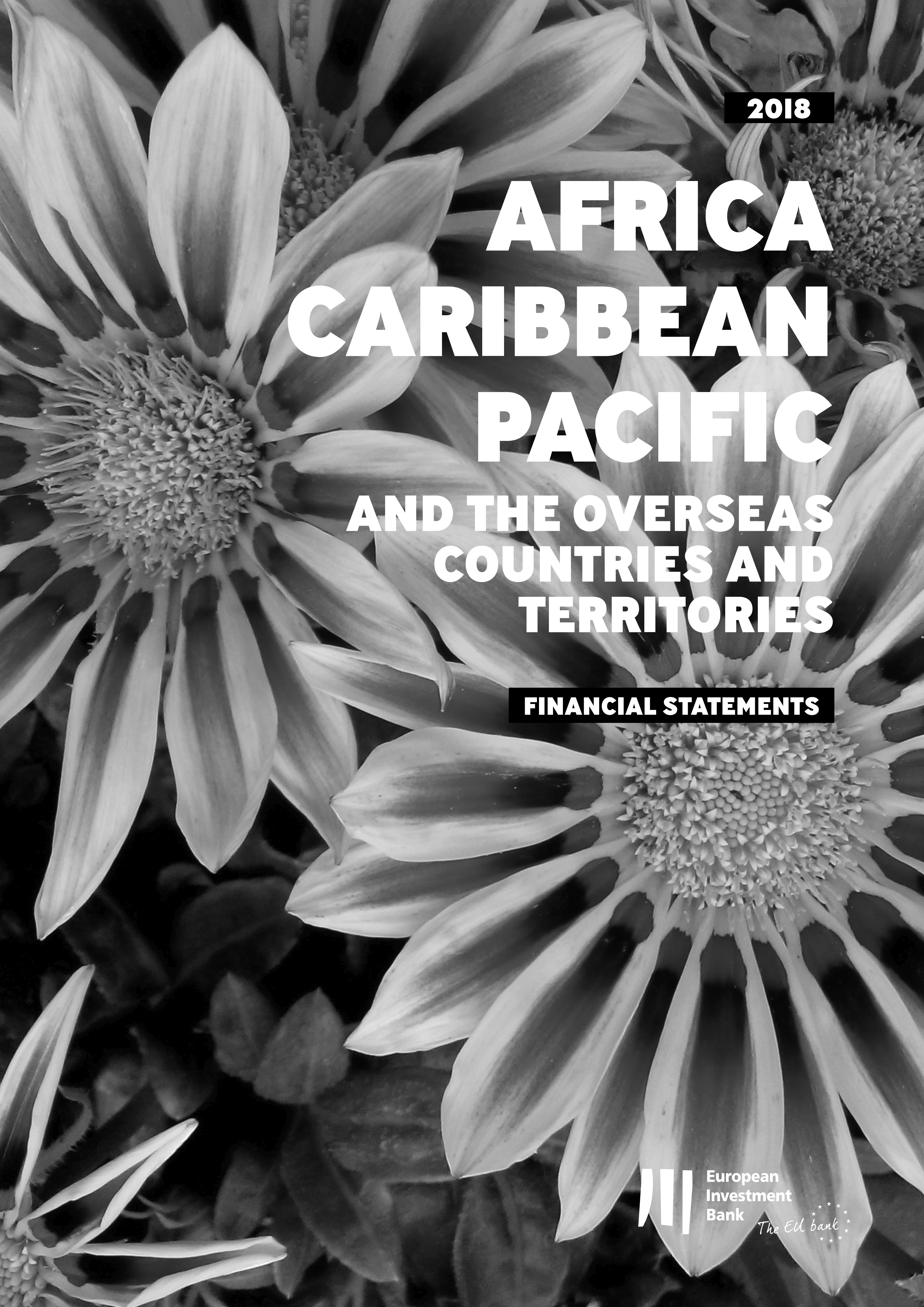

2018

# AFRICA CARIBBEAN PACIFIC

## AND THE OVERSEAS COUNTRIES AND TERRITORIES

**FINANCIAL STATEMENTS**

European Investment Bank
The EU bank

EUROPEAN INVESTMENT BANK

2018

# AFRICA CARIBBEAN PACIFIC

## AND THE OVERSEAS COUNTRIES AND TERRITORIES

FINANCIAL STATEMENTS

European Investment Bank

The EU bank

**Financial Statements 2018 on European Investment Bank Activity in Africa, the Caribbean, the Pacific, and the Overseas Countries and Territories**


98 -100, boulevard Konrad Adenauer – L-2950 Luxembourg
+352 4379-1
info@eib.org
www.eib.org
twitter.com/eib
facebook.com/europeaninvestmentbank
youtube.com/eibtheeubank



For further information on the EIB's activities, please consult our website, www.eib.org.
You can also contact info@eib.org. Get our e-newsletter at www.eib.org/sign-up

Published by the European Investment Bank.

Printed on FSC paper.

The EIB uses paper certified by the Forest Stewardship Council (FSC). Because it's made by people who like trees.
FSC promotes environmentally sound, socially beneficial, and economically viable management of the world's forests.
We all know reading is good for you. It's good for the planet, too – as long as you read on the right paper.

# INVESTMENT FACILITY

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2018
(In EUR'000)

| | Notes | 31.12.2018 | 31.12.2017 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 5 | 573,708 | 549,101 |
| Amounts receivable from contributions | 9/17 | 100,000 | 150,000 |
| Treasury financial assets | 10 | 335,140 | 144,382 |
| Derivative financial instruments | 6 | 9,873 | 12,521 |
| Loans and advances | 7 | 1,540,991 | 1,666,725 |
| Shares and other variable yield securities | 8 | 567,292 | 497,539 |
| Other assets | 11 | 171 | 4,385 |
| **Total assets** | | **3,127,175** | **3,024,653** |
| **LIABILITIES AND CONTRIBUTORS' RESOURCES** | | | |
| **LIABILITIES** | | | |
| Derivative financial instruments | 6 | 8,493 | 1,153 |
| Deferred income | 12 | 33,764 | 25,802 |
| Provisions for guarantees issued | 13 | 793 | 484 |
| Provisions for loan commitments | 14 | 23,822 | - |
| Amount owed to third parties | 15 | 143,813 | 157,285 |
| Other liabilities | 16 | 2,493 | 2,462 |
| **Total liabilities** | | **213,178** | **187,186** |
| **CONTRIBUTORS' RESOURCES** | | | |
| Facility Member States Contribution called | 17 | 2,697,000 | 2,517,000 |
| Fair value reserve (IAS 39) | | - | 125,816 |
| Retained earnings | | 216,997 | 194,651 |
| **Total contributors' resources** | | **2,913,997** | **2,837,467** |
| **Total liabilities and contributors' resources** | | **3,127,175** | **3,024,653** |

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

# INVESTMENT FACILITY

## STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
## FOR THE YEAR ENDED 31 DECEMBER 2018

(In EUR'000)

| | Notes | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|---|
| Interest and similar income | 19 | 96,730 | 101,406 |
| Interest and similar expenses | 19 | -2,539 | -2,671 |
| **Net interest and similar income** | | **94,191** | **98,735** |
| Fee and commission income | 20 | 284 | 210 |
| Fee and commission expenses | 20 | -106 | -60 |
| **Net fee and commission income** | | **178** | **150** |
| Fair value change of derivative financial instruments | | -9,987 | 29,637 |
| Net result on shares and other variable yield securities (2017 AFS) | 21 | -10,179 | 2,711 |
| Net result on loans and advances at FVTPL | 21 | -702 | - |
| Net foreign exchange loss | | -32,436 | -38,165 |
| **Net result on financial operations** | | **-53,304** | **-5,817** |
| Change in impairment on loans and advances, net of reversal | 7 | -22,771 | -10,721 |
| Change in provisions for guarantees | 13 | -485 | -65 |
| Change in provisions for loan commitments | 14 | -19,612 | - |
| Impairment on available-for-sale financial assets (IAS 39) | 8 | - | -22,024 |
| General administrative expenses | 22 | -47,799 | -45,105 |
| **(Loss)/profit for the year** | | **-49,602** | **15,153** |
| **Other comprehensive income:** | | | |
| *Items that are or may be reclassified to profit or loss:* | | | |
| Available-for-sale financial assets – Fair value reserve (IAS 39) | 8 | | |
| 1. Net change in fair value of available-for-sale financial assets | | - | -31,034 |
| 2. Net amount transferred to profit or loss | | - | 13,966 |
| **Total available-for-sale financial assets** | | **-** | **-17,068** |
| **Total other comprehensive (loss)** | | **-** | **-17,068** |
| **Total comprehensive (loss) for the year** | | **-49,602** | **-1,915** |

(1) For the year ended 31 December 2018, interests and similar income include EUR 96.7 million calculated on assets held at amortised cost based on effective interest method.

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

## INVESTMENT FACILITY

## STATEMENT OF CHANGES IN CONTRIBUTORS' RESOURCES
## FOR THE YEAR ENDED 31 DECEMBER 2018

(In EUR'000)

| | | Contribution called | Fair Value Reserve * | Retained earnings * | Total |
|---|---|---|---|---|---|
| **At 1 January 2018** | **Notes** | **2,517,000** | **-** | **266,599** | **2,783,599** |
| Member States contribution called during the year | 17 | 180,000 | - | - | 180,000 |
| Loss for the year 2018 | | - | - | -49,602 | -49,602 |
| **Changes in contributors' resources** | | **180,000** | **-** | **-49,602** | **130,398** |
| **At 31 December 2018** | | **2,697,000** | **-** | **216,997** | **2,913,997** |

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

*As at 31 December 2017, the Facility had classified equity investments as available-for-sale, while from 1 January 2018, with the IFRS 9 adoption, the Facility has reclassified equity investments to shares and other variable yield securities measured at FVTPL. The related fair value reserve of EUR 125,816 thousands as at 31 December 2017 has been released against the Facility's retained earnings as an opening balance adjustment (Note 2.5). Additionally, EUR 49,712 thousands representing the ECL impairment recognised for performing, Stage 1 and Stage 2 operations of the debt lending portfolio, as well as EUR 4,156 thousands ECL provision for undisbursed exposures of performing, Stage 1 and Stage 2 operations of the debt portfolio were included in the Retained earnings 2018 opening balance. For detailed reconciliation please refer to note 2.5.

