

## EIB Group 2010 Annual Report — 'Financial' volume

**Caption:** The EIB Group's 2010 Annual Report consists of four separate volumes. This volume, the Financial Report, presents the financial statements of the EIB, the EIB Group and the EIF.

**Source:** European Investment Bank, Annual Report 2010 – "Financial" volume . [ON-LINE]. [Luxembourg]: European Investment Bank, [19.03.2012]. Disponible sur <http://www.eib.org/attachments/general/reports/fr2010en.pdf>

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**URL:** [http://www.cvce.eu/obj/eib\\_group\\_2010\\_annual\\_report\\_financial\\_volume-en-5af04fe7-effa-4415-a3a5-db583ac55442.html](http://www.cvce.eu/obj/eib_group_2010_annual_report_financial_volume-en-5af04fe7-effa-4415-a3a5-db583ac55442.html)

**Publication date:** 24/09/2012

## Annual Report 2010



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



Volume II

# Financial Report



## Annual Report 2010



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

Volume II

# Financial Report

The **EIB Group's 2010 Annual Report** consists of four separate volumes:

- the Activity Report, presenting the EIB Group's activity over the past year and future prospects;
- the Financial Report, presenting the financial statements of the EIB, the EIB Group (under IFRS and EU Directives) 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 2010, together with a list of the EIF's projects. It also includes summary tables for the year and over the last five years;
- the Corporate Responsibility Report, presenting detailed information on corporate responsibility practices.

The Annual Report is also available on the Bank's website [www.eib.org/report](http://www.eib.org/report).

## EIB Group: key statutory figures



### European Investment Bank

#### Activity in 2010

(EUR million)

Projects approved	83 277
European Union	72 834
Partner countries	10 443
Signatures	71 760
European Union	62 974
Partner countries	8 786
Disbursements	58 745 (*)
European Union	52 328
Partner countries	6 417
Resources raised (before swaps)	67 024
Core currencies (EUR, GBP, USD)	55 667
Other currencies	11 357

#### Situation as at 31.12.2010

Outstandings	
Loans disbursed	360 553
Loans to be disbursed	90 551
Financing from budgetary resources	8 145
Borrowings	358 009
Own funds	40 128
Balance sheet total	419 826
Net profit for year	2 117
Subscribed capital	232 393
of which called up	11 620



### European Investment Fund

#### Activity in 2010

Signatures	2 839
Venture capital (43 funds)	930
Guarantees and microfinance (35 operations)	1 909

#### Situation as at 31.12.2010

Portfolio	20 078
Venture capital – assets under management (351 funds)	5 367
Guarantees – positions (193 operations)	14 701
Microfinance (6 operations)	10
Accumulated signatures	
Venture capital (351 funds)	6 057
Guarantees (197 operations)	15 339
Own funds	1 044
Balance sheet total	1 196
Net profit for year	7
Subscribed capital	3 000
of which called up	600

(\*) amount calculated at the conversion rates used by the EIB for recording statistics (rate of the last working day of the month before the date of the operation). The disbursements used for accounting purposes correspond to an amount of EUR 57 523m as at 31 December 2010.



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## Preface

# Highlights of financial developments at the EIB in 2010

### Accounting Principles

The statutory (unconsolidated) financial statements of the Bank have been prepared in accordance with the general principles of the 4th EU and banking accounting directives (EU-AD). These principles remained unchanged in 2010. The consolidated financial statements for the Group (the Bank and the European Investment Fund (EIF)) are presented in two forms, under IFRS and under EU-AD. The data provided below are in line with the statutory financial statements (unconsolidated under EU-AD), unless otherwise stated.

book overwhelmingly of investment-grade quality. This reflects the EIB's mission to support sound investments which further EU policy goals.

The high level of own funds (EUR 40.2bn) and the strong asset quality ensured continued high capital adequacy at 27.2% (at Group level) according to Basel II definitions. Liquidity remained comfortable, representing 34.8% of cash flow in the following year. Profitability increased by 12.8% (EUR 2.12bn vs. EUR 1.88bn in 2009).

### Overview

The results in 2010 showed that the EIB maintained its financial strength and solid performance, while meeting its shareholders' request for an expansion of the lending volume focused on 2009-10.

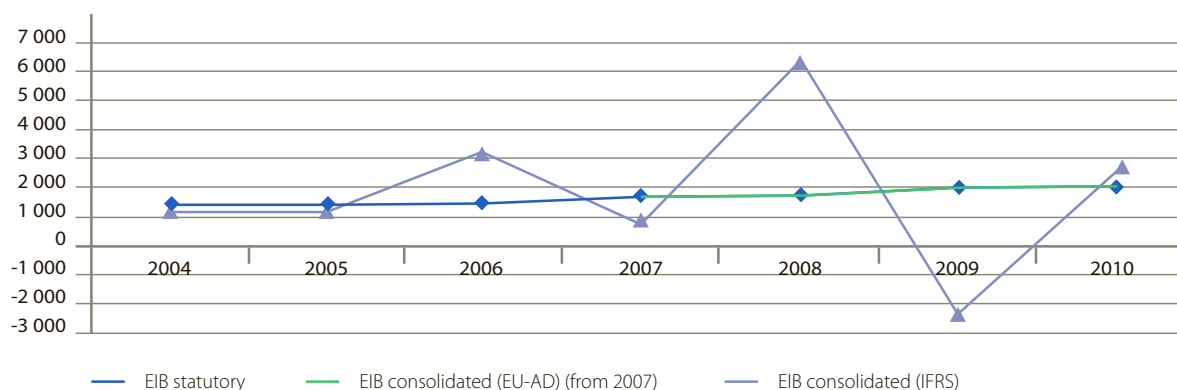
Asset quality remained strong, demonstrated by non-performing loans that remained close to 0% and a loan

### 1. Solid/stable profitability

The Group results reported under IFRS are affected by fair valuation of financial instruments, including derivative financial instruments, which under EU-AD are accounted for on an accruals basis. The IFRS results therefore reflect the spread fluctuations in the market. The Bank does not expect to realise these gains and losses, since the relevant instruments are typically held until maturity.

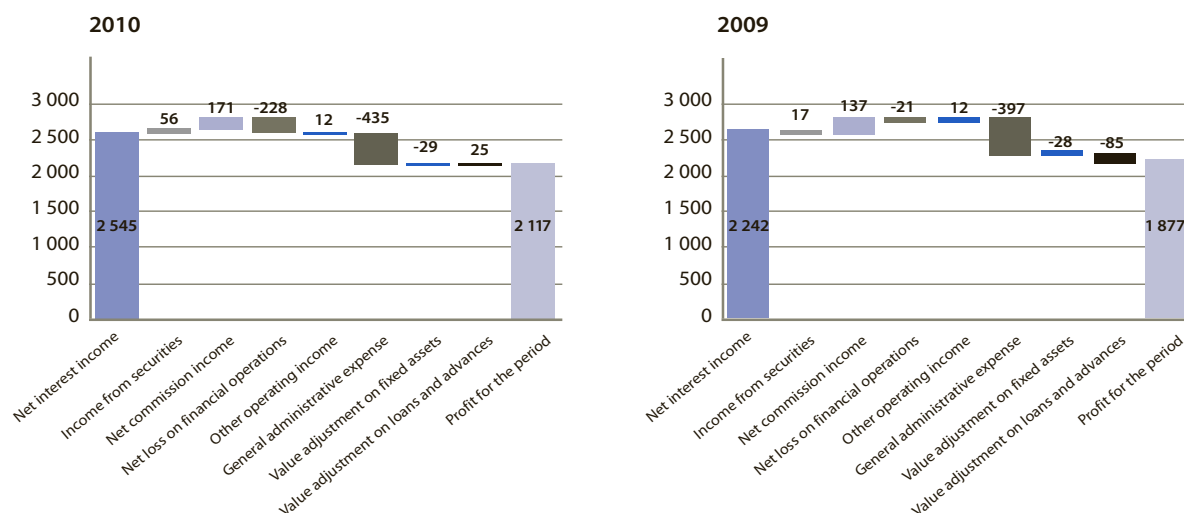
The Bank's primary objective is not the maximisation of profit. Its Statute stipulates that interest on loans "shall be calculated in such a way that the income therefrom

Bank and Group results, 2004-2010 (EUR million)





### Analytical profit or loss account



shall enable the Bank to meet its obligations, to cover its expenses and risks and to build up a reserve fund...<sup>1</sup>.

The Bank has historically shown steadily increasing results. The total profit of the Bank for the 2010 financial year stands at EUR 2.12bn compared to a total profit of EUR 1.88bn for 2009. This represents an improvement of 12.8%, mainly due to an increase in net interest income over the previous year.

<sup>1</sup> EIB Statute, Article 17(1). "The EIB's Statute is drawn up as a Protocol (No 5) annexed to the Treaty on European Union and the Treaty on the Functioning of the European Union" (Preface, second paragraph, second sentence).

## 2. Balance sheet

At year-end 2010 the total assets stood at EUR 419.8bn, representing an expansion of EUR 52.4bn (+14%) compared to 31 December 2009. The balance sheet growth was driven by an increase in loans and advances in the last two years (14% in 2010 and 9% in 2009), as a result of the EIB's role in the EU stimulus package. In response to the request of the EU Member States, the EIB implemented a temporary increase in lending volumes in an effort to contribute to the recovery of the real economy. The Bank had agreed in late 2008 to increase its annual lending substantially until the end of 2010. Since the EIB finances its lending operations in the capital markets, the lending expansion led to an increase in debts evidenced by certificates on the liabilities side of EUR 52.3bn or 17%.

### Simplified balance sheet as at 31 December 2010

ASSETS EUR m	31-Dec-10	31-Dec-09
Cash	254	227
Treasury assets (incl. asset-backed securities)	20 882	21 532
Loans and advances to credit institutions and customers	382 987	335 317
Other assets <sup>1</sup>	15 703	10 325
<b>TOTAL ASSETS</b>	<b>419 826</b>	<b>367 401</b>
LIABILITIES EUR m	31-Dec-10	31-Dec-09
Amounts owed to credit institutions and customers	8 304	6 843
Debts evidenced by certificates	358 009	305 758
Other liabilities <sup>2</sup>	13 327	16 731
Own funds	40 186	38 069
<b>TOTAL LIABILITIES</b>	<b>419 826</b>	<b>367 401</b>

<sup>1</sup> "Other assets" comprise tangible and intangible assets, prepayments and accrued income, other assets and shares and other variable-yield securities.

<sup>2</sup> "Other liabilities" comprise accruals and deferred income, provisions and other liabilities.



### 3. Strong capitalisation

#### 3.1. High level of own funds

In general, the Bank does not distribute any dividends – all profits are transferred into reserves. Consistent profitability has enabled the Bank to build up a high level of reserves. The own funds of the Bank increased from EUR 38.1bn at the end of 2009 to EUR 40.2bn at the end of 2010.

#### 3.2. Strong capital adequacy

The Group's Basel II Capital Adequacy Ratio stood at 27.2% at the end of 2010 (30.1% at the end of 2009).

#### 3.3. Capital structure – callable capital

The EIB's capital is owned by the 27 EU Member States. As a common feature of similar multilateral organisations, in addition to the subscribed paid-in capital, the EIB has subscribed unpaid capital, the so called callable capital. The Member States have the obligation to pay

their share of the callable capital on demand from the EIB's Board of Directors, as set out in the EIB's Statute (a legal obligation). The callable capital (which is not considered in the own funds, nor in the Basel II capital adequacy) amounts to EUR 221bn, and represents a supplement to own funds (EUR 40.19bn). As of end-2010, the EIB's proportion of callable capital subscribed by AAA-rated countries was 62%.

### 4. Risk management

The Bank aligns its risk management systems to changing economic conditions and evolving regulatory standards. The methodology used to determine operational targets and orientations takes into account the Bank's target external AAA rating, the long-term nature of its lending business and the granularity of its portfolio. With the AAA rating in mind, the Bank has adopted a set of credit risk indicators that include, among other things, a minimum capital requirement stress test, credit quality distribution of its portfolio and new loans (stock and flow), and risk concentration.

#### Own funds composition as at 31 December 2010

Own funds EUR m		31-Dec-10		31-Dec-09
<b>Subscribed capital</b>				
- Subscribed	232 392 989		232 392 989	
- Uncalled	-220 773 340		-220 773 340	
		<b>11 619 649</b>		<b>11 619 649</b>
<b>Reserves</b>				
a) reserve fund	20 082 400		18 205 506	
b) additional reserves	1 144 024		1 144 024	
c) special activities reserve	3 299 370		3 299 370	
d) general loan reserve	1 923 734		1 923 734	
		<b>26 449 528</b>		<b>24 572 634</b>
<b>Profit for the period</b>		<b>2 116 642</b>		<b>1 876 894</b>
<b>Total own funds</b>		<b>40 185 819</b>		<b>38 069 177</b>

<sup>2</sup> EIB Statute, Article 5(3): "The Board of Directors may require payment of the balance of the subscribed capital, to such extent as may be required for the Bank to meet its obligations."



The Bank set its financial risk tolerance subject to a minimum level as defined by approved limits, and applies a conservative financial framework. It does not view its treasury or funding activities as profit-maximising centres, even though performance objectives are attached to those activities. Investment activities were conducted with the primary objective of protecting 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.

For details on financial risk management refer to note U of the statutory financial statements (unconsolidated under EU-AD).

#### 4.1. ALM: Sustainability of revenue and self-financing capacity

The Bank has pursued stability of earnings, preservation of the economic value of own funds and the self-financing of the Bank's growth in the long term. 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 is accomplished by targeting a duration for the Bank's own funds of 4.5 to 5.5 years.

The EIB minimises its exposure to foreign exchange rate fluctuations. It actively uses hedging to protect itself against such financial risk. The net residual positions that arise from outstanding operations are managed within pre-set limits to constrain foreign exchange rate risk to minimum levels. As of end-2010, the total foreign exchange rate exposure was EUR 47m equivalent.

The Risk Management Directorate quantifies the value at risk (the "VaR") of own funds for both interest rate and foreign exchange rate risk factors. It is measured on the Bank's positions using a 99% confidence level and a one-day time horizon. As at 31 December 2010, the VaR of the EIB's own funds amounted to EUR 272m (EUR 186m in 2009).

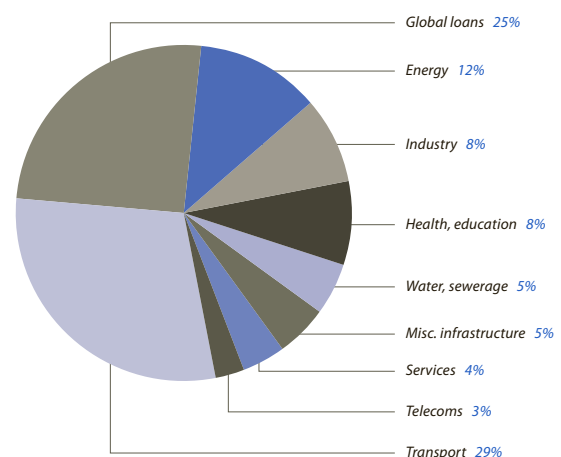
VaR does not purport to measure the worst loss that could be experienced. For this reason, it is complemented by regular stress testing.

#### 4.2. Credit risk

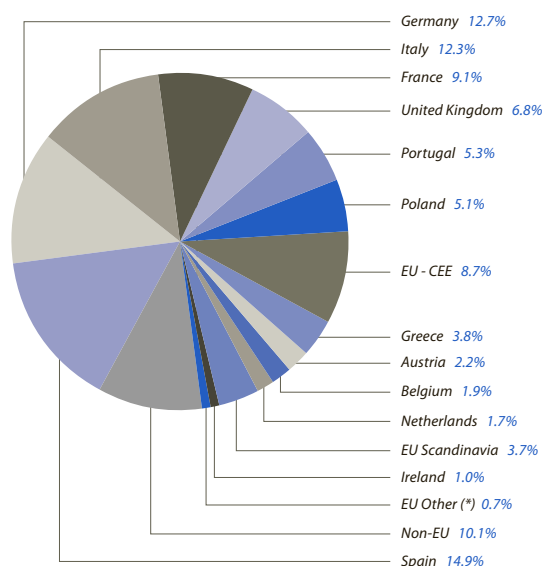
The Bank's mission is to finance sound projects, as stipulated in Article 309 of the Treaty on the Functioning of the European Union ("the Bank shall facilitate the financing of investment programmes").

Credit risk concerns mainly the Bank's lending activity and, to a lesser extent, treasury instruments held for liquidity purposes, as well as derivatives used to hedge mainly funding but also lending, treasury and ALM market risk exposures.

The Bank's lending policies 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 equal to that of other senior lenders, with prompt access to security when required. In addition, via a counterparty and sector limit system (for top 10 sectors, guided by stressed capital consumption as per Basel II), the credit policies ensure an acceptable degree of diversification in the Bank's loan portfolio.



The volume of signed loans as of end of the year amounted to EUR 451bn (EUR 406bn in 2009), of which 89.9% are for projects within the EU (90.4% in 2009). The volume of loans disbursed as of the end of the year amounted to EUR 361bn (EUR 324bn in 2009). The Bank's loan portfolio is geographically well diversified within the EU. The EIB has no pre-set country limits, but diversification is driven by the following factors: the EIB's lending distribution broadly reflects the economic weight of various countries within the EU, as well as the competitiveness of the EIB's lending and the availability of other sources of financing. The shares per country remained stable compared with 2009.



(\*) EU other includes Cyprus, Luxembourg and Malta.

The distribution of loans by economic sector reflects the operational priorities of the Bank's lending. By sector, the majority of the Bank's disbursed loans outstanding have been for infrastructure projects (62%), with the largest share taken by transport projects, which account for 29%.

The conservative lending policies that the Bank follows have shaped a high-quality loan portfolio. The data on the loan portfolio provided below apply (unless otherwise stated) to what is termed the 'risk portfolio' in the Financial Report, which excludes the portion of the portfolio outside the EU that benefits from a guarantee from the EU or Member States (8.6% of the portfolio). As of end-2010 around 92% of the risk portfolio was backed by a borrower or obligor with a rating equivalent to investment grade and around 62.3% benefited from a third party guarantee or equivalent security.

Operations which at inception carry a higher risk than the EIB's usual activities are termed "special activities" and benefit from a dedicated special activities reserve. The level of total special activities as part of the new business flow and total portfolio is continuously monitored. As of end-2010, total special activities lending amounted to EUR 17.1bn (EUR 13.0bn in 2009), representing 4.1% of loans, and the special activities reserve attached to lending operations stood at EUR 1.8bn out of a total of EUR 3.3bn (EUR 1.8bn in 2009). The special activities reserve attached to lending would be increased to EUR 2.3bn after appropriation of the surplus in June 2011.

This high credit quality of the loan portfolio is reflected in the EIB's low loan delinquency. As of the end of 2010:

- There were four impaired loans for a total nominal amount of EUR 364.3m (representing 0.1% of the total loan portfolio), for which the Bank has already provisioned EUR 91.6m.
- Arrears above 90 days on loans granted outside the European Union secured by the European Union budget or by the Member States amounted to EUR 106.5m as at 31 December 2010, out of which EUR 103.8m has been called and paid under the guarantee of a Member State or the European Union. As regards loans granted within the European Union, or outside the European Union and not secured by guarantees of the European Union budget or the Member States, the arrears over 30 days amounted to EUR 0.7m as at 31 December 2010.



- Watchlisted loans, which are subject to special monitoring, amounted to EUR 1 370m (2009: EUR 1 386m), representing 0.33% of the risk portfolio. There was no significant concentration of watchlisted loans in a sector or economy.

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.

No Asset-Backed Securities (“ABS”) or Residential Mortgage-Backed Securities (“RMBS”) investment has been made since August 2007 in the Bank’s treasury portfolio. The quality of the ABS/RMBS portfolio remains stable and there are no defaults by their issuers to report.

Excluding the investment portfolio (which is held to maturity and is being wound down), the long-term holdings amounted to EUR 4.9bn as of 31 December 2010, of which 2.27% consisted of securities emanating from a securitisation process.

The EIB has a portfolio of Asset-Backed Commercial Paper, all of it rated A 1+/P 1. The outstandings as at 31 December 2010 amounted to EUR 0.01bn

Credit risk associated with derivatives is also managed by selecting first-class counterparties, trading with bank counterparties only under collateral agreements and setting limits for net market exposure and potential future exposure. All transactions have been under unilateral collateral agreements with thresholds and independent amounts conditional on counterparty ratings.

Collateral calls are issued on a daily basis. Net market exposure and potential future exposure are measured on a daily basis for each counterparty. At the end of 2010, net market exposure was EUR 0.72bn, the Basel Committee on Banking Supervision credit equivalent was EUR 7.9bn and potential future exposure at 90% confidence level stood at EUR 9.4bn.

The majority of the derivatives portfolio is concentrated on highly rated counterparties. In terms of notional: 3.0% Aaa, 59.7% Aa1 to Aa3, 33.7% A1, 3.1% A2 to A3 and 0.5% below A3/non-rated.

### 4.3. Liquidity risk

The main objective of liquidity policy is to ensure that the Bank can meet its payment obligations punctually and in full. The paramount importance of liquidity provision overrides return considerations. The Total Liquidity Ratio (defined as a target percentage of annual projected net cash flows) has a minimum floor of 25% of projected annual cash flow for the following year. As of end-2010, this ratio was 34.8% (31.3% in 2009). The EIB’s high credit quality and a funding strategy with liquidity, transparency and diversification of funding sources at its core, confer on the EIB access to the capital markets, historically including access even in periods of market turmoil.

During 2010 the monitoring of liquidity risk was enhanced with the introduction of new short-term indicators and with the extension of the stress test scenarios tailored to the specific business model of the EIB. The new framework better defines, on the basis of a quantitative approach, the liquidity risk tolerance of the Bank and provides a sounder definition of the required liquidity buffer.

The Bank has in place a Contingency Liquidity Plan (CLP) that defines the respective responsibilities and the decision-making procedures in the case of signs of an approaching liquidity crisis. The CLP has been benchmarked against the “Principles for Sound Liquidity Risk Management and Supervision” of the Basel Committee on Banking Supervision (September 2008). The CLP is subject to ad hoc updates and is presented to the Management Committee annually for approval.

On 8 July 2009, the EIB became an eligible counterparty in the Euro-system’s monetary policy operations, and has therefore been given access to the monetary policy operations of the European Central Bank. This is a contingency tool to be used if and when needed. The Bank conducts the operations via the Central Bank of Luxembourg, where it maintains a deposit to cover the minimum reserve requirements.

## EIB Statutory Bodies

Situation at 10/03/2011

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](http://www.eib.org).

### Board of Governors

<b>Chairwoman</b>	Ingrida ŠIMONYTĖ	(Lithuania)
<b>Belgium</b>	Didier REYNDERS	Deputy Prime Minister and Minister for Finance and Institutional Reforms
<b>Bulgaria</b>	Simeon DJANKOV	Deputy Prime Minister, Minister for Finance
<b>Czech Republic</b>	Miroslav KALOUSEK	Minister for Finance
<b>Denmark</b>	Brian Arthur MIKKELSEN	Minister for Economic and Business Affairs
<b>Germany</b>	Wolfgang SCHÄUBLE	Federal Minister for Finance
<b>Estonia</b>	Jürgen LIGI	Minister for Finance
<b>Greece</b>	George PAPACONSTANTINOU	Minister for Finance
<b>Spain</b>	Elena SALGADO	Second Deputy Prime Minister and Minister for Economic Affairs and Finance
<b>France</b>	Christine LAGARDE	Minister for Economic Affairs, Industry and Employment
<b>Ireland</b>	Michael NOONAN	Minister for Finance
<b>Italy</b>	Giulio TREMONTI	Minister for Economic Affairs and Finance
<b>Cyprus</b>	Charilaos STAVRAKIS	Minister for Finance
<b>Latvia</b>	Andris VILKS	Minister for Finance
<b>Lithuania</b>	Ingrida ŠIMONYTĖ	Minister for Finance
<b>Luxembourg</b>	Jean-Claude JUNCKER	Prime Minister, Minister of State, Minister for the Treasury
<b>Hungary</b>	György MATOLCSY	Minister for National Economy
<b>Malta</b>	Tonio FENECH	Minister of Finance, Economy and Investment
<b>Netherlands</b>	Jan Cornelis DE JAGER	Minister for Finance
<b>Austria</b>	Josef PRÖLL	Vice Chancellor and Federal Minister for Finance
<b>Poland</b>	Jan VINCENT-ROSTOWSKI	Minister for Finance
<b>Portugal</b>	Fernando TEIXEIRA DOS SANTOS	Minister of State and Minister for Finance
<b>Romania</b>	Gheorghe IALOMIȚIANU	Minister for Public Finance
<b>Slovenia</b>	Franc KRIŽANIČ	Minister for Finance
<b>Slovakia</b>	Ivan MIKLOŠ	Minister for Finance
<b>Finland</b>	Tapani TÖLLI	Minister for Public Administration and Local Government
<b>Sweden</b>	Anders BORG	Minister for Finance
<b>United Kingdom</b>	George OSBORNE	Chancellor of the Exchequer

### Audit Committee

<b>Chairman</b>	Gerard SMYTH	Secretary and Director of Audit, Office of the Comptroller and Auditor General, Dublin
<b>Members</b>	Éric MATHAY	Certified Auditor and Chartered Accountant, Buelens, Mathay, Matis & Associates, Brussels
	José RODRIGUES DE JESUS	Chartered Auditor, Oporto
	Danièle NOUY	Secretary General of Prudential Control Authority, Banque de France, Paris
	Joseph G. GALEA	Adviser to the Auditor General, Malta
	Madis ÜURIKE	Coordinator of the Department of EU and International Affairs, Ministry of Finance, Tallinn

### Management Committee

<b>President</b>	Philippe MAYSTADT	
<b>Vice-Presidents</b>	Philippe de FONTAINE VIVE CURTAZ	Dario SCANNAPIECO
	Simon BROOKS, CB	Plutarchos SAKELLARIS
	Matthias KOLLATZ-AHNEN	Magdalena ÁLVAREZ ARZA
	Eva SREJBER	Anton ROP



## 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	Executive Director, Head of Policy Unit, Ministry of Finance, Brussels
Dimiter IVANOVSKI	Member of the Managing Board, Center for Economic Development, Sofia
Zdeněk HRUBÝ	Member of the Board of Directors of the EIB and Alternate Member of the Board of Directors of the EIF, Prague
Sigmund LUBANSKI	Head of Office, Ministry of Economic and Business Affairs, Copenhagen
Ralph MÜLLER	Head of EU Budget Department, Federal Ministry of Finance, Berlin
Ivar SIKK	Deputy Secretary General, State Budget and Governance Policy, Ministry of Finance, Tallinn
Stilpon NESTOR	Managing Director, Nestor Advisors Ltd, London
Gonzalo GARCÍA ANDRÉS	Director General for International Finance, Ministry of Economic Affairs and Finance, Madrid
Sandrine GAUDIN	Deputy Director, European Affairs, Treasury Directorate General, Ministry of Economic Affairs, Industry and Employment, Paris
Michael SOMERS	Director, Allied Irish Banks and other companies, National Treasury Management Agency, Dublin
Carlo MONTICELLI	Head of International Financial Relations, Treasury Department, Ministry of Economic Affairs and Finance, Rome
Kyriacos KAKOURIS	Senior Economic Officer, Ministry of Finance, Nicosia
Irēna KRŪMANE	Chairwoman of the Financial and Capital Market Commission, Ministry of Finance, Riga
Migle TUSKIENĒ	Director, European Union and International Affairs Department, Ministry of Finance, Vilnius
Gaston REINESCH	Director General, Ministry of Finance, Luxembourg
Zoltán URBÁN	Member of the Board of Directors and Deputy CEO, Hungarian Development Bank Plc, Budapest
Vincent GRECH	Consultant to the Government of Malta, Ministry of Finance, Economy and Investment, Valletta
Pim van BALLEKOM	Head of International Public Affairs, Algemeine Pensioen Groep NV, Brussels
Wolfgang NITSCHKE	Deputy Head of Division for Coordination of European Integration Matters and Trade Policy, Federal Ministry of Finance, Vienna
Jacek DOMINIK	Undersecretary of State, Ministry of Finance, Warsaw
Álvaro Pinto Coelho de AGUIAR	Chief Economist, Cabinet of the Ministro de Estado and Minister for Finance, Ministry of Finance and Public Administration, Lisbon
Bogdan Alexandru DRAGOI	Secretary of State, Ministry of Public Finance, Bucharest
Katja BOŽIČ	Director General, Financial System Directorate, Ministry of Finance, Ljubljana
Katarina KASZASOVÁ	Director General of the State Reporting Section, Ministry of Finance, Bratislava
Tytti NORAS	Legal Counsellor, Ministry of Finance, Helsinki
Kurt Arne HALL	Director General (retired), International Department, Ministry of Finance, Stockholm
Peter CURWEN	Director Europe, International and Finance Directorate, HM Treasury, 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	Head of Italian Delegation, Intergovernmental Commission on Turin-Lyon rail link, Rome
Timothy STONE	Chairman, Global Infrastructure and Projects Group, KPMG LLP, London



### Alternates

Michael KRUSE	Head of Department (retired), Federal Ministry of Economic Affairs and Technology, Berlin
(...)	...
Jean BOISSINOT	Head of Bilateral Affairs and Financial Instruments Office, Europe Department, Treasury Directorate General, Paris
Dov Michel ZERAH	Chief Executive Officer of the Agence Française de Développement, Paris
Francesca MERCUSA	Director, Office for the European Investment Bank, the Mediterranean and the Balkans, International Financial Relations Division, Department of the Treasury, Ministry of Economic Affairs and Finance, Rome
(...)	...
Mike GLYCOPANTIS	Deputy Director, European Union Budget, HM Treasury, London
(...)	...
Carmen LAÍN	Deputy Director General for European Financial Institutions, Directorate General for International Finance, Ministry of Economic Affairs and Finance, Madrid
Rudolf de KORTE	Alternate Member of the Board of Directors of the EIB, The Hague
Aif THERKILDSEN	Special Advisor, Ministry of Economic and Business Affairs, Copenhagen
Angela CARABAŞ	General Director, General Department of Treasury and Public Debt, Ministry of Public Finance, Bucharest
Andžs ŪBELIS	Deputy State Secretary, Ministry of Finance, Riga
Mattias HECTOR	Director General, International Department, Ministry of Finance, Stockholm
Ivana VLKOVÁ	Head of Development Cooperation Unit, Ministry of Finance, Prague
Zsuzsanna VARGA	Director General, Head of Secretariat, Deputy State Secretary for European Union and International Relations, Ministry of National Development, Budapest
(...)	...
Dirk AHNER	Director-General, Regional Policy Directorate-General, European Commission, Brussels

### Alternate experts

Antoni SALA	Advisor to the CEO, Bank Gospodarstwa Krajowego, Warsaw
Axel NAWRATH	Member of the Managing Board, KfW Bankengruppe, Frankfurt-am-Main
(...)	...





## EIB Financing Activity

In 2010, the European Investment Bank's lending totalled EUR 72bn, of which EUR 63bn in the European Union and EUR 9bn outside. This compares to a record total of EUR 79bn in 2009, at the height of the crisis. The EIB is slowly but surely returning to pre-crisis levels of activity.

The focus of the EIB's lending in the EU in 2010 was on **supporting economic growth and jobs**, and on climate action. Supporting economic growth and jobs has meant helping the convergence regions, supporting small and medium-sized enterprises (SMEs), building the infrastructure of the internal market, driving innovation, and ensuring secure and competitive energy supplies.

In the convergence regions the Bank lent EUR 26bn, or 41% of the total lending in the EU. Support for convergence regions has always been the Bank's principal task.

Credit lines to intermediary banks for on-lending to SMEs amounted to EUR 10bn. More than 60 000 SMEs across Europe benefited from better conditions and easier access to finance through EIB funding.

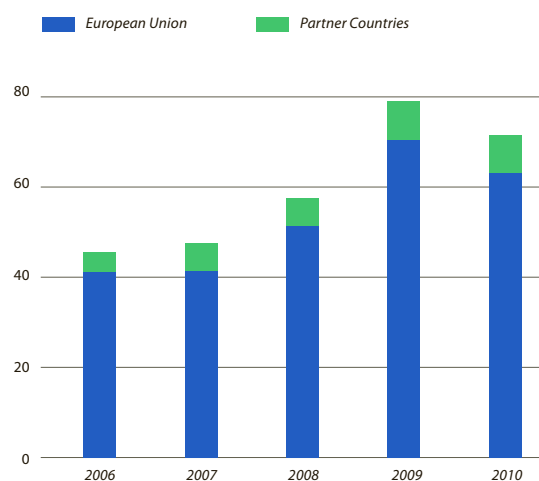
Trans-European transport networks accounted for EUR 7.8bn in EIB loans in 2010. Rail projects took first place, with loans of EUR 4.1bn, half of which was for high-speed rail projects.

The Bank lent EUR 17bn for investments helping to establish the knowledge economy. Research and development projects reached EUR 7.3bn, investments in education EUR 4.4bn, and in information and communication technology EUR 4.8bn. The remainder went to projects in Candidate and Potential Candidate Countries.

Lending to projects ensuring secure and competitive energy supplies – building energy networks and diversifying energy sources – accounted for EUR 14.8bn in 2010.

Total EIB lending for climate action reached EUR 20.5bn in 2010, of which EUR 1.8bn outside the EU. The projects financed concern renewable energy and energy efficiency, carbon finance and sustainable cities.

### Financing 2006-2010: EUR 302bn



Investments in renewable energy and energy efficiency contribute to making Europe's energy supplies more sustainable, competitive and secure. Renewable energy accounted for EUR 6.2bn in EIB loans, energy efficiency for EUR 2.3bn.

Carbon finance initiatives form an integral part of the EIB's response to the challenges posed by climate change. The EIB co-sponsors a number of carbon funds that concentrate mainly on the less-developed areas of the carbon market.

Greening cities and making them more sustainable are at the heart of the EIB's climate action. In 2010, the EIB lent EUR 7.9bn for sustainable transport. EUR 4.1bn went to climate action-related R&D.

With EUR 8.8bn of lending outside the EU in 2010, the EIB provides significant financial support for projects in EU partner countries. Most of the financing operations outside the EU are carried out under an EU budget guarantee. In Candidate and Potential Candidate Countries the Bank lent EUR 3.4bn; in Mediterranean countries EUR 2.6bn; in Russia and the Eastern Neighbours EUR 0.6bn; in the African, Caribbean and Pacific States, and South Africa EUR 1bn; and in Asia and Latin America also EUR 1.2bn.

The EIB's subscribed capital currently stands at EUR 232bn.



## EIB Borrowing Activity

### Strong performance in volatile markets

- The EIB's consistent and responsive funding strategy, combined with the market's appreciation of the Bank's financial fundamentals, continued to deliver strong results in a climate of persistent market volatility. The Bank was able to steer around volatility caused by external events by seizing available windows for large benchmark issues and, in times of volatility, using substantial targeted issuance.
- The funding activities served the Bank's lending objectives by raising EUR 67.0bn in 2010, the second-largest EIB funding volume ever, after 2009 (EUR 79.4bn). The average maturity of funding remained long (7.3 years vs. 7.4 years in 2009), reflecting the Bank's role as a long-term lender. Cost levels improved significantly compared with 2009, as market conditions were on balance more favourable.
- In the USD market, issuance volume increased (+17% to USD 32.3bn/EUR 24.0bn), driven by opportunities to issue in benchmark size at attractive cost levels. Average maturity in USD (5.5 years) improved slightly, benefiting from a return to the longer-dated benchmark markets with a 10-year bond for a total of USD 3bn.
- GBP retained the same share of funding as last year (8.2%) with a volume of GBP 4.8bn (EUR 5.5bn), but with a change in emphasis. Market volatility encouraged increased targeted issuance, due especially to demand from UK banks and building societies for floating-rate note (FRN) instruments (total GBP FRN volume GBP 3.4bn vs. GBP 1.2bn in 2009).
- Other than the three core currencies, the Bank raised funds in 14 other currencies. The flagship contribution in other currencies came from the Australian dollar market (AUD 6.3bn/EUR 4.3bn), which for the first time started to approach GBP in terms of volume. The maintenance of a high level of currency diversification continued to be an important source of flexibility as well as attractive funding costs and good duration (average maturity 7.2 years).

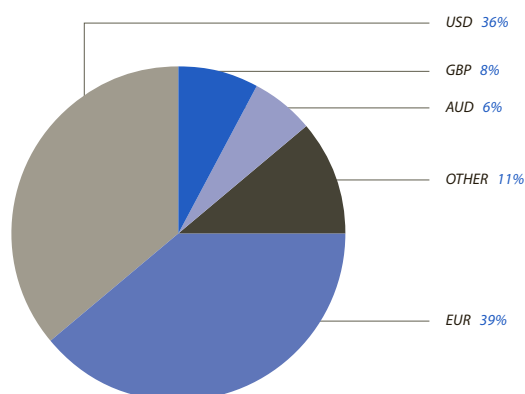
### Highlights by currency

- Borrowing in the Bank's three core currencies – euros (EUR), sterling (GBP) and US dollars (USD) – continued to dominate (EUR 55.7bn/83.1%, vs. 88.4% in 2009). The composition by currency was 39.0% EUR, 35.8% USD and 8.2% GBP. Issuance in other currencies grew significantly (EUR 11.4bn/16.9% vs. EUR 9.2bn/11.6% in 2009), strongly influenced by investor appetite for higher-yielding currencies in a climate of low yields in core currency markets.
- EUR remained the largest source of funding (EUR 26.2bn). Of the EIB's core currencies, it offered the longest maturity (9.6 years) for such volume. There was a strong increase in demand for targeted EUR issuance (EUR 14.7bn), notably through the development of distribution via cooperative and savings banks ('Euro-cooperative' bonds for EUR 11.1bn). This contributed to a reduced reliance on benchmark issuance, which nonetheless remained a core source of EUR funding (EUR 11.5bn).

### An agile safe haven issuer

In 2010, the bond markets remained volatile, influenced by investor nervousness about the economic outlook and prospects for sovereign debt. This challenging climate resulted in elevated execution risk, and certain issuance alternatives were uncertain for extended periods, particularly large benchmark transactions. Seizing windows for benchmark issuance, as well as the Bank's ability to increase access to markets for targeted issuance, compensated for this trend. The EIB's credit standing appealed to investors amidst market uncertainty and underpinned market access.

## Currency breakdown of borrowings in 2010



TRY	2.1%	ZAR	0.8%
JPY	1.9%	RUB	0.6%
CHF	1.8%	NZD	0.3%
NOK	1.5%	PLN	0.2%
SEK	1.4%	HUF	0.1%

### Issues in synthetic format:

Brazilian real (BRL), Indonesian rupiah (IDR) and Philippine peso (PHP), with payment and settlement in either EUR, USD, JPY or CHF.

Fixed-rate benchmark issuance in the Bank's three core currencies (EUR, GBP and USD) accounted for almost half of funding (EUR 32.1bn/48%), a reduced share compared with last year (EUR 53.7bn/68%). This in particular reflected reduced reliance on benchmark issuance in EUR and GBP, but also increased targeted issuance (in plain vanilla and structured format). Targeted issuance accounted for 52% or EUR 34.9bn (32% in 2009), including non-core currencies as well as structured issues. The increased emphasis on targeted issuance was due to both the desire to steer around volatility caused by external events and growth in investor demand for such bonds from the EIB.

Growth in targeted issuance was most prominent in EUR and GBP. In EUR, targeted issuance offered strong volume, notably through a strengthened partnership with cooperative and savings banks – Euro-cooperative ('ECoop') issues. Such targeted EUR issuance also offered cost levels better than EIB EUR benchmarks. In GBP, increased demand for targeted issuance at attractive cost levels was driven by UK banks and building societies, which welcomed EIB floating-rate notes for their repo eligibility with the Bank of England and as a natural balance sheet hedge against UK base rates.



## Details by currency:

### EUR: Key source of volume and duration

EUR not only achieved the largest volume among EIB currencies (EUR 26.2bn), but also the longest average maturity, which increased to 9.6 years from 8.8 years in 2009.

'EARN' benchmark issuance generated EUR 11.5bn or 44% of the EUR total, for an average maturity of 11.3 years. EARNs were issued or tapped in maturities from 5 years up to 20 years. There was a new 5-year EUR 5bn issue and a new 20-year EUR 3bn issue, the first 20-year EUR benchmark by a supranational.

In the targeted segment, there was strong growth to EUR 14.7bn or 56% of the EUR total (2009: 11.0bn or 26% of EUR total). The bulk was achieved through increased issuance of ECoop bonds (which grew by EUR 6.6bn to EUR 11.1bn, or 42% of EUR funding).

The issuance of ECoop FRNs and fixed-rate bonds, initiated in 2008 and 2009, was substantially developed in 2010. This required extensive work on leveraging new relationships in the cooperative and savings bank sectors, to reach an increasingly diverse investor base, especially via local distribution networks. Investors in ECoops were more attentive to fundamentals and less susceptible to short-term factors, especially in Germany, where investors also welcomed attractive spreads compared with German government bonds. In other large eurozone markets, EIB spreads relative to the respective government issues tended to be minimal (France, Holland) or even substantially negative (most of the other countries), limiting the potential to tap these markets at an attractive cost.

### GBP: Leading non-gilt issuer

The Bank was the most active non-government issuer in the (uncollateralised) sterling bond market, with a 6.2% market share (volume GBP 4.8bn/EUR 5.5bn).

The Bank remained active in fixed-rate benchmark issuance, with a new 5-year line for a total of GBP 700m,

while seven taps of existing issues provided liquidity to the benchmark yield curve. While there was reduced benchmark funding in sterling (GBP 1.4bn/EUR 1.6bn vs. GBP 4.6bn/EUR 5.1bn in 2009), this was offset by exceptional growth in sterling FRN issuance, which accounted for 71% of GBP funding (GBP 3.4bn). The size of the new February 2015 FRN issue reached GBP 2 425m, comparable in size to certain fixed-rate benchmarks. Three further new FRNs were launched, along with extensive taps.

As the first-ever issuer in its asset class, the Bank launched an FRN linked to the Sterling Overnight Inter-bank Average Rate (SONIA). The issue represents a natural hedge for liability management purposes on bank balance sheets, by allowing investors to gain exposure to UK base rates without the use of derivatives.

The average maturity of sterling funding decreased in 2010 (to 4.5 years) as, for cost reasons, primary market activity focused on the short-end of the yield curve.

### USD: Increased benchmark presence

Funding in USD increased to USD 32.3bn/EUR 24.0bn (+17%). The programme was dominated by increased benchmark issuance, comprising eight new global benchmark bonds and one benchmark increase (total USD 25.5bn/EUR 19.0bn).

The global benchmark bonds were issued in maturities of 3, 5 and 10 years, and contributed to an extension of average maturity of 5.5 years (+0.5 years). The Bank also achieved a more attractive overall cost of funding in USD, in part due to the impact of the basis swap from USD into EUR. Benchmark sizes of USD 3bn or more in 3 and 5-year maturities were able to be maintained. The USD benchmark programme benefited from strong demand from central banks, which grew relative to the prior year.

Structured issuance and other targeted transactions reached good volumes (USD 6.8bn/EUR 5.0bn) (+23%). Demand was particularly good for plain vanilla private placements, callables and FX-linked structures.

## Increased issuance in other currencies

Issuance in other currencies grew significantly (+24%) to EUR 11.4bn. Currencies contributing EUR 1bn equivalent or more were the Australian dollar (AUD), Turkish lira (TRY), Japanese yen (JPY), Swiss franc (CHF) and Norwegian krone (NOK).

In the past two years AUD (volume AUD 6.3bn/EUR 4.3bn) has been the fourth-largest currency in the Bank's funding. The EIB remains one of the dominant players and has the largest volume outstanding in the Kangaroo market (for foreign issuers). AUD issuance mainly comprised AUD 5.5bn in the domestic Kangaroo format and an additional AUD 723m in Uridashi format geared to Japanese investors.

JPY (JPY 141.4bn/EUR 1.2bn) offered the longest average maturity among all of the EIB's currencies (12.2 years). The bulk of issuance (JPY 100bn) was in 10-year plain vanilla domestic Samurai format. Uridashi issuance in various currencies geared to Japanese investors totalled just over EUR 1bn.

Funding in TRY (TRY 2.8bn/EUR 1.4bn) grew strongly (+EUR 1.2bn). The EIB was the largest issuer on the international TRY market, responding to demand for large, liquid issuance.

The Bank was the second-largest non-Swiss issuer in Swiss francs (CHF 1.7bn/EUR 1.2bn), and achieved a long average maturity of 11.9 years.

In Nordic currencies, NOK funding volume was stable at EUR 1bn equivalent (NOK 8.1bn), whereas Swedish krona (SEK) funding grew by EUR 614m to EUR 949m (SEK 9.0bn).

Funding conditions in central European Member States were challenging, as international demand was limited. In Hungarian forint (HUF) the Bank's issuance (HUF 20.8bn/EUR 77m) included a HUF 10.0bn tap, the largest HUF transaction by the EIB since 2007. In Polish zloty (PLN) the Bank raised PLN 415m (EUR 105m).

Issuance in South African rand (ZAR) was buoyant (ZAR 5.3bn/EUR 538m), and the Bank remained a leading

issuer in this market. Investors' interest in other African currencies was subdued in 2010 and focused on very short-term maturities, discouraging issuance in those currencies in 2010, though the Bank has historically issued in a total of six African currencies other than ZAR.

The EIB became the largest Russian rouble (RUB) Eurobond issuer in 2010 with RUB 15.3bn (EUR 379m) worth of bonds issued.

Climate Awareness Bonds (CABs), where proceeds are earmarked for the Bank's projects in the fields of renewable energy and energy efficiency, were increasingly popular among Japanese investors. CABs were issued in domestic Japanese Uridashi format for EUR 543m.

2010 was a record year for issuance in currencies in synthetic format (with payment in major currencies). There was synthetic issuance in three currencies, generating just over EUR 1bn. By far the largest part of this synthetic funding was completed in Brazilian real (BRL), where the EUR 831m equivalent raised was more than double last year's amount. Synthetic Indonesian rupiah delivered EUR 228m and synthetic Philippine peso added a further EUR 50m.



## EIB Treasury Activity

### Liquidity and portfolio management

The 2010 monthly average net global liquidity amounted to EUR 39.2bn, i.e. 21.7% more than the 2009 level of EUR 32.2bn. On a yearly basis the monthly average liquidity ratio was 48.0%, compared to the minimum liquidity requirement of 25% of the forecast net cash requirement for the following calendar year, against which, as at 31 December 2010, the Bank's overall net liquidity amounted to EUR 27.3bn (EUR 23.9bn at year-end 2009), representing a liquidity ratio of 34.8%.

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 14 different currencies.
- An operational money market portfolio (A2), designed to diversify the credit risk profile and enhance the money market performance in the core currencies (EUR, GBP and USD). This portfolio has been divided into two sub-sections according to the accounting treatment of the investments (Held to Maturity – "HtM" vs. Available for Sale – "Afs"), reflecting their potential investment horizon.
- A credit spread portfolio (B1), designed to enhance overall treasury performance.
- An alternative investment portfolio (B2), invested in capital-guaranteed structured products with coupons indexed to the performance of selected funds of hedge funds. The remaining assets of this portfolio matured in the course of 2010.
- A global fixed-income portfolio (B3), with a benchmark based on the iBoxx Eurozone 1 to 3-year Government Bond Index.
- An inflation-linked bond portfolio (B4), launched in September 2009, invested in EUR-denominated government bonds indexed to consumer inflation (HICP) in the euro area.
- An investment bond portfolio, which is being phased out.

Short-term gross liquidity held in the money market portfolios as of 31.12.2010 was higher at EUR 38.4bn (EUR 29.1bn in 2009), with short-term commitments of EUR 22.0bn (EUR 9.1bn in 2009), consisting principally of the outstandings of commercial paper issuance (EUR 14.1bn), cash collateral (EUR 5.7bn) and special accounts (EUR 1.1bn). The operational bond portfolios, including the Afs portion of the A2 Portfolio, and investment portfolio amounted to EUR 6.3bn (EUR 5.8bn in 2009).

The breakdown of treasury net liquidity of EUR 27.3bn at year-end (EUR 23.9bn in 2009) moved as follows in comparison with 2009: 76.9% (75.7% in 2009) for the money market portfolio, including the HtM portion of the A2 Portfolio, 18.1% (17.6%) for the operational bond portfolios, including the Afs portion of the A2 Portfolio, and 5.0% (6.7%) for the investment bond portfolio.

### Market development and treasury financial result

The start of 2010 was marked by the sudden development of intense market pressure on European Union sovereigns, starting with Greece but rather rapidly spreading to other Member States, in particular countries of the euro area. Similar market concerns developed about the impact of sovereign debt held by EU banks on their financial solidity. The adoption of the Greek Financing Plan, the creation of the EFSF and bank stress test results published in July calmed the markets for a while after an acutely volatile second term, but by August the pressure started to build up again. Uncertainty about the discussions on and details of various potential policy tools to be adopted by the EU, often just impossible to decipher for investors, and downgradings of the ratings of some eurozone sovereigns, fostered renewed market volatility, impacting most strongly the government and state-guaranteed bonds of the countries most affected by the crisis and depressing their market prices to very low levels.

All major central banks retained low refinancing rates and accommodative monetary policy throughout 2010.

This scenario kept money market rates at record lows, even if towards the end of the year the euro money market rate curve started to display a more positive slope.

The treasury accounting results were also strongly impacted by the very low levels of absolute interest rates, which brought the average rate of return to record lows. Approximately 90% of the Bank's operational liquidity is invested in euros, dollars and sterling, and the average rate of return dropped to 0.62%. This unavoidably reduced the level of financial income from treasury operational portfolios, which amounted to EUR 234.1m against EUR 376m in 2009 (down 37.7%). The combined operational bond portfolios (A2 + B1 + B2 + B3 + B4) for their part generated an accounting result of EUR 8.1m (compared with EUR +115m in 2009).





## EIF Activity

### Introduction

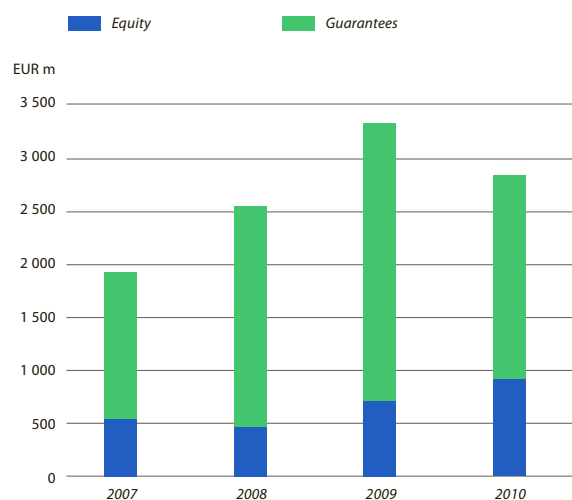
EIF is Europe's leading developer of risk financing for entrepreneurship and innovation. EIF's activity aims to enhance access to finance for SMEs through two main business lines: private equity and guarantees (credit enhancement) on loan portfolios. EIF is part of the EIB Group and has two goals: to support EU policy objectives and make a reasonable return on capital for its shareholders.

Throughout 2010, EIF continued to play a key role in supporting European SMEs post-crisis. Fulfilling its role of cornerstone fund-of-funds investor, EIF achieved record volumes of equity signatures, deploying resources across all mandates and promoting innovation, growth, entrepreneurship and job creation. Access to finance was enhanced for over 130 000 European SMEs through EIF's provision of guarantee products to financial intermediaries and, in its capacity as guarantor of SME securitisation transactions, EIF participated in the recovery of the SME securitisation market by signing its first two transactions since the crisis. After a phase of careful preparation, the Joint European Resources for Micro to Medium Enterprises (JEREMIE) programme for regional development is now fully operational, with the first financing being disbursed and reaching local SMEs. Extending its scope of operations, EIF participated in new EU policy-driven initiatives including the European Progress Microfinance Facility (EPMF), set up to increase access to finance for the benefit of micro-entrepreneurs, the unemployed and people lacking access to the traditional banking system.

### Equity operations

Despite the difficult economic climate and persistent scarcity of private sector capital, EIF made a total of EUR 930m of equity commitments from its overall funding sources. This represents an increase of 30% compared to 2009 volumes and confirms EIF's pivotal role as the cornerstone venture and growth capital investor in European SMEs. Building on its leading role in the European private equity market, EIF has adapted

### Annual commitments, 2007-2010



its products to market needs, expanding its reach to new regions, increasing its stakes in venture and growth capital funds, and helping existing and emerging fund managers to pursue their strategies and invest in Europe's SME champions of tomorrow.

On the fund-of-funds front, EIF won the bid to manage the United Kingdom Future Technology Fund (UKFTF LP) – a GBP 200m fund of funds backed by the UK Government. UKFTF was set up to encourage company creation and entrepreneurship in the UK and investment in venture capital funds targeting SMEs in the life sciences and IT sectors. Soon after being allocated the role in February 2010, EIF singled out and committed UKFTF funds to three established and experienced fund managers, all showing the capacity to make a difference to the technology and innovation sectors in the UK.

Contributing to the expansion of knowledge transfer, particularly in the context of the EU 2020 strategy, EIF signed a strategic intellectual property finance partnership set up to assess market opportunities for Technology Transfer (TT), with the EIB and a number of leading EU investors. Additionally, building on its first successes, EIF renewed its support for CD3, the Centre for Drug

<sup>(1)</sup> Maximum portfolio volume



Design and Discovery TT platform and investment fund created by K.U. Leuven University, demonstrating EIF's commitment to setting up long-term partnerships with first-class academic institutions and research centres and fulfilling EIF's objective to foster the development of innovation in Europe.

By year-end, EIF's total net equity commitments amounted to EUR 5.4bn in some 350 funds.

### Guarantee transactions

EIF offers two main product lines for its SME guarantee activity: credit enhancement-securitisation (guarantees for securitised SME financing instruments) and direct guarantees/counter-guarantees for portfolios of micro-credits, SME loans or leases. With its securitisation transactions, EIF acts as guarantor of tranches of SME securitisation transactions and through this credit support enables banks to obtain liquidity and achieve capital relief, thus allowing them to expand their SME lending activity.

The European securitisation market has gone through an extremely difficult period in the last three years, with very few transactions placed with market investors. EIF contributed to the gradual reopening of the SME securitisation market in Europe, which in the second half of 2010 saw the first SME transactions emerging, with actual placement to third party investors including EIF. Despite the market turmoil, EIF signed almost EUR 1.1bn of new commitments in the period 2008-2010. It achieved on average leverage of 7.5, meaning that its guarantee commitments translated into support for approximately EUR 8bn of SME lending, benefiting 40 000 SMEs.

Throughout 2010, EIF continued to provide and deploy guarantee instruments using European Commission Competitiveness and Innovation Framework Programme (CIP) resources, with a total of more than 90 000 SMEs

benefiting from the CIP guarantees. It is expected that approximately 120 000 SMEs will be supported over time by the budgetary resources already committed. With many financial institutions tightening their credit policies post-crisis, the CIP SME Guarantee Facility played an even more crucial role in addressing the difficulties that SMEs face in obtaining access to debt finance. At end-2010, EIF had signed CIP agreements with 27 intermediaries in 15 countries, the large majority (more than 90%) of SMEs supported being micro-enterprises, 57% in the start-up phase.

The level of guaranteed portfolios signed in 2010 totalled EUR 1.9bn, with slightly lower leverage than last year due to the higher expected default levels resulting from the financial crisis. In this environment, CIP intervenes with higher budgetary allocations to provide higher loss coverage, thus helping lenders to continue to finance SMEs.

By year-end, EIF's outstanding guarantee commitments totalled EUR 14.6bn in nearly 180 transactions.

### GAGF (Greater Anatolia Guarantee Facility)

An example of a high value added joint operation signed in 2010 was the Greater Anatolia Guarantee Facility (GAGF) to support SMEs in some of the less developed provinces of Turkey. Home to 25% of the country's SMEs, these provinces only receive a very small proportion of Turkey's SME lending. GAGF, which is a joint initiative of the EIB Group, the EU Commission and the Turkish Ministry of Industry and Trade, utilises a combination of counter-guarantees, direct portfolio guarantees and funding, providing a risk-sharing mechanism to financial intermediaries that supply finance for SMEs.

The objective is to deploy the money available to SMEs through funding given to six major Turkish financial intermediaries from 2011 onwards.



## JEREMIE (Joint European Resources for Micro-to-Medium Enterprises)

The Joint European Resources for Micro-to-Medium Enterprises (JEREMIE) initiative was developed in cooperation with the European Commission. It is implemented by EIF, and offers EU Member States, through their national or regional Managing Authorities, the opportunity to use part of their EU Structural Fund allocations to finance SMEs. The intention is to move away from grants and subsidies and leverage EU Structural Funds through the development of innovative financial engineering products, such as equity, loans or guarantees, providing a diversified range of financial products for the benefit of SMEs.

To date, EIF has set up Holding Funds in eleven countries and regions of Europe, providing them with a comprehensive toolbox of financial products for SMEs and, after a phase of careful preparation and selection of financial intermediaries, resources started to reach local businesses in 2010. One significant achievement of the year was the setting up of a JEREMIE Holding Fund in the Sicily region using European Social Fund resources, adding a new social component to JEREMIE's product offering. This was the first Holding Fund agreement in the European Union funded by the European Social Fund.

As part of the JEREMIE initiative, EIF developed new products mobilising EU Structural Fund resources for SME financing. The Funded Risk Sharing Product (FRSP) enables EIF to provide funding to financial institutions for the co-financing of new portfolios of SME loans. EIF shares through a JEREMIE Holding Fund part of the credit risk relating to the new portfolio. With the First Loss Portfolio Guarantee (FLPG), EIF covers, through a JEREMIE Holding Fund, part of the credit risk relating to a new portfolio of loans granted by financial intermediaries to SMEs. The first two JEREMIE portfolio guarantees were signed in Romania in December 2010, and in all 15 transactions were signed under JEREMIE in 2010. These developments demonstrate that EIF's role extends beyond the implementation of the JEREMIE Hold-

ing Funds to establishing and developing strong relationships in all markets in which EIF is active, often through a local presence. EIF is also building up its knowledge of the specific needs of local markets and is promoting the full range of EIF products and services.

## Microfinance

Although involved in the microfinance sector since 2000, EIF scaled up its activity in 2010 by participating in new EU policy-driven initiatives.

In 2010, EIF was mandated by the European Commission to manage a new microfinance programme, the European Progress Microfinance Facility (EPMF). This EUR 200m initiative, funded jointly by the EIB and the European Commission, has a particular focus on, but is not restricted to, micro-borrowers, micro-entrepreneurs, the unemployed and groups with limited access to conventional banking services. EPMF support is given through two product lines provided via financial intermediaries: micro-credit guarantees (direct or counter-guarantees) and funded instruments (different forms of loans and equity investments), enhancing their capacity to provide micro-credits and guarantees on micro-credits to the target groups.

With this initiative, EIF once more supports EU objectives by promoting growth through job creation, entrepreneurship and social inclusion.

EPMF will serve as an umbrella initiative grouping the existing EIF microfinance activities of EIF, such as the CIP SME guarantee facility, JASMINE, JEREMIE and own resource transactions, through which micro-entrepreneurs are given enhanced access to finance.

## 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 Bank's Statute and Rules of Procedure. The role of the Audit Committee is to verify that the Bank's operations have been conducted and its books kept in a proper manner. The Audit Committee has overall responsibility for the audit of the Bank's accounts. The EIB Statute, adopted on 1 December 2009, strengthens the Audit Committee by increasing the number of members from three to six and adds a new responsibility, namely to verify that the activities of the Bank conform to best banking practice.

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, and of certain Trust Funds administered by the Bank. The Audit Committee reports on the EIB's compliance with best banking practice through its Annual Report to the Board of Governors.

In fulfilling its role, the Committee meets with representatives of the other statutory bodies, reviews the financial statements, 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 Bank staff 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. The Inspector General, the Chief Compliance Officer, the Financial Controller and the Deputy Financial Controller have direct access to the Audit Committee and may request private meetings if necessary.

**External Auditors** – The external auditors report directly to the Audit Committee, which is empowered to delegate the day-to-day work of auditing the financial statements to them. Following a public tendering procedure, the Audit Committee designated the firm KPMG, after consultation with the Management Committee, as

the EIB's external auditor for a period of four years, starting in 2009, with the possibility of one extension of three years. The external auditors are not allowed to carry out any work of an advisory nature or act in any other capacity that might 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 recommended practice.

**Financial Control** – The Director General of the Strategy and Corporate Centre is also Financial Controller for the EIB Group. Under his direct responsibility, the Financial Control division prepares the financial statements. Together with the Secretary General, the Financial Controller manages the relationships with the external auditors, the Audit Committee and the European Court of Auditors as well as with the European Ombudsman.

**Inspectorate General** – The Inspectorate General for the EIB Group comprises four 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. Internal Audit therefore 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 and the decisions of the EIB's Governors.



EV's work also includes analysis of the related policies and strategies to identify those aspects that may need to be reviewed by the appropriate bodies. Evaluation reports are published in a dedicated section of the EIB's website ([www.eib.org/evaluation](http://www.eib.org/evaluation)).

*Fraud investigations.* Under internal procedures to combat fraud, the Inspector General has the authority to conduct inquiries independently 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). The scope of activities also encompasses a proactive anti-fraud approach – the Proactive Integrity Reviews (PIRs). Through PIRs the Inspectorate General supports the Bank's efforts to monitor projects, identify red flags and search for possible indicators of fraud and/or corruption. Projects are selected for PIRs independently by IG on the basis of an extensive risk assessment process.

*Complaints Mechanism.* The EIB Complaints Mechanism as defined by its published Principles, Terms of Reference and Rules of Procedure, is a tool of horizontal accountability of the EIB Group vis-à-vis its stakeholders as regards the handling of complaints concerning its activities. It ensures that stakeholders have appropriate means available to voice their concerns. The EIB Complaints Mechanism also aims to provide the public with procedures to enable the pre-emptive settlement of disputes between the public and the EIB Group. Any member of the public has access to a two-tier sequential procedure, the internal Complaints Mechanism and – if a complainant is not satisfied with the outcome of the internal Mechanism – the external European Ombudsman. To that end, the EIB and the European Ombudsman have signed a Memorandum of Understanding.

