2017

FINANCIAL STATEMENTS
ON EIB ACTIVITY IN AFRICA, THE CARIBBEAN AND THE PACIFIC, AND THE OVERSEAS COUNTRIES AND TERRITORIES

European
Investment
Bank
The EU bank

Financial Statements 2017
on EIB Activity in Africa, the Caribbean and the Pacific,
and the Overseas Countries and Territories

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Migotiyo Plantations, sisal farm located in Kenya's Rift Valley Province.

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INVESTMENT FACILITY

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

(In EUR'000)

	Notes	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	5	549,101	360,817
Amounts receivable from contributors	9/16	150,000	86,395
Held-to-maturity financial assets	10	144,382	169,398
Derivative financial instruments	6	12,521	6,920
Loans and receivables	7	1,666,725	1,729,380
Available-for-sale financial assets	8	497,539	516,884
Other assets	11	4,385	345
Total assets		**3,024,653**	**2,870,139**
LIABILITIES AND CONTRIBUTORS' RESOURCES			
LIABILITIES			
Derivative financial instruments	6	1,153	25,189
Deferred income	12	25,802	26,283
Provisions for guarantees issued	13	484	625
Amounts owed to third parties	14	157,285	116,114
Other liabilities	15	2,462	2,546
Total liabilities		**187,186**	**170,757**
CONTRIBUTORS' RESOURCES			
Member States Contribution called	16	2,517,000	2,377,000
Fair value reserve		125,816	142,884
Retained earnings		194,651	179,498
Total contributors' resources		**2,837,467**	**2,699,382**
Total liabilities and contributors' resources		**3,024,653**	**2,870,139**

The accompanying notes form an integral part of these financial statements.

INVESTMENT FACILITY

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(In EUR'000)

	Notes	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Interest and similar income	18	101,406	106,698
Interest and similar expenses	18	-2,671	-2,307
Net interest and similar income		**98,735**	**104,391**
Fee and commission income	19	210	699
Fee and commission expenses	19	-60	-48
Net fee and commission income		**150**	**651**
Fair value change of derivative financial instruments		29,637	-10,361
Net realised gains on available-for-sale financial assets	20	2,711	6,504
Net foreign exchange loss		-38,165	-14,995
Net result on financial operations		**-5,817**	**-18,852**
Change in impairment on loans and receivables, net of reversal	7	-10,721	44,365
Change in provisions for guarantees	13	-65	-242
Impairment on available-for-sale financial assets	8	-22,024	-2,493
General administrative expenses	21	-45,105	-43,483
Profit/loss for the year		**15,153**	**84,337**
Other comprehensive income:			
Items that are or may be reclassified to profit or loss:			
Available-for-sale financial assets – Fair value reserve	8		
1. Net change in fair value of available-for-sale financial assets		-31,034	-14,624
2. Net amount transferred to profit or loss		13,966	-6,485
Total available-for-sale financial assets		**-17,068**	**-21,109**
Total other comprehensive income		**-17,068**	**-21,109**
Total comprehensive income for the year		**-1,915**	**63,228**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN CONTRIBUTORS' RESOURCES
FOR THE YEAR ENDED 31 DECEMBER 2017

(In EUR'000)

		Contribution called	Fair value reserve	Retained earnings	Total
At 1 January 2017	**Notes**	**2,377,000**	**142,884**	**179,498**	**2,699,382**
Member States contribution called during the year	16	140,000	-	-	140,000
Profit for the year 2017		-	-	15,153	15,153
Total other comprehensive income for the year		-	-17,068	-	-17,068
Changes in contributors' resources		**140,000**	**-17,068**	**15,153**	**138,085**
At 31 December 2017		**2,517,000**	**125,816**	**194,651**	**2,837,467**

		Contribution called	Fair value reserve	Retained earnings	Total
At 1 January 2016		**2,157,000**	**163,993**	**95,161**	**2,416,154**
Member States contribution called during the year	16	220,000	-	-	220,000
Profit for the year 2016		-	-	84,337	84,337
Total other comprehensive income for the year		-	-21,109	-	-21,109
Changes in contributors' resources		**220,000**	**-21,109**	**84,337**	**283,228**
At 31 December 2016		**2,377,000**	**142,884**	**179,498**	**2,699,382**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

(In EUR'000)

	Notes	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
OPERATING ACTIVITIES			
Profit for the financial year		15,153	84,337
Adjustments made for:			
Impairment on available-for-sale financial assets	8	22,024	2,493
Net change in impairment on loans and receivables	7	10,721	-44,365
Interest capitalised on loans and receivables	7	-	-7,183
Change in accrued interest and amortised cost on loans and receivables	7	-1,198	-5,843
Net change in provisions for guarantees issued	13	-141	625
Change in accrued interest and amortised cost on held-to-maturity financial assets	10	-398	-1,126
Change in deferred income		-481	-3,042
Effect of exchange rate changes on loans	7	168,304	-35,025
Effect of exchange rate changes on available-for-sale financial assets		-1,655	-5,125
Effect of exchange rate changes on cash held		-6,473	-1,106
Loss on operating activities before changes in operating assets and liabilities		**205,856**	**-15,360**
Loan disbursements	7	-368,662	-528,376
Repayments of loans	7	253,486	351,468
Change in accrued interest on cash and cash equivalent	5	63	2
Fair value changes on derivatives		-29,637	10,361
(Decrease) in held-to-maturity financial assets	10	-1,084,149	-1,159,704
Maturities of held-to-maturity financial assets	10	1,109,563	1,219,953
(Decrease) in available-for-sale financial assets	8	-62,660	-153,986
Repayments/sales of available-for-sale financial assets	8	44,568	37,978
(Increase) in other assets		-4,040	-318
(Decrease)/increase in other liabilities		-84	182
Increase in amounts payable to the European Investment Bank		2,202	423
Net cash flows used from/in operating activities		**66,506**	**-237,377**
FINANCING ACTIVITIES			
Contribution received from Member States	16	76,395	133,605
Amounts received from Member States with regard to interest subsidies and technical assistance		60,000	30,000
Amounts paid on behalf of Member States with regard to interest subsidies and technical assistance		-21,026	-15,510
Net cash flows from financing activities		**115,369**	**148,095**
Net increase/(decrease) in cash and cash equivalents		**181,875**	**-89,282**
Summary statement of cash flows:			
Cash and cash equivalents at the beginning of financial year		**360,821**	**448,998**
Net cash from:			
Operating activities		66,506	-237,377
Financing activities		115,369	148,095
Effects of exchange rate changes on cash and cash equivalents		6,473	1,106
Cash and cash equivalents at the end of financial year		**549,169**	**360,822**
Cash and cash equivalents are composed of:			
Cash in hand	5	166,445	51,462
Term deposits (excluding accrued interest)		367,721	259,342
Commercial papers	5	15,003	50,018
		549,169	**360,822**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements as at 31 December 2017

1 General information

The Investment Facility ("the Facility" or "IF") has been established within the framework of the Cotonou Agreement (the "Agreement") on co-operation and development assistance negotiated between the African, Caribbean and Pacific Group of States (the "ACP States") and the European Union and its Member States on 23 June 2000, revised on 25 June 2005 and 22 June 2010.

The Facility is not a separate legal entity and the European Investment Bank ("EIB" or "the Bank") manages the contributions on behalf of the Member States ("Donors") in accordance with the terms of the Agreement and acts as an administrator of the Facility.

Financing under the Agreement is provided from EU Member States' budgets. EU Member States contribute with the amounts allocated to finance the IF and grants for the financing of the interest subsidies as provided for under the multi-annual financial frameworks (First Financial Protocol covering the period 2000 - 2007 and referred to as the 9th European Development Fund (EDF), Second Financial Protocol covering the period 2008 - 2013 and referred to as the 10th EDF and the Third Financial Protocol covering the period 2014 - 2020 referred to as the 11th EDF). The EIB is entrusted with the management of:

- the Facility, a EUR 3,685.5 million risk-bearing revolving fund geared to fostering private sector investment in ACP countries of which EUR 48.5 million are allocated to Overseas Countries and territories ("OCT countries");
- grants for the financing of interest subsidies worth max. EUR 1,220.85 million for ACP countries and max. EUR 8.5 million for OCT countries. Up to 15% of these subsidies can be used to fund project-related technical assistance ("TA").

The present financial statements cover the period from 1 January 2017 to 31 December 2017.

On a proposal from the Management Committee of EIB, the Board of Directors of EIB adopted the Financial Statements on 15 March 2018, and authorised their submission to the Board of Governors for approval by 27 April 2018.

2 Significant accounting policies

2.1 Basis of preparation – Statement of compliance

The Facility's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

2.2 Significant accounting judgments and estimates

The preparation of financial statements requires the use of accounting estimates. It also requires the European Investment Bank's Management to exercise its judgment in the process of applying the Investment Facility's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed hereafter.

The most significant use of judgments and estimates are as follows:

- **Measurement of fair values of financial instruments**

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or broker price quotations. Where the fair values cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The valuations are categorised into different levels in the fair value hierarchy based on the inputs used in the valuation techniques as described and disclosed in Notes 2.4.3 and 4.

These valuation techniques may include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Facility uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like

interest rate and currency swaps that use only observable market data and require limited management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex instruments, the Facility uses own valuation models, which are developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Example of instruments involving significant unobservable inputs includes certain loans and guarantees for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability or counterparty default and prepayments and selection of appropriate discount rates.

The Facility has an established control framework with respect to the measurement of fair values. This framework includes the EIB's Investment Bank's Risk Management and Market Data Management functions. These functions are independent of front office management and are responsible for verifying significant fair value measurements. Specific controls include:

- Verification of observable pricing;
- A review and approval process for new valuation models and changes to existing models;
- Calibration and back testing of models against observed market transactions;
- Analysis and investigation of significant valuation movements;
- Review of significant unobservable inputs and valuation adjustments.

Where third-party information such as broker quotes or pricing services are used to measure fair value, the Facility verifies that such valuations meet the requirements of IFRS. This includes the following:

- Determining where broker quote or pricing service pricing is appropriate;
- Assessing whether a particular broker quote or pricing service is reliable;
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions;
- When prices for similar instruments are used to measure fair value, how these prices have been adjusted to reflect the characteristics of the instrument subject to measurement.

- **Impairment losses on loans and receivables**

The Facility reviews its loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the statement of profit or loss and other comprehensive income. In particular, judgment by the European Investment Bank's Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowances against individually significant loans and receivables, the Facility may also book a collective impairment allowance against exposures which have not been individually identified as impaired and have a greater risk of default than when originally granted.

In principle, a loan is considered as impaired when payment of interest and principal are past due by 90 days or more and, at the same time, the European Investment Bank's Management considers that there is an objective indication of impairment.

- **Provisions on financial guarantees**

The Facility reviews its guarantee contracts at each reporting date to assess whether a provision should be recorded in the statement of profit or loss and other comprehensive income. For determining the provision particular judgement is required in making estimates and assumptions about a number of factors, such as:

- amount and timing of future cash flows;
- utilisation level of the guarantees;
- discount factors applied on the estimated cash flows.

- **Valuation of unquoted available-for-sale equity investments**

Valuation of unquoted available-for-sale equity investments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics;
- adjusted net assets method; or
- other valuation models.

The determination of the cash flows and discount factors for unquoted available-for-sale equity investments requires significant estimation. The Facility calibrates the valuation techniques periodically and tests them for validity using either price from observable current market transactions in the same instrument or from other available observable market data.

- **Impairment of available-for-sale financial assets**

The Facility treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgment. The Facility treats "significant" generally as 30% or more and "prolonged" greater than 12 months. In addition, the Facility evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

- **Consolidation of entities in which the Facility holds interest**

The Facility made significant judgements that none of the entities in which it holds interest, are controlled by the Facility. This is due to the fact that in all such entities, either the General Partner or the Fund Manager or the Management Board have the sole responsibility for the management and control of the activities and affairs of the partnership and have the power and authority to do all things necessary to carry out the purpose and objectives of the partnership complying with the investment and policy guidelines.

2.3 Changes in accounting policies

Except for the changes below, the Facility has consistently applied the accounting policies set out in Note 2.4 to all periods presented in these financial statements. The Facility has adopted the following new standards and amendments to standards.

Standards adopted

Amendments to IAS 7 'Statement of cash flows' – Disclosure initiative;

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Amendments are effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

Additional disclosures of relevance for the Facility include changes arising from:
- cash flows, such as drawdowns and repayments of borrowings; and
- non-cash changes, such as acquisitions, disposals and unrealised exchange differences.