# INVESTMENT FACILITY

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2018

(In EUR'000)

| | Notes | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| (Loss)/Profit for the financial year | | -49,602 | 15,153 |
| Adjustments made for | | | |
| Impairment on available-for-sale financial assets (IAS 39) | 8 | - | 22,024 |
| Net result in fair value on shares and other variable yield securities | | 20,665 | - |
| Change in impairment on loans and advances, net of reversal | 7 | 22,771 | 10,721 |
| Net result on loans and advances at FVTPL | | 702 | - |
| Change in accrued interest and amortised cost on loans and advances | 7 | -1,833 | -1,198 |
| Net change in provisions for guarantees issued | 13 | 309 | -141 |
| Net change in provisions for loan commitments | | 19,666 | - |
| Change in accrued interest and amortised cost on treasury financial assets | 10 | -1,645 | -398 |
| Change in deferred income | | 7,962 | -481 |
| Effect of exchange rate changes on loans | 7 | -44,927 | 168,304 |
| Effect of exchange rate changes on shares and other variable yield securities | | -17,300 | -1,655 |
| Effect of exchange rate changes on cash held | | 2,561 | -6,473 |
| **Loss on operating activities before changes in operating assets and liabilities** | | **-40,671** | **205,856** |
| Loan disbursements | 7 | -259,214 | -368,662 |
| Repayments of loans | 7 | 354,855 | 253,486 |
| Change in accrued interest on cash and cash equivalents | 5 | -178 | 63 |
| Fair value changes on derivatives | | 9,987 | -29,637 |
| (Decrease) in treasury financial assets | 10 | -2,219,062 | -1,084,149 |
| Maturities of treasury financial assets | 10 | 2,026,659 | 1,109,563 |
| (Decrease) in shares and other variable yield securities | 8 | -95,434 | -62,660 |
| Repayments/sales of shares and other variable yield securities | | 32,802 | 44,568 |
| (Increase) in other assets | | -4,214 | -4,040 |
| (Decrease)/increase in other liabilities | | 31 | -84 |
| Increase in amounts payable to the European Investment Bank | | 2,168 | 2,202 |
| **Net cash flows used in/from operating activities** | | **-192,271** | **66,506** |
| **FINANCING ACTIVITIES** | | | |
| Contribution received from Member States | 17 | 230,000 | 76,395 |
| Amounts received from Member States with regard to interest subsidies and technical assistance | | 20,000 | 60,000 |
| Amounts paid on behalf of Member States with regard to interest subsidies and technical assistance | | -35,641 | -21,026 |
| **Net cash flows from financing activities** | | **214,359** | **115,369** |
| **Net increase in cash and cash equivalents** | | **22,088** | **181,875** |
| **Summary statement of cash flows:** | | | |
| **Cash and cash equivalents at the beginning of financial year** | | **549,169** | **360,821** |
| Net cash from: | | | |
| Operating activities | | -192,271 | 66,506 |
| Financing activities | | 214,359 | 115,369 |
| Effects of exchange rate changes on cash and cash equivalents | | 2,561 | 6,473 |
| **Cash and cash equivalents at the end of financial year** | | **573,818** | **549,169** |
| **Cash and cash equivalents are composed of:** | | | |
| Cash in hand | 5 | 51,936 | 166,445 |
| Term deposits (excluding accrued interest) | 5 | 521,882 | 367,721 |
| Commercial papers | 5 | - | 15,003 |
| | | **573,818** | **549,169** |

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

# Notes to the financial statements as at 31 December 2018

## 1 General information

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

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

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

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

The present financial statements cover the period from 1 January 2018 to 31 December 2018.

On a proposal from the Management Committee of EIB, the Board of Directors of EIB adopted the Financial Statements on 14 March 2019, and authorised their submission to the Board of Governors for approval by 26 April 2019.

## 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 value 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 2.4.2 and 4.

- **Impairment losses on loans and advances**

The expected credit loss ('ECL') measurement requires management to apply significant judgments, in particular, the assessment of a significant increase in credit risk since initial recognition, the incorporation of forward looking information and further the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in significant changes to the timing and amount of allowance for credit loss to be recognized (Note 2.4.2).

- **Valuation of unquoted equity investments**

Valuation of unquoted 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 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 equity investments (applicable before 1 January 2018)**

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**

*IFRS 9 Financial Instruments*

The Facility has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1st January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements. For more details refer to note 2.5.

As permitted by the transitional provisions of IFRS 9, the Facility elected not to restate comparative periods. Any adjustment to the carrying amounts of financial assets and liabilities resulting from the adoption of IFRS 9 were recognized in the reserve fund and the fair value reserve as of 1st January 2018. Accordingly, the information presented for 2017 under the applicability does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

*IFRS 15 Revenue from Contracts with Customers*

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

The Facility adopted the standard using the modified retrospective approach which means that the cumulative impact of the adoption is recognised in retained earnings as of 1 January 2018 and the comparatives were not restated.

The application of IFRS 15, did not have a significant impact on the Facility's financial statements.

*IFRIC 22 Foreign currency transactions and advance consideration*

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration.
This Interpretation adoption had no material impact on the Facility's financial statements.

*Annual Improvements to IFRSs 2014-2016 Cycle (Amendments to IAS 28)*

*Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice*

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, then it may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.
The Facility does not use have investment in in joint ventures. Therefore, there is no impact on the Facility's financial statements

**Standards issued but not yet adopted**

*IFRS 16 Leases*

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

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

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

### 2.4 Summary of significant accounting policies

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

#### 2.4.1 Foreign currency translation

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

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

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

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

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

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

### 2.4.2 Financial assets other than derivatives

Non-derivative financial instruments are initially recognised using the settlement date basis.

**Classification and measurement**

*Financial assets - Policy applicable after 1 January 2018*

On initial recognition, a financial asset is classified as measured at amortized cost (“AC”), fair value through other comprehensive income (“FVOCI”) or fair value through P&L (“FVTPL”) and a financial liability is classified as measured at AC or FVTPL.

Under IFRS 9, classification starts with determining whether the financial asset shall be considered as a debt or equity instrument. IFRS 9 refers to the definitions in IAS 32 Financial Instruments: Presentation.

Debt instruments are those instruments that meet the definition of a financial liability from the counterparty’s perspective, such as loans, government and corporate bonds.

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

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

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

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

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

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets. Equity instruments are measured at FVTPL.

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

All other financial assets are classified as measured at FVTPL.

*Business model assessment*

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

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management´s strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Facility’s management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectation about future sales activity.

However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Facility stated objective for managing the financial assets is achieved and how cash flows are realised.

*Solely payment of principal and interests (‘SPPI’) criteria*

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

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

*Financial assets - Policy applicable before 1 January 2018*

The Facility classified its financial assets into one of the following categories:

- Loans and receivables ('L&R'),
- Held-to-maturity ('HTM'),
- Available-for-sale ('AFS'),
- at Fair Value through Profit or Loss ('FVTPL')

*Derecognition*

The Facility derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or which the Facility neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset or financial liability (Note 2.4.4), the difference between the carrying amount of the asset or liability (or the carrying amount allocated to the portion of the asset or liability derecognised) and the sum of (i) the consideration received or paid and (ii) any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for the cumulative gains or losses recognised in other comprehensive income for equity investments measured at fair value through other comprehensive income which are transferred to the reserve fund rather than profit or loss on disposal.

*Reclassification*

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Facility changes its business model for managing financial assets.

*Measurement of fair values of financial instruments*

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

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

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

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 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.

***Impairment on financial assets***

*Impairment - policy applicable after 1 January 2018*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (''ECL'') model. This will require judgement to determine the underlying variable (PD, LGD, EAD) used in order to assess how changes in economic and other factors affect ECLs, which will be determined on a probability-weighted basis.

The new impairment model will apply to financial assets measured at AC, to financial guarantee contracts, as well as to off-balance sheet commitments.

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

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

The IFRS 9 Standard sets out a "three-stage" model for impairment based on changes in credit quality since initial recognition. Financial instruments are classified in Stage 1 except for those instruments for which significant increase in credit risk ('SICR') since initial recognition is identified. This includes both quantitative and qualitative information and analysis, based on the Bank's expertise, including forward-looking information.

Purchased or originated credit-impaired assets ('POCI') are the financial assets with exception to initial recognition of the ECLs as the POCI assets is always maintained in stage 3. For POCI financial assets, the cumulative changes in lifetime ECL since initial recognition are recognised in the statement of profit or loss.

The Facility's assessment of the Stage is based on a sequential approach which is consistent with the Credit Risk Guidelines ('CRG') and the Financial Monitoring Guidelines and Procedures ('FMGs'), notably covering watch list, internal rating and arrears.

If significant increase in credit risk has occurred, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired. If the financial instrument is credit-impaired, the financial instrument is then moved to Stage 3.

To identify Stage 3 exposures, the Facility determines whether or not there is objective evidence of default event. A financial asset is considered to be in default when the borrower is unlikely to pay its credit obligations to the Facility in full, without recourse by the Facility or the borrower is past due more than 90 days on any material credit obligation to the Facility.

In this respect, a financial asset is considered impaired when it is determined that it is probable that the Facility will not be able to collect all amounts due according to the original contractual terms or an equivalent value. Individual credit exposures are evaluated based upon the borrower's characteristics, overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realisable value of any collateral.

All impaired claims are reviewed and analysed at least semi-annually. Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates will result in a change in the provision for credit losses and be charged or credited to the income statement. An allowance for impairment is reversed only when the credit quality has improved such that there is reasonable assurance of timely collection of principal and interest in accordance with the original contractual terms of the claim agreement. A write-off is made when all or part of a claim is deemed uncollectible or forgiven. Write-offs are charged against previously established impairments or directly to the income statement and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to the income statement.

*Measuring ECL – Inputs, Assumptions and Techniques*

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

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

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

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

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

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

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

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

*Impairment - policy applicable before 1 January 2018*

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

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

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

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

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

#### 2.4.2.1 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. Cash and cash equivalents are carried at AC in the statement of financial position.

#### 2.4.2.2 Treasury financial assets

Treasury financial assets were presented as Held-to-maturity financial assets in the Investment Facility Financial Statements as at 31 December 2017.

Treasury financial assets comprise quoted and unquoted bonds with the intention of holding them to maturity, and commercial papers with original maturities of more than three months and are consequently classified at AC.

Those bonds and commercial papers are initially measured at cost, which is the 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.

#### 2.4.2.3 Loans and advances

Loans and advances were presented as loans and receivables in the Investment Facility Financial Statements as at 31 December 2017 and measured at amortised cost.

Loans and advances include:

- Loans and advances measured at AC
- Loans and advances mandatorily measured at FVTPL.

Loans originated by the Facility are recognised in the assets of the Facility when cash is advanced to borrowers. Undisbursed parts of loans are recorded in the off-balance at their nominal value.

Loans passing the SPPI test are initially recorded at cost (their 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 AC using the effective interest rate method.

Loans not fulfilling the SPPI criterion are mandatorily measured at FVTPL.

The fair value measurement technique used is based on a discounted cash flow technique.

#### 2.4.2.4 Shares and other variable yield securities

Shares and other variable yield securities were presented as available-for-sale financial assets in the Investment Facility Financial Statements as at 31 December 2017.