**Compliance Office** – The Office of the Group Chief Compliance Officer (OCCO) identifies the compliance risk associated with EIB operations and coordinates compliance matters within the EIB Group. OCCO 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 to the governing bodies. More specifically, OCCO is responsible for the observance of guidelines, policies and procedures adopted from time to time by the governing bodies of the EIB Group on the prevention of money laundering and the financing of terrorism, internal ethics and integrity, including administration of the codes of conduct. The Office also checks that the correct procurement procedures are chosen for the Bank's own account. In discharging its duties OCCO contributes to the implementation of banking practices applicable to the Bank.

**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 deployment, operational planning, budget/cost accounting and associated analyses, partnership coordination and process improvement. 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 independent opinions and analysis on proposals affecting them, plus the associated management accounting and control systems. A suite of integrated reports facilitates on-going evaluation of the situation in relation to strategy, institutional and operational (including financial) objectives and business plans.





EIB

# Financial Statements

as at 31 December 2010



## Results for the Year

The net surplus of the Bank for the financial year 2010 stands at EUR 2 117 million as compared to a net surplus of EUR 1 877 million for 2009.

The net surplus for the financial year increased by EUR 240 million (+12.8%).

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

- The net balance between interest income and charges rose by EUR 303 million and stands at EUR 2 545 million (items 1 and 2 of the Profit and Loss Account).
- The average interest rate on outstanding loans (after swaps) decreased from 2.36% to 1.63%, and on outstanding debt (after swaps) from 1.75% to 0.87%, resulting in a realised margin of 0.76% versus 0.61% previously. The average interest rate on the net balance between treasury outstanding assets and liabilities decreased from 1.45% to 0.62%.
- The value adjustment on shares and other variable-yield securities (including the venture capital operations and investment funds) resulted in an unrealised loss of EUR 55.2 million, against a larger unrealised loss of EUR 102.2 million in 2009.
- The general administrative expenses increased by EUR 38.2 million or 9.6% to EUR 436 million. Staff costs increased by 13.6% or EUR 38.6 million. The breakdown of staff costs is detailed in note R to the Statutory Financial Statements, which states that salaries and allowances increased by EUR 22.9 million (+12.5%) while welfare contributions and other social costs increased by EUR 15.7 million (+15.5%). Other administrative expenses decreased by EUR 0.4 million (0.3%). The number of persons employed by the Bank at end-2010 increased by 8.7% as compared to at the end of 2009, with the average increase being 9.3%.

### Main evolution of loans and borrowing activity:

- The volume of loans disbursed in 2010 increased by EUR 5.6 billion (or 10.4%) to EUR 57.5 billion from EUR 51.9 billion in 2009.
- The volume of loan signatures for 2010 decreased by EUR 7.3 billion (or 9.2%) to EUR 71.8 billion from EUR 79.1 billion in 2009.

- The volume of borrowing proceeds, before swap operations, received during the financial year 2010 decreased by EUR 11.8 billion (or 14.9%) versus 2009 to EUR 67.3 billion from EUR 79.1 billion.

In 2010, the Bank launched Climate Awareness Bonds ('CABs') for a total value of EUR 543 million. The funds were raised in four currencies: synthetic Brazilian real (payable in Japanese yen), South African rand, Australian dollar and Turkish lira. Most of the proceeds from 2010 CABs issuance (EUR 487 million), as well as the remaining part of the proceeds from 2009 issuance (EUR 164 million), were disbursed to eligible projects in the course of the year. The residual treasury balance as at end-December 2010 was EUR 57 million.

The own funds of the Bank increased from EUR 38.0 billion at the end of 2009 to EUR 40.1 billion at the end of 2010. The ratio of own funds to outstanding loans disbursed (excluding securitised loans) decreased slightly from 12.0% at the end of 2009 to 11.4% at the end of 2010.

### Appropriation of the surplus

On the basis of the EIB 2010 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 2010, which amounts to EUR 2 116 642 010 to the following reserves:

- General loan reserve: EUR 417 129 000 (including an amount of EUR 40 840 000 relating to derivatives)
- Special activities reserve: EUR 809 570 000
- Reserve fund: EUR 889 943 010

Following the appropriation of the surplus, the balance of the individual reserves would be as follows:

- Reserve fund: EUR 20 972 343 541
- Additional reserves: EUR 1 144 023 399
- Special activities reserve: EUR 4 108 940 000
- General loan reserve: EUR 2 340 863 000



## Balance sheet

as at 31 December 2010 (in EUR '000)

Assets	31.12.2010	31.12.2009
<b>1. Cash in hand, balances with central banks and post office banks (Note B.1)</b>	<b>253 692</b>	<b>227 227</b>
<b>2. Treasury bills and other bills eligible for refinancing with central banks (Note B.2)</b>	<b>5 077 985</b>	<b>3 803 327</b>
<b>3. Loans and advances to credit institutions</b>		
a) repayable on demand	460 293	334 382
b) other loans and advances (Note C)	31 598 835	19 152 883
c) loans (Note D.1)	124 030 306	116 575 861
	<b>156 089 434</b>	<b>136 063 126</b>
<b>4. Loans and advances to customers</b>		
a) loans (Note D.1)	226 989 482	199 365 019
b) specific value adjustments (Note D.2)	- 91 608	- 110 800
	<b>226 897 874</b>	<b>199 254 219</b>
<b>5. Debt securities including fixed-income securities (Note B.2)</b>		
a) issued by public bodies	1 712 778	1 888 424
b) issued by other borrowers	14 090 885	15 840 445
	<b>15 803 663</b>	<b>17 728 869</b>
<b>6. Shares and other variable-yield securities (Note E.1)</b>	<b>1 691 599</b>	<b>1 479 405</b>
<b>7. Shares in affiliated undertakings (Note E.2)</b>	<b>483 817</b>	<b>480 668</b>
<b>8. Intangible assets (Note F)</b>	<b>8 266</b>	<b>4 817</b>
<b>9. Tangible assets (Note F)</b>	<b>315 046</b>	<b>304 918</b>
<b>10. Other assets (Note G)</b>	<b>60 562</b>	<b>89 499</b>
<b>11. Subscribed capital and reserves, called but not paid (Note H.3)</b>	<b>57 663</b>	<b>115 327</b>
<b>12. Prepayments and accrued income (Note I)</b>	<b>13 086 147</b>	<b>7 849 936</b>
<b>Total assets</b>	<b>419 825 748</b>	<b>367 401 338</b>

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

Liabilities	31.12.2010	31.12.2009
<b>1. Amounts owed to credit institutions (Note J)</b>		
a) repayable on demand	5 675 399	4 380 414
b) with agreed maturity dates or periods of notice	127 858	100 000
	<b>5 803 257</b>	<b>4 480 414</b>
<b>2. Amounts owed to customers (Note J)</b>		
a) repayable on demand	1 524 466	1 256 333
b) with agreed maturity or periods of notice	975 965	1 106 417
	<b>2 500 431</b>	<b>2 362 750</b>
<b>3. Debts evidenced by certificates (Note K)</b>		
a) debt securities in issue	334 378 114	286 247 691
b) others	23 630 474	19 510 696
	<b>358 008 588</b>	<b>305 758 387</b>
<b>4. Other liabilities (Note G)</b>	<b>409 476</b>	<b>386 939</b>
<b>5. Accruals and deferred income (Note I)</b>	<b>11 480 815</b>	<b>15 031 136</b>
<b>6. Provisions</b>		
a) pension plans and health insurance scheme (Note L)	1 437 362	1 306 754
b) provision for guarantees issued in respect of venture capital operations	0	5 781
	<b>1 437 362</b>	<b>1 312 535</b>
<b>7. Subscribed capital (Note H)</b>		
- Subscribed	232 392 989	232 392 989
- Uncalled	- 220 773 340	- 220 773 340
	<b>11 619 649</b>	<b>11 619 649</b>
<b>8. Reserves (Note H)</b>		
a) reserve fund	20 082 400	18 205 506
b) additional reserves	1 144 024	1 144 024
c) special activities reserve	3 299 370	3 299 370
d) general loan reserve	1 923 734	1 923 734
	<b>26 449 528</b>	<b>24 572 634</b>
<b>9. Profit for the financial year attributable to equity holders of the Bank (Note M)</b>	<b>2 116 642</b>	<b>1 876 894</b>
<b>Total liabilities</b>	<b>419 825 748</b>	<b>367 401 338</b>

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

## Off balance sheet

as at 31 December 2010 (in EUR '000)

	31.12.2010	31.12.2009
<b>Commitments</b>		
- EBRD capital uncalled (Note E.1)	442 500	442 500
- EIF capital uncalled (Notes E.2, X)	1 468 000	1 460 800
- Undisbursed loans (Note D.1)		
credit institutions	17 562 869	18 686 622
customers	72 988 160	63 156 626
	<b>90 551 029</b>	<b>81 843 248</b>
- Undisbursed venture capital operations (Note E.1)	1 536 618	1 244 196
- Undisbursed investment funds (Note E.1)	459 914	511 895
<b>Contingent liabilities and guarantees</b>		
- In respect of loans granted by third parties	476 010	314 244
- In respect of venture capital operations	17 385	17 385
<b>Assets held on behalf of third parties (Note Y)</b>		
- EIF treasury management	907 246	900 069
- Guarantee Fund treasury management	1 347 331	1 240 505
- FP7 Guarantee Fund treasury management	859 620	547 761
- Investment Facility – Cotonou	1 555 391	1 289 209
- Special Section	1 221 391	1 416 067
- RSFF	509 193	432 266
- EU-Africa Infrastructure Trust Fund	259 728	144 151
- HIPC	161 550	65 768
- FEMIP Trust Fund	29 588	30 236
- LGTT	152 348	105 198
- JASPERS	934	119
- JESSICA (Contribution and Holding Fund)	1 382 955	16 805
- NIF	57 913	44
	<b>8 445 188</b>	<b>6 188 198</b>
<b>Other items</b>		
- Special deposits for service of borrowings (Note S)	34 568	52 292
- Securities receivable	0	100 000
- Nominal value of interest-rate swap contracts (Note V.1)	359 402 781	316 379 517
- Nominal value of currency swap contracts payable (Note V.1)	161 700 288	125 166 944
- Nominal value of currency swap contracts receivable (Note V.1)	166 163 922	119 986 609
- Nominal value of credit default swap (Note V.1)	192 883	196 796
- Nominal value of put option granted to EIF minority shareholders (Note E.2)	407 645	388 842
- Borrowings launched but not yet settled	44 044	360 631
- Swaps launched but not yet settled	3 327	11 590
- Securities lending (Note B.2)	562 614	422 131
- Futures contracts (Note V.2)	283 413	334 676
- FX Forwards (Note V.2)	287 518	251 938

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

## Profit and loss account

for the year ended 31 December 2010 (in EUR'000)

	2010	2009
<b>1. Interest receivable and similar income (Note N)</b>	<b>19 175 027</b>	<b>17 122 933</b>
<b>2. Interest payable and similar charges (Note N)</b>	<b>- 16 630 178</b>	<b>- 14 880 656</b>
<b>3. Income from securities</b>	<b>56 432</b>	<b>17 082</b>
a) income from shares and other variable-yield securities	56 432	7 997
b) income from shares in affiliated undertakings	0	9 085
<b>4. Commissions receivable (Note O)</b>	<b>183 044</b>	<b>148 503</b>
<b>5. Commissions payable (Note O)</b>	<b>- 12 286</b>	<b>- 11 768</b>
<b>6. Net loss on financial operations (Note P)</b>	<b>- 227 777</b>	<b>- 20 751</b>
<b>7. Other operating income (Note Q)</b>	<b>12 018</b>	<b>12 157</b>
<b>8. General administrative expenses (Note R)</b>	<b>- 435 513</b>	<b>- 397 295</b>
a) staff costs (Note L)	- 322 562	- 283 971
b) other administrative expenses	- 112 951	- 113 324
<b>9. Value adjustments in respect of tangible and intangible assets (Note F)</b>	<b>- 29 277</b>	<b>- 27 941</b>
a) tangible assets	- 25 907	- 25 645
b) intangible assets	- 3 370	- 2 296
<b>10. Value (re-)adjustments in respect of loans and advances (Note D.2) and provisions for contingent liabilities and for commitments</b>	<b>25 152</b>	<b>- 85 370</b>
<b>11. Profit for the financial year (Note M)</b>	<b>2 116 642</b>	<b>1 876 894</b>

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

## Cash flow statement

for the year ended 31 December 2010 (in EUR '000)

	2010	2009
<b>A. Cash flows from operating activities:</b>		
Profit for the financial year	2 116 642	1 876 894
Adjustments for:		
Change in specific value adjustments on loans and advances	- 19 192	88 800
Change in specific provisions on staff pension fund	130 608	119 101
Change in provisions for guarantees issued in respect of venture capital operations	- 5 781	0
Value adjustments in respect of shares and other variable-yield securities	55 237	102 201
Value adjustments in respect of tangible and intangible assets	29 277	27 941
Investment portfolio amortisation	4 234	8 484
Effects of exchange rate changes on loans, debts evidenced by certificates and swaps	1 345 089	766 054
<b>Profit on operating activities</b>	<b>3 656 114</b>	<b>2 989 475</b>
Disbursements of loans and advances to credit institutions and customers	- 57 523 013	- 51 895 204
Repayments of loans and advances to credit institutions and customers	27 713 767	23 200 287
Change in deposits with central banks	- 26 456	- 227 144
Change in treasury operational portfolios	- 804 037	- 1 180 975
Change in venture capital operations included in shares and other variable-yield securities	- 166 335	- 138 350
Change in shares and other variable-yield securities excluding venture capital operations	- 101 096	- 53 086
Change in amounts owed to credit institutions and customers	1 460 524	- 317 101
Change in prepayments and accrued income	3 949 344	- 770 579
Change in other assets	28 937	59 085
Change in accruals and deferred income	- 3 550 321	- 1 101 050
Change in other liabilities	22 537	24 444
<b>Net cash from operating activities</b>	<b>- 25 340 035</b>	<b>- 29 410 198</b>
<b>B. Cash flows from investing activities:</b>		
Purchase of EIF shares	- 3 149	- 1 396
Sale of securities from investment portfolio matured during the year	222 518	251 786
Purchase of loan substitutes included in the treasury portfolios	- 2 906 619	- 2 622 000
Redemption of loan substitutes included in the treasury portfolios	1 582 002	179 474
Purchase of tangible and intangible assets	- 42 854	- 19 479
<b>Net cash from investing activities</b>	<b>- 1 148 102</b>	<b>- 2 211 615</b>
<b>C. Cash flows from financing activities:</b>		
Issuance of debts evidenced by certificates	129 855 314	101 587 443
Redemption of debts evidenced by certificates	- 92 619 273	- 66 715 132
Member States contribution	57 664	358 659
<b>Net cash from financing activities</b>	<b>37 293 705</b>	<b>35 230 970</b>
<b>Summary statement of cash flows:</b>		
<b>Cash and cash equivalents at beginning of financial year</b>	<b>27 126 289</b>	<b>23 718 439</b>
Net cash from:		
(1) operating activities	- 25 340 035	- 29 410 198
(2) investing activities	- 1 148 102	- 2 211 615
(3) financing activities	37 293 705	35 230 970
(4) effects of exchange rate changes on cash held	- 786 146	- 201 307
<b>Cash and cash equivalents at end of financial year</b>	<b>37 145 711</b>	<b>27 126 289</b>
<b>Cash and cash equivalents are composed of:</b>		
Cash in hand, balances with central banks and post office banks, excluding deposits with Central Bank of Luxembourg to cover minimum reserve requirement (Note B.1)	92	83
Bills maturing within three months of issue (Note B.2 : A1 portfolio)	5 086 491	7 638 941
Loans and advances to credit institutions:		
Accounts repayable on demand	460 293	334 382
Term deposit accounts (Note C)	31 598 835	19 152 883
	<b>37 145 711</b>	<b>27 126 289</b>

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

## European Investment Bank

# Notes to the financial statements

as at and for the year ended 31 December 2010

The European Investment Bank (the 'Bank' or 'EIB') was created by the Treaty of Rome in 1958 as the long-term lending bank of the European Union (EU). The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. The EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The EIB continuously adapts its activities to developments in EU policies.

The Bank has its registered office at 98-100, boulevard Konrad Adenauer, Luxembourg.

## Note A – Significant accounting policies

### A.1. Accounting standards

The unconsolidated financial statements (the 'Financial Statements') of the European Investment Bank 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 and insurance undertakings (the 'Directive'), as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 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 adopted the Financial Statements on 10 March 2011 and authorised their submission to the Board of Governors for approval at their meeting on 17 May 2011.

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-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 at the exchange rate prevailing on the date of the transaction. The Bank's monetary 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.

### A.3. Derivatives

All derivatives held by the Bank are used for micro and macro-hedging. The Bank does not enter into any trading of derivatives.

The Bank uses derivative instruments, i.e. mainly currency and interest rate swaps, as part of its asset and liability management ("ALM") activities to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. All derivatives transactions are booked as off-balance sheet items at the date of the transaction.

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 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 pro rata temporis basis.

The Bank also enters into credit default swaps as part of its credit risk mitigation.

Long-term futures are used by the Bank to adjust the interest rate exposure of its treasury bond portfolios. Futures are valued by reference to the previous day's closing price on the relevant market.

#### Currency swaps

Currency swap contracts are entered into in order to adjust currency positions. The revaluation of the spot leg of a currency swap is neutralised in *Accruals and deferred income* or *Prepayments and accrued income*. The forward leg of the currency swap is recorded off-balance sheet at settlement amount and not revalued. The premium/discount between the spot and forward settlement amounts is amortised pro rata temporis through the profit and loss account in *Interest receivable and similar income* or *Interest payable and similar charges*.

#### Interest rate swaps

The hedging interest rate swaps are not revalued.

### A.4. Financial assets

Financial assets are accounted for using the settlement date basis.

### A.5. Cash and cash equivalents

The Bank defines cash and 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 of 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 adjustments are accounted for, if these are other than temporary. The difference between entry price and redemption value is accounted for pro-rata temporis over the life of the securities.

In 2006, the Bank decided to phase out the investment portfolio. Since then, the Bank has not made any new additions 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 18 months, in particular Treasury bills and negotiable debt securities issued by public bodies and credit institutions. The securities in the A1 portfolio are held until their final maturity and presented in the Financial Statements at purchase price. Value adjustments are accounted for, if these are other than temporary. The A2 portfolio includes securities which are available for sale and presented in the accounts at the lower of the cost or market value. Value adjustments are recorded under item *Net loss on financial operations* in the profit and loss account.

Treasury bills appear on the assets side of the balance sheet under item *Treasury bills and other bills eligible for refinancing with central banks*.

Negotiable debt securities issued by public bodies and credit institutions appear on the assets side of the balance sheet under item *Debt securities including fixed-income securities a) issued by public bodies and b) issued by other borrowers respectively*.

Zero coupon bonds are initially recorded at acquisition cost. The difference between the acquisition cost and redemption amount is amortised pro rata temporis as *Interest receivable and similar income*.

- Operational bond portfolios B1, B2, B3 and B4

The B1 'Credit Spread' portfolio comprises floating-rate and fixed-rate bonds issued or guaranteed by national governments, supranational institutions, financial institutions and corporations. These securities are available for sale and are presented in the Financial Statements at the lower of cost or market value. Value adjustments are recorded under item *Net loss 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 *Net loss 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 changes in market value are recorded under item *Net loss on financial operations* in the profit and loss account.

The B4 'Inflation Linked Investment' portfolio comprises listed securities with a maximum residual maturity of 30 years, issued by EU Governments. Securities held in this portfolio are marked to market value in the balance sheet; the corresponding changes in market value are recorded under item *Net loss on financial operations* in the profit and loss account.

The market value of treasury portfolios is based on published price quotations in an active market which are the first source for determining the fair value of these treasury instruments. For instruments without an available market price, the fair values are determined by obtaining quotes from market participants and/or by using valuation techniques or models, based whenever possible on observable market data prevailing at the balance sheet date.

#### **A.6.3. Loan substitutes**

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 initially recorded at purchase price and valued at amortised cost. The difference between purchase price and redemption value is accounted for pro-rata temporis over the life of the securities. Value adjustments 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 acting as an agent to lend securities from the Investment portfolio, the B1 'Credit Spread' portfolio and the B3 'Global Fixed Income' portfolio and since 2009 also the B4 "Inflation Linked Investment" 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 recognised in the balance sheet unless control of the contractual rights that are comprised in these received securities is gained. Securities lent are not derecognised from the balance sheet unless control of the contractual rights that are comprised in these transferred securities is relinquished.

Fees and interest received or paid are recorded as interest income or interest expense on an accruals 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 assets to which they relate. Value adjustments are accounted for in the profit and loss account as '*Value adjustments in respect of 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 deducted from 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 of assets held in the operational portfolios. Under a tripartite reverse repo, a custodian/clearing agency arranges for custody, clearing and settlement of the transactions between the Bank and a third party. The custodians/clearing agencies operate under standardised global master purchase agreements and provide for delivery against payment systems, substitution of securities, automatic marking to market, reporting and daily transaction administration.

Reverse repos are carried at the amounts of cash advanced and are entered on the balance sheet under asset item *Loans and advances to credit institutions – b) other loans and advances*. Interest on reverse repos is accrued pro-rata temporis.



Repos are carried at the amounts of cash received and are entered on the balance sheet under liability item *Amounts owed to credit institutions – a) with agreed maturity dates or periods of notice*. Interest on repos is accrued pro-rata temporis.

#### **A.8.4. Interest subsidies**

Interest subsidies received in advance (see Note I) 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 shares in affiliated undertakings**

#### **A.9.1. Shares and other variable-yield securities**

Shares and other variable-yield securities are initially recorded at acquisition cost. Their carrying value is adjusted to the lower of cost or market value at subsequent measurement at the balance sheet date. 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.

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. They 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. Shares in affiliated undertakings**

Shares in affiliated undertakings represent medium and long-term investments and are accounted for at cost.

Value adjustments are accounted for, if these are other than temporary.

### **A.10. Tangible assets**

Tangible assets include land, Bank-occupied properties, other machines and equipment.

Land is stated at acquisition cost 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 and Luxembourg-Weimershof are depreciated on a 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 a straight-line basis over the estimated life of each item purchased, as set out below:

- Buildings in Kirchberg, Hamm and Weimershof: 30 years
- Permanent equipment, fixtures and fittings: 10 years
- Furniture: 5 years
- Office equipment and vehicles: 3 years

### **A.11. Intangible assets**

Intangible assets comprise internally developed computer software. Software development costs are capitalised 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 amortisation calculated on a straight-line basis over three years from completion.

### **A.12. Pension plans and health insurance scheme**

#### **A.12.1. Pension plan for staff**

The Bank operates defined benefit pension plans to provide retirement benefits to substantially its entire staff.

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.

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 2010, but updated as at 31 December 2010 with an extrapolation (roll forward method) for the last three months of 2010. The main actuarial assumptions used by the actuary are set out in Note L.

Prior to 1 January 2010, actuarial surpluses did not influence provisioning. Since 1 January 2010, cumulative prior year actuarial deficits and surpluses in excess of 10% of the commitments for retirement benefits are recognised over the expected average remaining service lives of the plan's participants on a straight line basis.

#### **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 and accounted for under the same principles as the pension plan for staff described in Note A.12.1. The latest valuation was carried out as at 30 September 2010, but updated as at 31 December 2010 with an extrapolation (roll forward method) for the last three months of 2010.

#### **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. The Management Committee pension plan is managed and accounted for under the same principles as the pension plan for staff described in Note A.12.1.

#### **A.12.4. Optional Supplementary provident scheme**

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. The corresponding liability is recorded in *Other liabilities*.

### **A.13. Debts evidenced by certificates**

Debts evidenced by certificates are presented at their redemption amounts. Transaction costs and premiums/discounts are amortised 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 payable and similar charges* in the profit and loss account.

### **A.14. 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 guarantees issued is established if there is objective evidence that the Bank will have to incur a loss in respect of a given guarantee granted.

### **A.15. Reserves**

#### **A.15.1. Special activities reserve and General loan reserve**

The Statute of the Bank, which came into force with the Lisbon Treaty, no longer requires the maintenance of specific reserves for Funds allocated to structured finance facility and similar undertakings (SFF/SFE) or Funds allocated to venture capital operations. Instead, the Statute foresees a reserve allocation for "special activities" to be defined.

A proposal was put forward and approved at the Management Committee meeting on 2 February 2010 for a definition of special activities and corresponding reserve allocation, which is in line with existing credit risk practise and external agreements. The redefining of the Bank's reserve framework for its lending activities provides the opportunity to separate more clearly reserves for the expected loss (EL) of the entire loan portfolio from reserves based on the capital allocation (CA) for special activities.

As a result, two reserves were created as at 31 December 2009. These reserves are described as follows:

- Special activities reserve: As foreseen by Article 16.5 of the Statute, "the special activities of the Bank will have a specific allocation of reserve". The reserve will be based on the capital allocation of each operation.
- General loan reserve: With the coming into force of the Statute, a non-specific reserve is introduced for the expected loss of the Bank's loan and guarantees portfolio, modelled upon the Bank's policy guidelines.

#### **A.15.2. Funds allocated to structured finance facility**

This item comprised 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 type of activity. This reserve has now been eliminated in favour of the reserves above.

### A.15.3. Funds allocated to venture capital operations

This item comprised 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. This reserve has now been eliminated in favour of the reserves above.

### 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 for which payment is not due until the expiry of the underlying instrument (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 receivable and similar income

In addition to interest and commission income on loans and deposits and other revenue from the securities portfolio, the *'Interest receivable 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. Dividend income

Dividends are recognised in the profit and loss account when the entity's right to receive payment is established.

### A.20. Reclassification of prior year figures

Certain prior year figures have been reclassified to conform with the current year's presentation. The main reclassifications relate to the de-netting of interest receivable and payable on swaps under:

- *Prepayments and accrued income*
- *Accruals and deferred income*
- *Interest receivable and similar income*
- *Interest payable and similar charges*

## Note B – Cash in hand, balances with central banks and post office banks and debt securities portfolio (in EUR'000)

### B.1. Cash in hand, balances with central banks and post office banks

The cash in hand and balances with central banks and post office banks equal to EUR '000 253 692 at 31 December 2010 (2009: EUR'000 227 227).

EIB is an eligible counterparty in the Eurosystem's monetary policy operations, and therefore has been given access to the monetary policy operations of the European Central Bank. The Bank conducts the operations via the Central Bank of Luxembourg, where the Bank maintains a deposit to cover the minimum reserve requirement. The balance of this deposit amounts to EUR '000 253 600 as at 31 December 2010 (2009: EUR'000 227 144).

### B.2. Debt securities portfolio

In addition to loan substitutes, which represent acquisitions of interests in 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 bond portfolios B1 'Credit Spread', B2 'Alternative Investment', B3 'Global Fixed Income' and B4 'Inflation Linked Investment'. The detail of these portfolios and their classification as at 31 December 2010 and 2009 are as follows:

				31.12.2010	31.12.2009
Treasury bills and other bills eligible for refinancing with central banks (listed)				5 077 985	3 803 327
Debt securities including fixed-income securities (of which EUR'000 9 413 399 unlisted in 2010 and EUR'000 9 071 544 in 2009)				15 803 663	17 728 869
				<b>20 881 648</b>	<b>21 532 196</b>
<b>At 31.12.2010</b>	<b>Purchase price</b>	<b>Book value</b>	<b>Premiums/ discounts to be amortised</b>	<b>Value at final maturity</b>	<b>Market value</b>
<b>Investment portfolio</b>	1 426 806	1 379 096	- 18 163	1 360 933	1 405 140
<b>Operational money market portfolios:</b>					
- A1: money market securities with a max. 3 month maturity	5 086 491	5 086 491	0	5 086 491	5 083 714
- A2: money market securities with a max. 18 month maturity	2 199 097	2 200 878	9 120	2 216 906	2 201 277
<b>Operational bond portfolios:</b>					
- B1: Credit Spread	1 044 305	990 742	0	1 043 527	998 966
- B2: Alternative Investment	0	0	0	0	0
- B3: Global Fixed Income	633 831	618 997	0	608 000	618 997
- B4: Inflation Linked Investment	1 073 907	1 072 028	0	980 000	1 072 028
<b>Loan substitutes (Note D)</b>	9 534 374	9 533 416	- 18 331	9 515 085	8 834 011
	<b>20 998 811</b>	<b>20 881 648</b>	<b>- 27 374</b>	<b>20 810 942</b>	<b>20 214 133</b>

At 31.12.2009	Purchase price	Book value	Premiums/ discounts to be amortised	Value at final maturity	Market value
<b>Investment portfolio</b>	1 636 734	1 605 848	- 23 616	1 582 232	1 686 822
<b>Operational money market portfolios:</b>					
- A1: money market securities with a max. 3 month maturity	7 638 941	7 638 941	0	7 638 941	7 635 850
- A2: money market securities with a max. 18 month maturity	1 792 559	1 790 862	0	1 792 534	1 792 846
<b>Operational bond portfolios:</b>					
- B1: Credit Spread	1 132 731	1 112 564	0	1 133 246	1 126 106
- B2: Alternative Investment	125 000	124 131	0	125 000	124 131
- B3: Global Fixed Income	553 499	554 715	0	530 000	554 715
- B4: Inflation Linked Investment	478 334	496 336	0	435 000	496 336
<b>Loan substitutes (Note D)</b>	8 208 799	8 208 799	0	8 208 799	7 716 159
	<b>21 566 597</b>	<b>21 532 196</b>	<b>- 23 616</b>	<b>21 445 752</b>	<b>21 132 965</b>

The Bank enters into collateralised securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Bank when deemed necessary.

The nominal value of securities lending activity amounts to EUR '000 562 614 at the end of December 2010 (2009: EUR '000 422 131).

Loan substitutes are considered as part of the aggregate loans (Note D). Some of these transactions have been structured by adding credit or project related remedies, thus offering additional recourse. Per detailed review no value adjustment is required and has thus been accounted for as at 31 December 2010.

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

The Bank enters into collateralised reverse repurchase and repurchase agreement transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Bank when deemed necessary.

	31.12.2010	31.12.2009
Term deposits	6 192 800	9 058 827
Tripartite reverse repos <sup>(*)</sup>	25 406 035	10 094 056
	<b>31 598 835</b>	<b>19 152 883</b>

<sup>(\*)</sup> 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; and
- organisation of substitute collateral provided that this meets all the contractual requirements.

## Note D – Summary statement of loans

### 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 2010	Total 2009
Disbursed portion	124 030 306	226 989 482	351 019 788	315 940 880
Undisbursed loans	17 562 869	72 988 160	90 551 029	81 843 248
<b>Aggregate loans granted</b>	<b>141 593 175</b>	<b>299 977 642</b>	<b>441 570 817</b>	<b>397 784 128</b>
Loan substitutes portfolio (Note B.2)			9 533 416	8 208 799
<b>Aggregate loans including loan substitutes portfolio (Note D.3)</b>			<b>451 104 233</b>	<b>405 992 927</b>

### D.2. Specific value adjustments for loans (in EUR'000)

Movements in the specific value adjustments are detailed below:

	2010	2009
Provision at 1 January	110 800	22 000
Release during the year	- 20 000	0
Allowance during the year	808	88 800
<b>Provision at 31 December</b>	<b>91 608</b>	<b>110 800</b>

### D.3. Geographical breakdown of lending by country in which projects are allocated (in EUR '000)

#### D.3.1. Loans for projects within the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Spain	696	67 388 000	63 517 730	3 870 270	14.94%	15.19%
Germany	688	57 312 575	48 133 100	9 179 475	12.70%	13.45%
Italy	548	55 563 064	43 221 824	12 341 240	12.32%	12.51%
France	403	41 006 821	34 224 356	6 782 465	9.09%	9.56%
United Kingdom	233	30 523 750	24 813 567	5 710 183	6.77%	6.81%
Portugal	320	24 032 904	21 411 740	2 621 164	5.33%	5.34%
Poland	189	23 104 374	16 507 833	6 596 541	5.12%	4.46%
Greece	150	17 197 611	13 872 929	3 324 682	3.81%	3.65%
Hungary	125	10 710 227	8 437 892	2 272 335	2.37%	2.33%
Austria	196	9 815 879	9 239 879	576 000	2.18%	2.14%
Czech Republic	113	9 705 203	7 729 744	1 975 459	2.15%	2.11%
Belgium	94	8 737 168	7 149 325	1 587 843	1.94%	1.90%
Netherlands	66	7 807 107	5 423 587	2 383 520	1.73%	1.67%
Sweden	73	7 520 745	5 171 663	2 349 082	1.67%	1.26%
Finland	114	6 900 878	6 116 078	784 800	1.53%	1.64%
Romania	74	6 553 558	3 277 402	3 276 156	1.45%	1.58%
Ireland	50	4 265 456	3 356 818	908 638	0.95%	1.06%
Slovenia	54	3 089 494	2 185 805	903 689	0.68%	0.67%
Slovakia	44	2 617 823	1 116 366	1 501 457	0.58%	0.33%
Bulgaria	42	2 429 605	1 090 550	1 339 055	0.54%	0.59%
Denmark	44	2 370 991	2 069 158	301 833	0.53%	0.60%
Cyprus	33	1 835 111	1 362 472	472 639	0.41%	0.35%
Latvia	27	1 602 681	817 681	785 000	0.35%	0.39%
Lithuania	17	1 328 129	1 176 629	151 500	0.29%	0.33%
Estonia	14	1 068 217	489 908	578 309	0.24%	0.25%
Luxembourg	27	790 713	693 263	97 450	0.17%	0.21%
Malta	5	301 055	145 555	155 500	0.07%	0.05%
<b>Sub-total</b>	<b>4 439</b>	<b>405 579 139</b>	<b>332 752 854</b>	<b>72 826 285</b>	<b>89.91%</b>	<b>90.43%</b>

### D.3.2. Loans for projects outside the Union

#### D.3.2.1. Candidate Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Turkey	122	13 548 290	9 693 800	3 854 490		
Croatia	31	2 309 369	1 367 780	941 589		
FYROM	8	274 126	189 144	84 982		
<b>Sub-total</b>	<b>161</b>	<b>16 131 785</b>	<b>11 250 724</b>	<b>4 881 061</b>	<b>3.58%</b>	<b>3.51%</b>

#### D.3.2.2. ACP States

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Madagascar	2	268 221	194 207	74 014		
Kenya	4	267 662	24 788	242 874		
Namibia	8	201 082	201 082	0		
Nigeria	3	189 700	15 931	173 769		
Lesotho	4	173 712	22 412	151 300		
Mauritius	13	124 865	72 930	51 935		
Mozambique	8	122 809	92 309	30 500		
Ghana	3	106 399	86 399	20 000		
Tanzania	1	100 652	0	100 652		
Senegal	3	76 878	41 878	35 000		
Regional – West Africa	3	70 136	70 136	0		
Cap Verde	2	61 648	30 264	31 384		
Congo (Democratic Republic)	1	55 000	2 738	52 262		
Regional – Caribbean	3	48 433	45 433	3 000		
Benin	2	45 000	0	45 000		
Cameroon	1	40 000	0	40 000		
Swaziland	2	38 332	24 832	13 500		
Dominican Republic	3	34 800	0	34 800		
Congo	1	29 000	0	29 000		
Barbados	5	28 269	18 519	9 750		
Botswana	4	25 747	25 747	0		
Jamaica	3	25 169	25 169	0		
Fiji	1	24 500	0	24 500		
Mauritania	2	20 605	13 281	7 324		
Burkina Faso	1	18 500	3 000	15 500		
Malawi	2	17 492	3 825	13 667		
Regional – Africa	2	11 587	11 587	0		
Regional - ACP	1	7 261	7 261	0		
Saint Vincent and The Grenadines	2	6 730	6 730	0		
Saint Kitts and Nevis	2	5 987	0	5 987		
Bahamas	2	5 769	5 769	0		
Saint Lucia	2	3 700	3 700	0		
Togo	1	3 000	0	3 000		
Zimbabwe	1	2 683	2 683	0		
Gabon	1	1 288	1 288	0		
Papua New Guinea	1	428	428	0		
Grenada	1	300	300	0		
<b>Sub-total</b>	<b>101</b>	<b>2 263 344</b>	<b>1 054 626</b>	<b>1 208 718</b>	<b>0.50%</b>	<b>0.44%</b>



#### D.3.2.3. Asia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
China	7	1 663 230	560 392	1 102 838		
Vietnam	7	449 672	163 631	286 041		
India	3	260 748	196 152	64 596		
Pakistan	5	159 801	59 801	100 000		
Sri Lanka	4	149 223	124 223	25 000		
Philippines	3	100 477	100 477	0		
Indonesia	4	90 093	90 093	0		
Maldives	1	44 277	44 277	0		
Laos	1	41 162	41 162	0		
Thailand	1	19 515	19 515	0		
Bangladesh	1	14 014	14 014	0		
<b>Sub-total</b>	<b>37</b>	<b>2 992 212</b>	<b>1 413 737</b>	<b>1 578 475</b>	<b>0.66%</b>	<b>0.56%</b>

#### D.3.2.4. Balkans

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Serbia	61	2 946 333	1 161 243	1 785 090		
Bosnia-Herzegovina	34	1 123 212	511 418	611 794		
Albania	14	290 085	175 488	114 597		
Montenegro	26	237 304	129 959	107 345		
<b>Sub-total</b>	<b>135</b>	<b>4 596 934</b>	<b>1 978 108</b>	<b>2 618 826</b>	<b>1.02%</b>	<b>0.94%</b>

#### D.3.2.5. Central and Latin America

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of year 2009
Brazil	16	1 059 618	739 618	320 000		
Panama	4	617 574	269 901	347 673		
Argentina	5	227 509	227 509	0		
Colombia	2	185 977	185 802	175		
Mexico	4	159 570	128 930	30 640		
Peru	4	117 434	117 434	0		
Paraguay	1	74 839	74 839	0		
Regional - Central America	2	38 416	20 035	18 381		
Ecuador	1	36 163	36 163	0		
Uruguay	3	26 178	26 178	0		
Honduras	1	20 000	0	20 000		
Nicaragua	1	15 046	0	15 046		
Costa Rica	1	10 328	10 328	0		
Regional Andean Countries	1	4 774	4 774	0		
<b>Sub-total</b>	<b>46</b>	<b>2 593 426</b>	<b>1 841 511</b>	<b>751 915</b>	<b>0.57%</b>	<b>0.52%</b>

#### D.3.2.6. European Free Trade Association (EFTA) Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Norway	7	615 746	565 746	50 000		
Iceland	10	585 222	495 222	90 000		
<b>Sub-total</b>	<b>17</b>	<b>1 200 968</b>	<b>1 060 968</b>	<b>140 000</b>	<b>0.27%</b>	<b>0.33%</b>

#### D.3.2.7. Mediterranean Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Egypt	38	3 289 717	2 095 074	1 194 643		
Tunisia	60	3 173 669	1 821 950	1 351 719		
Morocco	49	3 139 969	1 783 969	1 356 000		
Syria	17	1 516 807	702 415	814 392		
Lebanon	24	713 525	470 846	242 679		
Algeria	1	500 000	500 000	0		
Israel	8	436 098	377 198	58 900		
Jordan	22	384 048	291 953	92 095		
Gaza West Bank	6	62 479	17 479	45 000		
<b>Sub-total</b>	<b>225</b>	<b>13 216 312</b>	<b>8 060 884</b>	<b>5 155 428</b>	<b>2.93%</b>	<b>2.79%</b>

#### D.3.2.8. Overseas Countries and Territories (OCT)

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
French Polynesia	2	10 558	558	10 000		
New Caledonia	1	711	711	0		
British Virgin Islands	1	581	581	0		
<b>Sub-total</b>	<b>4</b>	<b>11 850</b>	<b>1 850</b>	<b>10 000</b>	<b>0.00%</b>	<b>0.00%</b>

#### D.3.2.9. Eastern Europe, Southern Caucasus, Russia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Ukraine	4	465 540	148 000	317 540		
Russian Federation	5	339 200	105 836	233 364		
Moldova	7	234 946	12 546	222 400		
Georgia	4	175 000	27 159	147 841		
Armenia	1	5 000	0	5 000		
<b>Sub-total</b>	<b>21</b>	<b>1 219 686</b>	<b>293 541</b>	<b>926 145</b>	<b>0.27%</b>	<b>0.18%</b>

### D.3.2.10. South Africa

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
South Africa	30	1 298 577	844 401	454 176		
<b>Sub-total</b>	<b>30</b>	<b>1 298 577</b>	<b>844 401</b>	<b>454 176</b>	<b>0.29%</b>	<b>0.30%</b>
<b>Total loans for projects outside the Union</b>	<b>777</b>	<b>45 525 094</b>	<b>27 800 350</b>	<b>17 724 744</b>	<b>10.09%</b>	<b>9.57%</b>
<b>Total loans 2010</b>	<b>5 216</b>	<b>451 104 233</b>	<b>360 553 204 <sup>(1)</sup></b>	<b>90 551 029</b>	<b>100.00%</b>	
<b>Total loans 2009</b>	<b>5 032</b>	<b>405 992 927</b>	<b>324 149 679 <sup>(1)</sup></b>	<b>81 843 248</b>		<b>100.00%</b>

<sup>(1)</sup> including loan substitutes (Note B.2 and D.1)

## Note E – Shares and other variable-yield securities

### E.1. Shares and other variable-yield securities

This balance comprises (in EUR '000):

	Venture Capital Operations	EBRD Shares	Investment funds	TOTAL
<b>Cost</b>				
At 1 January 2010	1 683 855	157 500	222 388	2 063 743
Net additions / releases	166 335	0	101 096	267 431
<b>At 31 December 2010</b>	<b>1 850 190</b>	<b>157 500</b>	<b>323 484</b>	<b>2 331 174</b>
<b>Value adjustments</b>				
At 1 January 2010	- 583 488	0	- 850	- 584 338
Net additions/releases	- 39 548	0	- 15 689	- 55 237
<b>At 31 December 2010</b>	<b>- 623 036</b>	<b>0</b>	<b>- 16 539</b>	<b>- 639 575</b>
<b>Net book value</b>				
<b>At 31 December 2010</b>	<b>1 227 154</b>	<b>157 500 <sup>(1)</sup></b>	<b>306 945</b>	<b>1 691 599</b>
<b>At 31 December 2009</b>	<b>1 100 367</b>	<b>157 500 <sup>(1)</sup></b>	<b>221 538</b>	<b>1 479 405</b>

<sup>(1)</sup> The amount of EUR '000 157 500 (2009: EUR '000 157 500) corresponds to the capital paid in by the Bank as at 31 December 2010 with respect to its subscription of EUR '000 600 000 to the capital of the EBRD (European Bank for Reconstruction and Development).

The Bank holds 3.03% of the subscribed capital of the EBRD.

As at 31 December 2010 the share of underlying net equity of the Bank in EBRD amounts to EUR 348.4 million (2009: EUR 355.0 million). This is based on the audited 2009 financial statements prepared in accordance with International Financial Reporting Standards.

In EUR million	% held	Total own funds	Total net result	Total assets
EBRD (31.12.2008)	3.03	11 750	- 717	33 047
EBRD (31.12.2009)	3.03	11 515	- 911	32 539

The amounts signed but not yet disbursed disclosed off-balance sheet are respectively:

- for venture capital operations EUR '000 1 536 618 (2009: EUR '000 1 244 196)
- for investment funds EUR '000 459 914 (2009: EUR '000 511 895)

## E.2. Shares in affiliated undertakings

The balance of EUR '000 483 817 (2009: EUR '000 480 668) corresponds to the amount paid in by the Bank in respect of its subscription of EUR '000 1 835 000 (2009: EUR '000 1 826 000) to the capital of the European Investment Fund ('EIF'), with its registered office in Luxembourg.

The Bank holds 61.17% (2009: 62.11%) of the subscribed capital of the EIF amounting to EUR 3.00 billion (2009: EUR 2.94 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 30 June 2007 and 30 June 2010. Out of the 1 000 new shares, all were subscribed on 31 December 2010 (2009: 940).

With respect to the 1 165 EIF shares subscribed by other EIF investors, the EIB is offering to buy these shares at any time under a Replacement Share Purchase Undertaking at a price per share of EUR '000 350. 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.

The nominal value of the put option granted to EIF minority shareholders, shown as an off-balance sheet item, EUR '000 407 645 (2009 EUR '000 388 842) has been calculated on the basis of the 2009 audited EIF statutory accounts prepared according to International Financial Reporting Standards.

In EUR '000	% held	Total own funds	Total net result	Total assets
EIF (31.12.2009)	62.11	1 028 734	- 7 374	1 157 937
EIF (31.12.2010)	61.17	1 016 487	7 232	1 196 185

## Note F – Intangible and tangible assets (in EUR '000)

	Land	Luxembourg buildings	Furniture and equipment	Total tangible assets	Total intangible assets
<b>Historical cost</b>					
At 1 January 2010	10 387	357 234	76 381	444 002	6 908
Additions	14 000	12 800	9 235	36 035	6 819
Disposals	0	0	- 10 569	- 10 569	- 1 937
<b>At 31 December 2010</b>	<b>24 387</b>	<b>370 034</b>	<b>75 047</b>	<b>469 468</b>	<b>11 790</b>
<b>Accumulated depreciation</b>					
At 1 January 2010	0	- 104 121	- 34 963	- 139 084	- 2 091
Depreciation	0	- 12 603	- 13 304	- 25 907	- 3 370
Disposals	0	0	10 569	10 569	1 937
<b>At 31 December 2010</b>	<b>0</b>	<b>- 116 724</b>	<b>- 37 698</b>	<b>- 154 422</b>	<b>- 3 524</b>
<b>Net book value</b>					
<b>At 31 December 2010</b>	<b>24 387</b>	<b>253 310</b>	<b>37 349</b>	<b>315 046</b>	<b>8 266</b>
<b>At 31 December 2009</b>	<b>10 387</b>	<b>253 113</b>	<b>41 418</b>	<b>304 918</b>	<b>4 817</b>

All land and buildings are used by the Bank for its own activities. The cumulative cost relating to the construction of the new building amounts to EUR '000 228 026 (2009: EUR '000 215 226).

## Note G – Other assets and other liabilities (in EUR'000)

Other assets	31.12.2010	31.12.2009
Loan instalments receivable	11 765	23 677
Staff housing loans and advances <sup>(*)</sup>	13 621	15 712
Advances on salaries and allowances	373	247
Other	34 803	49 863
	<b>60 562</b>	<b>89 499</b>

<sup>(\*)</sup> 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.

Other liabilities	31.12.2010	31.12.2009
Optional Supplementary Provident Scheme (Note L)	216 643	190 904
Payable on HIPC initiative	46 872	46 872
Transitory account on loans	20 735	37 242
Personnel costs payable	11 299	2 017
Western Balkans infrastructure fund	10 000	10 000
Other	103 927	99 904
	<b>409 476</b>	<b>386 939</b>

## Note H – Subscription to the capital of the Bank, own funds and appropriation of profit

### H.1. Statement of Subscriptions to the Capital of the Bank as at 31 December 2010 (in EUR)

Member States	Subscribed capital	Uncalled capital <sup>(1)</sup>	Called up capital at 31.12.2010
Germany	37 578 019 000	35 699 118 050	1 878 900 950
France	37 578 019 000	35 699 118 050	1 878 900 950
Italy	37 578 019 000	35 699 118 050	1 878 900 950
United Kingdom	37 578 019 000	35 699 118 050	1 878 900 950
Spain	22 546 811 500	21 419 470 925	1 127 340 575
Netherlands	10 416 365 500	9 895 547 225	520 818 275
Belgium	10 416 365 500	9 895 547 225	520 818 275
Sweden	6 910 226 000	6 564 714 700	345 511 300
Denmark	5 274 105 000	5 010 399 750	263 705 250
Austria	5 170 732 500	4 912 195 875	258 536 625
Poland	4 810 160 500	4 569 652 475	240 508 025
Finland	2 970 783 000	2 822 243 850	148 539 150
Greece	2 825 416 500	2 684 145 675	141 270 825
Portugal	1 820 820 000	1 729 779 000	91 041 000
Czech Republic	1 774 990 500	1 686 240 975	88 749 525
Hungary	1 679 222 000	1 595 260 900	83 961 100
Ireland	1 318 525 000	1 252 598 750	65 926 250
Romania	1 217 626 000	1 156 744 700	60 881 300
Slovakia	604 206 500	573 996 175	30 210 325
Slovenia	560 951 500	532 903 925	28 047 575
Bulgaria	410 217 500	389 706 625	20 510 875
Lithuania	351 981 000	334 381 950	17 599 050
Luxembourg	263 707 000	250 521 650	13 185 350
Cyprus	258 583 500	245 654 325	12 929 175
Latvia	214 805 000	204 064 750	10 740 250
Estonia	165 882 000	157 587 900	8 294 100
Malta	98 429 500	93 508 025	4 921 475
<b>TOTAL</b>	<b>232 392 989 000</b>	<b>220 773 339 550</b>	<b>11 619 649 450</b>

<sup>(1)</sup> Can 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.

## H.2. Own funds and appropriation of profit

Statement of movements in own funds (in EUR '000)	2010	2009
<b>Share Capital</b>		
- Subscribed capital <sup>(1)</sup>	232 392 989	232 392 989
- Uncalled	- 220 773 340	- 220 773 340
- <b>Called capital</b>	<b>11 619 649</b>	<b>11 619 649</b>
- Less: Capital called but not paid	- 14 430	- 28 861
- <b>Paid in capital</b>	<b>11 605 219</b>	<b>11 590 788</b>
<b>Reserves and profit for the year:</b>		
<b>Reserve Fund</b>		
- Balance at beginning of the year	18 205 506	16 480 817
- Appropriation of prior year's profit <sup>(1)</sup>	1 876 894	1 650 877
- Transfer from Funds allocated to venture capital operations	0	147 177
- Transfer to Called capital	0	- 73 365
- Balance at end of the year	20 082 400	18 205 506
- Less: Receivable from Member States	- 43 233	- 86 466
- <b>Paid-in balance at end of the year</b>	<b>20 039 167</b>	<b>18 119 040</b>
<b>Additional reserves</b>		
- Balance at beginning of the year	1 144 024	5 305 876
- Transfer to Called capital	0	- 3 305 876
- Transfer to Funds allocated to structured finance facility	0	- 2 000 000
- Transfer from Funds allocated to venture capital operations and to structured finance facility	0	1 144 024
- <b>Balance at end of the year</b>	<b>1 144 024</b>	<b>1 144 024</b>
<b>Funds allocated to structured finance facility <sup>(2)</sup></b>		
- Balance at beginning of the year	0	2 750 000
- Transfer from Additional reserves	0	2 000 000
- Transfer to Special activities reserve, General loan reserve and Additional reserves	0	- 4 750 000
- <b>Balance at end of the year</b>	<b>0</b>	<b>0</b>
<b>Funds allocated to venture capital operations <sup>(2)</sup></b>		
- Balance at beginning of the year	0	1 764 305
- Transfer to Reserve Fund	0	- 147 177
- Transfer to Special activities reserve, General loan reserve and Additional reserves	0	- 1 617 128
- <b>Balance at end of the year</b>	<b>0</b>	<b>0</b>
<b>Special activities reserve</b>		
- Balance at beginning of the year	3 299 370	0
- Transfer from funds allocated to venture capital operations and to structured finance facility	0	3 299 370
- <b>Balance at end of the year</b>	<b>3 299 370</b>	<b>3 299 370</b>
<b>General loan reserve</b>		
- Balance at beginning of the year	1 923 734	0
- Transfer from Funds allocated to venture capital operations and to structured finance facility	0	1 923 734
- <b>Balance at end of the year</b>	<b>1 923 734</b>	<b>1 923 734</b>
<b>Profit for the year</b>	<b>2 116 642</b>	<b>1 876 894</b>
<b>Total own funds</b>	<b>40 128 156</b>	<b>37 953 850</b>

<sup>(1)</sup> At its annual meeting on 8 June 2010, the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 2009, which amounted to EUR '000 1 876 894, to the Reserve Fund.

<sup>(2)</sup> The Statute of the Bank, which came into force with the Lisbon Treaty, no longer requires the maintenance of specific reserves for Funds allocated to structured finance facility and similar undertakings (SFF/SFE) or Funds allocated to venture capital operations.

A proposal was put forward and approved at the Management Committee meeting on 2 February 2010 for a definition of special activities and corresponding reserve allocation, which is in line with existing credit risk practise and external agreements.

The redefining of the Bank's reserve framework for its lending activities provides the opportunity to separate more clearly reserves for the expected loss (EL) of the entire loan portfolio and the capital allocation (CA) for special activities.

As a result, two new reserves were created as at 31 December 2009. They are described as follows:

**Special activities reserve (SAR):** As foreseen by Article 16.5 of the Statute, "the special activities of the Bank will have a specific allocation of reserve". The reserve will be based on the capital allocation of each such operation as defined in the Credit risk policy guidelines. SAR will be set aside for operations without specific provisioning; for operations in which third parties provide CA (RSFF, LGTT) only the residual risk for the Bank will be covered.

**General loan reserve (GLR):** With the coming into force of the Statute, a non-specific reserve has been introduced for the expected loss of the Bank's loan and guarantees portfolio.

### H.3. Subscribed capital and reserves, called but not paid

On 1 January 2007, the subscribed capital 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 (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 30 November 2010 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 reserves, called but not paid*:

(in EUR '000)	31.12.2010	31.12.2009
Reserves called but not paid:	43 233	86 466
Subscribed capital called but not paid:	14 430	28 861
	<b>57 663</b>	<b>115 327</b>

### Note I – Prepayments and accrued income – Accruals and deferred income (in EUR '000)

	31.12.2010	31.12.2009
<b>Prepayments and accrued income:</b>		
Foreign exchange on currency swap contracts	4 497 165	0
Interest and commission receivable	8 077 477	7 355 072
Deferred borrowing charges	57 782	61 633
Redemption premiums on swaps receivable <sup>(*)</sup>	416 688	393 852
Investment Facility's commission receivable	34 080	36 405
Other	2 955	2 974
	<b>13 086 147</b>	<b>7 849 936</b>
<b>Accruals and deferred income:</b>		
Foreign exchange on currency swap contracts	23 861	5 180 511
Interest and commission payable	9 240 125	8 341 809
Deferred early repayment indemnities on loans	275 932	134 846
Deferred borrowing proceeds	277 596	309 417
Redemption premiums on swaps payable <sup>(*)</sup>	1 492 562	887 325
Interest subsidies received in advance <sup>(**)</sup>	170 739	177 228
	<b>11 480 815</b>	<b>15 031 136</b>

<sup>(\*)</sup> Redemption premiums on swaps receivable and payable represent end payments of the underlying swap agreements for those agreements which include such features.

<sup>(\*\*)</sup> Part of the amounts received from the European Commission through the European Monetary System (EMS) 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; and
- 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.



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

### J.1. Amounts owed to credit institutions

	31.12.2010	31.12.2009
Repayable on demand	5 675 399	4 380 414
Short-term borrowings	27 858	0
Repo with central banks	100 000	100 000
	<b>5 803 257</b>	<b>4 480 414</b>

### J.2. Amounts owed to customers

	31.12.2010	31.12.2009
Repayable on demand <sup>(*)</sup>	1 524 466	1 256 333
Short-term borrowings	975 965	1 106 417
	<b>2 500 431</b>	<b>2 362 750</b>

<sup>(\*)</sup> Includes European Union and Member States accounts:

	31.12.2010	31.12.2009
European Union and Member States accounts:		
• For Special Section operations and related unsettled amounts	354 872	332 310
• Deposit accounts	1 130 649	899 908

## Note K – Debts evidenced by certificates (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 caption 'Debts evidenced by certificates' includes 'Debt securities in issue' (securities offered to the general investing public) and 'Others' (private placements). The table below discloses the details per currency of debts outstanding at 31 December 2010 and 2009, together with the average rates and due dates.

Debts evidenced by certificates					
PAYABLE IN	OUTSTANDING AT 31.12.2010	AVERAGE RATE 2010 <sup>(*)</sup>	DUE DATES	OUTSTANDING AT 31.12.2009	AVERAGE RATE 2009 <sup>(*)</sup>
EUR	148 194 630	3.56	2011/2057	136 846 665	3.77
GBP	52 122 801	4.54	2011/2054	51 032 542	4.77
DKK	550 077	2.55	2024/2026	604 692	2.77
SEK	3 241 649	3.68	2011/2028	1 961 373	3.72
CZK	635 750	4.15	2013/2030	598 190	4.00
HUF	371 470	6.29	2011/2016	525 109	6.83
PLN	445 658	6.33	2011/2026	378 058	6.24
BGN	171 285	5.52	2011/2013	171 285	5.72
RON	105 584	8.88	2014/2016	106 225	8.88
USD	104 067 249	2.75	2011/2058	78 348 270	3.42
CHF	7 499 881	2.38	2011/2036	5 763 009	2.41
JPY	13 946 268	0.85	2011/2047	10 607 943	0.73
NOK	3 386 667	4.16	2011/2025	2 383 494	4.42
CAD	781 727	4.68	2037/2045	778 221	4.72
AUD	14 628 590	5.93	2011/2021	9 099 260	5.85
HKD	225 315	1.05	2012/2019	227 380	1.46
NZD	2 180 233	6.75	2012/2017	2 749 583	7.13
ZAR	1 990 653	8.21	2011/2018	1 256 187	8.49
MXN	38 275	6.07	2015/2015	30 550	6.65
TWD	25 667	4.75	2013/2013	65 574	4.21
TRY	2 831 379	10.63	2011/2022	1 991 631	12.37
ISK	48 182	7.91	2011/2011	95 036	8.74
RUB	519 598	6.82	2011/2019	138 110	8.14
<b>TOTAL</b>	<b>358 008 588</b>			<b>305 758 387</b>	

<sup>(\*)</sup> Weighted average interest rates at the balance sheet date

The principal and interest of certain structured borrowings are index linked to stock exchange indexes (historical value: EUR 843 million). All such borrowings are fully hedged through structured swap operations.

In EUR Million	2010	2009
Balance at 1 January	305 758	266 989
Issuance during the year	129 855	101 588
Contractual redemptions	- 89 529	- 62 750
Early redemptions	- 3 090	- 3 965
Exchange adjustments	15 015	3 896
<b>Balance at 31 December</b>	<b>358 009</b>	<b>305 758</b>

## Note L – Provisions – pension plans and health insurance scheme (in EUR '000)

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.

The pension plans and health insurance scheme provisions are as follows (in EUR '000):

	2010	2009
<b>Staff pension plan:</b>		
Provision at 1 January	1 156 358	1 051 093
Payments made during the year	- 47 287	- 44 896
Annual contributions and interest	162 656	150 161
<b>Sub-total</b>	<b>1 271 727</b>	<b>1 156 358</b>
Management Committee Pension Plan	34 310	33 398
<b>Provision at 31 December</b>	<b>1 306 037</b>	<b>1 189 756</b>
<b>Health insurance scheme:</b>		
Provision at 1 January	116 998	103 923
Payments made during the year	- 9 047	- 7 868
Annual contributions and interest	23 374	20 943
<b>Provision at 31 December</b>	<b>131 325</b>	<b>116 998</b>
<b>Total provisions at 31 December</b>	<b>1 437 362</b>	<b>1 306 754</b>

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 217 million (2009: EUR 191 million) is classified under 'Other liabilities' (Note G).

The provision in respect of future retirement and health insurance benefits was valued as at 30 September 2010 by an independent actuary using the projected unit credit method. The actuarial valuation was updated as at 31 December 2010 with an extrapolation ('roll forward' method) for the last 3 months of 2010, using the prevailing market rates of 31 December 2010 and the following assumptions (for the staff pension and medical plans):

- a discount rate of 5.06% (2009: 6.19%) for determining the actuarial present value of benefits accrued in the pension and health insurance schemes, corresponding to 17.52 year duration (2009: 16.24 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% (2009: 1.5%) above the discount rate mentioned above. As a consequence, the final discount rate used is 6.56% (2009: 7.69%);
- a progressive retirement between the age of 55-65 (2009: 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% (2009: 4.5%);
- probable resignation of 3% up to age 55 (same as 2009);
- a rate of adjustment of pensions of 2% per annum (same as 2009);
- use of the ISCLT longevity table (2009: LPP 2005 actuarial tables <sup>(1)</sup>); and
- a medical cost inflation rate of 4% per annum (same as 2009).

The provisions for these schemes are adjusted when needed (Note A.12.1) according to the actuarial valuation, as per the tables above (i.e. cumulative prior year actuarial deficits or surpluses in excess of 10% of the commitments for retirement benefits are recognised over the expected average remaining service lives of the participants on a straight line basis). Due to the actuarial surplus being within the 10% corridor in the valuation for the prior year, no such adjustment has been accounted for in 2010. In 2009, due to the actuarial deficit in the valuation for the prior year being within the 10% corridor, no such adjustment was accounted for.

In 2010, the actuarial valuation on the pension plans and the healthcare scheme displayed an unrecognised loss of EUR'000 350 325, mostly due to a change in the discount rate from 6.19% at 31 December 2009 to 5.06% at 31 December 2010. EUR'000 172 908 was reported in excess of the 10% corridor, and will be recognised over the expected average remaining service lives of the participants on a straight line basis from 1 January 2011. Thereby, the net loss which will be recognised in the next financial year will be EUR'000 13 302.

<sup>(1)</sup> It was decided in 2010 to use the ISCLT longevity table, which has been recently established, instead of the LPP 2005 tables in the actuarial calculations, as this table is considered more appropriate for the EIB as a European Institution.

## Note M – Profit for the financial year

On 17 May 2011 the appropriation of the balance of the profit and loss account for the year ended 31 December 2010, which amounts to EUR'000 2 116 642, will be submitted for approval by the Board of Governors.

