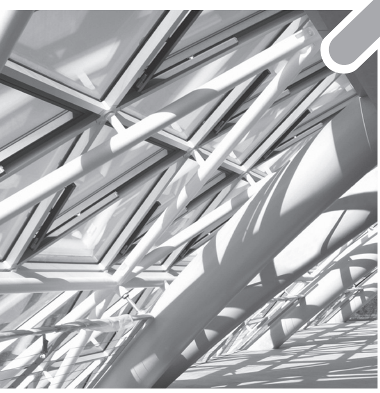
European Investment Bank

The EU bank



2015

# Financial Statements

on EIB activity in Africa, the Caribbean and Pacific, and the overseas territories

# Financial Statements

## Report of the Réviseur d'Entreprise Agréé

To the Chairman of the Audit Committee of EUROPEAN INVESTMENT BANK
98-100 Boulevard Konrad Adenauer
L-2950 LUXEMBOURG

We have audited the accompanying financial statements of the Investment Facility, which comprise the statement of financial position as at 31 December 2015 and the statements of profit or loss and other comprehensive income, changes in contributors' resources and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

*EUROPEAN INVESTMENT BANK Management's responsibility for the financial statements*

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

*Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the EUROPEAN INVESTMENT BANK's Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements give a true and fair view of the financial position of the Investment Facility as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

*Luxembourg, 10 March 2016*

KPMG Luxembourg, Société coopérative
Cabinet de révision agréé

E. Dollé

## Statement of the Audit Committee

The Financial Regulation applicable to the 10th European Development Fund in Article 134 with regard to the operations managed by the European Investment Bank states that these operations shall be subject to the audit and discharge procedures laid down in the Statute of the Bank for all of its operations. On this basis, the Audit Committee issues this statement.

**Statement by the Audit Committee on the Investment Facility's financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS)**

The Committee, instituted in pursuance of Article 12 of the Statute and Chapter V of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated KPMG as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of KPMG on the financial statements of the Investment Facility for the year ended 31 December 2015 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial year ended 31 December 2015 as drawn up by the Board of Directors at its meeting on 10 March 2016,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 24, 25 and 26 of the Rules of Procedure,

to the best of its knowledge and judgement:

- confirms that the activities of the Investment Facility are conducted in a proper manner, in particular with regard to risk management and monitoring;
- has verified that the operations of the Investment Facility have been conducted and its books kept in a proper manner and that to this end, it has verified that the Investment Facility's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;
- confirms that the financial statements, comprising the statement of financial position, the statement of profit or loss and other comprehensive income, the statement of changes in contributors' resources, the statement of cash flows and a summary of significant accounting policies and other explanatory information give a true and fair view of the financial position of the Investment Facility as at 31 December 2015 in respect of its assets and liabilities, and of the results of its financial performance and its cash flows for the year then ended, in accordance with IFRS.

*Luxembourg, 10 March 2016*

The Audit Committee

M. ÜÜRIKE J.H. LAURSEN D. PITTA FERRAZ

J. SUTHERLAND J. DOMINIK

# Statement of financial position

as at 31 December 2015 (in EUR'000)

| | Notes | 31.12.2015 | 31.12.2014 |
|---|---|---|---|
| ASSETS | | | |
| Cash and cash equivalents | 5 | 448 995 | 545 399 |
| Derivative financial instruments | 6 | 311 | 448 |
| Loans and receivables | 7 | 1 460 057 | 1 331 918 |
| Available-for-sale financial assets | 8 | 419 353 | 403 085 |
| Amounts receivable from contributors | 9/15 | - | 42 590 |
| Held-to-maturity financial assets | 10 | 228 521 | 99 988 |
| Other assets | 11 | 27 | 5 522 |
| Total Assets | | 2 557 264 | 2 428 950 |
| LIABILITIES AND CONTRIBUTORS' RESOURCES | | | |
| LIABILITIES | | | |
| Derivative financial instruments | 6 | 8 219 | 14 632 |
| Deferred income | 12 | 29 325 | 31 310 |
| Amounts owed to third parties | 13 | 101 202 | 68 824 |
| Other liabilities | 14 | 2 364 | 2 591 |
| Total Liabilities | | 141 110 | 117 357 |
| CONTRIBUTORS' RESOURCES | | | |
| Member States Contribution called | 15 | 2 157 000 | 2 057 000 |
| Fair value reserve | | 163 993 | 156 122 |
| Retained earnings | | 95 161 | 98 471 |
| Total Contributors' resources | | 2 416 154 | 2 311 593 |
| Total Liabilities and Contributors' resources | | 2 557 264 | 2 428 950 |

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

# Statement of profit or loss and other comprehensive income

for the year ended 31 December 2015 (in EUR'000)

| | Notes | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|---|
| Interest and similar income | 17 | 90 385 | 77 240 |
| Interest and similar expenses | 17 | -1 556 | -1 522 |
| **Net interest and similar income** | | **88 829** | **75 718** |
| Fee and commission income | 18 | 932 | 1 163 |
| Fee and commission expenses | 18 | -63 | -37 |
| **Net fee and commission income** | | **869** | **1 126** |
| Fair value change of derivative financial instruments | | 6 276 | -11 663 |
| Net realised gains on available-for-sale financial assets | 19 | 33 878 | 8 109 |
| Net foreign exchange loss | | -52 483 | -222 |
| **Net result on financial operations** | | **-12 329** | **-3 776** |
| Change in impairment on loans and receivables, net of reversal | 7 | -33 988 | -75 756 |
| Impairment on available-for-sale financial assets | 8 | -3 646 | -6 262 |
| Other income | 21 | - | 337 |
| General administrative expenses | 20 | -43 045 | -38 128 |
| (Loss)/profit for the year | | -3 310 | -46 741 |
| **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 | | 43 394 | 87 230 |
| 2. Net amount transferred to profit or loss | | -35 523 | -9 299 |
| **Total available-for-sale financial assets** | | **7 871** | **77 931** |
| **Total other comprehensive income** | | **7 871** | **77 931** |
| Total comprehensive income for the year | | 4 561 | 31 190 |