Amendment to IAS 7 has been endorsed by the EU on 9 November 2017 and is effective for the annual reporting periods beginning on or after 1 January 2017.

Standards issued but not yet effective

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017. The Facility has not applied the following new or amended standards in preparing these financial statements.

Annual improvements 2014-2016 Cycle - various standards (Amendments to IFRS 12)

This amendment clarifies that the disclosure requirement of IFRS 12 is applicable to interest in entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

The adoption of these amendments had no impact on the Facility`s financial statements.

It is worth noted that the aforementioned amendments have not been yet endorsed by EU according to the latest status of endorsement by EFRAG.

IFRS 9 Financial instruments

Estimated impact of the adoption of IFRS 9 - Financial instruments

The last part of the standard was issued on 24 July 2014 and replaces the existing guidance in *IAS 39 Financial Instruments*: Recognition and Measurement. IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces a new expected credit loss model for impairment on financial assets and introduces new rules for hedge accounting.

IFRS 9 has been endorsed by the EU on 22 November 2016 and is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Facility did not adopt the standard earlier than its effective date. The Facility has assessed the estimated impact that the initial application of IFRS 9 will have on its contributors resources' in the financial statements.

In EUR'000	As reported at 31 December 2017	Estimated adjustment to Contributors` resources at 1 January 2018	Estimated adjusted opening balance at 1 January 2018
Net impact Contributors' resources	**2,837,467**	**53,891**	**2,783,576**

This impact is based on the assessments undertaken to date and is summarised below. The actual impacts of adopting IFRS 9 at 1 January 2018 may change because:

- the Bank has not finalised the testing and assessment of controls over its new IT systems; and
- The new accounting policies are subject to change until the Facility presents its first financial statements that include the date of initial application.

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost ("AC"), fair value through other comprehensive income (''FVOCI'') and fair value through profit or loss (''FVTPL''). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

In addition, under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Based on its assessment, the Facility does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets and financial liabilities except for:

- equity investments: There are two types of equity investments at the Facility: (i) direct equity investments and (ii) venture capital funds. At 31 December 2017, the Facility had classified equity investments, as available-for-sale with a fair value of EUR 497 million. Under IFRS 9, the Facility will designate these investments as measured at FVTPL. The related fair value reserve will be released against the retained earnings.

- quasi-equity loans, which are a category of "debt" bearing equity-type risks. The cash flows of those types of products have equity-type features that are unrelated to a basic lending arrangement. According to the requirements of IFRS 9, quasi-equity loans will be mandatorily reclassified from loans and receivables under IAS 39 to FVTPL under IFRS 9. The fair value of quasi-equity loans are EUR 1.4 million as at 31 December 2017. These net fair value adjustments amount to EUR 0.4 million.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the IF's financial liabilies are measured at amortised under IAS39 and IFRS9 as well.

Impairment

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (''ECL'') model. This will require judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.

To comply with IFRS the EIB has developed an Expected Credit Loss (hereinafter "ECL") model for the EIB`s IFRS group financial statements which is also applied to the IF.

The new impairment model will apply to financial assets measured at AC as well as to off-balance commitments

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECL's: these are the ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are the ECLs that result from all possible default events over the expected life of a financial instrument.

The IFRS 9 Standard sets out a "three-stage" model for impairment based on changes in credit quality since initial recognition. Financial instruments are classified in Stage 1 except for those instruments for which significant increase in credit risk (SICR) since initial recognition is identified. For determining whether there is a significant increase in credit risk since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Facility's historical experience and expert credit and including forward-looking information. If significant increase in credit risk has occurred, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3. The Bank's assessment of the impairment Stage is based on a sequential approach using counterparty or instrument specific information (Internal Default Event, Special High Risk, Watch List, Rating deterioration, Days in arrears – more than 30 days past due).

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

It is expected that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. Based on the impairment methodology described below, the Facility has estimated that application of IFRS 9's impairment requirements at 1 January 2018 results in additional impairment losses as follows:

In EUR'000	**Estimated additional impairment recognised at 1 January 2018**
Loans and receivables	49,709
Treasury assets	30
Undisbursed loans	4,152
Gross additional impairment losses	**53,891**

Treasury assets are composed of high credit quality securities, therefore, the Facility decided to make use of the IFRS 9 practical expedient for low credit risk financial instruments.

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

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

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

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

The EIB employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macro-economic factors. The gross domestic product (GDP) growth is identified as the relevant macro-economic factor. Based on projections of that variable, three macro-economic scenario's are generated, which are then translated into credit cycles and finally into PD's.

The LGD represents the expectation of the extent of loss on a defaulted exposure. The LGD definition is derived from the following definition of Recovery rate (i.e. "1-LGD"): the recovery rate for each defaulted contract is the ratio between the discounted cash flows received after the default date and the capital outstanding at the default date. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. Recovery rates are defined across three main classes of borrowers: non-EU Sovereigns and Public Institutions, Financial Institutions and Corporates.

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

The Facility estimated that the application of IFRS 9 impairment requirements at 1 January 2018 results in an increase of EUR 53.9 million over the impairment recognised under IAS 39.

The following table provides information about the estimated exposure to credit and ECLs for loans and advances to credit institutions and customers and undisbursed loans: For an overview of credit risk on cash and cash equivalent and held-to-maturity financial assets, see note 3.2.

In EUR'000	Disbursed amount	Undisbursed amount	Estimated impairment loss allowance	Credit impaired
Stage 1	1,265,945	823,023	21,727	No
Stage 2	375,716	20,615	32,134	No
Stage 3	138,319	-	113,255	Yes
Total	**1,779,980**	**843,638**	**167,116**	

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses. Preliminary assessment included an analysis to identify data gaps against current processes. The Facility has planned to implement the system and controls changes that it believes will be necessary to capture the required data.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

- The Facility will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in the contributors` resources as at 1 January 2018.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application:
  - The determination of the business model within which a financial asset is held,
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a five-step approach to revenue recognition:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contracts;
- Recognize revenue when (or as) the entity satisfies the performance obligation.

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer.

Additional disclosures are required when IFRS 15 is to be effective.

The standard gives a range of possible transition methods including (i) a full retrospective approach, (ii) a modified retrospective approach with optional practical expedients and (iii) a cumulative effect method with no restatement of comparative information.

At this stage, the Facility is finalising the assessment of the effects of applying the new standard on the financial statements. The nature of the following three main income types has been further analysed whether the new standard applies to them:

- Interest and similar income
- Fee and commission income
- Net financial result

The Facility's analysis indicated that only fee and commission income is in scope of IFRS 15.

Regarding Fee and commission income, the Facility is currently performing an assessment per type of fee. The preliminary assessment is based on the fact that the fee which is an integral part of the effective interest rate calculation is considered as out of IFRS 15 scope (in scope of IFRS 9). For the types of fees that are in scope of IFRS 15, the Facility is assessing the revenue recognition pattern of each type according to the 5-step approach of IFRS 15 and compares it with the existing one.

IFRS 15 has been endorsed by the EU on 22 September 2016 and is effective for annual reporting periods beginning on or after 1 January 2018.

The Facility intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

Based on the detailed assessment of the impact resulting from the application of IFRS 15 by the Facility, it is not expected that this new standard will have a significant impact on the Facility's financial statements.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and replaces the current guidance of IAS 17. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exemptions are short-term and low-value leases. The accounting for lessors will not significantly change.

IFRS 16 has been endorsed by the EU on 31 October 2017 and is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted if IFRS 15 is applied.

The Facility expects that this change will have no material impact on the Facility`s financial statements.

IFRIC 22 Foreign currency transactions and advance consideration

The Interpretation applies where an entity either pays or receives consideration in advance for foreign currency-denominated contract. It considers how to determine the date of the transaction when applying the standard on foreign currency transactions, IAS 21 and provides guidance whether the date of the transaction is the date when the asset, expense or income is initially recognised, or the earlier date on which the advance consideration is paid or received, resulting in recognition of a prepayment or deferred income.

The Interpretation has not yet been adopted by the EU. According to the latest update of EFRAG, endorsement is not expected by the end of the year.

The Facility does not plan to adopt this interpretation early and does not expect to cause any material impact on the Facility's financial statements.

2.4 Summary of significant accounting policies

The statement of financial position represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

2.4.1 Foreign currency translation

The Facility uses the Euro (EUR) for presenting its financial statements, which is also the functional currency. Except as otherwise indicated, financial information presented in EUR has been rounded to the nearest thousand.

Foreign currency transactions are translated, at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than Euro are translated into Euro at the exchange rate prevailing at the statement of financial position date. The gain or loss arising from such translation is recorded in the statement of profit or loss and other comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognised in the statement of profit or loss and other comprehensive income.

The elements of the statement of profit or loss and other comprehensive income are translated into Euro on the basis of the exchange rates prevailing at the date of the transaction.

2.4.2 Cash and cash equivalents

The Facility defines cash and cash equivalents as current accounts, short-term deposits or commercial papers with original maturities of three months or less.

2.4.3 Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

- **Fair value of financial instruments**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Facility has access at that date.

When applicable, the EIB on behalf of the Facility measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an on-going basis.

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The EIB measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: inputs that are unadjusted quoted market prices in active markets for identical instruments to which the Facility has access.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are not observable. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Facility recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

- **Held-to-maturity financial assets**

Held-to-maturity financial assets comprise quoted bonds with the intention of holding them to maturity, and commercial papers with original maturities of more than three months.

Those bonds and commercial papers are initially recorded at their fair value plus any directly attributable transaction cost. The difference between entry price and redemption value is amortised in accordance with the effective interest method over the remaining life of the instrument.

The Facility assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or event) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Impairment loss is recognised in the statement of profit and loss and the amount of the loss is measured as the difference between the carrying value and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

- **Loans**

Loans originated by the Facility are recognised in the assets of the Facility when cash is advanced to borrowers. They are initially recorded at cost (net disbursed amounts), which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortised cost, using the effective yield method, less any provision for impairment or uncollectability.

- **Available-for-sale financial assets**

Available-for-sale financial assets are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables. They include direct equity investments and investments in venture capital funds and are initially recorded at fair value plus transaction costs.

After initial measurement, available-for-sale financial assets are subsequently carried at fair value. Note the following details for the fair value measurement of equity investments, which cannot be derived from active markets:

a. Venture capital funds

The fair value of each venture capital fund is based on the latest available Net Asset Value (NAV), reported by the fund, if calculated based on international valuation guidelines recognised to be in line with IFRS (for example: the International Private Equity and Venture Capital Valuation guidelines, IPEV Guidelines, as published by the European Venture Capital Association). The Facility may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

b. Direct equity investments

The fair value of the investment is based on the latest set of financial statements available, re-using, if applicable, the same model as the one used at the acquisition of the participation.

Unrealised gains or losses on venture capital funds and direct equity investments are reported in contributors' resources until such investments are sold, collected or disposed of, or until such investments are determined to be impaired. If an available-for-sale investment is determined to be impaired, the cumulative unrealised gain or loss previously recognised in equity is transferred to the statement of profit or loss and other comprehensive income.

For unquoted investment, the fair value is determined by applying recognised valuation techniques (for example adjusted net assets, discounted cash flows or multiple). These investments are accounted for at cost when the fair value cannot be reliably measured. To be noted that in the first 2 years of the investments, they are recognised at cost.

The participations acquired by the Facility 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 dividends or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information. The Facility's investments are executed in line with the above stated industry practice, ensuring that the Facility neither controls nor exercises any form of significant influence within the meaning of IFRS 10 and IAS 28 over any of these investments, including those investments in which the Facility holds over 20 % of the voting rights.

- **Guarantees**

Financial guarantee contracts are contracts that require the Facility 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.

Under the existing rules, these guarantees do not meet the definition of an insurance contract (IFRS 4 Insurance Contracts) and are accounted for under IAS 39 Financial Instruments: Recognition and Measurement, either as "Derivatives" or as "Financial Guarantees", depending on their features and characteristics as defined by IAS 39.

The accounting policy for derivatives is disclosed under Note 2.4.5.

At initial recognition, the financial guarantees are recognised at fair value corresponding to the Net Present Value (NPV) of expected premium inflows and initial expected loss. This calculation is performed at the starting date of each transaction and is recognised on the statement of financial position as "Financial guarantees" under "other assets" and "other liabilities".