## Note N – ‘Interest receivable and similar income’ and ‘Interest payable and similar charges’

### N.1. Net interest income (in EUR'000)

	2010	2009
<b>Interest receivable and similar income</b>		
Cash in hand, balance with central banks and post office banks	2 798	1 027
Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed income securities	383 217	374 541
Loans and advances to credits institutions and customers	7 936 957	9 005 315
Derivatives	10 852 055	7 741 880
Other	0	170
<b>TOTAL</b>	<b>19 175 027</b>	<b>17 122 933</b>
<b>Interest payable and similar charges</b>		
Amounts owed to credit institutions and customers	- 23 614	- 34 653
Debts evidenced by certificates	- 13 287 875	- 12 361 091
Derivatives	- 3 186 623	- 2 359 064
Other	- 132 066	- 125 848
<b>TOTAL</b>	<b>- 16 630 178</b>	<b>- 14 880 656</b>
<b>Net interest income</b>	<b>2 544 849</b>	<b>2 242 277</b>

## N.2. Geographical analysis of 'Interest receivable and similar income' (in EUR '000)

EU countries	2010	2009
Spain	1 118 081	1 305 158
Italy	777 630	996 206
Germany	759 781	1 049 761
France	691 864	880 744
United Kingdom	607 887	634 245
Greece	520 074	534 391
Poland	501 789	411 585
Portugal	470 975	531 264
Hungary	200 643	226 252
Belgium	189 751	184 813
Austria	187 842	188 155
Czech Republic	141 227	166 249
Netherlands	137 953	124 903
Finland	126 205	158 306
Romania	109 465	98 174
Sweden	81 110	92 704
Ireland	73 561	83 529
Slovenia	50 371	55 612
Lithuania	32 871	19 867
Bulgaria	27 786	26 467
Denmark	26 177	46 001
Slovakia	25 606	29 513
Luxembourg	19 834	22 554
Cyprus	19 820	22 880
Latvia	19 774	21 107
Estonia	7 201	5 806
Malta	3 486	1 084
<b>Total</b>	<b>6 928 764</b>	<b>7 917 330</b>
Outside the European Union	823 239	765 476
<b>Total</b>	<b>7 752 003</b>	<b>8 682 806</b>
Income not analysed per country <sup>(1)</sup>	11 423 024	8 440 127
<b>Total</b>	<b>19 175 027</b>	<b>17 122 933</b>
<sup>(1)</sup> Income not analysed per country:		
• Revenue from Investment portfolio and loan substitutes portfolios	188 618	208 491
• Revenue from Operational bond portfolios	70 171	55 908
• Revenue from Operational money-market portfolios	124 428	110 137
• Revenue from money-market operations	187 752	323 711
• Income from derivatives	10 852 055	7 741 880
	<b>11 423 024</b>	<b>8 440 127</b>

### Note O – ‘Commission receivable’ and ‘Commission payable’ (in EUR ‘000)

	2010	2009
<b>Commission receivable</b>		
Investment Facility/Cotonou (Note Y)	34 086	36 405
Income from advisory activities	64 899	50 165
Income on loans and guarantees	31 096	22 364
Jaspers (Note Y)	22 473	16 948
Jessica (Note Y)	11 900	4 976
Yaoundé/Lomé conventions (Note Y)	7 569	8 468
Other European Union institutions (Note Y)	11 021	9 177
<b>Total commission receivable</b>	<b>183 044</b>	<b>148 503</b>
<b>Commission payable</b>	<b>- 12 286</b>	<b>- 11 768</b>

### Note P – Net loss on financial operations (in EUR ‘000)

	2010	2009
Result on release of guarantees	28 903	0
Unrealised result on operational treasury portfolio	- 83 781	82 088
Value adjustment on venture capital operations	- 39 548	- 103 051
Net realised result on operational treasury portfolio	- 1 115	- 30 284
Result on long-term futures	- 9 297	- 5 776
Net result on repurchase of debts evidenced by certificates	- 4 570	6 555
Net result on unwind of ALM swaps	- 85 882	14 826
Realised result on sale of shares and other variable yield securities	- 11 197	201
Value (re-)adjustment on shares and other variable yield securities other than venture capital	- 15 689	850
Net foreign exchange result	- 5 601	6 961
Other	0	6 879
	<b>- 227 777</b>	<b>- 20 751</b>

### Note Q – Other operating income (in EUR ‘000)

	2010	2009
Reversal of previous year’s unutilised accruals on general administrative expenses	6 313	4 119
Other	5 705	8 038
	<b>12 018</b>	<b>12 157</b>

## Note R – General administrative expenses (in EUR '000)

	2010	2009
Salaries and allowances <sup>(*)</sup>	- 206 045	- 183 111
Welfare contributions and other social costs	- 116 517	- 100 860
<b>Staff costs</b>	<b>- 322 562</b>	<b>- 283 971</b>
Other general administrative expenses	- 112 951	- 113 324
<b>Total general administrative expenses</b>	<b>- 435 513</b>	<b>- 397 295</b>

The number of persons employed by the Bank was 1 866 at 31 December 2010 (1 717 at 31 December 2009).

<sup>(\*)</sup> of which the amount for members of the Management Committee is EUR '000 2 960 at 31 December 2010 and EUR '000 2 924 at 31 December 2009.

## Note S – Off-balance sheet 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 portfolios) 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) entered under assets or liabilities compared with their accounting value is shown in the table below:

At 31 December 2010 (in EUR million)	ASSETS		LIABILITIES	
	Accounting value	Fair value	Accounting value	Fair value
<b>Assets</b>				
Cash in hand, balances with central banks and post office banks	254	254		
Loans and advances to credit institutions and to customers, excluding loan substitutes	382 987	394 248		
Treasury bills and debt securities portfolios including loan substitutes (Note B.2)	20 882	20 214		
Shares and other variable yield securities (Note E)	1 692	2 145		
<b>Total financial assets</b>	<b>405 815</b>	<b>416 861</b>		
<b>Liabilities</b>				
Amounts owed to credit institutions and to customers			8 304	8 304
Debts evidenced by certificate (Note K)			358 009	381 326
<b>Total financial liabilities</b>			<b>366 313</b>	<b>389 630</b>

At 31 December 2009 (in EUR million)	ASSETS		LIABILITIES	
	Accounting value	Fair value	Accounting value	Fair value
<b>Assets</b>				
Cash in hand, balances with central banks and post office banks	227	227		
Loans and advances to credit institutions and to customers, excluding loan substitutes	335 318	338 606		
Treasury bills and debt securities portfolios including loan substitutes (Note B.2)	21 532	21 132		
Shares and other variable yield securities (Note E)	1 479	1 853		
<b>Total financial assets</b>	<b>358 556</b>	<b>361 818</b>		
<b>Liabilities</b>				
Amounts owed to credit institutions and to customers			6 843	6 843
Debts evidenced by certificate (Note K)			305 758	324 913
<b>Total financial liabilities</b>			<b>312 601</b>	<b>331 756</b>

## 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;
- foreign exchange rate risk; and
- market 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 analysed in the 'Derivatives' section (Note V).

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 of the Bank. 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 to efficiently 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 2010 is analysed below, including undisbursed portions.



Loans outside the European Union (apart from those under the Facilities <sup>(\*)</sup>) are, in the last resort, secured by guarantees of the European Union budget or the Member States (loans in the ACP Countries and the OCT). 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.

The table below shows (in EUR million) the loans for projects inside the European Union and outside the European Union granted under the Facilities and under the risk-sharing operations:

Borrower \ Guarantor	States	Public institutions	Zone 'A' banks	Corporates	Not guaranteed <sup>(1)</sup>	Total 2010	Total 2009
States	0	0	0	0	37 395	<b>37 395</b>	30 505
Public institutions	23 642	14 582	608	3 690	44 331	<b>86 853</b>	76 079
Zone 'A' banks	11 733	43 003	35 864	19 574	24 583	<b>134 757</b>	126 812
Corporates	19 579	8 288	32 991	41 563	48 279	<b>150 700</b>	135 482
<b>Total 2010</b> <sup>(1) (2) (3) (4) (5)</sup>	<b>54 954</b>	<b>65 873</b>	<b>69 463</b>	<b>64 827</b>	<b>154 588</b>	<b>409 705</b>	
<b>Total 2009</b> <sup>(1) (2) (3) (4) (5)</sup>	<b>49 805</b>	<b>60 509</b>	<b>68 225</b>	<b>57 207</b>	<b>133 132</b>		<b>368 878</b>

<sup>(1)</sup> These amounts include loans for which no formal guarantee independent from the borrower and the loan itself was required, 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.

<sup>(2)</sup> The loans in risk-sharing operations amount to EUR 6 167 million as of 31 December 2010 (2009: EUR 5 229 million).

<sup>(3)</sup> This amount includes loans granted under Facilities.

<sup>(4)</sup> This amount does not include loan substitutes (2010: EUR 9 533 million; 2009: EUR 8 209 million).

<sup>(5)</sup> These amounts exclude loans to current European Union Member States but granted before their accession to the European Union and guaranteed by the European Union budget or the Member States.

<sup>(\*)</sup> Loans granted under Article 16 (previously Article 18) of the Bank's statute and loans granted under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility. These loans, granted under the Facilities, are not secured by guarantees of the European Union budget or the Member States. Therefore, lending under the Facilities is from the Bank's own resources and at the Bank's own risk.

The table below discloses information regarding the sovereign credit risk on loans granted inside the European Union and outside the European Union granted under the Facilities and under the risk-sharing operations:

Country	2010 (in EUR million)			2009 (in EUR million)		
	Acting as borrower		Acting as guarantor	Acting as borrower		Acting as guarantor
	Disbursed	Undisbursed		Disbursed	Undisbursed	
Greece	6 128	1 740	5 583	5 840	240	5 246
Poland	5 428	1 502	7 710	4 828	255	6 446
Hungary	3 714	1 168	1 565	3 424	1 136	1 249
Czech Republic	2 681	816	462	2 188	789	502
Spain	1 243	0	14 675	1 340	0	13 392
Italy	1 136	0	3 769	1 195	0	3 730
Lithuania	1 020	112	0	680	452	0
Romania	780	2 077	320	647	2 210	320
Portugal	513	0	7 161	0	0	6 606
Cyprus	471	280	722	492	120	544
Finland	452	0	1 146	531	0	1 253
Latvia	375	525	221	375	595	125
Estonia	165	385	75	165	385	0
Slovakia	152	1 300	0	159	0	0
Bulgaria	107	985	0	30	1 062	0
Slovenia	41	0	2 030	45	0	1 516
Germany	0	0	1 873	0	0	1 903
United Kingdom	0	0	1 522	0	0	1 721
France	0	0	932	0	0	972
Belgium	0	0	867	0	0	1 006
Sweden	0	0	838	0	0	42
Ireland	0	0	655	0	0	669
Denmark	0	0	560	0	0	808
Malta	0	0	290	0	0	190
Luxembourg	0	0	167	0	0	174
Austria	0	0	35	0	0	42
Netherlands	0	0	29	0	0	29
Non EU-Countries	736	1 363	1 747	573	749	1 320
<b>TOTAL</b>	<b>25 142</b>	<b>12 253</b>	<b>54 954</b>	<b>22 512</b>	<b>7 993</b>	<b>49 805</b>

The table below shows (in EUR million) the loan for projects outside the European Union (Apart from Article 16 Facility and those falling under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility):

Secured by:	31.12.2010	31.12.2009
Member States	2 275	1 795
European Union budget <sup>(1)</sup>	35 758	32 340
<b>Total <sup>(2)</sup></b>	<b>38 033</b>	<b>34 135</b>

<sup>(1)</sup> of which EUR 6 167 million in risk-sharing operations as explained above (2009: EUR 5 229 million).

<sup>(2)</sup> including loans to current European Union Member States but granted before their accession to the European Union and guaranteed by the European Union budget or the Member States.

## LOANS FOR PROJECTS OUTSIDE THE EUROPEAN UNION (in EUR million)

(including loans in the new Member States before accession)

BREAKDOWN OF LOANS OUTSTANDING BY GUARANTEE AS AT 31 DECEMBER

AGREEMENT	31.12.2010	31.12.2009
<b>75% Member States global guarantee</b>		
- ACP/OCT Group 4th Lomé Convention	76	108
- ACP/OCT Group 4th Lomé Convention/2nd Financial Protocol	381	415
<b>Total 75% Member States global guarantee</b>	<b>457</b>	<b>523</b>
<b>75% Member States guarantee</b>		
- Cotonou partnership agreement	722	783
- Cotonou partnership 2 <sup>nd</sup> agreement	1 096	489
<b>Total 75% Member States guarantee</b>	<b>1 818</b>	<b>1 272</b>
<b>Total Member States guarantee</b>	<b>2 275</b>	<b>1 795</b>
<b>100% European Union budget guarantee</b>		
- South Africa – 300m – BG Decision 19.06.95	3	5
- ALA I – 750m	103	114
- ALA interim (100% guarantee) –153m	4	5
- CEEC – 1bn - BG Decision 29.11.89	76	90
- CEEC –3bn - BG Decision 02.05.94	372	455
- CEEC – 700m - BG Decision 18.04.91	0	2
- Russia – 100 m - 2001-2005	72	74
- Russia – 500 m - 2004-2007	230	230
<b>Total 100% European Union budget guarantee</b>	<b>860</b>	<b>975</b>
<b>75% European Union budget guarantee</b>		
- Mediterranean Protocols	661	800
- Yugoslavia – Art.18 (1984)	1	1
- Yugoslavia – 1st Protocol	1	3
- Yugoslavia – 2nd Protocol	5	10
- Slovenia – 1st Protocol	42	51
<b>Total 75% European Union budget guarantee</b>	<b>710</b>	<b>865</b>
<b>70% European Union budget guarantee</b>		
- South Africa – 375m – Decision 29.01.97	76	105
- ALA II – 900m	127	144
- ALA interim (70% guarantee: risk sharing) – 122m	5	7
- Bosnia–Herzegovina – 100m 99/2001	80	84
- Euromed (EIB) –2 310m – Decision 29.01.97	668	781
- FYROM (Former Yugoslav Republic of Macedonia) – 150m – 1998/2000	96	106
- CEEC–3 520m–Decision 29.01.97	1 295	1 457
<b>Total 70% European Union budget guarantee</b>	<b>2 347</b>	<b>2 684</b>
<b>65% European Union budget guarantee</b>		
- South Africa – 825m – 7/2000-7/2007	670	621
- South Africa – Decision 2/2007–12/2013	549	486
- ALA III – 2 480m – 2/2000 – 7/2007	1 002	1 082
- ALA Decision – 2/2007–12/2013	2 557	1 926
- Euromed II – 6 520m – 2/2000 – 1/2007	5 103	5 339
- South Eastern Neighbours – 9 185m – 2/2000 – 7/2007	7 684	8 022
- Turkey special action – 450m – 2001-2006	276	299
- Turkey TERRA – 600m – 11/1999 – 11/2002	502	527
- PEV EE/CAS/RUS 1/2/2007 – 31/12/2013	918	403
- PEV MED 1/2/2007 – 31/12/2013	5 761	3 851
- Pre-Accession – 8 700m – 2007 – 2013	6 819	5 260
<b>Total 65% European Union budget guarantee</b>	<b>31 841</b>	<b>27 816</b>
<b>Total European Union budget guarantee</b>	<b>35 758</b>	<b>32 340</b>
<b>TOTAL</b>	<b>38 033</b>	<b>34 135</b>

### Collateral on loans (in EUR million)

Among other credit mitigant instruments, the Bank also uses pledges of financial securities. These pledges are formalised through a Pledge Agreement, enforceable in the relevant jurisdiction. The portfolio of collateral received in pledge contracts amounts to EUR 18 004 million (2009: EUR 15 175 million), with the following composition:

As at 31 December 2010		Loan Financial Collateral (in EUR million) <sup>(1)</sup>								
Moody's or equivalent rating	Bonds						Equities & Funds	Cash	Total 2010	
	Government	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS				
Aaa	728	169	2	1 284	1 291	493	0	0	3 967	
Aa1 to Aa3	1 025	0	0	48	1 731	96	0	0	2 900	
A1	2 431	0	0	0	670	86	0	0	3 187	
Below A1	5 027	0	106	0	1 960	90	0	0	7 183	
Non-Rated	0	0	0	0	0	0	208	559	767	
<b>Total 2010</b>	<b>9 211</b>	<b>169</b>	<b>108</b>	<b>1 332</b>	<b>5 652</b>	<b>765</b>	<b>208</b>	<b>559</b>	<b>18 004</b>	

<sup>(1)</sup> Bonds, equities and funds are valued at their market value.

As at 31 December 2009		Loan Financial Collateral (in EUR million) <sup>(1)</sup>								
Moody's or equivalent rating	Bonds						Equities & Funds	Cash	Total 2009	
	Government	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS				
Aaa	913	231	107	1 282	1 282	480	0	0	4 295	
Aa1 to Aa3	742	0	0	19	1 971	203	0	0	2 935	
A1	2 407	0	0	0	368	0	0	0	2 775	
Below A1	3 075	0	0	0	1 569	0	0	0	4 644	
Non-Rated	0	0	0	0	0	0	188	338	526	
<b>Total 2009</b>	<b>7 137</b>	<b>231</b>	<b>107</b>	<b>1 301</b>	<b>5 190</b>	<b>683</b>	<b>188</b>	<b>338</b>	<b>15 175</b>	

<sup>(1)</sup> Bonds, equities and funds are valued at their market value.

A breakdown of disbursed loans outstanding, including loan substitutes (in EUR million), at 31 December according to the sectors in which borrowers are engaged is set out below:

Sector:	Maturity			Total 2010	Total 2009
	not more than 1 year	1 year to 5 years	more than 5 years		
Energy	2 283	12 919	26 817	42 019	35 424
Transport	4 510	23 292	78 278	106 080	98 930
Telecommunications	862	7 560	3 155	11 577	10 142
Water, sewerage	1 029	5 449	12 436	18 914	18 735
Miscellaneous infrastructure	895	5 005	12 659	18 559	18 821
Agriculture, forestry, fisheries	11	40	189	240	231
Industry	2 364	17 651	8 656	28 671	24 391
Services	354	8 356	7 151	15 861	13 385
Global loans <sup>(1)</sup>	8 399	42 332	39 984	90 715	83 020
Health, education	810	6 393	20 714	27 917	21 071
<b>TOTAL 2010</b>	<b>21 517</b>	<b>128 997</b>	<b>210 039</b>	<b>360 553</b>	
<b>TOTAL 2009</b>	<b>21 144</b>	<b>104 971</b>	<b>198 035</b>		<b>324 150</b>

<sup>(1)</sup> A Global loan is a line of credit to an intermediary financing institution or a bank which then on-lends the proceeds, at its own risk, to finance small and medium-sized projects being undertaken by private or public sector promoters.

## Arrears on loans

Amounts in arrears are identified, monitored and reported according to a set of procedures called the "Guidelines for the Monitoring of late payments".

*Loans granted inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States:*

Loans for projects located inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States are mainly secured by guarantees from public institutions, Zone A banks and corporate entities. Unsecured part of these loans amounts to EUR 154 588 million as at 31 December 2010 (2009: EUR 133 132 million).

As at 31 December 2010, the arrears above 30 days on loans granted inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States amounts to EUR 0.7 million (2009: nil).

*Loans granted for projects outside the European Union secured by the European Union budget or the Member States:*

Loans for projects located outside the European Union and carried out on the basis of mandates given by the Council are guaranteed by the European Union, the Member States or on a risk-sharing basis. If an instalment remains unpaid for approximately 90 days, the primary guarantee is called (if any available). If the due amount is still unpaid within 150 days after the instalment date (and in any case before the next instalment becomes due), the guarantee of the Member States or the European Union is officially invoked. Each unpaid instalment is called individually.

The arrears of payments on the loan portfolio of the Bank outside the European Union can be analysed as follows (in EUR 000):

	Instalments overdue 30 days to 90 days	Instalments overdue more than 90 days	Instalments overdue more than 150 days which have been called and paid under the guarantee of a Member States or the EU	Total
31.12.2010	210	2 450	103 834	106 494
31.12.2009	1 897	12 278	93 830	108 005

## 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 (i.e. operational money market and bond portfolios) and treasury instruments (money markets products) in terms of the credit rating of counterparties and issuers (as at 31 December):

Moody's or equivalent rating	Securities portfolio %		Treasury instruments %	
	2010	2009	2010	2009
Aaa	30	37	0	3
Aa1 to Aa3	37	40	33	45
A1 to A3	13	11	56	49
Below A3	20	12	11	2
A-1+P-1	0	0	0	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Collateral on Treasury transactions

The Treasury transactions include EUR 25 406 million (2009: EUR 10 094 million) of tripartite reverse repurchase agreements. These transactions are governed by Tripartite Agreements, for which the exposure is fully collateralised, with daily margin calls. The market value of the collateral portfolio at 31 December 2010 is EUR 25 535 million (2009: EUR 10 470 million), with the following classification:

Tripartite Agreements Collateral (in EUR million)							
At 31 December 2010							Total 2010
Moody's or equivalent rating	Bonds			Bonds		ABS	
	Government	Supranational	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds		
Aaa	643	749	5	2 125	3 830	3 885	11 237
Aa1 to Aa3	3 721	13	215	360	2 795	72	7 176
A1	594	0	254	0	1 140	0	1 988
Below A1	1 529	0	0	11	3 594	0	5 134
<b>Total 2010</b>	<b>6 487</b>	<b>762</b>	<b>474</b>	<b>2 496</b>	<b>11 359</b>	<b>3 957</b>	<b>25 535</b>

Tripartite Agreement Collateral (in EUR million)							
At 31 December 2009							Total 2009
Moody's or equivalent rating	Bonds			Bonds		ABS	
	Government	Supranational	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds		
Aaa	1 253	253	140	181	1 039	907	3 773
Aa1 to Aa3	237	0	395	99	2 383	16	3 130
A1	476	0	5	0	550	0	1 031
Below A1	354	0	27	0	2 155	0	2 536
<b>Total 2009</b>	<b>2 320</b>	<b>253</b>	<b>567</b>	<b>280</b>	<b>6 127</b>	<b>923</b>	<b>10 470</b>

### U.1.3. Securities lending

The market value of the bonds lent in the securities lending activities amounts to EUR 586 million at 31 December 2010 (2009: EUR 455 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 2010 is EUR 604 million (2009: EUR 480 million), with the following classification:

Securities Lending Collateral (in EUR million)					
At 31 December 2010			Bonds	Time deposit	Total 2010
Moody's or equivalent rating	Bonds		Certificate of Deposits		
	Government				
Aaa	53	3	0		56
Aa1 to Aa3	530	14	4		548
<b>Total 2010</b>	<b>583</b>	<b>17</b>	<b>4</b>		<b>604</b>

Securities Lending Collateral (in EUR million)				
At 31 December 2009	Bonds		Time deposit	Total 2009
Moody's or equivalent rating	Government	Certificate of Deposits		
Aaa	116	15	0	131
Aa1 to Aa3	324	17	8	349
<b>Total 2009</b>	<b>440</b>	<b>32</b>	<b>8</b>	<b>480</b>

#### U.1.4. Guarantees granted by the Bank in respect of loans granted by third parties and on venture capital operations

The structure of guarantors relating to guarantees granted as at 31 December 2010 is analysed below (in EUR million):

Granted to:	Total 2010	Total 2009
Zone 'A' banks	336	207
Corporates	157	125
<b>Total</b>	<b>493</b>	<b>332</b>

## U.2. Interest rate risk

Interest rate risk is the volatility in the economic value of, or in the income derived from, the Bank'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.

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.

### U.2.1. Value-at-Risk for the own funds of the Bank (Economic perspective)

The Bank'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. This overall objective is achieved by investing the Bank'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 Value at Risk ('VaR') of own funds for both interest rates and foreign exchange risk factors. It is measured on the Bank's positions using a 99% confidence level and a one-day time horizon. As at 31 December 2010, the VaR of the EIB own funds amounted to EUR 272 million (2009: EUR 186 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 EIB, 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. The evolution of the VaR of own funds reflects the overall increase of the volatility of the risk factors and not a change in the risk profile of the Bank's 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 2010, the impact of a 200 basis point upward parallel shift of the interest rate curves would reduce the economic value of own funds by EUR 4.66 billion (2009: EUR 4.24 billion).

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

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

Below is a summary of the features of the Bank's callable portfolio as of 31 December 2010 and 31 December 2009, 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):

31.12.2010		Pay Currency				
(in EUR million)	CZK	EUR	JPY	PLN	USD	Total
EUR Pay Notional	- 114	- 5 108	- 18	- 23	- 5 616	- 10 879
Average maturity date	14.12.2016	24.03.2025	06.01.2029	05.05.2026	28.02.2034	04.10.2029
Average expected maturity	15.03.2011	03.10.2019	19.02.2024	18.08.2020	16.12.2026	18.05.2023

31.12.2009		Pay Currency				
(in EUR million)	CZK	EUR	JPY	PLN	USD	Total
EUR Pay Notional	- 108	- 6 976	- 14	- 21	- 5 793	- 12 912
Average maturity date	14.12.2016	16.01.2022	16.02.2020	05.05.2026	30.10.2032	05.11.2026
Average expected maturity	19.11.2012	13.03.2017	27.02.2017	11.09.2020	09.02.2025	18.09.2020

By risk factor involved:

31.12.2010		Risk factor			Total
(in EUR million)		FX level	IR curve level	IR curve shape	
EUR Pay Notional		- 4 041	- 5 962	- 876	- 10 879
Average maturity date		23.12.2033	29.03.2027	18.06.2027	04.10.2029
Average expected maturity		06.09.2029	07.11.2018	10.02.2025	18.05.2023

31.12.2009		Risk factor			Total
(in EUR million)		FX level	IR curve level	IR curve shape	
EUR Pay Notional		- 4 097	- 6 585	- 2 230	- 12 912
Average maturity date		14.08.2033	07.12.2023	30.12.2022	05.11.2026
Average expected maturity		25.08.2027	09.07.2017	02.06.2017	18.09.2020



### U.2.2. Interest rate risk management (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 rose by one percentage point or decreased by one percentage point. Such exposure stems from the mismatch between interest rate repricing periods, volumes and rates of assets and liabilities that the Bank accepts within the approved limits.

With the positions in place as of 31 December 2010, the earnings would increase by EUR 47.79 million (2009: EUR 66.72 million) if interest rates increased by 100 basis points and decrease by EUR 59.69 million (2009: EUR 69.96 million) if interest rates decreased by 100 basis points.

The Bank computes the sensitivity measure with dedicated software that simulates earnings on a deal by deal basis. The sensitivity of the Earnings is measured on an accruals basis and is calculated under the "ongoing" assumption that, over the time horizon analysed, the Bank realises the new loan business forecast 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.

### U.3. Liquidity risk

The main objective of liquidity policy is to ensure 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's 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 un-disbursed loans, whose disbursement typically takes place at the borrower's request.

Liquidity risk is managed prudently as, in contrast to commercial banks, EIB does not have the natural sources of liquidity from the deposits of clients. 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.

The Bank further assures sound management of liquidity risk by maintaining a sufficient level of short term 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 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.

The Bank has in place a Contingency Liquidity Plan (CLP) that specifies appropriate decision making procedures and corresponding responsibilities. The CLP has been benchmarked against the "Principles for Sound Liquidity Risk Management and Supervision" by the Basel Committee on Banking Supervision (September 2008). The CLP is subject to ad-hoc updates and is presented to the Management Committee annually for approval.

On 8 July 2009, the Bank became an eligible counterparty in the Eurosystem's monetary policy operations, and therefore has been given access to the monetary policy operations of the European Central Bank. The Bank conducts the operations via the Central Bank of Luxembourg, where the Bank maintains deposits to cover the minimum reserve requirement.

The table hereafter analyses the financial assets and liabilities of the Bank 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 2010)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2010
<b>ASSETS</b>						
Cash in hand, central banks and post office banks	254	0	0	0	0	254
Treasury bills and other bills eligible for refinancing with central banks	832	1 202	1 898	1 146	0	5 078
Other loans and advances:						
- Current accounts	460	0	0	0	0	460
- Others	31 599	0	0	0	0	31 599
	32 059	0	0	0	0	32 059
Loans:						
- Credit institutions	2 165	8 086	60 215	53 564	0	124 030
- Customers	2 180	8 739	67 287	148 692	0	226 898
	4 345	16 825	127 502	202 256	0	350 928
Debt securities including fixed-income securities	5 224	672	1 960	7 948	0	15 804
Shares and other variable-yield securities	0	0	0	0	1 692	1 692
Shares in affiliated undertakings	0	0	0	0	484	484
Other assets	- 113	794	862	3 009	8 975	13 527
<b>Total assets</b>	<b>42 601</b>	<b>19 493</b>	<b>132 222</b>	<b>214 359</b>	<b>11 151</b>	<b>419 826</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	5 803	0	0	0	0	5 803
Amounts owed to customers	2 440	60	0	0	0	2 500
Debts evidenced by certificates	19 481	36 512	159 874	142 142	0	358 009
Capital, reserves and profit	0	0	0	0	40 186	40 186
Other liabilities <sup>(*)</sup>	- 4	28	0	0	13 304	13 328
<b>Total liabilities</b>	<b>27 720</b>	<b>36 600</b>	<b>159 874</b>	<b>142 142</b>	<b>53 490</b>	<b>419 826</b>

<sup>(\*)</sup> Including foreign exchange on currency swap contracts

Some of the borrowings and associated swaps include early termination triggers or call options granted to the investors or the hedging swap counterparties, and the Bank as well has the right to call the related bonds before maturity.

If the Bank were to exercise all the call options on its bonds at their next contractual exercise date, cumulated early redemptions for the period 2011 - 2013 would amount to EUR 8.85 billion.

Maturity (at 31 December 2009)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2009
<b>ASSETS</b>						
Cash in hand, central banks and post office banks	227	0	0	0	0	227
Treasury bills and other bills eligible for refinancing with central banks	616	435	2 000	752	0	3 803
Other loans and advances:						
- Current accounts	334	0	0	0	0	334
- Others	19 153	0	0	0	0	19 153
	19 487	0	0	0	0	19 487
Loans:						
- Credit institutions	2 899	7 408	47 782	58 487	0	116 576
- Customers	1 831	8 352	55 497	133 574	0	199 254
	4 730	15 760	103 279	192 061	0	315 830
Debt securities including fixed-income securities	7 626	1 802	2 458	5 843	0	17 729
Shares and other variable-yield securities	0	0	0	0	1 479	1 479
Shares in affiliated undertakings	0	0	0	0	481	481
Other assets	0	0	0	0	8 365	8 365
<b>Total assets</b>	<b>32 686</b>	<b>17 997</b>	<b>107 737</b>	<b>198 656</b>	<b>10 325</b>	<b>367 401</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	4 380	100	0	0	0	4 480
Amounts owed to customers	2 353	10	0	0	0	2 363
Debts evidenced by certificates	10 765	27 868	136 834	130 291	0	305 758
Capital, reserves and profit	0	0	0	0	38 069	38 069
Other liabilities <sup>(*)</sup>	477	826	3 115	763	11 550	16 731
<b>Total liabilities</b>	<b>17 975</b>	<b>28 804</b>	<b>139 949</b>	<b>131 054</b>	<b>49 619</b>	<b>367 401</b>

<sup>(\*)</sup> Including foreign exchange on currency swap contracts

#### 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.

A foreign exchange hedging programme 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 2010	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2010
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	254	0	0	0	0	254
Treasury bills and other bills eligible for refinancing with central banks	5 078	0	0	0	0	5 078
Other loans and advances:						
- Current accounts	259	34	16	151	201	460
- Others	28 659	101	552	2 287	2 940	31 599
	28 918	135	568	2 438	3 141	32 059
Loans:						
- Credit institutions	79 254	14 354	24 339	6 083	44 776	124 030
- Customers	185 012	18 595	9 691	13 600	41 886	226 898
	264 266	32 949	34 030	19 683	86 662	350 928
Debt securities including fixed-income securities	12 502	634	1 267	1 401	3 302	15 804
Shares and other variable-yield securities	1 321	267	29	75	371	1 692
Shares in affiliated undertakings	484	0	0	0	0	484
Other assets <sup>(*)</sup>	- 85 628	18 225	47 559	33 371	99 155	13 527
<b>Total assets</b>	<b>227 195</b>	<b>52 210</b>	<b>83 453</b>	<b>56 968</b>	<b>192 631</b>	<b>419 826</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	5 682	0	28	93	121	5 803
Amounts owed to customers	2 451	0	32	17	49	2 500
Debts evidenced by certificates:						
- Debt securities in issue	137 932	51 660	100 327	44 459	196 446	334 378
- Others	10 265	462	3 739	9 165	13 366	23 631
	148 197	52 122	104 066	53 624	209 812	358 009
Capital, reserves and profit	40 186	0	0	0	0	40 186
Other liabilities <sup>(**)</sup>	30 726	86	- 20 711	3 227	- 17 398	13 328
<b>Total liabilities</b>	<b>227 242</b>	<b>52 208</b>	<b>83 415</b>	<b>56 961</b>	<b>192 584</b>	<b>419 826</b>
<b>Net position</b>	<b>- 47</b>	<b>2</b>	<b>38</b>	<b>7</b>	<b>47</b>	

<sup>(\*)</sup> Other assets include foreign exchange on long term currency swap contracts.

<sup>(\*\*)</sup> Other liabilities include foreign exchange on short term currency swap contracts.

Currency at 31 December 2009	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2009
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	227	0	0	0	0	227
Treasury bills and other bills eligible for refinancing with central banks	3 803	0	0	0	0	3 803
Other loans and advances:						
- Current accounts	231	18	9	76	103	334
- Others	13 323	224	3 867	1 739	5 830	19 153
	13 554	242	3 876	1 815	5 933	19 487
Loans:						
- Credit institutions	72 760	15 227	23 924	4 665	43 816	116 576
- Customers	163 324	15 684	9 191	11 055	35 930	199 254
	236 084	30 911	33 115	15 720	79 746	315 830
Debt securities including fixed-income securities	14 301	927	1 233	1 268	3 428	17 729
Shares and other variable-yield securities	1 142	244	30	63	337	1 479
Shares in affiliated undertakings	481	0	0	0	0	481
Other assets	7 436	283	445	201	929	8 365
<b>Total assets</b>	<b>277 028</b>	<b>32 607</b>	<b>38 699</b>	<b>19 067</b>	<b>90 373</b>	<b>367 401</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	4 242	0	177	61	238	4 480
Amounts owed to customers	2 178	81	0	104	185	2 363
Debts evidenced by certificates:						
- Debt securities in issue	127 402	50 478	74 926	33 441	158 845	286 247
- Others	9 445	555	3 422	6 089	10 066	19 511
	136 847	51 033	78 348	39 530	168 911	305 758
Capital, reserves and profit	38 069	0	0	0	0	38 069
Other liabilities <sup>(*)</sup>	95 710	- 18 506	- 39 834	- 20 639	- 78 979	16 731
<b>Total liabilities</b>	<b>277 046</b>	<b>32 608</b>	<b>38 691</b>	<b>19 056</b>	<b>90 355</b>	<b>367 401</b>
<b>Net position</b>	<b>- 18</b>	<b>- 1</b>	<b>8</b>	<b>11</b>	<b>18</b>	

<sup>(\*)</sup> Other liabilities include foreign exchange on short and long term currency swap contracts.

## U.5. 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.

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

## Note V – Derivatives

The Bank uses derivative instruments mainly 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 value of derivatives fluctuates according to trends in the underlying assets, interest rates, exchange rates or indices. The nominal amounts corresponding to these operations are booked as off-balance sheet items on the date of the transaction.

The majority of the Bank's swaps are concluded with a view to hedging specific bond issues, as part of its resource-raising operations (funding activity).

The Bank also enters into swaps as part of its hedging operations on loans, treasury, or for the global Assets and Liabilities Management (ALM) position (ALM hedging activity).

The nominal amounts of the above mentioned swaps are booked as off-balance sheet items on the date of the transaction and the corresponding interest is accounted for on a pro-rata temporise basis.

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.

Future contracts (futures) are used in the context of the treasury activities, to hedge the exposure deriving from some investments in government bonds. Futures are standardised derivatives, negotiated on regulated markets, and they do not fall within the general policy for counterparty risk measurement and control (see Note V.2.).

The Bank also entered into one credit default swap contract as part of its credit risk mitigation. The corresponding amounts are booked as off-balance sheet items at the date of the transaction (see Note V.3.).

### V.1. As part of funding and ALM hedging activity

The Bank uses long term 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.

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

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

The derivatives used in the context of funding and ALM hedging activities are:

- Currency swaps;
- Interest rate swaps; and
- Structured swaps.

#### V.1.1. Currency swaps

Currency swaps are contracts under which it is agreed to convert funds raised in one currency 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.

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 following table shows the maturities of currency swaps (excluding short-term currency swaps – see Note V.2.), sub-divided according to their notional amount and fair value. The notional amounts are disclosed off balance sheet.

Currency swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	17 659	73 247	34 650	14 920	<b>140 476</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	731	1 811	2 128	1 633	<b>6 303</b>

Currency swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	15 369	54 520	23 418	15 211	<b>108 518</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	- 1 344	- 2 158	- 765	467	<b>- 3 800</b>

<sup>(\*)</sup> Including the fair value of macro-hedging currency swap which stood at EUR - 104 million as at 31 December 2010 (2009: EUR 35 million).

### 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.

Interest rate swaps allow the Bank to modify the interest rate structure of its borrowing portfolio and other portfolios 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.

The following table shows the maturities of interest rate swaps (including the credit default swap – see Note V.3. and synthetic swaps, whereby interest computed in a foreign currency is synthetically converted to EUR), sub-divided according to their notional amount and fair value. The notional amounts are disclosed off balance sheet.

Interest rate swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	38 649	150 999	74 325	95 623	<b>359 596</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	1 187	4 622	2 889	2 288	<b>10 986</b>

Interest rate swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	30 053	135 875	63 223	87 425	<b>316 576</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	764	4 862	2 006	1 914	<b>9 546</b>

<sup>(\*)</sup> Including the fair value of macro-hedging interest rate swap which stood at EUR - 575 million as at 31 December 2010 (2009: EUR - 524 million).

### V.1.3. Structured swaps

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 and loans encompassing notably interest rate or stock exchange index options. Such structured borrowings and loans are entirely covered by swap contracts to hedge the corresponding market risk.

The table below further details the number, value and notional amounts of structured swaps:

	Option embedded		Stock exchange index		Special structure coupon or similar	
	2010	2009	2010	2009	2010	2009
Number of transactions	365	395	6	6	325	363
Notional amount (in EUR million)	12 793	13 598	843	843	21 627	21 346
Net discounted value (in EUR million)	391	132	26	- 10	717	380

The 'fair value' of 'plain vanilla' swap transactions is their market value. For structured deals, the 'fair value' is computed using the income approach, which consists of 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.

#### V.1.4. Derivatives credit risk mitigation policy

The credit risk with respect to derivatives lies in the loss which the Bank would incur where the 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 of the Bank's long-term derivative 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 and further supported by an independent amount of collateral specified in the Credit Support Annex. The EIB has the right of early termination if the rating drops below a certain level.

- Collateralisation:

- Generally, there is a reduced credit risk on swaps, because exposures (exceeding limited thresholds) are collateralised by cash and first-class bonds.
- Very complex and illiquid transactions could require collateralisation over and above the current market value.
- Both the derivatives portfolio with individual counterparties and the collateral received are regularly monitored and valued, with a subsequent call for additional collateral or release.



The collateral received for swaps amounts to EUR 20 334 million (2009: EUR 8 557 million), with the following composition:

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2010
	Government	Agency		
Aaa	5 417	58	0	5 475
Aa1 to Aa3	7 320	0	0	7 320
A1	1 142	0	0	1 142
Below A1	857	0	0	857
Non-Rated	0	0	5 540	5 540
<b>Total 2010</b>	<b>14 736</b>	<b>58</b>	<b>5 540</b>	<b>20 334</b>

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2009
	Government	Agency		
Aaa	2 219	0	0	2 219
Aa1 to Aa3	1 331	0	0	1 331
A1	0	0	0	0
Below A1	1 267	0	0	1 267
Non-Rated	0	0	3 740	3 740
<b>Total 2009</b>	<b>4 817</b>	<b>0</b>	<b>3 740</b>	<b>8 557</b>

- 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 value.

The Bank measures the credit risk exposure related to swaps and derivatives transactions using the Net Market Exposure (NME) and Potential Future Exposure (PFE) for reporting and limit monitoring, and the Credit Risk Equivalent for capital allocation according to the recommendations of the Basel Committee on Banking Supervision (BCBS) sponsored by the BIS.

The Bank computes the Net Market Exposure, which is the larger of zero and the market value or "fair value" of the portfolio of transactions within the netting set with a counterparty, less the collateral. It is the amount that would be lost upon the default of the counterparty, using the received collateral and assuming no recovery on the value of those transactions in bankruptcy as well as immediate replacement of the swap counterparty for all the transactions. As of 31 December 2010 the Net Market Exposure stood at EUR 721 million (EUR 600 million as of 31 December 2009).

In addition, the Bank computes the Potential Future Exposure (PFE), which is the possible increase in the netting set's exposure over the margin period of risk, which ranges between 10 and 20 days, depending on the portfolio of transactions. The EIB computes PFE at 90% confidence level using stressed market parameters to arrive at conservative estimations of the Potential Future Exposure. This is in line with the recommendations issued by regulators in order to take into consideration the conditions that will prevail in case of default of an important market participant. As of 31 December 2010 the total Potential Future Exposure (PFE) stood at EUR 9 453 million (EUR 8 900 million as of 31 December 2009).

- Limits:

The limit system for banks covers two types of exposure: Net Market Exposure and Potential Future Exposure.

The Net Market Exposure is measured by the NPV of the swap portfolio minus the amount of collateral received. It is limited by the Threshold applicable to the bank as defined in the Credit Support Annex and is dependent on the rating of the counterparty. For any exposure exceeding this Threshold, the Bank receives collateral posted by the counterparty.

The Potential Future Exposure limit determines the maximum Potential Future Exposure, measured as explained above and reduced by overcollateralisation, accepted for each counterparty.

The derivatives portfolio is valued and compared against limits on a daily basis.

As from the following table, the majority of the derivative portfolio is concentrated on counterparties rated A1 or above.

Grouped ratings Moody's or equivalent rating	Percentage of nominal		Net Market Exposure (in EUR million)		Potential Future Exposure (in EUR million)	
	2010	2009	2010	2009	2010	2009
Aaa	3.0%	2.5%	0	10	307	161
Aa1 to Aa3	59.7%	60.7%	715	589	6 543	6 406
A1	33.7%	28.5%	6	1	2 213	1 843
A2 to A3	3.1%	7.8%	0	0	375	457
Below A3	0.5%	0.5%	0	0	15	33
Non-rated	0.0%	0.0%	0	0	0	0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>721</b>	<b>600</b>	<b>9 453</b>	<b>8 900</b>

## V.2. As part of liquidity management

The Bank enters into short-term currency swap contracts in order to adjust currency positions in its operational treasury portfolios 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 stood at EUR 26 265 million at 31 December 2010 against EUR 11 887 million at 31 December 2009. The notional amount of short term currency forwards was EUR 288 million at 31 December 2010 (2009: EUR 252 million). The fair value of these contracts was EUR - 34 million at 31 December 2010 (2009: EUR 255 million).

Long-term futures are also used by the Bank to adjust the medium term (2-year) interest rate exposure of its treasury bond portfolios. The notional amount of long-term futures stood at EUR 283 million at 31 December 2010 (2009: EUR 335 million), with a fair value of EUR nil (2009: EUR - 0.1 million).

## V.3. Credit Default Swap

The Bank entered into one Credit Default Swap for a nominal amount of EUR 193 million as at 31 December 2010 (2009: EUR 197 million) with a fair value of EUR 29.5 million (2009: EUR 1.5 million).

## Note W – Conversion rates

The following conversion rates were used for establishing the balance sheets at 31 December 2010 and 31 December 2009:

	31.12.2010	31.12.2009
<b>NON-EURO CURRENCIES OF EU MEMBER STATES</b>		
Bulgarian leva (BGN)	1.9558	1.9558
Czech koruna (CZK)	25.061	26.473
Danish kroner (DKK)	7.4535	7.4418
Hungarian forint (HUF)	277.95	270.42
Polish zloty (PLN)	3.9750	4.1045
Pound sterling (GBP)	0.8608	0.8881
Romanian lei (RON)	4.2620	4.2363
Swedish kronor (SEK)	8.9655	10.252
<b>NON-EU CURRENCIES</b>		
Australian dollar (AUD)	1.3136	1.6008
Canadian dollar (CAD)	1.3322	1.5128
Hong Kong dollar (HKD)	10.3856	11.1709
Japanese yen (JPY)	108.65	133.16
Kenyan shilling (KES)	107.77	108.43
Moroccan dirham (MAD)	11.152	11.290
Mexican peso (MXN)	16.5475	18.9223
New Zealand dollar (NZD)	1.720	1.980
Norwegian krone (NOK)	7.8000	8.3000
Russian ruble (RUB)	40.820	43.154
South African rand (ZAR)	8.8625	10.6660
Swiss franc (CHF)	1.2504	1.4836
Turkish lira (TRY)	2.0694	2.1547
United States dollar (USD)	1.3362	1.4406

## Note X – Related party – European Investment Fund

Related party transactions with the European Investment Fund ('EIF') 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 EIF manages the venture capital activity of the Bank. The amounts included in the Financial Statements and relating to the EIF are disclosed as follows:

(in EUR ' 000)	31.12.2010	31.12.2009
<b>ASSETS</b>		
Other assets	4 793	4 362
<b>Total assets</b>	<b>4 793</b>	<b>4 362</b>
<b>LIABILITIES</b>		
Other liabilities	33 615	26 947
<b>Total liabilities</b>	<b>33 615</b>	<b>26 947</b>
<b>PROFIT AND LOSS ACCOUNT</b>		
Commission expenses	- 12 082	- 11 650
Other operating income	3 879	2 236
General administrative expenses	3 801	4 418
<b>Total profit and loss account</b>	<b>- 4 402</b>	<b>- 4 996</b>
<b>OFF BALANCE SHEET</b>		
EIF capital - uncalled	1 468 000	1 460 800
EIF treasury management	907 246	900 069
Nominal value of put option granted to EIF minority shareholders	407 645	388 842
<b>Total off balance sheet</b>	<b>2 782 891</b>	<b>2 749 711</b>

## Note Y – Management of third party funds

### Y.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.

### Y.2. Guarantee Fund

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

### Y.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 and subsequently revised. The EIB prepares separate financial statements for the Investment Facility.

### Y.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 of 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.

### Y.5. Risk-Sharing Finance Facility (the 'RSFF')

The RSFF has been established within the framework of the Co-operation Agreement, entered into force on the 5 June 2007 between the European Commission on behalf of the European Union 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 RSFF.

#### **Y.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. The principal objective of the Initiative is to reduce the debt burden of poor countries to sustainable levels. The EIB prepares separate financial statements for the Initiative.

#### **Y.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 Union 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 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.

#### **Y.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.

#### **Y.9. Neighbourhood Investment Facility ('NIF') Trust Fund**

The NIF Trust Fund managed by the EIB was set up to achieve the strategic objective of the European Neighbourhood Partnership Instrument ('ENPI') through targeted funding aimed at strengthening infrastructure interconnection between the EU and its neighbours in the areas of Transport and Energy, at addressing common environmental concerns and at supporting other relevant activities. The EIB prepares separate financial statements for the NIF Trust Fund.

#### **Y.10. Loan Guarantee Instrument for Ten-T Projects (the 'LGTT')**

The 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 Union and the EIB.

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.

#### **Y.11. JASPERS**

JASPERS (The 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).

#### **Y.12. JESSICA (Contribution and Holding Funds)**

JESSICA (The Joint European Support for Sustainable Investment in City Area) is an initiative developed by the European Commission and the EIB, in collaboration with the Council of Europe Development Bank (CEB).

Under new procedures, Managing Authorities are being given the option of using some of their EU grant funding to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments are delivered to projects via Urban Development Funds or if required Holding Funds (JESSICA Holding Funds).

JESSICA Holding Funds are used in the context of the JESSICA initiative. EIB gathers the funding received from the Managing Authorities and invests it in Urban Development Funds, according to investment guidelines agreed with the donors.

#### **Y.13. 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 EIB for the account of and under mandate from third parties. It includes the FED, MED/FEMIP and Turkey mandates.

## Statement of Special Section <sup>(1)</sup>

as at 31 December 2010 and 2009 (in EUR '000)

AMOUNTS DISBURSED AND TO BE DISBURSED	31.12.2010	31.12.2009
<b>Turkey</b>		
From resources of Member States		
Disbursed loans outstanding	8 990	10 076
<b>Total <sup>(2)</sup></b>	<b>8 990</b>	<b>10 076</b>
<b>Mediterranean Countries</b>		
From resources of the European Union		
Disbursed loans outstanding	117 069	127 673
Risk capital operations		
- amounts to be disbursed	186 843	212 218
- amounts disbursed	173 526	195 709
	<b>360 369</b>	<b>407 927</b>
<b>Total <sup>(3)</sup></b>	<b>477 438</b>	<b>535 600</b>
<b>African, Caribbean and Pacific State and Overseas Countries and Territories</b>		
From resources of the European Union		
• <b>Yaoundé Conventions</b>		
Loans disbursed	12 830	14 686
Contributions to the formation of risk capital		
- amounts disbursed	419	419
<b>Total <sup>(4)</sup></b>	<b>13 249</b>	<b>15 105</b>
• <b>Lomé Conventions</b>		
Operations from risk capital resources:		
- amounts to be disbursed	23 966	39 099
- amounts disbursed	695 415	813 171
	<b>719 381</b>	<b>852 270</b>
Operations from other resources		
- amounts disbursed	2 333	3 016
	<b>2 333</b>	<b>3 016</b>
<b>Total <sup>(5)</sup></b>	<b>721 714</b>	<b>855 286</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

<b>FUNDS RECEIVED AND TO BE RECEIVED</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
Funds under trust management		
Under mandate from the European Union		
- Financial Protocols with the Mediterranean Countries	290 595	323 383
- Yaoundé Conventions	13 249	15 105
- Lomé Conventions	695 415	813 171
- Other resources under the Lomé Conventions	2 333	3 016
	1 001 592	1 154 675
Under mandate from Member States	8 990	10 076
<b>Total</b>	<b>1 010 582</b>	<b>1 164 751</b>
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	186 843	212 218
On operations from risk capital resources under the Lomé Conventions	23 966	39 098
<b>Total</b>	<b>210 809</b>	<b>251 316</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

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 EU mandate for recovering principal and interest:

a) Under the First, Second and Third Lomé Conventions: at 31 December 2010: EUR '000 596 926 (at 31 December 2009: EUR '000 648 409)

b) Under Financial Protocols signed with the Mediterranean Countries: at 31 December 2010: EUR '000 97 371 (at 31 December 2009: EUR '000 103 000)

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, the EU-Africa Infrastructure Trust Fund, the Neighbourhood Investment Facility (NIF) Trust Fund 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 Union and the Member States. Amounts disbursed and to be disbursed and funds received and to be received are carried at nominal value. 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		20 134
less:	cancellations	215	
	repayments	416 828	
			- 417 043
			<b>8 990</b>

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 Union.

Initial amount:			945 957
less:	exchange adjustments	45 803	
	cancellations	95 720	
	repayments	326 996	
			- 468 519
			<b>477 438</b>

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 Union:

Loans on special conditions		139 483	
Contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interests	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	137 996	
			- 139 754
			<b>13 249</b>

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 Union:

Loans from risk capital resources:			
Conditional and subordinated loans		3 116 097	
Equity participations		121 002	
Initial amount:			3 237 099
add:	capitalised interests		9 548
less:	cancellations	670 064	
	repayments	1 800 037	
	exchange adjustments	57 165	
			- 2 527 266
			<b>719 381</b>
Loans from other resources:			
Initial amount:			16 500
add:	exchange adjustments		68
less:	cancellations	8 264	
	repayments	5 971	
			- 14 235
			<b>2 333</b>
			<b>721 714</b>



## Independent Auditor's Report

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

We have audited the accompanying financial statements of EUROPEAN INVESTMENT BANK, which comprise the balance sheet as at 31 December 2010, the profit and loss account and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

The Management is responsible for the preparation and fair presentation of these financial statements 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, as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 (the 'Directives'), and for such internal control as the Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Responsibility of the Réviseur d'Entreprises agréé

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

assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of EUROPEAN INVESTMENT BANK as of 31 December 2010, and of the results of its operations and its cash flows for the year then ended in accordance with the general principles of the Directives.

Luxembourg, 10 March 2011

KPMG Audit S.à r.l.  
Cabinet de révision agréé  
9, Allée Scheffer  
L-2520 Luxembourg

Société à responsabilité limitée  
R.C.S. Luxembourg B 103590  
Capital 25.000 €



Emmanuel Dollé

## 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 Bank's unconsolidated financial statements prepared in accordance with the general principles of the EU Directives**

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

- designated KPMG as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of KPMG on the financial statements of the European Investment Bank for the year ended 31 December 2010 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 2010 as drawn up by the Board of Directors at its meeting on 10 March 2011,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 24, 25 & 26 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 profit and loss account and the cash flow statement and a summary of significant accounting policies and other explanatory information give a true and fair view of the financial position of the Bank as at 31 December 2010 in respect of its assets and liabilities, and of the results of its operations and cash flows for the year then ended.

Luxembourg, 10 March 2011

The Audit Committee



G. SMYTH



D. NOUY



E. MATHAY



J. GALEA



J. RODRIGUES DE JESUS



M. ÜURIKE





EIB Group

# Financial Statements under EU directives

as at 31 December 2010



## Consolidated Results for the Year

The EIB Group balance sheet total increased by EUR 52.5 billion (14.3%) compared to 2009. The net surplus of the Group for the financial year 2010 stands at EUR 2 098 million as compared to a net surplus of EUR 1 865 million for 2009.

The net surplus for the financial year increased by EUR 233 million (12.5%).

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

- The net balance between interest income and charges rose by EUR 303 million and stands at EUR 2 576 million (items 1 and 2 of the Consolidated Profit and Loss Account).
- The average interest rate on outstanding loans (after swaps) decreased from 2.36% to 1.63%, and on outstanding debt (after swaps) from 1.75% to 0.87%, resulting in a realised margin of 0.76% versus 0.61% previously.
- The average interest rate on the net balance between treasury outstanding assets and liabilities decreased from 1.45% to 0.62%.
- The value adjustment on shares and other variable-yield securities (including venture capital operations) resulted in an unrealised loss of EUR 58.6 million for 2010, compared to an unrealised loss of EUR 82.9 million for 2009.
- The general administrative expenses increased by EUR 44.2 million or 10.2% to EUR 476 million. Staff costs increased by 13.7% or EUR 43.0 million. The breakdown of staff costs is detailed in note R to the Consolidated Financial Statements, which states that salaries and allowances increased by EUR 26.3 million (12.6%) while welfare contributions and other social costs increased by EUR 16.8 million

(16.0%). Other administrative expenses increased by EUR 1.2 million (1.0%). The number of persons employed by the Group at the end of 2010 increased by 9.5% as compared to at the end of 2009, with the average increase being 10.1%.

- Prior to consolidation, the EIF's results under EU Accounting Directives stand at a loss of EUR - 32.0 million for 2010 as compared to a loss of EUR - 6.2 million for 2009.

### Main evolution of loans and borrowing activity:

- The volume of loans disbursed in 2010 increased by 10.4% to EUR 57.5 billion from EUR 51.9 billion in 2009.
- The volume of loan signatures for 2010 decreased by 9.2% to EUR 71.8 billion from EUR 79.1 billion in 2009.
- The volume of borrowing proceeds, before swap operations, received during the financial year 2010 decreased by 14.9% versus 2009 to EUR 67.3 billion from EUR 79.1 billion.

In 2010, the Group launched Climate Awareness Bonds ('CABs') for a total value of EUR 543 million. The funds were raised in four currencies: synthetic Brazilian real (payable in Japanese yen), South African rand, Australian dollar and Turkish lira. Most of the proceeds from 2010 CABs issuance (EUR 487 million), as well as the remaining part of the proceeds from 2009 issuance (EUR 164 million), were disbursed to eligible projects in the course of the year. The residual treasury balance as at end-December 2010 was EUR 57 million.

The own funds of the Group increased from EUR 38.1 billion at the end of 2009 to EUR 40.3 billion at the end of 2010. The ratio of own funds to outstanding loans disbursed (excluding securitised loans) decreased slightly from 12.07% at the end of 2009 to 11.47% at the end of 2010.