There are two types of equity investments at the Facility: (i) direct equity investments and (ii) venture capital funds. The shares and other variable yield securities are initially recognised at fair value plus transactions costs. Subsequently changes in fair value, including foreign currency translation gains and losses, are recognised in the statement of profit or loss and other comprehensive income under the caption net result on shares and other variable yield securities.

For unquoted investment, when the fair value cannot be derived from active markets, the fair value is determined by applying recognised valuation techniques (Note 4.2.1).

The participations acquired by the Facility typically represent investments in private equity or venture capital funds. According to industry practice, such investments are generally investments jointly subscribed by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such fund. As a consequence, any membership by an investor in a governing body of such fund does not in principle entitle such investor to influence the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on dividends or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information. The Facility's investments are executed in line with the above stated industry practice, ensuring that the Facility neither controls nor exercises any form of significant influence within the meaning of IFRS 10 and IAS 28 over any of these investments, including those investments in which the Facility holds over 20 % of the voting rights.

### 2.4.3 Financial guarantees

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

Under the existing rules, these guarantees do not meet the definition of an insurance contract (IFRS 4 Insurance Contracts).

*Policy applicable after 1 January 2018*

Financial guarantees are accounted for under IFRS 9 – Financial Instruments, either as “Derivatives” or as “Financial Guarantees”, depending on their features and characteristics as defined by IFRS 9.

The accounting policy for derivatives is disclosed under Note 2.4.5.

Financial guarantees are initially recognised in the statement of financial position under “Provisions for guarantees issued” at fair value plus transaction costs that are directly attributable to the issuance of the financial guarantees. At initial recognition the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows or the initial expected loss.

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

- The amount of the loss allowance as determined under IFRS 9; and
- The premium initially recognised less income recognised in accordance with the principles of IFRS 15.

Any increase or decrease in the net liability (as measured per IFRS 9) relating to financial guarantees other than the payment of guarantee calls is recognised in the statement of profit or loss and other comprehensive income under “Change in provisions for guarantees”.

The premium received is recognised in the statement of profit or loss and other comprehensive income in “Fee and commission income” on the basis of an amortisation schedule in accordance with IFRS 15 over the life of the financial guarantee.

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

*Policy applicable before 1 January 2018*

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

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

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

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

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

### 2.4.4 Financial liabilities other than derivatives

***Classification and measurement***

*Financial liabilities - Policy applicable after 1 January 2018*

A financial liability is measured at amortised cost except for financial liabilities that meet the definition of held for trading (e.g. derivative liabilities).

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities and the Facility`s financial liabilities are measured at AC under IAS 39 and IFRS 9 as well.

*Financial liabilities - Policy applicable before 1 January 2018*

The Facility classified its financial liabilities into one of the following categories
- measured at amortised cost ('AC'),
- at fair value through profit or loss ('FVTPL'), and within this category as Held for trading ('HFT').

*Derecognition*

The Facility derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

### 2.4.5 Derivative financial instruments

Derivative financial instruments include cross currency swaps, cross currency interest rate swaps, short term currency swaps ("FX swaps") and interest rate swaps.

Derivative financial instruments are initially recognised using the trade date basis.

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

All derivatives are measured at FVTPL 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".

Under IFRS 9, bifurcation requirements embedded derivatives have been eliminated for financial assets or financial liabilities and therefore, the hybrid contract is treated as a whole for classification of financial assets or financial liability accordingly.

### 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.

Contributions are classified and measured at AC in the financial statements.

### 2.4.7 Interest and similar income

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 in the statement of financial position ('Loans and advances') 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.

Interest on the POCI loans is recorded in the statement of profit or loss and other comprehensive income ('Interest and similar income') and in the statement of financial position ('Loans and advances') on an accrual basis using the credit- adjusted effective interest rate through the whole life of the loan, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to the amortised cost of the loan.

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 shares and other variable yield securities are recognised when received and presented in the statement of profit or loss and other comprehensive income within net realised gains on shares and other variable yield securities.

### 2.4.11 Taxation

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

### 2.5 Transition disclosures

The following table shows the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the Facility's assets and liabilities as at 1 January 2018.

ASSETS in EUR '000

| Statement of financial position as at 31 December 2017 | Measurement Category IAS 39 | Net carrying amount | Measurement category IFRS 9 | Net carrying amount | Statement of financial position as from 1 January 2018 |
|---|---|---|---|---|---|
| 1. Cash and cash equivalents | L&R (Loans and receivables) | 549,101 | AC (Amortised Cost) | 549,101 | 1. Cash and cash equivalents |
| 2. Amounts receivable from contributors | L&R (Loans and receivables) | 150,000 | AC (Amortised Cost) | 150,000 | 2. Amounts receivable from contributors |
| 3. Held-to-maturity financial assets | HTM (Held to Maturity) | 144,382 | AC (Amortised Cost) | 144,382 | 3. Treasury financial assets |
| 4. Derivative financial instruments | FVTPL (Fair Value Through Profit and loss) | 12,521 | FVTPL (Fair Value Through Profit and loss) | 12,521 | 4. Derivative financial instruments |
| 5. Loans and receivables | L&R (Loans and receivables) | 1,666,725 | AC (Amortised Cost) | 1,615,589 | 5. Loans and advances |
| | | | FVTPL (Fair Value Through Profit and loss) | 1,422 | |
| 6. Available-for-sale financial assets | AFS (Available for Sale) | 497,539 | FVTPL (Fair Value Through Profit and loss) | 497,539 | 6. Shares and other variable yield securities |
| 7. Other assets | L&R (Loans and receivables) | 4,385 | AC (Amortised Cost) | 4,385 | 7. Other assets |
| **Total Assets** | | **3,024,653** | | **2,974,939** | **Total Assets** |

LIABILITIES in EUR '000

| Statement of financial position as at 31 December 2017 | Measurement Category IAS 39 | Net carrying amount | Measurement category IFRS 9 | Net carrying amount | Statement of financial position as from 1 January 2018 |
|---|---|---|---|---|---|
| 8. Derivative financial instruments | FVTPL (Fair Value Through Profit and loss) | 1,153 | FVTPL (Fair Value Through Profit and loss) | 1,153 | 8. Derivative financial instruments |
| 9. Deferred income | AC (Amortised Cost) | 25,802 | AC (Amortised Cost) | 25,802 | 9. Deferred income |
| 10. Provisions for guarantees issued | Financial guarantees | 484 | Financial guarantees | 484 | 10. Provisions for guarantees issued |
| 11. Provisions for loan commitments | AC (Amortised Cost) | - | AC (Amortised Cost) | 4,156 | 11. Provisions for loan commitments |
| 12. Amounts owed to third parties | AC (Amortised Cost) | 157,285 | AC (Amortised Cost) | 157,285 | 12. Amounts owed to third parties |
| 13. Other liabilities | AC (Amortised Cost) | 2,462 | AC (Amortised Cost) | 2,462 | 13. Other liabilities |
| **Total Liabilities** | | **187,186** | | **191,342** | **Total Liabilities** |
| 14. Contributors' resources | | | | | 14. Contributors' resources |
| 13.1. Member States Contribution called | | 2,517,000 | | 2,517,000 | 13.1. Member States Contribution called |
| 13.2. Fair value reserve | | 125,816 | | - | 13.2. Fair value reserve |
| 13.3. Retained earnings | | 194,651 | | 266,597 | 13.3. Retained earnings |
| **Total Liabilities and Equity** | | **3,024,653** | | **2,974,939** | **Total Liabilities and Equity** |

## INVESTMENT FACILITY

The following table reconciles the carrying amounts of the Facility's assets and liabilities from their previous measurement category under IAS 39 to their new measurement categories upon transition to IFRS 9 on 1st January 2018.

| FINANCIAL ASSETS<br>in EUR '000 | **IAS 39 carrying amount 31.12.2017** | **Reclassifications** | **Remeasurements** | **IFRS 9 carrying amount 01.01.2018** |
|---|---|---|---|---|
| **Amortized Cost** | | | | |
| **1. Cash and cash equivalents** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 549,101 | - | - | 549,101 |
| **2. Amounts receivable from contributors** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 150,000 | - | - | 150,000 |
| **3. Treasury financial assets** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 144,382 | - | - | 144,382 |
| **4. Derivative financial instruments** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 12,521 | - | - | 12,521 |
| **5.Loans and advances** | | | | |
| Opening balance under IAS 39 | 1,666,725 | - | - | 1,666,725 |
| Transfer from AC to FVTPL | - | -1,422 | - | -1,422 |
| Remeasurement: ECL allowance | - | - | -49,714 | -49,714 |
| Closing balance under IFRS 9 | 1,666,725 | -1,422 | -49,714 | 1,615,589 |
| **7. Other assets** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 4,385 | - | - | 4,385 |
| **Total financial assets measured at amortized cost** | **2,527,114** | **-1,422** | **-49,714** | **2,475,978** |

| | **IAS 39 carrying amount 31.12.2017** | **Reclassifications** | **Remeasurements** | **IFRS 9 carrying amount 01.01.2018** |
|---|---|---|---|---|
| **Fair Value Through OCI / AFS** | | | | |
| **6. Shares and other variable yield securities** | | | | |
| Opening balance under IAS 39 | 497,539 | - | - | 497,539 |
| Transfer from AFS to FVTPL | - | -497,539 | - | -497,539 |
| Closing balance under IFRS 9 | 497,539 | -497,539 | - | - |
| **Total financial assets measured at Fair Value Through OCI** | **497,539** | **-497,539** | - | - |
| **Fair Value Through Profit and Loss** | | | | |
| **5.Loans and advances** | | | | |
| Opening balance under IAS 39 | - | - | - | - |
| Transfer from AC to FVTPL | - | 1,422 | - | 1,422 |
| Remeasurement: ECL allowance | - | - | - | - |
| Closing balance under IFRS 9 | - | 1,422 | - | 1,422 |
| **6. Shares and other variable yield securities** | | | | |
| Opening balance under IAS 39 | - | - | - | - |
| Transfer from AFS to FVTPL | - | 497,539 | - | 497,539 |
| Closing balance under IFRS 9 | - | 497,539 | - | 497,539 |
| **Total financial assets measured at Fair Value Through Profit and Loss** | - | **498,961** | - | **498,961** |
| **Total financial assets** | **3,024,653** | **-** | **-49,714** | **2,974,939** |

| FINANCIAL LIABILITIES<br>in EUR '000 | IAS 39 carrying amount 31.12.2017 | Reclassifications | Remeasurements | IFRS 9 carrying amount 01.01.2018 |
|---|---|---|---|---|
| **Amortized Cost** | | | | |
| **9. Deferred income** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 25,802 | - | - | 25,802 |
| **10. Provisions for loan commitments** | | | | |
| Opening balance under IAS 39 | - | - | - | |
| Remeasurement ECL allowance | - | - | 4,156 | 4,156 |
| Closing balance under IFRS 9 | | - | 4,156 | 4,156 |
| **11. Amounts owed to third parties** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 157,285 | - | - | 157,285 |
| **12. Other liabilities** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 2,462 | - | - | 2,462 |
| **Total financial liabilities measured at amortised cost** | **185,549** | **-** | **4,156** | **189,705** |
| **Fair Value Through Profit and Loss** | | | | |
| **13. Derivative financial instruments** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 1,153 | - | - | 1,153 |
| **14. Provisions for guarantees issued** | | | | |
| Opening balance under IAS 39 and closing balance under IFRS 9 | 484 | - | - | 484 |
| Remeasurement ECL allowance | - | - | - | - |
| Closing balance under IFRS 9 | 484 | - | - | 484 |
| **Total financial liabilities measured at Fair Value Through Profit and Loss** | **1,637** | **-** | - | **1,637** |
| **Total financial liabilities** | **187,186** | **-** | **4,156** | **191,342** |

