Annual Report 2008

European Investment Bank Group • European Investment Bank Group • European Investment Bank Group • European Investment Bank Group

Volume II

Financial Report

Annual Report 2008

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Volume II

Financial Report

The **EIB Group's 2008 Annual Report** consists of three separate volumes:

- the Activity and Corporate Responsibility Report, presenting the EIB Group's activity over the past year and future prospects;
- the Financial Report, presenting the financial statements of the EIB Group, the EIB, the Cotonou Investment Facility, the FEMIP Trust Fund, the EU-Africa Infrastructure Trust Fund and the EIF, along with the related explanatory annexes;
- the Statistical Report, presenting in list form the projects financed and borrowings undertaken by the EIB in 2008, together with a list of the EIF's projects. It also includes summary tables for the year and over the last five years.

The Annual Report is also available on the Bank's website **www.eib.org/report.**

EIB Group: statutory figures

European Investment Bank

Activity in 2008

	(EUR m)
Projects approved	59 292
European Union	53 191
Partner countries	6 101
Signatures	57 625
European Union	51 480
Partner countries	6 145
Disbursements	48 614
European Union	44 229
Partner countries	4 384
Resources raised (before swaps)	59 497
Core currencies (EUR, GBP, USD)	51 225
Other currencies	8 272

Situation as at 31.12.2008

Outstandings	
Loans from the Bank's resources	350 289
Guarantees provided	262
Financing from budgetary resources	1 593
Short, medium and long-term borrowings	266 989
Own funds	35 718
Balance sheet total	325 761
Net profit for year	1 651
Subscribed capital	164 808
of which paid in and to be paid in	*8 240*

European Investment Fund

Activity in 2008

Signatures	2 552
Venture capital (32 funds)	409
Guarantees (20 operations)	2 143

Situation as at 31.12.2008

Portfolio	15 867
Venture capital – assets under management (299 funds)	3 534
Guarantees – positions (189 operations)	12 333
Accumulated signatures	
Venture capital (299 funds)	4 754
Guarantees (189 operations)	13 017
Own funds	1 011
Balance sheet total	1 076
Net profit for year	35
Subscribed capital	2 865
of which paid in	*573*

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Message from the President

The financial crisis has had a dramatic impact not only on the financial sector but also on the economy as a whole, affecting many men and women in every one of our countries.

It was therefore only natural for our shareholders, the 27 Member States of the European Union, to ask us to do more to help businesses and encourage economic recovery, and to do it faster. In the last quarter of 2008 the EIB substantially increased the volume of its lending, with signatures ultimately totalling EUR 57 billion, an increase of 21% compared with 2007. Over the same period it disbursed EUR 10 billion more than expected, with disbursements totalling EUR 49 billion at the end of the year. In particular, loans to SMEs increased, at the behest of the Ecofin Council, by 42% compared with 2007.

The EIB was hardly affected by the financial crisis, thanks to its prudent management, and its annual profit rose slightly. The Bank's own funds increased by 6.9% to EUR 36 billion, giving a capital adequacy ratio of 35.5% according to the Basel II rules. This exceptionally high level illustrates the EIB's financial strength, which is essential in these difficult and unpredictable times when the EIB is being called upon by its shareholders to lend even more.

In fact, its shareholders understood the importance of further strengthening the EIB, bringing forward a capital increase initially scheduled for 2010. Since 1 April 2009, the EIB's capital has amounted to EUR 232 billion, which gives it the necessary scope to increase the volume of its lending to the extent required by the scale of the crisis.

Of course this does not mean that we can finance anything and everything. The EIB, as the European Union's long-term financing instrument, can only finance viable projects that contribute to the objectives of the Union and meet our technical, economic and environmental quality criteria.

With regard to governance, the EIB abides by the rules of the European Union and the guidelines laid down by the G-20. Measures to combat fraud, corruption, money laundering and the financing of terrorism are an integral part of the project appraisal and monitoring process. In the case of certain riskier countries, the Bank is guided by the advice of Transparency International. The Compliance Office pays particular attention to these aspects; its opinion is carefully taken into account and sometimes leads to a refusal to finance a project. As urged by the G-20, the EIB has decided to review its policy on offshore centres, in cooperation with other international financial institutions.

The remuneration of the members of the Management Committee is strictly aligned with that of the members of the European Commission and does not include any bonus or other benefits. The members of the Bank's staff have a system of bonuses linked to their individual and collective performance. The overall budget for bonuses is determined by the extent to which a number of targets laid down every year by the Board of Directors (key performance indicators) are met. For senior managers, the bonus corresponds to 2.38 to 3.90 months of basic salary, or less than one third of annual salary.

There are two possible responses to the crisis: "every man for himself" or stronger, pragmatic cooperation for the benefit of everyone. The EIB's shareholders have opted for the latter and we intend to make our contribution to that goal.

Philippe Maystadt
President of the European Investment Bank Group

Banque
européenne
d'investissement
La banque des
projets européens

EIB Statutory Bodies

Situation at 12 March 2009

The composition of the Bank's statutory bodies, the curricula vitae of their members and additional information on the remuneration arrangements are regularly updated and posted on the EIB's website: www.eib.org.

Board of Governors

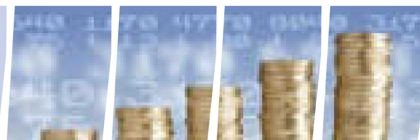
Chairman	Charilaos STAVRAKIS	(Cyprus)
Belgium	Didier REYNDERS	Ministre des Finances
Bulgaria	Plamen ORESHARSKI	Minister for Finance
Czech Republic	Miroslav KALOUSEK	Ministr financí
Denmark	Lene ESPERSEN	Økonomi- og erhvervsminister
Germany	Peer STEINBRÜCK	Bundesminister der Finanzen
Estonia	Ivari PADAR	Rahandusminister
Greece	John PAPATHANASSIOU	Minister of Economy and Finance
Spain	Pedro SOLBES MIRA	Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda
France	Christine LAGARDE	Ministre de l'Économie, de l'industrie et de l'emploi
Ireland	Brian LENIHAN	Minister for Finance
Italy	Giulio TREMONTI	Ministro dell'Economia e delle Finanze
Cyprus	Charilaos STAVRAKIS	Minister of Finance
Latvia	Einars REPŠE	Finanšu ministrs
Lithuania	Algirdas Gediminas ŠEMETA	Finansų ministras
Luxembourg	Jean-Claude JUNCKER	Premier Ministre, Ministre d'État, Ministre des Finances
Hungary	János VERES	Pénzügyminiszter
Malta	Tonio FENECH	Ministru tal-Finanzi, l-Ekonomija u l-Investiment
Netherlands	Wouter BOS	Minister van Financiën
Austria	Josef PRÖLL	Bundesminister für Finanzen
Poland	Jacek ROSTOWSKI	Ministra Finansów
Portugal	Fernando TEIXEIRA DOS SANTOS	Ministro de Estado e das Finanças
Romania	Gheorghe POGEA	Ministrul Finanţelor Publice
Slovenia	Franc KRIŽANIČ	Minister za finance
Slovakia	Ján POČIATEK	Minister financií
Finland	Mari KIVINIEMI	Hallinto- ja kuntaministeri
Sweden	Anders BORG	Finansminister
United Kingdom	Alistair DARLING	Chancellor of the Exchequer

Audit Committee

Chairman	Constantinos KARMIOS	Chief Accountant, Treasury of the Republic of Cyprus, Nicosia
Members	Ortwin KLAPPER	Former Chief Executive Officer of Bank Austria Creditanstalt Leasing Group
	Gerard SMYTH	Secretary and Director of Audit at the Office of the Comptroller and Auditor General, Dublin
Observers	Éric MATHAY	Member of the Board of Institut des Réviseurs d'Entreprises (IRE)
	José RODRIGUES DE JESUS	Chartered Auditor, Oporto
	Danièle NOUY	Secretary General of the French Banking Commission, Paris

Management Committee

President	Philippe MAYSTADT	
Vice-Presidents	Philippe de FONTAINE VIVE CURTAZ	Eva SREJBER
	Simon BROOKS	Marta GAJĘCKA
	Carlos da SILVA COSTA	Dario SCANNAPIECO
	Matthias KOLLATZ-AHNEN	Plutarchos SAKELLARIS



Board of Directors

The Board of Directors consists of 28 Directors, with one Director nominated by each Member State and one by the European Commission. There are 18 Alternates, meaning that some of these positions will be shared by groupings of States.

Furthermore, in order to broaden the Board of Directors' professional expertise in certain fields, the Board is able to co-opt a maximum of six experts (three Directors and three Alternates), who participate in the Board meetings in an advisory capacity, without voting rights.

Directors

Olivier HENIN	Directeur adjoint, responsable de la Cellule Marchés financiers internationaux, Ministère des Finances, Brussels
Dimiter IVANOVSKI	Deputy Minister, Ministry of Finance, Sofia
Zdeněk HRUBÝ	Member of the Board of Directors of the EIB, Prague
Sigmund LUBANSKI	Kontorchef, Økonomi- og Erhvervsministeriet, Copenhagen
Ralph MÜLLER	Leiter des Referats Haushalt der EU, Bundesministerium der Finanzen, Berlin
Ivar SIKK	Deputy Secretary General, State Budget and Governance, Ministry of Finance, Tallinn
Panagiotis DROSSOS	Secretary General of Investments and Development, Ministry of Economy and Finance, Athens
Maria Jesús FERNÁNDEZ GARCÍA	Directora General, Dirección General de Financiación Internacional, Ministerio de Economía y Hacienda, Madrid
Claire WAYSAND	Chef du service des politiques macroéconomiques et des affaires européennes, direction générale du Trésor et de la politique économique, ministère de l'Économie, de l'industrie et de l'emploi, Paris
Michael SOMERS	Chief Executive, National Treasury Management Agency, Dublin
Carlo MONTICELLI	Direttore per i Rapporti finanziari internazionali, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Kyriacos KAKOURIS	Senior Economic Officer, Ministry of Finance, Nicosia
Irena KRUMANE	Chairwoman of the Finance and Capital Market Commission, The Ministry of Finance of the Republic of Latvia, Riga
Jurgita UZIELIENE	Deputy Director, European Union and International Relations Department, Ministry of Finance,Vilnius
Gaston REINESCH	Administrateur général, Ministère des Finances, Luxembourg
János ERŐS	Chief Executive Officer, Magyar Fejlesztési Bank Zrt., Budapest
Vince GRECH	Consultant to the government of Malta, Ministry of Finance, the Economy and Investment, Valetta
Pim VAN BALLEKOM	Financial Counsellor, Permanent Representation of the Netherlands to the EU, Brussels
Wolfgang NITSCHE	Bundesministerium für Finanzen, Vienna
Jacek DOMINIK	Undersecretary of State, Ministry of Finance, Warsaw
Nuno de SOUSA PEREIRA	Gabinete de Planeamento, Estratégia, Avaliação e Relações Internacionais , Ministério das Finanças e da Administração Pública, Lisbon
Bogdan Alexandru DRAGOI	Secretary of State, Ministry of Public Finance, Bucharest
Andrej ŠIRCELJ	Member of the Board of Directors, Grosuplje (Slovenia)
Katarina KASZASOVÁ	Director General of the State Reporting Section, Ministry of Finance, Bratislava
Tytti NORAS	Lainsäädäntöneuvos, valtiovarainministeriö, Helsinki
Kurt Arne HALL	Finansråd, Internationella avdelningen, Finansdepartementet, Stockholm
Peter CURWEN	Director Europe, H.M. Treasury, Finance Directorate, London
Marco BUTI	Director-General, Directorate-General for Economic and Financial Affairs, European Commission, Brussels

Experts

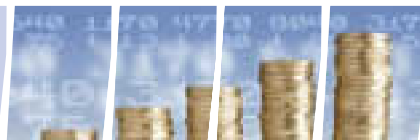
Pierre RICHARD	Expert on the Board of Directors of the EIB, Paris
Rainer MASERA	Capo della Delegazione Italiana, CIG – Struttura di Missione Torino - Lione , Rome
Timothy STONE	Chairman, Global Infrastructure and Projects Group, KPMG, London

Alternates

Michael KRUSE	Ministerialdirektor, Bundesministerium für Wirtschaft und Technologie, Berlin
(…)	(Germany)
Jean-Michel SEVERINO	Directeur général, Groupe Agence Française de Développement, Paris
Michel HOUDEBINE	Sous-directeur des affaires européennes, Direction du Trésor et de la politique économique, ministère de l'Économie, de l'industrie et de l'emploi, Paris
Pietro MASCI	Direttore dell'Ufficio per le relazioni istituzionali con la Banca europea per gli investimenti, Paesi del Mediterraneo e dei Balcani, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
(…)	(Italy)
Jean-Christophe GRAY	Head of EU Coordination and Strategy, HM Treasury, London
Tamsyn BARTON	Head of EU Department, Department for International Development, London
Carmen LAÍN	Subdirectora General, Subdirección General de Instituciones Financieras Europeas, Ministerio de Economía y Hacienda, Madrid
Rudolf de KORTE	Plaatsvervangend lid van de Raad van Bewind van de EIB, Wassenaar
Alf THERKILDSEN	Økonomi- og Erhvervsministeriet, Copenhagen
Ştefan NANU	General Director, General Department of Treasury and Public Debt, Ministry of Economy and Finance, Bucharest
Pauli KARINIEMI	Vanhempi finanssisihteeri, Rahoitusmarkkinaosasto, valtiovarainministeriö, Helsinki
Andžs ŪBELIS	Deputy State Secretary on European Affairs, Ministry of Finance, Riga
Zsuzsanna VARGA	Director General, Department of International Relations, Ministry of Finance, Budapest
Andrej KAVČIČ	Head of International Finance Department, Ministry of Finance, Ljubljana
(…)	…
Dirk AHNER	Director-General, Regional Policy Directorate-General, European Commission, Brussels

Alternate experts

Antoni SALA	Advisor, Bank Gospodarstwa Krajowego, Warsaw
Eneko LANDABURU	Director-General, Directorate-General for External Relations, European Commission, Brussels
(…)	…



EIF Statutory Bodies

Situation at 11 March 2009

The composition of the Fund's statutory bodies, the curricula vitae of their members and additional information on the remuneration arrangements are regularly updated and posted on the EIF's website: www.eif.org.

The EIF is managed and administered by the following three authorities:

- the General Meeting of all shareholders (EIB, European Commission, 31 financial institutions);
- the Board of Directors;
- the Chief Executive, Mr Richard Pelly.

Board of Directors

Chairman

Philippe MAYSTADT	President, European Investment Bank, Luxembourg

Members

Philippe de FONTAINE VIVE CURTAZ	Vice-President, European Investment Bank, Luxembourg
Werner OERTER	Leiter des Bereichs KfW Mittelstandsbank, KfW Bankengruppe
David McGLUE	Former Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Ralph MÜLLER	Leiter des Referats Haushalt der EU, Bundesministerium der Finanzen, Berlin
Heinz ZOUREK	Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels

Alternates

Thomas HACKETT	Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg
Rémy JACOB	Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg
Gaston REINESCH	Director General, Ministry of Finance, Luxembourg
Tytti NORAS	Legal Counsellor, Ministry of Finance, Finland
Peter BASCH	Acting Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Dirk AHNER	Director-General, Directorate-General for Regional Policy, European Commission
Marc AUBERGER	Director General CDC Capital Investissement

Audit Board

Chairman

Tony MURPHY	Head of Internal Audit Unit, European Commission, DG ECFIN

Members

Ortwin KLAPPER	Former Chief Executive Officer of Bank Austria Creditanstalt Leasing Group
Gabriela PANTRING	Managing Director, Head of Corporate Steering NRW. BANK, Düsseldorf, Germany

EIB Financing Activity

Faced with the financial crisis, the European Investment Bank demonstrated that it was capable of reacting rapidly to the financing requirements by increasing its volume of operations for 2008 by nearly 20%. Thus it made available a total of 57.6bn euros[1] in support of the objectives of the European Union. The finance provided in the EU amounted to 51.5bn, of which 8.2bn (16%) in the 12 new member countries. Financing in the partner countries came to 6.1bn.

The EIB's strategic orientations are reflected in a number of objectives defined in the Bank's Corporate Operational Plan. For the period 2008-2010, six strategic priorities have been defined for financing operations in the Member States of the European Union: economic and social cohesion and convergence within the enlarged Union; implementation of the knowledge economy, which succeeds the objective of fostering innovation; developing trans-European networks and their access routes; protecting and improving the environment and promoting sustainable communities; supporting small and medium-sized enterprises (SMEs); and promoting secure, competitive and sustainable energy supplies.

- Under the cohesion policy for the period 2007-2013, the **convergence** objective covers the 100 poorest regions of the European Union and is intended to stimulate growth in order to achieve convergence with the rest of the Union. Convergence remains the top operational priority of the Bank, which set itself the medium-term target of granting 40% of the total volume of its loans within the EU to these regions. In 2008, individual financing operations under the convergence objective totalled 17.8bn, of which 6.9bn in the 12 new Member States. Spain is the main recipient of this finance.

- Since 2000, the date on which the initiative fostering innovation was launched, the EIB Group has been contributing to the **development of a knowledge-based economy**. Loans worth 68bn have already been signed in this field. In 2008, the Bank advanced a total of 12.4bn in three areas: research and development (7.1bn); education and training (2.6bn); and information and communications technology-related innovation and infrastructure (2bn). The European Investment Fund also supports this initiative by taking stakes in venture capital funds[2].

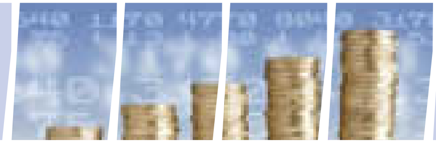
- Efficient communications and energy transfer networks are a key factor in economic integration. Since 1993, the Bank has been supporting the development of **trans-European networks** (TENs) and has become the leading provider of long-term funds for this type of infrastructure within the European Union. In 2008, it lent 9.9bn for transport TENs involving major transport arteries. The finance provided for energy TENs within the European Union totalled 2.7bn and for energy supply projects 50m.

- In 2008 individual loans for capital projects relating to **the environment** amounted to 15.7bn within the EU and 2.3bn outside the European Union, together accounting for 31% of total financing. These loans centred on sustainable communities (9.3bn) for urban renewal and sustainable transport projects as well as environmental protection (8.7bn) for combating climate change, protecting natural resources and improving the environment and health.

- **Support for investment by SMEs** is intended to give them easier access to credit, or even equity capital. This support takes the form of medium or long-term credit lines to commercial banks, which in turn allocate individual loans on more favourable terms to their SME customers. In September 2008, to cushion the effects of the financial crisis on SMEs, the European Council asked the EIB to mobilise 30bn by 2011. Accordingly, by the end of the year, the EIB stepped up its lending activity for SMEs in order to facilitate their access to finance and provided a total of 8.1bn within the European Union. This represents an increase of 42% compared with 2007. As for its subsidiary the EIF, it provided guarantees totalling 2.1bn to SMEs and invested 409m via venture capital funds.

(1) Unless otherwise indicated, all amounts are expressed in EUR.

(2) See section on EIF Activity.



- The **energy** objective involves the following: renewable energies; energy efficiency; research, development and innovation; and security of internal and external supplies. In 2008, the Bank provided finance totalling 8.6bn to support projects meeting this objective within the European Union. Outside the EU, the energy sector accounted for 1.6bn. Renewable energy projects, including manufacturing, totalled 2.2bn.

The Bank operates in the **partner countries** of the EU in accordance with the lending mandates renewed by the Council in December 2006. In 2008, EIB backing for the Community's development aid and cooperation policy in the partner countries amounted to 6.1bn.

- In *South-Eastern Europe*[3], the Bank provided loans totalling 3.5bn to support economic development and promote accession to the European Union. Turkey received 78% of this finance (2.7bn).

- In the *Eastern neighbour countries*, the Bank provided 170m worth of finance in Moldova and Ukraine.

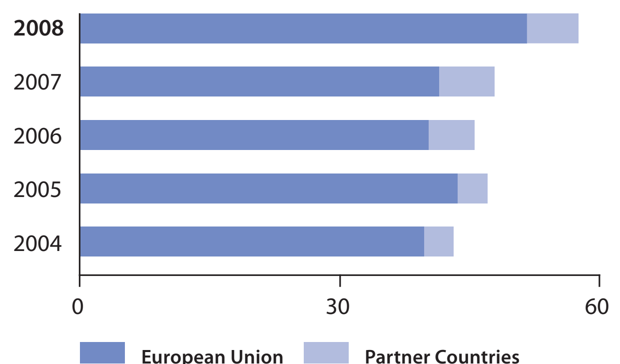
- In the *Mediterranean countries*, the Southern neighbour countries, loans signed under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) totalled 1.3bn, with increased support being given to the private sector.

- In *Latin America*, finance totalling 319m went mainly on projects to develop telecommunications networks, while in *Asia* a 150m framework loan was signed to finance renewable energy projects.

- The EIB continued its lending operations in the *African, Caribbean and Pacific (ACP) countries and Overseas Countries and Territories (OCTs) (561m)* and *South Africa* (203m).

The Bank's new strategy is being implemented by focusing on riskier operations, in order to increase the value added of the finance provided. The reserves specifically

Financing 2004-2008: EUR 242bn



dedicated to these operations are taken either from the Bank's own funds or from European Commission resources (Structured or Risk Sharing Finance Facilities). At end-2008, outstanding loans had more than doubled compared with 2007 (2.7bn) and amounted to 6.2bn.

The Bank's Corporate Operational Plan (COP) approved for the period 2009-2011 provides for stepping up lending activity and other specific measures to mitigate the effects of the current economic and financial crisis. Lending will be increased by 15bn in 2009 and 2010 and concentrate on three areas: SMEs, for which new products will be proposed, such as risk-sharing loans; projects to help combat climate change; and convergence.

To meet these revised lending targets a proposal to bring forward the increase in capital initially planned for 2010 was submitted to the Board of Governors. As from April 2009, the EIB's subscribed capital was raised to 232bn, an increase of 67bn.

[3] Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia, Montenegro, Serbia and Turkey.

EIB Borrowing Activity

A leading sovereign-class international debt issuer

Resilience in uncertain times

In 2008 the Bank's funding activities remained resilient amidst heightened market volatility and uncertainty, and a severely disrupted funding environment for most of the fourth quarter. Under the 2008 funding programme, the Bank raised an amount of EUR 59.5bn via 247 transactions, a significant increase compared with 2007 (EUR 54.7bn). In July 2008, in parallel with growth in its lending programme and loan disbursements, the Bank increased its funding ceiling from EUR 55bn to EUR 60bn. The Bank raised funds in 18 currencies and issued in four further currencies in synthetic format (booked under other payment currencies) for EUR 639m.

Benefiting from top-quality credit standing and strategic approach

The results in 2008 were underpinned by the Bank's top-quality credit standing, continuing support from EU sovereign shareholders, as well as its borrowing strategy. The flexibility, diversification and attention to liquidity inherent in the borrowing strategy were to a large extent able to overcome volatile market conditions during the first nine months, and to secure attractive funding relatively early in the year. This approach enabled the Bank to accommodate severely disrupted markets in the final quarter, when, from mid-October onwards, benchmark markets were largely closed. In the fourth quarter competition intensified, with new government-guaranteed issuance on a large scale and prospects for greatly increased sovereign issuance. This conditioned the radical re-pricing that took place. The Bank nonetheless raised EUR 4.8bn between mid-October and year-end, of which the largest share was raised in EUR.

EUR: responsiveness to investor demand

In EUR a total of 29 transactions were finalised in 2008, raising EUR 16.8bn, or 28% of the total programme for the year.

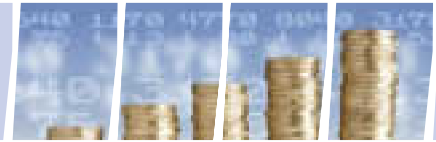
Euro Area Reference Note (EARN) benchmark issues accounted for the bulk (EUR 13bn, or 78%) of EUR issuance. New EARNs were launched in the 3-year and 7-year maturities, each in EUR 3bn size. In addition, there were five re-openings of existing EARNs in sizes of EUR 1-2bn. Re-openings proved a valuable means of adding liquidity to existing benchmarks, and aimed to avoid burdening distribution channels and secondary performance in a lacklustre environment. The 7-year issue in April was the longest-dated EARN issue in 2008. From May onwards, the Bank issued EARN benchmarks only in the 2-year and 3-year sectors. The varied issue sizes and shifting maturity focus across the year are among the factors illustrating the great care taken in responding to investor demand, while paying attention to maintenance of a liquid presence and secondary market performance across important maturities.

Targeted plain-vanilla issuance in EUR amounted to around EUR 3bn via nine transactions. The Bank also concluded 13 structured transactions in 2008, amounting to EUR 548m, or 3% of total EUR issuance. Retail investors accounted for a significant share of the demand for targeted bonds, notably in the EUR 180m "Popular Bond", the first issue entirely underwritten and distributed by Italian "banche popolari" (cooperative banks).

Fulfilment of the SRI (socially responsible investing) commitment: In 2007, the Bank issued a product specifically geared to the SRI market, the "Climate Awareness Bond". The bond offered a unique combination of environmental characteristics. Among these, the proceeds were earmarked for the Bank's future projects supporting climate protection, in the fields of renewable energy and energy efficiency. During 2007/8, the funds raised by this issue were completely disbursed to projects meeting these sectoral criteria. In total 14 projects located in six European countries received funds raised via this bond.

GBP: largest non-gilt issuer

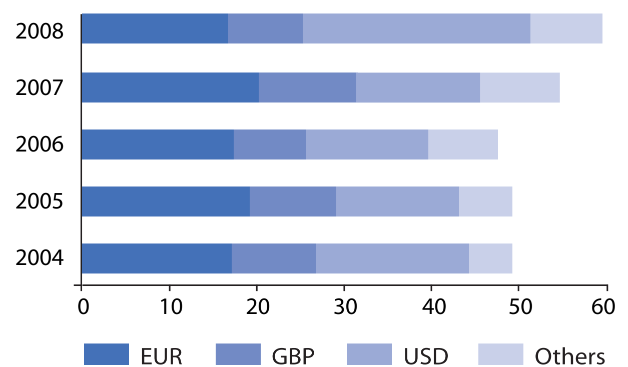
A total of 50 transactions were launched in 2008, raising GBP 6.9bn (EUR 8.9bn), or 15% of the total programme for the year.



The Bank was able to maintain its position as the largest non-gilt benchmark issuer in 2008. It started the year with intensive issuance in the sterling market, responding to strong investor demand for high-grade sterling bonds. GBP 4bn, or 57% of 2008 GBP issuance, was launched in the first quarter, aided by favourable swap market conditions in maturities between 2010 and 2044. The Bank's sterling issuance slowed down in the second quarter to GBP 1.4bn, as higher-yielding alternatives diverted investors' focus away from supranational and agency bonds.

The sterling primary bond market became more of a domestic market in the second half of the year, focusing on corporates and, later, on UK government-guaranteed bank issues. Nonetheless, until early October, the Bank continued its GBP issuance in good size, making it exceptional among non-gilt sterling issuers. It was able to launch a new 2012 benchmark issue and two large targeted transactions for a total of GBP 875m.

Borrowing activity 2004-2008: EUR 262bn



USD: record volume of USD Global issuance

A total of 55 transactions were executed in 2008, raising a record USD volume for the Bank of USD 35.5bn (EUR 25.5bn), or 43% of the total funding programme. It represented a volume increase of 85% compared to 2007.

The first nine months of 2008 were characterised by an exceptional level of demand for the best-quality AAA bonds, particularly in the short to medium-term maturities. The worldwide central bank community was the driving force of this phenomenon. There were highly attractive funding levels in USD, further enhanced by the basis swap market, which gave a historical advantage for a EUR-based borrower such as the EIB raising funds in USD, particularly at the short end.

The Bank upsized its 3-year benchmark issues to USD 4bn, executing all five benchmarks in this maturity segment in such size. One of the 3-year USD Global benchmarks won the "Sovereign/Supranational/Agency/Regional bond of the year" award from IFR. The Bank also carried out three 5-year benchmark deals, a record number in a given year for the EIB in this more challenging maturity. The EIB's price leadership compared to peers improved, assisted by timely execution and continuing attention to liquidity and secondary market performance.

Structured issuance and other tailor-made transactions also reached solid volumes in 2008, at USD 3.8bn. Demand was particularly good for various callable structures as well as plain vanilla private placements.

Strong diversification: issuance in 19 other currencies

Outside the three core currencies, 113 transactions were finalised in 19 currencies in 2008, including four in synthetic format, raising EUR 8.3bn, or 14% of the total programme for the year. The three largest contributors in these other currencies were Australian dollars (EUR 2.3bn), Japanese yen (EUR 1.4bn) and Swiss francs (EUR 1.2bn). Among non-core currencies, significant growth areas compared to 2007 were Australian dollars (AUD), Swiss francs (CHF) and Norwegian kroner (NOK). Aggregate issuance in the four currencies in which the Bank issued in synthetic format (booked under other payment currencies) was EUR 639m. These currencies were the Brazilian real (BRL), Indonesian rupiah (IDR), Philippine peso (PHP) and Zambian kwacha (ZMK).

European and neighbouring country currencies

The largest volume of issuance in this sector was in **Swiss francs** (CHF). The Bank was able to capitalise on its long-standing presence in the Swiss domestic market and benefited from its safe-haven status in a market where top-quality names were especially in demand. The Bank issued a total of CHF 1.9bn (EUR 1.2bn) via 12 transactions. Issuance was mainly achieved through taps of existing bonds (maturities 2015 and 2019), but the Bank was also able to bring new transactions at 1-year, 2-year, 3-year and 10-year tenors.

The volume of issuance in the **Nordic region** totalled EUR 1bn. In Swedish krona (SEK), the Bank raised a total of SEK 4.1bn (EUR 435m). The Bank expanded its SEK yield curve with a new 3-year fixed-rate issue, matching the tenor of a government bond. In NOK, the Bank launched two new bonds, also matching the tenor of government bonds (May 2013 and May 2017).

Progress in developing capital markets

There was progress in contributing to the development of capital markets in new/future EU Member States, EU neighbouring countries and EU partner countries in Africa. Such activities also provide a platform for potential future lending by the Bank in local currency, where benefits include the removal of exchange rate risk for loan customers.

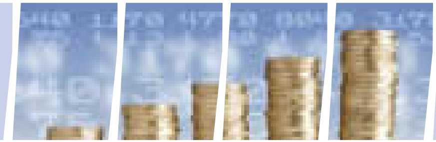
In **new and future Member States and EU neighbouring country currencies**, the Bank extended the yield curve in Russian rouble and Turkish lira, offering investors the longest available maturities in the fixed rate Eurobond market. Volumes in such countries amounted to EUR 1.1bn equivalent, raised via 33 transactions. Turkish lira (TRY) represented the bulk of the volume. Other issuance currencies were Bulgarian leva (BGN), Hungarian forint (HUF), Russian rouble (RUB), Czech koruny (CZK) and Slovakian koruny (SKK).

In Turkish lira the Bank maintained its position as the leading issuer in the Eurobond market. The Bank conducted 14 transactions for a total of TRY 1.5bn (EUR 836m). It increased its February 2010 issue to the benchmark size of TRY 1bn, providing a further liquid reference for the market. The November 2018 bond issue offered the longest maturity in the TRY fixed-rate Eurobond market at the time of issuance.

In Bulgarian leva the Bank confirmed its leading position in the Eurobond market with a total of BGN 250m (EUR 128m). The Bank issued three new transactions in maturities ranging from 2011 to 2013.

The Bank launched two new bonds in Russian rouble (RUB): a RUB 750m (EUR 20m) 3-year and a RUB 355m (EUR 10m) 10-year bond. The latter was the longest RUB fixed-rate Eurobond in the market.

In **African currencies** the Bank issued for the first time in Zambian kwacha (ZMK), which further expanded the Bank’s repertoire of African funding currencies to seven.



The ZMK issue was the first by a foreign issuer and the first in the international market (it was in synthetic format, with payment and settlement in USD).

Overall the Bank launched a total of 13 transactions in two African currencies for a total of EUR 364m equivalent, the vast majority in South African rand (ZAR). The Bank remained a leading issuer in the ZAR Eurobond market, where it issued EUR 336m equivalent.

Japan and Asian/Pacific Currencies: leadership and scale

Among the non-core currencies in 2008, the largest source of funding – and hence the Bank's fourth-largest currency – was the Australian dollar, accounting for AUD 3.9bn (EUR 2.3bn). For the second year in a row, the Bank has been the largest Kangaroo issuer (foreign issuer in AUD). The public JPY issuance, supported by international demand from Europe and the US, was brisk, particularly in the first half of the year. In 2008, the Bank raised a total of JPY 223bn (EUR 1.4bn) and it was again the largest international issuer of JPY Global bonds. In both AUD and JPY, the Bank was able to raise funds in longer duration, with tenors of up to 10 years in AUD and up to 20 years in JPY. The Bank also made its first issue in Philippine peso (PHP), in synthetic format, as well as an Indonesian rupiah (IDR) synthetic issue.

Americas (ex-US): the first BRL Global benchmark bond

In early 2008, the Bank issued the market's first ever Brazilian real (BRL) Global benchmark bond. The Bank also tapped the Mexican peso (MXN) market with one transaction, the first since 2005.

"The way to buy Europe" Snapshot of the EIB as an issuer

Joint EU sovereign ownership underpins top-class credit quality and means EIB bonds can be seen as "the way to buy Europe".

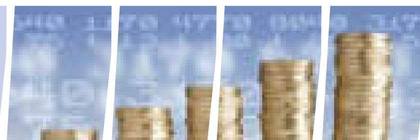
- The EIB is one of the largest and most frequent borrowers in the international capital markets. In 2008 it issued a total of EUR 59.5bn.
- Ownership by all EU sovereigns means EIB bonds offer a unique and diversified sovereign-class investment.
- The Bank has been consistently rated Aaa/AAA/AAA by Moody's/Standard & Poors/Fitch.
- The Bank's strategic approach to markets involves a strong focus on liquidity and transparency. It offers comprehensive benchmark programmes in the Bank's three core currencies (EUR, GBP and USD). Where possible and appropriate, it also builds a benchmark presence in other currencies. It also conducts tailor-made issuance across a wide range of currencies and products.

The Bank has historically contributed to the development of capital markets in currencies of new and future EU Member States, and selected EU partner countries. Here issuance in local currencies can support the development of lending activities.

Borrowings signed and raised in 2008 vs. 2007[*] (EUR million)

	Before swaps:				After swaps:			
	2008		2007		2008		2007	
EUR	16 764	28.2%	20 531	37.5%	41 988	70.6%	42 766	78.1%
GBP	8 917	15.0%	11 023	20.1%	5 410	9.1%	6 123	11.2%
USD	25 544	42.9%	14 400	26.3%	10 774	18.1%	5 099	9.3%
Total core currencies (EUR, GBP, USD)	**51 225**	**86%**	**45 954**	**84%**	**58 172**	**98%**	**53 988**	**99%**
AUD	2 318	3.9%	941	1.7%				
BGN	128	0.2%	28	0.1%				
CAD			659	1.2%				
CHF	1 178	2.0%	445	0.8%	381	0.6%		
CZK	40	0.1%			40	0.1%		
DKK			134	0.2%			134	0.2%
HKD								
HUF	93	0.2%	108	0.2%	93	0.2%	108	0.2%
ISK	21	0.03%	261	0.5%				
JPY	1 377	2.3%	2 198	4.0%	149	0.3%		
MXN	31	0.1%						
NOK	559	0.9%	196	0.4%	140	0.2%	63	0.1%
NZD	869	1.5%	1 344	2.5%				
PLN			27	0.1%			27	0.1%
RON			90	0.2%				
RUB	44	0.1%	115	0.2%				
SEK	435	0.7%	893	1.6%	435	0.7%	403	0.7%
SKK	7	0.01%			7	0.01%		
TRY	836	1.4%	1 097	2.0%	39	0.1%		
ZAR	336	0.6%	234	0.4%	39	0.1%		
Total other currencies	**8 272**	**14%**	**8 770**	**16%**	**1 325**	**2%**	**737**	**1%**
Total	**59 497**	**100%**	**54 725**	**100%**	**59 497**	**100%**	**54 725**	**100%**

[*] Resources raised under the global borrowing authorisation given by the Board of Directors for 2007, including 'pre-funding' of EUR 77m completed in 2006 for 2007.



EIB Treasury Activity

Liquidity and portfolio management

As at 31 December 2008, the Bank's overall net liquidity amounted to EUR 21.0bn (EUR 14.5bn at year-end 2007), representing a liquidity ratio of 32.4%, above the minimum liquidity requirement of 25% of the forecast net cash requirement for the following calendar year. The 2008 monthly average net global liquidity amounted to EUR 23.5bn, i.e. 26% more than the 2007 level of EUR 18.6bn. On a yearly basis the average liquidity ratio was 36.3%, but it decreased in the last quarter of the year, when the disruption of the global bond markets brought long-term issuance to a near halt. Among prudential measures applied to the treasury, no ABS has been purchased since the beginning of the crisis, investments in ABCP have been kept at low levels and the limits on SIVs were cancelled.

The component portfolios of the operational treasury can be described as follows:

- A short-term money market portfolio (A1), designed for daily liquidity management in 13 different currencies, whose benchmarks are based on the index of the daily 1-month EURIBID/LIBID for assets and the index of the daily 1-month EURIBOR/LIBOR for liabilities.

- An operational money market portfolio (A2), designed to diversify the credit risk profile and enhance the money market performance in the core currencies, i.e. EUR, GBP and USD, with a benchmark indexed to the daily 3-month EURIBID/LIBID.

- A credit spread portfolio (B1), designed to enhance overall treasury performance, with a benchmark indexed to the daily 3-month EURIBOR/LIBOR.

- An alternative investment portfolio (B2), invested in capital-guaranteed structured products with coupons indexed to the performance of selected funds of hedge funds.

- A global fixed-income portfolio (B3), with a benchmark based on the iBoxx Eurozone 1 to 3-year Government Bond Index.

- An investment bond portfolio, which is being phased out.

Short-term gross liquidity held in the money market portfolios increased slightly at year-end from EUR 19.7bn in 2007 to EUR 24.2bn with short-term commitments of EUR 20.2bn (EUR 9.1bn in 2007), of which EUR 14.3bn of commercial paper outstanding (EUR 8.3bn in 2007). The operational bond portfolios and investment portfolio amounted to EUR 3.4bn (EUR 4.0bn in 2007). The breakdown of treasury net liquidity of EUR 7.4bn at year-end (EUR 14.5bn in 2007) moved as follows in comparison with 2007: 54.1% (72.5%) for the operational money market portfolio, 20.7% (12.9%) for the operational bond portfolios and 25.1% (14.6%) for the investment bond portfolio.

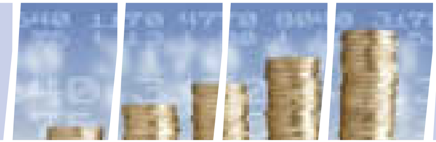
Market development and treasury financial result

The market conditions in 2008 remained extremely difficult, as the financial crisis spread to affect all banks and started to impact the real economy. The quarterly evolution was volatile, with the first quarter witnessing much wider credit spreads, which were largely reversed in the second quarter. The end of the summer lull finished in an unprecedented level of concern, even distrust, about US investment banks, and the failure of Lehman Brothers, which destroyed the budding return of confidence in the markets. The resulting further widening of credit spreads, hoarding of liquidity, and stock

market falls left no investor unaffected. Waves of downgrades of banks by rating agencies were followed by government rescue operations. The general need to deleverage experienced by banks and asset managers resulted in forced liquidations of assets, and the flight to the most liquid instruments impacted downwards the market value of most asset classes, including segments of government bonds.

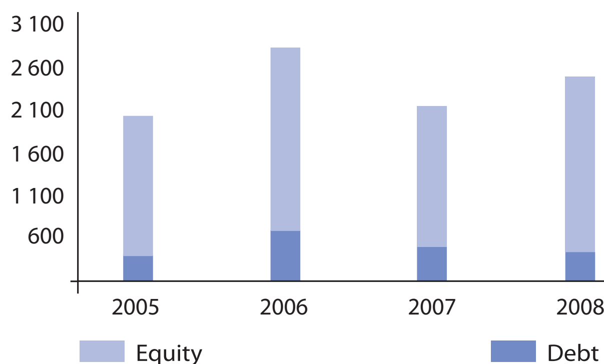
Central banks across the globe cut interest rates aggressively to help the flow of funding to the real economy and to support their banks.

The treasury financial results are satisfactory considering these negative circumstances. The financial income from treasury operational portfolios was EUR 928m vs. EUR 721m in 2007 (+ 29%). Two portfolios had a negative accounting result (B1 had a loss of EUR 24.7m and B2 EUR 4.3m), but these were more than offset by the income from the other portfolios.



EIF Activity

Annual commitments 2005-2008 (in EUR m)



The EIF has a crucial role to play throughout the value chain of enterprise creation, from the earliest stages of intellectual property development through to mid-stage SME funds and through the provision of an "integrated offer" for SME finance by means of equity and debt instruments.

While the EIF's equity instruments aim to improve the availability of capital for SMEs for high-growth and innovative companies, it is equally important to target the debt requirements of SMEs seeking finance through this more traditional route. By operating through guarantees and securitisation, the EIF can improve the availability and terms of debt for beneficiary SMEs and the lending capacity of financial intermediaries.

In late 2007, the European Commission entrusted the EIF with the management of a budgetary envelope of EUR 1.1bn as part of the Competitiveness and Innovation Framework Programme (2007-2013), or CIP for short, for SME access to finance. This resource is split between venture capital and guarantee products, replacing the MAP (the Multiannual Programme for Enterprise and Entrepreneurship 2001-2006), and became fully operational in 2008. The CIP was designed to be a more ambitious programme than its predecessor as it covers a wider geographical area and extends the range of instruments to support new SME market segments and products (for example, technology transfer, business angels, eco-innovation).

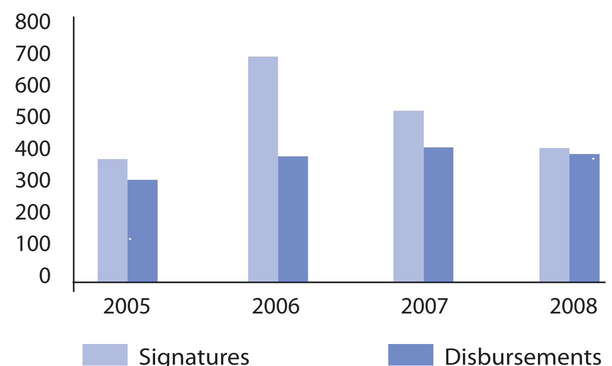
The EIF has also extended its role as the EU's partner in the JEREMIE initiative. JEREMIE offers EU Member States, through their national and regional Managing Authorities, the opportunity to use part of their EU Structural Funds to finance SMEs by means of equity, loans or guarantees, through revolving Holding Funds.

In 2008, the EIF in conjunction with the EIB also designed new instruments, in particular for mezzanine finance and microcredit, in order to better meet market needs in the current market environment.

Equity operations for venture capital

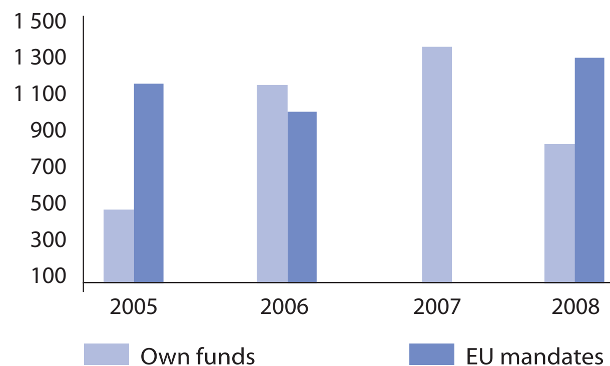
The level of EIF equity disbursements increased steadily up to 2007 and stabilised in 2008. The reduction in the number of new signatures in 2008 can be explained by the less satisfactory market conditions, which acted as a constraint on investors, although the EIF still plays a significant role in supporting new or repeat equity operations.

Equity activity (in EUR m)



Nevertheless, in 2008 the EIF signed venture capital commitments for EUR 409m[4], including 12 CIP deals totalling over EUR 134m, while total cumulative equity commitments amounted to EUR 4.7bn at the end of the year and assets under management amounted to EUR 3.5bn[5]. With investments in some 300 funds, the EIF remains the leading player in European venture capital and small to mid-cap funds. In 2008, the Fund continued to broaden its investment strategy across mid-stage funds and through investing in technology transfer, with the objective of facilitating the commercialisation of research.

Debt Activity (in EUR m)



Debt activity through guarantee instruments

The EIF offers two main product lines for its SME guarantee activity: credit enhancement-securitisation (guarantees for securitised SME financing instruments) and guarantees/counter-guarantees for portfolios of micro-credits, SME loans or leases.

The EIF credit enhancement activity supports the securitisation of SME loans and leases pooled by financial institutions either in 'synthetic' transactions or distributed on the capital markets. In 2008, EIF credit enhancement activity backed by own resources decreased compared to the previous year from EUR 1.3bn to EUR 0.8bn due to changing market conditions. At end-2008 the own resources cumulative portfolio totalled EUR 3.8bn[6].

In its guarantees and counter-guarantee schemes for portfolios of SME or microcredit loans or leases, the EIF takes up to 50% of the expected loss or credit risk of every individual loan or lease in the portfolio. The effect is to provide loss mitigation relief to the counterparty, thus creating scope for extending further SME loans. The EIF successfully provided these instruments using CIP resources throughout 2008. There were no CIP signatures in 2007 as the programme was only implemented in 2008. However, 12 new guarantee agreements, with nine intermediaries, amounting to EUR 1.3bn were signed in 2008. At end-2008, cumulative signatures[7] of EUR 8.5bn were made using European Commission mandates, with cap amounts of EUR 500m.

EIF total guarantee operations amounted to a record EUR 2.1bn in 2008, while the total net guarantee portfolio stood at EUR 12.3bn at year-end, comprising some 190 transactions.

(4) Including fund of fund activity.
(5) Assets under management = commitments less capital reflows.
(6) Outstanding guarantees plus undrawn.
(7) Maximum portfolio volume.

The Joint European Resources for Micro to Medium Enterprises (JEREMIE) initiative

By end-2008, the EIF had carried out 53 national and regional evaluation studies (gap analysis), thus finalising the evaluation phase of the initiative.

To date the EIF has signed seven Holding Fund Management agreements with Member States and regions, four of which in new Member States, demonstrating continuing commitment to supporting economic development in these regions. The total funds committed to these agreements by the end of 2008 amounted to EUR 704m.

Joint Action to Support Microfinance institutions in Europe (JASMINE)

JASMINE is a EUR 50m three-year pilot initiative promoted by the EC, in cooperation with the EIB/EIF, partner financial institutions and the European Parliament, to help entrepreneurs excluded from the banking sector create or develop their projects. JASMINE will provide both operational technical assistance and funding (equity and debt) to institutions providing microcredit.

In 2008, the EIF's dedicated JASMINE team conducted evaluation studies covering 12 EU countries to assess the demand and supply for "non-banking" microcredit. The estimated demand from these studies amounted to 11 million potential microcredit borrowers in the EU, a market which is recognised as being particularly important in the current environment.

Audit and Control

Audit Committee – The Audit Committee is an independent statutory body, appointed by, and reporting directly to, the Board of Governors. In compliance with the formalities and procedures defined in the Statute and Rules of Procedure, the Audit Committee's role is to verify that the Bank's operations have been conducted and its books kept in a proper manner and to obtain assurance on the effectiveness of the internal control systems, risk management and internal administration. The Audit Committee has overall responsibility for the audit of the Bank's accounts. The Committee provides statements each year on whether the financial statements, as well as any other financial information contained in the annual accounts drawn up by the Board of Directors, give a true and fair view of the financial position of the Bank, the EIB Group, the Investment Facility and the FEMIP Trust Fund. Starting with the 2008 financial statements such a statement will also be issued by the Committee for the EU-Africa Infrastructure Trust Fund. The Governors take note of the statements by the Committee and of the conclusions in the annual reports of the Audit Committee when reviewing the Annual Report of the Board of Directors.

In fulfilling its role, the Committee meets with representatives of the other statutory bodies, reviews the financial statements and accounting policies, takes note of the work performed by the internal auditors, oversees and supervises the external auditors, safeguards the independence and integrity of the external audit function, and coordinates audit work in general. Regular meetings with the Bank services and reviews of internal and external reports enable the Committee to understand and monitor how Management is providing for adequate and effective internal control systems, risk management and internal administration.

External Auditors – The external auditors report directly to the Audit Committee, which is empowered to delegate the day-to-day work concerning the audit of the financial statements to them. The Audit Committee designated the firm Ernst & Young in 2004, after consultation with the Management Committee. The contract expires on the date on which the Board of Governors approves the 2008 financial statements. Following a public tendering procedure the assignment will be rotated, in line with best practice, to another audit firm from 2009 onwards. The external auditors are not allowed to carry out any work of an advisory nature or act in any other capacity that could compromise their independence when performing their audit tasks. A summary of services provided by the external auditors and the associated fees is published each year by the Bank on its website, in accordance with best practice.

Inspectorate General – The Inspectorate General for the EIB Group comprises three independent control functions.

Internal audit. Catering for audit needs at all levels of management of the EIB Group and acting with the guarantees of independence and of professional standards conferred upon it by its Charter, Internal Audit examines and evaluates the relevance and effectiveness of the internal control systems and the procedures involved in managing risk within the Group. An internal control framework covering all key operational activities of the Group and any newly identified processes continues to be maintained. Action Plans agreed with the Bank's departments are a catalyst for improving procedures and strengthening controls. Hence, Internal Audit reviews and tests controls in critical banking, information technology and administrative areas on a rotational basis using a risk-based approach.

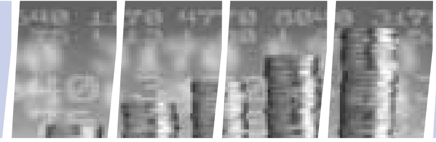
Operations Evaluation. Operations Evaluation (EV) independently carries out evaluations (mainly ex post) of the EIB Group's operations. The objective is to assess operations with a view to identifying aspects that could improve operational performance, accountability and transparency. EV focuses on how the institution (EIB – EIF) conducts its operations, given the framework of relevant EU policies (the Treaty, Directives, Council Decisions, mandates, etc.) and the decisions of the EIB's Governors. Evaluation reports are published in a dedicated section of the EIB's website (www.eib.org/evaluation).

Fraud investigations. Under internal procedures to combat fraud, the Inspector General has the authority to independently conduct inquiries into allegations of possible fraud or corruption involving EIB funds. The Bank may also call upon external assistance or experts

in accordance with the requirements of the inquiry, and works closely with the services of the European Anti-Fraud Office (OLAF). In addition, the Inspector General provides, when required, an independent recourse mechanism for investigating complaints that the European Ombudsman considers to be outside his remit.

Compliance Office – The Office of the Group Chief Compliance Officer (OCCO) identifies the compliance risk of any of the members of the EIB Group, assesses or advises on compliance-related questions by expressing opinions or making recommendations either upon request or on its own initiative, monitors the risk and reports it. More specifically, OCCO is responsible for the observance of guidelines, policies and procedures adopted from time to time by the members of the EIB Group on money laundering, fraud and terrorism and actively promotes the compliance of the members of the EIB Group with current best standards of good professional practice, with the codes of conduct and with compilations of best practices.

Management Control – Within the Strategy and Corporate Centre Directorate, the Strategy and Management Control Department brings together the functions responsible for management control – namely strategy, budget and associated analyses, partnership coordination and process improvement – and integrates them with functions responsible for macroeconomic research and corporate responsibility policies and corporate governance issues. A Financial Control division exists which also manages the Bank's relationship with the European Court of Auditors. This structure ensures that the overall strategic and financial planning and reporting processes are coordinated and support the achievement of the Bank-wide objectives and ultimately that the results achieved are monitored. Key tools include the Corporate Operational Plan, the budget and associated control systems, and financial accounting and control systems. A suite of integrated reports facilitates evaluation of the financial situation in relation to strategy, institutional and operational objectives and business plans. Management Control provides an opinion on internal proposals to the Management Committee that have a strategic, budgetary/financial, corporate responsibility or organisational impact.



EIB Group

Financial Statements

Consolidated Results for the Year

The EIB Group balance sheet total increased by EUR 41 billion (+13%) compared to 2007. The result of the Group for the reporting date stands at EUR 6 356 million compared to an ordinary consolidated result of EUR 843 million for 2007, representing an increase of EUR 5 513 million.

The main contributing factor influencing the consolidated financial statements is the result on financial operations, which mainly comprises the net results on derivatives, loans and borrowings, with application of the fair value option under IAS 39; it increased by EUR 5 321 million (see Consolidated Financial Statements – Note N). The major impact is the increase related to borrowings designated at fair value and their related swaps for EUR 5 550 million. A widening of EIB credit spreads in the secondary market was observed, mostly due to the increased supply of government and government guaranteed debt issuance. A widening of credit spreads infers a higher yield to maturity for the outstanding borrowings, which in turn implies lower market prices. A lower price on liability implies a profit.

Overall, bond prices are observed directly in the market and are very sensitive to market situation, while swap values are derived from internal valuation models. The net result of the variation of the value of the liabilities and the hedging items results in an accounting profit. As it is the intention of the Group to hold all financial instruments involved until maturity, it is expected that this accounting profit will be completely neutralised when the cashflows of the bonds and the hedging swaps are unwound. The opposite phenomenon was observed last year.

Other positive or negative factors are the following:

Positive impacts:

- The net result of interest and similar income and charges stands at EUR 2 141 million in 2008, i.e. an increase of EUR 277 million (items 1 and 2 of the Income Statement).
- The credit loss expense, together with the movements in the specific provision for credit risk, resulted in a gain of EUR 3 million, compared with a loss of EUR 17 million in 2007, being a positive variation of EUR 20 million.
- All other profit and loss items gave rise to an overall net increase of EUR 13 million.

Negative impacts:

- The impairment losses on shares and other variable-yield securities resulted in a negative variation of EUR 79 million.
- General administrative expenses and depreciation increased by EUR 39 million.

Consolidated balance sheet

as at 31 December 2008 (in EUR '000)

Assets	31.12.2008		31.12.2007	
1. Cash in hand, balances with central banks and post office banks		**76**		27 318
2. Treasury bills eligible for refinancing with central banks (Note B)		**2 016 818**		2 273 135
3. Loans and advances to credit institutions				
a) repayable on demand	275 915		286 263	
b) other loans and advances (Note C)	21 745 356		15 816 580	
c) loans (Note D.1)	116 216 197		112 323 909	
		138 237 468		128 426 752
4. Loans and advances to customers				
a) loans (Note D.1)	175 668 894		156 435 308	
b) specific provisions (Note D.2)	- 17 500		- 37 050	
		175 651 394		156 398 258
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	583 455		580 386	
b) issued by other borrowers	10 646 207		10 435 661	
		11 229 662		11 016 047
6. Shares and other variable-yield securities (Note E)		**1 983 238**		2 078 830
7. Intangible assets (Note F)		**4 316**		3 972
8. Property, furniture and equipment (Note F)		**316 184**		285 720
9. Other assets				
a) sundry debtors (Note H)	159 955		145 445	
b) positive replacement values (Note R)	21 861 679		9 060 783	
		22 021 634		9 206 228
10. Assets held for sale (Note F)		**3 373**		0
11. Subscribed capital and receivable reserves, called but not paid (Note X.2)		**458 925**		1 061 503
12. Prepayments and accrued income		**37 471**		**30 658**
Total Assets		**351 960 559**		**310 808 421**

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

Liabilities		**31.12.2008**		**31.12.2007**
1. Amounts owed to credit institutions (Note I)				
a) with agreed maturity dates or periods of notice	5 959 353		341 757	
		5 959 353		341 757
2. Debts evidenced by certificates (Note J)				
a) debt securities in issue	283 832 176		259 280 003	
b) others	668 769		892 400	
		284 500 945		260 172 403
3. Other liabilities				
a) sundry creditors (Note H)	1 805 887		1 429 085	
b) sundry liabilities (Note H)	43 123		37 457	
c) negative replacement values (Note R)	17 473 719		12 945 900	
		19 322 729		14 412 442
4. Accruals and deferred income (Note G)		**267 231**		270 724
5. Provisions				
a) pension plans and health insurance scheme (Note K)	1 122 800		1 038 545	
		1 122 800		1 038 545
Total Liabilities		**311 173 058**		**276 235 871**
6. Capital (Note X)				
- Subscribed	164 808 169		164 808 169	
- Uncalled	- 156 567 760		- 156 567 760	
		8 240 409		8 240 409
7. Consolidated reserves				
a) reserve fund	16 480 817		16 480 817	
b) additional reserves	5 196 255		6 067 178	
		21 677 072		22 547 995
8. Funds allocated to structured finance facility		**2 750 000**		1 250 000
9. Funds allocated to venture capital operations		**1 764 305**		1 690 940
10. Profit for the financial year		**6 355 715**		**843 206**
Total Equity		**40 787 501**		**34 572 550**
Total Liabilities & Equity		**351 960 559**		**310 808 421**

Consolidated income statement

for the year ended 31 December 2008 (in EUR '000)

			31.12.2008		31.12.2007
1	Interest and similar income (Note M)		**14 812 995**		14 051 950
2	Interest expense and similar charges (Note M)		**- 12 672 229**		- 12 188 607
3	Income from shares and other variable-yield securities		**56 084**		68 247
4	Fee and commission income (Note P)		**96 072**		85 924
5	Fee and commission expense (Note P)		**- 125**		- 1 842
6	Result on financial operations (Note N)		**4 644 604**		- 676 792
7	Other operating income (Note O)		**38 533**		26 526
8	General administrative expenses (Note K, Q)		**- 397 138**		- 365 980
	a) staff costs (Note K)	- 289 475		- 280 100	
	b) other administrative costs	- 107 663		- 85 880	
9	Depreciation and amortisation (Note F)		**- 28 319**		- 20 027
	a) intangible assets	- 1 854		- 2 984	
	b) tangible assets	- 26 465		- 17 043	
10	Credit loss expense		**2 659**		- 17 465
11	Impairment losses on shares and other variable-yield securities (Note E)		**- 197 421**		- 118 728
12	Profit for the financial year		**6 355 715**		843 206

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

Statement of movements in consolidated own funds

for the year ended 31 December 2008 (in EUR '000)

	Subscribed capital	Callable capital	Fund for general banking risks (**)	Funds allocated to Structured Finance Facility	Funds allocated to venture capital operations	Reserve fund	Additional reserves		Profit of the year before appropriation	Total consolidated own funds
							Other	AFS reserve		
At 31 December 2006	**163 653 737**	**- 155 471 050**	**975 000**	**1 250 000**	**1 663 824**	**16 365 374**	**2 153 816**	**357 526**	**2 259 612**	**33 207 839**
Contribution of Bulgaria and Romania as of January 2007 (***)	1 154 432	- 1 096 710	0	0	0	115 443	57 489	0	0	230 654
Appropriation of prior year's profit	0	0	- 975 000	0	0	0	3 234 612	0	- 2 259 612	0
Transfer to additional reserves	0	0	0	0	27 116	0	- 27 116	0	0	0
Changes in fair value during the year	0	0	0	0	0	0	0	290 851	0	290 851
Net profit of the year	0	0	0	0	0	0	0	0	843 206	843 206
At 31 December 2007	**164 808 169**	**- 156 567 760**	**0**	**1 250 000**	**1 690 940**	**16 480 817**	**5 418 801**	**648 377**	**843 206**	**34 572 550**
Appropriation of prior year's profit	0	0	0	1 500 000	0	0	- 656 794	0	- 843 206	0
Transfer to additional reserves (*)	0	0	0	0	73 365	0	- 73 365	0	0	0
Changes in fair value during the year	0	0	0	0	0	0	0	- 140 764	0	- 140 764
Net profit of the year	0	0	0	0	0	0	0	0	6 355 715	6 355 715
At 31 December 2008	**164 808 169**	**- 156 567 760**	**0**	**2 750 000**	**1 764 305**	**16 480 817**	**4 688 642**	**507 613**	**6 355 715**	**40 787 501**

(*) An amount of EUR'000 73 365 resulting from the value adjustments on venture capital operations has been transferred from the Additional reserves to the Funds allocated to venture capital operations.

(**) Before appropriation of current year profit.

(***) As at 1 January 2007, the subscribed capital increased from EUR'000 163 653 737 to EUR'000 164 808 169, by virtue of the contributions of two new Member States: Bulgaria and Romania. As a consequence of this capital increase, the two new Member States had to contribute to their share of Paid-in capital (EUR'000 57 722), and also their share of the Reserves and General Provisions (EUR'000 172 932) for the amounts outstanding as of 31 December 2006.

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

Consolidated Cash Flow Statement

as at 31 December 2008 In EUR '000

		31.12.2008	31.12.2007
A.	Cash flows from operating activities:		
	Profit for the financial year	6 355 715	843 206
	Adjustments:		
	Unwinding of the discount relating to capital and reserve called, but not paid in	- 28 245	- 45 663
	Depreciation and amortisation on tangible and intangible assets	28 319	20 027
	Impairment losses on venture capital operations	197 421	118 728
	Decrease in accruals and deferred income	- 3 493	- 73 561
	Decrease in prepayments and accrued income	1 796	57 845
	Investment portfolio amortisation	- 5 824	- 17 454
	Changes in replacement values on derivatives others than those associated with borrowings and loans	- 3 464 428	- 1 526 786
Profit on operating activities		**3 081 261**	**- 623 658**
	Net loans disbursements	- 47 423 453	- 39 910 416
	Repayments	19 765 944	19 984 413
	Effects of exchange rate changes on loans	8 442 502	8 104 408
	Increase in prepayments and accrued income on loans	- 2 960	- 219 593
	Adjustment of loans (fair value option)	- 3 907 908	899 229
	Changes in replacement values on derivatives associated with loans	3 763 672	- 777 549
	Decrease in operational portfolio	628 001	1 090 330
	Increase in venture capital operations	- 84 026	- 153 690
	Impairment losses on loans and advances	- 19 550	- 45 367
	Increase in shares and other variable-yield securities	- 53 536	- 49 207
	Increase /Decrease in other assets	- 14 510	103 238
	Increase in other liabilities	448 103	213 740
	Net cash from operating activities	**- 15 376 460**	**-11 384 122**
B.	Cash flows from investing activities:		
	Securities matured during the year	311 577	328 790
	Increase in asset backed securities	- 1 070 036	- 1 995 637
	Purchase of property, furniture and equipment	- 56 929	- 82 879
	Purchase of intangible assets	- 2 198	- 1 825
	Increase in assets held for sale	- 3 373	0
	Net cash from investing activities	**- 820 959**	**- 1 751 551**
C.	Cash flows from financing activities:		
	Issue of borrowings	58 002 563	54 678 538
	Redemption of borrowings	- 39 727 853	- 35 348 649
	Effects of exchange rate changes on borrowings and swaps	- 8 559 711	- 8 408 498
	Adjustments of borrowings (fair value option)	11 445 727	- 553 677
	Changes in replacement values on derivatives associated with borrowings	- 11 372 696	1 368 022
	Increase /Decrease in accrual and deferred income on borrowings and swaps	- 19 200	157 800
	Paid in by Member States	630 823	630 824
	Increase in commercial paper	5 987 392	514 480
	Increase in amounts owed to credit institutions	5 617 596	122 790
	Net cash from financing activities	**22 004 641**	**13 161 630**

Summary statement of cash flows:

Cash and cash equivalents at beginning of financial year	**18 322 348**	**18 296 391**
Net cash from:		
(1) operating activities	- 15 376 460	- 11 384 122
(2) investing activities	- 820 959	- 1 751 551
(3) financing activities	22 004 641	13 161 630
Cash and cash equivalents at end of financial year	**24 129 570**	**18 322 348**
Cash analysis:		
Cash in hand, balances with central banks and post office banks	76	27 318
Bills maturing within three months of issue	2 108 223	2 192 187
Loans and advances to credit institutions:		
Accounts repayable on demand	275 915	286 263
Term deposit accounts	21 745 356	15 816 580
	24 129 570	**18 322 348**

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

European Investment Bank Group

Notes to the consolidated financial statements

as at 31 December 2008

Note A – Significant accounting policies

A.1. Basis of preparation

Statement of compliance

The European Investment Bank (the "Group") consolidated financial statements (the "Financial Statements") have been prepared in accordance with international financial reporting standards (IFRS), as endorsed by the European Union.