Subsequent to initial recognition, the Facility's liabilities under such guarantees are measured at the higher of:

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue and
- the best estimate of expenditure required to settle any present financial obligation arising as a result of the guarantee, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

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

When a financial guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under "Other liabilities" is transferred to the caption "Provisions for guarantees issued" on the statement of financial position.

The provision for financial guarantees (as measured per IAS 37) is recognised in the statement of profit or loss and other comprehensive income under “Change in provisions for guarantees, net of reversals”.

The premium received is recognised in the statement of profit or loss and other comprehensive income in “Fee and commission income” on the basis of an amortisation schedule in accordance with IAS 18 over the life of the financial guarantee.

In addition, when a guarantee agreement is signed, it is presented as a contingent liability for the Facility and when the guarantee is engaged, as a commitment for the Facility.

2.4.4 Impairment of financial assets

The Facility assesses at each statement of financial position date whether there is any objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For the loans outstanding at the end of the financial year and carried at amortised cost, impairments are made when presenting objective evidence of risks of non-recovery of all or part of their amounts according to the original contractual terms or the equivalent value. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss and other comprehensive income. Interest income continues to be accrued on the reduced carrying amount based on the effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

The Facility conducts the credit risk assessments based on each individual operation and does not consider a collective impairment.

For the available-for-sale financial assets, the Facility assesses at each statement of financial position date whether there is objective evidence that an investment is impaired. Objective evidence would include a significant or prolonged decline in the fair value of the investment below its costs. Where there is evidence of impairment, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss and other comprehensive income) is removed from contributors’ resources and recognised in the statement of profit or loss and other comprehensive income. Impairment losses on available-for-sale financial assets are not reversed through the statement of profit or loss and other comprehensive income; increases in their fair value after impairment are recognised directly in contributors’ resources.

The European Investment Bank’s Risk Management reviews financial assets for impairment at least once a year. Resulting adjustments include the unwinding of the discount in the statement of profit or loss and other comprehensive income over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

2.4.5 Derivative financial instruments

Derivatives include cross currency swaps, cross currency interest rate swaps, short term currency swaps (“FX swaps”) and interest rate swaps.

In the normal course of its activity, the Facility may enter into swap contracts with a view to hedge specific lending operations or into currency forward contract with a view to hedge its currency positions, denominated in actively traded currencies other than the Euro, in order to offset any gain or loss caused by foreign exchange rate fluctuations.

The Facility does not use any of the hedge possibilities under IAS 39. All derivatives are measured at fair value through the profit or loss and are reported as derivative financial instruments. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are shown in the statement of profit and loss and other comprehensive income under “Fair value change of derivative financial instruments”.

Derivatives are initially recognised using the trade date basis.

2.4.6 Contributions

Contributions from Member States are recognised as receivables in the statement of financial position on the date of the Council Decision fixing the financial contribution to be paid by the Member States to the Facility.

The Member States contributions meet the following conditions and are consequently classified as equity:

- as defined in the contribution agreement, they entitle the Member States to decide on the utilisation of the Facility's net assets in the events of the Facility's liquidation;
- they are in the class of instruments that is subordinated to all other classes of instruments;
- all financial instruments in the class of instruments that are subordinated to all other classes of instruments have identical features;
- the instrument does not include any features that would require classification as a liability; and
- the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Facility over the life of the instrument.

2.4.7 Interest income on loans

Interest on loans originated by the Facility is recorded in the statement of profit or loss and other comprehensive income ('Interest and similar income') and on the statement of financial position ('Loans and receivables') on an accrual basis using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to the net carrying amount of the loan. Once the recorded value of a loan has been reduced due to impairment, interest income continues to be recognised using the original effective interest rate applied to the new carrying amount.

Commitment fees are deferred and recognised in income using the effective interest method over the period from disbursement to repayment of the related loan, and are presented in the statement of profit or loss and other comprehensive income within interest and similar income.

2.4.8 Interest subsidies and technical assistance

As part of its activity, the Facility manages interest subsidies and technical assistance on behalf of the Member States.

The part of the Member States contributions allocated to the payment of interest subsidies and TA is not accounted for in the Facility's contributors' resources but is classified as amounts owed to third parties. The Facility operates the disbursement to the final beneficiaries and then decreases the amounts owed to third parties.

When amounts contributed with regard to interest subsidies and TA are not fully granted, they are reclassified as contribution to the Facility.

2.4.9 Interest income on cash and cash equivalents

Interest income on cash and cash equivalents is recognised in the statement of profit or loss and other comprehensive income of the Facility on an accrual basis.

2.4.10 Fees, commissions and dividends

Fees received in respect of services provided over a period of time are recognised as income as the services are provided, while fees that are earned on the execution of a significant act are recognised as income when the significant act has been completed. These fees are presented in the statement of profit or loss and other comprehensive income within fee and commission income.

Dividends relating to available-for-sale financial assets are recognised when received and presented in the statement of profit or loss and other comprehensive income within net realised gains on available-for-sale financial assets.

2.5 Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the treaty on the European Union and the treaty of the functioning of the European Union, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3 Risk Management

This note presents information about the Facility's exposure to and its management and control of credit and financial risks, in particular the primary risks associated with its use of financial instruments. These are:

- credit risk – the risk of loss resulting from client or counterparty default and arising on credit exposure in all forms, including settlement risk;
- liquidity risk – the risk that an entity is not able to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses;
- market risk – the risk that changes in market prices and rates, such as interest rates, equity prices and foreign exchange rates will affect an entity's income or the value of its holdings in financial instruments.

3.1 Risk management organisation

The European Investment Bank, as a manager of the Facility, adapts its risk management on an ongoing basis.

The Risk Management of EIB independently identifies, assesses, monitors and reports the risks to which the Facility is exposed. Within a framework whereby the segregation of duties is preserved, the Risk Management is independent of the Front Offices. At EIB level the Director General of Risk Management reports for risk matters to the designated Vice-President for Risk Management. The designated Vice-President is responsible for overseeing risk reporting to the European Investment Bank's Management Committee and the Board of Directors.

3.2 Credit risk

Credit risk is the potential loss that could result from client or counterparty default and arising on credit exposure in all forms, including settlement.

3.2.1 Credit risk policy

In carrying out the credit analysis on loan counterparts, EIB assesses the credit risk and expected loss with a view to quantify and price the risk. EIB has developed an Internal Rating Methodology (IRM) to determine the Internal Ratings of its credit-relevant borrower/guarantor counterparts. The methodology is based on a system of scoring sheets tailored for each major credit counterpart type (e.g. Corporates, Banks, Public Sector Entities, etc). Taking into consideration both, Best Banking Practice and the principles set under the Basel International Capital Accord (Basel II), all counterparts that are material to the credit profile of a specific transaction are classified into internal rating categories using the IRM for the specific counterpart type. Each counterpart is assigned an Internal Rating reflecting its probability of default foreign currency rating following an in-depth analysis of the counterpart's business and financial risk profile and its country risk operating context.

The credit assessment of project finance and other structured limited recourse operations is using credit risk tools relevant for the sector, focused mainly on cash flow availability and debt service capacity. These tools include the analysis of projects' contractual framework, counterpart's analysis and cash flow simulations. Similarly to corporates and financial institutions, each project is assigned an internal risk rating.

All Internal Ratings are monitored over loan life, and periodically updated.

All non-sovereign (or non sovereign guaranteed/assimilated) operations are subject to specific transaction-level and counterpart size limits. Counterpart limits are set at consolidated group exposure level, where applicable. Such limits typically reflect e.g. the size of counterparts own funds.

In order to mitigate credit risk the EIB uses, where appropriate and on a case by case basis, various credit enhancements which are:

- Counterparty or project related securities (e.g., pledge over the shares; pledge over the assets; assignment of rights; pledge over the accounts); or/and
- guarantees, generally provided by the sponsor of the financed project (e.g., completion guarantees, first demand guarantees) or bank guarantees.

The Facility does not use any credit derivatives to mitigate credit risk.

3.2.2 Maximum exposure to credit risk without taking into account any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral.

Maximum exposure (in EUR'000)	31.12.2017	31.12.2016
ASSETS		
Cash and cash equivalents	549,101	360,817
Amounts receivable from contributors	150,000	86,395
Held-to-maturity financial assets	144,382	169,398
Derivative financial instruments	12,521	6,920
Loans and receivables	1,666,725	1,729,380
Other assets	4,385	345
Total assets	**2,527,114**	**2,353,255**
OFF BALANCE SHEET		
Contingent liabilities		
- Guarantees undrawn	74,569	35,337
Commitments		
- Undisbursed loans	869,983	901,899
- Guarantees drawn	7,682	8,627
Total off balance sheet	**952,234**	**945,863**
Total credit exposure	**3,479,348**	**3,299,118**

3.2.3 Credit risk on loans and receivables

3.2.3.1 Credit risk measurement for loans and receivables

Each and every loan or guarantee undertaken by the Facility benefits from a comprehensive risk assessment and quantification of expected loss estimates that are reflected in a Loan Grading ("LG"). Operations under the IFE (as described in Note 23), with the exception of intermediated loans, are not subject to the Credit Risk Policy Guidelines and are subject to a different procedure. LGs are established according to generally accepted criteria, based on the quality of the borrower, the maturity of the loan, the guarantee and, where appropriate, the guarantor.

The loan grading (LG) system comprises the methodologies, processes, databases and IT systems supporting the assessment of credit risk in lending operations and the quantification of expected loss estimates. It summarises a large amount of information with the purpose of offering a relative ranking of loans' credit risks. LGs reflect the present value of the estimated level of the "expected loss", this being the product of the probability of default of the main obligors, the exposure at risk and the loss severity in the case of default. LGs are used for the following purposes:

- as an aid to a finer and more quantitative assessment of lending risks;
- as help in distributing monitoring efforts;
- as a description of the loan's portfolio quality at any given date;
- as one input in risk-pricing decisions based on the expected loss.

The following factors enter into the determination of an LG:

i) The borrower's creditworthiness: Risk Management independently reviews borrowers and assesses their creditworthiness based on internal methodologies and external data. In line with the Basel II Advanced Approach chosen, the Bank has developed an internal rating methodology (IRM) to determine the internal ratings of borrowers and guarantors. This is based on a set of scoring sheets specific to defined counterparty types.

ii) The default correlation: it quantifies the chances of simultaneous financial difficulties arising for both the borrower and the guarantor. The higher the correlation between the borrower and the guarantor's default probabilities, the lower the value of the guarantee and therefore the lower the LG.

iii) The value of guarantee instruments and of securities: this value is assessed on the basis of the combination of the issuer's creditworthiness and the type of instrument used.

iv) The contractual framework: a sound contractual framework will add to the loan's quality and enhance its internal grading.

v) The loan's duration: all else being equal, the longer the loan, the higher the risk of incurring difficulties in the servicing of the loan.

A loan's expected loss is computed by combining the five elements discussed above. Depending on the level of this loss, a loan is assigned to one of the following LG classes listed below:

A Prime quality loans: there are three sub-categories. A comprises all EU sovereign risks, i.e. loans granted to or fully, explicitly and unconditionally guaranteed by Member States, where no repayment difficulties are expected and for which an unexpected loss of 0% is allocated. A+ denotes loans granted to (or guaranteed by) entities other than Member States, with no expectation of deterioration over their duration. A- includes those lending operations where there is some doubt about the maintenance of their current status (for instance because of a long maturity, or for the high volatility of the future price of an otherwise excellent collateral), but where any downside is expected to be quite limited.

B High quality loans: these represent an asset class with which the bank feels comfortable, although a minor deterioration is not ruled out in the future. B+ and B- are used to denote the relative likelihood of the possibility of such deterioration occurring.

C Good quality loans: an example could be unsecured loans to solid banks and corporates with a 7-year bullet, or equivalent amortising, maturity at disbursement.

D This rating class represents the borderline between "acceptable quality" loans and those that have experienced some difficulties. This watershed in loan grading is more precisely determined by the sub-classifications D+ and D-. Loans rated D- require heightened monitoring.

E This LG category includes loans with a risk profile greater than generally accepted. It also includes loans which in the course of their lives have experienced severe problems and their sliding into a situation of loss cannot be excluded. For this reason, the loans are subject to close and high monitoring. The sub-classes E+ and E- differentiate the intensity of this special monitoring process, with those operations graded E- being in a position where there is a strong possibility that debt service cannot be maintained on a timely basis and therefore some form of debt restructuring is required, possibly leading to an impairment loss.