The following table analyses the impact of transition to IFRS 9 on the Facility's Contributors' resources as at 1 January 2018. The impact relates to the fair value reserve. There is no impact on other components of Contributors' resources.

| **in EUR '000** | **Fair value reserve** |
|---|---|
| **Closing balance under IAS 39 (31 December 2017)** | **125,816** |
| Reclassification of shares and other variable-yield securities from AFS to FVTPL | -125,816 |
| **Opening balance under IFRS 9 (1 January 2018)** | **-** |

| | **Retained earnings** |
|---|---|
| **Closing balance under IAS 39 (31 December 2017)** | **194,651** |
| Reclassification of shares and other variable-yield securities from AFS to FVTPL | 125,816 |
| Recognition of ECL under IFRS 9 (loans and advances) | -49,712 |
| Recognition of provisions under IFRS 9 (loan commitments) | -4,156 |
| **Opening balance under IFRS 9 (1 January 2018)** | **266,599** |
| **Total changes in equity due to adopting IFRS 9** | **- 53,868** |

The following table reconciles the closing impairment allowance measured in accordance with IAS 39 to the new impairment allowance measured in accordance with IFRS 9:

| in EUR '000 | 01.01.2018 | | | | 31.12.2017 |
|---|---|---|---|---|---|
| **Impairment allowance for** | **12-month ECL (stage 1)** | **Lifetime ECL not credit-impaired (stage 2)** | **Lifetime ECL credit-impaired (stage 3)** | **Total** | **Total** |
| 1. Cash and cash equivalents at AC under IAS 39 and IFRS 9 | - | - | - | - | - |
| 2. Treasury financial assets | - | - | - | - | - |
| 3.1 Loans and advances - Balance Sheet | 19,738 | 29,976 | 113,255 | 162,969 | 113,255 |
| 3.2 Loan commitments - Off Balance Sheet | 1,993 | 2,163 | - | 4,156 | - |
| 4. Financial guarantee contracts issued | - | 484 | - | 484 | 484 |
| **Total** | **21,731** | **32,623** | **113,255** | **167,609** | **113,739** |

# 3 Risk Management

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

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

### 3.1 Risk management organisation

The European Investment Bank adapts its risk management on an ongoing basis.

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

### 3.2 Credit risk

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

#### 3.2.1 Credit risk policy

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

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

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

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

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

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

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

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

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

| Maximum exposure (in EUR'000) | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | 573,708 | 549,101 |
| Amounts receivable from contributors | 100,000 | 150,000 |
| Treasury financial assets | 335,140 | 144,382 |
| Derivative financial instruments | 9,873 | 12,521 |
| Loans and advances | 1,540,991 | 1,666,725 |
| Other assets | 171 | 4,385 |
| **Total assets** | **2,559,883** | **2,527,114** |
| | | |
| **Provisions for loan commitments** | **-23,822** | **-** |
| | | |
| **OFF BALANCE SHEET** | | |
| | | |
| OFF BALANCE SHEET | | |
| Contingent liabilities | | |
| - Issued Guarantees | 1,553,668 | 74,569 |
| Commitments | | |
| - Undisbursed loans | 1,283,931 | 869,983 |
| - Non-issued guarantees | 2,800 | 7,682 |
| **Total off balance sheet** | **2,840,399** | **952,234** |
| | | |
| **Total credit exposure** | **5,376,460** | **3,479,348** |

### 3.2.3 Credit risk on loans and advances

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

Each and every loan or guarantee undertaken by the Facility benefits from a comprehensive risk assessment and quantification of expected loss estimates that are reflected in a Loan Grading ("LG"). Operations under the IFE (as described in Note 24), with the exception of intermediated loans, are not subject to the Credit Risk Policy Guidelines and are subject to a different procedure. LGs are established according to generally accepted criteria, based on the quality of the borrower, the maturity of the loan, the guarantee and, where appropriate, the guarantor.

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

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

The following factors enter into the determination of an LG:

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

ii) The default correlation: it quantifies the chances of simultaneous financial difficulties arising for both the borrower and the guarantor. The higher the correlation between the borrower and the guarantor's default probabilities, the lower the value of the guarantee and therefore the lower (worse) 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 applicable recovery rate: being the amount assumed to be recovered following a default by the relevant counterpart expressed as a percentage of the relevant loan exposure

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

vi) The duration of the loan or, more generally, the cash-flows of the loan: 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 of which there are three sub-categories:

"A0" comprising loans to or guaranteed by an EU Member State which have an expected loss of 0% (based on the Bank's preferred creditor status and statutory protection which are deemed to assure a full recovery of the Bank's assets upon maturity).

"A+" comprising loans granted to (or guaranteed by) entities other than EU Member States in respect of which there is no expectation of deterioration in quality over their term.

"A-" includes those lending operations where there is some doubt about the maintenance of their current status but where any downside is expected to be 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 (net of ECL) to credit risk on loans signed and disbursed by nature of borrower taking into account guarantees provided by guarantors:

| At 31.12.2018<br>In EUR'000 | Guaranteed | Other credit enhancements | Not guaranteed | Total | % of Total |
|---|---|---|---|---|---|
| Banks | 88,263 | - | 856,484 | **944,747** | **61%** |
| Corporates | 147,551 | 45,820 | 205,198 | **398,569** | **26%** |
| Public institutions | 29,182 | - | - | **29,182** | **2%** |
| States | - | 2,647 | 165,846 | **168,493** | **11%** |
| **Total disbursed** | **264,996** | **48,467** | **1,227,528** | **1,540,991** | **100%** |
| **Signed not disbursed** | **170,356** | **-** | **1,089,753** | **1,260,110** | |

| At 31.12.2017<br>In EUR'000 | Guaranteed | Other credit enhancements | Not guaranteed | Total | % of Total |
|---|---|---|---|---|---|
| Banks | 46,860 | 11,651 | 919,216 | **977,727** | **59%** |
| Corporates | 145,914 | 59,462 | 285,492 | **490,868** | **29%** |
| Public institutions | 30,882 | - | - | **30,882** | **2%** |
| States | - | 3,218 | 164,030 | **167,248** | **10%** |
| **Total disbursed** | **223,656** | **74,331** | **1,368,738** | **1,666,725** | **100%** |
| **Signed not disbursed** | **89,597** | **-** | **780,386** | **869,983** | |

Transaction Management and Restructuring Directorate 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 Directorate 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 2018 and 31 December 2017 by the Loan Grading applications, based on the exposure signed (disbursed and un-disbursed):

| At 31.12.2018<br>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 | 232,467 | 238,619 | 349,756 | 698,562 | - | **1,519,404** | **54%** |
| | Corporates | 103,845 | 7,564 | 744 | 693,100 | 50,000 | **855,253** | **31%** |
| | Public institutions | - | - | 29,182 | 2,994 | - | **32,176** | **1%** |
| | States | - | 4,786 | 7,681 | 381,801 | - | **394,268** | **14%** |
| **Total** | | **336,312** | **250,969** | **387,363** | **1,776,457** | **50,000** | **2,801,101** | **100%** |

| At 31.12.2017<br>In EUR'000 | | High Grade | Standard Grade | Min. Accept. Risk | High Risk | No grading | Total | % of Total |
|---|---|---|---|---|---|---|---|---|
| | | A to B- | C | D+ | D- and below | | | |
| Borrower | Banks | 208,601 | 187,225 | 189,727 | 870,913 | - | **1,456,466** | **58%** |
| | Corporates | 114,769 | 8,018 | 3,288 | 533,382 | 1,428 | **660,885** | **26%** |
| | Public institutions | - | - | 30,882 | - | - | **30,882** | **1%** |
| | States | - | - | 13,861 | 374,614 | - | **388,475** | **15%** |
| **Total** | | **323,370** | **195,243** | **237,758** | **1,778,909** | **1,428** | **2,536,708** | **100%** |

### 3.2.3.4 Risk concentrations of loans and advances

#### 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 | 31.12.2018 | 31.12.2017 |
|---|---:|---:|
| Kenya | 233,269 | 331,891 |
| Nigeria | 172,515 | 230,042 |
| Tanzania | 124,718 | 116,093 |
| Uganda | 81,766 | 169,869 |
| Burundi | 77,568 | 74,703 |
| Barbados | 74,638 | 25,124 |
| Egypt | 74,431 | - |
| Jamaica | 72,165 | 85,728 |
| Congo (Democratic Republic) | 62,708 | 62,439 |
| Mauritius | 55,564 | 26,598 |
| Ethiopia | 55,215 | 51,719 |
| Dominican Republic | 54,326 | 61,326 |
| Mauritania | 50,727 | 64,007 |
| Ghana | 39,246 | 49,895 |
| Togo | 30,634 | 45,574 |
| Rwanda | 28,704 | 38,555 |
| Malawi | 26,827 | 22,800 |
| Regional-ACP | 24,335 | 751 |
| New Caledonia | 21,124 | 21,670 |
| Angola | 20,651 | 14,850 |
| Cape Verde | 18,923 | 20,487 |
| Senegal | 18,330 | 13,881 |
| Zambia | 17,700 | 10,910 |
| French Polynesia | 17,453 | 17,235 |
| Cameroon | 14,784 | 25,012 |
| Mozambique | 14,719 | 19,212 |
| Cayman Islands | 13,213 | 14,958 |
| Niger | 9,655 | 5,631 |
| Botswana | 7,278 | 7,618 |
| Seychelles | 4,786 | 5,036 |
| Mali | 4,767 | 5,612 |
| Haiti | 4,748 | 6,006 |
| Burkina Faso | 4,649 | 6,041 |
| Samoa | 3,986 | 5,100 |
| Vanuatu | 1,848 | 2,162 |
| Liberia | 1,153 | 1,553 |
| Palau | 1,107 | 1,384 |
| Micronesia | 759 | 868 |
| South Africa | 2 | 653 |
| Namibia | - | 1,971 |
| Congo | - | 1,730 |
| Tonga | - | 31 |
| **Total** | **1,540,991** | **1,666,725** |

#### 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 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Tertiary and other | 957,602 | 991,282 |
| Urban development, renovation and transport | 192,400 | 194,101 |
| Electricity, coal and others | 181,317 | 290,364 |
| Basic material and mining | 45,820 | 59,462 |
| Materials processing, construction | 33,144 | 2,194 |
| Roads and motorways | 32,043 | 40,960 |
| Airports and air traffic management systems | 29,182 | 30,882 |
| Telecommunications | 26,095 | 20,310 |
| Chemicals, plastics and pharmaceuticals | 20,436 | - |
| Food chain | 15,386 | 15,586 |
| Waste recuperation | 7,564 | 8,018 |
| Social infrastructure, education and health | 2 | 1,100 |
| Oil, gas and petroleum | - | 12,466 |
| **Total** | **1,540,991** | **1,666,725** |

#### 3.2.3.5 Credit risk exposure for each internal risk rating

The Facility uses an internal rating methodology in line with the Internal ratings based approach under Basel III. The majority of the Facility's counterparties have been assigned an internal rating according to this methodology. The table below shows a breakdown of the Facility's loan portfolio by the better of the borrower's or guarantor's internal ratings, where available. In cases where an internal rating is not available, the external rating has been used for this analysis.