The accounting policies applied are in conformity, in all material respects, with the general principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the "Directives"). However, the Financial Statements do not include any management report. The Group prepares an Activity Report which is presented separately from the Financial Statements and its consistency with the Financial Statements is not audited.

Basis of consolidation

The Financial Statements comprise those of the European Investment Bank (the "Bank" or the "EIB") and those of its subsidiary, the European Investment Fund (the "Fund" or the "EIF"), having its registered office at 100, boulevard Konrad Adenauer, Luxembourg. The financial statements of the Fund are prepared for the same reporting year as the Bank, using consistent accounting policies.

After aggregation of the balance sheets and income statements, all intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated.

The Bank holds 63.60% (2007: 65.78%) of the subscribed capital of the EIF and therefore has applied the principles pronounced by IAS 27 in preparing consolidated financial statements. Hence, the Group combines the financial statements of the EIB and the EIF line by line by adding together like items of assets, liabilities, equity, income and expenses.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented under item *6. Result on financial operations* in the consolidated income statement and under *item 3. Other liabilities - b) sundry creditors* (Note A.4.21) in the consolidated balance sheet.

Assets held in an agency or fiduciary capacity are not assets of the Group and are reported in Note W.

A.2. Significant accounting judgements and estimates

In preparing the Financial Statements, the Management Committee is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the Financial Statements.

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on loans and advances

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and advances, the Group also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arms 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; or
- other valuation models.

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

As at 31 December 2008, there were no differences between the transaction price at initial recognition and the fair value that would be determined at that date using the valuation technique mentioned above.

Impairment of equity investments

The Group 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 judgement. The Group treats "significant" generally as 30% or more and "prolonged" greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Pension and other post employment benefits

The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

A.3. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Group. They did however give rise to additional disclosures, including in some cases, revisions to accounting policies.

IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

IFRIC Interpretation 14 provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 Employee Benefits. The Group amended its accounting policy accordingly.

Standards issued but not yet effective:

The following IFRS and IFRIC interpretations were issued with an effective date for financial periods beginning on or after January 1, 2009. The Group has chosen not to early adopt these standards and interpretations before their effective dates.

IFRS 8 — Operating Segments:

This standard is to be applied for annual periods beginning on or after 1 January 2009. This standard requires disclosure of information about the Group's operating segments and replaced the requirement to determine primary and secondary reporting segments of the Group. The Group plans to adopt this standard at its effective date.

IAS 23 — Amendment – Borrowing costs:

This standard is to be applied for annual periods beginning on or after 1 January 2009. This amendment eliminates the option of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. The Group plans to adopt this revised standard at its effective date or at the date of endorsement by the European Union, if later, and does not anticipate any significant impacts on its financial statements.

IAS 27R —Consolidated Financial Statements:

This standard is applicable for annual periods beginning on or after 1 July 2009 and must be adopted simultaneously with the adoption of IFRS 3R. The revised IAS 27 will require entities to account for changes in the ownership of a subsidiary, which does not result in the loss of control, as an equity transaction and therefore will not give rise to a gain or loss in income. In addition losses incurred by a subsidiary will be required to be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Finally on loss of control of a subsidiary, entities will be required to re-measure to fair value any retained interest, which will impact the gain or loss rec-

ognised on the disposal linked to the loss of control. The Group plans to adopt this revised standard at its effective date or at the date of endorsement by the European Union, if later and does not anticipate any significant impacts on its financial statements.

A.4. Summary of significant accounting policies

A.4.1. Foreign currency translation

The Financial Statements are presented in euro (EUR), as the functional currency and the unit of measure for the capital accounts and for presenting its Financial Statements.

The Group conducts its operations in euro, in the other currencies of the Member States and in non-EU currencies.

Its resources are derived from its capital, borrowings and accumulated earnings in various currencies and are held, invested or lent in the same currencies.

Foreign currency transactions are translated, in accordance with IAS 21, at the exchange rate prevailing on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than in euro are translated into euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the consolidated income statement.

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 on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement or within the equity reserves.

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 recognized in the consolidated income statement.

The elements of the consolidated income statement are translated into euro on the basis of the exchange rates prevailing at the end of each month.

A.4.2. Derivatives

All derivative instruments of the Group are measured at fair value through profit and loss account on the consolidated balance sheet and are reported as positive or negative replacement values. Fair values are obtained from quoted market pricing, discounted cash flow models and option pricing models, which consider current market and contractual prices for the underlying instrument, as well as time value of money, yield curve and volatility of the underlying.

The Group uses derivative instruments mainly for hedging market exposure on borrowings and lending transactions, and also as part of its asset and liability management activities to manage exposures to interest rate and foreign currency risk, including exposures arising from forecast transactions. The Group applies the amended Fair Value Option of IAS 39 when balance sheet items, together with one or more derivative transactions meet the eligibility criteria of the amended Fair Value Option, more in particular when a significant reduction of the accounting mismatch is thus obtained.

The Group currently does not use any of the hedge accounting possibilities available under IAS39.

The majority of the Group's swaps are concluded with a view to hedging specific bond issues. The Group enters into currency swaps, in which, at inception, the proceeds of a borrowing are converted into a different currency, mainly as part of its resource-raising operations and, thereafter, the Group will obtain the amounts needed to service the borrowing in the original currency.

Macro-hedging swaps used as part of asset/liability management are marked to market (fair value) using internal valuation models. In general, derivative instruments transacted as economic hedges are treated in the same way as derivative instruments used for trading purposes, i.e. realized and unrealized gains and losses are recognized in Result on financial operations. Accrued interest on derivatives is part of the fair value recorded in the consolidated income statement and in the consolidated balance sheet.

A derivative may be embedded in a "host contract". Such combinations are known as hybrid instruments and arise predominantly from the issuance of certain structured debt instruments. If the host contract is not carried at fair value with changes in fair value reported in the consolidated income statement, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative instrument at fair value if, and only if, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the embedded derivative actually meets the definition of a derivative.

A.4.3. Financial assets

Financial assets are accounted for using the settlement date basis.

A.4.4. Cash and Cash Equivalents

The Group defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of 90 days or less.

A.4.5. Fee income

The Group earns fee income from a diverse range of services it provides to its customers. Fee income can be divided into two broad categories:

- income earned from services that are provided over a certain period of time, for which customers are generally billed on an annual or semi-annual basis, and
- income earned from providing transaction-type services.

Fees earned from services that are provided over a certain period of time are recognised on an accrual basis over the service period. Fees earned from providing transaction-type services are recognized when the service has been completed. Fees or components of fees that are performance linked are recognized when the performance criteria are fulfilled. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings, unless those borrowings are measured at fair value, in which case the recognition in the consolidated income statement is immediate.

A.4.6. Securities lending

In April 2003, the Group signed an agreement for securities lending with Northern Trust Global Investment acting as an agent to lend securities from the Investment Portfolio, B1 'Credit Spread' portfolio and B3 'Global Fixed income' portfolio.

Securities received as collateral under securities lending transactions are not recognized in the consolidated balance sheet unless control of the contractual rights that comprise these securities received is gained. Securities lent under securities lending transactions are not derecognised from the consolidated balance sheet unless control of the contractual rights that comprise these securities transferred is relinquished. The Group monitors the market value of the securities lent on a daily basis and requests additional collateral in accordance with the underlying agreement.

Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

A.4.7. Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities and other variable-yield securities

With a view to clarifying management of its liquid assets and consolidating its solvency, the Group has established the following portfolio categories:

A.4.7.1. Held for trading portfolio

The held for trading portfolio (see Operational portfolio B3 in Note B) comprises listed debt securities issued and guaranteed by financial establishments, which are owned by the Group ("long" positions). Securities held in this portfolio are marked to market in the consolidated balance sheet, any gain or loss arising from a change in fair value being included in the consolidated income statement in the period in which it arises.

Gains and losses realized on disposal or redemption and unrealized gains and losses from changes in the fair value of trading portfolio assets are reported as Net trading income in the account "Result on financial operations". Interest income on trading portfolio assets is included in interest income.

The determination of fair values of trading portfolio assets is based on quoted market prices in active markets or dealer price quotations, pricing models (using assumptions based on market and economic conditions), or management's estimates, as applicable.

A.4.7.2. Held-to-maturity portfolio

The held-to-maturity portfolio comprises the Group's Investment portfolio and the operational portfolio A1 of EIB (see Note B).

The Investment portfolio consists of securities purchased with the intention of holding them to maturity. These securities are issued or guaranteed by:

Governments of the European Union, G10 countries and their agencies;

Supranational public institutions, including multinational development banks.

These securities are initially recorded at the purchase price, or more exceptionally the transfer price. The difference between entry price and redemption value is amortised prorata temporis over the remaining life of the securities.

The Group has decided to phase out the investment portfolio of the Bank, by ceasing to invest the redemption proceeds of matured securities in the portfolio.

The Operational portfolios A1 of the Group are held for the purpose of maintaining an adequate level of liquidity in the Group and comprise money market products with a maximum maturity of twelve months, in particular, treasury bills and negotiable debt securities issued by credit institutions. The securities are held until their final maturity and presented in the Financial Statements at their amortized cost.

The Asset Backed Securities portfolio mainly consists of obligations in the form of bonds, notes or certificates is-

sued by a Special Purpose Vehicle (SPV) or a trust vehicle. These securities are classified as held-to-maturity and recorded at purchase price. Value impairments are accounted for, if these are other than temporary.

A.4.7.3. Available-for-sale portfolio

The available-for-sale portfolio comprises the securities of the operational money market portfolio A2 and of the operational bond portfolios B1 and B2 (see Note B), the operational portfolio of the Fund, shares, other variable-yield securities and participating interests (see Note B). Securities are classified as available-for-sale where they do not appropriately belong to one of the other categories of financial instruments recognised under IAS 39, i.e. "held for trading" or "held-to-maturity". The Management Committee determines the appropriate classification of its investments at the time of the constitution of a portfolio, financial instruments within one portfolio have always the same classification. Available-for-sale financial investments may be sold in response to or in anticipation of needs for liquidity or changes in interest rates, credit quality, foreign exchange rates or equity prices.

Available-for-sale financial investments are carried at fair value. They are initially recognised at fair value plus transaction costs. Unrealised gains or losses are reported in consolidated reserves until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired. If an available-for-sale investment is determined to be impaired, the cumulative unrealised gain or loss previously recognised in own funds is included in consolidated income statement for the period. A financial investment is considered impaired if its carrying value exceeds the recoverable amount. Quoted financial investments are considered impaired if the decline in market price below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future. For non-quoted equity investments, the recoverable amount is determined by applying recognized valuation techniques.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. On disposal of an available-for-sale investment, the accumulated unrealised gain or loss included in own funds is transferred to consolidated income statement for the period. Gains and losses on disposal are determined using the average cost method. Interest and dividend income on available-for-sale financial investments are included in "interest and similar income" and "income from securities with variable yield". Interest on available-for-sale debt securities and other fixed income securities calculated using the effective interest method is recognised in the income statement. Dividends on equity investments are recognised in the income statement when the Group's right to receive payment is established.

The determination of fair values of available-for-sale financial investments is generally based on quoted market rates in active markets, dealer price quotations, discounted expected cash flows using market rates commensurate with the credit quality and maturity of the investment or based upon review of the investee's financial results, condition and prospects including comparisons to similar companies for which quoted market prices are available.

Venture capital operations and participating interests held represent medium and long-term investments and are measured at fair value, by using fair value measurement techniques including entity inputs, in absence of liquid market prices, commonly used by market participants. However, some are accounted for at cost when the fair value cannot be reliably measured. The nature of those investments is such that an accurate fair value can be determined only upon realization of those investments. The estimation by the Group of a fair value for venture capital investments for which the method and timing of realization have not yet been determined is therefore considered to be inappropriate in those instances. All venture capital operations are subject to review for impairment.

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In the case of equity investments classified as available-for-sale, this would include a significant or prolonged decline in the fair value of the investments below its cost. 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 financial asset previously recognised in the consolidated income statement is removed from equity and recognised in the income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in their fair value after impairment are recognised directly in equity. In contrast, if in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

A.4.8. Loans and advances to credit institutions and customers

Loans and receivable include loans where money is provided directly to the borrower. A participation in a loan from another lender is considered to be originated by the

Group, provided it is funded on the date the loan is originated by the lender.

Loans and receivable are recognized in the assets of the Group when cash is advanced to borrowers. They 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 amortized cost using the effective interest rate method.

Where loans meet the eligibility criteria of the amended Fair Value Option and have been designated as at Fair Value through Profit and Loss, they are measured at their fair value. The fair value measurement technique used is based on a discounted cash flow technique.

A.4.8.1. Interest on loans

Interest on loans originated by the Group is recorded in the consolidated income statement (interest and similar income) and on the consolidated balance sheet (loans and advances) on an accruals basis.

A.4.8.2. Reverse repurchase and repurchase operations (reverse repos and repos)

A reverse repurchase (repurchase) operation is one under which the Group lends (borrows) liquid funds to (from) a credit institution which provides (receives) collateral in the form of securities. The two parties enter into an irrevocable commitment to complete the operation on a date and at a price fixed at the outset.

The operation is based on the principle of delivery against payment: the borrower (lender) of the liquid funds transfers the securities to the Group's (counterparty's) custodian in exchange for settlement at the agreed price, which generates a return (cost) for the Group linked to the money market.

This type of operation is considered for the purposes of the Group to be a loan (borrowing) at a guaranteed rate of interest. Generally treated as collateralized financing transactions, they are carried at the amounts of cash advanced or received, plus accrued interest and are entered on the assets side of the consolidated balance sheet under *item 3. Loans and advances to credit institutions* - b) other loans and advances (on the liabilities side of the consolidated balance sheet under *item 1. Amounts owed to credit institutions* - a) with agreed maturity dates or periods of notice).

Securities received under reverse repurchase agreements and securities delivered under repurchase agreements are not recognized in the consolidated balance sheet or derecognized from the consolidated balance sheet, unless control of the contractual rights that comprise these securities is relinquished. The Group monitors the market value of the securities received or delivered on a daily basis, and provides or requests additional collateral in accordance with the underlying agreements.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognized as interest income or interest expense, over the life of each agreement.

A.4.8.3. Fees on loans

Front-end fees and commitment fees are deferred in accordance with IAS 18, together with the related direct costs of originating and maintaining the commitment, and are recognised as an adjustment to the effective yield, being recorded in the consolidated income statement over the period from disbursement to repayment of the related loan. If the commitment expires without the loan being drawn down, the fee is recognised as income on expiry.

A.4.8.4. Interest subsidies

Interest subsidies received in advance (see Note G) are deferred in accordance with IAS 18, and are recognised as an adjustment to the effective yield, being recorded in the consolidated income statement over the period from disbursement to repayment of the subsidized loan.

A.4.9. Credit loss expense

An allowance for credit losses is established if there is objective evidence that the Group will be unable to collect all amounts due on a claim according to the original contractual terms or the equivalent value. A "claim" means a loan, a commitment such as a letter of credit, a guarantee, a commitment to extend credit, or other credit product.

An allowance for credit losses is reported as a reduction of the carrying value of a claim on the consolidated balance sheet, whereas for an off-balance sheet item such as a commitment a provision for credit loss is reported in Other liabilities. Additions to the allowances and provisions for credit losses are made through credit loss expense.

A.4.9.1. Impairment allowances related to individual loans and advances

Impairment losses have been made for individual loans and advances outstanding at the end of the financial year and 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. Changes to these provisions are entered on the consolidated income statement as "Credit loss expense". Allowances and provisions for credit losses are evaluated on the following counterparty specific based principle.

A claim is considered impaired when the Management Committee determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record, the prospects for support from

any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and its estimated recoverable amount of any claim considered as impaired. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

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 credit loss expense. 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 provisions for credit losses or directly to credit loss expense and reduce the principal amount of a claim. Recoveries in part or in full of amounts previously written off are credited to credit loss expense.

Upon impairment the accrual of interest income based on the original terms of the claim is discontinued, and is replaced by an accrual based upon the impaired value; in addition, the increase of the present value of impaired claims due to the passage of time is reported as interest income.

A.4.9.2. Collective impairment

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective impairment test is based on any deterioration in the internal rating of the groups of loans or investments since they were granted or acquired. These internal ratings take into consideration factors such as any deterioration in counterparties risk, values of collaterals or securities received, and sectorial outlook, as well as identified structural weaknesses or deterioration in cash flows (refer to section T.2.3.3.1.).

A.4.9.3. Guarantees

In the normal course of business, the Group issues various forms of guarantees to support some institutions.

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

The accounting policy for Derivatives is disclosed under Note A.4.2.

Financial Guarantees are initially recognised at fair value in the consolidated balance sheet under item *3b. Other liabilities – sundry liabilities*, being the premium received.

Subsequent to initial recognition, the Group's liabilities under each financial guarantee are measured at the higher of 1) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 and 2) the best estimate of expenditure required to settle any present financial obligation arising as a result of the guarantee in accordance with IAS 37.

Any increase in the liability relating to financial guarantee is taken to the consolidated income statement in "Credit loss expense". The premium received is recognised in the consolidated income statement in "Fee and commission income" on the basis of an amortization schedule in accordance with IAS 18 over the life of the financial guarantee.

A.4.10. Property, furniture and equipment

Property, furniture and equipment include land, Group-occupied properties and other machines and equipment.

Property, furniture and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

Property, furniture and equipment are reviewed periodically for impairment.

Land and buildings are stated at acquisition cost less accumulated depreciation. The value of the Group's headquarters building in Luxembourg-Kirchberg and its buildings in Luxembourg-Hamm, Luxembourg-Weimershof and Lisbon is depreciated on the straight-line basis as set out below.

Office furniture and equipment were, until end-1997, depreciated in full in the year of acquisition. With effect from 1998, permanent equipment, fixtures and fittings, furniture, office equipment and vehicles have been recorded in the consolidated balance sheet at their acquisition cost, less accumulated depreciation.

Depreciation is calculated on the straight-line basis over the estimated life of each item purchased, as set out below:

- Buildings in Kirchberg, Hamm and Weimershof - 30 years
- Building in Lisbon – 25 years
- Permanent equipment, fixtures and fittings - 10 years

- Furniture - 5 years
- Office equipment and vehicles - 3 years

A.4.11. Intangible assets

Intangible assets comprise computer software. Software development costs are capitalized if they meet certain criteria relating to identifiability, to the probability that future economic benefits will flow to the enterprise, and to the reliability of cost measurement.

Intangible assets are recognized as assets and are amortized using the straight-line basis over their estimated useful economic life. At each consolidated balance sheet date, intangible assets are reviewed for indications of impairment or changes in estimated future benefits. If such indications exist, an analysis is performed to assess whether the carrying amount is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount.

Internally developed software meeting these criteria is carried at cost less accumulated depreciation calculated on the straight-line basis over three years from completion.

Software purchased is depreciated on the straight-line basis over its estimated life (2 to 5 years).

A.4.12. Pension plans and health insurance scheme

The Group operates defined benefit pension plans to provide retirement benefits to substantially all of its staff. The Group also provides certain additional post-employment healthcare benefits to former employees in EIB. These benefits are unfunded, as defined by IAS 19. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense over the expected average remaining working lives of the employees participating in the plans. The charge to the consolidated income statement in respect of the defined benefit pension plan is based on the current service cost and other actuarial adjustments as determined by qualified external actuaries.

A.4.12.1. Pension plan for staff

The Bank's main pension plan is a defined benefit pension plan funded by contributions from staff and from the Bank which covers all employees.

Commitments for retirements benefits are valued at least every year using the projected unit credit method, in order to ensure that the liability entered in the accounts is adequate. The results of the latest valuation are as at 30 September 2008, with an extrapolation to 31 December 2008. The main actuarial assumptions used by the actuary are set out in Note K. Actuarial surpluses and deficits are spread forward over the average expected remaining service lives of the plan active participants.

The main pension plan of the EIF is a defined benefit plan funded by contributions from staff and from the EIF which covers all employees. All contributions of the EIF and its members of staff are transferred to the EIB for management. The transferred funds allocated to the pension plan are invested for by the Group, following the rules and principles applied by EIB for its own staff pension plan.

A.4.12.2. Health insurance plan

The Bank has set up its own health insurance plan for the benefit of staff and Management Committee at retirement age, financed by contributions from the Bank and its employees. A specific provision is set aside on the liability side of the consolidated balance sheet. The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contribution from the Fund and its employees.

The entitlement to these benefits is based on the employees remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. The health insurance liabilities are determined based on actuarial calculations as per the same dates as the pension plans.

A.4.12.3. Pension plan for members of the Management Committee

The related provision shown on the liability side of the Group's balance sheet is determined, as for all plans, in conformity with IAS 19. Benefits are based on years of service and a percentage of final gross base salary as defined under the plan.

A.4.13. Debts evidenced by certificates

Debts evidenced by certificates are initially measured at cost, which is the fair value of the consideration received. Transaction costs and net premiums (discounts) are included in the initial measurement. Subsequent measurement is at amortised cost, and any difference between net proceeds and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective yield method. Where borrowings meet the eligibility criteria of the amended Fair Value Option and have been designated as at Fair Value through Profit and Loss, they are measured at their fair value. The fair value measurement technique used, in the case of absence of liquid market prices, is a discounted cash flow technique, using current yield curves.

Combined debt instruments that are related to foreign exchange or indices are considered structured instruments. For all the debt instruments including embedded derivatives, the Group has concluded a reversed swap agreement to fully hedge the exposure.

It is the Group policy to hedge the fixed interest rate risk on debt issues and to apply the amended Fair Value Option when this results in a significant reduction of an accounting mismatch. The effect is such that the carrying value of the thus elected debt instruments is adjusted for changes in fair value rather than carried and accrued at cost (see Note R – Derivative financial instruments).

Interest expense on debt instruments is included in the account "interest expense and similar charges" in the consolidated income statement and in the liabilities caption including the underlying debt instruments in the consolidated balance sheet.

A.4.14. Fund for general banking risks

Until 31 December 2005, the Group identified, as a separate balance sheet item, the amounts it decided to put aside to cover risks associated with loans and other financial operations, having regard to the particular risks attached to such operations.

Starting from 2006, the Group no longer identifies such separate balance sheet item. The decision to release it completely does not affect the ability of the Group to cover its risks. The Group continues to compute the amount corresponding to the general banking risks, for internal and disclosure purposes (see Note L), according to the existing methodology based on an internal mechanism used to evaluate the credit risk associated with each position and transaction of the Group at year end.

The amount corresponding to the general banking risks with respect to operations of the Structured Finance Facility is disclosed in "Fund allocated to Structured Finance Facility" on the consolidated balance sheet.

A.4.15. Funds allocated to venture capital operations and to the Structured Finance Facility

A.4.15.1. Funds allocated to venture capital operations

This item comprises the amount of appropriations from the annual result of the Group, determined each year by the Board of Governors to facilitate instruments providing venture capital in the context of implementing the European Council Resolution on Growth and Employment.

A.4.15.2. Funds allocated to the Structured Finance Facility

This item comprises the amount of appropriations from the annual result of the Group, determined each year by the Board of Governors to facilitate implementation of operations with a greater degree of risk for this new type of instrument. Value adjustments on venture capital and structured finance operations are accounted for in the profit and loss account. Upon appropriation of the Group's result, such value adjustments are taken into consideration for determining the amounts to be recorded in the 'Funds allocated to venture capital operations' and 'Funds allocated to the Structured Finance Facility' accounts.

A.4.16. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Group are exempt from all direct taxes.

A.4.17. Prepayments and accrued income – Accruals and deferred income

These accounts comprise:

- Prepayments and accrued income: expenditure incurred during the financial year but relating to a subsequent financial year, together with any income not disclosed in the reporting value of the underlying financial instrument which, though relating to the financial year in question, is not due until after its expiry.
- Accruals and deferred income: income received before the balance sheet date but relating to a subsequent financial year, together with any charges not disclosed in the reporting value of the underlying financial instrument which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year (principally interest on borrowings).

A.4.18. Interest income and expenses

Interest income and interest expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest is recognised on impaired loans through unwinding the discount used in the present value calculations applied to expected future cash flows.

In addition to interest and commission on loans, deposits and other revenue from the securities portfolio, this heading includes the indemnities received by the Group in respect of early loan reimbursements prepayments made by its borrowers.

In accordance with the provisions of the International Accounting Standard IAS 39 – Financial Instruments: Recognition and Measurement - the Group takes immediately into the consolidated income statement the indemnities received for early reimbursement of loans at the time of derecognition of those related loans instead of depreciating the indemnities over the remaining life of loans.

A.4.19. Fiduciary operations

Pursuant to Article 28 of its Statutes, the EIF acquires, manages and disposes of investments in venture capital enterprises, in its own name but on behalf and at the risk of the European Community, according to Fiduciary and Management Agreements concluded with the European Community ("ETF Start-up Facility") and "High Growth and Innovative SME Facility (GIF), under two programs known as GIF1 and GIF2).

The EIF is also empowered to issue guarantees in its own name but on behalf and at the risk of the European Community according to the Fiduciary and Management Agreement concluded with the European Community ("SME Guarantee Facility").

A.4.20. Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Group entities but for the benefit of the Commission. Sums held in these accounts remain the property of the Commission so long as they are not disbursed for the purposes set out in relation to each project.

- Under the Growth and Environment Pilot Project, the EIF provides a free guarantee to the financial intermediaries for loans extended to SME's with the purpose of financing environmentally friendly investments. The ultimate risk from the guarantee rests with the EIF and the guarantee fee is paid out of European Union budget funds.
- Under the SME Guarantee Facility and the MAP Guarantee programme (followed by the CIP programme), the EIF is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.
- Under the ETF Start-Up Facility and the MAP Equity programme (followed by the CIP programme), the EIF is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf of and at the risk of the Commission.

The support currently provided by the Seed Capital Action is aimed at the long-term recruitment of additional investment managers by the venture capital funds to increase the number of qualified personnel and to reinforce the capacity of the venture capital and incubator industries to cater for investments in seed capital.

The Investment Facility, which is managed by the EIB, has been established within the framework of the Cotonou Agreement on cooperation and development of the African, Caribbean and Pacific Group of States and the European Union and its Member States on 23 June 2000. The EIB prepares separate financial statements for the Investment Facility.

The Commission entrusted financial management of the Guarantee Fund to the EIB under an agreement signed between the two parties in November 1994. The EIB prepares separate financial statements for the Guarantee Fund.

The Femip Trust Fund, which is also managed by the EIB, was set up to enhance the existing activities of the EIB in the Mediterranean Partner Countries, with the support of a number of donor countries and with a view to directing resources to operations in certain priority sectors through the provision of technical assistance and risk capital. The EIB prepares separate financial statements for The Femip Trust Fund.

The Risk-Sharing Finance Facility (the "RSFF") has been established within the framework of the Co-operation Agreement, entered into force on this 5th of June 2007, between the European Commission on behalf of the European Community and the European Investment Bank. The EIB is setting up the RSFF, an instrument aimed at fostering investment for Europe in research, technological development and demonstration, as well as innovation, in particular in the private sector. The EIB prepares separate financial statements for the Risk-Sharing Finance Facility.

The Heavily Indebted Poor Countries (HIPC) Initiative (the "Initiative") is an international debt relief mechanism that provides special assistance to the world's poorest countries. It was launched in 1996 following a proposal from the World Bank and the International Monetary Fund (IMF). The principal objective of the initiative is to reduce the debt burden of poor countries to sustainable. The EIB prepares separate financial statements for the Heavily Indebted Poor Countries Initiative.

The EU-Africa Infrastructure Trust Fund (the "Trust Fund") has been created within the framework of the Trust Fund Agreement between The European Commission on behalf of the European Community as Founding Donor and the European Investment Bank as Manager, also open to Member States of the European Union which subsequently accede to this agreement as Donors. On 9 February 2006, the European Commission and the European Investment Bank signed a Memorandum of Understanding (the "MoU") to promote jointly the EU-Africa Infrastructure Partnership and, in particular, to establish a supporting EU-Africa Infrastructure Trust Fund. The EIB prepares separate financial statements for the EU-Africa Infrastructure Trust Fund.

The Commission entrusted financial management of the FP7 Guarantee Fund to the EIB under an agreement signed between the two parties in December 2007.

JASPERS (Joint Assistance to Support Projects in European RegionS) is a major joint policy initiative of the EIB, European Commission (Regional Policy Directorate-General - DG Regio) and the European Bank for Reconstruction and Development (EBRD).

JESSICA (Joint European Support for Sustainable Investment in City Areas) is an initiative developed by the Eu-

ropean Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB).

The Joint European Resources for Micro to Medium Enterprises initiative, known by the acronym JEREMIE, is the initiative of the European Commission's Directorate General for Regional Policy (DG Regio) and the EIB Group (European Investment Fund and European Investment Bank).

GEEREF (Global Energy Efficiency and Renewable Energy Fund) is a fund of funds set-up at the initiative of the European Commission. Its objective is to make investments in private equity funds that focus on the fields of renewable energy and energy efficiency in emerging markets (ACP, ALA and European Neighbour countries).

The Loan Guarantee Instrument for Ten-T Projects ("LGTT") has been established within the framework of the Cooperation Agreement, entered into force on this 11 January 2008, between The European Commission on behalf of the European Communities and the European Investment Bank. The Commission and the EIB are setting up the LGTT which aims at facilitating a greater private sector involvement in the financing of trans-European transport networks infrastructure. The EIB prepares separate financial statements for the LGTT.

In the SMEG 2007 under the Competitiveness and Innovation Framework Programme (CIP/SMEG 2007), the EIF is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

In the GIF 2007 under the Competitiveness and Innovation Framework Programme and the Technology Transfer Pilot Project (CIP/GIF 2007), the EIF is empowered to acquire, manage and dispose of investments, in its own name but on behalf and at the risk of the Commission.

The EIF is managing a European Commission facility, the Preparatory Action Facility (Preparatory Action) on behalf of the EIB Group. The facility is particularly targeting micro lending and will be used for grants to finance technical assistance to SMEs, which must be coupled with an EIF guarantee or an EIB global loan.

The Special Section was set up by the Board of Governors on 27 May 1963, under a Decision taken on 4 August 1977. Its purpose was redefined as being that of recording financing operations carried out by the European Investment Bank for the account of and under mandate from third parties.

A.4.21. Commitment to purchase EIF shares

Under the terms of a replacement share purchase undertaking in respect of the 1 043 shares held by EIF's minority shareholders (2007: 948 shares), the EIB is offering to buy these on an annual basis. The exercise price is determined on the basis of the audited annual accounts of EIF and corresponds to the part of each share in the called capital of EIF, increased by the share premium account, the statutory reserves, the fair value reserve, the retained earnings and profit of the year, net of the dividend decided by the EIF's General Meeting. The commitment to purchase is shown in the consolidated balance sheet as a debt item under sundry creditors (see also Note H).

A.4.22. Reclassification of prior year figures

Where necessary, certain prior-year figures have been reclassified to conform with changes to the current year's presentation for comparative purpose.

A.4.23. Accounting for operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

A.4.24. Compound financial instruments with multiple embedded derivatives

As at 31 December 2008, the Group does not have any compound financial instrument with multiple embedded derivatives.

A.4.25. Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established.

A.4.26. Assets held for sale

Assets classified as held for sale includes assets reclassified from Property plant and equipment for which the sale is highly probable and the asset is available for immediate sale in its current condition. They are classified as held for sale as their carrying amounts will be recovered through a sale transaction rather than through continuing use and are measured at the lower of carrying amount and fair value less costs to sell.

Note B – Debt securities portfolio (in EUR '000)

In addition to the asset backed securities, which represent acquisitions of interest pools of loans or receivables in connection with securitization transactions, the debt securities portfolio is made up of trading financial assets (Portfolio B3), available-for-sale financial assets (portfolios A2, B1, B2 and operational portfolio-EIF) and financial assets held-to-maturity (Portfolio A1 and Investment portfolio). The detail of each portfolio is as follows as at 31 December 2008 and 2007:

	31.12.2008	31.12.2007
Treasury bills eligible for refinancing with central banks (listed)	2 016 818	2 273 135
Debt securities including fixed-income securities (of which EUR '000 3 893 591 unlisted in 2008 and EUR '000 2 860 459 in 2007)	11 229 662	11 016 047
	13 246 480	**13 289 182**

At 31.12.2008	Classification	Book value	Market value
Group Investment portfolio	Held-to-maturity	2 262 443	2 327 598
Operational money market portfolios:			
- money market securities with a max. 3 month maturity A1	Held-to-maturity	2 108 223	2 108 223
- money market securities with a max. 18 month maturity A2	Available for sale	1 364 554 (1)	1 364 554
Operational bond portfolios:			
- B1 - Credit Spread	Available for sale	890 162 (2)	890 162
- B2 - Alternative Investment	Available for sale	145 685 (3)	145 685
- B3 - Global Fixed Income	Trading	526 291	526 291
Operational portfolio – EIF	Available for sale	149 128 (4)	149 128
Asset backed securities (Note D)	Held-to-maturity	5 799 994 (5)	5 300 242 (5)
		13 246 480	**12 811 883**

(1) including unrealised gain of EUR '000 926. (2) including unrealised loss of EUR '000 - 87 477

(3) including unrealised loss of EUR '000 - 4 315. (4) including unrealised loss of EUR '000 - 5 844

(5) The Asset Backed Securities set out above are undertaken as loan substitutes and as such are considered as part of the aggregate loans (see Note D). Some of these transactions have been structured by adding a credit or project related remedies, thus offering additional recourse. The difference between book value and market value is quasi exclusively explained by the credit spread increase and does not really represent value impairment. Therefore, no specific provision has been accounted for.

At 31.12.2007	Classification	Book value	Market value
Group Investment portfolio	Held-to-maturity	2 576 805	2 591 180
Operational money market portfolios:			
- money market securities with a max. 3 month maturity A1	Held-to-maturity	2 192 187	2 192 187
- money market securities with a max. 18 month maturity A2	Available for sale	1 753 857 (1)	1 753 857
Operational bond portfolios:			
- B1 - Credit Spread	Available for sale	1 241 142 (2)	1 241 142
- B2 - Alternative Investment	Available for sale	161 724 (3)	161 724
- B3 - Global Fixed Income	Trading	504 572	504 572
Operational portfolio – EIF	Available for sale	128 937 (4)	128 937
Asset backed securities (Note D)	Held-to-maturity	4 729 958 (5)	4 702 566 (5)
		13 289 182	**13 276 165**

(1) including unrealised loss of EUR '000 -1 237. (2) including unrealised loss of EUR '000 -15 389

(3) including unrealised gain of EUR '000 11 724. (4) including unrealised loss of EUR '000 - 598

(5) The Asset Backed Securities set out above are undertaken as loan substitutes and as such are considered as part of the aggregate loans (see Note D). Some of these transactions have been structured by adding a credit or project related remedies, thus offering additional recourse. The difference between book value and market value is quasi exclusively explained by the credit spread increase and does not really represent value impairment. Therefore, no specific provision has been accounted for.

The Group enters into collateralized securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

The security lending activity amounts to EUR '000 367 704 at the end of December 2008 (2007: EUR '000 936 629).

Note C – Loans and advances to credit institutions (other loans and advances) (in EUR '000)

The Group enters into collateralized reverse repurchase and repurchase agreements transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Group controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Group when deemed necessary.

	31.12.2008	31.12.2007
Term deposits	14 490 118	11 205 010
Tripartite reverse repos (*)	7 255 238	4 611 570
	21 745 356	**15 816 580**

(*) These operations are carried out with a third-party custodian who undertakes, on the basis of a framework contract, to guarantee compliance with the contractual terms and conditions, notably with respect to:

- delivery against payment,
- verification of collateral,
- the collateral margin required by the lender which must always be available and adequate, with the market value of the securities being verified daily by the said custodian,
- organisation of substitute collateral provided that this meets all the contractual requirements.

Note D – Summary statement of loans (in EUR '000)

D.1. Aggregate loans granted

Aggregate loans granted comprise both the disbursed and undisbursed portions of loans. The analysis is as follows:

	To intermediary credit institutions	Directly to final beneficiaries	Total 2008	Total 2007
Disbursed portion	116 216 197	175 668 894	291 885 091	268 759 217
Undisbursed loans	12 457 853	46 411 674	58 869 527	53 606 621
Aggregate loans granted	**128 674 050**	**222 080 568**	**350 754 618**	**322 365 838**

	31.12.2008	31.12.2007
Aggregate loans granted	350 754 618	322 365 838
Asset backed securities portfolio (Note B)	5 799 994	4 729 958
Aggregate loans including asset backed securities portfolio (Note D.3)	**356 554 612**	**327 095 796**

D.2. Credit losses due to impairment on loans and advances to customers

A specific provision is created against all F-graded loans, as well as against E-graded ones when an impairment loss is assessed. The amount of such provisioning reflects the difference between the loan's nominal value and the present value of all the expected future cash flows generated by the impaired asset.

Movements in the specific provision are tabulated below:

	31.12.2008	31.12.2007
Specific provision at beginning of the year	37 050	82 417
Allowance (+) / Release (-) during the year	- 18 219 (**)	- 44 244 (*)
Foreign exchange adjustment	- 1 331 (*)	- 1 123
Specific provision at end of the year	**17 500**	**37 050**

(*) the amount of EUR '000 44 244 comprises an amount of EUR '000 64 917 which was released following the sale, during 2007, of loan assets for which an impairment loss was established. The sale of those loan assets resulted in a realised loss of EUR '000 61 490.

(**) the amount of EUR '000 18 219 was released following the sale during 2008, of loan assets for which a specific provision has previously been established. The sale of those loan assets resulted in a realized loss of EUR '000 - 15 467.

The specific provision for credit losses is associated to financial assets classified as Loans and receivables.

The accrued interest on impaired loans as at 31 December 2008 amounts to EUR '000 1 158 (2007: EUR '000 7 838). As at 31 December 2008, there is no related collateral held for impaired loans.

D.3. Geographical breakdown of lending by country in which projects are allocated

Loans for projects within the Union and related loans

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
Spain	645	54 039 944	4 843 717	49 196 227	15.43%	14.85%
Germany	777	49 231 346	3 313 524	45 917 822	14.06%	14.42%
Italy	531	44 923 474	6 788 358	38 135 116	12.82%	12.48%
France	393	35 107 888	3 698 575	31 409 313	10.02%	10.53%
United kingdom	210	22 542 271	3 660 546	18 881 725	6.44%	8.09%
Portugal	262	19 088 293	2 367 406	16 720 887	5.45%	5.30%
Greece	138	13 847 931	1 836 810	12 011 121	3.95%	4.05%
Poland	131	13 442 394	3 146 774	10 295 620	3.84%	3.70%
Czech Republic	94	7 927 189	2 506 937	5 420 252	2.26%	2.36%
Hungary	102	7 637 517	1 958 624	5 678 893	2.18%	1.94%
Austria	185	7 498 984	125 333	7 373 651	2.14%	2.06%
Belgium	73	6 491 711	1 432 731	5 058 980	1.85%	1.58%
Finland	103	5 993 616	737 344	5 256 272	1.71%	1.73%
Netherlands	52	5 182 616	1 766 346	3 416 270	1.48%	1.32%
Romania	60	5 094 547	2 848 819	2 245 728	1.45%	1.27%
Sweden	72	4 112 236	417 317	3 694 919	1.17%	1.09%
Ireland	54	3 697 833	767 215	2 930 618	1.06%	1.05%
Denmark	53	2 464 337	273 853	2 190 484	0.70%	0.96%
Slovenia	41	2 276 781	557 500	1 719 281	0.65%	0.68%
Bulgaria	37	2 268 152	1 591 910	676 242	0.65%	0.57%
Cyprus	25	1 256 689	340 800	915 889	0.36%	0.40%
Latvia	24	1 079 154	475 000	604 154	0.31%	0.15%
Slovak Republic	33	1 039 602	132 605	906 997	0.30%	0.34%
Luxembourg	33	625 641	75 359	550 282	0.18%	0.23%
Estonia	10	224 395	30 000	194 395	0.06%	0.05%
Malta	4	204 710	185 000	19 710	0.06%	0.02%
Lithuania	13	170 145	32 500	137 645	0.05%	0.05%
Total	**4 155**	**317 469 396**	**45 910 903**	**271 558 493**	**90.63%**	**91.27%**

Loans for projects outside the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
ACP States	105	1 549 509	724 366	825 143	0.44%	0.47%
South Africa	33	1 000 030	400 568	599 462	0.29%	0.29%
Mediterranean Countries	226	10 558 703	4 291 752	6 266 951	3.01%	3.00%
Balkans	90	2 778 716	1 557 089	1 221 627	0.79%	0.68%
Candidate Countries	124	11 684 670	4 199 110	7 485 560	3.34%	2.77%
Eastern Europe, Southern Caucasus and Russia	7	479 470	399 190	80 280	0.14%	0.10%
OCT	8	4 441	0	4 441	0.00%	0.01%
EFTA Countries	20	1 387 762	25 252	1 362 510	0.40%	0.49%
Central and Latin America	41	1 469 407	408 487	1 060 920	0.42%	0.38%
Asia	30	1 906 541	952 810	953 731	0.54%	0.54%
Total	**684**	**32 819 249**	**12 958 624**	**19 860 625**	**9.37%**	**8.73%**

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
Fair Value Option Adjustment (IAS 39)		6 265 967		6 265 967		
TOTAL 2008	**4 839**	**356 554 612** (*)	**58 869 527**	**297 685 085**	**100,00%**	
TOTAL 2007	**4 710**	**327 095 796** (*)	**53 606 621**	**273 489 175**		**100,00%**

(*) Aggregate loans including asset backed securities

Note E – Shares and other variable-yield securities (in EUR '000)

This item comprises:

	Venture Capital Operations	EBRD Shares	Shares acquired following loan assets restructuring	Infrastructure Funds	Investment Funds	TOTAL
Cost						
At 1 January 2008	1 643 952	157 500 (1)	53 253	62 514	0	1 917 219
Net additions	96 812	0	- 22 380	49 151	26 764	150 347
At 31 December 2008	**1 740 764**	**157 500**	**30 873**	**111 665**	**26 764**	**2 067 566**
Unrealised Gains / Losses						
At 1 January 2008	460 676	205 494	19 926	- 6 346	0	679 750
Net additions / releases	- 86 712	54 358	- 21 810	5 646	0	- 48 518
At 31 December 2008	**373 964**	**259 852**	**- 1 884**	**- 700**	**0**	**631 232**
Impairment						
At 1 January 2008	- 496 981	0	- 21 158 (3)	0		- 518 139
Net additions	- 197 421	0	0	0	0	- 197 421
At 31 December 2008	**- 694 402**	**0**	**- 21 158**	**0**	**0**	**- 715 560**
Net book value						
At 31 December 2008	**1 420 326**	**417 352**	**7 831** (2)	**110 965**	**26 764**	**1 983 238**
At 31 December 2007	**1 607 647**	**362 994**	**52 021**	**56 168**	**0**	**2 078 830**

(1) The actual capital paid in by the Group in respect of its subscription of EUR '000 600 000 to the capital of the EBRD amounts to EUR '000 157 500 at 31 December 2008 (2007: EUR '000 157 500). The Group holds 3.03 % of the subscribed capital.

(2) The total number of ordinary Eurotunnel shares held by the Group as at 31 December 2008 is 1 596 713 (2007: 1 474 279), valued at EUR '000 6 147 (2007: EUR '000 17 691). The total number of Eurotunnel bonds redeemable in shares (ORA) held by the Group as at 31 December 2008 is 12 422 (2007: 105 450), valued at EUR '000 1 156 (2007: EUR '000 18 378). Furthermore, the Group holds 4 800 000 warrants valued at EUR '000 528 in the balance sheet at year-end (2007: 78 971 193 warrants, valued at EUR '000 15 952).

(3) As at 31 December 2007, the depreciation in fair market value of the shares held in Eurotunnel was recognised in the consolidated income statement as this investment was considered impaired.

Note F – Property, furniture, equipment and intangible assets (in EUR '000)

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total property, furniture and equipment	Total intangible assets
Historical cost						
At 1 January 2008	10 415	318 550	349	67 267	396 581	5 539
Additions	0	40 060	0	20 242	60 302	2 198
Disposals	- 330	- 4 833	- 349	- 8 671	-14 183	- 1 073
At 31 December 2008	**10 085**	**353 777**	**0**	**78 838**	**442 700**	**6 664**
Accumulated depreciation						
At 1 January 2008	0	- 82 075	- 308	- 28 478	- 110 861	- 1 567
Depreciation	0	- 11 926	- 12	- 14 527	- 26 465	- 1 854
Disposals	0	1 789	320	8 701	10 810	1 073
At 31 December 2008	**0**	**- 92 212**	**0**	**- 34 304**	**- 126 516**	**- 2 348**
Net book value						
At 31 December 2008	**10 085**	**261 565**	**0**	**44 534**	**316 184**	**4 316**
At 31 December 2007	**10 415**	**236 475**	**41**	**38 789**	**285 720**	**3 972**

All of the land and buildings are used by the Group for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building for an amount of EUR '000 211 769 (2007: EUR '000 171 710) completed in 2008. The Lisbon building was sold in 2008.

For subsequent measurement purposes the Group uses the "cost model" under IAS 16.

In 2008, the carrying value of land and Luxembourg buildings for the EIF was transferred from Property, furniture, equipment to Assets held for sale (see note A.4.26).

Note G – Accruals and deferred income (in EUR '000)

Accruals and deferred income	31.12.2008	31.12.2007
- Interest subsidies received in advance [1]	171 155	186 622
- Administrative cost payable on HIPC initiative	46 872	48 683
- Personnel costs payable	8 674	7 607
- Western Balkans infrastructure	5 000	0
- Other	35 530	27 812
	267 231	**270 724**

[1] Part of the amounts received from the European Commission through EMS (European Monetary System) arrangements has been made available as a long-term advance which is entered on the liabilities side under item Accruals and deferred income, and comprises:

- amounts in respect of interest subsidies for loans granted for projects outside the Union, under Conventions signed with the ACP States and Protocols concluded with the Mediterranean Countries;
- interest subsidies, concerning certain lending operations put in place within the Union from the Group's own resources, made available in conjunction with the EMS under Council Regulation (EEC) No 1736/79 of 3 August 1979 and in conjunction with the financial mechanism established by the EFTA Countries under the EFTA Agreement signed on 2 May 1992;
- amounts received in respect of interest subsidies for loans granted from EC resources under Council Decisions 78/870/EEC of 16 October 1978 (New Community Instrument), 82/169/EEC of 15 March 1982 and 83/200/EEC of 19 April 1983 and under Council Regulation (EEC) No 1736/79 of 3 August 1979 as amended by Council Regulation (EEC) No 2790/82 of 18 October 1982.

Note H – Sundry debtors, sundry creditors and sundry liabilities (in EUR '000)

Sundry debtors	31.12.2008	31.12.2007
- Loan instalments receivable	99 893	56 115
- Staff housing loans and advances (*)	18 764	21 917
- Advances on salaries and allowances	1 210	2 825
- Commission receivable on guarantees and venture capital operations	8 874	13 777
- Other	31 214	50 811
	159 955	**145 445**

Sundry creditors	31.12.2008	31.12.2007
- European Community accounts:		
- For Special Section operations and related unsettled amounts	368 727	367 531
- Deposit accounts	831 652	517 441
- Optional Supplementary Provident Scheme (Note K)	189 004	185 626
- Commitment of purchase of minority interests (**)	367 842	338 102
- Other	48 662	20 385
	1 805 887	**1 429 085**

Sundry liabilities	31.12.2008	31.12.2007
- Financial guarantees issued in respect of venture capital operations	18 991	20 619
- Provision for employees' departure indemnities	24 132	16 838
	43 123	**37 457**

(*) The Group has entered into arrangements with an external financial institution, whereby permanently employed staff members may be granted staff loans in accordance with the Bank's staff regulations. The same interest rates, terms and conditions are applicable to all said employees.

(**) As at 31 December 2008, the portion of minority interests on the balance sheet amounts to EUR 368 million (2007: EUR 338 million) and on the consolidated result (Note N) amounts to EUR 13 million (2007: EUR 17 million). Under the terms of replacement share purchase undertaking in respect of the 1 043 shares held by EIF's minority shareholders (2007: 948 shares), the Bank is offering to buy these at an exercise price of EUR 363 million (2007: EUR 319 million) determined on the basis of the audited 2007 annual accounts net of the dividend decided by the EIF's General Meeting.

Note I – Amounts owed to credit institutions with agreed maturity dates or periods of notice (in EUR '000)

	31.12.2008	31.12.2007
Short-term borrowings	5 958 340	338 720
Amounts due to EBRD including promissory notes issued in respect of paid-in capital of EBRD	1 013	3 037
	5 959 353	**341 757**

Note J – Debts evidenced by certificates as at 31 December (in EUR '000)

In its financing activity, one of the Group's objectives is to align its funding strategy with the funds required for the loans granted, notably in terms of currencies. The below table discloses the details per currency of debts outstanding at 31 December 2008, together with the cumulated notional amount of currency swaps associated with the debts issued, whose goal is to transform the initial currency of the debt into a new currency in line with the currency of the loan. The last column of the table indicates the total amount of debts per currency, taking into account the economic effect brought by the currency swaps in order to disclose a net exposure per currency of the debts outstanding at 31 December 2008.

BORROWINGS						CURRENCY SWAPS RECEIVABLE		NET AMOUNT	
PAYABLE IN	OUT-STANDING AT 31.12.2007	AVERAGE RATE	OUT-STANDING AT 31.12.2008	AVERAGE RATE	DUE DATES	31.12.2007	31.12.2008	OUT-STANDING AT 31.12.2007	OUT-STANDING AT 31.12.2008
EUR	106 548 588	4.04	107 758 784	4.02	2009/2057	-1 667 912	- 1 692 262	104 880 676	106 066 522
GBP	59 387 205	5.21	47 705 235	5.11	2009/2054	-18 302 492	- 15 100 101	41 084 713	32 605 134
DKK	536 315	2.86	536 869	2.86	2010/2026	0	0	536 315	536 869
SEK	1 851 401	4.24	1 985 281	4.18	2009/2028	-636 175	- 552 571	1 215 226	1 432 710
CZK	952 562	5.09	928 119	5.03	2009/2030	-159 606	0	792 956	928 119
HUF	1 062 153	7.17	731 159	7.20	2009/2015	-648 327	- 328 084	413 826	403 075
PLN	662 295	6.05	465 206	6.29	2009/2026	-107 854	- 93 313	554 441	371 893
BGN	181 511	5.35	309 336	6.60	2009/2013	-181 511	- 309 336	0	0
MTL	23 294	3.80	0	0.00		-23 294	0	0	0
SKK	121 261	4.79	144 175	4.75	2023/2028	0	0	121 261	144 175
RON	83 155	7.00	74 580	7.00	2014/2014	-83 155	- 74 580	0	0
USD	58 410 692	4.52	77 423 397	3.72	2009/2058	-25 074 313	- 41 397 725	33 336 379	36 025 672
CHF	2 955 218	2.75	4 468 687	2.47	2009/2036	-1 525 956	- 2 545 455	1 429 262	1 923 232
JPY	6 982 434	1.51	10 331 351	0.97	2009/2047	-6 814 744	- 10 022 170	167 690	309 181
NOK	760 241	4.67	1 315 897	4.08	2009/2025	-508 922	- 733 333	251 319	582 564
CAD	976 045	4.92	770 751	4.70	2037/2045	-906 836	- 775 163	69 209	- 4 412
AUD	4 026 888	5.61	4 971 016	5.83	2009/2021	-4 026 888	- 4 927 858	0	43 158
HKD	334 498	5.09	77 883	6.97	2009/2019	-203 836	- 77 884	130 662	- 1
NZD	3 369 954	6.62	2 806 416	6.88	2009/2017	-3 369 954	- 2 788 227	0	18 189
ZAR	1 167 340	8.53	1 160 062	8.91	2009/2018	-726 625	- 791 164	440 715	368 898
MXN	61 772	8.63	79 425	8.57	2009/2015	-61 772	- 79 425	0	0
TWD	255 830	0.33	176 856	1.66	2010/2013	-255 830	- 176 856	0	0
TRY	2 659 580	14.14	2 518 980	14.04	2009/2022	-2 659 580	- 2 484 077	0	34 903
ISK	739 935	8.38	113 793	9.47	2009/2011	-739 935	- 113 793	0	0
RUB	111 154	6.50	135 770	7.39	2011/2018	-111 154	- 135 770	0	0
TOTAL	**254 221 321**		**266 989 028**			**- 68 796 671**	**- 85 199 147**	**185 424 650**	**181 789 881**
Fair Value Option Adjustment (IAS 39)	5 951 082		17 511 917						
TOTAL	**260 172 403**		**284 500 945**						

Note K – Pension plans and health insurance scheme (in EUR '000)

The Group operates 3 defined benefit pension plans. The Group also provides certain post-employment healthcare benefits to former employees of EIB. These benefits are unfunded as defined by IAS19. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial valuation took place at 30 September 2008 and was rolled forward to 31 December 2008.

An additional plan is not included in the figures below: it is the Optional Supplementary Provident Scheme (a defined contribution pension scheme). The corresponding amount of EUR 189 million (2007: EUR 186 million) is entered under "Sundry creditors" (Note H).

Net benefit expense (recognized in consolidated income statement) as at 31 December 2008:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2008
Net current service cost[(1)]	24 271	1 197	1 249	5 058	31 775
Interest cost on benefit obligation[(2)]	57 061	1 625	697	4 750	64 133
Special termination benefits[(1)]	3 830	0	0	0	3 830
Recognition of actuarial (gains)/losses[(1)]	10 046	151	38	225	10 460
Net benefit expense	**95 208**	**2 973**	**1 984**	**10 033**	**110 198**

Net benefit expense (recognized in consolidated income statement) as at 31 December 2007:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2007
Net current service cost[(1)]	27 708	1 792	1 258	4 388	35 146
Interest cost on benefit obligation[(2)]	48 633	1 353	477	4 174	54 637
Amortization of unrecognized past service cost[(1)]	0	0	75	0	75
Special termination benefits[(1)]	4 267	0	0	0	4 267
Recognition of actuarial (gains)/losses[(1)]	15 003	253	0	954	16 210
Net benefit expense	**95 611**	**3 398**	**1 810**	**9 516**	**110 335**

(1) Recognised in General administrative expenses
(2) Recognised in Interest expense and similar charges

Benefit liabilities as at 31 December 2008:

	EIB Pension	Management Committee Pension [(1)]	EIF Pension	Health Insurance	Total 2008
Benefit obligation	1 059 102	34 407	15 340	88 048	1 196 897
Unrecognised net actuarial losses	- 76 793	- 116	60	2 752	- 74 097
Net liability	**982 309**	**34 291**	**15 400**	**90 800**	**1 122 800**

Unrecognised net actuarial losses will be recognised, from 2009 onwards, according to the average remaining service life of the participants of each plan, in accordance with IAS 19.

Benefit liabilities as at 31 December 2007:

	EIB Pension	Management Committee Pension[(1)]	EIF Pension	Health Insurance	Total 2007
Benefit obligation	1 046 162	34 950	12 628	87 088	1 180 828
Unrecognised net actuarial losses	-136 626	-1 718	-646	-3 293	-142 283
Net liability	**909 536**	**33 232**	**11 982**	**83 795**	**1 038 545**

Movements in the benefit (asset)/liability during the year ended 31 December 2008 are as follows (in EUR '000):

	EIB Staff Pension Plan	Management Committee Pension Plan[(1)]	EIF Staff Pension Plan	Health Insurance Plan	Total
At 1 January 2008	909 536	33 232	11 982	83 795	1 038 545
Net benefit expense	95 208	2 973	1 984	10 033	110 198
Benefit payments net of employee contributions	- 22 435	- 1 914	1 434	- 3 028	- 25 943
At 31 December 2008	**982 309**	**34 291**	**15 400**	**90 800**	**1 122 800**
At 31 December 2007	**909 536**	**33 232**	**11 982**	**83 795**	**1 038 545**

[(1)] This amount includes indemnities 2008: EUR '000 4 589 (2007: EUR '000 4 711) that are not subject to IAS 19 actuarial valuations.

The principal assumptions used in determining pension and post-employment benefit obligations for the Group's plans are shown below:

	2008	2007
	in %	in %
Discount rate for pension plans	6.00	5.52
Discount rate for health insurance plans	6.00	5.52
Future salary increase (including inflation)	4.50	4.00
Future pension increases	2.00	2.00
Healthcare cost increase rate	4.00	4.00
Actuarial tables	LPP 2005	LPP 2005

The table below shows the sensitivity of both benefit expenses for 2008 and defined benefit obligation as at 31 December 2008 of the Health Insurance Plan to a 1% increase and decrease in the healthcare cost increase rate:

	1 % increase	1 % decrease
Benefit expenses	2 941	- 2 218
Defined benefit obligation	21 132	- 16 592

The table below shows the actuarial experience (gain)/loss for the different Plans for 2007 to 2008:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total
2008	29 895	- 434	653	- 1 084	29 030
2007	19 790	1 481	1 230	-6 151	16 350

The table below shows the evolution of the Defined Benefit Obligation during the year under review:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2008
Obligation at the beginning of the year	1 046 162	34 950	12 628	87 088	1 180 828
Net current service cost	24 271	1 197	1 249	5 058	31 775
Employee contributions	11 091	0	812	0	11 903
Interest cost	57 061	1 625	697	4 750	64 133
Benefit payments	- 33 526	- 1 914	622	- 3 028	- 37 846
Experience (gain)/loss	29 895	- 434	653	- 1 084	29 030
Assumption (gain)/loss	- 79 682	- 1 017	- 1 321	- 4 736	- 86 756
Special termination benefits	3 830	0	0	0	3 830
Benefit obligation as at 31 December 2008	**1 059 102**	**34 407**	**15 340**	**88 048**	**1 196 897**

Note L – Fund for general banking risks (in EUR '000)

In line with Note A.4.14, the Group no longer identifies the fund for general banking risks as a separate balance sheet item but continues to compute the amount corresponding to this fund, according to last year methodology for disclosure purpose.

Evaluation of the amount representative of general banking risks:	31.12.2008	31.12.2007
	1 280 000 (*)	1 000 000 (**)

(*) Of which EUR '000 198 000 for Structured Finance Facility operations
(**) Of which EUR '000 113 000 for Structured Finance Facility operations

The evolution of the computed Fund for general banking risks from 31 December 2007 to 31 December 2008 reflects a slight decrease in the Bank's loan portfolio quality, mainly due to new signatures to lower rating categories.

As at 31 December 2008, the general provisioning rates by Loan Grading categories are as follows:

Loan Grading	Provisioning rate for 2008	Provisioning rate for 2007
A	0.00%	0.00%
A+	0.10%	0.10%
A-	0.20%	0.20%
B+	0.30%	0.30%
B-	0.50%	0.50%
C	1.00%	1.00%
D+	2.00%	2.00%
D-	3.00%	3.00%
E+	10.00%	10.00%
E-	25.00%	25.00%

Note M – "Interest and similar income" and "Interest expense and similar charges"

(in EUR '000)

M.1. Net interest income

	31.12.2008	31.12.2007
Interest and similar income		
Loans and advances to credits institutions and customers	14 006 401	13 252 385
Treasury bills eligible for refinancing with central banks and debt securities including fixed-income securities	734 631	709 903
Interest subsidy from the E.U.	42 264	46 893
Cash in hand, balances with central banks and post office banks	202	344
Other	29 497	42 425
TOTAL	**14 812 995**	**14 051 950**
Interest expense and similar charges		
Debts evidenced by certificates	- 12 045 965	- 12 059 580
Derivatives [(1)]	- 460 727	- 7 626
Interest on third party mandates	- 45 143	- 42 610
Amounts owed to credit institutions	- 53 185	- 14 098
Other	- 67 209	- 64 693
TOTAL	**- 12 672 229**	**- 12 188 607**
Net interest income	**2 140 766**	**1 863 343**

[(1)] The interest income and expenses on derivatives are netted and amount to EUR '000 – 460 727 as at 31 December 2008 (EUR '000 -7 626 as at 31 December 2007).

The table below sets out the net interest income relating to each class of financial assets and liabilities.

	31.12.2008	31.12.2007
Interest and similar income		
Trading	22 111	19 289
Designated at fair value through profit and loss	844 896	645 422
Held to maturity	573 361	527 869
Loans and receivables[(1)]	13 204 183	12 665 166
Available for sale	139 159	148 541
Non financial assets	29 285	45 663
TOTAL	**14 812 995**	**14 051 950**
Interest expense and similar charges		
Trading	- 550 368	- 9 592
Designated at fair value through profit and loss	- 10 994 516	- 10 412 549
Financial liabilities measured at amortised cost	- 1 005 098	- 1 657 092
Non financial liabilities	- 122 247	- 109 374
TOTAL	**- 12 672 229**	**- 12 188 607**
Net interest income	**2 140 766**	**1 863 343**

[(1)] Including in this class of financial asset accrued interests on impaired loans as at 31 December 2008 which amount to EUR '000 2 600 (2007: EUR '000 7 832).

M.2. Geographical analysis of "Interest and similar income"

	31.12.2008	31.12.2007
Germany	2 008 176	2 356 560
Spain	2 143 128	1 833 671
Italy	1 697 814	1 456 260
France	1 385 791	1 437 073
United Kingdom	1 058 937	1 211 146
Portugal	774 637	698 928
Greece	559 600	533 178
Austria	294 940	292 310
Poland	445 242	287 992
Finland	232 420	227 245
Hungary	294 328	197 499
Belgium	198 322	187 366
Czech Republic	229 290	180 895
Denmark	123 138	152 085
Netherlands	141 405	151 539
Ireland	128 691	137 067
Sweden	165 245	123 075
Romania	90 755	81 155
Slovenia	75 551	57 535
Slovak Republic	42 227	35 134
Luxembourg	27 125	34 002
Cyprus	38 896	29 550
Bulgaria	24 765	17 465
Latvia	23 012	16 017
Estonia	8 145	6 753
Lithuania	5 766	5 204
Malta	581	348
Total	**12 217 927**	**11 747 052**
Outside the European Union	889 208	795 520
	13 107 135	**12 542 572**
Income not detailed per country [1]	1 705 860	1 509 378
	14 812 995	**14 051 950**

[1] Income not detailed per country:

	31.12.2008	31.12.2007
1. Revenue from investment portfolio securities and ABS portfolio	369 969	289 436
2. Revenue from operational bond portfolios	81 588	80 419
3. Revenue from operational money market portfolios	283 074	340 001
4. Revenue from money-market operations	981 830	808 378
5. Unwinding of interest income from the present value adjustment of paid-in capital and reserve receivable	28 245	45 663
6. Adjustment on early repayments of loans	- 38 846	- 54 519
	1 705 860	**1 509 378**

Note N – Result on financial operations (in EUR '000)

N.1. Per nature of result

	31.12.2008	31.12.2007
Net result on derivatives under the fair value option [1]	- 812 688	345 960
Net result on loans and associated swaps under the fair value option [2]	- 106 559	- 147 208
Net result on borrowings and associated swaps under the fair value option [3]	5 549 832	- 896 103
	4 630 585	**- 697 351**
Value adjustment on operational treasury portfolio	7 683	7 042
Gain and loss on operational treasury portfolio	- 3 189	- 8 510
Foreign exchange gain and loss	9 483	37 337
Gain and loss on buy back of debts evidenced by certificates	3 430	1 082
Gain and loss on wind of ALM swaps	21 125	924
Realised loss on sale of shares	- 11 449	0
Minority interest (Notes A.4.21 and H)	- 13 064	- 17 316
	4 644 604	**- 676 792**

[1] The Net result on derivatives under the Fair Value Option includes for the majority the fair value of Macro-hedging swaps, which has decreased during 2008 due to the general decrease of interest rates. This effect stems from the actual composition of the swap portfolio. The current portfolio of Macro-hedging swaps includes a portion of fixed rate payer swaps bigger than the portion of fixed rate receiver swaps. The effect of a fall in interest rates on the fair value of a portfolio where fixed rate payer swaps are prevalent is a decrease in its fair value. The Net result on derivatives under the Fair Value Option on the total derivatives generates a decrease of EUR ' 000 - 812 688 (2007: EUR' 000 345 960) and included within that figure is the total negative impact on Macro-hedging swaps which amounts to EUR '000 - 781 378 as at 31 December 2008 (2007: EUR ' 000 294 874).