## Consolidated balance sheet

as at 31 December 2010 (in EUR '000)

Assets	31.12.2010	31.12.2009
<b>1. Cash in hand, balances with central banks and post office banks (Note B.1)</b>	<b>253 692</b>	<b>227 227</b>
<b>2. Treasury bills and other bills eligible for refinancing with central banks (Note B.2)</b>	<b>5 372 659</b>	<b>4 072 600</b>
<b>3. Loans and advances to credit institutions</b>		
a) repayable on demand	491 476	367 694
b) other loans and advances (Note C)	31 636 235	19 225 783
c) loans (Note D.1)	124 030 306	116 575 861
	<b>156 158 017</b>	<b>136 169 338</b>
<b>4. Loans and advances to customers</b>		
a) loans (Note D.1)	226 989 482	199 365 019
b) specific value adjustments (Note D.2)	- 91 608	- 110 800
	<b>226 897 874</b>	<b>199 254 219</b>
<b>5. Debt securities including fixed-income securities (Note B.2)</b>		
a) issued by public bodies	1 806 794	1 980 966
b) issued by other borrowers	14 551 747	16 286 005
	<b>16 358 541</b>	<b>18 266 971</b>
<b>6. Shares and other variable-yield securities (Note E)</b>	<b>1 849 503</b>	<b>1 618 309</b>
<b>7. Intangible assets (Note F)</b>	<b>8 266</b>	<b>4 817</b>
<b>8. Tangible assets (Note F)</b>	<b>319 537</b>	<b>310 504</b>
<b>9. Other assets (Note G)</b>	<b>100 145</b>	<b>121 570</b>
<b>10. Subscribed capital and reserves, called but not paid (Note H.2)</b>	<b>57 663</b>	<b>115 327</b>
<b>11. Prepayments and accrued income (Note I)</b>	<b>13 081 761</b>	<b>7 846 062</b>
<b>Total assets</b>	<b>420 457 658</b>	<b>368 006 944</b>

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

Liabilities	31.12.2010	31.12.2009
<b>1. Amounts owed to credit institutions (Note J)</b>		
a) repayable on demand	5 675 399	4 380 414
b) with agreed maturity dates or periods of notice	127 858	100 000
	<b>5 803 257</b>	<b>4 480 414</b>
<b>2. Amounts owed to customers (Note J)</b>		
a) repayable on demand	1 524 466	1 256 333
b) with agreed maturity or periods of notice	975 965	1 106 417
	<b>2 500 431</b>	<b>2 362 750</b>
<b>3. Debts evidenced by certificates (Note K)</b>		
a) debt securities in issue	334 378 114	286 247 691
b) others	23 630 474	19 510 696
	<b>358 008 588</b>	<b>305 758 387</b>
<b>4. Other liabilities (Note G)</b>	<b>417 118</b>	<b>398 462</b>
<b>5. Accruals and deferred income (Note I)</b>	<b>11 480 815</b>	<b>15 031 136</b>
<b>6. Provisions</b>		
a) pension plans and health insurance scheme (Note L)	1 467 180	1 330 003
b) provision for guarantees issued (Note D.4)	107 469	70 412
	<b>1 574 649</b>	<b>1 400 415</b>
<b>7. Subscribed capital (Note H)</b>		
- Subscribed	232 392 989	232 392 989
- Uncalled	- 220 773 340	- 220 773 340
	<b>11 619 649</b>	<b>11 619 649</b>
<b>8. Reserves (Note H)</b>		
a) reserve fund	20 082 400	18 205 506
b) additional reserves	1 297 986	1 321 995
c) special activities reserve	3 299 370	3 299 370
d) general loan reserve	1 923 734	1 923 734
	<b>26 603 490</b>	<b>24 750 605</b>
<b>9. Profit for the financial year attributable to equity holders of the Bank (Note M)</b>	<b>2 097 717</b>	<b>1 864 832</b>
<b>10. Equity attributable to minority interest (Note H)</b>	<b>351 944</b>	<b>340 294</b>
<b>Total liabilities</b>	<b>420 457 658</b>	<b>368 006 944</b>

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



## Consolidated off - balance sheet

as at 31 December 2010 (in EUR '000)

Off-balance sheet items	31.12.2010	31.12.2009
<b>Commitments</b>		
- EBRD capital (Note E)		
• uncalled	442 500	442 500
- Undisbursed loans (Note D.1)		
• credit institutions	17 562 869	18 686 622
• customers	72 988 160	63 156 626
	<b>90 551 029</b>	<b>81 843 248</b>
- Undisbursed venture capital operations (Note E)	1 706 189	1 392 559
- Undisbursed investment funds (Note E)	459 914	511 895
<b>Contingent liabilities including guarantees</b>		
- In respect of loans granted by third parties	3 015 621	3 161 290
- In respect of venture capital operations	17 385	17 385
<b>Fiduciary operations (Note X)</b>	<b>12 377 331</b>	<b>11 309 770</b>
<b>Assets held on behalf of third parties (Note X)</b>		
- SMEG 2007	80 964	93 703
- GIF 2007	73 577	99 999
- SME Guarantee Facility	59 550	61 992
- European Technology Facility	9 896	6 573
- MAP Equity	46 349	65 795
- MAP guarantee	44 748	72 590
- Guarantee Fund treasury management	1 347 331	1 240 505
- Investment Facility - Cotonou	1 555 391	1 289 209
- Special Section	1 221 391	1 416 067
- RSFF	509 193	432 266
- NIF	57 913	44
- EU-Africa Infrastructure Trust Fund	259 728	144 151
- HIPC	161 550	65 768
- FEMIP Trust Fund	29 588	30 236
- LGTT	152 348	105 198
- FP7 Guarantee Fund treasury management	859 620	547 761
- JASPERS	934	119
- JESSICA (Contribution and Holding Fund)	1 382 955	16 805
- LfA-EIF Facility	114	24
- JEREMIE	928 876	763 175
- TTP	1 809	2 010
- GEEREF	1 633	57 999
- GEEREF Technical Support Facility	3 750	2 390
- EFSE	0	10 000
- Bundesministerium fur Wirtschaft und Technologie	517	102
- EPMF	6 004	0
- EPPA	1 003	0
- GGF	5 000	0
- GAGF	31 332	0
	<b>8 833 064</b>	<b>6 524 481</b>

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

Off balance sheet items	31.12.2010	31.12.2009
<b>Other items</b>		
Special deposits for service of borrowings (Note S)	34 568	52 292
Securities portfolio - securities receivable	0	100 000
Nominal value of interest-rate swap and deferred rate-setting contracts (Note V.1)	359 402 781	316 379 517
Nominal value of currency swap contracts payable (Note V.1)	161 700 288	125 166 944
Nominal value of currency swap contracts receivable (Note V.1)	166 163 922	119 986 609
Nominal value of put option granted to EIF minority shareholders	407 645	388 842
Borrowings launched but not yet settled	44 044	360 631
Swaps launched but not yet settled	3 327	11 590
Securities lent (Note B.2)	655 982	471 434
Future contracts (Note V.2)	283 413	334 676
FX Forwards (Note V.2)	287 518	251 938
Credit default swap (Note V.1)	192 883	196 796

## Consolidated profit and loss account

for the year ended 31 December 2010 (in EUR'000)

	2010	2009
<b>1. Interest receivable and similar income (Note N)</b>	<b>19 206 051</b>	<b>17 153 484</b>
<b>2. Interest payable and similar charges (Note N)</b>	<b>- 16 630 178</b>	<b>- 14 880 656</b>
<b>3. Income from securities</b>	<b>67 310</b>	<b>8 930</b>
<b>4. Commissions receivable (Note O)</b>	<b>236 360</b>	<b>207 040</b>
<b>5. Commissions payable (Note O)</b>	<b>- 204</b>	<b>- 117</b>
<b>6. Net loss on financial operations (Note P)</b>	<b>- 267 683</b>	<b>- 26 918</b>
<b>7. Other operating income (Note Q)</b>	<b>9 063</b>	<b>10 723</b>
<b>8. General administrative expenses (Note R)</b>	<b>- 476 433</b>	<b>- 432 210</b>
a) staff costs (Note L)	- 356 567	- 313 498
b) other administrative expenses	- 119 866	- 118 712
<b>9. Value adjustments in respect of intangible and tangible assets (Note F)</b>	<b>- 30 391</b>	<b>- 28 682</b>
a) tangible assets	- 27 021	- 26 386
b) intangible assets	- 3 370	- 2 296
<b>10. Value (re-)adjustments in respect of loans and advances and provisions for contingent liabilities and for commitments (Note D)</b>	<b>- 28 623</b>	<b>- 149 100</b>
<b>11. Profit for the financial year</b>	<b>2 085 272</b>	<b>1 862 494</b>
<b>12. Loss attributable to minority interest</b>	<b>12 445</b>	<b>2 338</b>
<b>13. Profit attributable to equity holders of the Bank</b>	<b>2 097 717</b>	<b>1 864 832</b>

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

## Consolidated cash flow statement

for the year ended 31 December 2010 (in EUR '000)

	2010	2009
<b>A. Cash flows from operating activities:</b>		
Profit for the financial year	2 085 272	1 862 494
Adjustments for:		
Change in specific value adjustments on loans and advances	- 19 192	88 800
Change in specific provisions on staff pension fund	137 177	124 174
Change in specific provisions for guarantees	47 815	60 300
Value adjustments in respect of tangible and intangible assets	30 391	28 682
Value adjustments in respect of shares and other variable-yield securities	58 574	106 654
Investment portfolio amortisation	3 193	10 112
Effects of exchange rate changes on loans, debts evidenced by certificates and swaps	1 358 426	782 281
<b>Profit on operating activities</b>	<b>3 701 656</b>	<b>3 063 497</b>
Disbursements of loans and advances to credit institutions and customers	- 57 523 013	- 51 895 204
Repayments of loans and advances to credit institutions and customers	27 713 767	23 200 287
Change in deposits with central banks	- 26 456	- 227 144
Change in treasury operational portfolios	- 889 236	- 1 553 388
Change in venture capital operations included in shares and other variable-yield securities	- 200 619	- 154 477
Change in shares and other variable-yield securities excluding venture capital operations	- 101 096	- 53 086
Change in amounts owed to credit institutions and customers	1 460 524	- 317 101
Change in prepayments and accrued income	3 949 856	- 767 915
Change in other assets	21 425	49 663
Change in accruals and deferred income	- 3 550 321	- 1 101 050
Change in other liabilities	18 656	19 537
<b>Net cash from operating activities</b>	<b>- 25 424 857</b>	<b>- 29 736 381</b>
<b>B. Cash flows from investing activities:</b>		
Sale of securities from investment portfolio matured during the year	266 581	301 440
Purchase of loan substitutes included in the treasury portfolios	- 2 906 619	- 2 622 000
Redemption of loan substitutes included in the treasury portfolios	1 582 002	179 474
Purchase of tangible and intangible assets	- 42 873	- 20 130
<b>Net cash from investing activities</b>	<b>- 1 100 909</b>	<b>- 2 161 216</b>
<b>C. Cash flows from financing activities:</b>		
Issuance of debts evidenced by certificates	129 855 314	101 587 443
Redemption of debts evidenced by certificates	- 92 619 273	- 66 715 132
Member States contribution	57 664	358 659
<b>Net cash from financing activities</b>	<b>37 293 705</b>	<b>35 230 970</b>
<b>Summary statement of cash flows:</b>		
<b>Cash and cash equivalents at beginning of financial year</b>	<b>27 232 501</b>	<b>24 100 435</b>
Net cash from:		
Operating activities	- 25 424 857	- 29 736 381
Investing activities	- 1 100 909	- 2 161 216
Financing activities	37 293 705	35 230 970
Effect of exchange rate changes on cash held	- 786 146	- 201 307
<b>Cash and cash equivalents at end of financial year</b>	<b>37 214 294</b>	<b>27 232 501</b>
<b>Cash and cash equivalents are composed of:</b>		
Cash in hand, balances with central banks and post office banks, excluding deposits with Central Bank of Luxembourg to cover minimum reserve requirement (Note B.1)	92	83
Bills maturing within three months of issue (Note B.2 ; A1 portfolio)	5 086 491	7 638 941
Loans and advances to credit institutions:		
Accounts repayable on demand	491 476	367 694
Term deposit accounts (Note C)	31 636 235	19 225 783
	<b>37 214 294</b>	<b>27 232 501</b>

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

## European Investment Bank Group

# Notes to the consolidated financial statements

as at and for the year ended 31 December 2010

The European Investment Bank (the 'Bank' or 'EIB') was created by the Treaty of Rome in 1958 as the long term lending bank of the European Union ('EU'). The Bank has its registered office at 98-100, boulevard Konrad Adenauer, Luxembourg. The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. The EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The EIB continuously adapts its activities to developments in EU policies.

The European Investment Fund (hereafter the "Fund" or "EIF") was incorporated on 14 June 1994, in Luxembourg, as an international financial institution. The address of its registered office is 96, boulevard Konrad Adenauer, L-2968 Luxembourg.

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Union 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 Bank holds 61.17% (2009: 62.11%) of the subscribed capital of the EIF. The Bank and the Fund are defined together as the "Group".

## Note A – Significant accounting policies

### A.1. Accounting standards

The consolidated financial statements (the 'Financial Statements') of the European Investment Bank 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 and insurance undertakings, as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 (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.

On a proposal from the Management Committee, the Board of Directors adopted the Financial Statements on 10 March 2011 and authorised their submission to the Board of Governors for approval at their meeting on 17 May 2011.

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 Group also publishes consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards (IFRS), as endorsed by the European Union.

### A.2. Foreign currency translation

In accordance with Article 4(1) of its Statute, the Group 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 Group conducts its operations in the currencies of its Member States, in euro 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 at the exchange rate prevailing on the date of the transaction. The Group's monetary 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.

### A.3. 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"). The financial statements of the Fund are prepared for the same reporting year as the Bank, using consistent accounting policies.

The Bank consolidates the financial statements of the EIF.

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

Minority interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank.

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

#### A.4. Derivatives

All derivatives held by the Group are used for micro and macro-hedging. The Group does not enter into any trading of derivatives.

The Group uses derivative instruments, i.e. mainly currency and interest rate swaps, as part of its asset and liability management ('ALM') activities to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions. All derivatives transactions are booked as off-balance sheet items at the date of the transaction.

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.

The Group 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 pro rata temporis basis.

The Group also enters into credit default swaps as part of its credit risk mitigation.

Long term futures are used by the Group to adjust the interest rate exposure of its treasury bond portfolios. Futures are valued by reference to the previous day's closing price on the relevant market.

#### Currency swaps

Currency swap contracts are entered into in order to adjust currency positions. The revaluation of the spot

leg of a currency swap is neutralised in *Accruals and deferred income* or *Prepayments and accrued income*. The forward leg of the currency swap is recorded off-balance sheet at settlement amount and not revalued. The premium/discount between the spot and forward settlement amounts is amortised pro rata temporis through the profit and loss account in *Interest receivable and similar income* or *Interest payable and similar charges*.

#### Interest rate swaps

The hedging interest rate swaps are not revalued.

#### A.5. Financial assets

Financial assets are accounted for using the settlement date basis.

#### A.6. Cash and cash equivalents

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

#### A.7. Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities

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

##### A.7.1. Group 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 adjustments are accounted for, if these are other than temporary. The difference between entry price and redemption value is accounted for pro rata temporis over the life of the securities.

In 2006, the Group decided to phase out the investment portfolio. Since then, the Group has not made any new additions 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.7.2.

### A.7.2. Operational portfolios

- Operational money market portfolios A1 and A2

In order to maintain an adequate level of liquidity, the Group purchases money market products with a maximum maturity of 18 months, in particular Treasury bills and negotiable debt securities issued by public bodies and credit institutions. The securities in the A1 portfolio are held until their final maturity and presented in the Financial Statements at purchase price. Value adjustments are accounted for, if these are other than temporary. The A2 portfolio includes securities which are available for sale and presented in the accounts at the lower of the cost or market value. Value adjustments are recorded under *Net loss on financial operations* in the profit and loss account.

Treasury bills appear on the assets side of the balance sheet under item *Treasury bills and other bills eligible for refinancing with central banks*.

Negotiable debt securities issued by public bodies and credit institutions appear on the assets side of the balance sheet under item *Debt securities including fixed-income securities - a) issued by public bodies and b) issued by other borrowers* respectively.

Zero coupon bonds are initially recorded at acquisition cost. The difference between the acquisition cost and redemption amount is amortised pro rata temporis as Interest receivable and similar income.

- Operational bond portfolios B1, B2, B3 and B4

The B1 'Credit Spread' portfolio comprises floating-rate and fixed-rate bonds issued or guaranteed by national governments, supranational institutions, financial institutions and corporations. These securities are available for sale and are presented in the Financial Statements at the lower of cost or market value. Value adjustments are recorded under *Net loss on financial operations* in the profit and loss account.

The B2 'Alternative Investment' portfolio comprises capital guaranteed notes by issuers, which meet the Group'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 *Net loss 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 changes in market value are recorded under *Net loss on financial operations* in the profit and loss account.

The B4 'Inflation Linked Investment' portfolio comprises listed securities with a maximum residual maturity of 30 years, issued by EU Governments. Securities held in this portfolio are marked to market value in the balance sheet; the corresponding changes in market value are recorded under *Net loss on financial operations* in the profit and loss account.

The Operational portfolio EIF comprises listed securities with a maximum residual maturity of 10 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 *Net loss on financial operations* in the profit and loss account.

The market value of treasury portfolios is based on published price quotations in an active market which are the first source for determining the fair value of these treasury instruments. For instruments without an available market price, the fair values are determined by obtaining quotes from market participants and/or by using valuation techniques or models, based whenever possible on observable market data prevailing at the balance sheet date.

### A.7.3. Loan substitutes

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 initially recorded at purchase price and valued at amortised cost. The difference between purchase price and redemption value is accounted for pro rata temporis over the life of the securities. Value adjustments are accounted for, if these are other than temporary.

### A.8. 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 Group investment portfolio, the B1 'Credit Spread' portfolio, the B3 'Global Fixed Income' portfolio, the B4 'Inflation Linked Investment' portfolio and the Operational portfolio EIF.

Securities lent are recorded at the book value as an off balance-sheet item. Securities received as collateral under securities lending transactions are not recognised in the balance sheet unless control of the contractual rights that are comprised in these received securities is gained. Securities lent are not derecognised from the



balance sheet unless control of the contractual rights that are comprised in these transferred securities is relinquished.

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

## **A.9. Loans and advances to credit institutions and customers**

### **A.9.1. Loans and advances**

Loans and advances are included in the assets of the Group 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 assets to which they relate. Value adjustments are accounted for in the profit and loss account as *'Value adjustments in respect of loans and advances'* and are deducted from the appropriate asset items on the balance sheet.

### **A.9.2. 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 Group's Management and recorded under *Specific value adjustments* on loans and advances to customers.

### **A.9.3. Reverse repurchase and repurchase operations (reverse repos and repos)**

The Group enters into tripartite reverse repos for the purpose of optimising credit risk usage of assets held in the operational portfolios. Under a tripartite reverse repo, a custodian/clearing agency arranges for custody, clearing and settlement of the transactions between the Bank and a third party. The custodians/clearing agencies operate under standardised global master purchase agreements and provide for delivery against payment systems, substitution of securities, automatic marking to market, reporting and daily transaction administration.

Reverse repos are carried at the amounts of cash advanced and are entered on the balance sheet under asset item *Loans and advances to credit institutions – b) other loans and advances*. Interest on reverse repos is accrued pro-rata temporis.

Repos are carried at the amounts of cash received and are entered on the balance sheet under liability item

*Amounts owed to credit institutions – a) with agreed maturity dates or periods of notice*. Interest on repos is accrued pro-rata temporis.

### **A.9.4. Interest subsidies**

Interest subsidies received in advance (see Note I) are deferred and recognised in the profit and loss account over the period from disbursement to repayment of the subsidised loan.

## **A.10. Shares and other variable-yield securities**

Shares and other variable-yield securities are initially recorded at acquisition cost. Their carrying value is adjusted to the lower of cost or market value at subsequent measurement at the balance sheet date. The Group acquires shares and other variable-yield securities when it enters into venture capital operations, infrastructure funds or investment funds under the structured finance facility.

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 Group's activities. They 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 Group'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.11. Tangible assets**

Tangible assets include land, Group-occupied properties, other machines and equipment.

Land is stated at acquisition cost 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 and Luxembourg-Weimershof are depreciated on a 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 a straight-line basis over the estimated life of each item purchased, as set out below:

- Buildings in Kirchberg, Hamm and Weimershof: 30 years
- Permanent equipment, fixtures and fittings: 10 years
- Furniture: 5 years
- Office equipment and vehicles: 3 years

#### A.12. Intangible assets

Intangible assets comprise internally developed computer software. Software development costs are capitalised 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 amortisation calculated on a straight-line basis over three years from completion.

#### A.13. Pension plans and health insurance scheme

##### A.13.1. Pension plans for staff

The Group operates defined benefit pension plans to provide retirement benefits to substantially its entire staff.

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.

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 2010, but updated as at 31 December 2010 with an extrapolation (roll forward method) for the last three months of 2010. The main actuarial assumptions used by the actuary are set out in Note L.

Prior to 1 January 2010, actuarial surpluses did not influence provisioning. Since 1 January 2010, cumulative prior year actuarial deficits and surpluses in excess of 10% of the commitments for retirement benefits are recognised over the expected average remaining service lives of the plan's participants on a straight line basis.

The main pension scheme of the 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.

##### A.13.2. Health insurance scheme

The Group has set up its own health insurance scheme for the benefit of staff, financed by contributions from the Group and its employees. The health insurance scheme is managed and accounted for under the same principles as the pension scheme described in Note A.13.1. The latest valuation was carried out as at 30 September 2010 and was updated as at 31 December 2010 with an extrapolation (roll forward method) for the last three months of 2010.

##### A.13.3. The Management Committee pension plan

The Management Committee pension plan is a defined benefit pension scheme funded by contributions from the Group only which covers all Management Committee members. All contributions of the Group are invested in the assets of the Group. The Management Committee pension plan is managed and accounted for under the same principles as the pension plan for staff described in Note A.13.1.

##### A.13.4. Optional Supplementary provident scheme

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the contributions from staff and the corresponding liability is recorded in "Other liabilities".

#### A.14. Debts evidenced by certificates

Debts evidenced by certificates are presented at their redemption amounts. Transaction costs and premiums/discounts are amortised 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 payable and similar charges* in the consolidated profit and loss account.

#### A.15. Provision for guarantees issued

This provision is intended to cover risks inherent in the Group's activity of issuing guarantees in favour of financial intermediaries or issued in respect of loans granted by third parties. A provision for guarantees



issued is established if there is objective evidence that the Group will have to incur a loss in respect of a given guarantee granted.

## A.16. Reserves

### A.16.1. Special activities reserve and General loan reserve

The Statute of the Bank, which came into force with the Lisbon Treaty, no longer requires the maintenance of specific reserves for Funds allocated to structured finance facility and similar undertakings (SFF/SFE) or Funds allocated to venture capital operations. Instead, the Statute foresees a reserve allocation for "special activities" to be defined. A proposal was put forward and approved at the Management Committee meeting on 2 February 2010 for a definition of special activities and corresponding reserve allocation, which is in line with existing credit risk practise and external agreements. The redefining of the Bank's reserve framework for its lending activities provides the opportunity to separate more clearly reserves for the expected loss (EL) of the entire loan portfolio from reserves based on the capital allocation (CA) for special activities.

As a result, two new reserves were created as at 31 December 2009. These reserves are described as follows:

- Special activities reserve: As foreseen by Article 16.5 of the Statute, "the special activities of the Bank will have a specific allocation of reserve". The reserve will be based on the capital allocation of each operation.
- General loan reserve: With the coming into force of the Statute, a non-specific reserve is introduced for the expected loss of the Bank's loan and guarantees portfolio, modelled upon the Group's policy guidelines.

### A.16.2. Funds allocated to structured finance facility

This item comprised the cumulative amount of appropriations from the annual result of the Group, determined each year by the Board of Governors to facilitate the implementation of operations with a greater degree of risk for this type of activity. This reserve has now been eliminated in favour of the reserves above.

### A.16.3. Funds allocated to venture capital operations

This item comprised the cumulative 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. This reserve has now been eliminated in favour of the reserves above.

## A.17. 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.18. 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 for which payment is not due until the expiry of the underlying instrument (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.19. Interest receivable and similar income

In addition to interest and commission income on loans and deposits and other revenue from the securities portfolio, the 'Interest receivable and similar income' includes the indemnities received by the Group for prepayments made by its borrowers. In order to maintain equivalent accounting treatment between income on loans and the cost of borrowings, the Group amortises prepayment indemnities received over the remaining life of the loans concerned.

## A.20. Dividend income

Dividends are recognised in the profit and loss account when the entity's right to receive payment is established.

## A.21. Reclassification of prior year figures

Certain prior year figures have been reclassified to conform with the current year's presentation. The main reclassifications relate to the de-netting of interest receivable and payable on swaps under:

- *Prepayments and accrued income*
- *Accruals and deferred income*
- *Interest receivable and similar income*
- *Interest payable and similar charges*

## Note B – Cash in hand, balances with central banks and post office banks and debt securities portfolio (in EUR'000)

### B.1. Cash in hand, balances with central banks and post office banks

The cash in hand and balances with central banks and post office banks equal to EUR '000 253 692 at 31 December 2010 (2009: EUR'000 227 227).

EIB is an eligible counterparty in the Eurosystem's monetary policy operations, and therefore has been given access to the monetary policy operations of the European Central Bank. The Bank conducts the operations via the Central Bank of Luxembourg, where the Bank maintains a deposit to cover the minimum reserve requirement. The balance of this deposit amounts to EUR '000 253 600 as at 31 December 2010 (2009: EUR'000 227 144).

### B.2. Debt securities portfolio

In addition to loan substitutes, which represent acquisitions of interests in pools of loans or receivables in connection with securitisation transactions, the debt securities portfolio is composed of the Group investment portfolio, the operational money market portfolios A1 and A2, the operational bond portfolios B1 'Credit Spread', B2 'Alternative Investment', B3 'Global Fixed Income', B4 'Inflation Linked Investment' and the Operational EIF portfolio. The detail of these portfolios and their classification as at 31 December 2010 and 2009 are as follows:

	31.12.2010	31.12.2009
Treasury bills and other bills eligible for refinancing with central banks (listed)	5 372 659	4 072 600
Debt securities including fixed-income securities (of which EUR'000 9 413 399 unlisted in 2010 and EUR'000 9 071 544 in 2009)	16 358 541	18 266 971
	<b>21 731 200</b>	<b>22 339 571</b>

At 31.12.2010	Purchase price	Book value	Premiums/ discounts to be amortised	Value at final maturity	Market value
<b>Group investment portfolio</b>	1 674 379	1 624 734	- 18 602	1 606 132	1 650 666
<b>Operational money market portfolios:</b>					
- A1: money market securities with a max. 3 month maturity	5 086 491	5 086 491	0	5 086 491	5 083 714
- A2: money market securities with a max. 18 month maturity	2 199 097	2 200 878	9 120	2 216 906	2 201 277
<b>Operational bond portfolios:</b>					
- B1: Credit Spread	1 044 305	990 742	0	1 043 527	998 966
- B2: Alternative Investment	0	0	0	0	0
- B3: Global Fixed Income	633 831	618 997	0	608 000	618 997
- B4: Inflation Linked Investment	1 073 907	1 072 028	0	980 000	1 072 028
<b>Operational portfolio - EIF</b>	650 157	603 914	0	647 853	606 585
<b>Loan substitutes (Note D)</b>	9 534 374	9 533 416	- 18 331	9 515 085	8 834 011
	<b>21 896 541</b>	<b>21 731 200</b>	<b>- 27 813</b>	<b>21 703 994</b>	<b>21 066 244</b>

At 31.12.2009	Purchase price	Book value	Premiums/ discounts to be amortised	Value at final maturity	Market value
<b>Group investment portfolio</b>	1 928 370	1 894 508	- 24 426	1 870 082	1 981 858
<b>Operational money market portfolios:</b>					
- A1: money market securities with a max. 3 month maturity	7 638 941	7 638 941	0	7 638 941	7 635 850
- A2: money market securities with a max. 18 month maturity	1 792 559	1 790 862	0	1 792 534	1 792 846
<b>Operational bond portfolios:</b>					
- B1: Credit Spread	1 132 731	1 112 564	0	1 133 246	1 126 106
- B2: Alternative Investment	125 000	124 131	0	125 000	124 131
- B3: Global Fixed Income	553 499	554 715	0	530 000	554 715
- B4: Inflation Linked Investment	478 334	496 336	0	435 000	496 336
<b>Operational portfolio - EIF</b>	523 076	518 715	0	516 218	522 864
<b>Loan substitutes (Note D)</b>	8 208 799	8 208 799	0	8 208 799	7 716 159
	<b>22 381 309</b>	<b>22 339 571</b>	<b>- 24 426</b>	<b>22 249 820</b>	<b>21 950 865</b>

The Group enters into collateralised securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Group when deemed necessary.

The nominal value of securities lending activity amounts to EUR '000 655 982 at the end of December 2010 (2009: EUR '000 471 434).

Loan substitutes are considered as part of the aggregate loans (Note D). Some of these transactions have been structured by adding credit or project related remedies, thus offering additional recourse. Per detailed review no value adjustment is required and has thus been accounted for as at 31 December 2010.

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

The Group enters into collateralised reverse repurchase and repurchase agreements transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Group when deemed necessary.

	31.12.2010	31.12.2009
Term deposits	6 230 200	9 131 727
Tripartite reverse repos <sup>(*)</sup>	25 406 035	10 094 056
	<b>31 636 235</b>	<b>19 225 783</b>

<sup>(\*)</sup> 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; and
- 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 2010	Total 2009
Disbursed portion	124 030 306	226 989 482	351 019 788	315 940 880
Undisbursed loans	17 562 869	72 988 160	90 551 029	81 843 248
<b>Aggregate loans granted</b>	<b>141 593 175</b>	<b>299 977 642</b>	<b>441 570 817</b>	<b>397 784 128</b>
Loan substitutes portfolio (Note B.2)			9 533 416	8 208 799
<b>Aggregate loans including loan substitutes portfolio (Note D.3)</b>			<b>451 104 233</b>	<b>405 992 927</b>

### D.2. Specific value adjustments for loans (in EUR'000)

Movements in the specific value adjustments are detailed below:

	2010	2009
Provision at beginning of the year	110 800	22 000
Release during the year	- 20 000	0
Allowance during the year	808	88 800
<b>Provision at end of the year</b>	<b>91 608</b>	<b>110 800</b>

### D.3. Geographical breakdown of lending by country in which projects are allocated (in EUR '000)

#### D.3.1. Loans for projects within the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Spain	696	67 388 000	63 517 730	3 870 270	14.94%	15.19%
Germany	688	57 312 575	48 133 100	9 179 475	12.70%	13.45%
Italy	548	55 563 064	43 221 824	12 341 240	12.32%	12.51%
France	403	41 006 821	34 224 356	6 782 465	9.09%	9.56%
United Kingdom	233	30 523 750	24 813 567	5 710 183	6.77%	6.81%
Portugal	320	24 032 904	21 411 740	2 621 164	5.33%	5.34%
Poland	189	23 104 374	16 507 833	6 596 541	5.12%	4.46%
Greece	150	17 197 611	13 872 929	3 324 682	3.81%	3.65%
Hungary	125	10 710 227	8 437 892	2 272 335	2.37%	2.33%
Austria	196	9 815 879	9 239 879	576 000	2.18%	2.14%
Czech Republic	113	9 705 203	7 729 744	1 975 459	2.15%	2.11%
Belgium	94	8 737 168	7 149 325	1 587 843	1.94%	1.90%
Netherlands	66	7 807 107	5 423 587	2 383 520	1.73%	1.67%
Sweden	73	7 520 745	5 171 663	2 349 082	1.67%	1.26%
Finland	114	6 900 878	6 116 078	784 800	1.53%	1.64%
Romania	74	6 553 558	3 277 402	3 276 156	1.45%	1.58%
Ireland	50	4 265 456	3 356 818	908 638	0.95%	1.06%
Slovenia	54	3 089 494	2 185 805	903 689	0.68%	0.67%
Slovakia	44	2 617 823	1 116 366	1 501 457	0.58%	0.33%
Bulgaria	42	2 429 605	1 090 550	1 339 055	0.54%	0.59%
Denmark	44	2 370 991	2 069 158	301 833	0.53%	0.60%
Cyprus	33	1 835 111	1 362 472	472 639	0.41%	0.35%
Latvia	27	1 602 681	817 681	785 000	0.35%	0.39%
Lithuania	17	1 328 129	1 176 629	151 500	0.29%	0.33%
Estonia	14	1 068 217	489 908	578 309	0.24%	0.25%
Luxembourg	27	790 713	693 263	97 450	0.17%	0.21%
Malta	5	301 055	145 555	155 500	0.07%	0.05%
<b>Sub-total</b>	<b>4 439</b>	<b>405 579 139</b>	<b>332 752 854</b>	<b>72 826 285</b>	<b>89.91%</b>	<b>90.43%</b>

### D.3.2. Loans for projects outside the Union

#### D.3.2.1. Candidate Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Turkey	122	13 548 290	9 693 800	3 854 490		
Croatia	31	2 309 369	1 367 780	941 589		
FYROM	8	274 126	189 144	84 982		
<b>Sub-total</b>	<b>161</b>	<b>16 131 785</b>	<b>11 250 724</b>	<b>4 881 061</b>	<b>3.58%</b>	<b>3.51%</b>

#### D.3.2.2. ACP States

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Madagascar	2	268 221	194 207	74 014		
Kenya	4	267 662	24 788	242 874		
Namibia	8	201 082	201 082	0		
Nigeria	3	189 700	15 931	173 769		
Lesotho	4	173 712	22 412	151 300		
Mauritius	13	124 865	72 930	51 935		
Mozambique	8	122 809	92 309	30 500		
Ghana	3	106 399	86 399	20 000		
Tanzania	1	100 652	0	100 652		
Senegal	3	76 878	41 878	35 000		
Regional – West Africa	3	70 136	70 136	0		
Cap Verde	2	61 648	30 264	31 384		
Congo (Democratic Republic)	1	55 000	2 738	52 262		
Regional – Caribbean	3	48 433	45 433	3 000		
Benin	2	45 000	0	45 000		
Cameroon	1	40 000	0	40 000		
Swaziland	2	38 332	24 832	13 500		
Dominican Republic	3	34 800	0	34 800		
Congo	1	29 000	0	29 000		
Barbados	5	28 269	18 519	9 750		
Botswana	4	25 747	25 747	0		
Jamaica	3	25 169	25 169	0		
Fiji	1	24 500	0	24 500		
Mauritania	2	20 605	13 281	7 324		
Burkina Faso	1	18 500	3 000	15 500		
Malawi	2	17 492	3 825	13 667		
Regional – Africa	2	11 587	11 587	0		
Regional - ACP	1	7 261	7 261	0		
Saint Vincent and The Grenadines	2	6 730	6 730	0		
Saint Kitts and Nevis	2	5 987	0	5 987		
Bahamas	2	5 769	5 769	0		
Saint Lucia	2	3 700	3 700	0		
Togo	1	3 000	0	3 000		
Zimbabwe	1	2 683	2 683	0		
Gabon	1	1 288	1 288	0		
Papua New Guinea	1	428	428	0		
Grenada	1	300	300	0		
<b>Sub-total</b>	<b>101</b>	<b>2 263 344</b>	<b>1 054 626</b>	<b>1 208 718</b>	<b>0.50%</b>	<b>0.44%</b>

#### D.3.2.3. Asia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
China	7	1 663 230	560 392	1 102 838		
Vietnam	7	449 672	163 631	286 041		
India	3	260 748	196 152	64 596		
Pakistan	5	159 801	59 801	100 000		
Sri Lanka	4	149 223	124 223	25 000		
Philippines	3	100 477	100 477	0		
Indonesia	4	90 093	90 093	0		
Maldives	1	44 277	44 277	0		
Laos	1	41 162	41 162	0		
Thailand	1	19 515	19 515	0		
Bangladesh	1	14 014	14 014	0		
<b>Sub-total</b>	<b>37</b>	<b>2 992 212</b>	<b>1 413 737</b>	<b>1 578 475</b>	<b>0.66%</b>	<b>0.56%</b>

#### D.3.2.4. Balkans

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Serbia	61	2 946 333	1 161 243	1 785 090		
Bosnia-Herzegovina	34	1 123 212	511 418	611 794		
Albania	14	290 085	175 488	114 597		
Montenegro	26	237 304	129 959	107 345		
<b>Sub-total</b>	<b>135</b>	<b>4 596 934</b>	<b>1 978 108</b>	<b>2 618 826</b>	<b>1.02%</b>	<b>0.94%</b>

#### D.3.2.5. Central and Latin America

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of year 2009
Brazil	16	1 059 618	739 618	320 000		
Panama	4	617 574	269 901	347 673		
Argentina	5	227 509	227 509	0		
Colombia	2	185 977	185 802	175		
Mexico	4	159 570	128 930	30 640		
Peru	4	117 434	117 434	0		
Paraguay	1	74 839	74 839	0		
Regional - Central America	2	38 416	20 035	18 381		
Ecuador	1	36 163	36 163	0		
Uruguay	3	26 178	26 178	0		
Honduras	1	20 000	0	20 000		
Nicaragua	1	15 046	0	15 046		
Costa Rica	1	10 328	10 328	0		
Regional Andean Countries	1	4 774	4 774	0		
<b>Sub-total</b>	<b>46</b>	<b>2 593 426</b>	<b>1 841 511</b>	<b>751 915</b>	<b>0.57%</b>	<b>0.52%</b>

#### D.3.2.6. European Free Trade Association (EFTA) Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Norway	7	615 746	565 746	50 000		
Iceland	10	585 222	495 222	90 000		
<b>Sub-total</b>	<b>17</b>	<b>1 200 968</b>	<b>1 060 968</b>	<b>140 000</b>	<b>0.27%</b>	<b>0.33%</b>

#### D.3.2.7. Mediterranean Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Egypt	38	3 289 717	2 095 074	1 194 643		
Tunisia	60	3 173 669	1 821 950	1 351 719		
Morocco	49	3 139 969	1 783 969	1 356 000		
Syria	17	1 516 807	702 415	814 392		
Lebanon	24	713 525	470 846	242 679		
Algeria	1	500 000	500 000	0		
Israel	8	436 098	377 198	58 900		
Jordan	22	384 048	291 953	92 095		
Gaza West Bank	6	62 479	17 479	45 000		
<b>Sub-total</b>	<b>225</b>	<b>13 216 312</b>	<b>8 060 884</b>	<b>5 155 428</b>	<b>2.93%</b>	<b>2.79%</b>

#### D.3.2.8. Overseas Countries and Territories (OCT)

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
French Polynesia	2	10 558	558	10 000		
New Caledonia	1	711	711	0		
British Virgin Islands	1	581	581	0		
<b>Sub-total</b>	<b>4</b>	<b>11 850</b>	<b>1 850</b>	<b>10 000</b>	<b>0.00%</b>	<b>0.00%</b>

#### D.3.2.9. Eastern Europe, Southern Caucasus, Russia

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Ukraine	4	465 540	148 000	317 540		
Russian Federation	5	339 200	105 836	233 364		
Moldova	7	234 946	12 546	222 400		
Georgia	4	175 000	27 159	147 841		
Armenia	1	5 000	0	5 000		
<b>Sub-total</b>	<b>21</b>	<b>1 219 686</b>	<b>293 541</b>	<b>926 145</b>	<b>0.27%</b>	<b>0.18%</b>



#### D.3.2.10. South Africa

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
South Africa	30	1 298 577	844 401	454 176		
<b>Sub-total</b>	<b>30</b>	<b>1 298 577</b>	<b>844 401</b>	<b>454 176</b>	<b>0.29%</b>	<b>0.30%</b>
<b>Total Loans for projects outside the Union</b>	<b>777</b>	<b>45 525 094</b>	<b>27 800 350</b>	<b>17 724 744</b>	<b>10.09%</b>	<b>9.57%</b>
<b>Total loans 2010</b>	<b>5 216</b>	<b>451 104 233</b>	<b>360 553 204 <sup>(1)</sup></b>	<b>90 551 029</b>	<b>100.00%</b>	
<b>Total loans 2009</b>	<b>5 032</b>	<b>405 992 927</b>	<b>324 149 679 <sup>(1)</sup></b>	<b>81 843 248</b>		<b>100.00%</b>

<sup>(1)</sup> including loan substitutes (Note B.2 and D.1)

#### D.4. Provisions in respect of guarantee operations

A provision for guarantees issued has been established as there is objective evidence that the Group will have to incur a loss in respect of guarantees granted. This provision amounts to EUR '000 107 469 as at 31 December 2010 (2009: EUR '000 70 412).

The additional provision in respect of guarantees issued totalled EUR '000 47 815 in 2010 (2009: EUR '000 60 300). In addition, a foreign exchange adjustment of EUR '000 10 758 was recognised for the year ended 31 December 2010 (2009: EUR '000 4 653).

### Note E – Shares and other variable-yield securities

This balance comprises (in EUR '000):

	Venture capital operations	EBRD shares	Investment funds	TOTAL
<b>Cost</b>				
At 1 January 2010	1 889 354	157 500	222 388	2 269 242
Net additions/releases	188 672	0	101 096	289 768
<b>At 31 December 2010</b>	<b>2 078 026</b>	<b>157 500</b>	<b>323 484</b>	<b>2 559 010</b>
<b>Value adjustments</b>				
At 1 January 2010	- 650 083	0	- 850	- 650 933
Net additions/releases	- 42 885	0	- 15 689	- 58 574
<b>At 31 December 2010</b>	<b>- 692 968</b>	<b>0</b>	<b>- 16 539</b>	<b>- 709 507</b>
<b>Net book value</b>				
<b>At 31 December 2010</b>	<b>1 385 058</b>	<b>157 500 <sup>(1)</sup></b>	<b>306 945</b>	<b>1 849 503</b>
<b>At 31 December 2009</b>	<b>1 239 271</b>	<b>157 500 <sup>(1)</sup></b>	<b>221 538</b>	<b>1 618 309</b>

<sup>(1)</sup> The amount of EUR '000 157 500 (2009: EUR '000 157 500) corresponds to the capital paid in by the Group as at 31 December 2010 with respect to its subscription of EUR '000 600 000 to the capital of the EBRD (European Bank for Reconstruction and Development). The Group holds 3.03 % of the subscribed capital of the EBRD.

As at 31 December 2010 the share of underlying net equity of the Group in EBRD amounts to EUR 348.4 million (2009: EUR 355.0 million). This is based on the audited 2009 financial statements prepared in accordance with International Financial Reporting Standards.

In EUR million	% held	Total own funds	Total net result	Total assets
EBRD (31.12.2008)	3.03	11 750	- 717	33 047
EBRD (31.12.2009)	3.03	11 515	- 911	32 539

The amounts signed but not yet disbursed disclosed off-balance sheet are respectively:

- for venture capital operations EUR '000 1 706 189 (2009: EUR '000 1 392 559)
- for investment funds EUR '000 459 914 (2009: EUR '000 511 895)

## Note F – Intangible and tangible assets (in EUR'000)

	Land	Luxembourg buildings	Furniture and equipment	Total tangible assets	Total intangible assets
<b>Historical cost</b>					
At 1 January 2010	10 717	362 066	82 668	455 451	6 908
Additions	14 000	12 800	9 254	36 054	6 819
Disposals	0	0	- 10 569	- 10 569	- 1 937
<b>At 31 December 2010</b>	<b>24 717</b>	<b>374 866</b>	<b>81 353</b>	<b>480 936</b>	<b>11 790</b>
<b>Accumulated depreciation</b>					
At 1 January 2010	0	- 106 096	- 38 851	- 144 947	- 2 091
Depreciation	0	- 12 764	- 14 257	- 27 021	- 3 370
Disposals	0	0	10 569	10 569	1 937
<b>At 31 December 2010</b>	<b>0</b>	<b>- 118 860</b>	<b>- 42 539</b>	<b>- 161 399</b>	<b>- 3 524</b>
<b>Net book value</b>					
<b>At 31 December 2010</b>	<b>24 717</b>	<b>256 006</b>	<b>38 814</b>	<b>319 537</b>	<b>8 266</b>
<b>At 31 December 2009</b>	<b>10 717</b>	<b>255 970</b>	<b>43 817</b>	<b>310 504</b>	<b>4 817</b>

All land and buildings are used by the Bank for its own activities. The cumulative cost relating to the construction of the new building amounts to EUR'000 228 026 (2009: EUR'000 215 226).

## Note G – Other assets and other liabilities (in EUR'000)

Other assets	31.12.2010	31.12.2009
Loan instalments receivable	11 765	23 677
Staff housing loans and advances <sup>(*)</sup>	13 621	15 712
Advances on salaries and allowances	373	247
Commission receivable on guarantees and venture capital operations	18 777	15 205
Other	55 609	66 729
	<b>100 145</b>	<b>121 570</b>

<sup>(\*)</sup> 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 Group's staff regulations. The same interest rates, terms and conditions are applicable to all said employees.

Other liabilities	31.12.2010	31.12.2009
Optional Supplementary Provident Scheme (Note L)	222 961	194 947
Payable on HIPC initiative	46 872	46 872
Financial guarantees issued in respect of venture capital operations	26 902	20 942
Transitory account on loans	20 735	37 242
Personnel costs payable	19 175	8 781
Western Balkans infrastructure fund	10 000	10 000
Other	70 473	79 678
	<b>417 118</b>	<b>398 462</b>

## Note H – Subscribed capital, Group own funds and appropriation of profit

### H.1. Consolidated own funds and appropriation of profit

Statement of movements in consolidated own funds (in EUR '000)	2010	2009
<b>Share Capital</b>		
- Subscribed capital <sup>(1)</sup>	232 392 989	232 392 989
- Uncalled	- 220 773 340	- 220 773 340
- <b>Called capital</b>	11 619 649	11 619 649
- Less: Capital called but not paid	- 14 430	- 28 861
- <b>Paid in capital</b>	<b>11 605 219</b>	<b>11 590 788</b>
<b>Reserves and profit for the year:</b>		
<b>Reserve Fund</b>		
- Balance at beginning of the year	18 205 506	16 480 817
- Appropriation of prior year's profit <sup>(1)</sup>	1 876 894	1 650 877
- Transfer from Funds allocated to venture capital operations	0	147 177
- Transfer to Called capital	0	- 73 365
- Balance at end of the year	20 082 400	18 205 506
- Less: Receivable from Member States	- 43 233	- 86 466
- <b>Paid-in balance at end of the year</b>	<b>20 039 167</b>	<b>18 119 040</b>
<b>Additional reserves</b>		
- Balance at beginning of the year	1 321 995	5 488 403
- Appropriation of prior year's profit <sup>(1)</sup>	- 12 062	- 2 410
- Transfer to Called Capital	0	- 3 305 876
- Transfer to Funds allocated to structured finance facility	0	- 2 000 000
- Transfer to Funds allocated to venture capital operations	0	0
- Transfer from funds allocated to venture capital operations and to structured finance facility	0	1 144 024
- Changes in ownership interests	- 11 947	- 2 146
- <b>Balance at end of the year</b>	<b>1 297 986</b>	<b>1 321 995</b>
<b>Funds allocated to structured finance facility <sup>(2)</sup></b>		
- Balance at beginning of the year	0	2 750 000
- Transfer from Additional reserves	0	2 000 000
- Transfer to Special activities reserve, General loan reserve and Additional reserves	0	- 4 750 000
- <b>Balance at end of the year</b>	<b>0</b>	<b>0</b>
<b>Funds allocated to venture capital operations <sup>(2)</sup></b>		
- Balance at beginning of the year	0	1 764 305
- Transfer to Reserve Fund	0	- 147 177
- Transfer to Special activities reserve, General loan reserve and Additional reserves	0	- 1 617 128
- <b>Balance at end of the year</b>	<b>0</b>	<b>0</b>
<b>Special activities reserve</b>		
- Balance at beginning of the year	3 299 370	0
- Transfer from Funds allocated to venture capital operations and to structured finance facility	0	3 299 370
- <b>Balance at end of the year</b>	<b>3 299 370</b>	<b>3 299 370</b>
<b>General loan reserve</b>		
- Balance at beginning of the year	1 923 734	0
- Transfer from Funds allocated to venture capital operations and to structured finance facility	0	1 923 734
- <b>Balance at end of the year</b>	<b>1 923 734</b>	<b>1 923 734</b>
<b>Profit for the financial year attributable to the equity holders of the Bank</b>	<b>2 097 717</b>	<b>1 864 832</b>
<b>Total consolidated own funds attributable to equity holders of the Bank</b>	<b>40 263 193</b>	<b>38 119 759</b>

Equity attributable to minority interests (in EUR '000) (cont.)	31.12.2010	31.12.2009
- Balance at 1 January	340 294	321 749
- Movement on reserves	24 095	25 843
- Dividend paid	0	- 4 960
- Appropriation of the loss of the year	- 12 445	- 2 338
<b>Total equity attributable to minority interests at 31 December</b>	<b>351 944</b>	<b>340 294</b>

<sup>(1)</sup> At its annual meeting on 8 June 2010 the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 2009 which amounted to EUR '000 1 876 894 to the Reserve Fund.

<sup>(2)</sup> The Statute of the Bank, which came into force with the Lisbon Treaty, no longer requires the maintenance of specific reserves for Funds allocated to structured finance facility and similar undertakings (SFF/SFE) or Funds allocated to venture capital operations.

A proposal was put forward and approved at the Management Committee meeting on 2 February 2010 for a definition of special activities and corresponding reserve allocation, which is in line with existing credit risk practise and external agreements.

The redefining of the Bank's reserve framework for its lending activities provides the opportunity to separate more clearly reserves for the expected loss (EL) of the entire loan portfolio and the capital allocation (CA) for special activities.

As a result, two reserves were created as at 31 December 2009. They are described as follows:

**Special activities reserve (SAR):** As foreseen by Article 16.5 of the Statute, "the special activities of the Bank will have a specific allocation of reserve". The reserve will be based on the capital allocation of each such operation as defined in the Credit risk policy guidelines. SAR will be set aside for operations without specific provisioning; for operations in which third parties provide CA (RSFF, LGTT) only the residual risk for the Bank will be covered.

**General loan reserve (GLR):** With the coming into force of the Statute, a non-specific reserve has been introduced for the expected loss of the Group's loan and guarantees portfolio.

## H.2. Subscribed capital and reserves, called but not paid

On 1 January 2007, the subscribed capital 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 (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 30 November 2010 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 reserves, called but not paid*:

(in EUR '000)	31.12.2010	31.12.2009
Reserves called but not paid:	43 233	86 466
Subscribed capital called but not paid:	14 430	28 861
	<b>57 663</b>	<b>115 327</b>

## Note I – ‘Prepayments and accrued income’ and ‘Accruals and deferred income’ (in EUR’000)

	31.12.2010	31.12.2009
<b>Prepayments and accrued income :</b>		
Foreign exchange on currency swap contracts	4 497 165	0
Interest and commission receivable	8 075 277	7 352 239
Deferred borrowing charges	57 782	61 633
Redemption premiums on swaps receivable <sup>(*)</sup>	416 688	393 852
Investment Facility's commission receivable	34 080	36 405
Other	769	1 933
	<b>13 081 761</b>	<b>7 846 062</b>
<b>Accruals and deferred income :</b>		
Foreign exchange on currency swap contracts	23 861	5 180 511
Interest and commission payable	9 240 125	8 341 809
Deferred early repayment indemnities on loans	275 932	134 846
Deferred borrowing proceeds	277 596	309 417
Redemption premiums on swaps payable <sup>(*)</sup>	1 492 562	887 325
Interest subsidies received in advance <sup>(**)</sup>	170 739	177 228
	<b>11 480 815</b>	<b>15 031 136</b>

<sup>(\*)</sup> Redemption premiums on swaps receivable and payable represent end payments of one leg of the underlying swap agreements for those agreements which include such features.

<sup>(\*\*)</sup> Part of the amounts received from the European Commission through the European Monetary System (EMS) 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; and
- 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.

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

### J.1. Amounts owed to credit institutions

	31.12.2010	31.12.2009
Repayable on demand	5 675 399	4 380 414
Short-term borrowings	27 858	0
Repo with central banks	100 000	100 000
	<b>5 803 257</b>	<b>4 480 414</b>

### J.2. Amounts owed to customers

	31.12.2010	31.12.2009
Repayable on demand <sup>(*)</sup>	1 524 466	1 256 333
Short-term borrowings	975 965	1 106 417
	<b>2 500 431</b>	<b>2 362 750</b>

<sup>(\*)</sup> Includes European Union and Member States accounts:

	31.12.2010	31.12.2009
European Union and Member States accounts:		
• For Special Section operations and related unsettled amounts	354 872	332 310
• Deposit accounts	1 130 649	899 908

## Note K – Debts evidenced by certificates (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 caption 'Debts evidenced by certificates' includes 'Debt securities in issue' (securities offered to the general investing public) and 'Others' (private placements). The table below discloses the details per currency of debts outstanding at 31 December 2010 and 2009, together with the average rates and due dates.

Debts evidenced by certificates					
PAYABLE IN	OUTSTANDING AT 31.12.2010	AVERAGE RATE 2010 <sup>(*)</sup>	DUE DATES	OUTSTANDING AT 31.12.2009	AVERAGE RATE 2009 <sup>(*)</sup>
EUR	148 194 630	3.56	2011/2057	136 846 665	3.77
GBP	52 122 801	4.54	2011/2054	51 032 542	4.77
DKK	550 077	2.55	2024/2026	604 692	2.77
SEK	3 241 649	3.68	2011/2028	1 961 373	3.72
CZK	635 750	4.15	2013/2030	598 190	4.00
HUF	371 470	6.29	2011/2016	525 109	6.83
PLN	445 658	6.33	2011/2026	378 058	6.24
BGN	171 285	5.52	2011/2013	171 285	5.72
RON	105 584	8.88	2014/2016	106 225	8.88
USD	104 067 249	2.75	2011/2058	78 348 270	3.42
CHF	7 499 881	2.38	2011/2036	5 763 009	2.41
JPY	13 946 268	0.85	2011/2047	10 607 943	0.73
NOK	3 386 667	4.16	2011/2025	2 383 494	4.42
CAD	781 727	4.68	2037/2045	778 221	4.72
AUD	14 628 590	5.93	2011/2021	9 099 260	5.85
HKD	225 315	1.05	2012/2019	227 380	1.46
NZD	2 180 233	6.75	2012/2017	2 749 583	7.13
ZAR	1 990 653	8.21	2011/2018	1 256 187	8.49
MXN	38 275	6.07	2015/2015	30 550	6.65
TWD	25 667	4.75	2013/2013	65 574	4.21
TRY	2 831 379	10.63	2011/2022	1 991 631	12.37
ISK	48 182	7.91	2011/2011	95 036	8.74
RUB	519 598	6.82	2011/2019	138 110	8.14
<b>TOTAL</b>	<b>358 008 588</b>			<b>305 758 387</b>	

<sup>(\*)</sup> Weighted average interest rates at balance sheet date

The principal and interest of certain structured borrowings are index linked to stock exchange indexes (historical value: EUR 843 million). All such borrowings are fully hedged through structured swap operations.

In EUR Million	2010	2009
Balance at 1 January	305 758	266 989
Issuance during the year	129 855	101 588
Contractual redemptions	- 89 529	- 62 750
Early redemptions	- 3 090	- 3 965
Exchange adjustments	15 015	3 896
<b>Balance at 31 December</b>	<b>358 009</b>	<b>305 758</b>

## Note L – Provisions – pension plans and health insurance scheme (in EUR '000)

The Group's main pension scheme is a defined benefit pension scheme funded by contributions from staff and from the Group which covers all employees. All contributions of the Group and its staff are invested in the assets of the Group.

The staff pension plans and health insurance scheme provisions are as follows (in EUR '000):

	2010	2009
<b>Staff pension plan:</b>		
Provision at 1 January	1 177 671	1 067 684
Payments made during the year	- 47 287	- 44 896
Annual contributions and interest	168 796	154 883
<b>Sub-total</b>	<b>1 299 180</b>	<b>1 177 671</b>
Management Committee Pension Plan	34 310	33 398
<b>Provision at 31 December</b>	<b>1 333 490</b>	<b>1 211 069</b>
<b>Health insurance scheme:</b>		
Provision at 1 January	118 934	105 509
Payments made during the year	- 9 047	- 7 868
Annual contributions and interest	23 803	21 293
<b>Provision at 31 December</b>	<b>133 690</b>	<b>118 934</b>
<b>Total provisions at 31 December</b>	<b>1 467 180</b>	<b>1 330 003</b>

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 223 million (2009: EUR 195 million) is classified under 'Other Liabilities' (Note G).

The provision in respect of future retirement and health insurance benefits was valued as at 30 September 2010 by an independent actuary using the projected unit credit method. The actuarial valuation was updated as at 31 December 2010 with an extrapolation ('roll forward' method) for the last 3 months of 2010, using the prevailing market rates of 31 December 2010 and the following assumptions (for the staff pension and medical plans):

- a discount rate of 5.06% (2009: 6.19%) for determining the actuarial present value of benefits accrued in the pension and health insurance schemes, corresponding to 17.52 year duration (2009: 16.24 year duration);
- in the light of past experience, the Group estimates that the overall expected remuneration of post-employment reserves are set at a rate of 1.5% (2009: 1.5%) above the discount rate mentioned above;
- a progressive retirement between the age of 55-65 (2009: 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% (2009: 4.5%);
- probable resignation of 3% up to age 55 (same as 2009);
- a rate of adjustment of pensions of 2% per annum (same as 2009);
- use of the ISCLT longevity table (2009 : LPP 2005 actuarial tables). Since the EIB Group is a European Institution, it was decided in 2010 to use the ISCLT longevity table, which has been recently established and is considered more appropriate, instead of the LPP 2005 tables used in the actuarial calculations.
- a medical cost inflation rate of 4% per annum (same as 2009).

The provisions for these schemes are adjusted when needed (Note A.13.1) according to the actuarial valuation, as per the tables above (i.e. cumulative prior year actuarial deficits or surpluses in excess of 10% of the commitments for retirement benefits are recognised over the expected average remaining service lives of the participants on a straight line basis). Due to the actuarial surplus being within the 10% corridor in the valuation for the prior year, no such adjustment has been accounted for in 2010. In 2009, due to the actuarial deficit in the valuation for the prior year being within the 10% corridor, no such adjustment was accounted for.

In 2010, the actuarial valuation on the pension plans and the healthcare scheme displayed an unrecognised loss of EUR'000 359 315. EUR'000 178 017 was reported in excess of the 10% corridor, and will be recognised over the expected average remaining service lives of the participants on a straight line basis. Thereby, the net loss which will be recognised in the next financial year will be an amount of EUR'000 13 693.



## Note M – Profit for the financial year

On 17 May 2011 the appropriation of the balance of the profit and loss account of the standalone financial statements of the Bank for the year ended 31 December 2010, which amounts to EUR '000 2 116 642, will be submitted for approval by the Board of Governors.

## Note N – 'Interest receivable and similar income' and 'Interest payable and similar charges'

### N.1. Net interest income (in EUR'000)

	2010	2009
<b>Interest receivable and similar income</b>		
Cash in hand, balance with central banks and post office banks	2 798	1 027
Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed income securities	412 411	398 319
Loans and advances to credit institutions and customers	7 937 351	9 008 592
Derivatives	10 852 055	7 741 880
Other	1 436	3 666
<b>TOTAL</b>	<b>19 206 051</b>	<b>17 153 484</b>
<b>Interest payable and similar charges</b>		
Amounts owed to credit institutions and to customers	- 23 614	- 34 653
Debts evidenced by certificates	- 13 287 875	- 12 361 091
Derivatives	- 3 186 623	- 2 359 064
Other	- 132 066	- 125 848
<b>TOTAL</b>	<b>- 16 630 178</b>	<b>- 14 880 656</b>
<b>Net interest income</b>	<b>2 575 873</b>	<b>2 272 828</b>

## N.2. Geographical analysis of 'Interest receivable and similar income' (in EUR '000)

	2010	2009
Spain	1 118 081	1 305 158
Italy	777 630	996 206
Germany	759 781	1 049 761
France	691 864	880 744
United Kingdom	607 887	634 245
Greece	520 074	534 391
Poland	501 789	411 585
Portugal	470 975	531 264
Hungary	200 643	226 252
Belgium	189 751	184 813
Austria	187 842	188 155
Czech Republic	141 227	166 249
Netherlands	137 953	124 903
Finland	126 205	158 306
Romania	109 465	98 174
Sweden	81 110	92 704
Ireland	73 561	83 529
Slovenia	50 371	55 612
Lithuania	32 871	19 867
Bulgaria	27 786	26 467
Denmark	26 177	46 001
Slovakia	25 606	29 513
Luxembourg	19 834	22 554
Cyprus	19 820	22 880
Latvia	19 774	21 107
Estonia	7 201	5 806
Malta	3 486	1 084
<b>Total</b>	<b>6 928 764</b>	<b>7 917 330</b>
Outside the European Union	823 239	765 476
<b>Total</b>	<b>7 752 003</b>	<b>8 682 806</b>
Income not analysed per country <sup>(1)</sup>	11 454 048	8 470 678
<b>Total</b>	<b>19 206 051</b>	<b>17 153 484</b>
<sup>(1)</sup> Income not analysed per country:		
• Revenue from Investment portfolio and loan substitutes portfolios	218 963	220 277
• Revenue from Operational bond portfolios	70 171	55 908
• Revenue from Operational money-market portfolios	122 818	124 175
• Revenue from money-market operations	190 041	328 438
• Income from derivatives	10 852 055	7 741 880
	<b>11 454 048</b>	<b>8 470 678</b>

### Note O – ‘Commission receivable’ and ‘Commission payable’ (in EUR’000)

	2010	2009
<b>Commission receivable</b>		
Investment Facility/Cotonou (Note X)	34 086	36 405
Income from advisory activities	64 899	50 165
Income on loans and guarantees	31 096	22 364
Income from guarantee operations	29 191	43 422
Jaspers (Note X)	22 473	16 948
Jessica (Note X)	11 900	4 976
Jeremie (Note X)	10 457	6 961
Jasmine (Note X)	713	257
Yaoundé/Lomé conventions (Note X)	7 569	8 468
Other European Union institutions (Note X)	23 976	17 074
<b>Total commission receivable</b>	<b>236 360</b>	<b>207 040</b>
<b>Commission payable</b>	<b>- 204</b>	<b>- 117</b>

### Note P – Net loss on financial operations (in EUR’000)

	2010	2009
Result on release of guarantees	28 903	0
Unrealised result on operational treasury portfolio	- 125 673	82 933
Value adjustment on venture capital operations	- 42 242	- 107 504
Net result on operational treasury portfolio	888	- 30 284
Net realised result on long term futures	- 9 297	- 5 776
Net result on repurchase of debts evidenced by certificates	- 4 570	6 555
Net result on unwind of ALM swaps	- 85 882	14 826
Realised result on sale of shares and other variable-yield securities	- 11 197	201
Value (re-)adjustment on shares and other variable-yield securities other than venture capital	- 15 689	850
Net foreign exchange result	- 5 424	6 905
Other	2 500	4 376
<b>Total net loss on financial operations</b>	<b>- 267 683</b>	<b>- 26 918</b>

### Note Q – Other operating income (in EUR’000)

	2010	2009
Reversal of previous year’s unutilised accruals on general administrative expenses	6 313	4 119
Other	2 750	6 604
<b>Total other operating income</b>	<b>9 063</b>	<b>10 723</b>

## Note R – General administrative expenses (in EUR '000)

	2010	2009
Salaries and allowances <sup>(*)</sup>	- 235 060	- 208 747
Welfare contributions and other social costs	- 121 507	- 104 751
<b>Staff costs</b>	<b>- 356 567</b>	<b>- 313 498</b>
Other general administrative expenses	- 119 866	- 118 712
<b>Total general administrative expenses</b>	<b>- 476 433</b>	<b>- 432 210</b>

The number of persons employed by the Group was 2 077 at 31 December 2010 (1 896 at 31 December 2009).

<sup>(\*)</sup> of which the amount for members of the Management Committee is EUR '000 2 960 at 31 December 2010 and EUR '000 2 924 at 31 December 2009.

## Note S – Off-balance sheet special deposits for service of borrowings

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 T – Fair value of financial instruments

The Group records balance sheet financial instruments on the basis of their historical cost in foreign currency (apart from the operational portfolios) 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) entered under assets and liabilities compared with their accounting value is shown in the table below:

At 31 December 2010 (in EUR million)	ASSETS		LIABILITIES	
	Accounting value	Fair value	Accounting value	Fair value
<b>Assets</b>				
Cash in hand, balances with central banks and post office banks	254	254		
Loans and advances to credit institutions and to customers, excluding loan substitutes	383 056	394 310		
Treasury bills and debt securities portfolios including loan substitutes (Note B.2)	21 731	21 066		
Shares and other variable yield securities (Note E)	1 850	2 315		
<b>Total financial assets</b>	<b>406 891</b>	<b>417 945</b>		
<b>Liabilities</b>				
Amounts owed to credit institutions and to customers (Note J)			8 304	8 304
Debts evidenced by certificate (Note K)			358 009	381 367
<b>Total financial liabilities</b>			<b>366 313</b>	<b>389 671</b>

At 31 December 2009 (in EUR million)	ASSETS		LIABILITIES	
	Accounting value	Fair value	Accounting value	Fair value
<b>Assets</b>				
Cash in hand, balances with central banks and post office banks	227	227		
Loans and advances to credit institutions and to customers, excluding loan substitutes	335 423	338 710		
Treasury bills and debt securities portfolios including loan substitutes (Note B.2)	22 340	21 951		
Shares and other variable yield securities (Note E)	1 618	2 018		
<b>Total financial assets</b>	<b>359 608</b>	<b>362 906</b>		
<b>Liabilities</b>				
Amounts owed to credit institutions and to customers (Note J)			6 843	6 843
Debts evidenced by certificate (Note K)			305 758	324 913
<b>Total financial liabilities</b>			<b>312 601</b>	<b>331 756</b>

## Note U – Financial risk management

This note presents information about the Group'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;
- foreign exchange rate risk; and
- market risk.

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.

### U.1. Risk Management Organisation

#### U.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.

The Bank continued to develop its capacity to manage loans post signature in line with the Bank's overall higher lending volume and the economic environment. For significant parts of the portfolio this is the responsibility of Transaction Management & Restructuring (TMR) an autonomous department, reporting to a separate Vice-President. In 2010, TMR focused on monitoring the higher risk counterparts and certain forms of security; it also managed transactions requiring particular attention. All of its proposals which have credit risk implications are subject to an independent second opinion by the Risk Management Directorate.

#### *U.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. In addition, key risk indicators of the loan portfolio and liquidity mismatch risks are presented to the Management Committee on a monthly basis.

#### *U.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, setting its financial risk tolerance to a minimum level as defined by approved limits, and applying 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 to ensure that all material financial risks are hedged.

Following best market practice, all new types of transactions 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.

#### *U.1.1.3. Sustainability of revenue and self-financing capacity*

The Bank's ALM policy forms an integral part of the Bank's overall financial risk management. It reflects the expectations of the main stakeholders of the Bank 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 and 5.5 years.

#### **U.1.2. Risk Management Organisation of the Fund (EIF)**

Most of the Private Equity (PE) Venture Capital and Guarantees & Securitisation (GS) 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.

An independent Risk Management and Monitoring (RMM) division reports directly to the Deputy Chief Executive. This segregation of duties and the "four-eyes" principle ensure an unbiased review of EIF's

business activities. Moreover, within the EIB Group context, RMM operates in close contact with the 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 three teams: a PE Risk Management team, a Portfolio GS Risk Management team and a Monitoring & Administration (MA) team covering both business lines.

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.