The table shows both the exposures signed (disbursed and undisbursed) and the risk-weighted exposures, based on an internal methodology that the Facility uses for limit management.

| | 2018 | | | | | |
|---|---|---|---|---|---|---|
| **(in EUR '000)** | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **POCI** | **FVTPL** | **Total** |
| **Loans and advances at AC** | | | | | | |
| Internal Rating 1 - minimal credit risk | - | 90,875 | - | - | - | 90,875 |
| Internal Rating 2 - very low credit risk | 74,650 | - | - | - | - | 74,650 |
| Internal Rating 3 - low credit risk | 17,804 | - | - | - | - | 17,804 |
| Internal Rating 4 - moderate credit risk | 39,295 | 18,783 | - | - | - | 58,078 |
| Internal Rating 5 - financially weak counterpart | 165,551 | - | - | - | - | 165,551 |
| Internal Rating 6 - high credit risk | 834,194 | 94,749 | - | - | - | 928,943 |
| Internal Rating 7 - very high credit risk | 75,057 | 134,701 | - | - | 1,806 | 211,564 |
| Internal Rating 8 - counterpart in default | - | - | 185,273 | 3,588 | - | 188,861 |
| Loss allowance | -22,023 | -27,342 | -143,092 | -1,794 | -1,084 | -195,335 |
| **Carrying amount** | **1,184,528** | **311,766** | **42,181** | **1,794** | **722** | **1,540,991** |
| **Loan commitments** | | | | | | |
| Internal Rating 1 - minimal credit risk | - | - | - | - | - | - |
| Internal Rating 2 - very low credit risk | 102,092 | - | - | - | - | 102,092 |
| Internal Rating 3 - low credit risk | 12,000 | - | - | - | - | 12,000 |
| Internal Rating 4 - moderate credit risk | 12,463 | - | - | - | - | 12,463 |
| Internal Rating 5 - financially weak counterpart | 230,455 | - | - | - | - | 230,455 |
| Internal Rating 6 - high credit risk | 567,573 | 22,467 | - | - | - | 590,040 |
| Internal Rating 7 - very high credit risk | 100,055 | 96,074 | - | - | - | 196,129 |
| Internal Rating 8 - counterpart in default | - | - | 16,932 | - | - | 16,932 |
| No internal rating* | 123,821 | - | - | - | - | 123,821 |
| Loss allowance | -7,225 | -16,597 | - | - | - | -23,822 |
| **Carrying amount** | **1,141,234** | **101,944** | **16,932** | **-** | **-** | **1,260,110** |

(*) agency agreements for which at reporting date there is no underlying counterparts

The Facility continually monitors events affecting its borrowers and guarantors, especially banks. In particular, the Facility is assessing on a case-by-case basis its contractual rights in case of rating deterioration and is seeking mitigating measures. It is also closely following the renewals of bank guarantees received for its loans to ensure that these are replaced or action is taken in a timely manner if need be.

### 3.2.3.6 Arrears on loans and impairments

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

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

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

| | **Loans and advances** | **Loans and receivables** |
|---|---|---|
| | **31.12.2018** | **31.12.2017** |
| **Carrying amount** | **1,540,991** | **1,666,725** |
| **Lifetime ECL credit- impaired** | | |
| Gross amount | 188,861 | 136,827 |
| Impairment- loss allowance | -144,886 | -106,203 |
| **Carrying amount of lifetime ECL credit-impaired** | **43,975** | **30,624** |
| **Past due but not credit- impaired** | | |
| **Past due comprises** | | |
| 0-30 days | 804 | 1,227 |
| 30-60 days | - | 77 |
| 60-90 days | - | 31 |
| 90-180 days | - | 18 |
| more 180 days | 1 | 1 |
| **Carrying amount past due but not credit- impaired** | **805** | **1,354** |
| **Carrying amount neither past due nor credit- impaired** | **1,496,211** | **1,634,747** |
| **Total carrying amount loans and advances** | **1,540,991** | **1,666,725** |

### 3.2.3.7 Loan renegotiation and forbearance

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

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

Forbearance measures and practices undertaken by the Bank's restructuring team during the reporting period includes extension of maturity, deferral of capital only, deferral of capital and interest and capitalisation of arrears. Such forbearance measures do not lead to the derecognition of the underlying operation unless the impact of the contractual changes on the net present value of the loan at the date of restructuring is considered significant. If such newly recognised financial asset is credit-impaired, it would meet the definition of the POCI financial asset.

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

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

| **In EUR'000** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Number of operations subject to forbearance practices | 33 | 27 |
| Carrying values | 280,720 | 136,973 |
| of which impaired | 9,506 | 112,423 |
| Impairment recognised | 86,334 | 107,256 |
| Interest income in respect of forborne operations | 13,465 | 8,418 |
| Exposures written off (following the termination/sale of the operation) | - | 9,395 |

| | | **Forbearance measures** | | | | | |
|---|---|---|---|---|---|---|---|
| **In EUR'000** | **31.12.2017** | **Extension of maturities** | **Deferral of capital only** | **Deferral of capital and interest** | **Other** | **Contractual repayment and termination (1)** | **31.12.2018** |
| Banks | 30,347 | - | 290 | 5,654 | 765 | -9,464 | 27,592 |
| Corporates | 106,626 | 3,463 | - | 15,271 | 143,261 | -15,493 | 253,128 |
| **Total** | **136,973** | **3,463** | **290** | **20,925** | **144,026** | **-24,957** | **280,720** |

(1) Decreases are explained by repayments of capital occurred during the year on operations already considered as forborne as of 31 December 2018 and by termination of forborne measures during the year.

### 3.2.4 Credit risk on cash and cash equivalents

Available funds are invested in accordance with the Facility's schedule of contractual disbursement obligations. As of 31 December 2018 and 31 December 2017, investments were in the form of bank deposits, certificates of deposit and commercial papers.

The authorized entities have a rating similar to the short-term and long-term ratings required for the EIB's own treasury placements. In case of different ratings being granted by more than one credit rating agency, the lowest rating governs. The maximum authorized limit for each authorised bank is currently EUR 50,000,000 (fifty million euro). An exception to this rule has been granted to Societe Generale where the Facility has its operational cash accounts. The short term credit limit for Societe Generale as at 31 December 2018 and 31 December 2017 amounts to EUR 110,000,000 (one hundred and ten million euro). The increased limit applies to the sum of the cash held at the operational cash accounts and the instruments issued by this counterpart and held by the treasury portfolio.

All investments have been done with authorised entities with a maximum tenor of three months from value date. All credit exposure limit breaches have been reported to the mandators. As at 31 December 2018 all term deposits, commercial papers and cash in hand held by the treasury portfolio of the Facility had a minimum rating of at least P-2 (Moody's equivalent) at settlement day. As at 31 December 2017 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) | 31.12.2018 | | 31.12.2017 | |
|---|---|---|---|---|---|
| P-1 | Aaa | 71,914 | 13% | 49,616 | 9% |
| P-1 | Aa3 | 49,972 | 9% | 89,971 | 16% |
| P-1 | A1 | 199,938 | 34% | 143,080 | 26% |
| P-1 | A2 | 201,899 | 35% | 266,434 | 49% |
| P-2 | A3 | 49,985 | 9% | - | 0% |
| **Total** | | **573,708** | **100%** | **549,101** | **100%** |

### 3.2.5 Credit risk on derivatives

#### 3.2.5.1 Credit risk policy of derivatives

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

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

#### 3.2.5.2 Credit risk measurement for derivatives

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

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

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

| **Swap contracts at 31.12.2018**<br>**In EUR'000** | **less than 1 year** | **1 year to 5 years** | **5 years to 10 years** | **more than to 10 years** | **Total 2018** |
|---|---|---|---|---|---|
| Notional amount | - | 5,245 | - | - | **5,245** |
| Fair Value (i.e. net discounted value) | - | -325 | - | - | **-325** |

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

- 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 1,460.6 million at 31 December 2018 against EUR 1,500.0 million at 31 December 2017. The fair value of FX swaps amounts to EUR 1.1 million at 31 December 2018 against EUR 12.0 million at 31 December 2017.

- The Facility enters into interest rate swap contracts in order to hedge the interest rate risk on loans disbursed. As at 31 December 2018 there are two interest rate swaps outstanding with a notional amount of EUR 28.5 million (2017: EUR 31.7 million) and a fair value of EUR 0.7 million (2017: EUR 0.3 million).

### 3.2.6 Credit risk on treasury financial assets

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

| **Minimum short-term rating (Moody's term)** | **Minimum long-term rating (Moody's term)** | **31.12.2018** | | **31.12.2017** | |
|---|---|---|---|---|---|
| P-1 | Aa2 | 80,041 | 24% | - | 0% |
| P-1 | Aa3 | 95,055 | 29% | - | 0% |
| P-1 | A1 | 15,005 | 4% | - | 0% |
| P-1 | A2 | 45 008 | 13% | - | 0% |
| P-2 | A2 | 50,015 | 15% | - | 0% |
| P-2 | A3 | 50,016 | 15% | - | 0% |
| P-2 | Baa2 | - | 0% | 94,353 | 65% |
| NP | Ba1 | - | 0% | 50,029 | 35% |
| **Total** | | **335,140** | **100%** | **144,382** | **100%** |

### 3.3 Liquidity risk

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

#### 3.3.1 Liquidity risk management

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

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

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

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

#### 3.3.2 Liquidity risk measurement

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

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

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

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

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

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

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

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

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.