[2] The Fair Value Option is applied on loans hedged by a derivative and on the derivative itself. As at 31 December 2008, the total outstanding of loans designated at Fair Value stands at EUR 59.3 billion (2007: EUR 43,5 billion), as only loans at a fixed rate are being hedged. The use of Fair Value Option on loans generates a decrease of EUR' 000 - 106 559 on the profit and loss account as at 31 December 2008 (2007 : EUR' 000 - 147 208). The negative result is due to the increase of 10 basis points of the funding curve decided in early November. In particular, the increase of the funding curve has caused the fair value of the loans to decrease relative to the fair value of the hedging swaps, the latter being influenced only by the level of the swap curve and not by that of the funding curve.

[3] The Fair Value Option is applied on borrowings hedged by derivatives and the derivatives themself. The majority of the borrowings are systematically hedged, and the volume of borrowings designated at Fair Value amounts to EUR 254.5 billion (2007: EUR 231.4 billion) as at 31 December 2008. The net impact on the profit and loss account as at 31 December 2008 on borrowings and associated swaps is an increase of the profit for the year by EUR' 000 5 549 832 (2007: EUR' 000 – 896 103). This increase mainly stems from the widening of EIB credit spreads in the secondary market (EUR' 000 6 007 717), mostly due to the increased supply of government and government guaranteed debt issuance. Overall, bond prices are observed directly in the market and are very sensitive to market situation, while swap values are derived from internal valuation models. In this context, the fair value of borrowings decreases by EUR' 000 - 10 994 901 and the fair value of derivatives hedging borrowings increases by EUR' 000 16 544 733 and the net result of the variation of the fair value of the liabilities and the hedging items results in an accounting profit of EUR' 000 5 549 832. The opposite phenomenon was observed last year (EUR' 000 - 896 103). As it is the intention to hold all financial instruments involved until maturity, it is expected that this accounting profit will be completely neutralised once the cashflows on both the bonds and the hedging swaps will have occurred. The outstanding amount of borrowing operations involved (EUR 254.5 billion) is such that even small changes in the involved market conditions have a significant impact on the result.

N.2. Per category of assets and liabilities

	31.12.2008	31.12.2007
Financial assets available-for-sale	- 17 015	0
Financial assets designated at fair value through profit and loss	3 878 973	- 949 088
Financial liabilities designated at fair value through profit and loss	- 10 994 901	493 328
Financial instruments held for trading	11 777 697	- 208 496
Other	- 150	- 12 536
	4 644 604	**- 676 792**

Note O – Other operating income (in EUR '000)

	31.12.2008	31.12.2007
Income from advisory activities	32 380	20 369
Reversal of previous years' unutilized accruals	3 999	3 597
Other	2 154	2 560
	38 533	**26 526**

Note P – "Fee and commission income" and "Fee and commission expense" (in EUR '000)

P.1. Fee and commission income

	31.12.2008	31.12.2007
Commission on Investment Facility – Cotonou	35 741	32 756
Commission on Jaspers	14 933	10 529
Commission on Jessica	3 962	1 903
Commission on Yaoundé/Lomé conventions	10 371	10 227
Commission on other European Community institutions and EU countries	28 274	22 096
Commission on financial guarantees	2 791	8 413
	96 072	**85 924**

P.2. Fee and commission expense

	31.12.2008	31.12.2007
Commission expense	- 125	- 1 842

Note Q – General administrative expenses (in EUR '000)

	31.12.2008	31.12.2007
Salaries and allowances (*)	- 187 327	- 171 690
Welfare contributions and other social costs	- 102 148	- 108 410
Staff costs	- 289 475	- 280 100
Other general and administrative expenses	- 107 663	- 85 880
	- 397 138	**- 365 980**

(*) Of which the amount for members of the Management Committee is EUR '000 2 821 at 31 December 2008 and EUR '000 2 655 at 31 December 2007.

The number of persons employed by the Group was 1 744 at 31 December 2008 (1 569 at 31 December 2007).

Note R – Derivative financial instruments

R.1. Usage of derivative financial instruments

In the funding activity of the Group

The Group uses derivatives mainly as part of its funding strategy in order to bring the characteristics, in terms of currencies and interest rates, of the funds raised into line with those of loans granted and also to reduce funding costs. It uses also long-term swaps to hedge certain treasury transactions and for ALM purposes.

Long-term derivative transactions are not used for trading, but only in connexion with fund-raising and for the reduction of market risk exposure.

All interest rate and currency swaps linked to the borrowing portfolio have maturities matching the corresponding borrowings and are therefore of a long-term nature.

The derivatives most commonly used are:

Currency swaps

Currency swaps are contracts under which it is agreed to convert funds raised through borrowings into another currency and, simultaneously, a forward exchange contract is concluded to re-exchange the two currencies in the future in order to be able to repay the funds raised on the due dates

Interest rate swaps

Interest rate swaps are contracts under which, generally, it is agreed to exchange floating-rate interest for fixed-rate interest or vice versa.

Asset swaps

Asset swaps are arranged for investments in bonds that do not have the desired cash-flow features. Specifically,

swaps are used to convert investments into floating-rate instruments with 3-month coupon payment and reset frequency. Thus, the Group eliminates interest-rate and/or exchange risk, while retaining, as intended, the credit risk.

Interest rate and currency swaps allow the Group to modify the interest rates and currencies of its borrowing portfolio in order to accommodate requests from its clients and also to reduce funding costs by exchanging its advantageous access conditions to certain capital markets with its swap counterparties. The use of derivatives by the Bank is limited to the hedging of individual transactions in the area of borrowing and treasury activities and, to a minor degree, to asset and liability management.

In the liquidity management of the Group

The Group enters into short-term currency swap contracts in order to adjust currency positions in its operational treasury in relation to its benchmark currency, the euro, and to cater for demand for currencies in conjunction with loan disbursements.

The notional amount of short-term currency swaps and short term forwards stood at EUR 16 296 million at 31 December 2008, against EUR 4 841 million at 31 December 2007.

The notional amount of Overnight indexed swaps stood at EUR nil million as at 31 December 2008 (EUR 6 000 million as at 31 December 2007).

Long-term futures are also used by the Group to adjust the medium-term (2 years) interest rate exposure of its treasury bond portfolios. The notional amount of long-term futures stood at EUR 394 million at 31 December 2008 (2007: EUR 419 million).

In the Asset Liability Management of the Group

The Group's policy aims to maintain a high and stable level of income as well as to safeguard the economic value of the Group.

Accordingly, the Group:

- has adopted an own funds investment profile ensuring a stable and high flow of income;
- manages residual interest rate risks in relation to this investment profile.

With a view to managing residual interest rate risks, the Group operates natural hedges in respect of loans and borrowings or concludes global hedging operations (interest rate swaps).

Macro hedging swaps used as part of asset/liability management are market to market (fair value) in accordance with IAS 39.

R.2. Fair value of derivative financial instruments

The table below shows the net fair value of derivative financial instruments, recorded as assets or liabilities (between those whose fair value is based on quoted market prices, those whose valuation technique where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs) together with their nominal amounts. The nominal amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Derivatives by valuation method as at 31 December 2008 (in EUR million)

	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non observable market inputs		Total	
	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value
Derivatives related to borrowings	0	0	219 491	12 808	19 302	166	238 793	12 974
Derivatives related to loans	0	0	50 680	- 3 651	3 145	- 629	53 825	- 4 280
Derivatives related to assets portfolio	0	0	57	- 1	0	0	57	- 1
Derivatives related to Asset Liability Management	0	0	74 002	- 3 326	0	0	74 002	- 3 326
Derivatives related to asset backed securities	0	0	131	13	0	0	131	13
Forward foreign exchange contracts	0	0	16 296	- 989	0	0	16 296	- 989
Futures contracts	394	- 1	0	0	0	0	394	- 1
Forward rate agreements	0	0	5 472	1	0	0	5 472	1
Guarantees associated to derivatives	0	0	0	0	1 217	- 3	1 217	- 3
Total	**394**	**- 1**	**366 129**	**4 855**	**23 664**	**- 466**	**390 187**	**4 388**

Derivatives by valuation method as at 31 December 2007 (in EUR million)

	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non observable market inputs		Total	
	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value
Derivatives related to borrowings	0	0	204 219	2 573	18 931	- 1 353	223 150	1 220
Derivatives related to loans	0	0	39 627	- 176	2 718	- 228	42 345	- 404
Derivatives related to assets portfolio	0	0	64	- 1	0	0	64	- 1
Derivatives related to Asset Liability Management	0	0	54 675	- 4 686	0	0	54 675	- 4 686
Derivatives related to asset backed securities	0	0	132	1	0	0	132	1
Forward foreign exchange contracts	0	0	4 841	- 18	0	0	4 841	- 18
Futures contracts	419	3	0	0	0	0	419	3
Overnight indexed Swaps	0	0	6 000	2	0	0	6 000	2
Guarantees associated to derivatives	0	0	0	0	1 268	- 2	1 268	- 2
Total	**419**	**3**	**309 558**	**- 2 305**	**22 917**	**- 1 583**	**332 894**	**- 3 885**

Quoted prices for EIB's derivative transactions are not available in the market. For such instruments the fair values are estimated using valuation techniques or models, based whenever is possible on observable market data prevailing at the balance sheet date.

The fair value of swap transactions is computed using the income approach, applying valuation techniques to convert future amounts to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Valuation techniques can range from simple discounted known cash flows to complex option models. The valuation models applied are consistent with accepted economic methodologies for pricing financial instruments, and incorporate the factors that market participants consider when setting a price.

For a portion of derivative transactions, internal estimates and assumptions might be used in the valuation techniques when the market inputs are not directly available.

Note S – Fair value of financial assets and liabilities (in EUR million)

The tables below set out a comparison by category of the carrying amounts and fair values of the Group's financial assets and financial liabilities that are carried in the financial statements. The tables do not include the fair values of non-financial assets and non-financial liabilities.

	Carrying value 2008	Fair value 2008	Unrecognized gain/loss 2008	Carrying value 2007	Fair value 2007	Unrecognized gain/loss 2007
Financial assets						
Loans and receivables	254 633	255 748	1 115	241 329	224 381	- 16 948
Financial assets held for trading	22 388	22 388	0	9 566	9 566	0
Financial assets designated at fair value through P/L	59 257	59 257	0	43 523	43 523	0
Financial assets – Available-for-sale	4 533	4 533	0	5 364	5 364	0
Financial assets – Held-to-maturity	10 171	9 736	- 435	9 499	9 486	- 13
Financial liabilities						
Financial liabilities held for trading	17 474	17 474	0	12 946	12 946	0
Financial liabilities designated at fair value through P/L	254 526	254 526	0	231 449	231 449	0
Financial liabilities measured at amortised cost	35 934	37 371	- 1 437	29 065	29 836	- 771
Total unrecognized change in unrealised fair value			**- 757**			**- 17 732**

The following describes the methodologies and assumptions used to determine the fair value of the financial assets and the financial liabilities.

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that are liquid or having a short term maturity (less than three months), it is assumed that the carrying amounts approximate to their fair value.

Assets and liabilities recorded at fair value

Published price quotations in an active market are the first source for determining the fair value of a financial instrument. For instruments without an available market price the fair values are estimated using valuation techniques or models, based whenever is possible on observable market data prevailing at the balance sheet date.

The fair value of such instruments is determined by using valuation techniques to convert future amounts to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Valuation techniques can range from simple discounted known cash flows to complex option models. The valuation models applied are consistent with accepted economic methodologies for pricing financial instruments, and incorporate the factors that market participants consider when setting a price. Internal estimates and assumptions might be used in the valuation techniques when the market inputs are not directly available.

The following tables show an analysis of financial assets and financial liabilities recorded at fair value, between those whose fair value is based on quoted market prices, those whose valuation technique where all the model inputs are observable in the market and those where the valuation techniques involves the use of non-market observable inputs.

	Quoted market price 2008	Valuation techniques – market observable input 2008	Valuation techniques – non market observable input 2008	Total 2008		
				Positive fair value	Negative fair value	Total
Financial assets						
Financial assets held for trading	526	20 854	1 008	22 388	0	22 388
Financial assets designated at fair value through P/L	0	56 158	3 099	59 258	- 1	59 257
Financial investments – Available-for-sale	1 993	419	2 121	4 533	0	4 533
Total	**2 519**	**77 431**	**6 228**	**86 179**	**- 1**	**86 178**
Financial liabilities						
Financial liabilities held for trading	1	16 000	1 473	0	17 474	17 474
Financial liabilities designated at fair value through P/L	206 206	33 916	14 404	- 1 229	255 755	254 526
Total	**206 207**	**49 916**	**15 877**	**- 1 229**	**273 229**	**272 000**

	Quoted market price 2007	Valuation techniques – market observable input 2007	Valuation techniques – non market observable input 2007	Total 2007		
				Positive fair value	Negative fair value	Total
Financial assets						
Financial assets held for trading	508	8 563	495	9 566	0	9 566
Financial assets designated at fair value through P/L	0	40 576	2 947	43 580	- 57	43 523
Financial investments – Available-for-sale	2 090	1 039	2 235	5 364	0	5 364
Total	**2 598**	**50 178**	**5 677**	**58 510**	**- 57**	**58 453**
Financial liabilities						
Financial liabilities held for trading	0	10 866	2 080	0	12 946	12 946
Financial liabilities designated at fair value through P/L	203 353	16 147	11 949	- 738	232 187	231 449
Total	**203 353**	**27 013**	**14 029**	**- 738**	**245 133**	**244 395**

Change in fair value of financial instruments designated at fair value through profit and loss using a valuation technique based on non market observable input, due to alternative assumptions

The potential effect of using reasonable possible alternative non market observable assumptions as input to valuation techniques from which the fair values of financial instruments designated at FVPL are determined has been quantified as a reduction of approximately EUR 12 million using less favourable assumptions and an increase of approximately EUR 28 million using more favourable assumptions for 31 December 2008 and a reduction of approximately EUR 32 million using less favourable assumptions and an increase of approximately EUR 75 million using more favourable assumptions for 31 December 2007.

Financial assets designated at fair value through profit and loss

Included in financial asset designated at fair value through profit and loss is a portfolio of loans hedged by Interest Rates Swaps and Currency Swaps.

The maximum credit exposure of the disbursed loans and advances to customers and to credit institutions designated at fair value through profit and loss amounts to EUR 59 257 million (2007: EUR 43 523 million). The cumulative change in fair value of the loans attributable to change in credit risk of Group's counterparts amounts to a loss of EUR 12.44 million (2007: gain of EUR 2.98 million) and the change for the current year is a loss of EUR 15.42 million (2007: gain of EUR 2.53 million). The changes in fair value of financial assets designated at fair value through profit and loss attributable to changes in credit risk have been calculated by determining the change in the Expected Credit Loss on these loans.

No credit derivatives have been concluded to hedge the credit risk of the financial assets designated at fair value through profit and loss.

Financial liabilities designated at fair value through profit and loss

The financial liabilities designated at fair value through profit and loss are debts evidenced by certificates issued by the Group and hedged by Interest Rate Swaps and Currency Swaps.

The cumulative change in fair value of quoted financial liabilities designated at fair value through profit and loss attributable to change on credit risk of the Group amounts to a profit of EUR 4 984 million (2007: loss of EUR 1 024 million) and the change for the current year is a profit of EUR 6 008 million. The changes in fair value of financial liabilities designated at fair value through profit and loss attributable to the change in credit risk have been calculated by determining the difference between the changes in the quoted fair value minus the changes in fair value due to market risk based on valuation techniques.

The amount that the Group would contractually be requested to pay at maturity of financial instruments designated at fair value through profit and loss is EUR 16 825 million less than the carrying amount as at 31 December 2008 (2007: EUR 5 186 million).

Note T – Risk management

This note presents information about the Group's exposure to and its management and control of risks, in par-

ticular 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;
- Market risk - exposure to observable market variables such as interest rates, exchange rates and equity market prices;
- Liquidity and funding risk - the risk that the Group is unable to fund assets or meet obligations at a reasonable price or, in extreme situations, at any price.
- Operational risk - the potential loss resulting from inadequate or failed internal processes, people and systems or from external events.

Within the Group, the management and control of risks is handled separately by each entity. As a consequence, risk management information presented in this note will distinguish between the Bank and the Fund.

T.1. Risk Management Organisation

T.1.1. Risk Management Organisation of the Bank

The Bank aligns its risk management systems to changing economic conditions and evolving regulatory standards. It adapts them on an ongoing basis as best market practice develops. Systems are in place to control and report on the main risks inherent in its operations, i.e. credit, market and operational risks.

The Bank applies best market practice in order to analyse and manage risks so as to obtain the strongest protection for its assets, its financial result, and consequently its capital. While the Bank is not subject to regulation, it aims to comply in substance with the relevant EU banking directives and the recommendations of the banking supervisors of the EU Member States, EU legislation and the competent supranational bodies, such as the Basel Committee on Banking Supervision (BCBS).

The following sections disclose the credit, market and liquidity risks to which the Bank is exposed on its activities performed on own resources.

The Risk Management Directorate (RM) has, since November 2003, initially been structured around two departments – namely the Credit Risk (CRD) and the ALM, Derivatives, Financial and Operational Risk (FRD) Departments – and a Coordination Division. In 2006, the Bank formalised credit risk policies for own resource operations outside the European Union, expanding CRD's remit.

RM independently identifies, assesses, monitors and reports the credit, market and operational risks to which the Bank is exposed in a comprehensive and consistent way and under a consistent approach. Within a commonly defined framework, whereby the segregation of duties is preserved, RM is independent of the Front Offices. The Director General of RM reports, for credit, market and operational risks, to the designated Vice-President. The designated Vice-President meets regularly with the Audit Committee to discuss topics relating to credit, market and operational risks. He is also responsible for overseeing risk reporting to the Management Committee and the Board of Directors.

To support the implementation of the Bank's risk policies, two risk-oriented committees have been created.

The Credit Risk Assessment Group (CRAG) is a high-level forum for discussing relevant credit risk issues arising in the course of the Bank's activities and for advising the Management Committee on these. Its members are the Directors General of the Operations, Projects, Risk Management, Finance and Legal Affairs Directorates. The CRAG is intended to complement, and does not replace, the existing case-by-case review of lending operations, which remains central to the loan approval process.

An ALM Committee (ALCO), made up of the Directors General of the Operations, Finance and Risk Management Directorates, provides a high-level forum for debating the Bank's ALM policy and for making proposals in this field to the Management Committee. It promotes and facilitates the dialogue among the Directorates represented in it, while providing a wider perspective on, and enhancing their understanding of, the main financial risks.

During 2008, the Bank continued to develop its capacity to manage loans post signature, thereby also preparing for post-signature management of riskier transactions resulting from its "take-more-risk" strategy. The Transaction Management & Restructuring department (TMR), initially part of Risk Management Directorates when created in 2007, has been transformed into an autonomous department, reporting to a separate Vice-President. In doing so, the Bank has segregated the EU-post signature operational activity from that of providing second opinions. The Bank also decided to allocate additional resources to TMR thereby enabling it, in 2009, to widen its monitoring coverage and enhancing its capacity to manage distressed cases.

T.1.1.1. Risk measurement and reporting system

The Bank's risks are measured using a method which reflects both expected losses likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on a portfolio model. The models make use of probabilities derived from statistics based on historical experiences observed in financial markets. The Bank also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Information on the risk measures described above are presented and explained to the Management Committee on a quarterly basis and to the Board of Directors twice a

year. The reports include aggregate credit exposures, credit concentration analyses, VaR, liquidity ratios and risk profile changes.

T.1.1.2. The Bank's financial risk tolerance

As a public institution, the Bank does not aim to make profits from speculative exposures to financial risks, sets its financial risk tolerance to a minimum level as defined by approved limits, and applies a conservative financial framework.

As a consequence, the Bank does not view its treasury or funding activities as profit- maximising centres, even though performance objectives are attached to those activities. Investment activities are conducted within the primary objective of protection of the capital invested. With respect to exposures arising from the Bank's lending and borrowing operations, the main principle of the Bank's financial risk policy is therefore that all material financial risks are hedged.

Following best market practice, all new types of transaction introducing operational or financial risks must be authorised by the Management Committee, after the approval of the New Products Committee, and are managed within approved limits.

T.1.1.3. Sustainability of revenue and self-financing capacity

The Bank's ALM policy forms an integral part of the Group's overall financial risk management. It reflects the expectations of the three main stakeholders of the Bank (i.e. the Bank's shareholders, the Bank's borrowers and the financial markets) in terms of stability of earnings, preservation of the economic value of own funds, and the self-financing of the Bank's growth in the long term.

To achieve these aims, the ALM policy employs medium to long-term indexation for the investment of own funds to promote stability of revenues and enhance overall returns. This indexation policy implies an exposure to medium to long-term yields and is not influenced by any short-term views on trends in interest rates.

This is accomplished by targeting a duration for the Bank's own funds of between 4.5-5.5 years.

T.1.2. Risk Management Organisation of the Fund

Venture Capital and Garantees operations for both entities of the Group are managed by the Fund. The mandate of the Fund is to support small and mid-size enterprise (SME) finance for start-up, growth and development within European Union objectives for SME.

The Fund aligns its risk management systems to changing economic conditions and evolving regulatory standards. It therefore adapts them on an ongoing basis as best market practices develop. Credit, market and operational systems are in place to control and report on the main risks inherent to its operations.

Risk Management and Monitoring (RMM) independently reports directly to the Chief Executive. This segregation of duties and the "four-eyes" principle ensures an unbiased review of the Fund's business activities. Moreover, within the EIB Group context, RMM operates in close contact with the European Investment Bank's Risk Management Directorate, particularly with regard to Group risk exposure relating to guarantee operations, the venture capital operations under the Bank's Risk Capital Mandate (RCM) and general EIF policy matters.

RMM is divided into two main areas: venture capital and for portfolio guarantees & securitisation activities. Each of these encompass a Risk Management team and an Administration and Monitoring team, adding to a total of four teams within RMM.

The Fund's treasury management has been outsourced to the Bank under a treasury management agreement signed by both parties and it is carried out according to EIF treasury guidelines

T.1.2.1. Risk assessment venture capital

Under its venture capital ("VC") operations, the Fund has a fund of funds approach, taking minority equity participations in funds managed by independent teams in order to catalyse further commitments from a wide range of investors. The Fund's VC operations include investments in early-stage and seed capital, but also in well-established funds targeting mid- and later-stage investments, which, generally speaking, have a lower risk profile.

Over the last years, the Fund has developed a tool-set to design, manage and monitor portfolios of VC funds tailored to the dynamics of this market place, going beyond the typical and often-simplistic recipe of investing only in top quartile funds. This tool-set is based on an internal model, the Grading-based Economic Model ("GEM"), which allows the Fund to better assess and verify each funds' but also each portfolios of funds' valuations, risks and expected future cash flows and performances. Before committing to a VC fund, the Fund assigns a grading which is based on the outcome of an extensive due diligence performed by the Fund's transaction team and reviewed by its risk management team. During the funds lifetimes, gradings are periodically reviewed with a frequency and intensity depending on the level of risk.

These efforts, supported by the development of a proprietary IT system and an integrated software (front to back), improve the investment decision-making process and the management of the portfolio's financial risks and of liquidity.

In the context of the actual financial crisis, the Fund has intensified its monitoring done on the fair values reported by each VC funds managers, but also on other specific

risks linked to the current crisis. The Fund has also run more stringent stress test scenarios on its VC funds portfolios to assess the impact of a worsening and/or continuation of the current crisis.

T.1.2.2. Risk assessment guarantees

The Fund extends portfolio guarantees to financial intermediaries involved in SME financing, and by taking on the risk faced by those institutions, it facilitates access to funding, and, in turn, it helps to finance SMEs.

For its guarantee & securitisation business, over the last years, the Fund has developed a tool-set to analyse portfolio guarantee and structured financial transactions in line with best market practices. Before the Fund enters legally into a guarantee transaction, an internal rating is assigned to each new own risk guarantee transaction in accordance with the Fund's Credit Risk Policy and Model Review Guidelines. The rating is based on internal models, which analyse and summarise the transaction's credit quality (expected loss concept), considering not only quantitative parameters but also qualitative aspects. Guarantee transactions are monitored regularly, at least quarterly.

The guarantees portfolio is valued according to marked-to model. The main impact on the valuation stems from the assigned rating and the possible subsequent rating changes.

In the context of the actual financial crisis, the Fund has increased its monitoring efforts to follow a potential negative rating migration and due to conservative measures potential upgrades decisions are avoided. The improvement of the monitoring is not only based on the financial crisis but is a continuous process.

Furthermore, the Fund has strengthened the stress testing methodology, i.e. its scenario analysis with regard to portfolio downgrades and related impacts on capital allocation, expected losses, as well as on P&L.

T.2. Credit risk

T.2.1. Credit risk policies

Credit risk concerns mainly the Group's lending activity and, to a lesser extent, treasury instruments such as fixed-income securities held in the investment and operational portfolios, certificates of deposit and interbank term deposits as well as the derivatives transactions of the Group and the Fund's guarantee transactions funded by own resources. No credit risk is attached to the Group's venture capital operations, which are performed entirely through equity participations and are, hence, only exposed to market risk.

The EIB's policies on credit risk are approved by the Bank's governing bodies. They set out minimum credit quality levels for both borrowers and guarantors in lending operations and identify the types of security that are deemed acceptable. They also detail the minimum requirements which loan contracts must meet in terms of key legal clauses and other contractual stipulations to ensure that the Bank's position ranks at least as high as that of other senior lenders, with prompt access to security when required. In addition, via a counterpart and sector limit system, the credit policies ensure an acceptable degree of diversification in the Bank's loan portfolio. The Bank's limit system draws its inspiration from the traditional prudential regulations on concentration and large exposure management contained in the EU banking directives, though the Bank generally adopts a more restrictive approach to risk-taking than commercial banks. They also set out the minimum credit quality of counterparties of derivatives and treasury transactions as well as the contractual framework for each type of transaction.

As regards lending, treasury and derivatives operations, credit risk is managed by the independent Risk Management Directorate (RM) under the direct responsibility of the Management Committee. The Bank has thus established an operationally independent structure for determining and monitoring credit risk.

The Fund manages exposures and risk taking in the frame of conservative policies deriving from statutory provisions and Credit Risk Policy Guidelines approved by the Fund's Board of Directors or guidelines as set out under mandates.

Credit policies undergo periodic adaptations to incorporate evolving operational circumstances and respond to new mandates that the Bank may receive from its shareholders.

Management of credit risk is based, firstly, on the degree of credit risk vis-à-vis counterparties and, secondly, on an analysis of the solvency of counterparties.

T.2.2. Maximum exposure to credit risk without taking into account any collateral and other credit enhancements

The table below shows the maximum exposure to credit risk for the components of the balance sheet, including derivatives. The maximum exposure is shown gross, before the effect of mitigation through the use of collateral agreements.

	Maximum exposure 2008 (in EUR million)	Maximum exposure 2007 (in EUR million)
Financial assets		
Loans and receivables	254 633	241 329
Financial assets held for trading	22 388	9 566
Financial assets designated at fair value through P/L	59 257	43 523
Financial assets – Available-for-sale	4 533	5 364
Financial assets – Held-to-maturity	10 171	9 499
Non financial assets	520	466
Total	**351 502**	**309 747**
Off-balance-sheet		
Contingent liabilities	4 083	3 773
Commitments		
- Undisbursed loans	58 870	53 607
- Undisbursed Venture Capital operations	1 227	1 421
- Other	777	771
Total	**64 957**	**59 572**
Total credit risk exposure	**416 459**	**369 319**

Where financial instruments are recorded at fair value, the amounts shown above represent maximum risk exposure that could arise in the future as a result of change in values.

For more detail on the maximum credit exposure to credit risk for each class of financial instrument, references shall be made to the specific notes.

T.2.3. Credit risk on loans

T.2.3.1. Credit risk measurement for loans and advances to customers and credit institutions

In line with best practice in the banking sector, an internal loan grading system (based on the expected loss methodology) is implemented for lending operations. This has become an important part of the loan appraisal process and of credit risk monitoring, as well as providing a reference point for pricing credit risk when appropriate.

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. At the EIB, 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 a benchmark for calculating the annual additions to the Fund for general banking risks;
- 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: RM/CRD independently reviews borrowers and assesses their creditworthiness based on internal methodologies and external data.

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

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

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

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

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

A Prime quality loans: there are three sub-categories. A° comprises EU sovereign risks, that is loans granted to – or fully, explicitly and unconditionally guaranteed by – Member States where no repayment difficulties are expected. A+ denotes loans granted to (or guaranteed by) entities other than Member States, with no expectation of deterioration over their duration.

B High quality loans: these represent an assets class with which the EIB 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 that in the course of their lives have experienced severe problems and their sliding into a situation of loss cannot be excluded. For this reason, they require careful, 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 can not 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 Group are graded F and a specific provision is applied.

Generally, loans internally graded D- or below are placed on the Watch List. However, under the Structured Finance Facility (SFF) and the Special Femip Envelope (SFE), a limited amount of credit exposures with an original LG of D- or less can be accepted. As of 31 December 2008, a dedicated reserve of EUR 2 750 million (2007: EUR 1 250 million) is set aside to meet the higher credit risks implied by such operations.

In addition to the deal-by-deal analysis of each loan, the Group, using an external credit software package, also develops a portfolio view of credit exposures, integrating the concentration and correlation effects created by the dependence of various exposures on common risk factors. By adding a portfolio dimension of credit risks, it is possible to complement the LG's deal-by-deal approach and thus provide a finer and more comprehensive risk assessment of the credit risks in the Group's loan book. The EIB has also developed an internal rating methodology (IRM) to determine the internal ratings of all its counterpart exposures. The methodology is based on a system of scoring sheets.

T.2.3.2. Loans secured by Guarantees of the Community budget or the Member States

Loans outside the Community (apart from Risk Sharing loans and article 18 Facilities, and those falling under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility) are, in the last resort, secured by guarantees of the Community budget or the Member States (the Guarantees). In South Africa, Latin America and Asia, Southern Mediterranean, Eastern Europe, Southern Caucasus and Russia the guarantee is provided by the Community, and in African, Caribbean and Pacific (ACP) countries as well as OCTs, the loans are benefiting from the Member States guarantee. Operations focus primarily on the infrastructure, energy and the environment sectors, as well as supporting SMEs through credit lines to intermediaries (Global Loans).

In accordance with the terms of the Guarantees, the Community and the Member States secure up to 65%, 75% and 100% of pool of signed[1] operations, which - in view of the traditionally low disbursed vs. signed operations ratio outside the EU - result in an effective full coverage of the Group's disbursed exposure. For this reasons, the Group deems the credit risk associated to each individual loan as fully risk covered and therefore the Guaranteed portfolio is not included in the section T.2.3 analysing the credit risk exposure of the Group's lending activities.

Falling into this category, the total amount of loans signed as at 31 December 2008 amounts to EUR 25 694 million

(1) Under the new Guarantee Agreement with the Commission signed on 1 and 29 August 2007, all Community guaranteed operations signed on and after 17 April 2007 shall be covered up to 65% of "the aggregate amount of credits disbursed". As of 31 December 2008, the disbursed exposure under the new Guarantee Agreement amounted to Eur 301 million (2007: EUR 93.38 million). The residual risk borne by the Group in connection with operations is managed in accordance with the Group´s fundamental credit rules and procedures.

(2007: EUR 23 809 million) including an undisbursed amount of EUR 19 683 million (2007: EUR 9 180 million).

T.2.3.3. Analysis of lending credit risk exposure

In order to limit the credit risk on its loan portfolio, the Group lends only to counterparties with demonstrated creditworthiness over the longer term and sound guarantees.

In order to efficiently measure and manage credit risk on loans, the Group has graded its lending operations according to generally accepted criteria, based on the quality of the borrower, the guarantee and, where appropriate, the guarantor.

In detail, the tables below show the maximum exposure to credit risk on loans (the repayable on demand and other loans and advances to credit institutions are not included) signed and disbursed as well as the part of the exposure that has been signed but not disbursed yet for all exposure where the Group is at risk, excepted the loans secured by guarantees of the Community budget or the Member States.

2008 (in EUR million)		Guarantor				Total disbursed	Signed not disbursed
		Corporate	Bank	Public	State		
Borrower	Corporate	47 788	28 207	5 276	14 470	**95 741**	**18 448**
	Bank	14 088	41 603	38 310	10 391	**104 392**	**11 666**
	Public	4 442	739	31 256	18 344	**54 781**	**12 003**
	State	0	0	0	20 960	**20 960**	**7 071**
Total disbursed		**66 318**	**70 549**	**74 842**	**64 165**	**275 874**	**49 188**
Signed not disbursed		**11 726**	**11 293**	**13 316**	**12 853**	**49 188**	

2007 (in EUR million)		Guarantor				Total disbursed	Signed not disbursed
		Corporate	Bank	Public	State		
Borrower	Corporate	36 944	26 912	4 750	14 089	**82 695**	**15 270**
	Bank	14 691	39 342	41 100	9 922	**105 055**	**10 399**
	Public	4 173	1 094	26 011	16 965	**48 243**	**11 782**
	State	0	0	0	18 138	**18 138**	**6 975**
Total disbursed		**55 808**	**67 348**	**71 861**	**59 114**	**254 131**	**44 426**
Signed not disbursed		**9 691**	**8 780**	**12 798**	**13 157**	**44 426**	

Regarding the lending activities, the Group's total exposure[(1)] to the banking sector amounts to EUR 116 057 million at the end of December 2008 (2007: EUR 115 191 million), which is equal to 36% of the total of EUR 325 062 million in loans outstanding as at 31 December 2008 (2007: EUR 298 557 million).

Unsecured loans to corporates[(1)] at the end of December 2008, amounted to EUR 56 963 million, which is equal to 17% of the total loan book. Unsecured exposure to corporate clients is controlled by bilateral limits and generally individual exposures are capped at 5% of EIB's Own Funds. The Bank has also introduced a number of sector limits.

T.2.3.3.1. Credit quality on loans

The overall credit quality of risk portfolio continues to present an excellent profile, with loans internally graded A to C representing 95.6% of the loan portfolios as at 31 December 2008, compared with 97.2% at end-2007. The share of loans internally graded D+, the lowest acceptable internal grading for standard loan operations and below, was 4.4% (2007: 2.8%) of the loan portfolio, corresponding to EUR 14.3 billion (2007: EUR 8.3 billion).

To mitigate credit risk, the Group uses, amongst others, the following instruments:

- Guarantees issued by third parties of acceptable credit quality;
- Financial collaterals;
- Mortgages, claims on revenues etc.

All credit risk mitigation instruments accepted by the Bank have been defined in the Credit Risk Policy Guidelines.

(1) Including exposure signed but not disbursed yet.

Credit quality analysis per type of borrower

The tables below show the credit quality analysis of the Group's loans portfolio as at 31 December 2008 and 31 December 2007 by the Loan Grading application, based on the exposures signed (disbursed and undisbursed).

2008 (in EUR million)		Sovereign (*)	High Grade	Standard Grade	Min. Accept. Risk	High Risk	Past Due / Impaired (**)	Total
		A0, P	A to B-	C	D+	D- and below		
Borrower	Corporate	15 697	56 942	28 696	8 283	4 547	25	**114 190**
	Bank	5 752	103 678	5 761	438	429	0	**116 058**
	Public	20 136	45 468	815	0	364	0	**66 783**
	State	26 779	67	985	200	0	0	**28 031**
TOTAL		**68 364**	**206 155**	**36 257**	**8 921**	**5 340**	**25**	**325 062**

2007 (in EUR million)		Sovereign (*)	High Grade	Standard Grade	Min. Accept. Risk	High Risk	Past Due / Impaired (**)	Total
		A0, P	A to B-	C	D+	D- and below		
Borrower	Corporate	15 158	56 860	18 041	5 289	2 226	390	**97 964**
	Bank	8 155	101 640	5 297	19	343	0	**115 454**
	Public	18 657	40 532	836	0	0	0	**60 025**
	State	22 874	0	2 240	0	0	0	**25 114**
TOTAL		**64 844**	**199 032**	**26 414**	**5 308**	**2 569**	**390**	**298 557**

(*) Including loans guaranteed by EU member states as well as loans under the Pre-Accession Facility.

(**) As at 31 December 2008, the Group holds no past due loans (loans considered past due when the counterparty has failed to make payment when contractually due). Furthermore, during the 2007 and 2008 years, the Group did not take possession of collateral it hold as security on past due loans. As at 31 December 2008, the Group holds an impaired loan portfolio (also called non performing loans) of EUR 25 million (2007: EUR 390 million) already existing in 2007, with a specific provision of EUR 17 million (2007: EUR 37 million).

During the 2007 and 2008 years, there were no defaults or breaches on existing loans.

With the decision in favour of the Internal Ratings Based approach of Basel II, the Group has introduced an internal rating methodology in 2006. A considerable amount of the counterparts have already been rated according to this model. The table below shows a breakdown of the Group's loan portfolio by the rating of the borrower, based on the internal rating, where available. In cases where an internal rating is not available yet, the external rating has been used for this analysis.

In view of the current market situation, the EIB is monitoring the events affecting its borrowers and guarantors, particularly banks. In particular, the Group is assessing on a case by case basis its contractual rights in case of rating deterioration and is seeking appropriate mitigating measures. It is also closely following the renewals of bank guarantees received for its loans to ensure that these are replaced or appropriate action is taken in a timely manner.

The monolines, insuring EUR 5 059 million of the Group's loans, have suffered material downgrades. In view of the credit enhancement, EIB required at the outset that the borrowers be of acceptable credit standing. In view of the weakened credit of the monolines, the Group has enhanced its direct monitoring of the underlying borrowers and projects which, based on current information, remains intrinsically sound.

As an immediate response to the developments on the financial markets that have been taken place since September 2008, the EIB has acted to reinforce its arrangements for the monitoring and management of risks. To this end, an inter-directorate risk monitoring group has been set up. Its purpose is to promote the exchange of information among departments and to suggest reporting and operational management procedures for use at times of financial crisis with the objective of rapid reaction if required.

The Bank regularly assesses the credit quality of all loan counterparts and, from these periodic assessments, it derives an internal transaction grading. The internal rating scale comprises 10 internal grading classes, from A to F. This grading also takes into account the value of collaterals or securities received, as well as identified structural weaknesses or deterioration in cash flows. The Bank does not asses credit risk on a pooled or portfolio basis, but deals with each outstanding transaction individually.

The internal transaction grading is also used to determine the Watch List (all loans with an internal grading of D- to

F, other than SFF/LGTT/RSFF transactions unless downgraded post signature), which increased to EUR 1 126 million (EUR 91 million end 2007), also reflecting the general economic situation.

The portion of loans internally rated graded A0 to C represents 95.6% of the total risk portfolio (97.2% end 2007). However, this change was largely driven by the rising volume of new signatures under SFF/LGTT/RSFF (increasing by almost 240% in 2008) for which each loan has a proportion of the funds allocated to the SFF reserve.

Taking into account the above, and the Bank's contractual protections, which if breached enable the Bank to negotiate remedies, as at 31 December 2008, there was no need for a collective impairment allowance.

Credit risk exposure for each internal risk rating

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

	Rating Grade	Moody's equiv. grade	1-y history Def. rate (*)	2008 (in EUR million)		2007 (in EUR million)	
				Exposures Signed	Weighted Exposures (**)	Exposures Signed	Weighted Exposures (**)
No rating available	n/a	n/a	0%	**0**	**0**	**0**	**0**
Internal Rating 1	1	Aaa	0%	**26 983**	**4 798**	**27 812**	**2 405**
Internal Rating 2	2+	Aa1	0%	**29 307**	**2 612**	**30 677**	**3 100**
	2	Aa2	0%	**15 710**	**7 337**	**33 930**	**14 415**
	2-	Aa3	0%	**48 014**	**21 530**	**30 273**	**12 070**
Internal Rating 3	3+	A1	0%	**45 355**	**15 773**	**36 459**	**14 476**
	3	A2	0%	**32 561**	**16 511**	**32 497**	**11 650**
	3-	A3	0%	**32 155**	**18 666**	**28 876**	**16 218**
Internal Rating 4	4+	Baa1	0%	**31 003**	**19 197**	**30 513**	**16 136**
	4	Baa2	0%	**15 834**	**5 803**	**5 681**	**2 561**
	4-	Baa3	0%	**32 351**	**14 086**	**31 711**	**15 856**
Internal Rating 5	5+	Ba1	0%	**3 424**	**3 494**	**1 405**	**823**
	5	Ba2	0%	**3 470**	**2 113**	**1 568**	**1 114**
	5-	Ba3	0%	**3 233**	**1 477**	**1 411**	**736**
Internal Rating 6	6+	B1	0%	**3 830**	**2 126**	**4 940**	**1 921**
	6	B2	0%	**166**	**111**	**93**	**74**
	6-	B3	0%	**806**	**589**	**623**	**312**
Internal Rating 7	7	C	0%	**860**	**696**	**88**	**14**
TOTAL				325 062	136 919	298 557	113 881

(*) based on actual losses obtained in 2008.

(**) Risk-weights are percentages (from 0% to 100%) applied to the outstanding nominal amounts of loans or other credit exposures (e.g. deposits, derivatives and securities). They depend on the perceived credit risk represented both by the types of claims and by the nature of the main obligator or guarantor. The main risk-weights are 0% (Member States, German and Austria Länder), 20% (public institutions), 50% (banks) and 100% (corporates), or broadly those applied within the 1988 BIS Capital Accord and EU Capital Adequacy Directive.

T.2.3.3.2. Risk concentrations of maximum exposure to credit risk on loans

The Group's loans portfolio can be analysed by the following geographical regions (based on the country of the borrower):

	2008 (in EUR million)		2007 (in EUR million)	
	Exposures Signed	Weighted Exposures [(1)]	Exposures Signed	Weighted Exposures [(1)]
EU [(*)]	315 926	132 367	291 519	110 866
Thereof :				
- Germany	48 378	15 168	46 523	12 268
- Spain	54 111	15 017	47 188	12 408
- Italy	43 620	22 201	40 061	19 392
- France	35 011	17 615	33 632	14 956
- United Kingdom	22 363	16 336	25 550	17 946
ENLARGEMENT COUNTRIES [(**)]	4 366	1 649	4 207	1 753
PARTNER COUNTRIES [(***)]	4 770	2 903	2 831	1 262
TOTAL	**325 062**	**136 919**	**298 557**	**113 881**

[(1)] Risk-weights are percentages (from 0% to 100%) applied to the outstanding nominal amounts of loans or other credit exposures (e.g. deposits, derivatives and securities). They depend on the perceived credit risk represented both by the types of claims and by the nature of the main obligator or guarantor. The main risk-weights are 0% (Member States, German and Austria Länder), 20% (public institutions), 50% (banks) and 100% (corporates), or broadly those applied within the 1988 BIS Capital Accord and EU Capital Adequacy Directive.

[(*)] Including loans outside the EU approved by the Board of Governors according to Article 18 of the Bank's Statute as well as loans in EFTA countries.

[(**)] Enlargement Countries as per end 2007 include Albania, Bosnia and Herzegovina, Croatia, FYROM, Serbia and Montenegro, and Turkey.

[(***)] Loans in Partner Countries include loans under the Mediterranean Partnership Facility, the Pre-Accession Facility, and Risk Sharing loans.

A critical element of risk management is to ensure adequate diversification of credit exposures. The Group tracks its global exposure by industry (shown in the following table), paying particular attention to industries that might be cyclical, volatile or undergoing substantial changes.

An industry sector analysis of the Group's loan portfolio (based on the industry sector of the borrower) is as follows:

	2008 (in EUR million)		2007 (in EUR million)	
	Exposures Signed	Weighted Exposures [(1)]	Exposures Signed	Weighted Exposures [(1)]
Energy	**27 687**	**21 574**	24 240	17 771
Transport	**37 780**	**13 230**	32 806	10 158
Telecommunications	**776**	**415**	662	355
Water and sewerage	**10 587**	**5 981**	10 011	5 795
Miscellaneous Infrastructure	**2 876**	**920**	2 465	902
Agriculture, forestry and fisheries	**38**	**19**	45	23
Industry	**15 631**	**14 522**	13 759	11 119
Services [(2)]	**225 401**	**78 797**	210 513	66 327
Health and education	**4 286**	**1 461**	4 056	1 431
TOTAL	**325 062**	**136 919**	**298 557**	**113 881**

[(1)] Risk-weights are percentages (from 0% to 100%) applied to the outstanding nominal amounts of loans or other credit exposures (e.g. deposits, derivatives and securities). They depend on the perceived credit risk represented both by the types of claims and by the nature of the main obligator or guarantor. The main risk-weights are 0% (Member States, German and Austria Länder), 20% (public institutions), 50% (banks) and 100% (corporates), or broadly those applied within the 1988 BIS Capital Accord and EU Capital Adequacy Directive.

[(2)] The category "Services" includes the credit exposure of the banking sector. At the end of 2008, the total amount of loans directly exposed to counterparts of the banking sector amounted to EUR 116 057 million (EUR 115 191 million at the end of 2007), or EUR 47 695 million in risk-weighted terms (EUR 41 222 million at the end of 2007). Exposure to bank counterparts is subject to limits approved by the Management Committee. In specific cases, available limits have been temporarily suspended, restricted or withdrawn. The Bank systematically follows up on a daily basis publicly available news and, in particular, external rating movements. On top of the traditional loan exposures to the banking sector there is an amount of EUR 33 869 million in the form of guarantees received from financial institutions at the end of December 2008, of which EUR 5 059 million represents exposure to monoline insurers.

The principle of risk diversification is at the core of sound banking practices. The Group places limits on the maximum amount that can be lent to a single borrower, group of debtors or sectors. In addition, it follows the evolution of credit risk concentration using the concept of Credit Value at Risk (CVaR). This is done using a tool for assessing portfolio risk due to changes in debt value caused by changes in obligor credit quality. Importantly, this methodology assesses risk within the full context of a portfolio and addresses the correlation of credit quality moves across obligors. This allows the Group to directly calculate the diversification benefits or potential over-concentrations across the portfolio.

The table below shows the concentration indexes the Group follows as at 31 December 2007 and 31 December 2008:

End-of-Period		2008	2007
Largest Nominal and Risk-Weighted Group Exposures (*)			
Nominal Exposures (% of EIB Loan Portfolio)			
	- Top 3	**7.2%**	**8.2%**
	- Top 5	**10.4%**	**11.7%**
	- Top 10	**17.3%**	**18.8%**
N° of Exposures (% of EIB Own Funds)			
	- over 10%	**12**	**13**
	- over 15%	**4**	**6**
	- over 20%	**2**	**2**
N° of SSSR Exposures over 5% of EIB Own Funds (**)		**4**	**2**
Sum of all Large Risk-Weighted Exposures (% of EIB Own Funds) (***)		**87%**	**85%**

(*) Including also the net market exposure of treasury operations.

(**) The terms "single signature" and "single risk" (or for brevity, "unsecured" or "SSSR") loans are used to indicate those lending operations where the EIB, irrespective of the number of signatures provided, has no genuine recourse to an independent third party, or to other forms of autonomous security.

(***) The EIB defines a Large Individual Exposure as a consolidated group exposure that, when computed in risk-weighted terms, is at or above 5% of the EIB's own funds. This definition applies to single individual borrowers or guarantors, excluding loans to Member States and loans fully covered by an explicit guarantee from, or secured by bonds issued by, Member States.

T.2.3.4. Collaterals on loans

Among other credit mitigant instruments, the Group also uses pledges of financial securities. These pledges are formalized through a Pledge Agreement, enforceable in the relevant jurisdiction. The Group does not have right to sell or repledge them. The portfolio of collaterals received in pledge contracts amounts to EUR 12 998 million at the end of 2008 (2007: EUR 11 123 million).

The fair value of the portfolio of collateral received by the Group under pledge contracts that the Group is allowed to sell or repledge amounts to EUR 3 224 million (2007: EUR 3 446 million). None of these collaterals has been sold or re-pledged to third parties.

T.2.3.5. Loan Substitutes

Regarding the Bank's exposure to Loan Substitutes (LS), this portfolio comprises Covered Bonds and Asset Backed Securities (ABS). Covered Bonds offer full recourse to the issuer, while ABS are issued by Special Purpose Vehicles backing the underlying issues. Some of these transactions have been structured by adding a credit or project related remedies, thus offering additional recourse.

As of 31 December 2008, the Loan Substitutes amounts to EUR 16 622 million (2007: EUR 14 323 million). This amount is composed of loan substitutes included in debt securities portfolio (Note B) for an amount of EUR 5 800 million (2007: EUR 4 730 million) and loan substitutes included in loans and advances to credit institutions and to customers (Note C) for an amount of EUR 10 822 million (2007: EUR 9 593 million).

The following table summarises the breakdown of the Loan Substitutes portfolio by asset class (Mortgages exposure in ABS is primarily residential):

Loan Substitutes	Asset Class	TOTAL 31.12.2008 (in EUR million)	TOTAL 31.12.2007 (in EUR million)
Asset Backed Securities	Diversified Payment Rights	483	0
Asset Backed Securities	MBS	1 923	1 953
Asset Backed Securities	SME	3 873	3 581
Covered Bonds	MBS	8 731	7 665
Covered Bonds	Public Sector	1 597	1 108
Structured Public Sector Bonds	Public Sector	15	16
TOTAL		**16 622**	**14 323**

While for Covered Bonds, the majority of covered assets are based on residential mortgages, most of the ABS structures are based on SME.

Aside from two Diversified Payments Rights (DPR) transaction with Turkish promoters (amounting to EUR 483 million (2007: nil)), all the promoters of the Bank's Loan Subsitutes portfolio are domiciled in the European Union, with the majority being located in Spain (65%), in Italy (13%) and in France (5%).

All outstanding Loan Substitutes have an AAA rating provided by at least one of the three major rating agencies, except ten transactions (6% of the Group´s Loan Substitutes portfolio in terms of nominal amount) with a AA rating for EUR 458 million and a BBB rating for EUR 483 million (this category represents transactions to promoters located in Turkey).

The EIB LS transactions have to date performed well, especially when considering the current market environment. This is mainly due to the highly regulated environment and requirements to achieve for Covered Bonds the highest ratings set by the rating agencies and embedded credit enhancements for ABS, along with the selection of sound structures and asset classes.

Specifically, regarding the ABS portfolio, ratings for the holdings are stable, with only one potential exception for a transaction rated by two rating agencies: one of them, due to a deterioration in the underlying assets and a change in its own methodology, has put the transaction under negative rating watch (while the other rating agency confirmed its AAA rating).

As for Covered Bonds, two downgrades have taken place so far, one being a Spanish Cedula (with a total outstanding of EUR 100 million (2007: nil)), downgraded from Aaa to Aa1 and the other one being a Public Sector Bond (amounting to EUR 175 million (2007: 181 million)), downgraded by Moody's to Aa1 from AAA and maintaining them on negative review. For the time being, S&P is keeping its AAA rating for this issue but it is also on review for possible downgrade.

Embedded credit mitigants and requirements imposed by the regulation and rating agencies are the initial remedies which are triggered in case of credit event on the issuer. As mentioned above, in some ABS transactions credit or project remedies are available and represent a second way out. Overall, the credit quality of the Bank's LS portfolio remains highly satisfactory.

T.2.4. Credit risk on treasury transactions

T.2.4.1. Credit risk measurement on treasury transactions

Treasury investments are divided into three categories: (i) monetary treasury assets, with the primary objective of maintaining liquidity, (ii) operational bond portfolios, as a second liquidity line, and (iii) an investment portfolio composed of EU sovereign bonds. In September 2006, the Management Committee decided to gradually phase out the investment portfolio (see A.4.7.2.).

Credit risk policy for treasury transactions is monitored through the attribution of credit limits to the counterparts for monetary and bond transactions and short-term derivatives. The weighted exposure for each counterpart must not exceed the authorised limits.

The tables below provide an illustration of the credit exposure of the Group various treasury portfolios as at 31 December 2008 and 31 December 2007:

Credit Risk Exposures as at 31 December 2008 (in EUR million) (based on book values)

	Short term external rating	Long term external rating				Total
	A-1+/P-1	< A or NR	A	AA	Aaa	
A1 Portfolio max Maturity 3 months	237	586	16 620	6 105	305	**23 853**
Deposits	*0*	*442*	*9 847*	*3 996*	*205*	***14 490***
Triparty Reverse Repos	*0*	*144*	*5 442*	*1 669*	*0*	***7 255***
Discount papers, Bonds	*237*	*0*	*1 331*	*440*	*100*	***2 108***
A2 Portfolio max Maturity 18 months	0	1	433	798	133	**1 365**
Total Monetary Treasury Assets	**237**	**587**	**17 053**	**6 903**	**438**	**25 218**
Repartition	1%	2%	68%	27%	2%	**100 %**
B1 Portfolio	0	0	40	215	635	**890**
B2 Portfolio	0	0	24	98	24	**146**
B3 Portfolio	0	0	77	153	296	**526**
BH Portfolio (futures)	0	0	0	-1	0	**-1**
EIF - AFS	0	0	19	52	78	**149**
Total Operational Bond Portfolios	**0**	**0**	**160**	**517**	**1 033**	**1 710**
Repartition	0 %	0 %	9 %	30 %	61 %	**100 %**
Investment Portfolio	**0**	**54**	**291**	**627**	**1 290**	**2 262**
Repartition	0 %	2 %	13 %	28 %	57 %	**100 %**
Assets backed securities	**0**	**488**	**0**	**260**	**5 052**	**5 800**
Repartition	0 %	8 %	0 %	5 %	87 %	**100 %**
Total Treasury Funds	**237**	**1 129**	**17 504**	**8 307**	**7 813**	**34 990**
Repartition	1 %	3 %	50 %	24 %	22 %	**100 %**

Credit Risk Exposures as at 31 December 2007 (in EUR million) (based on book values)						
	Short term external rating	Long term external rating				Total
	A-1+/P-1	< A or NR	A	AA	Aaa	
A1 Portfolio max Maturity 3 months	576	60	7 375	9 862	136	18 009
Deposits	*0*	*60*	*4 454*	*6 691*	*0*	11 205
Triparty Reverse Repos	*0*	*0*	*2 504*	*2 108*	*0*	4 612
Discount papers, Bonds	*576*	*0*	*417*	*1 063*	*136*	2 192
A2 Portfolio max Maturity 18 months	40	0	60	948	706	1 754
Total Monetary Treasury Assets	**616**	**60**	**7 435**	**10 810**	**842**	**19 763**
Repartition	3%	0%	38%	55%	4%	100%
B1 Portfolio	0	0	11	296	934	1 241
B2 Portfolio	0	0	0	109	53	162
B3 Portfolio	0	0	75	151	279	505
BH Portoflio (futures)	0	0	0	3	0	3
EIF - AFS	0	0	0	16	113	129
Total Operational Bond Portfolios	**0**	**0**	**86**	**575**	**1 379**	**2 040**
Repartition	0%	0%	4%	28%	68%	100%
Investment Portfolio	**0**	**54**	**308**	**697**	**1 518**	**2 577**
Repartition	0%	2%	12%	27%	59%	100%
Assets backed securities	**0**	**0**	**56**	**186**	**4 488**	**4 730**
Repartition	0%	0%	1%	4%	95%	100%
Total Treasury Funds	**616**	**114**	**7 885**	**12 268**	**8 227**	**29 110**
Repartition	2%	0%	27%	42%	29%	100%

The credit risk associated with treasury (the securities portfolio, commercial paper, term accounts, etc.) is rigorously managed through selecting first-class counterparties and issuers.

Limits governing the structure of the securities portfolio and outstanding treasury instruments have been laid down by Management, in particular on the basis of the ratings awarded to counterparties by the rating agencies (these limits are reviewed regularly by the Risk Management Directorate).

As part of its treasury management activities, the Group holds investments in capital guaranteed notes, the coupons of which embed options on the performance of funds of hedge funds. As at 31 December 2008, the total nominal amount of such notes, that are part of the operational bond portfolio stood at EUR 150 million (2007: EUR 150 million) with a market value of EUR 146 million (2007: EUR 162 million).

Regarding the Treasury activities, the Bank had, as at the end of December 2008, a Treasury outstanding of EUR 29.2 billion (End of December 2007 EUR 24.3 billion), distributed over different portfolios and invested in diversified products (deposits, securities and derivative/structured products). Structured credit products amount to EUR 0.9 billion (End of December 2007 EUR 2.2 billion). Those held in the Bank's short-term portfolio (EUR 0.2 billion in the A1 portfolio) are booked at historic cost, whereas the others are recorded in the Bank's balance sheet as available-for-sale and are marked to market.

No ABS investment has been made since August 2007. The quality of the ABS/RMBS portfolio remains stable and at the highest level, namely AAA. Three positions are rated below AAA and represent 4.80% of the Treasury's ABS portfolio, or EUR 32 million and they have been downgraded respectively to Baa1, Aa1 and Aa3. Moreover, there is no default by their issuers to report.

Excluding the investment portfolio, the long-term holdings, which are composed of the Operational Bond Portfolios and the A2 Portfolio, amounted to 3.1 billion as of 31 December 2008, of which 21.89% (EUR 673 million) consisted of securities emanating from a securitisation process.

The Bank has a portfolio of Asset Backed Commercial Paper, all of it rated A-1+/P-1. The outstandings as at 31 December 2008 amounted to EUR 0.2 billion.

T.2.4.2. Collateral on treasury transactions

Part of treasury transactions are tripartite reverse repurchase agreements, for an amount of EUR 7 255 million (2007: EUR 4 612 million). These transactions are governed by a Tripartite Agreement Guidelines and are implemented depending on the acceptability of collateral and valuations parameters. The exposure is fully collateralized, with daily margin calls. The market value of the collateral portfolio is monitored and additional collateral is requested when needed in accordance with the underlying agreement.

The Bank also makes use of master netting agreements with counterparties

As part of the Tripartite Agreements, the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under theses terms as at 31 December 2008 amounts to EUR 7 243 million (2007: EUR 4 611 million). None of these securities has been sold or re-pledged to third parties in 2007 and 2008. During the 2007 and 2008 years, the Group did not take possession of any of the above mentioned collaterals.

T.2.4.3. Securities lending activity

The market value of the bonds lent in the securities lending activities is at the end of 2008 of EUR 370 million (2007: EUR 965 million). These transactions are governed by an agreement signed with Northern Trust and the exposure arising from these transactions is fully collateralised, with daily margin calls.

As part of the securities lending agreement, the Group receives securities, it is allowed to sell or repledge. The fair value of the collateral portfolio at 31 December 2008, accepted under these terms, amounts to EUR 384 million (2007: EUR 992 million). None of these securities has been sold or re-pledged to third parties in 2007 and 2008.

T.2.5. Credit risk on derivatives

T.2.5.1. Credit risk policies for derivatives

The risk policy for derivative transactions is based on the definition of eligibility conditions and rating-related limits for swap counterparts. In order to reduce credit exposures, the Group has signed Credit Support Annexes with the majority of its swap counterparts and receives collaterals when the exposure exceeds certain contractually defined thresholds.

The credit risk with respect to derivatives lies in the loss which the Group would incur were a counterparty unable to honour its contractual obligations.

In view of the special nature and complexity of the derivatives transactions, a series of procedures has been put in place to safeguard the Bank against losses arising out of the use of such instruments.

Contractual framework:

All the Group's long-term derivatives transactions are concluded in the contractual framework of Master Swap Agreements and, where non-standard structures are covered, of Credit Support Annexes, which specify the conditions of exposure collateralisation. These are generally accepted and practised contract types.

Counterparty selection:

The minimum rating at the outset is set at A1, but exceptionally certain counterparties rated A2/A3 have also been authorised, all their exposures being fully collateralised. The Group has the right of early termination if the rating drops below a certain level.

Limits have been set in terms of:

- Total net present value of derivatives exposure with a counterparty;
- Unsecured exposure to a counterparty;
- Specific concentration limits expressed as nominal amount.

All limits are dynamically adapted to the credit quality of the counterparty.

Monitoring:

The derivatives portfolio is regularly valued and compared against limits.

Collateralisation:

- Derivatives exposure exceeding the limit for unsecured exposure is collateralised by cash and first-class bonds.
- Very complex and illiquid transactions require collateralisation over and above the current market value.
- Both the derivatives portfolio with individual counterparties and the collateral received are regularly valued, with a subsequent call for additional collateral or release.

The amount of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of collaterals and valuations parameters.

The main types of collateral obtained are cash or securities.

The market value of the collateral is monitored and additional collateral is requested when needed in accordance with the underlying agreement.

T.2.5.2. Credit risk measurement for derivatives

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 amount.

The notional amount is a derivative's underlying contract amount and is the basis upon which changes in the value of derivatives are measured. It provides an indication of the underlying volume of business transacted by the Group but does not provide any measure of risk. The majority of derivatives are negotiated as to amount, tenor and price, between the Group and its counterparties, whether other professionals or customers (OTC).

In the Group's case, where only mutually agreed derivatives are negotiated, the credit risk is evaluated on the basis of the "current exposure" method recommended by the Bank for International Settlements (BIS). Hence, the credit risk is expressed in terms of the positive fair value or replacement value of the contracts, increased by the potential risks (add-on), contingent on the duration and type of transaction, weighted by a coefficient linked to the category of counterparty (BIS I weighted risk).

Positive replacement value represents the cost to the Group of replacing all transactions with a fair value in the Group's favour if all the relevant counterparties of the Group were to default at the same time, and transactions could be replaced instantaneously. Negative replacement value is the cost to the Group's counterparties of replacing all their transactions with the Group where the fair value is in their favour if the Group were to default. The total positive and negative replacement values are included in the consolidated balance sheet separately.

The following table reports the nominal amount of the portfolio of Derivatives covered by ISDA agreements, as well as the exposure measured through the BIS I methodology.

End of period	2008 (EUR million)	2007 (EUR million)
Nominal Value of outstanding Derivatives	373 675	331 207
Total BIS I Credit Risk Equivalent (after netting)	13 466	5 101
Weighted BIS I Credit Risk Equivalent (after netting)	2 680	1 007
Gross Exposure (after netting)	9 203	2 012
Total Net Market Exposure (1)	591	670

(1) Positive exposure net of collaterals received.

The Net Market Exposure is the net present value of a swap portfolio net of collateral, if this amount is positive; in the case the amount is negative, the Net Market Exposure is null. It represents a measure of the losses the Bank could incur in case of default of the counterparty, after application of netting and using the collateral.