F F (fail) denotes loans representing unacceptable risks. F- graded loans can only arise out of outstanding transactions that have experienced, after signature, unforeseen, exceptional and dramatic adverse circumstances. All operations where there is a loss of principal to the Facility are graded F and a specific provision is applied.

Generally, loans internally graded D- or below are placed on the Watch List. However, if a loan was originally approved with a risk profile of D- or weaker, it will only be placed on the Watch List as a result of a material credit event causing a further deterioration of its LG classification.

The table in section 3.2.3.3 shows the credit quality analysis of the Facility's loan portfolio based on the various LG classes as described above.

3.2.3.2 Analysis of lending credit risk exposure

The following table shows the maximum exposure to credit risk on loans signed and disbursed by nature of borrower taking into account guarantees provided by guarantors:

At 31.12.2017 **In EUR'000**	**Guaranteed**	**Other credit enhancements**	**Not guaranteed**	**Total**	**% of Total**
Banks	46,860	11,651	919,216	**977,727**	**59%**
Corporates	145,914	59,462	285,492	**490,868**	**29%**
Public institutions	30,882	-	-	**30,882**	**2%**
States	-	3,218	164,030	**167,248**	**10%**
Total disbursed	**223,656**	**74,331**	**1,368,738**	**1,666,725**	**100%**
Signed not disbursed	**89,597**	**-**	**780,385**	**869,983**	

At 31.12.2016 **In EUR'000**	**Guaranteed**	**Other credit enhancements**	**Not guaranteed**	**Total**	**% of Total**
Banks	22,691	34,597	933,609	**990,897**	**57%**
Corporates	110,849	97,213	320,406	**528,468**	**31%**
Public institutions	38,330	-	-	**38,330**	**2%**
States	-	3,764	167,921	**171,685**	**10%**
Total disbursed	**171,870**	**135,574**	**1,421,936**	**1,729,380**	**100%**
Signed not disbursed	**94,976**	**-**	**806,923**	**901,899**	

Transaction Management and Restructuring is tasked with the responsibility of performing borrower and guarantor monitoring, as well as project-related financial and contractual monitoring. Thus, the creditworthiness of the Facility's loans, borrowers and guarantors are continually monitored, at least annually but more frequently on an as-needed basis and as a function of credit events taking place. In particular, Transaction Management and Restructuring reviews if contractual rights are met and, in case of a rating deterioration and/or contractual default, remedy action is taken. Mitigation measures are pursued, whenever necessary in accordance with the credit risk guidelines. Also, in case of renewals of bank guarantees received for its loans, it is ensured that these are replaced or action is taken in a timely manner.

3.2.3.3 Credit quality analysis per type of borrower

The tables below show the credit quality analysis of the Facility's loan portfolio as at 31 December 2017 and 31 December 2016 by the Loan Grading applications, based on the exposure signed (disbursed and un-disbursed):

At 31.12.2017 In EUR'000		High Grade	Standard Grade	Min. Accept. Risk	High Risk	No grading	Total	% of Total
		A to B-	C	D+	D- and below			
Borrower	Banks	208,601	187,225	189,727	870,912	-	**1,456,465**	**58%**
	Corporates	114,769	8,018	3,288	533,382	1,428	**660,885**	**26%**
	Public institutions	-	-	30,882	-	-	**30,882**	**1%**
	States	-	-	13,861	374,614	-	**388,476**	**15%**
Total		**323,370**	**195,243**	**237,758**	**1,778,908**	**1,428**	**2,536,708**	**100%**

At 31.12.2016 In EUR'000		High Grade	Standard Grade	Min. Accept. Risk	High Risk	No grading	Total	% of Total
		A to B-	C	D+	D- and below			
Borrower	Banks	94,081	53,970	315,524	1,038,705	126,951	**1,629,231**	**62%**
	Corporates	125,810	-	19,389	393,877	152,355	**691,431**	**26%**
	Public institutions	-	-	38,330	-	-	**38,330**	**1%**
	States	-	-	18,131	254,156	-	**272,287**	**11%**
Total		**219,891**	**53,970**	**391,374**	**1,686,738**	**279,306**	**2,631,279**	**100%**

3.2.3.4 Risk concentrations of loans and receivables

3.2.3.4.1 Geographical analysis

Based on the country of borrower, the Facility's loan portfolio can be analysed by the following geographical regions (in EUR'000):

Country of borrower	31.12.2017	31.12.2016
Kenya	331,891	341,805
Nigeria	230,042	241,547
Uganda	169,869	175,424
Tanzania	116,093	115,239
Jamaica	85,728	90,237
Burundi	74,703	87,373
Mauritania	64,007	85,008
Congo (Democratic Republic)	62,439	47,122
Dominican Republic	61,326	81,230
Ethiopia	51,719	59,837
Ghana	49,895	45,715
Togo	45,574	64,605
Rwanda	38,555	29,918
Mauritius	26,598	31,518
Barbados	25,124	6,809
Cameroon	25,012	41,255
Malawi	22,800	11,493
New Caledonia	21,670	2,191
Cape Verde	20,487	23,029
Mozambique	19,212	22,389
French Polynesia	17,235	21,387
Cayman Islands	14,958	11,221
Angola	14,850	19
Senegal	13,881	18,544
Zambia	10,910	11,079
Botswana	7,618	7,889
Burkina Faso	6,041	4,480
Haiti	6,006	6,879
Niger	5,631	523
Mali	5,612	6,159
Samoa	5,100	6,356
Seychelles	5,036	2,058
Vanuatu	2,162	2,470
Namibia	1,971	-
Congo	1,730	3,460
Liberia	1,553	1,759
Palau	1,384	1,929
Micronesia	868	1,088
Regional-ACP	751	15,640
South Africa	653	1,336
Tonga	31	46
Trinidad and Tobago	-	528
Saint Lucia	-	392
Bahamas	-	392
Sint Maarten	-	2
Total	**1,666,725**	**1,729,380**

3.2.3.4.2 Industry sector analysis

The table below analyses the Facility's loan portfolio by industry sector of the borrower. Operations which are first disbursed to a financial intermediary before being disbursed to the final beneficiary are reported under global loans (in EUR'000):

Industry sector of borrower	31.12.2017	31.12.2016
Tertiary and other	991,282	1,027,202
Electricity, coal and others	290,364	283,489
Urban development, renovation and transport	194,101	205,152
Basic material and mining	59,462	82,242
Roads and motorways	40,960	48,600
Airports and air traffic management systems	30,882	38,330
Telecommunications	20,310	1,981
Food chain	15,586	14,257
Oil, gas and petroleum	12,466	8,384
Waste recuperation	8,018	7,988
Materials processing, construction	2,194	8,691
Social infrastructure, education and health	1,100	2,280
Consumer goods	-	784
Total	**1,666,725**	**1,729,380**

3.2.3.5 Arrears on loans and impairments

Amounts in arrears are identified, monitored and reported according to the procedures defined into the bank wide "Finance Monitoring Guidelines and Procedures". These procedures are in line with best banking practices and are adopted for all loans managed by the EIB.

The monitoring process is structured in order to make sure that (i) potential arrears are detected and reported to the services in charge with minimum delay; (ii) critical cases are promptly escalated to the right operational and decision level; (iii) regular reporting to EIB management and to Member States is provided on the overall status of arrears and on the recovery measures already taken or to be taken.

The arrears and impairments on loans can be analysed as follows (in EUR'000):

	Notes	Loans and receivables 31.12.2017	Loans and receivables 31.12.2016
Carrying amount		**1,666,725**	**1,729,380**
Individually impaired			
Gross amount		136,827	119,381
Allowance for impairment	7	-106,203	-117,640
Carrying amount individually impaired		**30,624**	**1,741**
Collectively impaired			
Gross amount		-	-
Allowance for impairment		-	-
Carrying amount collectively impaired		**-**	**-**
Past due but not impaired			
Past due comprises			
0-30 days		1,227	1,620
30-60 days		77	30
60-90 days		31	-
90-180 days		18	-
more 180 days		1	1
Carrying amount past due but not impaired		**1,354**	**1,651**
Carrying amount neither past due nor impaired		**1,634,747**	**1,725,988**
Total carrying amount loans and receivables		**1,666,725**	**1,729,380**

3.2.3.6 Loan renegotiation and forbearance

The Facility considers loans to be forborne if in response to adverse changes in the financial position of a borrower the Facility renegotiates the original terms of the contractual arrangements with this borrower affecting directly the future cash flows of the financial instrument, which may result in a loss to the Facility. However, the financial impact of restructuring activities is in general limited to impairment losses, if any, as financial neutrality is generally applied by the Facility and reflected in the renegotiated pricing conditions of the operations restructured.

In the normal course of business, the Loan Grading (LG) of the loans in question would have deteriorated and the loan would have been included in the Watch List before renegotiation. Once renegotiated, the Facility will continue to closely monitor these loans. If the renegotiated payment terms will not recover the original carrying amount of the asset, it will be considered as impaired. The corresponding impairment losses will be calculated based on the forecasted cash flows discounted at the original effective interest rate. The need for impairment for all loans whose LG deteriorated to E- is assessed regularly; all loans with a LG of F require impairment. Once the Loan Grading of a loan has improved sufficiently, it will be removed from the Watch List in line with the procedures of the Facility.

Forbearance measures and practices undertaken by the Facility's restructuring team during the reporting period includes extension of maturity, deferral of capital only, deferral of capital and interest and capitalisation of arrears. Such forbearance measures do not lead to the derecognition of the underlying operation.

Exposures subject to changes in contractual terms which do not affect future cash flows, such as collateral or other security arrangements or the waiver of contractual rights under covenants, are not considered as forborne and hence those events are not considered as sufficient to indicate impairment on their own.

Operations subject to forbearance measures are reported as such in the table below:

In EUR'000	**31.12.2017**	**31.12.2016**
Number of operations subject to forbearance practices	27	22
Carrying values	136,973	171,135
of which impaired	112,423	124,250
Impairment recognised	107,256	113,052
Interest income in respect of forborn operations	8,418	19,877
Exposures written off (following the termination/sale of the operation)	9,395	31,298

		Forbearance measures					
In EUR'000	**31.12.2016**	**Extension of maturities**	**Deferral of capital only**	**Deferral of capital and interest**	**Other**	**Contractual repayment and termination (1)**	**31.12.2017**
Banks	37,276	-	2,886	-	5,490	-15,305	30,347
Corporates	133,859	10,062	2,803	-	3,013	-43,111	106,626
Total	**171,135**	**10,062**	**5,689**	**-**	**8,503**	**-58,416**	**136,973**

(1) Decreases are explained by repayments of capital occurred during the year on operations already considered as forborne as of 31 December 2017 and by termination of forborn measures during the year.

3.2.4 Credit risk on cash and cash equivalents

Available funds are invested in accordance with the Facility's schedule of contractual disbursement obligations. As of 31 December 2017 and 31 December 2016, investments were in the form of bank deposits, certificates of deposit and commercial papers.

The authorized entities have a rating similar to the short-term and long-term ratings required for the EIB's own treasury placements. In case of different ratings being granted by more than one credit rating agency, the lowest rating governs. The maximum authorized limit for each authorised bank is currently EUR 50,000,000 (fifty million euro). An exception to this rule has been granted to Societe Generale where the Facility has its operational cash accounts. The short term credit limit for Societe Generale as at 31 December 2017 and 31 December 2016 amounts to EUR 110,000,000 (one hundred and ten million euro). The increased limit applies to the sum of the cash held at the operational cash accounts and the instruments issued by this counterpart and held by the treasury portfolio.

All investments have been done with authorised entities with a maximum tenor of three months from value date. As at 31 December 2017 and 31 December 2016 all term deposits, commercial papers and cash in hand held by the treasury portfolio of the Facility had a minimum rating of P-1 (Moody's equivalent) at settlement day.

The following table shows the situation of cash and cash equivalents including accrued interest (in EUR'000):

Minimum short-term rating (Moody's term)	Minimum long-term rating (Moody's term)	31.12.2017		31.12.2016	
P-1	Aaa	49,616	9%	37,949	10%
P-1	Aa2	-	0%	46,963	13%
P-1	Aa3	89,971	16%	40,436	11%
P-1	A1	143,080	26%	100,012	28%
P-1	A2	266,434	49%	135,457	38%
Total		**549,101**	**100%**	**360,817**	**100%**

3.2.5 Credit risk on derivatives

3.2.5.1 Credit risk policy of derivatives

The credit risk with respect to derivatives is represented by the loss which a given party would incur where the other counterparty to the deal would be unable to honour its contractual obligations. The credit risk associated with derivatives varies according to a number of factors (such as interest and exchange rates) and generally corresponds to only a small portion of their notional value.