#### *U.1.2.1. Risk assessment private equity*

Under its private equity operations, the Fund has a fund of funds approach, taking minority equity participations in funds managed by mostly independent teams in order to catalyse further commitments from a wide range of investors. The Fund's PE operations include investments in early-stage and seed capital, but also in well-established funds targeting mid-, later-stage and mezzanine 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 PE 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 portfolio of funds' valuations, risks and expected future cash flows and performances. Before committing to a PE 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 been closely monitoring the valuations reported by PE fund managers, and also other specific risks linked to the crisis. The Fund has also run more stringent stress test scenarios on its PE funds portfolios to assess the impact of a worsening and/or continuation of the financial crisis.

#### *U.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 guarantees 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 mark-to-model. The main impact on the valuation of the transactions in the portfolio stems from the assigned rating and the possible subsequent rating changes.

In the context of the financial crisis, the Fund has increased its monitoring efforts to follow a potential negative rating migration closely. The improvement of the monitoring is not only based on the reaction to 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 and expected losses.

## **U.2. Credit risk**

Credit risk concerns mainly the Group's lending activities and, to a lesser extent, treasury instruments such as fixed-income securities held in the investment and operational portfolios, certificates of deposit and inter-bank 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 Group's policies on credit risk are approved by the Group'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 equal to that of other senior lenders, with prompt access to security when required. In addition, via a

counterparty and sector limit system, the credit policies ensure an acceptable degree of diversification in the Group's loan portfolio. The Group'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 Group 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 an independent Risk Management Directorate (RM) under the direct responsibility of the Management Committee of the Bank. The Group has thus established an operationally independent structure for determining and monitoring credit risk.

The Fund manages exposures and risks 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 Group may receive.

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

### U.2.1. Loans

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.

The structure of guarantors and borrowers relating to the loan portfolio as at 31 December 2010 is analysed below, including undisbursed portions.

Loans outside the European Union (apart from those under the Facilities <sup>(\*)</sup>) are, in the last resort, secured by guarantees of the European Union budget or the Member States (loans in the ACP Countries and the OCT). 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 Group 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.

The table below shows (in EUR million) the loans for projects inside the European Union and outside the European Union granted under the Facilities and under the risk-sharing operations:

Borrower \ Guarantor	States	Public institutions	Zone 'A' banks	Corporates	Not guaranteed <sup>(1)</sup>	Total 2010	Total 2009
States	0	0	0	0	37 395	37 395	30 505
Public institutions	23 642	14 582	608	3 690	44 331	86 853	76 079
Zone 'A' banks	11 733	43 003	35 864	19 574	24 583	134 757	126 812
Corporates	19 579	8 288	32 991	41 563	48 279	150 700	135 482
<b>Total 2010</b> <sup>(1) (2) (3) (4) (5)</sup>	<b>54 954</b>	<b>65 873</b>	<b>69 463</b>	<b>64 827</b>	<b>154 588</b>	<b>409 705</b>	
<b>Total 2009</b> <sup>(1) (2) (3) (4) (5)</sup>	<b>49 805</b>	<b>60 509</b>	<b>68 225</b>	<b>57 207</b>	<b>133 132</b>		<b>368 878</b>

<sup>(1)</sup> These amounts include loans, for which no formal guarantee independent from the borrower and the loan itself was required, 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.

<sup>(2)</sup> The loans in risk-sharing operations amount to EUR 6 167 million as of 31 December 2010 (2009: EUR 5 229 million).

<sup>(3)</sup> This amount includes loans granted under Facilities.

<sup>(4)</sup> This amount does not include loan substitutes (2010: EUR 9 533 million; 2009: EUR 8 209 million).

<sup>(5)</sup> These amounts exclude loans to current European Union Member States but granted before their accession to the European Union and guaranteed by the European Union budget or the Member States.

<sup>(\*)</sup> Loans granted under Article 16 (previously Article 18) of the Bank's Statute and loans granted under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility. These loans, granted under the Facilities, are not secured by guarantees of the European Union budget or the Member States. Therefore, lending under the Facilities is from the Group's own resources and at the Group's own risk.



The table below discloses information regarding the sovereign credit risk on loans granted inside the European Union and outside the European Union granted under the Facilities and under the risk-sharing operations:

Country	2010 (in EUR million)			2009 (in EUR million)		
	Acting as borrower		Acting as guarantor	Acting as borrower		Acting as guarantor
	Disbursed	Undisbursed		Disbursed	Undisbursed	
Greece	6 128	1 740	5 583	5 840	240	5 246
Poland	5 428	1 502	7 710	4 828	255	6 446
Hungary	3 714	1 168	1 565	3 424	1 136	1 249
Czech Republic	2 681	816	462	2 188	789	502
Spain	1 243	0	14 675	1 340	0	13 392
Italy	1 136	0	3 769	1 195	0	3 730
Lithuania	1 020	112	0	680	452	0
Romania	780	2 077	320	647	2 210	320
Portugal	513	0	7 161	0	0	6 606
Cyprus	471	280	722	492	120	544
Finland	452	0	1 146	531	0	1 253
Latvia	375	525	221	375	595	125
Estonia	165	385	75	165	385	0
Slovakia	152	1 300	0	159	0	0
Bulgaria	107	985	0	30	1 062	0
Slovenia	41	0	2 030	45	0	1 516
Germany	0	0	1 873	0	0	1 903
United Kingdom	0	0	1 522	0	0	1 721
France	0	0	932	0	0	972
Belgium	0	0	867	0	0	1 006
Sweden	0	0	838	0	0	42
Ireland	0	0	655	0	0	669
Denmark	0	0	560	0	0	808
Malta	0	0	290	0	0	190
Luxembourg	0	0	167	0	0	174
Austria	0	0	35	0	0	42
Netherlands	0	0	29	0	0	29
Non EU -Countries	736	1 363	1 747	573	749	1 320
<b>TOTAL</b>	<b>25 142</b>	<b>12 253</b>	<b>54 954</b>	<b>22 512</b>	<b>7 993</b>	<b>49 805</b>

The table below shows (in EUR million) the loan for projects outside the European Union (Apart from Article 16 Facility and those falling under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility):

Secured by:	31.12.2010	31.12.2009
Member States	2 275	1 795
European Union budget <sup>(1)</sup>	35 758	32 340
<b>Total <sup>(2)</sup></b>	<b>38 033</b>	<b>34 135</b>

<sup>(1)</sup> of which EUR 6 167 million in risk-sharing operations as explained above (2009: EUR 5 229 million).

<sup>(2)</sup> including loans to current European Union Member States but granted before their accession to the European Union and guaranteed by the European Union budget or the Member States.

## LOANS FOR PROJECTS OUTSIDE THE EUROPEAN UNION (in EUR million)

(including loans in the new Member States before accession)

BREAKDOWN OF LOANS OUTSTANDING BY GUARANTEE AS AT 31 DECEMBER

AGREEMENT	31.12.2010	31.12.2009
<b>75% Member States global guarantee</b>		
- ACP/OCT Group 4th Lomé Convention	76	108
- ACP/OCT Group 4th Lomé Convention/2nd Financial Protocol	381	415
<b>Total 75% Member States global guarantee</b>	<b>457</b>	<b>523</b>
<b>75% Member States guarantee</b>		
- Cotonou partnership agreement	722	783
- Cotonou partnership 2 <sup>nd</sup> agreement	1 096	489
<b>Total 75% Member States guarantee</b>	<b>1 818</b>	<b>1 272</b>
<b>Total Member States guarantee</b>	<b>2 275</b>	<b>1 795</b>
<b>100% European Union budget guarantee</b>		
- South Africa – 300m – BG Decision 19.06.95	3	5
- ALA I – 750m	103	114
- ALA interim (100% guarantee) – 153m	4	5
- CEEC – 1bn - BG Decision 29.11.89	76	90
- CEEC – 3bn - BG Decision 02.05.94	372	455
- CEEC – 700m - BG Decision 18.04.91	0	2
- Russia – 100 m - 2001-2005	72	74
- Russia – 500 m - 2004-2007	230	230
<b>Total 100% European Union budget guarantee</b>	<b>860</b>	<b>975</b>
<b>75% European Union budget guarantee</b>		
- Mediterranean Protocols	661	800
- Yugoslavia – Art.18 (1984)	1	1
- Yugoslavia – 1st Protocol	1	3
- Yugoslavia – 2nd Protocol	5	10
- Slovenia – 1st Protocol	42	51
<b>Total 75% European Union budget guarantee</b>	<b>710</b>	<b>865</b>
<b>70% European Union budget guarantee</b>		
- South Africa – 375m – Decision 29.01.97	76	105
- ALA II – 900m	127	144
- ALA interim (70% guarantee: risk sharing) – 122m	5	7
- Bosnia-Herzegovina – 100m 99/2001	80	84
- Euromed (EIB) – 2 310m – Decision 29.01.97	668	781
- FYROM (Former Yugoslav Republic of Macedonia) – 150m – 1998/2000	96	106
- CEEC – 3 520m – Decision 29.01.97	1 295	1 457
<b>Total 70% European Union budget guarantee</b>	<b>2 347</b>	<b>2 684</b>
<b>65% European Union budget guarantee</b>		
- South Africa – 825m – 7/2000-7/2007	670	621
- South Africa – Decision 2/2007-12/2013	549	486
- ALA III – 2 480m – 2/2000 – 7/2007	1 002	1 082
- ALA Decision – 2/2007-12/2013	2 557	1 926
- Euromed II – 6 520m – 2/2000 – 1/2007	5 103	5 339
- South Eastern Neighbours – 9 185m – 2/2000 – 7/2007	7 684	8 022
- Turkey special action – 450m – 2001-2006	276	299
- Turkey TERRA – 600m – 11/1999 – 11/2002	502	527
- PEV EE/CAS/RUS 1/2/2007 – 31/12/2013	918	403
- PEV MED 1/2/2007 – 31/12/2013	5 761	3 851
- Pre-Accession – 8 700m – 2007 – 2013	6 819	5 260
<b>Total 65% European Union budget guarantee</b>	<b>31 841</b>	<b>27 816</b>
<b>Total European Union budget guarantee</b>	<b>35 758</b>	<b>32 340</b>
<b>TOTAL</b>	<b>38 033</b>	<b>34 135</b>

### Collateral on loans (in EUR million)

Among other credit mitigant instruments, the Group uses pledges of financial securities. These pledges are formalised through a Pledge Agreement, enforceable in the relevant jurisdiction. The portfolio of collateral received in pledge contracts amounts to EUR 18 004 million (2009: EUR 15 175 million), with the following composition:

As at 31 December 2010		Loan Financial Collateral (in EUR million) <sup>(1)</sup>						Equities & Funds	Cash	Total 2010
Moody's or equivalent rating	Bonds									
	Government	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS				
Aaa	728	169	2	1 284	1 291	493	0	0	<b>3 967</b>	
Aa1 to Aa3	1 025	0	0	48	1 731	96	0	0	<b>2 900</b>	
A1	2 431	0	0	0	670	86	0	0	<b>3 187</b>	
Below A1	5 027	0	106	0	1 960	90	0	0	<b>7 183</b>	
Non-Rated	0	0	0	0	0	0	208	559	<b>767</b>	
<b>Total 2010</b>	<b>9 211</b>	<b>169</b>	<b>108</b>	<b>1 332</b>	<b>5 652</b>	<b>765</b>	<b>208</b>	<b>559</b>	<b>18 004</b>	

<sup>(1)</sup> Bonds, equities and funds are valued at their market value.

As at 31 December 2009		Loan Financial Collateral (in EUR million) <sup>(2)</sup>						Equities & Funds	Cash	Total 2009
Moody's or equivalent rating	Bonds									
	Government	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS				
Aaa	913	231	107	1 282	1 282	480	0	0	<b>4 295</b>	
Aa1 to Aa3	742	0	0	19	1 971	203	0	0	<b>2 935</b>	
A1	2 407	0	0	0	368	0	0	0	<b>2 775</b>	
Below A1	3 075	0	0	0	1 569	0	0	0	<b>4 644</b>	
Non-Rated	0	0	0	0	0	0	188	338	<b>526</b>	
<b>Total 2009</b>	<b>7 137</b>	<b>231</b>	<b>107</b>	<b>1 301</b>	<b>5 190</b>	<b>683</b>	<b>188</b>	<b>338</b>	<b>15 175</b>	

<sup>(2)</sup> Bonds, equities and funds are valued at their market value.

A breakdown of disbursed loans outstanding, including loan substitutes (in EUR million), at 31 December according to the sectors in which borrowers are engaged is set out below:

Sector :	Maturity			Total 2010	Total 2009
	not more than 1 year	1 year to 5 years	more than 5 years		
Energy	2 283	12 919	26 817	<b>42 019</b>	35 424
Transport	4 510	23 292	78 278	<b>106 080</b>	98 930
Telecommunications	862	7 560	3 155	<b>11 577</b>	10 142
Water, sewerage	1 029	5 449	12 436	<b>18 914</b>	18 735
Miscellaneous infrastructure	895	5 005	12 659	<b>18 559</b>	18 821
Agriculture, forestry, fisheries	11	40	189	<b>240</b>	231
Industry	2 364	17 651	8 656	<b>28 671</b>	24 391
Services	354	8 356	7 151	<b>15 861</b>	13 385
Global loans <sup>(3)</sup>	8 399	42 332	39 984	<b>90 715</b>	83 020
Health, education	810	6 393	20 714	<b>27 917</b>	21 071
<b>TOTAL 2010</b>	<b>21 517</b>	<b>128 997</b>	<b>210 039</b>	<b>360 553</b>	
<b>TOTAL 2009</b>	<b>21 144</b>	<b>104 971</b>	<b>198 035</b>		<b>324 150</b>

<sup>(3)</sup> A Global loan is a line of credit to an intermediary financing institution or a bank which then on-lends the proceeds, at its own risk, to finance small and medium-sized projects being undertaken by private or public sector promoters.

### Arrears on loans

Amounts in arrears are identified, monitored and reported according to a set of procedures called the "Guidelines for the Monitoring of late payments".

*Loans granted inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States:*

Loans for projects located inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States are mainly secured by guarantees from public institutions, Zone A banks and corporate entities. Unsecured part of these loans amounts to EUR 154 588 million as at 31 December 2010 (2009: EUR 133 132 million).

As at 31 December 2010, the arrears above 30 days on loans granted inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States amounts to EUR 0.7 million (2009: nil).

*Loans granted for projects outside the European Union secured by the European Union budget or the Member States:*

Loans for projects located outside the European Union and carried out on the basis of mandates given by the Council are guaranteed by the European Union, the Member States or on a risk-sharing basis. If an instalment remains unpaid for approximately 90 days, the primary guarantee is called (if any available). If the due amount is still unpaid within 150 days after the instalment date (and in any case before the next instalment becomes due), the guarantee of the Member States or the European Union is officially invoked. Each unpaid instalment is called individually.

The arrears of payments on the loan portfolio of the Group outside the European Union can be analysed as follows (in EUR 000):

	Instalments overdue 30 to 90 days	Instalments overdue more than 90 days	Instalments overdue more than 150 days which have been called and paid under the guarantee of a Member State or the EU	Total
31.12.2010	210	2 450	103 834	106 494
31.12.2009	1 897	12 278	93 830	108 005

### U.2.2. 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 (i.e. operational money market and bond portfolios) and treasury instruments (money markets products) in terms of the credit rating of counterparties and issuers (as at 31 December):

Moody's or equivalent rating	Securities portfolio %		Treasury instruments %	
	2010	2009	2010	2009
Aaa	31	42	0	5
Aa1 to Aa3	36	35	33	39
A1 to A3	12	11	56	53
Below A3	21	12	11	2
A-1+P-1	0	0	0	1
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

As part of its treasury management activities, the Group holds investments in capital guarantee notes, the coupons of which embed options on the performance of funds of hedge funds. At 31 December 2010, the total nominal amount of such notes stood at EUR nil (2009: EUR 125 million) and are part of the Securities portfolio.

### Collateral on Treasury transactions

The Treasury transactions include EUR 25 406 million (2009: EUR 10 094 million) of tripartite reverse repurchase agreements. These transactions are governed by Tripartite Agreements, for which the exposure is fully collateralised, with daily margin calls. The market value of the collateral portfolio at 31 December 2010 is EUR 25 535 million (2009: EUR 10 470 million), with the following classification:

Tripartite Agreements Collateral (in EUR million)							
At 31 December 2010				Bonds			Total 2010
Moody's or equivalent rating	Government	Supranational	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	643	749	5	2 125	3 830	3 885	11 237
Aa1 to Aa3	3 721	13	215	360	2 795	72	7 176
A1	594	0	254	0	1 140	0	1 988
Below A1	1 529	0	0	11	3 594	0	5 134
<b>Total 2010</b>	<b>6 487</b>	<b>762</b>	<b>474</b>	<b>2 496</b>	<b>11 359</b>	<b>3 957</b>	<b>25 535</b>

Tripartite Agreement Collateral (in EUR million)							
At 31 December 2009				Bonds			Total 2009
Moody's or equivalent rating	Government	Supranational	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	1 253	253	140	181	1 039	907	3 773
Aa1 to Aa3	237	0	395	99	2 383	16	3 130
A1	476	0	5	0	550	0	1 031
Below A1	354	0	27	0	2 155	0	2 536
<b>Total 2009</b>	<b>2 320</b>	<b>253</b>	<b>567</b>	<b>280</b>	<b>6 127</b>	<b>923</b>	<b>10 470</b>

### U.2.3. Securities lending

The market value of the bonds lent in the securities lending activities amounts to EUR 696 million at 31 December 2010 (2009: EUR 507 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 2010 is EUR 699 million (2009: EUR 539 million), with the following classification:

Securities Lending Collateral (in EUR million)				
At 31 December 2010	Bonds		Time deposit	Total 2010
Moody's or equivalent rating	Government	Certificate of Deposits		
Aaa	61	4	0	65
Aa1 to Aa3	613	16	5	634
<b>Total 2010</b>	<b>674</b>	<b>20</b>	<b>5</b>	<b>699</b>

Securities Lending Collateral (in EUR million)				
At 31 December 2009	Bonds		Time deposit	Total 2009
Moody's or equivalent rating	Government	Certificate of Deposits		
Aaa	130	21	0	151
Aa1 to Aa3	360	19	9	388
<b>Total 2009</b>	<b>490</b>	<b>40</b>	<b>9</b>	<b>539</b>

### U.2.4. Guarantees granted by the Group in respect of loans granted by third parties

Credit risk arising from the Group's GS transactions funded by own resources is managed by risk management policies covered by the Statute and the Credit Risk Policy Guidelines. The Statute limit own-risk guarantees to approximately EUR 8.7 billion. The EUR 3.0 billion exposure at risk at the end of 2010 (2009: EUR 3.2 billion) was well below the statutory limit of EUR 8.7 billion.

The Credit Risk Policy Guidelines ensure that the Group 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 the Group'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, the Group has strict limits (based on capital allocation) for individual transactions and on originator level (maximum aggregate exposures for originators and originator groups).

In the context of the Group's own risk guarantee operations, the credit risk is tracked from 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 the Group to each transaction or tranche. For instance, dependent on the financial model to analyse the transaction, industry exposures can be reflected in implicit correlation 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 the Group. Typically, deals with replenishing features have portfolio criteria, such as maximum single obligor, maximum top five obligors, and maximum industry concentration levels. Furthermore, the consideration of sector exposures is part of the Group's overall portfolio analysis.

Counterparty risk is mitigated by the quality of the Group's counterparties which are usually major market players. The Group 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.

The exposure on guarantees granted by the Group in respect of venture capital operations amounts to EUR '000 17 385 as at 31 December 2010 (2009: EUR '000 17 385).

### U.3. 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.

In measuring and managing interest rate risk, the Group 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 Group is spread risk. Spread risk is the volatility in the economic value of, or in the income derived from, the Group's positions due to movements in the funding or lending spread of the Group.

The Group manages its global structural interest rate position via a dedicated portfolio. The majority of the financial risk indicators and controls in use by the Group 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.

#### U.3.1. Value-at-Risk for the own funds of the Group (Economic perspective)

Group'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. This overall objective is achieved by investing Group'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 Value at Risk ('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 2010, the VaR of the Group amounted to EUR 275 million (2009: EUR 188 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. The evolution of the VaR of own funds reflects the effective increase of the volatility of the risk factors and not a change in the risk profile of the EIB's 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 2010, the impact of a 200 basis points upward parallel shift of the interest rate curves would reduce the economic value of own funds by EUR 4.72 billion (2009: EUR 4.29 billion).

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

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

Below is a summary of the features of the Group's callable portfolio as of 31 December 2010 and 31 December 2009, 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):

31.12.2010	Pay Currency					
(in EUR million)	CZK	EUR	JPY	PLN	USD	Total
EUR Pay Notional	- 114	- 5 108	- 18	- 23	- 5 616	- 10 879
Average maturity date	14.12.2016	24.03.2025	06.01.2029	05.05.2026	28.02.2034	04.10.2029
Average expected maturity	15.03.2011	03.10.2019	19.02.2024	18.08.2020	16.12.2026	18.05.2023

31.12.2009	Pay Currency					
(in EUR million)	CZK	EUR	GBP	PLN	USD	Total
EUR Pay Notional	- 108	- 6 976	- 14	- 21	- 5 793	- 12 912
Average maturity date	14.12.2016	16.01.2022	16.02.2020	05.05.2026	30.10.2032	05.11.2026
Average expected maturity	19.11.2012	13.03.2017	27.02.2017	11.09.2020	09.02.2025	18.09.2020

By risk factor involved:

31.12.2010	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR Pay Notional (EUR million)	- 4 041	- 5 962	- 876	- 10 879
Average maturity date	23.12.2033	29.03.2027	18.06.2027	04.10.2029
Average expected maturity	06.09.2029	07.11.2018	10.02.2025	18.05.2023

31.12.2009	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR Pay Notional (EUR million)	- 4 097	- 6 585	- 2 230	- 12 912
Average maturity date	14.08.2033	07.12.2023	30.12.2022	05.11.2026
Average expected maturity	25.08.2027	09.07.2017	02.06.2017	18.09.2020

### U.3.2. 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 rose by one percentage point or decreased by one percentage point. Such exposure stems from the mismatch between interest rate repricing periods, volumes and rates of assets and liabilities that the Group accepts within the approved limits.

With the positions in place as of 31 December 2010, the Earnings would increase by EUR 49.0 million (2009: EUR 68.8 million) if interest rates increased by 100 basis points and decrease by EUR 60.9 million (2009: EUR 72.0 million) if interest rates decreased by 100 basis points.

The Group computes the sensitivity measure with dedicated software that simulates earnings on a deal by deal basis. The sensitivity of the Earnings is measured on an accruals basis and is calculated under the "ongoing" assumption that, over the time horizon analysed, the Group realises the new loan business forecast 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 Group, the model uses the hypothesis that simulated earnings are not distributed to the shareholders, but are used to refinance the Group'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 Group 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.

#### U.4. Liquidity risk

The main objective of liquidity policy is to ensure that the Group can always meet its payment obligations punctually and in full. The Group 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 Group's 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 un-disbursed loans, whose disbursement typically takes place at the borrower's request.

Liquidity risk is managed prudently as, in contrast to commercial banks, EIB does not have the natural sources of liquidity from the deposits of clients. The Group 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.

The Group further assures sound management of liquidity risk by maintaining a sufficient level of short term 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 Group's 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.

The Group has in place a Contingency Liquidity Plan (CLP) that specifies appropriate decision making procedures and corresponding responsibilities. The CLP has been benchmarked against the "Principles for Sound Liquidity Risk Management and Supervision" by the Basel Committee on Banking Supervision (September 2008). The CLP is subject to ad-hoc updates and is presented to the Management Committee annually for approval.

On 8 July 2009, the Bank became an eligible counterparty in the Eurosystem's monetary policy operations, and therefore has been given access to the monetary policy operations of the European Central Bank. The Bank conducts the operations via the Central Bank of Luxembourg, where the Group maintains a deposit to cover the minimum reserve requirement.

The table hereafter analyses the financial 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. 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 2010)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2010
<b>ASSETS</b>						
Cash in hand, central banks and post office banks	254	0	0	0	0	254
Treasury bills and other bills eligible for refinancing with central banks	832	1 270	1 984	1 287	0	5 373
Other loans and advances:						
- Current accounts	491	0	0	0	0	491
- Others	31 636	0	0	0	0	31 636
	32 127	0	0	0	0	32 127
Loans:						
- Credit institutions	2 165	8 086	60 215	53 564	0	124 030
- Customers	2 180	8 739	67 287	148 692	0	226 898
	4 345	16 825	127 502	202 256	0	350 928
Debt securities including fixed-income securities	5 253	712	2 412	7 982	0	16 359
Shares and other variable-yield securities	0	0	0	0	1 850	1 850
Other assets <sup>(*)</sup>	- 113	794	862	3 009	9 015	13 567
<b>Total assets</b>	<b>42 698</b>	<b>19 601</b>	<b>132 760</b>	<b>214 534</b>	<b>10 865</b>	<b>420 458</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	5 803	0	0	0	0	5 803
Amounts owed to customers	2 440	60	0	0	0	2 500
Debts evidenced by certificates	19 481	36 512	159 874	142 142	0	358 009
Capital, reserves, profit and minority interest	0	0	0	0	40 673	40 673
Other liabilities <sup>(**)</sup>	- 4	28	0	0	13 449	13 473
<b>Total liabilities</b>	<b>27 720</b>	<b>36 600</b>	<b>159 874</b>	<b>142 142</b>	<b>54 122</b>	<b>420 458</b>

<sup>(\*)</sup> Other assets include foreign exchange on long term currency swap contracts.

<sup>(\*\*)</sup> Other liabilities include foreign exchange on short term currency swap contracts.

Some of the borrowings and associated swaps include early termination triggers or call options granted to the investors or the hedging swap counterparties, and the Group as well has the right to call the related bonds before maturity. If the Group were to exercise all the call options on its bonds at their next contractual exercise date, cumulated early redemptions for the period 2011 - 2013 would amount to EUR 8.85 billion.

Maturity (at 31 December 2009)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2009
<b>ASSETS</b>						
Cash in hand, central banks and post office banks	227	0	0	0	0	227
Treasury bills and other bills eligible for refinancing with central banks	648	508	2 087	830	0	4 073
Other loans and advances:						
- Current accounts	368	0	0	0	0	368
- Others	19 226	0	0	0	0	19 226
	19 594	0	0	0	0	19 594
Loans:						
- Credit institutions	2 899	7 408	47 782	58 487	0	116 576
- Customers	1 831	8 352	55 497	133 574	0	199 254
	4 730	15 760	103 279	192 061	0	315 830
Debt securities including fixed-income securities	7 644	1 914	2 799	5 910	0	18 267
Shares and other variable-yield securities	0	0	0	0	1 618	1 618
Other assets	0	0	0	0	8 398	8 398
<b>Total assets</b>	<b>32 843</b>	<b>18 182</b>	<b>108 165</b>	<b>198 801</b>	<b>10 016</b>	<b>368 007</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	4 380	100	0	0	0	4 480
Amounts owed to customers	2 353	10	0	0	0	2 363
Debts evidenced by certificates	10 765	27 868	136 834	130 291	0	305 758
Capital, reserves, profit and minority interest	0	0	0	0	38 575	38 575
Other liabilities <sup>(*)</sup>	477	826	3 115	763	11 650	16 831
<b>Total liabilities</b>	<b>17 975</b>	<b>28 804</b>	<b>139 949</b>	<b>131 054</b>	<b>50 225</b>	<b>368 007</b>

<sup>(\*)</sup> Including foreign exchange on short and long term currency swap contracts

## U.5. 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 Group's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets.

A foreign exchange hedging programme 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 2010	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2010
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	254	0	0	0	0	254
Treasury bills and other bills eligible for refinancing with central banks	5 373	0	0	0	0	5 373
Other loans and advances:						
- Current accounts	288	34	17	152	203	491
- Others	28 696	101	552	2 287	2 940	31 636
	28 984	135	569	2 439	3 143	32 127
Loans:						
- Credit institutions	79 254	14 354	24 339	6 083	44 776	124 030
- Customers	185 012	18 595	9 691	13 600	41 886	226 898
	264 266	32 949	34 030	19 683	86 662	350 928
Debt securities including fixed-income securities	13 057	634	1 267	1 401	3 302	16 359
Shares and other variable-yield securities	1 479	267	29	75	371	1 850
Other assets <sup>(*)</sup>	- 82 228	17 141	46 584	32 070	95 795	13 567
<b>Total assets</b>	<b>231 185</b>	<b>51 126</b>	<b>82 479</b>	<b>55 668</b>	<b>189 273</b>	<b>420 458</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	5 682	0	28	93	121	5 803
Amounts owed to customers	2 451	0	32	17	49	2 500
Debts evidenced by certificates:						
- Debt securities in issue	137 932	51 660	100 327	44 459	196 446	334 378
- Others	10 265	462	3 739	9 165	13 366	23 631
	148 197	52 122	104 066	53 624	209 812	358 009
Capital, reserves, profit and minority interest	40 673	0	0	0	0	40 673
Other liabilities <sup>(**)</sup>	34 232	- 998	- 21 687	1 926	- 20 759	13 473
<b>Total liabilities</b>	<b>231 235</b>	<b>51 124</b>	<b>82 439</b>	<b>55 660</b>	<b>189 223</b>	<b>420 458</b>
<b>Net position</b>	<b>- 50</b>	<b>2</b>	<b>40</b>	<b>8</b>	<b>50</b>	

<sup>(\*)</sup> Other assets include foreign exchange on long term currency swap contracts

<sup>(\*\*)</sup> Other liabilities include foreign exchange on short term currency swap contracts

Currency at 31 December 2009	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2009
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	227	0	0	0	0	227
Treasury bills and other bills eligible for refinancing with central banks	4 073	0	0	0	0	4 073
Other loans and advances:						
- Current accounts	260	22	9	77	108	368
- Others	13 396	224	3 867	1 739	5 830	19 226
	13 656	246	3 876	1 816	5 938	19 594
Loans:						
- Credit institutions	72 760	15 227	23 924	4 665	43 816	116 576
- Customers	163 324	15 684	9 191	11 055	35 930	199 254
	236 084	30 911	33 115	15 720	79 746	315 830
Debt securities including fixed-income securities	14 839	927	1 233	1 268	3 428	18 267
Shares and other variable-yield securities	1 281	244	30	63	337	1 618
Other assets	7 474	279	445	200	924	8 398
<b>Total assets</b>	<b>277 634</b>	<b>32 607</b>	<b>38 699</b>	<b>19 067</b>	<b>90 373</b>	<b>368 007</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	4 242	0	177	61	238	4 480
Amounts owed to customers	2 178	81	0	104	185	2 363
Debts evidenced by certificates:						
- Debt securities in issue	127 403	50 478	74 926	33 441	158 845	286 248
- Others	9 444	555	3 422	6 089	10 066	19 510
	136 847	51 033	78 348	39 530	168 911	305 758
Capital, reserves, profit and minority interest	38 575	0	0	0	0	38 575
Other liabilities <sup>(*)</sup>	95 810	- 18 506	- 39 834	- 20 639	- 78 979	16 831
<b>Total liabilities</b>	<b>277 652</b>	<b>32 608</b>	<b>38 691</b>	<b>19 056</b>	<b>90 355</b>	<b>368 007</b>
<b>Net position</b>	<b>- 18</b>	<b>- 1</b>	<b>8</b>	<b>11</b>	<b>18</b>	

<sup>(\*)</sup> Other liabilities include foreign exchange on short and long term currency swap contracts

## U.6. Market risk

### *Market risk for the Bank:*

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.

Market risks are identified, measured, managed and reported according to a set of policies and procedures called the "Financial Risk and ALM Policy Guidelines" (FRPG), updated on a regular basis. 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 80% 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.

The specifics of Private Equity (PE) 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 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, PE 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, the standard performance measure used for PE funds, the internal rate of return (IRR), is capital-weighted, while for the public market assets, it is traditionally time-weighted. An analysis of correlation between PE and other asset classes is not possible without significant adjustments and therefore induces potentially important biases.

The EIF uses a beta derived from the betas of three listed PE indexes, LPX Europe Price Index, LPX Venture Price Index and LPX Buyout Price Index in order to estimate the sensitivity of the valuation of EIF's private equity investment to market prices. The regression has been done with the Dow Jones Euro Stoxx 50 over the last two years.

Using the most conservative beta from the three indices mentioned above and assuming market price movements of  $\pm 10\%$ , the final sensitivity (i.e.  $\beta \times \pm 10\%$ ) is applied to the net asset value giving an adjusted net asset value, which is then compared to the net paid in.

## Note V – Derivatives

The Group uses derivative instruments, 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 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. The nominal amounts corresponding to these operations are booked as off-balance sheet items at the date of the transaction.

The Group also enters into currency, interest rate and overnight index swaps as part of its hedging operations on loans or for the global Assets and Liabilities Management (ALM) position. The corresponding interest is accounted for on a pro-rata temporis basis. The nominal amounts of these swaps are booked as off-balance sheet items at the date of the transaction.

The Group 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.

Future contracts (futures) are used in the context of the treasury activities, to hedge the exposure deriving from some investments in government bonds. Futures are standardised derivatives, negotiated on regulated markets, and they do not fall within the general policy for

counterparty risk measurement and control (see Note V.2.).

The Group 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.

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 Group uses long term 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.

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

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

The derivatives used in the context of funding and ALM hedging activities are:

- Currency swaps;
- Interest rate swaps;
- Structured swaps.

#### V.1.1. Currency swaps

Currency swaps are contracts under which it is agreed to convert funds in one currency 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.

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.

The following table shows the maturities of currency swaps (excluding short term currency swaps – see Note V.2.), sub-divided according to their notional amount and fair value. The notional amounts are disclosed off balance sheet.

Currency swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	17 659	73 247	34 650	14 920	140 476
Fair value (i.e. net discounted value) <sup>(*)</sup>	731	1 811	2 128	1 633	6 303

Currency swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	15 369	54 520	23 418	15 211	108 518
Fair value (i.e. net discounted value) <sup>(*)</sup>	- 1 344	- 2 158	- 765	467	- 3 800

<sup>(\*)</sup> Including the fair value of macro-hedging currency swap which stood at EUR - 104 million as at 31 December 2010 (2009: EUR 35 million).

#### 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.

Interest rate swaps allow the Group to modify the interest rate structure of its borrowing portfolio and other portfolios 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.

The following table shows the maturities of interest rate swaps (including the credit default swap – see Note V.3. and synthetic swaps, whereby interest computed in a foreign currency is synthetically converted to EUR), sub-divided according to their notional amount and fair value. The notional amounts are disclosed off balance sheet.

Interest rate swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	38 649	150 999	74 325	95 623	<b>359 596</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	1 187	4 622	2 889	2 288	<b>10 986</b>

Interest rate swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	30 053	135 875	63 223	87 425	<b>316 576</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	764	4 862	2 006	1 914	<b>9 546</b>

<sup>(\*)</sup> Including the fair value of macro-hedging interest rate swap which stood at EUR - 575 million as at 31 December 2010 (2009: EUR - 524 million).

### V.1.3. Structured swaps

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 and loans encompassing notably interest rate or stock exchange index options. Such structured borrowings and loans are entirely covered by swap contracts to hedge the corresponding market risk.

The table below further details the number, value and notional amounts of structured swaps:

	Option embedded		Stock exchange index		Special structure coupon or similar	
	2010	2009	2010	2009	2010	2009
Number of transactions	<b>365</b>	395	<b>6</b>	6	<b>325</b>	363
Notional amount (in EUR million)	<b>12 793</b>	13 598	<b>843</b>	843	<b>21 627</b>	21 346
Net discounted value (in EUR million)	<b>391</b>	132	<b>26</b>	- 10	<b>717</b>	380

The 'fair value' of 'plain vanilla' swap transactions is their market value. For structured deals, the 'fair value' is computed using the income approach, which consists of 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.

### V.1.4. Derivatives credit risk mitigation policy

The credit risk with respect to derivatives lies in the loss which the Group would incur where the 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 Group's long term derivative 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 and further supported by an independent amount of collateral specified in the Credit Support Annex. The EIB has the right of early termination if the rating drops below a certain level.

- Collateralisation:

- Generally, there is a reduced credit risk on swaps, because exposures (exceeding limited thresholds) are collateralised by cash and first-class bonds.
- Very complex and illiquid transactions could require collateralisation over and above the current market value.
- Both the derivatives portfolio with individual counterparties and the collateral received are regularly monitored and valued, with a subsequent call for additional collateral or release.

The collateral received for swaps amounts to EUR 20 334 million (2009: EUR 8 557 million), with the following composition:

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2010
	Government	Agency		
Aaa	5 417	58	0	5 475
Aa1 to Aa3	7 320	0	0	7 320
A1	1 142	0	0	1 142
Below A1	857	0	0	857
Non-Rated	0	0	5 540	5 540
<b>Total 2010</b>	<b>14 736</b>	<b>58</b>	<b>5 540</b>	<b>20 334</b>

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2009
	Government	Agency		
Aaa	2 219	0	0	2 219
Aa1 to Aa3	1 331	0	0	1 331
A1	0	0	0	0
Below A1	1 267	0	0	1 267
Non-Rated	0	0	3 740	3 740
<b>Total 2009</b>	<b>4 817</b>	<b>0</b>	<b>3 740</b>	<b>8 557</b>

- 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 value.

The Group measures the credit risk exposure related to swaps and derivatives transactions using the Net Market Exposure (NME) and Potential Future Exposure (PFE) for reporting and limit monitoring, and the Credit Risk Equivalent for capital allocation according to the recommendations of the Basel Committee on Banking Supervision (BCBS) sponsored by the BIS.

The Group computes the Net Market Exposure, which is the larger of zero and the market value or “fair value” of the portfolio of transactions within the netting set with a counterparty, less the collateral. It is the amount that would be lost upon the default of the counterparty, using the received collateral and assuming no recovery on the value of those transactions in bankruptcy as well as immediate replacement of the swap counterparty for all the transactions. As of 31 December 2010 the Net Market Exposure stood at EUR 721 million (EUR 600 million as of 31 December 2009).

In addition, the Group computes the Potential Future Exposure (PFE), which is the possible increase in the netting set’s exposure over the margin period of risk, which ranges between 10 and 20 days, depending on the portfolio of transactions. The Group computes PFE at 90% confidence level using stressed market parameters to arrive at conservative estimations of the Potential Future Exposure. This is in line with the recommendations issued by regulators in order to take into consideration the conditions that will prevail in case of default of an important market participant. As of 31 December 2010 the total Potential Future Exposure (PFE) stood at EUR 9 453 million (EUR 8 900 million as of 31 December 2009).

- Limits:

The limit system for banks covers two types of exposure: Net Market Exposure and Potential Future Exposure.

The Net Market Exposure is measured by the NPV of the swap portfolio minus the amount of collateral received. It is limited by the Threshold applicable to the bank as defined in the Credit Support Annex and is dependent on the rating of the counterparty. For any exposure exceeding this Threshold, the Group receives collateral posted by the counterparty.

The Potential Future Exposure limit determines the maximum Potential Future Exposure, measured as explained above and reduced by overcollateralisation, accepted for each counterparty.

The derivatives portfolio is valued and compared against limits on a daily basis.

As from the following table, the majority of the derivative portfolio is concentrated on counterparties rated A1 or above.

Grouped ratings	Percentage of nominal		Net Market Exposure (in EUR million)		Potential Future Exposure (in EUR million)	
	2010	2009	2010	2009	2010	2009
Moody’s or equivalent rating						
Aaa	3.0%	2.5%	0	10	307	161
Aa1 to Aa3	59.7%	60.7%	715	589	6 543	6 406
A1	33.7%	28.5%	6	1	2 213	1 843
A2 to A3	3.1%	7.8%	0	0	375	457
Below A3	0.5%	0.5%	0	0	15	33
Non-rated	0.0%	0.0%	0	0	0	0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>721</b>	<b>600</b>	<b>9 453</b>	<b>8 900</b>

## V.2. As part of liquidity management

The Group also enters into short term currency swap contracts in order to adjust currency positions in its operational treasury portfolios 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 stood at EUR 26 265 million at 31 December 2010 against EUR 11 887 million at 31 December 2009. The notional amount of short term currency forwards was EUR 288 million at 31 December 2010 (2009: EUR 252 million). The fair value of these contracts was EUR - 34 million at 31 December 2010 (2009: EUR 255 million).

Long term futures are also used by the Bank to adjust the medium-term (2-year) interest rate exposure of its treasury bond portfolios. The notional amount of long term futures stood at EUR 283 million at 31 December 2010 (2009: EUR 335 million), with a fair value of EUR nil (2009: EUR – 0.1 million).

### V.3. Credit Default Swap

The Group entered into one Credit Default Swap for a nominal amount of EUR 193 million as at 31 December 2010 (2009: EUR 197 million) with a fair value of EUR 29.5 million (2009: EUR 1.5 million).

### Note W – Conversion rates

The following conversion rates were used for establishing the balance sheet at 31 December 2010 and 31 December 2009:

	31.12.2010	31.12.2009
<b>NON-EURO CURRENCIES OF EU MEMBER STATES</b>		
Bulgarian leva (BGN)	1.9558	1.9558
Czech koruna (CZK)	25.061	26.473
Danish kroner (DKK)	7.4535	7.4418
Hungarian forint (HUF)	277.95	270.42
Polish zloty (PLN)	3.9750	4.1045
Pound sterling (GBP)	0.8608	0.8881
Romanian lei (RON)	4.2620	4.2363
Swedish kronor (SEK)	8.9655	10.252
<b>NON-EU CURRENCIES</b>		
Australian dollar (AUD)	1.3136	1.6008
Canadian dollar (CAD)	1.3322	1.5128
Hong Kong dollar (HKD)	10.3856	11.1709
Japanese yen (JPY)	108.65	133.16
Kenyan shilling (KES)	107.77	108.43
Moroccan dirham (MAD)	11.152	11.290
Mexican peso (MXN)	16.5475	18.9223
New Zealand dollar (NZD)	1.720	1.980
Norwegian krone (NOK)	7.8000	8.3000
Russian ruble (RUB)	40.820	43.154
South African rand (ZAR)	8.8625	10.6660
Swiss franc (CHF)	1.2504	1.4836
Turkish lira (TRY)	2.0694	2.1547
United States dollar (USD)	1.3362	1.4406

## Note X – Management of third-party funds

### X.1. Guarantee Fund

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

### X.2. Investment Facility – Cotonou

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 and subsequently revised. The EIB prepares separate financial statements for the Investment Facility.

### X.3. 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 of 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.

### X.4. Risk-Sharing Finance Facility (the 'RSFF')

The RSFF has been established within the framework of the Co-operation Agreement entered into force on the 5 June 2007 between the European Commission on behalf of the European Union 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 RSFF.

### X.5. 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. The principal objective of the Initiative is to reduce the debt burden of poor countries to sustainable levels. The EIB prepares separate financial statements for the Initiative.

### X.6. 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 Union 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 EIB Group signed a Memorandum of Understanding 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.

### X.7. 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.

### X.8. Neighbourhood Investment Facility ('NIF') Trust Fund

The NIF Trust Fund managed by the EIB was set up to achieve the strategic objective of the European Neighbourhood Partnership Instrument ('ENPI') through targeted funding aimed at strengthening infrastructure interconnection between the EU and its neighbours in the areas of Transport and Energy, at addressing common environmental concerns and at supporting other relevant activities. The EIB prepares separate financial statements for the NIF Trust Fund.

### X.9. Loan Guarantee Instrument for Ten-T Projects (the 'LGTT')

The 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 Union and the EIB Group.

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.

### X.10. JASPERS

JASPERS (The 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).

### **X.11. JESSICA (Contribution and Holding Funds)**

JESSICA (The Joint European Support for Sustainable Investment in City Area) is an initiative developed by the European Commission and the EIB, in collaboration with the Council of Europe Development Bank (CEB).

Under new procedures, Managing Authorities are being given the option of using some of their EU grant funding to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments are delivered to projects via Urban Development Funds or if required Holding Funds (JESSICA Holding Funds).

JESSICA Holding Fund is used in the context of the JESSICA initiative. EIB gathers the funding received from the Managing Authorities and invests it in Urban Development Funds, according to investment guidelines agreed with the donors.

### **X.12. JEREMIE**

JEREMIE (The Joint European Resources for Micro to Medium Enterprises) is an initiative of the European Commission's Directorate General for Regional Policy (DG Regio) and the EIB Group.

### **X.13. JASMINE**

JASMINE (The Joint Action to Support Micro-finance Institutions in Europe) is a pilot initiative by the European Commission and the EIB Group for the development of Microfinance Institutions and Microcredit.

### **X.14. GEEREF (Fund and Technical Support Facility)**

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 EIF also holds a technical assistance mandate for which related activities are implemented by the GEEREF front office.

### **X.15. SMEG 2007**

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.

### **X.16. GIF 2007**

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.

### **X.17. European Progress Microfinance Facility (EPMF)**

The EPMF aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged.

### **X.18. European Parliament Preparatory Action (EPPA)**

In 2010, the EIF signed the EPPA with DG REGIO, under which the EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.

### **X.19. Green for Growth Fund (GGF)**

The Green for Growth Fund was set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey.

### **X.20. Greater Anatolia Guarantee Facility (GAGF)**

Under the GAGF signed in May 2010, the EIF manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in Turkey's least developed provinces in partnership with major Turkish banks.

### **X.21. Fiduciary operations**

Pursuant to Article 28 of its Statute, 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 Union, according to Fiduciary and

Management Agreements concluded with the European Union ('ETF Start-up Facility') and High Growth and Innovative SME Facility ('GIF'), under two programs known as GIF1 and GIF2.

#### **X.22. LfA-EIF Facility**

LfA-EIF Facility, signed in 2009 is a joint EIF and LfA Förderbank Bayern venture providing investments to support technology-oriented early and expansion stage companies in the region of Bavaria, Germany.

#### **X.23. MAP Equity**

Under the Multi-Annual Programme (MAP) for enterprises and entrepreneurship, the EIF manages resources on behalf and at the risk of the Commission.

#### **X.24. Technology Transfer Pilot Project (TTP)**

Under the TTP, financed by the European Commission and signed in November 2008, the EIF has supported a technology transfer structure through pre-seed funding and seed funding.

#### **X.25. Bundesministerium für Wirtschaft und Technologie**

The EIF manages funds on behalf of the Bundesministerium für Wirtschaft und Technologie Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP).

#### **X.26. Guarantees**

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

#### **X.27. 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 EIB for the account of and under mandate from third parties. It includes the FED, MED/FEMIP and Turkey mandates.

## Statement of Special Section <sup>(1)</sup>

as at 31 December 2010 and 2009 (in EUR'000)

AMOUNTS DISBURSED AND TO BE DISBURSED	31.12.2010	31.12.2009
<b>Turkey</b>		
From resources of Member States		
Disbursed loans outstanding	8 990	10 076
<b>Total <sup>(2)</sup></b>	<b>8 990</b>	<b>10 076</b>
<b>Mediterranean Countries</b>		
From resources of the European Union		
Disbursed loans outstanding	117 069	127 673
Risk capital operations		
- amounts to be disbursed	186 843	212 218
- amounts disbursed	173 526	195 709
	<b>360 369</b>	<b>407 927</b>
<b>Total <sup>(3)</sup></b>	<b>477 438</b>	<b>535 600</b>
<b>African, Caribbean and Pacific State and Overseas Countries and Territories</b>		
From resources of the European Union		
• <b>Yaoundé Conventions</b>		
Loans disbursed	12 830	14 686
Contributions to the formation of risk capital		
- amounts disbursed	419	419
<b>Total <sup>(4)</sup></b>	<b>13 249</b>	<b>15 105</b>
• <b>Lomé Conventions</b>		
Operations from risk capital resources:		
- amounts to be disbursed	23 966	39 099
- amounts disbursed	695 415	813 171
	<b>719 381</b>	<b>852 270</b>
Operations from other resources		
- amounts disbursed	2 333	3 016
	<b>2 333</b>	<b>3 016</b>
<b>Total <sup>(5)</sup></b>	<b>721 714</b>	<b>855 286</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

FUNDS RECEIVED AND TO BE RECEIVED	31.12.2010	31.12.2009
Funds under trust management		
Under mandate from the European Union		
- Financial Protocols with the Mediterranean Countries	290 595	323 383
- Yaoundé Conventions	13 249	15 105
- Lomé Conventions	695 415	813 171
- Other resources under the Lomé Conventions	2 333	3 016
	1 001 592	1 154 675
Under mandate from Member States	8 990	10 076
<b>Total</b>	<b>1 010 582</b>	<b>1 164 751</b>
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	186 843	212 218
On operations from risk capital resources under the Lomé Conventions	23 966	39 098
<b>Total</b>	<b>210 809</b>	<b>251 316</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

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 EU mandate for recovering principal and interest:

a) Under the First, Second and Third Lomé Conventions: at 31 December 2010: EUR '000 596 926 (at 31 December 2009: EUR '000 648 409)

b) Under Financial Protocols signed with the Mediterranean Countries: at 31 December 2010: EUR '000 97 371 (at 31 December 2009: EUR '000 103 000)

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, the EU-Africa Infrastructure Trust Fund, the Neighbourhood Investment Facility (NIF) Trust Fund 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 Union and the Member States. Amounts disbursed and to be disbursed and funds received and to be received are carried at nominal value. 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		20 134
less:	cancellations	215	
	repayments	416 828	
			- 417 043
			<b>8 990</b>



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 Union.

Initial amount:			945 957
less:	exchange adjustments	45 803	
	cancellations	95 720	
	repayments	326 996	
			- 468 519
			<b>477 438</b>

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 Union:

Loans on special conditions		139 483	
Contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interests	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	137 996	
			- 139 754
			<b>13 249</b>

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 Union:

Loans from risk capital resources:			
Conditional and subordinated loans		3 116 097	
Equity participations		121 002	
Initial amount:			3 237 099
add:	capitalised interests		9 548
less:	cancellations	670 064	
	repayments	1 800 037	
	exchange adjustments	57 165	
			- 2 527 266
			<b>719 381</b>
Loans from other resources:			
Initial amount:			16 500
add:	exchange adjustments		68
less:	cancellations	8 264	
	repayments	5 971	
			- 14 235
			<b>2 333</b>
			<b>721 714</b>

## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of EUROPEAN INVESTMENT BANK, which comprise the consolidated balance sheet as at 31 December 2010, the consolidated profit and loss account and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

The Management is responsible for the preparation and fair presentation of these consolidated financial statements 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, as amended by Directive 2001/65/EC of 27 September 2001, by Directive 2003/51/EC of 18 June 2003 and by Directive 2006/46/EC of 14 June 2006 (the 'Directives'), and for such internal control as the Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Responsibility of the Réviseur d'Entreprises agréé**

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

reasonable assurance about whether the 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 agréé, 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 agréé 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, 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 EUROPEAN INVESTMENT BANK as of 31 December 2010, and of the consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with the general principles of the Directives.

*Luxembourg, 10 March 2011*

KPMG Audit S.à r.l.  
Cabinet de révision agréé  
9, Allée Scheffer  
L-2520 Luxembourg

Société à responsabilité limitée  
R.C.S. Luxembourg B 103590  
Capital 25.000 €



Emmanuel Dollé

## 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's consolidated financial statements prepared in accordance with the general principles of the EU Directives

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

- designated KPMG as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of KPMG on the consolidated financial statements of the European Investment Bank, prepared in accordance with the general principles of the EU Directives, for the year ended 31 December 2010 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 2010 as drawn up by the Board of Directors at its meeting on 10 March 2011;
- that the foregoing provides a reasonable basis for its statement and,
- Articles 24, 25 & 26 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 profit and loss account and the consolidated cash flow statement and a summary of significant accounting policies and other explanatory information give a true and fair view of the consolidated financial position of the Bank as at 31 December 2010 in respect of its assets and liabilities, and of the consolidated results of its operations and its consolidated cash flows for the year then ended, in accordance with the general principles of the EU Directives.

Luxembourg, 10 March 2011

The Audit Committee



G. SMYTH



D. NOUY



E. MATHAY



J. GALEA



J. RODRIGUES DE JESUS



M. ÜÜRKE



EIB Group

# Financial Statements under IFRS

as at 31 December 2010



## Consolidated Results for the Year

The EIB Group balance sheet total increased by EUR 60.2 billion (+15.6%) compared to 2009. The result of the Group for the reporting date stands at a profit of EUR 2 645 million compared to the consolidated loss of EUR - 2 281 million for 2009, representing an increase of EUR 4 926 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 4 249 million (see Consolidated Income Statement under IFRS – 6. Result on Financial Operations). The impact is mostly due, on the one hand, to the gains related to borrowings designated at fair value and their related swaps for EUR 2 497 million, and on the other, to the gains related to loans designated at fair value and their related swaps for EUR 2 164 million.

It should be noted that in the last few years these two items have shown a high level of fluctuation, increasing the volatility of the Bank's consolidated IFRS results (see graph on page 4).

As it is the intention of the Group to hold the financial instruments involved until maturity, it is expected that any positive or negative result will be completely neutralised when the cash flows of the bonds and the hedging swaps are unwound.

### Other positive or negative factors are the following:

- The net result of interest and similar income and charges stands at EUR 2 689 million in 2010, i.e. an increase of EUR 419 million (items 1 and 2 of the Income Statement).
- The impairment losses on shares and other variable-yield securities resulted in a negative impact of EUR - 57 million, compared to a loss of EUR - 105 million in 2009, resulting in a positive variation of EUR 48 million.
- The change in impairment on loans and advances resulted in a loss of EUR 29 million, compared to larger losses of EUR 149 million in 2009, resulting in a positive variation of EUR +120 million.
- The number of persons employed by the Group at the end of 2010 increased by 9.5% as compared to at the end of 2009 with the average increase being 10.1%.

### Main evolution of loans and borrowing activity:

- The volume of loans disbursed in 2010 increased by 10.4% to EUR 57.5 billion from EUR 51.9 billion in 2009.
- The volume of loan signatures for 2010 decreased by 9.2% to EUR 71.8 billion from EUR 79.1 billion in 2009.
- The volume of borrowing proceeds, before swap operations, received during the financial year 2010 decreased by 14.9% versus 2009 to EUR 67.3 billion from EUR 79.1 billion.

In 2010, the Group launched Climate Awareness Bonds ('CABs') for a total value of EUR 543 million. The funds were raised in four currencies: synthetic Brazilian real (payable in Japanese yen), South African rand, Australian dollar and Turkish lira. Most of the proceeds from 2010 CABs issuance (EUR 487 million), as well as the remaining part of the proceeds from 2009 issuance (EUR 164 million), were disbursed to eligible projects in the course of the year. The residual treasury balance as at end-December 2010 was EUR 57 million.

## Consolidated balance sheet

as at 31 December 2010 (in EUR '000)

Assets	31.12.2010	31.12.2009
<b>1. Cash in hand, balances with central banks and post office banks (Note B.1)</b>	<b>253 692</b>	<b>227 227</b>
<b>2. Treasury bills and other bills eligible for refinancing with central banks (Note B.2)</b>	<b>5 456 695</b>	<b>4 161 685</b>
<b>3. Loans and advances to credit institutions</b>		
a) repayable on demand	491 476	367 694
b) other loans and advances (Note C)	31 651 842	19 236 477
c) loans (Note D.1)	125 222 957	117 560 917
	<b>157 366 275</b>	<b>137 165 088</b>
<b>4. Loans and advances to customers</b>		
a) loans (Note D.1)	232 955 365	203 106 638
b) Impairment on loans and advances, net of reversals (Note D.2)	- 87 108	- 106 300
	<b>232 868 257</b>	<b>203 000 338</b>
<b>5. Debt securities including fixed-income securities (Note B.2)</b>		
a) issued by public bodies	1 818 977	1 985 302
b) issued by other borrowers	14 587 786	16 315 398
	<b>16 406 763</b>	<b>18 300 700</b>
<b>6. Shares and other variable-yield securities (Note B.3)</b>	<b>2 315 023</b>	<b>2 017 903</b>
<b>7. Derivative assets (Note R)</b>	<b>31 353 400</b>	<b>20 868 332</b>
<b>8. Property, furniture and equipment (Note E.1)</b>	<b>316 513</b>	<b>307 319</b>
<b>9. Investment property (Note E.2)</b>	<b>3 024</b>	<b>3 373</b>
<b>10. Intangible assets (Note E.1)</b>	<b>8 266</b>	<b>4 817</b>
<b>11. Other assets (Note G)</b>	<b>83 657</b>	<b>106 914</b>
<b>12. Subscribed capital and reserves, called but not paid (Note W.2)</b>	<b>55 945</b>	<b>107 637</b>
<b>13. Prepayments</b>	<b>34 016</b>	<b>35 479</b>
<b>Total assets</b>	<b>446 521 526</b>	<b>386 306 812</b>

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

Liabilities and equity	31.12.2010	31.12.2009
<b>1. Amounts owed to credit institutions (Note H.1)</b>		
a) repayable on demand	5 675 399	4 380 414
b) with agreed maturity dates or periods of notice	<u>127 881</u>	<u>100 147</u>
	<b>5 803 280</b>	<b>4 480 561</b>
<b>2. Amounts owed to customers (Note H.2)</b>		
a) repayable on demand	1 524 466	1 256 333
b) with agreed maturity dates or periods of notice	<u>976 419</u>	<u>1 106 828</u>
	<b>2 500 885</b>	<b>2 363 161</b>
<b>3. Debts evidenced by certificates (Note I)</b>		
a) debt securities in issue	356 569 667	303 978 963
b) others	<u>24 016 098</u>	<u>19 869 005</u>
	<b>380 585 765</b>	<b>323 847 968</b>
<b>4. Derivative liabilities (Note R)</b>	<b>14 097 951</b>	<b>14 866 773</b>
<b>5. Other liabilities (Note G)</b>	<b>767 474</b>	<b>713 303</b>
<b>6. Deferred income (Note F)</b>	<b>170 739</b>	<b>177 228</b>
<b>7. Provisions</b>		
a) pension plans and health insurance scheme (Note J)	1 316 574	1 242 292
b) provisions for guarantees (Note D.4)	<u>107 469</u>	<u>70 412</u>
	<b>1 424 043</b>	<b>1 312 704</b>
<b>Total liabilities</b>	<b>405 350 137</b>	<b>347 761 698</b>
<b>8. Capital (Note W)</b>		
- Subscribed	232 392 989	232 392 989
- Uncalled	<u>- 220 773 340</u>	<u>- 220 773 340</u>
	<b>11 619 649</b>	<b>11 619 649</b>
<b>9. Consolidated reserves</b>		
a) reserve fund	20 082 400	18 205 506
b) additional reserves	1 601 274	5 777 469
c) special activities reserve	3 299 370	3 299 370
d) general loan reserve	<u>1 923 734</u>	<u>1 923 734</u>
	<b>26 906 778</b>	<b>29 206 079</b>
<b>10. Profit/loss for the financial year (Note K)</b>	<b>2 644 962</b>	<b>- 2 280 614</b>
<b>Total equity</b>	<b>41 171 389</b>	<b>38 545 114</b>
<b>Total liabilities and equity</b>	<b>446 521 526</b>	<b>386 306 812</b>

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



## Consolidated income statement

for the year ended 31 December 2010 (in EUR '000)

	2010	2009
<b>1. Interest and similar income (Note L)</b>	19 354 614	17 130 541
<b>2. Interest expense and similar charges (Note L)</b>	- 16 665 960	- 14 860 497
<b>3. Income from shares and other variable-yield securities</b>	67 310	8 930
<b>4. Fee and commission income (Note O)</b>	236 025	207 005
<b>5. Fee and commission expense</b>	- 204	- 117
<b>6. Result on financial operations (Note M)</b>	200 789	- 4 048 359
<b>7. Other operating income (Note N)</b>	10 501	10 759
<b>8. Change in impairment on loans and advances and provisions for guarantees, net of reversals (Notes D.2, D.4)</b>	- 28 623	- 149 099
<b>9. Change in impairment on shares and other variable-yield securities, net of reversals (Note B.3)</b>	- 57 497	- 104 599
<b>10. General administrative expenses (Notes J, P)</b>		
a) staff costs (Note J)	- 323 646	- 328 696
b) other administrative costs	- 117 956	- 117 800
	- 441 602	- 446 496
<b>11. Depreciation and amortisation: property, furniture and equipment, investment property and intangible assets (Note E)</b>		
a) property, furniture and equipment	- 26 860	- 26 198
b) investment property	- 161	- 188
c) intangible assets	- 3 370	- 2 296
	- 30 391	- 28 682
<b>12. Profit/loss for the financial year</b>	<b>2 644 962</b>	<b>- 2 280 614</b>
Attributable to:		
Equity holders of the Bank	2 644 962	- 2 280 614

## Consolidated statement of comprehensive income

for the year ended 31 December 2010 (in EUR '000)

	2010	2009
<b>Profit/loss for the financial year</b>	<b>2 644 962</b>	<b>- 2 280 614</b>
<b>Other comprehensive income / loss</b>		
Available for sale financial assets – Fair value reserve		
1. Net unrealised gains and losses on financial asset available for sale	- 65 059	- 51 162
2. Impairment charges transferred to the consolidated income statement	48 624	40 149
3. Realised gains and losses transferred to the consolidated income statement	1 807	43 778
Total available for sale financial assets	- 14 628	32 765
Total other comprehensive income / loss	- 14 628	32 765
<b>Total comprehensive income / loss for the financial year</b>	<b>2 630 334</b>	<b>- 2 247 849</b>
Attributable to:		
Equity holders of the Bank	2 630 334	- 2 247 849

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

## Consolidated statement of changes in equity

for the year ended 31 December 2010 (in EUR '000)

	Subscribed capital	Callable capital	Funds allocated to structured finance facility	Funds allocated to venture capital operations	Reserve fund	Special activities reserve	General loan reserve	Additional reserves Other	Fair value reserve	Profit/Loss for the year before appropriation	Total consolidated equity
<b>At 31 December 2008</b>	<b>164 808 169</b>	<b>- 156 567 760</b>	<b>2 750 000</b>	<b>1 764 305</b>	<b>16 480 817</b>	<b>0</b>	<b>0</b>	<b>4 688 642</b>	<b>507 613</b>	<b>6 355 715</b>	<b>40 787 501</b>
Appropriation of prior year's profit	0	0	0	0	1 650 877	0	0	4 704 838	0	- 6 355 715	0
Total comprehensive income / loss for the year	0	0	0	0	0	0	0	0	32 765	- 2 280 614	- 2 247 849
Transfer to Reserve fund	0	0	0	- 147 177	147 177	0	0	0	0	0	0
Contributions by and distributions to owners and transfer from reserves	67 584 820	- 64 205 580	2 000 000	0	- 73 365	0	0	- 5 305 875	0	0	0
Changes in ownership interests in subsidiaries that do not result in a loss of control	0	0	0	0	0	0	0	5 462	0	0	5 462
Transfer to special activities reserve and general loan reserve	0	0	- 4 750 000	- 1 617 128	0	3 299 370	1 923 734	1 144 024	0	0	0
<b>At 31 December 2009</b>	<b>232 392 989</b>	<b>- 220 773 340</b>	<b>0</b>	<b>0</b>	<b>18 205 506</b>	<b>3 299 370</b>	<b>1 923 734</b>	<b>5 237 091</b>	<b>540 378</b>	<b>- 2 280 614</b>	<b>38 545 114</b>
Appropriation of prior year's loss	0	0	0	0	1 876 894	0	0	- 4 157 508	0	2 280 614	0
Total comprehensive income / loss for the year	0	0	0	0	0	0	0	0	- 14 628	2 644 962	2 630 334
Changes in ownership interests in subsidiaries that do not result in a loss of control	0	0	0	0	0	0	0	- 4 059	0	0	- 4 059
<b>At 31 December 2010</b>	<b>232 392 989</b>	<b>- 220 773 340</b>	<b>0</b>	<b>0</b>	<b>20 082 400</b>	<b>3 299 370</b>	<b>1 923 734</b>	<b>1 075 524</b>	<b>525 750</b>	<b>2 644 962</b>	<b>41 171 389</b>

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

## Consolidated cash flow statement

for the year ended 31 December 2010 (in EUR '000)

	2010	2009
<b>A. Cash flows from operating activities:</b>		
<b>Profit/loss for the financial year</b>	<b>2 644 962</b>	<b>- 2 280 614</b>
Adjustments for:		
Changes in impairment on loans and advances, net of reversals	- 19 192	88 800
Change in provisions for pension plans and health insurance scheme	74 282	119 492
Unwinding of the discount relating to capital and reserve called, but not paid in	- 5 972	- 4 763
Increase in provision for guarantees	47 815	60 299
Depreciation/amortisation on property, furniture and equipment, investment property and intangible assets	30 391	28 682
Changes in impairment of shares and other variable-yield securities	57 497	104 599
Investment portfolio amortisation and accrued interest	- 386	38 065
Net results on loans under the fair value option and associated swaps	- 875 420	1 834 019
Net results on borrowings under the fair value option and associated swaps	- 4 937 698	- 1 328 392
Change in fair value of other derivatives	5 800 520	1 679 479
Effects of exchange rate changes on loans, debts evidenced by certificates and swaps	1 298 879	805 837
Disbursements of loans and advances to credit institutions and customers	- 57 523 013	- 51 895 204
Repayments of loans and advances to credit institutions and customers	27 713 767	23 200 287
Change in deposits with central banks	- 26 456	- 227 144
Net additions to available for sale and trading debt securities	- 942 879	- 1 503 132
Net additions to available for sale venture capital operations	- 188 672	- 148 590
Net additions to available for sale shares and other variable-yield securities	- 101 096	- 53 806
Change in amounts owed to credit institutions and customers	1 460 443	- 317 489
Change in interest accrued on cash and cash equivalents	- 5 032	23 217
Change in prepayments	1 463	1 992
Change in other assets	23 257	52 853
Change in deferred income	- 6 488	6 073
Change in other liabilities	54 171	- 20 941
<b>Net cash used in operating activities</b>	<b>- 25 424 857</b>	<b>- 29 736 381</b>
<b>B. Cash flows from investing activities:</b>		
Sale of securities from investment portfolio matured during the year	266 581	301 440
Purchase of loan substitutes included in the treasury portfolios	- 2 906 619	- 2 622 000
Redemption of loan substitutes included in the treasury portfolios	1 582 002	179 474
Purchase of property, furniture and equipment, investment property and intangible assets	- 42 873	- 20 130
<b>Net cash used in investing activities</b>	<b>- 1 100 909</b>	<b>- 2 161 216</b>
<b>C. Cash flows from financing activities:</b>		
Issuance of debts evidenced by certificates	129 855 314	101 587 443
Redemption of debts evidenced by certificates	- 92 619 273	- 66 715 132
Member States contribution	57 664	358 659
<b>Net cash from financing activities</b>	<b>37 293 705</b>	<b>35 230 970</b>

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

Summary statement of cash flows:	2010	2009
<b>Cash and cash equivalents at beginning of financial year</b>	<b>27 232 501</b>	<b>24 100 435</b>
Net cash from:		
(1) operating activities	- 25 424 857	- 29 736 381
(2) investing activities	- 1 100 909	- 2 161 216
(3) financing activities	37 293 705	35 230 970
(4) effects of exchange rate changes on cash held	- 786 146	- 201 307
<b>Cash and cash equivalents at end of financial year</b>	<b>37 214 294</b>	<b>27 232 501</b>
<b>Cash and cash equivalents are composed of:</b>		
Cash in hand, balances with central banks and post office banks, excluding deposits with Central Bank of Luxembourg to cover minimum reserve requirement (Note B.1)	92	83
Bills maturing within three months of issue (Note B.2; A1 portfolio excluding accrued interest)	5 086 491	7 638 941
Loans and advances to credit institutions:		
- Accounts repayable on demand	491 476	367 694
- Term deposit accounts (excluding accrued interest) (Note C)	31 636 235	19 225 783
	<b>37 214 294</b>	<b>27 232 501</b>
<b>Supplementary disclosures of operating cash flows:</b>	<b>2010</b>	<b>2009</b>
Interest received	19 244 954	17 011 322
Dividends received	67 081	7 862
Interest paid	- 3 315 342	- 2 502 316

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

## European Investment Bank Group

# Notes to the consolidated financial statements

as at and for the year ended 31 December 2010

The European Investment Bank (the 'Bank' or 'EIB') was created by the Treaty of Rome in 1958 as the long term lending bank of the European Union (EU). The task of the Bank is to contribute towards the integration, balanced development and economic and social cohesion of the EU Member States. The EIB raises substantial volumes of funds on the capital markets which it lends on favourable terms to projects furthering EU policy objectives. The EIB continuously adapts its activities to developments in EU policies.

