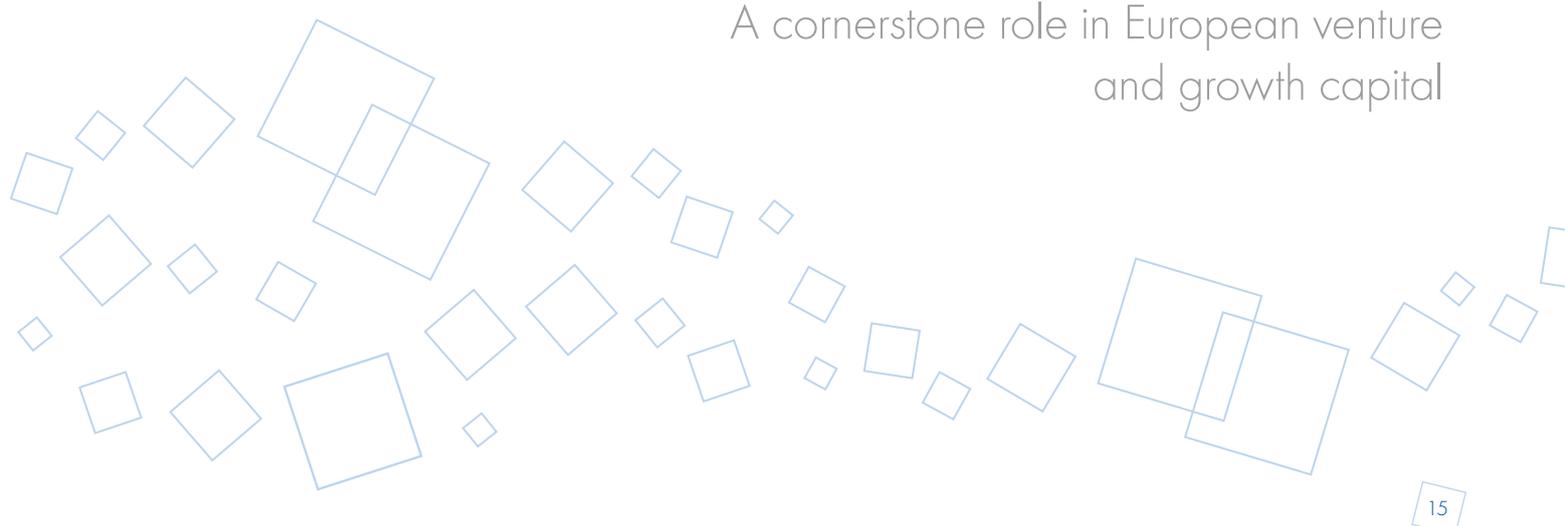
Source: Calculated in the balance sheet capital accounts

# 2

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## EQUITY

A cornerstone role in European venture  
and growth capital



## GENERAL OVERVIEW

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

A key priority for EIF has been to help the establishment of a well-functioning, liquid venture capital market that attracts a wide range of private sector investors, and to contribute to the sustainability of investments in start-up, early and expansion stage companies and established growth SMEs. One of the objectives of EIF has been to optimise the use and deployment of available resources, including those entrusted by its mandators (EIB, the European Commission and third parties) when capital and budgetary resources at EU and national levels are limited. During the difficult fundraising conditions that

have persisted since mid-2007, EIF has been willing to support first closings by committing stakes of up to 50% in Funds, but with the perspective of reducing its participation in an eventual second closing. Specifically under the Joint European Resources for Micro-to-Medium Enterprises (JEREMIE) mandate, EIF has the possibility to commit up to 70% of a venture capital (VC) fund at first close, and remain at this level.

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

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

\* including EIB Group and EC commitments

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

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

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

EURm

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

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

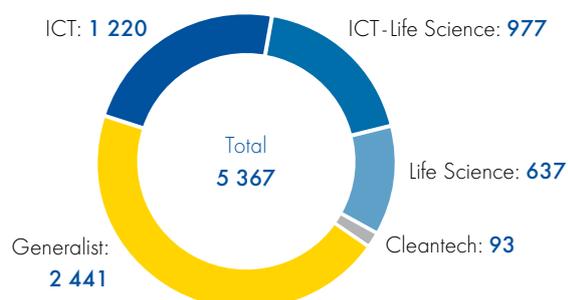
\* including conditional commitments

# TOTAL PORTFOLIO

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

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

## Sector focus (at 31 December 2010, EURm)



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

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

## Early stage

### Technology Transfer

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

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

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

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

### Venture Capital

The provision of equity to venture capital funds is a means for EIF to foster innovation, entrepreneurship and economic growth. EIF launched its first equity activities exclusively

focused on Venture Capital (VC) in the mid-1990s and has since then become the leading European fund-of-fund investor in this segment and acquired a reputation as major player in the European venture capital market.

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

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

## Growth capital

### Lower Mid-Market

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

In 2010, EIF signed EUR 338m in 14 Lower Mid-Market funds, strongly increasing its overall contribution when the

fundraising involvement from institutional investors was still at very low levels.

## Mezzanine

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

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

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

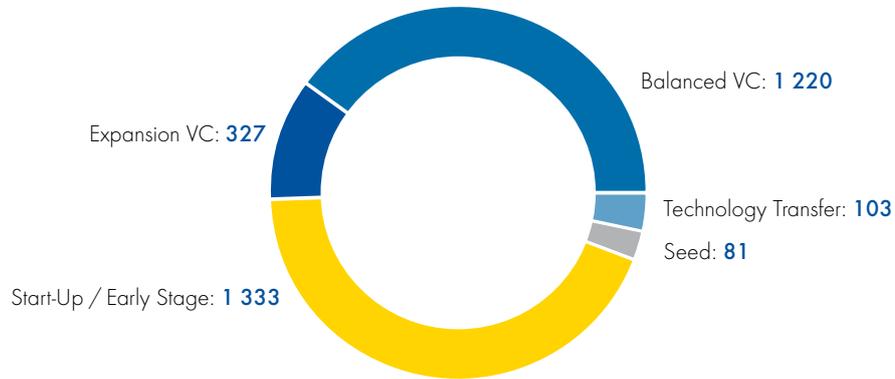
In 2010, EIF committed a total of EUR 224m in six mezzanine funds, spreading its contribution evenly between first time teams composed of experienced professionals and established teams raising new funds. Three of these funds backed by EIF in 2009 made further closings in 2010, allowing EIF to increase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

Increase of total equity investments of  
**30%**  
in 2010

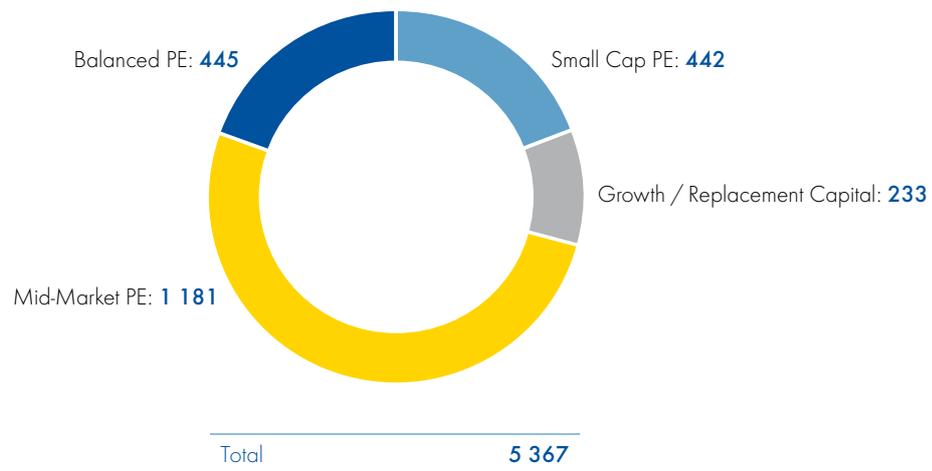
The graphs below demonstrate the spectrum of SME development stages covered by EIF:

### Stage focus (at 31 December 2010, EURm)

#### Early stage



#### Growth capital



Total	<b>5 367</b>
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## EIB GROUP RESOURCES

EIF has been managing EIB resources for equity (venture and growth capital) in Europe since 2000 through the Risk Capital Mandate (RCM). The Mandate's core objective is to support technology and industrial innovation through early stage, expansion and lower mid market capital, with an emphasis on specialist funds investing in the EU and generalist funds in an enlarged Europe (EU 27, EU Candidate and potential Candidate Countries, EFTA countries). EIF's venture capital operations are conducted through this evergreen facility, and are complemented by EU Competitiveness and Innovation Framework Programme 2007-2013 (CIP) and EIF own resource co-investments.

EIF also manages the Mezzanine Facility for Growth (MFG) on behalf of the EIB. MFG is deployed to respond

to the increasing funding needs of SMEs and is invested in hybrid debt/equity funds throughout Europe.

Increase  
of RCM by  
**EUR 1bn**

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

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

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

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



## A one-stop shop

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

**Bill Crossan**  
Managing Partner, Growth Capital Fund III

### ■ Introduction

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

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

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

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

### ■ Added value

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

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

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

## EUROPEAN COMMISSION RESOURCES

In 2010, the EIF continued to invest the budgetary envelope of EUR 1.1bn equally split between guarantees and equity as part of the CIP 2007-2013

Programme to enhance SME access to finance. The programme, which is particularly important for EIF's support to venture capital, covers a wide geographical area, the EU 27, EEA, and other European countries such as Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and, since the start of 2009, Turkey and Serbia, extending the targets of EIF support and the budget available for SMEs.

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

Throughout 2010, EIF implemented the equity segment of the CIP known as GIF (High Growth and Innovative SME Facility)<sup>2</sup> and fulfils its objective to improve access

to finance for the start-up and growth of SMEs, and investment in innovation activities including eco-innovation.

### Enhancing access to finance

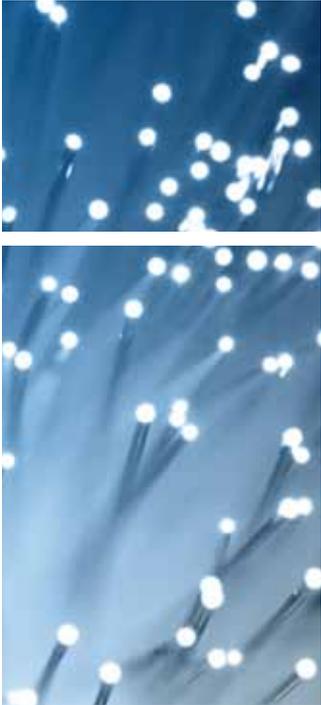
EIF made CIP commitments amounting to EUR 71.6m (EUR 46.6m under GIF 1 and EUR 25m under GIF 2) in 2010. In terms of 2010 cash flow, for all Commission mandates (CIP, Multiannual Programme for Enterprise and Entrepreneurship 2001-2006, or MAP, and the Growth and Employment scheme, or G&E) EUR 50.6m was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

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

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

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

Energate



## A gate to energy in Estonia

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

Hardi Sui  
CEO, Energate

### ■ Introduction

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

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

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

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

### ■ Added value

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

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

## OVERVIEW OF JOINT VENTURES AND FUNDS-OF-FUNDS

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

### ERP-EIF Dachfonds

The ERP-EIF Dachfonds is a fund-of-funds investing in venture capital funds focusing mainly on German-based, high-tech early and development stage companies. EIF manages this co-investment facility on behalf of the German Federal Ministry of Economics and Technology (BMWFi) and the European Recovery Programme (ERP), which committed 50% of the Facility, matched by co-investments from EIF, EIB and EU resources.

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

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

### LfA-EIF Facility

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

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

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

### Istanbul Venture Capital Initiative (iVCi)

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

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

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

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

### Portugal Venture Capital initiative (PVCi)

At the end of 2007, EIF launched, alongside private financial institutions, public bodies and selected foundations, a EUR 111m private equity / venture capital fund-of-funds - the Portugal Venture Capital Initiative (PVCi). EIF is responsible for the management of PVCi, which invests in Portuguese and international funds with a primary focus on Portugal.

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

### United Kingdom Future Technology Fund (UK FTF)

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

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

### NEOTEC

The Spain-based NEOTEC fund-of-funds was launched in February 2006 with the sponsorship of EIF and the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), now part of the Spanish Ministry of Science and Innovation.

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

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

### DAHLIA

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

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



Advent Life Sciences

## Bringing life to future technologies



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

Raj Parekh

General Partner, Advent Life Sciences

### ■ Introduction

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

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

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

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

Advent Life Sciences' investment strategy is a perfect fit with UK FTF's stage and sector target: it particularly con-

centrates on innovative early to mid-stage UK and European companies that provide technologies or products in a range of sectors within life sciences.

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

### ■ Added value

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

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

# OUTSTANDING EQUITY PORTFOLIO

at 31 December 2010 (in EURm)

Grand total  
**5 367**

Austria	54
Belgium	83
Bulgaria	13
Cyprus	7
Czech Republic	28
Denmark	95
Estonia	7
Finland	115
France	768
Germany	558
Greece	15
Hungary	16
Ireland	89

Italy	267
Latvia	36
Lithuania	40
Luxembourg	21
Malta	8
Netherlands	109
Poland	92
Portugal	155
Romania	36
Slovakia	4
Spain	424
Sweden	280
United Kingdom	1 306

Norway	25
Switzerland	81

Croatia	3
Turkey	274
EU accession countries	70

Other	288
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# 3

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## GUARANTEES & CREDIT ENHANCEMENT

A prime provider of credit enhancement  
to catalyse SME lending

## GENERAL OVERVIEW

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

For own risk transactions, EIF employs its own capital to credit enhance tranches of SME loan or lease securitisation transactions placed on the capital market transactions. In addition, EIF provides credit insurance cover for SME loan and lease portfolios to financial institutions on a bilateral basis. Through its credit enhancement activity, EIF achieves substantial added value by facilitating SME credit risk transfer from financial institutions to the capital markets. As consequences, EIF shares the risk and facilitates capital relief of financial institutions, therefore increasing their lending capacity to SMEs.

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

The objective of the programme is, as for the venture capital side, to enhance access to finance of SMEs which

would not usually be granted a loan by financial institutions or at substantially less favourable terms with a view to fostering productivity, competitiveness and innovation capacity throughout the EU.

1 million  
SMEs supported  
so far

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

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

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

## TOTAL PORTFOLIO

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

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

During 2010, EIF has intensified its regional business development activity and has made considerable progress in

the implementation of the GAGF and JEREMIE mandates. EIF has signed EUR 273m under the GAGF mandate (six transactions) and EUR 304m under the JEREMIE mandate (11 transactions).

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

### Product breakdown at 31 December 2010 (in EURm)

#### Mandates

CIP (SMEG)	4 351
MAP	4 792
G&E	2 402
GAGF	273
JEREMIE	304

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Subtotal (mandates)	12 121
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#### Own funds

Own funds	2 580
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Total	14 701
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<sup>3</sup> CIP follows two prior EC programmes with similar objectives, the Multi-annual Programme and Growth & Employment available between 1998 and 2007.

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

EURm

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

Le Grand Pré

# Finance on a plate



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

**Raoul Reicherath**  
Chef, Le Grand Pré

## ■ Introduction

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

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

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

## ■ Added value

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

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

## EUROPEAN COMMISSION RESOURCES

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

Throughout 2010, EIF continued to deploy the programme's guarantee instruments with a total of more than 90 000 SMEs having already benefited from the CIP guarantees. It is expected that a total number of approximately 120 000 SMEs will be supported over time

by the already committed budget. With many financial institutions tightening their credit policies post crisis, the CIP SME Guarantee Facility played an even more crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance. At end-2010, EIF had signed CIP agreements with 27 intermediaries in 15 countries and the large majority (more than 90%) of the supported SMEs were micro-enterprises and 57% of them were in the start-up phase.

The CIP SME Guarantee Facility has achieved a substantial leverage on the allocated budget of approximately

18 times the guaranteed loan amount, i.e. EUR 1 of budget allocation supports EUR 18 of SME loans.

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

# 90 000

SMEs have benefited from CIP guarantees so far

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

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

EURm



Caixa Capital Micro

## Bridging financing gaps for start-ups

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

Carlos Trenchs  
CEO, Caixa Capital Risc

### ■ Introduction

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

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

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

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

Via these participative loans convertible to capital, EUR 50 000 are invested into the project's own funds, the project itself being the sole guarantee for the investment. In contrast to other types of finance, the com-

pany is not assessed in the start-up phase and the total amount is paid upon signing the contract.

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

### ■ Added value

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

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

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

## CREDIT ENHANCEMENT AND SECURITISATION

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

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

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

It is expected that 2011 will see an increase in transactions, most of which will continue to focus on funding-

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

Commitments translate into more than  
**40 000**  
SMEs supported in 2010

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

## NEW GUARANTEE PRODUCTS

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

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

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

An example of a high value-added joint operation signed in 2010 was the Greater Anatolia Guarantee Facility (GAGF) to support SMEs in some of the less developed

provinces of Turkey. Home to 25% of the country's SMEs, these provinces only receive a very small proportion of Turkey's SME lending. GAGF, which is a joint initiative of the EIB Group, the EU Commission and the Turkish Ministry of Industry and Trade, utilises a combination of counter-guarantee, direct portfolio guarantees and funding, providing a risk sharing mechanism as well as capacity building to financial intermediaries providing access to finance to SMEs.

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

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

### Targeted products meeting specific market needs



Banca Comerciala Romana and  
Raiffeisen Bank Romania

## Tailor-made financing in Romania

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

**Steven van Groningen**  
CEO, Raiffeisen Bank Romania

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

**Dominic Bruynseels**  
CEO, Banca Comerciala Romana

### ■ Introduction

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

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

Both banks are key players on the SME market in Romania. BCR is the largest banking institution in the country,

reaching out to close to four million customers in both the retail and corporate sectors. RBRO has a strong focus on SME lending, is the third largest bank in Romania and has a broad geographical coverage.

### ■ Added value

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

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

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

# OUTSTANDING GUARANTEE PORTFOLIO

at 31 December 2010 (in EURm)

Grand total  
**14701**

Austria	297
Belgium	367
Bulgaria	138
Cyprus	10
Czech Republic	168
Denmark	244
Estonia	16
Finland	212
France	1 867
Germany	1 472
Greece	114
Hungary	55
Ireland	3
Italy	4 355

Latvia	89
Lithuania	187
Luxembourg	< 1
Malta	1
Netherlands	736
Poland	762
Portugal	247
Romania	116
Serbia	50
Slovakia	25
Slovenia	89
Spain	1 855
Sweden	354
United Kingdom	382

Pan-EU & Multi country	27
Turkey	450
Croatia	3

Other	9
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# 4

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## MICROFINANCE

Supporting Europe's  
micro-entrepreneurs



## GENERAL OVERVIEW

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

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

EIF has been involved in the microfinance sector since 2000, mainly via guarantees and securitisation activities. Guarantees were concluded with a broad selection of financial intermediaries, ranging from non-bank financial institutions that are close to sustainability to well

established microfinance intermediaries (MFI). EIF has developed its know-how in the field through progressively managing additional mandates, which include the European Parliament Preparatory Action (EPPA), RCM Micro, CIP, JEREMIE and the Joint Action to Support Microfinance Institutions in Europe (JASMINE).

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

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

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

<sup>4</sup> Below EUR 25 000.

<sup>5</sup> Any enterprise with less than 10 employees and less than EUR 2m yearly turnover.

## RESOURCES FOR MICROFINANCE

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### European Progress Microfinance Facility (EPMF)

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

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

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

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

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

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

### CIP SME Guarantee Facility for Microfinance

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

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

### JASMINE

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

#### The European Parliament Preparatory Action (EPPA)

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

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

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

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

#### JASMINE Technical Assistance (JASMINE TA)

Under the JASMINE TA, funded by the European Commission, EIF is providing non-financial products to EU microfinance practitioners. It is focused on assessments/ratings as well as training services to selected

non-bank MFIs. The objective is to act as a catalyst to help them improve their access to institutional and commercial funding in order to expand and become sustainable.

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

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



PerMicro

## Finance for socially vulnerable groups



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

Corrado Ferretti  
President, PerMicro

### ■ Introduction

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

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

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

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

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

### ■ Added value

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

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

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

# 5

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## REGIONAL BUSINESS DEVELOPMENT

Enhancing access to finance  
for SMEs across Europe



## GENERAL OVERVIEW

The JEREMIE (Joint European Resources for Micro to Medium Enterprises) initiative offers EU Member States, through their national and regional Managing Authorities, the opportunity to use part of their EU Structural Fund allocation to indirectly finance SMEs, through financial intermediaries. These allocations are channelled through revolving Holding Funds which can be managed either by EIF or national institutions.

### Addressing specific needs of local markets

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

JEREMIE offers many benefits to national and regional management authorities:

**Flexibility:** Contributions from the Operational Programmes to the JEREMIE Holding Fund are eligible for interim up-front payments by EU Structural Funds, giving Managing Authorities more flexibility in allocating these resources. Structural Fund contributions to the Holding Funds must be invested in SMEs by 2015.

**Benefits of a Portfolio Approach:** The Holding Fund is able to re-allocate the resources to one or more financial products in a flexible way, depending on the actual demand over time. An umbrella fund approach allows a diversification of risks and expected returns due to financial products having different

profiles, i.e. active cash flow management to allow for a swift response to changing market requirements.

**Recycling of Funds:** The Holding Fund is of a revolving nature, receiving repayments from the financial intermediaries for further investments in the SME sector. This puts SME support via EU Structural Funds on a more sustainable basis, unlike the pure grant approach.

**Leverage:** JEREMIE has the potential ability to engage the financial sector either at the Holding Fund level, with additional capital from financial institutions, or at the level of financial instruments, through co-financing, e.g. in both cases potentially in cooperation with the EIB.

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

**Advisory:** In those regions where JEREMIE is managed by another institution, EIF can also be involved as an adviser, for a wide range of services such as cash flow management, the structure of Holding Funds, product design in line with European Regional Development Fund regulation, reporting and monitoring, corporate governance due diligence/second opinions, setting-up of financial vehicles, etc.

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

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

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

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

## HOLDING FUNDS UNDER MANAGEMENT

as of 31 December 2010 (in EURm)

Total  
amount signed  
**1 176**

Languedoc  
Roussillon  
**30**

Campania  
**90**

Sicily  
**75**

Malta  
**10**

Greece  
**250**

Cyprus  
**20**

Slovakia  
**100**

Romania  
**100**

Bulgaria  
**200**

Lithuania  
**210**

Latvia  
**92**

# 6

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## GOVERNING BODIES & KEY STAFF



## CAPITAL AND SHAREHOLDERS

at 31 December 2010

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

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



## MANAGEMENT & KEY STAFF

at 31 December 2010



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

### Management Committee

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

### Key staff

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

## AUDIT BOARD

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at 31 December 2010



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

### Chairman

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

### Members

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

Helmut STERMANN      Deputy Director,  
Landeskreditbank Baden-Württemberg, Karlsruhe

## AUDIT AND CONTROLS

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

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

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

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

The Audit Board has the statutory responsibility of the audit of the accounts of the EIF, as stated in EIF Statutes (Article 22) and Rules of Procedure (Article 17). In order to discharge this duty the Audit Board may have recourse to external auditors, as stated in the Rules of Procedure (Article 19). The audit of the financial statements of the

Fund for the year ending 31 December 2010 was carried out by the external auditor, KPMG, appointed following the conclusion of the EIB Group joint invitation to tender exercise in 2008.

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

The Audit Board annually confirms that, to the best of its knowledge and judgement, the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure, and that the financial statements give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review. This information is included in the Annual Report submitted by the Board of Directors to the General Meeting.

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

# RISK MANAGEMENT AND LEGAL

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## Risk management

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

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

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

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

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

The main tasks of RMM consist of reviewing and facilitating the implementation of new processes and methodologies to manage the risk-return profile of the Fund's existing and new investment activities. As part of the new investment proposals process, RMM performs an independent analysis of each transaction and issues an opinion to the Chief Executive and the Deputy Chief Executive. In this context, it

reviews credit ratings (portfolio guarantees) and expected performance gradings (private equity) proposed by TRM to these investments. RMM is carrying out the monitoring of guarantee activities in close collaboration with the front office. RMM performs portfolio reviews for EIF's private equity investments and guarantee instruments, which are periodically submitted to EIF's governing bodies.

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

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

## Legal

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

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

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

# COMPLIANCE AND OPERATIONAL RISK

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

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

## Compliance

### Role and Position

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

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

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

### Key Policy Papers

In the context of the overall concept of business ethics and sustainability, the EIF Board of Directors has ap-

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

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

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

## Operational Risk

### Role and Position

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

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

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

## Key Policy Papers

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

## Data Protection

### Role and Position

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

tions of an inter-institutional agreement, the EIF data protection officer and the EIB data protection officer mutually replace each other.