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

## Statement of changes in contributors' resources

For the year ended 31 December 2015 (in EUR'000)

| | Notes | Contribution called | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| At 1 January 2015 | | 2 057 000 | 156 122 | 98 471 | 2 311 593 |
| Member States contribution called during the year | 15 | 100 000 | - | - | 100 000 |
| Loss for the year 2015 | | - | - | -3 310 | -3 310 |
| Total other comprehensive income for the year | | - | 7 871 | - | 7 871 |
| **Changes in contributors' resources** | | **100 000** | **7 871** | **-3 310** | **104 561** |
| At 31 December 2015 | | 2 157 000 | 163 993 | 95 161 | 2 416 154 |

| | Notes | Contribution called | Fair value reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| At 1 January 2014 | | 1 661 309 | 78 191 | 145 212 | 1 884 712 |
| Member States contribution called during the year | 15 | 105 691 | - | - | 105 691 |
| Unused interest subsidies and technical assistance | 15 | 290 000 | - | - | 290 000 |
| Loss for the year 2014 | | - | - | -46 741 | -46 741 |
| Total other comprehensive income for the year | | - | 77 931 | - | 77 931 |
| **Changes in contributors' resources** | | **395 691** | **77 931** | **-46 741** | **426 881** |
| At 31 December 2014 | | 2 057 000 | 156 122 | 98 471 | 2 311 593 |

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

## Statement of cash flows

For the year ended 31 December 2015 (in EUR'000)

| | Notes | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Loss for the financial year | | -3 310 | -46 741 |
| Adjustments made for | | | |
| Impairment on available-for-sale financial assets | 8 | 3 646 | 6 262 |
| Other income | 21 | - | -337 |
| Net change in impairment on loans and receivables | 7 | 33 988 | 75 756 |
| Interest capitalised on loans and receivables | 7 | -13 262 | -11 915 |
| Change in accrued interest and amortised cost on loans and receivables | | 1 594 | 895 |
| Change in accrued interest and amortised cost on held-to-maturity financial assets | 10 | 12 | 12 |
| Change in deferred income | | -1 985 | -3 773 |
| Effect of exchange rate changes on loans | 7 | -73 447 | -92 707 |
| Effect of exchange rate changes on available-for-sale financial assets | | -9 385 | -449 |
| Effect of exchange rate changes on cash held | | -12 216 | -9 362 |
| **Loss on operating activities before changes in operating assets and liabilities** | | **-74 365** | **-82 359** |
| Loan disbursements | 7 | -282 784 | -248 326 |
| Repayments of loans | 7 | 205 772 | 166 578 |
| Change in accrued interest on cash and cash equivalent | 5 | 4 | 7 |
| Fair value changes on derivatives | | -6 276 | 11 663 |
| Increase in held-to-maturity financial assets | 10 | -1 545 550 | -1 610 057 |
| Maturities of held-to-maturity financial assets | 10 | 1 417 005 | 1 612 619 |
| Increase in available-for-sale financial assets | 8 | -67 449 | -42 646 |
| Repayments/sales of available-for-sale financial assets | 8 | 64 791 | 43 378 |
| Increase/(decrease) in other assets | | 5 495 | -5 374 |
| Increase/(decrease) in other liabilities | | -227 | 19 |
| Increase/(decrease) in amounts payable to the European Investment Bank | | 4 668 | -175 |
| Net cash flows used in operating activities | | -278 916 | -154 673 |
| FINANCING ACTIVITIES | | | |
| Contribution received from Member States | 15 | 100 000 | 105 691 |
| Amounts received from Member States with regard to interest subsidies and technical assistance | | 92 590 | 7 410 |
| Amounts paid on behalf of Member States with regard to interest subsidies and technical assistance | | -22 290 | -21 899 |
| Net cash flows from financing activities | | 170 300 | 91 202 |
| Net decrease in cash and cash equivalents | | -108 616 | -63 471 |
| Summary statement of cash flows: | | | |
| Cash and cash equivalents at the beginning of financial year | | 545 398 | 599 507 |
| Net cash from: | | | |
| Operating activities | | -278 916 | -154 673 |
| Financing activities | | 170 300 | 91 202 |
| Effects of exchange rate changes on cash and cash equivalents | | 12 216 | 9 362 |
| Cash and cash equivalents at the end of financial year | | 448 998 | 545 398 |
| Cash and cash equivalents are composed of: | | | |
| Cash in hand | 5 | 71 405 | 9 642 |
| Term deposits (excluding accrued interest) | | 290 576 | 415 756 |
| Commercial papers | 5 | 87 017 | 120 000 |
| | | 448 998 | 545 398 |

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

# Notes to the financial statements as at 31 December 2015

## 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, the "Bridging Facility" covering the period from 1 January 2014 until 28 February 2015 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 "Bridging Facility" (1 January 2014 to 28 February 2015) covering the grants to finance the interest subsidies and project-related technical assistance and being composed of un- and de-committed balances from previous EDFs.

The present financial statements cover the period from 1 January 2015 to 31 December 2015.

On a proposal from the Management Committee of EIB, the Board of Directors of EIB adopted the Financial Statements on 10 March 2016, and authorised their submission to the Board of Governors for approval by 26 April 2016.

## 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.

### 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

The following standards, amendments to standards and interpretations were adopted in the preparation of these financial statements:

- Annual Improvements to IFRSs 2010–2012 Cycle – various standards;
- Annual Improvements to IFRSs 2011–2013 Cycle – various standards.

These changes had no material impact on the Facility's financial statements.

### Standards issued but not yet effective

The following standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. Those of which may be relevant for the Facility are set out below.

### 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 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 9 has not yet been adopted by the EU. The Facility does not plan to adopt this standard early and the impact analysis is currently in progress.

### 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. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. IFRS 15 has not yet been adopted by the EU. The Facility has not yet determined the extent of the impact of this standard.

## 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 balance sheet 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 ongoing basis.

Where the fair values of financial assets and financial liabilities recorded on the balance sheet 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 balance sheet 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 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.

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 shareholder's 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

At initial recognition, the financial guarantees are recognised at fair value corresponding to the Net Present Value (NPV) of expected premium inflows. This calculation is performed at the starting date of each transaction and is recognised on balance sheet 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 best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee, which is estimated based on all relevant factors and information existing at the date of the statement of financial position.
- the amount initially recognised less cumulative amortisation. The amortisation of the amount initially recognised is done using the actuarial method.

Any increase or decrease in the liability relating to financial guarantees is taken to the statement of profit or loss and other comprehensive income under "fee and commission income".

The Facility's assets under such guarantee are subsequently amortized using the actuarial method and tested for impairment.

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 balance sheet 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 balance sheet 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 hedging specific lending operations or into currency forward contracts with a view to hedging 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.