The Bank has its registered office at 98-100, boulevard Konrad Adenauer, Luxembourg.

The European Investment Fund (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, Luxembourg.

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Union 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 Bank holds 61.17% (2009: 62.11%) of the subscribed capital of the EIF. The Bank and the Fund are defined together as the "Group".

## Note A – Significant accounting policies

### A.1. Basis of preparation

#### A.1.1. Statement of compliance

The European Investment Bank consolidated financial statements (the "Financial Statements") have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

On a proposal from the Management Committee, the Board of Directors adopted the Financial Statements on 10 March 2011 and authorised their submission to the Board of Governors for approval at their meeting on 17 May 2011.

#### A.1.2. Basis of measurement

The Financial Statements have been prepared on an historical cost basis, except for derivative financial instruments, available-for-sale financial assets and assets and liabilities designated at fair value through profit or loss that have been measured at fair value. The liability for defined benefit obligation is recognised as the present value of the defined benefit obligation, plus any unrecognised actuarial gains, less any unrecognised past service cost or unrecognised actuarial losses. The Financial Statements are presented in euro rounded to the nearest thousand, unless otherwise indicated.

### 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 loans and advances at each reporting date to assess whether an allowance for impairment should be recorded. 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.

#### *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 9 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, mortality rates and future salary and 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 amended IFRS during the year. Adoption of these revised standards

and interpretations did not have any significant effect on the financial performance or position of the Group.

#### *IAS 27R – Consolidated Financial Statements*

This standard is applicable for annual periods beginning on or after 1 July 2009 and has been adopted simultaneously with the adoption of IFRS 3R (see below). The revised IAS 27 requires entities to account for changes in the ownership of a subsidiary, which do not result in the loss of control, as an equity transaction and therefore such transactions do not give rise to a gain or loss in the income statement. In addition losses incurred by a subsidiary are 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 are required to re-measure to fair value any retained interest, which impacts the gain or loss recognised on the disposal linked to the loss of control. The Group has adopted this revised standard at its effective date. The adoption of this standard has no significant impact on the reported financial position or performance of the Group.

#### *IFRS 3R – Business Combinations*

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after 1 July 2009. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and the accounting for business combinations achieved in stages. The Group has adopted this revised standard at its effective date. The adoption of this standard has no significant impact on the reported financial position or performance of the Group.

### **Standards issued but not yet effective**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 *Financial Instruments*, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not yet been determined.

### **A.4. Summary of significant accounting policies**

#### **A.4.1. Basis of consolidation**

The Financial Statements comprise those of the European Investment Bank and those of its subsidiary, the

European Investment Fund. The financial statements of the Fund are prepared for the same reporting year as the Bank, using consistent accounting policies.

The Bank holds 61.17% (2009: 62.11%) 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 consolidates the financial statements of the EIB and the EIF line by line by adding together like items of assets, liabilities, equity, income and expenses.

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

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and is presented under "*Interest expense and similar charges*" in the consolidated income statement and under "*Other liabilities*" in the consolidated balance sheet (see Note A.4.21).

Assets held in an agency or fiduciary capacity are not assets of the Group. They are reported in Note V. The Group does not control any Special Purpose Entities.

#### **A.4.2. Foreign currency translation**

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

The Group conducts its operations in euro, in 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 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 recognised 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 recognised in the consolidated income statement.

#### **A.4.3. Derivatives**

All derivative instruments of the Group are measured at fair value through profit or loss and are reported as derivative assets or liabilities. Fair values are obtained from quoted market prices, 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 and a significant reduction of the accounting mismatch is thus obtained.

The Group currently does not use any of the hedge accounting possibilities available under IAS 39.

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 derivatives are included in "*Result on financial operations*".

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. realised and unrealised gains and losses are recognised in "*Result on financial operations*". Accrued interest on derivatives is part of the fair value recorded.



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.4.4. Financial instruments

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

Financial instruments that are measured in the balance sheet at fair value require disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

#### A.4.5. Cash and cash equivalents

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

#### A.4.6. 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 recognised when the service has been completed. Fees or components of fees that are performance linked are recognised 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.4.7. 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, B1 'Credit Spread', B3 'Global Fixed Income', B4 "Inflation Linked Investment" and the EIF operational portfolios.

Securities received as collateral under securities lending transactions are not recognised in the consolidated balance sheet unless control of the contractual rights that are comprised in these received securities is gained. Securities lent under securities lending transactions are not derecognised from the consolidated balance sheet unless control of the contractual rights that are comprised in these transferred securities 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.4.8. Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities and shares and other variable-yield securities

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

##### A.4.8.1. Held for trading portfolio

The held for trading portfolio (see Operational portfolios B3 and B4 in Note B.2) comprises listed debt securities issued and guaranteed by financial institutions. The debt securities 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 realised on disposal or redemption and unrealised 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 and similar 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.4.8.2. Held-to-maturity portfolio

The held-to-maturity portfolio comprises the Group's Investment portfolio, the operational money market portfolio A1 of EIB and the Loan substitutes portfolio (see Note B.2).

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; or
- Supranational public institutions, including multinational development banks.

These securities are initially recorded at fair value plus any directly attributable transaction costs. The difference between entry price and redemption value is amortised in accordance with the effective interest method over the remaining life of the securities.

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

The Operational portfolio A1 of the Group is held for the purpose of maintaining an adequate level of liquidity in the Group and comprises money market products with a maximum maturity of three months, including treasury bills and negotiable debt securities issued by public bodies or credit institutions. The securities are held until their final maturity and presented in the Financial Statements at their amortised cost.

The Loan substitute 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 amortised cost.

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. Impairment loss is recognised in profit and loss and the amount of the loss is measured as the difference between the carrying value and the present value of estimated future cash flows discounted at the instrument's original effective interest rate.

#### A.4.8.3. Available-for-sale portfolio

The available-for-sale portfolio comprises the securities of the operational money market portfolio A2 and the securities of the operational bond portfolios B1 and B2 (see Note B.2), the operational portfolio of the Fund, shares and other variable-yield securities (see Note B.3). 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 recorded at fair value plus transaction costs. Unrealised gains or losses, excluding foreign currency translation gains and losses, are reported in comprehensive income and accumulated in the fair value reserve until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired. Foreign currency translation gains and losses are reported in the consolidated income statement. If an available-for-sale investment is determined to be impaired, the cumulative unrealised gain or loss previously recognised in the fair value reserve 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 recognised valuation techniques.

Financial assets are derecognised when the right to receive cash flows from the financial assets has 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 the fair value reserve is transferred to consolidated income statement for the period. Gains and losses on disposal are determined using the weighted average cost method. Interest and dividend income on available-for-sale financial investments are included in *"Interest and similar income"* and *"Income from shares and other variable-yield securities"*. Interest on available-for-sale debt securities and other fixed income securities

is recognised in the income statement using the effective interest method. 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 based on quoted market rates in active markets, dealer price quotations, discounted expected cash flows using market rates that 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 held represent medium and long term investments. They are measured at fair value, which is determined 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. For specific investments where NAV cannot readily be determined, other guidelines (for example the international private equity and venture capital valuation guidelines, IPEV Guidelines, as published by the EVCA) might be used and more detailed monitoring and review will be required. In accordance with this method, the venture capital funds are internally 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.

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.

The Group complies with conditions to use the private equity and similar entities exemption in IAS 28 and IAS 31 and does not use equity accounting on, or proportionately consolidate investments in joint ventures, if any. Upon initial recognition, any holdings in joint ventures or associates are designated at fair value through profit or loss, and measured subsequently at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss during the period of the change.

Joint ventures are contractual agreements whereby the Group and other parties undertake an economic activity that is subject to joint control. Said joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers). The participations acquired by the Group for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments are generally investments jointly subscribed by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such fund. As a consequence, any membership by an investor in a governing body of such fund does not in principle entitle such investor to influence the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on dividends or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information. The Group'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 the Group neither controls nor exercises any form of significant influence within the meaning of IAS 27 and IAS 28 over any of these investments, including those investments in which the

Group holds over 20 % of the voting rights either on its own account or on behalf of any of its mandates.

#### **A.4.9. Loans and advances to credit institutions and customers**

Loans and advances to credit institutions and customers (or "Loans and receivables") 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 receivables are recognised 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 amortised cost using the effective interest rate method. Undisbursed parts of loans are recorded in the memorandum items at their nominal value.

Where loans meet the eligibility criteria of the amended Fair Value Option and have been designated on initial recognition as at fair value through profit or loss, they are measured at their fair value. The fair value measurement technique used is based on a discounted cash flow technique. Loans designated at fair value are recorded at fair value in the balance sheet. Changes in fair value are recorded in "*Result on financial operations*".

##### *A.4.9.1. Interest on loans*

Interest on loans originated by the Group is recorded in the consolidated income statement under "*Interest and similar income*" using the effective interest rate method and on the consolidated balance sheet under "*Loans and advances*".

##### *A.4.9.2. 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 collateralised financing transactions, they are carried at the amounts of cash advanced or received, plus accrued interest. Reverse repos are entered on the assets side of the consolidated balance sheet under "*Loans and advances to credit institutions - b) other loans and advances*"; repos are entered on the liabilities side of the consolidated balance sheet under "*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 recognised in or derecognised 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 recognised as interest income or interest expense, over the life of each agreement.

##### *A.4.9.3. Fees on loans*

Front-end fees and commitment fees are deferred, 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.4.9.4. Interest subsidies*

Interest subsidies received in advance (see Note F) 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 subsidised loan.

#### **A.4.10. Impairment on loans and advances and provisions on guarantees**

Impairment on loans and advances or provisions on commitments are recorded 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.

The impairment 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 "Provisions". Additional impairment or provisions for credit losses are made through "Change in impairment on loans and advances and provisions on guarantees, net of reversals".

#### A.4.10.1. 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 where objective evidence of risks of non-recovery of all or part of the amounts outstanding according to the original contractual terms or the equivalent value exists. Changes to these provisions are recorded in the consolidated income statement as "Change in impairment on loans and advances, net of reversals". Allowances and provisions for credit losses are evaluated on the following counterparty-specific principles.

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, using the original effective interest rate; in addition, the increase of the present value of impaired claims due to the passage of time is reported as interest income.

#### A.4.10.2. 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.

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial guarantees is transferred to the caption "Provisions for guarantees" on the balance sheet.

Financial guarantees are initially recognised at fair value, being the premium received, in the consolidated balance sheet under "Other liabilities".

Subsequent to initial recognition, the Group's liabilities under each financial guarantee are measured at the higher of 1) the amount initially recognised less, when appropriate, cumulative amortisation recognised 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 "Change in impairment on loans and advances and provisions for guarantees, net of reversals". The premium received is recognised in the consolidated income statement in "Fee and commission income" on the basis of an amortisation schedule in accordance with IAS 18 over the life of the financial guarantee.

#### A.4.11. Property, furniture and equipment

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

Property, furniture and equipment are reviewed periodically for impairment.

Land is stated at acquisition cost 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 and Luxembourg-Weimershof are depreciated on a straight-line basis as set out below.

Permanent equipment, fixtures and fittings, furniture, office equipment and vehicles are recorded in the consolidated balance sheet at their acquisition cost, less accumulated depreciation.

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

- Buildings in Kirchberg, Hamm and Weimershof: 30 years
- Permanent equipment, fixtures and fittings: 10 years
- Furniture: 5 years
- Office equipment and vehicles: 3 years

#### **A.4.12. Investment property**

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses and is reviewed for signs of impairment at the balance sheet date.

Depreciation is calculated on a straight-line basis using the same estimated useful lives as property, furniture and equipment.

#### **A.4.13. Intangible assets**

Intangible assets comprise internally developed computer software. Software development costs are capitalised 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 recognised as assets and are amortised on a 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 amortisation calculated on a straight-line basis over three years from completion.

#### **A.4.14. Pension plans and health insurance scheme**

The Group operates defined benefit pension plans to provide retirement benefits to its entire 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. 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.4.14.1. 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 retirement 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 latest valuation was performed as at 30 September 2010, with an extrapolation to 31 December 2010. The main actuarial assumptions used by the actuary are set out in Note J.

Cumulative actuarial surpluses and deficits in excess of 10% of the obligations of the plan ("the corridor") are recognised in the income statement over the expected average remaining service lives of the plan active participants, on a straight-line basis. Interest cost on the defined benefit obligation is recognised in the income statement under "*Interest expense and similar charges*".

The main pension plan of the EIF is a defined benefit plan funded by contributions from staff and from the EIF which covers all EIF employees. The scheme entered into force in March 2003, replacing the previous defined contribution scheme.

##### *A.4.14.2. 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. The plan is an unfunded plan treated as a defined benefit plan. 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.4.14.3. 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. The Pension plan for members of the Management Committee is managed and accounted for under the same principles as the pension plan for staff (Note A.4.14.1).

#### A.4.14.4. Optional Supplementary provident scheme

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the contributions from staff and the corresponding liability is recorded in "Other liabilities".

#### A.4.15. 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 interest method. Where borrowings meet the eligibility criteria of the amended Fair Value Option and have been designated on initial recognition as at fair value through profit or loss, they are measured at their fair value and are recorded in the balance sheet at fair value. Changes in fair value are recorded in "Result on financial operations". 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 rates or indices are considered structured instruments. For all the debt instruments including embedded derivatives, the Group has concluded a 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.4.16. Reserves

##### A.4.16.1. Special activities reserve and General loan reserve

The Statute of the Bank, which came into force with the Lisbon Treaty, no longer requires the maintenance of specific reserves for Funds allocated to structured finance facility and similar undertakings (SFF/SFE) or Funds allocated to venture capital operations. Instead, the Statute foresees a reserve allocation for "special activities" to be defined. A proposal was put forward and approved at the Management Committee meeting on 2 February 2010 for a definition of special activities and corresponding reserve allocation, which is in line with existing credit risk practise and external agreements. The redefining of the Bank's reserve framework for its lending activities provides the opportunity to separate more clearly reserves for the expected loss (EL) of the entire loan portfolio and the capital allocation (CA) for special activities.

As a result, two reserves were created as at 31 December 2009. These reserves are described as follows:

- Special activities reserve: As foreseen by Article 16.5 of the Statute, "the special activities of the Bank will have a specific allocation of reserve". The reserve will be based on the capital allocation of each operation.
- General loan reserve: With the coming into force of the Statute, a non-specific reserve is introduced for the expected loss of the Bank's loan and guarantees portfolio, modelled upon the Group's policy guidelines. Upon the creation of the general loan reserve, the practice of calculating the Fund for general banking risk ('FGBR') was discontinued. The FGBR was previously reported in the notes to the Financial Statements as an approximation of the aggregate expected loss of the Bank's loan portfolio.

##### A.4.16.2. Funds allocated to the Structured Finance Facility

This item comprised the cumulative amount of appropriations from the additional reserves of the Group, determined each year by the Board of Governors to facilitate implementation of operations with a greater degree of risk for this type of activity. Impairments on structured finance operations are accounted for in the consolidated income statement. Upon appropriation of the Group's result, such impairments were taken into consideration for determining the amounts to be recorded in the "Funds allocated to the Structured Finance Facility" accounts. This reserve has now been eliminated in favour of the reserves above.

##### A.4.16.3. Funds allocated to venture capital operations

This item comprised the cumulative amount of appropriations from the additional reserves 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. Impairments on venture capital operations are accounted for in the consolidated income statement. Upon appropriation of the Group's result, such impairments were taken into consideration for determining the amounts to be recorded in the "*Funds allocated to venture capital operations*". This reserve has now been eliminated in favour of the reserves above.

#### A.4.17. 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.4.18. Prepayments – Deferred income

These accounts comprise:

- Prepayments: expenditure incurred during the financial year but relating to a subsequent financial year.
- Deferred income: income received before the balance sheet date but relating to a subsequent financial year.

#### A.4.19. Interest income and expense

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 reimbursement payments made by its borrowers.

In accordance with the provisions of IAS 39 – Financial Instruments: Recognition and Measurement - the Group records the indemnities received for early repayment of loans immediately in the consolidated income statement at the time of derecognition of those related loans instead of amortising the indemnities over the remaining life of loans.

In accordance with IAS 32 – Financial Instruments: Presentation, as a result of the replacement share purchase undertaking (Note A.4.21), non-controlling interests are presented under "*Interest expense and similar charges*", in conformity with the anticipated acquisition method.

#### A.4.20. Dividend income

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

#### A.4.21. Commitment to purchase EIF shares

Under the terms of a replacement share purchase undertaking in respect of the 1 165 shares held by EIF's non-controlling shareholders (2009: 1 114 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 "*Other liabilities*" (see also Note G).

IAS 27 requires that the acquisition of non-controlling interest be accounted for as an equity transaction. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the change in their relative interests in EIF net assets. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the financial liability is recognised directly in equity under "*Changes in ownership interests in subsidiaries that do not result in a loss of control*" and attributed to owners of the parent. Any changes in fair value of the financial liability subsequent to the acquisition date are recognised in the income statement under "*Interest expense and similar charges*".

#### A.4.22. Reclassification of prior year figures

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

The main reclassifications relate to the *investment property* (reclassification from Assets held for sale) and the de-netting of interest receivable and payable on swap transactions under:

- *interest and similar income*
- *interest expense and similar charges*

## Note B – Cash in hand, balances with central banks and post office banks, debt securities portfolio and shares and other variable-yield securities (in EUR '000)

### B.1. Cash in hand, balances with central banks and post office banks

The cash in hand and balances with central banks and post office banks equal to EUR '000 253 692 at 31 December 2010 (2009: EUR '000 227 227).

EIB is an eligible counterparty in the Eurosystem's monetary policy operations, and therefore has been given access to the monetary policy operations of the European Central Bank. The Bank conducts the operations via the Central Bank of Luxembourg, where the Bank maintains a deposit to cover the minimum reserve requirement. The balance of this deposit amounts to EUR '000 253 600 as at 31 December 2010 (2009: EUR '000 227 144).

### B.2. Debt securities portfolio

The debt securities portfolio is made up of trading financial assets (portfolios B3 and B4), available-for-sale financial assets (portfolios A2, B1, B2 and operational portfolio-EIF), financial assets held-to-maturity (portfolio A1, Investment portfolio) and the Loan substitutes, which represent acquisitions of interests in pools of loans or receivables in connection with securitisation transactions. The detail of each portfolio as at 31 December 2010 and 2009 is as follows:

	31.12.2010	31.12.2009
Treasury bills and other bills eligible for refinancing with central banks (listed)	5 456 695	4 161 685
Debt securities including fixed-income securities (of which EUR '000 9 413 399 unlisted in 2010 and EUR'000 9 071 544 in 2009)	16 406 763	18 300 700
	<b>21 863 458</b>	<b>22 462 385</b>

At 31.12.2010	Classification	Book value	Market value <sup>(1)</sup>
<b>Group Investment portfolio</b>	Held-to-maturity	1 668 620	1 694 551
<b>Operational money market portfolios:</b>			
- money market securities with a max. 3 month maturity A1	Held-to-maturity	5 081 835	5 083 714
- money market securities with a max. 18 month maturity A2	Available for sale	2 214 923 <sup>(1)</sup>	2 214 923
<b>Operational bond portfolios:</b>			
- B1 – Credit Spread	Available for sale	1 012 729 <sup>(2)</sup>	1 012 729
- B2 – Alternative Investment	Available for sale	0	0
- B3 – Global Fixed Income	Trading	631 636	631 636
- B4 – Inflation Linked Investment	Trading	1 081 239	1 081 239
<b>Operational portfolio – EIF</b>	Available for sale	617 225 <sup>(3)</sup>	617 225
<b>Loan substitutes portfolio (Note D)</b>	Held-to-maturity	9 555 251 <sup>(4)</sup>	8 855 846
		<b>21 863 458</b>	<b>21 191 863</b>

<sup>(1)</sup> Market value including accrued interest

<sup>(1)</sup> including unrealised loss of EUR '000 - 9 461

<sup>(2)</sup> including unrealised loss of EUR '000 - 45 489

<sup>(3)</sup> including unrealised loss of EUR '000 - 42 379

<sup>(4)</sup> The Loan substitutes portfolio set out above is accounted for as HTM debt securities and as such is considered as part of the aggregate loans (see Note D). Some of these transactions have been structured by adding credit or project related remedies, thus offering additional recourse. Per detailed review no impairment has occurred on any asset in this portfolio and hence no impairment has thus been accounted for as at 31 December 2010.



At 31.12.2009	Classification	Book value	Market value <sup>(*)</sup>
<b>Group investment portfolio</b>	Held-to-maturity	1 944 504	2 024 751
<b>Operational money market portfolios:</b>			
- money market securities with a max. 3 month maturity A1	Held-to-maturity	7 634 166	7 634 166
- money market securities with a max. 18 month maturity A2	Available for sale	1 804 148 <sup>(1)</sup>	1 804 148
<b>Operational bond portfolios:</b>			
- B1 - Credit Spread	Available for sale	1 135 842 <sup>(2)</sup>	1 135 842
- B2 - Alternative Investment	Available for sale	124 131 <sup>(3)</sup>	124 131
- B3 - Global Fixed Income	Trading	568 567	568 567
- B4 - Inflation Linked Investment	Trading	499 910	499 910
<b>Operational portfolio – EIF</b>	Available for sale	530 174 <sup>(4)</sup>	530 174
<b>Loan substitutes portfolio (Note D)</b>	Held-to-maturity	8 220 943 <sup>(5)</sup>	7 728 304
		<b>22 462 385</b>	<b>22 049 993</b>

<sup>(\*)</sup> Market value including accrued interest

<sup>(1)</sup> including unrealised gain of EUR '000 423

<sup>(2)</sup> including unrealised loss of EUR '000 - 6 625

<sup>(3)</sup> including unrealised loss of EUR '000 - 869

<sup>(4)</sup> including unrealised loss of EUR '000 - 213

<sup>(5)</sup> The Loan substitutes portfolio set out above is accounted for as HTM debt securities and as such is considered as part of the aggregate loans (see Note D). Some of these transactions have been structured by adding credit or project related remedies, thus offering additional recourse. Per detailed review no impairment has occurred on any asset in this portfolio and hence no impairment has thus been accounted for as at 31 December 2009.

The Group enters into collateralised securities lending transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Group when deemed necessary.

The nominal value of securities lending activity amounts to EUR '000 655 982 at 31 December 2010 (2009: EUR '000 471 434).

### B.3. Shares and other variable-yield securities

This balance comprises:

	Venture Capital operations	EBRD shares	Investment funds	TOTAL
<i>Cost</i>				
At 1 January 2010	1 889 354	157 500 <sup>(1)</sup>	222 388	2 269 242
Net additions	188 672	0	101 096	289 768
<b>At 31 December 2010</b>	<b>2 078 026</b>	<b>157 500</b>	<b>323 484</b>	<b>2 559 010</b>
<i>Unrealised gains / losses</i>				
At 1 January 2010	333 820	197 192	16 650	547 662
Unrealised gains	70 641	0	10 839	81 480
Unrealised losses	- 975	- 6 302	- 9 354	- 16 631
<b>At 31 December 2010</b>	<b>403 486</b>	<b>190 890</b>	<b>18 135</b>	<b>612 511</b>
<i>Impairment</i>				
At 1 January 2010	- 799 001	0	0	- 799 001
Additions	- 50 312	0	- 7 185	- 57 497
<b>At 31 December 2010</b>	<b>- 849 313</b>	<b>0</b>	<b>- 7 185</b>	<b>- 856 498</b>
<i>Net book value</i>				
<b>At 31 December 2010</b>	<b>1 632 199</b>	<b>348 390</b>	<b>334 434</b>	<b>2 315 023</b>
<b>At 31 December 2009</b>	<b>1 424 173</b>	<b>354 692</b>	<b>239 038</b>	<b>2 017 903</b>

<sup>(1)</sup> The actual capital paid in by the Group in respect of its subscription of EUR '000 600 000 to the capital of the European Bank for Reconstruction and Development (EBRD) amounts to EUR '000 157 500 at 31 December 2010 (2009: EUR '000 157 500). The Group holds 3.03% of the subscribed capital (2009: 3.03%).

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

The Group enters into collateralised reverse repurchase and repurchase agreement transactions that may result in credit exposure in the event that the counterparty to the transaction is unable to fulfil 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 by the Group when deemed necessary.

	31.12.2010	31.12.2009
Term deposits	6 237 211	9 137 758
Tripartite reverse repos <sup>(*)</sup>	25 414 631	10 098 719
	<b>31 651 842</b>	<b>19 236 477</b>

<sup>(\*)</sup> 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; and
- 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 2010	Total 2009
Disbursed portion (book value)	125 222 957	232 955 365	358 178 322	320 667 555
Undisbursed loans (nominal value)	17 562 869	72 988 160	90 551 029	81 843 248
<b>Aggregate loans granted</b>	<b>142 785 826</b>	<b>305 943 525</b>	<b>448 729 351</b>	<b>402 510 803</b>
			<b>31.12.2010</b>	<b>31.12.2009</b>
Aggregate loans granted			448 729 351	402 510 803
Loan substitutes portfolio (Note B.2)			9 555 251	8 220 943
<b>Aggregate loans including Loan substitutes portfolio</b>			<b>458 284 602</b>	<b>410 731 746</b>

### D.2. Impairment on loans and advances, net of reversals

Specific impairment is created against all F-graded loans and against E-graded ones (see Note S) 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 impairment are tabulated below:

	2010	2009
Specific impairment at beginning of the year	106 300	17 500
Allowance during the year	808	88 800
Release during the year	- 20 000	0
<b>Specific impairment at end of the year</b>	<b>87 108</b>	<b>106 300</b>

The accrued interest on impaired loans as at 31 December 2010 amounts to EUR '000 2 047 (2009: EUR '000 3 723). As at 31 December 2009 and 2010, there is no related collateral held for impaired loans (Note S.2.3.4.).

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

Loans for projects within the Union:

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Spain	696	67 388 000	63 517 730	3 870 270	14.94%	15.19%
Germany	688	57 312 575	48 133 100	9 179 475	12.70%	13.45%
Italy	548	55 563 064	43 221 824	12 341 240	12.32%	12.51%
France	403	41 006 821	34 224 356	6 782 465	9.09%	9.56%
United Kingdom	233	30 523 750	24 813 567	5 710 183	6.77%	6.81%
Portugal	320	24 032 904	21 411 740	2 621 164	5.33%	5.34%
Poland	189	23 104 374	16 507 833	6 596 541	5.12%	4.46%
Greece	150	17 197 611	13 872 929	3 324 682	3.81%	3.65%
Hungary	125	10 710 227	8 437 892	2 272 335	2.37%	2.33%
Austria	196	9 815 879	9 239 879	576 000	2.18%	2.14%
Czech Republic	113	9 705 203	7 729 744	1 975 459	2.15%	2.11%
Belgium	94	8 737 168	7 149 325	1 587 843	1.94%	1.90%
Netherlands	66	7 807 107	5 423 587	2 383 520	1.73%	1.67%
Sweden	73	7 520 745	5 171 663	2 349 082	1.67%	1.26%
Finland	114	6 900 878	6 116 078	784 800	1.53%	1.64%
Romania	74	6 553 558	3 277 402	3 276 156	1.45%	1.58%
Ireland	50	4 265 456	3 356 818	908 638	0.95%	1.06%
Slovenia	54	3 089 494	2 185 805	903 689	0.68%	0.67%
Slovakia	44	2 617 823	1 116 366	1 501 457	0.58%	0.33%
Bulgaria	42	2 429 605	1 090 550	1 339 055	0.54%	0.59%
Denmark	44	2 370 991	2 069 158	301 833	0.53%	0.60%
Cyprus	33	1 835 111	1 362 472	472 639	0.41%	0.35%
Latvia	27	1 602 681	817 681	785 000	0.35%	0.39%
Lithuania	17	1 328 129	1 176 629	151 500	0.29%	0.33%
Estonia	14	1 068 217	489 908	578 309	0.24%	0.25%
Luxembourg	27	790 713	693 263	97 450	0.17%	0.21%
Malta	5	301 055	145 555	155 500	0.07%	0.05%
<b>Total (nominal value)</b>	<b>4 439</b>	<b>405 579 139</b>	<b>332 752 854</b>	<b>72 826 285</b>	<b>89.91%</b>	<b>90.43%</b>

Loans for projects outside the Union:

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion	% of total 2010	% of total 2009
Candidate Countries	161	16 131 785	11 250 724	4 881 061	3.58%	3.51%
Mediterranean Countries	225	13 216 312	8 060 884	5 155 428	2.93%	2.79%
Balkans	135	4 596 934	1 978 108	2 618 826	1.02%	0.94%
Asia	37	2 992 212	1 413 737	1 578 475	0.66%	0.56%
Central and Latin America	46	2 593 426	1 841 511	751 915	0.57%	0.52%
ACP States	101	2 263 344	1 054 626	1 208 718	0.50%	0.44%
South Africa	30	1 298 577	844 401	454 176	0.29%	0.30%
Eastern Europe, Southern Caucasus and Russia	21	1 219 686	293 541	926 145	0.27%	0.18%
EFTA Countries	17	1 200 968	1 060 968	140 000	0.27%	0.33%
Overseas Countries and Territories	4	11 850	1 850	10 000	0.00%	0.00%
<b>Total (nominal value)</b>	<b>777</b>	<b>45 525 094</b>	<b>27 800 350</b>	<b>17 724 744</b>	<b>10.09%</b>	<b>9.57%</b>
<b>TOTAL 2010 (nominal value)</b>	<b>5 216</b>	<b>451 104 233<sup>(*)</sup></b>	<b>360 553 204<sup>(*)</sup></b>	<b>90 551 029</b>	<b>100%</b>	
<b>TOTAL 2009 (nominal value)</b>	<b>5 032</b>	<b>405 992 927<sup>(*)</sup></b>	<b>324 149 679<sup>(*)</sup></b>	<b>81 843 248</b>		<b>100.00%</b>

(\*) Aggregate loans including loan substitutes

	Number of loans	Aggregate loans granted	Disbursed portion	Undisbursed portion
<b>TOTAL 2010 (nominal value)</b>	<b>5 216</b>	<b>451 104 233</b>	<b>360 553 204</b>	<b>90 551 029</b>
Fair value adjustment on loans <sup>(**)</sup>		7 180 369	7 180 369	
<b>TOTAL 2010</b>	<b>5 216</b>	<b>458 284 602 <sup>(*)</sup></b>	<b>367 733 573 <sup>(*)</sup></b>	<b>90 551 029</b>
<b>TOTAL 2009</b>	<b>5 032</b>	<b>410 731 746 <sup>(*)</sup></b>	<b>328 888 498 <sup>(*)</sup></b>	<b>81 843 248</b>

<sup>(\*)</sup> Aggregate loans including loan substitutes

<sup>(\*\*)</sup> Refer to Note A.4.9 for the definition of Fair value on loans

#### D.4. Change in impairment on guarantee operations

A provision for guarantees issued has been established as there is objective evidence that the Group will have to incur a credit loss in respect of guarantees granted. This provision amounts to EUR '000 107 469 as at 31 December 2010 (2009: EUR '000 70 412).

The impairment on guarantees issued totalled EUR '000 - 47 815 in 2010 (2009: EUR '000 - 60 299). A foreign exchange adjustment of EUR '000 10 758 was recorded for the year ended 31 December 2010 (2009: EUR '000 4 653).

### Note E – Property, furniture, equipment, investment property and intangible assets

(in EUR '000)

#### E.1. Property, furniture and equipment and intangible assets

	Land	Luxembourg buildings	Furniture and equipment	Total property, furniture and equipment	Total intangible assets
<b>Historical cost</b>					
At 1 January 2010	10 387	357 234	82 668	450 289	6 908
Additions	14 000	12 800	9 254	36 054	6 819
Disposals	0	0	- 10 569	- 10 569	- 1 937
<b>At 31 December 2010</b>	<b>24 387</b>	<b>370 034</b>	<b>81 353</b>	<b>475 774</b>	<b>11 790</b>
<b>Accumulated depreciation</b>					
At 1 January 2010	0	- 104 121	- 38 849	- 142 970	- 2 091
Depreciation	0	- 12 603	- 14 257	- 26 860	- 3 370
Disposals	0	0	10 569	10 569	1 937
<b>At 31 December 2010</b>	<b>0</b>	<b>- 116 724</b>	<b>- 42 537</b>	<b>- 159 261</b>	<b>- 3 524</b>
<b>Net book value</b>					
<b>At 31 December 2010</b>	<b>24 387</b>	<b>253 310</b>	<b>38 816</b>	<b>316 513</b>	<b>8 266</b>
<b>At 31 December 2009</b>	<b>10 387</b>	<b>253 113</b>	<b>43 819</b>	<b>307 319</b>	<b>4 817</b>

All land and buildings are used by the Group for its own activities. The cumulative cost relating to the construction of the new building amounts to EUR '000 228 026 (2009: EUR '000 215 226). For subsequent measurement purposes the Group uses the "cost model" under IAS 16.

## E.2. Investment property

	Land	Building	Total investment property
<b>Historical cost</b>			
At 1 January 2010	330	5 020	5 350
Additions	0	0	0
Disposals	0	- 188	- 188
<b>At 31 December 2010</b>	<b>330</b>	<b>4 832</b>	<b>5 162</b>
<b>Accumulated depreciation</b>			
At 1 January 2010	0	- 1 977	- 1 977
Depreciation	0	- 161	- 161
Disposals	0	0	0
<b>At 31 December 2010</b>	<b>0</b>	<b>- 2 138</b>	<b>- 2 138</b>
<b>Net book value</b>			
<b>At 31 December 2010</b>	<b>330</b>	<b>2 694</b>	<b>3 024</b>
<b>At 31 December 2009</b>	<b>330</b>	<b>3 043</b>	<b>3 373</b>

The fair value of the investment property is EUR '000 8 500. The valuation was performed by external experts in October 2008 and is presumed not to have changed materially since then.

Other operating income includes income from leased office space amounting to EUR '000 138 (2009: EUR nil).

In 2008 the carrying value of land and Luxembourg buildings of the EIF was transferred from Property, furniture and equipment to Assets held for sale. Due to the downturn in the commercial property market the property was not sold as foreseen and was reclassified as Investment property. The comparative figures have been restated.

## Note F – Deferred income (in EUR '000)

Deferred income	31.12.2010	31.12.2009
– Interest subsidies received in advance <sup>(1)</sup>	170 739	177 228
	<b>170 739</b>	<b>177 228</b>

<sup>(1)</sup> Part of the amounts received from the European Commission through the European Monetary System (EMS) arrangements has been made available as a long term advance which is entered on the liabilities side under item 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; and
- 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.

## Note G – Other assets and other liabilities (in EUR '000)

Other assets	31.12.2010	31.12.2009
– Commission receivable on guarantees and venture capital operations	18 777	15 205
– Staff housing loans and advances <sup>(1)</sup>	13 621	15 712
– Loan instalments receivable	11 765	23 677
– Advances on salaries and allowances	373	248
– Other	39 121	52 072
<b></b>	<b>83 657</b>	<b>106 914</b>
Other liabilities	31.12.2010	31.12.2009
– Commitment to purchase non-controlling interest <sup>(2)</sup>	369 762	352 085
– Optional Supplementary Provident Scheme (Note J)	222 961	194 947
– Payable on HIPC Initiative	46 872	46 872
– Financial guarantees issued in respect of venture capital operations	26 902	20 942
– Personnel costs payable	19 175	8 781
– Western Balkans infrastructure fund	10 000	10 000
– Other	71 802	79 676
<b></b>	<b>767 474</b>	<b>713 303</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> As at 31 December 2010, the portion of non-controlling interest on the balance sheet amounts to EUR 370 million (2009: EUR 352 million) and on the consolidated result (Note L) amounts to EUR 3 million (2009: EUR - 3 million). Under the terms of replacement share purchase undertaking in respect of the 1 165 shares held by EIF's non-controlling interests (2009: 1 114 shares), the Bank is offering to buy these at an exercise price of EUR 408 million (2009: EUR 389 million) determined on the basis of the audited 2009 annual accounts net of the dividend decided by the EIF's General Meeting.

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

### H.1. Amounts owed to credit institutions

	31.12.2010	31.12.2009
Repayable on demand	5 675 399	4 380 414
Short term borrowings	27 859	0
Repo with central banks	100 022	100 147
	<b>5 803 280</b>	<b>4 480 561</b>

### H.2. Amounts owed to customers

	31.12.2010	31.12.2009
Repayable on demand <sup>(*)</sup>	1 524 466	1 256 333
Short-term borrowings	976 419	1 106 828
	<b>2 500 885</b>	<b>2 363 161</b>

<sup>(\*)</sup> Includes European Union and Member States accounts:

	31.12.2010	31.12.2009
European Union and Member States accounts:		
– For Special Section operations and related unsettled amounts	354 872	332 310
– Deposit accounts	1 130 649	899 908



## Note I – 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 caption '*Debts evidenced by certificates*' includes '*Debt securities in issue*' (securities offered to the general investing public) and '*Others*' (private placements). The table below discloses the details per currency of debts outstanding at 31 December 2010 and 2009, together with the average rates and due dates.

Debts evidenced by certificates					
PAYABLE IN	OUTSTANDING AT 31.12.2010	AVERAGE RATE 2010 <sup>(1)</sup>	DUE DATES	OUTSTANDING AT 31.12.2009	AVERAGE RATE 2009 <sup>(1)</sup>
EUR	148 194 630	3.56	2011/2057	136 846 665	3.77
GBP	52 122 801	4.54	2011/2054	51 032 542	4.77
DKK	550 077	2.55	2024/2026	604 692	2.77
SEK	3 241 649	3.68	2011/2028	1 961 373	3.72
CZK	635 750	4.15	2013/2030	598 190	4.00
HUF	371 470	6.29	2011/2016	525 109	6.83
PLN	445 658	6.33	2011/2026	378 058	6.24
BGN	171 285	5.52	2011/2013	171 285	5.72
RON	105 584	8.88	2014/2016	106 225	8.88
USD	104 067 249	2.75	2011/2058	78 348 270	3.42
CHF	7 499 881	2.38	2011/2036	5 763 009	2.41
JPY	13 946 268	0.85	2011/2047	10 607 943	0.73
NOK	3 386 667	4.16	2011/2025	2 383 494	4.42
CAD	781 727	4.68	2037/2045	778 221	4.72
AUD	14 628 590	5.93	2011/2021	9 099 260	5.85
HKD	225 315	1.05	2012/2019	227 380	1.46
NZD	2 180 233	6.75	2012/2017	2 749 583	7.13
ZAR	1 990 653	8.21	2011/2018	1 256 187	8.49
MXN	38 275	6.07	2015/2015	30 550	6.65
TWD	25 667	4.75	2013/2013	65 574	4.21
TRY	2 831 379	10.63	2011/2022	1 991 631	12.37
ISK	48 182	7.91	2011/2011	95 036	8.74
RUB	519 598	6.82	2011/2019	138 110	8.14
<b>TOTAL (notional value)</b>	<b>358 008 588</b>			<b>305 758 387</b>	

<sup>(1)</sup> Weighted average rate at the balance sheet date

	OUTSTANDING AT 31.12.2010	OUTSTANDING AT 31.12.2009
<b>Total debts (notional value) <sup>(*)</sup></b>	<b>358 008 588</b>	<b>305 758 387</b>
Fair value adjustment on borrowings	22 577 177	18 089 581
<b>Total debts</b>	<b>380 585 765</b>	<b>323 847 968</b>

<sup>(\*)</sup> The notional value of debts evidenced by certificates held at fair value through profit or loss as at 31 December 2010 amounts to EUR 323 million (2009: EUR 284 million). The notional value of debts evidenced by certificates held at amortised cost as at 31 December 2010 amounts to EUR 35 million (2009: EUR 22 million).

Refer to Note A.4.15 for the definition of Fair value on borrowings.

## Note J – 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 2010 and was rolled forward to 31 December 2010.

An additional plan is not included in the figures below: the Optional Supplementary Provident Scheme (a defined contribution pension scheme). The corresponding amount of EUR 223 million (2009: EUR 195 million) is entered under "Other liabilities" (Note G).

Net benefit expense (recognised in consolidated income statement) in 2010:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2010
Current service cost <sup>(1)</sup>	26 208	1 070	1 409	5 402	34 089
Interest cost on benefit obligation <sup>(2)</sup>	68 860	1 796	1 218	5 691	77 565
Recognition of actuarial (gains)/losses <sup>(1)</sup>	- 5 634	405	36	- 8 862	- 14 055
<b>Net benefit expense</b>	<b>89 434</b>	<b>3 271</b>	<b>2 663</b>	<b>2 231</b>	<b>97 599</b>

Net benefit expense (recognised in consolidated income statement) in 2009:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2009
Current service cost <sup>(1)</sup>	26 543	994	1 655	13 853	43 045
Interest cost on benefit obligation <sup>(2)</sup>	62 541	1 741	938	5 193	70 413
Special termination benefits <sup>(1)</sup>	10 719	0	0	0	10 719
Recognition of actuarial (gains)/losses <sup>(1)</sup>	5 634	10	- 6	- 170	5 468
<b>Net benefit expense</b>	<b>105 437</b>	<b>2 745</b>	<b>2 587</b>	<b>18 876</b>	<b>129 645</b>

<sup>(1)</sup> Recognised in General administrative expenses

<sup>(2)</sup> Recognised in Interest expense and similar charges

Benefit liabilities as at 31 December 2010:

	EIB Pension	Management Committee Pension <sup>(1)</sup>	EIF Pension	Health Insurance	Total 2010
Benefit obligation	1 600 779	36 408	35 457	140 337	1 812 981
Unrecognised net actuarial losses / gains	- 450 329	- 161	- 12 018	- 33 899	- 496 407
<b>Net liability</b>	<b>1 150 450</b>	<b>36 247</b>	<b>23 439</b>	<b>106 438</b>	<b>1 316 574</b>

Benefit liabilities as at 31 December 2009:

	EIB Pension	Management Committee Pension <sup>(1)</sup>	EIF Pension	Health Insurance	Total 2009
Benefit obligation	1 137 436	34 204	19 677	102 097	1 293 414
Unrecognised net actuarial losses / gains	- 56 842	761	- 469	5 428	- 51 122
<b>Net liability</b>	<b>1 080 594</b>	<b>34 965</b>	<b>19 208</b>	<b>107 525</b>	<b>1 242 292</b>

In 2010, the actuarial valuation of the pension plans and the healthcare scheme displayed an unrecognised loss of EUR'000 496 407. EUR'000 315 109 was reported in excess of the 10% corridor and this excess will be recognised over the expected average remaining service lives of the plans' participants on a straight line basis. The expense that will be recognised in the next financial year amounts to EUR'000 24 564.

Movements in the benefit liability during the year ended 31 December 2010 are as follows (in EUR '000):

	EIB Pension	Management Committee Pension <sup>(1)</sup>	EIF Pension	Health Insurance	Total
At 1 January 2010	1 080 594	34 965	19 208	107 525	1 242 292
Net benefit expense	89 434	3 271	2 663	2 231	97 599
Benefit payments net of employee contributions	- 19 578	- 1 989	1 568	- 3 318	- 23 317
<b>At 31 December 2010</b>	<b>1 150 450</b>	<b>36 247</b>	<b>23 439</b>	<b>106 438</b>	<b>1 316 574</b>

<sup>(1)</sup> This amount includes indemnities of EUR'000 4 705 (2009: EUR'000 4 291) 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:

	2010	2009
	in %	in %
Discount rate for pension plans	5.06	6.19
Discount rate for health insurance plan	4.50	4.50
Future salary increase (including inflation)	4.50	4.50
Future pension increases	2.00	2.00
Healthcare cost increase rate	4.00	4.00
Actuarial tables <sup>(1)</sup>	ISCLT	LPP 2005

<sup>(1)</sup> It was decided in 2010 to use the ISCLT longevity table instead of the LPP 2005 tables in the actuarial calculations, as this table is considered more appropriate for the EIB Group as a European Institution.

The table below shows the sensitivity of both benefit expenses for 2010 and defined benefit obligation as at 31 December 2010 of the Health Insurance Plan to a 1% increase and decrease in the healthcare cost increase rate (in EUR '000):

	1% increase	1% decrease
Benefit expenses	5 341	- 3 915
Defined benefit obligation	37 518	- 28 745

The table below shows the actuarial experience (gain)/loss for the different Plans and the total defined benefit obligation:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total	Total defined benefit obligation
2010	63 767	- 408	1 137	1 833	66 329	1 812 981
2009	12 016	- 495	1 452	41	13 014	1 293 414
2008	29 895	- 434	653	- 1 084	29 030	1 196 897
2007	19 790	1 481	1 230	- 6 151	16 350	1 180 828

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 2010
Obligation at the beginning of the year	1 137 436	34 204	19 677	102 097	1 293 414
Current service cost	26 208	1 070	1 409	5 402	34 089
Employee contributions	16 102	0	1 365	0	17 467
Interest cost	68 860	1 796	1 218	5 691	77 565
Benefit payments	- 35 680	- 1 989	203	- 3 318	- 40 784
Experience (gain)/loss	63 767	- 408	1 137	1 833	66 329
Change in assumptions	324 086	1 735	10 448	28 632	364 901
<b>Benefit obligation as at 31 December 2010</b>	<b>1 600 779</b>	<b>36 408</b>	<b>35 457</b>	<b>140 337</b>	<b>1 812 981</b>

## Note K – Result for the financial year

On 17 May 2011 the appropriation of the balance of the profit and loss account of the stand-alone financial statements of the Bank for the year ended 31 December 2010, prepared under EU Accounting Directives, which amounts to EUR '000 2 116 642 will be submitted for approval by the Board of Governors.

## Note L – “Interest and similar income” and “Interest expense and similar charges”

(in EUR '000)

### L.1. Net interest income

	2010	2009
<b>Interest and similar income</b>		
Loans and advances to credit institutions and customers	8 044 712	8 940 131
Derivatives	10 858 228	7 745 889
Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities	407 603	400 122
Interest subsidy from the EU	35 301	38 439
Cash in hand, balances with central banks and post office banks	2 798	1 027
Other	5 972	4 933
<b>TOTAL</b>	<b>19 354 614</b>	<b>17 130 541</b>
<b>Interest expense and similar charges</b>		
Debts evidenced by certificates	- 13 347 532	- 12 361 090
Derivatives	- 3 159 661	- 2 360 780
Interest cost on benefit obligation (Note J)	- 77 565	- 70 413
Interest on third party mandates	- 11 520	- 18 082
Amounts owed to credit institutions and to customers	- 23 374	- 34 653
Non-controlling interest (Note A.4.21)	- 3 086	2 909
Other	- 43 222	- 18 388
<b>TOTAL</b>	<b>- 16 665 960</b>	<b>- 14 860 497</b>
<b>Net interest income</b>	<b>2 688 654</b>	<b>2 270 044</b>

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

	2010	2009
<b>Interest and similar income</b>		
Derivatives	10 858 228	7 745 889
Loans and receivables <sup>(1)</sup>	6 302 839	7 201 599
Designated at fair value through profit and loss	1 779 973	1 777 998
Available-for-sale	297 756	280 852
Held-to-maturity	109 660	119 219
Trading debt securities	186	51
Non-financial assets	0	170
Other	5 972	4 763
<b>TOTAL</b>	<b>19 354 614</b>	<b>17 130 541</b>
<b>Interest expense and similar charges</b>		
Designated at fair value through profit and loss	- 13 239 784	- 11 596 868
Derivatives	- 3 159 661	- 2 360 780
Non-financial liabilities	- 135 392	- 103 974
Financial liabilities measured at amortised cost	- 131 123	- 742 556
Trading debt securities	0	- 56 319
<b>TOTAL</b>	<b>- 16 665 960</b>	<b>- 14 860 497</b>
<b>Net interest income</b>	<b>2 688 654</b>	<b>2 270 044</b>

<sup>(1)</sup> Included in this class of financial assets is accrued interest on impaired loans as at 31 December 2010 amounting to EUR '000 2 047 (2009: EUR '000 3 723).

## L.2. Geographical analysis of “Interest and similar income”

EU Countries	2010	2009
Spain	1 118 081	1 305 158
Italy	777 630	996 206
Germany	759 781	1 049 761
France	691 864	880 744
United Kingdom	607 887	634 245
Greece	520 074	534 391
Poland	501 789	411 585
Portugal	470 975	531 264
Hungary	200 643	226 252
Belgium	189 751	184 813
Austria	187 842	188 155
Czech Republic	141 227	166 249
Netherlands	137 953	124 903
Finland	126 205	158 306
Romania	109 465	98 174
Sweden	81 110	92 704
Ireland	73 561	83 529
Slovenia	50 371	55 612
Lithuania	32 871	19 867
Bulgaria	27 786	26 467
Denmark	26 177	46 001
Slovakia	25 606	29 513
Luxembourg	19 834	22 554
Cyprus	19 820	22 880
Latvia	19 774	21 107
Estonia	7 201	5 806
Malta	3 486	1 084
<b>Total</b>	<b>6 928 764</b>	<b>7 917 330</b>
Outside the European Union	823 239	765 476
<b>Total</b>	<b>7 752 003</b>	<b>8 682 806</b>
Income not analysed per country <sup>(1)</sup>	11 602 611	8 447 735
<b>Total interest and similar income</b>	<b>19 354 614</b>	<b>17 130 541</b>
<sup>(1)</sup> Income not analysed per country:		
1. Revenue from investment and loan substitutes portfolios	219 040	220 277
2. Revenue from Operational bond portfolios	70 009	56 031
3. Revenue from Operational money market portfolios	118 236	122 359
4. Revenue from money market operations	190 040	328 437
5. Income from derivatives	10 858 228	7 745 889
6. Unwinding of interest income from the present value adjustment of paid-in capital and reserve receivable	5 972	4 763
7. Adjustment on early repayments of loans	141 086	- 30 021
	<b>11 602 611</b>	<b>8 447 735</b>

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

### M.1. Per nature of result

	2010	2009
Net result on derivatives <sup>(1)</sup>	- 122 676	207 797
Net result on loans under the fair value option and associated swaps <sup>(2)</sup>	927 991	- 1 235 826
Net result on borrowings under the fair value option and associated swaps <sup>(3)</sup>	- 532 662	- 3 029 215
	<b>272 653</b>	<b>- 4 057 244</b>
Fair value gains and losses on operational treasury portfolio	- 36 776	10 663
Realised gains and losses on operational treasury portfolio	888	- 30 284
Foreign exchange gain and loss	- 5 424	2 388
Gain and loss on buy back of debts evidenced by certificates	- 4 570	6 555
Gain and loss on unwind of ALM swaps	- 85 882	14 826
Realised gain/loss on sale of shares	30 997	- 2 142
Result on release of guarantees	28 903	0
Realised gain on loans	0	6 879
<b>Total result on financial operations</b>	<b>200 789</b>	<b>- 4 048 359</b>

<sup>(1)</sup> The net result on derivatives includes for the majority the fair value of Macro-hedging swaps and Treasury Asset swaps. On 31 December 2010 these swaps evidence a negative impact of EUR'000 122 676 compared to a positive impact of EUR'000 207 797 in 2009.

<sup>(2)</sup> The Fair Value Option is applied on loans hedged by derivatives. As at 31 December 2010, the carrying value of loans designated at fair value stands at EUR 87.7 billion (2009: EUR 69.2 billion), as only loans at a fixed rate are being hedged. The use of Fair Value Option on loans generates an increase of EUR ' 000 927 991 on the income statement at 31 December 2010 (2009: EUR' 000 -1 235 826). The positive variation in the combined fair value of the EIB loans and their associated swaps is essentially due to the decreases of the lending base rates since the beginning of 2010. The lending base rates are used to discount the prospective contractual cash flows of the designated loans under the Fair Value Option. In the valuation of the associated swaps, however, the lending base rates levels do not intervene, as they have to be valued with the swap market rates. Motivated by the need to translate into lending spreads the decreasing borrowing spreads that the Bank can pay on the primary capital markets there have been downward shifts on the lending base rates during 2010. These downward shifts of the lending base rates, resulted in lower discount rates for the loans and have generated a positive impact on the consolidated result as at 31 December 2010.

<sup>(3)</sup> The Fair Value Option is applied on borrowings hedged by derivatives. The majority of the borrowings are systematically hedged, and the carrying value of borrowings designated at fair value amounts to EUR 345.1 billion (2009: EUR 301.6 billion) as at 31 December 2010. The net impact on the income statement at 31 December 2010 on borrowings and associated swaps is a decrease of the profit for the year by EUR'000 532 662 (2009: decrease of EUR'000 - 3 029 215). The changes in Fair Value of the EIB borrowings tend to be only partially compensated by those of the related hedging swaps as the value of the borrowing – being calculated on a model basis – is not directly affected by credit-related factors.

### M.2. Per category of assets and liabilities

	2010	2009
Financial assets available-for-sale	30 430	- 38 072
Financial assets designated at fair value through profit or loss	2 306 205	- 993 178
Financial liabilities designated at fair value through profit or loss	- 3 260 637	459 478
Financial instruments held for trading	1 191 763	- 3 507 234
Other	- 66 972	30 647
	<b>200 789</b>	<b>- 4 048 359</b>

### Note N – Other operating income (in EUR '000)

	2010	2009
Reversal of previous year's unutilised accruals of general administrative expenses	6 313	4 119
Other	4 188	6 640
	<b>10 501</b>	<b>10 759</b>

### Note O – Fee and commission income (in EUR '000)

	2010	2009
Commission on Investment Facility – Cotonou (Note V)	34 086	36 405
Commission income from advisory activities	64 899	50 165
Commission on loans	31 096	22 364
Commission on guarantees	29 191	43 422
Commission on Jaspers (Note V)	22 473	16 948
Commission on Jessica (Note V)	11 900	4 976
Commission on Jeremie (Note V)	10 457	6 961
Commission on Jasmine (Note V)	713	257
Commission on Yaoundé/Lomé conventions (Note Y)	7 569	8 458
Commission from other EU institutions and EU countries	23 641	17 049
	<b>236 025</b>	<b>207 005</b>

### Note P – General administrative expenses (in EUR '000)

	2010	2009
Salaries and allowances <sup>(*)</sup>	- 236 164	- 208 747
Welfare contributions and other social costs	- 87 482	- 119 949
<b>Staff costs</b>	<b>- 323 646</b>	<b>- 328 696</b>
Other general and administrative expenses	- 117 956	- 117 800
	<b>- 441 602</b>	<b>- 446 496</b>

<sup>(\*)</sup> of which the amount for members of the Management Committee is EUR '000 2 960 (2009: EUR '000 2 924).

The number of persons employed by the Group was 2 077 at 31 December 2010 (1 896 at 31 December 2009).



## Note Q – Derivative financial instruments

### Q.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 in 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 connection with fund-raising, hedging loans and treasury transactions, 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 in one currency 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.

Interest rate and currency swaps allow the Group to modify the interest rates and currencies of its borrowing portfolio and other portfolios 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.

#### 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 stood at EUR 26 265 million at 31 December 2010

against EUR 11 887 million at 31 December 2009. The notional amount of short term currency forwards was EUR 288 million at 31 December 2010 (2009: EUR 252 million).

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 283 million at 31 December 2010 (2009: EUR 335 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; and
- manages residual interest rate risks in relation to this investment profile.

With a view of 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 fair valued in accordance with IAS 39.

### Q.2. Fair value of derivative financial instruments

Financial instruments measured at fair value require disclosure of fair value measurements by level of the following hierarchy:

- Level 1 – Quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques with inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 – Valuation techniques which use inputs for the asset or liability that are not based on observable market data (unobservable inputs). Internal valuation models are used to determine the fair values of these instruments.

Valuation techniques include net present value and discounted cash flow models, Hull-White and Libor Market Model interest rate models and Black-Scholes option model. Assumptions and inputs used in valuation techniques include risk-free interest rates, basis swap spreads and currency basis swaps spreads, foreign currency exchange rates and forward exchange rates, equity and equity index prices and expected price volatilities and correlations, Consumer Price Indices values and expected volatilities and correlations. The objective

of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length. 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, typically in the estimation of correlations in some interest rate and cross currency models and in the

estimation of volatilities for some long dated equity linked and inflation linked transactions.