In the normal course of its activity, the Facility may enter into swap contracts with a view to hedge specific lending operations or into currency forward contracts, with a view to hedge its currency positions denominated in actively traded currencies other than the Euro. All the swaps are executed by the European Investment Bank with an external counterpart. The swaps are arranged by the same Master Swap Agreements and Credit Support Annexes signed between the European Investment Bank and its external counterparts.

3.2.5.2 Credit risk measurement for derivatives

All the swaps executed by the European Investment Bank that are related to the Facility are treated within the same contractual framework and methodologies applied for the derivatives negotiated by the European Investment Bank for its own purposes. In particular, eligibility of swap counterparts is determined by the European Investment Bank based on the same eligibility conditions applied for its general swap purposes.

The European Investment Bank measures the credit risk exposure related to swaps and derivatives transactions using the Net Market Exposure ("NME") and Potential Future Exposure ("PFE") approach for reporting and limit monitoring. The NME and the PFE fully include the derivatives related to the Investment Facility.

- The following table shows the maturities of cross currency interest rate swaps, sub-divided according to their notional amount and fair value:

Swap contracts at 31.12.2017 In EUR'000	less than 1 year	1 year to 5 years	5 years to 10 years	more than to 10 years	Total 2017
Notional amount	-	8,098	-	-	**8,098**
Fair Value (i.e. net discounted value)	-	-955	-	-	**-955**

Swap contracts at 31.12.2016 In EUR'000	less than 1 year	1 year to 5 years	5 years to 10 years	more than to 10 years	Total 2016
Notional amount	-	7,430	-	-	**7,430**
Fair Value (i.e. net discounted value)	-	-3,051	-	-	**-3,051**

- The Facility enters into foreign exchange short term currency swaps ("FX swaps") contracts in order to hedge currency risk on loan disbursements in currencies other than EUR. FX swaps have a maturity of maximum three months and are regularly rolled-over. The notional amount of FX swaps stood at EUR 1,500.0 million at 31 December 2017 against EUR 1,611.0 million at 31 December 2016. The fair value of FX swaps amounts to EUR 12.0 million at 31 December 2017 against EUR -15.3 million at 31 December 2016.

- The Facility enters into interest rate swap contracts in order to hedge the interest rate risk on loans disbursed. As at 31 December 2017 there are two interest rate swaps outstanding with a notional amount of EUR 31.7 million (2016: EUR 41.2 million) and a fair value of EUR 0.3 million (2016: EUR 0.1 million).

3.2.6 Credit risk on held-to-maturity financial assets

The following table shows the situation of the held-to-maturity portfolio entirely composed of treasury bills and bonds issued or guaranteed by Italy, Portugal and Spain with remaining maturities of up to three months. EU Member States, their agencies, banks and non-bank entities are eligible issuers. The maximum authorized limit for each authorised issuer is EUR 50,000,000 (fifty million euro). Investments in medium and long-term bonds could also be eligible, according to the investment guidelines and depending on liquidity requirements:

Minimum short-term rating (Moody's term)	Minimum long-term rating (Moody's term)	31.12.2017		31.12.2016	
P-1	Aa2	-	0%	18,012	10%
P-1	A1	-	0%	30,002	18%
P-2	Non-Rated	-	0%	20,025	12%
P-2	Baa2	94,353	65%	-	0%
NP	Ba1	50,029	35%	50,005	30%
Non-Rated	Baa2	-	0%	51,354	30%
Total		**144,382**	**100%**	**169,398**	**100%**

3.3 Liquidity risk

Liquidity risk refers to an enitity's ability to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. It can be split into funding liquidity risk and market liquidity risk. Funding liquidity risk is the risk that an entity will not be able to meet efficiently both expected and unexpected current and future cash flow needs without affecting its daily operations or its financial condition. Market liquidity risk is the risk that an entity cannot easily offset or eliminate a position at the market price because of inadequate market depth or market disruption.

3.3.1 Liquidity risk management

The Facility is primarily funded by annual contributions from Member States as well as by reflows stemming from the Facility's operations. The Facility manages its funding liquidity risk primarily by planning of its net liquidity needs and the required Member States annual contributions.

In order to calculate Member States' annual contributions, disbursement patterns of the existing and pipelined portfolio is analysed and followed up throughout the year. Special events, such as early reimbursements, sales of shares or default cases are taken into account to correct annual liquidity requirements.

To further minimize the liquidity risk, the Facility maintains a liquidity reserve sufficient to cover at any point in time forecasted cash disbursements, as communicated periodically by EIB's Lending Department. Funds are invested on the money market and bond markets in the form of interbank deposits and other short term financial instruments by taking into consideration the Facility's cash disbursement obligations. The Facility's liquid assets are managed by the Bank's Treasury Department with a view to maintain appropriate liquidity to enable the Facility to meet its obligations.

In accordance with the principle of segregation of duties between the Front and Back Office, settlement operations related to the investment of these assets are under the responsibility of the EIB's Planning and Settlement of Operations Department. Furthermore, the authorisation of counterparts and limits for treasury investments, as well as the monitoring of such limits, are the responsibility of the Bank's Risk Management Directorate.

3.3.2 Liquidity risk measurement

The tables in this section analyse the financial liabilities of the Facility by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date (based on undiscounted cash flows).

In terms of non-derivative financial liabilities, the Facility holds commitments in form of un-disbursed portions of the credit under signed loan agreements, of un-disbursed portions of signed capital subscription/investment agreements, of loan guarantees granted, or of committed interest subsidies and TA.

Loans under the IF have a disbursement deadline. However, disbursements are made at times and in amounts reflecting the progress of underlying investment projects. Moreover, the IF's loans are transactions performed in a relatively volatile operating environment, hence their disbursement schedule is subject to a significant degree of uncertainty.

Capital investments become due when and as soon as equity fund managers issue valid calls for capital, reflecting the progress in their investment activities. The drawdown period is usually of 3 years, with frequent prolongation by one or two years. Some disbursement commitments usually survive the end of the drawdown period until full disposal of the fund's underlying investments, as the fund's liquidity may be insufficient from time to time to meet payment obligations arising in respect of fees or other expenses.

Guarantees are not subject to specific disbursement commitments unless a guarantee is called. The amount of guarantees outstanding is reduced alongside the repayment schedule of guaranteed loans.

Committed interest subsidies' cash outflows occur in the case of subsidized loans financed by the Bank's own resources. Therefore, reported outflows represent only commitments related to these loans rather than the total amount of committed un-disbursed interest subsidies. As in the case of loans, their disbursement schedule is uncertain.

Committed TA "gross nominal outflow" in the "Maturity profile of non-derivative financial liabilities" table refers to the total un-disbursed portion of signed TA contracts. The disbursement time pattern is subject to a significant degree of uncertainty. Cash outflows classified in the "3 months or less" bucket represent the amount of outstanding invoices received by the reporting date.

Commitments for non-derivative financial liabilities for which there is no defined contractual maturity date are classified under "Maturity Undefined". Commitments, for which there is a recorded cash disbursement request at the reporting date, are classified under the relevant time bucket.

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In terms of derivative financial liabilities, the maturity profile represents the contractual undiscounted gross cash flows of swap contracts including cross currency swaps (CCS), cross currency interest rate swaps (CCIRS), short term currency swaps and interest rate swaps.

Maturity profile of non-derivative financial liabilities In EUR'000 as at 31.12.2017	3 months or less	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Maturity Undefined	Gross nominal outflow
Outflows for committed but un-disbursed loans	5,543	-	-	-	864,440	869,983
Outflows for committed investment funds and share subscription	5,039	-	-	-	316,656	321,695
Others (signed non-issued guarantees, issued guarantees)	-	-	-	-	82,251	82,251
Outflows for committed interest subsidies	1,245	-	-	-	286,066	287,311
Outflows for committed TA	1,931	-	-	-	24,720	26,651
Total	**13,758**	**-**	**-**	**-**	**1,574,133**	**1,587,891**

Maturity profile of non-derivative financial liabilities In EUR'000 as at 31.12.2016	3 months or less	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Maturity Undefined	Gross nominal outflow
Outflows for committed but un-disbursed loans	82,405	-	-	-	819,494	901,899
Outflows for committed investment funds and share subscription	4,592	-	-	-	239,458	244,050
Others (signed non-issued guarantees, issued guarantees)	-	-	-	-	43,964	43,964
Outflows for committed interest subsidies	-	-	-	-	275,917	275,917
Outflows for committed TA	2,671	-	-	-	24,807	27,478
Total	**89,668**	**-**	**-**	**-**	**1,403,640**	**1,493,308**

Maturity profile of derivative financial liabilities In EUR'000 as at 31.12.2017	3 months or less	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Gross nominal inflow/outflow
CCS and CCIRS – Inflows	7	3,144	5,122	-	8,273
CCS and CCIRS – Outflows	-	-4,051	-5,959	-	-10,010
Short term currency swaps – Inflows	1,500,000	-	-	-	1,500,000
Short term currency swaps – Outflows	-1,493,987	-	-	-	-1,493,987
Interest Rate Swaps – Inflows	355	1,102	4,138	625	6,219
Interest Rate Swaps - Outflows	-	-1,502	-3,782	-556	-5,840
Total	**6,375**	**-1,307**	**-482**	**69**	**4,655**

Maturity profile of derivative financial liabilities In EUR'000 as at 31.12.2016	3 months or less	More than 3 months to 1 year	More than 1 year to 5 years	More than 5 years	Gross nominal inflow/outflow
CCS and CCIRS – Inflows	3	2,409	5,222	-	7,634
CCS and CCIRS – Outflows	-	-3,688	-7,377	-	-11,065
Short term currency swaps – Inflows	1,611,000	-	-	-	1,611,000
Short term currency swaps – Outflows	-1,636,001	-	-	-	-1,636,001
Interest Rate Swaps – Inflows	411	1,234	5,529	1,550	8,724
Interest Rate Swaps - Outflows	-	-1,962	-5,316	-1,329	-8,607
Total	**-24,587**	**-2,007**	**-1,942**	**221**	**-28,315**

3.3.3 Long term financial assets and liabilities

The following table sets out the carrying amounts of non-derivative financial assets and financial liabilities expected to be recovered or settled more than 12 months after the reporting date.

In EUR'000	31.12.2017	31.12.2016
Financial assets:		
Loans and receivables	1,608,488	1,692,867
Available-for-sale financial assets	497,539	516,884
Other assets	318	141
Total	**2,106,345**	**2,209,892**
Financial liabilities:		
Provisions for guarantees issued	549	497
Amount owed to third parties	109,004	69,960
Total	**109,553**	**70,457**

3.4 Market risk

Market risk represents the risk that changes in market prices and rates, such as interest rates, equity prices and foreign exchange rates will affect an entity's income or the value of its holdings in financial instruments.

3.4.1 Interest rate risk

Interest rate risk arises from the volatility in the economic value of, or in the income derived from, interest rate bearing positions due to adverse movements in interest rates.

The Facility is not directly impacted by the fluctuation of its economic value or to pricing mismatches between different assets, liabilities and hedge instruments because (i) it does not have any direct borrowing costs or interest rate bearing liabilities and (ii) it accepts the impact of interest rate fluctuations on the revenues from its investments.

The Facility measures the sensitivity of its loan portfolio and micro hedging swaps to interest rate fluctuations via a Basis Point Value (BPV) calculation.

The BPV measures the gain or loss in the net present value of the relevant portfolio, due to a 1 basis point (0.01%) increase in interest rates tenors ranging within a specified time bucket "money market – up to one year", "very short – 2 to 3 years", "short – 4 to 6 years", "medium – 7 to 11 years", "long – 12 to 20 years" or "extra-long – more than 21 years".

To determine the net present value (NPV) of the loans' cash flows denominated in EUR, the Facility uses the EIB's EUR base funding curve (EUR swap curve adjusted with EIB's global funding spread). The EIB's USD funding curve is used for the calculation of the NPV of loan's cash flows denominated in USD. The NPV of the loans' cash flows denominated in currencies for which a reliable and sufficiently complete discount curve is not available, is determined by using EIB's EUR base funding curve as a proxy.