### 2.4.11 Taxation

The Protocol on the Privileges and Immunities of the European Union, appended to the Treaty on European Union and the Treaty on 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 to 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 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 quantifying and pricing 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 the 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); and/or
- 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) | 31.12.2015 | 31.12.2014 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | 448 995 | 545 399 |
| Derivative financial instruments | 311 | 448 |
| Loans and receivables | 1 460 057 | 1 331 918 |
| Amounts receivable from contributors | - | 42 590 |
| Held-to-maturity financial assets | 228 521 | 99 988 |
| Other assets | 27 | 5 522 |
| Total assets | 2 137 911 | 2 025 865 |
| OFF BALANCE SHEET | | |
| *Contingent liabilities* | | |
| - Signed non-issued guarantees | 10 000 | 25 000 |
| *Commitments* | | |
| - Undisbursed loans | 1 189 564 | 1 161 859 |
| - Issued guarantees | 798 | 2 298 |
| Total off balance sheet | 1 200 362 | 1 189 157 |
| Total credit exposure | 3 338 273 | 3 215 022 |

### 3.2.3 Credit risk on loans and receivables

#### 3.2.3.1 Credit risk measurement for loans and receivables

Each and every lending transaction undertaken by the Facility benefits from a comprehensive risk assessment and quantification of expected loss estimates that are reflected in a Loan Grading ("LG"). 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 the 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 31.12.2015 (in EUR'000) | Guaranteed | Other credit enhancements | Not guaranteed | Total | % of Total |
|---|---|---|---|---|---|
| Banks | 18 964 | 73 670 | 758 412 | 851 046 | 58% |
| Corporates | 37 431 | 89 170 | 272 186 | 398 787 | 27% |
| Public institutions | 37 112 | - | 14 | 37 126 | 3% |
| States | - | 4 295 | 168 803 | 173 098 | 12% |
| Total disbursed | 93 507 | 167 135 | 1 199 415 | 1 460 057 | 100% |
| Signed not disbursed | 135 821 | - | 1 053 743 | 1 189 564 | |

| At 31.12.2014 (in EUR'000) | Guaranteed | Other credit enhancements | Not guaranteed | Total | % of Total |
|---|---|---|---|---|---|
| Banks | 16 457 | 106 667 | 571 609 | 694 733 | 52% |
| Corporates | 23 494 | 93 731 | 310 396 | 427 621 | 32% |
| Public institutions | 33 279 | - | 31 | 33 310 | 3% |
| States | - | 4 815 | 171 439 | 176 254 | 13% |
| Total disbursed | 73 230 | 205 213 | 1 053 475 | 1 331 918 | 100% |
| Signed not disbursed | 121 826 | 117 758 | 922 275 | 1 161 859 | |

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 2015 and 31 December 2014 by the Loan Grading applications, based on the exposure signed (disbursed and undisbursed):

| At 31.12.2015 (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 | 92 260 | 31 558 | 326 635 | 990 971 | 245 160 | 1 686 584 | 64% |
| | Corporates | 125 963 | - | 12 493 | 450 045 | - | 588 501 | 22% |
| | Public institutions | - | - | 37 112 | 40 014 | - | 77 126 | 3% |
| | States | - | - | 9 277 | 288 133 | - | 297 410 | 11% |
| Total | | 218 223 | 31 558 | 385 517 | 1 769 163 | 245 160 | 2 649 621 | 100% |

| At 31.12.2014 (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 | 75 268 | 7 074 | 307 049 | 879 420 | 336 318 | 1 605 129 | 65% |
| | Corporates | 102 974 | 7 964 | 16 713 | 456 210 | - | 583 861 | 23% |
| | Public institutions | - | - | 33 279 | 40 031 | - | 73 310 | 3% |
| | States | - | - | 4 815 | 226 662 | - | 231 477 | 9% |
| Total | | 178 242 | 15 038 | 361 856 | 1 602 323 | 336 318 | 2 493 777 | 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 | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Nigeria | 195 290 | 137 832 |
| Kenya | 192 945 | 155 168 |
| Uganda | 178 515 | 161 657 |
| Regional-ACP | 111 103 | 136 182 |
| Mauritania | 94 123 | 95 319 |
| Jamaica | 85 278 | 77 272 |
| Togo | 75 387 | 45 780 |
| Dominican Republic | 72 474 | 64 614 |
| Ethiopia | 67 589 | 68 614 |
| Tanzania | 56 367 | 62 916 |
| Cameroon | 51 930 | 61 067 |
| Ghana | 40 439 | 16 130 |
| Congo (Democratic Republic) | 39 766 | 39 786 |
| Mozambique | 25 124 | 29 139 |
| Cape Verde | 24 623 | 26 101 |
| French Polynesia | 22 095 | 14 622 |
| Rwanda | 20 466 | 14 854 |
| Mauritius | 18 882 | 35 811 |
| Malawi | 13 030 | 9 945 |
| Senegal | 10 991 | 12 046 |
| Zambia | 8 733 | 5 761 |
| Haiti | 7 071 | 7 379 |
| Mali | 6 688 | 7 207 |
| Botswana | 6 605 | - |
| Samoa | 6 267 | 7 595 |
| Burkina Faso | 5 967 | 7 456 |
| Congo | 5 189 | 6 919 |
| Vanuatu | 2 772 | 3 835 |
| New Caledonia | 2 705 | 3 211 |
| Saint Lucia | 2 671 | 2 363 |
| Palau | 2 197 | 2 254 |
| Grenada | 1 735 | 1 996 |
| Niger | 1 372 | 2 581 |
| Micronesia | 1 169 | 1 141 |
| Trinidad and Tobago | 1 010 | 1 180 |
| Liberia | 921 | 821 |
| Seychelles | 468 | - |
| Tonga | 54 | 681 |
| Burundi | 40 | 40 |
| Sint Maarten | 6 | - |
| Angola | - | 3 623 |
| Gabon | - | 528 |
| Fiji | - | 474 |
| Chad | - | 18 |
| Total | 1 460 057 | 1 331 918 |

*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 | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Global loans and agency agreements | 658 098 | 541 600 |
| Urban development, renovation and transport | 207 773 | 209 849 |
| Tertiary and other | 201 361 | 168 689 |
| Electricity, coal and others | 197 547 | 198 604 |
| Basic material and mining | 88 615 | 108 367 |
| Roads and motorways | 48 165 | 43 993 |
| Airports and air traffic management systems | 37 126 | 33 310 |
| Materials processing, construction | 13 719 | 16 243 |
| Food chain | 7 643 | 18 |
| Telecommunications | 6 | 6 089 |
| Waste recuperation | 4 | - |
| Paper chain | - | 5 156 |
| Total | 1 460 057 | 1 331 918 |

### 3.2.3.5 Arrears on loans and impairments

Amounts in arrears are identified, monitored and reported according to the procedures defined in 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 31.12.2015 | Loans and receivables 31.12.2014 |
|---|---|---|---|
| Carrying amount | | 1 460 057 | 1 331 918 |
| Individually impaired | | | |
| Gross amount | | 214 232 | 210 338 |
| Allowance for impairment | 7 | -191 046 | -152 137 |
| Carrying amount individually impaired | | 23 186 | 58 201 |
| Collectively impaired | | | |
| Gross amount | | - | - |
| Allowance for impairment | | - | - |
| Carrying amount collectively impaired | | - | - |
| Past due but not impaired | | | |
| Past due comprises | | | |
| 0-30 days | | 1 521 | 2 558 |
| 30-60 days | | 15 | 528 |
| 60-90 days | | - | 5 |
| 90-180 days | | - | - |
| more 180 days | | 13 | - |
| Carrying amount past due but not impaired | | 1 549 | 3 091 |
| Carrying amount neither past due nor impaired | | 1 435 322 | 1 270 626 |
| Total carrying amount loans and receivables | | 1 460 057 | 1 331 918 |

### 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 2015 and 31 December 2014, investments were in the form of bank deposits, certificates of deposit and commercial papers.