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 involve 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 2010 (in EUR million)

	Level 1		Level 2		Level 3		Total	
	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non market observable inputs			
	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value
Interest Rate Swaps	0	0	344 913	11 353	14 490	- 396	<b>359 403</b>	<b>10 957</b>
Cross Currency Swaps	0	0	133 998	5 866	6 478	437	<b>140 476</b>	<b>6 303</b>
Credit Default Swaps	0	0	0	0	193	29	<b>193</b>	<b>29</b>
Forward foreign exchange contracts	0	0	26 265	- 34	0	0	<b>26 265</b>	<b>- 34</b>
Futures contracts	283	0	0	0	0	0	<b>283</b>	<b>0</b>
<b>Total</b>	<b>283</b>	<b>0</b>	<b>505 176</b>	<b>17 185</b>	<b>21 161</b>	<b>70</b>	<b>526 620</b>	<b>17 255</b>

Derivatives by valuation method as at 31 December 2009 (in EUR million)

	Level 1		Level 2		Level 3		Total	
	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non market observable inputs			
	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value
Interest Rate Swaps	0	0	299 702	9 546	16 677	- 2	<b>316 379</b>	<b>9 544</b>
Cross Currency Swaps	0	0	102 225	- 3 819	5 623	19	<b>107 848</b>	<b>- 3 800</b>
Credit Default Swaps	0	0	0	0	197	2	<b>197</b>	<b>2</b>
Forward foreign exchange contracts	0	0	12 139	255	0	0	<b>12 139</b>	<b>255</b>
Futures contracts	335	0	0	0	0	0	<b>335</b>	<b>0</b>
<b>Total</b>	<b>335</b>	<b>0</b>	<b>414 066</b>	<b>5 982</b>	<b>22 497</b>	<b>19</b>	<b>436 898</b>	<b>6 001</b>

Quoted prices for the majority of the Bank's derivative transactions are not available in the market. For such instruments the fair values are estimated using valuation techniques or models, based whenever 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 R – 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 31.12.2010	Fair value 31.12.2010	Carrying value 31.12.2009	Fair value 31.12.2009
<b>Assets carried at fair value</b>				
Available-for-sale financial assets	6 160	6 160	5 613	5 613
Financial assets designated at fair value through profit or loss	87 743	87 743	69 214	69 214
Financial assets held for trading	33 066	33 066	21 936	21 936
<b>Total</b>	<b>126 969</b>	<b>126 969</b>	<b>96 763</b>	<b>96 763</b>
<b>Assets carried at amortised cost</b>				
Held-to-maturity investments	16 306	15 634	17 800	17 387
Loans and receivables	302 745	306 840	271 178	269 690
<b>Total</b>	<b>319 051</b>	<b>322 474</b>	<b>288 978</b>	<b>287 077</b>
<b>Total financial assets</b>	<b>446 020</b>	<b>449 443</b>	<b>385 741</b>	<b>383 840</b>
<b>Liabilities carried at fair value</b>				
Financial liabilities held for trading	14 098	14 098	14 867	14 867
Financial liabilities designated at fair value through profit or loss	345 066	345 066	301 642	301 642
<b>Total</b>	<b>359 164</b>	<b>359 164</b>	<b>316 509</b>	<b>316 509</b>
<b>Liabilities carried at amortised cost</b>				
Liabilities measured at amortised cost	43 824	44 606	29 050	30 115
<b>Total</b>	<b>43 824</b>	<b>44 606</b>	<b>29 050</b>	<b>30 115</b>
<b>Total financial liabilities</b>	<b>402 988</b>	<b>403 770</b>	<b>345 559</b>	<b>346 624</b>

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 available market price, fair values are estimated using valuation techniques or models based whenever possible on observable market data prevailing at the balance sheet date.

Fair value of such instruments is determined by using valuation techniques to convert future amounts to a single discounted present amount. 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 involve the use of non-market observable inputs.

	Level 1	Level 2	Level 3	Total 2010
	Quoted market price	Valuation techniques – market observable input	Valuation techniques – non market observable input	Total
<b>Financial assets</b>				
Financial assets held for trading	1 713	29 842	1 511	33 066
Financial assets designated at fair value through profit or loss	0	69 738	18 005	87 743
Financial investments – available-for-sale	3 176	638	2 346	6 160
<b>Total</b>	<b>4 889</b>	<b>100 218</b>	<b>21 862</b>	<b>126 969</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	0	12 657	1 441	14 098
Financial liabilities designated at fair value through profit or loss	294 465	36 853	13 748	345 066
<b>Total</b>	<b>294 465</b>	<b>49 510</b>	<b>15 189</b>	<b>359 164</b>
	Level 1	Level 2	Level 3	Total 2009
	Quoted market price	Valuation techniques – market observable input	Valuation techniques – non market observable input	Total
<b>Financial assets</b>				
Financial assets held for trading	1 068	19 834	1 034	21 936
Financial assets designated at fair value through profit or loss	0	57 177	12 037	69 214
Financial investments – available-for-sale	2 265	777	2 571	5 613
<b>Total</b>	<b>3 333</b>	<b>77 788</b>	<b>15 642</b>	<b>96 763</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	0	13 851	1 016	14 867
Financial liabilities designated at fair value through profit or loss	254 550	33 770	13 322	301 642
<b>Total</b>	<b>254 550</b>	<b>47 621</b>	<b>14 338</b>	<b>316 509</b>

In 2010, the Group made transfers from level 1 to 2 of the fair value hierarchy:

- Financial liabilities designated at fair value through profit or loss of EUR 6 811 million (2009: EUR 1 957 million).
- Investment securities (available for sale) of EUR nil (2009: EUR 59 million).

The Group made also the following transfer from level 2 to 1 of the fair value hierarchy:

- Financial liabilities designated at fair value through profit or loss of EUR 12 037 million (2009: EUR 8 601 million).
- Investment securities (available for sale) of EUR 4 million (2009: EUR nil).

The following table presents the changes in Level 3 instruments for the year ended 31 December 2010:

	Financial assets held for trading <sup>(1)</sup>	Financial assets designated at fair value through P/L	Financial investments – Available-for-Sale	Financial liabilities held for trading	Financial liabilities designated at fair value through P/L	Total
<b>Balance at 1 January 2010</b>	<b>1 034</b>	<b>12 037</b>	<b>2 571</b>	<b>- 1 016</b>	<b>- 13 322</b>	<b>1 304</b>
Total gains or losses						
- in profit or loss	691	642	- 57	- 338	- 1 432	- 494
- in other comprehensive income	0	0	66	0	0	66
Purchases	29	2 807	290	- 95	0	3 031
Issues	0	0	0	0	- 868	- 868
Settlement	- 112	0	- 482	8	2 055	1 469
Aggregate transfers into Level 3	109	2 519	0	- 2	- 2 007	619
Aggregate transfers out of Level 3	- 240	0	- 42	2	1 826	1 546
<b>Balance at 31 December 2010</b>	<b>1 511</b>	<b>18 005</b>	<b>2 346</b>	<b>- 1 441</b>	<b>- 13 748</b>	<b>6 673</b>

<sup>(1)</sup> Derivative balances are included within Financial assets held for trading.

#### **Change in fair value of financial instruments designated at fair value through profit or 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 fair value through profit or loss (FVTPL) are determined has been quantified as a reduction of approximately EUR 114 million using less favourable assumptions and an increase of approximately EUR 49 million using more favourable assumptions for 31 December 2010 and a reduction of approximately EUR 9 million using less favourable assumptions and an increase of approximately EUR 74 million using more favourable assumptions for 31 December 2009.

The alternative assumptions are used to calculate the fair value of derivatives, borrowings and loans belonging to the level 3 valuation category. Fair value of borrowings and loans in Level 3 is derived from the value of derivatives which hedge these borrowings and loans. Hence the alternative assumptions are first applied to valuation of Level 3 derivatives and then the impact is applied to Level 3 borrowings and loans. Level 3 derivatives can be grouped in five swap types according to underlying asset and valuation model:

- a. Single currency, multiple-rate swaps
- b. Cross currency and FX-linked swaps

- c. Inflation-linked swaps
- d. Equity-linked swaps
- e. Credit-linked swaps

For single currency, multiple rate swaps, alternative assumptions are applied to forward rate correlations used in calibration of BGM models. For cross currency and FX-linked swaps alternative assumptions are applied to correlations between interest and FX rates used in the calibration of hybrid Black Scholes / Hull & White models. For inflation-linked swaps alternative assumptions are applied to inflation index and real rate volatilities used in the calibration of hybrid Black Scholes / Hull & White models. For equity-linked swaps alternative assumptions are applied to equity or index volatilities and dividend yields (forwards) used in the calibration of hybrid Black Scholes / Hull & White models. For credit-linked swap alternative assumptions are applied to default probabilities and correlations used in the calibration of credit event intensity model.

#### **Financial assets designated at fair value through profit or loss**

Included in financial assets designated at fair value through profit or 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 or loss amounts

to EUR 81 499 million (2009: EUR 69 214 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 50 million (2009: loss of EUR 38 million) and the change for the current year is a loss of EUR 12 million (2009: loss of EUR 26 million). The changes in fair value of financial assets designated at fair value through profit or 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 or loss.

#### **Financial liabilities designated at fair value through profit or loss**

The financial liabilities designated at fair value through profit or loss comprise 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 or loss attributable to change in credit risk of the Group amounts to a profit of EUR 2 238 million (2009: profit of EUR 1 804 million) and the change for the current year is a gain of EUR 434 million (2009: loss of EUR 3 180 million). The changes in fair value of financial liabilities designated at fair value through profit or loss attributable to the change in credit risk have been calculated by determining the difference between the changes in the quoted fair value and 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 or loss is EUR 21 921 million (2009: EUR 17 424 million) less than the carrying amount as at 31 December 2010.

## **Note S – Risk Management**

This note presents information about the Group'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 - 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; and

- 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.

### **S.1. Risk Management Organisation**

#### **S.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's objective is 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 full 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 Assets and Liabilities Management (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.



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.

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.

The Bank continued to develop its capacity to manage loans post signature, thereby also preparing for the Bank's overall higher lending volume and the economic environment. For significant parts of the portfolio it is the responsibility of Transaction Management & Restructuring (TMR), an autonomous department, reporting to a separate Vice-President. In 2010, TMR focused on monitoring the higher risk counterparts and certain forms of security; it also managed transactions requiring particular attention. All of its proposals which have credit risk implications are subject to an independent second opinion by the Risk Management Directorate.

#### *S.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, Value at Risk ('VaR'), liquidity ratios and risk profile changes.

In addition, key risk indicators of the loan portfolio and liquidity mismatch risks are presented to the Management Committee on a monthly basis.

The Bank maintains two reserves for the expected and unexpected losses – the general loan reserve and the special activities reserve respectively. The general loan reserve is a dedicated reserve for the expected loss of

the Bank's loan portfolio. It is updated quarterly according to the evolution of the underlying assets and reported to the Bank's senior management. The special activities reserve is a dedicated reserve for the capital allocation covering the unexpected loss of those activities which have a risk profile higher than what is generally accepted by the Bank. It is updated quarterly according to the evolution of the underlying assets.

#### *S.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 to ensure that all material financial risks are hedged.

All new types of transactions 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.

#### *S.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 main stakeholders of the Bank 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 and 5.5 years.

### **S.1.2. Risk Management Organisation of the Fund (EIF)**

Most of the Private Equity (PE), Venture Capital and Guarantees & Securitisation (GS) 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.

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 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 PE operations under the Bank's Risk Capital Mandate (RCM) and general EIF policy matters.

RMM is divided into three teams: a PE Risk team, a GS Risk team and an Operations team covering both business lines.

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, which follow closely the relevant sections of the EIB's own treasury guidelines .

#### *5.1.2.1. Risk assessment private equity*

Under its private equity operations, the Fund has a fund of funds approach, taking minority equity participations in funds managed by mostly independent teams in order to leverage further commitments from a wide range of investors. The Fund's PE operations include investments in early-stage and seed capital, but also in well-established funds targeting mid-, later-stage and mezzanine 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 PE funds tailored to the dynamics of this market place, going beyond investing 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 PE 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 a still volatile economic situation following the financial crisis, the Fund continues to closely monitor the valuations reported by PE fund managers, and also other specific risks linked to the macroeconomic and financial environment. Throughout the year, the Fund also runs stringent stress test scenarios on its PE funds portfolios and regularly updates the EIF Board of Directors on the results.

#### *5.1.2.2. 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 guarantees 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. A four-eyes principle applies throughout the process, with actions initiated by the front office and reviewed by RMM.

The guarantees portfolio is valued according to a mark-to model approach under the IFRS principles. The main impact on the valuation of the transactions in the portfolio stems from the assigned rating and the possible subsequent rating changes.

In particular following the financial crisis, the Fund has increased its monitoring efforts to follow a potential negative rating migration closely. The improvement of the monitoring is not only based on the reaction to 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 the profit and loss. As is the case for PE, stress tests on the guarantee portfolio are presented regularly to the EIF Board of Directors.



## S.2. Credit risk

### S.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 inter-bank 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 Group's policies on credit risk are approved by the Group'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 equal to 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 Group's loan portfolio. The Group'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 Group 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 of the Bank. The Group 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 Group may receive from its shareholders.

### S.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 (Note S.2.3.4).

Maximum exposure (in EUR million)	31.12.2010	31.12.2009
<b>Financial assets</b>		
Loans and receivables	302 745	271 178
Financial assets held for trading	33 066	21 936
Financial assets designated at fair value through profit or loss	87 743	69 214
Financial assets – Available-for-sale	6 160	5 613
Financial assets – Held-to-maturity	16 306	17 800
<b>Total</b>	<b>446 020</b>	<b>385 741</b>
<b>Off-balance-sheet</b>		
Contingent liabilities	3 016	3 161
Commitments		
- Undisbursed loans	90 551	81 843
- Undisbursed Venture Capital operations	1 706	1 393
- Other	902	954
<b>Total</b>	<b>96 175</b>	<b>87 351</b>
<b>Total credit risk exposure</b>	<b>542 195</b>	<b>473 092</b>

### 5.2.3. Credit risk on loans

#### 5.2.3.1. 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 Group, 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 General loan reserve; and
- 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 independently reviews borrowers and assesses their creditworthiness based on internal methodologies and external data. In line with the Basel II Advanced Approach chosen, the Group has developed an internal rating methodology (IRM) to determine the internal ratings of borrowers and guarantors. This is based on a set of scoring sheets specific to defined counterparty types.
- ii) The default correlation: it quantifies the chances of simultaneous financial difficulties arising for both the borrower and the guarantor. The higher the correlation between the borrower and the guarantor's default probabilities, the lower the value of the guarantee and therefore the lower the LG.
- iii) The value of guarantee instruments and of securities: this value is assessed on the basis of the combination of the issuer's creditworthiness and the type of instrument used.
- iv) The contractual framework: a sound contractual framework will add to the loan's quality and enhance its internal grading.
- v) The loan's duration: all else being equal, the longer the loan, the higher the risk of incurring difficulties in the servicing of the loan.

A loan's expected loss is computed by combining the five elements discussed above and is used as a component of the fair value measurement technique used for loans which meet the eligibility criteria of the amended fair value option and which have been designated on initial recognition at fair value through profit or loss. Depending on the level of this loss, a loan is assigned to one of the following LG classes listed below.

- A Prime quality loans: there are three sub-categories. A° comprises all EU sovereign risks, i.e. loans granted to or fully, explicitly and unconditionally guaranteed by Member States, where no repayment difficulties are expected and for which an unexpected loss of 0% is allocated. A+ denotes loans granted to (or guaranteed by) entities other than Member States, with no expectation of deterioration over their duration. A- includes those lending operations where there is some doubt about the maintenance of their current status (for instance because of a long maturity, or for the high volatility of the future price of an otherwise excellent collateral), but where any downside is expected to be quite limited.
- B High quality loans: these represent an asset class with which the Group 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 have explicitly been approved as Special Activities (SFF/RSFF/LGTT) with a risk profile greater than generally accepted, and for which an allocation in the Bank's Special Activity Reserve has been made accordingly, in line with the Bank's statute and Credit Risk Policy Guidelines. It also includes loans which in the course of their lives have experienced severe problems and their sliding into a situation of loss cannot be excluded. For this reason, a corresponding allocation to the Special Activities Reserve is being made and the loans are subject to close and high monitoring. The sub-classes E+ and E- differentiate the intensity of this special monitoring process, with those operations graded E- being in a position where there is a strong possibility that debt service 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, if a loan was originally approved with a risk profile of D- or weaker, it will only be placed on the Watch List as a result of a material credit event causing a deterioration of its LG classification.

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.

#### *S.2.3.2. Loans secured by Guarantees of the European Union budget or the Member States*

Loans outside the European Union (apart from those under the Facilities<sup>(1)</sup>) are, in the last resort, secured by guarantees of the European Union budget or the Member States (loans in the ACP Countries and the OCT). 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 loans of the Bank 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.

In accordance with the terms of the Guarantees, the European Union and the Member States secure up to 65%, 75% and 100% of pool of signed<sup>(2)</sup> operations in each portfolio. This results in an effectively full coverage of the Group's exposure. For this reason, the Group deems the credit risk associated to each individual loan as fully covered and therefore excludes them from the section S.2.3 (Group's lending activities).

The carrying value of the disbursed part of loans signed under this category amounts to EUR 19 700 million as at 31 December 2010 (2009: EUR 17 130 million) and the undisbursed part amount to EUR 12 562 million as at 31 December 2010 (2009: EUR 12 039 million). These amounts also include loans granted to current European Union Member States but granted before their accession to the European Union and are guaranteed by the European Union budget or Member States.

#### *S.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. Therefore, loans outside the European Union secured by the European Union budget or the Member States are not included (Note S.2.3.2).

<sup>(1)</sup> Loans granted under Article 16 (previously Article 18) of the Bank's statute and loans granted under the Pre Accession Facility, the Mediterranean Partnership Facility, the Energy Sustainability Facility and the EFTA Facility. These loans, granted under the Facilities, are not secured by guarantees of the European Union budget or the Member States. Therefore, lending under the Facilities is from the Bank's own resources and at the Bank's own risk.

<sup>(2)</sup> Under the Guarantee Agreement with the Commission signed on 1 and 29 August 2007, all European Union guaranteed operations signed on and after 17 April 2007 shall be covered up to 65% of "the aggregate amount of credits disbursed". The residual risk borne by the Group in connection with operations is managed in accordance with the Group's fundamental credit rules and procedures.

2010 (in EUR million)		Guarantor				Not Guaranteed <sup>(1)</sup>	Total disbursed	Signed not disbursed
		Corporate	Bank	Public	State			
Borrower	Corporate	34 024	29 462	6 523	16 681	38 284	124 974	29 377
	Bank	14 294	32 062	38 951	8 940	21 408	115 655	19 589
	Public	4 110	407	12 629	21 616	32 922	71 684	16 770
	State	0	0	0	0	26 165	26 165	12 253
<b>Total disbursed</b> <sup>(2) (3) (4)</sup>		<b>52 428</b>	<b>61 931</b>	<b>58 103</b>	<b>47 237</b>	<b>118 779</b>	<b>338 478</b>	<b>77 989</b>
<b>Signed not disbursed</b> <sup>(2) (3) (4)</sup>		<b>13 796</b>	<b>8 659</b>	<b>8 480</b>	<b>8 725</b>	<b>38 329</b>	<b>77 989</b>	

2009 (in EUR million)		Guarantor				Not Guaranteed <sup>(1)</sup>	Total disbursed	Signed not disbursed
		Corporate	Bank	Public	State			
Borrower	Corporate	27 724	28 321	6 462	14 921	32 509	109 937	27 917
	Bank	13 159	31 057	37 240	7 291	19 584	108 331	18 882
	Public	4 341	697	9 903	20 024	27 127	62 092	15 012
	State	0	0	0	0	23 178	23 178	7 993
<b>Total disbursed</b> <sup>(2) (3) (4)</sup>		<b>45 224</b>	<b>60 075</b>	<b>53 605</b>	<b>42 236</b>	<b>102 398</b>	<b>303 538</b>	<b>69 804</b>
<b>Signed not disbursed</b> <sup>(2) (3) (4)</sup>		<b>12 949</b>	<b>8 997</b>	<b>7 298</b>	<b>8 342</b>	<b>32 218</b>	<b>69 804</b>	

<sup>(1)</sup> These amounts include loans for which no formal guarantee independent from the borrower and the loan itself was required, 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.

<sup>(2)</sup> These amounts include loans granted under Facilities.

<sup>(3)</sup> These amounts do not include Loan substitutes (2010: EUR 9 555 million; 2009: EUR 8 221 million).

<sup>(4)</sup> These amounts exclude loans to current European Union Member States but granted before their accession to the European Union and guaranteed by the European Union budget or the Member States.

Regarding the lending activities, the Group's total direct exposure<sup>(1)</sup> to the banking sector amounts to EUR 135 244 million at the end of December 2010 (2009: EUR 127 213 million), which is equal to 32.5% (2009: 34.1%) of the total of EUR 416 467 million in loans disbursed and undisbursed as at 31 December 2010 (2009: EUR 373 342 million).

Unsecured loans to corporates at the end of December 2010 amounted to EUR 49 117 million<sup>(1)</sup>, (2009: EUR 41 843 million). Unsecured exposure to corporate clients is controlled by bilateral limits and generally individual exposures are capped at 5% of Group's Own Funds. The Group has also introduced a number of sector limits.

#### S.2.3.3.1. Credit quality on loans

The overall credit quality of risk portfolio continues to present a strong profile, with loans internally graded A to D+ representing 95.9% of the loan portfolios as at 31 December 2010, compared with 96.4% at 31 December 2009. The share of loans internally graded D-and below (for which allocations to the Special Activities Reserve are being made), was 4.1% (2009: 3.6%) of the risk portfolio, corresponding to EUR 17.3 billion (2009: EUR 13.3 billion).

The evolution of the LG breakdown was largely driven by the continuing significant share of new Special Activities signatures (SFF/LGTT/RSFF) as part of the overall new business volume.

The internal Loan 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 reduced slightly to EUR 1 370 million (EUR 1 386 million end 2009).

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 Group have been defined in the Credit Risk Policy Guidelines.

<sup>(1)</sup> 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 2010 and 31 December 2009 by the Loan Grading application, based on the exposures signed (disbursed and undisbursed).

2010 (in EUR million)		Sovereign	High Grade	Standard Grade	Min. Accept. Risk	High Risk	Total
		A0, P	A to B-	C	D+	D- and below	
Borrower	Corporate	18 549	57 900	36 975	24 865	16 062	154 351
	Bank	9 112	114 181	9 930	1 342	679	135 244
	Public	22 189	61 528	3 238	979	520	88 454
	State	36 666	0	1 752	0	0	38 418
<b>TOTAL</b>		<b>86 516</b>	<b>233 609</b>	<b>51 895</b>	<b>27 186</b>	<b>17 261</b>	<b>416 467</b>

2009 (in EUR million)		Sovereign	High Grade	Standard Grade	Min. Accept. Risk	High Risk	Total
		A0, P	A to B-	C	D+	D- and below	
Borrower	Corporate	16 463	60 026	30 579	18 101	12 685	137 854
	Bank	8 389	112 155	5 660	442	567	127 213
	Public	20 818	54 360	1 336	572	18	77 104
	State	29 998	0	1 173	0	0	31 171
<b>TOTAL</b>		<b>75 668</b>	<b>226 541</b>	<b>38 748</b>	<b>19 115</b>	<b>13 270</b>	<b>373 342</b>

With the decision in favour of the Internal ratings based approach of Basel II, the Group has introduced an internal rating methodology in 2006. The majority of the Group's counterparties have been assigned an internal rating according to this methodology. The table below shows a breakdown of the Group's loan portfolio by the higher of the ratings of the borrower or guarantor (where applicable), 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.

### 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. The exposures presented in this table are based on the best internal rating between the borrowers and the guarantors by operation.

	Rating Grade	Moody's equiv. grade	1-year history Def. Rate (*)	2010 (in EUR million)		2009 (in EUR million)	
				Exposures Signed	Weighted Exposures (**)	Exposures Signed	Weighted Exposures (**)
Internal Rating 1	1	Aaa	0%	28 814	2 767	46 023	3 917
	2+	Aa1	0%	47 555	2 804	29 108	2 536
Internal Rating 2	2	Aa2	0%	21 506	6 347	26 688	7 465
	2-	Aa3	0%	47 609	23 427	61 589	28 882
Internal Rating 3	3+	A1	0%	69 004	25 005	51 421	19 655
	3	A2	0%	40 806	24 127	29 704	21 020
Internal Rating 3	3-	A3	0%	53 611	27 989	40 341	20 908
	4+	Baa1	0%	34 694	27 054	7 439	4 969
Internal Rating 4	4	Baa2	0%	15 461	7 361	3 672	2 518
	4-	Baa3	0%	24 325	12 551	1 543	810
Internal Rating 5	5+	Ba1	0%	25 445	7 734	42 297	24 633
	5	Ba2	0%	3 388	2 523	18 152	6 515
Internal Rating 5	5-	Ba3	0%	1 837	1 009	13 841	9 657
	6+	B1	0%	1 484	1 314	1 161	1 042
Internal Rating 6	6	B2	0%	441	334	33	33
	6-	B3	0%	92	91	76	76
Internal Rating 7	7	C	0%	395	40	254	0
<b>TOTAL</b>				<b>416 467</b>	<b>172 477</b>	<b>373 342</b>	<b>154 636</b>

(\*) based on actual losses obtained in 2010.

(\*\*) 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 Austrian Länder), 20% (public institutions), 50% (banks) and 100% (corporates).

The Group continually monitors 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 4 464 million of the Group's loans (2009: EUR 5 127 million), have suffered material downgrades. In view of the non-accelerable nature of their credit enhancement, the Group policies provides for the borrowers to be of acceptable credit standing from the outset. In view of the weakened credit of the monolines, the Group has further enhanced its direct monitoring of the underlying borrowers and projects. Due to the poor performance of an underlying borrower, one project finance operation was put on the Watch List in 2009. For the remainder of the monoline backed exposures the performance of the underlying operation remains in line with expectations. The Bank will continue to monitor this portfolio closely.

As an immediate response to the developments in the financial markets that have taken place since September 2008, the Group 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.

Taking into account the above and the Group's contractual protections, which if breached enable the Group to negotiate remedies, there was no need for a collective impairment allowance as at 31 December 2010.

The table below discloses information regarding the sovereign credit risk on loans granted inside the European Union and outside the European Union granted under the Facilities and under the risk-sharing operations:

Country	2010 (in EUR million)			2009 (in EUR million)		
	Acting as borrower		Acting as guarantor	Acting as borrower		Acting as guarantor
	Disbursed	Undisbursed		Disbursed	Undisbursed	
Greece	6 703	1 740	5 768	6 259	240	5 362
Poland	5 614	1 502	7 978	4 968	255	6 604
Hungary	3 770	1 168	1 567	3 430	1 136	1 249
Czech Republic	2 695	816	466	2 179	789	505
Spain	1 247	0	14 856	1 345	0	13 583
Italy	1 265	0	3 832	1 269	0	3 778
Lithuania	1 029	112	0	694	452	0
Romania	784	2 077	324	636	2 210	320
Portugal	499	0	7 205	0	0	6 627
Cyprus	473	280	723	493	120	544
Finland	457	0	1 169	537	0	1 278
Latvia	400	525	221	383	595	125
Estonia	165	385	75	165	385	0
Slovakia	170	1 300	0	168	0	0
Bulgaria	110	985	0	30	1 062	0
Slovenia	43	0	2 050	47	0	1 534
Germany	0	0	1 877	0	0	1 906
United Kingdom	0	0	1 652	0	0	1 861
France	0	0	937	0	0	976
Belgium	0	0	881	0	0	1 020
Sweden	0	0	844	0	0	42
Ireland	0	0	689	0	0	691
Denmark	0	0	560	0	0	808
Malta	0	0	291	0	0	190
Luxembourg	0	0	171	0	0	175
Austria	0	0	35	0	0	43
Netherlands	0	0	30	0	0	30
Non EU-countries	741	1 363	1 761	575	749	1 327
<b>TOTAL</b>	<b>26 165</b>	<b>12 253</b>	<b>55 962</b>	<b>23 178</b>	<b>7 993</b>	<b>50 578</b>

In addition, as stated in the note S.2.3.2, loans outside the European Union (apart from those under the Facilities) are in the last resort secured by guarantees of the European Union budget or the Member States (loans in the ACP Countries and the OCT). The nominal amount of loans signed under this category as at 31 December 2010 amounts to EUR 38 033 million (2009: EUR 34 135). Out of this EUR 38 033 million, EUR 35 758 million (2009: EUR 32 340 million) were guaranteed by the European Union and EUR 2 275 million by the Member States (2009 EUR 1 795 million).



### S.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):

(in EUR million)	2010		2009	
	Exposures signed	Weighted exposures <sup>(4)</sup>	Exposures signed	Weighted exposures <sup>(4)</sup>
EU <sup>(1)</sup>	401 751	166 667	361 964	149 504
Thereof :				
- Germany	54 842	17 756	52 644	17 130
- Spain	65 437	18 890	60 541	16 839
- Italy	52 710	29 979	47 879	25 952
- France	40 788	19 342	38 702	18 674
- United Kingdom	29 981	22 482	27 506	20 994
ENLARGEMENT COUNTRIES <sup>(2)</sup>	7 273	1 825	5 731	1 881
PARTNER COUNTRIES <sup>(3)</sup>	7 443	3 985	5 647	3 251
<b>TOTAL</b>	<b>416 467</b>	<b>172 477</b>	<b>373 342</b>	<b>154 636</b>

<sup>(1)</sup> 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.

<sup>(2)</sup> Enlargement Countries as per end 2009 include Albania, Bosnia and Herzegovina, Croatia, Serbia, Montenegro, Turkey, and FYROM.

<sup>(3)</sup> Loans in Partner Countries include loans under the Mediterranean Partnership Facility, the Pre-Accession Facility, and Risk Sharing loans.

<sup>(4)</sup> 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 Austrian Länder), 20% (public institutions), 50% (banks) and 100% (corporates).

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:

(in EUR million)	2010		2009	
	Exposures signed	Weighted exposures <sup>(1)</sup>	Exposures signed	Weighted exposures <sup>(1)</sup>
Energy	38 974	28 621	32 716	24 701
Transport	46 799	17 362	43 979	15 068
Telecommunications	7 741	6 035	1 105	752
Water and sewerage	12 477	6 852	11 967	6 751
Miscellaneous Infrastructure	3 925	1 776	3 599	1 553
Agriculture, forestry and fisheries	66	34	72	36
Industry	27 593	21 068	22 640	18 301
Services <sup>(2)</sup>	273 961	89 430	252 538	86 004
Health and education	4 931	1 299	4 726	1 470
<b>TOTAL</b>	<b>416 467</b>	<b>172 477</b>	<b>373 342</b>	<b>154 636</b>

<sup>(1)</sup> 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 Austrian Länder), 20% (public institutions), 50% (banks) and 100% (corporates).

<sup>(2)</sup> The category "Services" includes the credit exposure of the banking sector. At the end of 2010, the total amount of loans directly exposed to counterparts of the banking sector amounted to EUR 135 244 million (EUR 127 213 million at the end of 2009), or EUR 52 510 million in risk-weighted terms (EUR 50 844 million at the end of 2009). 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 Group systematically follows on 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 61 931 million (2009: EUR 60 075 million) in the form of guarantees received from financial institutions at the end of December 2010, of which EUR 4 464 million (2009: EUR 5 127 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 2010 and 31 December 2009:

End-of-Period		2010	2009
<b>Largest nominal and risk-weighted Group exposures<sup>(1)</sup></b>			
Nominal exposures (% of Group Loan Portfolio)			
	– Top 3	5.8%	6.4%
	– Top 5	8.8%	9.5%
	– Top 10	14.4%	15.5%
N° of exposures (% of Group Own Funds)			
	– over 10%	10	11
	– over 15%	4	4
	– over 20%	2	2
N° of SSSR exposures over 5% of Group Own Funds <sup>(2)</sup>			
		2	2
Sum of all large risk-weighted exposures (% of Group Own Funds) <sup>(3)</sup>			
		112%	90%

<sup>(1)</sup> Including also the net market exposure of treasury operations.

<sup>(2)</sup> The term “single signature and single risk” (or for brevity, “unsecured” or “SSSR”) is used to indicate those lending operations where the Group, irrespective of the number of signatures provided, has no genuine recourse to an independent third party, or to other forms of autonomous security.

<sup>(3)</sup> The Group defines a Large Individual Exposure as a consolidated group exposure that, when computed in risk-weighted terms, is at or above 5% of the Group's own funds. This definition applies to 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.

#### 5.2.3.4. Collateral on loans

In addition to the guarantees received by the Group on its lending exposures as disclosed in the note 5.2.3.3. the Group also uses pledges of financial securities. These pledges are formalised through a Pledge Agreement, enforceable in the relevant jurisdiction. The portfolio of collaterals received in pledge contracts amounts to EUR 18 004 million at the end of 2010 (2009: EUR 15 175 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 1 804 million (2009: EUR 1 729 million). None of these collaterals has been sold or repledged to third parties.

Fair value of collateral held against disbursed loans is shown below:

In EUR million	Gross exposure	Collateral held				Net exposure
		Bonds	Equities	Cash	Total	
1. Against individually impaired	381	-	-	-	-	381 <sup>(1)</sup>
2. Against collectively impaired	-	-	-	-	-	-
3. Against past due but not impaired	10	-	-	-	-	10
4. Against neither past due nor impaired	270 360	15 004	208	366	15 578	254 782
5. Against fair value through profit and loss	87 427	2 232	-	194	2 426	85 001
<b>TOTAL 2010</b>	<b>358 178</b>	<b>17 236</b>	<b>208</b>	<b>560</b>	<b>18 004</b>	<b>340 174</b>
<b>TOTAL 2009</b>	<b>320 668</b>	<b>14 649</b>	<b>188</b>	<b>338</b>	<b>15 175</b>	<b>305 493</b>

<sup>(1)</sup> The carrying value of loans individually impaired amounts to EUR 381 million as at 31 December 2010 (2009: EUR 495 million). Impairments on these loans have been accounted for and amount to EUR 87.1 million as of 31 December 2010 (2009: EUR 106 million). The Group has also received additional security from the counterparties of these loans in the form of debts acknowledgement which cover the remaining exposure.

### S.2.3.5 Arrears on loans

Amounts in arrears are identified, monitored and reported according to a set of procedures called the "Guidelines for the Monitoring of late payments".

*Loans granted inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States:*

Loans for which the projects are located inside the European Union or outside the European Union not secured by guarantees of the European Union budget or the Member States are mainly secured by guarantees from public institutions, Zone A banks and corporate entities. Unsecured part of these loans amounts to EUR 157 108 million as at 31 December 2010 (2009: EUR 134 616 million).

As at 31 December 2010, the arrears above 30 days on loans granted inside the European Union or outside the

European Union not secured by guarantees of the European Union budget or the Member States amounts to EUR 0.7 million (2009: nil).

*Loans granted for projects outside the European Union secured by the European Union budget or the Member States*

Loans for projects located outside the European Union and carried out on the basis of mandates given by the Council are guaranteed by the European Union, the Member States or on a risk-sharing basis. If an instalment remains unpaid for over 90 days, the primary guarantee is called (if any available). If the due amount is still unpaid within 150 days after the instalment date (and in any case before the next instalment becomes due), the guarantee of the Member States or the European Union is officially invoked. Each unpaid instalment is called individually.

The arrears of payments on these loans can be analysed as follows (in EUR 000):

	Instalments overdue 30 to 90 days	Instalments overdue more than 90 days	Instalments overdue more than 150 days which have been called and paid under the guarantee of a Member State or the EU	Total
31.12.2010	210	2 450	103 834	<b>106 494</b>
31.12.2009	1 897	12 278	93 830	<b>108 005</b>

### S.2.3.6. Securitised loans and loan substitutes

Regarding the Group's exposure to securitised loans and loan substitutes, 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 2010, the securitised loans and loan substitutes amount to EUR 18 514 million (2009: EUR 18 659 million). This amount is composed of loan substitutes included in debt securities portfolio (Note B.2) for an amount of EUR 9 555 million (2009: EUR 8 221 million) and securitised loans included in loans and advances to credit institutions and to customers (Note D) for an amount of EUR 8 959 million (2009: EUR 10 438 million).

The following table summarises the breakdown of the securitised loans and loan substitutes portfolio by asset class (Mortgages exposure in ABS is primarily residential):

Securitised loans	Asset class	TOTAL 31.12.2010 (in EUR million)	TOTAL 31.12.2009 (in EUR million)
Asset Backed Securities	Diversified Payment Rights	617	473
Asset Backed Securities	Mortgage Backed Securities	1 988	2 818
Asset Backed Securities	Small and Medium Entities	3 259	3 651
Covered Bonds	Mortgage Backed Securities	10 855	10 705
Covered Bonds	Public Sector	1 784	999
Structured Public Sector Bonds	Public Sector	11	13
<b>TOTAL</b>		<b>18 514</b>	<b>18 659</b>

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) transactions with Turkish promoters (amounting to EUR 617 million (2009: EUR 473 million)), all the promoters of the Bank's Loan Substitutes portfolio are domiciled in the European Union, with the majority being located in Spain (67%), in Italy (16%) and in Portugal (5%).

Most of the outstanding securitised loans have a AAA rating provided by at least one of the three major rating agencies, except for 23 transactions (13.7% of the Group's securitised loans portfolio in terms of nominal amount) with a AA rating for EUR 1 362 million, a single A rating for EUR 548 million and a BBB rating for EUR 617 million (this category represents transactions to promoters located in Turkey and Poland).

The Group's securitised loan and loan substitute transactions have to date performed well, especially when considering the 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.

In the securitised loan and loan substitute portfolio four transactions experienced a downgrade by at least one external rating agency during 2010 with a total amount of the affected transactions of EUR 473 million. Out of these rating actions, one was a downgrade to AA ratings, two downgrades to A ratings and three to BBB ratings. As for Covered Bonds, eight issuance

programmes with a total amount of EUR 3 417 million experienced external ratings downgrades by one rating agency in 2010. Out of these downgrades six were from an AAA to an AA rating, while two of these were simultaneously upgraded to AAA by another rating agency, and two programmes were downgraded from an AA to an A rating.

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 Group's securitised loan and loan substitute portfolio remains satisfactory and no securitised loan or loan substitute transaction is on the Bank's Watch List.

#### **S.2.4. Credit risk on treasury transactions**

##### *S.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 Note 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 on various treasury portfolios as at 31 December 2010 and 31 December 2009:

Credit Risk Exposures as at 31 December 2010 (in EUR million) (based on book values)						
	External rating					Total
	A-1+/P-1	< A or NR	A	AA	Aaa	
A1 Portfolio max maturity 3 months	10	4 126	20 584	11 973	41	36 734
<i>Deposits</i>	0	96	4 339	1 786	16	6 237
<i>Tripartite reverse repos</i>	0	2 635	14 037	8 743	0	25 415
<i>Discount paper, Bonds</i>	10	1 395	2 208	1 444	25	5 082
A2 Portfolio max maturity 18 months	56	706	391	926	136	2 215
<b>Total Monetary Treasury Assets</b>	<b>66</b>	<b>4 832</b>	<b>20 975</b>	<b>12 899</b>	<b>177</b>	<b>38 949</b>
Repartition	0%	13%	54%	33%	0%	100%
B1 Portfolio	0	224	41	396	352	1 013
B2 Portfolio	0	0	0	0	0	0
B3 Portfolio	0	73	21	175	363	632
B4 Portfolio	0	5	0	352	724	1 081
EIF - AFS	0	164	60	215	178	617
<b>Total Operational Bond Portfolios</b>	<b>0</b>	<b>466</b>	<b>122</b>	<b>1 138</b>	<b>1 617</b>	<b>3 343</b>
Repartition	0%	14%	4%	34%	48%	100%
<b>Investment Portfolio</b>	<b>0</b>	<b>236</b>	<b>201</b>	<b>594</b>	<b>638</b>	<b>1 669</b>
Repartition	0%	14%	12%	36%	38%	100%
<b>Loan substitutes</b>	<b>472</b>	<b>94</b>	<b>1 233</b>	<b>1 481</b>	<b>6 275</b>	<b>9 555</b>
Repartition	5%	1%	13%	15%	66%	100%
<b>Total Treasury Funds</b>	<b>538</b>	<b>5 628</b>	<b>22 531</b>	<b>16 112</b>	<b>8 707</b>	<b>53 516</b>
Repartition	1%	11%	42%	30%	16%	100%

Credit Risk Exposures as at 31 December 2009 (in EUR million)  
(based on book values)

	External rating					Total
	A-1+/P-1	< A or NR	A	AA	Aaa	
A1 Portfolio max maturity 3 months	165	551	15 493	9 502	1 159	<b>26 870</b>
<i>Deposits</i>	0	117	5 085	3 388	548	<b>9 138</b>
<i>Tripartite reverse repos</i>	0	334	7 628	2 137	0	<b>10 099</b>
<i>Discount paper, Bonds</i>	165	100	2 780	3 977	611	<b>7 633</b>
A2 Portfolio max maturity 18 months	0	349	484	587	385	<b>1 805</b>
<b>Total Monetary Treasury Assets</b>	<b>165</b>	<b>900</b>	<b>15 977</b>	<b>10 089</b>	<b>1 544</b>	<b>28 675</b>
Repartition	1%	3%	56%	35%	5%	<b>100%</b>
B1 Portfolio	0	134	84	441	478	<b>1 137</b>
B2 Portfolio	0	0	0	99	25	<b>124</b>
B3 Portfolio	0	50	15	101	402	<b>568</b>
BH Portfolio (futures)	0	0	0	234	266	<b>500</b>
EIF - AFS	0	70	19	163	278	<b>530</b>
<b>Total Operational Bond Portfolios</b>	<b>0</b>	<b>254</b>	<b>118</b>	<b>1 038</b>	<b>1 449</b>	<b>2 859</b>
Repartition	0%	9%	4%	36%	51%	<b>100%</b>
<b>Investment Portfolio</b>	<b>0</b>	<b>232</b>	<b>111</b>	<b>608</b>	<b>993</b>	<b>1 944</b>
Repartition	0%	12%	6%	31%	51%	<b>100%</b>
<b>Loan substitutes</b>	<b>0</b>	<b>687</b>	<b>328</b>	<b>313</b>	<b>6 893</b>	<b>8 221</b>
Repartition	0%	8%	4%	4%	84%	<b>100%</b>
<b>Total Treasury Funds</b>	<b>165</b>	<b>2 073</b>	<b>16 534</b>	<b>12 048</b>	<b>10 879</b>	<b>41 699</b>
Repartition	0%	5%	40%	29%	26%	<b>100%</b>

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).

The total Treasury Funds of the Group outstanding as at 31 December 2010 amount to EUR 53.2 billion (2009: EUR 41.6 billion), distributed over different portfolios and invested in diversified products (deposits, securities and derivative/structured products).

Structured credit products amount to EUR 0.12 billion at 31 December 2010 (2009: EUR 0.3 billion). Those held in the Bank's short term portfolio (EUR 0.01 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. The quality of

the ABS/RMBS portfolio remains stable and there are no defaults by their issuers to report.

Excluding the investment portfolio (which is held to maturity and is being wound down), the long term holdings amounted to EUR 4.9 billion as of 31 December 2010 (2009: EUR 4.2 billion), of which 2.27% consisted of securities emanating from a securitization process.

The Group has a portfolio of Asset Backed Commercial Paper; all of it rated A-1+/P-1. The outstanding as at 31 December 2010 amounted to EUR 0.01 billion (2009: EUR 0.2 billion).

#### 5.2.4.2. Collateral on treasury transactions

Part of treasury transactions are tripartite reverse repurchase agreements with a balance of EUR 25 415 million (2009: EUR 10 099 million). These transactions are governed by Tripartite Agreement Guidelines and are implemented depending on the acceptability of collateral and valuations parameters. The exposure is fully collateralised, 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 Group 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 these terms as at 31 December 2010 amounts to EUR 25 535 million (2009: EUR 10 470 million). None of these securities has been sold or re-pledged to third parties in 2010 and 2009. During the 2010 and 2009 years, the Group did not take possession of any of the above mentioned collaterals.

#### *5.2.4.3. Securities lending activity*

The market value of the bonds lent in the securities lending activities is at the end of 2010 of EUR 696 million (2009: EUR 507 million). These transactions are governed by an agreement signed with Northern Trust Global Investment 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 2010, accepted under these terms, amounts to EUR 699 million (2009: EUR 539 million). None of these securities has been sold or re-pledged to third parties in 2009 and 2010.

### **5.2.5. Credit risk on derivatives**

#### *5.2.5.1. 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 and further supported by an independent amount of collateral specified in the Credit Support Annex. The EIB has the right of early termination if the rating drops below a certain level.

#### **Collateralisation:**

- Generally, there is a reduced credit risk on swaps, because exposures (exceeding limited thresholds for unsecured exposure) are collateralised by cash and first-class bonds.
- Very complex and illiquid transactions could require collateralisation over and above the current market value.
- Both the derivatives portfolio with individual counterparties and the collateral received are monitored and valued on a daily basis, 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.

As part of the ISDA agreements, the Group has received securities and cash that it is allowed to sell or repledge. During the 2009 and 2010 years, the Group did not take possession or re-pledged to third parties any of these collaterals. The fair value of the securities accepted under these terms as at 31 December amounts to EUR 20 334 million (2009: EUR 8 557 million) with the following composition:

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2010
	Government	Agency		
Aaa	5 417	58	0	5 475
Aa1 to Aa3	7 320	0	0	7 320
A1	1 142	0	0	1 142
Below A1	857	0	0	857
Non-Rated	0	0	5 540	5 540
<b>Total 2010</b>	<b>14 736</b>	<b>58</b>	<b>5 540</b>	<b>20 334</b>

Swap collateral (in EUR million)				
Moody's or equivalent rating	Bonds		Cash	Total 2009
	Government	Agency		
Aaa	2 219	0	0	2 219
Aa1 to Aa3	1 331	0	0	1 331
A1	0	0	0	0
Below A1	1 267	0	0	1 267
Non-Rated	0	0	3 740	3 740
<b>Total 2009</b>	<b>4 817</b>	<b>0</b>	<b>3 740</b>	<b>8 557</b>

#### S.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 value.

The EIB measures the credit risk exposure related to swaps and derivatives transactions using the Net Market Exposure (NME) and Potential Future Exposure (PFE) for reporting and limit monitoring, and the Credit Risk Equivalent for capital allocation according to the recommendations of the Basel Committee on Banking Supervision (BCBS) sponsored by the BIS.

The EIB computes the Net Market Exposure, which is the larger of zero and the market value or "fair value" of the portfolio of transactions within the netting set with a counterparty, less the collaterals. It is the amount that would be lost upon the default of the counterparty, using the received collateral and assuming no recovery on the value of those transactions as well as immediate replacement of the swap counterparty for all the transactions. As of 31 December 2010 the Net Market Exposure stood at EUR 721 million (EUR 600 million as of 31 December 2009).

In addition, the EIB computes the Potential Future Exposure (PFE), which is the possible increase in the netting set's exposure over the margin period of risk, which ranges between 10 and 20 days, depending on the portfolio of transactions. The EIB computes PFE at 90% confidence level using stressed market parameters to arrive at conservative estimations of the Potential Future Exposure. This is in line with the recommendations issued by regulators in order to take into consideration the conditions that will prevail in case of default of an important market participant. As of 31 December 2010 the total Potential Future Exposure (PFE) stood at EUR 9 453 million (EUR 8 900 million as of 31 December 2009).

#### Limits:

The limit system for banks covers two types of exposure: Net Market Exposure and Potential Future Exposure.

The Net Market Exposure is measured by the NPV of the swap portfolio minus the amount of collaterals received. It is limited by the Threshold applicable to the bank as defined in the Credit Support Annex and is dependent on the rating of the counterparty. For any exposure exceeding this Threshold, the Bank receives collaterals posted by the counterparty.

The Potential Future Exposure limit determines the maximum Potential Future Exposure, measured as explained above and reduced by overcollateralization, accepted for each counterparty.

The derivatives portfolio is valued and compared against limits on a daily basis.

As from the following table, the majority of the derivative portfolio is concentrated on counterparties rated A1 or above

Grouped ratings	Percentage of nominal		Net Market Exposure (in EUR million)		Potential Future Exposure (in EUR million)	
	2010	2009	2010	2009	2010	2009
Moody's or equivalent rating						
Aaa	3.0%	2.5%	0	10	307	161
Aa1 to Aa3	59.7%	60.7%	715	589	6 543	6 406
A1	33.7%	28.5%	6	1	2 213	1 843
A2 to A3	3.1%	7.8%	0	0	375	457
Below A3	0.5%	0.5%	0	0	15	33
Non-rated	0.0%	0%	0	0	0	0
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>721</b>	<b>600</b>	<b>9 453</b>	<b>8 900</b>

The table below shows the concentration on main derivative counterparts as at 31 December 2010 and 2009:

	2010	2009
<b>Nominal Exposure (% of Group derivative portfolio)</b>		
– Top 3	25.9%	28.3%
– Top 10	64.0%	67.3%
– Top 25	91.9%	93.9%
<b>Net Market Exposure</b>		
– Top 3	46.0%	50.6%
– Top 10	88.2%	91.5%
– Top 25	100.0%	100.0%
<b>Potential Future Exposure</b>		
– Top 3	28.9%	32.62%
– Top 10	62.0%	67.46%
– Top 25	90.2%	93.49%

The following table shows the maturities of currency swaps (excluding short term currency swaps), sub-divided according to their notional amount and fair value.

Currency swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	17 659	73 247	34 650	14 920	<b>140 476</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	731	1 811	2 128	1 633	<b>6 303</b>
Currency swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	15 369	54 520	23 418	15 211	<b>108 518</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	- 1 344	- 2 158	- 765	467	<b>- 3 800</b>

<sup>(\*)</sup> Including the fair value of macro-hedging currency swap which stood at EUR - 104 million as at 31 December 2010 (2009: EUR 35 million).



The following table shows the maturities of interest rate swaps (including the credit default swap), sub-divided according to their notional amount and fair value.

Interest rate swaps at 31 December 2010 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2010
Notional amount	38 649	150 999	74 325	95 623	<b>359 596</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	1 187	4 622	2 889	2 288	<b>10 986</b>

Interest rate swaps at 31 December 2009 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2009
Notional amount	30 053	135 875	63 223	87 425	<b>316 576</b>
Fair value (i.e. net discounted value) <sup>(*)</sup>	764	4 862	2 006	1 914	<b>9 546</b>

<sup>(\*)</sup> Including the fair value of macro-hedging interest rate swap which stood at EUR - 575 million as at 31 December 2010 (2009: EUR - 524 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 and loans whose value depends on a variety of interest rates, FX rates, inflation rates, stock indexes and IR volatilities. Such structured borrowings and loans are entirely covered by swap contracts to hedge the corresponding market risk. All embedded option contracts are negotiated over the counter.

The Notional amount and fair value of structured swaps is included in the tables above, depending whether or not they incorporate a cross currency element. The table below further details the number, value and notional amounts of structured swaps:

	Option embedded		Stock exchange index		Special structure coupon or similar	
	2010	2009	2010	2009	2010	2009
Number of transactions	<b>365</b>	395	<b>6</b>	6	<b>325</b>	363
Notional amount (in EUR million)	<b>12 793</b>	13 598	<b>843</b>	843	<b>21 627</b>	21 346
Net discounted value (in EUR million)	<b>391</b>	132	<b>26</b>	- 10	<b>717</b>	380

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

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.

As at 31 December 2010, notional amounts of EUR 283 million (2009: EUR 335 million) of futures contracts, with fair value of EUR nil (2009: EUR - 0.1 million) and a maturity less than 1 year are outstanding.

The Bank also entered in to one credit default swap contract for a nominal amount of EUR 193 million as at 31 December 2010 (2009: EUR 197 million) with a fair value of EUR 29.5 million (2009: EUR 1.6 million).

#### S.2.5.3. Credit risk on guarantees and securitisation (GS)

Credit risk arising from the Group's GS transactions funded by own resources is managed by risk management policies covered by the Statute and the Credit Risk Policy Guidelines. The Statute limits own-risk guarantees to approximately EUR 8.7 billion. The EUR 3.0 billion exposure at risk at the end of 2010 (2009: 3.2 billion) was well below the statutory limit of EUR 8.7 billion.

The Credit Risk Policy Guidelines ensure that the Group 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 the Group'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, the Group has strict limits (based on capital allocation) for individual transactions and on originator level (maximum aggregate exposures for originators and originator groups).

In the context of the Group's own risk guarantee operations, the credit risk is tracked from 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 the Group to each transaction or tranche. For instance, dependent on the financial model to analyse the transaction, industry exposures can be reflected in implicit correlation 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 the Group. Typically, deals with replenishing features have portfolio criteria, such as maximum single obligor, maximum top five obligors, and maximum industry concentration levels. Furthermore, the consideration of sector exposures is part of the Group's overall portfolio analysis.

Counterparty risk is mitigated by the quality of the Group's counterparties which are usually major market players. The Group 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.

The exposure on guarantees granted by the Group in respect of venture capital operations amounts to EUR '000 17 385 as at 31 December 2010 (2009: EUR '000 17 385).

### S.3. Liquidity risk

Liquidity risk refers to the ability of the Bank to fund increases in assets and meet obligations as they come due, without incurring unacceptable losses. It can be further split into funding liquidity risk and market liquidity risk.

Funding liquidity risk is connected to the risk for the Bank to be unable to refinance the asset side of its balance sheet and to meet payment obligations punctually and in full out of readily available liquid resources. Funding liquidity risk may have an impact on the volatility in the economic value of, or in the income derived from Bank's positions, due to potentially increasing immediate risks to meet payment obligations and the consequent need to borrow at unattractive conditions.

Market liquidity risk is the volatility in the economic value of, or in the income derived from, the Bank's positions due to potential inability to execute a transaction to offset, eliminate or reduce outstanding positions at reasonable market prices. Such an inability may force early liquidation of assets at unattractive prices when it would be better to avoid such liquidation. This risk is tied to the size of the position compared to the liquidity of the instrument being transacted, as well as to potential deterioration of market availability and efficiency.

#### S.3.1. Liquidity risk management

##### Liquidity risk management of the Bank

Liquidity risk is managed prudently in order to ensure the regular functioning of the Bank's core activities at reasonable cost. The main objective of liquidity policy is to ensure that the Bank can always meet its payment obligations punctually and in full. In contrast to commercial banks, the EIB does not have retail deposits but relies on its access to capital markets to raise the funds it on-lends to its clients.

The Bank manages the calendar of its new issues so as to maintain a prudential liquidity buffer. Liquidity planning takes into account the Bank's 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 un-disbursed loans, whose disbursements typically take place at the borrowers' request.

The Bank further assures sound management of liquidity risk by maintaining a sufficient level of short term 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 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.

The Bank has in place a Contingency Liquidity Plan (CLP), which specifies appropriate decision making procedures and corresponding responsibilities. The CLP has been benchmarked against the "Principles for Sound Liquidity Risk Management and Supervision" by the Basel Committee on Banking Supervision (September 2008). The CLP is subject to ad-hoc updates and is presented to the Management Committee annually for approval.

The Bank's liquidity risk framework was strengthened in 2010 in line with best banking practices. Regular stress-testing analyses tailored to the specific business model of the EIB are executed as a part of the liquidity risk monitoring.

#### **Liquidity risk management of the Fund**

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.

#### **S.3.2. Liquidity risk measurement**

The table hereafter analyses the financial 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). Liabilities for which there is no contractual maturity date are classified under "Maturity undefined". The numbers represent undiscounted cash flows inclusive of interest coupons and therefore do not generally reconcile with the Balance Sheet figures.

Principal cash flows and interests are slotted in the bucket corresponding to their first potential contractual payment date. This therefore does not represent an expected scenario, but rather a theoretical scenario.

Some of the borrowings and associated swaps include early termination triggers or call options granted to the hedging swap counterparties, and the Group also has the right to call the related bonds before maturity. In these cases, the cash flow is represented in the bucket corresponding to the first possible termination date. However, this is a conservative measure, as the Group is contractually not obliged to redeem early the related callable bonds and under realistic scenarios there would be no reason to call all such bonds at first possible occasions.

Outflows for committed but undisbursed loans are represented in line with the internal methodology for liquidity stress-testing. In particular, the maximum amount of loans that under severe conditions of stress could possibly be subject to early disbursement is represented in the first maturity bucket.

Net cash flows are represented for interest rate swaps and forward rate agreements. Gross cash flows are represented in the maturity analysis for interest rate derivatives where settlement is gross (essentially Cross Currency Interest Rate Swaps) and foreign exchange derivatives such as FX-forwards and FX-swaps.

Maturity profile of non-derivative financial liabilities (in EUR million as at 31.12.2010)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Gross nominal outflow	Carrying amount
Amounts owed to clients and credit institutions	8 244	60	0	0	0	8 304	8 304
Commercial paper	12 078	2 000	0	0	0	14 078	14 066
Debts evidenced by certificates – first call date scenario	14 470	50 026	194 749	181 643	0	440 888	366 520
Others (issued guarantees, share subscription commitments etc.)	0	408	0	0	3 941	4 349	4 349
Outflows for committed but un-disbursed loans, investment funds and loan substitutes	12 116	0	0	0	78 895	91 011	
<b>TOTAL</b>	<b>46 908</b>	<b>52 494</b>	<b>194 749</b>	<b>181 643</b>	<b>82 836</b>	<b>558 630</b>	

Maturity profile of non-derivative financial liabilities (in EUR million as at 31.12.2009)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Gross nominal outflow	Carrying amount
Amounts owed to clients and credit institutions	6 684	160	0	0	0	6 844	6 844
Commercial paper	3 606	0	0	0	0	3 606	3 606
Debts evidenced by certificates – first call date scenario	14 431	42 890	170 851	166 768	0	394 940	320 242
Others (issued guarantees, share subscription commitments etc.)	0	389	0	0	4 746	5 135	5 135
Outflows for committed but un-disbursed loans, investment funds and loan substitutes	12 951	0	0	0	70 485	83 436	
<b>TOTAL</b>	<b>37 672</b>	<b>43 439</b>	<b>170 851</b>	<b>166 768</b>	<b>75 231</b>	<b>493 961</b>	

Maturity profile of derivative financial liabilities (in EUR million as at 31.12.2010)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Gross nominal inflow/ outflow
Net Settling Interest Rate Derivatives	481	4 112	5 687	1 687	11 967
Gross Settling Interest Rate Derivatives – Inflows	6 739	19 403	85 431	53 606	165 179
Gross Settling Interest Rate Derivatives – Outflows	- 5 359	- 17 134	- 81 719	- 50 404	- 154 616
Foreign Exchange Derivatives – Inflows	24 083	1 649	137	0	25 869
Foreign Exchange Derivatives – Outflows	- 24 088	- 1 681	- 141	0	- 25 910
<b>TOTAL</b>	<b>1 856</b>	<b>6 349</b>	<b>9 395</b>	<b>4 889</b>	<b>22 489</b>

Maturity profile of derivative financial liabilities (in EUR million as at 31.12.2009)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	Gross nominal inflow/ outflow
Net Settling Interest Rate Derivatives	- 235	4 579	4 356	976	9 676
Gross Settling Interest Rate Derivatives – Inflows	9 080	13 661	64 212	42 653	129 606
Gross Settling Interest Rate Derivatives – Outflows	- 8 778	- 13 152	- 65 921	- 43 569	- 131 420
Foreign Exchange Derivatives – Inflows	11 588	99	118	0	11 805
Foreign Exchange Derivatives – Outflows	- 11 341	- 94	- 115	0	- 11 550
<b>TOTAL</b>	<b>314</b>	<b>5 093</b>	<b>2 650</b>	<b>60</b>	<b>8 117</b>

## S.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.

### S.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 80% 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.

### S.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 of the Group:*

In measuring and managing interest rate risk, the Group 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 Group is spread risk. Spread risk is the volatility in the economic value of, or in the income derived from, the Group’s positions due to movements in the funding or lending spread of the Group.

The Group manages its global structural interest rate position via a dedicated portfolio. The majority of the financial risk indicators and controls in use at the Group 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.

#### *S.4.2.1. Value-at-Risk for the own funds of the Group (economic perspective)*

Group’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. This overall objective is achieved by investing

Group'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 Directorate 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 2010, the VaR of the Group's own funds amounted to EUR 275 million (2009: EUR 188 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. The evolution of the VaR of own funds reflects

the effective decrease of the volatility of the risk factors and not a change in the risk profile of the EIB's 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 2010, the impact of a 200 basis point upward parallel shift of the interest rate curves would reduce the economic value of own funds by EUR 4.72 billion (2009: EUR 4.29 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 cash flow 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 Group's callable portfolio as of 31 December 2010 and 31 December 2009, 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 swaps):

31.12.2010	Pay currency					Total
	CZK	EUR	GBP	PLN	USD	
EUR pay notional (EUR million)	- 114	- 5 108	-18	- 23	- 5 616	- 10 879
Average maturity date	14.12.2016	24.03.2025	06.01.2029	05.05.2026	28.02.2034	04.10.2029
Average expected maturity	15.03.2011	03.10.2019	19.02.2024	18.08.2020	06.12.2026	18.05.2023

31.12.2009	Pay currency					Total
	CZK	EUR	GBP	PLN	USD	
EUR pay notional (EUR million)	- 108	- 6 976	- 14	- 21	- 5 793	- 12 912
Average maturity date	14.12.2016	16.01.2022	16.02.2020	05.05.2026	30.10.2032	05.11.2026
Average expected maturity	19.11.2012	13.03.2017	27.02.2017	11.09.2020	09.02.2025	18.09.2020

By risk factor involved:

31.12.2010	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR pay notional (EUR million)	- 4 041	- 5 962	- 876	- 10 879
Average maturity date	23.12.2033	29.03.2027	18.06.2027	04.10.2029
Average expected maturity	06.09.2029	07.11.2018	10.02.2025	18.05.2023

31.12.2009	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR pay notional (EUR million)	- 4 097	- 6 585	- 2 230	- 12 912
Average maturity date	14.08.2033	07.12.2023	30.12.2022	05.11.2026
Average expected maturity	25.08.2027	09.07.2017	02.06.2017	18.09.2020

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

The sensitivity of 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 Group accepts within the approved limits.