To calculate the net present value of the micro hedging swaps, the facility uses the EUR swap curve for cash flows denominated in EUR and the USD swap curve for cash flows denominated in USD.

As shown in the following table the net present value of the loan portfolio including related micro-hedging swaps as at 31 December 2017 would decrease by EUR 488k (as at 31 December 2016: decrease by EUR 516k) if all relevant interest rates curves are simultaneously shifted upwards in parallel by 1 basis point.

Basis point value In EUR'000 As at 31.12.2017	**Money Market 1 year**	**Very Short 2 to 3 years**	**Short 4 to 6 years**	**Medium 7 to 11 years**	**Long 12 to 20 years**	**Extra Long 21 years**	**Total**
Total sensitivity of loans and micro hedging swaps	-49	-96	-159	-168	-16	-	-488

Basis point value In EUR'000 As at 31.12.2016	**Money Market 1 year**	**Very Short 2 to 3 years**	**Short 4 to 6 years**	**Medium 7 to 11 years**	**Long 12 to 20 years**	**Extra Long 21 years**	**Total**
Total sensitivity of loans and micro hedging swaps	-46	-101	-164	-175	-30	-	-516

3.4.2 Foreign exchange risk

Foreign exchange ("FX") risk for the IF is the risk of loss in earnings or economic value due to adverse movements of FX rates.

Given a reference accounting currency (EUR for the IF), the Facility is exposed to FX risk whenever there is a mismatch between assets and liabilities denominated in a non-reference accounting currency. FX risk also includes the effect of changes in the value of future cash flows denominated in non-reference accounting currency, e.g. interest and dividend payments, due to fluctuations in exchange rates.

3.4.2.1 Foreign exchange risk and treasury assets

The IF's treasury assets are denominated either in EUR or USD.

FX risk is hedged by means of FX cross currency spot or forward transactions, FX swaps or cross-currency swaps. The EIB's Treasury Department can, where deemed necessary and appropriate, use any other instrument, in line with the Bank's policy, that provide protection against market risks incurred in connection with the IF's financial activities.

3.4.2.2 Foreign exchange risk and operations financed or guaranteed by the IF

Member States' IF contributions are received in EUR. The operations financed or guaranteed by the IF as well as interest subsidies can be denominated in EUR, USD or any other authorized currency.

A foreign exchange risk exposure (against the EUR reference currency) arises whenever transactions denominated in currencies other than the EUR are left un-hedged. The IF's foreign exchange risk hedging guidelines are set out below.

3.4.2.2.1. Hedging of operations denominated in USD

The FX risk generated by IF operations denominated in USD shall be covered on an aggregated basis via the use of USD/EUR FX swaps, rolled over and adjusted in terms of amount on a periodic basis. The use of FX swaps serves a dual purpose. On one side the necessary liquidity for new disbursements (loans and equity) is generated and on the other side an FX macro hedging is maintained.

At the beginning of each period, the cash flows to be received or paid in USD during the next period shall be estimated on the basis of planned or expected reflows/disbursements. Subsequently, the maturing FX swaps shall be rolled over, their amount being adjusted to cover at least the USD liquidity needs projected over the next period.

- On a monthly basis, the USD FX position shall be hedged, if exceeding the relevant limits, by means of a spot or forward operation.

- Within a roll-over period, unexpected USD liquidity deficits shall be covered by means of ad hoc FX swap operations while liquidity surpluses shall either be invested in treasury assets or converted into EUR if occurred from an increase of the FX position.

3.4.2.2.2. Hedging of operations denominated in currencies other than EUR or USD

- IF operations denominated in currencies other than EUR and USD shall be hedged through cross-currency swap contracts with the same financial profile as the underlying Loan, provided that a swap market is operational.

- IF has operations denominated in currencies for which hedging possibilities are either not efficiently available or available at a high cost. These operations are denominated in local currencies (LCs) but settled in EUR or USD. IF's financial risk framework, which was approved by the IF Committee on 22 January 2015, offers the possibility to hedge the FX exposure in LCs that exhibit a significant positive correlation with the USD synthetically via USD-denominated derivatives. The LCs hedged synthetically with USD denominated derivatives are reported in the table in section 3.4.2.2.3 below under item "Local currencies (under synthetic hedge)", while the LCs not hedged synthetically with the USD are reported in the same table under item "Local currencies (not under synthetic hedge)".

3.4.2.2.3 Foreign exchange position (in EUR'000)

The tables of this note show the Facility's foreign exchange position.

The foreign exchange position is presented in the tables below in accordance with the IF's Risk Policies (as described in the IF's financial risk framework). The FX position as per Risk Policies is based on accounting figures and defined as the balance between selected assets and liabilities. The assets and liabilities defined in the FX position as per Risk Policies are selected so as to ensure that the earnings will only be converted into the reporting currency (EUR) when received.

The unrealised gains/losses and impairment on available-for-sale financial assets are included in the FX position as per Risk Policies, as well as impairments on loans and receivables. Derivatives included in the FX position as per Risk Policies are considered at their nominal value instead of their fair value, in order to be aligned with the retained value of the assets, considered also at their nominal value adjusted by the impairment for loans.

In the tables below the remaining part of the assets and liabilities, which includes mainly interest accruals on loans, derivatives and subsidies, is presented as "FX position excluded from Risk Policies".

At 31 December 2017	**Assets and liabilities**			**Commitments and contingent liabilities**
Currencies	**FX position as per Risk Policies**	**FX position excluded from Risk Policies**	**Balance sheet FX position**	
USD	-206,535	6,087	-200,448	377,994
*Local currencies (under synthetic hedge)**				
KES	88,532	2,854	91,386	-
TZS	98,722	1,820	100,542	-
DOP	37,785	1,494	39,279	-
UGX	52,653	1,505	54,158	-
RWF	32,714	354	33,068	-
*Local currencies (not under synthetic hedge)**				
HTG, MUR, MZN, XOF, ZMW, BWP	30,802	183	30,985	-
Total non-EUR currencies	**134,673**	**14,297**	**148,970**	**377,994**
EUR	**-**	**2,688,497**	**2,688,497**	**1,278,511**
Total EUR and non-EUR	**134,673**	**2,702,794**	**2,837,467**	**1,656,505**

* See section 3.4.2.2.2 for explanations on synthetic hedge.

At 31 December 2016	Assets and liabilities			Commitments and contingent liabilities
Currencies	**FX position as per Risk Policies**	**FX position excluded from Risk Policies**	**Balance sheet FX position**	
USD	-258,496	7,578	-250,918	282,991
*Local currencies (under synthetic hedge)**				
KES	117,881	3,869	121,751	-
TZS	97,116	1,931	99,046	-
DOP	52,553	2,013	54,566	-
UGX	36,776	1,077	37,854	-
RWF	22,258	194	22,452	-
*Local currencies (not under synthetic hedge)**				
HTG, MUR, MZN, XOF, ZMW	22,534	252	22,786	246
Total non-EUR currencies	**90,622**	**16,914**	**107,537**	**283,237**
EUR	**-**	**2,591,845**	**2,591,845**	**1,241,229**
Total EUR and non-EUR	**90,622**	**2,608,759**	**2,699,382**	**1,524,466**

3.4.2.3 Foreign exchange sensitivity analysis

As at 31 December 2017 a 10 percent depreciation of EUR versus all non EUR currencies would result in an increase of the contributors' resources amounting to EUR 16.6 million (31 December 2016: EUR 12.0 million). A 10 percent appreciation of the EUR versus all non EUR currencies would result in a decrease of the contributors' resources amounting to EUR 13.6 million (31 December 2016: EUR 9.9 million).

3.4.2.4 Conversion rates

The following conversion rates were used for establishing the balance sheet at 31 December 2017 and 31 December 2016:

	31 December 2017	31 December 2016
Non-EU currencies		
Botswana Pula (BWP)	11.7512	11.2657
Dominican Republic Pesos (DOP)	57.1465	48.7476
Fiji Dollars (FJD)	2.4186	2.1969
Haitian Gourde (HTG)	75.69	68.78
Kenya Shillings (KES)	123.7	108.06
Mauritania Ouguiyas (MRO)	422.36	375.79
Mauritius Rupees (MUR)	40.07	37.85
Mozambican Metical (MZN)	70.09	75.25
Rwanda Francs (RWF)	1,003.37	856.80
Tanzania Shillings (TZS)	2,681.78	2,296.99
Uganda Shillings (UGX)	4,357.00	3,805.00
United States Dollars (USD)	1.1993	1.0541
Franc CFA Francs (XAF/XOF)	655.957	655.957
South Africa Rand (ZAR)	14.8054	14.457
Zambia Kvacha (ZMW)	11.965	10.4653

3.4.3 Equity price risk

Equity price risk refers to the risk that the fair values of equity investments decrease as the result of changes in the levels of equity prices and/or the value of equity investments.

The IF is exposed to equity price risk via its investments in direct equity and venture capital funds.

The value of non-listed equity positions is not readily available for the purpose of monitoring and control on a continuous basis. For such positions, the best indications available include prices derived from any relevant valuation techniques.

The effects on the Facility's contributors' resources (as a result of a change in the fair value of the available-for-sale equity portfolio) due to a +/-10% change in the value of individual direct equity and venture capital investments, with all other variables held constant, is EUR 49.8 million respectively EUR -49.8 million as at 31 December 2017 (EUR 51.7 million respectively EUR -51.7 million as at 31 December 2016).

4 Fair values of financial instruments

4.1 Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. These do not include fair value information for financial assets and financial liabilities not carried at fair value if the carrying amount is a reasonable approximation of fair value.

At 31 December 2017	**Carrying amount**						**Fair value**			
In EUR'000	**Held for trading**	**Available-for-sale**	**Cash, loans and receivables**	**Held to maturity**	**Other financial liabilities**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:										
Derivative financial instruments	12,521	-	-	-	-	12,521	-	12,521	-	12,521
Venture Capital Funds	-	420,104	-	-	-	420,104	-	-	420,104	420,104
Direct Equity Investments	-	77,435	-	-	-	77,435	24,458	-	52,977	77,435
Total	**12,521**	**497,539**	**-**	**-**	**-**	**510,060**	**24,458**	**12,521**	**473,081**	**510,060**
Financial assets not carried at fair value:										
Cash and cash equivalents	-	-	549,101	-	-	549,101	-	-	-	-
Loans and receivables	-	-	1,666,725	-	-	1,666,725	-	1,852,507	-	1,852,507
Amounts receivable from contributors	-	-	150,000	-	-	150,000	-	-	-	-
Bonds	-	-	-	144,382	-	144,382	144,382	-	-	144,382
Other assets	-	-	4,385	-	-	4,385	-	-	-	-
Total	**-**	**-**	**2,370,211**	**144,382**	**-**	**2,514,593**	**144,382**	**1,852,507**	**-**	**1,996,889**
Total financial assets	**12,521**	**497,539**	**2,370,211**	**144,382**	**-**	**3,024,653**				
Financial liabilities carried at fair value:										
Derivative financial instruments	-1,153	-	-	-	-	-1,153	-	-1,153	-	-1,153
Total	**-1,153**	**-**	**-**	**-**	**-**	**-1,153**	**-**	**-1,153**	**-**	**-1,153**
Financial liabilities not carried at fair value:										
Provisions for guarantees issued	-	-	-	-	-484	-484				
Amounts owed to third parties	-	-	-	-	-157,285	-157,285				
Other liabilities	-	-	-	-	-2,462	-2,462				
Total	**-**	**-**	**-**	**-**	**-160,231**	**-160,231**				
Total financial liabilities	**-1,153**	**-**	**-**	**-**	**-160,231**	**-161,384**				