The BIS Credit Risk Equivalent is the sum of the Net Present Value of the swap plus an Add-On equal to the Notional Amount multiplied by a coefficient dependent on the structure of the swap and its maturity (according to the Basel Agreement), meant to cover potential future increases in exposures due to changing market conditions over the residual life of the swap.

The table below shows the concentration indexes the Group follows on it main derivative counterparts as at 31 December 2007 and 31 December 2008:

	2008	2007
Nominal Exposure (% of EIB derivative portfolio)		
- Top 3	28.5%	28.8%
- Top 10	66.8%	66.9%
- Top 25	94.7%	95.2%
Net Market Exposure		
- Top 3	47.6%	57.2%
- Top 10	92.0%	95.3%
- Top 25	100.0%	100.0%

The major part of derivatives transactions are concluded with counterparties rated at least A1. With exceptional conditions of over-collateralisation, counterparties rated A2 or A3 have been also accepted. Most of the portfolio is concentrated on counterparts rated A1 or above; however, during 2008, there has been a general deterioration of ratings of our swap counterparts.

Grouped Ratings	Percentage of Nominal		Net Market Exposure (in EUR million)		CRE BIS I Swaps (in EUR million)	
Moody's or equivalent rating	2008	2007	2008	2007	2008	2007
Aaa	2.9%	3.3%	0	0	84	64
Aa1 to Aa3	64.5%	86.1%	406	649	7 403	4 366
A1	23.1%	8.7%	147	19	3 258	504
A2 to A3	9.5%	1.9%	37	2	2 720	165
Below A1	0.0%	0%	0	0	0	0
Non-rated	0.0%	0.0%	1	0	1	2
Total	**100.0%**	**100.0%**	**591**	**670**	**13 466**	**5 101**

The following tables show the maturities of currency swaps (excluding short-term currency swaps) and interest rate swaps, sub-divided according to their notional amount and the associated credit risk:

Currency swaps at 31.12.2008 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2008
Notional amount	7 460	47 737	20 976	14 281	90 454
Net discounted value	- 1 543	- 3 727	- 1 777	1 440	- 5 607
Credit risk (BIS I weighted)	19	739	439	603	1 800

Currency swaps at 31.12.2007 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2007
Notional amount	8 326	30 182	19 480	12 965	70 953
Net discounted value	- 1 012	- 1 766	- 2 021	- 315	- 5 114
Credit risk (BIS I weighted)	53	423	311	277	1 064

Interest rate swaps at 31.12.2008 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2008
Notional amount	29 874	114 048	64 746	67 514	276 182
Net discounted value (*)	384	3 749	3 246	3 608	10 987
Credit risk (BIS I weighted)	90	1 092	1 168	1 660	4 010

Interest rate swaps at 31.12.2007 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2007
Notional amount	27 759	83 255	70 634	67 863	249 511
Net discounted value (*)	198	689	- 411	724	1 200
Credit risk (BIS I weighted)	76	361	571	903	1 911

(*) The net discounted value of Credit Default Swaps (CDS) has been included with the rest of derivatives, since according to IAS39, CDS are treated as derivatives, however, these transactions have not been included in the BIS computations, since in the Basel Agreement BIS I, they are assimilated to guarantees and their capital charge is computed in the loan portfolio.

As at 31 December 2008, notional amounts of EUR 394 million (2007: EUR 419 million) of futures contracts and EUR 5 472 million of Forward Rate Agreements (2007: EUR nil), with respective fair values of EUR - 1.3 million (2007: EUR 2.9 million) and EUR 0.7 million (2007: EUR nil) and a maturity less than 1 year are outstanding.

The Bank also entered into one credit default swap contract for a nominal amount of EUR 172 million as at 31 December 2008 (2007: EUR 98 million) with a fair value of EUR 9.8 million (2007: EUR 4.9 million).

The Group does not generally enter into any options contracts in conjunction with its risk hedging policy. However, as part of its strategy of raising funds on the financial markets at a lesser cost, the Bank enters into borrowing contracts encompassing notably interest rate or stock exchange index options. Such borrowings are associated entirely with swap contracts with opposite market risk.

The 'fair value' of 'plain vanilla' swap transactions is their market value. For structured deals, the 'fair value' is computed using the income approach, using valuation techniques to convert future amounts to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Internal estimates and assumptions might be used in the valuation techniques when the market inputs are not directly available.

All option contracts embedded in, or linked with, borrowings are negotiated over the counter. The structured deals include a variety of transactions dependent on interest rates, FX rates, inflation rates, stock indexes and IR volatilities.

Generally, there is a reduced credit risk on these swaps, because security exists in the form of regularly monitored collateral.

T.2.5.3. Collateral received for derivative transactions

As part of the ISDA agreements, the Group has received securities and cash that it is allowed to sell or repledge. The fair value of the securities accepted under theses terms as at 31 December 2008 amounts to EUR 9 071 million (2007: EUR 1 550 million) of which none has been sold or re-pledged to third parties.

During the 2007 and 2008 years, the Group did not take possession of any of these collaterals.

The collateral received for derivatives business amounts to EUR 9 071 million (2007: EUR 1 550 million), with the following composition:

Swap Collateral (in EUR million)

Moody's or equivalent rating	Bonds				Cash	Total 2008
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	2 160	0	0	0	0	**2 160**
Aa1 to Aa3	1 148	0	0	0	0	**1 148**
A1	0	0	0	0	0	**0**
Below A1	116	0	0	0	0	**116**
Non-Rated	0	0	0	0	5 647	**5 647**
Total 2008	**3 424**	**0**	**0**	**0**	**5 647**	**9 071**

Swap Collateral (in EUR million)

Moody's or equivalent rating	Bonds				Cash	Total 2007
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	865	0	0	0	0	**865**
Aa1 to Aa3	4	0	0	0	0	**4**
A1	224	0	0	0	0	**224**
Below A1	124	0	0	0	0	**124**
Non-Rated	0	0	0	0	333	**333**
Total 2007	**1 217**	**0**	**0**	**0**	**333**	**1 550**

T.3. Liquidity risk

Funding liquidity risk is the volatility in the economic value of, or in the income derived from, the Group's positions due to inability to meet payment obligations out of readily available liquid resources. Such an inability may force the Group to borrow at unattractive conditions. As such, the funding liquidity risk for the Group is related to the cost of borrowing and to capital market conditions.

T.3.1. Liquidity risk management

Liquidity risk management of the Bank

The main objective of liquidity policy is to assure that the Bank can always meet its payment obligations punctually and in full. The Bank manages the calendar of its new issues so as to maintain the global level of liquidity within the chosen range. Liquidity planning takes into account the Bank needs to service its debt, disbursements on loans and cash flows from the loan portfolio. It also takes into account the sizeable amount of signed but undisbursed loans, whose disbursement takes place at the borrower's request.

Liquidity risk is managed prudently as, in contrast to commercial banks, the Bank does not have the natural sources of liquidity from the deposits of clients, nor recourse to central banks. The Bank pre-finances its commitments to avoid being forced to borrow, or to sell assets, when it does not have access to resources at a desirable cost level. Furthermore, adequate levels of liquidity contribute to the Bank's financial stability and investors and rating agencies pay special attention to it.

The Bank further assures sound management of liquidity risk by maintaining a sufficient level of liquid assets, and by spreading the maturity dates of its placements according to the forecasts of liquidity needs. Liquidity risk policy also incorporates a floor on treasury levels. The Bank 's year-end total liquidity ratio (defined as a target percentage of annual projected net cash flows) must at all times exceed 25% of the average forecast net annual cash flows for the following year.

Liquidity risk management of the Fund

The liquidity risk is managed in such a way as to protect the value of the paid–in capital, ensure an adequate level of liquidity to meet possible guarantee calls, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

T.3.2. Liquidity risk measurement

The table hereafter analyses the assets and liabilities of the Group by maturity on the basis of the period remaining between the consolidated balance sheet date and the contractual maturity date (based on contractual undiscounted cash flows).

Assets and liabilities for which there is no contractual maturity date are classified under "Maturity undefined".

Maturity (at 31.12.2008)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Fair value adjustment	Total 2008
ASSETS							
Cash in hand, central banks and post office banks	0	0	0	0	0	0	0
Treasury bills eligible for refinancing with central banks	63	193	1 082	679	0	0	2 017
Other loans and advances:							
- Current accounts	276	0	0	0	0	0	276
- Others	21 745	0	0	0	0	0	21 745
	22 021	0	0	0	0	0	22 021
Loans:							
- Credit institutions	2 429	7 840	40 812	60 910	0	4 225	116 216
- Customers	1 962	7 767	46 375	117 536	0	2 011	175 651
	4 391	15 607	87 187	178 446	0	6 236	291 867
Debt securities including fixed-income securities	2 967	789	3 201	4 273	0	0	11 230
Positive replacement value	0	0	0	0	0	21 862	21 862
Other assets	0	0	0	0	2 964	0	2 964
Total assets	**29 442**	**16 589**	**91 470**	**183 398**	**2 964**	**28 098**	**351 961**

Maturity (at 31.12.2008)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Fair value adjustment	Total 2008
LIABILITIES							
Amounts owed to credit institutions	5 958	1	0	0	0	0	5 959
Debts evidenced by certificates	18 090	23 409	113 219	112 271	0	17 512	284 501
Negative replacement value	0	0	0	0	0	17 474	17 474
Capital, reserves and profit	0	0	0	0	40 788	0	40 788
Other liabilities	0	0	0	0	3 239	0	3 239
Total liabilities	**24 048**	**23 410**	**113 219**	**112 271**	**44 027**	**34 986**	**351 961**
OFF BALANCE SHEET							
Contingent liabilities	0	0	0	0	4 083	0	4 083
Commitments	0	0	0	0	60 874	0	60 874
Total Off Balance Sheet	**0**	**0**	**0**	**0**	**64 957**	**0**	**64 957**

Maturity (at 31.12.2007)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Fair value adjustment	Total 2007
ASSETS							
Cash in hand, central banks and post office banks	27	0	0	0	0	0	27
Treasury bills eligible for refinancing with central banks	65	180	1 060	968	0	0	2 273
Other loans and advances:							
- Current accounts	286	0	0	0	0	0	286
- Others	15 793	24	0	0	0	0	15 817
	16 079	24	0	0	0	0	16 103
Loans:							
- Credit institutions	1 686	6 246	41 948	61 335	0	1 109	112 324
- Customers	1 949	7 358	43 376	102 498	0	1 217	156 398
	3 635	13 604	85 324	163 833	0	2 326	268 722
Debt securities including fixed-income securities	2 400	1 160	3 733	3 723	0	0	11 016
Positive replacement value	0	0	0	0	0	9 061	9 061
Other assets	0	0	0	0	3 606	0	3 606
Total assets	**22 206**	**14 968**	**90 117**	**168 524**	**3 606**	**11 387**	**310 808**
LIABILITIES							
Amounts owed to credit institutions	339	2	1	0	0	0	342
Debts evidenced by certificates	13 796	30 034	87 234	123 157	0	5 951	260 172
Negative replacement values	0	0	0	0	0	12 946	12 946
Capital, reserves and profit	0	0	0	0	34 572	0	34 572
Other liabilities	0	0	0	0	2 776	0	2 776
Total liabilities	**14 135**	**30 036**	**87 235**	**123 157**	**37 348**	**18 897**	**310 808**
OFF BALANCE SHEET							
Contingent liabilities	0	0	0	0	3 773	0	3 773
Commitments	0	0	0	0	55 799	0	55 799
Total Off Balance Sheet	**0**	**0**	**0**	**0**	**59 572**	**0**	**59 572**

The "investment portfolio" [Note B] consists mainly of fixed-income securities issued by first-class counterparties, largely bonds issued by Member States, acquired with the intention of holding them until final maturity. See also Note A.4.7.

Some of the borrowings and associated swaps include early termination triggers or call options granted to the investors or the hedging swap counterparties. Certain liabilities could therefore be redeemed at an earlier stage than their maturity date.

T.4. Market risk

Market risk is the risk that the net present value of future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

T.4.1. Market risk management

Market risk for the Bank:

As is the case with the "four-eyes principle" applied in lending activities via the Bank's credit policies, so the market risk policy of the Bank establishes that the Risk management Directorate shall provide an opinion with respect to all financial activities of the Group that introduce material market risks, and with respect to financial transactions that may create credit risk, such as treasury hedging or derivatives operations.

Market risks are identified, measured, managed and reported according to a set of policies and procedures updated on a regular basis called the "Financial Risk and ALM Policy Guidelines" (FRPG). The general principles underpinning these policies are described below.

Stress testing is a widely used method to analyse the impact of possible scenarios on the Bank's earnings and economic value of own funds, especially when analysis of historical market movements are viewed to be insufficient to assess future risks. Scenarios applied may relate to changes in market rates (interest rates, FX rates, spreads, equity prices etc.), liquidity conditions, or to worst-case events that may impact the former, such as sudden and adverse macroeconomic changes, simultaneous default of sizeable obligors, widespread system failures and the like.

Stress testing is performed on a regular basis and the results of the change in the economic value of the Bank and of the change of the earnings profile is reported within the Bank's market risk measurement process.

Market risk for the Fund:

The Fund's market risk exposure arises mainly in the form of interest rate risk attached to cash and cash equivalent positions as well as investments in debt securities. Approximately 50% of these assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long term revenues.

T.4.2. Interest rate risk

Interest rate risk is the volatility in the economic value of, or in the income derived from, the Group's positions due to adverse movements in market yields or the term structure of interest rates. Exposure to interest rate risk occurs when there are differences in repricing and maturity characteristics of the different asset, liability and hedge instruments.

Interest rate risk management for the Bank:

In measuring and managing interest rate risk, the Bank refers to the relevant key principles of the Basel Committee for Banking Supervision (BCBS). The main sources of interest rate risk are: repricing risk, yield curve risk, basis risk and spread risk. An interest rate risk that is particularly relevant for the Bank is spread risk. Spread risk is the volatility in the economic value of, or in the income derived from, the Bank's positions due to movements in the funding or lending spread of the Bank.

The Bank manages its global structural interest rate position via a dedicated portfolio. The majority of the financial risk indicators and controls in use at the Bank apply to this portfolio. Financial indicators and controls for the rest of the activities outside this portfolio only relate to the risks, which are not transferred to it via the transfer pricing system, and which therefore remain with their respective activities, such as the equity risk in the venture capital activity or the interest rate or credit risks taken in those treasury portfolios predominantly managed for yield-enhancement purposes.

T.4.2.1. Value-at-Risk for the Own funds of the Group (Economic perspective)

EIB's ALM strategy aims at maintaining a balanced and sustainable revenue profile as well as limiting the volatility of the economic value of the Bank. A clear preference has been given to the revenue profile in light of the objective of self-financing of the Bank's growth, and given the existing accounting principles. This overall objective is achieved by investing EIB's own funds according to a medium to long term investment profile, implying an own funds duration target of 4.5 – 5.5 years.

Apart from the duration target for own funds, the Bank's balance sheet should be match-funded with respect to currency and interest rate characteristics. However, small deviations are authorised for operational reasons. The net residual positions that arise from outstanding operations are managed within pre-set limits to constrain market risk to minimum levels.

The Risk Management department quantifies the VaR of own funds for both interest rates and foreign exchange

risk factors. It is measured on the Group's positions using a 99% confidence level and a one-day time horizon. As at 31 December 2008, the VaR of the Group amounted to EUR 363 million (2007: EUR 124 million).

The computation is based on the so-called Riskmetrics methodology, which assumes a linear dependency between the changes in portfolio or position values and the underlying risk factors. Given the nature of the positions held by the Group, the Bank deems this assumption appropriate to measure its exposure to interest rate risk. Volatility and correlation data are computed internally on the basis of historical market data. In the current context of financial crisis and highly volatile markets, the evolution of the VaR of own funds reflects the effective increase of the volatility of interest rate and FX risk factors and not a change in the risk profile of the EIB positions.

More generally, the VaR does not purport to measure the worst loss that could be experienced. For this reason, it is complemented by regular stress testing. As of 31 December 2008, the impact of a 2% upward parallel shift of the interest rate curves would reduce the economic value of own funds by EUR 4 billion (2007: EUR 3.2 billion).

Among the financial instruments in the Bank's portfolio, some deals (borrowings and associated swaps) may be redeemed before they get to maturity.

At cashflows level all such borrowings are fully hedged by swaps so that they can be considered being synthetic floating rate notes. Uncertainty arises from the maturity of such positions indexed to Libor/Euribor as they might be called before their final maturity.

Below is a summary of the features of the Bank's callable portfolio as of 31 December 2007 and 31 December 2008, where the total nominal amount, the average natural maturity and the average expected maturity (both weighted by the nominal amount of the concerned transactions) are shown per funding currency and per main risk factor involved:

By funding currency (after swap):

31/12/2008	Pay Currency						
	CZK	EUR	GBP	PLN	SKK	USD	Total
EUR Pay Notional (EUR million)	- 236	- 7 788	- 25	- 20	- 46	- 6 531	- 14 646
Average maturity date	16/09/2016	10/12/2018	24/09/2035	05/05/2026	25/08/2023	07/06/2029	21/08/2023
Average expected maturity	13/05/2010	08/11/2016	10/02/2010	24/05/2014	31/12/2015	23/05/2018	02/06/2017

31/12/2007	Pay Currency							
	CZK	EUR	GBP	PLN	SKK	TWD	USD	Total
EUR Pay Notional (EUR million)	- 295	- 7 191	- 148	- 57	- 69	- 40	- 14 033	- 21 833
Average maturity date	14/01/2016	24/07/2018	23/09/2035	05/05/2026	14/08/2023	27/12/2010	14/01/2030	15/01/2026
Average expected maturity	06/02/2013	13/12/2016	17/05/2012	20/04/2020	24/05/2018	26/07/2010	21/04/2017	04/02/2017

By risk factor involved:

31/12/2008	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR Pay Notional (EUR million)	- 4 090	- 7 735	- 2 821	- 14 646
Average maturity date	07/09/2032	09/06/2019	13/01/2022	21/08/2023
Average expected maturity	10/04/2023	19/02/2013	01/09/2020	02/06/2017

31/12/2007	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR Pay Notional (EUR million)	- 3 582	- 15 418	- 2 833	- 21 833
Average maturity date	20/12/2031	11/06/2025	19/10/2021	15/01/2026
Average expected maturity	20/09/2025	28/06/2014	15/05/2020	04/02/2017

T.4.2.2. Interest rate risk management for the Group (Earnings perspective)

The sensitivity of the Earnings quantifies the amount of net interest income that would change during the next 12 months if all interest rate curves rise by one percentage point or decrease by one percentage point. Such exposure stems from the mismatch between interest rate repricing periods, volumes and rates of assets and liabilities that EIB accepts within the approved limits.

With the positions in place as of 31 December 2008, the Earnings would increase by EUR 12.6 million (2007: EUR 11.2 million) if interest rate increase by 100 basis points and decrease by EUR 12.9 million (2007: EUR 11.6 million) if interest rates decrease by 100 basis points.

The EIB computes the sensitivity measure with a dedicated software that simulates earnings on a deal by deal basis. The sensitivity of the Earnings is measured on an accrual basis and is calculated under the ''ongoing" assumption that, over the time horizon analysed, the Bank realizes the new loan business forecasted in the Corporate Operational Plan, maintains exposures within approved limits and executes monetary trades to refinance funding shortages or invest cash excesses. Accounting earnings are simulated on monthly time steps, assuming that all the fixed rate items carry their contractual rate and that all floating rate items are subject to interest rate repricings according to the interest rate scenario applied in the simulation. The monetary trades to refinance funding shortages or invest cash excesses carry rates equal to the money market rates prevailing according to the interest rate scenario applied in the simulation. In line with the current practice of the Bank, the model uses the hypothesis that simulated earnings are not distributed to the shareholders, but are used to refinance the Bank's business. The administrative costs are projected according to the forecasts of the Corporate Operational Plan.

The sensitivity of the EIF is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury portfolio managed by the EIB on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life of the previous one as of end of year's date. Positions in floating rate assets are assumed to have quarterly repricings.

T.4.3. Foreign exchange risk (in EUR million)

The FX risk is the volatility in the economic value of, or in the income derived from, the Group's positions due to adverse movements of FX rates.

The Group's is exposed to FX risk whenever there is a currency mismatch between its assets and liabilities. FX risk also comprises the effect of unexpected and unfavourable changes in the value of future cash flows caused by currency movements, such as the impact of FX rate changes on the Group's future lending intermediation revenue.

The Group's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets. A FX hedging program was set up in 2004 in order to protect the known loan margins in USD and in GBP for the next 3 years.

T.4.3.1. Exchange position

Currency (at 31 December 2008)	EURO	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euros	Total 2008
ASSETS						
Cash in hand, balances with central banks and post office banks	0	0	0	0	0	0
Treasury bills eligible for refinancing with central banks	2 017	0	0	0	0	2 017
Other loans and advances:						
- Current accounts	220	19	13	24	56	276
- Others	14 880	2 374	2 071	2 420	6 865	21 745
	15 100	2 393	2 084	2 444	6 921	22 021
Loans and advances to:						
- Credit institutions	70 993	15 029	26 438	3 756	45 223	116 216
- Customers	142 503	14 426	9 358	9 364	33 148	175 651
	213 496	29 455	35 796	13 120	78 371	291 867
Debt securities including fixed-income securities	8 182	1 543	1 202	303	3 048	11 230
Positive replacement values	21 862	0	0	0	0	21 862
Other assets	2 352	240	209	163	612	2 964
Total assets	**263 009**	**33 631**	**39 291**	**16 030**	**88 952**	**351 961**

Currency (at 31 December 2008)	EURO	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euros	Total 2008
LIABILITIES						
Amounts owed to credit institutions	5 624	0	316	19	335	5 959
Debts evidenced by certificates:						
- Debt securities in issue	121 862	48 585	78 449	34 936	161 970	283 832
- Others	207	367	0	95	462	669
	122 069	48 952	78 449	35 031	162 432	284 501
Negative replacement values	92 137	- 15 366	- 40 046	- 19 251	- 74 663	17 474
Capital, reserves and profit	40 788	0	0	0	0	40 788
Other liabilities	2 402	42	577	218	837	3 239
Total liabilities	**263 020**	**33 628**	**39 296**	**16 017**	**88 941**	**351 961**
Net position as at 31.12.2008	**- 11**	**3**	**- 5**	**13**	**11**	

Currency (at 31 December 2007)	EURO	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euros	Total 2007
ASSETS						
Cash in hand, balances with central banks and post office banks	1	26	0	0	26	27
Treasury bills eligible for refinancing with central banks	2 273	0	0	0	0	2 273
Other loans and advances:						
- Current accounts	233	11	23	19	53	286
- Others	9 418	1 649	4 008	742	6 399	15 817
	9 651	1 660	4 031	761	6 452	16 103
Loans and advances to:						
- Credit institutions	63 423	20 280	25 703	2 918	48 901	112 324
- Customers	120 875	17 678	9 761	8 084	35 523	156 398
	184 298	37 958	35 464	11 002	84 424	268 722
Debt securities including fixed-income securities	7 783	1 861	1 146	226	3 233	11 016
Positive replacement values	9 061	0	0	0	0	9 061
Other assets	2 960	289	191	166	646	3 606
Total assets	**216 027**	**41 794**	**40 832**	**12 155**	**94 781**	**310 808**
LIABILITIES						
Amounts owed to credit institutions	291	0	51	0	51	342
Debts evidenced by certificates:						
- Debt securities in issue	111 133	59 473	58 752	29 921	148 146	259 279
- Others	207	613	0	73	686	893
Negative replacement values	111 340	60 086	58 752	29 994	148 832	260 172
Capital, reserves and profit	67 516	-18 353	-18 069	-18 148	-54 570	12 946
Other liabilities	34 572	0	0	0	0	34 572
	2 319	63	94	300	457	2 776
Total liabilities	**216 038**	**41 796**	**40 828**	**12 146**	**94 770**	**310 808**
Net position as at 31.12.2007	**-11**	**-2**	**4**	**9**	**11**	

T.4.3.2. Foreign exchange risk management

In compliance with its statutes, the Bank actively hedges its FX risk exposures.

The main objective of the Bank's FX risk management policy is to minimise the impact of a variation of FX rates on the P&L account by keeping FX positions within the limits approved by the Management Committee.

Related to the quantification of the VaR of own funds for both interest rates and foreign exchange risk factors, refer to section T.4.2.1.

T.4.4. Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual equity investments.

Equity price risk is not a risk that the Group actively takes as a part of its mission. Equity price risk is limited to those strategic activities approved by the Board of Directors (venture capital investments made by the Fund on behalf of the Bank and on its own resources; equity-like investments in the Structured Finance Facility; participation in the EBRD) and shares that have been received in the context of a financial restructuring of a publicly-quoted or privately held company the Group has lent to. In consideration of the exceptionality of said investments, the Group generally segregates these exposures from the rest of the balance sheet by using of specific provisions such as capital reserves. These activities are subject to special forms of monitoring and the resulting exposures are supported by sound capitalisation.

The value of privately held equity positions is not readily available for the purposes of monitoring and control on a continuous basis. For such positions, the best indications available include prices for similar assets and the results of any relevant valuation techniques. These value indications must be used in compliance with recommended best practices.

The effect on Own Funds for the Group (as a result of a change in the fair value of equity investments at 31 December 2007 and 31 December 2008) due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	Change in equity price 2008 %	Effect on Own Funds 2008 in EUR '000	Change in equity price 2007 %	Effect on Own Funds 2007 in EUR '000
Venture Capital Operations	- 10	- 196 775 [2]	+ 10	126 310 [2]
EBRD shares	- 10	- 41 735	+ 10	37 205
Eurotunnel	- 55 [1]	- 4 427	+ 65 [1]	31 819
Infrastructure funds	- 10	- 11 097	+ 10	5 617
Investment funds	- 10	- 2 676	n/a [3]	n/a [3]

(1) The percentages correspond to one annualised standard deviation of the daily returns of the Eurotunnel shares on the quoted market. One annualised standard deviation has been applied to calculate the sensitivity of all the Eurotunnel positions (shares, Warrants and ORAs) held buy the Bank.

(2) The sensitivity of Venture Capital operations is calculated by the EIF based on the market risk of the positions on the public market.

(3) Not present as of 31 December 2007.

T.5. Operational risk

The management of operational risk is performed at all levels within the organisation and is a responsibility of all the various departments of the Group. The Risk Management Directorate is responsible for defining the operational risk framework and related policies while the responsibility for implementing the framework as well as day-to-day operational risk management lies with the Group's operational departments.

The Bank employs an assessment methodology that takes into account all available information including loss history, results of risk self-assessment and the business and control environment through a set of Key Risk Indicators (KRIs) organised in an Operational Risk Scorecard. A statistical model and a Value at Risk calculation engine complete the operational risk environment. The EIF is currently in the process of rolling out its own operational risk methodology which will be consistent with that of the Bank.

Information concerning operational risk events, losses and KRIs, and updates on the activities of the New Products Committee, are regularly forwarded to the Bank's senior management and to the Management Committee.

Note U – Accounting classifications and fair values of financial assets and liabilities

(in EUR million)

The table below sets out the Group's classification of each class and category of assets and liabilities.

31 December 2008	Note	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Non financial assets/ liabilities	Total carrying amount
Cash in hand, balances with central banks and post office banks		0	0	0	0	0	0	0	0
Debt securities portfolios	B	526	0	10 171	0	2 550	0	0	13 247
Loans and advances to credit institutions and to customers	C/D	0	59 257	0	254 633	0	0	0	313 890
Shares and other variable-yield securities	E	0	0	0	0	1 983	0	0	1 983
Intangible assets	F	0	0	0	0	0	0	4	4
Property, furniture and equipment	F	0	0	0	0	0	0	316	316
Other assets	H/S	21 862	0	0	0	0	0	160	22 022
Assets held for sale	F	0	0	0	0	0	0	3	3
Prepayments and accrued income		0	0	0	0	0	0	37	37
		22 388	**59 257**	**10 171**	**254 633**	**4 533**	**0**	**520**	**351 502**
Amounts owed to credit institutions	I	0	0	0	0	0	5 959	0	5 959
Debts evidenced by certificates	J	0	254 526	0	0	0	29 975	0	284 501
Other liabilities	H/S	17 474	0	0	0	0	0	1 849	19 323
Accruals and deferred income	G	0	0	0	0	0	0	267	267
Provisions	K	0	0	0	0	0	0	1 123	1 123
		17 474	**254 526**	**0**	**0**	**0**	**35 934**	**3 239**	**311 173**

31 December 2007	Note	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Non financial assets/ liabilities	Total carrying amount
Cash in hand, balances with central banks and post office banks		0	0	0	27	0	0	0	27
Debt securities portfolios	B	505	0	9 499	0	3 285	0	0	13 289
Loans and advances to credit institutions and to customers	C/D	0	43 523	0	241 302	0	0	0	284 825
Shares and other variable-yield securities	E	0	0	0	0	2 079	0	0	2 079
Intangible assets	F	0	0	0	0	0	0	4	4
Property, furniture and equipment	F	0	0	0	0	0	0	286	286
Other assets	H/S	9 061	0	0	0	0	0	145	9 206
Prepayments and accrued income		0	0	0	0	0	0	31	31
		9 566	**43 523**	**9 499**	**241 329**	**5 364**	**0**	**466**	**309 747**
Amounts owed to credit institutions	I	0	0	0	0	0	342	0	342
Debts evidenced by certificates	J	0	231 449	0	0	0	28 723	0	260 172
Other liabilities	H/S	12 946	0	0	0	0	0	1 466	14 412
Accruals and deferred income	G	0	0	0	0	0	0	271	271
Provisions	K	0	0	0	0	0	0	1 039	1 039
		12 946	**231 449**	**0**	**0**	**0**	**29 065**	**2 776**	**276 236**

The table below sets out the fair value of each of the Group's classes and categories of assets and liabilities.

Fair value is set to book value, for non financial assets and non financial liabilities.

31 December 2008	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Non financial assets/ liabilities	Total Fair value
Cash in hand, balances with central banks and post office banks	0	0	0	0	0	0	0	0
Debt securities portfolios	526	0	9 736	0	2 550	0	0	12 812
Loans and advances to credit institutions and to customers	0	59 257	0	255 748	0	0	0	315 005
Shares and other variable-yield securities	0	0	0	0	1 983	0	0	1 983
Intangible assets	0	0	0	0	0	0	4	4
Property, furniture and equipment	0	0	0	0	0	0	316	316
Other assets	21 862	0	0	0	0	0	160	22 022
Assets held for sale	0	0	0	0	0	0	3	3
Prepayments and accrued income	0	0	0	0	0	0	37	37
	22 388	**59 257**	**9 736**	**255 748**	**4 533**	**0**	**520**	**352 182**
Amounts owed to credit institutions	0	0	0	0	0	5 959	0	5 959
Debts evidenced by certificates	0	254 526	0	0	0	31 412	0	285 938
Other liabilities	17 474	0	0	0	0	0	1 849	19 323
Accruals and deferred income	0	0	0	0	0	0	267	267
Provisions	0	0	0	0	0	0	1 123	1 123
	17 474	**254 526**	**0**	**0**	**0**	**37 371**	**3 239**	**312 610**

31 December 2007	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Financial liabilities measured at amortised cost	Non financial assets/ liabilities	Total Fair value
Cash in hand, balances with central banks and post office banks	0	0	0	27	0	0	0	27
Debt securities portfolios	505	0	9 486	0	3 285	0	0	13 276
Loans and advances to credit institutions and to customers	0	43 523	0	224 354	0	0	0	267 877
Shares and other variable-yield securities	0	0	0	0	2 079	0	0	2 079
Intangible assets	0	0	0	0	0	0	4	4
Property, furniture and equipment	0	0	0	0	0	0	286	286
Other assets	9 061	0	0	0	0	0	145	9 206
Prepayments and accrued income	0	0	0	0	0	0	31	31
	9 566	**43 523**	**9 486**	**224 381**	**5 364**	**0**	**466**	**292 786**
Amounts owed to credit institutions	0	0	0	0	0	342	0	342
Debts evidenced by certificates	0	231 449	0	0	0	29 494	0	260 943
Other liabilities	12 946	0	0	0	0	0	1 466	14 412
Accruals and deferred income	0	0	0	0	0	0	271	271
Provisions	0	0	0	0	0	0	1 039	1 039
	12 946	**231 449**	**0**	**0**	**0**	**29 836**	**2 776**	**277 007**

The table below sets out the maximum exposure to credit risks of each of the Group's classes and categories of assets and liabilities.

31 December 2008	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Non financial assets/ liabilities	Total maximum Exposure
Cash in hand, balances with central banks and post office banks	0	0	0	0	0	0	0
Debt securities portfolios	526	0	10 171	0	2 550	0	13 247
Loans and advances to credit institutions and to customers (including undisbursed amounts)	0	61 695	0	311 065	0	0	372 760
Shares and other variable-yield securities	0	0	0	0	1 983	0	1 983
Intangible assets	0	0	0	0	0	4	4
Property, furniture and equipment	0	0	0	0	0	316	316
Other assets	21 862	0	0	0	0	160	22 022
Assets held for sale	0	0	0	0	0	3	3
Prepayments and accrued income	0	0	0	0	0	37	37
	22 388	**61 695**	**10 171**	**311 065**	**4 533**	**520**	**410 372**

31 December 2007	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Non financial assets/ liabilities	Total maximum Exposure
Cash in hand, balances with central banks and post office banks	0	0	0	27	0	0	27
Debt securities portfolios	505	0	9 499	0	3 285	0	13 289
Loans and advances to credit institutions and to customers (including undisbursed amounts)	0	46 200	0	292 232	0	0	338 432
Shares and other variable-yield securities	0	0	0	0	2 079	0	2 079
Intangible assets	0	0	0	0	0	4	4
Property, furniture and equipment	0	0	0	0	0	286	286
Other assets	9 061	0	0	0	0	145	9 206
Prepayments and accrued income	0	0	0	0	0	31	31
	9 566	**46 200**	**9 499**	**292 259**	**5 364**	**466**	**363 354**

Note V – Segment reporting

The Group considers that lending constitutes its prime main business segment and venture capital operations to be its secondary main business segment: its organisation and entire management systems are mainly designed to support the lending and venture Capital business.

Consequently, the determining factors for segment reporting are:

- primary determining factor: lending and venture capital as the main business segments;
- secondary determining factor: lending in terms of geographical spread.

Information to be disclosed under the heading of geographical segment reporting is given in the following notes:

- interest and similar income by geographical area (Note M.2);
- lending by country in which projects are located (Note D.3);
- tangible and intangible assets by country of location (Note F).

Note W – Commitments, Contingent Liabilities, pledged assets and other memorandum items (in EUR '000)

The Group utilizes various lending-related financial instruments in order to meet the financial needs of its customers. The Group issues commitments to extend credit, standby and other letters of credit, guarantees, commitments to enter into repurchase agreements, note issuance facilities and revolving underwriting facilities. Guarantees represent irrevocable assurances, subject to the satisfaction of certain conditions, that the Group will make payment in the event that the customer fails to fulfill its obligation to third parties.

The contractual amount of these instruments is the maximum amount at risk for the Group if the customer fails to meet its obligations. The risk is similar to the risk involved in extending loan facilities and is monitored with the same risk control processes and specific credit risk policies.

The assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty and amount as at December 31, 2008 to EUR 2.23 million (2007: EUR 1.61 million) in relation to its activities on Futures (classified as Held-to-Maturity) and to EUR 384 million (2007: EUR 992 million) in relation to its Securities Lending activities (classified as Held-to-maturity, AFS, and trading). The pledged assets will be returned to the Group when the underlying transaction is terminated but, in the event of the Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

As at 31 December 2008 and 2007, commitments, contingent liabilities and other memorandum items were as follows (in nominal amounts and in EUR '000):

		31.12.2008		31.12.2007
Commitments				
- **EBRD capital** (Note E)				
• uncalled		442 500		442 500
- **Undisbursed loans** (Note D.1)				
• credit institutions	12 457 853		12 341 869	
• customers	46 411 674		41 264 752	
		58 869 527		53 606 621
- Undisbursed venture capital operations (Note E)		1 227 139		1 420 516
- Undisbursed infrastructure funds (Note E)		241 627		233 620
- Undisbursed investment funds (Note E)		93 094		95 000
Guarantees:				
- In respect of loans granted by third parties		4 067 932		3 757 557
- In respect of venture capital operations		15 171		15 463
Fiduciary operations (Note A.4.19)		9 033 466		7 700 241
Assets held on behalf of third parties (Note A.4.20)				
- CIP/SMEG 2007	95 483		35 255	
- CIP/GIF 2007	69 342		36 448	
- SME Guarantee Facility	69 877		71 886	
- European Technology Facility	13 585		28 510	
- Map Equity	77 816		91 773	
- Guarantee Fund treasury management	1 091 447		1 152 974	
- Investment Facility – Cotonou	1 144 922		1 077 418	
- Map guarantee	73 580		118 671	
- Seed Capital Action	131		185	
- Preparatory Action	0		17	
- Special Section	1 593 398		1 785 151	
- RSFF	205 760		132 154	
- EU-Africa	91 881		41 549	
- HIPC	90 569		43 221	
- FEMIP	33 159		32 911	
- LGTT	43 760		0	
- FP7 Guarantee Fund	283 132		0	
- JASPER	1 114		10 324	
- JESSICA	0		- 363	
- JEREMIE	283 101		0	
- GEEREF	45 929		0	
- Bundesministerium für Wirtschaft und Technologie	130		19	
		5 308 116		4 658 466

	31.12.2008	31.12.2007
Special deposits for service of borrowings [(*)]	134 772	129 428
Securities portfolio		
- Securities receivable	157 480	0
Interest-rate swap and deferred rate-setting contracts (Notes R & T)	276 181 870	249 510 574
Currency swap contracts payable (Notes R & T)	115 600 764	80 992 893
Currency swap contracts receivable (Notes R & T)	106 514 766	75 549 044
Put option granted to EIF minority shareholders (Note A.4.21)	363 433	319 045
Borrowings arranged but not yet signed	0	401 574
Swaps arranged but not yet signed	0	94
Securities lent (Note B)	367 704	936 629
Future contracts (Notes R & T)	393 663	419 307
Forward rate agreements (Notes R & T)	5 472 000	0
FX Forwards (Notes R & T)	234 469	245 330
Overnight indexed swaps (Notes R & T)	0	6 000 000
Credit default swap	172 383	97 843

(*) This item represents the amount of coupons and bonds due, paid by the Group to the paying agents, but not yet presented for payment by the holders of bonds issued by the Group.

Note X – Capital and Reserves

X.1. Share capital and share premium

The European Investment Bank (EIB), the financing institution of the European Union, was created by the Treaty of Rome of 25 March 1957. The members of the EIB are the Member States of the European Union, who have all subscribed to the Bank's capital.

New Member States or Member States that increase their share in the Bank's subscribed capital pay their part of the called capital plus their part of the reserves, provisions equivalent to reserves and connexed amounts, normally in several equal instalments in the course of a pluriannual period. The Accession Treaties and/or the Board of Governors decisions to increase the Bank's capital establish the specific modalities of such payments, including the calculation of the share of the new Member States in the Bank's capital, which is normally based on the national GDP figures officially published by Eurostat.

Voting powers in the Bank's Board of Governors and Board of Directors are established partly on the share of capital subscribed by each Member State, partly on different criteria, set forth in Articles 10 and 12 of the Bank's statute, applied jointly or exclusively depending on the specific voting procedure. Voting powers in the Bank's Management Committee are not based on the Bank's capital criterion.

Withdrawal from the status of EU Member State or decrease of the subscribed capital amount for a Member State are not foreseen by the legal provisions currently in force.

X.2. Subscribed capital and receivable reserves, called but not paid

As a consequence of the increase in subscribed capital from EUR 150 000 000 000 to EUR 163 653 737 000 as at 1 May, 2004, the total amount to be paid to capital and reserves by the ten new member States that joined on 1 May 2004 and Spain of EUR 2 408 million (composed of an amount of EUR 683 million for the capital and an amount of EUR 1 725 million for the reserves) is equally spread over 8 instalments: 30 September 2004, 30 September 2005, 30 September 2006, 31 March 2007, 30 September 2007, 31 March 2008, 30 September 2008 and 31 March 2009. The instalments up to and including 30 September 2008 have been entirely settled.

As at 1 January 2007, the subscribed capital has increased from EUR 163 653 737 000 to EUR 164 808 169 000, by virtue of the contributions of two new Member States that joined on 1 January 2007: Bulgaria and Romania. As a consequence of this capital increase, the two new Member States had to contribute to their share of Paid-in capital (EUR 57,7 million), and also their share of the Reserves and General Provisions (EUR 172,9 million) for the amounts outstanding as of 31 December 2006. The total amount to be paid has been equally spread over 8 instalments: 31 May 2007, 31 May 2008, 31 May 2009, 30 November 2009, 31 May 2010, 30 November 2010, 31 May 2011 and 30 November 2011. The instalments up to and including 31 May 2008 have been entirely settled.

The related net receivable from the Member States is shown in the consolidated balance sheet as follows under the caption Subscribed capital and receivable reserves, called but not paid:

In EUR ´000	31.12.2008	31.12.2007
Subscribed capital called but not paid (nominal value)	128 627	306 514
Net present value adjustment	- 3 878	- 11 648
Subscribed capital called but not paid (carrying value)	**124 749**	**294 866**
Receivable reserve called but not paid (nominal value)	345 359	798 295
Net present value adjustment	- 11 183	- 31 658
Receivable reserve called but not paid (carrying value)	**334 176**	**766 637**
	458 925	**1 061 503**

X.3. Capital management

Even though the EIB is not subject to formal supervision, it has generally voluntarily submitted to major EU banking regulations and adopted market "best practice". In particular, this applies to the new banking regulation ("Basel II"), issued in 2004 by the Basel Committee on Banking Supervision, approved by the EU and the Member States in 2006, and applied in Internal Rating Based EU financial institutions since 1 January 2008 (2006/48/EC as of 14 June 2006).

The implementation of the "Advanced Internal Ratings Based Approach (Advanced IRB)" for credit risk and Advanced Measurement Approach (AMA) for operational risk has been done under the technical assistance of the Commission de Surveillance du Secteur Financier (CSSF).

In addition to the monitoring of Basel II minimum capital requirements, stress tests assess the sensitivity of capital requirements to changes in the macroeconomic environment and in the activities of the Group.

As at 31 December 2008, EIB Group's Pillar I tier 1 capital adequacy ratio decreased to 35.3% (from 37.2% at the end of 2007), compared to the Basel II minimum capital adequacy level of 8%.

Note Y – Conversion rates

The following conversion rates were used for establishing the balance sheets at 31 December 2008 and 31 December 2007:

	31.12.2008	31.12.2007
NON-EURO CURRENCIES OF EU MEMBER STATES		
Pound sterling	0.952500	0.73335
Swedish kronor	10.8700	9.4415
Czech koruna	26.875	26.628
Polish zloty	4.1535	3.5935
Hungarian forint	266.70	253.73
Slovak koruna	30.126	33.583
Danish kroner	7.4506	7.4583
NON-COMMUNITY CURRENCIES		
United States dollar	1.3917	1.4721
Japanese yen	126.14	164.93
Swiss franc	1.4850	1.6547
South African rand	13.0667	10.0298
Norvegian krone	9.7500	7.9580
Franc CFA	770.67	655.96
Moroccan dirham	11.2288	11.3203
Mauritania ouguiya	361.02	364.72
Canadian dollar	1.6998	1.4449
Jordanian dinar	0.9894	1.0327
Australian dollar	2.0274	1.6757
Samoan tala	3.9280	3.4613
Swozi lilangeni	13.1758	9.9358
Dominican peso	49.199	48.220
Rwanda franc	780.97	789.32

Note Z – Post-Balance Sheet Events

On a proposal from the Management Committee, the Board of Directors reviewed these consolidated Financial Statements on 12 March 2009 and decided to submit them to the Governors for approval at their meeting to be held on 9 June 2009.

STATEMENT OF SPECIAL SECTION (1)

as at 31 December 2008 (in EUR '000)

ASSETS	31.12.2008	31.12.2007
Turkey		
From resources of Member States		
Disbursed loans outstanding	10 746	14 631
Total (2)	**10 746**	**14 631**
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	140 039	150 859
Risk capital operations		
- amounts to be disbursed	212 352	170 085
- amounts disbursed	203 739	218 050
	416 091	388 135
Total (3)	**556 130**	**538 994**
African, Caribbean and Pacific State and Overseas Countries and Territories		
From resources of the European Community		
• Yaoundé Conventions		
Loans disbursed	16 299	17 626
Contributions to the formation of risk capital		
- amounts disbursed	419	419
Total (4)	**16 718**	**18 045**
• Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	75 148	144 405
- amounts disbursed	923 457	1 056 938
	998 605	1 201 343
Operations from other resources		
- amounts to be disbursed	7 274	7 274
- amounts disbursed	3 925	4 864
	11 199	12 138
Total (5)	**1 009 804**	**1 213 481**
TOTAL	**1 593 398**	**1 785 151**

LIABILITIES	31.12.2008	31.12.2007
Funds under trust management		
Under mandate from the European Communities		
- Financial Protocols with the Mediterranean Countries	343 778	368 909
- Yaoundé Conventions	16 718	18 045
- Lomé Conventions	923 457	1 056 938
- Other resources under the Lomé Conventions	3 925	4 864
	1 287 878	1 448 756
Under mandate from Member States	10 746	14 631
Total	**1 298 624**	**1 463 387**
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	212 352	170 085
On operations from risk capital resources under the Lomé Conventions	75 148	144 405
On operations from other resources under the Lomé Conventions	7 274	7 274
Total	**294 774**	**321 764**
TOTAL	**1 593 398**	**1 785 151**

For information:

Total amounts disbursed and not yet repaid on loans on special conditions made available by the Commission in respect of which the Bank has accepted an EC mandate for recovering principal and interest:

a) Under the First, Second and Third Lomé Conventions: at 31.12.2008 = 709 988 (at 31.12.2007: 764 994)

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2008 = 109 396 (at 31.12.2007: 115 476)

Note (1): The Special Section was set up by the Board of Governors on 27 May 1963: under a Decision taken on 4 August 1977 its purpose was redefined as being that of recording financing operations carried out by the European Investment Bank for the account of and under mandate from third parties. However, for the Investment Facility under the Cotonou Agreement and the FEMIP Trust Fund separate Financial Statements are presented. In addition, since 2005, the EIB also prepares financial statements of different types for other mandates.

The Statement of Special Section reflects amounts disbursed or to be disbursed, less cancellations and repayments, under mandate from the European Community and the Member States. No account is taken in the Statement of Special Section of provisions or value adjustments, which may be required to cover risks associated with such operations. Amounts in foreign currency are translated at exchange rates prevailing on 31 December.

Note (2): Initial amount of contracts signed for financing projects in Turkey under mandate, for the account and at the risk of Member States.

Initial amount:			405 899
add:	exchange adjustments		19 291
less:	cancellations	215	
	repayments	414 229	
			- 414 444
			10 746

Note (3): Initial amount of contracts signed for financing projects in the Maghreb and Mashreq countries, Malta, Cyprus, Turkey and Greece (EUR 10 million lent prior to accession to the EC on 1 January 1981) under mandate, for the account and at the risk of the European Community.

Initial amount:			903 007
less:	exchange adjustments	12 029	
	cancellations	71 530	
	repayments	263 318	
			- 346 877
			556 130

Note (4): Initial amount of contracts signed for financing projects in the Associated African States, Madagascar and Mauritius and the Overseas Countries, Territories and Departments (AASMM-OCTD) under mandate, for the account and at the risk of the European Community:

- loans on special conditions		139 483	
- contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interest	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	134 527	
			- 136 285
			16 718

Note (5): Initial amount of contracts signed for financing projects in the African, Caribbean and Pacific States and the Overseas Countries and Territories (ACP-OCT) under mandate, for the account and at the risk of the European Community:

Loans from risk capital resources:			
- conditional and subordinated loans		3 116 097	
- equity participations		120 984	
Initial amount:			3 237 081
add:	capitalised interest		8 074
less:	cancellations	633 663	
	repayments	1 553 994	
	exchange adjustments	58 893	
			- 2 246 550
			998 605
Loans from other resources:			
Initial amount:			16 500
less:	cancellations	1 321	
	repayments	3 931	
	exchange adjustments	49	
			- 5 301
			11 199
			1 009 804

Independent Auditor's Report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying consolidated financial statements of the European Investment Bank, which show a profit of EUR 6,355.715 million and a total balance sheet of EUR 351,960.559 million and which comprise the consolidated balance sheet as at December 31, 2008, the consolidated income statement, the statement of movements in consolidated own funds, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements.

Management Committee's responsibility for the consolidated financial statements

The Management Committee is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the European Investment Bank as of December 31, 2008, of its consolidated financial performance, of its movements in consolidated own funds and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

March 12, 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

Statement by the Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee on the EIB consolidated financial statements

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the consolidated financial statements of the European Investment Bank for the year ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, met regularly the Head of Internal Audit and discussed the relevant internal audit reports, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the consolidated financial statements for the financial year ending on 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

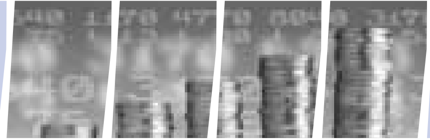
to the best of its knowledge and judgement:

confirms that the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the statement of movements in consolidated own funds, the consolidated cash flow statement and the notes to the consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations and cash flows for the year then ended.

Luxembourg, 12 March 2009

The Audit Committee

C. KARMIOS O. KLAPPER G. SMYTH



EIB

Financial Statements

Results for the Year

The net profit of the Bank for the financial year 2008 stands at EUR 1 651 million as compared to a net profit of EUR 1 633 million for 2007.

The net profit for the financial year increased by EUR 17 million (+1.1%) despite important additional write downs on venture capital operations of EUR 171.6 million, whereas in 2007 a net reversal of write-downs was noted. Please note in this respect that the Bank follows prudent accounting principles in its individual statutory accounts that do not allow it to book unrealised gains, which amounted to EUR 216 million at the end of 2008. There was a EUR 207 million increase in the income from financial operations.

The other main factors influencing the financial results either positively or negatively, are the following:

Positive impacts:

- The net balance between interest income and charges rose by EUR 216 million and stands at EUR 2 087 million (items 1 and 2 of the profit and loss account).
- The average interest rate on outstanding loans decreased by 0.02% to 4.77%, and on outstanding debt by 0.06% to 4.57%, resulting in a realised margin of 0.20% versus 0.16 % previously.
- The average interest rate on the net balance between treasury outstanding assets and liabilities increased by 0.13% to 4.58%.

Negative impacts:

- The value adjustment on shares and other variable-yield securities (including the venture capital operations) resulted in an unrealised loss of EUR 165.3 million, against a profit of EUR 11.5 million in 2007.
- The general administrative expenses and depreciation increased by EUR 11.6 million or 3% to EUR 391 million. Staff costs decreased by some 6% or EUR 18.1 million. The breakdown of staff costs is detailed in note R which explains that salaries and allowances increased by EUR 13.7 million (+8.9%) while welfare contributions and other social costs decreased by EUR 31.8 million (-25.5%), mainly due to a valuation update of the Bank's social obligations notably pensions. Depreciation increased by EUR 8.6 million; this is principally the result of the first year amortisation of the new building, and other administrative expenses increased by EUR 21.1million.

Main evolution of loans and borrowing activity:

- The volume of loans disbursed in 2008 increased by 12% to EUR 48.6 billion from EUR 43.4 billion in 2007.
- The volume of loan signatures for 2008 increased by 21% to EUR 57.6 billion from EUR 47.8 billion in 2007.
- The volume of borrowing proceeds, before swap operations, received during the financial year 2008 increased by 9% versus 2007 to EUR 59.5 billion from EUR 54.5 billion.
- The Bank issued in 2007 a Climate Awareness Bond for EUR 600 million. The proceeds of the bond were earmarked for future projects in the fields of renewable energy and energy efficiency. As at 31 December 2008, the full amount had been committed to such projects and had been disbursed.

The own funds of the Bank increased from EUR 33.4 billion at the end of 2007 to EUR 35.7 billion[1] at the end of 2008. Expressed as a percentage of outstanding loans, the own funds of the Bank decreased slightly from 12.55% at the end of 2007 to 12.50% at the end of 2008.

Appropriation of the EIB result for the year 2008 in 2009

On the basis of the EIB 2008 statutory accounts and acting on a proposal from the Management Committee, the Board of Directors recommends that the Board of Governors appropriate the balance of the profit and loss account for the year ended 31 December 2008, which amounted to EUR 1 650 876 855, to the Reserve Fund. It is also recommended that an amount of EUR 147 177 402 resulting from the value adjustment on venture capital operations be transferred from the Funds allocated to venture capital operations to the Reserve Fund.

As a result of both the decision to raise the capital subscribed by the Member States pro rata, from EUR 164 808 169 000 to EUR 232 392 989 000 on 1 April 2009 and the above recommendations the balance of the Funds allocated to venture capital operations will amount to EUR 1 617 127 399, the Reserve Fund to EUR 18 205 506 278 and the Additional Reserves to nil.

(1) The total own funds of EUR 35.7bn is the net result between Own funds on the liabilities side for EUR 36.2bn and the subscribed capital and receivable reserves called but not paid on the assets side for EUR 0.5bn.

Balance sheet

as at 31 December 2008 (in EUR '000)

Assets	31.12.2008		31.12.2007	
1 Cash in hand, balances with central banks and post office banks		76		27 318
2. Treasury bills eligible for refinancing with central banks (Note B)		1 908 756		2 126 591
3. Loans and advances to credit institutions				
a) repayable on demand	245 372		264 388	
b) other loans and advances (Note C)	21 361 419		15 476 020	
c) loans (Note D.1)	111 990 666		111 215 441	
		133 597 457		126 955 849
4. Loans and advances to customers				
a) loans (Note D.1)	173 662 179		155 222 398	
b) specific provisions (Note D.3)	- 22 000		- 41 550	
		173 640 179		155 180 848
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	454 413		451 974	
b) issued by other borrowers	10 278 428		10 068 851	
		10 732 841		10 520 825
6. Shares and other variable-yield securities (Note E)		1 366 456		1 395 666
7. Participating Interests (Note E.2)		479 272		479 272
8. Intangible assets (Note F)		4 316		3 972
9. Property, furniture and equipment (Note F)		313 881		280 257
10. Other assets				
a) sundry debtors (Note H)	148 584		125 211	
		148 584		125 211
11. Subscribed capital and receivable reserves, called but not paid (Note Y)		473 986		1 104 809
12. Prepayments and accrued income (Note I)		3 095 170		3 653 733
Total Assets		**325 760 974**		**301 854 351**

Off-balance-sheet items	31.12.2008		31.12.2007	
Commitments				
- EBRD capital (Note E.1)				
- uncalled		442 500		442 500
- EIF capital (Note E.2)				
- uncalled		1 457 600		1 457 600
- Undisbursed loans (Notes D.1 and W)				
- credit institutions	12 457 853		12 341 869	
- customers	46 411 674		41 264 752	
		58 869 527		53 606 621
- Undisbursed venture capital operations (Note E.1)		1 088 046		1 252 992
- Undisbursed infrastructure funds (Note E.1)		241 627		233 620
- Undisbursed investment funds (Note E.1)		93 094		95 000
Guarantees (Note D)				
- In respect of loans granted by third parties		246 621		149 779
- In respect of venture capital operations		15 171		15 463
EIF treasury management		851 595		799 946
Guarantee Fund treasury management		1 091 447		1 152 974
FP7 Guarantee Fund treasury management		283 132		0

The accompanying notes form an integral part of these financial statments

Liabilities	31.12.2008		31.12.2007	
1. Amounts owed to credit institutions (Note J)				
a) with agreed maturity dates or periods of notice	5 958 407		341 718	
		5 958 407		341 718
2. Debts evidenced by certificates (Note K)				
a) debt securities in issue	266 320 259		253 328 921	
b) others	668 769		892 400	
		266 989 028		254 221 321
3. Other liabilities				
a) sundry creditors (Note H)	1 449 061		1 141 002	
b) sundry liabilities	18 352		16 838	
c) foreign exchange neutralization on currency swap contracts (Note K)	9 055 318		5 458 234	
		10 522 731		6 616 074
4. Accruals and deferred income (Notes G and I)		4 905 090		5 030 476
5. Provisions for liabilities and charges				
a) pension plans and health insurance scheme (Note L)	1 187 653		1 097 574	
b) provision for guarantees issued in respect of venture capital operations	5 781		5 781	
		1 193 434		1 103 355
6. Capital (Note Y)				
- Subscribed	164 808 169		164 808 169	
- Uncalled	- 156 567 760		- 156 567 760	
		8 240 409		8 240 409
7. Reserves				
a) reserve fund	16 480 817		16 480 817	
b) additional reserves	5 305 876		5 245 781	
		21 786 693		21 726 598
8. Funds allocated to structured finance facility		2 750 000		1 250 000
9. Funds allocated to venture capital operations		1 764 305		1 690 940
10. Profit for the financial year		1 650 877		1 633 460
Total Liabilities		**325 760 974**		**301 854 351**

Off-balance-sheet items	31.12.2008	31.12.2007
Special deposits for service of borrowings (Note S)	134 772	129 428
Securities receivable	157 480	0
Nominal value of interest rate swap contracts (Note V.1)	276 181 870	249 510 574
Nominal value of currency swap contracts payable (Note V)	115 600 764	80 992 893
Nominal value of currency swap contracts receivable (Note V)	106 514 766	75 549 044
Nominal value of credit default swaps (Note V.1)	172 383	97 843
Nominal value of put option granted to EIF minority shareholders (Note E.2)	363 433	319 045
Borrowings arranged but not yet signed	0	401 574
Swaps arranged but not yet signed	0	94
Securities lending (Note B)	306 934	858 762
Futures contracts (Note V.2)	393 663	419 307
Forward rate agreement (Note V.2)	5 472 000	0
FX forward (Note V.2)	234 469	245 330
Nominal value of overnight Indexed swaps (Note V.2)	0	6 000 000

Statement of Special Section [1]

as at 31 December 2008 (in EUR '000)

Assets	31.12.2008	31.12.2007
Turkey		
From resources of Member States	0	0
Disbursed loans outstanding	10 746	14 631
Total [2]	**10 746**	**14 631**
Mediterranean Countries		
From resources of the European Community	0	0
Disbursed loans outstanding	140 039	150 859
Risk capital operations		
- amounts to be disbursed	212 352	170 085
- amounts disbursed	203 739	218 050
	416 091	388 135
Total [3]	**556 130**	**538 994**
African, Caribbean and Pacific States and Overseas Countries and Territories		
From resources of the European Community		
- **Yaoundé Conventions**		
Loans disbursed	16 299	17 626
Contributions to the formation of risk capital		
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Total [4]	**16 718**	**18 045**
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Operations from risk capital resources:		
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Total [5]	**1 009 804**	**1 213 481**
TOTAL	**1 593 398**	**1 785 151**

Liabilities	31.12.2008	31.12.2007
Funds under trust management		
Under mandate from the European Community		
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- Other resources under the Lomé Conventions	3 925	4 864
	1 287 878	1 448 756
Under mandate from Member States	10 746	14 631
Total	**1 298 624**	**1 463 387**
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	212 352	170 085
On operations from risk capital resources under the Lomé Conventions	75 148	144 405
On operations from other resources under the Lomé Conventions	7 274	7 274
Total	**294 774**	**321 764**
TOTAL	**1 593 398**	**1 785 151**

For information:

Total amounts disbursed and not yet repaid on loans on special conditions made available by the Commission in respect of which the Bank has accepted an EC mandate for recovering principal and interest:

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add:	exchange adjustments		19 291
less:	cancellations	215	
	repayments	414 229	
			- 414 444
			10 746

Note (3): Initial amount of contracts signed for financing projects in the Maghreb and Mashreq countries, Malta, Cyprus, Turkey and Greece (EUR 10 million lent prior to accession to the EC on 1 January 1981) under mandate, for the account and at the risk of the European Community.

Initial amount:			903 007
less:	exchange adjustments	12 029	
	cancellations	71 530	
	repayments	263 318	
			- 346 877
			556 130

Note (4): Initial amount of contracts signed for financing projects in the Associated African States, Madagascar and Mauritius and the Overseas Countries, Territories and Departments (AASMM-OCTD) under mandate, for the account and at the risk of the European Community:

- loans on special conditions		139 483	
- contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interest	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	134 527	
			- 136 285
			16 718

Note (5): Initial amount of contracts signed for financing projects in the African, Caribbean and Pacific States and the Overseas Countries and Territories (ACP-OCT) under mandate, for the account and at the risk of the European Community:

Loans from risk capital resources:			
- conditional and subordinated loans		3 116 097	
- equity participations		120 984	
Initial amount:			3 237 081
add:	capitalised interest		8 074
less:	cancellations	633 663	
	repayments	1 553 994	
	exchange adjustments	58 893	
			- 2 246 550
			998 605
Loans from other resources:			
Initial amount:			16 500
less:	cancellations	1 321	
	repayments	3 931	
	exchange adjustments	49	
			- 5 301
			11 199
			1 009 804

Profit and Loss Account

for the year ended 31 December 2008 (in EUR '000)

		31.12.2008		31.12.2007	
1.	Interest and similar income [Note N]		**15 123 072**		14 271 925
2.	Interest and similar charges [Note N]		**- 13 035 794**		- 12 400 153
3.	Income from securities with variable-yield		**64 274**		73 552
	a) income from participating interests	13 073		11 980	
	b) income from shares and variable-yield securities	51 201		61 572	
4.	Commission income [Note O]		**77 700**		64 487
5.	Commission expense [Note O]		**- 8 474**		- 10 382
6.	Result on financial operations [Note P]		**- 56 547**		- 9 835
7.	Other operating income [Note Q]		**39 787**		27 616
8.	General administrative expenses [Note R]		**- 362 929**		- 359 916
	a) staff costs [Note L]	- 261 127		- 279 255	
	b) other administrative costs	- 101 802		- 80 661	
9.	Depreciation and amortization [Note F]		**- 27 602**		- 19 021
	a) intangible assets	- 1 854		- 2 984	
	b) tangible assets	- 25 748		- 16 037	
10.	Result on sale of loans and advances [Note D.3]		**- 15 467**		- 61 490
11.	Value adjustments on loans and advances [Note D.3]		**18 219**		44 244
12.	Value adjustments on shares and other variable-yield securities and participating interests [Note E]		**- 165 269**		11 530
13.	Transfer to (-)/ release from (+) provision for guarantees issued		**- 93**		903
14.	Profit for the financial year		**1 650 877**		1 633 460

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

Own Funds and Appropriation of Profit

As at 1 January 2007, the subscribed capital has increased from EUR '000 163 653 737 to EUR '000 164 808 169, by virtue of the contributions of two new Member States : Bulgaria and Romania.

As a consequence of this capital increase, the two new Member States had to contribute to their share of Paid-in capital (EUR '000 57 722), and also their share of the Reserves and General Provisions (EUR '000 172 932) for the amounts outstanding as of 31 December 2006.

At its annual meeting on 3 June 2008, the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 2007, which amounted to EUR '000 1 633 460, to the Additional reserves.

The Board of Governors also decided to transfer an amount of EUR '000 1 500 000 from the Additional reserves to the Funds allocated to structured finance facility.

Furthermore, an amount of EUR '000 73 365 resulting from the value adjustment on venture capital operations has also been transferred to the Funds allocated to venture capital operations from the Additional Reserves. Following this transfer, the Funds allocated to venture capital operations amount to EUR '000 1 764 305 and the Additional reserves to EUR '000 5 305 876.