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

### Key Policy Papers

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

# RECONCILIATION OF MANAGEMENT ACCOUNTS AND FINANCIAL STATEMENTS

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

# 7

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## FINANCIAL STATEMENTS



## INDEPENDENT AUDITOR'S REPORT

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To the Audit Board of the European Investment Fund  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

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

### Management responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Luxembourg, 9 March 2011*

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

Thierry RAVASIO



## STATEMENT BY THE AUDIT BOARD

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

- acting in accordance with the customary standards of the audit profession,
- having designated KPMG Audit S.à r.l. Réviseur d'Entreprises as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- having studied the financial statements and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the report dated 9 March 2011 drawn up by KPMG Audit S.à r.l. Réviseur d'Entreprises,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial year ending 31 December 2010,
- having examined and discussed reports and opinions issued by the EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,

- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the financial statements of the European Investment Fund give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

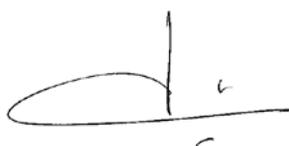
*Luxembourg, 9 March 2011*

THE AUDIT BOARD

Ortwin KLAPPER



Bernard MAGENHANN



Helmut STERMANN



## STATEMENT OF FINANCIAL POSITION

at 31 December 2010

EUR

Assets	Notes	31.12.2010	31.12.2009
Cash and cash equivalents	4.1	73 603 254	106 266 117
Investments:			
Debt securities and other fixed income securities	4.2	863 578 881	832 313 566
Shares and other variable income securities	4.3	194 384 535	165 027 737
		<b>1 057 963 416</b>	<b>997 341 303</b>
Non-current assets held for sale		0	7 139 812
Other assets	4.4	56 822 861	44 788 915
Intangible assets	4.5	1 384 777	2 183 144
Equipment	4.6	81 655	217 437
Investment property	4.6	6 329 080	0
<b>Total assets</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>
<b>Liabilities</b>			
Financial liabilities	5.1		
Financial guarantees		26 902 034	26 723 389
Provisions for guarantees	5.2	107 469 393	64 630 966
Retirement benefit obligations	5.3	25 803 632	21 144 222
Other liabilities and provisions	5.4	19 523 417	16 703 747
<b>Total liabilities</b>		<b>179 698 476</b>	<b>129 202 324</b>
<b>Equity</b>			
Share capital	5.5		
Subscribed		3 000 000 000	2 940 000 000
Uncalled		(2 400 000 000)	(2 352 000 000)
		<b>600 000 000</b>	<b>588 000 000</b>
Share premium	5.5	152 185 703	143 191 123
Statutory reserve	5.6	138 535 177	138 535 177
Retained earnings	5.6	146 084 055	153 457 561
Fair value reserve	5.7	(27 550 423)	12 924 049
Profit/(loss) for the financial year		7 232 055	(7 373 506)
<b>Total equity</b>		<b>1 016 486 567</b>	<b>1 028 734 404</b>
<b>Total equity and liabilities</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>

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

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

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

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

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

# STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

## Attributable to equity holders of the Fund

EUR

Note	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit/(loss) for the year	Total Equity
<b>Balance</b> as at 31.12.2008	2 865 000 000	(2 292 000 000)	573 000 000	132 012 377	124 490 745	146 435 341	3 022 993	35 111 080	1 014 072 536
<b>Total comprehensive income</b>									
Profit/(loss) for the financial year	0	0	0	0	0	0	0	(7 373 506)	(7 373 506)
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	9 901 056	0	9 901 056
<b>Transactions with owners</b>									
Appropriation of profit inc. dividend	5.6	0	0	0	14 044 432	7 022 220	0	(35 111 080)	(14 044 428)
Share issue	5.5	75 000 000	(60 000 000)	15 000 000	11 178 746	0	0	0	26 178 746
<b>Balance</b> as at 31.12.2009	2 940 000 000	(2 352 000 000)	588 000 000	143 191 123	138 535 177	153 457 561	12 924 049	(7 373 506)	1 028 734 404
<b>Total comprehensive income</b>									
Profit/(loss) for the financial year	0	0	0	0	0	0	0	7 232 055	7 232 055
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	(40 474 472)	0	(40 474 472)
<b>Transactions with owners</b>									
Appropriation of loss	5.6	0	0	0	0	(7 373 506)	0	7 373 506	0
Share issue	5.5	60 000 000	(48 000 000)	12 000 000	8 994 580	0	0	0	20 994 580
<b>Balance</b> as at 31.12.2010	3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	138 535 177	146 084 055	(27 550 423)	7 232 055	1 016 486 567

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

# CASH FLOW STATEMENT

for the year ended 31 December 2010

EUR

Cash flows from operating activities	Notes	31.12.2010	31.12.2009
Profit/(loss) for the financial year		7 232 055	(7 373 506)
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	1 763 626	552 813
Impairment loss on shares and other variable income securities	4.3	4 533 526	5 196 867
Interest income on debt securities and other fixed income securities	7.1	(29 072 530)	(23 885 776)
Change in financial guarantees		2 554 636	11 487 834
Net gain/loss on sale of debt securities and other fixed income securities	7.4	(2 002 257)	1 328 508
Provision for financial guarantees		45 729 749	53 277 911
Provision for retirement benefit obligations		(1 631 002)	0
		<b>29 107 803</b>	<b>40 584 651</b>
Change in shares and other variable income securities	4.3	(24 262 193)	(17 297 162)
Guarantee calls paid	5.2	(5 267 313)	0
Change in other assets and liabilities	4.5, 5.4	(2 923 864)	(10 178 372)
		(32 453 370)	(27 475 534)
<b>Net cash from operating activities</b>		<b>(3 345 567)</b>	<b>13 109 117</b>
<b>Cash flows used in investing activities</b>			
Acquisition of debt securities and other fixed income securities	4.2	(360 000 091)	(449 476 970)
Proceeds from sale of debt securities and other fixed income securities	4.2	283 974 537	128 167 142
Interest received on debt securities and other fixed income securities		25 518 245	19 242 953
Acquisition of intangible assets and property and equipment	4.5, 4.6	( 18 745)	( 649 928)
<b>Net cash used in investing activities</b>		<b>(50 526 054)</b>	<b>(302 716 803)</b>
<b>Cash flows from financing activities</b>			
Dividend paid		0	(14 044 432)
Capital increase		20 994 580	26 178 746
<b>Cash flows from financing activities</b>		<b>20 994 580</b>	<b>12 134 314</b>
Cash and cash equivalents at the beginning of the year	4.1	106 266 117	383 502 584
Effect of exchange rate fluctuations on cash and cash equivalents		214 178	236 905
Net cash from			
Operating activities		(3 345 567)	13 109 117
Investing activities		(50 526 054)	(302 716 803)
Financing activities		20 994 580	12 134 314
<b>Cash and cash equivalents at the end of the year</b>	4.1	<b>73 603 254</b>	<b>106 266 117</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

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for the year ended 31 December 2010 (in EUR)

## 1. GENERAL

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

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

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

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

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

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

## 2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

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

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

#### 2.1.2 Basis of measurement

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

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

#### 2.1.3 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are

recognised in the period in which the estimates are revised and in any future periods affected.

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

Judgments and estimates are principally made in the following areas:

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

#### 2.1.4 Changes in accounting policies and presentation

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

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

#### 2.1.5 Foreign currency translation

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

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

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

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

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

## 2.2 Cash and cash equivalents

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

## 2.3 Investments

### 2.3.1 Classification and Measurement

#### Classification

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

#### Initial recognition and derecognition

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

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

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

#### Subsequent measurement

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

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

#### Impairment of financial assets

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

### 2.3.2 Shares and other variable income securities

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

#### a) Fair value considerations:

Under the valuation technique, the fair value of private equity (PE) funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as

determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example the International Private Equity and Venture Capital valuation guidelines, IPEVC Guidelines, as published by the European Venture Capital Association "EVCA") and more detailed monitoring and review will be required.

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

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

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

#### b) Impairment considerations:

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

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

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

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

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

#### 2.3.3 Debt securities and other fixed income securities

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

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

#### 2.3.4 Interests in Joint Ventures and associates

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

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

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

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

## 2.4 Guarantee operations

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

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the

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

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

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

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

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

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

## 2.5 Other assets

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

## 2.6 Intangible assets, Equipment and Investment property

### 2.6.1 Intangible assets

Intangible assets are composed of internally generated software and purchased computer software, and are ac-

counted for at cost net of accumulated amortisation and impairment losses.

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

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

Internally generated software	3 years
Purchased software	2 to 5 years

## 2.6.2 Equipment

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

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

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

## 2.6.3 Investment property

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

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

Buildings	30 years
-----------	----------

## 2.6.4 Impairment of non-financial assets

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

## 2.7 Employee benefits

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

### 2.7.1 Post-employment benefits

#### Pension fund

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

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

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

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

#### Optional supplementary provident scheme

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the

contributions from staff and the corresponding liability is recorded in "Other liabilities".

### Health insurance scheme

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

#### 2.7.2 Short-term employee benefits

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

#### 2.7.3 Other long-term employee benefits

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

## 2.8 Other liabilities and provisions

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

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

## 2.9 Interest and similar income

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

## 2.10 Income from investment in shares and other variable income securities

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

## 2.11 Net result from guarantee operations

Net result from guarantee operations mainly includes:

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

## 2.12 Commission income

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

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

## 2.13 Leases

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

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

## 2.14 New standards and interpretations not adopted

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

- **IAS 27 – Consolidated and separate financial statements**

This standard was revised following the amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates

and IAS 31 Interests in Joint Ventures. It deals with the impairment of investments in subsidiaries, joint ventures and associates in separate financial statements. The standard is effective for financial years beginning on or after 1 January 2011.

- **IFRS 9 – Financial instruments**

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

- **Revised IAS 24 – Related Party disclosures**

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

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Overview of EIF Risk Management

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

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

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

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

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

### 3.2 Private Equity (PE)

#### 3.2.1 Background

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

#### Valuation review

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

- **Reporting:** collection of financial quarterly reports sent by the fund managers as basis for valuation.
- **Valuations:** assessment as to whether valuations are in line with best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:
  - "Flash reviews" of regular financial reporting received from PE funds.
  - Monitoring visits.
  - Any significant information with potential valuation impact.
  - Subsequent event reviews.

- **Impairments of investments:** as stated in note 3.1, the IRC decides on the transaction impairment.
- **Classification of funds:** depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

EIF has developed a set of tools to design, monitor and manage portfolio of PE funds. This set of tools is based on an internal process and model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort

supported by the development of a proprietary Information Technology (IT) system and integrated software (front to back) improves the investment decision process and the management of portfolio's financial and liquidity risks.

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

The grades are defined as follows:

#### Expected performance grade

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

#### Operational status grade

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

### 3.2.2 Portfolio overview

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

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

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

### 3.2.3 Significance of financial instruments for financial position and performance

#### Activities

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

EIF yearly cash flow activity (EUR m)

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

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

PE assets not impaired vs. impaired (EUR m)

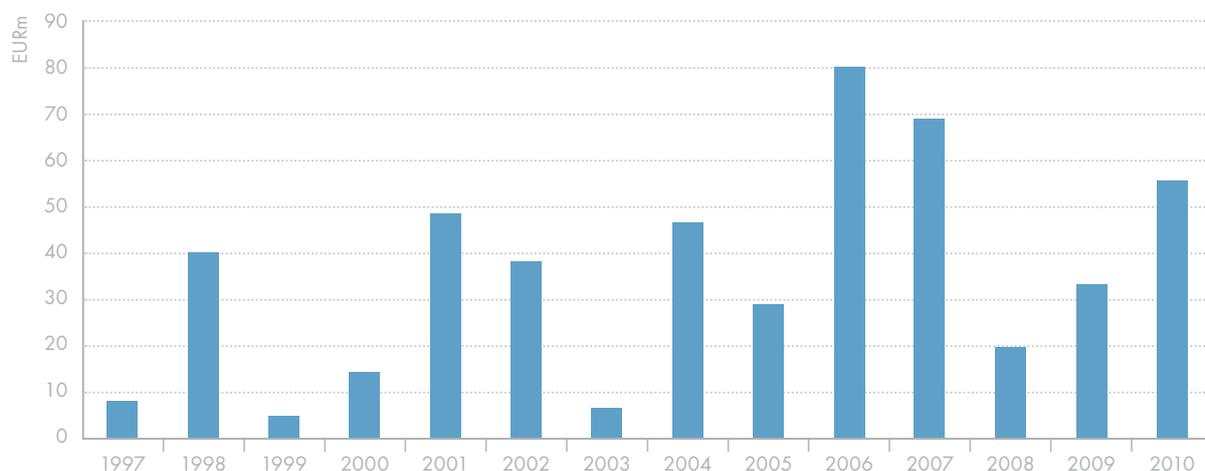
Funds	Commitments		Variation
	31.12.2010	31.12.2009	
Not impaired	366.9	328.8	11.6%
Impaired	123.6	101.3	22.0%
Impairment (%)	25.2%	23.6%	

#### Diversification

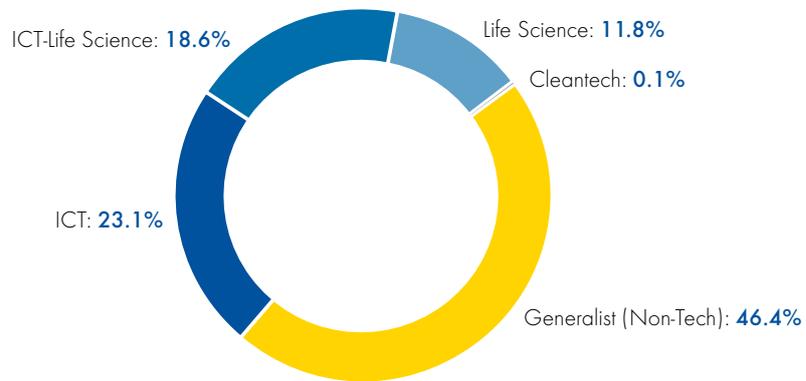
As of 31 December 2010, EIF has committed EUR 490.5m in 189 PE funds with the biggest exposure amounting to EUR 12.9m (2.6% of total commitments). These PE funds have invested in more than 2 600 underlying portfolio companies.

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

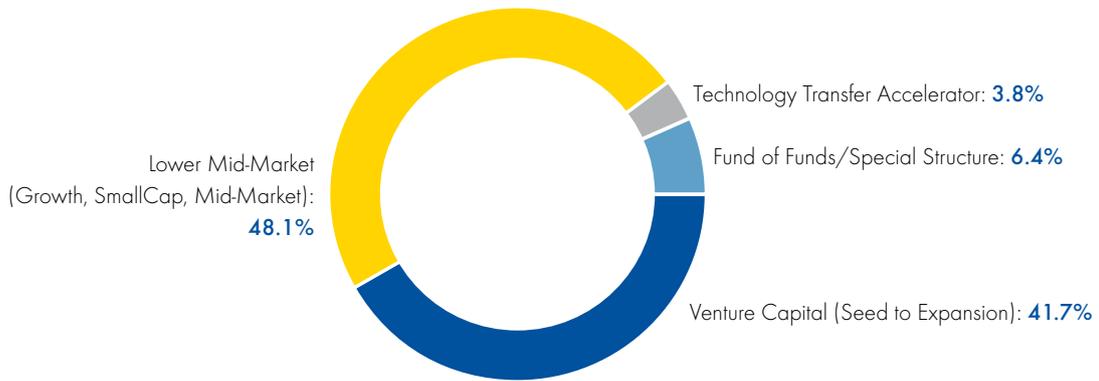
#### Commitments by vintage year (in EURm)



Breakdown by sector commitments



Breakdown by stage commitments



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

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

#### 3.3.1 Background

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

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

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

- if there is only one assessment by an external rating agency, that assessment should be used to determine the risk weight of the tranche (i.e. capital allocation),

- if there are assessments by two external rating agencies, which map into different risk weights, the higher risk weight is applied,
- if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights is applied.

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

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

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

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

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

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

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

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

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

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

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

### 3.3.2 Portfolio overview

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

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

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

### 3.3.3 Portfolio quality and performance

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

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

EURm

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

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

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

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

## 3.4 Treasury

### 3.4.1 Background

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

### 3.4.2 Portfolio overview

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

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

EUR

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

### 3.5 Nature and extent of risks arising from financial instruments

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

EUR

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

EUR

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

### 3.5.1 Credit risk

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

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

#### 3.5.1.A. Portfolio Guarantees & Securitisation

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

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

The statutes of the Fund limit own-risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0m at end 2010. Hence, the EUR 2 580.2m exposure at risk at end 2010 was well below the statutory limit of EUR 9 000.0m.

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

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

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

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

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

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

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

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

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

#### 3.5.1.B. Treasury

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

Any currency arbitrage is ruled out by the statutes.

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

## Breakdown by class of statement of financial position (EUR)

EUR

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

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

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

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

As of 31 December 2010, EIF's debt securities portfolio was spread over 22 countries. The largest nominal individual

country exposures were Spain, Italy and Ireland, which jointly accounted for 44.5% of total nominal commitments.

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

### 3.5.2 Liquidity risk

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

#### 3.5.2.A. Private Equity

The PE market is illiquid by nature as the vehicles are closed-end funds typically with a 10-year lifespan. After the first closing, it is difficult for an investor to offload their position, needing to find a buyer in the secondary market. However, PE funds have a finite life and are self-

liquidating. This results in a continuous stream of reflows, the magnitude of which mostly depends on the market conditions and the proportion of the portfolio that is in its divestment phase.

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

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

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

#### 3.5.2.B. Portfolio Guarantees & Securitisation

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

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

At the year end 2010, the total expected losses for all G&S own risk transactions stood at EUR 142.3m.

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

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

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

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

### Liquidity risk: Portfolio guarantees & securitisation

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

### 3.5.3 Market risk

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

#### 3.5.3.1. Market risk: interest rate risk

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

##### 3.5.3.1.A. Private Equity

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

##### 3.5.3.1.B. Portfolio Guarantees & Securitisation

Transactions in which EIF acts as guarantor are typically in illiquid markets and representative market prices are not available. EIF has therefore developed a mark-to-model approach to value these transactions, using external and

internal ratings, information gathered through regular monitoring, and discounted cash flow analysis.

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

##### 3.5.3.1.C. Treasury

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

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

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

EUR

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

EUR

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

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

#### Sensitivity of earnings

The sensitivity of earnings is an estimate of the change over the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life as the previous one as of 31 December 2010. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2009, the earnings of the EIF treasury portfolio would have increased by EUR 2.0m if interest rates rose by 100 basis points or decreased by the same amount if interest rates fell by 100 basis points. For the positions in place as of 31 December 2010, the earnings of the EIF treasury portfolio would increase by EUR 1.2m if interest rates rose by 100 basis points and decrease by the same amount if interest rates fell by 100 basis points.

#### Value at Risk

As of 31 December 2010, the Value at Risk of the EIF treasury portfolio was EUR 2.9m (EUR 1.7m in 2009).

It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0% and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0%. Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

#### 3.5.3.2. Market risk: foreign currency risk

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

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

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

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

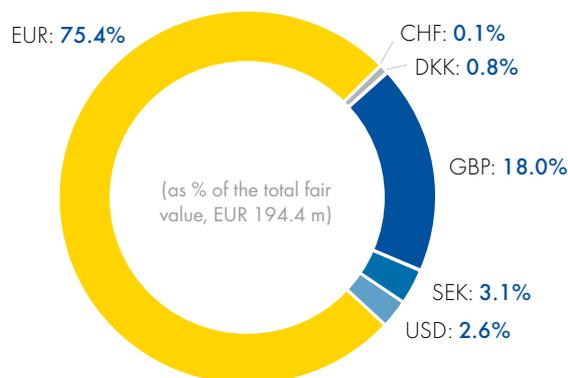
						EUR
At 31.12.2010	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	71 398 973	786 437	887 029	530 815	2 204 281	73 603 254
Investments						
Debt securities and other fixed income securities	863 578 881	0	0	0	0	863 578 881
Shares and other variable income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

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

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

### 3.5.3.2.A. Private Equity

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



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

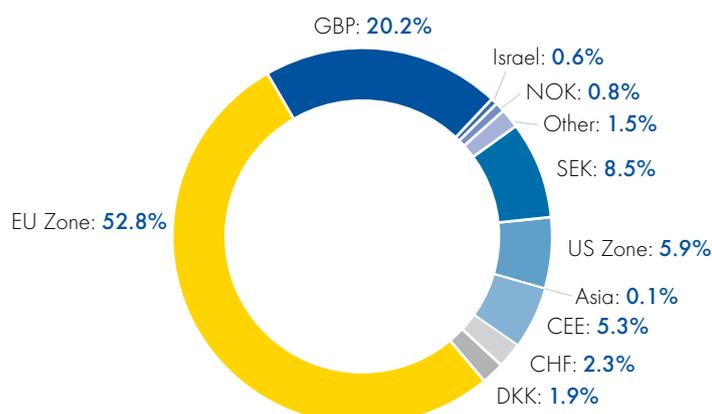
The sensitivity analysis is performed for all currencies representing more than 5% of the total exposure. As of year end, only Pound Sterling falls into this category and has been stress tested with an increase / decrease of 15% vs. the Euro.

#### Foreign exchange rate risk

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

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

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

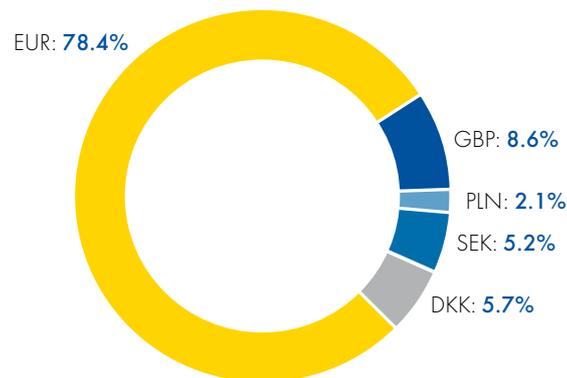


### 3.5.3.2.B. Portfolio Guarantees & Securitisation

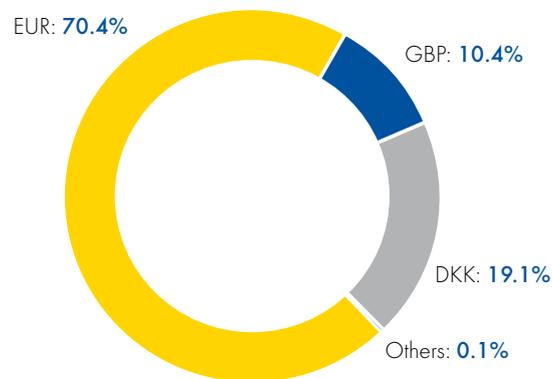
As of end 2010, 78.4% of exposure at risk (70.4% of expected loss) was in EUR. The GBP and DKK are the two main foreign currency exposures representing 8.6% and 5.7% of exposure at risk, respectively (10.4% and 19.1% of expected loss, respectively).

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

#### Exposure at risk breakdown



#### Expected loss breakdown



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

### 3.5.3.2.C. Treasury

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

### 3.5.3.3. Market risk: other price risk

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

#### 3.5.3.3.A. Private Equity

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

While public market managers can rely on reliable statistical data to support their analysis, such data is lacking for PE and in particular Venture Capital. Analysis of PE returns, volatility and correlations is limited by the

relatively short time series of the publicly available data, which is not fully representative of the market. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the IRR, the standard performance measure used for PE funds, is capital-weighted, while for public market assets it is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

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

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

#### Public market risk: all private equity

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

#### 3.5.3.3.B. Portfolio Guarantees and Securitisation

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

### 3.6 Fair value of financial assets and financial liabilities

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

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

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

PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers

who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

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

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

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

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

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

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

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

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

## 4. DETAILED DISCLOSURES RELATING TO ASSET HEADINGS

### 4.1 Cash and cash equivalents

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

Cash and cash equivalents is as follows:

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

### 4.2 Debt securities and other fixed income securities

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

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

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

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

#### Movement in debt securities and other fixed income securities

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

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

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

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

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

### 4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

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

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

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

The fair value changes recorded in the fair value reserve amount to EUR 9 842 310 (2009: EUR (5 616 070)) and include the impact of changes in the value of investments EUR 7 547 903 (2009: EUR (6 936 671)) and in the

foreign exchange rates on the investments EUR 2 294 407 (2009: EUR 1 320 601).

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

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

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

## 4.4 Other assets

Other assets are made up of the following:

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

Accounts receivable relating to pensions managed by the EIB: following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management on behalf of the Fund. See also note 5.3.

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

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

## 4.5 Intangible assets

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

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

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

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

## 4.6 Equipment and investment property

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

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

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

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

Following its assessment of the market, the Fund has decided in 2010 to hold the non-current asset for use and has found an opportunity for renting. Consequently, non-current assets previously classified in the statement of financial position as held for sale have been reclassified to "Investment property". Upon reclassification, the building was remeasured at the lower of its recoverable

amount and the carrying amount including depreciation that would have been recognised had the building never been classified as held for sale.

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

## 5. DETAILED DISCLOSURES RELATING TO LIABILITY AND EQUITY HEADINGS

### 5.1 Financial liabilities

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

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

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

### 5.2 Provisions for guarantees

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

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

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

### 5.3 Retirement benefit obligations

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

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

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

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

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

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

EUR

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

EUR

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

EUR

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

EUR

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

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

EUR

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

EUR

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

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

EUR

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

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

The effect of a 1% increase or decrease in the medical trend costs on the current service cost and interest cost, or the post-employment benefit obligation, would not have a material impact on the EIF's financial statements.

## 5.4 Other liabilities and provisions

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

Employee benefit payables mostly include staff-related costs such as the Bonus, the Optional Supplementary Pension Scheme (OSPS) and the Severance Grant.

## 5.5 Share capital

The authorised capital amounts to EUR 3 billion, divided into 3 000 shares with a nominal value of EUR 1 000 000 each, all of which have now been issued. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

New shares were issued on 30 June and 31 July 2010 from authorised share capital as follows:

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

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

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

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

The subscribed share capital is detailed as follows:

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

The capital is subscribed as follows:

	Number of shares	
	31.12.2010	31.12.2009
European Investment Bank	1 835	1 826
European Commission	900	861
Financial Institutions	265	253
	<b>3 000</b>	<b>2 940</b>

## 5.6 Statutory reserve and retained earnings

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

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

There was no dividend distributed in 2010 relating to the year 2009 (2009: EUR 14 044 432). Dividends are distributed in line with Article 27 of the Fund's statutes.

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

## 5.7 Fair value reserve

The fair value reserve includes the following:

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

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

## 6. DISCLOSURES RELATING TO OFF-BALANCE SHEET ITEMS

### 6.1 Assets held for third parties

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

#### EIB resources

The Fund manages EIB resources through the following mandates:

- **European Technology Facilities (ETF)** 1 and 2 implemented since 1998 which were fully invested by the end of 2008 and 2010, respectively.
- The **Risk Capital Mandate (RCM)** signed with the EIB in 2000 to support, on a revolving basis, technology and industrial innovation through early stage, expansion and lower mid-market capital. The portfolio includes EIB's then existing private equity portfolio that was transferred to EIF in the context of the mandate.
- Under the **RCM Micro window** signed with EIB in February 2009, the Fund provides financial support through equity instruments and funded or unfunded risk-sharing arrangements to micro-credit providers in EU and Accession Countries. The funding was made available by the EIB through the Risk Capital Mandate.
- The **Mezzanine Facility for Growth (MFG)** mandate signed in early 2009 for the Fund to invest in hybrid debt/equity funds over an initial period of three years. The MFG aims at filling the financing gap for European SME and lower mid cap companies by providing hybrid debt/equity products for the benefit of mature European small companies with strong market positions and growth potential as well as high technology companies in their expansion stage.
- EIB co-funding to the **EPMF FCP** is described in the European Commission resources section.

#### European Commission resources

- Under the European Union's Growth and Employment Initiative (G&E) and under the **Multi-Annual Programme (MAP)** for enterprises and entrepreneurship, the Fund manages resources on behalf and at the risk of the Commission. This resource is split equally between private equity and guarantee products. The equity segment known as **ESU 1998 (G&E)** and **ESU 2001 (MAP)** covers the ETF start-up investments. The guarantees segment known as **SMEG 1998 (G&E)** and **SMEG 2001 (MAP)**, provides guarantees against the beneficiary's undertaking.
- Under the **Technology Transfer Pilot Project (TTP)**, financed by the European Commission and signed in November 2008, the Fund has supported a technology transfer structure through pre-seed funding and seed funding, as well as funding in the context of licensing and Intellectual Property transaction.
- Under the **Competitiveness and Innovation Framework Programme (CIP)**, the Fund manages resources on behalf and at the risk of the Commission. The equity segment of CIP known as **GIF (High Growth and Innovative SME Facility)** covers early stage (seed and start-up) investments and expansion stage (mid-market) investments. Under the guarantees segment of CIP, the **SME Guarantee Facility (SMEG 2007)**, capped portfolio guarantees are provided against the beneficiary's undertaking to enable increased financing to SMEs and to increase the risk taking in the SME financing.
- Under the **Joint Action to Support Microfinance Institutions in Europe (JASMINE)** initiative the Fund manages the technical assistance initiative with European Commission resources.
- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)** annual Contribution Agreements entered into with the European Commission, the Fund has been mandated to undertake technical assistance and networking activities to support the preparation and structuring of JEREMIE holding fund mandates in cooperation with EU Member States and regions.
- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy**

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

- In 2010 the Fund signed the **European Parliament Preparatory Action (EPPA)** with DG REGIO, under which EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.
- The **European Progress Microfinance Facility (EPMF)** aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged. EPMF is implemented by EIF through two separate mandates: Under a **direct mandate** signed with the European Commission in July 2010, the EIF provides portfolio guarantees to micro-credit lenders. Further financial instruments such as debt, equity, and risk-sharing are deployed through a **Luxembourg fonds commun de placement (FCP)**, managed by EIF in its capacity as management company. Initial funding for the FCP is provided by the Commission and the EIB.
- The EIF acts as trustee for the European Commission in two funds called **EFSE (European Fund for South East Europe)** and **GGF (Green for Growth – former SE4F)**. EFSE does microfinance in South East Europe and the European Neighbourhood region and the fund was launched in 2006. The EC's participation managed via the EIF currently amounts to approximately EUR 100m. GGF has been set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, the EIF acts as trustee for the European Commission in the technical assistance facility of the GGF (**GGF TA**).