# INVESTMENT FACILITY

| Maturity profile of non-derivative financial liabilities<br>In EUR'000 as at 31.12.2018 | 3 months or less | More than 3 months to 1 year | More than 1 year to 5 years | More than 5 years | Maturity Undefined | Gross nominal outflow |
|---|---|---|---|---|---|---|
| Outflows for committed but un-disbursed loans | 7,854 | - | - | - | 1,276,077 | 1,283,931 |
| Outflows for committed investment funds and share subscription | 2,023 | - | - | - | 345,144 | 347,167 |
| Others (signed non-issued guarantees, issued guarantees) | - | - | - | - | 1,556,468 | 1,556,468 |
| Outflows for committed interest subsidies | - | - | - | - | 360,655 | 360,655 |
| Outflows for committed TA | 2,373 | - | - | - | 24,082 | 26,455 |
| **Total** | **12,250** | **-** | **-** | **-** | **3,562,426** | **3,574,676** |

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

| Maturity profile of derivative financial liabilities<br>In EUR'000 as at 31.12.2018 | 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 | 3,281 | 1,816 | - | 5,102 |
| CCS and CCIRS – Outflows | - | -4,081 | -1,770 | - | -5,851 |
| Short term currency swaps – Inflows | 1,460,608 | - | - | - | 1,460,608 |
| Short term currency swaps – Outflows | -1,465,498 | - | - | - | -1,465,498 |
| Interest Rate Swaps – Inflows | 397 | 1,171 | 3,473 | 204 | 5,245 |
| Interest Rate Swaps - Outflows | - | -1,340 | -3,030 | -175 | -4,545 |
| **Total** | **-4,488** | **-969** | **489** | **29** | **-4,939** |

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

#### 3.3.3 Long term financial assets and liabilities

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

| In EUR'000 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| **Financial assets:** | | |
| Loans and advances | 1,666,232 | 1,608,488 |
| Shares and other variable yield securities | 567,292 | 497,539 |
| Other assets | 171 | 318 |
| **Total** | **2,233,695** | **2,106,345** |
| **Financial liabilities:** | | |
| Provisions for guarantees issued | 793 | 549 |
| Amount owed to third parties | 93,641 | 109,004 |
| Provisions for loan commitments | 23,822 | - |
| **Total** | **118,256** | **109,553** |

### 3.4 Market risk

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

#### 3.4.1 Interest rate risk

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

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

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

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

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

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

As shown in the following table the net present value of the loan portfolio including related micro-hedging swaps as at 31 December 2018 would decrease by EUR 483k (as at 31 December 2017: decrease by EUR 488k) if all relevant interest rates curves are simultaneously shifted upwards in parallel by 1 basis point.

| Basis point value<br>In EUR'000<br>As at 31.12.2018 | Money<br>Market<br>1 year | Very Short<br><br>2 to 3 years | Short<br><br>4 to 6 years | Medium<br><br>7 to 11 years | Long<br><br>12 to 20 years | Extra Long<br><br>21 years | Total |
|---|---|---|---|---|---|---|---|
| Total sensitivity of loans and micro hedging swaps | -38 | -94 | -168 | -154 | -29 | - | -483 |

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

### 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.

*Policy applicable before 1 January 2018*

The unrealised gains/losses and impairment on available-for sale financial assets (IAS 39) 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.

*Policy applicable after 1 January 2018*

The fair value change on shares and other variable yield securities are included in the FX position as per Risk Policies, as well as impairments on loans and advances. 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.

## INVESTMENT FACILITY

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

| **At 31 December 2018** | **Assets and liabilities** | | | **Commitments and contingent liabilities** |
|---|---|---|---|---|
| **Currencies** | **FX position as per Risk Policies** | **FX position excluded from Risk Policies** | **Balance sheet FX position** | |
| **USD** | -157,177 | -52,111 | -209,288 | 600,271 |
| *Local currencies (under synthetic hedge)** | | | | |
| **KES** | 35,806 | 252 | 36,058 | - |
| **TZS** | 71,195 | 814 | 72,009 | - |
| **DOP** | 35,311 | 821 | 36,132 | - |
| **UGX** | 45,731 | 769 | 46,500 | - |
| **RWF** | 24,176 | 17 | 24,193 | - |
| *Local currencies (not under synthetic hedge)** | | | | |
| **HTG, MUR, MZN, XOF, ZMW, BWP, JMD, NGN, ZAR** | 74,265 | -432 | 73,833 | - |
| **Total non-EUR currencies** | **129,307** | **-49,870** | **79,437** | **600,271** |
| **EUR** | **-** | **2,834,560** | **2,834,560** | **3,044,623** |
| **Total EUR and non-EUR** | **129,307** | **2,784,690** | **2,913,997** | **3,644,894** |

* See section 3.4.2.2.2 for explanations on synthetic hedge.

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

#### 3.4.2.3 Foreign exchange sensitivity analysis

As at 31 December 2018 a 10 percent depreciation of EUR versus all non EUR currencies would result in an increase of the contributors' resources amounting to EUR 8.8 million (31 December 2017: EUR 16.6 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 7.2 million (31 December 2017: EUR 13.6 million).

#### 3.4.2.4 Conversion rates

The following conversion rates were used for establishing the balance sheet at 31 December 2018 and 31 December 2017:

| | 31 December 2018 | 31 December 2017 |
|---|---|---|
| **Non-EU currencies** | | |
| Botswana Pula (BWP) | 12.2038 | 11.7512 |
| Dominican Republic Pesos (DOP) | 57.4037 | 57.1465 |
| Fiji Dollars (FJD) | 2.4104 | 2.4186 |
| Haitian Gourde (HTG) | 86.92 | 75.69 |
| Jamaican Dollar (JMD) | 144.081 | 148.7032 |
| Kenya Shillings (KES) | 116.24 | 123.7 |
| Mauritania Ouguiyas (MRO)* | - | 422.36 |
| Mauritania Ouguiyas (MRU)* | 41.166 | - |
| Mauritius Rupees (MUR) | 39.05 | 40.07 |
| Mozambican Metical (MZN) | 70.14 | 70.09 |
| Nigerian Naira (NGN) | 351.05 | 367.44 |
| Rwanda Francs (RWF) | 1020.1 | 1003.37 |
| Tanzania Shillings (TZS) | 2624.33 | 2681.78 |
| Uganda Shillings (UGX) | 4239 | 4357 |
| United States Dollars (USD) | 1.145 | 1.1993 |
| Franc CFA Francs (XAF/XOF) | 655.957 | 655.957 |
| South Africa Rand (ZAR) | 16.4594 | 14.8054 |
| Zambia Kvacha (ZMW) | 13.6077 | 11.965 |

(*) The MRU was introduced as at 1 January 2018, replacing the old MRO at a rate of 1 MRU = 10 MRO

### 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 equity instruments 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 56.7 million respectively EUR -56.7 million as at 31 December 2018 (EUR 49.8 million respectively EUR -49.8 million as at 31 December 2017).

## 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 2018 | Carrying amount | | | | | | Fair value | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| In EUR'000 | Held for trading | Shares and other variable yield securities | Cash, loans and advances | Treasury financial assets | Other financial liabilities | Total | Level 1 | Level 2 | Level 3 | Total |
| **Financial assets mandatorily measured at FVTPL** | | | | | | | | | | |
| Derivative financial instruments | 9,873 | - | - | - | - | 9,873 | - | 9,873 | - | 9,873 |
| Venture Capital Fund | - | 467,152 | - | - | - | 467,152 | - | - | 467,152 | 467,152 |
| Direct Equity Investment | - | 100,140 | - | - | - | 100,140 | 16,675 | - | 83,465 | 100,140 |
| Loans and advances | - | - | 720 | - | - | 720 | - | 720 | - | 720 |
| **Total** | **9,873** | **567,292** | **720** | **-** | **-** | **577,885** | **16,675** | **10,593** | **550,617** | **577,885** |
| **Financial assets at AC** | | | | | | | | | | |
| Cash and cash equivalents | - | - | 573,708 | - | - | 573,708 | - | - | - | - |
| Loans and advances | - | - | 1,540,271 | - | - | 1,540,271 | - | 1,760,576 | - | 1,760,576 |
| Amounts receivable from contributors | - | - | 100,000 | - | - | 100,000 | - | - | - | - |
| Treasury financial assets | - | - | - | 335,140 | - | 335,140 | 191,475 | 145,061 | - | 336,536 |
| Other assets | - | - | 171 | - | - | 171 | - | - | - | - |
| **Total** | **-** | **-** | **2,214,150** | **335,140** | **-** | **2,549,290** | **191,475** | **1,905,637** | **-** | **2,097,112** |
| **Total financial assets** | **9,873** | **567,292** | **2,214,870** | **335,140** | **-** | **3,127,175** | | | | |
| **Financial liabilities mandatorily measured at FVTPL** | | | | | | | | | | |
| Derivative financial instruments | -8,493 | - | - | - | - | -8,493 | - | -8,493 | - | -8,493 |
| **Total** | **-8,493** | **-** | **-** | **-** | **-** | **-8,493** | **-** | **-8,493** | **-** | **-8,493** |
| **Financial liabilities at AC:** | | | | | | | | | | |
| Provisions for guarantees issued | - | - | - | - | -793 | -793 | | | | |
| Provisions for loan commitments | - | - | - | - | -23,822 | -23,822 | | | | |
| Amounts owed to third parties | - | - | - | - | -143,813 | -143,813 | | | | |
| Other liabilities | - | - | - | - | -2,493 | -2,493 | | | | |
| **Total** | **-** | **-** | **-** | **-** | **-170,921** | **-170,921** | | | | |
| **Total financial liabilities** | **-8,493** | **-** | **-** | **-** | **-170,921** | **-179,414** | | | | |

## 4 Fair values of financial instruments (continued)

### 4.1 Accounting classifications and fair values (continued)

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

### 4.2 Measurement of fair values

#### 4.2.1 Valuation techniques and significant unobservable inputs

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

| | Valuation technique | Significant unobservable inputs | Relationship of unobservable inputs to fair value measurement |
|---|---|---|---|
| **Financial instruments carried at fair value** | | | |
| Derivative financial instruments | Discounted cash flow: Future cash flows are estimated based on forward exchange/interest rates (from observable forward exchange rates and yield curves at the end of the reporting period) and contract forward/interest rates, discounted at a rate that reflects the credit risk of various counterparties. | Not applicable. | Not applicable. |
| Venture Capital Fund (VCF) | Adjusted net assets method: The fair value is determined by applying either the Facility's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report adjusted for cash flows or, where available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available Net assets value (NAV) and the year-end reporting, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted. | Adjustment for time elapsed between the last reporting date of the VCF and the measurement date, taking into account: operating expenses and management fees, subsequent changes in the fair value of the VCF's underlying assets, additional liabilities incurred, market changes or other economic condition changes. | The longer the period between the fair value measurement date and the last reporting date of the VCF, the higher the adjustment for time elapsed. |
| Direct Equity Investment | Adjusted net assets. | Adjustment for time elapsed between the last reporting date of the investee and the measurement date, taking into account: operating expenses, subsequent changes in the fair value of the investee's underlying assets, additional liabilities incurred, market changes or other economic condition changes, capital increase, sale/change of control. | The longer the period between the fair value measurement date and the last reporting date of the investee, the higher the adjustment for time elapsed. |
| | | Discount for lack of marketability (liquidity) determined by reference to previous transaction prices for similar equities in the country/region, ranging from 5 to 30%. | The higher the marketability discount, the lower the fair value. |
| **Financial instruments not carried at fair value** | | | |
| Loans and advances | 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 advances. | Not applicable. | Not applicable. |
| Treasury financial assets | Discounted cash flows. | Not applicable. | Not applicable. |

With the application of IFRS 13, valuation adjustments are included in the fair value of derivatives at 31 December 2018 and 2017, namely:

- Credit valuation adjustments (CVA), reflecting counterparty credit risk on derivative transactions, amounting to EUR -37.4k as at 31 December 2018 and to EUR -38k as at 31 December 2017.
- Debit valuation adjustments (DVA), reflecting own credit risk on derivative transactions, amounting to EUR +15.1k as at 31 December 2018 and EUR +29.5k as at 31 December 2017.