Statement of movements in own funds (in EUR '000)	**31.12.2008**	**31.12.2007**
Share Capital		
- Subscribed capital	**164 808 169**	164 808 169
- Uncalled	**- 156 567 760**	- 156 567 760
- **Called capital**	**8 240 409**	8 240 409
- Less: Capital called but not paid	**- 128 627**	- 306 514
- **Paid in capital**	**8 111 782**	7 933 895
Reserves and profit for the year:		
Reserve Fund		
- Balance at beginning of the year	**16 480 817**	16 365 374
- Payable by Member States	**0**	115 443
- Balance at end of the year	**16 480 817**	16 480 817
- Less: Receivable from Member States	**- 345 359**	- 798 295
- **Paid-in balance at end of the year**	**16 135 458**	15 682 522
Additional reserves		
- Balance at beginning of the year	**5 245 781**	2 649 498
- Appropriation of prior year's profit	**1 633 460**	2 584 026
- Payable by Member States	**0**	39 373
- Transfer to Funds allocated to structured finance facility	**- 1 500 000**	0
- Transfer to Funds allocated to venture capital operations	**- 73 365**	- 27 116
- **Balance at end of the year**	**5 305 876**	5 245 781
Funds allocated to structured finance facility		
- Balance at beginning of the year	**1 250 000**	1 250 000
- Transfer from additional reserves	**1 500 000**	0
- **Balance at end of the year**	**2 750 000**	1 250 000
Funds allocated to venture capital operations		
- Balance at beginning of the year	**1 690 940**	1 663 824
- Transfer from/to Additional reserves	**73 365**	27 116
- **Balance at end of the year**	**1 764 305**	1 690 940
Profit for the financial year	**1 650 877**	1 633 460
Total own funds	**35 718 298**	**33 436 598**

The accompanying notes form an integral part of these financial statments

Statement of Subscriptions to the Capital of the Bank

as at 31 December 2008 (in EUR)

Member States	Subscribed capital	Uncalled capital (*)	Paid-in and to be paid-in capital at 31.12.2008 (**)
GERMANY	26 649 532 500	25 316 065 017	1 333 467 483
FRANCE	26 649 532 500	25 316 065 017	1 333 467 483
ITALY	26 649 532 500	25 316 065 017	1 333 467 483
UNITED KINGDOM	26 649 532 500	25 316 065 017	1 333 467 483
SPAIN	15 989 719 500	15 191 419 977	798 299 523
NETHERLANDS	7 387 065 000	7 018 606 548	368 458 452
BELGIUM	7 387 065 000	7 018 606 548	368 458 452
SWEDEN	4 900 585 500	4 655 556 231	245 029 269
DENMARK	3 740 283 000	3 553 721 865	186 561 135
AUSTRIA	3 666 973 500	3 483 624 843	183 348 657
POLAND	3 411 263 500	3 240 700 325	170 563 175
FINLAND	2 106 816 000	2 001 475 188	105 340 812
GREECE	2 003 725 500	1 903 781 233	99 944 267
PORTUGAL	1 291 287 000	1 226 879 033	64 407 967
CZECH REPUBLIC	1 258 785 500	1 195 846 225	62 939 275
HUNGARY	1 190 868 500	1 131 325 075	59 543 425
IRELAND	935 070 000	888 429 814	46 640 186
ROMANIA	863 514 500	820 338 775	43 175 725
SLOVAK REPUBLIC	428 490 500	407 065 975	21 424 525
SLOVENIA	397 815 000	377 924 250	19 890 750
BULGARIA	290 917 500	276 371 625	14 545 875
LITHUANIA	249 617 500	237 136 625	12 480 875
LUXEMBOURG	187 015 500	177 687 377	9 328 123
CYPRUS	183 382 000	174 212 900	9 169 100
LATVIA	152 335 000	144 718 250	7 616 750
ESTONIA	117 640 000	111 758 000	5 882 000
MALTA	69 804 000	66 313 800	3 490 200
TOTAL	**164 808 169 000**	**156 567 760 550**	**8 240 408 450**

(*) Could be called by decision of the Board of Directors to such extent as may be required for the Bank to meet its obligations towards those who have made loans to it.

(**) Refer to Note Y for details on the payment schedule on capital to be paid-in.

At its meeting on 16 December 2008, the Board of Directors approved to submit the following proposal for a capital increase to the Board of Governors:

- to raise the capital subscribed by the Member States pro-rata, from EUR 164 808 169 000 to EUR 232 392 989 000, on the 1st April 2009.
- to maintain the paid-in ratio for the capital increase at its current level of 5%.

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

Cash Flow Statement as at 31 December 2008

(in EUR '000)

	31.12.2008	31.12.2007
A. Cash flows from operating activities:		
Profit for the financial year	1 650 877	1 633 460
Adjustments:		
Value adjustments on tangible and intangible assets	27 602	19 021
Value adjustments on shares and other variable yield securities and participating interests	165 269	- 11 530
Decrease/Increase in accruals and deferred income	- 125 385	552 341
Decrease/Increase in prepayments and accrued income	558 563	-563 522
Investment portfolio amortisation	- 4 926	- 13 303
Profit on operating activities	**2 272 000**	**1 616 467**
Net loans disbursements	- 47 423 453	- 39 910 415
Repayments	19 765 944	19 984 413
Effects of exchange rate changes on loans	8 442 502	8 104 408
Decrease in treasury portfolios	721 486	1 180 112
Increase in venture capital operations	- 82 524	- 111 778
Specific provisions on loans and advances	- 19 550	- 45 367
Increase in shares and other variable yield securities	- 53 535	- 49 207
Increase/Decrease in other assets	- 23 373	113 593
Net cash from operating activities	- 16 400 503	- 9 117 774
B. Cash flows from investing activities:		
Purchases of EIF shares	0	- 202 283
Securities matured during the year	260 206	278 346
Increase in asset backed securities	- 1 057 345	- 1 986 532
Increases in property, furniture and equipment	- 59 372	- 81 697
Increases in intangible assets	- 2 198	- 1 825
Net cash from investing activities	- 858 709	- 1 993 991
C. Cash flows from financing activities:		
Issue of borrowings	58 002 563	54 678 538
Redemption of borrowings	- 39 727 853	- 35 348 649
Effects of exchange rate changes on borrowings & swaps	- 7 897 311	- 9 802 615
Paid in by Member States	630 823	630 824
Increase in commercial paper	5 987 392	514 480
Increase in amounts owed to credit institutions	5 616 689	122 791
Increase in other liabilities	399 653	115 778
Net cash from financing activities	23 011 956	10 911 147
Summary statement of cash flows:		
Cash and cash equivalents at beginning of financial year	**17 965 695**	**18 166 313**
Net cash from:		
(1) operating activities	- 16 400 503	- 9 117 774
(2) investing activities	- 858 709	- 1 993 991
(3) financing activities	23 011 956	10 911 147
Cash and cash equivalents at end of financial year	**23 718 439**	**17 965 695**
Cash analysis (excluding investment and hedging portfolios):		
Cash in hand, balances with central banks and post office banks	76	27 318
Bills maturing within three months of issue [Note B ; See A1 portfolio]	2 111 572	2 197 969
Loans and advances to credit institutions:		
Accounts repayable on demand	245 372	264 388
Term deposit accounts	21 361 419	15 476 020
	23 718 439	**17 965 695**

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

European Investment Bank

Notes to the financial statements

as at 31 december 2008

Note A – Significant accounting policies

A.1. Accounting standards

The unconsolidated financial statements (the 'Financial Statements') of the European Investment Bank (the 'Bank' or 'EIB') have been prepared in accordance with the general principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (the 'Directive'), as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the 'Directives'). However, the Financial Statements do not include any management report. The Bank prepares an Activity Report which is presented separately from the Financial Statements and its consistency with the Financial Statements is not audited.

On a proposal from the Management Committee, the Board of Directors decided on 12 March 2009 to submit the Financial Statements to the Governors for approval at their meeting on 9 June 2009.

In preparing the Financial Statements, the Management Committee is required to make estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the resulting differences may be material to the Financial Statements.

The Bank also publishes consolidated financial statements as of the same date as the annual Financial Statements.

A.2. Foreign currency translation

In accordance with Article 4(1) of its Statute, the EIB uses the euro (EUR), the single currency of the Member States participating in the third stage of Economic and Monetary Union, as the unit of measure for the capital accounts of Member States and for presenting its Financial Statements.

The Bank conducts its operations in the currencies of its Member States, in euro and in non-Community currencies.

Its resources are derived from its capital, borrowings and accumulated earnings in various currencies and are held, invested or lent in the same currencies.

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

The Bank's assets and liabilities denominated in currencies other than in euro are translated at closing exchange rates prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the profit and loss account.

The elements of the profit and loss accounts are translated into euro monthly on the basis of the exchange rates prevailing at the end of each month.

A.3. Derivatives

The Bank uses derivative instruments, i.e. mainly currency and interest rate swaps, as part of its asset and liability management activities to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions.

The majority of the Bank's swaps are concluded with a view to hedging specific bond issues. The Bank enters into currency swaps, in which, at inception the proceeds of a borrowing are converted into a different currency, mainly as part of its resource-raising operations, and, thereafter, the Bank will obtain the amounts needed to service the borrowing in the original currency. The amounts corresponding to these operations are booked as off-balance sheet items at the date of the transaction.

The Bank also enters into currency, interest rate and overnight index swaps as part of its hedging operations on loans or for the global ALM position. The corresponding interest is accounted for on a prorata temporis basis. The nominal amounts of these swaps are booked as off-balance sheet items at the date of the transaction.

The Bank also enters into short-term currency swap contracts in order to adjust currency positions in its operational treasury in relation to its benchmark currency, the euro, and to cater for demand for currencies in conjunction with loan disbursements.

The Bank also enters into credit default swaps as part of its credit risk mitigation. The corresponding amounts are booked as off-balance sheet items at the date of the transaction.

A.4. Financial assets

Financial assets are accounted for using the settlement date basis.

A.5. Cash and Cash Equivalents

The Bank defines cash equivalents as short-term, highly liquid securities and interest-earning deposits with original maturities of 90 days or less.

A.6. Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities

With a view to clarifying management of its liquid assets and consolidating its solvency, the Bank has established the following portfolio categories:

A.6.1. Investment portfolio

The investment portfolio consists of securities purchased with the intention of holding them to maturity. These securities are issued or guaranteed by:

- Governments of the European Union, G10 countries and their agencies;
- Supranational public institutions, including multinational development banks.

These securities are initially recorded at purchase price or more exceptionally at transfer price. Value impairments are accounted for, if these are other than temporary. The difference between entry price and redemption value is accounted for prorata temporis over the remaining life of the securities.

In 2006, the Bank decided to phase out the investment portfolio. Since then, the Bank did not make any new addition to the investment portfolio and will keep the existing portfolio lines until final maturity upon which the redemption proceeds of such matured securities will be invested in the operational portfolios described in paragraph A.6.2.

A.6.2. Operational portfolios

- Operational money market portfolios A1 and A2

In order to maintain an adequate level of liquidity, the Bank purchases money market products with a maximum maturity of twelve months, in particular Treasury bills and negotiable debt securities issued by credit institutions. The securities in the A1 portfolio are held until their final maturity and presented in the Financial Statements at their nominal value. Value impairments are accounted for, if these are other than temporary. The securities in the A2 portfolio are available for sale and presented in the accounts at the lower of cost or market value. Value adjustments are recorded under item 6. Result on financial operations in the profit and loss account.

Treasury bills appear on the assets side of the balance sheet under item 2. Treasury bills eligible for refinancing with central banks.

Negotiable debt securities issued by credit institutions appear on the assets side of the balance sheet under item 5. Debt securities including fixed-income securities - b) issued by other borrowers.

- Operational bond portfolios B1, B2 and B3

The B1 'Credit Spread' portfolio comprises floating-rate and fixed-rate bonds issued or guaranteed by national governments, supranational institutions, financial institutions and corporations with a maximum residual maturity of 5 years. These securities are classified in the available for sale category and are presented in the Financial Statements at the lower of cost or market value. Value adjustments are recorded under item 6. Result on financial operations in the profit and loss account.

The B2 'Alternative investment' portfolio comprises capital guaranteed notes, by issuers which meet the Bank's Treasury investment criteria and with coupons linked to the performance of underlying Funds of Hedge Funds with initial maturities of approximately five years. The securities are available for sale and presented in the accounts at the lower of cost or market value. Value adjustments are recorded under item 6. Result on financial operations in the profit and loss account.

The B3 'Global Fixed income' portfolio comprises listed securities with a maximum residual maturity of 10 years, issued and guaranteed by financial institutions. Securities held in this portfolio are marked to market value in the balance sheet; the corresponding value adjustment is recorded under item 6. Result on financial operations in the profit and loss account.

A.6.3. Asset Backed Securities

This portfolio mainly consists of obligations in the form of bonds, notes or certificates issued by a Special Purpose Vehicle (SPV) or a trust vehicle. These securities are classified as held to maturity and recorded at purchase price. Value impairments are accounted for, if these are other than temporary.

A.7. Securities lending

In April 2003, the Bank signed an agreement for securities lending with Northern Trust Global Investment act-

ing as an agent to lend securities from the Investment Portfolio, the B1 'Credit Spread' portfolio and the B3 'Global Fixed income' portfolio.

Securities lent are recorded at the book value as an off balance-sheet item. Securities received as collateral under securities lending transactions are not recognized in the balance sheet unless control of the contractual rights that comprise these securities received is gained. Securities lent are not derecognised from the balance sheet unless control of the contractual rights that comprise these securities transferred is relinquished. The Bank monitors the market value of the securities lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

Fees and interest received or paid are recorded as interest income or interest expense, on an accrual basis.

A.8. Loans and advances to credit institutions and customers

A.8.1. Loans and advances

Loans and advances are included in the assets of the Bank at their net disbursed amounts. Specific value adjustments have been made for loans and advances outstanding at the end of the financial year and presenting risks of non-recovery of all or part of their amounts. Such value adjustments are held in the same currency as the asset to which they relate. Value adjustments are accounted for in the profit and loss account as 'Value adjustments on loans and advances' and are deducted from the appropriate asset items on the balance sheet.

A.8.2. Interest on loans

Interest on loans is recorded in the profit and loss account on an accruals basis, i.e. over the life of the loans. On the balance sheet, accrued interest is included in 'Prepayments and accrued income' under assets. Value adjustments to interest amounts on these loans are determined on a case-by-case basis by the Bank's Management and recorded under 'Specific provisions' under assets together with the relevant line item under assets.

A.8.3. Reverse repurchase and repurchase operations (reverse repos and repos)

The Bank enters into tripartite reverse repos for the purpose of optimising credit risk usage involved in assets held in operational portfolios.

Under a Tripartite repo a custodian/clearing agency arranges for custody, clearing and settlement of repos transactions between the Bank and a third party. They operate under a standard global master purchase agreement and provides for delivery against payment system, substitution of securities, automatic marking to market, reporting and daily administration by single agency which takes care of the risk on itself and automatic rollovers while does not insist on disclosing the identities by counterparties.

This type of operation is considered for the purposes of the Bank to be a loan (borrowing) at a guaranteed rate of interest. They are carried at the amounts of cash advanced or received, plus accrued interest and are entered on the assets side of the balance sheet under asset item 3. Loans and advances to credit institutions – b) other loans and advances or liability item 1. Amounts owed to credit institutions – with agreed maturity dates or periods of notice.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is recognised as interest income or interest expense, over the life of each agreement.

A.8.4. Interest subsidies

Interest subsidies received in advance (see Note G) are deferred and recognised in the profit and loss account over the period from disbursement to repayment of the subsidised loan.

A.9. Shares, other variable-yield securities and participating interests

A.9.1. Shares and other variable-yield securities

Shares and other variable-yield securities are recorded at acquisition cost. At the balance sheet date, their carrying value is adjusted to the lower of cost or market value. The Bank acquires shares and other variable-yield securities when it enters into venture capital operations, infrastructure funds or investment funds under the Structured Finance Facility (see Note A.15).

Investments in venture capital enterprises, infrastructure funds and investment funds represent shares and other variable-yield securities acquired for the longer term in the normal course of the Bank's activities and are initially shown in the balance sheet at their original purchase cost. Based on the reports received from fund managers up to the balance sheet date, the portfolios of investments are valued on a line-by-line basis at the lower of cost or attributable net asset value ('NAV'), thus excluding any attributable unrealised gain that may be prevailing in the portfolio. The attributable NAV is determined through applying either the Bank's percentage ownership in the underlying vehicle to the NAV reflected in the most recent report or, to the extent available, the value per share at the same date, submitted by the respective Fund Manager. The attributable NAV is adjusted for events having occurred between the date of the latest available NAV and the balance sheet date to the extent that such adjustment is considered to be material. Unrealised losses due solely to administrative expenses and management

fees of venture capital, infrastructure funds and investment funds in existence for less than two years at the balance sheet date are not taken into consideration in determining the attributable NAV.

A.9.2. Participating interests

Participating interests held represent medium and long-term investments and are accounted for at cost. Value impairments are accounted for, if these are other than temporary.

A.10. Property, furniture and equipment

Property, furniture and equipment include land, Bank-occupied properties, other machines and equipment.

Land and buildings are stated at acquisition cost less accumulated depreciation. The value of the Bank's headquarters building in Luxembourg-Kirchberg and its buildings in Luxembourg-Hamm, Luxembourg-Weimershof and Lisbon is depreciated on the straight-line basis as set out below.

Permanent equipment, fixtures and fittings, furniture, office equipment and vehicles have been recorded in the balance sheet at their acquisition cost, less accumulated depreciation.

Depreciation is calculated on the straight-line basis over the estimated life of each item purchased, as set out below:

- Buildings in Kirchberg, Hamm and Weimershof 30 years
- Building in Lisbon 25 years
- Permanent equipment, fixtures and fittings 10 years
- Furniture 5 years
- Office equipment and vehicles 3 years

Works of art are depreciated in full in the year of acquisition.

A.11. Intangible assets

Intangible assets comprise computer software. Software development costs are capitalized if they meet certain criteria relating to identifiability, to the probability that future economic benefits will flow to the enterprise and to the reliability of cost measurement.

Internally developed software meeting these criteria is carried at cost less accumulated depreciation calculated on the straight-line basis over three years from completion.

Software purchased is depreciated on the straight-line basis over its estimated life (2 to 5 years).

A.12. Pension plans and health insurance scheme

A.12.1. Pension plans

The Bank's main pension scheme is a defined benefit pension scheme funded by contributions from staff and from the Bank which covers all employees. All contributions of the Bank and its staff are invested in the assets of the Bank. These annual contributions are set aside and accumulated as a specific provision on the liabilities side of the Bank's balance sheet, together with annual interest.

Commitments for retirement benefits are valued at least every year using the projected unit credit method, in order to ensure that the provision entered in the accounts is adequate. The latest valuation was carried out as at 30 September 2008, but updated as at 31 December 2008 with an extrapolation (roll forward method) for the last three months of 2008. The main actuarial assumptions used by the actuary are set out in Note L. Actuarial surpluses do not influence provisioning and deficits result in an additional specific provision.

The main pension scheme of the European Investment Fund ('EIF') is a defined benefit scheme funded by contributions from staff and from the EIF which covers all employees. The scheme entered into force in March 2003, replacing the previous defined contribution scheme. The funds allocated to the pension scheme are in the custody of and invested by the EIB, following the rules and principles applied by EIB for its own pension scheme.

A.12.2. Health insurance scheme

The Bank has set up its own health insurance scheme for the benefit of staff, financed by contributions from the Bank and its employees. The health insurance scheme is managed under the same principles as the pension scheme. The latest valuation was carried out as at 30 September 2008.

A.12.3. The Management Committee pension plan

The Management Committee pension plan is a defined benefit pension scheme funded by contributions from the Bank only which covers all Management Committee members. All contributions of the Bank are invested in the assets of the Bank. These annual contributions are set aside and accumulated as a specific provision on the liabilities side of the Bank's balance sheet, together with annual interest.

A.13. Debts evidenced by certificates

Debts evidenced by certificates are presented in this account at their redemption amounts. Transaction costs and premiums/ discounts are amortized in the profit and loss account on a straight line basis over the life of

the debt through item 'accruals and deferred income' or 'prepayments and accrued income'.

Interest expense on debt instruments is included in 'Interest and similar charges' in the profit and loss account.

A.14. Fund for general banking risks and provision for guarantees issued

A.14.1. Fund for general banking risks

Until 31 December 2005, the Bank identified, as a separate balance sheet item, the amounts it decided to put aside to cover risks associated with loans and other financial operations, having regard to the particular risks attached to such operations.

Starting from 2006, the Bank no longer identifies such separate balance sheet item. The decision to release it completely does not affect the ability of the Bank to cover its risks. The Bank continues to compute the amount corresponding to the general banking risks for internal and disclosure purposes (see Note M), according to the existing methodology based on an internal mechanism used to evaluate the credit risk associated with each position and transaction of the Bank at year-end.

A.14.2. Provision for guarantees issued

This provision is intended to cover risks inherent in the Bank's activity of issuing guarantees in favour of financial intermediaries or issued in respect of loans granted by third parties. A provision for credit losses is established if there is objective evidence that the Bank will have to incur a credit loss in respect of a given guarantee granted.

A.15. Funds allocated to structured finance facility and to venture capital operations

A.15.1. Funds allocated to structured finance facility

This item comprises the cumulative amount of appropriations from the annual result of the Bank, determined each year by the Board of Governors to facilitate the implementation of operations with a greater degree of risk for this new type of instrument.

A.15.2. Funds allocated to venture capital operations

This item comprises the cumulative amount of appropriations from the annual result of the Bank, determined each year by the Board of Governors to facilitate instruments providing venture capital in the context of implementing the European Council Resolution on Growth and Employment.

Value adjustments on venture capital and structured finance operations are accounted for in the profit and loss account. Upon appropriation of the Bank's result, such value adjustments are taken into consideration for determining the amounts to be recorded in 'Funds allocated to structured finance facility' and 'Funds allocated to venture capital operations'.

A.16. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Bank are exempt from all direct taxes.

A.17. Prepayments and accrued income – Accruals and deferred income

These accounts comprise:

Prepayments and accrued income: Expenditure incurred during the financial year but relating to a subsequent financial year, together with any income which, though relating to the financial year in question, is not due until after its expiry (principally interest on loans).

Accruals and deferred income: Income received before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year (principally interest on borrowings).

A.18. Interest and similar income

In addition to interest and commission income on loans and deposits and other revenue from the securities portfolio, the 'Interest and similar income' includes the indemnities received by the Bank for prepayments made by its borrowers. In order to maintain equivalent accounting treatment between income on loans and the cost of borrowings, the Bank amortises prepayment indemnities received over the remaining life of the loans concerned.

A.19. Management of third-party funds

A.19.1. EIF treasury

The EIF treasury is managed by the Bank in accordance with the treasury management agreement signed between the two parties in December 2000.

A.19.2. Guarantee Fund

The Commission entrusted financial management of the Guarantee Fund to the EIB under an agreement signed between the two parties in November 1994.

A.19.3. Investment Facility

The Investment Facility, which is managed by the EIB, has been established within the framework of the Cotonou Agreement on cooperation and development of the African, Caribbean and Pacific Group of States and the European Union and its Member States on 23 June 2000. The EIB prepares separate financial statements for the Investment Facility.

A.19.4. Femip Trust Fund

The Femip Trust Fund, which is also managed by the EIB, was set up to enhance the existing activities of the EIB in the Mediterranean Partner Countries, with the support of a number of donor countries and with a view to directing resources to operations in certain priority sectors through the provision of technical assistance and risk capital. The EIB prepares separate financial statements for the Femip Trust Fund.

A.19.5. Risk-Sharing Finance Facility

The Risk-Sharing Finance Facility has been established within the framework of the Co-operation Agreement, entered into force on this 5th of June 2007, between The European Commission on behalf of the European Community and the European Investment Bank. The EIB is setting up the RSFF, an instrument aimed at fostering investment for Europe in research, technological development and demonstration, as well as innovation, in particular in the private sector. The EIB prepares separate financial statements for the Risk-Sharing Finance Facility.

A.19.6. Heavily Indebted Poor Countries (HIPC) Initiative

The HIPC Initiative (the "Initiative") is an international debt relief mechanism that provides special assistance to the world's poorest countries. It was launched in 1996 following a proposal from the World Bank and the International Monetary Fund (IMF). The principal objective of the initiative is to reduce the debt burden of poor countries to sustainable. The EIB prepares separate financial statements for the HIPC Initiative.

A.19.7. EU-Africa Infrastructure Trust Fund (the 'Trust Fund')

The Trust Fund has been created within the framework of the Trust Fund Agreement between the European Commission on behalf of the European Community as Founding Donor and the European Investment Bank as Manager, also open to Member States of the European Union which subsequently accede to this agreement as Donors. On 9 February 2006, the European Commission and the European Investment Bank signed a Memorandum of Understanding (the "MoU") to promote jointly the EU-Africa Infrastructure Partnership and, in particular, to establish a supporting EU-Africa Infrastructure Trust Fund. The EIB prepares separate financial statements for the Trust Fund.

A.19.8. FP7 Guarantee Fund

The European Commission entrusted financial management of the FP7 Guarantee Fund to the EIB under an agreement signed between the two parties in December 2007.

A.19.9. Loan Guarantee Instrument for Ten-T Projects

The Loan Guarantee Instrument for Ten-T Projects ("LGTT") has been established within the framework of the Co-operation Agreement, entered into force on 11 January 2008, between the European Commission on behalf of the European Communities and the European Investment Bank.

The Commission and the EIB are setting up the LGTT which aims at facilitating a greater private sector involvement in the financing of Trans-European transport networks infrastructure. The EIB prepares separate financial statements for the LGTT.

A.19.10. JASPERS

JASPERS (Joint Assistance to Support Projects in European RegionS) is a major joint policy initiative of the EIB, European Commission (Regional Policy Directorate-General - DG Regio) and the European Bank for Reconstruction and Development (EBRD).

A.19.11. JESSICA

JESSICA (Joint European Support for Sustainable Investment in City Aras) is an initiative developed by the European Commission and the European Investment Bank (EIB), in collaboration with the Council of Europe Development Bank (CEB).

A.19.12. Special Section

The Special Section was set up by the Board of Governors on 27 May 1963, under a Decision taken on 4 August 1977. Its purpose was redefined as being that of recording financing operations carried out by the European Investment Bank for the account of and under mandate from third parties.

A.20. Reclassification of prior year figures

Certain prior-year figures have been reclassified to conform with the current year's presentation.

Note B – Debt securities portfolio (in EUR '000)

In addition to asset backed securities, which represent acquisitions of interests pools of loans or receivables in connection with securitisation transactions, the debt securities portfolio is composed of the investment portfolio, the operational money market portfolios A1 and A2 and the operational bonds B1 'Credit Spread', B2 'Alternative Investment' and B3 'Global Fixed Income' portfolios. The detail of these portfolios and their classification as at 31 December 2008 and 2007 are as follows:

	31.12.2008	31.12.2007
Treasury bills eligible for refinancing with central banks (listed)	1 908 756	2 126 591
Debt securities including fixed-income securities (of which EUR'000 3 893 591 unlisted in 2008 and EUR'000 2 860 459 in 2007)	10 732 841	10 520 825
	12 641 597	**12 647 416**

At 31.12.2008	Classification	Purchase price	Book value	Premiums/ Discounts to be amortized	Value at final maturity	Market value
Investment portfolio	Held to Maturity	1 888 520	1 866 118	- 27 786	1 838 332	1 933 358
Operational money market portfolios:						
- A1: money market securities with a max. 3 month maturity	Held to Maturity	2 111 572	2 111 572	0	2 111 572	2 111 572
- A2: money market securities with a max. 18 month maturity	Available for sale	1 358 601	1 356 580	0	1 359 098	1 359 527
Operational bond portfolios:						
- B1: Credit Spread	Available for sale	970 799	883 004	0	971 189	883 322
- B2: Alternative Investment	Available for sale	150 000	145 685	0	150 000	145 685
- B3: Global Fixed Income	Trading	503 978	512 365	0	494 000	512 365
Asset backed securities [Note D]	Held to Maturity	5 766 273	5 766 273	0	5 766 273	5 300 242
		12 749 743	**12 641 597**	**- 27 786**	**12 690 464**	**12 246 071**

At 31.12.2007	Classification	Purchase price	Book value	Premiums/ Discounts to be amortized	Value at final maturity	Market value
Investment portfolio	Held to Maturity	2 148 726	2 121 399	- 32 066	2 089 333	2 142 477
Operational money market portfolios:						
- A1: money market securities with a max. 3 month maturity	Held to Maturity	2 197 969	2 197 969	0	2 197 969	2 197 969
- A2: money market securities with a max. 18 month maturity	Available for sale	1 745 057	1 741 989	0	1 744 880	1 743 820
Operational bond portfolios:						
- B1: Credit Spread	Available for sale	1 247 822	1 232 342	0	1 247 925	1 232 433
- B2: Alternative Investment	Available for sale	150 000	150 000	0	150 000	161 724
- B3: Global Fixed Income	Trading	496 862	494 789	0	494 200	494 789
Asset backed securities [Note D]	Held to Maturity	4 708 928	4 708 928	0	4 708 928	4 702 566
		12 695 364	**12 647 416**	**-32 066**	**12 633 235**	**12 675 778**

The Bank enters into collateralized securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Bank controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Bank when deemed necessary.

The security lending activity amounts to EUR '000 306 934 at the end of December 2008 (2007: EUR '000 858 762).

The Asset Backed Securities set out above are undertaken as loan substitutes and as such are considered as part of the aggregate loans (Note D). Some of these transactions have been structured by adding a credit or project related remedies, thus offering additional recourse.

The difference between book value and market value is quasi exclusively explained by the credit spread increase and does not really represent a value impairment. Therefore, no specific provision has been accounted for.

Note C – Loans and advances to credit institutions – other loans and advances (in EUR '000)

The Bank enters into collateralized reverse repurchase and repurchase agreements transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The Bank controls credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned to the Bank when deemed necessary.

	31.12.2008	31.12.2007
Term deposits	14 111 555	10 883 383
Tripartite reverse repos (*)	7 249 864	4 592 637
	21 361 419	**15 476 020**

(*) These operations are carried out with a third-party custodian who undertakes, on the basis of a framework contract, to guarantee compliance with the contractual terms and conditions, notably with respect to:
- delivery against payment,
- verification of collateral,
- the collateral margin required by the lender which must always be available and adequate, with the market value of the securities being verified daily by the said custodian,
- organisation of substitute collateral provided that this meets all the contractual requirements.

Note D – Summary statement of loans and guarantees

D.1. Aggregate loans granted (in EUR '000)

Aggregate loans granted comprise both the disbursed and undisbursed portions of loans. The analysis is as follows:

	To intermediary credit institutions	Directly to final beneficiaries	Total 2008	Total 2007
Disbursed portion	111 990 666	173 662 179	285 652 845	266 437 839
Undisbursed loans	12 457 853	46 411 674	58 869 527	53 606 621
Aggregate loans granted	**124 448 519**	**220 073 853**	**344 522 372**	**320 044 460**

	Total 2008	Total 2007
Asset backed securities portfolio [Note B]	5 766 273	4 708 928
Aggregate loans including asset backed securities portfolio [Note W]	**350 288 645**	**324 753 388**

D.2. Statutory ceiling on lending and guarantee operations (in EUR million)

Under the terms of Article 18 (5) of the Statute, the aggregate amount outstanding at any time of loans and guarantees granted by the Bank must not exceed 250% of its subscribed capital.

The present level of capital implies a ceiling of EUR 412 billion (2007: EUR 412 billion) in relation to aggregate loans and guarantees furnished; these currently total EUR 354 billion and are broken down as follows:

	31.12.2008	31.12.2007
Aggregate loans granted	344 522	320 044
Aggregate venture capital operations	2 634	2 716
Aggregate guarantees furnished in respect of loans granted by third parties and venture capital operations	262	165
Aggregate asset backed securities portfolio	5 766	4 709
Aggregate infrastructure funds	353	296
Aggregate investment funds	120	95
	353 657	**328 025**

D.3. Specific provision for loans (in EUR '000)

Movements in the specific provision are detailed below:

	31.12.2008	31.12.2007
Provision at beginning of the year	41 550	86 917
Use for the year	- 18 219 (**)	- 64 917 (*)
Allowance during the year	0	20 673
Foreign exchange adjustment	- 1 331	- 1 123
Provision at end of the year	**22 000**	**41 550**

(*) The amount of EUR '000 64 917 was released following the sale during 2007 of loan assets for which a specific provision has previously been established. The sale of those loan assets resulted in a realized loss of EUR '000 61 490.

(**) The amount of EUR '000 18 219 was released following the sale during 2008 of loan assets for which a specific provision has previously been established. The sale of those loan assets resulted in a realised loss of EUR '000 15 467.

Note E – Shares and other variable-yield securities and participating interests

E.1. Shares and other variable-yield securities

This item comprises (in EUR '000):

	Venture Capital Operations	EBRD Shares	Shares acquired following loan assets restructuring	Infrastructure Funds	Investment funds	TOTAL
Cost						
At 1 January 2008	1 462 981	157 500	53 253	62 514	0	1 736 248
Net additions / releases	82 524	0	- 22 380	49 151	26 764	136 059
At 31 December 2008	**1 545 505**	**157 500**	**30 873**	**111 665**	**26 764**	**1 872 307**
Value adjustments						
At 1 January 2008	- 308 867	0	- 25 369	- 6 346	0	- 340 582
Net additions / releases	- 171 570	0	1 655	4 646	0	- 165 269
At 31 December 2008	**- 480 437**	**0**	**- 23 714**	**- 1 700**	**0**	**- 505 851**
Net book value						
At 31 December 2008	**1 065 068**	**157 500** (1)	**7 159** (2)	**109 965**	**26 764**	**1 366 456**
At 31 December 2007	**1 154 114**	**157 500**	**27 884**	**56 168**	**0**	**1 395 666**

(1) The amount of EUR '000 157 500 (2007: EUR '000 157 500) corresponds to the capital paid in by the Bank as at 31 December 2008 with respect to its subscription of EUR '000 600 000 to the capital of the EBRD.

The Bank holds 3.03 % of the subscribed capital.

As at 31 December 2008 the share of underlying net equity of the Bank in EBRD amounts to EUR 420.4 million (2007: 368.8 million). This is based on the audited 2007 financial statements prepared in accordance with International Financial Reporting Standards.

In EUR million	% held	Total own funds	Total net result	Balance sheet
EBRD (31.12.2006)	3.03	12 172	2 389	30 691
EBRD (31.12.2007)	3.03	13 874	1 884	33 175

(2) The total number of ordinary Eurotunnel shares held by the Bank as at 31 December 2008 is 1 596 713 (2007: 1 474 279), valued at EUR'000 6 133 (2007: EUR'000 17 691). The total number of Eurotunnel bonds redeemable in shares (ORA) held by the Bank as at 31 December 2008 is 12 422 (2007: 105 450), valued at EUR'000 1 026 (2007: EUR'000 10 193). Furthermore, the Bank holds 4 800 000 warrants valued at EUR 0 in the balance sheet at year-end (2007: 78 971 193 warrants). The sale during the 2008 year of ORAs and warrants resulted respectively in a realized profit of EUR 4.9 million and EUR 16.2 million.

The undisbursed amounts disclosed on Off-balance-sheet are respectively:

- for venture capital operations EUR '000 1 088 046,
- for infrastructure funds EUR '000 241 627,
- for investment funds EUR '000 93 094.

E.2. Participating interests

The account 'participating interests' for an amount of EUR '000 479 272 (2007: EUR '000 479 272) corresponds to the capital paid in by the Bank in respect of its subscription which amounts to EUR '000 1 822 000 (2007: EUR '000 1 822 000) to the capital of the European Investment Fund, with its registered office in Luxembourg.

The Bank holds 63.60% (2007 – 65.78%) of the subscribed capital of the EIF amounting to EUR 2.77 billion (2007: EUR 2.77 billion). At the EIF Annual General Meeting of Shareholders held on 7 May 2007, it was decided to issue 1 000 new shares, identical to the 2 000 existing ones (nominal value EUR 1 million each, paid in ratio of 20%) between the 30 June 2007 and 30 June 2010. Out of the 1 000 new shares, 865 were subscribed on 31 December 2008 (2007: 770), and for the remainder there is an option for subscription over the next 2 years. By 30 June 2010, all shares not subscribed by the other shareholders will be subscribed by the Bank.

During 2008, the Bank did not sell any EIF shares (11 shares sold in 2007). With regard to the remaining 1 043 EIF shares, the EIB is offering to buy these shares at any time from the EIF's other shareholders under a Replacement Share Purchase Undertaking at a price per share of EUR '000 348. This price corresponds to the part of each share in the called capital of the EIF, increased by the share premium account, the statutory reserves, the disclosed unrealised gains in venture capital operations, the profit brought forward and the profit of the year and decreased by the dividend for the 2007 financial year. Given that the dividend for the year 2007 will still be due to the other shareholders, the dividend decided has been deducted from the price determined as described above.

The nominal value of the put option granted to EIF minority shareholders, shown as an off – balance sheet item, EUR '000 363 433 (2007 EUR '000 319 045) has been calculated on the basis of the 2007 audited EIF statutory accounts.

Note F – Property, furniture, equipment and intangible assets (in EUR '000)

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total property, furniture and equipment	Total intangible assets
Historical cost						
At 1 January 2008	10 085	313 717	349	61 580	385 731	5 539
Additions	0	40 060	0	19 312	59 372	2 198
Disposals	0	0	- 349	- 7 691	- 8 040	- 1 073
At 31 December 2008	**10 085**	**353 777**	**0**	**73 201**	**437 063**	**6 664**
Accumulated depreciation						
At 1 January 2008	0	- 80 421	- 308	- 24 745	- 105 474	- 1 567
Depreciation	0	- 11 792	- 12	- 13 944	- 25 748	- 1 854
Disposals	0	0	320	7 720	8 040	1 073
At 31 December 2008	**0**	**- 92 213**	**0**	**- 30 969**	**- 123 182**	**- 2 348**
Net book value						
At 31 December 2008	**10 085**	**261 564**	**0**	**42 232**	**313 881**	**4 316**
At 31 December 2007	**10 085**	**233 296**	**41**	**36 835**	**280 257**	**3 972**

All of the land and buildings are used by the Bank for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building for EUR '000 211 769 (2007: EUR '000 171 710), completed in 2008. The Lisbon building was sold in 2008.

Note G – Interest subsidies received in advance

Part of the amounts received from the European Commission through EMS (European Monetary System) arrangements has been made available as a long-term advance which is entered on the liabilities side under item 4. Accruals and deferred income and comprises:

- amounts in respect of interest subsidies for loans granted for projects outside the Union, under Conventions signed with the ACP States and Protocols concluded with the Mediterranean Countries;
- interest subsidies, concerning certain lending operations put in place within the Union from the Bank's own resources, made available in conjunction with the EMS under Council Regulation (EEC) No 1736/79 of 3 August 1979 and in conjunction with the financial mechanism established by the EFTA Countries under the EFTA Agreement signed on 2 May 1992;
- amounts received in respect of interest subsidies for loans granted from EC resources under Council Decisions 78/870/EEC of 16 October 1978 (New Community Instrument), 82/169/EEC of 15 March 1982 and 83/200/EEC of 19 April 1983 and under Council Regulation (EEC) No 1736/79 of 3 August 1979 as amended by Council Regulation (EEC) No 2790/82 of 18 October 1982.

Note H – Sundry debtors and sundry creditors (in EUR '000)

Sundry debtors	31.12.2008	31.12.2007
- Loan instalments receivable	99 893	56 115
- Staff housing loans and advances (*)	18 764	21 917
- Advances on salaries and allowances	1 210	2 817
- Other	28 717	44 362
	148 584	**125 211**

Sundry creditors	31.12.2008	31.12.2007
- European Community accounts:		
- For Special Section operations and related unsettled amounts	368 727	367 531
- Deposit accounts	831 652	517 441
- Optional Supplementary Provident Scheme [Note L]	189 004	185 626
- Transitory account on loans	15 566	44 938
- Other	44 112	25 466
	1 449 061	**1 141 002**

(*) The Bank has entered into arrangements with an external financial institution, whereby permanently employed staff members may be granted staff loans in accordance with the Bank's staff regulations. The same interest rates, terms and conditions are applicable to all said employees.

Note I – Prepayments and accrued income – Accruals and deferred income (in EUR '000)

	31.12.2008	31.12.2007
Prepayments and accrued income:		
Interest and commission receivable	2 413 052	2 415 383
Deferred borrowing charges	274 486	810 120
Swaps receivable (*)	370 323	393 177
Investment Facility's commission receivable	35 741	32 756
Other	1 568	2 297
	3 095 170	**3 653 733**
Accruals and deferred income:		
Interest and commission payable	3 038 712	3 045 726
Deferred loan proceeds	164 868	203 713
Deferred borrowing proceeds	662 643	1 235 930
Swaps payable (*)	770 772	274 300
Administrative cost payable on HIPC initiative	46 872	48 683
Personnel costs payable	8 674	7 607
Interest subsidies received in advance [Note G]	171 155	186 622
Western Balkans infrastructure	5 000	0
Other	36 394	27 895
	4 905 090	**5 030 476**

(*) Swaps receivable and swaps payable represent end payments of one leg of the underlying swap agreements for those agreements which include such features.

Note J – Amounts owed to credit institutions with agreed maturity dates or periods of notice (in EUR '000)

	31.12.2008	31.12.2007
Short-term borrowings	5 957 394	338 681
Promissory notes issued in respect of paid-in capital of EBRD	1 013	3 037
	5 958 407	**341 718**

Note K – Debts evidenced by certificates as at 31 December (in EUR '000)

In its financing activity, one of the Bank's objectives is to align its funding strategy with the funds required for the loans granted, notably in terms of currencies. The below table discloses the details per currency of debts outstanding at December 31, 2008, together with the cumulated notional amount of currency swaps associated with the debts issued, whose goal is to transform the initial currency of the debt into a new currency in line with the currency of the loan. The last column of the table indicates the total amount of debts per currency, taking into account the economic effect brought by the currency swaps in order to disclose a net exposure per currency of the debts outstanding at December 31, 2008.

BORROWINGS						CURRENCY SWAPS		NET AMOUNT	
						RECEIVABLE			
PAYABLE IN	OUT-STANDING AT 31.12.2007	AVERAGE RATE	OUT-STANDING AT 31.12.2008	AVERAGE RATE	DUE DATES	31.12.2007	31.12.2008	OUT-STANDING AT 31.12.2007	OUT-STANDING AT 31.12.2008
EUR	106 548 588	4.04	107 758 784	4.02	2009/2057	-1 667 912	- 1 692 262	104 880 676	106 066 522
GBP	59 387 205	5.21	47 705 235	5.11	2009/2054	-18 302 492	- 15 100 101	41 084 713	32 605 134
DKK	536 315	2.86	536 869	2.86	2010/2026	0	0	536 315	536 869
SEK	1 851 401	4.24	1 985 281	4.18	2009/2028	- 636 175	- 552 571	1 215 226	1 432 710
CZK	952 562	5.09	928 119	5.03	2009/2030	- 159 606	0	792 956	928 119
HUF	1 062 153	7.17	731 159	7.20	2009/2015	- 648 327	- 328 084	413 826	403 075
PLN	662 295	6.05	465 206	6.29	2009/2026	- 107 854	- 93 313	554 441	371 893
BGN	181 511	5.35	309 336	6.60	2009/2013	- 181 511	- 309 336	0	0
MTL	23 294	3.80	0	0.00		- 23 294	0	0	0
SKK	121 261	4.79	144 175	4.75	2023/2028	0	0	121 261	144 175
RON	83 155	7.00	74 580	7.00	2014/2014	- 83 155	- 74 580	0	0
USD	58 410 692	4.52	77 423 397	3.72	2009/2058	- 25 074 313	- 41 397 725	33 336 379	36 025 672
CHF	2 955 218	2.75	4 468 687	2.47	2009/2036	- 1 525 956	- 2 545 455	1 429 262	1 923 232
JPY	6 982 434	1.51	10 331 351	0.97	2009/2047	- 6 814 744	- 10 022 170	167 690	309 181
NOK	760 241	4.67	1 315 897	4.08	2009/2025	- 508 922	- 733 333	251 319	582 564
CAD	976 045	4.92	770 751	4.70	2037/2045	- 906 836	- 775 163	69 209	- 4 412
AUD	4 026 888	5.61	4 971 016	5.83	2009/2021	- 4 026 888	- 4 927 858	0	43 158
HKD	334 498	5.09	77 883	6.97	2009/2019	- 203 836	- 77 884	130 662	- 1
NZD	3 369 954	6.62	2 806 416	6.88	2009/2017	- 3 369 954	- 2 788 227	0	18 189
ZAR	1 167 340	8.53	1 160 062	8.91	2009/2018	- 726 625	- 791 164	440 715	368 898
MXN	61 772	8.63	79 425	8.57	2009/2015	- 61 772	- 79 425	0	0
TWD	255 830	0.33	176 856	1.66	2010/2013	- 255 830	- 176 856	0	0
TRY	2 659 580	14.14	2 518 980	14.04	2009/2022	- 2 659 580	- 2 484 077	0	34 903
ISK	739 935	8.38	113 793	9.47	2009/2011	- 739 935	- 113 793	0	0
RUB	111 154	6.50	135 770	7.39	2011/2018	- 111 154	- 135 770	0	0
Total	**254 221 321**		**266 989 028**			**- 68 796 671**	**- 85 199 147**	**185 424 650**	**181 789 881**

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: EUR 843 million). All such borrowings are hedged in full through swap operations.

Note L – Provisions for liabilities and charges – pension plans and health insurance scheme

(in EUR '000)

The Defined Benefit Obligation in respect of future retirement and health insurance benefits was valued as at 30 September 2008 by an independent actuary using the projected unit credit method. The actuarial valuation was updated as at 31 December 2008 with an extrapolation ('roll forward' method) for the last 3 months of 2008, using the prevailing market rates of 31 December 2008 and following assumptions (for the staff pension and medical plan):

- a discount rate of 6.0% (2007: 5.52%) for determining the actuarial present value of benefits accrued in the pension and health insurance schemes, corresponding to 14.46 year duration (2007: 14.19 year duration);
- in the light of past experience, the Bank estimates that the overall expected remuneration of post-employment reserves are set at a rate of 1.5% above the discount rate mentioned above. As a consequence, the final discount rate used is 7.5% (2007: 7.02%);
- a progressive retirement between the age of 55-65 (2007: retirement at the age of 55-65);
- a combined average impact of the increase in the cost of living and career progression of 4.5% (2007: 4%);
- probable resignation of 3% up to age 55 (same as 2007);
- a rate of adjustment of pensions of 2% per annum (same as 2007);
- use of the LPP 2005 actuarial tables (same as 2007);
- a medical cost inflation rate of 4% per annum (same as 2007).

The provisions for liabilities and charges for these schemes are adjusted when needed (Note A.12.1) according to the actuarial valuation, as per the tables below. These adjustments have been accounted for in 2008 and are disclosed in the Profit and Loss account under staff costs.

The staff pension and the Management Committee pension plans provision are as follows (in EUR '000):

	31.12.2008	31.12.2007
Staff Pension Plan:		
Provision at beginning of the year	981 085	872 501
Payments made during the year	- 38 710	- 32 909
Contribution arising from measures with a social character	0	13 300
Annual contributions and interest	108 718	128 193
Sub Total	**1 051 093**	**981 085**
Management Committee Pension Plan	32 637	31 739
Provision at 31 December	**1 083 730**	**1 012 824**

The above figures do not include the liability towards members of staff in respect of the Optional Supplementary Provident Scheme (a defined contribution pension scheme). The corresponding amount of EUR 189 million (2007: EUR 186 million) is classified under 'Sundry creditors' (Note H).

The health insurance scheme provision is as follows (in EUR '000):

	31.12.2008	31.12.2007
Provision at beginning of the year	84 750	76 151
Payments made during the year	- 7 661	- 7 204
Contribution arising from measures with a social character	9 000	665
Annual contributions and interest	17 834	15 138
Provision at 31 December	**103 923**	**84 750**
Total at 31 December	**1 187 653**	**1 097 574**

Note M – Fund for general banking risks (in EUR '000)

In line with Note A.14.1, the Bank no longer identifies the Fund for general banking risks as a separate balance sheet item. For disclosure purposes, the Bank continues to compute the amount corresponding to the fund, in line with last year's methodology.

Evaluation of the amount representative of general banking risks:	31.12.2008	31.12.2007
	1 280 000 (*)	1 000 000 (**)

(*) Of which EUR '000 198 000 for Structured Finance Facility operations
(**) Of which EUR '000 113 000 for Structured Finance Facility operations

The evolution of the computed Fund for general banking risks from December 31, 2007 to December 31, 2008 reflects a slight decrease in the Bank's loan portfolio quality, mainly due to new signatures to lower rating categories.

Note N – 'Interest and similar income' and 'Interest and similar charges'

N.1. Net interest income (in EUR '000)

	31.12.2008	31.12.2007
Interest and similar income		
Cash in hand, balance with central banks and post office banks	202	344
Treasury bills eligible for refinancing with central banks and debt securities including fixed income securities	714 245	686 369
Loans and advances to credits institutions and customers	14 068 549	13 343 188
Other	340 076	242 024
TOTAL	**15 123 072**	**14 271 925**
Interest expense and similar charges		
Amounts owed to credit institutions	- 53 185	- 14 098
Debts evidenced by certificates	- 12 045 965	- 12 059 580
Derivatives	- 460 727	- 7 626
Other	- 475 917	- 318 849
TOTAL	**- 13 035 794**	**- 12 400 153**
Net interest income	**2 087 278**	**1 871 772**

N.2. Geographical analysis of 'Interest and similar income' (in EUR '000)

	31.12.2008	31.12.2007
Germany	2 008 176	2 356 560
Spain	2 143 128	1 833 671
Italy	1 697 814	1 456 260
France	1 385 791	1 437 073
United Kingdom	1 058 937	1 211 146
Portugal	774 637	698 928
Greece	559 600	533 178
Austria	294 940	292 310
Poland	445 242	287 992
Finland	232 420	227 245
Hungary	294 328	197 499
Belgium	198 322	187 366
Czech Republic	229 290	180 895
Denmark	123 138	152 085
Netherlands	141 405	151 539
Ireland	128 691	137 067
Sweden	165 245	123 075
Romania	90 755	81 155
Slovenia	75 551	57 535
Slovak Republic	42 227	35 134
Luxembourg	27 125	34 002
Cyprus	38 896	29 550
Bulgaria	24 765	17 465
Latvia	23 012	16 017
Estonia	8 145	6 753
Lithuania	5 766	5 204
Malta	581	348
Total	**12 217 927**	**11 747 052**
Outside the European Union	889 208	795 520
Total	**13 107 135**	**12 542 572**
Income not analysed [1]	2 015 937	1 729 353
Total	**15 123 072**	**14 271 925**

[1] Income not analysed:

• Revenue from Investment portfolio and ABS portfolios	354 462	265 949
• Revenue from Operational bond portfolios	77 283	80 419
• Revenue from Operational money-market portfolios	282 500	340 001
• Revenue from money-market operations	1 301 692	1 042 984
	2 015 937	**1 729 353**

Note O – 'Commission income' and 'Commission expense' (in EUR '000)

	31.12.2008	31.12.2007
Commission income		
Investment Facility / Cotonou	35 741	32 756
Jaspers	14 933	10 529
Jessica	3 962	1 903
Yaoundé/Lomé conventions	10 371	10 227
Other Community institutions	12 693	9 072
	77 700	**64 487**
Commission expense	**- 8 474**	**- 10 382**

Note P – Result on financial operations (in EUR '000)

	31.12.2008	31.12.2007
Value adjustment on operational treasury portfolio	- 67 899	- 19 561
Gain and loss on operational treasury portfolio	- 3 189	1 362
Gain and loss on long-term futures	- 11 714	1 725
Foreign exchange gain/loss	13 122	4 634
Gain and loss on buy back of debts evidenced by certificates	3 430	1 082
Gain and loss on unwind of ALM swaps	21 125	923
Realised loss on sale of shares	- 11 422	0
	- 56 547	**- 9 835**

Note Q – Other operating income (in EUR '000)

	31.12.2008	31.12.2007
Income from advisory activities	32 380	20 369
Reversal of previous years' unutilized accruals	3 999	3 597
Other	3 408	3 650
	39 787	**27 616**

Note R – General administrative expenses (in EUR '000)

	31.12.2008	31.12.2007
Salaries and allowances (*)	- 168 086	- 154 373
Welfare contributions and other social costs	- 93 041	- 124 882
Staff costs	- 261 127	- 279 255
Other general administrative expenses	- 101 802	- 80 661
	- 362 929	**- 359 916**

The number of persons employed by the Bank was 1 599 at 31 December 2008 (1 441 at 31 December 2007).

(*) of which the amount for members of the Management Committee is EUR '000 2 821 at 31 December 2008 and EUR '000 2 655 at 31 December 2007.

Note S – Special deposits for service of borrowings

This item represents the amount of coupons and bonds due, paid by the Bank to the paying agents, but not yet presented for payment by the holders of bonds issued by the Bank.

Note T – Fair value of financial instruments

The Bank records balance sheet financial instruments on the basis of their historical cost in foreign currency (apart from the operational portfolio) representing the amount received in the case of a liability or the amount paid to acquire an asset. The fair value of the financial instruments (mainly loans, treasury, securities and borrowings after long-term interest rate or currency swaps) entered under assets and liabilities compared with their accounting value is shown in the table below:

	ASSETS		LIABILITIES	
At 31 December 2008 (in EUR million)	Net accounting value	Fair value	Accounting value	Fair value
Loans (Note D)	291 419	301 674		
Investment portfolio (Note B)	1 866	1 933		
Liquid assets	5 572	5 575		
Borrowings after swaps			260 805	266 611
Total 2008	**298 857**	**309 182**	**260 805**	**266 611**

	ASSETS		LIABILITIES	
At 31 December 2007 (in EUR million)	Net accounting value	Fair value	Accounting value	Fair value
Loans (Note D)	271 147	272 580		
Investment portfolio (Note B)	2 121	2 142		
Liquid assets	12 462	12 476		
Borrowings after swaps			251 367	251 906
Total 2007	**285 730**	**287 198**	**251 367**	**251 906**

Note U – Financial risk management

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

- credit risk,
- interest rate risk,
- liquidity risk,
- exchange rate risk.

U.1. Credit risk

Credit risk concerns mainly the Bank's lending activity and, to a lesser extent, treasury instruments such as fixed-income securities held in the investment and operational portfolios, certificates of deposit and interbank term deposits.

The credit risk associated with the use of derivatives is also analysed hereafter in the 'Derivatives' section (Note V).

Management of credit risk is based, firstly, on the degree of credit risk vis-à-vis counterparties and, secondly, on an analysis of the solvency of counterparties.

As regards lending, treasury and derivatives operations, credit risk is managed by an independent Risk Management Directorate under the direct responsibility of the Management Committee. The Bank has thus established an operationally independent structure for determining and monitoring credit risk.

U.1.1. Loans

In order to limit the credit risk on its loan portfolio, the Bank lends only to counterparties with demonstrated creditworthiness over the longer term and sound guarantees.

In order efficiently to measure and manage credit risk on loans, the Bank has graded its lending operations according to generally accepted criteria, based on the quality of the borrower, the guarantee and, where appropriate, the guarantor.

The structure of guarantors and borrowers relating to the loan portfolio as at 31 December 2008 is analysed below (in EUR million), including undisbursed portions:

Within the European Union

Borrower / Guarantor [1]	Member States	Public institutions	Zone 'A' banks	Corporates	Total 2008	Total 2007
Member States	27 202	0	0	0	27 202	24 925
Public institutions	20 709	39 983	743	4 017	65 452	59 698
Zone 'A' banks	10 982	40 105	47 655	16 500	115 242	114 734
Corporates	16 266	6 985	32 169	55 830	111 250	96 952
Total 2008 [1] [2] [3] [4]	**75 159**	**87 073**	**80 567**	**76 347**	**319 146**	
Total 2007 [1] [2] [3] [4]	**71 738**	**84 345**	**75 439**	**64 787**		**296 309**

[1] This amount includes loans for which no formal guarantee independent from the borrower and the loan itself was required for a total of EUR 82 021 million as at 31 December 2008 (2007: EUR 90 063 million), the borrower's level of solvency itself representing adequate security. In the event of certain occurrences, appropriate contractual clauses ensure the Bank's right to access independent security.

[2] This amount includes loans (2008: EUR 4 330 million, 2007: EUR 3 102 million) in risk-sharing operations.

[3] This amount includes loans granted under the Facilities (2008: EUR 4 149 million, 2007: EUR 3 186 million). Loans granted under the Facilities are not secured by guarantees of the Community budget or the Member States. Therefore, lending under the Facilities is from the Bank's own resources and at the Bank's own risk.

[4] This amount does not include asset backed securities (2008: EUR 5 766 million, 2007: EUR 4 709 million).

Loans outside the European Communities (apart from those under the Pre-Accession Facility and the Mediterranean Partnership Facility – the "Facilities") are, in the last resort, secured by guarantees of the European Communities budget or the Member States (loans in the ACP Countries and the OCT). In all regions (South Africa, non-member Mediterranean Countries, Central and Eastern Europe, Asia and Latin America), apart from the ACP Countries and the OCT, in the case of loans secured by a sovereign guarantee, all risks are, in the last resort, covered by the European Communities budget.

The agreements decided by the Council of the European Union on 14 April 1997 (Decision 97/256/EC) introduced the concept of risk sharing whereby certain bank loans are secured by third-party guarantees with respect to the commercial risk, the budgetary guarantee applying in the case of political risks solely arising from currency non-transferability, expropriation, war and civil disturbance.

Outside the European Union

Secured by:	31.12.2008	31.12.2007
Member States	1 554	1 567
Community budget	28 152 [*]	25 270 [*]
Total	**29 706**	**26 837**

[*] of which EUR 4 330 million in risk-sharing operations as explained above (2007: EUR 3 102 million).

LOANS FOR PROJECTS OUTSIDE THE UNION (in EUR million)

(including loans in the new Member States before accession)

BREAKDOWN OF LOANS BY GUARANTEE AS AT 31 DECEMBER

AGREEMENT	Outstanding 31.12.2008	Outstanding 31.12.2007
75 % Member States global guarantee		
- ACP/OCT Group 3 rd Lomé Convention	1	4
- ACP/OCT Group 4 th Lomé Convention	142	200
- ACP/OCT Group 4 th Lomé Convention/2 nd Financial Protocol	516	586
Total 75 % Member States global guarantee	**659**	**790**
75 % Member States guarantee		
- Cotonou partnership agreement	819	777
- Cotonou partnership 2nd agreement	76	0
Total 75 % Member States guarantee	**895**	**777**
Total Member States guarantee	**1 554**	**1 567**
100 % Community budget guarantee		
- South Africa - 300m - BG Decision 19.06.95	41	62
- ALA I - 750m	135	145
- ALA interim (100 % guarantee) -153m	5	22
- CEEC - 1bn - BG Decision 29.11.89	120	127
- CEEC - 3bn - BG Decision 02.05.94	618	730
- CEEC – 700m - BG Decision 18.04.91	9	17
- Russia – 100 m - 2001-2005	79	79
- Russia – 500 m - 2004-2007	230	230
Total 100 % Community budget guarantee	**1 237**	**1 412**
75 % Community budget guarantee		
- Mediterranean Protocols	988	1 180
- Yugoslavia – Art.18 (1984)	2	3
- Yugoslavia - 1 st Protocol	4	5
- Yugoslavia - 2 nd Protocol	16	40
- Slovenia - 1 st Protocol	62	71
Total 75 % Community budget guarantee	**1 072**	**1 299**
70 % Community budget guarantee		
- South Africa - 375m - Decision 29.01.97	128	165
- ALA II – 900m	175	200
- ALA interim (70 % guarantee: risk sharing) -122m	10	21
- Bosnia-Herzegovina - 100m 99/2001	89	92
- Euromed (EIB) - 2 310m - Decision 29.01.97	908	1 016
- FYROM - 150m – 1998/2000	117	126
- CEEC - 3 520m - Decision 29.01.97	1 627	1 790
Total 70 % Community budget guarantee	**3 054**	**3 410**
65 % Community budget guarantee		
- South Africa - 825m – 7/2000-7/2007	629	705
- South Africa – Decision 2/2007-12/2013	202	0
- ALA III – 2480m – 2/2000-7/2007	1 275	1 329
- ALA Decision – 2/2007-12/2013	791	304
- Euromed II - 6520m – 2/2000-1/2007	5 686	5 787
- South Eastern Neighbours – 9185m - 2/2000-7/2007	8 344	8 513
- Turkey special action – 450m – 2001-2006	324	347
- Turkey TERRA- 600m - 11/1999-11/2002	549	570
- PEV EE/CAS/RUS 1/2/2007-31/12/2013	170	0
- PEV MED 1/2/2007-31/12/2013	2 404	1 205
- Pre-Accession – 8 700m - 2007-2013	2 415	389
Total 65 % Community budget guarantee	**22 789**	**19 149**
Total Community budget guarantee	**28 152**	**25 270**
TOTAL	**29 706**	**26 837**

Collateral on loans (EUR million)

Among other credit mitigant instruments, the Bank also uses pledges of financial securities. These pledges are formalized through a Pledge Agreement, enforceable in the relevant jurisdiction. The portfolio of collateral received in pledge contracts amounts to EUR 12 998 million (2007: EUR 11 123 million), with the following composition:

As at 31 December 2008	Loan Financial Collateral (in EUR million) [1]								
Moody's or equivalent rating	Bonds						Equities & Funds	Cash	**Total 2008**
	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS			
Aaa	678	1	34	482	694	638	0	0	**2 527**
Aa1 to Aa3	1 193	0	0	50	1 937	151	0	0	**3 331**
A1	1 743	0	16	0	1 025	0	0	0	**2 784**
Below A1	2 500	0	28	0	1 199	0	0	0	**3 727**
Non-Rated	0	0	0	0	0	0	277	352	**629**
Total 2008	**6 114**	**1**	**78**	**532**	**4 855**	**789**	**277**	**352**	**12 998**

[1] Bonds are valued at their market value.

As at 31 December 2007	Loan Financial Collateral (in EUR million) [1]								
Moody's or equivalent rating	Bonds						Equities & Funds	Cash	**Total 2007**
	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS			
Aaa	972	4	0	260	398	616	0	0	**2 250**
Aa1 to Aa3	1 583	0	0	12	1 604	146	0	0	**3 345**
A1	1 055	0	0	0	1 062	0	0	0	**2 117**
Below A1	1 619	0	21	0	1 051	0	0	0	**2 691**
Non-Rated	0	0	0	0	195	0	102	423	**720**
Total 2007	**5 229**	**4**	**21**	**272**	**4 310**	**762**	**102**	**423**	**11 123**

[1] Bonds are valued at their market value.

A breakdown of disbursed loans outstanding, including assets backed securities (in EUR million) at 31 December according to the sectors in which borrowers are engaged is set out below:

	Maturity				
Sector :	not more than 1 year	1 year to 5 years	more than 5 years	**Total 2008**	Total 2007
Transport	4 022	17 631	69 060	**90 713**	85 237
Global loans	7 593	30 462	39 099	**77 154**	76 477
Energy	2 305	11 019	17 516	**30 840**	26 549
Industry	1 812	10 467	6 535	**18 814**	15 625
Health & education	492	3 408	14 601	**18 501**	15 636
Miscellaneous infrastructure	834	3 897	12 257	**16 988**	16 335
Water & sewerage	1 294	4 148	10 990	**16 432**	15 801
Services	794	3 335	8 177	**12 306**	11 192
Telecommunications	860	4 487	4 114	**9 461**	8 057
Agriculture, forestry & fisheries	50	64	96	**210**	238
TOTAL 2008	**20 056**	**88 918**	**182 445**	**291 419**	
TOTAL 2007	**17 322**	**87 187**	**166 638**		**271 147**

U.1.2. Treasury

The credit risk associated with treasury (securities, commercial paper, term accounts, etc.) is rigorously managed through selecting first-class counterparties and issuers.