### Other third party resources

- The Fund has sought to further enhance its market impact by establishing **joint investment facilities with**

**public and private entities** through trust accounts; country, multi-country or sector-specific funds of funds, such as:

- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)**, Member States have appointed EIF to manage JEREMIE funds as Holding Fund manager. The JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as private equity funds, guarantee funds and loan funds. The Fund has signed 11 JEREMIE Funding Agreements with Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta.
- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF acts as investment advisor with the objective to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF Front Office is located within the EIB and cooperates closely with the EIF services supporting the investment activities.
- Under the **Greater Anatolia Guarantee Facility (GAGF)** signed in May 2010, the Fund manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and the Republic of Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in Turkey's least developed provinces in partnership with major Turkish banks.
- ERP-EIF Dachfonds, which EIF manages on behalf of the German Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP);
- NEOTEC, a Fund-of-Funds, is a joint venture between EIF and a Spanish government entity, including significant Spanish Blue Chips as investors. It seeks to invest in technology funds in Spain and has already invested a large portion of its commitments.
- Istanbul Venture Capital Initiative (iVCI), a dedicated Turkish Fund-of-Funds advised by EIF.

- Portugal Venture Capital initiative (PVCi), a Fund-of-Funds focused on private equity and venture capital funds in Portugal. The investor base comprises main financial institutions in Portugal.
- LfA-EIF Facility, signed in 2009 is a joint EIF and Lfa Förderbank Bayern venture providing investments to support technology-oriented early and expansion stage companies in Bavaria, Germany.
- UK Future Technologies Fund (UK FTF), signed in 2010, is a Fund-of-Funds investing in venture capital funds in technology companies with high growth potential. EIF was confirmed as manager for two separate funds of funds together making up the UK Innovation Investment Fund (UKIIF).

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

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

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

## 7. DETAILED INFORMATION ON THE STATEMENT OF COMPREHENSIVE INCOME

### 7.1 Interest and similar income

Interest and similar income comprises:

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

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

### 7.2 Net result from guarantee operations

Net income from guarantee operations comprises:

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

### 7.3 Commission income

Commission income is detailed as follows:

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

## 7.4 Net gain/ loss on financial operations

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

## 7.5 Other operating income

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

### Future minimum lease payments under non-cancellable operating leases

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

## 7.6 General administrative expenses

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

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

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

### Future minimum lease payments under non-cancellable operating leases

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

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

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

## 8. RELATED PARTIES TRANSACTIONS

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

### 8.1 European Investment Bank

Related party transactions with the EIB mainly concern the management by the Fund of the PE activity as described in notes 6. In addition, the EIB manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the EIB are disclosed as follows:

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

## 8.2 European Commission

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

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

## 9. TAXATION

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct and indirect taxes.

# CONTACTS AND REFERENCES

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## EIF is a member of the EIB Group

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ISBN 978-92-861-1296-6

ISSN 1725-5392

DOI 10.2868/10143

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Printed on white chlorine-free paper



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ISBN 978-92-861-1296-6



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**ANNEX 2**

**FINANCIAL STATEMENTS OF THE CLASS A GUARANTOR AS OF 31 DECEMBER, 2011**

## ANNUAL REPORT 2011



# Highlights

Operational highlights	2011	2010	2009	2008	2007
<b>Yearly signatures (in EUR m)</b>					
Equity signatures	1 126	930	733	409	521
Guarantee signatures*	1 461	611	191	909	84
Microfinance signatures	67	8	-	-	-
<b>Total outstandings at year-end (in EUR m)</b>					
Private Equity assets under management	5 919	5 367	4 103	3 535	4 388
Guarantee exposure*	4 372	3 329	3 588	4 422	4 704
Microfinance	77	10	-	-	-
<b>Financial highlights</b>					
<b>Key figures (in EUR m)</b>					
Total assets	1 217	1 196	1 158	1 076	1 024
Subscribed capital	3 000	3 000	2 940	2 865	2 770
AAA/AA callable capital	2 321	2 321	2 277	2 239	2 095
Operating profit	53	65	58	62	61
Net profit	(10)	7	(7)	35	50
<b>Key ratios (in %)</b>					
Return on average equity	n/a	0.7	n/a	3.6	6.2
Liquid assets/total assets	13.2	6.2	9.2	35.6	28.5
Shareholders' equity/assets	79.9	85.0	88.8	94.3	96.2
Share of AAA/AA in callable capital	96.7	96.7	96.8	78.2	75.6
Share of callable AAA/AA in shareholders' equity	223.0	223.0	221.0	221.0	213.0

\* Maximum liability.

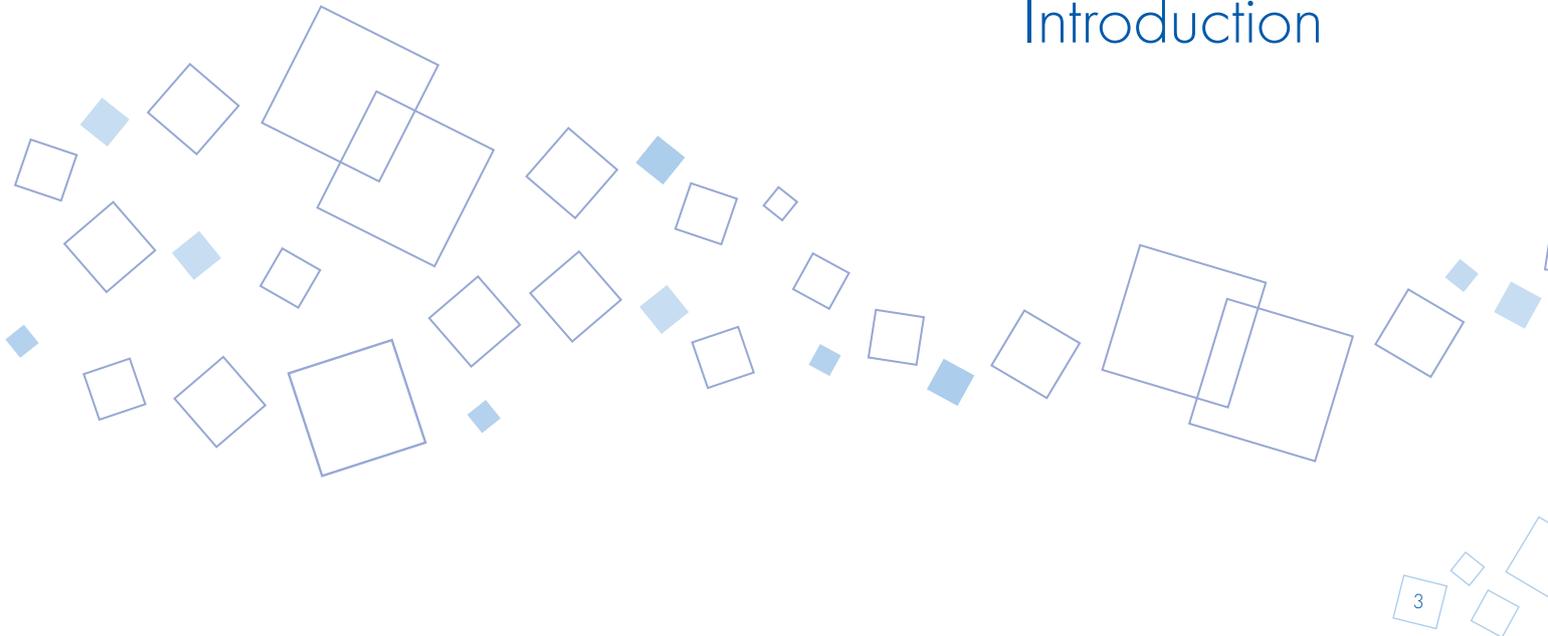
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Europe's Leading Developer  
of Risk Financing  
for Entrepreneurship  
and Innovation

# Introduction



## Foreword of the Chairman of the Board



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

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

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

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

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

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

Philippe Moystadt

## Foreword of the Chief Executive

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

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

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

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

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

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

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

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



Richard Pelly

## Strategy and achievements in 2011

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

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

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

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

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

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

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

and achieved its Community Objectives as demonstrated through its impact on the market.

in EUR m

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

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

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

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

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

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

**EUR 6bn**  
of equity  
catalysed

<sup>1</sup> Including signatures under JEREMIE.

<sup>2</sup> Including signatures under JEREMIE.

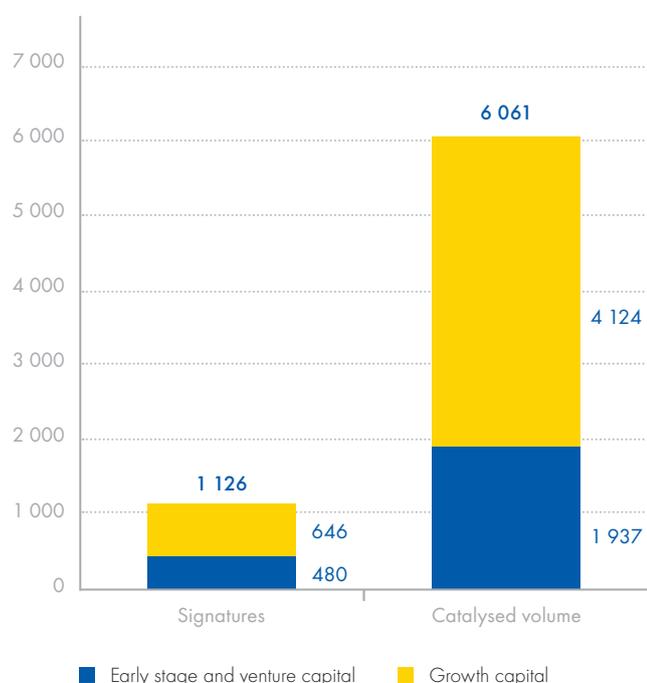
To further increase its impact, throughout the year EIF developed new innovative products, started working with new counterparts (such as Business Angels (BA) and corporate investors) laying the foundation for future partnerships, and extended its support to additional market players.

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

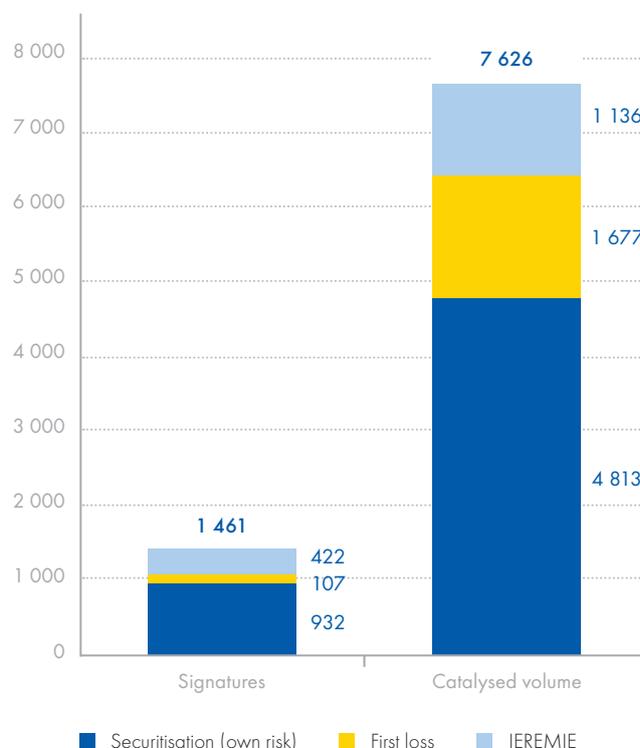
and EUR 422m guarantee commitments under JEREMIE catalysed EUR 1.1bn of funding.

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

2011 Equity signatures by stage – in EUR m



2011 Guarantee signatures by type – in EUR m



### Prime provider of guarantees and credit enhancement to catalyse SME lending

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

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

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

### Funder of Europe's micro-enterprises through microfinance institutions

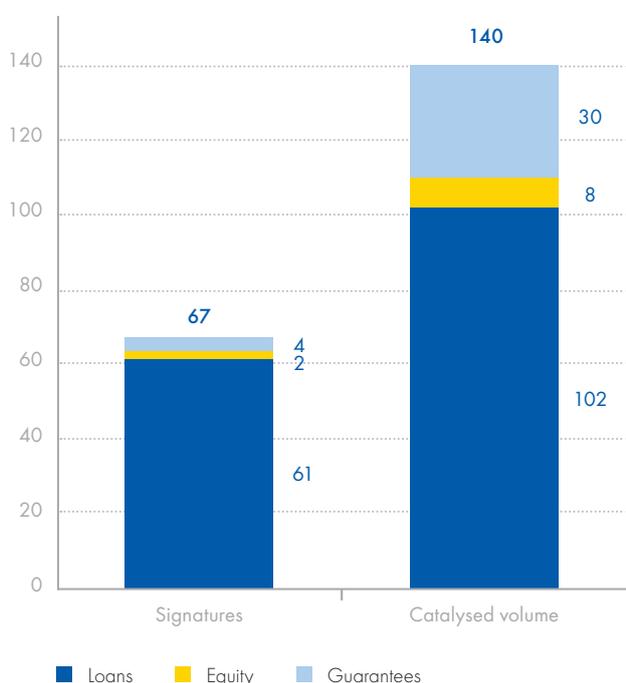
EIF has established itself as one of the leading microfinance providers in Europe, supporting through microfinance institutions those borrowers who do not have access to the traditional banking system and with the principle objective of fostering social inclusion and job creation.



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

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

2011 Microfinance signatures by type – in EUR m



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

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

## Regional development and financial engineering

Through its regional development activities, EIF has supported less developed regions in Europe with targeted

financial instruments in order to help them develop their risk capital markets and achieve sustainable growth. In 2011, EIF signed two new Holding Fund agreements bringing total assets under management to EUR 1.22bn with 14 Holding Funds in ten European countries.

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

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

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

## Outlook

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

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

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

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

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

Business year 2011



## European market environment

### 2011 was the year ...

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

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

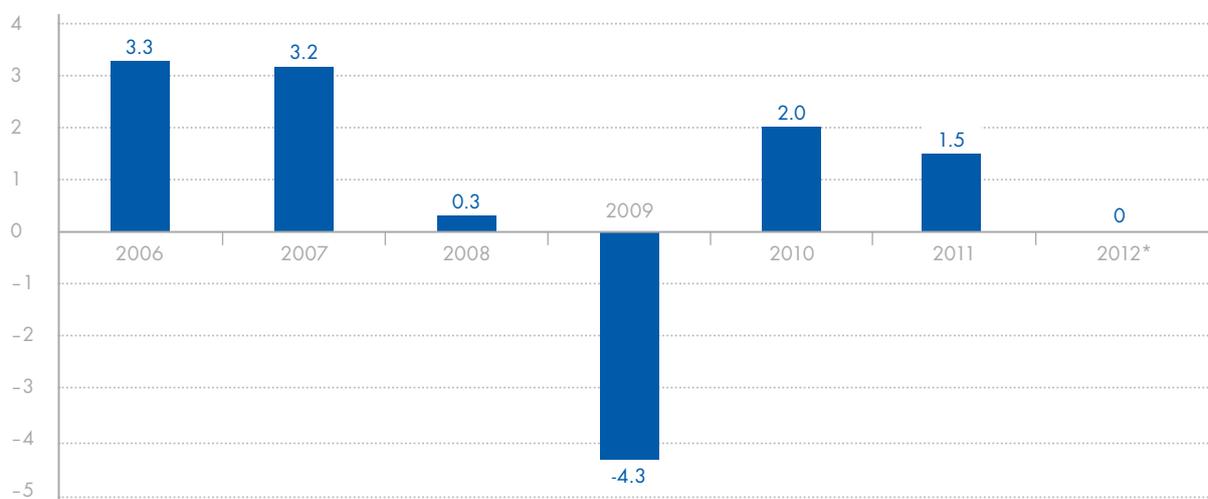
### Lacklustre performance going forward

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

### SME environment

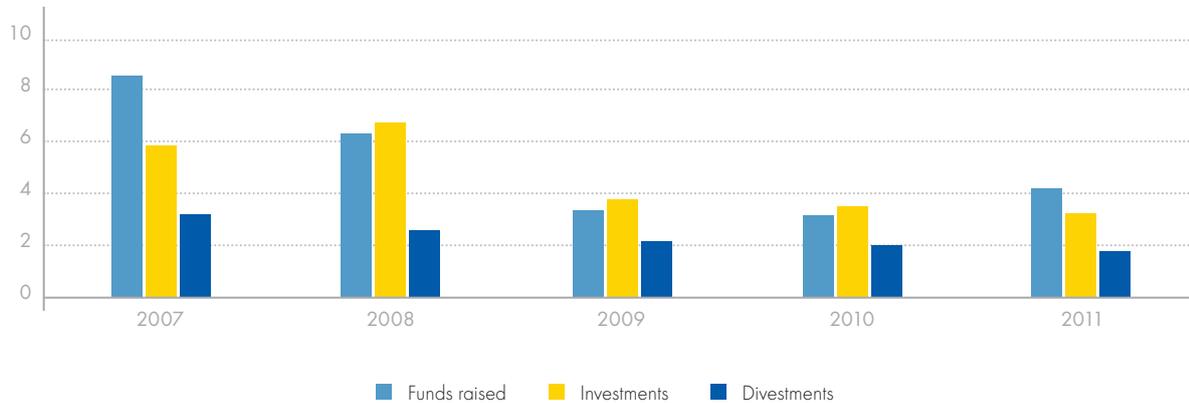
Within the EU-27, 99.8% of enterprises are SMEs; Eurostat counts 20.9 million of them and they account for two out of three jobs (66.7%). In 2011, the business climate for SMEs showed a relatively stable situation, but with increasing differences between EU Member States. Moreover, the uncertain general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

European Union real GDP growth - in %



Source: European Commission (\*forecast)

## European Venture Capital activity by amount – in EUR bn



Source: EVCA/PEREP\_Analytics

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

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

## Equity

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

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

performance has remained weak, apart from those funds in the top quartile, emphasising the importance of careful selection by investors.

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

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

## Structured finance/securitisation

During the crisis, European securitisation issuance remained at high levels, but these volumes were almost exclusively driven by the eligibility of Asset Backed Securities (ABS) as collateral for ECB liquidity operations. Given the dominance of the securitisation of residential mortgages, SME securitisation remained a relatively

## SME securitisation volumes in Europe



Source: based on data from AFME and KfW

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

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

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

## Microfinance

One key objective of the Europe 2020 strategy is the more efficient use of EU funds to support social inclusion and fight poverty including a more efficient utilisation of micro-credits. According to Eurostat data, the incidence of poverty and

social exclusion is greater in Eastern Europe, but also in those Western and Southern European countries which are suffering most from the impact of the current sovereign debt crises.

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

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

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

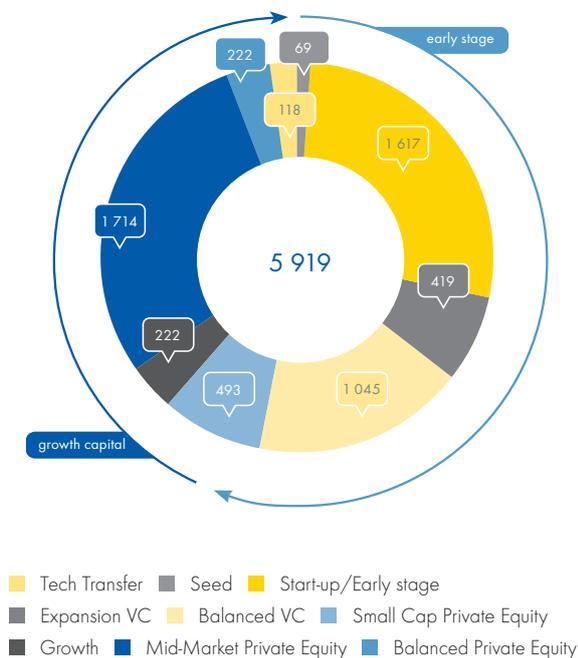
# Equity

## General overview

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

### Stage focus

Total commitments at 31 December 2011 – in EUR m



2011 was another record year for EIF. Volumes of equity signatures soared to an all time high of EUR 1.1bn, a 20% increase compared with 2010. This development emphasises EIF's counter-cyclical intervention and its key role as the European cornerstone investor, providing the highest level

of support to the market by backing teams early in their fundraising process. During the year, EIF was instrumental in deploying reliable and smart sources of funding to early stage funds, catalysing closure at critical fund sizes and attracting private sector co-investors. In parallel, it invested in growth funds (lower mid-market and mezzanine) and backed first-time teams and emerging players in smaller or less developed markets.

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

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

**EUR 1.1bn**  
of EIF commitments

EIF is committed to regional development. By complementing national support schemes for SMEs, the effectiveness of EU budget resources is optimised, attracting additional capital from other investors and often helping to de-risk transactions. As such, throughout 2011, EIF deployed specific financing solutions for the benefit of European

enterprises through the partnerships formed with public and private entities (the German Ministry of Economics and LfA in Germany) and country-specific funds-of-funds (NEOTEC in Spain, iVCi in Turkey, PVCi in Portugal, and UKFTF in the United Kingdom). As these funds are becoming fully invested, EIF has begun to lay the foundations for renewed and future expansion to new regions.

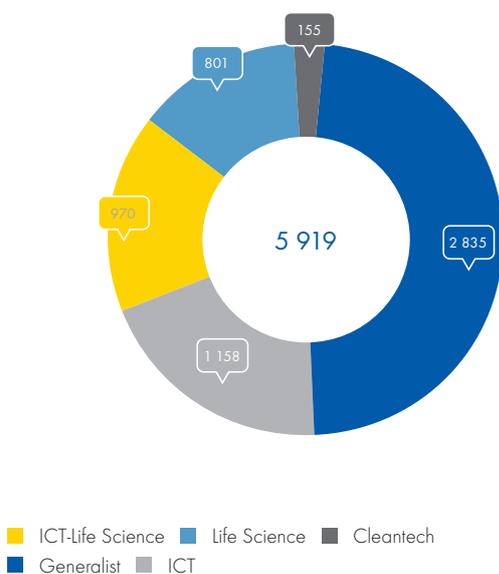
## Portfolio

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

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

### Sector focus

Total commitments at 31 December 2011 - in EUR m



## Activity

### Early stage capital

#### Technology Transfer: fostering innovation

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

*Timo Lehes, Investment Manager, Chalmers Innovation*

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

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

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

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

#### Venture Capital: smart capital for smart ventures

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

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

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

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

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

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

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

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

## Growth capital

### Lower mid-market: supporting established SMEs

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

EIF particularly supported first closings managed by emerging or first-time teams, thereby expanding the market offering of equity finance for SMEs. The share of

investments in first-time teams and emerging teams was higher in 2011 than in the previous year, demonstrating EIF's increased contribution to this segment of the market.

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

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

### Mezzanine: an alternative solution for long-term financing

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

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

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

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

*Florian Lahnstein, CEO and Founding Partner, RiverRock*

<sup>5</sup> Plus two co-signatures with MFG.

## Equity resources and mandates

### EIB resources

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

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

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

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

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

### EIF own resources

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

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

### European Commission resources

GIF (High Growth and Innovative SME Facility), the equity window of the CIP programme, is dedicated to supporting the competitiveness and innovation of European enterprises in the enlarged Europe (including the EU 27, EU Candidate and potential Candidate Countries, EFTA countries). It is particularly important to EIF's support for venture and growth capital funds and is used as a vital resource to improve access to finance for the start-up and growth of European SMEs. CIP GIF also expands EIF's range of instruments in support of developing SME market segments and products, including technology transfer and Business Angels. During 2011, due to lack of investors'

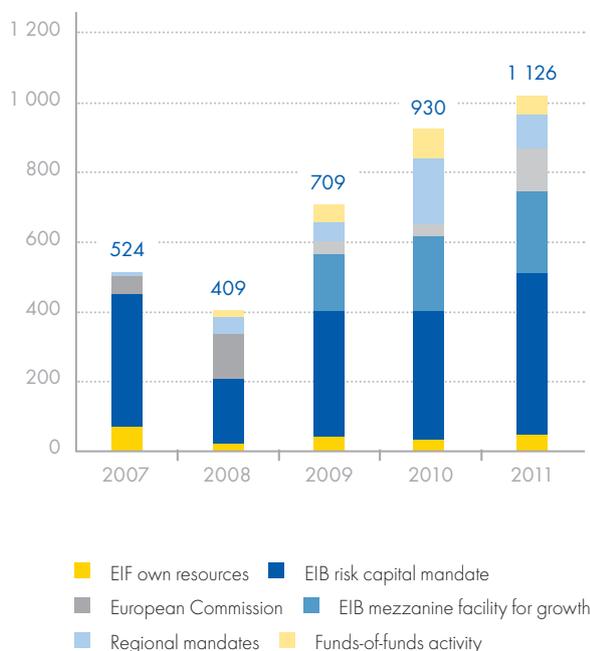
	Year signed	End of commitment period	Total resource (EUR m)	Total committed (EUR m)	Committed (%)	Total disbursed (EUR m)	Disbursed (%)
<b>EIF</b>							
EIF own resources	n/a	Revolving	515	420	81%	374	73%
<b>EIB</b>							
RCM	2000	Revolving	5 000	4 004	80%	3 187	64%
MFG	2009	2013	1 000	619	62%	66	7%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

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

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

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

Yearly equity commitments by resource – in EUR m



## Funds-of-funds

EIF is advising or managing a number of funds-of-funds for third party investors including national and regional governments as well as private and strategic investors. The objective is to expand EIF's market impact and reach and provide a wide choice of financial solutions tailored to complement existing national schemes.