The authorised entities have a rating similar to the short- and long-term ratings required for the EIB's own treasury placements. The minimum short-term rating required for authorised entities is P-1/A-1/F1 (Moody's, S&P, Fitch). In case of different ratings being granted by more than one credit rating agency, the lowest rating governs. The maximum authorised limit for each authorised bank (excluding the operational cash accounts of the Facility) is currently EUR 50 000 000 (fifty million euro).

All investments have been done with authorised entities with a maximum tenor of three months from trading date and up to the credit exposure limit. As at 31 December 2015 and 31 December 2014 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) | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|---|
| P-1 | Aaa | 49 999 | 11% | 47 937 | 9% |
| P-1 | Aa2 | 26 | 0% | 38 | 0% |
| P-1 | A1 | 115 705 | 26% | 137 820 | 25% |
| P-1 | A2 | 283 265 | 63% | 359 604 | 66% |
| Total | | 448 995 | 100% | 545 399 | 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 hedging specific lending operations or into currency forward contracts, with a view to hedging 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 swaps and cross-currency interest rate swaps, sub-divided according to their notional amount and fair value:

| Swap contracts at 31.12.2015 (in EUR'000) | less than 1 year | 1 year to 5 years | 5 years to 10 years | more than to 10 years | Total 2015 |
|---|---|---|---|---|---|
| Notional amount | - | 9 589 | - | - | 9 589 |
| Fair Value (i.e. net discounted value) | - | -3 835 | - | - | -3 835 |

| Swap contracts at 31.12.2014 (in EUR'000) | less than 1 year | 1 year to 5 years | 5 years to 10 years | more than to 10 years | Total 2014 |
|---|---|---|---|---|---|
| Notional amount | - | 11 606 | - | - | 11 606 |
| Fair Value (i.e. net discounted value) | - | -3 219 | - | - | -3 219 |

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 1 400.0 million at 31 December 2015 against EUR 1 059.0 million at 31 December 2014. The fair value of FX swaps amounts to EUR -3.8 million at 31 December 2015 against EUR -10.8 million at 31 December 2014.

The Facility enters into interest rate swap contracts in order to hedge the interest rate risk on loans disbursed. As at 31 December 2015 there are two interest rate swaps outstanding with a notional amount of EUR 44.9 million (2014: EUR 44.7 million) and a fair value of EUR -0.3 million (2014: 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 issued by Italy, Portugal and Spain with remaining maturities of less than three months. EU Member States are eligible issuers. The maximum authorised 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) | 31.12.2015 | | 31.12.2014 | |
|---|---|---|---|---|---|
| P-1 | A2 | 69 502 | 31% | - | 0% |
| P-3 | Baa3 | 50 012 | 22% | 49 994 | 50% |
| P-2 | Baa2 | 50 007 | 22% | - | 0% |
| NP | Ba1 | 49 000 | 21% | - | 0% |
| P-1 | A1 | 10 000 | 4% | - | 0% |
| NP | Ba2 | - | 0% | 49 994 | 50% |
| Total | | 228 521 | 100% | 99 988 | 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 the form of undisbursed portions of the credit under signed loan agreements, of undisbursed 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 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 undisbursed 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 undisbursed 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.

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 31.12.2015 | 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 undisbursed loans | 41 028 | - | - | - | 1 148 536 | 1 189 564 |
| Outflows for committed investment funds and share subscription | 23 371 | - | - | - | 274 984 | 298 355 |
| Others (signed non-issued guarantees issued guarantees) | - | - | - | - | 10 798 | 10 798 |
| Outflows for committed interest subsidies | - | - | - | - | 281 682 | 281 682 |
| Outflows for committed TA | 811 | - | - | - | 28 072 | 28 883 |
| Total | 65 210 | - | - | - | 1 744 072 | 1 809 282 |

| Maturity profile of non-derivative financial liabilities in EUR'000 as at 31.12.2014 | 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 undisbursed loans | 1 576 | - | - | - | 1 160 283 | 1 161 859 |
| Outflows for committed investment funds and share subscription | 4 584 | - | - | - | 196 053 | 200 637 |
| Others (signed non-issued guarantees issued guarantees) | - | - | - | - | 27 298 | 27 298 |
| Outflows for committed interest subsidies | - | - | - | - | 241 890 | 241 890 |
| Outflows for committed TA | 595 | - | - | - | 18 978 | 19 573 |
| Total | 6 755 | - | - | - | 1 644 502 | 1 651 257 |

| Maturity profile of derivative financial liabilities In EUR'000 as at 31.12.2015 | 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 | 5 | 2 307 | 7 671 | - | 9 983 |
| CCS and CCIRS – Outflows | - | -3 571 | -10 714 | - | -14 285 |
| Short-term currency swaps – Inflows | 1 400 000 | - | - | - | 1 400 000 |
| Short-term currency swaps – Outflows | -1 407 763 | - | - | - | -1 407 763 |
| Interest Rate Swaps – Inflows | 383 | 1 269 | 6 059 | 2 524 | 10 235 |
| Interest Rate Swaps – Outflows | - | -2 145 | -6 127 | -2 206 | -10 478 |
| Total | -7 375 | -2 140 | -3 111 | 318 | -12 308 |

| Maturity profile of derivative financial liabilities In EUR'000 as at 31.12.2014 | 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 | 6 | 2 218 | 10 036 | - | 12 260 |
| CCS and CCIRS – Outflows | - | -3 202 | -12 809 | - | -16 011 |
| Short-term currency swaps – Inflows | 1 059 000 | - | - | - | 1 059 000 |
| Short-term currency swaps – Outflows | -1 070 677 | - | - | - | -1 070 677 |
| Interest Rate Swaps – Inflows | 371 | 1 103 | 6 495 | 3 619 | 11 588 |
| Interest Rate Swaps – Outflows | - | -2 143 | -6 373 | -3 022 | -11 538 |
| Total | -11 300 | -2 024 | -2 651 | 597 | -15 378 |