Limits governing the structure of the securities portfolio and outstanding treasury instruments have been laid down by Management, in particular on the basis of the ratings awarded to counterparties by the rating agencies (these limits are reviewed regularly by the Risk Management Directorate).

The table below provides a percentage breakdown of the credit risk associated with the securities portfolio and treasury instruments in terms of the credit rating of counterparties and issuers (as at 31 December):

Moody's or equivalent rating	Securities portfolio %		Treasury instruments %	
Long-term rating:	**2008**	2007	**2008**	2007
- Aaa	**52**	55	**1**	4
- Aa1 to Aa3	**41**	41	**39**	61
- A1 to A3	**7**	4	**57**	32
Below A3	**0**	0	**2**	0
Short-term rating:				
- A-1+P-1	**0**	0	**1**	3
Total	**100**	**100**	**100**	**100**

As part of its treasury management activities, the Bank holds investments in capital guarantee notes, the coupons of which embed options on the performance of funds of hedge funds. At 31 December 2008, the total nominal amount of such notes stood at EUR 150 million and are part of the Securities portfolio.

Collateral on Treasury transactions (EUR million)

Part of the Treasury transactions are tripartite reverse repos, for an amount of EUR 7 250 million (2007: EUR 4 593 million). These transactions are governed by a Tripartite Agreement, the exposure is fully collateralised, with daily margin calls. The market value of the collateral portfolio at 31 December 2008 amounts to EUR 7 243 million (2007: EUR 4 611 million), with the following classification:

Tripartite Agreements Collateral (in EUR million)							
At 31 December 2008	Bonds						Total 2008
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	358	309	12	477	1 142	85	2 383
Aa1 to Aa3	844	0	10	4	1 955	0	2 813
A1	84	0	10	0	524	0	618
Below A1	513	0	0	0	916	0	1 429
Total 2008	**1 799**	**309**	**32**	**481**	**4 537**	**85**	**7 243**

Tripartite Agreement Collateral (in EUR million)							
At 31 December 2007	Bonds						Total 2007
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	667	206	5	212	269	444	1 803
Aa1 to Aa3	653	0	62	34	1 036	0	1 785
A1	345	0	14	0	144	26	529
Below A1	370	0	0	0	124	0	494
Total 2007	**2 035**	**206**	**81**	**246**	**1 573**	**470**	**4 611**

U.1.3. Securities lending

The market value of the bonds lent in the securities lending activities amounts to EUR 309 million at 31 December 2008 (2007: EUR 888 million). These transactions are governed by an agreement signed with Northern Trust Global Investment, the exposure is fully collateralised, with daily margin calls. The market value of the collateral portfolio at 31 December 2008 amounts to EUR 322 million (2007: 912 million), with the following classification:

Securities Lending Collateral (in EUR million)							
At 31 December 2008	Bonds						Total 2008
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Certificate of Deposits	Time Deposit	
Aaa	96	0	0	0	0	0	96
Aa1 to Aa3	161	0	0	0	0	25	186
A1	0	0	0	0	0	17	17
Below A1	0	0	0	0	0	23	23
Total 2008	**257**	**0**	**0**	**0**	**0**	**65**	**322**

Securities Lending Collateral (in EUR million)							
At 31 December 2007	Bonds						Total 2007
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Certificate of Deposits	Time Deposit	
Aaa	755	0	0	0	14	0	769
Aa1 to Aa3	0	0	0	0	7	99	106
A1	0	0	0	0	0	23	23
Below A1	0	0	0	0	14	0	14
Total 2007	**755**	**0**	**0**	**0**	**35**	**122**	**912**

U.2. Interest rate risk

The Bank has established an organisational structure for the asset-liability function, applying best practices in the financial industry, and, in particular, an Asset-Liability Management Committee (ALCO) under the direct responsibility of the Bank's Management Committee. Accordingly, it has decided on an asset-liability management strategy which involves maintaining an own funds duration of around 5 years, thereby safeguarding the Bank against substantial fluctuations in its long-term revenues.

As a result of the above objective of an own funds duration equal to around 5 years, an increase in interest rates of 0.01% on all currencies would result in a decrease of EUR 21.8 million (2007: EUR 15.5 million) in the net present value of the Bank's own funds.

The following table illustrates the Bank's exposure to interest rate risk. The table shows interest rate sensitive assets and liabilities classified as a function of their re-pricing in each of the indicated intervals and not on the accounting carrying amount :

Reindexation interval (in EUR million)

At 31 December 2008	not more than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total 2008
Assets:						
Loans	174 430	14 568	4 958	42 966	54 497	291 419
Net liquidity	9 598	- 4 525	- 84	1 848	601	7 438
	184 028	10 043	4 874	44 814	55 098	298 857
Liabilities:						
Borrowings after swaps	- 178 920	- 13 503	- 4 594	- 25 167	- 38 621	- 260 805
Interest rate risk	**5 108**	**- 3 460**	**280**	**19 647**	**16 477**	

At 31 December 2007	not more than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total 2007
Assets:						
Loans	166 227	10 769	3 656	41 030	49 465	271 147
Net liquidity	10 820	111	416	2 321	915	14 583
	177 047	10 880	4 072	43 351	50 380	285 730
Liabilities:						
Borrowings after swaps	181 325	6 985	1 716	25 881	35 460	251 367
Interest rate risk	**- 4 278**	**3 895**	**2 356**	**17 470**	**14 920**	

U.3. Liquidity risk

The table hereafter analyses assets and liabilities by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date.

Assets and liabilities for which there is no contractual maturity date are classified under 'Maturity undefined'.

Liquidity Risk (in EUR million)

Maturity (at 31 December 2008)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2008
ASSETS						
Cash in hand, central banks and post office banks	0	0	0	0	0	0
Treasury bills eligible for refinancing with central banks	74	171	1 021	643	0	1 909
Other loans and advances:						
- Current accounts	245	0	0	0	0	245
- Others	21 361	0	0	0	0	21 361
	21 606	0	0	0	0	21 606
Loans:						
- Credit institutions	2 429	7 840	40 812	60 910	0	111 991
- Customers	1 962	7 767	46 375	117 536	0	173 640
	4 391	15 607	87 187	178 446	0	285 631
Debt securities including fixed-income securities	2 998	666	2 945	4 124	0	10 733
Other assets	0	0	0	0	5 882	5 882
Total assets	**29 069**	**16 444**	**91 153**	**183 213**	**5 882**	**325 761**
LIABILITIES						
Amounts owed to credit institutions	5 957	1	0	0	0	5 958
Debts evidenced by certificates	18 090	23 409	113 219	112 271	0	266 989
Foreign exchange neutralization on currency swap contracts	1 496	1 255	4 463	1 841	0	9 055
Capital, reserves and profit	0	0	0	0	36 192	36 192
Other liabilities	0	0	0	0	7 567	7 567
Total liabilities	**25 543**	**24 665**	**117 682**	**114 112**	**43 759**	**325 761**

Maturity (at 31 December 2007)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2007
ASSETS						
Cash in hand, central banks and post office banks	27	0	0	0	0	27
Treasury bills eligible for refinancing with central banks	47	159	995	926	0	2 127
Other loans and advances:						
- Current accounts	264	0	0	0	0	264
- Others	15 452	24	0	0	0	15 476
	15 716	24	0	0	0	15 740
Loans:						
- Credit institutions	1 686	6 246	41 948	61 335	0	111 215
- Customers	1 949	7 358	43 376	102 498	0	155 181
	3 635	13 604	85 324	163 833	0	266 396
Debt securities including fixed-income securities	2 404	1 095	3 510	3 512	0	10 521
Other assets	0	0	0	0	7 043	7 043
Total assets	**21 829**	**14 882**	**89 829**	**168 271**	**7 043**	**301 854**
LIABILITIES						
Amounts owed to credit institutions	339	2	1	0	0	342
Debts evidenced by certificates	13 796	30 034	87 234	123 157	0	254 221
Foreign exchange neutralization on currency swap contracts	16	1 091	2 010	2 341	0	5 458
Capital, reserves and profit	0	0	0	0	34 541	34 541
Other liabilities	0	0	0	0	7 292	7 292
Total liabilities	**14 151**	**31 127**	**89 245**	**125 498**	**41 833**	**301 854**

Some of the borrowings and associated swaps include early termination triggers or call options granted to the investors or the hedging swap counterparties. Certain liabilities could therefore be redeemed at an earlier stage than their maturity date.

If all calls were to be exercised at their next contractual exercise date, cumulated early redemptions for the period 2009 - 2011 would amount to EUR 13.2 billion.

U.4. Foreign exchange rate risk

The sources of foreign exchange rate risk are to be found in the margins on operations and in general expenses incurred in non-euro currencies. The Bank's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets.

An FX hedging program exists in order to protect the known loan margins in USD and in GBP for the next 3 years.

Foreign exchange position (in EUR million)

Currency at 31 December 2008	Euro	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euro	Total 2008
ASSETS						
Cash in hand, central banks and post office banks	0	0	0	0	0	0
Treasury bills eligible for refinancing with central banks	1 909	0	0	0	0	1 909
Other loans and advances:						
- Current accounts	193	16	12	24	52	245
- Others	14 508	2 369	2 067	2 417	6 853	21 361
	14 701	2 385	2 079	2 441	6 905	21 606
Loans:						
- Credit institutions	67 016	14 925	26 331	3 719	44 975	111 991
- Customers	140 731	14 304	9 292	9 313	32 909	173 640
	207 747	29 229	35 623	13 032	77 884	285 631
Debt securities including fixed-income securities	7 691	1 541	1 199	302	3 042	10 733
Other assets	4 670	639	56	517	1 212	5 882
Total assets	**236 718**	**33 794**	**38 957**	**16 292**	**89 043**	**325 761**
LIABILITIES						
Amounts owed to credit institutions	5 623	0	316	19	335	5 958
Debts evidenced by certificates:						
- Debt securities in issue	107 552	47 338	77 423	34 007	158 768	266 320
- Others	207	367	0	95	462	669
	107 759	47 705	77 423	34 102	159 230	266 989
Foreign exchange neutralization on currency swap contracts	81 629	- 14 697	- 39 354	- 18 523	- 72 574	9 055
Capital, reserves and profit	36 192	0	0	0	0	36 192
Other liabilities	5 523	785	578	681	2 044	7 567
Total liabilities	**236 726**	**33 793**	**38 963**	**16 279**	**89 035**	**325 761**
Net position	**- 8**	**1**	**-6**	**13**		

Currency at 31 December 2007	Euro	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euro	Total 2007
ASSETS						
Cash in hand, central banks and post office banks	1	26	0	0	26	27
Treasury bills eligible for refinancing with central banks	2 127	0	0	0	0	2 127
Other loans and advances:						
- Current accounts	218	8	20	18	46	264
- Others	9 110	1 640	3 987	739	6 366	15 476
	9 328	1 648	4 007	757	6 412	15 740
Loans:						
- Credit institutions	62 636	20 112	25 567	2 900	48 579	111 215
- Customers	119 940	17 504	9 690	8 047	35 241	155 181
	182 576	37 616	35 257	10 947	83 820	266 396
Debt securities including fixed-income securities	7 295	1 858	1 143	225	3 226	10 521
Other assets	5 131	871	353	688	1 912	7 043
Total assets	**206 458**	**42 019**	**40 760**	**12 617**	**95 396**	**301 854**
LIABILITIES						
Amounts owed to credit institutions	291	0	51	0	51	342
Debts evidenced by certificates:						
- Debt securities in issue	106 341	58 774	58 411	29 802	146 987	253 328
- Others	207	613	0	73	686	893
	106 548	59 387	58 411	29 875	147 673	254 221
Foreign exchange neutralization on currency swap contracts	60 027	-18 352	-18 069	-18 148	-54 569	5 458
Capital, reserves and profit	34 541	0	0	0	0	34 541
Other liabilities	5 062	986	363	881	2 230	7 292
Total liabilities	**206 469**	**42 021**	**40 756**	**12 608**	**95 385**	**301 854**
Net position	**- 11**	**- 2**	**4**	**9**		

Note V – Derivatives

Derivatives are contractual financial instruments, the value of which fluctuates according to trends in the underlying assets, interest rates, exchange rates or indices.

V.1. As part of funding and hedging activity

The Bank uses derivatives mainly as part of its funding strategy in order to bring the characteristics of the funds raised, in terms of currencies and interest rates, into line with those of loans granted and also to reduce funding costs. It uses also long-term swaps to hedge certain treasury transactions and for ALM purposes.

Long-term derivatives transactions are not used for trading, but only in connexion with fund-raising and for the reduction of market risk exposure.

All interest rate and currency swaps linked to the borrowing portfolio have maturities matching the corresponding borrowings and are therefore of a long-term nature.

The derivatives most commonly used are:

- Currency swaps;
- Interest rate swaps;
- Asset swaps.

V.1.1. Currency swaps

Currency swaps are contracts under which it is agreed to convert funds raised through borrowings into another currency and, simultaneously, a forward exchange contract is concluded to re-exchange the two currencies in the future in order to be able to repay the funds raised on the due dates.

V.1.2. Interest rate swaps

Interest rate swaps are contracts under which, generally, it is agreed to exchange floating-rate interest for fixed-rate interest or vice versa.

V.1.3. Asset swaps

Asset swaps are arranged for investments in bonds, included in the B1 portfolio, that do not have the desired cash-flow features. Specifically, swaps are used to convert investments into floating-rate instruments with 3-month coupon payment and reset frequency. Thus, the Bank eliminates interest-rate and/or exchange risk, while retaining, as intended, the credit risk.

Interest rate or currency swaps allow the Bank to modify the interest rate and currency structure of its borrowing portfolio in order to accommodate requests from its clients and also to reduce funding costs by exchanging its advantageous access conditions to certain capital markets with its counterparties.

- Derivatives credit risk mitigation policy:

The credit risk with respect to derivatives lies in the loss, which the Bank would incur where a counterparty would be unable to honour its contractual obligations.

In view of the special nature and complexity of the derivatives transactions, a series of procedures has been put in place to safeguard the Bank against losses arising out of the use of such instruments.

- Contractual framework:

All the EIB's long-term derivatives transactions are concluded in the contractual framework of Master Swap Agreements and, where non-standard structures are covered, of Credit Support Annexes, which specify the conditions of exposure collateralisation. These are generally accepted and practised contract types.

- Counterparty selection:

The minimum rating at the outset is set at A1, but exceptionally certain counterparties rated A2/A3 have also been authorised, all their exposures being fully collateralised. The EIB has the right of early termination if the rating drops below a certain level.

- Limits:

Limits have been set in terms of:

- Total net present value of derivatives exposure with a counterparty;
- Unsecured exposure to a counterparty;
- Specific concentration limits expressed as nominal amount.

All limits are dynamically adapted to the credit quality of the counterparty.

- Monitoring:

The derivatives portfolio is regularly valued and compared against limits.

- Collateralisation:
  - Derivatives exposure exceeding the limit for unsecured exposure is collateralised by cash and first-class bonds.
  - Very complex and illiquid transactions require collateralisation over and above the current market value.

- Both the derivatives portfolio with individual counterparties and the collateral received are regularly valued, with a subsequent call for additional collateral or release.

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 Bank's case, where only mutually agreed derivatives are negotiated, the credit risk is evaluated on the basis of the 'current exposure' method recommended by the Bank for International Settlements (BIS). Hence, the credit risk is expressed in terms of the positive 'fair value' or replacement value of the contracts, increased by the potential risks, contingent on the duration and type of transaction, weighted by a coefficient linked to the category of counterparty (BIS I weighted risk).

The following tables show the maturities of currency swaps (excluding short-term currency swaps – see Note V.2) and interest rate swaps, sub-divided according to their notional amount and the associated credit risk. The notional amounts are disclosed off balance sheet.

Currency swaps at 31.12.2008 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2008
Notional amount	7 460	47 737	20 976	14 281	90 454
Net discounted value	- 1 543	- 3 727	- 1 777	1 440	- 5 607
Credit risk (BIS I weighted)	19	739	439	603	1 800

Currency swaps at 31.12.2007 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2007
Notional amount	8 326	30 182	19 480	12 965	70 953
Net discounted value	- 1 012	- 1 766	- 2 021	- 315	- 5 114
Credit risk (BIS I weighted)	53	423	311	277	1 064

Interest rate swaps at 31.12.2008 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2008
Notional amount	29 874	114 048	64 746	67 514	276 182
Net discounted value (*)	384	3 749	3 246	3 608	10 987
Credit risk (BIS I weighted)	90	1 092	1 168	1 660	4 010

Interest rate swaps at 31.12.2007 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2007
Notional amount	27 759	83 255	70 634	67 863	249 511
Net discounted value (*)	198	689	- 411	724	1 200
Credit risk (BIS I weighted)	76	361	571	903	1 911

(*) The net discounted value of Credit Default Swaps (CDS) has been included with the rest of derivatives (according to IAS39, CDS are treated as derivatives). However, these transactions have not been included in the BIS computations, since in the Basel Agreement BIS I, they are assimilated to guarantees and their capital charge is computed in the loan portfolio.

The Bank does not generally enter into any options contracts in conjunction with its risk hedging policy. However, as part of its strategy of raising funds on the financial markets at a lesser cost, the Bank enters into borrowing contracts encompassing notably interest rate or stock exchange index options. Such borrowings are entirely covered by swap contracts to hedge the corresponding market risk.

Tabulated below are the number and notional amounts of the various types of options embedded in borrowings:

	Option embedded		Stock exchange index		Special structure coupon or similar	
	2008	2007	2008	2007	2008	2007
Number of transactions	405	429	6	3	359	322
Notional amount (in EUR million)	15 678	18 433	843	600	22 241	20 817
Net discounted value (in EUR million)	238	- 969	- 59	- 23	- 485	- 187

The 'fair value' of 'plain vanilla' swap transactions is their market value. For structured deals, the 'fair value' is computed using the income approach, using valuation techniques to convert future amounts to a single present amount (discounted). The estimate of fair value is based on the value indicated by marketplace expectations about those future amounts. Internal estimates and assumptions might be used in the valuation techniques when the market inputs are not directly available.

All option contracts embedded in, or linked with, borrowings are negotiated over the counter. The structured deals include a variety of transactions dependent on interest rates, FX rates, inflation rates, stock indexes and IR volatilities.

Generally, there is a reduced credit risk on these swaps, because security exists in the form of regularly monitored collateral.

Collateral (EUR million)

The collateral received for derivatives business amounts to EUR 9 071 million, with the following composition:

Swap Collateral (in EUR million)						
Moody's or equivalent rating	Bonds				Cash	Total 2008
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	2 160	0	0	0	0	2 160
Aa1 to Aa3	1 148	0	0	0	0	1 148
A1	0	0	0	0	0	0
Below A1	116	0	0	0	0	116
Non-Rated	0	0	0	0	5 647	5 647
Total 2008	**3 424**	**0**	**0**	**0**	**5 647**	**9 071**

Swap Collateral (in EUR million)						
Moody's or equivalent rating	Bonds				Cash	Total 2007
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	865	0	0	0	0	865
Aa1 to Aa3	4	0	0	0	0	4
A1	224	0	0	0	0	224
Below A1	124	0	0	0	0	124
Non-Rated	0	0	0	0	333	333
Total 2007	**1 217**	**0**	**0**	**0**	**333**	**1 550**

Ratings exposure table: The major part of new derivatives transactions are concluded with counterparties rated at least A1. With exceptional conditions of over-collateralisation, counterparties rated A2 or A3 have been also accepted. Most of the portfolio is concentrated on counterparties rated A1 or above; however, during 2008, there has been a general deterioration of the ratings of our swap counterparties.

Grouped Ratings	Percentage of Nominal		Net Market Exposure (in EUR million)		CRE BIS2 Swaps (in EUR million)	
Moody's or equivalent rating	2008	2007	2008	2007	2008	2007
Aaa	2.9%	3.3%	0	0	84	64
Aa1 to Aa3	64.5%	86.1%	406	649	7 403	4 366
A1	23.1%	8.7%	147	19	3 258	504
A2 to A3	9.5%	1.9%	37	2	2 720	165
Non-rated	0.0%	0.0%	1	0	1	2
Total	**100.0%**	**100.0%**	**591**	**670**	**13 466**	**5 101**

The Net Market Exposure is the net present value of a swap portfolio net of collateral, if positive (zero if negative). It represents a measure of the losses the Bank could incur in case of default of the counterparty, after application of netting and using the collateral.

The BIS Credit Risk Equivalent is the sum of the Net Present Value of the swap plus an Add-On equal to the Notional Amount multiplied by a coefficient dependent on the structure of the swap and its maturity (according to the Basel Agreement), meant to cover potential future increases in exposures due to changing market conditions over the residual life of the swap.

V.1.4. Credit swaps

The Bank also entered into one credit default swap contract for a nominal amount of EUR 172 million as at 31 December 2008 (2007: EUR 98 million) with a fair value of EUR 9.8 million (2007: EUR 4.9 million).

V.2. As part of liquidity management

The Bank also enters into short-term currency swap contracts in order to adjust currency positions in its operational treasury in relation to its benchmark currency, the euro, and to cater for demand for currencies in conjunction with loan disbursements.

The notional amount of short-term currency swaps and short term forwards stood at EUR 16 296 million at 31 December 2008, against EUR 4 841 million at 31 December 2007.

The notional amount of Overnight indexed swaps stood at EUR nil million at 31 December 2008 (EUR 6 000 million at 31 December 2007).

Long-term futures are also used by the Bank to adjust the medium-term (2y) interest rate exposure of its treasury bond portfolios. The notional amount of long-term futures stood at EUR 394 million at 31 December 2008 (2007: EUR 419 million), with a fair value of EUR - 1.3 million (2007: EUR 2.9 million).

Nominal amounts of EUR '000 5 472 million of Forward Rate Agreements with a fair value of EUR 0.7 million and a maturity less than 1 year are outstanding as at 31 December 2008.

Note W – Geographical breakdown of lending by country in which projects are allocated

(in EUR '000)

W.1. Loans for projects within the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
Spain	645	54 039 944	4 843 717	49 196 227	15.43%	14.85%
Germany	777	49 231 346	3 313 524	45 917 822	14.06%	14.42%
Italy	531	44 923 474	6 788 358	38 135 116	12.82%	12.48%
France	393	35 107 888	3 698 575	31 409 313	10.02%	10.53%
United Kingdom	210	22 542 271	3 660 546	18 881 725	6.44%	8.09%
Portugal	262	19 088 293	2 367 406	16 720 887	5.45%	5.30%
Greece	138	13 847 931	1 836 810	12 011 121	3.95%	4.05%
Poland	131	13 442 394	3 146 774	10 295 620	3.84%	3.70%
Czech Republic	94	7 927 189	2 506 937	5 420 252	2.26%	2.36%
Hungary	102	7 637 517	1 958 624	5 678 893	2.18%	1.94%
Austria	185	7 498 984	125 333	7 373 651	2.14%	2.06%
Belgium	73	6 491 711	1 432 731	5 058 980	1.85%	1.58%
Finland	103	5 993 616	737 344	5 256 272	1.71%	1.73%
Netherlands	52	5 182 616	1 766 346	3 416 270	1.48%	1.32%
Romania	60	5 094 547	2 848 819	2 245 728	1.45%	1.27%
Sweden	72	4 112 236	417 317	3 694 919	1.17%	1.09%
Ireland	54	3 697 833	767 215	2 930 618	1.06%	1.05%
Denmark	53	2 464 337	273 853	2 190 484	0.70%	0.96%
Slovenia	41	2 276 781	557 500	1 719 281	0.65%	0.68%
Bulgaria	37	2 268 152	1 591 910	676 242	0.65%	0.57%
Cyprus	25	1 256 689	340 800	915 889	0.36%	0.40%
Latvia	24	1 079 154	475 000	604 154	0.31%	0.15%
Slovak Republic	33	1 039 602	132 605	906 997	0.30%	0.34%
Luxembourg	33	625 641	75 359	550 282	0.18%	0.23%
Estonia	10	224 395	30 000	194 395	0.06%	0.05%
Malta	4	204 710	185 000	19 710	0.06%	0.02%
Lithuania	13	170 145	32 500	137 645	0.05%	0.05%
Total	**4 155**	**317 469 396**	**45 910 903**	**271 558 493**	**90.63%**	**91.27%**

W.2. Loans for projects outside the Union

W.2.1. Candidate Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
Turkey	92	10 108 965	3 554 583	6 554 382		
Croatia	25	1 426 686	634 527	792 159		
FYROM	7	149 019	10 000	139 019		
Sub-total	**124**	**11 684 670**	**4 199 110**	**7 485 560**	**3.34%**	**2.77%**

W.2.2. ACP States

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
Madagascar	2	263 645	154 068	109 577		
Ghana	3	131 331	72 585	58 746		
Mauritius	13	113 515	70 886	42 629		
Namibia	11	111 912	35 000	76 912		
Regional – West Africa	3	86 189	0	86 189		
Dominican Republic	3	81 233	80 000	1 233		
Cape Verde	2	64 404	47 000	17 404		
Mozambique	6	62 080	0	62 080		
Congo (Democratic Republic)	1	55 000	55 000	0		
Senegal	3	53 880	35 000	18 880		
Nigeria	1	50 000	50 000	0		
Regional – Caribbean	3	49 161	9 000	40 161		
Swaziland	3	43 188	17 410	25 778		
Lesotho	4	40 724	14 300	26 424		
Barbados	5	38 991	9 750	29 241		
Kenya	2	36 991	0	36 991		
Jamaica	6	33 176	0	33 176		
Botswana	4	29 203	0	29 203		
Zambia	2	29 096	0	29 096		
Fiji Islands	1	24 500	24 500	0		
Regional – Africa	2	22 504	0	22 504		
Mauritania	2	19 880	0	19 880		
Regional ACP	3	19 295	0	19 295		
Burkina Faso	1	18 500	18 500	0		
Malawi	2	18 166	15 750	2 416		
Benin	1	13 000	13 000	0		
Bahamas	2	9 725	0	9 725		
Saint Vincent and The Grenadines	2	8 692	1 462	7 230		
Zimbabwe	4	7 249	0	7 249		
Saint Lucia	2	6 768	1 155	5 613		
Gabon	1	3 751	0	3 751		
Ivory Coast	1	1 302	0	1 302		
Papua New Guinea	1	1 129	0	1 129		
Grenada	1	839	0	839		
Belize	1	248	0	248		
Trinidad and Tobago	1	242	0	242		
Sub-total	**105**	**1 549 509**	**724 366**	**825 143**	**0.44%**	**0.47%**

W.2.3. Asia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% of total 2007
China	5	1 048 337	699 362	348 975		
India	2	163 749	150 000	13 749		
Sri Lanka	4	153 923	45 000	108 923		
Indonesia	4	124 911	14 750	110 161		
Philippines	4	109 784	43 698	66 086		
Vietnam	3	95 267	0	95 267		
Pakistan	4	77 947	0	77 947		
Maldives	1	47 722	0	47 722		
Laos People`s Democratic Republic	1	36 684	0	36 684		
Thailand	1	26 581	0	26 581		
Bangladesh	1	21 636	0	21 636		
Sub-total	**30**	**1 906 541**	**952 810**	**953 731**	**0.54%**	**0.54%**

W.2.4. Balkans

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
Serbia	42	1 485 873	762 878	722 995		
Bosnia-Herzegovina	28	963 627	635 169	328 458		
Albania	12	244 239	110 065	134 174		
Montenegro	8	84 977	48 977	36 000		
Sub-total	**90**	**2 778 716**	**1 557 089**	**1 221 627**	**0.79%**	**0.68%**

W.2.5. Central and Latin America

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
Brazil	14	726 804	200 000	526 804		
Mexico	4	126 579	50 000	76 579		
Peru	4	126 423	0	126 423		
Colombia	1	90 795	0	90 795		
Paraguay	1	72 554	36 626	35 928		
Argentina	4	68 013	0	68 013		
Panama	2	63 068	27 141	35 927		
Regional-Andean Countries	2	50 510	40 000	10 510		
Regional-Central America	3	43 661	28 366	15 295		
Equador	1	36 764	0	36 764		
Uruguay	3	28 634	6 354	22 280		
Honduras	1	20 000	20 000	0		
Costa Rica	1	15 602	0	15 602		
Sub-total	**41**	**1 469 407**	**408 487**	**1 060 920**	**0.42%**	**0.38%**

W.2.6. EFTA Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
Norway	9	860 816	25 252	835 564		
Iceland	10	392 266	0	392 266		
Switzerland	1	134 680	0	134 680		
Sub-total	**20**	**1 387 762**	**25 252**	**1 362 510**	**0.40%**	**0.49%**

W.2.7. Mediterranean Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
Egypt	40	2 573 986	479 975	2 094 011		
Morocco	51	2 505 698	1 021 000	1 484 698		
Tunisia	56	2 488 632	1 073 575	1 415 057		
Syrian Arab Republic	12	1 255 969	803 970	451 999		
Lebanon	27	852 066	445 365	406 701		
Israel	7	446 762	341 567	105 195		
Jordan	23	328 435	81 300	247 135		
Gaza-West Bank	7	76 243	45 000	31 243		
Algeria	3	30 912	0	30 912		
Sub-total	**226**	**10 558 703**	**4 291 752**	**6 266 951**	**3.01%**	**3.00%**

W.2.8. OCT

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
French Polynesia	1	1 621	0	1 621		
British Virgin Islands	3	1 477	0	1 477		
New Caledonia	1	1 033	0	1 033		
Cayman Islands	1	191	0	191		
Falkland Islands	1	75	0	75		
Netherlands Antilles	1	44	0	44		
Sub-total	**8**	**4 441**	**0**	**4 441**	**0.00%**	**0.01%**

W.2.9. Eastern Europe, Southern Caucasus, Russia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
Ukraine	2	350 000	350 000	0		
Russian Federation	3	79 597	0	79 597		
Moldova	2	49 873	49 190	683		
Sub-total	**7**	**479 470**	**399 190**	**80 280**	**0.14%**	**0.10%**

W.2.10. South Africa

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2008	% fin. year 2007
South Africa	33	1 000 030	400 568	599 462		
Sub-total	**33**	**1 000 030**	**400 568**	**599 462**	**0.29%**	**0.29%**
Total	**684**	**32 819 249**	**12 958 624**	**19 860 625**	**9.37%** [(1)]	**8.73%**
TOTAL	4,839	350 288 645	58 869 527	291 419 118 [(2)]	100.00 %	100.00 %

(1) 8.18% excluding Pre-Accession Facility

(2) including asset backed securities [Note B and D.1]

Note X – Conversion rates

The following conversion rates were used for establishing the balance sheets at 31 December 2008 and 31 December 2007:

	31.12.2008	31.12.2007
NON-EURO CURRENCIES OF EU MEMBER STATES		
Pound sterling	0.9525	0.73335
Swedish kronor	10.870	9.4415
Czech koruna	26.875	26.628
Polish zloty	4.1535	3.5935
Hungarian forint	266.70	253.73
Slovak koruna	30.126	33.583
Danish kroner	7.4506	7.4583
Bulgarian leva	1.956	1.9558
NON-COMMUNITY CURRENCIES		
United States dollars	1.3917	1.4721
Japanese yen	126.14	164.93
Swiss francs	1.4850	1.6547
South African rand	13.0667	10.0298
Norvegian krone	9.7500	7.9580
Mexican pesos	19.2333	15.890
Canadian dollars	1.6998	1.4449
Australian dollars	2.0274	1.6757
Russian rubles	41.283	35.986
Hong Kong dollars	10.7858	11.48
New Zealand dollars	2.419	1.9024

Note Y – Subscribed capital and receivable reserves, called but not paid

As a consequence of the increase in subscribed capital from EUR 150 000 000 000 to EUR 163 653 737 000 as at 1 May, 2004, the total amount to be paid to capital and reserves by the ten new member States that joined on 1 May 2004 and Spain of EUR 2 408 million (composed of an amount of EUR 683 million for the capital and an amount of EUR 1 725 million for the reserves) is equally spread over 8 instalments: 30 September 2004, 30 September 2005, 30 September 2006, 31 March 2007, 30 September 2007, 31 March 2008, 30 September 2008 and 31 March 2009. The instalments up to and including 30 September 2008 have been entirely settled.

As at 1 January 2007, the subscribed capital has increased from EUR 163 653 737 000 to EUR 164 808 169 000, by virtue of the contributions of two new Member States that joined on 1 January 2007: Bulgaria and Romania. As a consequence of this capital increase, the two new Member States had to contribute to their share of Paid-in capital (EUR 57,7 million), and also their share of the Reserves and General Provisions (EUR 172,9 million) for the amounts outstanding as of 31 December 2006. The total amount to be paid has been equally spread over 8 instalments: 31 May 2007, 31 May 2008, 31 May 2009, 30 November 2009, 31 May 2010, 30 November 2010, 31 May 2011 and 30 November 2011. The instalments up to and including 31 May 2008 have been entirely settled.

The related net receivable from the Member States is shown in the balance sheet as follows under the caption Subscribed capital and receivable reserves, called but not paid:

(In EUR´ 000):	31.12.2008	31.12.2007
Receivable reserves called but not paid:	345 359	798 295
Subscribed capital called but not paid:	128 627	306 514
	473 986	**1 104 809**

Note Z – Related party – European Investment Fund

Related party transactions with the European Investment Fund are mainly related to the management by the Bank of the EIF treasury, the IT, the pension fund and other services on behalf of the EIF. In addition, the European Investment Fund manages the venture capital activity of the Bank. The amounts included in the Financial Statements and relating to the European Investment Fund are disclosed as follows:

(in EUR´ 000)	31.12.2008	31.12.2007
ASSETS		
Sundry debtors	1 210	1 567
Total assets	**1 210**	**1 567**
LIABILITIES		
Sundry Creditors	18 190	14 090
Total liabilities	**18 190**	**14 090**
PROFIT AND LOSS ACCOUNT		
Commission expenses	- 8 349	- 8 540
Other operating income	1 686	1 446
General administrative expenses	3 643	3 821
Total profit and loss account	**- 3 020**	**- 3 273**
OFF BALANCE SHEET		
EIF capital - uncalled	1 457 600	1 457 600
EIF treasury management	851 595	799 946
Nominal value of put option granted to EIF minority shareholders	363 433	319 045
Total off balance sheet	**2 672 628**	**2 576 591**

Independent Auditor's Report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the European Investment Bank, which show a profit of EUR 1,650.877 million and a total balance sheet of EUR 325,760.974 million and which comprise the balance sheet as at December 31, 2008, the profit and loss account, the statement of Special Section, the own funds and appropriation profit, the statement of subscriptions to the capital of the Bank, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Management Committee's responsibility for the financial statements

The Management Committee is responsible for the preparation and fair presentation of these financial statements in accordance with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the European Investment Bank as of December 31, 2008, of its financial performance, of its own funds and appropriation profit, of its statement of Special Section, of its subscriptions to the capital of the Bank and of its cash flows for the year then ended in accordance with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

March 12, 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

The Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee on the Bank unconsolidated financial statements

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the European Investment Bank for the year ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, met regularly the Head of Internal Audit and discussed the relevant internal audit reports, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial year ending on 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the Bank are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Bank have been conducted and its books kept in a proper manner and that to this end, it has verified that the Bank's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the statement of special section, the profit and loss account, the statement of own funds and appropriation of profit, the statement of subscriptions to the capital of the Bank, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations and cash flows for the year then ended.

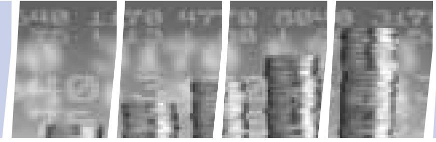
Luxembourg, 12 March 2009

The Audit Committee

C. KARMIOS

O. KLAPPER

G. SMYTH



Investment Facility

Financial Statements

Income statement

For the year 2008 (in EUR '000)

	Note	Year to 31.12.2008	Year to 31.12.2007
Interest and similar income	5	61 097	46 580
Interest and similar expense	5	- 68	- 1 218
Net interest and similar income		**61 029**	**45 362**
Fees and commission income	6	2 632	1 396
Net fees and commission income		**2 632**	**1 396**
Net result on financial operations	7	- 19 425	- 8 005
Impairment charge for credit loss	11	- 52 675	- 2 770
Member States special contribution to general administrative expenses	13	17 871	32 756
General administrative expenses	8	- 35 741	- 32 756
Profit/Loss for the year		**- 26 309**	**35 983**

Balance sheet

At 31 December 2008 (in EUR '000)

	Note	2008	2007
ASSETS			
Cash and cash equivalents	9	293 416	184 772
Derivative financial instruments	10	8 495	25 279
Loans and receivables	11	647 449	572 927
Of which accrued interest and receivable income		11 437	11 176
Financial investments - available-for-sale	12		
Equity investment - available-for-sale		129 146	109 363
Amounts receivable from contributors	13	65 891	181 183
Other assets	14	525	3 894
Total Assets		**1 144 922**	**1 077 418**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative financial instruments	10	15 746	841
Deferred income	15	20 186	18 030
Amount owed to third parties	16	193 733	131 152
Other liabilities	17	4 277	916
Total Liabilities		**233 942**	**150 939**
EQUITY			
Facility Member States Contribution called	18	845 000	830 000
Retained earnings		50 858	77 167
Fair value reserve		15 122	19 312
Total Equity		**910 980**	**926 479**
Total Liabilities and Equity		**1 144 922**	**1 077 418**

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

Statement of changes in equity

As at 31 December 2008 (in EUR '000)

	Issued capital	Retained earnings	Other reserves	Total equity
At 1 January 2008	830 000	77 167	19 312	926 479
Net changes in equity investments - available-for-sale	-	-	- 4 190	- 4 190
Facility Member States contribution called during the year	15 000	-	-	15 000
Loss for the year	-	- 26 309	-	- 26 309
Changes in contributors' resources	15 000	- 26 309	- 4 190	- 15 499
At 31 December 2008	**845 000**	**50 858**	**15 122**	**910 980**
At 1 January 2007	515 000	41 184	9 997	566 181
Net changes in equity investments - available-for-sale	-	-	9 315	9 315
Facility Member States contribution called during the year	315 000	-	-	315 000
Profit for the year	-	35 983	-	35 983
Changes in contributors' resources	315 000	35 983	9 315	360 298
At 31 December 2007	**830 000**	**77 167**	**19 312**	**926 479**

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

Cash flow statement

As at 31 December 2008 (in EUR '000)

	2008	2007
OPERATING ACTIVITIES		
Profit / Loss for the financial year	- 26 309	35 983
Adjustments		
Impairment on equity investment available-for-sale	1 725	366
Impairment on loans	52 675	2 770
Interest capitalised	- 12 022	- 6 747
Increase in deferred income	162	4 150
Profit on operating activities before changes in operating assets and liabilities	16 231	36 522
Net loan disbursement	- 176 614	- 286 028
Repayments	73 748	34 214
Fair value movement on derivatives	31 689	- 15 965
Increase in equity investments available-for-sale	- 41 641	- 43 143
Proceeds from equity investments available-for-sale	15 005	8 248
Increase / Decrease in other assets	3 369	- 2 456
Increase / Decrease in other liabilities	3 361	- 518
Net cash flows from operating activities	- 74 852	- 269 126
FINANCING ACTIVITIES		
Paid in by Facility Member States	15 000	315 000
Increase / Decrease in amount receivable from contributors	115 292	- 77 271
Net increase / decrease in amount payable from interest subsidies	59 596	- 3 273
Increase / Decrease in amount payable to third parties	2 985	- 538
Net cash flows from/(used in) financing activities	192 873	233 918
Net increase in cash and cash equivalents	**118 021**	**- 35 208**
Cash and cash equivalents at beginning of financial year	184 772	190 780
Effect of exchange rate changes on cash and cash equivalents	- 9 377	29 200
Cash and cash equivalents at end of financial year	**293 416**	**184 772**

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

Investment Facility

Notes to the financial statements

1. General information

The Investment Facility (the "Facility") 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 and revised on 25 June 2005.

Financing under the Agreement is provided from EU Member States' budgets and is disbursed according to financial protocols defined for successive five- to six-year periods. Within the framework of the Agreement and following the entry into force of a second financial protocol on 1st July 2008 (covering the period 2008-2013), referred to as the 10th European Development Fund (EDF), the European Investment Bank (the "EIB" or "the Bank") is entrusted with the management of:

- the ACP Investment Facility (IF), a EUR 3 137 m risk-bearing revolving fund geared to fostering private sector investment in ACP countries;

- grants for the financing of interest rate subsidies worth EUR 400 m, of which up to EUR 40 m can be used to fund project-related technical assistance. In view of the phasing out of the EU-ACP sugar protocol, up to EUR 100 m can be allocated to assist ACP sugar producers in adapting to changing world market conditions.

2. Significant accounting policies

2.1. Basis of preparation

In line with the Investment Facility Management Agreement the preparation of the financial statements of the Facility is guided by International Public Sector Accounting Standards or International Financial Reporting Standards, as appropriate. The Facility's financial statements have been prepared on the basis of the following significant accounting principles:

2.2. Significant accounting judgments and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires 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.

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Impairment losses on loans and receivables

The Investment Facility reviews its problem loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and receivables, the Investment Facility also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

In principle, a loan is considered as non performing when payment of interest and principal are past due by 90 days or more and, at the same time, management considers that payment will be completely unlikely.

Valuation of unquoted available-for-sale equity investments

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

- recent arms 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; or
- other valuation models.

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

Impairment of available-for-sale financial investments

The Investment 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.

2.3. Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial years.

2.4. Summary of significant accounting policies

The balance sheet 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 Investment Facility uses the Euro (EUR) for presenting its financial statements, which is also the functional and presentational currency.

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 in Euro are translated into Euro at the exchange rate prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the income statement.

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 unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are either recognized in the income statement or within the equity reserve.

The elements of the income statement are translated into Euro on the basis of the exchange rates prevailing at the end of each month.

2.4.2. Cash and cash equivalents

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

2.4.3. Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

Loans

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

Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables. They include equity instruments, investments in venture capital funds and other debt instruments.

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

a. Venture capital funds

The fair value of each venture capital fund will be based on the latest available Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standards. The Investment Facility may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standard is applied, the valuation will be conducted on the basis of the underlying portfolio.

b. Direct equity investments

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

Unrealized gains or losses on equity investments are reported in equity until such investments are sold, collected or disposed of, or until such investment are determined to be impaired. If an available-for-sale investment is determined to be impaired, the cumulative unrealized gain or loss previously recognized in equity is included in the income statement.

For unquoted investment, the fair value is determined by applying recognized valuation technique. These investments are accounted for at cost when the fair value cannot be reliably measured.

Guarantees

Financial guarantees are initially recognized at fair value in the balance sheet under item "Financial guarantees". Subsequent to initial recognition, the Investment Facility's liabilities under each guarantee are measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement under item "Impairment charge for credit loss". The premium received is recognized in the income statement under item "Net fee and commission income" using the effective interest rate method over the life of the guarantee.

2.4.4. Impairment of financial assets

The Investment Facility assesses at each balance sheet date whether there is any objective evidence that a financial asset is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization 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 amortized 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 according to internal models used by the Bank to approximate the likely loss or the loan recovery, which among other things evaluate the difference between the loans' carrying amounts and the fair value of estimated futures cash flows of theses loans. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account.

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

For held-to-maturity investments the Investment Facility assesses individually whether there is objective evidence for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amount formerly charged are credited to the "Net result on financial operations".

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 income statement over the life of the asset, and any adjustments required in respect of a reassessment of the initial impairment.

2.4.5. Derivative financial instruments

Derivatives include cross currency swaps, cross currency interest rate swaps, currency forwards and warrants.

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

However, the Investment Facility has not entered into any hedge accounting transactions as at 31 December 2008. Therefore, all derivatives are measured at fair value through the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes.

Warrants have been received by the Investment Facility as ancillary fees in the context of a lending operation.

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 included in "Net result on financial operations".

2.4.6. Contributions

Contributions from Member States are recognized as receivable in the balance sheet on the date of the Council Decision fixing the financial contribution to be paid by the Member States to the Investment Facility.

2.4.7. Interest income on loans

Interest on loans originated by the Investment Facility is recorded in the income statement ("Interest and similar income") and on the balance sheet ("Loan and receivables") on an accrual basis using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to the net carrying amount of the loan. Once the recorded value of a loan has been reduced due to impairment, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

2.4.8. Interest subsidies

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

The part of the Member States contributions allocated to the payment of interest subsidies is not accounted for in the Investment Facilityís equity but is classified as an amount owed to third parties.

2.4.9. Interest income on treasury

Under the terms of the Investment Facility and according to the Financial Regulation applicable to the 9th European Development Fund, the funds received by the EIB on behalf of the Investment Facility are recorded in an account in the Commission's name. Interest on these deposits, placed by the Investment Facility with the EIB, is not accounted for by the Investment Facility as it is payable directly to the European Commission.

Reflows, being repayment of principal, interest or commissions stemming from financial operations, and interest calculated on these reflows are accounted for within the Investment Facility.

2.4.10. Fees, commissions and dividends

Fees received in respect of services provided over a period of time are recognized as income as the services are provided. Commitment fees are deferred and recognized in income using the effective interest method over the period from disbursement to repayment of the related loan.

Dividends relating to available-for-sale equity investments are recognized when received.

2.4.11. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

2.4.12. Reclassification of prior years figures

Where necessary, certain prior years figures have been reclassified to conform to changes to the current year's presentation for comparative purpose.

3. Risk management

3.1. Credit risk

This section presents financial information about the investments made by the Facility.

3.1.1. Exposure disbursed by nature of borrower (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of borrower.

	2008	2007
Banks/ Financial Institut.	255 152	190 218
Proj. Fin. / Struct. Op.	309 276	320 670
Sovereign	74 458	58 852
Venture Capital Fund	102 976	65 583
Corporates	23 296	35 791
Total	**765 158**	**671 114**

3.1.2. Exposure disbursed by nature of instrument (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of investment instrument used.

	2008	2007
Senior Loans (exposure disbursed)	515 214	409 765
of which Global Loans	202 142	144 265
Subordinated Loans and Quasi Equity	120 798	151 986
Equity	129 146	109 363
Total	**765 158**	**671 114**

3.1.3. Risk concentrations of the exposure disbursed to credit risk (in EUR '000)

The table below analyses the Investment Facility exposure disbursed by sector.

	2008	2007
Global loans	202 142	144 265
Energy	150 920	107 096
Industry	152 737	233 916
Services	240 586	165 689
Transports	9 056	9 199
Water, sewerage	2 521	2 000
Agriculture, fisheries, forestry	7 196	8 949
Total	**765 158**	**671 114**

3.2. Liquidity risk and funding management

3.2.1. Analysis of financial liabilities by remaining contractual maturities (in EUR '000)

The table below sets out the Facility's assets and liabilities by relevant maturity groupings based on the remaining period to the contractual maturity date.

	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
ASSETS					
Cash and cash equivalents	293 416	-	-	-	293 416
Derivative financial instruments	- 356	251	6 223	2 377	8 495
Loans and receivables	6 325	5 117	55 601	580 406	647 449
Financial investments - available-for-sale					
Equity investment - available-for-sale	-	-	-	129 146	129 146
Amounts receivable from contributors	65 891	-	-	-	65 891
Other assets	-	-	-	525	525
Total assets	**365 276**	**5 368**	**61 824**	**712 454**	**1 144 922**
LIABILITIES					
Derivative financial instruments	1 518	84	1 089	13 055	15 746
Deferred income	-	-	-	20 186	20 186
Amount owed to third parties	193 733	-	-	-	193 733
Other liabilities	3 323	429	-	525	4 277
Total liabilities	**198 574**	**513**	**1 089**	**33 766**	**233 942**
Net liquidity position at 31 December 2008	**166 702**	**4 855**	**60 735**	**678 688**	**910 980**
Net liquidity position at 31 December 2007	**245 381**	**3 510**	**96 673**	**580 914**	**926 479**

3.3. Market risk

3.3.1. Interest rate risk (in EUR '000)

The table below summarizes the Investment Facility's exposure to interest rate risk through its investments.

	2008	2007
Fixed rate interest	294 647	291 468
Floating rate interest	341 365	270 283
Total	**636 012**	**561 751**

3.3.2. Currency risk (or Foreign exchange risk) (in EUR '000)

	EUR	USD	CAD	ACP/OCT Currencies	Total
ASSETS					
Cash and cash equivalents	267 381	26 035	-	-	293 416
Derivative financial instruments	8 495	-	-	-	8 495
Loans and receivables	275 248	313 279	-	58 922	647 449
Financial investments - available-for-sale					
Equity investment - available-for-sale	16 812	103 007	2 171	7 156	129 146
Amounts receivable from contributors	65 891	-	-	-	65 891
Other assets	-	-	-	525	525
Total assets	**633 827**	**442 321**	**2 171**	**66 603**	**1 144 922**
LIABILITIES					
Derivative financial instruments	15 746	-	-	-	15 746
Deferred income	20 186	-	-	-	20 186
Amount owed to third parties	193 733	-	-	-	193 733
Other liabilities	3 751	-	-	526	4 277
Total liabilities	**233 416**			**526**	**233 942**
Equity					
Facility Member States Contribution called	845 000	-	-	-	845 000
Retained earnings	50 858	-	-	-	50 858
Fair value reserve	- 8 562	23 854	-	- 170	15 122
Total equity	**887 296**	**23 854**		**- 170**	**910 980**
Currency position as at 31 December 2008	**- 486 885**	**418 467**	**2 171**	**66 247**	**-**
Currency position as at 31 December 2007	**- 371 311**	**333 168**	**- 3 460**	**41 603**	**-**
COMMITMENTS					
Undisbursed loans and equity investments	680 763	284 893	-	-	965 656
Guarantees drawn	-	-	-	11 800	11 800
CONTINGENT LIABILITIES					
Guarantees undrawn	105 000	-	-	-	105 000

4. Segment information

The primary segment of the Investment Facility is business operation and the secondary segment is geographical..

4.1. By business segment (in EUR '000)

The activity of the Investment Facility is divided into two main business segments on a worldwide basis:

- Banking operations – incorporating investments in projects which are made with the purpose of supporting investments of private and commercially run public sector entities. The main investment products are loans, available-for-sale equity investments and financial guarantees.
- Treasury activities – including investing surplus liquidity and managing the Investment Facility foreign exchange risk.

At 31 December 2008	Treasury	Banking	Total
Revenue from segments	14 979	48 767	63 746
Expenses and charges from segments	- 17 787	- 54 398	- 72 185
Unallocated expenses	-	-	- 17 870
Loss for the year			**- 26 309**
Segment assets	301 911	777 120	1 079 031
Unallocated assets	-	-	65 891
Total assets			**1 144 922**
Segment liabilities	54 235	21 715	75 950
Unallocated liabilities	-	-	157 992
Total liabilities			**233 942**
Other segment information			
Commitments		1 082 456	1 082 456

At 31 December 2007	Treasury	Banking	Total
Revenue from segments	5 365	43 638	49 003
Expenses and charges from segments	- 9 442	- 3 578	- 13 020
Profit for the year			**35 983**
Segment assets	213 436	682 798	896 234
Unallocated assets	-	-	181 184
Total assets			**1 077 418**
Segment liabilities	1 241	18 546	19 787
Unallocated liabilities	-	-	131 152
Total liabilities			**150 939**
Other segment information			
Contingent liabilities and commitments		881 312	881 312

4.2. By geographical segment (in EUR '000)

The Investment Facility's activities are divided into five regions for internal management purposes.

At 31 December 2008	Revenues (*)	Total assets	Total liabilities	Commitments
Caribbean and Pacific	3 694	116 572	-	146 588
Central and Eastern Africa	8 666	152 838	18 222	498 066
Regional Africa and ACP states	1 094	115 534	-	231 628
Southern Africa and Indian ocean	- 31 571	206 744	554	108 892
West Africa and Sahel	11 574	182 160	2 427	97 282
Others (**)		371 074	212 739	-
Total	**- 6 543**	**1 144 922**	**233 942**	**1 082 456**

At 31 December 2007	Revenues (*)	Total assets	Total liabilities	Commitments
Caribbean and Pacific	4 881	63 089	-	102 658
Central and Eastern Africa	4 560	114 401	15 837	414 592
Regional Africa and ACP States	4 253	77 923	-	163 377
Southern Africa and Indian Ocean	16 787	216 175	707	82 803
West Africa and Sahel	9 631	187 602	2 003	117 882
Others (**)	-	418 228	132 392	-
Total	**40 112**	**1 077 418**	**150 939**	**881 312**

(*) Revenues represent the net profit on the Investment Facility's operational activity (i.e. interest and similar income, interest subsidies, net fee and commission income, credit loss expense and impairment losses on financial investments).

(**) Under geographical segment "Others" are considered the amount payable to or receivable from the Member States or the European Investment Bank and the Investment Facility cash and cash equivalent.

5. Net interest income (in EUR '000)

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

	2008	2007
Cash and short term funds	12 452	5 755
Loans and receivables	43 966	40 192
Interest subsidies	1 242	633
Derivative financial instruments	3 437	-
Total interest and similar income	**61 097**	**46 580**

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

	2008	2007
Due to banks	-	- 441
Derivative financial instruments	-	- 738
Remuneration paid to EC	- 68	- 39
Total interest and similar expense	**- 68**	**- 1 218**

6. Net fee and commission income (in EUR '000)

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

	2008	2007
Loans and receivables	2 340	1 136
Financial guarantees	292	260
Total fee and commission income	**2 632**	**1 396**

7. Net result on financial operations (in EUR '000)

The main components of net result on financial operations are as follows:

	2008	2007
Fair value movement on derivatives	- 31 689	15 965
Foreign exchange	13 972	- 24 631
Dividend income from financial investments		
Equity investments – available-for-sale	17	24
- Quoted	-	-
- Unquoted	17	24
Gains less losses from financial investments		
Equity investments – available-for-sale	- 1 725	637
Net result on financial operations	**- 19 425**	**- 8 005**

8. General administrative expenses (in EUR '000)

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

	2008	2007
Actual cost incurred by the EIB	- 36 766	- 34 260
Income from appraisal fees charged to clients of the Facility	1 025	1 504
General administrative expenses	**- 35 741**	**- 32 756**

Under Council Decision of 8 April 2003, the Member states agreed to cover in full the expenses incurred by the EIB for the management of the Investment Facility for the first 5 years of the 9th European Development Fund.

Following the entry in force of the revised Cotonou Partnership Agreement on the 1st of July 2008, general administrative expenses are not covered anymore by the Member States. As a consequence, for the year 2008, the contribution from the Member States to the general administrative expenses covers only 50% of the total incurred during the year, representing KEUR 17.87.

9. Cash and cash equivalent (in EUR '000)

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

The cash and cash equivalents can be broken down between the funds received from the Member States and not yet disbursed and the funds from the Investment Facility's operational and financial activities.

	2008	2007
Member States contributions received and not yet disbursed	9 028	23 566
Funds from the Facility's financial and operational activities	284 388	161 206
Cash and cash equivalents	**293 416**	**184 772**

10. Derivative financial instruments (in EUR '000)

At 31 December 2008	Assets	Liabilities	Notional amount
Cross currency swaps	8 045	- 947	104 446
Cross currency interest rate swaps	450	- 13 305	109 739
FX forwards	-	- 1 494	211 000
Warrants	-	-	719
Total	**8 495**	**- 15 746**	

At 31 December 2007	Assets	Liabilities	Notional amount
Cross currency swaps	16 433	- 729	114 124
Cross currency interest rate swaps	8 176	- 112	137 261
Warrants	670	-	679
Total	**25 279**	**- 841**	

11. Loans and receivables (in EUR '000)

	Global loans	Senior loans	Subordinated loans	Total
At 1st January 2008	**144 265**	**265 500**	**151 986**	**561 751**
Impairment	- 2 996	- 17 507	- 29 826	- 50 329
Change in amortised cost	- 269	- 415	71	- 613
Disbursement	82 696	92 992	926	176 614
Repayments	- 25 282	- 31 322	- 17 144	- 73 748
Interest capitalised	-	676	11 346	12 022
Foreign exchange difference	3 728	3 148	3 439	10 315
At 31st December 2008	**202 142**	**313 072**	**120 798**	**636 012**
Accrued interest income and interest receivable				13 783
Impairment on accrued interest and receivable on loans				- 2 346
Loans and receivables at 31st December 2008				**647 449**
At 1st January 2007	**96 840**	**129 550**	**108 823**	**335 213**
Impairment	-	- 549	- 2 221	- 2 770
Change in amortised cost	- 22	-731	- 269	- 1 022
Disbursement	72 714	163 489	49 825	286 028
Repayments	- 13 310	- 15 405	- 5 499	- 34 214
Interest capitalised	-	-	6 747	6 747
Foreign exchange difference	- 11 957	- 10 854	- 5 420	- 28 231
At 31st December 2007	**144 265**	**265 500**	**151 986**	**561 751**
Accrued interest income and interest receivable				11 176
Loans and receivables at 31st December 2007				**572 927**

12. Financial investments

12.1. Equity investments – available-for-sale (in EUR '000)

The main components of available-for-sale equity investments are as follows:

Equity investments available-for-sale	2008	2007
At 1st January 2008	**109 363**	**66 449**
Movement in fair value	- 4 190	9 315
Impairment	-1 725	- 366
Disbursement	41 641	43 143
Repayments	- 15 005	- 8 248
Foreign exchange difference	- 938	- 930
At 31st December 2008	**129 146**	**109 363**

13. Amounts receivable from contributors (in EUR '000)

The main components of amounts receivable from contributors are as follows:

	2008	2007
Contribution called but not paid	48 020	148 427
Special contribution to general administrative expenses	17 871	32 756
Total amounts receivable from contributors	**65 891**	**181 183**

14. Other assets (in EUR '000)

The main components of other assets are as follows:

	2008	2007
Amounts receivable from EIB	-	3 386
Financial guarantees	525	508
Total amount of other assets	**525**	**3 894**

15. Deferred income (in EUR '000)

The main components of deferred income are as follows:

	2008	2007
Deferred interest subsidies	19 962	17 947
Deferred commissions on loans and receivables	224	83
Total deferred income	**20 186**	**18 030**

16. Amount owed to third parties (in EUR '000)

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

	2008	2007
Net general administrative expense payable to EIB	35 741	32 756
Interest subsidies not yet disbursed	157 992	98 396
Total amount owed to third parties	**193 733**	**131 152**

17. Other liabilities (in EUR '000)

The main components of other liabilities are as follows:

	2008	2007
Remuneration repayable to the Commission with regard to the Contribution account	-	27
Amount repayable to EIB	2 257	-
Financial guarantees	525	508
Other	1 495	381
Total amount of other liabilities	**4 277**	**916**

18. Investment Facility Member States Contribution called (in EUR '000)

Member States	Contribution to the Facility	Contribution to interest subsidies	Total contributed	Called and not paid (*)
Austria	22 393	5 035	27 428	1 457
Belgium	33 124	7 448	40 572	2 156
Denmark	18 083	4 066	22 149	1 177
Finland	12 507	2 812	15 319	814
France	205 335	46 170	251 505	13 365
Germany	197 392	44 384	241 776	12 848
Greece	10 562	2 375	12 937	687
Ireland	5 239	1 178	6 417	341
Italy	105 963	23 826	129 789	6 897
Luxembourg	2 450	551	3 001	160
Netherlands	44 109	9 918	54 027	2 871
Portugal	8 196	1 843	10 039	534
Spain	49 348	11 096	60 444	3 212
Sweden	23 069	5 187	28 256	1 501
United Kingdom	107 230	24 111	131 341	-
Total at 31 December 2008	**845 000**	**190 000**	**1 035 000**	**48 020**
Total at 31 December 2007	**830 000**	**120 000**	**950 000**	**148 427**

(*) On the 10 November 2008, the Council fixed the amount of financial contributions to be paid by each Member State by 21st January 2009.

19. Contingent liabilities and commitments (in EUR '000)

	2008	2007
Commitments		
Undisbursed loans	777 597	669 117
Undisbursed commitment in respect of equity investments	188 059	88 204
Guarantees drawn	11 800	10 116
Contingent liabilities		
Guarantees undrawn	105 000	113 875
Total	**1 082 456**	**881 312**

20. Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2008 financial statements.

On a proposal from the Management Committee of the Bank, the Board of Directors of the Bank reviewed these financial statements on 12 March 2009 and decided to submit them to the Board of Governors of the Bank for approval at their meeting to be held on 9 June 2009.

Independent Auditor's Report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the Investment Facility, which show a loss of EUR 26,309,000 and a total balance sheet of EUR 1,144,922,000 and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Investment Facility as of 31 December 2008, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements.

Luxembourg, 12 March 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

Statement by the Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee on the Investment Facility financial statements

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the Investment Facility for the year ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial period ending on 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the Investment Facility are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Investment Facility have been conducted and its books kept in a proper manner and that to this end, it has verified that the Investment Facility's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Investment Facility as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 12 March 2009

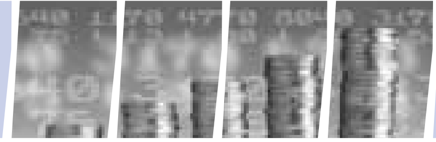
The Audit Committee

C. KARMIOS

O. KLAPPER

G. SMYTH

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



FEMIP Trust Fund

Financial Statements

Income statement

For the year ended 31 December 2008 (in EUR '000)

	Notes	Year to 31.12.2008	Year to 31.12.2007
Interest and similar income		1 276	1 229
Net operating income		**1 276**	**1 229**
General administrative expenses	3	- 32	- 87
Projects financed	5	- 1 783	- 229
Net gain and loss on financial assets and liabilities designated at fair value through profit or loss	9	- 10	- 9
Other cost	4	- 17	-
Total operating expenses		**- 1 842**	**- 325**
Profit/Loss of the financial year		**- 566**	**904**

Balance sheet

At 31 December 2008 (in EUR '000)

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and cash equivalents	2.3.3	32 708	32 450
Financial assets designated at fair value through profit or loss (Equity investments)	9	451	461
Total Assets		**33 159**	**32 911**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	10	14	-
EQUITY			
Contributions called	6	34 516	33 716
Accumulated deficits		- 1 371	- 805
Total Equity		**33 145**	**32 911**
Total Liabilities and Equity		**33 159**	**32 911**

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

Statements of changes in equity

At 31 December 2008 (in EUR '000)

	EC / Member States Contributions	Accumulated deficits	Total equity
At 1 January 2008	33 716	- 805	32 911
Contribution called during the year	800	-	800
Loss for the year	-	- 566	- 566
Changes in contributors' resources	800	- 566	234
At 31 December 2008	**34 516**	**-1 371**	**33 145**

	EC/Member States Contributions	Accumulated deficits	Total equity
At 1 January 2007	31 550	- 1 709	29 841
Contribution called during the year	2 166	-	2 166
Profit for the year	-	904	904
Changes in contributors' resources	2 166	904	3 070
At 31 December 2007	**33 716**	**- 805**	**32 911**

Cash flow statement

for the year ended 31 December 2008 (in EUR '000)

	Year to 31.12.2008	Year to 31.12. 2007
OPERATING ACTIVITIES		
Interest and similar income	1 276	1 229
General administrative expenses	- 32	- 87
Projects financed	- 1 783	- 229
Other cost	- 3	-
Profit (loss) on operating activities before changes in operating assets and liabilities	- 542	913
Increase in financial investments designated at fair value through profit or loss	-	- 470
Net cash flows from operating activities	- 542	443
FINANCING ACTIVITIES		
Paid in by contributors	800	2 166
Net cash flows from/(used in) financing activities	800	2 166
Net increase in cash and cash equivalents	**258**	**2 609**
Cash and cash equivalents at beginning of financial year	32 450	29 841
Cash and cash equivalents at end of financial year	**32 708**	**32 450**

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

Notes to the financial statements

1. General information

In March 2002, the Barcelona European Council decided to enhance the existing activities of the European Investment Bank (the "Bank" or "EIB") in the Mediterranean Partner Countries through the creation of the Facility for Euro-Mediterranean Investment and Partnership (the "FEMIP"). The Council's overall objective was to "stimulate private sector development in the Mediterranean Partner Countries, in order to facilitate a higher level of economic growth consistent with the growth of the labour force in the region".