ERP-EIF Dachfonds is a EUR 1bn fund-of-funds investing in venture capital funds focusing mainly on German-based, high-tech early and development stage companies. EIF manages this co-investment facility on behalf of the German Federal Ministry of Economics and Technology (BMWi) and the European Recovery Programme (ERP), from which EUR 500m were committed, matched by co-investments from EIF, EIB and EU resources. Throughout the year, with a commitment of EUR 75m in three funds (Munich Venture Partners II, UnternehmerTUM and HBM BioCapital II), the ERP-EIF Dachfonds helped first-time teams as well as established teams to reach viable first closing sizes and further asserted its role as cornerstone investor in the German VC segment. ERP-EIF Dachfonds has to date supported 23 VC funds and managed to catalyse around EUR 1.9bn of commitments by other investors. It is currently 62% committed with signatures and conditional commitments totalling EUR 617m.

LfA-EIF Facility supports venture capital funds which focus on the Bavaria region of Germany, and which target high-tech early and development stage companies. EIF manages this co-investment facility on behalf of the LfA Förderbank Bayern, which provided EUR 25m matched by co-investments from EIF, EIB and the EU for an original total size of EUR 50m. During 2011, the facility committed EUR 12.5m to three funds (Munich Venture Partners II, UnternehmerTUM and Creathor III) and outlined its catalytic role when backing first-time teams and established managers in the region. To allow a continuation of its important role in supporting local enterprises, the facility was increased by LfA and EIF from EUR 50m to EUR 100m in 2011. To date, the LfA-EIF Facility has committed some EUR 43m in nine funds, of which one commitment (EUR 5m) is still conditional. It is now 43% committed.

<sup>6</sup> The Innovation Union's aim is to speed up and improve the way Member States conceive, develop, produce and access new products, industrial processes and services. It is one of the seven flagships of the EU 2020 strategy regarded as one of the engines to boost growth and job creation.

<sup>7</sup> GIF comprises two business lines, GIF 1 which covers early stage (seed and start-up) investments investing in specialised venture capital funds and GIF 2 which covers expansion stage investments by investing in specialised risk capital funds.

**United Kingdom Future Technologies Fund (UK FTF)** is a GBP 200m fund-of-funds combining equal commitments by the UK government and EIF and EIB. It was launched as part of the UK Government's strategy to support venture capital funds investing in technology companies with high growth potential across important sectors such as life sciences, digital and advanced manufacturing. EIF is investment adviser to UK FTF L.P. In 2011, UK FTF signed two investments: Gilde Healthcare III (EUR 10m) and SEP IV (GBP 30m). These two funds add to investments previously made in DFJ Esprit Capital III, Acton GmbH & Co. Heureka KG and Advent Ventures Life Sciences Fund. To date, UK FTF has total commitments of EUR 77m, and managed to catalyse over EUR 550m.

**Istanbul Venture Capital Initiative (iVCi)** is Turkey's dedicated fund-of-funds and co-investment programme. A successful example of a national-international and public-private partnership, it had its final closing at EUR 160m with the participation of six investors: SME Development Association of Turkey (KOSGEB), Technology Development Foundation of Turkey (TTGV), Development Bank of Turkey (TKB), National Bank of Greece Group (NBG Group), Garanti Bank of Turkey and EIF. EIF is the adviser to iVCi.

In 2011, six investments including ADM CEECAT Fund, Darby Converging Europe Fund III, Clean Energy Transition Fund and Mediterra Fund I were approved by the iVCi Investment Committee, representing EUR 91.5m. In total to date, iVCi holds a portfolio of seven investments representing total signed commitments of EUR 112.5m which underlines its vital role in supporting the growth of

Turkish enterprises. iVCi has been a cornerstone in most of its investments to date and has catalysed six times its resources from other investors into the funds it has supported.

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

**NEOTEC** is a Spanish-based EUR 183m fund-of-funds in which EIF committed EUR 50m. It was launched with the sponsorship of EIF and the Centre for the Development of Industrial Technology (CDTI: Centro para el Desarrollo Tecnológico Industrial), now part of the Spanish Ministry of Science and Innovation, and several private investors, mainly Spanish blue chip companies. During 2011, NEOTEC played an incremental role in further developing the Spanish VC market committing EUR 20m to Cross Road Biotech II. In addition, NEOTEC approved EUR 35m in two Spanish ICT funds. To date, NEOTEC has approved 12 funds, including co-investments, for a total of EUR 134.3m, of which EUR 129m have been signed accounting for 70% of the fund size and catalysing over EUR 700m of commitments from other investors.

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

\* Including EIB Group and EC commitments.

## Equity signatures 2011

in EUR m

Fund vehicle	Resources	Geographic focus	Commitment
Arcadia Small Cap Fund	CIP	Italy	11.3
Bullnet Capital Fund II	CIP	Spain	0.3
Karmijn Kapitaal	CIP	Netherlands	7.5
Louvain VIVES II	CIP	Multi-country	15.0
Newion Investments II	CIP	Multi-country	15.0
Notion Capital II	CIP	United Kingdom	19.6
Open Ocean Fund III	CIP	Multi-country	15.0
Pontis Growth Capital Fund II	CIP	Multi-country	10.0
WestBridge SME Fund	CIP	United Kingdom	11.5
Munich Ventures Partners Fund II	CIP/ERP/LfA	Germany	30.0
Unternehmer TUM Fonds	CIP/ERP/LfA	Germany	12.5
3TS Catalyst Romania Fund	JER*	Romania	17.5
New Europe Venture Equity II	JER*	Bulgaria	21.0
ADM CEECAT Fund	MFG	Turkey	40.0
Darby Converging Europe Fund III	MFG	Multi-country	35.0
Kreos Capital IV (Expert Fund)	MFG	Multi-country	60.0
Palio Superflex Fund I	MFG	United Kingdom	30.8
Precision Lending Fund I	MFG	Multi-country	30.0
VSS European Strategic Capital	MFG	Multi-country	40.0
Cabiedes & Partners	RCM	Spain	0.4
Crossroads Biotech Fund	RCM	Spain	5.5
360 Capital 2011	RCM/EIF own resources	Multi-country	30.0
Alto Capital III	RCM/EIF own resources	Italy	17.5
Bridgepoint Development Capital	RCM/EIF own resources	Multi-country	20.0
Bridges Ventures III	RCM/EIF own resources	United Kingdom	22.9
BV5	RCM/EIF own resources	France	20.0
Creandum III	RCM/EIF own resources	Multi-country	35.0
E-Capital III	RCM/EIF own resources	Belgium	12.4
Euroknights VI	RCM/EIF own resources	Multi-country	50.0
Healthcap VI	RCM/EIF own resources	Multi-country	30.0
Initiative & Finance I	RCM/EIF own resources	France	22.0
NIBC Growth Capital Fund II	RCM/EIF own resources	Multi-country	30.0
Partech Fund VI	RCM/EIF own resources	Multi-country	30.0
Priveq IV	RCM/EIF own resources	Multi-country	30.2
Progressio Investimenti II	RCM/EIF own resources	Italy	19.9
Qure Invest Life Sciences Fund	RCM/EIF own resources	Multi-country	6.0
Steadfast Capital Fund II	RCM/EIF own resources	Germany	15.0
Steadfast Capital Fund III	RCM/EIF own resources	Germany	30.0
Sunstone Lifescience Ventures III	RCM/EIF own resources	Multi-country	30.9
Sunstone Technology Ventures III	RCM/EIF own resources	Multi-country	29.6
HBM BioCapital II	RCM/EIF own resources/ERP	Multi-country	40.0
Creathor Venture Fund III	RCM/EIF own resources/LfA	Germany	5.0
<b>Subtotal</b>			<b>954.4</b>

## Funds-of-funds activity

ADM CEECAT Fund	iVCi	Turkey	24.0
Clean Energy Transition Fund	iVCi	Turkey	15.0
Darby Converging Europe Fund III	iVCi	Turkey	17.5
Mediterra Capital Partners	iVCi	Turkey	20.0
Pera Private Equity Fund	iVCi	Turkey	15.0
Bullnet Capital Fund II	Neotec/Fondo ICO	Spain	0.9
Cabiedes & Partners	Neotec/Fondo ICO	Spain	1.1
Crossroads Biotech Fund	Neotec/Fondo ICO	Spain	14.5
Fondo Inter-Risco II (incr.)	PVCi	Portugal	5.0
Vallis Sustainable Investments I	PVCi	Portugal	15.0
Gilde Heathcare III	UKFTF	Multi-country	10.0
Scottish Equity Partners IV	UKFTF	United Kingdom	33.6
<b>Subtotal</b>			<b>171.6</b>
<b>Total**</b>			<b>1 126</b>

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

\*\* Including conditional commitments.

# Guarantees and credit enhancement

## General overview

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

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

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

For own risk transactions, EIF employs its own capital to credit enhance tranches of SME loan or lease securitisation transactions and to provide guarantee cover for SME loan and lease portfolios to financial institutions on a

bilateral basis. Through its credit enhancement activity, EIF achieves substantial added value by facilitating SME credit risk transfer from financial institutions as well as by facilitating access to term funding through the placement of guaranteed asset-backed securities with capital market investors. As a consequence, EIF facilitates capital relief and contributes to the funding needs of financial institutions, thus increasing their lending capacity to SMEs.

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

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

As part of its mandate activity, EIF manages the SME Guarantee Facility (SMEG) under CIP on behalf of the EC. Under this facility, losses are covered using the EC budgetary resources specifically allocated to this programme. The guarantees and counter-guarantees issued cover part of the expected loss for portfolios of SME loans or leases originated by financial institutions. Final losses stemming from new SME loans granted during a predefined period are covered on a pari passu basis with the financial intermediaries up to the expected loss set at inception of the agreement.

The SMEG facility comprises of four measures or windows:

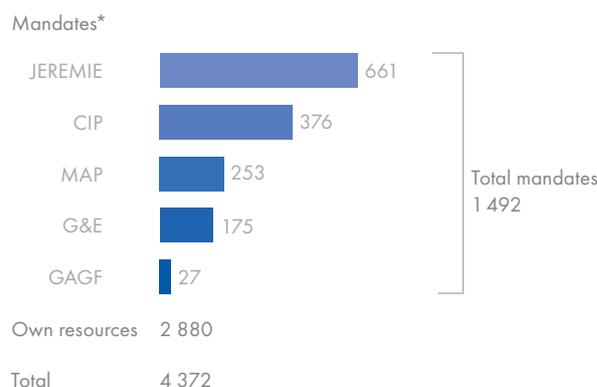
- Loan Guarantees cover portfolios of mid- to long-term loans and leases to SMEs;
- Micro-Credit Guarantees cover portfolios of micro-credits to encourage financial institutions to provide financing to micro-enterprises, especially start-ups;
- Equity/Quasi-Equity Guarantees cover portfolios of investments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

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

## Portfolio

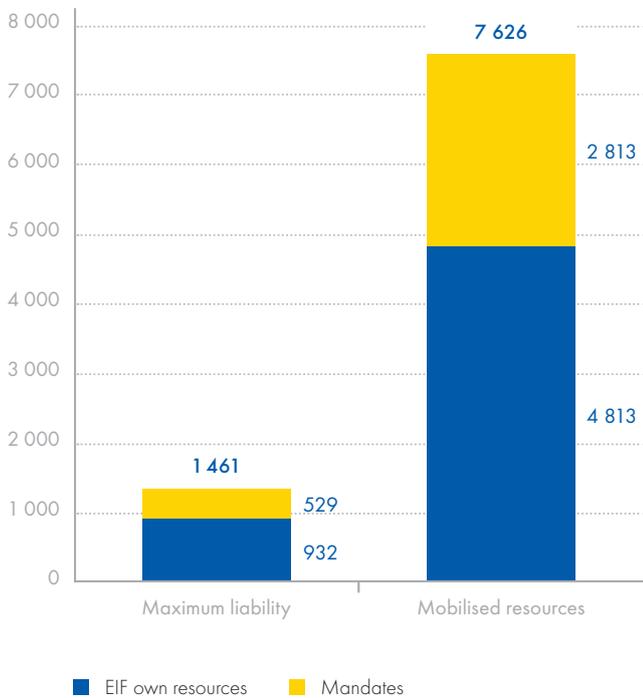
Total outstanding guarantee commitments amounted to close to EUR 4.4bn in 221 transactions at the end of 2011. Of this total, EUR 2.9bn were dedicated to own risk and EUR 1.5bn to mandate programmes\*, mobilising more than EUR 30bn, demonstrating EIF's increased catalytic role in SME lending.

Product breakdown at 31 Dec 2011 - in EUR m



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

2011 guarantee commitments and mobilised resources – in EUR m



EUR 422m of guarantees under the JEREMIE mandate (20 transactions).

### New products

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

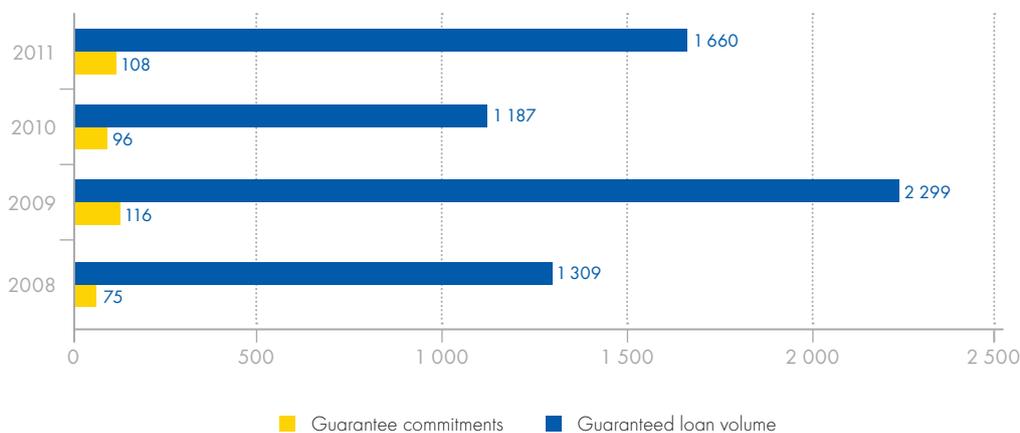
In 2011, EIF signed 47 new transactions across Europe which amounted to over EUR 1.46bn. EUR 932m were dedicated to own risk guarantees and EUR 107m to guarantees under CIP (maximum first loss liability), corresponding to a notional volume of EUR 1.7bn for CIP, up from EUR 1.1bn at end 2010, indicating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

### Guarantees resources and mandates

#### European Commission mandate: catalysing SME lending

The CIP SMEG programme, which EIF is managing for the EC, aims to enhance access to finance for SMEs throughout the EU, Iceland, Norway and Liechtenstein, as well as in Croatia, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, and Turkey. The SME guarantee is

Supported loan volume under SMEG – in EUR m



\* RSI: Risk-Sharing Instrument

made available to CIP intermediaries as a free-of-charge guarantee covering part of the first loss (i.e. the expected losses) of a portfolio of new SME loans. To qualify for such cover, financial institutions commit to offer enhanced access to finance for SMEs by taking SME risk exposure which is additional to what they would usually accept through for example reduced collateral requirements, increased loan volumes or lending to hitherto excluded SME segments (such as start-up enterprises). The intermediary retains, typically, 50 % of the first loss in the guaranteed portfolio.

Throughout 2011, EIF continued to deploy the programme's guarantee instruments with a total of more than 155 000 SMEs having already benefited from the CIP guarantees. It is expected that a total number of approximately 300 000 SMEs will be supported over time by the already committed budget. With many financial institutions tightening their credit policies post crisis, CIP SMEG played a crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance. At end 2011, EIF had signed more than 50 CIP agreements in 18 different countries, the large majority (more than 90 %) of the supported SMEs being micro-enterprises and 60 % of them in their start-up phase.

CIP SMEG has achieved a substantial multiplier effect on the allocated budget of approximately 16 times the guaranteed loan amount, i.e. EUR 1 of budget allocation supports EUR 16 of SME loans.

### Own resources/credit enhancement and securitisation: driving the market

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

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

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

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

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

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

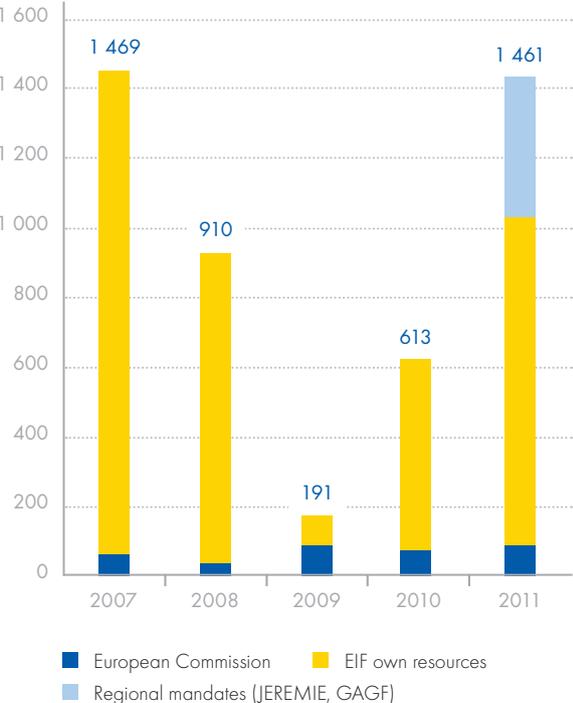
### Financial products under JEREMIE: sharing the risk

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

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

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

Yearly guarantee commitments by resource – in EUR m



## Guarantee signatures 2011

Deal name	Resources	Geographic focus	in EUR m
			Commitment
Bank BPH	CIP	Poland	3.4
BNP Paribas Bank Polska	CIP	Poland	8.7
BPCE - SOCAMAs	CIP	France	16.5
Cacanska Banka	CIP	Serbia	2.0
Crnogorska Komercijalna Banka (Montenegro)	CIP	Montenegro	2.1
Dexia Bank Belgium	CIP	Belgium	5.2
GE Budapest Bank	CIP	Hungary	2.8
GE Budapest Lizing	CIP	Hungary	1.7
GE Capital Equipment Finance (loan)	CIP	France	1.4
GE Capital Equipment Finance (micro)	CIP	France	1.6
KfW	CIP	Germany	27.2
National Guarantee Fund	CIP	Bulgaria	3.6
Nuevo Micro Bank	CIP	Spain	15.0
Polfund	CIP	Poland	1.7
Polski Fundusz Gwarancijny - Poland	CIP	Poland	0.3
Vaekstfonden	CIP	Denmark	4.8
Ziraat Bankasi	CIP	Turkey	9.1
Acrobaleno Finance 2	EIF own resources	Italy	117.0
Alba Leasing	EIF own resources	Italy	150.0
Atlantes	EIF own resources	Portugal	79.2
BNP Paribas 2011	EIF own resources	France	25.7
Frispar företagskredit	EIF own resources	Sweden	33.0
Geldilux TS 2011	EIF own resources	Germany	150.0
ProCredit Bulgaria 2011	EIF own resources	Bulgaria	72.5
Sandown Gold 2011	EIF own resources	United Kingdom	155.0
Stichting Eleven Cities 7	EIF own resources	Netherlands	70.0
Stichting Eleven Cities 7	EIF own resources	Netherlands	80.0
Bank of Cyprus	JEREMIE FLPG*	Cyprus	8.0
Bank of Valletta	JEREMIE FLPG*	Malta	8.8
Banque Populaire du Sud	JEREMIE FLPG*	France	14.0
Cibank	JEREMIE FLPG*	Bulgaria	22.4
Nordea Bank Finland - Lithuania Branch	JEREMIE FLPG*	Lithuania	8.0
ProCredit Bulgaria	JEREMIE FLPG*	Bulgaria	8.0
Raiffeisen (Bulgaria) EAD	JEREMIE FLPG*	Bulgaria	13.0
Siauliu Bankas	JEREMIE FLPG*	Lithuania	4.0
Unicredit Bulbank - Bulgaria	JEREMIE FLPG*	Bulgaria	10.0
UniCredit Tiriac Bank	JEREMIE FLPG*	Romania	17.5
United Bulgarian Bank	JEREMIE FLPG*	Bulgaria	25.0
Alpha Bank (ICT)	JEREMIE FRSP*	Greece	30.0
Alpha Bank	JEREMIE FRSP*	Greece	30.3
Banca Nazionale del Lavoro	JEREMIE FRSP*	Italy	44.0
Emporiki Bank of Greece (ICT)	JEREMIE FRSP*	Greece	30.0
National Bank of Greece (SME)	JEREMIE FRSP*	Greece	30.0
National Bank of Greece (ICT)	JEREMIE FRSP*	Greece	30.0
Siauliu Bankas	JEREMIE FRSP*	Lithuania	10.0
Unicredit Campania	JEREMIE FRSP*	Italy	70.0
Unicredit Sicily	JEREMIE FRSP*	Italy	9.0
<b>Total</b>			<b>1 461.4</b>

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

# Microfinance

## General overview

During 2011, EIF's microfinance activity transitioned from a low-scale pilot activity to a fully dedicated EIF business segment. As part of its active role in developing Europe's microfinance market, EIF provides both financial instruments and non-financial support measures to build up the capacity of Europe's microfinance institutions (MFIs), which range from very small non-bank MFIs, smaller banks, and commercial lenders to guarantee institutions. Through its support for MFIs, EIF aims to improve on-lending to micro-entrepreneurs and the self-employed, including to vulnerable social groups who often lack access to the commercial credit market.

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

EIF's product offering in the microfinance field is tailored to the specific European context, which is characterised by a heterogeneous market and a wide range of different types of MFIs applying different sets of lending models. The variety of products available under the European Progress Microfinance Facility (Progress Microfinance) in particular, aims at addressing these particular market needs. Over time, EIF has the ambition to become the key player in the European microfinance market.

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

During 2011, the first full operational year of Progress Microfinance, EIF concluded 14 agreements with 12 micro-

lenders in nine countries across the EU and committed over EUR 64.4m to support the microfinance sector under the new facility alone. This support generated a total volume of over EUR 130m in new micro-loans.

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

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

*Ioan Vlăsa, CEO, FAER IFN S.A*

## Portfolio

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

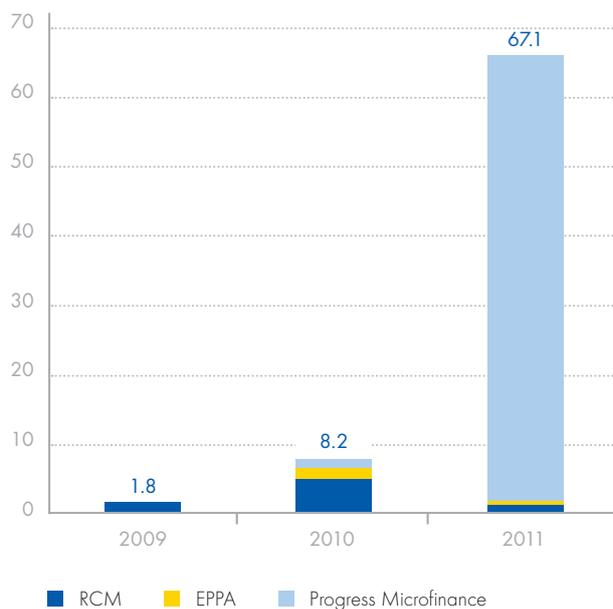
The transactions closed in 2011 clearly indicate a strong demand among non-bank MFIs for long-term funding. Banks in Western and Eastern Europe are also keen to embark into microfinance, building on their small business lending track-record. Such downscaling is often limited to pilot testing or social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

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

under Progress Microfinance. In the future, it is expected that JASMINE TA will deepen coordination with Progress Microfinance to enhance the synergies between the two facilities.

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

Yearly microfinance commitments – in EUR m



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

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

### CIP SME Guarantee Facility (SMEG) for micro-finance

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

## Microfinance resources and mandates

### European Progress Microfinance Facility (Progress Microfinance)

Progress Microfinance aims to increase access to finance for micro-entrepreneurs including the self-employed and has a particular focus on, but is not restricted to, groups with limited

access to the traditional banking system. Its full launch in November 2010 marked a major development for EIF’s microfinance activities which, in addition to capacity, also gained the structural framework needed to absorb its smaller micro-finance pilot predecessors including EPPA and RCM Micro.

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

### Joint Action to Support Microfinance Institutions in Europe (JASMINE)

JASMINE is a joint initiative of the EC and the EIB Group (EIB and EIF) launched in September 2008 to provide technical assistance to non-bank micro-credit providers in the EU with a view to increasing the provision of micro-credit to micro-entrepreneurs. The objective of the

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

Technical Assistance facility is to act as a catalyst to help MFIs improve their access to institutional and commercial funding in order to expand and become sustainable.

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

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

Georgi Breskovski, CEO, Mikrofond

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

### European Parliament Preparatory Action (EPPA)

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

## Microfinance signatures 2011

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

\* Subject to regulatory approval.

# Regional business development

## General overview

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

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

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

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

Šarūnas Šiugžda, Founder and Managing Partner, LitCapital

2011 was a significant year for EIF. JEREMIE Holding Funds began to have a real impact at SME level in several Member States, mainly due to the increase in the number of transactions with financial intermediaries. The implementation of the first instruments for IPA also started in 2011. At the same time, 2011 marked the completion of the investment period of two of EIF's fund-of-funds activities - namely

iVCi in Turkey, and NEOTEC in Spain - with PVCi's activity ongoing. In addition, a second IPA mandate in Turkey, the EUR 16m G43 Anatolian VC Fund Project as well as new mandates in the Provence-Alpes-Côte d'Azur (PACA) region of South East France and the Calabria region of Italy were signed, with respective commitments of EUR 20m and EUR 4.5m.

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

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

Charles Borg, CEO, Bank of Valletta

## EIF's regional business development activities

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

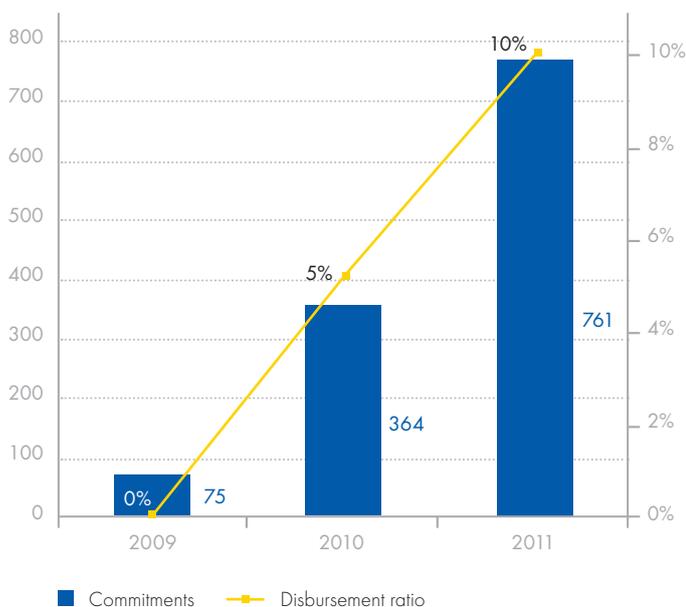
First results are materialising at the level of the SMEs, as evidenced by a growing number of investment loans being made by the financial intermediaries to the SMEs.