#### 4.2.2 Transfers between Level 1 and 2

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

In 2018 and 2017 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 2018 and 31 December 2017:

| In EUR'000 | Shares and other variable yield securities |
|---|---|
| **Balance at 1 January 2018** | **473,081** |
| **Gains or losses included in profit or loss:** | |
| - net realised gains on shares and other variable yield securities | -10,622 |
| - net fair value change on shares and other variable yield securities | -13,411 |
| **Total** | **-24,033** |
| Disbursements | 95,434 |
| Repayments | -11,165 |
| Write offs | 17,300 |
| **Balance at 31 December 2018** | **550,617** |

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

In 2018 and 2017 the Facility did not make transfers out or to Level 3 of the fair value hierarchy.

## 5 Cash and cash equivalents

The cash and cash equivalents are composed of:

| In EUR'000 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Cash in hand | 51,936 | 166,445 |
| Term deposits | 521,882 | 367,653 |
| Commercial papers | - | 15,003 |
| **Cash and cash equivalents in the statement of financial position** | **573,818** | **549,101** |
| Accrued interest | -110 | 68 |
| **Cash and cash equivalents in the cash flow statement** | **573,708** | **549,169** |

## 6 Derivative financial instruments

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

| At 31 December 2018 | Fair Value | | Notional amount |
|---|---|---|---|
| In EUR'000 | Assets | Liabilities | |
| Cross currency interest rate swaps | 340 | -665 | 5,245 |
| Interest rate swaps | 654 | - | 28,470 |
| FX swaps | 8,879 | -7,828 | 1,460,608 |
| **Total derivative financial instruments** | **9,873** | **-8,493** | **1,494,323** |

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

# 7 Loans and advances

## 7.1 Loans and advances

The following table show reconciliation from the opening to the closing balance of the loans and advances with new ECL IFRS 9 impairment model. Comparative impairment amounts for 2017 represent allowance account for credit losses and reflect measurement under IAS 39.

| In EUR'000 | Global loans(*) | Senior loans | Subordinated loans | POCI | Total |
|---|---|---|---|---|---|
| **Nominal of loans at AC as at 1 January 2018** | **1,003,294** | **687,499** | **62,546** | **-** | **1,753,339** |
| Disbursements | 203,352 | 52,274 | - | 3,588 | 259,214 |
| Write offs | - | - | - | - | - |
| Repayments | -192,355 | -157,952 | -4,548 | - | -354,855 |
| Interest capitalised | - | - | - | - | - |
| Foreign exchange rates differences | 37,026 | 11,503 | 2,719 | - | 51,248 |
| **Nominal of loans at AC as at 31 December 2018** | **1,051,317** | **593,324** | **60,717** | **3,588** | **1,708,946** |
| | | | | | |
| **Impairment – loss allowance as at 1 January 2018** | **-35,082** | **-57,911** | **-62,546** | **-** | **-155,539** |
| Net changes of the 12 month ECL | -1,853 | 288 | - | - | -1,565 |
| Net changes of lifetime ECL not credit-impaired | 4,696 | 870 | -2,146 | - | 3,420 |
| Lifetime ECL credit-impaired | -71,204 | - | - | -1,794 | -72,998 |
| Reversal of lifetime ECL credit-impaired | 2,214 | 8,480 | 37,678 | - | 48,372 |
| Write offs | - | - | - | - | - |
| Foreign exchange rates differences | -2,639 | -1,336 | -2,346 | - | -6,321 |
| **Impairment – loss allowance as at 31 December 2018** | **-103,868** | **-49,609** | **-29,360** | **-1,794** | **-184,631** |
| | | | | | |
| **Loans and advances AC as at 31 December 2018** | **947,449** | **543,715** | **31,357** | **1,794** | **1,524,315** |
| | | | | | |
| **Nominal of loans at FVTPL as at 1 January 2018** | **1,800** | **-** | **-** | **-** | **1,800** |
| Disbursements | - | - | - | - | - |
| Repayments | - | - | - | - | - |
| Write offs | - | - | - | - | - |
| Foreign exchange rates differences | - | - | - | - | - |
| **Nominal of loans at FVTPL as at 31 December 2018** | **1,800** | **-** | **-** | **-** | **1,800** |
| | | | | | |
| **Fair value adjustment as at 1 January 2018** | **-378** | **-** | **-** | **-** | **-378** |
| Net FV change | -702 | - | - | - | -702 |
| Foreign exchange rates differences | - | - | - | - | - |
| **Fair value adjustment as at 31 December 2018** | **-1,080** | **-** | **-** | **-** | **-1,080** |
| | | | | | |
| **Loans and advances at FVTPL as at 31 December 2018** | **720** | **-** | **-** | **-** | **720** |
| | | | | | |
| Amortised Cost | -3,550 | -3,109 | 11 | - | -6,648 |
| Interest | 12,330 | 9,243 | 1,031 | - | 22,604 |
| **Loans and advances as at 31 December 2018** | **956,949** | **549,849** | **32,399** | **1,794** | **1,540,991** |

# 7 Loans and advances (continued)

## 7.1 Loans and advances (continued)

| In EUR'000 | Global loans(*) | Senior loans | Subordinated loans | Total |
|---|---|---|---|---|
| **Nominal as at 1 January 2017** | **994,527** | **764,339** | **71,563** | **1,830,429** |
| Disbursements | 305,059 | 63,603 | - | 368,662 |
| Write offs | -3,257 | -6,138 | - | -9,395 |
| Repayments | -162,361 | -91,125 | - | -253,486 |
| Foreign exchange rates differences | -128,874 | -43,180 | -9,017 | -181,071 |
| **Nominal as at 31 December 2017** | **1,005,094** | **687,499** | **62,546** | **1,755,139** |
| | | | | |
| **Impairment as at 1 January 2017** | **-18,185** | **-28,294** | **-71,161** | **-117,640** |
| Impairment recorded in statement of profit or loss and other comprehensive income | -5,105 | -11,572 | - | -16,677 |
| Write offs | 3,257 | 6,138 | - | 9,395 |
| Reversal of impairment | 2,204 | 3,752 | - | 5,956 |
| Foreign exchange rates differences | 914 | 3,234 | 8,615 | 12,763 |
| **Impairment as at 31 December 2017** | **-16,915** | **-26,742** | **-62,546** | **-106,203** |
| | | | | |
| Amortised Cost | -3,802 | -3,408 | - | -7,210 |
| Interest | 15,122 | 9,877 | - | 24,999 |
| **Loans and receivables as at 31 December 2017** | **999,499** | **667,226** | **-** | **1,666,725** |

(*) including agency agreements

## 7.2 Impairment on loans and advances – Loss allowances

| | 2018 | | | | |
|---|---|---|---|---|---|
| In EUR'000 | 12-month ECL | Lifetime ECL not credit-impaired | Lifetime ECL credit-impaired | POCI | Total |
| **Loans and advances at AC** | | | | | |
| Balance at 1 January 2018 | 19,738 | 29,975 | 105,826 | - | 155,539 |
| Transfer to 12-month ECL | 2,285 | - | - | - | 2,285 |
| Transfer to lifetime ECL not credit-impaired | - | -2,633 | - | - | -2,633 |
| Transfer to lifetime ECL credit-impaired | - | - | 27,646 | 1,794 | 29,440 |
| Financial assets that have been derecognised | - | - | - | - | - |
| Write-offs | - | - | - | - | - |
| **Balance at 31 December 2018** | **22,023** | **27,342** | **133,472** | **1,794** | **184,631** |

## 8 Shares and other variable yield securities

The following table show reconciliation from the opening to the closing balance of the Equity investments with new measurement policy under IFRS 9. Comparative amounts for 2017 represent measurement under IAS 39 when equity instruments were classified under available-for-sale portfolio:

| In EUR'000 | Venture Capital Funds | Direct Equity Investments | Total |
|---|---|---|---|
| **Cost as at 1 January 2018** | **356,086** | **70,310** | **426,396** |
| Disbursements | 73,250 | 22,184 | 95,434 |
| Repayments / sales | -21,681 | -635 | -22,316 |
| Foreign exchange rates differences on repayments / sales | 13,938 | 1,355 | 15,293 |
| **Cost as at 31 December 2018** | **421,593** | **93,214** | **514,807** |
| | | | |
| **Unrealised gains and losses as at 1 January 2018** | **64,018** | **7,125** | **71,143** |
| Net change in unrealised gains and losses | -20,493 | -172 | -20,665 |
| Foreign exchange rates differences on unrealised gains and losses | 2,034 | -27 | 2,007 |
| **Unrealised gains and losses as at 31 December 2018** | **45,559** | **6,926** | **52,485** |
| | | | |
| **Shares and other variable yield securities as at 31 December 2018** | **467,152** | **100,140** | **567,292** |

| In EUR'000 | Venture Capital Funds | Direct Equity Investments | Total |
|---|---|---|---|
| **Cost as at 1 January 2017** | **331,253** | **72,636** | **403,889** |
| Disbursements | 62,660 | - | 62,660 |
| Repayments / sales | -38,990 | -708 | -39,698 |
| Write offs | -437 | -1,673 | -2,110 |
| Foreign exchange rates differences on repayments / sales | 1,600 | 55 | 1,655 |
| **Cost as at 31 December 2017** | **356,086** | **70,310** | **426,396** |
| | | | |
| **Unrealised gains and losses as at 1 January 2017** | **129,427** | **13,457** | **142,884** |
| Net change in unrealised gains and losses | -20,930 | -1,008 | -21,938 |
| **Unrealised gains and losses as at 31 December 2017** | **108,497** | **12,449** | **120,946** |
| | | | |
| **Impairment as at 1 January 2017** | **-22,892** | **-6,997** | **-29,889** |
| Impairment recorded in statement of profit or loss and other comprehensive income during the year | -22,024 | - | -22,024 |
| Write offs | 437 | 1,673 | 2,110 |
| **Impairment as at 31 December 2017** | **-44,479** | **-5,324** | **-49,803** |
| | | | |
| **Available-for-sale financial assets as at 31 December 2017** | **420,104** | **77,435** | **497,539** |

## 9 Amounts receivable from contributors (in EUR'000)

The amounts of EUR 100,000 receivable from contributors are entirely composed of Member States contribution called but not paid.