The European Council of 12th December 2003 endorsed the conclusions reached on 25th November 2003 by the ECOFIN Council to reinforce the FEMIP within the Bank, leading to the creation of a 'reinforced FEMIP'. In particular, the ECOFIN Council decided to strengthen the FEMIP operations with a number of features and instruments in support of the private sector, including the establishment of a trust fund allowing resources to complement on a voluntary basis the Bank's own resources as well as the financial resources provided to the Bank by the European Community budget.

The Bank and a number of donor countries entered into discussions to establish a trust fund (the "FEMIP Trust Fund" or the "Fund") dedicated to the Mediterranean Partner Countries, directing resources to operations in certain priority sectors which can be enhanced through the provision of technical assistance or made viable via a risk capital operation.

By a decision dated 14th October 2004, the Bank's Board of Directors approved the Rules relating to the establishment and administration of the FEMIP Trust Fund (the "Rules").

In line with Article 6.01(b) of the Rules "the financial year of the FEMIP Trust Fund shall be the calendar year, except for the first financial period, which shall begin with reception of the first contribution and end on 31 December 2005."

2. Significant accounting policies

2.1. Basis of preparation

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

These financial statements cover the year to 31 December 2008 with the comparatives covering the year to 31 December 2007.

These financial statements are presented in Euro, which is also its functional currency. For the preparation of the financial statements, assets and liabilities denominated in currencies other than the Euro are translated into Euro at the spot rates of exchange prevailing on the balance sheet date. The gain or loss arising from such translation is recorded in the income statement. The elements of the income statement are translated into Euro monthly on the basis of the exchange rates prevailing at the end of each month.

2.2. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund'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.

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

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- recent arms 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; or
- other valuation models.

However regarding the investments done on entities that are less than two years old, any decline in value is considered. Only foreign exchange rate impact is taken into consideration.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. The Fund 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.

2.3. Summary of significant accounting policies

The balance sheet represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

2.3.1. Contributions

Contributions, net of banking charges, are recognised in the balance sheet on the date when payment of a contribution by a contributor is received.

2.3.2. Disbursements for operations

Disbursements related to operations financed by the FEMIP Trust Fund are recorded as expenditures in the income statement as projects financed over the year during which the services are received.

2.3.3. Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, which are available for use at short notice and which are subject to insignificant risk of changes in value. This definition includes balances of cash and current accounts with the Bank. The liquid assets of the FEMIP Trust Fund, deposited with the Bank, are remunerated based on the Euro Overnight Index Average (EONIA) and are all denominated in EUR.

2.3.4. Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

Financial investments

After initial measurement, financial investments are subsequently carried at fair value through profit or loss as they only concern investments in associates. IAS 28 authorizes Investments Funds to record investments done in associates at fair value in accordance with IAS 39 and variations of fair value through profit or loss.

Note the following details for the fair value measurement of equity investment:

Venture capital funds

The fair value of each venture capital fund will be based on the Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standard recognized to be compliant with IFRS. The Fund may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standard is applied, the valuation will be conducted on the basis of the underlying portfolio.

Direct equity investments

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

Unrealized gains or losses on equity investments are recorded in the income statement.

For unquoted investment, the fair value is determined by applying recognized valuation technique. These investments are accounted for at cost when the fair value cannot be reliably measured.

2.3.5. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3. General administrative expenses

General administrative expenses are directly relating to the Fund and include an administrative and operation support and financial management fee payable to the Bank (hereafter referred to as the management fee). This is a total fixed fee of 4% of the total amount of the net contributions made available to the FEMIP Trust Fund. Such fee shall be payable out of the amount of the net contributions at the time the contribution is actually paid in.

4. Other cost

Other cost totaling KEUR 17 represents KEUR 3 travel fees and KEUR 14 audit cost for the audit of the Trust Fund's Financial Statements as at 31 December 2007 and 31 December 2008.

5. Projects financed

In 2008 the following disbursements for technical assistance operations and other programmes totalling to EUR 1.783 million were made (2007: 4 disbursements for an amount of EUR 228 579):

Projects financed (EUR' 000)	2008
Potential for biofuel production	104
Medinas	50
Review of economic and social impact of Microfinance	28
Developing renewable energies	75
Review of impact of Microfinance	28
Phenicia Seed Fund	75
METAC	500
Review of impact of Microfinance	19
Analysis on tourism strategies	81
Review of trade finance services	48
Perimeter of Loukkos	348
Blue plan	225
Wastewater for irrigation in Med	120
FEMIP Internship Program	82
Total	**1 783**

6. Contributions

As at 31 December 2008 all expected contributions from donors were received by the Trust Fund. The following table shows the detail of contributions received:

EC / Member States	Contribution to the Fund (EUR' 000)
Austria	1 000
Belgium	1 000
Cyprus	1 000
European Commission	1 000
Finland	1 000
France	4 000
Germany	2 000
Greece	2 000
Ireland	1 000
Italy	2 500
Luxembourg	1 000
Malta	1 000
Netherlands	2 000
Portugal	1 000
Spain	10 000
United Kingdom	3 016
Total	**34 516**

7. Liquidity Position

The table below provides an analysis of assets, liabilities and contributors' resources into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

	Up to 3 months (in EUR' 000)	Maturity undefined (in EUR' 000)	Total (in EUR' 000)
Assets			
Cash and cash equivalents	32 708	-	32 708
Financial assets designated at fair value through profit or loss	-	451	451
Total Assets	**32 708**	**451**	**33 159**
Liabilities			
Total Liabilities	- 14	-	- 14
Equity			
Total Equity	-	- 33 145	- 33 145
Total Liabilities and Equity	**- 14**	**- 33 145**	**- 33 159**
Net liquidity position at 31 December 2008	**32 694**	**- 32 694**	**-**
Cumulative net liquidity position at 31 December 2008	**32 694**	**-**	**-**
Cumulative net liquidity position at 31 December 2007	**32 450**	**-**	**-**

8. Interest Rate Risk

The FEMIP Trust Fund is exposed to an interest rate risk through its cash and cash equivalents deposited with the Bank, and remunerated based on the Euro Overnight Index Average (EONIA).

9. Equity investments – at fair value through profit or loss (in EUR'000)

The main components of equity investments are as follows:

	2008	2007
At the beginning of the financial year	461	-
Movement in fair value	-	-
Impairment	-	-
Change in amortized cost	-	-
Disbursement	-	470
Interest capitalised	-	-
Repayments	-	-
Foreign exchange difference	- 10	- 9
At the end of the financial year	**451**	**461**

This unquoted equity investment concerns an entity that is less than two years old. Any decline in fair value cannot be considered as at 31 December 2008. Only the foreign exchange impact has been taken into consideration.

10. Other liabilities

Other liabilities represent external audit cost for the annual audit of the FEMIP Trust Fund's financial statements for the years 2007 and 2008.

11. Commitments (in EUR'000)

The Fund's commitments as at 31 December 2008 and 31 December 2007 are as follows:

	2008	2007
Commitments		
Undisbursed commitment in respect of equity investments	1 530	1 530
Undisbursed commitment in respect of technical assistance	1 604	821
Total	**3 134**	**2 351**

12. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the financial statements as at 31 December 2009.

The FEMIP Trust Fund Assembly of Donors has approved these financial statements by tacit procedure on or before 6 March 2009.

On a proposal from the Management Committee of the Bank, the Board of Directors of the Bank received these financial statements on 12 March 2009 who decided to submit them to the Governors for approval at their meeting to be held on 9 June 2009.

Independent Auditor's Report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the FEMIP Trust Fund, which show a loss of EUR 566,000 and a total balance sheet of EUR 33,159,000 and which comprise the balance sheet as at 31 December 2008, the income statement, the statements of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain type of companies, banks and other financial institutions and insurance undertakings. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The FEMIP Trust Fund as of 31 December 2008, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

Luxembourg, 12 March 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

Statement by the Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee on the FEMIP Trust Fund financial statements

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the FEMIP Trust Fund for the year ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the year ended 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the FEMIP Trust Fund are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the FEMIP Trust Fund have been conducted and its books kept in a proper manner and that to this end, it has verified that the FEMIP Trust Fund's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the FEMIP Trust Fund as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 12 March 2009

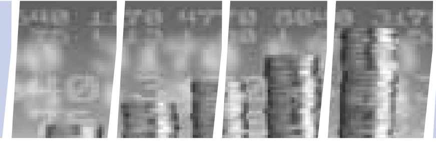
The Audit Committee

C. KARMIOS

O. KLAPPER

G. SMYTH

[1] The conditions with regard to the approval of Financial Statements of the FEMIP Trust Fund contained in the Rules Relating to the Establishment and Administration of the FEMIP Trust Fund state that the Financial Statements shall be subject to the presentation and approval laid down in the Statute of the Bank for its ordinary operations. On this basis, the Audit Committee issues the above statement.



EU-Africa Infrastructure Trust Fund

Financial Statements

Income statement

for the year ended 31 December 2008 (in EUR'000)

	Notes	Year to 31.12.2008	Year to 31.12.2007
Interest and similar income		2 941	749
Total operating income		**2 941**	**749**
Grant operations - Technical assistance		- 1 082	-
General administrative expenses	2.4.3	- 580	- 242
Other cost (audit cost)		- 14	-
Total operating expenses		**- 1 676**	**- 242**
Operating profit		**1 265**	**507**

Balance sheet

At 31 December 2008 (in EUR '000)

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and cash equivalents	2.4.2	91 881	41 549
Other assets	3	2 898	1 458
Total Assets		**94 779**	**43 007**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities	4	7	-
EQUITY			
Donor's Contribution	5	93 000	42 500
Retained earnings		1 772	507
Total Equity		**94 772**	**43 007**
Total Liabilities and Equity		**94 779**	**43 007**

The notes refer to the sections "Notes to the financial statements".

Statement of changes in equity

for the year ended 31 December 2008 (in EUR '000)

	EC / Member States Contributions	Retained earnings	Other reserves	Total equity
At 1 January 2008	42 500	507	-	43 007
Donor's contribution during the year	50 500	-	-	50 500
Profit for the year	-	1 265	-	1 265
At 31 December 2008	**93 000**	**1 772**	**-**	**94 772**

	EC / Member States Contributions	Retained earnings	Other reserves	Total equity
At 14 June 2007	-	-	-	-
Donor's contribution during the year	42 500	-	-	42 500
Profit for the year	-	507	-	507
At 31 December 2007	**42 500**	**507**	**-**	**43 007**

Cash flow statement

for the year ended 31 December 2008 (in EUR '000)

	Year to 31.12.2008	Year to 31.12. 2007
OPERATING ACTIVITIES		
Interest received	2 941	749
General administrative expenses	- 580	- 242
Technical assistance	- 1 082	-
Audit fees	-7	-
Increase in operating assets		
Other assets	- 1 440	- 1 458
Net cash flows from operating activities	- 168	- 951
FINANCING ACTIVITIES		
Paid in by Donors	50 500	42 500
Net cash flows from financing activities	50 500	42 500
Net increase in cash and cash equivalents	**50 332**	**41 549**
Cash and cash equivalents at beginning of reporting period	41 549	-
Effect of exchange rate changes on cash and cash equivalents	-	-
Cash and cash equivalents at end of reporting period	**91 881**	**41 549**

The notes refer to the sections "Notes to the financial statements".

Notes to the financial statements

1. General information

Following detailed consultations between EU Member States, the European Commission and the European Investment Bank (the "EIB"), the EU-Africa Infrastructure Trust Fund Agreement ("Agreement Constituting the Implementation Rules of the Trust Fund") was signed in Brussels on 23 April 2007 by Donors and by EIB as Manager of the Trust Fund.

In accordance with this Agreement the key objective of the Trust Fund is to contribute to achieving the strategic objectives of the EU-Africa Partnership through targeted funding of regional and cross-border infrastructure in Sub-Saharan Africa. The Trust Fund provides financial support by way of grants to eligible infrastructure projects alongside long-term loan finance made available by eligible financiers.

Typically, Trust Funds have a limited lifespan and can be wound-up once certain events occur. Article 11.2.1 of the Agreement includes the possibility to wind-up the EU-Africa Infrastructure Trust Fund on 31 December 2013.

The reporting period of the present financial statements covers the period from 1 January 2008 to 31 December 2008. The prior period figures cover the Trust Fund's initial period from 14 June 2007 (date of inception) to 31 December 2007.

2. Significant accounting policies

2.1. Basis of preparation

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

The accounting policies applied are in conformity with the IFRS and with the overall principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions, as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the "Directives").

2.2. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Trust Fund'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.

2.3. Change in accounting policies

In according with IAS 8 - Accounting Policies, Changes in Accounting Estimates and Errors, the Trust Fund has changed its accounting treatment of the recognition of management fees paid to the EIB on contributions received. In 2007, the full amount of management fees paid was recognised as general administrative expenses in the income statement. Given the general administrative nature of management fees paid, such fees shall be amortized throughout the lifespan of the Trust Fund. Therefore the Trust Fund has retroactively restated its 2007 financial statements to enable a comparable presentation on the 2008 financial statements.

This restatement has a positive impact on the 2007 income statement and equity of K EUR 1.458.

2.4. Summary of significant accounting policies

The balance sheet represents assets and liabilities in decreasing order of liquidity. Assets and liabilities concern exclusively current items.

2.4.1. Foreign currency translation

The Trust Fund uses the Euro (EUR) for presenting its financial statements, which is also the functional and presentational currency.

Foreign currency transactions are translated, in accordance with IAS 21, at the exchange rate prevailing on the date of the transaction.

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

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 unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

The elements of the income statement are translated into Euro on the basis of the exchange rates prevailing at the end of each month.

2.4.2. Cash and cash equivalents

The Trust Fund defines cash equivalents as current accounts or short-term deposits with original maturities of three months or less. The current account is one account opened in the EIB books in the name of the Trust Fund, called "EU-Africa Infrastructure Trust Fund Account".

2.4.3. General administrative expenses

For managing the Trust Fund the EIB shall be granted with a standard one-off payment equal to 4% (four percent) of the aggregate amount of Contributions effectively made available to the Trust Fund. The administrative fee is intended to cover in full the costs associated with managing the Trust Fund.

The management fee paid to the EIB amounts to EUR 2 020 000 and EUR 1 700 000 for the financial year 2008 and the financial period 2007 respectively. General administrative expenses are recognised in the income statement on a pro-rata basis over the remaining lifespan period of the Trust Fund. As at 31 December 2008 K EUR 580 (2007: K EUR 242) are recognised in the income statement and K EUR 2 898 (2007: K EUR 1 458) are capitalized in the balance sheet as administrative fees paid in advance.

2.4.4. Interest income

According to the Agreement Constituting the Implementation Rules of the Trust Fund, the EIB remunerates the cash on the current account.

In the financial year 2008, the interest income received in remuneration of the current account opened in EIB books amounts to EUR 2 941 156.

2.4.5. Contributions

In addition to the Founding Donor (the European Commission), any Member State of the European Union or any Member State Development Finance Agency may contribute funds in Euro to the Trust Fund Contributions are non-refundable.

2.4.6. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 8 April 1965 establishing a Single Council and a Single Commission of the European Communities, stipulates that the assets, revenues and other property of the Institutions of the Union are exempt from all direct taxes.

3. Other assets

Other assets represent administrative fees paid in advance to the EIB as laid down in Note 2.4.3.

4. Other liabilities

Other liabilities represent external audit cost for the audit of the Trust Fund's financial statements as at 31 December 2008.

5. Contribution to the Trust Fund

Contributions received from Donors as at 31 December 2008 are detailed below:

EC / Member States	Contribution to the Fund (EUR' 000)
Austria	1 000
European Commission	60 000
France	5 000
Germany	1 000
Greece	1 000
Italy	5 000
Luxembourg	2 000
Netherlands	2 000
Portugal	1 000
Spain	10 000
United Kingdom	5 000
Total	**93 000**

6. Contingent Liabilities

Contingent liabilities of the Trust Fund are entirely composed of approved but not yet disbursed grant operations. As at the balance sheet date they are totalling to EUR 62.2m, of which EUR 53.3m are within the scope of interest rate subsidies and EUR 8.9m within the scope of technical assistance. The Trust Fund Agreement (Article 6) foresees that disbursement of grant operations to the Project Financiers should normally commence within 15-months of formal approval of each grant operation.

7. Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2008 financial statements.

Independent Auditor's Report

To the chairman of the Audit Committee of
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the accompanying financial statements of the EU-AFRICA Infrastructure Trust Fund, which show a profit of EUR 1,265,000 and a total balance sheet of EUR 94,779,000 and which comprise the balance sheet as at 31 December 2008, the income statement, the statement of changes in equity and the cash flow statement for the period from 1 January 2008 to 31 December 2008, and the notes to the financial statements.

Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain type of companies, banks and other financial institutions and insurance undertakings. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Luxembourg "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgment of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management Committee, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the EU-AFRICA Infrastructure Trust Fund as of 31 December 2008, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

Luxembourg, 12 March 2009

ERNST & YOUNG

Société Anonyme

Réviseurs d'Entreprises

Alain KINSCH

Bernard LHOEST

Statement by the Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the financial statements for the past financial year.

Statement by the Audit Committee on the EU-Africa Infrastructure Trust Fund financial statements

The Committee, instituted in pursuance of Article 14 of the Statute and Article 25 of the Rules of Procedure of the European Investment Bank for the purpose of verifying that the operations of the Bank are conducted and its books kept in a proper manner, having

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the EU-Africa Infrastructure Trust Fund for the period ended 31 December 2008 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the period ended 31 December 2008 as drawn up by the Board of Directors at its meeting on 12 March 2009,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the EU-Africa Infrastructure Trust Fund are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the EU-Africa Infrastructure Trust Fund have been conducted and its books kept in a proper manner and that to this end, it has verified that the EU-AFRICA Infrastructure Trust Fund's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the EU-Africa Infrastructure Trust Fund as at 31 December 2008 in respect of its assets and liabilities, and of the results of its operations for the period then ended.

Luxembourg, 12 March 2009

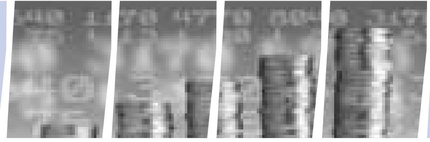
The Audit Committee

C. KARMIOS

O. KLAPPER

G. SMYTH

[1] The conditions with regard to the approval of Financial Statements of the EU-Africa Infrastructure Trust Fund contained in the Agreement Constituting the Implementation Rules of the Trust Fund state that the Financial Statements shall be submitted to the EIB governing bodies according to the provisions laid down in respect of its own financial statements in the Statute. On this basis, the Audit Committee issues the above statement.



EIF

Financial Statements

Independent Auditor's Report

To the Audit Board
of the EUROPEAN INVESTMENT FUND
96, boulevard Konrad Adenauer
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of the European Investment Fund, which comprise the balance sheet as at December 31, 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management responsibility for the financial statement

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the "Institut des Réviseurs d'Entreprises". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the "Réviseur d'Entreprises", including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'Entreprises" considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Luxembourg, 10 March 2009

Olivier JORDANT   Alain KINSCH

Statement by The Audit Board

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

- acting in accordance with the customary standards of the audit profession,
- having designated ERNST & YOUNG Société Anonyme Réviseur d'Entreprises as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- having studied the financial statements and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the report dated 10 March 2009 drawn up by ERNST & YOUNG Société Anonyme Réviseur d'Entreprises,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial period ending 31 December 2008,
- having examined and discussed reports and opinions issued by the EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,
- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- the financial statements, comprising the balance sheet, income statements, cash flow statement, statement of changes in equity, and notes to the accounts of the European Investment Fund give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 10 March 2009

The Audit Board

Tony MURPHY

Gabriela PANTRING

Ortwin KLAPPER

Balance sheet

as at 31 December 2008 (expressed in EUR)

	Notes	31.12.2008	31.12.2007
ASSETS			
Cash and cash equivalents	4.1	383 502 584	291 604 538
Investments:			
Debt securities and other fixed income securities	4.2	495 733 011	522 470 401
Shares and other variable income securities	4.3	158 714 823	167 876 521
		654 447 834	690 346 922
Non-current assets held for sale	4.4	7 139 812	0
Other assets	4.5	28 465 987	33 072 223
Intangible assets	4.6	1 869 793	1 161 484
Property, plant and equipment	4.7	433 673	8 245 595
TOTAL ASSETS		**1 075 859 683**	**1 024 430 762**
LIABILITIES			
Financial liabilities	5.1		
Financial guarantees		18 990 527	1 1439 133
Derivatives		2 604 242	1 579 264
Provisions for guarantees	5.2	8 983 874	5 056 087
		3 0578 643	18 074 484
Retirement benefit obligations	5.3	16 984 934	13 232 407
Other liabilities and provision	5.4	14 223 570	7 758 556
Total Liabilities		**61 787 147**	**39 065 447**
EQUITY			
Share capital	5.5		
Subscribed		2 865 000 000	2 770 000 000
Uncalled		(2 292 000 000)	(2 216 000 000)
		573 000 000	554 000 000
Share Premium		132 012 377	117 909 669
Statutory reserve	5.6	124 490 745	104 329 810
Retained earnings	5.6	146 435 341	136 353 969
Fair value reserve	5.7	3 022 993	22 369 530
Profit for the financial year	5.6	35 111 080	50 402 337
TOTAL EQUITY		**1 014 072 536**	**985 365 315**
TOTAL EQUITY and LIABILITIES		**1 075 859 683**	**1 024 430 762**

The notes are an integral part of these financial statements.

Income statement

for the year ended 31 December 2008 (expressed in EUR)

	Notes	31.12.2008	31.12.2007
Net interest and similar income	7.1	38 494 827	30 231 070
Income from securities			
Income from investments in shares and other variable income securities	4.3	4 598 262	6 674 654
Net income from guarantees operations	7.2	18 492 375	21 349 024
Commission income	7.3	23 405 855	29 072 382
Net loss on financial operations	7.4	(5 081 325)	(1 020 711)
Other operating income		24 675	18 955
General administrative expenses	7.5		
Staff costs:			
- wages and salaries		(19 241 179)	(17 317 160)
- social security costs		(3 237 576)	(2 130 900)
		(22 478 755)	(19 448 060)
Other administrative expenses		(7 546 298)	(6 665 063)
		(30 025 053)	(26 113 123)
Depreciation of property, plant and equipment and intangible assets	4.6 & 4.7	(894 486)	(1 219 062)
Impairment losses on available-for-sale investments		(13 904 050)	(8 590 852)
Profit for the financial year		**35 111 080**	**50 402 337**

The notes are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2008 (expressed in EUR)

	Notes	31.12.2008	31.12.2007
A. Cash Flow from Operating Activities:			
Profit for the financial year (*)		35 111 080	50 402 337
Increase in accrued interest on debt securities	4.2	1 266 700	465 186
Interest received from debt securities		(26 172 698)	(17 648 283)
Impairment on debt securities and other fixed income securities	4.2	98 579	197 156
Increase in shares & other variable income securities	4.3	(23 700 054)	(28 789 755)
Impairment on shares & other variable income securities	4.3	13 904 051	8 393 697
Depreciation for intangible assets, property and equipment	4.6; 4.7	894 486	1 219 062
Increase in Other assets	4.5	4 917 312	(13 149 978)
Increase in retirement benefit obligations	5.3	3 752 527	3 053 499
Decrease in effective interest on debt securities portfolio		(1 065 404)	(4 187 074)
Decrease / (Increase) in other liabilities and provisions	5.4	6 465 014	(1 050 152)
Decrease / (Increase) in amortisation of financial guarantees		7 551 394	(3 788 076)
Increase in fair value of Derivatives		1 024 978	435 564
Provisions for guarantees		3 927 787	0
Net Cash from Operating Activities		27 975 752	(4 446 817)
B. Cash Flow from Investing activities			
Purchase of intangible assets	4.6	(998 769)	(892 952)
Net movements on purchase of property, plant and equipment	4.7	(242 993)	(289 576)
Interest received from debt securities		26 172 698	17 648 283
Decrease / (Increase) in debt securities & other fixed income securities		26 048 680	(12 990 590)
Net Cash from Investing Activities		50 979 616	3 475 165
C. Cash Flow from Financing Activities			
Dividends paid	5.6	(20 160 030)	(19 430 000)
Capital increase		33 102 708	259 139 527
Net Cash from Financing Activities		12 942 678	239 709 527
Summary statement of Cash Flows:			
Cash & cash equivalents at beginning of financial year		**291 604 538**	**52 866 663**
Net Cash from:			
Operating activities		27 975 752	(4 446 817)
Investing activities		50 979 616	3 475 165
Financing activities		12 942 678	239 709 527
Cash & cash equivalents at the end of financial year	**4.1**	**383 502 584**	**291 604 538**

(*) Profit for the financial year includes dividends received of EUR 4 598 262 (2007: EUR 6 674 654)

The notes are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2008 (expressed in EUR)

	Note	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit for the Year before Appropriation	Total Equity
Balance as at 01/01/2007		**2 000 000 000**	**(1 600 000 000)**	**400 000 000**	**12 770 142**	**84 899 624**	**126 638 689**	**19 635 766**	**48 575 466**	**692 519 687**
Appropriation of prior year's profit inc. dividend	5.6	0	0	0	0	19 430 186	9 715 280	0	(48 575 466)	(19 430 000)
Share issue	5.5	770 000 000	(616 000 000)	154 000 000	105 139 527	0	0	0	0	259 139 527
Fair value reserve	5.7	0	0	0	0	0	0	2 733 764	0	2 733 764
Profit for the Year		0	0	0	0	0	0	0	50 402 337	50 402 337
Balance as at 31/12/2007		**2 770 000 000**	**(2 216 000 000)**	**554 000 000**	**117 909 669**	**104 329 810**	**136 353 969**	**22 369 530**	**50 402 337**	**985 365 315**
Appropriation of prior year's profit inc. dividend	5.6	0	0	0	0	20 160 935	10 081 372	0	(50 402 337)	(20 160 030)
Share issue	5.5	95 000 000	(76 000 000)	19 000 000	14 102 708	0	0	0	0	33 102 708
Fair value reserve	5.7	0	0	0	0	0	0	(19 346 537)	0	(19 346 536)
Profit for the Year		0	0	0	0	0	0	0	35 111 080	35 111 080
Balance as at 31/12/2008		**2 865 000 000**	**(2 292 000 000)**	**573 000 000**	**132 012 377**	**124 490 745**	**146 435 341**	**3 022 993**	**35 111 080**	**1 014 072 536**

The notes are an integral part of these financial statements.

European Investment Fund

Notes to the accounts

for the year ended 31 December 2008 (expressed in EUR)

1. General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund" or "EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 96, boulevard Konrad Adenauer, L-2968 .

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Community objectives through

- the provision of guarantees to financial institutions that cover credits to small and medium sized entities ("SME");
- the acquisition, holding, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

The Fund operates as a partnership of which the members are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union and of two candidate countries. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from 1 January to 31 December each year.

The EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated accounts of the EIB Group. The consolidated accounts may be obtained from the registered office of the EIB at 100, boulevard Konrad Adenauer, L-2950 Luxembourg.

The Fund's financial statements have been authorised for issue by the Board of Directors on 10 March 2009.

2. Significant accounting policies and basis of preparation

2.1. Basis of preparation

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss including all derivative contracts which are valued at fair-value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in more detail below. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Statement of compliance

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

Changes in presentation

The accounting policies adopted are consistent with those used in the previous year. Compared to the previous year, changes have been made in the presentation and classification of the guarantees (Note 5.1) and the foreign exchange impact on impaired available-for-sale investments (Note 4.3):

- Guarantees operations which were disclosed on a gross basis in the caption "Financial Guarantees receivables" on the assets side of the balance sheet and in the caption "Financial Guarantees payables" on the liabilities side of the balance sheet as of 31 December 2007, are presented on a net basis as of 31 December 2008. For comparative purposes the same presentation was applied as of 31 December 2007.

The change of presentation has the effect of reducing the total assets by EUR 66 210 505 (2007: EUR 48 592 549). The change has no impact on the income statement and on the statement of changes in equity as of 31 December 2008 and 31 December 2007.

In addition, a change in the disclosure of Derivatives operations at 31 December, 2007 in the Balance sheet has been made and has resulted in the reclassification of EUR 435 130 from caption "Assets" to "Liabilities".

- Foreign exchange impact on impaired available-for-sale investments which was accounted for in the caption "net loss on financial operations" as of 31 December 2007 are integrated in the caption "impairment losses on available-for sale investments" as of 31 December 2008. For comparative purposes the same presentation was applied as of 31 December 2007.

The change of presentation has the effect of a transfer of EUR 1 443 626 (2007: EUR 888 169) from "net loss on financial operations" to "impairment losses on available for sale investments". The change has no impact on the balance sheet, the statement of changes in equity and on profit for the financial year.

2.2. Foreign currency translation

The Euro (EUR) is the functional and presentation currency.

Non-monetary items, which include "Intangible assets" and "Tangible assets" denominated in a foreign currency, are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement or within the equity reserves. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing foreign exchange rate ruling on the date of the closure of the financial statements, as issued by the European Central Bank. The exchange differences are recognised in the income statement in the period in which they arise.

Income and charges in foreign currencies are translated into EUR at the exchange rate ruling on the date of the transaction.

2.3. Investments

2.3.1. Classification and Measurement

Classification

The Fund classifies the investments in debt securities and shares in the category "Available For Sale" financial assets ("AFS"). The classification of the investments is determined at initial recognition.

AFS financial assets are non-derivative financial instruments that are either designated in this category at initial recognition or not classified in any other categories.

Initial recognition and derecognition

Purchases and sales of AFS financial assets are initially recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or where the EIF has substantially transferred all risks and rewards of ownership.

Subsequent measurement

AFS financial assets are subsequently measured at fair value. Changes in fair value of financial assets classified as AFS are directly recognised in the fair value reserve in the equity section of the balance sheet, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the income statement.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method and is recognised in the income statements. Dividends on equity investments are recognised in the income statement when the Fund's right to receive payment is established.

Differences from currency translation from non-monetary financial assets, such as equity instruments, are recognised in the fair value reserve in equity.

Impairment of financial assets

EIF assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from reserves and recognised in the income statement. Impairment losses on equity instruments previously recognised in the income statement are not reversed through the income statement. In contrast, if in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.3.2. Investments in shares and other variable income securities

Investments in venture capital funds are included in "Shares and other variable income securities". They are acquired for the longer term in the normal course of the Fund's activities.

a) Fair value considerations

Under the valuation technique, the fair value of venture capital (VC) funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example the International Private Equity and Venture Capital Valuation Guidelines, IPEV Guidelines, as published by the EVCA) and more detailed monitoring and review will be required.

In accordance with this method, the funds are classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39 or IPEV Guidelines for which a specific review is performed to ensure that the NAV is a reliable estimate of fair value.
- Category II – funds that have adopted other valuation guidelines (such as the former 2001 EVCA) or standards that can be considered as in line with IAS 39 a specific review is performed to ensure that the NAV is a reliable estimate of fair value.
- Category III –funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

Although it is assumed for category I that the NAV is a reliable estimation of the fair value and specific review is performed for categories II and III, it must be stated that underlying investments have been estimated in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation and current market conditions, actual results in the future could differ from the fund manager's estimate of values and the difference may be material to the financial statements.

From a risk management perspective, the EIF has developed over the last years, a tool-set to design, manage and monitor VC fund portfolios. This tool-set is based on an internal model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort supported by the development of a proprietary IT system and integrated software (front to back) improves the investment decision process and the management of portfolio's financial risks and of liquidities.

EIF's internal grading methodology allows determining the monitoring coverage and intensity as well as the range for the expected performance.

The grading is defined as follows:

Expected performance grade

P-A	At the time of the grading the fund's rank falls into the first quartile of the peer group.
P-B	At the time of the grading the fund's rank falls into the second quartile of the peer group.
P-C	At the time of the grading the fund's rank falls into the third quartile of the peer group.
P-D	At the time of the grading the fund's rank falls into the fourth quartile of the peer group.

The peer group is defined as the group of funds that have the same risk profile and exposure as the graded fund.

Operational Status Grade

O-A	No adverse signals or information so far.
O-B	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for a first quartile fund. Absence of signals or information that would be inconsistent with an expected second quartile performance.
O-C	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for an above average fund. Absence of signals or information that would be inconsistent with an expected third quartile performance.
O-D	Events that if no appropriate measures are quickly put in place, will result in a sub-standard performance or even in a failure or collapse of the private equity fund.

b) Impairment considerations

Investments in shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is an objective evidence of impairment. On each official reporting date, the EIF analyses unrealised losses for impairment so as to determine whether they shall be recognised as impairment losses in the income statement or as changes in the fair value reserve.

The decline in value will be estimated as significant or prolonged when funds are graded P-D. In addition EIF defines quantitative thresholds for assessing what is significant and what is prolonged which allows the classification of the funds as follows:

- funds with no indication of impairment;
- funds with an indication of potential impairment which are reviewed for impairment by the Fund Risk committee;
- funds showing an objective evidence of impairment

Investments belonging to category III are valued at cost less impairment. When an investment falls under this category, the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25 % depending on the operational and performance grading of the respective funds.

The fair value attributable NAV is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available NAV and the year-end reporting period, a monitoring procedure is performed and if necessary the reported NAV is adjusted.

2.3.3. Investments in debt securities and other fixed income securities

Debt securities and other fixed-income securities are categorised as follows:

- floating rate notes with maturities exceeding one year and fixed rate note other than commercial papers are included in the "Investment portfolio" or in the "Available-for-Sale portfolio".
- money market instruments and long-term debt instruments with remaining maturities of less than three months are included in the "Operational portfolio".

Securities held by the Fund are all listed on a recognised market. Consequently, the fair value of financial instruments is based on bid prices at the balance sheet date.

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the income statement.

2.3.4. Investment in interests in joint ventures

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. The joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers).

EIF has elected to use the venture capital and similar entities exemption and not consolidate under this exemption. In this case, the holdings in the joint ventures are upon initial recognition designated as at fair value through profit and loss and measured at fair value in accordance to IAS 39, with changes in fair value recognised in profit and loss in the period of the change.

2.4. Classification and measurement of guarantee operations

Initial recognition and classification

EIF has undertaken a classification analysis of each guarantee contract to determine if the definition of a financial guarantee in accordance with IAS 39.9 is fulfilled. Financial guarantee contracts are contracts that require the issuer 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. If one of the definition criteria is not met, the contract is considered as a derivative.

In accordance with the classification, the guarantees contracts are classified either as "Financial Guarantees" or as "Derivatives".

Financial Guarantees measurement

Financial Guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the Financial Guarantees. At initial recognition, the fair value of the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction

Subsequent to initial recognition, Financial Guarantees are measured at the higher of:

- the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent Assets; and

- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two thirds of the Weighted Average Life (WAL) of the transaction, followed by a quicker linear amortisation down to zero at expected maturity date.

The best estimate of expenditure is determined in accordance with IAS 37 (provisions, contingent liabilities and contingent assets). Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated based on all relevant factors and information existing at the balance sheet date.

Any increase or decrease in the liability relating to Financial Guarantees is taken to the income statement under "Net income from guarantee operations".

Derivatives measurement

Guarantee transactions, which do not comply with the definition of a Financial Guarantee contract, are regarded as Derivatives in terms of IAS 39. A Derivative is a financial instrument or other contract whose value changes in response to the change in a specified underlying, and it is settled at a future date. At initial recognition and subsequent measurement, Derivatives are measured at fair value. The best approach for fair value will in this case be the market price. However, operations in which EIF acts as guarantor are typically illiquid. Hence EIF has derived a measurement based on an alternative valuation technique using as much market information as possible. The fair value of Derivatives equals to the net of the NPV of expected premium inflow and the cost of settling the exposure.

At initial measurement, the fair value equals zero. Subsequent to initial measurement, Derivatives are remeasured to fair value at each balance sheet date. All Derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Gains and losses arising from changes in the fair value of Derivatives are immediately recognised in the income statement.

2.5. Other assets

Other assets include the funds designated to cover the pension liability and accrued commission income which have been classified as loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

2.6. Property and equipment and intangible assets

2.6.1. Intangible assets

Intangible assets are composed of internally generated software and purchased computer software, and they are accounted for at cost net of accumulated amortisation and of impairment losses.

Direct costs associated with the development of software are capitalised provided that those costs are separately identifiable, that the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the period in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the balance sheet date.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

- Internally developed software: 3 years
- Software: 2 to 5 years

2.6.2. Property and equipment

Property and equipment are stated at cost minus accumulated amortisation and impairment losses. Property and equipment are reviewed for indications of impairment at the balance sheet date.

Amortisation is calculated on a straight-line basis over the following estimated useful lives:

- Fixtures and Fittings: 3 to 10 years
- Office Equipment: 3 to 5 years
- Computer Equipment and Vehicles: 3 years

2.6.3. Non current assets held for sale

Non-current assets classified as held for sale includes assets reclassified from property and equipment for which the sale is highly probable and the asset is available for immediate sale in its current condition. They are classified as held for sale as their carrying amounts will be recovered through a sale transaction rather than through continuing use and are measured at the lower of carrying amount and fair value less costs to sell.

2.7. Employee benefits

2.7.1. Post-employment benefits

Pension fund

The EIF operates an unfunded pension plan of the defined benefit type as defined by IFRS, providing retire-

ment benefits based on final salary. The cost of providing this benefit is calculated using the projected unit credit actuarial valuation method.

Actuarial gains and losses have been recognised using a faster method than the corridor approach, that is gains and losses are amortised over the average remaining working life of the population through the profit and loss account.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the EIF. These funds are transferred to the EIB for management with the Bank's own assets and appear on the Fund's balance sheet as an asset under the caption "other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

Health insurance scheme

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. The health insurance liabilities are determined based on actuarial calculations as per the same dates as the pension fund.

2.7.2. Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding annual leave as a result of services rendered by employees up to the balance sheet date.

2.7.3. Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the period is included in the income statement under the caption "Staff Costs", resulting in a provision for the estimated liability at the balance sheet date.

2.8. Other liabilities and provisions

Other liabilities are classified according to the substance of the contractual arrangements entered into. Trade payables are non-interest bearing liabilities and are stated at amortised cost.

Provisions are recognised when the EIF has a present obligation, legal or constructive, as a result of a past event, and it is probable that the EIF will be required to settle that obligation.

2.9. Interest income and expenses

Interest income and interest expenses are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

2.10. Net income from Guarantees operations

Net income from guarantee operations and guarantee commissions mainly includes:

- Guarantee commissions received on Derivatives contracts and net income arising from changes in the fair value of Derivatives;
- Interest income on the discounting of the expected premium inflows and any amortisation of the Financial Guarantees.

2.11. Commission income

This caption is mainly made-up of fees and commissions on mandates and advisory activities.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

2.12. Dividend income

Dividends are recognised in the income statement when the entity's right to receive payment is established. They are included in the caption income from investments in shares and other variable income securities.

2.13. Leases

The leases entered into by EIF as a lessee are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged to the income

statement in other administrative expenses on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.14. Accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. The EIF makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors. Actual results may differ from those estimates and judgmental decisions.

Where the fair value of financial assets and financial liabilities recorded in the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

Judgments and estimates are applied for the fair value of Financial Guarantees and Derivatives as well as for the Equity Investments. Further details are included in the below notes.

Judgements and estimates are principally made in the following areas:

- Impairment of available-for-sale equity investments (see note 2.3.1);
- Determination of fair values of equity investments (see note 2.3.2);
- Determination of the values of financial guarantees and the fair value of Derivatives (see note 2.4);
- Provision for risk on guarantee operations;
- Other provisions (see note 2.8);
- Actuaries' assumptions related to the measurement of pension liabilities (see note 2.7.1 and 5.3).

Estimates: Post-retirement benefits

The costs of the defined benefit plan and the post-retirement medical plan as well as the present value of the post-retirement benefits are determined using actuarial valuations. The actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long term nature of these plans, such estimates are subject to significant uncertainty.

2.15. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Fund has adopted the following new and amended IFRIC interpretation during the year. Adoption of this revised interpretation did not have any effect on the financial performance or position of the Fund. They did however give rise to additional disclosures.

The principal effect of this change is as follows:

IFRIC 14 IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.

The interpretation addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. The EIF has amended its policy accordingly. The EIF's post retirement benefit plans are unfunded as defined by IFRS and so the interpretation has no impact on its financial position.

The following new standards and interpretations were issued with an effective date for financial periods beginning on or after January 1, 2008 but are not applicable to the Fund:

- IFRIC 11 IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements

The following IFRS and IFRIC interpretations were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. When applicable to the Fund, the Fund plans to adopt this interpretation at the date of endorsement by the European Union and does not anticipate any significant impacts on its financial statements.

- IFRS 2 Share-based Payment (revised)
- IFRS 8 Operating Segments
- IFRIC 13 Customer Loyalty Programmes
- IAS 23 Borrowing Costs (revised)
- Improvements to IFRSs issued in May 2008 by the IASB:
  - IAS 1 Presentation of Financial Statements
  - IAS 16 Property, Plant and Equipment
  - IAS 23 Borrowing Costs
  - IAS 28 Investment in Associates
  - IAS 31 Interests in Joint Ventures
  - IAS 36 Impairment of Assets
  - IAS 38: Intangible Assets

3. Financial risk management

3.1. Overview of EIF risk management

EIF aligns its risk management systems to changing economic conditions and evolving regulatory standards. It therefore adapts them on an ongoing basis as best market practices develop. Credit, market and operational systems are in place to control and report on the main risks inherent to its operations.

An independent Risk Management and Monitoring (RMM) division reports directly to the Deputy Chief Executive. This segregation of duties and the "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the EIB Group context, RMM operates in close contact with the European Investment Bank's Risk Management Directorate. RMM is divided into three teams: a Venture Capital (VC) Risk Management team, a Portfolio Guarantees & Securitisation (G&S) Risk Management team and a Monitoring & Administration (MA) team covering both business lines. RMM covers own resources, fully public mandates (RCM, G&E, SME GF 1998, 2001, 2007, JEREMIE, ERP Dachfonds), and non-fully public mandates (Dahlia, Neotec, iVCi and PVCi).

RMM's functions include the collection of information (information gathering, checking, and inputting), the aggregation and analysis of information (assessment of financial risks, valuations, and cash flow projections), risk reporting, and advice. The main challenges and limitations to fulfil these functions are the complexity of structure of transactions in relatively opaque markets, the absence of transparent market values, and the long-term nature of the business (up to 10 years and more).

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. Exposures and risk-taking are monitored against predetermined tolerances as determined by the Board of Directors, senior management or as set under mandates. The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product.

RMM covers EIF's VC and G&S activities, monitors risk regularly on individual transactions as well as on a portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in front office;
- issues independent opinions on all transaction proposals;
- independently reviews internal ratings (G&S)/grades (VC) assigned by front office;
- applies stress testing scenarios on both portfolios; and
- checks limits.

The Investment and Risk Management Committee chaired by the Deputy Chief Executive is responsible for reviewing the portfolio and on an ad-hoc basis to approve transactions prior to the Board.

3.2. The international financial crisis – impact on EIF's activities.

Guarantees

EIF's own risk portfolio, due to its wide diversification, is likely to be impacted by the systemic risks stemming from the expected deterioration of the European credit and economic environment. Banks are becoming more reluctant to lend and are tightening their lending criteria. This bank behaviour is expected to have negative effects on SME access to finance and more generally on the business cycle.

EIF expects SME default rates to increase significantly – also considering that recent default rate levels have been well below historical default rates.

Additional negative impacts are also expected with regard to recovery rates and as a result of the negative correlation between default and recovery rates.

EIF's guarantees are valued as "marked-to-model". The main impact on the valuation stems from the assigned rating and the possible subsequent rating changes.

EIF has increased its monitoring efforts to identify potential negative rating migrations in a timely manner. The improvement of the monitoring is a continuous process and addresses nonetheless the current financial crisis.

EIF has strengthened the stress testing methodology, i.e. its scenario analysis with regard to portfolio rating movements and related impacts on capital allocation, expected losses, as well as on the P&L.

Venture capital

EIF's own risk VC portfolio, due to its wide diversification, is likely to be impacted by the market risks stemming from the deterioration of the European economies and public markets.

EIF's VC investments are valued according to best market practice and applicable industry valuation guidelines.

EIF has intensified its monitoring done on the valuations reported by VC fund managers, but also on other specific risks linked to the current crisis. EIF has also run more stringent stress test scenarios on its VC funds portfolios to assess the impact of a worsening and/or continuation of the current crisis.

Treasury

EIF Treasury management has benefited from the same measures taken by the EIB to manage its portfolio during the financial crisis (EIF treasury management is outsourced to EIB under a treasury management agreement).

Since the beginning of the credit and liquidity crisis in early August 2007, specific risk mitigation still in force today- have been put in place in line with those implemented for the EIB:

- Suspension of the riskiest investments (ABSs, RMBS) and greater selectivity in the choice of investments,
- Monitoring of the performance of the markets,
- Reducing the maturity of the investments and, in line with the investment guidelines, suspension of credit limits of counterparties impacted by rating downgrades.

In this context and in line with the asset management guidelines, disposal decisions were taken in relation to the downgrading of securities held in the portfolio, with certain losses incurred.

Organisationally within the EIB and EIF, action was taken to set up inter Directorate working parties and management committees with a view to facilitating communication and rapid reaction at times of financial market instability.

3.3. Venture capital

3.3.1. Background

EIF is a fund of venture capital funds, taking equity participations in funds. EIF's minority stakes in funds have catalyzed commitments from a wide range of investors. EIF's VC operations are mainly focused on early-stage and seed capital. However, the portfolio is also expanding in well-established mid- and later-stage investments, which, generally speaking, have a lower risk profile.

Valuation review under IFRS

Part of the monitoring is the valuation review of VC funds under IFRS. This process includes different steps to get to what is called Operational Adjustment:

- Collecting financial quarterly reports sent by the fund managers as basis for valuation.
- Assessing whether valuations are in line with best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:
  - "Flash reviews" of regular financial reporting received from VC funds.
  - Monitoring visits.
  - Any significant information with potential evaluation impact.
  - Subsequent events reviews.
- Classification of funds: depending on the outcome of the monitoring described above, funds will be judged as IFRS compliant or not. Following the analysis performed above, the funds are classified into three categories as described in note 2.3.2.
- Risk Committee: this committee comprises the Chief Executive, the Deputy Chief Executive, the Head of front office, the Head of risk management and the Head of finance. The committee approves the impairment classification.

As a conclusion, EIF portfolio management systems are not mechanical exercises, as they rely on the judgement of experienced staff.

3.3.2. Portfolio overview:

All mandates

At the end of 2008, EIF's total cumulative VC investments amounted to EUR 4.5 bn in terms of commitments. The investments were made in 299 funds and helped mobilize total capital of over EUR 27.89 bn with other investors. The majority of EIF's VC activities are carried out on behalf of the EIB under the EUR 4 bn Risk Capital Mandate (RCM). Total signatures using EIB resources reached about EUR 3.5 bn. EIF also manages VC investments on behalf of the EC under G&E, MAP and since recently CIP mandates. The cumulative portfolio that EIF manages on behalf of EC was EUR 421 m at the end of December 2008.

EIF has also put in place joint investment facilities with five public and / or private partners.

EIF own resources

At the end of 2008, own-risk VC commitment (i.e. commitments given to underlying funds to invest) amounted to EUR 411 m (2007: EUR 413 m) EIF maintains a balanced portfolio with a focus on technology-oriented early-stage and general mid- and later-stage funds. EIF does not directly acquire participations in companies, but instead invests in selected VC funds, with the private sector investors providing at least 50 % of the equity. All investments are done on a pari-passu basis with other investors, granting then no specific rights (or obligations) to EIF. All of EIF's risk existing from its own-risk VC operations is fully covered by shareholders' equity. As a subceiling, VC commitments may not exceed 50 % of shareholders' equity, equivalent to EUR 498 502 555 at year-end 2008. Of the EUR 411 m of own-risk funds committed at that time, EUR 272 m had been disbursed. VC

investments are evaluated quarterly according to the best market practice industry valuation guidelines. Following the methodology described in the note 3.3.1, EIF records value adjustments on a line by line basis, either through the profit and loss in case of impairment or through the fair value reserve, which forms part of EIF's shareholder's equity. Consequently, net disbursed own-risk funds (at cost) of EUR 178 m (vs. EUR 164 m at the end of 2007) are valued at EUR 159 m in EIF's 2008 balance sheet (vs. EUR 168 m at the end of 2007).

3.3.3. Significance of financial instruments for financial position and performance

Activities

In terms of EIF VC portfolio activities, the year 2008 presents a decrease for the figures (signatures, disbursements and reflows) :

EIF yearly cash flow activity (EUR m)

	Signatures	Disbursements	Capital Repayments	Income & Dividends
31/12/2008	18.9	38.5	15.3	4.6
31/12/2007	70.6	47.6	18.9	6.7

The proportion of funds considered as impaired have increased from 14 % to 23 % of the EIF portfolio (see table) based on committed funds.

VC assets not impaired vs. impaired (EUR m)

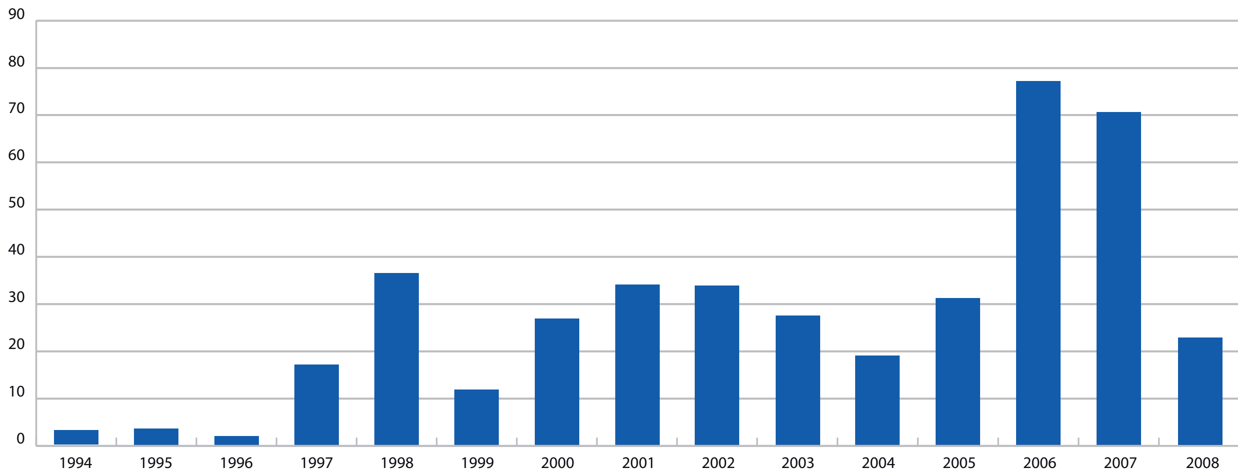
	Signatures		
Funds	Dec 2007	Dec 2008	+/-
Not impaired	347.0	309.2	-8.91 %
Impaired	56.3	91.6	+62.8 %
Impair. (%)	14 %	23 %	

Diversification

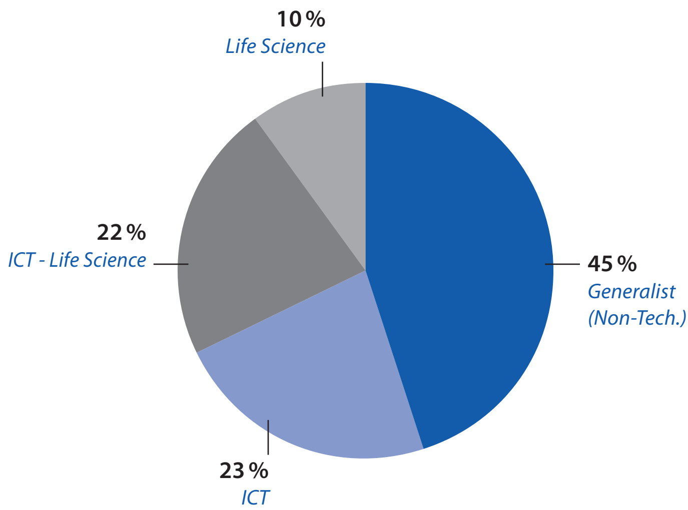
EIF own resource portfolio can be considered as well diversified. As of 31 December 2008, EIF has committed EUR 411 m in 168 private equity funds with the biggest exposure amounting to EUR 15 m (4 % of total signatures). These PE funds have invested in more than 1 400 underlying portfolio companies.

In terms of vintage year, sector and stage the portfolio is well balanced, illustrated by the followings split by signature as at 31 December 2008:

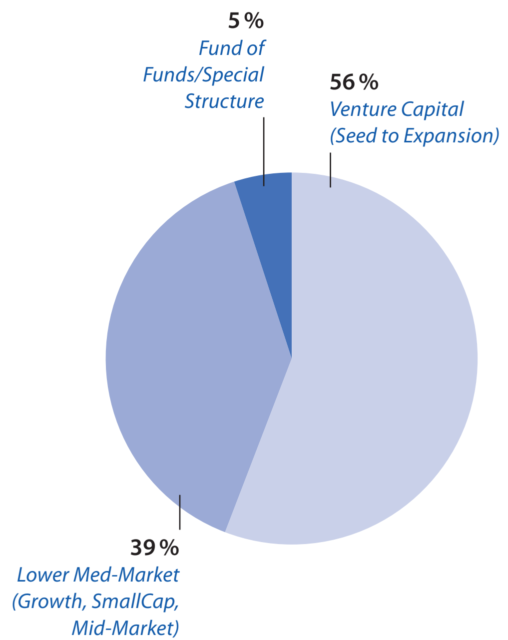
Vintage year (signatures) in EUR m



Split per sector (signatures) in percentage



Split per stage (signatures) in percentage



Finally, in terms of maturity, the EIF portfolio is still young. Its commitment weighted average age has increased from 4.2 years in 2007 to 5 years in 2008.

3.4. Portfolio Guarantees & Securitisation ("G&S")

3.4.1. Background

EIF extends portfolio guarantees to financial intermediaries involved in SME financing, and by covering part of the risk faced by those institutions, it helps facilitate funding access, and in turn, it helps to finance SMEs.

For its G&S business, over the last years, EIF staff has developed a tool-set to analyse portfolio guarantee and structured financial transactions in line with best market practices. Before EIF enters legally into a guarantee transaction, G&S, within the Transaction and Relationship Management department, assigns an internal rating to each new own risk guarantee transaction in accordance with the EIF Credit Risk Policy Guidelines. The rating is based on internal models, which analyse and summarise the transaction's credit quality (expected loss concept), considering not only quantitative parameters but also qualitative aspects.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk adjusted and consequently vary according to the assigned rating. Over the past years EIF's conservative capital allocation rules have already taken into consideration the Basel II ideas. These rules have now been tailor-made in line with the Basel II framework.

The implementation of the Ratings Based Approach (RBA) for EIF's G&S exposures has been done under the technical assistance of the "Commission de Surveillance du Secteur Financier" (CSSF) and in close cooperation with the EIB.

As the rating is based on a model, RMM – in the course of the independent opinion process and in line with the Model Review Procedure – conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable for the official EIF internal rating models. It defines, inter alia, that each basic model has to be independently reviewed within EIF and that assumptions to adjust the basic model for individual transactions in the course of the rating process have to be documented, and reviewed by RMM.

A transaction is eligible if the assigned rating falls between Aaa-B1. It is EIF's intention to maintain an average rating portfolio of minimum Baa3. Once EIF guarantees a particular tranche, the individual internal rating assigned to such a tranche is reviewed quarterly upon closing. For each of the input variables a trigger value is defined and the internal rating model is re-run when the transaction performance triggers those limits.

Furthermore, the principle of "monitoring by exception" is applied. If there is an event which could cause an upgrade or a downgrade of a tranche an analysis and further review is triggered.

The G&S transactions are monitored regularly. The monitoring process includes:

- ongoing risk review of each existing G&S operation;
- checking compliance of contractual obligations by the relevant counterparty (e.g. timely reporting, compliance with eligibility criteria, verification of financial covenants, timely payment of fees due, etc.);
- assessing the expected evolution of each G&S operation in terms of its performance compared to ex-ante estimates set prior to signature of the operation;
- apply rating stress testing scenarios and assess whether the level of capital allocation and general provisions made for each operation are adequate and to propose, if deemed necessary, specific provisions for individual loss items;
- establishing and maintaining of the "Watch list" (for transactions rated below Ba2) in accordance with the internal guidelines. The potential downgrades are followed-up by a Watch List Operation Committee (consisting of staff from the G&S Division, RMM and the Legal Service) which proposes actions to the Investment and Risk Management Committee;
- analysis of the Guarantee Portfolio as a whole (Portfolio Review);
- on-site monitoring visits;
- valuation of G&S in line with IFRS accounting rules (Financial Guarantees & Derivatives).

3.4.2. Portfolio overview

Of the EUR 12.3 bn G&S exposure at risk at the end of 31 December 2008, EUR 3.8 bn (of which outstanding is EUR 3.7 bn) (31 %) are for "own risk" activities. The remaining EUR 8.5 bn (69 %) relate to "trust" activities on behalf of the EC. These trust activities include EUR 4.8 bn under MAP, EUR 2.4 bn under the SME Guarantee Facility (SME GF) and EUR 1.3 bn under CIP.

EIF's own-risk operations are based on three product types:

- Credit Enhancement Products accounted for 96.1 % of total own-risk outstanding guarantees (EUR 3.58 bn) as of end 2008. Credit enhancement is EIF's core own-risk guarantee activity, accounting for EUR 834 m of own-risk signatures in 2008. Credit enhancement serves as an unconditional debt service guarantee (or as a credit default), covering a specific tranche of a SME loan portfolio, with a maximum weighted average term of 15 years. The guarantee is called upon once a loss threshold has been reached in the relevant tranche.

- Credit Insurance Products accounted for 3.4 % of all own-risk outstanding guarantees (EUR 127.2 m) as of end 2008. In these cases, the fund guarantees up to 50 % of a loan or loan portfolio extended to SMEs by a financial institution. 24 % of this portfolio (EUR 30.6 m) consists of the Growth and Environment Programme sponsored by the EU.
- Structured Investment Vehicles (SIVs) accounted for 0.5 % of own-risk outstanding guarantees (EUR 17.7 m) at end 2008. In this instance, the EIF guarantees specific tranches (EUR 10 m – EUR 50 m) of SIVs. These funds are set up to make mezzanine or equity investments in SMEs that would not normally qualify for bank financing and therefore present a higher risk than typical special-purpose vehicles.

3.4.3. Portfolio quality and performance

End of 2008, the quality of the overall portfolio related to the number of transactions was at investment-grade level (90 % against 89.2 % at end 2007). The weighted average internal rating was Baa2 (of which 75 % was confirmed by rating agencies and the remaining relied on EIF's internal rating). A very low level of exposure to SIVs represented the riskiest portion of the portfolio, carrying an average internal rating of Ba1, while the safest guarantee facilities were credit insurance (A1) and credit enhancement (Baa2+).

At the end of 2008, 86 % of the transactions reviewed had a "neutral" outlook ("performance as expected"); 14 % transactions had a negative outlook and 5 transactions were downgraded.

The total exposure at risk (commitment less repayments) for EIF's own risk guarantees amounts to EUR 3.8 m with the following split:

	Weighted Average Rating		Exposure at risk (commitment minus repayment); in m EUR		% of total	
	2008	2007	2008	2007	2008	2007
Credit Enhancement	Baa2	Baa1	3 658	3 367	95.30 %	93.34 %
Credit Insurance	A1	A2	160	212	4.17 %	5.86 %
SIV	Ba1	Ba1	17	25	0.45 %	0.70 %
Defaulted	D	D	3	3	0.08 %	0.10 %
Total			**3 838**	**3 607**	**100.00 %**	**100.00 %**

In 2008, no new contract was classified as defaulted. During the year 2008, guarantees have been called on 6 deals for a total amount paid of EUR 0.4 m. The portfolio's overall weighted average life was stabilised at 4.7 years at end 2008, compared with 4.9 years at end 2007.

3.5. Treasury

3.5.1. Background

Treasury management has been outsourced to EIB under a treasury management agreement and is carried out according to EIF treasury guidelines.

EIF's operations are not cash based but rather use shareholders' equity, which is the basis for VC investments and capital allocation for guarantees. Consequently, EIF does not borrow funds.

The treasury is managed in such a way as to protect the value of the paid-in capital, to ensure an adequate level of liquidity to meet possible guarantee calls, PE commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk (see also section 3.1 on special risk mitigation measure adopted in the context of the financial crisis).

3.5.2. Portfolio overview

The treasury portfolio is split into four distinct sub-portfolios:

- the operational portfolio (containing short-term instruments;
- the investment portfolio and available for sale portfolio (made up of long-term debt instruments; floating-rate and fixed rate instruments);
- a cash portfolio.

	31.12.2008 EUR	31.12.2007 EUR
Cash Portfolio	30 543 163	21 874 539
Operational portfolio	352 959 421	269 729 999
	383 502 584	291 604 538
Investment and Available-for-sale portfolio	495 733 011	522 470 401
Total Treasury portfolio	**879 235 595**	**814 074 939**

The portfolio's average maturity is 2.66 years (2007: 3.79 years). In recent years, the EIF core business has surpassed treasury as the main income provider, accounting for 55 % of total income in 2008 (2007: 66 %).

3.6. Nature and extent of risks arising from financial instruments

The following tables provide information relating to the categories of financial instruments:

31.12.2008 (EUR)	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Non-financial assets / liabilities	Total	Fair value
Cash & cash equivalents	383 502 584	0	0	0	0	383 502 584	383 502 584
Investments:							
Debt securities and other fixed income securities	0	0	495 733 011	0	0	495 733 011	495 733 011
Shares and other variable income securities	0	2 625 429	156 089 394	0	0	158 714 823	158 714 823
Non current assets held for sale	0	0	0	0	7 139 812	7 139 812	7 139 812
Other assets [note 4.5]	10 632 934	0	0	0	17 833 053	28 465 987	28 465 987
Total Assets	**394 135 518**	**2 625 429**	**651 822 405**	**0**	**24 972 865**	**1 073 556 217**	**1 073 556 217**
Financial liabilities:							
Financial guarantees	0		0	18 990 527	0	18 990 527	18 990 527
Derivatives	0	2 604 242	0	0	0	2 604 242	2 604 242
Provisions for guarantees					8 983 874	8 983 874	8 983 874
Total Liabilities	**0**	**2 604 242**	**0**	**18 990 527**	**8 983 874**	**30 578 643**	**30 578 643**

31.12.2007	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Non-financial assets / liabilities	Total	Fair value
Cash & cash equivalents	291 604 538	0	0	0	0	291 604 538	291 604 538
Investments:							
Debt securities and other fixed income securities	0	0	522 470 401	0	0	522 470 401	522 470 401
Shares and other variable income securities	0	1 599 263	166 277 258	0	0	167 876 521	167 876 521
Other assets [note 4.5]	19 739 594	0	0	0	13 332 629	33 072 223	33 072 223
Total Assets	**311 344 132**	**1 599 263**	**688 747 659**	**0**	**13 332 629**	**1 015 023 683**	**1 015 023 683**
Financial liabilities:							
Financial guarantees	0	0	0	11 439 133	0	11 439 133	11 439 133
Derivatives	0	1 579 264	0	0	0	1 579 264	1 579 264
Provisions for guarantees	0	0	0	0	5 056 087	5 056 087	5 056 087
Total Liabilities	**0**	**1 579 264**	**0**	**11 439 133**	**5 056 087**	**18 074 484**	**18 074 484**

3.6.1. Credit risk

Credit risk concerns mainly the EIF guarantee activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial papers and deposits. The Fund uses appropriate instruments, policies, and processes to manage the credit risk.