## 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 the EIB's global funding spread). The EIB's USD funding curve is used for the calculation of the NPV of the loans' 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 the 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 2015 would decrease by EUR 532k (as at 31 December 2014: decrease by EUR 419k) if all relevant interest rates curves are simultaneously shifted upwards in parallel by 1 basis point.

| Basis point value in EUR'000 as at 31.12.2015 | 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 | -37 | -72 | -252 | -139 | -32 | - | -532 |

| Basis point value in EUR'000 as at 31.12.2014 | 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 | -33 | -70 | -126 | -146 | -44 | - | -419 |

### 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".

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

| At 31 December 2015 | Assets and liabilities | | | Commitments and contingent liabilities |
|---|---|---|---|---|
| | FX position as per Risk Policies | FX position excluded from Risk Policies | Balance sheet FX position | |
| CURRENCIES | | | | |
| USD | -207 050 | 5 023 | -202 027 | 270 236 |
| *Local currencies (under synthetic hedge)** | | | | |
| KES | 129 862 | 3 101 | 132 963 | - |
| TZS | 46 246 | 780 | 47 025 | - |
| DOP | 40 799 | 1 274 | 42 073 | - |
| UGX | 30 182 | 565 | 30 747 | - |
| RWF | 11 979 | 164 | 12 143 | - |
| *Local currencies (not under synthetic hedge)** | | | | |
| HTG, MUR, MZN, XOF, ZMW | 15 474 | 201 | 15 675 | 798 |
| Total non-EUR currencies | 67 492 | 11 108 | 78 599 | 271 034 |
| EUR | - | 2 337 555 | 2 337 555 | 1 579 719 |
| Total EUR and non-EUR | 67 492 | 2 348 663 | 2 416 154 | 1 850 753 |

* See section 3.4.2.2.2 for explanations on synthetic hedge.

| At 31 December 2014 | Assets and liabilities | | | Commitments and contingent liabilities |
|---|---|---|---|---|
| | FX position as per Risk Policies | FX position excluded from Risk Policies | Balance sheet FX position | |
| CURRENCIES | | | | |
| USD | 42 050 | 3 997 | 46 047 | 237 987 |
| *Local currencies (under synthetic hedge)** | | | | |
| KES | 97 921 | 2 481 | 100 402 | - |
| TZS | 52 799 | 613 | 53 412 | - |
| DOP | 31 266 | 1 273 | 32 539 | - |
| UGX | 27 028 | 503 | 27 531 | - |
| RWF | 11 937 | 178 | 12 115 | - |
| *Local currencies (not under synthetic hedge)** | | | | |
| HTG, MUR, MZN, XOF, ZMW | 15 916 | 265 | 16 181 | 2 298 |
| Total non-EUR currencies | 278 917 | 9 310 | 288 227 | 240 285 |
| EUR | - | 2 023 366 | 2 023 366 | 1 434 748 |
| Total EUR and non-EUR | 278 917 | 2 032 676 | 2 311 593 | 1 675 033 |

* See section 3.4.2.2.2 for explanations on synthetic hedge.

### 3.4.2.2.3 Foreign exchange position (in EUR'000)

As at 31 December 2015 a 10 percent depreciation of EUR versus all non-EUR currencies would result in an increase of the contributors' resources amounting to EUR 8.7 million (31 December 2014: EUR 32.0 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 7.1 million (31 December 2014: EUR 26.2 million).

#### 3.4.2.4 Conversion rates

The following conversion rates were used for establishing the balance sheet at 31 December 2015 and 31 December 2014:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Non-EU currencies | | |
| Dominican Republic Pesos (DOP) | 49.0144 | 53.1988 |
| Fiji Dollars (FJD) | 2.3124 | 2.376 |
| Haitian Gourde (HTG) | 61.19 | 55.23 |
| Kenya Shillings (KES) | 111.3 | 109.86 |
| Mauritania Ouguiyas (MRO) | 326.46 | 350.61 |
| Mauritius Rupees (MUR) | 38.85 | 38.46 |
| Mozambican Metical (MZN) | 50.59 | 40.04 |
| Rwanda Francs (RWF) | 806.36 | 831.04 |
| Tanzania Shillings (TZS) | 2 344.42 | 2 096.58 |
| Uganda Shillings (UGX) | 3 665.00 | 3 354.00 |
| United States Dollars (USD) | 1.0887 | 1.2141 |
| CFA Francs (XAF/XOF) | 655.957 | 655.957 |
| South Africa Rand (ZAR) | 16.953 | 14.0353 |
| Zambia Kvacha (ZMW) | 11.9571 | 7.753 |

### 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 41.9 million respectively EUR -41.9 million as at 31 December 2015 (EUR 40.3 million respectively EUR -40.3 million as at 31 December 2014).

# 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 2015 In EUR'000 | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Held for trading | Available for sale | Loan and receivables | Held to maturity | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value: | | | | | | | | | | |
| Derivative financial instruments | 311 | - | - | - | - | 311 | - | 311 | - | 311 |
| Venture Capital Funds | - | 396 203 | - | - | - | 396 203 | - | - | 396 203 | 396 203 |
| Direct Equity Investments | - | 23 150 | - | - | - | 23 150 | 178 | - | 22 972 | 23 150 |
| Total | 311 | 419 353 | - | - | - | 419 664 | 178 | 311 | 419 175 | 419 664 |
| Financial assets not measured at fair value: | | | | | | | | | | |
| Cash and cash equivalents | - | - | 448 995 | - | - | 448 995 | | | | |
| Loans and receivables | - | - | 1 460 057 | - | - | 1 460 057 | - | 1 649 401 | - | 1 649 401 |
| Amounts receivable from contributors | - | - | - | - | - | - | | | | |
| Bonds | - | - | - | 228 521 | - | 228 521 | 124 009 | 104 520 | - | 228 529 |
| Other assets | - | - | 27 | - | - | 27 | | | | |
| Total | - | - | 1 909 079 | 228 521 | - | 2 137 600 | 124 009 | 1 753 921 | - | 1 877 930 |
| Total financial assets | 311 | 419 353 | 1 909 079 | 228 521 | - | 2 557 264 | | | | |
| Financial liabilities measured at fair value: | | | | | | | | | | |
| Derivative financial instruments | -8 219 | - | - | - | - | -8 219 | - | -8 219 | - | -8 219 |
| Total | -8 219 | - | - | - | - | -8 219 | - | -8 219 | - | -8 219 |
| Financial liabilities not measured at fair value: | | | | | | | | | | |
| Amounts owed to third parties | - | - | - | - | -101 202 | -101 202 | | | | |
| Other liabilities | - | - | - | - | -2 364 | -2 364 | | | | |
| Total | - | - | - | - | -103 566 | -103 566 | | | | |
| Total financial liabilities | -8 219 | - | - | - | -103 566 | -111 785 | | | | |