4 Fair values of financial instruments (continued)

4.1 Accounting classifications and fair values (continued)

At 31 December 2016	Carrying amount						Fair value			
In EUR'000	Held for trading	Available-for-sale	Cash, loans and receivables	Held to maturity	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:										
Derivative financial instruments	6,920	-	-	-	-	6,920	-	6,920	-	6,920
Venture Capital Funds	-	437,788	-	-	-	437,788	-	-	437,788	437,788
Direct Equity Investments	-	79,096	-	-	-	79,096	22,880	-	56,216	79,096
Total	**6,920**	**516,884**	**-**	**-**	**-**	**523,804**	**22,880**	**6,920**	**494,004**	**523,804**
Financial assets not carried at fair value:										
Cash and cash equivalents	-	-	360,817	-	-	360,817				
Loans and receivables	-	-	1,729,380	-	-	1,729,380	-	1,951,786	-	1,951,786
Amounts receivable from contributors	-	-	86,395	-	-	86,395	-	-	-	-
Bonds	-	-	-	169,398	-	169,398	120,123	48,031	-	168,154
Other assets	-	-	345	-	-	345	-	-	-	-
Total	**-**	**-**	**2,176,937**	**169,398**	**-**	**2,346,335**	**120,123**	**1,999,817**	**-**	**2,119,940**
Total financial assets	**6,920**	**516,884**	**2,176,937**	**169,398**	**-**	**2,870,139**				
Financial liabilities carried at fair value:										
Derivative financial instruments	-25,189	-	-	-	-	-25,189	-	-25,189	-	-25,189
Total	**-25,189**	**-**	**-**	**-**	**-**	**-25,189**	**-**	**-25,189**	**-**	**-25,189**
Financial liabilities not carried at fair value:										
Provisions for guarantees issued	-	-	-	-	-625	-625				
Amounts owed to third parties	-	-	-	-	-116,114	-116,114				
Other liabilities	-	-	-	-	-2,546	-2,546				
Total	**-**	**-**	**-**	**-**	**-119,285**	**-119,285**				
Total financial liabilities	**-25,189**	**-**	**-**	**-**	**-119,285**	**-144,474**				

4.2 Measurement of fair values

4.2.1 Valuation techniques and significant unobservable inputs

The table below sets out information about the valuation techniques and significant unobservable inputs used in measuring financial instruments, categorised as level 2 and 3 in the fair value hierarchy:

	Valuation technique	Significant unobservable inputs	Relationship of unobservable inputs to fair value measurement
Financial instruments carried at fair value			
Derivative financial instruments	Discounted cash flow: Future cash flows are estimated based on forward exchange/interest rates (from observable forward exchange rates and yield curves at the end of the reporting period) and contract forward/interest rates, discounted at a rate that reflects the credit risk of various counterparties.	Not applicable.	Not applicable.
Venture Capital Fund (VCF)	Adjusted net assets method: The fair value is determined by applying either the Facility's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report adjusted for cash flows or, where available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available Net assets value (NAV) and the year-end reporting, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted.	Adjustment for time elapsed between the last reporting date of the VCF and the measurement date, taking into account: operating expenses and management fees, subsequent changes in the fair value of the VCF's underlying assets, additional liabilities incurred, market changes or other economic condition changes.	The longer the period between the fair value measurement date and the last reporting date of the VCF, the higher the adjustment for time elapsed.
Direct Equity Investment	Adjusted net assets.	Adjustment for time elapsed between the last reporting date of the investee and the measurement date, taking into account: operating expenses, subsequent changes in the fair value of the investee's underlying assets, additional liabilities incurred, market changes or other economic condition changes, capital increase, sale/change of control.	The longer the period between the fair value measurement date and the last reporting date of the investee, the higher the adjustment for time elapsed.
		Discount for lack of marketability (liquidity) determined by reference to previous transaction prices for similar equities in the country/region, ranging from 5 to 30%.	The higher the marketability discount, the lower the fair value.
Financial instruments not carried at fair value			
Loans and receivables	Discounted cash flows: The valuation model uses contractual cash flows that are conditional upon the non-occurrence of default by the debtor and do not take into account any collateral values or early repayments' scenarios. To obtain the Net Present Value (NPV) of the loans, the model retained discounts the contractual cash flows of each loan using an adjusted market discount curve. The individual loan NPV is then adjusted to take into consideration the relevant associated Expected Loss. The results are then summed to obtain the fair value of Loans and receivables.	Not applicable.	Not applicable.
Held-to-maturity financial assets	Discounted cash flows.	Not applicable.	Not applicable.

With the application of IFRS 13, valuation adjustments are included in the fair value of derivatives at 31 December 2017 and 2016, namely:

- Credit valuation adjustments (CVA), reflecting counterparty credit risk on derivative transactions, amounting to EUR -38k as at 31 December 2017 and to EUR -76.4k as at 31 December 2016.
- Debit valuation adjustments (DVA), reflecting own credit risk on derivative transactions, amounting to EUR +29.5k as at 31 December 2017 and EUR +42.9k as at 31 December 2016.

4.2.2 Transfers between Level 1 and 2

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

In 2017 and 2016 the Facility did not make transfers from Level 1 to 2 or Level 2 to 1 of the fair value hierarchy.

4.2.3 Level 3 fair values

Reconciliation of Level 3 fair values

The following tables present the changes in Level 3 instruments for the year ended 31 December 2017 and 31 December 2016:

In EUR'000	Available-for-sale financial assets
Balance at 1 January 2017	**494,004**
Gains or losses included in profit or loss:	
- net realised gains on available-for-sale financial assets	2,711
- impairment on available-for-sale financial assets	-22,024
Total	**-19,313**
Gains or losses included in other comprehensive income:	
- net change in fair value of available-for-sale financial assets	-17,592
Total	**-17,592**
Disbursements	62,660
Repayments	-44,568
Write offs	-2,110
Balance at 31 December 2017	**473,081**

In EUR'000	Available-for-sale financial assets
Balance at 1 January 2016	**419,175**
Gains or losses included in profit or loss:	
- net realised gains on available-for-sale financial assets	-6,504
- impairment on available-for-sale financial assets	-2,493
Total	**-8,997**
Gains or losses included in other comprehensive income:	
- net change in fair value of available-for-sale financial assets	-24,628
Total	**-24,628**
Disbursements	153,986
Repayments	-37,978
Write offs	-7,554
Balance at 31 December 2016	**494,004**

In 2017 and 2016 the Facility did not make transfers out or to Level 3 of the fair value hierarchy.

Sensitivity analysis

A +/- 10 percent change at the reporting date to one of the significant unobservable inputs used to measure the fair values of the Venture Capital Funds and Direct Equity Investments, holding other inputs constant, would have the following effects on the other comprehensive income:

At 31 December 2017 (in EUR'000)	Increase	Decrease
Direct Equity Investments	-	-

At 31 December 2016 (in EUR'000)	Increase	Decrease
Direct Equity Investments	10	-10
Total	**10**	**-10**

5 Cash and cash equivalents (in EUR'000)

The cash and cash equivalents are composed of:

	31.12.2017	31.12.2016
Cash in hand	166,445	51,462
Term deposits	367,653	259,337
Commercial papers	15,003	50,018
Cash and cash equivalents in the statement of financial position	**549,101**	**360,817**
Accrued interest	68	5
Cash and cash equivalents in the cash flow statement	**549,169**	**360,822**

6 Derivative financial instruments (in EUR'000)

The main components of derivative financial instruments, classified as held for trading, are as follows:

At 31 December 2017	Fair Value		Notional amount
	Assets	Liabilities	
Cross currency interest rate swaps	149	-1,105	8,098
Interest rate swaps	393	-48	31,711
FX swaps	11,979	-	1,500,000
Total derivative financial instruments	**12,521**	**-1,153**	**1,539,809**

At 31 December 2016	Fair Value		Notional amount
	Assets	Liabilities	
Cross currency interest rate swaps	-	-3,051	7,430
Interest rate swaps	388	-335	41,233
FX swaps	6,532	-21,803	1,611,000
Total derivative financial instruments	**6,920**	**-25,189**	**1,659,663**

7 Loans and receivables (in EUR'000)

The main components of loans and receivables are as follows:

	Global loans(*)	Senior loans	Subordinated loans	Total
Nominal as at 1 January 2017	**994,527**	**764,339**	**71,563**	**1,830,429**
Disbursements	305,059	63,603	-	368,662
Write offs	-3,257	-6,138	-	-9,395
Repayments	-162,361	-91,125	-	-253,486
Interest capitalised	-	-	-	-
Foreign exchange rates differences	-128,874	-43,180	-9,017	-181,071
Nominal as at 31 December 2017	**1,005,094**	**687,499**	**62,546**	**1,755,139**
Impairment as at 1 January 2017	**-18,185**	**-28,294**	**-71,161**	**-117,640**
Impairment recorded in statement of profit or loss and other comprehensive income	-5,105	-11,572	-	-16,677
Write offs	3,257	6,138	-	9,395
Reversal of impairment	2,204	3,752	-	5,956
Foreign exchange rates differences	914	3,234	8,615	12,763
Impairment as at 31 December 2017	**-16,915**	**-26,742**	**-62,546**	**-106,203**
Amortised Cost	-3,802	-3,408	-	-7,210
Interest	15,122	9,877	-	24,999
Loans and receivables as at 31 December 2017	**999,499**	**667,226**	**-**	**1,666,725**

	Global loans(*)	Senior loans	Subordinated loans	Total
Nominal as at 1 January 2016	**661,792**	**818,007**	**160,555**	**1,640,354**
Disbursements	476,685	51,691	-	528,376
Write offs	-	-109	-31,189	-31,298
Repayments	-178,282	-107,259	-65,927	-351,468
Interest capitalised	-	-	7,183	7,183
Foreign exchange rates differences	34,332	2,009	941	37,282
Nominal as at 31 December 2016	**994,527**	**764,339**	**71,563**	**1,830,429**
Impairment as at 1 January 2016	**-9,403**	**-22,445**	**-159,198**	**-191,046**
Impairment recorded in statement of profit or loss and other comprehensive income	-8,794	-11,999	-	-20,793
Write offs	-	109	31,189	31,298
Reversal of impairment	360	6,100	58,698	65,158
Foreign exchange rates differences	-348	-59	-1,850	-2,257
Impairment as at 31 December 2016	**-18,185**	**-28,294**	**-71,161**	**-117,640**
Amortised Cost	-3,906	-3,682	-	-7,588
Interest	14,807	9,371	1	24,179
Loans and receivables as at 31 December 2016	**987,243**	**741,734**	**403**	**1,729,380**

(*) including agency agreements

8 Available-for-sale financial assets (in EUR'000)

The main components of available-for-sale financial assets are as follows:

	Venture Capital Funds	Direct Equity Investments	Total
Cost as at 1 January 2017	**331,253**	**72,636**	**403,889**
Disbursements	62,660	-	62,660
Repayments / sales	-41,678	-2,890	-44,568
Write offs	-437	-1,673	-2,110
Foreign exchange rates differences on repayments / sales	1,600	55	1,655
Cost as at 31 December 2017	**353,398**	**68,128**	**421,526**
Unrealised gains and losses as at 1 January 2017	**129,427**	**13,457**	**142,884**
Net change in unrealised gains and losses	-18,242	1,174	-17,068
Unrealised gains and losses as at 31 December 2017	**111,185**	**14,631**	**125,816**
Impairment as at 1 January 2017	**-22,892**	**-6,997**	**-29,889**
Impairment recorded in statement of profit or loss and other comprehensive income during the year	-22,024	-	-22,024
Write offs	437	1,673	2,110
Impairment as at 31 December 2017	**-44,479**	**-5,324**	**-49,803**
Available-for-sale financial assets as at 31 December 2017	**420,104**	**77,435**	**497,539**

	Venture Capital Funds	Direct Equity Investments	Total
Cost as at 1 January 2016	**267,331**	**22,979**	**290,310**
Disbursements	101,323	52,663	153,986
Repayments / sales	-37,948	-30	-37,978
Write offs	-4,594	-2,960	-7,554
Foreign exchange rates differences on repayments / sales	5,141	-16	5,125
Cost as at 31 December 2016	**331,253**	**72,636**	**403,889**
Unrealised gains and losses as at 1 January 2016	**153,901**	**10,092**	**163,993**
Net change in unrealised gains and losses	-24,474	3,365	-21,109
Unrealised gains and losses as at 31 December 2016	**129,427**	**13,457**	**142,884**
Impairment as at 1 January 2016	**-25,029**	**-9,921**	**-34,950**
Impairment recorded in statement of profit or loss and other comprehensive income during the year	-2,457	-36	-2,493
Write offs	4,594	2,960	7,554
Impairment as at 31 December 2016	**-22,892**	**-6,997**	**-29,889**
Available-for-sale financial assets as at 31 December 2016	**437,788**	**79,096**	**516,884**

9 Amounts receivable from contributors (in EUR'000)

The amounts receivable from contributors are entirely composed of Member States contribution called but not paid.