The tables below show the maximum exposure to credit risk without taking into account any collateral (in EUR) :

Split by classes of balance sheet and off balance sheet

	Maximum exposure 2008	Maximum exposure 2007
Cash and cash equivalent	383 502 584	291 604 538
Investments - AFS		
Debt securities and other fixed income securities	495 733 011	522 470 401
Financial liabilities		
Financial guarantees	18 990 527	11 439 133
Derivatives	2 604 242	1 579 264
Total BS	**900 830 364**	**827 093 336**
Guarantees	3 838 815 813	3 606 967 244
Fiduciary Operations	11 714 808 220	10 467 106 367
Assets held on behalf of third parties	742 254 398	423 136 577
Total Off BS	**16 295 878 431**	**14 497 210 188**
Total Credit Risk Exposure	**17 196 708 795**	**15 324 303 524**

3.6.1.A. Venture capital

For EIF own risk VC portfolio, there is no credit exposure as investments are always done through an equity participation. As such, EIF is only exposed to market risk.

3.6.1.B. Portfolio guarantees & securitisation

Credit risk arises mainly from EIF's guarantees transactions funded by own resources.

This risk is managed by conservative risk management policies covered by the statutory and Credit Risk Policy Guidelines.

The statutes of the Fund limit own-risk guarantees to 3.0 x subscribed capital, which amounted to EUR 2.9 bn at end 2008. Hence, the EUR 3.8 bn exposure at risk at end 2008 was well below the statutory limit of EUR 8.7 bn.

EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified guarantee portfolio in terms of product range, geographic coverage, counterparty exposure, obligor exposure, industry concentration and also set out the capital allocation rules based on the ratings of the exposures.

Concentration risk is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, sectors, and also with regard to regional diversification.

To cover concentration risk, EIF has strict limits (based on capital allocation) for individual transactions and on originator level (maximum aggregate exposures for originators and originator groups).

End of 2008, EIF's overall own risk guarantee portfolio was spread over 20 countries. The largest nominal individual country net exposures were Italy, Belgium, UK and Portugal, which jointly accounted for 53 % of total guarantee commitments.

Own Funds guarantees: exposures at risk by country as of 31 December 2008:

Country	Ccy	2008 EUR m	2008 share	2007 share
Austria	EUR	1	0.0 %	0.1 %
Belgium	EUR	467	12.2 %	13.1 %
Bulgaria	EUR	70	1.8 %	1.4 %
Denmark	DKK; EUR	162	4.2 %	4.5 %
Finland	EUR	15	0.4 %	0.5 %
France	EUR	53	1.4 %	1.7 %
Germany	EUR	150	3.9 %	10.5 %
Greece	EUR	61	1.6 %	1.7 %
Ireland	EUR	4	0.1 %	0.1 %
Italy	EUR	894	23.3 %	13.7 %
Netherlands	EUR	194	5.1 %	4.0 %
Non EU	EUR	20	0.5 %	0.5 %
Pan EU & Multi	EUR	599	15.6 %	14.6 %
Poland	PLN	89	2.3 %	2.2 %
Portugal	EUR	279	7.3 %	7.7 %
Serbia	EUR	50	1.3 %	0.0 %
Spain	EUR	211	5.5 %	6.3 %
Sweden	SEK	125	3.3 %	4.0 %
United Kingdom	GBP; EUR	395	10.2 %	13.2 %
TOTAL		**3 839**	**100 %**	**100 %**

In the context of EIF's own risk guarantees operations, the credit risk is tracked since the very beginning on a deal-by-deal basis whilst adopting a different model analysis approach depending on the granularity and homogeneity of the underlying portfolios.

The industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction / tranche. For instance, dependent on the financial model to analyse the transaction, industry exposures can be reflected in diversity scores or can be indirectly captured through the assumption on default rate volatility, as a key model input variable.

Furthermore, concentration exposures are analysed in the context of each deal using qualitative measures such as current status and forecast for sectors with high concentrations in the portfolio. Exceptionally, some deals have a concentrated exposure in the same (broad) sector. This is typically captured through increased credit enhancement (e.g. subordination) to the benefit of EIF. Typically, deals with replenishing features have portfolio criteria, such as maximum single obligor, maximum top 5 obligors, and maximum industry concentration levels.

All together help to model industry concentration and portfolio correlation. Furthermore, the consideration of sector exposures is part of EIF's overall portfolio analysis.

Counterparty risk is mitigated by the quality of EIF counterparties which are usually major market players. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of guarantees, including extreme case assumptions, are regularly carried out to determine the ability of the capital base to sustain adverse shocks.

Actual performance on the guarantees operations to date has been very satisfactory, reflecting the high credit quality of exposures, the diversification of assets and the granularity of the portfolio.

3.6.1.C. Treasury

The Fund is exposed to residual credit risk relating to its liquid assets portfolio. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio under the EIF's management, the eligibility criteria for counterparts are fixed according to their nature and credit quality (as measured by their external agency rating), while limits are fixed according to counterparts' own funds.

Any currency arbitrage not directly required to carry out EIF's operations is ruled out by the statutes.

The following tables outline the credit quality by investment grade of the Fund's debt securities as on 31 December 2008 and 2007, based on external ratings. Figures are presented without accrued interests.

AFS - Debt securities and other fixed income securities	2008		2007	
Rating	Amount in EUR	In percentage	Amount in EUR	In percentage
AAA	332 070 748	68.33%	379 388 527	74.18%
AA1	0	0.00%	12 541 320	2.45%
AA2	19 461 862	4.00%	23 278 108	4.55%
AA3	36 078 102	7.42%	38 649 549	7.56%
AA+	0	0.00%	0	0.00%
A1	48 966 722	10.08%	11 247 280	2.20%
A2	44 963 456	9.25%	41 417 450	8.10%
A3	0	0.00%	0	0.00%
BAA1	0	0.00%	4 811 728	0.94%
BAA2	4 420 961	0.91%	0	0.00%
NR*	0	0.00%	98 579	0.02%
P1**	0	0.00%	0	0.00%
Total	**485 961 851**	**100%**	**511 432 541**	**100%**

(*) Non-rated

(**) Short-term rating, equivalent of (Aaa-A2)

EIF treasury portfolio has delivered a performance within the expectations.

3.6.2. Liquidity risk

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

The tables below show the Fund's assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. It is presented using the most prudent expectation of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date. Guarantees commitments are analysed with reference to their expected maturity date.

Maturity at 31.12.2008 (in EUR)	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined Maturity	Total
Cash and cash equivalent	383 502 584	0	0	0	0	383 502 584
Investments						
Debt securities and other fixed income securities	11 465 733	101 124 388	259 575 018	123 567 872	0	495 733 011
Shares and other variable income securities	3 394 570	3 212 310	65 201 355	86 906 588	0	158 714 823
Non-current assets held for sale	0	7 139 812	0	0	0	7 139 812
Other assets	7 614 072	0	2 924 089	17 927 826	0	28 465 987
Intangible assets	198 241	525 588	1 145 964	0	0	1 869 793
Property, equipment	57 352	158 883	208 674	8 764	0	433 673
Total assets	**406 232 552**	**112 160 981**	**329 055 100**	**228 411 050**	**0**	**1 075 859 683**
Financial liabilities						
Financial guarantees	79 654	819 482	14 442 448	3 648 943	0	18 990 527
Derivatives	149	257 611	939 789	1 406 693	0	2 604 242
Provisions for guarantees	2 153 622	0	6 830 252	0	0	8 983 874
Retirements benefit obligations	0	0	0	16 984 934	0	16 984 934
Other liabilities and provisions	6 616 028	3 506 496	0	4 101 046	0	14 223 570
Equity	0	0	0	0	1 014 072 536	1 014 072 536
Total liabilities	**8 849 453**	**4 583 589**	**22 212 489**	**26 141 616**	**1 014 072 536**	**1 075 859 683**
Net liquidity position at 31.12.2008	397 383 099	107 577 391	306 842 610	202 269 436	(1 014 072 536)	0
Cumulative liquidity position at 31.12.2008	397 383 099	504 960 490	811 803 100	1 014 072 536	0	0
Commitments to venture capital	34 172 142	23 810 943	134 962 799	217 917 078	0	410 862 962
Guarantees	609 261 744	379 737 730	1 955 768 091	894 048 248	0	3 838 815 813
Total Off BS	643 433 886	403 548 673	2 090 730 890	1 111 965 326	0	4 249 678 775

Maturity at 31.12.2007 (in EUR)	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined Maturity	Total
Cash and cash equivalent	291 604 538	0	0	0	0	291 604 538
Investments						
Debt securities and other fixed income securities	26 263 699	73 880 810	226 810 079	195 515 813	0	522 470 401
Shares and other variable income securities	3 078 893	13 081 039	72 402 857	79 313 732	0	167 876 521
Other assets	13 554 019	0	4 144 063	15 374 141	0	33 072 223
Intangible assets	592	51 068	1 109 824	0	0	1 161 484
Property, equipment	4 394	29 275	415 657	7 796 269	0	8 245 595
Total assets	**334 506 135**	**87 042 192**	**304 882 479**	**297 999 955**	**0**	**1 024 430 762**
Financial liabilities						
Financial guarantees	0	439 797	10 147 746	851 590	0	11 439 133
Derivatives	0	582 930	65 920	930 414	0	1 579 264
Provisions for guarantees	0	0	5 056 087	0	0	5 056 087
Retirements benefit obligations	0	0	0	13 232 407	0	13 232 407
Other liabilities and provisions	1 880 898	2 844 388	50 000	2 983 270	0	7 758 556
Equity	0	0	0	0	985 365 315	985 365 315
Total liabilities	**1 880 898**	**3 867 115**	**15 319 753**	**17 997 681**	**985 365 315**	**1 024 430 762**
Net liquidity position at 31.12.2007	332 625 237	83 175 077	289 562 727	280 002 275	(985 365 315)	0
Cumulative liquidity position at 31.12.2007	332 625 237	415 800 314	705 363 041	985 365 315	0	0
Commitments to venture capital	29 100 371	49 405 259	106 032 678	228 749 142	0	413 287 450
Guarantees	228 885 425	192 150 747	2 361 417 882	825 324 501	0	3 607 778 555
Total Off BS	**257 985 796**	**241 556 006**	**2 467 450 560**	**1 054 073 643**	**0**	**4 021 066 005**

Guarantees issued on behalf of the EIF can also be analysed with reference to their current contractual maturity as follows:

	Total Drawn	Undrawn	Total 31.12.2008	Total Drawn	Undrawn	Total 31.12.2007
Up to 5 years	343 115 823	30 799 194	373 915 017	462 218 868	42 879 931	505 098 799
From 5 to 10 years	1 584 257 058	19 225 705	1 603 482 763	1 328 407 368	43 087 734	1 371 495 102
From 10 to 15 years	786 654 567	16 641 150	803 295 717	1 018 783 584	29 022 657	1 047 806 241
Over 15 years	1 014 885 573	43 236 744	1 058 122 317	683 378 414	0	683 378 414
	3 728 913 021	**109 902 793**	**3 838 815 814**	**3 492 788 234**	**114 990 322**	**3 607 778 556**

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and un-drawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

Of the above total amount, EUR 0 (2007: EUR 1 627 750) have been issued in favour of the EIB.

The drawn-down portion of the guarantees issued includes an amount of EUR 949 857 representing the present value of future interest for guarantees contracts in default (2007: EUR 811 311).

3.6.2.A. Venture capital

The private equity market is by nature not liquid as the vehicles are closed-end funds with in general a 10-year lifetime. After the first closing, it is difficult for an investor to get out from its position except if it can find a buyer through the secondary market.

The total commitments to venture capital funds are limited to 50 % of shareholders' equity. EIF portfolio is well diversified in terms of vintage years which has a smoothing effect on its cash-flows. (see EIF own resource portfolio split by vintage year under section 3.3.3).

3.6.2.B. Portfolio guarantees & securitisation

The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensures a high degree of liquidity to cover unexpected losses arising from the guarantee activity.

The total capital charge for guarantees is limited to 50 % of shareholders' equity.

At year-end 2008, the capital charge represented 51 % of the limit versus 54 % in 2007.

	31.12.2008	31.12.2007
Capital Charges EURm :	256	259
Capital Ceiling :	499	483
Utilisation:	51%	54%
Headroom:	243	224
Guarantees Drawn:	4 412	4 153
Guarantees Undrawn:	110	115
Maximum Exposure:	3 839	3 607
Aggregated Guarantee calls:	0.4	0.6

3.6.2.C. Treasury

At the end of 2008, 68.33 % of the Fund's liquid asset exposure was rated 'AAA'. 11.43 % were rated 'AA'-entities. In view of the quality of the securities held (averaging 'AA+'), liquidity risk on this portfolio is not significant.

3.6.3. Market risk

3.6.3.1. Market risk-interest rate risk

More than half of the Fund's income and operating cash flows are independent of changes in market interest rates. The Fund's interest rate risk arises mainly from cash & cash equivalents positions as well as investments in debt securities.

3.6.3.1.A. Venture capital

VC being an equity product, sensitivity to interest rate is not performed.

3.6.3.1.B. Portfolio guarantees & securitisation

Transactions in which EIF acts as guarantor are typically in non liquid markets and representative market prices are not available. Hence, EIF has developed a mark-to-model approach to value these transactions, using external and internal ratings, information from the regular monitoring, and discounted cash-flow analysis.

The value of guarantee transactions classified as Financial Guarantees are not subject to fluctuations on interest rates during transactions' life since valuations are carried under IAS 37 provisions rules.

Conversely, the guarantee transactions classified as Derivatives (which do not comply with all the definition criteria of a financial guarantee contract in terms of IAS 39) are valued monthly and current market interest rates are inputted in the model. However, the interest rates used by the model are only applied to calculate the present value of expected premiums. Fluctuations in the interest rates do not carry any fluctuation to the EIF profit and loss accounts.

The interest rate risk impact on underlying portfolios is indirectly assessed by the portfolio quarterly review of the transactions' performance.

At the end of 2008, own risk guarantees transactions classified as "Derivatives" amount to EUR 1.2 bn and represent 31.6 % of total guarantee exposure at risk (EUR 3.8 bn). Capital allocation charges for Derivatives amounting to EUR 54.7 m represent 21.3 % of total guarantee capital allocation charges (EUR 256 m).

3.6.3.1.C. Treasury

Approximately 80 % of the liquid assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long term revenues.

Moreover, operations of a speculative nature shall not be authorised. Investment decisions are based on the interest rates available in the market at the time of investment. Interest rate expectations shall not be taken into account.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value):

At 31.12.2008 (in EUR)	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash & cash equivalents	383 502 584	0	0	0	0	383 502 584
AFS - Debt securities and other fixed income securities	10 892 068	96 282 103	209 243 693	107 300 813	72 014 334	495 733 011
Total	**394 394 652**	**96 282 103**	**209 243 693**	**107 300 813**	**72 014 334**	**879 235 595**
Percentage	44.86%	10.95%	23.80%	12.20%	8.19%	100.00%

At 31.12.2007 (in EUR)	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash & cash equivalents	291 604 538	0	0	0	0	291 604 538
AFS - Debt securities and other fixed income securities	26 263 699	73 880 810	179 547 928	165 071 575	77 706 389	522 470 401
Total	**317 868 237**	**73 880 810**	**179 547 928**	**165 071 575**	**77 706 389**	**814 074 939**
Percentage	39.05%	9.08%	22.06%	20.28%	9.55%	100.00%

The average effective interest rate on term deposit in EUR is 4.49 % for the year 2008 (2007: 4.05 %). The average effective interest rate on the AFS securities portfolio in EUR is 4.35 % for 2008 (2007: 4.54 %).

Sensitivity of earnings

The sensitivity of the earnings is an estimate of the change during the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or decrease by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life of the previous one as of 31.12.08. Positions in floating rate assets are assumed to have quarterly repricings. With the positions in place as of 31.12.07, the earnings of the EIF treasury portfolio would increase by EUR 2.8 million if interest rates increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points. With the positions in place as of 31.12.08, the earnings of the EIF treasury portfolio would increase by EUR 3.4 million if interest rates increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points.

Value at risk

As of 31.12.08, the value-at-risk of the EIF treasury portfolio was EUR 1. 9 million (EUR 1. 6 million as of 31.12.07). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99% and a 1 day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1 % . Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk. In the current context of financial crisis and highly volatile markets, the evolution of the VaR of own funds reflects the effective increase of the volatility of interest rate.

3.6.3.2. Market risk: Foreign currency risk

The following section provides information on the risk that fair values and future cash flows of financial assets fluctuate due to changes in foreign exchange rates.

The Fund's objective is to reduce exchange risk by limiting its investment in out-currency. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

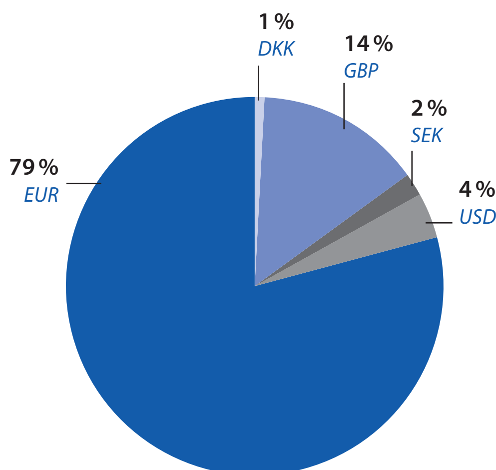
The tables below show the exchange positions (in EUR) of EIF's main assets and liabilities.

At 31.12.2008 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalent	379 729 500	2 640 867	547 475	584 742	3 773 084	383 502 584
Investments						
Debt securities and other fixed income securities	495 733 011	0	0	0	0	495 733 011
Shares and other variable income securities	125 888 187	22 047 946	5 674 338	5 104 352	32 826 636	158 714 823
Non-current assets held for sale	7 139 812	0	0	0	0	7 139 812
Other assets	28 465 987	0	0	0	0	28 465 987
Intangible assets	1 869 793	0	0	0	0	1 869 793
Property, equipment	433 673	0	0	0	0	433 673
Total assets	**1 039 259 963**	**24 688 813**	**6 221 813**	**5 689 094**	**36 599 720**	**1 075 859 683**
Financial liabilities						
Financial guarantees	17 975 676	906 813	0	108 038	1 014 851	18 990 527
Derivatives	1 654 479	949 763	0	0	949 763	2 604 242
Provisions for Guarantees	4 723 443	484 798	0	3 775 633	4 260 431	8 983 874
Retirements benefit obligations	16 984 934	0	0	0	0	16 984 934
Other liabilities and provisions	14 223 570	0	0	0	0	14 223 570
Total liabilities	**55 562 102**	**2 341 374**	**0**	**3 883 671**	**6 225 045**	**61 787 147**
Commitments to venture capital	314 185 778	70 741 172	12 433 714	13 502 298	96 677 184	410 862 962
Guarantees	3 187 942 884	301 532 627	0	349 340 302	650 872 929	3 838 815 813
Total Off BS	**3 502 128 662**	**372 273 799**	**12 433 714**	**362 842 600**	**747 550 113**	**4 249 678 775**

At 31.12.2007 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalent	285 336 884	2 277 354	2 587 458	1 402 842	6 267 654	291 604 538
Investments						
Debt securities and other fixed income securities	522 470 401	0	0	0	0	522 470 401
Shares and other variable income securities	122 267 894	35 053 480	5 150 527	5 404 620	45 608 627	167 876 521
Non-current assets held for sale	0	0	0	0	0	0
Other assets	33 072 223	0	0	0	0	33 072 223
Intangible assets	1 161 484	0	0	0	0	1 161 484
Property, equipment	8 245 595	0	0	0	0	8 245 595
Total assets	**972 554 481**	**37 330 834**	**7 737 985**	**6 807 462**	**51 876 281**	**1 024 430 762**
Financial liabilities						
Financial guarantees	6 190 150	5 248 983	0	0	5 248 983	11 439 133
Derivatives	962 719	616 545	0	0	616 545	1 579 264
Provisions for Guarantees	5 056 087	0	0	0	0	5 056 087
Retirements benefit obligations	13 232 407	0	0	0	0	13 232 407
Other liabilities and provisions	7 758 556	0	0	0	0	7 758 556
Total liabilities	**33 199 919**	**5 865 528**	**0**	**0**	**5 865 528**	**39 065 447**
Commitments to venture capital	299 555 513	90 517 442	11 754 636	11 459 859	113 731 937	413 287 450
Guarantees	2 857 823 627	393 727 589	0	356 227 339	749 954 928	3 607 778 555
Total Off BS	**3 157 379 140**	**484 245 031**	**11 754 636**	**367 687 198**	**863 686 865**	**4 021 066 005**

3.6.3.2.A. Venture capital

On the venture capital side, at 31 December 2008, currency exposure for the investments funds can be split as follows:



(as % of the total fair value, EUR 159 million)

As assets in the EIF balance sheet are recorded at the historical cost (e.g. for each separate operations (disbursements and capital repayments) with the exchange rate at the end of the month preceding the operation), they need to be readjusted at the exchange rate of the 31 December 2008.

For 2008, changes in foreign exchange rates for shares and other variable income amount to EUR - 9 412 160 out of which EUR - 7 968 533 have been recorded in the fair value reserve.

The sensitivity analysis is performed for all currencies representing more than 5 % of the total exposure. As of year end, only Pound Sterling falls into this category and has been stress tested with an increase / decrease of 15 % vs. the euro.

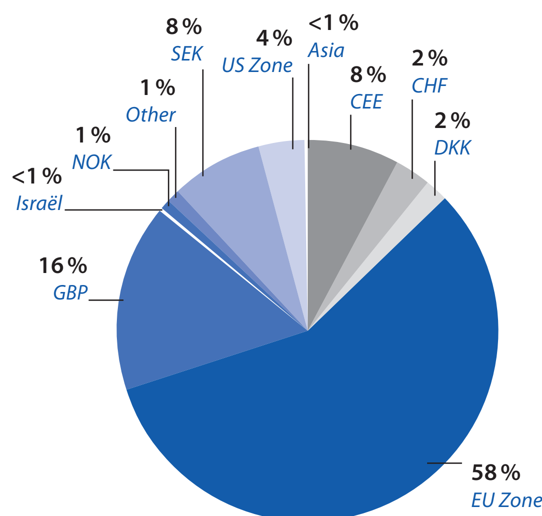
Foreign exchange rate risk			
31.12.08	GBP +15 %	GBP -15 %	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
(496 478)	(857 233)	143 150	857 366
31.12.07	GBP +10 %	GBP -10 %	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
(487 116)	(1 404 834)	487 116	1 404 834

Closing rates at balance sheet date were (1 EUR/CCY):

	31.12.07	31.12.08
DKK	7.4583	7.4506
GBP	0.73335	0.9525
SEK	9.4415	10.87
USD	1.4721	1.3917
CHF		1.485

It has to be noted however, that these impacts are measured at the fund level (impact on the net asset values denominated in out-currency). Therefore, they do not take into account indirect potential effects on the underlying portfolio companies which could be in out-currencies. In practice most of the fund managers try to hedge the positions they could have in currency different of the fund main currencies.

However, the underlying investments are also well diversified and the indirect exposure of EIF is following broadly the exposure at the fund level, as illustrated by the graph below:



3.6.3.2.B. Portfolio guarantees & securitisation

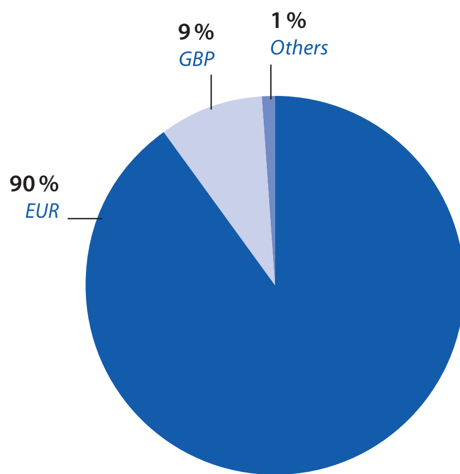
The Own Risk guarantees portfolio is mainly denominated in euros. As of end 2008, 83 % of exposure at risk (90 % of Fair Value) were in euros. The GBP is the main foreign currency exposure and represented 8 % of exposure at risk (9 % of Fair Value).

Non-euro guarantees operations considered as "Financial Guarantees" do not carry any exchange rate risk with impact on EIF P&L accounts.

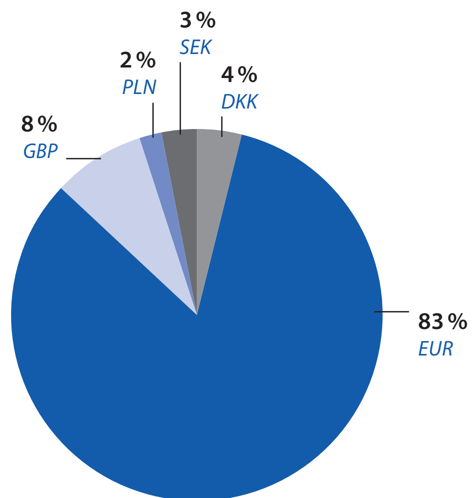
Non-euro G&S operations considered as "Derivatives" are required to be revaluated monthly. However, the currency risk is limited to the revaluation of the non-euro expected loss which is not material in size (EUR 0.2 m for 2008).

Own risk portfolio breakdowns by currency and assets fair value at 31 December 2008:

Breakdown of Assets Fair Value



Exposure at risk breakdown



EIF is monitoring its non-euro exposure, performs regular stress tests with regard to currency risk and the impact on unexpected loss. Additional capital charges on non-euro exposures are assumed and the outcome is compared with the available headroom. Analyses are done on what potential actions are required in order to limit the foreign exchange risk exposure. For Trust operations the exchange risk is typically borne by the EIF counterparties. In some cases specific budgetary allocations can be made in order to mitigate the risk taken by the intermediary. Related to Trust activities no currency exposures emerge on behalf of EIF.

3.6.3.2.C. Treasury

No risk is taken regarding EIF's debt securities' portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR. Included in the above exchange positions are the financial assets classified by currency. It shows that risk regarding foreign currency exchange rates is insignificant.

3.6.3.3.3. Market risk: public market risk

3.6.3.3.A. Venture capital

The specificities of private equity asset class make the use of traditional approaches to market risk analysis difficult to apply. Market risk analysis requires the estimation of the correlation between the assessed asset class and the public market. This can be done based on the capital asset pricing model. This model requires estimating the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, private equity and in particular venture capital lacks such data. Indeed, the analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which are not fully representative of the market. Most of all, data does not fully capture

the uncertainty of the asset class. Furthermore, as the standard performance measure used for private equity funds, the IRR, is capital-weighted, while for the public market assets, it is traditionally time-weighted, an analysis of correlation between private equity and other asset classes is not possible without significant adjustments and therefore induces potentially important biases.

The EIF uses the beta of a listed PE index, LPX Europe in order to estimate the sensitivity of the valuation of EIF's private equity investment to market prices.

Using the beta from LPX Europe and assuming market price movements of ±10 % , EIF's private equity investments' value would be impacted as follows:

Public market risk: ALL PRIVATE EQUITY						
	+10%			-10%		
	Beta 1.3			Beta 1.3		
	Final Sensitivity: + 13%			Final Sensitivity: - 13%		
	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on Equity	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on Equity
31.12.08	370 227	21 356 608	21 726 836	(5 998 656)	(15 386 227)	(21 384 883)
31.12.07	908 738	12 337 191	13 245 929	(940 745)	(12 438 782)	(13 379 527)

The above final sensitivity (i.e beta x +/- 10 %) is applied to the net asset value giving an adjusted net asset value, which is then compared to the net paid in. The calculated value adjustment will then be recorded following the methodology described in the "background" part.

3.7. Fair value of financial assets and financial liabilities

These results can only be seen as indications of the potential sensitivity. Indeed, despite the notions of fair value, private equity is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and following normally industry valuation guidelines.

Table setting out a comparison by categories of the carrying amounts and fair value of the Fund's financial assets and liabilities:

	Carrying amount 2008	Fair value 2008	Carrying amount 2007	Fair value 2007
	EUR	EUR	EUR	EUR
Financial assets				
Loans and receivables	394 135 518	394 135 518	311 344 133	311 344 133
Financial investments - AFS	651 822 405	651 822 405	687 423 673	687 423 673
Financial assets designated at fair value through P&L	2 625 429	2 625 429	1 511 249	1 511 249
TOTAL	**1 048 583 352**	**1 048 583 352**	**1 000 279 055**	**1 000 279 055**
Financial liabilities				
Financial guarantees	18 990 527	18 990 527	11 439 133	11 439 133
Financial liabilities designated at fair value through P&L	2 604 242	2 604 242	1 579 264	1 579 264
Other liabilities	5 105 933	5 105 933	1 357 583	1 357 583
TOTAL	**26 700 702**	**26 700 702**	**14 375 980**	**14 375 980**

For loans and receivables as well as other liabilities, the carrying values approximate fair values.

Tables showing an analysis of financial assets and liabilities recorded at fair value according to how the fair value is determined

At 31.12.2008	Quoted market	Valuation techniques - non market observable input	Total
	EUR	EUR	EUR
Financial assets			
Loans and receivables	394 135 518	0	394 135 518
Financial investments - AFS	496 667 054	153 155 351	651 822 405
Financial assets designated at fair value through P&L	0	2 625 429	2 625 429
	890 802 571	**157 780 780**	**1 048 583 352**
Financial liabilities			
Financial guarantees	0	18 990 527	18 990 527
Financial liabilities designated at fair value through P&L	0	2 604 242	2 604 242
	0	**21 594 769**	**21 594 769**

At 31.12.2007	Quoted market	Valuation techniques - non market observable input	Total
	EUR	EUR	EUR
Financial assets			
Loans and receivables	311 344 132	0	311 344 132
Financial investments - AFS	526 040 135	161 383 538	687 423 673
Financial assets designated at fair value through P&L	0	1 511 249	1 511 249
	837 384 267	**162 894 787**	**1 000 279 054**
Financial liabilities			
Financial guarantees	0	11 439 133	11 439 133
Financial liabilities designated at fair value through P&L	0	1 579 264	1 579 264
	0	**13 018 397**	**13 018 397**

Fair value of derivative financial instruments:

	Valuation techniques - non market observable input	
Derivatives	Fair value at 31.12.2008 (EUR)	Fair value at 31.12.2007 (EUR)
Negative value of Derivatives	(2 604 242)	(2 014 394)
Positive value of Derivatives	0	435 130
At 31.12.2007	**(2 604 242)**	**(1 579 264)**

Derivatives nominal value amounts to EUR 1 216 570 808 (2007: EUR 1 268 070 381).

4. Detailed disclosures relating to asset headings

4.1. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets, highly liquid securities. They include cash at bank and in hand, interest earning deposits with original maturities of 3 months or less and bank overdrafts.

The remaining life of cash and cash equivalents is as follows:

	31.12.2008 EUR	31.12.2007 EUR
Repayable on demand	30 543 163	21 874 539
Up to three months	352 959 421	269 729 999
	383 502 584	**291 604 538**

The effective interest rate on short-term bank deposits is 4.49 % (2007: 4.05 %). These deposits have an average maturity of 57 days (2007: 38 days).

4.2. Debt securities and other fixed-income securities

The Fund's portfolio includes money market funds and other money market instruments; long-term debt instruments e.g. bonds, notes and other obligations.

Debt securities and other fixed-income securities are analysed as follows:

	31.12.2008 EUR	31.12.2007 EUR
Available-for-Sale portfolio	149 137 396	128 936 612
of which accrued interests	*1 529 023*	*1 398 823*
Investment portfolio	346 595 615	393 533 789
of which accrued interests	*8 242 136*	*9 639 036*
	495 733 011	**522 470 401**

Debt securities and other fixed-income securities held by the Fund are all listed on an active market. Figures above are presented at fair value.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties, the market value of securities lent at year-end amounts to EUR 60 948 198 (2007: EUR 77 319 235). Derecognition criteria in accordance with IAS 39 are not fulfilled.

Movement in debt securities and other fixed income securities:

	31.12.2008 EUR	31.12.2007 EUR
Fair value at 1 January	522 470 401	517 033 602
Additions	75 115 790	104 291 000
Disposals	(101 164 470)	(91 300 412)
Effective interest rate adjustement	(201 296)	3 721 889
Change in Fair value reserve	(388 835)	(11 078 522)
Impairment	(98 579)	(197 156)
Fair value at 31 December	**495 733 011**	**522 470 401**

The total amount of fair value changes that has been recognised in equity during the year 2008 is EUR - 7 909 961 (2007 : EUR - 7 521 129).

In 2008, impairment for an amount of EUR 98 579 (2007: EUR 197 156) has been recorded. The cumulated impairments correspond to the total carrying value as at 31 December , 2008.

4.3. Shares and other variable income securities

Shares and other variable income securities include investments in venture capital funds and are analysed as follows:

	31.12.2008 EUR	31.12.2007 EUR
Investment at cost at 1 January	167 815 866	139 026 112
Additions	39 561 022	47 694 091
Disposals	(15 860 969)	(18 904 337)
Investment at cost at 31 December	191 515 919	167 815 866
Value Adjustment and foreign exchange adjustment at 1 January	60 656	(5 357 934)
Value Adjustment to Fair value reserve	(18 957 702)	13 812 285
Impairment	(13 904 050)	(8 393 696)
Value Adjustment and foreign exchange adjustment at 31 December	(32 801 096)	60 655
	158 714 823	**167 876 522**

Investments in venture capital funds represent equity investments and related financing structures.

During the year, dividends in the amount of EUR 4 598 262 (2007: EUR 6 674 654) were paid to the fund. They are shown under the caption “Income from investments in shares and other variable income securities” in the income statement.

The cumulated fair value changes recorded in the fair value reserve, in accordance with the valuation method described in note 2.3.2, amounts to EUR (18 957 702) (2007: EUR 13 812 286) and includes the impact of the changes in the value of investments EUR (10 989 169) (2007: EUR 17 008 020) and the impact of the changes in the foreign exchange rates on the investments EUR (7 968 533) (2007: EUR (3 195 734)).

Investments belonging to the Category III are measured at cost less impairment, as no reliable fair value is available. These amount to EUR 192 777 (2007: EUR 247 500).

The Fair Value as at 31 December 2008 includes an amount of EUR 2 625 429 (2007: EUR 1 599 263) related to Investment in joint-venture. After initial recognition at fair value, changes in fair value are recognized in the income statement.

Significant Influence

The participations entered by EIF for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments typically are investments jointly subscribed by a number of investors, none of which being in a position to individually take influence on the daily operations and the investment activity of such fund. As a consequence, any membership of an investor in a governing body of such fund does typically not give the right to take influence on 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 typically prevents individual investors from executing bilaterally material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information.

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the above stated industry practice, ensuring that EIF does neither control nor exercise any form of significant influence according to the definition of IAS 28 on any of these investments, including those investments in which EIF for its own account or on behalf of any of its mandates holds a participation in excess of 20 % of the voting power.

4.4. Non-current assets held for sale.

The assets concerned relate to a building that is held for sale at a carrying value of EUR 7 139 812 which is lower than the fair value less cost to sell.

4.5. Other assets

Other assets are made up of the following:

	31.12.2008 EUR	31.12.2007 EUR
Accounts receivable relating to pensions managed by the EIB	17 801 290	13 294 567
Advanced payments	1 920	8 220
Accrued commission on management fees & other income	9 807 870	14 572 826
Other debtors	854 907	5 196 610
	28 465 987	**33 072 223**

Accounts receivables relating to pensions managed by the EIB: following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management and investment on behalf of the Fund. See also note 5.3.

			Past due but not impaired		
	Total EUR	Neither past due not impaired EUR	0-6 months EUR	6-12 months EUR	>12 months EUR
2008	28 465 987	28 151 302	28 905	162 276	123 504
2007	33 072 223	26 647 018	864 124	5 000 000	561 081

4.6. Intangible assets

	Internally Generated Software EUR	Purchased Software EUR	Total EUR
At 01.01.2007			
Cost	2 321 066	377 074	2 698 140
Accumulated depreciation	(1 520 157)	(346 353)	(1 866 510)
Net book amount	**800 909**	**30 721**	**831 630**
Opening net book amount	800 909	30 721	831 630
Additions	773 516	119 436	892 952
Depreciation charge	(508 645)	(54 453)	(563 098)
Closing net book amount 2007	**1 065 780**	**95 704**	**1 161 484**
At 01.01.2008			
Cost	3 094 582	496 510	3 591 092
Accumulated depreciation	(2 028 802)	(400 806)	(2 429 608)
Net book amount	**1 065 780**	**95 704**	**1 161 484**
Opening net book amount	1 065 780	95 704	1 161 484
Additions	912 719	86 050	998 769
Depreciation charge	(211 433)	(79 027)	(290 460)
Closing net book amount 2008	**1 767 066**	**102 727**	**1 869 793**
At 31.12.2008			
Cost	4 007 301	582 560	4 589 861
Accumulated depreciation	(2 240 235)	(479 833)	(2 720 068)
Net book amount	**1 767 066**	**102 727**	**1 869 793**

There were no indications of impairment of intangible assets in either 2008 or 2007.

4.7. Property and equipment

	Land & Buildings EUR	Fixtures & Fittings EUR	Office Equipment EUR	Computer Equipment EUR	Vehicles EUR	Other Fixed Assets EUR	Total EUR
At 01.01.2007							
Cost	8 590 527	357 469	938 398	656 879	84 073	8 764	10 636 110
Accumulated depreciation	(764 846)	(240 032)	(527 132)	(408 044)	(84 073)	0	(2 024 127)
Net book amount	**7 825 681**	**117 437**	**411 266**	**248 835**	**0**	**8 764**	**8 611 983**
Opening net book amount	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
Additions	0	0	115 737	173 839	0	0	289 576
Disposals/ write-off	0	0	0	0	0	0	0
Depreciation charge	(374 150)	(24 951)	(94 224)	(162 638)	0	0	(655 964)
Closing net book amount 2007	**7 451 531**	**92 486**	**432 779**	**260 036**	**0**	**8 764**	**8 245 595**
At 01.01.2008							
Cost	8 590 527	357 469	1 054 136	592 808	84 073	8 764	10 687 777
Accumulated depreciation	(1 138 996)	(264 983)	(621 357)	(332 772)	(84 073)	0	(2 442 182)
Net book amount	**7 451 531**	**92 486**	**432 779**	**260 036**	**0**	**8 764**	**8 245 595**
Opening net book amount	7 451 531	92 486	432 779	260 036	0	8 764	8 245 595
Additions		0	17 447	225 547	0	0	242 994
Disposals/write-off	*(7 139 813)	(67 535)	(243 543)	0	0	0	(7 450 890)
Depreciation charge	(311 718)	(24 951)	(92 292)	(175 065)	0	0	(604 026)
Closing net book amount 2008	**0**	**0**	**114 391**	**310 518**	**0**	**8 764**	**433 673**
At 31.12.2008							
Cost	0	0	220 668	818 355	0	8 764	1 047 787
Accumulated depreciation	0	0	(106 277)	(507 837)	0	0	(614 114)
Net book amount	**0**	**0**	**114 391**	**310 518**	**0**	**8 764**	**433 673**

There were no indications of impairment of property and equipment in 2008.

* In 2008 the carrying value of Land & Buildings was transferred to Non-current assets held for sale (see note 4.4).

Fixtures & fittings and office equipment with a carrying value of EUR 285 975 was written off relating to items with no further value in use after the move to the new office premises. The expense is included in the income statement within other administrative expenses.

5. Detailed disclosures relating to liability and equity headings

5.1. Financial liabilities

The movements relating to Financial Guarantees payables are set out below:

Net Financial Guarantees	31.12.2008 EUR	31.12.2007 EUR
Balance at the beginning of the financial year	11 439 133	15 227 211
Transfer relating to SME guarantees	0	366 472
Utilisation of the financial guarantees	(353 016)	(896 303)
Net increase/decrease in Financial Guarantees	7 971 596	(3 258 247)
Transfer to provision for guarantees	(67 186)	0
Balance at the end of the financial year	**18 990 527**	**11 439 133**

Derivatives	31.12.2008 EUR	31.12.2007 EUR
Balance at 1 January	1 579 264	1 143 700
Fair value changes	1 024 978	435 564
Balance at 31 December	**2 604 242**	**1 579 264**

During the year 2008, a reclassification has been performed on the guarantee operations. Financial Guarantees and Derivatives, which were accounted for in the assets as "Financial Guarantees receivable" and "Derivatives" and in the liabilities as "Financial guarantee payables" and "Derivatives" are presented on a net basis at 31 December, 2008 with comparative netted figures at 31 December, 2007. The opening balance 2007 of the Financial Guarantees has also been adjusted to reflect the reclassification of the provisions for guarantees. This represents an amount of EUR 3 398 599.

5.2. Provisions for guarantees

	31.12.2008 EUR	31.12.2007 EUR
Balance at 1 January	5 056 087	6 450 518
Additions (*)	6 276 536	1 122 670
Release of provision	(2 348 749)	(2 517 101)
Balance at 31 December	**8 983 874**	**5 056 087**

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial Guarantees or the Derivatives is transferred to the caption provisions for guarantees.

(*) Additions mainly include the increase of provisions on guarantees operations EUR 6 209 350 (2007: EUR 1 122 670) but also the value of the guarantees operations transferred from IAS 39 to IAS 37 for an amount of EUR 67 186 (2007: EUR 0).

A reclassification of the 2007 provision for guarantees has been performed. This represents a total amount of EUR 5 056 087 at 31.12.07 of which EUR 1 657 488 reclassified from caption "Other liabilities and provisions" and EUR 3 398 599 from "Financial Guarantees payables".

5.3. Retirement benefit obligations

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

Retirement benefit obligations	31.12.2008 EUR	31.12.2007 EUR
Pension scheme	15 398 934	11 982 407
Health insurance scheme	1 586 000	1 250 000
	16 984 934	**13 232 407**

Commitments in respect of retirement benefits as at 31 December, 2008 have been valued by an independent actuary using the projected unit credit method. The calculations are based on the following main assumptions:

Principal Assumptions	2008	2007
Discount rate for obligations	6.00 %	5.52 %
Rate of future compensation increases	4.50 %	4.00 %
Rate of pension increases	2.00 %	2.00 %
Actuarial tables	Swiss BVG 2005	Swiss BVG 2005

The pension commitment as evaluated in the independent actuary report dated February 2009 amounts to EUR 12 024 000. As of December 2008, the Fund has allocated EUR 16 387 845 (2007: EUR 12 456 911) to the provisions relating to pensions to ensure full coverage of the commitments.

The health insurance obligation was measured by a full actuarial calculation at the end of 2008.

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

Net Periodic Benefit Cost as at 31.12.2008	EIF Pension EUR	Health Insurance EUR	Total 2008
Current net service cost	1 249 000	280 000	1 529 000
Interest cost	697 000	62 000	759 000
Amortisation of unrecognised gains/losses	37 000	(6 000)	31 000
Net Benefit Expense	**1 983 000**	**336 000**	**2 319 000**

Net Periodic Benefit Cost as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Current net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Amortisation of unrecognised gains/losses	75 000	0	75 000
Net Benefit Expense	**1 810 000**	**0**	**1 810 000**

Employer contribution

As the plan is treated as unfunded under IAS 19, the employer contributions are determined as the difference between the net benefit payments and the staff contributions. Any amounts used to purchase benefits by employees are treated as negative benefit payments. In the past, the employer contributions, determined as described above, have been negative as purchases have exceeded the regular benefit payments. This trend is expected to continue and no employer contributions are predicted for the next twelve months.

Benefit Liabilities as at 31.12.2008	EIF Pension EUR	Health Insurance EUR	Total 2008
Present value of funded obligation	0	0	0
Present value of unfunded obligation	15 340 000	1 298 000	16 638 000
Unrecognised net actuarial gains / (losses)	59 000	288 000	347 000
Net liability	**15 399 000**	**1 586 000**	**16 985 000**

Benefit Liabilities as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Present value of funded obligation	0	0	0
Present value of unfunded obligation	12 628 000	1 120 000	13 748 000
Unrecognised net actuarial gains / (losses)	(646 000)	130 000	(516 000)
Net liability	**11 982 000**	**1 250 000**	**13 232 000**

Changes in Defined Benefit Obligation as at 31.12.2008	EIF Pension EUR	Health Insurance EUR	Total 2008
Defined benefit obligation, Beginning of year	12 628 000	1 120 000	13 748 000
Net service cost	1 249 000	280 000	1 529 000
Interest cost	697 000	62 000	759 000
Employee contributions	812 000		812 000
Benefits Paid	622 000		622 000
Experience (Gain) / Loss	653 000	(6 000)	647 000
(Gain) / Loss due to assumption changes	(1 321 000)	(158 000)	(1 479 000)
Defined benefit obligation	**15 340 000**	**1 298 000**	**16 638 000**

Changes in Defined Benefit Obligation as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Defined benefit obligation, Beginning of year	9 928 000	1 250 000	11 178 000
Net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Employee contributions	682 000	0	682 000
Benefits Paid	561 000	0	561 000
Experience (Gain) / Loss	1 656 000	293 000	1 949 000
(Gain) / Loss due to assumption changes	(1 934 000)	(423 000)	(2 357 000)
Defined benefit obligation	**12 628 000**	**1 120 000**	**13 748 000**

History of asset values

Amounts for the current and previous two periods are as follows:

	2008	2007	2006
Fair value of Plan assets, End of year	0	0	0
Defined Benefit Obligation, End of year	(16 638 000)	(13 748 000)	(9 928 000)
Surplus/ (Deficit) in the Plan	(16 638 000)	(13 748 000)	(9 928 000)
Experience Gains/ (losses) on DBO	(653 000)	(406 000)	(430 000)
Experience Gains/ (losses) on Plan Assets	0	0	0

The effect of a 1 % increase or decrease to the medical trend costs on the current service cost and interest cost, or the post-employment benefit obligation, would not have a material impact on the EIF’s accounts.

5.4. Other liabilities and provisions

	31.12.2008 EUR	31.12.2007 EUR
Trade creditors	4 886 022	775 000
Other taxation and social security costs	3 510	1 182
Other payables	9 334 038	6 982 374
	14 223 570	**7 758 556**

Trade Creditors mainly includes payable amounts related to operations managed by EIF and other sundry items. Other payables mostly includes staff-related costs such Bonus, the Optional Supplementary Pension Scheme (OSPS) and the Severance Grant.

5.5. Share capital

The authorised capital amounts to EUR 3 billion, divided into 3 000 shares with a nominal value of EUR 1 000 000 each of which 2 865 have been issued. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

New shares were issued on the 30th June 2008 from authorised share capital as follows:

	31.12.2008	30.06.2008 New shares issued	31.12.2007 of which
Authorised Shares	**3 000**		**3 000**
of which:			
subscribed	2 865	95	2 770
un-subscribed	135	(95)	230

The authorised and subscribed share capital of EUR 2 865 000 000 representing 2 865 shares is called and paid in for an amount of EUR 573 000 000 representing 20 % of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital need the approval by the General meeting of shareholders.

The subscribed share capital is detailed as follows:

	31.12.2008 EUR	31.12.2007 EUR
Subscribed and paid in (20%)	573 000 000	554 000 000
Subscribed but not yet called (80%)	2 292 000 000	2 216 000 000
	2 865 000 000	**2 770 000 000**

The capital is subscribed as follows:

	31.12.2008 Number of shares	31.12.2007 Number of shares
European Investment Bank	1 822	1 822
European Commission	786	691
Financial Institutions	257	257
	2 865	**2 770**

5.6. Statutory reserve and retained earnings

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20 % of its annual net profit until the aggregate reserve amounts to 10 % of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 7 022 216 is required to be appropriated in 2009 with respect to the financial year ended 31 December, 2008. Movements in reserves and profit brought forward are detailed as follows:

	Statutory reserve EUR	Retained earnings EUR	Profit for the financial year EUR
Balance at the beginning of the financial year	104 329 810	136 353 969	50 402 337
Dividend paid	0	0	(20 160 030)
Other allocation of last financial year profit	20 160 935	10 081 372	(30 242 307)
Profit for the financial year	0	0	35 111 080
Balance at the end of financial year	**124 490 745**	**146 435 341**	**35 111 080**

The General Meeting of Shareholders of 14 May 2008 approved the distribution of a dividend amounting to EUR 20 160 030 relating to the year 2007 (2006: EUR 19 430 000).

5.7. Fair value reserve

The fair value reserve includes the followings:

	31.12.2008 EUR	31.12.2007 EUR
Fair value reserve on debt securities and other fixed income securities	(7 909 961)	(7 521 128)
Fair value reserve on shares and other variable income securities	10 932 954	29 890 658
	3 022 993	**22 369 530**

6. Disclosures relating to off-balance sheet items

6.1. TEN Guarantees

TEN infrastructure guarantee operations, complementary to EIB's activities, have been transferred to the latter. The relevant contract was signed with the EIB on 7 December 2000. The EIB receives the benefits of the transferred portfolio, but also bears the ultimate risk of the transactions, the Fund remaining merely a guarantor of record.

	Drawn EUR	Undrawn EUR	Total 2008 EUR	Total 2007 EUR
Up to five years	55 217 360	0	55 217 360	112 831 414
From five to ten years	102 427 751	16 750 000	119 177 751	135 937 366
From ten to fifteen years	161 084 835	0	161 084 835	182 155 122
Over fifteen years	44 188 959	0	44 188 959	45 345 263
	362 918 905	**16 750 000**	**379 668 905**	**476 269 165**

The drawn down portion of the guarantees issued includes an amount of EUR 10 558 800 (2007: EUR 19 014 126) representing the present value of future interest covered by guarantees.

6.2. Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission, the EIB, the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi") and the Member States or regions in the framework of the Joint European Resources for Micro to Medium Enterprises ("JEREMIE") jointly developed by the Commission of the European Communities and EIF. Sums held in these accounts remain the property of the Commission, the EIB, the BMWi and the Member States or regions so long as they are not disbursed for the purposes set out in relation to each programme.

Under the SME Guarantee Facility (SMEG 1998, SMEG 2001 under the Multi-Annual Programme for enterprises (MAP) and SMEG 2007 under the Competitiveness and Innovation Framework Programme), the Fund is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

Under the ETF Start-Up Facility (ESU 1998, ESU 2001 under the Multi-Annual Programme for enterprises (MAP), GIF 2007 under the Competitiveness and Innovation Framework Programme and the Technology Transfer Pilot Project (TTP)), the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf and at the risk of the Commission.

The support provided by the Seed Capital Action is aimed at the long-term recruitment of additional investment managers by the venture capital funds to increase the number of qualified personnel and to reinforce the capacity of the venture capital and incubator industries to cater for investments in seed capital.

Within the context of its venture capital activity, the Fund manages on behalf and at the risk of the EIB the European Technology Facilities (ETF) 1 and 2, which have been implemented by the Fund since 1998.

Within the framework of the Risk Capital Mandate signed with the EIB in 2000, the EIF took over the EIB's existing venture capital portfolio, with further investments being funded as part of the "Innovation 2000 Initiative" of the EIB.

Under the ERP-EIF Dachfond agreement, initiated in 2004, the Fund manages venture capital activity on behalf, and at the risk of the BWMi.

The Fund is managing a European Commission facility, the Preparatory Action Facility (PA 2004 and PA 2005), on behalf of the EIB Group. The facility is particularly targeting micro-lending and will be used for grants to finance technical assistance to SMEs, which must be coupled with an EIF guarantee or an EIB global loan. The Preparatory Action Facility 2004 was closed on 22 May 2008.

The support provided by the JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as venture capital funds, guarantee funds and loan funds, to enterprises. The EIF has signed JEREMIE Funding Agreements with the following Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia.

In the framework of the European Community in the Global Energy Efficiency and Renewable Energy Fund (GEEREF), the EIF manages the participation of the European Community in the fund and represents the Commission's interests.

	31.12.2008 EUR	31.12.2007 EUR
Preparatory Action Facility 2004	0	16 767
SMEG 1998 (SME Guarantee 1998)	69 876 991	71 885 622
ESU 1998 (ETF Start-up 1998) (*)	13 584 862	28 509 679
Seed Capital Action	131 012	185 233
SMEG 2001 (MAP Guarantee)	73 579 928	118 671 399
ESU 2001 (MAP Equity) (*)	77 815 569	91 773 212
CIP/ SMEG 07	95 483 380	35 255 356
CIP/ GIF 07	69 341 505	36 447 745
TTP	2 000 938	0
GEEREF Trusteeship	45 929 105	0
Trust accounts with the Commission (**)	447 743 290	382 745 013
Trust accounts with the EIB	11 279 987	40 372 364
Trust account with the BWMi	130 340	19 198
Trust account with member states/regions JEREMIE initiative	283 100 781	0
	742 254 398	**423 136 575**

(*) The figures above do not include the investment in venture capital, of EUR 44 578 139 for ESU 1998 (2007: EUR 44 597 618), EUR 68 703 612 for ESU 2001 (2007: EUR 53 806 983) and EUR 20 061 832 for GIF 07 (2007: EUR 0) made on behalf of the Commission that are included in 8.3.

(**) The trust accounts with the Commission include cash at bank, money market balances, investments in securities at nominal value and the relevant security accruals. They do not represent a final valuation of the relevant programmes.

6.3. Fiduciary operations

Pursuant to Article 28 of its Statutes, the Fund may accept the tasks of administering special resources entrusted to it by third parties. In execution of this article, the Fund manages and disposes of investments in venture capital funds, in its own name but on behalf and at the risk of:

- the EIB, in accordance with European Technology Facility, European Technology Facility 2 and Transfer, Implementation and Management of Risk Capital Investments (Risk Capital Mandate) agreements,
- the Commission, in accordance with ETF Start-Up Facility, the High Growth and Innovative SME Facility and Seed Capital Action agreements, and
- the German Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"), in accordance with ERP-EIF Dachfonds agreement.

The Fund is also empowered to issue guarantees in its own name but on behalf and at the risk of the Commission according to the Fiduciary and Management Agreement concluded with the Commission (SME Guarantee Facility). However, the EC programmes are only liable for a contracted percentage of the full signature amounts shown below, up to the limit of the agreed budgetary allocation.

Fiduciary operations concluded pursuant to the Fiduciary and Management Agreements are analysed as follows:

	31.12.2008 EUR	31.12.2007 EUR
Guarantees committed on behalf of the Commission		
Under the SMEG 1998 (*)		
Drawn	2 400 280 834	2 407 638 575
Undrawn	0	1 664 115
Under the SMEG 2001 (*)		
Drawn	4 786 634 503	4 629 662 857
Undrawn	0	276 876 349
Under the SMEG 2007 (*)		
Drawn	164 687 322	0
Undrawn	1 144 037 678	0
Investments made on behalf of the Commission (**)		
Under ESU 1998:		
Net disbursed	55 405 030	55 992 520
Undrawn	4 182 900	8 727 939
Under ESU 2001:		
Net disbursed	75 383 481	57 584 408
Undrawn	100 415 809	131 730 410
Under GIF 2007:		
Net disbursed	20 470 347	0
Undrawn	118 709 818	10 000 000
Under Seed Capital Action:		
Net disbursed	200 000	150 000
Undrawn	0	50 000
Investments made on behalf of the EIB (**)		
Under EIB Risk Capital Mandate		
Net disbursed	1 454 881 931	1 370 579 363
Undrawn	1 083 389 509	1 242 905 845
Under European Technology Facility		
Net disbursed	120 954 616	124 725 313
Undrawn	22 116 482	28 434 532
Investments made on behalf of the External mandators (**)		
Under ERP-EIF Dachfond		
Net disbursed	71 256 541	47 514 956
Undrawn	91 801 419	72 869 186
	11 714 808 220	**10 467 106 367**

(*) Those amounts are valued based on the valuation method described in note 2.3.
(**) Those amounts are valued at current rate. The drawn amounts correspond to the net disbursed. The value adjustment calculation is performed based on the valuation method described in note 2.3.

- a value adjustment has been estimated at EUR 316 052 706 (2007: EUR 83 639 222) leading to a net adjusted value of EUR 1 259 783 841 (2007: EUR 1 411 665 454), on the investments managed on behalf of the EIB.
- a value adjustment has been estimated at EUR 17 915 276 (2007: EUR 15 172 327) leading to a net adjusted value of EUR 133 343 582 (2007: EUR 98 404 600 estimated amount), on the investments made on behalf of the Commission.

7. Detailed information on the income statement

7.1. Net interest and similar income

Net interest and similar income comprises:

	31.12.2008 EUR	31.12.2007 EUR
Interest on debt securities	22 554 525	23 853 812
Interest on term deposits	13 774 189	4 778 046
Interest on bank current accounts	1 126 097	898 741
Other interest	1 040 016	700 471
	38 494 827	**30 231 070**

As mentioned in the note 2.9, the discounts and premiums are calculated with the effective interest rate method. The above figures are presented netted. Discounts amount to EUR 1 282 150 (2007: EUR 3 316 906) and premiums amount to EUR 1 156 726 (2007: EUR 1 732 099).

7.2. Net income from guarantees operations

Net income from guarantees operations comprises:

	31.12.2008 EUR	31.12.2007 EUR
Net guarantees fees on derivatives	10 520 096	7 579 840
Loss/Gain on fair value changes on derivatives	(1 024 978)	(870 260)
Interest (expenses)/income on amortisation of NPV	1 854 697	(341 388)
Release of provision	2 348 749	2 517 101
Write-off on guarantee receivable	(1 223 299)	0
Provision for guarantees under IAS 37	(6 209 350)	(1 122 670)
Net increase in the financial guarantees contracts	12 226 460	13 586 401
	18 492 375	**21 349 024**

7.3. Commission income

Commission income is detailed as follows:

	31.12.2008 EUR	31.12.2007 EUR
Commissions on mandates relating to venture capital operations	16 357 090	14 798 524
Commissions on mandates relating to guarantees	2 790 820	8 412 985
Income from Advisory activity	6 884 565	5 850 873
Other provisions	(2 636 620)	0
Other commissions	10 000	10 000
	23 405 855	**29 072 382**

7.4. Net loss on financial operations

Net loss on financial operations amounting to EUR 5 081 325 (2007: loss EUR 1 020 711) corresponds to losses arising from transactions or cash positions in foreign currencies, of which EUR 2 611 743 is realised loss on debt securities portfolio.

7.5. General administrative expenses

	31.12.2008 EUR	31.12.2007 EUR
Wages and salaries	19 241 179	17 317 160
Social security costs	3 237 576	2 130 900
	22 478 755	19 448 060
Other administrative expenses	7 546 298	6 665 063
	30 025 053	**26 113 123**

Wages and salaries include expenses of EUR 3 144 151 (2007: EUR 4 078 735) incurred in relation to staff seconded from the EIB.

Key management compensation for the year is EUR 1 474 078 (2007: EUR 1 300 648).

Other administrative expenses include leased office space. Expenses relating to these operational leases amount to EUR 1 191 027 (2007: EUR 1 154 045).

Future minimum lease payments under non-cancellable operating leases	Less than 1 year EUR	1 to 5 years EUR	more than 5 years EUR	Total EUR
2008	1 139 221	4 951 563	0	6 090 784
2007	1 053 359	4 213 437	1 053 359	6 320 155

The number of persons, including 12 EIB secondees (2007: 14 EIB secondees), employed at the year-end is as follows:

	31.12.2008	31.12.2007
Chief Executive/Deputy Chief Executive	2	1
Employees	155	141
Total	**157**	**142**
Average of the year	146	135

8. Related parties transactions

The European Investment Bank is the majority owner of the Fund with 63.6 % of the shares. The remaining percentage is held by the European Commission (27.4 %) and the Financial Institutions (9 %).

8.1. European Investment Bank

Related party transactions with the European Investment Bank are mainly related to the management by the Fund of the venture capital activity as described in the note 6.3. In addition, the European Investment Bank manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the European Investment Bank are disclosed as follows:

	31.12.2008 EUR	31.12.2007 EUR
ASSETS		
Prepayments and accrued income	388 358	795 703
Other assets	17 801 290	13 294 567
LIABILITIES		
Creditors	61 892	84 122
Other provisions	1 148 218	1 482 798
Accruals & deferred income	170 000	180 000
Capital paid in	364 400 000	364 400 000
OFF BALANCE SHEET		
Guarantees Drawn	312 976 362	410 445 884
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	11 279 987	40 372 364
Investments drawn in venture capital	1 575 836 547	1 495 304 677
Investments undrawn in venture capital	1 105 505 990	1 271 340 376
INCOME		
Management fees	8 348 975	8 540 072
EXPENSES		
Wages & Salaries	2 402 429	2 928 735
IT expenses	910 454	866 775
Services	1 609 858	1 134 982
Treasury management fees	406 496	337 176

8.2. Commission of the European Communities

Related party transactions with the Commission are mainly related to the management by the Fund of the venture capital and guarantees activities as described in the note 6.3. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	31.12.2008 EUR	31.12.2007 EUR
ASSETS		
Accounts Receivable	7 582 063	8 078 322
LIABILITIES		
Accounts Payable	2 652 671	499 675
Capital paid in	157 200 000	138 200 000
OFF BALANCE SHEET		
Guarantees Drawn	7 351 602 659	7 037 301 432
Guarantees undrawn	1 144 037 678	278 540 464
Assets held for third parties	401 814 184	382 745 013
Net disbursed in venture capital	151 458 858	113 726 928
Investments undrawn in venture capital	223 308 528	150 508 348
INCOME		
Management fees	7 278 146	11 849 856
EXPENSES		
Treasury management fees	138 950	57 528

9. Capital management

Even though the EIB Group is not subject to formal supervision, it has generally voluntarily submitted to major EU banking regulations and adopted market "best practice". In particular, this applies to the new banking regulation ("Basel II"), issued in 2004 by the Basel Committee on Banking Supervision, approved by the EU and the Member States in 2006, and applied in Internal Rating Based EU financial institutions since 1 January 2008 (2006/48/EC as of 14 June 2006).

The implementation of the "Ratings Based Approach (RBA)" for EIF's guarantee and securitisation exposures and the Simple Risk -weight Approach for EIF's VC portfolio has been done under the technical assistance of the Commission de Surveillance du Secteur Financier (CSSF) and in close cooperation with EIB.

In addition to the monitoring of Basel II minimum capital requirements, stress tests assess the sensitivity of capital requirements to changes in the macroeconomic environment and in the activities of the EIF.

10. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

EIB Group Addresses

European Investment Bank

www.eib.org - info@eib.org

100, boulevard Konrad Adenauer
L-2950 Luxembourg

(+352) 43 79 1
(+352) 43 77 04

European Investment Fund

www.eif.org - info@eif.org

96, boulevard Konrad Adenauer
L-2968 Luxembourg

(+352) 42 66 88 1
(+352) 42 66 88 200

Please consult the Bank's website for the updated list of existing offices and their contact details.

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