| At 31 December 2014<br>In EUR'000 | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Held for trading | Available for sale | Loan and receivables | Held to maturity | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| Financial assets measured at fair value: | | | | | | | | | | |
| Derivative financial instruments | 448 | - | - | - | - | 448 | - | 448 | - | 448 |
| Venture Capital Funds | - | 385 245 | - | - | - | 385 245 | - | - | 385 245 | 385 245 |
| Direct Equity Investments | - | 17 840 | - | - | - | 17 840 | 1 159 | - | 16 681 | 17 840 |
| Total | 448 | 403 085 | - | - | - | 403 533 | 1 159 | 448 | 401 926 | 403 533 |
| Financial assets not measured at fair value: | | | | | | | | | | |
| Cash and cash equivalents | - | - | 545 399 | - | - | 545 399 | | | | |
| Loans and receivables | - | - | 1 331 918 | - | - | 1 331 918 | - | 1 488 215 | - | 1 488 215 |
| Amounts receivable from contributors | - | - | 42 590 | - | - | 42 590 | | | | |
| Bonds | - | - | - | 99 988 | - | 99 988 | 99 985 | - | - | 99 985 |
| Other assets | - | - | 5 522 | - | - | 5 522 | – | – | – | – |
| Total | - | - | 1 925 429 | 99 988 | - | 2 025 417 | 99 985 | 1 488 215 | - | 1 588 200 |
| Total financial assets | 448 | 403 085 | 1 925 429 | 99 988 | - | 2 428 950 | | | | |
| Financial liabilities measured at fair value: | | | | | | | | | | |
| Derivative financial instruments | -14 632 | - | - | - | - | -14 632 | - | -14 632 | - | -14 632 |
| Total | -14 632 | - | - | - | - | -14 632 | - | -14 632 | - | -14 632 |
| Financial liabilities not measured at fair value: | | | | | | | | | | |
| Amounts owed to third parties | - | - | - | - | -68 824 | -68 824 | | | | |
| Other liabilities | - | - | - | - | -2 591 | -2 591 | | | | |
| Total | - | - | - | - | -71 415 | -71 415 | | | | |
| Total financial liabilities | -14 632 | - | - | - | -71 415 | -86 047 | | | | |

## 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. |

| | Valuation technique | Significant unobservable inputs | Relationship of unobservable inputs to fair value measurement |
|---|---|---|---|
| Financial instruments not measured 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. |
| Amounts owed to third parties | Discounted cash flows. | Not applicable. | Not applicable. |
| Other liabilities | 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 2015 and 2014, namely:

- Credit valuation adjustments (CVA), reflecting counterparty credit risk on derivative transactions, amounting to EUR -122k as at 31 December 2015 and to EUR -184k as at 31 December 2014.
- Debit valuation adjustments (DVA), reflecting own credit risk on derivative transactions, amounting to EUR +64k as at 1 December 2015 and EUR +30k as at 31 December 2014.

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.

### 4.2.2 Transfers between Level 1 and 2

In 2015 and 2014 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 2015 and 31 December 2014:

| In EUR'000 | Available-for-sale financial assets |
|---|---|
| Balance at 1 January 2015 | 401 926 |
| Gains or losses included in profit or loss: | |
| - net realised gains on available-for-sale financial assets | -33 878 |
| - impairment on available-for-sale financial assets | -2 665 |
| Total | -36 543 |
| Gains or losses included in other comprehensive income: | |
| - net change in fair value of available-for-sale financial assets | 52 365 |
| Total | 52 365 |
| Disbursements | 67 449 |
| Disbursements | -64 791 |
| Repayments | -1 231 |
| Balance at 31 December 2015 | 419 175 |

| In EUR'000 | Available-for-sale financial assets |
|---|---|
| Balance at 1 January 2014 | 324 855 |
| Gains or losses included in profit or loss: | |
| - net realised gains on available-for-sale financial assets | 8 109 |
| - impairment on available-for-sale financial assets | -2 084 |
| Total | 6 025 |
| Gains or losses included in other comprehensive income: | |
| - net change in fair value of available-for-sale financial assets | 71 778 |
| Total | 71 778 |
| Disbursements | 42 646 |
| Repayments | -43 378 |
| Balance at 31 December 2014 | 401 926 |

In 2015 and 2014 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 2015 (in EUR'000) | Increase | Decrease |
|---|---|---|
| Direct Equity Investments | 31 | -31 |
| Total | 31 | -31 |

| At 31 December 2014 (in EUR'000) | Increase | Decrease |
|---|---|---|
| Direct Equity Investments | 31 | -31 |
| Total | 31 | -31 |

## 5 Cash and cash equivalents (in EUR'000)

The cash and cash equivalents are composed of:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Cash in hand | 71 405 | 9 642 |
| Term deposits | 290 573 | 415 757 |
| Commercial paper | 87 017 | 120 000 |
| Cash and cash equivalents in the statement of financial position | 448 995 | 545 399 |
| Accrued interest | 3 | -1 |
| Cash and cash equivalents in the cash flow statement | 448 998 | 545 398 |

## 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 2015 | Fair Value | | Notional amount |
|---|---|---|---|
| | Assets | Liabilities | |
| Cross-currency interest rate swaps | - | -3 835 | 9 589 |
| Interest rate swaps | 311 | -639 | 44 913 |
| FX swaps | - | -3 745 | 1 400 000 |
| Total derivative financial instruments | 311 | -8 219 | 1 454 502 |

| At 31 December 2014 | Fair Value | | Notional amount |
|---|---|---|---|
| | Assets | Liabilities | |
| Cross-currency interest rate swaps | - | -3 219 | 11 606 |
| Interest rate swaps | 448 | -564 | 44 749 |
| FX swaps | - | -10 849 | 1 059 000 |
| Total derivative financial instruments | 448 | -14 632 | 1 115 355 |