Both the JEREMIE and IPA instruments are designed to encourage private sector involvement by engaging the intermediaries in contractual arrangements that combine a commercial approach with policy objectives and that ensure a full alignment of interests. The instruments include equity investments through venture capital fund managers, often focussed on the earlier stage investment rounds

of high-growth companies, and also involve the banking sector, through co-lending or guarantee transactions which stimulate greater volumes of lending to SMEs within agreed target sectors, and on improved terms. By applying its financial engineering know-how to JEREMIE and IPA resources, EIF facilitates SMEs access to smart money whilst ensuring that the concept of revolving financing enables a long-term impact for the economies in question.

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

JEREMIE commitments and disbursements flows - in EUR m



## JEREMIE highlights 2011<sup>8</sup>

### EU-27

#### Bulgaria - JEREMIE Holding Fund (EUR 199m)

In July, five FLPG<sup>9</sup> transactions and one equity deal were signed. The combined amount of loans to SMEs available via these agreements equals EUR 392m.

#### Cyprus - JEREMIE Holding Fund (EUR 20m)

One FLPG transaction complemented the FRSP products already provided last year which generated a strong 40% uptake. Overall SME financing of EUR 70m is expected

to be generated under both operations, of which at least EUR 35m will be dedicated to start-ups and newly established businesses.

#### France - Two regional JEREMIE Holding Funds (combined total of EUR 50m).

In June a third instrument under the mandate in the Languedoc-Roussillon region, FLPG, was signed leading to overall support of more than 70 SMEs under the Holding Fund by the end of the year.

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

#### Greece - JEREMIE Holding Fund (EUR 250m)

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

#### Italy - Four JEREMIE Holding Funds (combined total of EUR 210m).

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

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

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

<sup>8</sup> Information on specific JEREMIE transactions concluded in 2011 can be found under the equity and guarantee sections.

<sup>9</sup> For the names of the intermediaries with whom FLPG transactions were concluded in 2011, please consult the guarantee signatures on page 24.

<sup>10</sup> For the names of the intermediaries with whom FRSP transactions were concluded in 2011, please consult the guarantee signatures on page 24.

<sup>11</sup> European Regional Development Fund.

<sup>12</sup> European Social Fund.

**Latvia** – JEREMIE Holding Fund (EUR 91.5m)

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

**Lithuania** – JEREMIE Holding Fund (EUR 191m)\*

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

**Malta** – JEREMIE Holding Fund (EUR 10m)

One FPLG agreement was signed providing for over EUR 50m of new loans to Maltese SMEs, including micro-businesses. During 2011, loans for approximately 20% of the expected portfolio volume were already provided.

**Romania** – JEREMIE Holding Fund (EUR 100m)

With a third FPLG transaction and an allocation under a venture capital operation EIF has fully committed the Holding Fund. In the course of the year Romanian SMEs started to receive loans in support of their development in a difficult market situation.

**Slovakia** – JEREMIE Holding Fund (EUR 100m)

The impact of the resources deployed for SMEs is expected to materialise during the course of 2012, as calls for FPLG and VC have been successfully launched.

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

in EUR m

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

\* A reduction to EUR 170m will be implemented.

## Outside the EU

### Turkey – Two IPA initiatives (EUR 48.3m)

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

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

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

## New initiatives

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

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

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

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

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

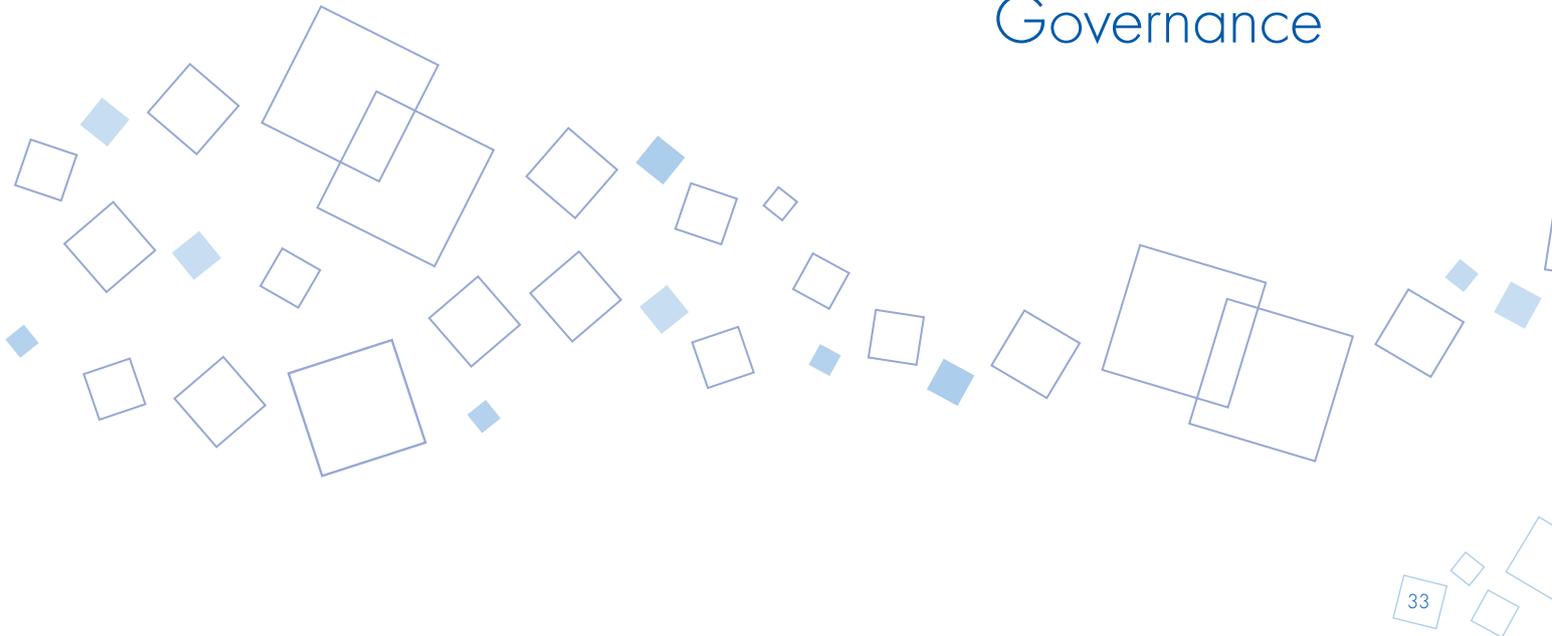
Furthermore, regional business development activities are playing a critical role in the deployment of EIF core products since, with the proximity to the market that has been achieved through local offices, origination efforts are more targeted and efficient.

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

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

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

# Governance



# Capital and shareholders

at 31 December 2011

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

Country	Financial Institutions	No. of shares
Austria		11
	Unicredit Bank Austria AG	3
	Erste Bank der Österreichischen Sparkassen AG	3
	Raiffeisen Bank International AG	5
Bulgaria		3
	Bulgarian Development Bank A.D.	3
Croatia		5
	Croatian Bank for Reconstruction and Development (HBOR)	5
Denmark		3
	Vækstfonden	3
Finland		6
	Finnvera Plc	6
France		30
	Caisse des Dépôts et Consignations (CDC)	30
Germany		98
	KfW Bankengruppe	68
	Landeskreditbank Baden-Württemberg-Förderbank (L-Bank)	8
	LfA Förderbank Bayern	7
	Nordrhein-Westfalen Bank (NRW.BANK)	10
	Sächsische Aufbaubank - Förderbank (SAB)	5
Hungary		5
	Hungarian Development Bank Ltd	5
Italy		23
	IMI Investimenti S.p.A.	15
	Intesa Sanpaolo S.p.A.	8
Luxembourg		5
	Banque et Caisse d'Epargne de l'Etat	5
Malta		16
	Bank of Valletta p.l.c.	16
Netherlands		3
	NIBC	3
Portugal		9
	Banco BPI S.A.	9
Spain		12
	Instituto de Crédito Oficial (ICO)	8
	Agencia de Innovación y Desarrollo de Andalucía (IDEA)	4
Turkey		5
	Industrial Development Bank of Turkey (TSKB)	5
United Kingdom		8
	Barclays Bank PLC	5
	Scottish Enterprise	3
<b>Total</b>		<b>242</b>

# Board of Directors

at 31 December 2011



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

## Chairman

Philippe MAYSTADT

President, European Investment Bank, Luxembourg

## Members

Marc AUBERGER

Matthias KOLLATZ-AHNEN

Carlo MONTICELLI

Tytti NORAS

Gerassimos THOMAS

Heinz ZOUREK

Director-General, Qualium Investissement, Paris

Vice-President, European Investment Bank, Luxembourg

Treasury Department, Ministry of Economy and Finance, Rome

Legal Counsellor, Ministry of Finance, Helsinki

Director, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg

Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels

## Alternates

Dirk AHNER\*

Peter BASCH

Pierluigi GILIBERT

Zdeněk HRUBÝ

Rémy JACOB

Werner OERTER

Gaston REINESCH

Director-General, Directorate-General for Regional Policy, European Commission, Brussels

Principal Advisor, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg

Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg

General Director, Ministry of Public Finance, Prague

Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg

Senior Vice President, Head of the SME Division, KfW Bankengruppe, Frankfurt/Main

Director General, Ministry of Finance, Luxembourg

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

# Management team and key staff

at 31 December 2011



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

## Management team

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

## Key staff

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

# Audit Board

at 31 December 2011



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

## Chairman

Bernard MAGENHANN

Head of Unit, Internal Audit Capability - DG HR, European Commission, Brussels

## Members

Gerard SMYTH

Secretary and Director of Audit Office of the Comptroller and Auditor General, Dublin

Helmut STERMANN

Deputy Director, Landeskreditbank Baden-Württemberg, Karlsruhe

## Audit and controls

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

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

Appointments to the Audit Board last for three consecutive financial years and are renewable, with the term of one member expiring each year. In 2011, the Audit Board held nine meetings.

The Audit Board is required to confirm annually that, to the best of its knowledge and judgement, the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure, and that the financial statements give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review. This confirmation is included in the Annual Report submitted by the Board of Directors to the General Meeting.

In order to discharge its duty in relation to the financial statements, the Audit Board may have recourse to external auditors, as provided for in the Rules of Procedure (Article 19). The audit of the financial statements of the Fund for the year ending 31 December 2011 was carried out by the external auditor, KPMG, appointed following the conclusion of the EIB Group joint invitation to tender exercise in 2008.

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

Internal Audit (which is outsourced to EIB Internal Audit) examines and evaluates the design and effectiveness of the

internal control systems. The Audit Board meets regularly with the internal auditor, approves the internal audit plan, reviews reports from the internal auditor and monitors the implementation of agreed actions points that are contained in internal audit reports.

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

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

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

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

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

# Risk management and legal

## Risk management

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

As a direct result of its organisational risk awareness and preparedness, EIF has been able to remain engaged as the financial crisis has deepened and spread over the course of recent years. During this challenging period, to be able to maintain vigilance and responsiveness, and at the same time allow continued business origination, monitoring efforts were stepped up both at the level of critical transactions and the overall portfolio. Proactive management of existing transactions was reinforced and more comprehensive stress tests were implemented. The Board of Directors and the Audit Board were kept fully abreast of developments as they occurred and presented with scenarios most likely to impact the EIF accounts. The EIF Corporate Operational Plan (COP) includes as a medium-term objective the maintenance of EIF's AAA rating and to this effect the COP integrates scenarios for EIF capitalisation over the planning horizon. An overview of EIF's risk management activities can be found in section 3 of the notes to the annual accounts for IFRS 7, which contains further details on EIF's risk assessment for private equity, portfolio guarantees and treasury activities, covering credit, liquidity and market risks.

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

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

The main tasks of RMM consist of reviewing and facilitating the implementation of new processes and methodologies to manage the risk-return profile of the Fund's existing and new investment activities. As part of the new investment proposals

process, RMM performs an independent analysis of each transaction and issues an opinion to the Chief Executive and the Deputy Chief Executive. In this context, it reviews credit ratings, transaction structures, direct and indirect exposures to the intermediaries originating the operation (portfolio guarantees) and expected performance gradings (private equity) proposed by TRM for these investments. RMM carries out the monitoring of guarantee activities in close collaboration with TRM. RMM performs portfolio reviews for EIF's private equity investments and guarantee instruments, which are periodically submitted to EIF's governing bodies.

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

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

## Legal

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

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

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

# Compliance and operational risk

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

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

## Compliance

### Role and position

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

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

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

### Key compliance policies

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

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

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

## Operational risk

### Role and position

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

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

In this context, EIF COR has developed a risk and control assessment methodology which comprises the identification and the rating of the main operational risks for each process as well as the definition of risk-mitigation plans.

The risk and control assessment is completed by the periodical collection and analysis of operational risk events.

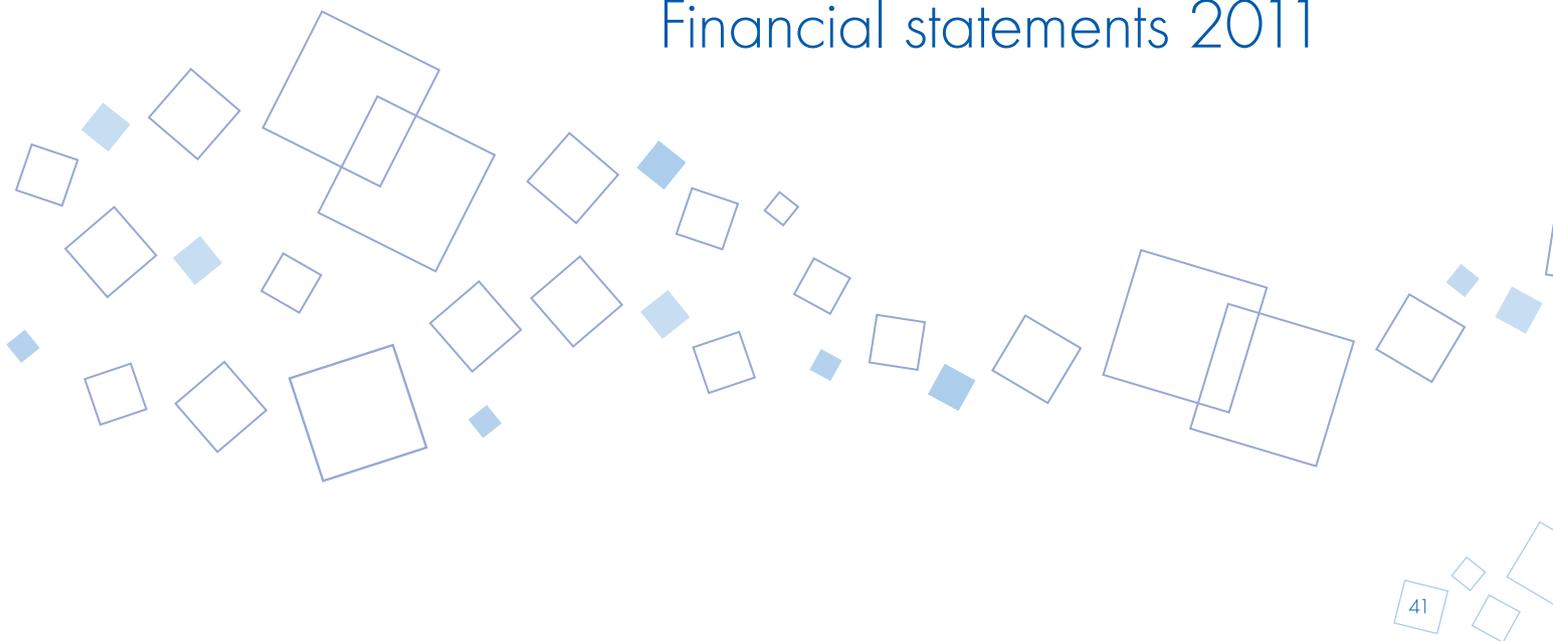
## Data protection

### Role and position

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

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

# Financial statements 2011



# Independent Auditor's Report

To the Audit Board of the European Investment Fund  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2011 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 44 to 93.

## Management responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Luxembourg, 14 March 2012

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé  
Thierry RAVASIO



# Statement by the Audit Board

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

- acting in accordance with the customary standards of the audit profession,
- having designated KPMG Luxembourg S.à r.l. Cabinet de révision agréé as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- having studied the financial statements and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the report dated 14 March 2012 drawn up by KPMG Luxembourg S.à r.l. Cabinet de révision agréé,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial year ending 31 December 2011,
- having examined and discussed reports and opinions issued by the EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,

- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the financial statements of the European Investment Fund give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

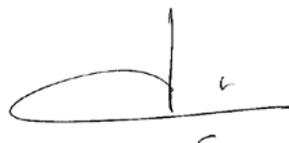
*Luxembourg, 14 March 2012*

THE AUDIT BOARD

Gerard SMYTH



Bernard MAGENHANN



Helmut STERMANN



# Statement of financial position

as at 31 December 2011

			EUR
<b>Assets</b>	<b>Notes</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Cash and cash equivalents	4.1	160 660 806	73 603 254
Investments:			
Debt securities and other fixed income securities	4.2	778 368 598	863 578 881
Shares and other variable income securities	4.3	212 233 535	194 384 535
		<b>990 602 133</b>	<b>1 057 963 416</b>
Other assets	4.4	58 957 150	56 822 861
Intangible assets	4.5	1 128 213	1 384 777
Equipment	4.6	27 780	81 655
Investment property	4.6	5 954 929	6 329 080
<b>Total assets</b>		<b>1 217 331 011</b>	<b>1 196 185 043</b>
<b>Liabilities</b>			
Financial liabilities	5.1		
Financial guarantees		24 022 036	26 902 034
Provisions for guarantees	5.2	161 867 126	107 469 393
Retirement benefit obligations	5.3	34 804 130	25 803 632
Other liabilities and provisions	5.4	24 480 524	19 523 417
<b>Total liabilities</b>		<b>245 173 816</b>	<b>179 698 476</b>
<b>Equity</b>			
Share capital	5.5		
Subscribed		3 000 000 000	3 000 000 000
Uncalled		(2 400 000 000)	(2 400 000 000)
		<b>600 000 000</b>	<b>600 000 000</b>
Share premium		152 185 703	152 185 703
Statutory reserve	5.6	141 427 997	138 535 177
Retained earnings	5.6	147 529 511	146 084 055
Fair value reserve	5.7	(58 768 088)	(27 550 423)
Profit/(loss) for the financial year		(10 217 928)	7 232 055
<b>Total equity</b>		<b>972 157 195</b>	<b>1 016 486 567</b>
<b>Total equity and liabilities</b>		<b>1 217 331 011</b>	<b>1 196 185 043</b>

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

# Statement of comprehensive income

for the year ended 31 December 2011

	Notes	31.12.2011	31.12.2010
Interest and similar income	7.1	34 953 522	31 483 224
Income from investments in shares and other variable income securities	4.3	3 758 414	10 878 493
Net loss from guarantee operations	7.2	(31 727 489)	(24 918 778)
Commission income	7.3	43 175 030	37 149 456
Net gain/(loss) on financial operations	7.4	(74 237)	2 180 690
Other operating income	7.5	669 495	335 157
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(33 705 121)	(30 118 764)
- social security and contribution costs		(7 503 803)	(4 990 135)
		<b>(41 208 924)</b>	<b>(35 108 899)</b>
Other administrative expenses		(13 452 860)	(8 470 136)
		<b>(54 661 784)</b>	<b>(43 579 035)</b>
Depreciation and amortisation	4.5, 4.6	(1 204 822)	(1 763 626)
Impairment losses on available-for-sale investments	4.3	(5 106 057)	(4 533 526)
<b>Profit/(loss) for the financial year</b>		<b>(10 217 928)</b>	<b>7 232 055</b>
			EUR
Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		(32 252 765)	(40 954 211)
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		1 035 100	479 739
		<b>(31 217 665)</b>	<b>(40 474 472)</b>
<b>Total comprehensive income for the financial year</b>		<b>(41 435 593)</b>	<b>(33 242 417)</b>

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

# Statement of Changes in Equity

for the year ended 31 December 2011

## Attributable to equity holders of the Fund

	Notes	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit/(loss) for the year	EUR Total Equity
<b>Balance</b> as at 31.12.2009		2 940 000 000	(2 352 000 000)	588 000 000	143 191 123	138 535 177	153 457 561	12 924 049	(7 373 506)	1 028 734 404
<b>Total comprehensive income</b>										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	7 232 055	7 232 055
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(40 474 472)	0	(40 474 472)
<b>Transactions with owners</b>										
Appropriation of loss	5.6	0	0	0	0		(7 373 506)	0	7 373 506	0
Share issue	5.5	60 000 000	(48 000 000)	12 000 000	8 994 580	0	0	0	0	20 994 580
<b>Balance</b> as at 31.12.2010		3 000 000 000	2 400 000 000	600 000 000	152 185 703	138 535 177	146 084 055	(27 550 423)	7 232 055	1 016 486 567
<b>Total comprehensive income</b>										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	(10 217 928)	(10 217 928)
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(31 217 665)	0	(31 217 665)
<b>Transactions with owners</b>										
Appropriation of profit inc. dividend	5.6	0	0	0	0	2 892 820	1 445 456	0	(7 232 055)	(2 893 779)
<b>Balance</b> as at 31.12.2011		3 000 000 000	(2 400 000 000)	600 000 000	152 185 703	141 427 997	147 529 511	(58 768 088)	(10 217 928)	972 157 195

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

# Cash Flow Statement

for the year ended 31 December 2011

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

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

# Notes to the financial statements

for the year ended 31 December 2011

## 1. General

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

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

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

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

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

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

## 2. Significant accounting policies and basis of preparation

### 2.1 Basis of preparation

#### 2.1.1 Statement of compliance

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

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

#### 2.1.2 Basis of measurement

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

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

#### 2.1.3 Use of estimates and judgments

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are rec-

ognised in the period in which the estimates are revised and in any future periods affected.

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

Judgments and estimates are principally made in the following areas:

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

#### 2.1.4 Changes in accounting policies and presentation

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

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

#### 2.1.5 Foreign currency translation

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

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

Non-monetary items are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a com-

ponent of the change in their fair value. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

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

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

## 2.2 Cash and cash equivalents

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

## 2.3 Investments

### 2.3.1 Classification and Measurement

#### Classification

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

#### Initial recognition and derecognition

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

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

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

#### Subsequent measurement

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

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

#### Impairment of financial assets

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

#### 2.3.2 Shares and other variable income securities

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

##### a) Fair value considerations:

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

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

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

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

*b) Impairment considerations:*

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

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

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

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

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

### 2.3.3 Debt securities and other fixed income securities

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

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the profit or loss.

### 2.3.4 Interests in Joint Ventures and associates

EIF complies with conditions to use the private equity and similar entities exemption in IAS 28 and IAS 31 and does not use equity accounting on, or proportionately consolidate investments in joint ventures. Upon initial recognition, holdings in the joint ventures or associates are designated as at fair value through the profit or loss, and measured subsequently at fair value in accordance with IAS 39, with changes in fair value recognised in the profit or loss during the year of the change.

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers).

The participations acquired by EIF for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments are generally investments jointly subscribed by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such fund. As a consequence, any membership by an investor in a governing body of such fund does not in principle entitle such investor to influence the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on capital repayments or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information.

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the aforementioned industry practice, ensuring that EIF neither controls nor exercises any form of significant influence within the meaning of IAS 27 and IAS 28 over any of these investments, including those investments in which EIF holds over 20 % of the voting rights either on its own account or on behalf of any of its mandates.

## 2.4 Guarantee operations

Financial guarantee contracts are contracts that require EIF to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the Financial guarantees. At initial recognition, the fair value of the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction.

Subsequent to initial recognition, Financial guarantees are measured at the higher of:

- the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two-thirds of the Weighted Average Life (WAL) of the transaction, followed by a linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche. The best estimate of expenditure is determined in accordance with IAS 37. Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is

estimated on the basis of all relevant factors and information existing at the statement of financial position date.

Any increase or decrease in the liability relating to Financial guarantees is recognised in the profit or loss under "Net result from guarantee operations".

## 2.5 Other assets

Other assets include the funds designated to cover the pension liability, accrued commission income and debtors and are accounted for at amortised cost.

## 2.6 Intangible assets, Equipment and Investment property

### 2.6.1 Intangible assets

Intangible assets are composed of internally generated software and purchased computer software, and are accounted for at cost net of accumulated amortisation and impairment losses.

Direct costs associated with the development of software are capitalised provided that these costs are separately identifiable, the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the year in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the date of the statement of financial position. Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally generated software:	3 years
Purchased software:	2 to 5 years

### 2.6.2 Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Equipment is reviewed for indications of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Fixtures and Fittings	3 to 10 years
Office Equipment	3 to 5 years
Computer Equipment and Vehicles	3 years

### 2.6.3 Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses and is reviewed for signs of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful life:

Buildings	30 years
-----------	----------

### 2.6.4 Impairment of non-financial assets

EIF assesses at each reporting date the carrying amounts of the non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If the carrying amount exceeds the estimated recoverable amount, impairment losses are recognised in the profit or loss.

## 2.7 Employee benefits

Actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

### 2.7.1 Post employment benefits

#### *Pension fund*

EIF operates an unfunded pension plan of the defined benefit type, providing retirement benefits based on final

salary. The cost of providing this benefit is calculated by the actuary using the projected unit credit cost method.

Actuarial gains and losses are amortised over the average remaining working life of the population through the profit or loss.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the Fund. These funds are transferred to the EIB for management with the EIB's own assets and appear on the Fund's statement of financial position as an asset under the heading "Other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

#### *Optional Supplementary provident scheme*

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the contributions from staff and the corresponding liability is recorded in "Other liabilities".

#### *Health insurance scheme*

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Health insurance liabilities are determined based on actuarial calculations calculated annually by qualified external actuaries.

### 2.7.2 Short-term employee benefits

Employee entitlements to short-term benefits are recognised when they accrue to employees. A provision is made for the estimated liability for any outstanding short-term benefit

entitlement as a result of services rendered by employees up to the date of the statement of financial position.

### 2.7.3 Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the year is included in the profit or loss under the heading "Staff costs", resulting in a provision for the estimated liability at the date of the statement of financial position.

## 2.8 Other liabilities and provisions

Other liabilities are classified according to the substance of the contractual arrangements entered into. Trade payables are non-interest bearing liabilities and are stated at amortised cost.

Provisions are recognised when the Fund has a present obligation, legal or constructive, as a result of a past event, and it is probable that the Fund will be required to settle that obligation.

## 2.9 Interest and similar income

Interest income and similar income is recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

## 2.10 Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital dividends and repayments which are recognised when EIF's investment cost is fully reimbursed.

## 2.11 Net result from guarantee operations

Net result from guarantee operations mainly includes:

- Guarantee premiums received;
- Interest income on the discounting of the expected premium inflows and any amortisation of the financial guarantees;
- Downgrade / upgrade;
- Changes in estimates of provisions for financial guarantees accounted for under IAS 37.

## 2.12 Commission income

This heading is mainly made up of fees and commissions on mandates and advisory activities and excludes guarantee premiums.

Fees and commissions are recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a pro-rata basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

## 2.13 Leases

The leases entered into by EIF as a lessee or a lessor are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments or receipts made under operating leases are recognised to the profit or loss in other administrative expenses or other operating income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.14 New standards and interpretations not yet adopted

The following IFRS and IFRIC interpretations applicable to EIF were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. The Fund plans to adopt them at the date of endorsement by the European Union. The Fund is in the process of analysing the impact of these standards on their operations as well as the date at which they plan to adopt the standards.