## 10 Treasury financial assets

The treasury 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 treasury portfolio:

| **In EUR'000** | |
|---|---|
| **Balance as at 1 January 2018** | **144,382** |
| Acquisitions | 2,219,062 |
| Maturities | -2,026,659 |
| Change in amortisation of premium/discount | 149 |
| Change in accrued interest | -1,794 |
| **Balance as at 31 December 2018** | **335,140** |

| **In EUR'000** | |
|---|---|
| **Balance as at 1 January 2017** | **169,398** |
| Acquisitions | 1,084,149 |
| Maturities | -1,109,563 |
| Change in amortisation of premium/discount | -59 |
| Change in accrued interest | 457 |
| **Balance as at 31 December 2017** | **144,382** |

## 11 Other assets

The main components of other assets are as follows:

| **In EUR'000** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Amount receivable from EIB | - | 4,117 |
| Financial guarantees | 171 | 268 |
| **Total other assets** | **171** | **4,385** |

## 12 Deferred income

The main components of deferred income are as follows:

| **In EUR'000** | **31.12.2018** | **31.12.2017** |
|---|---|---|
| Deferred interest subsidies | 32,658 | 24,895 |
| Deferred commissions on loans and advances | 1,106 | 907 |
| **Total deferred income** | **33,764** | **25,802** |

## 13 Provisions for guarantees issued

The following tables show reconciliation from the opening to the closing balance of the provision for financial guarantees under new ECL IFRS 9 model. Comparative amounts for 2017 represent the provision for guarantees issued that has been recognized under IAS 39 as there is objective evidence that the Facility will have to incur a loss in respect of guarantees granted.

| | 2018 | | | |
|---|---|---|---|---|
| **In EUR'000** | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
| **Guarantees issued** | | | | |
| Balance at 1 January | - | 484 | - | 484 |
| Transfer to 12-month ECL | 94 | - | - | 94 |
| Transfer to lifetime ECL not credit-impaired | - | 391 | - | 391 |
| Transfer to lifetime ECL credit-impaired | - | - | - | - |
| Guarantees that have been derecognised | - | - | - | - |
| Guarantee calls | - | - | - | - |
| Amortisation of upfront fees | - | -128 | - | -128 |
| Foreign exchange rates differences | - | -48 | - | -48 |
| **Balance at 31 December** | **94** | **699** | **-** | **793** |

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

## 14 Provisions for loan commitments

The following table shows reconciliation from the opening to the closing balance of the loss allowance for undisbursed loans (loan commitments) under new ECL IFRS 9 model. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement under IAS 39.

| | 2018 | | | |
|---|---|---|---|---|
| **In EUR'000** | **12-month ECL** | **Lifetime ECL not credit-impaired** | **Lifetime ECL credit-impaired** | **Total** |
| **Loans commitments** | | | | |
| Balance at 1 January | 1,993 | 2,163 | - | 4,156 |
| Transfer to 12-month ECL | 5,192 | - | - | 5,192 |
| Transfer to lifetime ECL not credit-impaired | - | 14,420 | - | 14,420 |
| Transfer to lifetime ECL credit-impaired | - | - | - | - |
| Foreign exchange rates differences | 40 | 14 | - | 54 |
| **Balance at 31 December** | **7,225** | **16,597** | **-** | **23,822** |

## 15 Amounts owed to third parties

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

| In EUR'000 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Net general administrative expenses payable to EIB | 47,799 | 45,105 |
| Other amounts payable to EIB | 54 | 580 |
| Interest subsidies and TA not yet disbursed owed to Member States | 95,960 | 111,600 |
| **Total amounts owed to third parties** | **143,813** | **157,285** |

## 16 Other liabilities

The main components of other liabilities are as follows:

| In EUR'000 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| Loan repayments received in advance | 2,124 | 1,986 |
| Deferred income from interest subsidies | 369 | 436 |
| Financial guarantees | - | 40 |
| **Total other liabilities** | **2,493** | **2,462** |

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

| Member States | Contribution to the Facility | Contribution to interest subsidies and technical assistance | Total contributed | Called and not paid |
|---|---|---|---|---|
| Austria | 69,935 | 8,869 | 78,804 | 2,410 |
| Belgium | 103,226 | 13,046 | 116,272 | 3,530 |
| Bulgaria | 896 | 294 | 1,190 | 140 |
| Cyprus | 576 | 189 | 765 | 90 |
| Czech Republic | 3,264 | 1,071 | 4,335 | 510 |
| Denmark | 56,820 | 7,275 | 64,095 | 2,000 |
| Estonia | 320 | 105 | 425 | 50 |
| Finland | 39,852 | 5,214 | 45,066 | 1,470 |
| France | 624,971 | 75,972 | 700,943 | 19,550 |
| Germany | 611,715 | 76,616 | 688,331 | 20,500 |
| Greece | 35,121 | 4,883 | 40,004 | 1,470 |
| Hungary | 3,520 | 1,155 | 4,675 | 550 |
| Ireland | 18,577 | 2,802 | 21,379 | 910 |
| Italy | 340,252 | 45,025 | 385,277 | 12,860 |
| Latvia | 448 | 147 | 595 | 70 |
| Lithuania | 768 | 252 | 1,020 | 120 |
| Luxembourg | 7,693 | 984 | 8,677 | 270 |
| Malta | 192 | 63 | 255 | 30 |
| Netherlands | 138,415 | 17,685 | 156,100 | 4,850 |
| Poland | 8,320 | 2,730 | 11,050 | 1,300 |
| Portugal | 27,313 | 3,809 | 31,122 | 1,150 |
| Romania | 2,368 | 777 | 3,145 | 370 |
| Slovakia | 1,344 | 441 | 1,785 | 210 |
| Slovenia | 1,152 | 378 | 1,530 | 180 |
| Spain | 170,369 | 24,876 | 195,245 | 7,850 |
| Sweden | 73,692 | 9,677 | 83,369 | 2,740 |
| United Kingdom | 355,881 | 49,356 | 405,237 | 14,820 |
| **Total as at 31 December 2018** | **2,697,000** | **353,691** | **3,050,691** | **100,000** |
| **Total as at 31 December 2017** | **2,517,000** | **333,691** | **2,850,691** | **150,000** |

On 12 November 2018, the Council fixed the amount of financial contributions to be paid by each Member State by 21 January 2019. As at 31 December 2018 EUR 100,000 were not paid in.

## 18 Contingent liabilities and commitments

| In EUR'000 | 31.12.2018 | 31.12.2017 |
|---|---|---|
| *Commitments* | | |
| Un-disbursed loans | 1,283,931 | 869,983 |
| Un-disbursed commitment in respect of shares and other variable yield securities | 347,167 | 321,695 |
| Issued guarantees | 2,800 | 7,682 |
| Interest subsidies and technical assistance | 457,328 | 382,576 |
| *Contingent liabilities* | | |
| Signed non-issued guarantees | 1,553,668 | 74,569 |
| **Total contingent liabilities and commitments** | **3,644,894** | **1,656,505** |

## 19 Interest and similar income and expenses

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

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Loans and advances | 92,506 | 97,440 |
| Interest subsidies | 4,224 | 3,966 |
| **Total interest and similar income** | **96,730** | **101,406** |

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

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Derivative financial instruments | -563 | -980 |
| Cash and cash equivalents | -654 | -1,037 |
| Treasury financial assets | -1,322 | -654 |
| **Total interest and similar expense** | **-2,539** | **-2,671** |

## 20 Fee and commission income and expenses

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

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Fee and commission on loans and advances | 107 | - |
| Fee and commission on financial guarantees | 170 | 209 |
| Other | 7 | 1 |
| **Total fee and commission income** | **284** | **210** |

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

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Commission paid to third parties with regard to shares and other variable yield securities | -106 | -60 |
| **Total fee and commission expenses** | **-106** | **-60** |

## 21 Net result on shares and other variable yield securities

The main components of net realised gains on shares and other variable yield securities are as follows:

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Net proceeds from shares and other variable yield securities | 3,166 | 1,030 |
| Dividend income | 7,320 | 1,681 |
| Net fair value change | -20,665 | - |
| **Net result on shares and other variable yield securities** | **-10,179** | **2,711** |

## 22 General administrative expenses

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.

| In EUR'000 | From 01.01.2018 to 31.12.2018 | From 01.01.2017 to 31.12.2017 |
|---|---|---|
| Actual cost incurred by the EIB | -50,021 | -48,285 |
| Income from appraisal fees directly charged to clients of the Facility | 2,222 | 3,180 |
| **Total general administrative expenses** | **-47,799** | **-45,105** |

## 23 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 un-disbursed commitments.

| Type of structured entity | Caption | Carrying amount at 31.12.2018 | Carrying amount at 31.12.2017 | Maximum exposure to loss at 31.12.2018 | Maximum exposure to loss at 31.12.2017 |
|---|---|---|---|---|---|
| Venture capital funds | Shares and other variable yield securities | 467,152 | 420,104 | 797,775 | 737,661 |
| **Total** | | **467,152** | **420,104** | **797,775** | **737,661** |

## 24 Impact financing envelope (in EUR'000)

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

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

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

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

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

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

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

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

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

| Type of IFE investment | Caption | Carrying amount at 31.12.2018 | Carrying amount at 31.12.2017 | Undisbursed amount at 31.12.2018 | Undisbursed amount at 31.12.2017 |
|---|---|---|---|---|---|
| Social impact equity funds | Shares and other variable yield securities | 19,134 | 7,839 | 53,672 | 51,720 |
| Loans to financial intermediaries | Loans and advances | 36,277 | 30,804 | 139,329 | 44,017 |
| Risk sharing facilitating instruments | Issued guarantees | -786 | -296 | 43,668 | 64,569 |
| Direct financing – equity participations | Shares and other variable yield securities | 53,183 | 42,981 | 1,014 | 4,014 |
| **Total** | | **107,808** | **81,328** | **237,683** | **164,320** |

## 25 Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2018 financial statements.

# AFRICA CARIBBEAN PACIFIC

## AND THE OVERSEAS COUNTRIES AND TERRITORIES

## FINANCIAL STATEMENTS 2018

European Investment Bank
The EU bank

EN 07/2020