## 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 2015 | 542 506 | 782 563 | 146 643 | 1 471 712 |
| Disbursements | 196 607 | 86 177 | - | 282 784 |
| Repayments | -106 921 | -96 147 | -2 704 | -205 772 |
| Interest capitalised | - | - | 13 262 | 13 262 |
| Foreign exchange rates differences | 29 600 | 45 414 | 3 354 | 78 368 |
| Nominal as at 31 December 2015 | 661 792 | 818 007 | 160 555 | 1 640 354 |
| Impairment as at 1 January 2015 | -5 751 | -13 491 | -132 895 | -152 137 |
| Impairment recorded in statement of profit or loss and other comprehensive income | -3 692 | -7 576 | -24 995 | -36 263 |
| Reversal of impairment | 381 | 57 | 1 837 | 2 275 |
| Foreign exchange rates differences | -341 | -1 435 | -3 145 | -4 921 |
| Impairment as at 31 December 2015 | -9 403 | -22 445 | -159 198 | -191 046 |
| Amortised Cost | -3 129 | -5 781 | 284 | -8 626 |
| Interest | 8 838 | 10 533 | 4 | 19 375 |
| Loans and receivables as at 31 December 2015 | 658 098 | 800 314 | 1 645 | 1 460 057 |

(*) including agency agreements

| | Global loans (*) | Senior loans | Subordinated loans | Total |
|---|---|---|---|---|
| Nominal as at 1 January 2014 | 342 113 | 806 007 | 131 632 | 1 279 752 |
| Disbursements | 216 672 | 31 654 | - | 248 326 |
| Repayments | -58 417 | -107 794 | -367 | -166 578 |
| Interest capitalised | - | - | 11 915 | 11 915 |
| Foreign exchange rates differences | 42 138 | 52 696 | 3 463 | 98 297 |
| Nominal as at 31 December 2014 | 542 506 | 782 563 | 146 643 | 1 471 712 |
| Impairment as at 1 January 2014 | -7 675 | -12 734 | -50 382 | -70 791 |
| Impairment recorded in statement of profit or loss and other comprehensive income | - | - | -79 249 | -79 249 |
| Reversal of impairment | 2 586 | 907 | - | 3 493 |
| Foreign exchange rates differences | -662 | -1 664 | -3 264 | -5 590 |
| Impairment as at 31 December 2014 | -5 751 | -13 491 | -132 895 | -152 137 |
| Amortised Cost | -2 562 | -5 125 | 28 | -7 659 |
| Interest | 7 407 | 11 930 | 665 | 20 002 |
| Loans and receivables as at 31 December 2014 | 541 600 | 775 877 | 14 441 | 1 331 918 |

(*) 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 Fund | Direct Equity Investment | Total |
|---|---|---|---|
| Cost as at 1 January 2015 | 259 784 | 19 714 | 279 498 |
| Disbursements | 63 574 | 3 875 | 67 449 |
| Repayments / sales | -64 181 | -610 | -64 791 |
| Write-offs | -1 231 | - | -1 231 |
| Foreign exchange rates differences on repayments / sales | 9 385 | - | 9 385 |
| Cost as at 31 December 2015 | 267 331 | 22 979 | 290 310 |
| Unrealised gains and losses as at 1 January 2015 | 149 995 | 6 127 | 156 122 |
| Net change in unrealised gains and losses | 3 906 | 3 965 | 7 871 |
| Unrealised gains and losses as at 31 December 2015 | 153 901 | 10 092 | 163 993 |
| Impairment as at 1 January 2015 | -24 534 | -8 001 | -32 535 |
| Impairment recorded in statement of profit or loss and other comprehensive income during the year | -1 726 | -1 920 | -3 646 |
| Write-offs | 1 231 | - | 1 231 |
| Impairment as at 31 December 2015 | -25 029 | -9 921 | -34 950 |
| Available-for-sale financial assets as at 31 December 2015 | 396 203 | 23 150 | 419 353 |

| | Venture Capital Fund | Direct Equity Investment | Total |
|---|---|---|---|
| Cost as at 1 January 2014 | 256 161 | 23 620 | 279 781 |
| Disbursements | 41 990 | 656 | 42 646 |
| Repayments / sales | -38 535 | -4 843 | -43 378 |
| Foreign exchange rates differences on repayments / sales | 168 | 281 | 449 |
| Cost as at 31 December 2014 | 259 784 | 19 714 | 279 498 |
| Unrealised gains and losses as at 1 January 2014 | 71 931 | 6 260 | 78 191 |
| Net change in unrealised gains and losses | 78 064 | -133 | 77 931 |
| Unrealised gains and losses as at 31 December 2014 | 149 995 | 6 127 | 156 122 |
| Impairment as at 1 January 2014 | -22 450 | -3 823 | -26 273 |
| Impairment recorded in statement of profit or loss and other comprehensive income during the year | -2 084 | -4 178 | -6 262 |
| Impairment as at 31 December 2014 | -24 534 | -8 001 | -32 535 |
| Available-for-sale financial assets as at 31 December 2014 | 385 245 | 17 840 | 403 085 |

## 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 2015 | 99 988 |
| Acquisitions | 1 545 550 |
| Maturities | -1 417 005 |
| Change in amortisation of premium/discount | -12 |
| Balance as at 31 December 2015 | 228 521 |
| Balance as at 1 January 2014 | 102 562 |
| Acquisitions | 1 610 057 |
| Maturities | -1 612 619 |
| Change in amortisation of premium/discount | -12 |
| Balance as at 31 December 2014 | 99 988 |

## 11 Other assets (in EUR'000)

The main components of other assets are as follows:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Amount receivable from EIB | 1 | 5 447 |
| Financial guarantees | 26 | 75 |
| Total other assets | 27 | 5 522 |

## 12 Deferred income (in EUR'000)

The main components of deferred income are as follows:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Deferred interest subsidies | 28 683 | 30 750 |
| Deferred commissions on loans and receivables | 642 | 560 |
| Total deferred income | 29 325 | 31 310 |

## 13 Amounts owed to third parties (in EUR'000)

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

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Net general administrative expenses payable to EIB | 43 045 | 38 348 |
| Other amounts payable to EIB | 15 | 44 |
| Interest subsidies and TA not yet disbursed owed to Member States | 58 142 | 30 432 |
| Total amounts owed to third parties | 101 202 | 68 824 |

## 14 Other liabilities (in EUR'000)

The main components of other liabilities are as follows:

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| Loan repayments received in advance | 1 826 | 1 973 |
| Deferred income from interest subsidies | 512 | 542 |
| Financial guarantees | 26 | 76 |
| Total other liabilities | 2 364 | 2 591 |