- **Amendment to IAS 1 – Presentation of financial statements:**

The amendments to IAS 1 change the title of the statement of comprehensive income to the statement of profit or loss and other comprehensive income. However other titles are allowed. The standard is effective for financial years beginning on or after 1 July 2012, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- **IFRS 9 – Financial instruments:**

This standard is the first step in a three-part project by the IASB to replace IAS 39 financial instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for financial years beginning on or after 1 January 2015, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- **IFRS 10 – Consolidated financial statements and IFRS 12 – Disclosure of Interests in other entities:**

IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 – Consolidated and Separate financial statements and SIC 12 – Consolidation – Special Purposes Entities. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is effective for financial years beginning

on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- **IFRS 11 – Joint arrangements:**

This standard establishes principles for the financial reporting by parties to a joint arrangement and supersedes IAS 31 – Interests in Joint Ventures and SIC 13 – Jointly controlled entities – Non monetary Contributions by Ventures.

The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

- **IFRS 13 – Fair value measurement:**

This standard provides clear and consistent guidance for measuring fair value and addressing valuation uncertainty in markets that are no longer active. This standard also increases the transparency of fair value measurements by requiring detailed disclosures about fair values derived using models. The standard is effective for the financial year beginning on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

## 3 Financial Risk Management

### 3.1 Overview of EIF Risk Management

EIF aligns its risk management systems with changing economic conditions, regulatory standards and best market practices. Internal systems are in place to monitor, manage and report on the main risks inherent to its operations.

An independent Risk Management and Monitoring division (RMM) reports directly to the Deputy Chief Executive who in turn is appointed by EIF's Board of Directors. This segregation of duties and a "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the European Investment Bank (EIB) Group context, RMM operates in close contact with the EIB's Risk Management Directorate. RMM is organised into three main teams: Private Equity (PE) Risk Management, Portfolio Guarantees & Securitisation (G&S) Risk Management and Operations (OPS) covering both business lines. RMM covers own resources, and mandates managed by EIF on behalf of the related parties (i.e. the EIB and the EC) and other mandators. For more details on EIF mandates please see note 6.

RMM covers EIF's PE and G&S activities, monitors risk regularly on individual transactions as well as at the portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in EIF's operations;
- issues independent opinions on all new transaction proposals;
- independently reviews internal ratings (G&S)/grades (PE) assigned to transactions;
- performs ongoing deal surveillance, monitoring and administration;
- applies stress testing scenarios on both G&S and PE portfolios;
- checks risk limits;
- assesses regulatory and economic capital allocations, and
- monitors, benchmarks and forecasts portfolio evolution.

The Investment & Risk Committee (IRC) chaired by the Deputy Chief Executive is responsible for reviewing new

transactions and all risk and investment-related aspects of the existing EIF portfolio, inter alia: reviewing the relevant market risk events, reviewing the portfolio and transaction rating/grading movements, advising on impairment of transactions and supporting the decision of the Chief Executive and the Deputy Chief Executive to present transactions to the Board of Directors for their approval.

### 3.2 Private Equity (PE)

#### 3.2.1 Background

EIF operates as a fund of PE funds, i.e. EIF acts as a limited partner. These minority stakes in funds catalyse commitments from a wide range of investors. EIF's PE operations are focused on early-stage and seed capital, and on mid- and later-stage investments.

#### *Valuation review*

Monitoring includes the valuation review of PE funds. This process is divided into several stages to achieve what is known as Operational Adjustment:

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation.
- Valuations: assessment as to whether valuations are in line with best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:
  - Reviews of financial reporting received from PE funds.
  - Monitoring visits.
  - Any significant information with potential valuation impact.
  - Subsequent event reviews.
- Impairments of investments: as stated in note 3.1, the IRC decides on the transactions impairments.
- Classification of funds: depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

EIF has developed a set of tools to design, monitor and manage portfolio of PE funds. This set of tools is based on an internal process and model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort supported by the development of a proprietary Information Technology (IT) system and by an integrated software (front to back) improves the investment decision process and the management of portfolio's financial and liquidity risks.

EIF's internal grading methodology allows RMM PE to determine the monitoring coverage and intensity, as well as the range for the expected performance. Twice a year each fund is benchmarked against industry statistics and significant deviations between the benchmarking and the expected performance grades are investigated.

The grades are defined as follows:

#### Expected performance grade

P - A	The fund's performance is expected to fall into the first quartile of the benchmark.
P - B	The fund's performance is expected to fall into the second quartile of the benchmark.
P - C	The fund's performance is expected to fall into the third quartile of the benchmark.
P - D	The fund's performance is expected to fall into the fourth quartile of the benchmark.

#### Operational status grade

O - A	No adverse signals so far.
O - B	Some adverse signals, but not expected to have a material impact on the fund's valuation.
O - C	Adverse signals; without changes/improvements likely to lead to a material impact on the fund's valuation.
O - D	Critical events that had a material adverse impact on the fund's valuation.

### 3.2.2 Portfolio overview

At the end of 2011, total PE own risk investments in terms of net commitments (i.e. commitments made to underlying funds minus capital repayments) amounted to EUR 406.4 m (2010: EUR 388.9 m).

EIF maintains a balanced portfolio with a focus on technology-oriented early-stage and general mid- and later-stage funds. EIF does not directly acquire participations in companies, but instead invests in selected PE funds, with private sector investors providing at least 50 % of the capital. All investments are made on a pari passu basis with other investors, granting them no specific rights (or obligations) to EIF.

All of EIF's risk stemming from its own-risk PE operations is fully covered by shareholders' equity. As a sub-ceiling, PE net commitments may not exceed 50 % of equity, excluding fair value reserve, equivalent to EUR 1 030.9 m

(2010: EUR 1 046.8 m). Hence, the EUR 406.4 m of net commitments at year end 2011 (2010: EUR 388.9 m) was below the EUR 515.5 m limit (2010: EUR 522.0 m). Of the EUR 536.5 m of own-risk funds committed at year end 2011 (2010: EUR 490.5 m), EUR 363.2 m had been disbursed (including equalisation fees) against EUR 321.0 m as at 31 December 2010.

PE investments are valued quarterly according to the industry valuation guidelines. Using the methodology described in note 3.2.1, EIF records value adjustments on a line by line basis, either through the profit or loss in the case of impairment or through equity. Consequently, net disbursed own-risk funds (at cost and using the closing exchange rates prevailing at the reporting date of the financial statements) of EUR 233.2 m (2010: EUR 219.4 m) are valued at EUR 212.2 m in EIF's 2011 statement of financial position (2010: EUR 194.4 m).

### 3.2.3 Significance of financial instruments for financial position and performance

#### Activities

In terms of EIF's PE own-risk portfolio activities, 2011 shows an increase in disbursements and capital repayments, and decrease in commitments and dividends:

EIF yearly cash flow activity (EUR m)

	Commitments	Disbursements	Reflows	
			Capital Repayments	Dividends
31.12.2011	46.0	41.2	28.0	3.8
31.12.2010	60.1	38.9	14.8	10.9

The proportion of funds considered as impaired has decreased from 25.2 % to 23.8 % of the EIF portfolio based on committed funds.

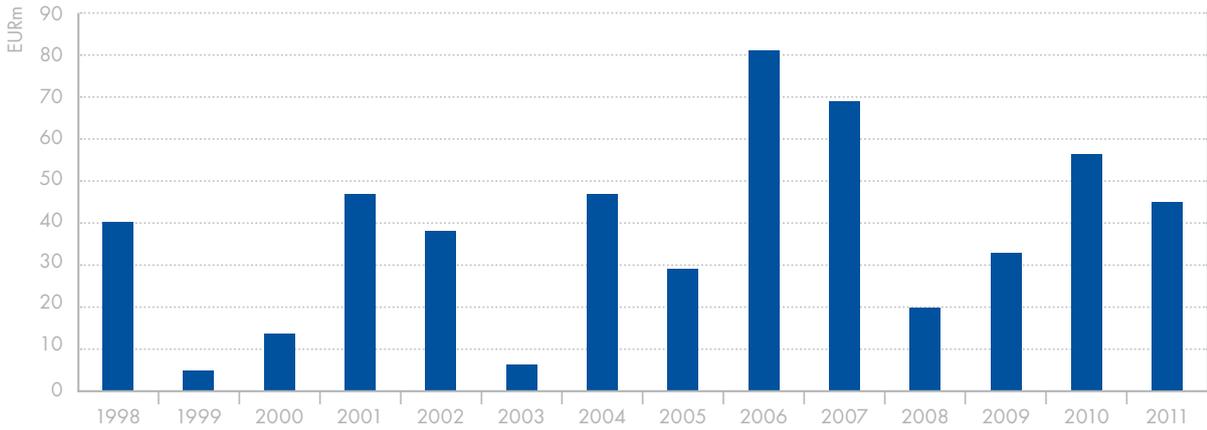
Funds	Commitments		Variation
	31.12.2011	31.12.2010	
Not impaired	408.7	366.9	11.4%
Impaired	127.8	123.6	3.4%
Total	536.5	490.5	9.4%
Impairment (%)	23.8%	25.2%	

#### Diversification

As of 31 December 2011, EIF has committed EUR 536.5m in 206 PE funds with the biggest exposure amounting to EUR 13.3m (2.5 % of total commitments). These PE funds have invested in more than 2 700 underlying portfolio companies.

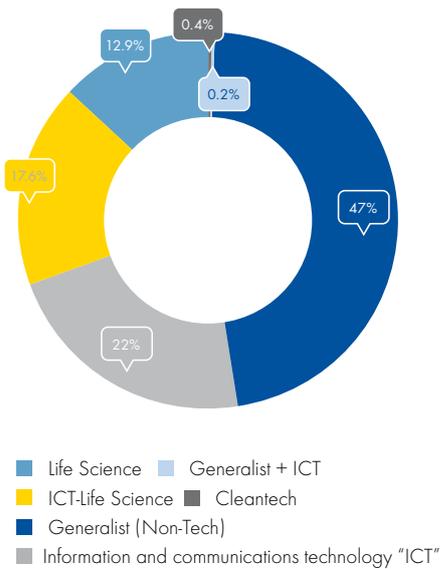
In terms of vintage year, sector and stage, the portfolio is well balanced, as illustrated by the following breakdowns by commitment as of 31 December 2011 (historical information translated at the current exchange rate):

Commitments by vintage year (in EUR m)

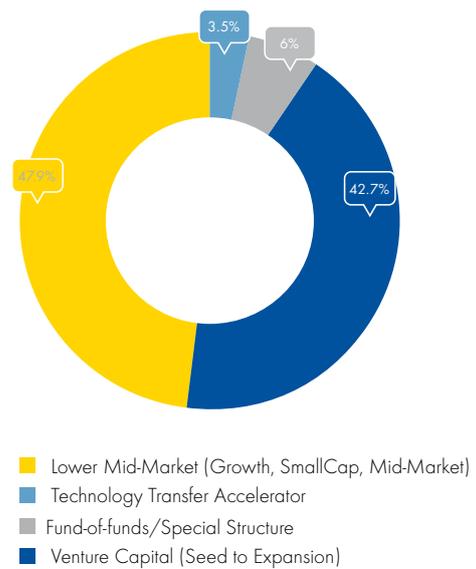


The commitment weighted average age of the EIF portfolio stands at 6.1 years at year end 2011 (2010: 6.2 years).

Commitments by sector of activity



Commitments by stage



### 3.3 Portfolio Guarantees & Securitisation ("G&S")

#### 3.3.1 Background

EIF extends portfolio guarantees to financial intermediaries involved in SME financing, and by covering part of the risk faced by those institutions, it helps ease funding and capital constraints of the intermediaries, and in turn helps to finance SMEs.

For its G&S business, EIF has developed a set of tools to analyse portfolio guarantee and structured finance transactions in line with common market practices. Before EIF legally enters into a guarantee transaction, the G&S division, within the Transaction and Relationship Management (TRM) department, proposes an internal rating to each new own risk guarantee tranche in accordance with the EIF's internal rules and procedures. When analysing a new transaction, and in order to estimate the expected losses and consequently assign an internal rating to a tranche, the most appropriate rating model is used in compliance with the internal rules. The rating is based on internal models, which analyse and summarise the tranche's credit quality based on an expected loss concept. The EIF rating is based on quantitative parameters and qualitative aspects. The following quantitative factors are examples of variables having an impact on the determination of an EIF internal rating: weighted average rating of the underlying portfolio and its volatility, base default rate, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, level of diversification in the underlying pool of assets. The credit risk estimation also takes into account various qualitative factors, such as: reliability and completeness of the available data, size, quality and time horizon of the statistical samples, discontinuity in the origination criteria and servicing procedures, macro-economic effects.

The majority of EIF own risk guarantee tranches are also rated by at least one external rating agency. In case there are differences in the rating levels among external rating agencies and EIF's internal rating, EIF applies a retained rating rule for the calculation of capital. The rule is derived from and aligned to generally accepted regulatory capital requirements rating treatment, which is as follows:

- if there is only one assessment by an external rating agency, that assessment should be used to determine the risk weight of the tranche (i.e. capital allocation),
- if there are assessments by two external rating agencies, which map into different risk weights, the higher risk weight is applied,
- if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights is applied.

To allocate capital for an own risk guarantee tranche, an EIF internal rating is disregarded from the retained rating rule only when the tranche is rated at least by one of the external rating agencies.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk-adjusted and consequently vary according to the assigned rating. EIF's conservative capital allocation rules have already incorporated these generally accepted principles for several years. EIF, having a status of a Multilateral Development Bank, does not report to the national supervisor, "Commission de Surveillance du Secteur Financier" (CSSF).

The implementation of the Ratings Based Approach (RBA) for EIF's G&S exposures has been carried out with the technical assistance of the CSSF and in close cooperation with the EIB.

As it is the responsibility of G&S within the TRM department to propose an EIF rating, which is based on an internal model, RMM - in the course of the independent opinion process, at closing and in line with the Model Review Procedure - conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable to the official EIF internal rating models.

A transaction is eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB1 (iAaa and iB1 are mapped to Moody's Aaa and B1, respectively). The individual performance of tranches guaranteed by EIF is reviewed regularly on a quarterly basis.

The performance of a transaction is assessed based on EIF's surveillance triggers which take into account elements such as the level of cumulative defaults, the credit enhancement, the provisioning amount and any rating actions by external rating agencies.

In case of breach of such triggers and depending on the gravity of such breach, a transaction can either change its status (Under Review with Positive or Negative Outlook) or a model re-run is initiated to reassess EIF's internal rating. Dedicated professionals within the RMM G&S unit submit proposals to the IRC to flag transactions as Under Review with Positive or Negative Outlook and/or to initiate an EIF's model re-run.

The EIF's rating model re-run may also be requested to the IRC before an EIF's trigger is breached (upon request by TRM or RMM) when other circumstances suggest that the EIF's internal rating may already be affected.

EIF systematically puts Under Review any transaction with an internal rating below iBa2 level. Transactions flagged Under Review or Negative Outlook are closely scrutinised for a possible breach of EIF's surveillance triggers, which typically motivates a prompt re-run of the EIF's rating model.

To monitor EIF's surveillance triggers correctly, the surveillance activity includes the following tasks:

- checking compliance of the counterparties with any relevant contractual covenants and triggers,
- assessing the expected evolution of operation's performance compared to estimates set prior to its signature (e.g. actual cumulative defaults are compared to a given predetermined threshold level or base case scenario),
- assessing whether the level of capital allocation and provisions made for each operation are always adequate,
- following-up any external rating agencies actions that might indicate a substantial change in the performance of the underlying portfolio,

- monitoring any other element of concern which calls for additional scrutiny (e.g. negative news regarding the servicer or originator).

Furthermore, a committee consisting of staff with adequate skills and appointed by the IRC may be set up in order to propose and negotiate solutions to minimise EIF's losses in underperforming deals.

The monitoring activities also include the analysis of the G&S portfolio as a whole (Portfolio Review).

### 3.3.2 Portfolio overview

At the end of 2011, total G&S own risk transactions amounted to EUR 2 879.8m (2010: EUR 2 580.2m) in terms of exposure at risk (i.e. commitment less repayments).

EIF's own-risk operations consist mainly of the credit enhancement product type which, at the end of 2011, represented 94.0 % (EUR 2 706.9m) of total exposure at risk of own-risk guarantees (2010: 94.5% representing EUR 2 438.4m). The credit enhancement product serves as an unconditional debt service guarantee (or as a credit default swap), with full or partial coverage of a specific tranche of an SME loan portfolio, and a maximum weighted average term of 15 years. The guarantee is called upon when losses in the portfolio would otherwise have caused a shortfall on a due payment of interest and/or principal on the guaranteed tranche.

In the past EIF also underwrote credit insurance and structured investment vehicles products. As of 31 December 2011, credit insurance products and structured investment vehicles investments accounted for 5.9 % (EUR 169.8m) and 0.1 % (EUR 3.1m) of all own-risk outstanding guarantees, respectively.

### 3.3.3 Portfolio quality and performance

As of 31 December 2011, 80.2 % (77.8 % at year end 2010) of the overall portfolio was at investment-grade level (rating from Aaa to Baa3 inclusive); 68.2 % of the number of tranches (63.2% at year-end 2010) were rated by at least one external rating agency with the remainder relying on EIF's internal rating. The credit enhancement portfolio's average rating remained stable at Ba2 as a

result of new high investment grade origination coupled with downgrades in the existing portfolio.

Each guarantee transaction is assessed and assigned into one of four categories as per the table below.

EUR

	31.12.2011		31.12.2010	
Under review - Negative	19.1%	549 441 576	19.8%	510 511 115
Under review	12.7%	366 202 094	34.4%	888 533 283
Performing	67.9%	1 956 176 819	45.5%	1 173 196 200
Positive outlook	0.3%	8 000 000	0.3%	8 000 000
<b>Total -Exposure at risk</b>	<b>100.0%</b>	<b>2 879 820 489</b>	<b>100.0%</b>	<b>2 580 240 598</b>

EUR m

	Weighted Average Rating		Exposure at risk (commitment minus repayment)		% of total	
	2011	2010	2011	2010	2011	2010
Credit Enhancement	Ba2	Ba2	2 706.9	2 438.4	94.0%	94.5%
Credit Insurance	Baa1	Aa2	169.8	135.5	5.9%	5.3%
SIV	Ba2	Ba2	3.1	6.3	0.1%	0.2%
Defaulted	-	-	0.0	0.0	0.0%	0.0%
<b>Total</b>			<b>2 879.8</b>	<b>2 580.2</b>	<b>100.0%</b>	<b>100.0%</b>

Eight new transactions and an increase of EIF guarantee for one transaction were signed in 2011 for a total amount of EUR 932.7m (two new transactions for a total amount of EUR 260.0m during 2010). During 2011, guarantees have been called for a total amount paid of EUR 3.8m (2010: EUR 6.7m) mainly stemming from three

transactions. The additional provisions on the portfolio (in particular arising from the downgrades) amounted to EUR 71.9m (2010: EUR 48.1m) (see note 5.2). The portfolio's overall initial weighted average life decreased to 4.6 years at end 2011 (2010: 5.4).

## 3.4 Treasury

### 3.4.1 Background

Treasury management has been fully outsourced to EIB under a treasury management agreement mandating the responsible EIB services to perform selection, execution, settlement and monitoring of transactions. Management follows treasury guidelines annexed to the agreement which define EIF intention to hold the treasury portfolio to maturity, reflect the investment strategy, and mirror closely the relevant sections of the EIB's own treasury guidelines. Quarterly meetings between the EIB and EIF take place to review the performance of the treasury portfolio and relevant market events.

EIF does not borrow funds.

The treasury is managed in such a way as to protect the value of the paid-in capital, to ensure an adequate level

of liquidity to meet possible guarantee calls, PE commitments, administrative expenditure, and earn a reasonable return on assets invested with due regard to the minimisation of risk.

### 3.4.2 Portfolio overview

The treasury portfolio is broken down into the following separate sub-portfolios:

- current accounts;
- money market instruments;
- available for sale portfolio (made up of long-term debt instruments, floating rate and fixed rate instruments).

	31.12.2011	EUR 31.12.2010
Current accounts	55 612 129	31 183 332
Money market instruments	105 048 677	42 419 922
Available for sale portfolio	778 368 598	863 578 881
<b>Total Treasury portfolio</b>	<b>939 029 404</b>	<b>937 182 135</b>

### 3.5 Nature and extent of risks arising from financial instruments

The following table provides information relating to the main financial assets and financial liabilities by categories of financial instruments:

	EUR				
31.12.2011	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	160 660 806	0	0	0	160 660 806
Investments:					
Debt securities and other fixed income securities	0	0	778 368 598	0	778 368 598
Shares and other variable income securities	0	3 663 081	208 570 454	0	212 233 535
<b>Total Financial Assets</b>	<b>160 660 806</b>	<b>3 663 081</b>	<b>986 939 052</b>	<b>0</b>	<b>1 151 262 939</b>
Financial liabilities					
Financial guarantees	0	0	0	24 022 036	24 022 036
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>24 022 036</b>	<b>24 022 036</b>

	EUR				
31.12.2010	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	73 603 254	0	0	0	73 603 254
Investments:					
Debt securities and other fixed income securities	0	0	863 578 881	0	863 578 881
Shares and other variable income securities	0	3 375 484	191 009 051	0	194 384 535
<b>Total Financial Assets</b>	<b>73 603 254</b>	<b>3 375 484</b>	<b>1 054 587 932</b>	<b>0</b>	<b>1 131 566 670</b>
Financial liabilities					
Financial guarantees	0	0	0	26 902 034	26 902 034
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26 902 034</b>	<b>26 902 034</b>

### 3.5.1 Credit risk

Credit risk is the risk that another party will cause a financial loss to EIF by failing to discharge an obligation.

Credit risk concerns the EIF's G&S activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial paper and deposits. There is no credit exposure for EIF own risk PE portfolio as investments in PE funds represent equity investments and related financing structures and are always made through an equity-like participation.

The Fund uses the following instruments, policies, and processes to manage the credit risk.

#### 3.5.1.A. Portfolio Guarantees & Securitisation

Credit risk arises mainly from EIF's G&S transactions funded by own resources.

This risk is managed by risk management policies covered by the statutes and Credit Risk Policy Guidelines.

The statutes of the Fund limit own-risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0m at end 2011. Hence, the EUR 2 879.8m exposure at risk at end 2011 was well below the statutory limit of EUR 9 000.0m.

EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified G&S portfolio in terms of product range, counterparty exposure, obligor exposure, geographic coverage, and industry concentration.

In the context of EIF's own risk G&S operations, the credit risk is tracked from the outset on a deal-by-deal basis whilst adopting a different model analysis approach depending on the granularity and homogeneity of the underlying portfolios.

Concentration risk is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, sectors, and also with regard to regional diversification.

To cover concentration risk, EIF has internal limits (based on capital allocation) on individual transactions and originator level (maximum aggregate exposures for originators and originator groups).

The industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, depending on the financial model used to analyse the transaction, industry exposures can be reflected in implicit correlation or can be indirectly captured based on assumption of default rate volatility, as a key model input variable.

As of 31 December 2011, EIF's overall own risk G&S portfolio was spread over 14 countries. The largest nominal individual country net exposures were Germany, Italy and the United Kingdom, which jointly accounted for 50.3 % of total guarantee commitments.

Consideration of sector exposures also forms part of EIF's overall portfolio analysis.

Counterparty risk in the own resources portfolio is mitigated by the quality of EIF counterparties, which are usually major market players, and by rating triggers on the counterparty which require, in case of breach, actions such as substitution of the counterparty or collateralisation of its obligation. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of G&S, including extreme case assumptions, are regularly carried out to determine the ability of the capital base to sustain adverse shocks.

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) in G&S corresponds to the nominal exposure at risk of EUR 2 879.8m (2010: EUR 2 580.2m).

#### 3.5.1.B. Treasury

The Fund is exposed to credit risk relating to its assets held in the Treasury portfolio. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio, the eligibility criteria for counter-

parties are fixed according to their nature, to their credit quality (as measured by their external credit ratings) and to their own funds.

Any currency arbitrage is ruled out by the statutes.

The following table shows the maximum exposure to credit risk for treasury:

	EUR	
	Maximum exposure 2011	Maximum exposure 2010
Cash and cash equivalents	160 660 806	73 603 254
Debt securities and other fixed income securities	778 368 598	863 578 881
<b>Total Credit Risk Exposure</b>	<b>939 029 404</b>	<b>937 182 135</b>

The following table outlines the credit quality of the Fund's debt securities and other fixed income securities as of 31 December 2011 and 2010, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2011		31.12.2010	
	Amount in EUR	In percentage	Amount in EUR	In percentage
Aaa	309 052 145	39.7%	352 119 579	40.8%
Aa1	4 973 550	0.6%	54 509 085	6.3%
Aa2	44 583 417	5.7%	96 135 522	11.1%
Aa3	17 060 351	2.2%	8 982 575	1.0%
A1	121 843 783	15.7%	113 486 436	13.1%
A2	138 122 691	17.7%	9 414 792	1.1%
A3	4 863 132	0.6%	42 536 459	4.9%
Baa1	6 542 565	0.8%	103 212 844	12.0%
Baa2	0	0.0%	0	0.0%
Baa3	0	0.0%	4 988 681	0.6%
Ba1	97 875 833	12.6%	78 192 908	9.1%
Ba2	18 955 538	2.4%	0	0.0%
Ba3	2 822 337	0.4%	0	0.0%
Ca	11 673 256	1.5%	0	0.0%
<b>Total</b>	<b>778 368 598</b>	<b>100.0%</b>	<b>863 578 881</b>	<b>100.0%</b>

The exposures in rating range of Ba1 - Ca mainly consist of EU sovereign bonds. In the course of the year 2011 the treasury portfolio suffered unrealised losses of EUR 41.0m (2010: EUR 50.3m), which stemmed mainly from sovereign and government guaranteed bonds downgrades.

The financial statements contain no impairment in respect of sovereign and sovereign guaranteed bond holdings in the EIF treasury portfolio, as EIF is deemed to benefit from a preferred creditor status, as supported by the statutory documentation of EIF and the Statute of its parent institution EIB.

A breakdown of the EU sovereign bond exposure is given in the table below.

Fair value	EUR	
	31.12.2011	31.12.2010
Austria	30 726 130	22 337 097
Czech Republic	5 344 351	5 412 760
France	22 636 283	17 471 616
Germany	32 186 440	29 083 061
Greece	11 673 256	78 192 908
Hungary	0	4 988 681
Ireland	97 875 833	99 147 239
Italy	153 089 497	104 403 079
Luxembourg	5 570 679	5 128 349
Portugal	18 955 538	42 536 459
Slovakia	4 616 784	0
Slovenia	4 420 408	5 146 858
Spain	84 534 819	50 975 475
Netherlands	7 489 486	0
<b>EU sovereigns</b>	<b>479 119 504</b>	<b>464 823 582</b>
Corporate bonds and non EU sovereign	299 249 094	398 755 299
<b>Total</b>	<b>778 368 598</b>	<b>863 578 881</b>

As of 31 December 2011, EIF's debt securities portfolio was spread over 16 countries. The largest individual country exposures were Spain, Italy and Ireland, which jointly accounted for 53 % of total nominal value.