10 Held-to-maturity financial assets (in EUR'000)

The held-to-maturity portfolio is composed of quoted bonds which have a remaining maturity of less than three months at reporting date. The following table shows the movements of the held-to-maturity portfolio:

Balance as at 1 January 2017	**169,398**
Acquisitions	1,084,149
Maturities	-1,109,563
Change in amortisation of premium/discount	-59
Change in accrued interest	457
Balance as at 31 December 2017	**144,382**

Balance as at 1 January 2016	**228,521**
Acquisitions	1,159,704
Maturities	-1,219,953
Change in amortisation of premium/discount	-87
Change in accrued interest	1,213
Balance as at 31 December 2016	**169,398**

11 Other assets (in EUR'000)

The main components of other assets are as follows:

	31.12.2017	**31.12.2016**
Amount receivable from EIB	4,117	1
Financial guarantees	268	344
Total other assets	**4,385**	**345**

12 Deferred income (in EUR'000)

The main components of deferred income are as follows:

	31.12.2017	**31.12.2016**
Deferred interest subsidies	24,895	25,884
Deferred commissions on loans and receivables	907	399
Total deferred income	**25,802**	**26,283**

13 Provisions for guarantees issued (in EUR'000)

The amount of provisions for guarantees issued is recognised using the best estimate of expenditure required to settle any present financial obligation arising as a result of the guarantees and represents the sum of:

- the amounts initially recognised less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue and
- the excess over the above amounts, as measured in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

	2017	2016
Balance at 1 January	625	-
Additions recorded in statement of profit or loss and other comprehensive income	65	242
Utilised	-206	-
Transfer from "Other liabilities", financial guarantees	-	383
Balance at 31 December	**484**	**625**

14 Amounts owed to third parties (in EUR'000)

The main components of amounts owed to third parties are as follows:

	31.12.2017	31.12.2016
Net general administrative expenses payable to EIB	45,105	43,483
Other amounts payable to EIB	580	-
Interest subsidies and TA not yet disbursed owed to Member States	111,600	72,631
Total amounts owed to third parties	**157,285**	**116,114**

15 Other liabilities (in EUR'000)

The main components of other liabilities are as follows:

	31.12.2017	31.12.2016
Loan repayments received in advance	1,986	2,081
Deferred income from interest subsidies	436	458
Financial guarantees	40	7
Total other liabilities	**2,462**	**2,546**

16 Member States Contribution called (in EUR'000)

Member States	Contribution to the Facility	Contribution to interest subsidies and technical assistance	Total contributed	Called and not paid
Austria	65,597	8,387	73,984	3,615
Belgium	96,872	12,340	109,212	5,295
Bulgaria	644	266	910	210
Cyprus	414	171	585	135
Czech Republic	2,346	969	3,315	765
Denmark	53,220	6,875	60,095	3,000
Estonia	230	95	325	75
Finland	37,206	4,920	42,126	2,205
France	589,781	72,062	661,843	29,325
Germany	574,815	72,516	647,331	30,750
Greece	32,475	4,589	37,064	2,205
Hungary	2,530	1,045	3,575	825
Ireland	16,939	2,620	19,559	1,365
Italy	317,104	42,453	359,557	19,290
Latvia	322	133	455	105
Lithuania	552	228	780	180
Luxembourg	7,207	930	8,137	405
Malta	138	57	195	45
Netherlands	129,685	16,715	146,400	7,275
Poland	5,980	2,470	8,450	1,950
Portugal	25,243	3,579	28,822	1,725
Romania	1,702	703	2,405	555
Slovakia	966	399	1,365	315
Slovenia	828	342	1,170	270
Spain	156,239	23,306	179,545	11,775
Sweden	68,760	9,129	77,889	4,110
United Kingdom	329,205	46,392	375,597	22,230
Total as at 31 December 2017	**2,517,000**	**333,691**	**2,850,691**	**150,000**
Total as at 31 December 2016	**2,377,000**	**273,691**	**2,650,691**	**86,395**

(*) On 26 October 2017, the Council fixed the amount of financial contributions to be paid by each Member State by. As at 31 December 2017 EUR 150,000,000 were not paid in.

17 Contingent liabilities and commitments (in EUR'000)

	31.12.2017	31.12.2016
Commitments		
Un-disbursed loans	869,983	901,899
Un-disbursed commitment in respect of available-for-sale financial assets	321,695	244,050
Issued guarantees	7,682	8,627
Interest subsidies and technical assistance	382,576	334,553
Contingent liabilities		
Signed non-issued guarantees	74,569	35,337
Total contingent liabilities and commitments	**1,656,505**	**1,524,466**

18 Interest and similar income and expenses (in EUR'000)

The main components of interest and similar income are as follows:

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Loans and receivables	97,440	102,580
Interest subsidies	3,966	4,118
Total interest and similar income	**101,406**	**106,698**

The main component of interest and similar expenses is as follows:

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Derivative financial instruments	-980	-1,142
Cash and cash equivalents	-1,037	-752
Held-to-maturity financial assets	-654	-413
Total interest and similar expenses	**-2,671**	**-2,307**

19 Fee and commission income and expenses (in EUR'000)

The main components of fee and commission income are as follows:

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Fee and commission on loans and receivables	-	515
Fee and commission on financial guarantees	209	183
Other	1	1
Total fee and commission income	**210**	**699**

The main component of fee and commission expenses is as follows:

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Commission paid to third parties with regard to available-for-sale financial assets	-60	-48
Total fee and commission expenses	**-60**	**-48**

20 Net realised gains on available-for-sale financial assets (in EUR'000)

The main components of net realised gains on available-for-sale financial assets are as follows:

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Net proceeds from available-for-sale financial assets	1,030	2,159
Dividend income	1,681	4,345
Net realised gains on available-for-sale financial assets	**2,711**	**6,504**

21 General administrative expenses (in EUR'000)

General administrative expenses represent the actual costs incurred by the EIB for managing the Facility less income generated from standard appraisal fees directly charged by the EIB to clients of the Facility.

	From 01.01.2017 to 31.12.2017	From 01.01.2016 to 31.12.2016
Actual cost incurred by the EIB	-48,285	-45,858
Income from appraisal fees directly charged to clients of the Facility	3,180	2,375
Total general administrative expenses	**-45,105**	**-43,483**

22 Involvement with unconsolidated structured entities (in EUR'000)

Definition of a structured entity

A structured entity is one that has been designed so that voting or similar rights are not the dominant factor in deciding, who controls the-entity. IFRS 12 observes that a structured entity often has some or all of the following features:

- Restricted activities;
- A narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
- Insufficient equity to permit the structured entity to finance its activities without subordinated financial support;
- Financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities that are not controlled by the Facility and includes interests in structured entities that are not consolidated.

Definition of Interests in structured entities:

IFRS 12 defines "interests" broadly to include any contractual or non-contractual involvement that exposes the reporting entity to variability in returns from the performance of the entity. Examples of such interests include the holding of equity interests and other forms of involvement such as the provision of funding, liquidity support, credit enhancements, commitments and guarantees to the other entity. IFRS 12 states that a reporting entity does not necessarily have an interest in another entity solely because of a typical customer supplier relationship.

The table below describes the types of structured entities that the Facility does not consolidate but in which it holds an interest.

Type of structured entity	Nature and purpose	Interest held by the Facility
Project Finance - lending to Special Purposes Vehicles ("SPV")	Project Finance Transactions (PF Operations) are transactions where the Facility relies for the servicing of its debt on a borrower whose sole or main source of revenue is generated by a single or limited number of assets being financed by such debt or other pre-existing assets contractually linked to the project. PF operations are often financed through SPV.	Net disbursed amounts; Interest income.
Venture capital operations	The Facility finances venture capital and investment funds. Venture capital and investment funds pool and manage money from investors seeking private equity stakes in small and medium-size enterprises with strong growth potential as well as financing infrastructure projects.	Investments in units/shares issued by the venture capital entity; Dividends received as dividend income.

The table below shows the carrying amounts of unconsolidated structured entities in which the Facility has an interest at the reporting date, as well as the Facility's maximum exposure to loss in relation to those entities. The maximum exposure to loss includes the carrying amounts and the related un-disbursed commitments.

Type of structured entity	Caption	Carrying amount at 31.12.2017	Carrying amount at 31.12.2016	Maximum exposure to loss at 31.12.2017	Maximum exposure to loss at 31.12.2016
Venture capital funds	Available-for-sale financial assets	420,104	437,788	737,661	672,222
Total		**420,104**	**437,788**	**737,661**	**672,222**

23 Impact financing envelope (in EUR'000)

In June 2013 the ACP-EU Joint Ministerial Council approved the new financial protocol for the 11th European Development Fund (EDF), covering the period 2014-2020.

A new EUR 500m endowment was agreed for the Investment Facility, the so called 'impact financing envelope' or "IFE", enabling the Facility to support projects that promise a particularly high development impact whilst bearing the greater risks inherent in such investments. This envelope will present new possibilities for enhancing the Facility's private sector lending through investments in the following instruments:

Social impact equity funds - promoted by an emerging population of private equity fund managers who put the alleviation of social or environmental issues at the core of their funds' investment strategy but still target sustainability at the levels of both the fund and its investee companies.

Loans to financial intermediaries - (e.g. microfinance institutions, local banks and credit unions) operating in ACP countries in which the EIB cannot consider financing - in particular in local currency - under the existing credit risk guidelines, e.g. due to either high country risks, currency volatility or lack of pricing benchmarks. The main objective of such loans will be to fund projects with a high developmental impact, especially in the field of support to micro and small enterprises (MSEs) and agriculture, which generally do not qualify for IF financing.

Risk sharing facilitating instruments - which will take the form of first loss guarantees ("first loss pieces") that will facilitate risk sharing operations of the EIB with local financial intermediaries (mainly commercial banks) for the benefit of underserved SMEs and small projects that meet the Impact Financing Criteria in situations where a market gap has been identified in relation to the access of SMEs/small projects to finance. The first loss pieces would be structured as a counter-guarantee in favour of senior guarantee tranches funded by the EIB - under the Investment Facility - and by other International Financial Institutions/Development Financial Institutions, thus generating a substantial leverage effect.

Direct financing - through debt or equity instruments in projects with sound and experienced promoters and high developmental impacts, but that will, however, also entail higher expectations of losses and difficulties to recover the investment (equity type risk with higher than usual expectation of losses). The EIB will apply strict selection and eligibility criteria for this instrument, as these projects, notwithstanding their high developmental impact, would not be able to meet acceptable financing criteria (i.e. low expectation of recovering the investment or offsetting the losses through interest rates /equity returns).

The IFE will also allow diversification into new sectors, such as health and education, agriculture and food security, and the development of new and innovative risk-sharing instruments.

From a financial and accounting perspective the IFE forms part of the IF portfolio and is accounted for in the overall IF annual financial statements.

The following table represents the carrying amounts and the committed, but undisbursed amounts, per type of asset:

Type of IFE investment	Caption	Carrying amount at 31.12.2017	Carrying amount at 31.12.2016	Undisbursed amount at 31.12.2017	Undisbursed amount at 31.12.2016
Social impact equity funds	Available-for-sale financial assets	7,839	5,021	51,720	19,567
Loans to financial intermediaries	Loans and receivables	30,804	23,702	44,017	46,958
Risk sharing facilitating instruments	Issued guarantees	296	-288	64,569	33,719
Direct financing – equity participations	Available-for-sale financial assets	42,981	39,986	4,014	14
Total		**81,920**	**68,421**	**164,320**	**100,258**

24 Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2017 financial statements.

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Investment Facility (the "Facility"), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss and other comprehensive income, statement of changes in contributors' resources and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Facility as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Law and standards are further described in the «Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the financial statements» section of our report. We are also independent of the Facility in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Management of EUROPEAN INVESTMENT BANK for the financial statements

The Management of the EUROPEAN INVESTMENT BANK is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Management of the EUROPEAN INVESTMENT BANK determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

KPMG Luxembourg, Société coopérative, a Luxembourg entity and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity

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In preparing the financial statements, the Management of EUROPEAN INVESTMENT BANK is responsible for assessing the Facility's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management of the EUROPEAN INVESTMENT BANK either intends to liquidate the Facility or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management of the EUROPEAN INVESTMENT BANK.

- Conclude on the appropriateness of the EUROPEAN INVESTMENT BANK's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Facility's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of "Réviseur d'Entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Facility to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Luxembourg, 15 March 2018

KPMG Luxembourg,
Société coopérative
Cabinet de révision agréé

S. Chambourdon

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FINANCIAL STATEMENTS
ON EIB ACTIVITY IN AFRICA,
THE CARIBBEAN AND THE PACIFIC,
AND THE OVERSEAS COUNTRIES
AND TERRITORIES

2017