## 15 Member States Contribution called (in EUR'000)

| Member States | Contribution to the Facility | Contribution to interest subsidies and technical assistance (*) | Total | Called and not paid (*) |
|---|---|---|---|---|
| Austria | 56 921 | 6 218 | 63 139 | - |
| Belgium | 84 164 | 9 163 | 93 327 | - |
| Bulgaria | 140 | 140 | 280 | - |
| Cyprus | 90 | 90 | 180 | - |
| Czech Republic | 510 | 510 | 1 020 | - |
| Denmark | 46 020 | 5 075 | 51 095 | - |
| Estonia | 50 | 50 | 100 | - |
| Finland | 31 914 | 3 597 | 35 511 | - |
| France | 519 401 | 54 467 | 573 868 | - |
| Germany | 501 015 | 54 066 | 555 081 | - |
| Greece | 27 183 | 3 266 | 30 449 | - |
| Hungary | 550 | 550 | 1 100 | - |
| Ireland | 13 663 | 1 801 | 15 464 | - |
| Italy | 270 808 | 30 879 | 301 687 | - |
| Latvia | 70 | 70 | 140 | - |
| Lithuania | 120 | 120 | 240 | - |
| Luxembourg | 6 235 | 687 | 6 922 | - |
| Malta | 30 | 30 | 60 | - |
| Netherlands | 112 225 | 12 350 | 124 575 | - |
| Poland | 1 300 | 1 300 | 2 600 | - |
| Portugal | 21 103 | 2 544 | 23 647 | - |
| Romania | 370 | 370 | 740 | - |
| Slovakia | 210 | 210 | 420 | - |
| Slovenia | 180 | 180 | 360 | - |
| Spain | 127 979 | 16 241 | 144 220 | - |
| Sweden | 58 896 | 6 663 | 65 559 | - |
| United Kingdom | 275 853 | 33 054 | 308 907 | - |
| Total as at 31 December 2015 | 2 157 000 | 243 691 | 2 400 691 | - |
| Total as at 31 December 2014 | 2 057 000 | 143 691 | 2 200 691 | 42 590 |

(*) On 10 November 2014, the Council fixed the amount of financial contributions to be paid by each Member State by 21 January 2015. As at 31 December 2014, EUR 42 590 was not paid in.

## 16 Contingent liabilities and commitments (in EUR'000)

| | 31.12.2015 | 31.12.2014 |
|---|---|---|
| COMMITMENTS | | |
| Undisbursed loans | 1 189 564 | 1 161 859 |
| Undisbursed commitment in respect of available-for-sale financial assets | 298 355 | 200 637 |
| Issued guarantees | 798 | 2 298 |
| Interest subsidies and technical assistance | 352 036 | 285 239 |
| CONTINGENT LIABILITIES | | |
| Signed non-issued guarantees | 10 000 | 25 000 |
| Total contingent liabilities and commitments | 1 850 753 | 1 675 033 |

## 17 Interest and similar income and expenses (in EUR'000)

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

| | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Cash and cash equivalents | - | 543 |
| Held-to-maturity financial assets | 4 | 276 |
| Loans and receivables | 86 305 | 72 135 |
| Interest subsidies | 4 076 | 4 286 |
| Total interest and similar income | 90 385 | 77 240 |

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

| | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Derivative financial instruments | -1 525 | -1 522 |
| Cash and cash equivalents | -31 | - |
| Total interest and similar expense | -1 556 | -1 522 |

## 18 Fee and commission income and expenses (in EUR'000)

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

| | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Fee and commission on loans and receivables | 890 | 316 |
| Fee and commission on financial guarantees | 42 | 78 |
| Other | - | 769 |
| **Total fee and commission income** | **932** | **1 163** |

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

| | From 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Commission paid to third parties with regard to available-for-sale financial assets | -63 | -37 |
| **Total fee and commission expenses** | **-63** | **-37** |

## 19 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 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Net proceeds from available-for-sale financial assets | 834 | 3 179 |
| Dividend income | 33 044 | 4 930 |
| **Net realised gains on available-for-sale financial assets** | **33 878** | **8 109** |

## 20 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 01.01.2015 to 31.12.2015 | From 01.01.2014 to 31.12.2014 |
|---|---|---|
| Actual cost incurred by the EIB | -45 506 | -40 912 |
| Income from appraisal fees directly charged to clients of the Facility | 2 461 | 2 784 |
| **Total general administrative expenses** | **-43 045** | **-38 128** |

Following the entry into force of the revised Cotonou Partnership Agreement on the 1st of July 2008, general administrative expenses are not covered anymore by the Member States.

## 21 Impairment on other assets (in EUR'000)

During 2012 the Facility made a technical assistance payment amounting to EUR 638 which due to fraudulent behaviour of the counterparty did not reach the final beneficiary. Following legal interventions, the Facility could recover EUR 301 and the remaining amount outstanding of EUR 337 was recorded as impairment in the Facility's comprehensive income.

In 2014 the outstanding amount of EUR 337 was allocated to the interest rate subsidies and technical assistance envelope of the Facility and was recorded as other income in the Facility's statement of profit or loss and other comprehensive income.

## 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<br>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;<br>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 undisbursed commitments.

| Type of structured entity | Caption | Carrying amount at 31.12.2015 | Carrying amount at 31.12.2014 | Maximum exposure to loss at 31.12.2015 | Maximum exposure to loss at 31.12.2014 |
|---|---|---|---|---|---|
| Project finance operations | Loans and receivables | - | 7 225 | - | 7 225 |
| Venture capital funds | Available-for-sale financial assets | 396 203 | 385 245 | 645 833 | 555 629 |
| Total | | 396 203 | 392 470 | 645 833 | 562 854 |

## 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 fund's 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, but with a special tracking of the operations.

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 31.12.2015 | Carrying amount at 31.12.2014 | Undisbursed amount at 31.12.2015 | Undisbursed amount at 31.12.2014 |
|---|---|---|---|---|---|
| Social impact equity funds | Available-for-sale financial assets | 2 257 | - | 16 927 | 8 237 |
| Loans to financial intermediaries | Loans and receivables | - | - | 10 000 | - |
| Risk-sharing facilitating instruments | Issued guarantees | - | - | - | - |
| Direct financing – equity participations | Available-for-sale financial assets | - | - | 40 000 | - |
| Total | | 2 257 | - | 66 927 | 8 237 |

## 24 Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2015 financial statements.

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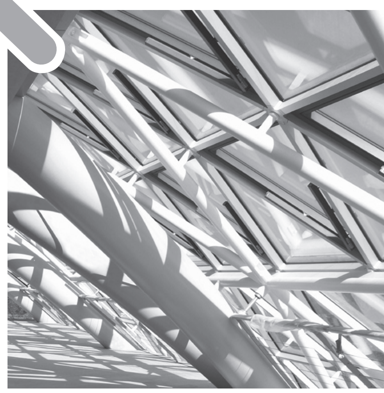
# Financial Statements 2015

on EIB activity in Africa, the Caribbean
and Pacific, and the overseas territories

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