EIF did not participate in the private sector initiative (PSI) for Greece as its bond holdings were not included on the list of eligible securities in the context of the PSI initiative. No impairment is recorded on EIF's Greek available-for-sale sovereign and sovereign guaranteed bond holdings.

### 3.5.2 Liquidity risk

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, PE undrawn commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to the minimisation of risk (for further details on market risk for treasury, please refer to note 3.5.3.1.C).

#### 3.5.2.A. Private Equity

The PE market is illiquid by nature as the vehicles are closed-end funds typically with a 10-year lifespan. After the first closing, it is difficult for an investor to offload their position, needing to find a buyer in the secondary market. However, given the closed-ended nature of most

funds, the beginning of the divestment process is pre-defined. This results in a continuous stream of reflows, the magnitude of which mostly depends on the market conditions and the proportion of the portfolio that is in its divestment phase.

The total net commitments to PE funds amounting to EUR 406.4m in 2011 (2010: EUR 388.9m) are limited to 50 % of shareholders' equity. EIF's portfolio is diversified in terms of vintage years, which has a smoothing effect on its cash flows (see EIF's own resource portfolio broken down by vintage year in note 3.2.3).

The table below shows the Fund's PE undrawn amounts (commitments minus disbursements and excluding equalisation fees) of EUR 173.8m (2010: EUR 169.9m) classified into relevant maturity groupings based on the remaining period to the expected maturity date. It is presented using a prudent expectation of maturity dates.

Private Equity	EUR			
	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2011	5 024 901	2 489 617	24 097 520	142 226 385
As of 31.12.2010	5 603 117	3 810 771	10 994 729	149 555 041

#### 3.5.2.B. Portfolio Guarantees & Securitisation

The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensure a high degree of liquidity to cover unexpected losses arising from the G&S activity.

At year end 2011, the total Fund's G&S exposure at risk amounted to EUR 2 879.8m (2010: EUR 2 580.2m). However, for liquidity risk management purpose, G&S exposure at risk is analysed with reference to its expected maturity date and per the total expected loss.

At the year end 2011, the total expected losses for all G&S own risk transactions stood at EUR 190.2m (as

shown in the table below). The expected losses may materialise anytime until the tranches' expected maturity dates. However, EIF does not expect to receive guarantee calls for the amount of EUR 190.2m within the next 3 months as most of the G&S transactions follow a debt service guarantee framework, meaning the guarantee covers timely payment of interest and ultimate (i.e. at the legal maturity date) payment of principal. It is not uncommon to have legal maturity dates for these instruments set 20 - 30 years after the expected maturity dates.

Within the Q1 2012 tranches with a sum of expected losses of EUR 0.3m will reach their expected maturity dates. Therefore, repayments of tranches will decrease the total expected losses of the current outstanding G&S own risk portfolio.

Guarantees	EUR			
	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2011	190 234 342	189 899 757	172 043 863	11 081 794
As of 31.12.2010	142 300 863	140 122 579	123 651 246	42 999 690

## Liquidity risk: Portfolio guarantees &amp; securitisation

	31.12.2011	31.12.2010
Capital Charges	93.5	110.3
Guarantees Drawn	3 598.9	3 160.3
Guarantees Undrawn	85.8	48.6
Exposure at risk	2 879.8	2 580.2
Yearly guarantee calls	3.8	6.7

During 2011 the capital charge for the G&S portfolio decreased from EUR 110.3m to EUR 93.5m.

### 3.5.3 Market risk

Market risk is the risk that the net present value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and security prices.

#### 3.5.3.1. Market risk: interest rate risk

More than half of the Fund's income and operating cash flows are unaffected by changes in market interest rates. The Fund's interest rate risk arises mainly from cash and cash equivalent positions as well as investments in debt securities.

##### 3.5.3.1.A. Private Equity

As PE fund investments are financed by equity and are not leveraged, direct sensitivity to interest rate is not a consideration.

##### 3.5.3.1.B. Portfolio Guarantees & Securitisation

Transactions in which EIF acts as guarantor are typically in illiquid markets and representative market prices are not

available. EIF has therefore developed a mark-to-model approach to value these transactions, using external and internal ratings, information gathered through regular monitoring, and discounted cash flow analysis.

The value of guarantee transactions is not directly subject to fluctuations with interest rates during the life of the transactions. The interest rate risk impact on underlying portfolios is indirectly assessed during the quarterly review of the transaction's performance. A change of a transaction rating usually implies a revision of the transaction's expected loss, capital charge and transaction valuation.

##### 3.5.3.1.C. Treasury

Approximately 75.7 % of liquid assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long-term revenues (2010: 76.7%).

Moreover, speculative operations are not authorised. Investment decisions are based on the interest rates available in the market at the time of investment.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value) at the time they reprice or mature:

At 31.12.2011	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash and cash equivalents	160 660 806	0	0	0	0	160 660 806
AFS - Debt securities and other fixed income securities	49 125 502	108 071 804	392 872 281	162 192 745	66 106 266	778 368 598
<b>Total</b>	<b>209 786 308</b>	<b>108 071 804</b>	<b>392 872 281</b>	<b>162 192 745</b>	<b>66 106 266</b>	<b>939 029 404</b>
Percentage	22.3%	11.5%	41.9%	17.3%	7.0%	100.0%

At 31.12.2010	Fixed rate				Variable rate	EUR Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash and cash equivalents	73 603 254	0	0	0	0	73 603 254
AFS - Debt securities and other fixed income securities	26 070 241	100 987 208	518 442 047	178 168 380	39 911 005	863 578 881
<b>Total</b>	<b>99 673 495</b>	<b>100 987 208</b>	<b>518 442 047</b>	<b>178 168 380</b>	<b>39 911 005</b>	<b>937 182 135</b>
Percentage	10.6%	10.8%	55.3%	19.0%	4.3%	100.0%

The average effective interest rate on term deposit in EUR was 0.9 % for 2011 (2010: 0.9 %). The average effective interest rate on the AFS securities portfolio in EUR was 3.7 % for 2011 (2010: 3.7 %).

#### Sensitivity of earnings

The sensitivity of earnings is an estimate of the change over the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life as the previous one as of 31 December 2011. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2010, the earnings of the EIF treasury portfolio would have increased by EUR 1.2m if interest rates rose by 100 basis points or decreased by the same amount if interest rates fell by 100 basis points. For the positions in place as of 31 December 2011, the earnings of the EIF treasury portfolio would increase by EUR 1.9m if interest rates rose by 100 basis points and decrease by the same amount if interest rates fell by 100 basis points.

#### Value at Risk

As of 31 December 2011, the Value at Risk of the EIF treasury portfolio was EUR 2.3m (EUR 2.9m in 2010). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0 % and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0 %. Given the nature of the EIF treasury positions, the choice

of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

#### 3.5.3.2. Market risk: foreign currency risk

EIF may invest in financial instruments denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than the Euro (EUR).

The following section provides information on the risk that fair values and future cash flows of financial assets will fluctuate due to changes in foreign exchange rates.

The Fund's exchange rate risk is kept at a low level (below 5% of net assets) through a policy of limiting its investment in non-euro denominated instruments. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

The table below shows the currency exposure (in EUR) of EIF's main financial assets and financial liabilities.

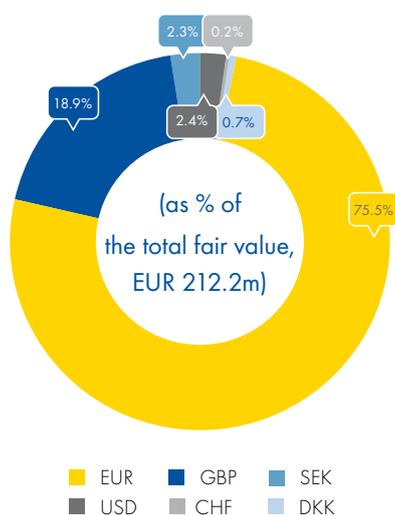
At 31.12.2011	EUR					
	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	155 203 433	3 084 769	630 600	1 742 003	5 457 373	160 660 806
Investments						
Debt securities and other fixed income securities	778 368 598	0	0	0	0	778 368 598
Shares and other variable income securities	160 269 662	40 056 975	5 186 685	6 720 214	51 963 873	212 233 535
<b>Total assets</b>	<b>1 093 841 693</b>	<b>43 141 744</b>	<b>5 817 285</b>	<b>8 462 217</b>	<b>57 421 246</b>	<b>1 151 262 939</b>
Financial liabilities						
Financial guarantees	11 370 091	11 728 689	0	923 254	12 651 943	24 022 034
<b>Total liabilities</b>	<b>11 370 091</b>	<b>11 728 689</b>	<b>0</b>	<b>923 254</b>	<b>12 651 943</b>	<b>24 022 034</b>
Foreign currencies in % of net assets		3.2%	0.6%	0.8%	4.6%	
Net commitments to private equity	297 156 906	77 204 786	8 268 906	23 779 817	109 253 509	406 410 415
Guarantees' exposure at risk	2 360 709 795	173 143 207	0	345 967 487	519 110 694	2 879 820 489
<b>Total Off BS</b>	<b>2 657 866 701</b>	<b>250 347 993</b>	<b>8 268 906</b>	<b>369 747 304</b>	<b>628 364 203</b>	<b>3 286 230 904</b>

At 31.12.2010	EUR					
	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	71 398 973	786 437	887 029	530 815	2 204 281	73 603 254
Investments						
Debt securities and other fixed income securities	863 578 881	0	0	0	0	863 578 881
Shares and other variable income securities	146 391 507	35 039 418	4 994 221	7 959 389	47 993 028	194 384 535
<b>Total assets</b>	<b>1 081 369 361</b>	<b>35 825 855</b>	<b>5 881 250</b>	<b>8 490 204</b>	<b>50 197 309</b>	<b>1 131 566 670</b>
Financial liabilities						
Financial guarantees	15 033 265	11 729 325	0	139 444	11 868 769	26 902 034
<b>Total liabilities</b>	<b>15 033 265</b>	<b>11 729 325</b>	<b>0</b>	<b>139 444</b>	<b>11 868 769</b>	<b>26 902 034</b>
Foreign currencies in % of net assets		2.4%	0.6%	0.8%	3.8%	
Net commitments to private equity	285 466 362	78 864 075	8 283 012	16 264 062	103 411 149	388 877 511
Guarantees' exposure at risk	2 024 152 125	221 600 868	0	334 487 605	556 088 473	2 580 240 598
<b>Total Off BS</b>	<b>2 309 618 487</b>	<b>300 464 943</b>	<b>8 283 012</b>	<b>350 751 667</b>	<b>659 499 622</b>	<b>2 969 118 109</b>

"Other assets" and "Other liabilities and provisions" are denominated in EUR (for more details please see note 4.4 and 5.4).

### 3.5.3.2.A. Private Equity

On the PE side, at 31 December 2011, currency exposure for the PE funds can be broken down as follows:



For 2011, changes due to foreign exchange rates for shares and other variable income amount to EUR 1 615 478, of which EUR 1 237 229 has been posted to the fair value reserve (2010: respectively EUR 2 499 130 and EUR 2 294 406).

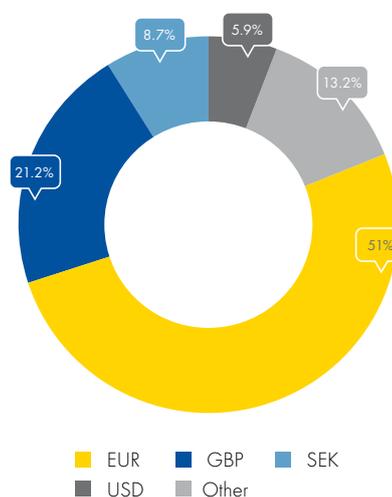
The sensitivity analysis is performed for all currencies representing more than 5 % of the total exposure. As of year end, only GBP falls into this category and has been stress tested with an increase/decrease of 15 % vs. the Euro.

#### Foreign exchange rate risk

	GBP increase of 15% vs. EUR	Impact in EUR GBP decrease of 15% vs. EUR
31.12.2011	6 980 106	(5 159 209)
31.12.2010	5 684 746	(4 201 769)

It should be noted however, that these impacts are measured at a fund level (impact on the net asset values denominated in out-currency). Accordingly, they do not take into account indirect potential effects on the underlying portfolio companies which could be in out-currencies. In practice fund managers try to hedge any positions they hold in currency other than the fund's main currencies.

In addition, the underlying investments are also diversified and the indirect exposure of EIF broadly follows the exposure at fund level, as illustrated by the graph below:

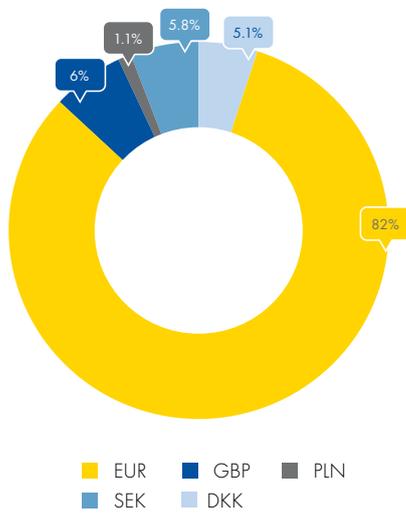


3.5.3.2.B. Portfolio Guarantees & Securitisation

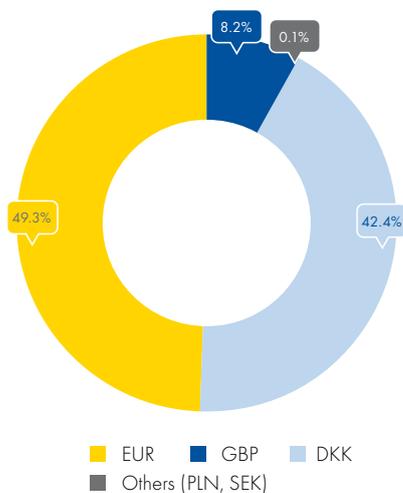
As of end 2011, 82.0 % of exposure at risk (49.3 % of expected loss) was in EUR. Due to the underperformance of two Danish transactions in the EIF portfolio, the exposure to DKK in terms of expected loss is higher than in terms of exposure at risk.

Own Risk Portfolio breakdowns by currency at 31 December 2011:

Exposure at risk breakdown



Expected Loss breakdown



EIF is monitoring its non-euro exposure and performs regular stress tests with regard to currency risk and the impact on unexpected loss. Additional capital charges on non-euro exposures are assumed and the outcome is compared with the available margin.

3.5.3.2.C. Treasury

Foreign currency risk is not applicable regarding EIF's debt securities portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR.

3.5.3.3. Market risk: other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the markets.

3.5.3.3.A. Private Equity

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to risk analysis. Market risk analysis requires an estimation of the correlation between the asset class assessed and the changes in market risks other than those arising from interest rate risk or currency risk. This can be done based on the capital asset pricing model. This model uses the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, such data is lacking for PE and in particular Venture Capital. Analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the IRR, the standard performance measure used for PE funds, is capital-weighted, while for public market assets it is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

The EIF uses a beta derived from the betas of three listed PE indices, LPX Europe Price Index, LPX Venture Price Index and LPX Buyout Price Index, to estimate the sensitivity of the valuation of EIF's PE investment to market prices. Regression has been carried out using the Dow Jones Euro Stoxx 50 over the last two years.

Using the most conservative beta from the three indices mentioned above and assuming market price movements

of  $\pm 10\%$ , the final sensitivity (i.e.  $\text{beta} \times \pm 10\%$ ) is applied to the net asset value to give an adjusted net asset value, which is then compared to the net paid in. The calculated value adjustment is then recorded using the methodology described in note 3.2.1. EIF's PE investment value would be impacted as follows:

Public market risk: all private equity

	<b>+10%</b>			<b>-10%</b>		
	<b>Retained Beta 1.1</b>			<b>Retained Beta 1.1</b>		
	<b>Final Sensitivity: +11%</b>			<b>Final Sensitivity: -11%</b>		
	Profit & loss account	Equity (Fair value reserve)	Total effect on equity	Profit & loss account	Equity (Fair value reserve)	Total effect on equity
31.12.2011	392 722	22 063 964	22 456 686	(13 981 838)	(8 474 847)	(22 456 686)
31.12.2010	378 829	22 363 253	22 742 082	(14 592 133)	(8 129 976)	(22 722 110)

#### 3.5.3.3.B. Portfolio Guarantees and Securitisation

As EIF's G&S transactions are not actively traded on public markets, direct sensitivity to price risk is not a consideration.

### 3.6 Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the EIF measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 2.3.2.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument. PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers

who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

For loans and receivables as well as other liabilities, the carrying values approximate fair values.

The fair value hierarchy reflects the significance of the inputs used in making the measurements. These levels differ from the category classification mentioned under 2.3.2a:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31.12.2011	Level 1	Level 2	Level 3	EUR Total
Financial assets				
Financial investments - AFS	776 567 067	2 822 337	207 586 398	986 975 802
Financial assets designated at fair value through P&L	0	0	3 626 331	3 626 331
	<u>776 567 067</u>	<u>2 822 337</u>	<u>211 212 729</u>	<u>990 602 133</u>

At 31.12.2010	Level 1	Level 3	Total
Financial assets			
Financial investments - AFS	864 451 939	190 135 993	1 054 587 932
Financial assets designated at fair value through P&L	0	3 375 484	3 375 484
	<u>864 451 939</u>	<u>193 511 477</u>	<u>1 057 963 416</u>

During 2011 one debt security with a fair value of EUR 2 822 337 was transferred from Level 1 to level 2 because the market for this instrument could not be considered as an active market. However, there was sufficient information available to measure fair value of this security based on observable market inputs.

Details of the movements of financial assets in 2011 are given in notes 4.2 and 4.3.

There was no transfer of financial assets between Level 1 and Level 3 in 2011 and 2010.

Out of Level 3, disbursements amounted to EUR 41.2m, capital repayments amounted to EUR 28.0m (2010: EUR 12.9m) and terminated deals amounted to EUR 1.1m (2010: EUR 1.7m).

## 4 Detailed disclosures relating to asset headings

### 4.1 Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.94 % (2010: 0.8 %). These deposits have an average remaining maturity of 13 days (2010: 33 days).

Cash and cash equivalents is as follows:

	31.12.2011	EUR 31.12.2010
Current accounts	55 612 129	31 183 332
Money market instruments	105 048 677	42 419 922
	<b>160 660 806</b>	<b>73 603 254</b>

### 4.2 Debt securities and other fixed income securities

The Fund's portfolio includes long-term debt instruments i.e. bonds, notes and other obligations.

	31.12.2011	EUR 31.12.2010
Available-for-Sale portfolio	762 816 370	847 111 106
Accrued interests	15 552 228	16 467 775
	<b>778 368 598</b>	<b>863 578 881</b>

Debt securities and other fixed income securities held by the Fund are all quoted on an active market and are classified as level 1 except one security classified as level 2 in 2011 (note 3.6).

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties; the fair value of securities lent at year-end amounts to EUR 167 493 963 (2010: EUR 94 711 487).

Movement in debt securities and other fixed income securities:

	2011	EUR 2010
Fair value at 1 January	863 578 881	832 313 566
Additions	146 067 911	360 000 091
Disposals/ matured	(189 336 273)	(281 972 280)
Effective interest rate adjustment	(974 622)	3 554 286
Change in Fair value reserve	(40 967 299)	(50 316 782)
Fair value at 31 December	<b>778 368 598</b>	<b>863 578 881</b>

The total fair value reserve recognised in equity at the end of 2011 is EUR (83 676 914) (2010: EUR (42 709 617)). Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR 82 215 (2010: EUR 2 002 257), of which none relates to Level 3.

EIF did not participate in the private sector initiative (PSI) for Greece as its bond holdings were not included on the list of eligible securities in the context of the PSU initiative. No impairment is recorded on the portfolio and more specifically on EIF's Greek available-for-sale sovereign and sovereign guaranteed bond holdings.

### 4.3 Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

	2011	EUR 2010
Investment at cost at 1 January	227 836 371	205 499 005
Disbursements	41 160 568	38 850 610
Capital repayments	(27 955 142)	(14 802 596)
Terminated deals	(1 085 440)	(1 710 648)
<b>Investment at cost at 31 December</b>	<b>239 956 357</b>	<b>227 836 371</b>
Fair value adjustment and foreign exchange adjustment at 1 January	(33 451 836)	(40 471 268)
Terminated deals	1 085 440	1 710 648
Adjustments to Fair value reserve	9 749 631	9 842 310
Impairment	(5 106 057)	(4 533 526)
<b>Fair value adjustment and foreign exchange adjustment at 31 December</b>	<b>(27 722 822)</b>	<b>(33 451 836)</b>
	<b>212 233 535</b>	<b>194 384 535</b>

Investments in PE funds generated total revenue repayments of EUR 3 758 414 (2010: EUR 10 878 493), which relates to Level 3.

Terminated deals include deals matured during 2011. They represent EUR 1 085 440 (2010: EUR 1 710 648) which includes the remaining net paid in of EUR 1 085 440 (2010: EUR 1 710 648) and the foreign exchange impact of EUR 0 (2010: EUR 0).

The fair value changes recorded in the fair value reserve amount to EUR 9 749 631 (2010: EUR 9 842 310) and include the impact of changes in the value of investments EUR 8 512 402 (2010: EUR 7 547 903) and in the foreign exchange rates on the investments EUR 1 237 229 (2010: EUR 2 294 407).

A portion of the total fair value of shares and other variable income securities amounting to EUR 1 020 806 (2010: 873 058) is classified as Level 1.

Investments belonging to Category C amount to EUR 3 854 165 (2010: EUR 3 377 259).

The fair value as of 31 December 2011 includes an amount of EUR 3 626 331 (2010: EUR 3 375 484) related to Investment in joint ventures.

#### 4.4 Other assets

Other assets are made up of the following:

	31.12.2011	31.12.2010
Accounts receivable relating to pensions managed by the EIB	43 933 282	31 000 848
Advanced payments	34 163	25 085
Accrued commission & other income	11 832 823	21 389 882
Fees receivable on financial guarantees	2 747 529	3 865 429
Other debtors	409 353	541 617
	<b>58 957 150</b>	<b>56 822 861</b>

EUR

Following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management on behalf of the Fund. See also note 5.3.

The following table discloses the ageing of other assets:

	Total	Neither past due nor impaired	Past due but not impaired		
			0-6 months	6-12 months	> 12 months
2011	58 957 150	57 834 147	10 849	1 092 533	19 620
2010	56 822 861	52 869 902	0	3 905 554	47 405

EUR

## 4.5 Intangible assets

			EUR
	Internally Generated Software	Purchased Software	Total
Cost	4 657 229	582 560	5 239 789
Accumulated amortisation	(2 522 179)	(534 466)	(3 056 645)
Carrying amount at 01.01.2010	2 135 050	48 094	2 183 144
Opening net book amount	2 135 050	48 094	2 183 144
Additions	9 268	0	9 268
Amortisation charge	(778 952)	(28 683)	(807 635)
Carrying amount at 31.12.2010	1 365 366	19 411	1 384 777

			EUR
	Internally Generated Software	Purchased Software	Total
Cost	4 666 497	582 560	5 249 057
Accumulated amortisation	(3 301 131)	(563 149)	(3 864 280)
Carrying amount at 01.01.2011	1 365 366	19 411	1 384 777
Opening net book amount	1 365 366	19 411	1 384 777
Additions	528 996	0	528 996
Amortisation charge	(766 149)	(19 411)	(785 560)
Carrying amount at 31.12.2011	1 128 213	0	1 128 213

31.12.2011			EUR
	Internally Generated Software	Purchased Software	Total
Cost	5 195 493	582 560	5 778 053
Accumulated amortisation	(4 067 280)	(582 560)	(4 649 840)
Carrying amount	1 128 213	0	1 128 213

There were no indications of impairment of intangible assets either in 2011 or 2010.

## 4.6 Equipment and investment property

	EUR				
	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	0	220 668	818 355	8 764	1 047 787
Accumulated depreciation	0	(153 057)	(677 293)	0	(830 350)
<b>Net book amount at 01.01.2010</b>	<b>0</b>	<b>67 611</b>	<b>141 062</b>	<b>8 764</b>	<b>217 437</b>
Opening net book amount	0	67 611	141 062	8 764	217 437
Reclassification from non-current assets held for sale	7 139 812	0	0	0	0
Additions	0	9 477	0	0	9 477
Depreciation charge	(810 732)	(36 571)	(108 688)	0	(145 259)
<b>Net book amount 31.12.2010</b>	<b>6 329 080</b>	<b>40 517</b>	<b>32 374</b>	<b>8 764</b>	<b>81 655</b>

	EUR				
	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	7 139 812	230 145	818 355	8 764	1 057 264
Accumulated depreciation	(810 732)	(189 628)	(785 981)	0	(975 609)
<b>Net book amount at 01.01.2011</b>	<b>6 329 080</b>	<b>40 517</b>	<b>32 374</b>	<b>8 764</b>	<b>81 655</b>
Opening net book amount	6 329 080	40 517	32 374	8 764	81 655
Disposal	0	0	0	(8 764)	(8 764)
Additions	0	0	0	0	0
Depreciation charge	(374 151)	(12 737)	(32 374)	0	(45 111)
<b>Net book amount at 31.12.2011</b>	<b>5 954 929</b>	<b>27 780</b>	<b>0</b>	<b>0</b>	<b>27 780</b>

	EUR				
<b>31.12.2011</b>	Investment property	Office Equipment	Computer Equipment	Other Fixed Assets	Total Equipment
Cost	7 139 812	230 145	818 355	0	1 048 500
Accumulated depreciation	(1 184 883)	(202 365)	(818 355)	0	(1 020 720)
<b>Net book amount</b>	<b>5 954 929</b>	<b>27 780</b>	<b>0</b>	<b>0</b>	<b>27 780</b>

There were no indications of impairment of equipment or investment property in either 2011 or 2010.

Based on market observable data, the fair value of the investment property is EUR 10.8m. Since 2008, no valuation was performed by external experts.

## 5 Detailed disclosures relating to liability and equity headings

### 5.1 Financial liabilities

The movements relating to financial guarantees payables are set out below:

	31.12.2011	EUR 31.12.2010
Balance at the beginning of the financial year	26 902 034	26 723 389
Guarantee calls	(176)	(232 105)
Net increase/decrease in Financial Guarantees	(4 214 581)	(4 542 895)
Up/ Downgrading	2 095 903	7 329 636
Transfer to provision for guarantees	(761 144)	(2 375 991)
<b>Balance at the end of the financial year</b>	<b>24 022 036</b>	<b>26 902 034</b>

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial guarantees is transferred to the heading Provisions for guarantees.

### 5.2 Provisions for guarantees

	31.12.2011	EUR 31.12.2010
Balance at 1 January	107 469 393	64 630 966
Additions	71 849 633	48 105 740
Utilised	(1 596 066)	(5 267 313)
Release of provision	(15 855 834)	0
<b>Balance at 31 December</b>	<b>161 867 126</b>	<b>107 469 393</b>

Additions include the increase in existing provisions on guarantee operations of EUR 66 399 384 (2010: EUR 32 937 470), the value of the guarantee operations transferred from IAS 39 to IAS 37 in 2011 of EUR 761 144 (2010: EUR 2 062 362), and the additional provision on these transferred operations of EUR 4 689 106 (2010: EUR 13 105 908).

EUR (1 596 066) was utilised in 2011 for guarantee calls (2010: EUR 5 267 313).

Additions are increased due to provisions recognised for one specific and non granular financial guarantee transaction.

### 5.3 Retirement benefit obligations

The retirement benefit obligation comprises the pension scheme and the health insurance scheme as follows:

	EUR	
<b>Retirement benefit obligations</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Pension scheme	31 544 130	23 438 632
Health insurance scheme	3 260 000	2 365 000
	<b>34 804 130</b>	<b>25 803 632</b>

Commitments in respect of retirement benefits as of 31 December, 2011 have been valued by an independent actuary. The calculations are based on the following main assumptions:

	EUR	
<b>Principal Assumptions</b>	<b>2011</b>	<b>2010</b>
Discount rate for obligations	5.58%	5.06%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ICSLT	ICSLT

The pension commitment as valued in the independent actuary report dated February 2012 amounts to EUR 31 544 130. As of December 2011 the Fund allocated EUR 35 594 410 (2010: EUR 27 445 003) to pensions assets to ensure full coverage of the commitments.

EUR

<b>Net Periodic Benefit Cost as at 31.12.2011</b>	<b>EIF Pension</b>	<b>Health Insurance</b>	<b>Total 2011</b>
Current net service cost	3 182 000	678 000	3 860 000
Interest cost	1 794 000	170 000	1 964 000
Amortisation of unrecognised losses	936 000	47 000	983 000
<b>Net Benefit Expense</b>	<b>5 912 000</b>	<b>895 000</b>	<b>6 807 000</b>

EUR

<b>Net Periodic Benefit Cost as at 31.12.2010</b>	<b>EIF Pension</b>	<b>Health Insurance</b>	<b>Total 2010</b>
Current net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Amortisation of unrecognised (gains)/losses	36 000	( 17 000)	19 000
<b>Net Benefit Expense</b>	<b>2 663 000</b>	<b>429 000</b>	<b>3 092 000</b>

EUR

<b>Benefit Liabilities as at 31.12.2011</b>	<b>EIF Pension</b>	<b>Health Insurance</b>	<b>Total 2011</b>
Present value of unfunded obligation	41 151 000	3 252 000	44 403 000
Unrecognised net actuarial gains/(losses)	(9 607 000)	8 000	(9 599 000)
<b>Net liability</b>	<b>31 544 000</b>	<b>3 260 000</b>	<b>34 804 000</b>

EUR

<b>Benefit Liabilities as at 31.12.2010</b>	<b>EIF Pension</b>	<b>Health Insurance</b>	<b>Total 2010</b>
Present value of unfunded obligation	35 457 000	3 351 000	38 808 000
Unrecognised net actuarial gains/(losses)	(12 018 000)	(986 000)	(13 004 000)
<b>Net liability</b>	<b>23 439 000</b>	<b>2 365 000</b>	<b>25 804 000</b>

The movements in the "Retirement benefit obligations" rounded to the nearest EUR 1 000 are as follows:

EUR			
Changes in Defined Benefit Obligation as at 31.12.2011	EIF Pension	Health Insurance	Total 2011
Defined benefit obligation, Beginning of year	35 457 000	3 351 000	38 808 000
Net service cost	3 182 000	678 000	3 860 000
Interest cost	1 794 000	170 000	1 964 000
Employee contributions	2 015 000	0	2 015 000
Benefits Paid	178 000	0	178 000
Experience Loss	4 997 000	128 000	5 125 000
(Gain) due to assumption changes	(6 472 000)	(1 075 000)	(7 547 000)
<b>Defined benefit obligation, End of year</b>	<b>41 151 000</b>	<b>3 252 000</b>	<b>44 403 000</b>

EUR			
Changes in Defined Benefit Obligation as at 31.12.2010	EIF Pension	Health Insurance	Total 2010
Defined benefit obligation, Beginning of year	19 677 000	1 587 000	21 264 000
Net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Employee contributions	1 365 000	0	1 365 000
Benefits Paid	203 000	0	203 000
Experience Loss	1 137 000	162 000	1 299 000
Loss due to assumption changes	10 448 000	1 156 000	11 604 000
<b>Defined benefit obligation, End of year</b>	<b>35 457 000</b>	<b>3 351 000</b>	<b>38 808 000</b>

Amounts for the current and previous four periods are as follows:

History of asset values	2011	2010	2009	2008	2007
Defined Benefit Obligation, End of year	(44 403 000)	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)
Deficit in the Plan	(44 403 000)	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)
Experience Losses on DBO	(5 125 000)	(1 299 000)	(1 462 000)	(647 000)	(406 000)

The Defined Benefit Obligation (DBO) at the end of the year is calculated using the DBO at the beginning of the year, plus net service cost, plus interest cost, plus employee contributions, plus net benefits paid, plus liability due to experience, less result due to assumption changes.

The effect of a 1 % increase or decrease in the medical trend costs on the current service cost and interest cost, or the post-employment benefit obligation, would not have a material impact on the EIF's financial statements.

## 5.4 Other liabilities and provisions

	EUR	
	31.12.2011	31.12.2010
Related parties payables	3 497 078	4 255 232
Employee benefit payables	18 736 262	14 195 402
Trade creditors	2 247 184	1 072 783
	<b>24 480 524</b>	<b>19 523 417</b>

Employee benefit payables mostly include staff-related costs such as the Bonus, the Optional Supplementary Pension Scheme (OSPS) and the Severance Grant.

## 5.5 Share capital

The authorised capital amounts to EUR 3 billion, divided into 3 000 shares with a nominal value of EUR 1 000 000 each. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

The authorised and subscribed share capital of EUR 3 000 000 000 representing 3 000 shares is called and paid in for an amount of EUR 600 000 000 representing 20 % of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital require the approval of the General Meeting of Shareholders.

The subscribed share capital is detailed as follows:

	EUR	
	31.12.2011	31.12.2010
Subscribed and paid in (20%)	600 000 000	600 000 000
Subscribed but not yet called (80%)	2 400 000 000	2 400 000 000
	<b>3 000 000 000</b>	<b>3 000 000 000</b>

The capital is subscribed as follows :

	Number of shares	
	31.12.2011	31.12.2010
European Investment Bank	1 858	1 835
European Commission	900	900
Financial Institutions	242	265
	<b>3 000</b>	<b>3 000</b>

## 5.6 Statutory reserve and retained earnings

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20 % of its annual net profit until the aggregate reserve amounts to 10 % of subscribed capital. Such reserve is not available for distribution.

Due to the loss in 2011 there is no appropriation requirement in 2012 with respect to the financial year ended 31 December 2011.

The General Meeting of Shareholders of 9 May 2011 approved the distribution of a dividend amounting to EUR 2 893 779 relating to the year 2010 (2010: EUR 0). Dividends are distributed in line with Article 27 of the Fund's statutes.

Further details of the Fund's capital management requirements are explained in note 3.2 and note 3.5.2.B.

## 5.7 Fair value reserve

The fair value reserve includes the following:

	31.12.2011	31.12.2010
Fair value reserve on debt securities and other fixed income securities	(83 676 914)	(42 709 617)
Fair value reserve on shares and other variable income securities	24 908 826	15 159 194
	<b>(58 768 088)</b>	<b>(27 550 423)</b>

The fair value reserve contains fair value changes related to EIF treasury and private equity portfolios.

## 6 Disclosures relating to off-balance sheet items

### 6.1 Assets held for third parties

Assets held for third parties represent investments managed by the Fund and trust accounts opened and maintained in the name of the Fund but for the benefit of third parties. EIF acts as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties (EIB and EC see note 8.1 and 8.2, respectively) and other third parties (public and private entities) depending on the nature of the investment as detailed below.

#### EIB resources

The Fund manages EIB resources through the following mandates:

- **European Technology Facilities (ETF)** 1 and 2 implemented since 1998 which were fully invested by the end of 2008 and 2010, respectively.
- The **Risk Capital Mandate (RCM)** signed with the EIB in 2000 to support, on a revolving basis, technology and industrial innovation through early stage, expansion and lower mid-market capital. The portfolio includes EIB's then existing private equity portfolio that was transferred to EIF in the context of the mandate.
- The **Mezzanine Facility for Growth (MFG)** mandate signed in early 2009 for the Fund to invest in hybrid debt/equity funds over an initial period of three years. The MFG aims at filling the financing gap for European SME and lower mid cap companies by providing hybrid debt/equity products for the benefit of mature European small companies with strong market positions and growth potential as well as high technology companies in their expansion stage.
- EIB co-funding to the **EPMF FCP** is described in the European Commission resources section.

#### European Commission resources

- Under the European Union's Growth and Employment Initiative (G&E) and under the **Multi-Annual Programme (MAP)** for enterprises and entrepreneurship, the Fund manages resources on behalf and at the risk of the Commission. This resource is split equally between private equity and guarantee products. The equity segment known as **ESU 1998 (G&E)** and **ESU 2001 (MAP)** covers the ETF start-up investments. The guarantees segment known as **SMEG 1998 (G&E)** and **SMEG 2001 (MAP)**, provides guarantees against the beneficiary's undertaking.
- Under the **Technology Transfer Pilot Project (TTP)**, financed by the European Commission and signed in November 2008, the Fund has supported a technology transfer structure through pre-seed funding and seed funding, as well as funding in the context of licensing and Intellectual Property transaction.
- Under the **Competitiveness and Innovation Framework Programme (CIP)**, the Fund manages resources on behalf and at the risk of the Commission. The equity segment of CIP known as **GIF (High Growth and Innovative SME Facility)** covers early stage (seed and start-up) investments and expansion stage (mid-market) investments. Under the guarantees segment of CIP, the **SME Guarantee Facility (SMEG 2007)**, capped portfolio guarantees are provided against the beneficiary's undertaking to enable increased financing to SMEs and to increase the risk taking in the SME financing.
- Under the **Joint Action to Support Microfinance Institutions in Europe (JASMINE)** initiative the Fund manages the technical assistance initiative with European Commission resources.
- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF manages the European Union's participation in the fund as trustee and represents the Commission's interests. Secondly, the EIF holds a technical support mandate

for Development and Cooperation – EuropeAid (“DEVCO”) for which related activities are implemented by GEEREF Front Office.

- In 2010 the Fund signed the **European Parliament Preparatory Action (EPPA)** with DG REGIO, under which EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.
- The **European Progress Microfinance Facility (EPMF)** aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged. EPMF is implemented by EIF through two separate mandates: Under a **direct mandate** signed with the European Commission in July 2010, the EIF provides portfolio guarantees to micro credit lenders. Further financial instruments such as debt, equity, and risk-sharing are deployed through a **Luxembourg fonds commun de placement (FCP)**, managed by EIF in its capacity as management company. Initial funding for the FCP is provided by the Commission and the EIB.
- The EIF acts as trustee for the European Commission in two funds called **EFSE (European Fund for South East Europe)** and **GGF (Green for Growth – former SE4F)**. EFSE provides microfinance in South East Europe and the European Neighbourhood region and the fund was launched in 2006. The EC’s participation managed via the EIF currently amounts to approximately EUR 100m. GGF has been set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, the EIF acts as trustee for the European Commission in the technical assistance facility of the GGF (**GGF TA**).
- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)**, Member States have appointed EIF to manage JEREMIE funds as Holding Fund manager. The JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as private equity funds, guarantee funds and loan funds. The Fund has signed 11 JEREMIE Funding Agreements with Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta.
- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF acts as investment advisor with the objective to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF business development is formally delegated to the EIB under a sub-advisory agreement.
- Under the **Greater Anatolia Guarantee Facility (GAGF)** signed in May 2010, the Fund manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and the Republic of Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in Turkey’s least developed provinces in partnership with major Turkish banks.
- ERP-EIF Dachfonds, which EIF manages on behalf of the German Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP);
- NEOTEC, a fund-of-funds, is a joint venture between EIF and a Spanish government entity, including significant Spanish Blue Chips as investors. It seeks to invest in technology funds in Spain and has already invested a large portion of its commitments.

#### Other third party resources

The Fund has sought to further enhance its market impact by establishing **joint investment facilities with public and private entities** through trust accounts; country, multi-country or sector-specific funds-of-funds, such as:

- Istanbul Venture Capital Initiative (iVCI), a dedicated Turkish fund-of-funds advised by EIF.
- Under the G43 Anatolian Venture Capital Fund Project (G43 VC), signed in August 2011, the EIF is entrusted with a mandate by Central Finance Contracts

Unit of Turkey (CFCU). This project entails deploying IPA funds and a Turkish National contribution for investment in the G43 Anatolian Venture Capital Fund dedicated to make investments in SMEs in South-eastern Anatolia region of Turkey.”

- Portugal Venture Capital initiative (PVCi), a fund-of-funds focused on private equity and venture capital funds in Portugal. The investor base comprises main financial institutions in Portugal.
- LfA-EIF Facility, signed in 2009 is a joint EIF and LfAFörderbank Bayern venture providing investments

to support technology-oriented early and expansion stage companies in Bavaria, Germany.

- UK Future Technologies Fund (UK FTF), signed in 2010, is a fund-of-funds investing in venture capital funds in technology companies with high growth potential. EIF was confirmed as manager for two separate funds-of-funds together making up the UK Innovation Investment Fund (UKIIF).

The table below shows the Trust accounts held by the EIF on behalf of third parties, which includes cash at bank, money market balances as well as the relevant accruals:

	31.12.2011	31.12.2010
		EUR
SMEG 1998	59 953 681	59 550 370
ESU 1998	8 164 814	9 896 169
SMEG 2001	33 138 603	44 748 228
ESU 2001	32 776 626	46 348 734
CIP/ SMEG 2007	107 604 886	80 966 776
CIP/ GIF	97 725 878	73 576 917
TTP	1 687 381	1 809 155
Progress FMA	9 155 432	6 004 173
EPPA	1 468 111	1 003 001
GEEREF Technical Support Facility	2 483 932	3 750 370
GEEREF Trusteeship	1 568 600	1 633 422
EFSE - Trust Account		27
GGF - Trust Account		120
GGF - Technical Assistance - Trust Account	4 737	5 000 045
<b>Trust accounts with the Commission</b>	<b>355 732 681</b>	<b>334 287 507</b>
GAGF	31 400 004	31 332 230
G43 - Trust account	16 201 962	
Trust accounts with the EIB	62 049 339	25 174 075
Trust account with the BWMi	2 634 858	517 280
Trust account with the LFA-GV	166 333	113 873
Trust account with member states/regions JEREMIE initiative	827 908 498	928 876 214
	<b>1 296 093 675</b>	<b>1 320 301 179</b>

## 7 Detailed information on the statement of comprehensive income

### 7.1 Interest and similar income

Interest and similar income comprises:

	2011	EUR 2010
Interest on debt securities	31 844 395	29 072 530
Interest on money market instruments	586 324	272 241
Interest on bank current accounts	231 917	167 464
Other interest	2 290 886	1 970 989
	<b>34 953 522</b>	<b>31 483 224</b>

The above figures include discounts of EUR 2 376 637 (2010: EUR 1 485 097) and premiums amount to EUR (1 899 764) (2010: EUR 3 497 706).

### 7.2 Net result from guarantee operations

Net income from guarantee operations comprises:

	2011	EUR 2010
Net increase in the financial guarantees contracts	25 609 190	21 526 582
Provision for guarantees under IAS 37	(73 192 513)	(46 445 360)
Release of provision	15 855 834	0
	<b>(31 727 489)</b>	<b>(24 918 778)</b>

### 7.3 Commission income

Commission income is detailed as follows:

	2011	EUR 2010
Commissions on EIB mandates	13 617 747	12 091 848
Commissions on EC mandates	7 636 042	6 180 996
Commissions on Regional and Funds-of-funds mandates	21 340 961	18 555 892
Other commissions	580 280	320 720
	<b>43 175 030</b>	<b>37 149 456</b>

## 7.4 Net gain/ (loss) on financial operations

Net gain/(loss) on financial operations amounting to EUR (74 237) (2010: EUR 2 180 690) corresponds to realised gains on the debt securities portfolio of EUR 82 215 (2010: EUR 2 002 257) and gains/(losses) arising from transactions or cash positions in foreign currencies of EUR (156 452) (2010: EUR 178 432).

## 7.5 Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 667 995 (2010: EUR 326 000).

## 7.6 General administrative expenses

Wages and salaries include expenses of EUR 2 075 956 (2010: EUR 2 797 706) incurred in relation to staff seconded from the EIB.

The number of persons, including 4 EIB secondees (2010: 4 EIB secondees), employed at the year-end is as follows:

	2011	EUR 2010
Chief Executive/Deputy Chief Executive	2	2
Employees	227	213
<b>Total</b>	<b>229</b>	<b>215</b>

EIF has identified members of the Board of Directors, members of the Audit Board and members of the Management Team as key management personnel.

The compensation paid in 2011 to the key management as defined above, representing salaries and pension for the member of the Management Team and attendance fee for the others, amounts to EUR 2 091 476 (2010: EUR 1 875 563).

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 2 679 680 (2010: EUR 1 950 334).

Future minimum lease payments under non-cancellable operating leases

	Less than 1 year	1 to 5 years	EUR Total
2011	2 697 851	3 514 930	6 212 781
2010	2 669 948	3 577 142	6 247 090

## 8 Related parties transactions

EIB is the majority owner of the Fund with 61.9 % (2010: 61.2 %) of the shares. The remaining percentage is held by the European Commission 30.0 % (2010: 30.0 %) and the Financial Institutions 8.1 % (2010: 8.8 %).

Information relating to key management is disclosed in the note 7.6 relating to general administrative expenses.

### 8.1 European Investment Bank

Related party transactions with the EIB mainly concern the management by the Fund of the PE activity as described in notes 6. In addition, the EIB manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the EIB are disclosed as follows:

	31.12.2011	31.12.2010
EUR		
<b>ASSETS</b>		
Other assets	46 597 333	33 614 684
<b>LIABILITIES AND EQUITY</b>		
Other liabilities and provisions	3 651 819	4 943 188
Creditors	2 646 250	3 779 901
Other liabilities and provisions	865 569	1 269 469
Accruals & deferred income	140 000	140 000
Share capital	371 600 000	367 000 000
<b>INCOME</b>		
Commission income	13 617 747	12 091 848
Other income	649 536	325 647
<b>EXPENSES</b>		
General administrative expenses	9 791 731	8 638 498

## 8.2 European Commission

Related party transactions with the European Commission mainly concern the management by the Fund of private equity and guarantee activities as described in the notes 6. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	31.12.2011	EUR 31.12.2010
<b>ASSETS</b>		
Other assets	4 038 565	4 143 848
<b>LIABILITIES AND EQUITY</b>		
Other liabilities and provisions	16 051	16 051
Share capital	180 000 000	180 000 000
<b>INCOME</b>		
Commission income	7 636 042	6 335 436
<b>EXPENSES</b>		
General administrative expenses	129 315	131 953

## 9 Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct and indirect taxes.

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## EIF is a member of the EIB Group

EIF also has offices in Athens, Bratislava, Bucharest, Madrid, Montpellier, Riga, Rome, Sofia and Vilnius

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Additional information is also available on the internet:

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ISBN 978-92-861-1520-2

ISSN 1725-5392

DOI 10.2868/10271

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ISBN 978-92-861-1520-2



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**ANNEX 3**

**INDEPENDENT AUDITORS' REPORT ON THE CLASS A GUARANTOR FINANCIAL  
STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2010**

# INDEPENDENT AUDITOR'S REPORT

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To the Audit Board of the European Investment Fund  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 66 to 113.

## Management responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Luxembourg, 9 March 2011*

KPMG Audit S.à r.l.  
Cabinet de révision agréé

Thierry RAVASIO



# STATEMENT OF FINANCIAL POSITION

at 31 December 2010

EUR

Assets	Notes	31.12.2010	31.12.2009
Cash and cash equivalents	4.1	73 603 254	106 266 117
Investments:			
Debt securities and other fixed income securities	4.2	863 578 881	832 313 566
Shares and other variable income securities	4.3	194 384 535	165 027 737
		<b>1 057 963 416</b>	<b>997 341 303</b>
Non-current assets held for sale		0	7 139 812
Other assets	4.4	56 822 861	44 788 915
Intangible assets	4.5	1 384 777	2 183 144
Equipment	4.6	81 655	217 437
Investment property	4.6	6 329 080	0
<b>Total assets</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>
<b>Liabilities</b>			
Financial liabilities	5.1		
Financial guarantees		26 902 034	26 723 389
Provisions for guarantees	5.2	107 469 393	64 630 966
Retirement benefit obligations	5.3	25 803 632	21 144 222
Other liabilities and provisions	5.4	19 523 417	16 703 747
<b>Total liabilities</b>		<b>179 698 476</b>	<b>129 202 324</b>
<b>Equity</b>			
Share capital	5.5		
Subscribed		3 000 000 000	2 940 000 000
Uncalled		(2 400 000 000)	(2 352 000 000)
		<b>600 000 000</b>	<b>588 000 000</b>
Share premium	5.5	152 185 703	143 191 123
Statutory reserve	5.6	138 535 177	138 535 177
Retained earnings	5.6	146 084 055	153 457 561
Fair value reserve	5.7	(27 550 423)	12 924 049
Profit/(loss) for the financial year		7 232 055	(7 373 506)
<b>Total equity</b>		<b>1 016 486 567</b>	<b>1 028 734 404</b>
<b>Total equity and liabilities</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>

The notes on pages 70 to 113 are an integral part of these financial statements.

# STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

		EUR	
	Notes	31.12.2010	31.12.2009
Interest and similar income	7.1	31 483 224	28 617 478
Income from investments in shares and other variable income securities	4.3	10 878 493	932 384
Net result from guarantee operations	7.2	(24 918 778)	(20 341 639)
Commission income	7.3	37 149 456	26 844 238
Net gain/(loss) on financial operations	7.4	2 180 690	(1 351 432)
Other operating income	7.5	335 157	34 687
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(30 118 764)	(25 636 186)
- social security and contribution costs		(4 990 135)	(3 890 535)
		<b>(35 108 899)</b>	<b>(29 526 721)</b>
Other administrative expenses		(8 470 136)	(6 832 821)
		<b>(43 579 035)</b>	<b>(36 359 542)</b>
Depreciation and amortisation	4.5, 4.6	(1 763 626)	( 552 813)
Impairment losses on available-for-sale investments	4.3	(4 533 526)	(5 196 867)
<b>Profit/(loss) for the financial year</b>		<b>7 232 055</b>	<b>(7 373 506)</b>

		EUR	
Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		(40 954 211)	11 299 835
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		479 739	(1 398 779)
		<b>(40 474 472)</b>	<b>9 901 056</b>
<b>Total comprehensive income for the financial year</b>		<b>(33 242 417)</b>	<b>2 527 550</b>

The notes on pages 70 to 113 are an integral part of these financial statements.

**ANNEX 4**

**INDEPENDENT AUDITORS' REPORT ON THE CLASS A GUARANTOR  
FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011**

# Independent Auditor's Report

To the Audit Board of the European Investment Fund  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2011 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 44 to 93.

## Management responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## Responsibility of the Réviseur d'Entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Luxembourg, 14 March 2012*

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé  
Thierry RAVASIO



# Statement of financial position

as at 31 December 2011

		EUR	
<b>Assets</b>	<b>Notes</b>	<b>31.12.2011</b>	<b>31.12.2010</b>
Cash and cash equivalents	4.1	160 660 806	73 603 254
Investments:			
Debt securities and other fixed income securities	4.2	778 368 598	863 578 881
Shares and other variable income securities	4.3	212 233 535	194 384 535
		<b>990 602 133</b>	<b>1 057 963 416</b>
Other assets	4.4	58 957 150	56 822 861
Intangible assets	4.5	1 128 213	1 384 777
Equipment	4.6	27 780	81 655
Investment property	4.6	5 954 929	6 329 080
<b>Total assets</b>		<b>1 217 331 011</b>	<b>1 196 185 043</b>
<b>Liabilities</b>			
Financial liabilities	5.1		
Financial guarantees		24 022 036	26 902 034
Provisions for guarantees	5.2	161 867 126	107 469 393
Retirement benefit obligations	5.3	34 804 130	25 803 632
Other liabilities and provisions	5.4	24 480 524	19 523 417
<b>Total liabilities</b>		<b>245 173 816</b>	<b>179 698 476</b>
<b>Equity</b>			
Share capital	5.5		
Subscribed		3 000 000 000	3 000 000 000
Uncalled		(2 400 000 000)	(2 400 000 000)
		<b>600 000 000</b>	<b>600 000 000</b>
Share premium		152 185 703	152 185 703
Statutory reserve	5.6	141 427 997	138 535 177
Retained earnings	5.6	147 529 511	146 084 055
Fair value reserve	5.7	(58 768 088)	(27 550 423)
Profit/(loss) for the financial year		(10 217 928)	7 232 055
<b>Total equity</b>		<b>972 157 195</b>	<b>1 016 486 567</b>
<b>Total equity and liabilities</b>		<b>1 217 331 011</b>	<b>1 196 185 043</b>

The notes on pages 48 to 93 are an integral part of these financial statements.

# Statement of comprehensive income

for the year ended 31 December 2011

	Notes	31.12.2011	31.12.2010
EUR			
Interest and similar income	7.1	34 953 522	31 483 224
Income from investments in shares and other variable income securities	4.3	3 758 414	10 878 493
Net loss from guarantee operations	7.2	(31 727 489)	(24 918 778)
Commission income	7.3	43 175 030	37 149 456
Net gain/(loss) on financial operations	7.4	(74 237)	2 180 690
Other operating income	7.5	669 495	335 157
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(33 705 121)	(30 118 764)
- social security and contribution costs		(7 503 803)	(4 990 135)
		<b>(41 208 924)</b>	<b>(35 108 899)</b>
Other administrative expenses		(13 452 860)	(8 470 136)
		<b>(54 661 784)</b>	<b>(43 579 035)</b>
Depreciation and amortisation	4.5, 4.6	(1 204 822)	(1 763 626)
Impairment losses on available-for-sale investments	4.3	(5 106 057)	(4 533 526)
<b>Profit/(loss) for the financial year</b>		<b>(10 217 928)</b>	<b>7 232 055</b>
EUR			
Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		(32 252 765)	(40 954 211)
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		1 035 100	479 739
		<b>(31 217 665)</b>	<b>(40 474 472)</b>
<b>Total comprehensive income for the financial year</b>		<b>(41 435 593)</b>	<b>(33 242 417)</b>

The notes on pages 48 to 93 are an integral part of these financial statements.

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