With the positions in place as of 31 December 2010, the earnings would increase by EUR 49.0 million (2009: EUR 68.8 million) if interest rate increase by 100 basis points and decrease by EUR 60.9 million (2009: EUR 72.0 million) if interest rates decrease by 100 basis points.

The Group computes the sensitivity measure with a dedicated software that simulates earnings on a deal by deal basis. The sensitivity of earnings is measured on an

accruals basis and is calculated under the “ongoing” assumption that, over the time horizon analysed, the Group realises the new loan business forecast 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 Group 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.

#### 5.4.3. 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 systematically protect the known future loan margins in USD and in GBP on a 3-year horizon.

##### 5.4.3.1. Foreign exchange position

Currency (at 31 December 2010)	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2010
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	254	0	0	0	0	254
Treasury bills and other bills eligible for refinancing with central banks	5 457	0	0	0	0	5 457
Other loans and advances:						
- Current accounts	288	34	17	152	203	491
- Others	28 709	101	552	2 290	2 943	31 652
	28 997	135	569	2 442	3 146	32 143
Loans and advances to:						
- Credit institutions	80 334	14 408	24 364	6 117	44 889	125 223
- Customers	190 757	18 712	9 751	13 649	42 112	232 869
	271 091	33 120	34 115	19 766	87 001	358 092
Debt securities including fixed-income securities	13 097	635	1 267	1 408	3 310	16 407
Shares and other variable-yield securities	1 944	267	29	75	371	2 315
Derivative assets	28 624	828	758	1 143	2 729	31 353
Other assets	459	2	6	34	42	501
<b>Total assets</b>	<b>349 923</b>	<b>34 987</b>	<b>36 744</b>	<b>24 868</b>	<b>96 599</b>	<b>446 522</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	5 682	0	28	93	121	5 803
Amounts owed to customers	2 452	0	32	17	49	2 501
Debts evidenced by certificates:						
- Debt securities in issue	156 462	53 106	101 313	45 689	200 108	356 570
- Others	10 493	503	3 803	9 217	13 523	24 016
	166 955	53 609	105 116	54 906	213 631	380 586
Derivative liabilities	131 366	- 18 629	- 68 480	- 30 159	- 117 268	14 098
Capital, reserves and profit	41 172	0	0	0	0	41 172
Other liabilities	2 346	5	8	3	16	2 362
<b>Total liabilities</b>	<b>349 973</b>	<b>34 985</b>	<b>36 704</b>	<b>24 860</b>	<b>96 549</b>	<b>446 522</b>
<b>Net position</b>	<b>- 50</b>	<b>2</b>	<b>40</b>	<b>8</b>	<b>50</b>	



Currency (at 31 December 2009)	Euro	Pound Sterling	US Dollar	Other currencies	Sub-total except Euro	Total 2009
<b>ASSETS</b>						
Cash in hand, balances with central banks and post office banks	227	0	0	0	0	227
Treasury bills and other bills eligible for refinancing with central banks	4 162	0	0	0	0	4 162
Other loans and advances:						
- Current accounts	260	22	9	77	108	368
- Others	13 402	224	3 869	1 741	5 834	19 236
	13 662	246	3 878	1 818	5 942	19 604
Loans and advances to:						
- Credit institutions	73 639	15 283	23 945	4 694	43 922	117 561
- Customers	166 860	15 799	9 244	11 097	36 140	203 000
	240 499	31 082	33 189	15 791	80 062	320 561
Debt securities including fixed-income securities	14 871	928	1 233	1 269	3 430	18 301
Shares and other variable-yield securities	1 680	244	30	64	338	2 018
Derivatives assets	20 868	0	0	0	0	20 868
Other assets	106	76	270	114	460	566
<b>Total assets</b>	<b>296 075</b>	<b>32 576</b>	<b>38 600</b>	<b>19 056</b>	<b>90 232</b>	<b>386 307</b>
<b>LIABILITIES</b>						
Amounts owed to credit institutions	4 243	0	177	61	238	4 481
Amounts owed to customers	2 178	81	0	104	185	2 363
Debts evidenced by certificates:						
- Debt securities in issue	141 292	51 759	75 787	35 141	162 687	303 979
- Others	10 235	665	3 602	5 367	9 634	19 869
	151 527	52 424	79 389	40 508	172 321	323 848
Derivative liabilities	97 537	- 19 947	- 41 045	- 21 678	- 82 670	14 867
Capital, reserves and profit	38 469	10	23	43	76	38 545
Other liabilities	2 138	8	48	9	65	2 203
<b>Total liabilities</b>	<b>296 092</b>	<b>32 576</b>	<b>38 592</b>	<b>19 047</b>	<b>90 215</b>	<b>386 307</b>
<b>Net position</b>	<b>- 17</b>	<b>0</b>	<b>8</b>	<b>9</b>	<b>17</b>	

#### S.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 income statement 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 Note T.4.2.1.

#### S.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.

As of 31 December 2010, equity price risk was 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). 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 2010 and 31 December 2009) due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

	Change in equity price 2010 %	Effect on Own Funds 2010 in EUR'000	Change in equity price 2009 %	Effect on Own Funds 2009 in EUR'000
Venture Capital Operations	- 10	-198 352 <sup>(1)</sup>	- 10	-184 253 <sup>(1)</sup>
EBRD shares	- 10	- 34 839	- 10	-15 750
Investment funds	- 10	- 33 443	- 10	-22 154

<sup>(1)</sup> The sensitivity of Venture Capital operations is calculated by the EIF based on the market risk of the positions on the public market.

## S.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.

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 T – Accounting classifications and fair values of 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 2010	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	B.1	0	0	0	254	0	0	0	254
Treasury bills and debt securities portfolios	B.2	1 713	0	16 306	0	3 845	0	0	21 864
Loans and advances to credit institutions and to customers	C/D	0	87 743	0	302 491	0	0	0	390 234
Shares and other variable-yield securities	B.3	0	0	0	0	2 315	0	0	2 315
Derivative assets	R	31 353	0	0	0	0	0	0	31 353
Property, furniture and equipment	E.1	0	0	0	0	0	0	317	317
Investment property	E.2	0	0	0	0	0	0	3	3
Intangible assets	E.1	0	0	0	0	0	0	8	8
Other assets	G	0	0	0	0	0	0	84	84
Prepayments		0	0	0	0	0	0	34	34
		<b>33 066</b>	<b>87 743</b>	<b>16 306</b>	<b>302 745</b>	<b>6 160</b>	<b>0</b>	<b>446</b>	<b>446 466</b>
Amounts owed to credit institutions and to customers	H	0	0	0	0	0	8 304	0	8 304
Debts evidenced by certificates	I	0	345 066	0	0	0	35 520	0	380 586
Derivative liabilities	R	14 098	0	0	0	0	0	0	14 098
Other liabilities	G	0	0	0	0	0	0	767	767
Deferred income	F	0	0	0	0	0	0	171	171
Provisions	J	0	0	0	0	0	0	1 424	1 424
		<b>14 098</b>	<b>345 066</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>43 824</b>	<b>2 362</b>	<b>405 350</b>

31 December 2009	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	B.1	0	0	0	227	0	0	0	227
Treasury bills and debt securities portfolios	B.2	1 068	0	17 800	0	3 595	0	0	22 463
Loans and advances to credit institutions and to customers	C/D	0	69 214	0	270 951	0	0	0	340 165
Shares and other variable-yield securities	B.3	0	0	0	0	2 018	0	0	2 018
Derivative assets	R	20 868	0	0	0	0	0	0	20 868
Property, furniture and equipment	E.1	0	0	0	0	0	0	307	307
Investment property	E.2	0	0	0	0	0	0	3	3
Intangible assets	E.1	0	0	0	0	0	0	5	5
Other assets	G	0	0	0	0	0	0	107	107
Prepayments		0	0	0	0	0	0	35	35
		<b>21 936</b>	<b>69 214</b>	<b>17 800</b>	<b>271 178</b>	<b>5 613</b>	<b>0</b>	<b>457</b>	<b>386 198</b>
Amounts owed to credit institutions and to customers	H	0	0	0	0	0	6 844	0	6 844
Debts evidenced by certificates	I	0	301 642	0	0	0	22 206	0	323 848
Derivative liabilities	R	14 867	0	0	0	0	0	0	14 867
Other liabilities	G	0	0	0	0	0	0	713	713
Deferred income	F	0	0	0	0	0	0	177	177
Provisions	J	0	0	0	0	0	0	1 313	1 313
		<b>14 867</b>	<b>301 642</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>29 050</b>	<b>2 203</b>	<b>347 762</b>

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 2010	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	254	0	0	0	254
Treasury bills and debt securities portfolios	1 713	0	15 634	0	3 845	0	0	21 192
Loans and advances to credit institutions and to customers	0	87 743	0	306 586	0	0	0	394 329
Shares and other variable-yield securities	0	0	0	0	2 315	0	0	2 315
Derivative assets	31 353	0	0	0	0	0	0	31 353
Property, furniture and equipment	0	0	0	0	0	0	317	317
Investment property	0	0	0	0	0	0	9	9
Intangible assets	0	0	0	0	0	0	8	8
Other assets	0	0	0	0	0	0	84	84
Prepayments	0	0	0	0	0	0	34	34
	<b>33 066</b>	<b>87 743</b>	<b>15 634</b>	<b>306 840</b>	<b>6 160</b>	<b>0</b>	<b>452</b>	<b>449 895</b>
Amounts owed to credit institutions and to customers	0	0	0	0	0	8 304	0	8 304
Debts evidenced by certificates	0	345 066	0	0	0	36 302	0	381 368
Derivatives liabilities	14 098	0	0	0	0	0	0	14 098
Other liabilities	0	0	0	0	0	0	767	767
Deferred income	0	0	0	0	0	0	171	171
Provisions	0	0	0	0	0	0	1 424	1 424
	<b>14 098</b>	<b>345 066</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>44 606</b>	<b>2 362</b>	<b>406 132</b>

31 December 2009	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	227	0	0	0	227
Treasury bills and debt securities portfolios	1 068	0	17 387	0	3 595	0	0	22 050
Loans and advances to credit institutions and to customers	0	69 214	0	269 463	0	0	0	338 677
Shares and other variable-yield securities	0	0	0	0	2 018	0	0	2 018
Derivative assets	20 868	0	0	0	0	0	0	20 868
Property, furniture and equipment	0	0	0	0	0	0	307	307
Investment property	0	0	0	0	0	0	9	9
Intangible assets	0	0	0	0	0	0	5	5
Other assets	0	0	0	0	0	0	107	107
Prepayments	0	0	0	0	0	0	35	35
	<b>21 936</b>	<b>69 214</b>	<b>17 387</b>	<b>269 690</b>	<b>5 613</b>	<b>0</b>	<b>463</b>	<b>384 303</b>
Amounts owed to credit institutions and to customers	0	0	0	0	0	6 844	0	6 844
Debts evidenced by certificates	0	301 642	0	0	0	23 271	0	324 913
Derivatives liabilities	14 867	0	0	0	0	0	0	14 867
Other liabilities	0	0	0	0	0	0	713	713
Deferred income	0	0	0	0	0	0	177	177
Provisions	0	0	0	0	0	0	1 313	1 313
	<b>14 867</b>	<b>301 642</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>30 115</b>	<b>2 203</b>	<b>348 827</b>

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

31 December 2010	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Non financial assets	Total maximum exposure
Cash in hand, balances with central banks and post office banks	0	0	0	254	0	0	254
Debt securities portfolios	1 713	0	16 306	0	3 845	0	21 864
Loans and advances to credit institutions and to customers (including undisbursed amounts)	0	91 912	0	388 873	0	0	480 785
Shares and other variable-yield securities	0	0	0	0	2 315	0	2 315
Derivative assets	31 353	0	0	0	0	0	31 353
Other assets	0	0	0	0	0	84	84
	<b>33 066</b>	<b>91 912</b>	<b>16 306</b>	<b>389 127</b>	<b>6 160</b>	<b>84</b>	<b>536 655</b>

31 December 2009	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Non financial assets	Total maximum exposure
Cash in hand, balances with central banks and post office banks	0	0	0	227	0	0	227
Debt securities portfolios	1 068	0	17 800	0	3 595	0	22 463
Loans and advances to credit institutions and to customers (including undisbursed amounts)	0	72 527	0	349 481	0	0	422 008
Shares and other variable-yield securities	0	0	0	0	2 018	0	2 018
Derivative assets	20 868	0	0	0	0	0	20 868
Other assets	0	0	0	0	0	107	107
	<b>21 936</b>	<b>72 527</b>	<b>17 800</b>	<b>349 708</b>	<b>5 613</b>	<b>107</b>	<b>467 691</b>

## Note U – Segment reporting

The segment information disclosed in this note has been prepared in accordance with the "management approach" applied by IFRS 8 meaning that the definition for segments as well as the preparation of information used for segment reporting are both based on information prepared for internal management decisions.

The EIB Group has one single reportable segment which is the EIB long term finance activity comprising EIB lending operations inside and outside Europe, borrowing and

treasury operations. The Management Committee as the Group's chief operating decision maker reviews internal management reports on the performance of the Bank's long term finance activity on at least a quarterly basis.

The second EIB Group operating segment, the financial support of SME's carried out by the European Investment Fund through venture capital investments and the provision of guarantees does not meet any of the quantitative thresholds for determining a reportable segment in 2010 or 2009.

Information about reportable segment (in EUR million)	Long term lending finance activity	
	2010	2009
<b>External revenues</b>		
Net interest income	2 660	2 239
Net income from shares	56	8
Net fee and commission income	160	148
Other operating income	0	7
<b>Total segment revenue</b>	<b>2 876</b>	<b>2 402</b>
<b>Other material non-cash items</b>		
Result on financial operations	200	- 4 065
Impairment losses on loans and shares	- 30	- 167
	<b>170</b>	<b>- 4 232</b>
<b>Reportable segment profit/loss</b>	<b>2 645</b>	<b>- 2 268</b>
<b>Reportable segment assets</b>	<b>445 363</b>	<b>385 667</b>
<b>Reportable segment liabilities</b>	<b>404 804</b>	<b>347 285</b>
<b>Reconciliation of reportable segment revenues, profit and loss and assets and liabilities (in EUR million)</b>	<b>2010</b>	<b>2009</b>
<b>Revenues</b>		
Total revenues for reportable segment	2 876	2 402
Other revenues	109	91
Consolidated revenue	<b>2 985</b>	<b>2 493</b>
<b>Profit or loss</b>		
Total profit or loss for reportable segment	2 645	- 2 268
Other profit or loss	0	- 13
Consolidated profit	<b>2 645</b>	<b>- 2 281</b>
<b>Assets</b>		
Total assets for reportable segment	445 363	385 667
Other assets	1 159	640
Consolidated total assets	<b>446 522</b>	<b>386 307</b>
<b>Liabilities</b>		
Total liabilities for reportable segment	404 804	347 285
Other liabilities	546	477
Consolidated total liabilities	<b>405 350</b>	<b>347 762</b>

## Note V – Commitments, contingent liabilities, pledged assets and other memorandum items (in EUR '000)

The Group utilises 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 fulfil 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 to counterparties and at 31 December 2010 amount to EUR 2.3 million (2009: EUR 2.1 million) in relation to its activities on futures. 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 2010 and 2009, commitments, contingent liabilities and other memorandum items were as follows (in nominal amounts and in EUR '000):

		31.12.2010	31.12.2009
<b>Commitments</b>			
- EBRD capital (Note B.3)			
• uncalled		442 500	442 500
- Undisbursed loans (Note D.1)			
• credit institutions	17 562 869		18 686 622
• customers	72 988 160		63 156 626
		<b>90 551 029</b>	<b>81 843 248</b>
- Undisbursed venture capital operations (Note B.3)		<b>1 706 189</b>	<b>1 392 559</b>
- Undisbursed investment funds		<b>459 914</b>	<b>511 895</b>
<b>Contingent liabilities and guarantees</b>			
- In respect of loans granted by third parties		<b>3 015 621</b>	<b>3 161 290</b>
- In respect of venture capital operations		<b>17 385</b>	<b>17 385</b>
<b>Fiduciary operations <sup>(**)</sup></b>			
<b>Assets held on behalf of third parties <sup>(***)</sup></b>			
- SMEG 2007	80 964		93 703
- GIF 2007	73 577		99 999
- SME Guarantee Facility	59 550		61 992
- European Technology Facility	9 896		6 573
- Map Equity	46 349		65 795
- Map guarantee	44 748		72 590
- Guarantee Fund treasury management	1 347 331		1 240 505
- Investment Facility – Cotonou	1 555 391		1 289 209
- Special Section	1 221 391		1 416 067
- RSFF	509 193		432 266
- NIF	57 913		44
- EU-Africa Infrastructure Trust Fund	259 728		144 151
- HIPC	161 550		65 768
- FEMIP Trust Fund	29 588		30 236
- LGTT	152 348		105 198
- FP7 Guarantee Fund treasury management	859 620		547 761
- JASPERS	934		119
- JESSICA (Contribution and Holding Fund)	1 382 955		16 805
- LfA-EIF Facility	114		24
- JEREMIE	928 876		763 175
- TTP	1 809		2 010
- GEEREF	1 633		57 999
- GEEREF Technical Support Facility	3 750		2 390
- EFSE	0		10 000
- BWMi	517		102
- EPMF	6 004		0
- EPPA	1 003		0
- GGF	5 000		0
- GAGF	31 332		0
		<b>8 833 064</b>	<b>6 524 481</b>

	31.12.2010	31.12.2009
<b>Special deposits for service of borrowings <sup>(*)</sup></b>	<b>34 568</b>	52 292
<b>Securities portfolio</b>		
- Securities receivable	<b>0</b>	100 000
<b>Interest-rate swap and deferred rate-setting contracts</b> (Notes Q & S)	<b>359 402 781</b>	316 379 917
<b>Currency swap contracts payable</b> (Notes Q & S)	<b>161 700 288</b>	125 166 944
<b>Currency swap contracts receivable</b> (Notes Q & S)	<b>166 163 922</b>	119 986 609
<b>Put option granted to EIF minority shareholders</b> (Note A.4.21)	<b>407 645</b>	388 842
<b>Borrowings launched but not yet settled</b>	<b>44 044</b>	360 631
<b>Swaps launched but not yet settled</b>	<b>3 327</b>	11 590
<b>Securities lent</b> (Note B.2)	<b>655 982</b>	471 430
<b>Future contracts</b> (Notes Q & S)	<b>283 413</b>	334 676
<b>FX Forwards</b> (Notes Q & S)	<b>287 518</b>	251 938
<b>Credit default swap</b>	<b>192 883</b>	196 796

<sup>(\*)</sup> 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.

<sup>(\*\*)</sup> **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 Union, according to Fiduciary and Management Agreements concluded with the European Union ("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 Union.

<sup>(\*\*\*)</sup> **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 and subsequently revised. 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 the 5 June 2007, between the European Commission on behalf of the European Union and the EIB. 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 RSFF.

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 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 Union 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 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.

The Neighbourhood Investment Facility (the "NIF") Trust Fund managed by the EIB was set up to achieve the strategic objective of the European Neighbourhood Partnership Instrument (ENPI) through targeted funding aimed at strengthening infrastructure interconnection between the EU and its neighbours in the areas of Transport and Energy, at addressing common environmental concerns and at supporting other relevant activities. The EIB prepares separate financial statements for the Trust Fund.

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 European Commission and the Group, in collaboration with the Council of Europe Development Bank (CEB). Under new procedures, Member States are being given the option of using some of their EU grant funding to make repayable investments in projects forming part of an integrated plan for sustainable urban development. These investments are delivered to projects via Urban Development Funds or if required Holding Funds (JESSICA Holding Funds).

JEREMIE (Joint European Resources for Micro to Medium Enterprises initiative) is an initiative of the European Commission's Directorate General for Regional Policy (DG Regio) and the EIB Group.

JASMINE (Joint Action to Support Micro-finance Institutions in Europe) is a pilot initiative by the European Commission and the EIB Group for the development of Microfinance Institutions and Microcredit.

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 (the "LGTT") has been established within the framework of the Co-operation Agreement, entered into force on this 11 January 2008, between The European Commission on behalf of the European Union and the EIB Group. The Commission and the EIB have set 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 European Progress Microfinance Facility (EPMF) aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged.

In 2010, the EIF signed the European Parliament Preparatory Action (EPPA) with DG REGIO, under which the EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.

Green for Growth (GGF) was set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey.

Under the Greater Anatolia Guarantee Facility (GAGF) signed in May 2010, the EIF manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in Turkey's least developed provinces in partnership with major Turkish banks.

LfA-EIF Facility, signed in 2009 is a joint EIF and LfA Förderbank Bayern venture providing investments to support technology-oriented early and expansion stage companies in the region of Bavaria, Germany.

Under the Technology Transfer Pilot Project (TTP), financed by the European Commission and signed in November 2008, the EIF has supported a technology transfer structure through pre-seed funding and seed funding.

The EIF manages on behalf of the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie; BMWi) and the European Recovery Programme (ERP).

The Special Section (Note Y) 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 EIB for the account of and under mandate from third parties. It includes the FED, MED/FEMIP and Turkey mandates.

## Note W – Capital and Reserves

### W.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 Group'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 similar amounts, normally in several equal instalments over the course of several years. 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 is not foreseen by the legal provisions currently in force.

### W.2. Subscribed capital and reserves, called but not paid

On 1 January 2007, the subscribed capital 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 30 November 2010 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 reserves, called but not paid":

in EUR '000	31.12.2010	31.12.2009
Subscribed capital called but not paid (nominal value)	14 430	28 861
Net present value adjustment	- 432	- 1 938
<b>Subscribed capital called but not paid (carrying value)</b>	<b>13 998</b>	<b>26 923</b>
Reserve called but not paid (nominal value)	43 233	86 466
Net present value adjustment	- 1 286	- 5 752
<b>Reserve called but not paid (carrying value)</b>	<b>41 947</b>	<b>80 714</b>
	<b>55 945</b>	<b>107 637</b>

### W.3. Capital management

Even though the 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 "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 2010, the Group's capital adequacy ratio stood at 27.2% (30.1% at the end of 2009), compared to the Basel II minimum capital adequacy level of 8%.

### Note X – Conversion rates

The following conversion rates were used for establishing the balance sheet at 31 December 2010 and 31 December 2009:

	31.12.2010	31.12.2009
<b>NON-EURO CURRENCIES OF EU MEMBER STATES</b>		
Bulgarian leva (BGN)	1.9558	1.9558
Czech koruna (CZK)	25.061	26.473
Danish kroner (DKK)	7.4535	7.4418
Hungarian forint (HUF)	277.95	270.42
Polish zloty (PLN)	3.9750	4.1045
Pound sterling (GBP)	0.8608	0.8881
Romanian lei (RON)	4.2620	4.2363
Swedish kronor (SEK)	8.9655	10.252
<b>NON-EU CURRENCIES</b>		
Australian dollar (AUD)	1.3136	1.6008
Canadian dollar (CAD)	1.3322	1.5128
Hong Kong dollar (HKD)	10.3856	11.1709
Japanese yen (JPY)	108.65	133.16
Kenyan shilling (KES)	107.77	108.43
Moroccan dirham (MAD)	11.1523	11.2900
Mexican peso (MXN)	16.5475	18.9223
New Zealand dollar (NZD)	1.750	1.980
Norwegian krone (NOK)	7.800	8.300
Russian ruble (RUB)	40.820	43.154
South African rand (ZAR)	8.8625	10.6660
Swiss franc (CHF)	1.2504	1.4836
Turkish lira (TRY)	2.0694	2.1547
United States dollar (USD)	1.3362	1.4406

## Note Y – Statement of Special Section <sup>(1)</sup>

as at 31 December 2010 and 2009 (in EUR '000)

AMOUNTS DISBURSED AND TO BE DISBURSED	31.12.2010	31.12.2009
<b>Turkey</b>		
From resources of Member States		
Disbursed loans outstanding	8 990	10 076
<b>Total <sup>(2)</sup></b>	<b>8 990</b>	<b>10 076</b>
<b>Mediterranean Countries</b>		
From resources of the European Union		
Disbursed loans outstanding	117 069	127 673
Risk capital operations		
- amounts to be disbursed	186 843	212 218
- amounts disbursed	173 526	195 709
	<b>360 369</b>	<b>407 927</b>
<b>Total <sup>(3)</sup></b>	<b>477 438</b>	<b>535 600</b>
<b>African, Caribbean and Pacific State and Overseas Countries and Territories</b>		
From resources of the European Union		
• Yaoundé Conventions		
Loans disbursed	12 830	14 686
Contributions to the formation of risk capital		
- amounts disbursed	419	419
<b>Total <sup>(4)</sup></b>	<b>13 249</b>	<b>15 105</b>
• Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	23 966	39 099
- amounts disbursed	695 415	813 171
	<b>719 381</b>	<b>852 270</b>
Operations from other resources		
- amounts disbursed	2 333	3 016
	<b>2 333</b>	<b>3 016</b>
<b>Total <sup>(5)</sup></b>	<b>721 714</b>	<b>855 286</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

<b>FUNDS RECEIVED AND TO BE RECEIVED</b>	<b>31.12.2010</b>	<b>31.12.2009</b>
Funds under trust management		
Under mandate from the European Union		
- Financial Protocols with the Mediterranean Countries	290 595	323 383
- Yaoundé Conventions	13 249	15 105
- Lomé Conventions	695 415	813 171
- Other resources under the Lomé Conventions	2 333	3 016
	1 001 592	1 154 675
Under mandate from Member States	8 990	10 076
<b>Total</b>	<b>1 010 582</b>	<b>1 164 751</b>
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	186 843	212 218
On operations from risk capital resources under the Lomé Conventions	23 966	39 098
<b>Total</b>	<b>210 809</b>	<b>251 316</b>
<b>TOTAL</b>	<b>1 221 391</b>	<b>1 416 067</b>

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 EU mandate for recovering principal and interest:

- Under the First, Second and Third Lomé Conventions: at 31 December 2010: EUR '000 596 926 (at 31 December 2009: EUR '000 648 409)
- Under Financial Protocols signed with the Mediterranean Countries: at 31 December 2010: EUR '000 97 371 (at 31 December 2009: EUR '000 103 000)

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, the EU-Africa Infrastructure Trust Fund, the Neighbourhood Investment Facility (NIF) Trust Fund 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 Union and the Member States. Amounts disbursed and to be disbursed and funds received and to be received are carried at nominal value. 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		20 134
less:	cancellations	215	
	repayments	416 828	
			- 417 043
			<b>8 990</b>

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 Union.

Initial amount:			945 957
less:	exchange adjustments	45 803	
	cancellations	95 720	
	repayments	326 996	
			- 468 519
			<b>477 438</b>

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 Union:

Loans on special conditions		139 483	
Contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interests	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	137 996	
			- 139 754
			<b>13 249</b>

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 Union:

Loans from risk capital resources:			
Conditional and subordinated loans		3 116 097	
Equity participations		121 002	
Initial amount:			3 237 099
add:	capitalised interests		9 548
less:	cancellations	670 064	
	repayments	1 800 037	
	exchange adjustments	57 165	
			- 2 527 266
			<b>719 381</b>
Loans from other resources:			
Initial amount:			16 500
add:	exchange adjustments		68
less:	cancellations	8 264	
	repayments	5 971	
			- 14 235
			<b>2 333</b>
			<b>721 714</b>

## Note Z – Post balance sheet events

There have been no material events after the balance sheet date that would require adjustment of, or disclosure in, the Financial Statements as at 31 December 2010.

## Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of EUROPEAN INVESTMENT BANK, which comprise the consolidated balance sheet as at 31 December 2010 and the consolidated statements of income and comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Responsibility of the Réviseur d'Entreprises agréé

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

*Luxembourg, 10 March 2011*

KPMG Audit S.à r.l.  
Cabinet de révision agréé  
9, Allée Scheffer  
L-2520 Luxembourg

Société à responsabilité limitée  
R.C.S. Luxembourg B 103590  
Capital 25.000 €



Emmanuel Dollé

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 agréé, 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 agréé 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, 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 EUROPEAN INVESTMENT BANK as of 31 December 2010, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.



## 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's consolidated financial statements prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS)

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

- designated KPMG as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of KPMG on the consolidated financial statements of the European Investment Bank for the year ended 31 December 2010 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 2010 as drawn up by the Board of Directors at its meeting on 10 March 2011,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 24, 25 & 26 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 statements of income and comprehensive income, the consolidated statement of changes in equity, the consolidated cash flow statement, and a summary of significant accounting policies and other explanatory information give a true and fair view of the financial position of the Bank as at 31 December 2010 in respect of its assets and liabilities, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with IFRS.

Luxembourg, 10 March 2011

The Audit Committee



G. SMYTH



D. NOUY



E. MATHAY



J. GALEA



J. RODRIGUES DE JESUS



M. ÜÜRKE



EIF

# Financial Statements

as at 31 December 2010

## Report of the Réviseur d'Entreprises Agréé

To the Audit Board  
of the EUROPEAN INVESTMENT FUND  
96, boulevard Konrad Adenauer  
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of European Investment Fund (hereafter "the Fund"), which comprise the statement of financial position as at December 31, 2010 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 246 to 281.

### Management responsibility for the financial statements

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

### Responsibility of the Réviseur d'Entreprises agréé

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the

Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

KPMG Audit S.à r.l.  
Cabinet de révision agréé

Luxembourg, 9 March 2011



Thierry RAVASIO

## Statement by the Audit Board

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund (EIF),

- acting in accordance with the customary standards of the audit profession,
- having designated KPMG Audit S.à r.l. Réviseur d'Entreprises as external auditor of the EIF pursuant to Art. 19 of the Rules of Procedure,
- having studied the financial statements and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the report dated 9 March 2011 drawn up by KPMG Audit S.à r.l. Réviseur d'Entreprises,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial year ending 31 December 2010,
- having examined and discussed reports and opinions issued by the EIF's Internal Audit, Risk Management and Compliance and Operational Risk functions,

- having received assurance from the Chief Executive in particular concerning the effectiveness of the internal control systems, risk management and internal administration,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms that to the best of its knowledge and judgement,

- the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes and the Rules of Procedure;
- the financial statements, comprising the statement of financial position, statement of comprehensive income, statement of changes in equity, cash flow statement, and notes to the financial statements of the European Investment Fund give a true and fair view of the financial position of the Fund as regards its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 9 March 2011

The Audit Board



Ortwin KLAPPER



Bernard MAGENHANN



H. STERMANN

## Statement of financial position

as at 31 December 2010 (expressed in EUR)

	Notes	31.12.2010	31.12.2009
<b>ASSETS</b>			
Cash and cash equivalents	4.1	73 603 254	106 266 117
Investments:			
Debt securities and other fixed income securities	4.2	863 578 881	832 313 566
Shares and other variable income securities	4.3	194 384 535	165 027 737
		<b>1 057 963 416</b>	<b>997 341 303</b>
Non-current assets held for sale		0	7 139 812
Other assets	4.4	56 822 861	44 788 915
Intangible assets	4.5	1 384 777	2 183 144
Equipment	4.6	81 655	217 437
Investment property	4.6	6 329 080	0
<b>TOTAL ASSETS</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>
<b>LIABILITIES</b>			
Financial liabilities	5.1		
Financial guarantees		26 902 034	26 723 389
Provisions for guarantees	5.2	107 469 393	64 630 966
Retirement benefit obligations	5.3	25 803 632	21 144 222
Other liabilities and provisions	5.4	19 523 417	16 703 747
<b>TOTAL LIABILITIES</b>		<b>179 698 476</b>	<b>129 202 324</b>
<b>EQUITY</b>			
Share capital	5.5		
Subscribed		3 000 000 000	2 940 000 000
Uncalled		(2 400 000 000)	(2 352 000 000)
		<b>600 000 000</b>	<b>588 000 000</b>
Share premium	5.5	152 185 703	143 191 123
Statutory reserve	5.6	138 535 177	138 535 177
Retained earnings	5.6	146 084 055	153 457 561
Fair value reserve	5.7	(27 550 423)	12 924 049
Profit/(loss) for the financial year		7 232 055	(7 373 506)
<b>TOTAL EQUITY</b>		<b>1 016 486 567</b>	<b>1 028 734 404</b>
<b>TOTAL EQUITY and LIABILITIES</b>		<b>1 196 185 043</b>	<b>1 157 936 728</b>

The notes on pages 246 to 281 are an integral part of these financial statements.

## Statement of comprehensive income

for the year ended 31 December 2010 (expressed in EUR)

	Notes	31.12.2010	31.12.2009
Interest and similar income	7.1	31 483 224	28 617 478
Income from investments in shares and other variable income securities	4.3	10 878 493	932 384
Net result from guarantee operations	7.2	(24 918 778)	(20 341 639)
Commission income	7.3	37 149 456	26 844 238
Net gain/(loss) on financial operations	7.4	2 180 690	(1 351 432)
Other operating income	7.5	335 157	34 687
General administrative expenses	5.3, 7.6		
Staff costs:			
- wages and salaries		(30 118 764)	(25 636 186)
- social security and contribution costs		(4 990 135)	(3 890 535)
		<b>(35 108 899)</b>	<b>(29 526 721)</b>
Other administrative expenses		(8 470 136)	(6 832 821)
		<b>(43 579 035)</b>	<b>(36 359 542)</b>
Depreciation and amortisation	4.5, 4.6	(1 763 626)	(552 813)
Impairment losses on available-for-sale investments	4.3	(4 533 526)	(5 196 867)
<b>Profit/(loss) for the financial year</b>		<b>7 232 055</b>	<b>(7 373 506)</b>
Other comprehensive income			
- Net change in fair value of available-for-sale financial assets		(40 954 211)	11 299 835
- Net change in fair value of available-for-sale financial assets transferred to profit/(loss)		479 739	(1 398 779)
		<b>(40 474 472)</b>	<b>9 901 056</b>
<b>Total comprehensive income for the financial year</b>		<b>(33 242 417)</b>	<b>2 527 550</b>

The notes on pages 246 to 281 are an integral part of these financial statements.

## Statement of Changes in Equity

for the year ended 31 December 2010 (expressed in EUR)

Attributable to equity holders of the Fund										
	Note	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit/(loss) for the year	Total Equity
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
<b>Total comprehensive income</b>										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	(7 373 506)	(7 373 506)
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	9 901 056	0	9 901 056
<b>Transactions with owners</b>										
Appropriation of profit inc. dividend	5.6	0	0	0	0	14 044 432	7 022 220	0	(35 111 080)	(14 044 428)
Share issue	5.5	75 000 000	(60 000 000)	15 000 000	11 178 746	0	0	0	0	26 178 746
<b>Balance as at 31.12.2009</b>		<b>2 940 000 000</b>	<b>(2 352 000 000)</b>	<b>588 000 000</b>	<b>143 191 123</b>	<b>138 535 177</b>	<b>153 457 561</b>	<b>12 924 049</b>	<b>(7 373 506)</b>	<b>1 028 734 404</b>
<b>Total comprehensive income</b>										
Profit/(loss) for the financial year		0	0	0	0	0	0	0	7 232 055	7 232 055
Net change in fair value of available-for-sale portfolio	5.7	0	0	0	0	0	0	(40 474 472)	0	(40 474 472)
<b>Transactions with owners</b>										
Appropriation of loss	5.6	0	0	0	0	0	(7 373 506)	0	7 373 506	0
Share issue	5.5	60 000 000	(48 000 000)	12 000 000	8 994 580	0	0	0	0	20 994 580
<b>Balance as at 31.12.2010</b>		<b>3 000 000 000</b>	<b>(2 400 000 000)</b>	<b>600 000 000</b>	<b>152 185 703</b>	<b>138 535 177</b>	<b>146 084 055</b>	<b>(27 550 423)</b>	<b>7 232 055</b>	<b>1 016 486 567</b>

The notes on pages 246 to 281 are an integral part of these financial statements.

## Cash Flow Statement

for the year ended 31 December 2010 (expressed in EUR)

	Notes	31.12.2010	31.12.2009
<b>Cash flows from operating activities</b>			
Profit/(loss) for the financial year		7 232 055	(7 373 506)
Adjustments for:			
Depreciation and amortisation	4.5, 4.6	1 763 626	552 813
Impairment loss on shares and other variable income securities	4.3	4 533 526	5 196 867
Interest income on debt securities and other fixed income securities	7.1	(29 072 530)	(23 885 776)
Change in financial guarantees		2 554 636	11 487 834
Net gain/loss on sale of debt securities and other fixed income securities	7.4	(2 002 257)	1 328 508
Provision for financial guarantees		45 729 749	53 277 911
Provision for retirement benefit obligations		(1 631 002)	0
		<b>29 107 803</b>	<b>40 584 651</b>
Change in shares and other variable income securities	4.3	(24 262 193)	(17 297 162)
Guarantee calls paid	5.2	(5 267 313)	0
Change in other assets and liabilities	4.5, 5.4	(2 923 864)	(10 178 372)
		<b>(32 453 370)</b>	<b>(27 475 534)</b>
<b>Net cash from operating activities</b>		<b>(3 345 567)</b>	<b>13 109 117</b>
<b>Cash flows used in investing activities</b>			
Acquisition of debt securities and other fixed income securities	4.2	(360 000 091)	(449 476 970)
Proceeds from sale of debt securities and other fixed income securities	4.2	283 974 537	128 167 142
Interest received on debt securities and other fixed income securities		25 518 245	19 242 953
Acquisition of intangible assets and property and equipment	4.5, 4.6	(18 745)	(649 928)
<b>Net cash used in investing activities</b>		<b>(50 526 054)</b>	<b>(302 716 803)</b>
<b>Cash flows from financing activities</b>			
Dividend paid		0	(14 044 432)
Capital increase		20 994 580	26 178 746
<b>Cash flows from financing activities</b>		<b>20 994 580</b>	<b>12 134 314</b>
Cash and cash equivalents at the beginning of the year	4.1	106 266 117	383 502 584
Effect of exchange rate fluctuations on cash and cash equivalents		214 178	236 905
Net cash from			
- Operating activities		(3 345 567)	13 109 117
- Investing activities		(50 526 054)	(302 716 803)
- Financing activities		20 994 580	12 134 314
<b>Cash and cash equivalents at the end of the year</b>	<b>4.1</b>	<b>73 603 254</b>	<b>106 266 117</b>

The notes on pages 246 to 281 are an integral part of these financial statements.



## European Investment Fund

# Notes to the financial statements

for the year ended 31 December 2010 (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 Luxembourg.

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Community objectives through:

- the provision of guarantees to financial institutions that cover credits to small and medium sized entities ("SME");
- the acquisition, holding, management and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- associated activities.

The Fund operates as a partnership whose members are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union and of two candidate countries. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from 1 January to 31 December each year.

The EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated financial statements of the EIB Group. The consolidated financial statements are available at the registered office of the EIB at 98-100, boulevard Konrad Adenauer, L-2950 Luxembourg.

## 2. Significant accounting policies and basis of preparation

### 2.1. Basis of preparation

#### 2.1.1. Statement of compliance

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), as endorsed by the European Union.

The Fund's financial statements have been authorised for issue by the Board of Directors on 9 March 2011.

#### 2.1.2. Basis of measurement

The financial statements have been prepared on an historical cost basis except for the following material items in the statement of financial position:

- available-for-sale financial assets which are measured at fair value
- financial instruments at fair value through profit or loss which are measured at fair value
- the defined benefit obligation is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.

#### 2.1.3. Use of estimates and judgments

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment when applying the Fund's policies. Use of available information and application of judgment are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in notes 2.3 and 3.

Judgments and estimates are principally made in the following areas:

- Impairment of available-for-sale equity investments;
- Determination of fair values of equity investments;
- Determination of provisions and liabilities for financial guarantees;
- Actuaries' assumptions related to the measurement of pension liabilities and post-retirement benefits.

#### 2.1.4. Changes in accounting policies and presentation

The accounting policies adopted have been applied consistently with those used in the previous year.

The Fund has adopted the new and amended IFRS and IFRIC interpretation during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Fund. They did however give rise to additional disclosures.

#### 2.1.5. Foreign currency translation

The Euro (EUR) is the functional and presentation currency.

Depending on the classification of a non-monetary financial asset, exchange differences are either recognised in the profit or loss or within equity.

Non-monetary items, which include "Equipment" and "Intangible assets" denominated in a foreign currency, are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing exchange rate prevailing at the reporting date of the financial statements, as issued by the European Central Bank. Exchange differences are recognised in the profit or loss in the year in which they arise.

Income and charges in foreign currencies are translated into EUR at the exchange rate prevailing at the date of the transaction.

### 2.2. Cash and cash equivalents

Cash and cash equivalents comprise short term, highly liquid securities and interest-earnings deposits with original maturities of three months or less.

### 2.3. Investments

#### 2.3.1. Classification and Measurement

##### *Classification*

Except for investment in joint ventures (see note 2.3.4), the Fund classifies its investments in the Available-

For-Sale category (hereafter "AFS"). The classification of the investments is determined at initial recognition.

##### *Initial recognition and derecognition*

Purchases and sales are initially recognised on trade date. They are initially recognised at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or when EIF has substantially transferred all risks and rewards of ownership.

The Fund enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion thereof. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with retention of all or substantially all risks and rewards include securities lending.

##### *Subsequent measurement*

The financial assets are subsequently measured at fair value, and any changes in fair value are directly recognised in the fair value reserve in equity, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in the profit or loss.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method and is recognised in the profit or loss. Dividends on equity investments are recognised in the profit or loss when the Fund's right to receive payment is established.

##### *Impairment of financial assets*

EIF assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant and/or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss – is removed from equity and recognised in the profit or loss. Impairment losses on equity instruments previously recognised in the profit or loss are not reversed through the profit or loss. In contrast, if in a subsequent year, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the

impairment loss was recognised, the impairment loss is reversed through the profit or loss.

### 2.3.2. Shares and other variable income securities

Investments in private equity funds are included in “Shares and other variable income securities”. They are acquired for a long term in the normal course of the Fund’s activities.

#### a) Fair value considerations:

Under the valuation technique, the fair value of private equity (PE) funds is achieved by applying the aggregated Net Asset Value (NAV) method. This valuation method implicitly assumes that if the NAVs of underlying funds can be considered as equivalent to the fair value as determined under IAS 39, then the aggregation of the NAVs of all funds will itself be equivalent to the fair value as determined under IAS 39. If IAS 39 rules have not been followed, other guidelines might be acceptable (for example the International Private Equity and Venture Capital valuation guidelines, IPEVC Guidelines, as published by the European Venture Capital Association “EVCA”) and more detailed monitoring and review will be required.

In accordance with this method, the PE funds are internally classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39 or IPEVC Guidelines.
- Category II – funds that have adopted other valuation guidelines (such as the former 2001 EVCA) or standards that can be considered as in line with IAS 39.
- Category III – funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

Although it is assumed for category I and II that the NAV is a reliable estimation of the fair value and specific review is performed, it must be stated that underlying investments have been estimated in the absence of readily ascertainable market values. Because of the inherent uncertainty of valuation and current market conditions, actual results in the future could differ from the fund manager’s estimate of values and the difference may be material to the financial statements.

#### b) Impairment considerations:

Shares and other variable income securities are assessed for objective evidence of impairment. Impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred. On each official reporting date, EIF analyses unrealised losses so as to determine whether they should be recognised as impairment losses in the profit or loss or as changes in the fair value reserve.

In addition EIF defines quantitative thresholds for assessing what is significant and what is prolonged which allows the classification of the funds as follows:

- funds with no indication of impairment;
- funds with an indication of potential impairment which are reviewed for impairment by the Investment Risk Committee;
- funds showing objective evidence of impairment

Investments belonging to category III are valued at cost less impairment. When an investment falls under this category, the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25 % depending on the operational and performance grading of the respective funds.

The fair value is determined by applying either the Fund’s percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, where available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available NAV and the year-end reporting, a subsequent event review procedure is performed and if necessary the reported NAV is adjusted.

### 2.3.3. Debt securities and other fixed income securities

Securities held by the Fund are all quoted on an active market. Consequently, the fair value of financial instruments is based on bid prices at the statement of financial position date.

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the profit or loss.

### 2.3.4. Interests in Joint Ventures and associates

EIF complies with conditions to use the private equity and similar entities exemption in IAS 28 and IAS 31 and does not use equity accounting on, or proportionately consolidate investments in joint ventures. Upon initial recognition, holdings in the joint ventures or associates are designated as at fair value through the profit or loss, and measured subsequently at fair value in accordance with IAS 39, with changes in fair value recognised in the profit or loss during the year of the change.

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers).

The participations acquired by EIF for its own account or on behalf of its mandate providers typically represent investments in private equity or venture capital funds. According to industry practice, such investments are generally investments jointly subscribed by a number of investors, none of whom is in a position to individually influence the daily operations and the investment activity of such fund. As a consequence, any membership by an investor in a governing body of such fund does not in principle entitle such investor to influence the day-to-day operations of the fund. In addition, individual investors in a private equity or a venture capital fund do not determine policies of a fund such as distribution policies on capital repayments or other distributions. Such decisions are typically taken by the management of a fund on the basis of the shareholders agreement governing the rights and obligations of the management and all shareholders of the fund. The shareholders' agreement also generally prevents individual investors from bilaterally executing material transactions with the fund, interchanging managerial personnel or obtaining privileged access to essential technical information.

EIF's investments, made for its own account or on behalf of its mandate providers, are executed in line with the aforementioned industry practice, ensuring that EIF neither controls nor exercises any form of significant influence within the meaning of IAS 27 and IAS 28 over any of these investments, including those investments in which EIF holds over 20 % of the voting rights either on its own account or on behalf of any of its mandates.

## 2.4. Guarantee operations

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

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the Financial guarantees. At initial recognition, the fair value of the obligation to pay corresponds to the Net Present Value (NPV) of expected premium inflows. EIF has developed a model to estimate the NPV. This calculation is performed at the starting date of each transaction.

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

- the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised i.e. NPV less, where appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two-thirds of the Weighted Average Life (WAL) of the transaction, followed by a linear amortisation down to a minimum floor calculated as a one-year expected loss. The transaction is totally amortised following full repayment of a securitisation tranche.

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

Any increase or decrease in the liability relating to Financial guarantees is recognised in the profit or loss under "Net result from guarantee operations".

## 2.5. Other assets

Other assets include the funds designated to cover the pension liability, accrued commission income and debtors and are accounted for at amortised cost.

## 2.6. Intangible assets, Equipment and Investment property

### 2.6.1. Intangible assets

Intangible assets are composed of internally generated software and purchased computer software, and are accounted for at cost net of accumulated amortisation and impairment losses.

Direct costs associated with the development of software are capitalised provided that these costs are separately identifiable, the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the year in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the date of the statement of financial position.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

Internally generated software:	3 years
Purchased software:	2 to 5 years

### 2.6.2. Equipment

Equipment is stated at cost less accumulated depreciation and impairment losses. Equipment is reviewed for indications of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful lives:

Fixtures and Fittings:	3 to 10 years
Office Equipment:	3 to 5 years
Computer Equipment and Vehicles:	3 years

### 2.6.3. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. Investment property is stated at cost less accumulated depreciation and impairment losses and is reviewed for signs of impairment at the date of the statement of financial position.

Depreciation is calculated on a straight-line basis over the following estimated useful life:

Buildings:	30 years
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### 2.6.4. Impairment of non-financial assets

EIF assesses at each reporting date the carrying amounts of the non-financial assets to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. If the carrying amount exceeds the estimated recoverable amount, impairment losses are recognised in the profit or loss.

## 2.7. Employee benefits

Actuarial valuations involve making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

### 2.7.1. Post employment benefits

#### *Pension fund*

EIF operates an unfunded pension plan of the defined benefit type, providing retirement benefits based on final salary. The cost of providing this benefit is calculated by the actuary using the projected unit credit cost method.

Actuarial gains and losses are amortised over the average remaining working life of the population through the profit or loss.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions

from staff and the Fund. These funds are transferred to the EIB for management with the EIB's own assets and appear on the Fund's statement of financial position as an asset under the heading "Other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

#### *Optional Supplementary provident scheme*

The optional supplementary provident scheme is a defined contribution pension scheme, funded by contributions from staff. It is accounted for on the basis of the contributions from staff and the corresponding liability is recorded in "Other liabilities".

#### *Health insurance scheme*

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. Health insurance liabilities are determined based on actuarial calculations calculated annually by qualified external actuaries.

### 2.7.2. Short-term employee benefits

Employee entitlements to short-term benefits are recognised when they accrue to employees. A provision is made for the estimated liability for any outstanding short-term benefit entitlement as a result of services rendered by employees up to the date of the statement of financial position.

### 2.7.3. Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the year is included in the profit or loss under the heading "Staff costs", resulting in a provision for the estimated liability at the date of the statement of financial position.

## 2.8. Other liabilities and provisions

Other liabilities are classified according to the substance of the contractual arrangements entered into. Trade payables are non-interest bearing liabilities and are stated at amortised cost.



Provisions are recognised when the Fund has a present obligation, legal or constructive, as a result of a past event, and it is probable that the Fund will be required to settle that obligation.

## 2.9. Interest and similar income

Interest income and similar income is recognised in the profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method based on the purchase price including direct transaction costs. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

## 2.10. Income from investment in shares and other variable income securities

Income from investment in shares and other variable income securities includes capital repayments which are recognised when EIF's right to receive payment is established.

## 2.11. Net result from guarantee operations

Net result from guarantee operations mainly includes:

- Guarantee premiums received;
- Interest income on the discounting of the expected premium inflows and any amortisation of the financial guarantees;
- Changes in estimates of provisions for financial guarantees accounted for under IAS 37.

## 2.12. Commission income

This heading is mainly made up of fees and commissions on mandates and advisory activities and excludes guarantee premiums.

Fees and commissions are recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a pro-rata basis. Asset management fees related to investment funds are recognised over the period in which the service is provided.

## 2.13. Leases

The leases entered into by EIF as a lessee or a lessor are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor.

Payments or receipts made under operating leases are recognised to the profit or loss in other administrative expenses or other operating income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## 2.14. New standards and interpretations not adopted

The following IFRS interpretations applicable to EIF were issued but are not yet effective. The Fund has chosen not to early adopt these standards and interpretations. The Fund plans to adopt them at the date of endorsement by the European Union. The Fund is in the process of analysing the impact of these standards on their operations as well as the date at which they plan to adopt the standards.

### IAS 27 – Consolidated and separate financial statements:

This standard was revised following the amendments to IAS 21 The Effect of Changes in Foreign Exchange Rates, IAS 28 Investments in Associates and IAS 31 Interests in Joint Ventures. It deals with the impairment of investments in subsidiaries, joint ventures and associates in separate financial statements. The standard is effective for financial years beginning on or after 1 January 2011.

### IFRS 9 – Financial instruments:

This standard is the first step in a three-part project by the IASB to replace IAS 39 financial instruments. This first part, dealing with the classification and measurement of financial assets, simplifies the recognition of financial assets by requiring such assets to be measured at either amortised cost or fair value, depending on certain criteria. The standard is effective for financial years beginning on or after 1 January 2013, although it may be early adopted. The date of the adoption of this standard by the Fund will also be dependent on the timing of the EU endorsement process.

### Revised IAS 24 – Related Party disclosures:

This revised standard will modify requirements for entities under control, joint control or significant influence of a government ("government-related entities") in respect of certain related party disclosures and will consequently require provision of certain information concerning individually or collectively significant transactions with the government or other government-related entities. This standard specifies retrospective application for annual periods on or after 1 January 2011, although it may be early adopted.

### 3. Financial Risk Management

#### 3.1. Overview of EIF Risk Management

EIF aligns its risk management systems with changing economic conditions, regulatory standards and best market practices. Internal systems are in place to monitor, manage and report on the main risks inherent to its operations.

An independent Risk Management and Monitoring division (RMM) reports directly to the Deputy Chief Executive who in turn is appointed by EIF's Board of Directors. This segregation of duties and a "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the European Investment Bank (EIB) Group context, RMM operates in close contact with the EIB's Risk Management Directorate. RMM is divided into three units: a Private Equity (PE) Risk Management unit, a Portfolio Guarantees & Securitisation (G&S) Risk Management unit and an Operations (OPS) unit (formerly known as Monitoring and Administration team) covering both business lines. RMM covers own resources, and mandates managed by EIF on behalf of the related parties (i.e. the EIB and the EC) and other mandators. For more details on EIF mandates please see note 6.

RMM covers EIF's PE and G&S activities, monitors risk regularly on individual transactions as well as at the portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in EIF's operations;
- issues independent opinions on all new transaction proposals;
- independently reviews internal ratings (G&S)/grades (PE) assigned to transactions;
- performs ongoing deal surveillance, monitoring and administration;
- applies stress testing scenarios on both G&S and PE portfolios;
- checks risk limits;
- assesses regulatory and economic capital allocations, and
- monitors, benchmarks and forecasts portfolio evolution.

The Investment & Risk Committee (IRC) chaired by the Deputy Chief Executive is responsible for reviewing and deciding on new transactions and all risk and investment-related aspects of the existing EIF portfolio, inter alia: reviewing the relevant market risk events, reviewing the portfolio and transaction rating/grading movements, deciding on impairment of transactions and, on an ad-hoc basis, agreeing on presenting transactions to the Board of Directors for their approval.

#### 3.2. Private Equity (PE)

##### 3.2.1. Background:

EIF's PE business resembles a fund of PE funds, i.e. EIF acts as a limited partner. These minority stakes in funds catalyse commitments from a wide range of investors. EIF's PE operations are focused on early-stage and seed capital, and on mid- and later-stage investments. These latter have a lower risk profile.

##### Valuation review

Monitoring includes the valuation review of PE funds. This process is divided into several stages to achieve what is known as Operational Adjustment:

- Reporting: collection of financial quarterly reports sent by the fund managers as basis for valuation.
- Valuations: assessment as to whether valuations are in line with best market practice and applicable industry valuation guidelines. Through its monitoring, EIF produces reports that capture events relevant for valuation, such as:
  - "Flash reviews" of regular financial reporting received from PE funds.
  - Monitoring visits.
  - Any significant information with potential valuation impact.
  - Subsequent event reviews.
- Impairments of investments: as stated in note 3.1, the IRC decides on the transaction impairment.
- Classification of funds: depending on the outcome of the monitoring outlined above, funds are classified into three categories as described in note 2.3.2.

EIF has developed a set of tools to design, monitor and manage portfolio of PE funds. This set of tools is based on an internal process and model, the Grading-based Economic Model ("GEM"), which allows EIF to systematically and consistently assess and verify funds' operational quality, valuations and expected performances. This effort supported by the development of a proprietary Information Technology (IT) system and integrated software (front to back) improves the investment decision process and the management of portfolio's financial and liquidity risks.

EIF's internal grading methodology allows RMM PE to determine the monitoring coverage and intensity, as well as the range for the expected performance. Twice a year each fund is benchmarked against industry statistics and significant deviations between the benchmarking and the expected performance grades are investigated.

The grades are defined as follows:

#### Expected performance grade

P-A	The fund's performance is expected to fall into the first quartile of the benchmark.
P-B	The fund's performance is expected to fall into the second quartile of the benchmark.
P-C	The fund's performance is expected to fall into the third quartile of the benchmark.
P-D	The fund's performance is expected to fall into the fourth quartile of the benchmark.

#### Operational status grade

O-A	No adverse signals so far.
O-B	Some adverse signals, but not expected to have a material impact on the fund's valuation.
O-C	Adverse signals; without changes/improvements likely to lead to a material impact on the fund's valuation.
O-D	Critical events that had a material adverse impact on the fund's valuation.

#### 3.2.2. Portfolio overview:

At the end of 2010, total PE own risk investments in terms of net commitments (i.e. commitments made to underlying funds minus capital repayments) amounted to EUR 388.9 m (2009: EUR 341.4 m).

EIF maintains a balanced portfolio with a focus on technology-oriented early-stage and general mid- and later-stage funds. EIF does not directly acquire participations in companies, but instead invests in selected PE funds, with private sector investors providing at least 50 % of the capital. All investments are made on a pari passu basis with other investors, granting them no specific rights (or obligations) to EIF. All of EIF's risk stemming from its own-risk PE operations is fully covered by shareholders' equity. As a sub-ceiling, PE net commitments may not exceed 50 % of equity, excluding fair value reserve, equivalent to EUR 1 046.8 m. Hence, the EUR 388.9 m of net commitments at year end 2010 was below the EUR 520.6 m limit. Of the EUR 490.5 m of own-risk funds committed at year end

2010, EUR 321.0 m had been disbursed (including equalisation fees). PE investments are valued quarterly according to the industry valuation guidelines. Using the methodology described in note 3.2.1, EIF records value adjustments on a line by line basis, either through the profit or loss in the case of impairment or through equity. Consequently, net disbursed own-risk funds (at cost and using the closing exchange rates prevailing at the reporting date of the financial statements) of EUR 219.4 m (2009: EUR 194.7 m) are valued at EUR 194.4 m in EIF's 2010 statement of financial position (2009: EUR 165.0 m).

#### 3.2.3. Significance of financial instruments for financial position and performance

##### Activities

In terms of EIF's PE own-risk portfolio activities, 2010 shows an increase in commitments, disbursements and reflows:

#### EIF yearly cash flow activity (EUR m)

	Commitments	Disbursements	Reflows	
			Capital Repayments	Dividends
31.12.2010	60.1	38.9	14.8	10.9
31.12.2009	31.1	23.5	6.2	0.9

The proportion of funds considered as impaired has increased from 23.6 % to 25.2 % of the EIF portfolio based on committed funds.



**PE assets not impaired vs. impaired (EUR m)**

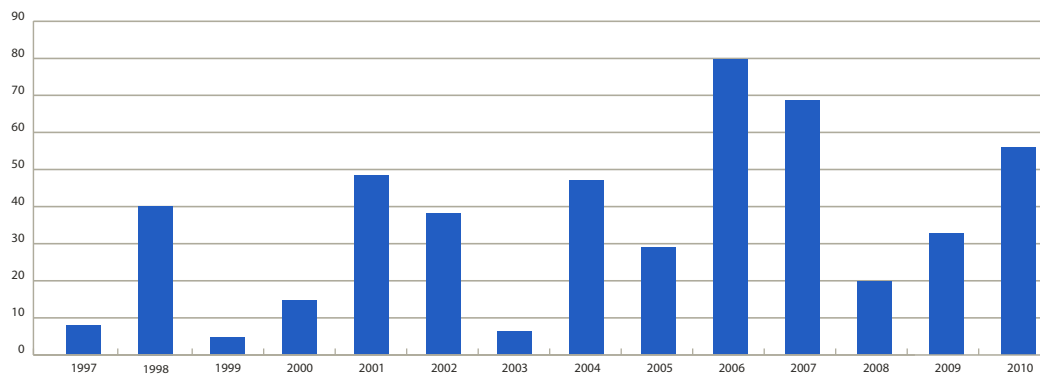
Funds	Commitments		
	31.12.2010	31.12.2009	Variation
Not impaired	366.9	328.8	11.6%
Impaired	123.6	101.3	22.0%
Impairment (%)	25.2%	23.6%	

**Diversification**

As of 31 December 2010, EIF has committed EUR 490.5 m in 189 PE funds with the biggest exposure amounting to EUR 12.9 m (2.6 % of total commitments). These PE funds have invested in more than 2 600 underlying portfolio companies.

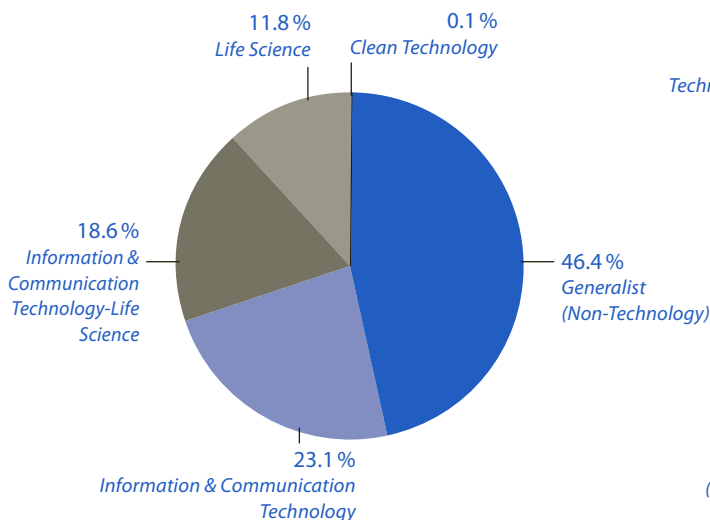
In terms of vintage year, sector and stage, the portfolio is well balanced, as illustrated by the following breakdown by commitment as of 31 December 2010 (historical information translated at the current exchange rate):

**Commitments by vintage year in EUR m**

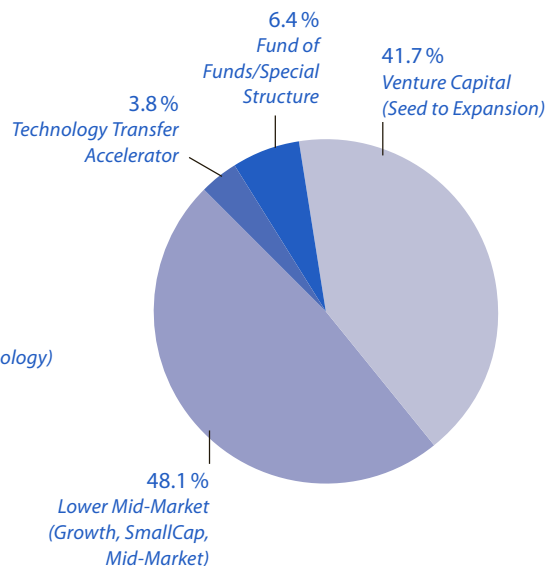


In terms of maturity, the commitment weighted average age of the EIF portfolio stands at 6.2 years at year end 2010.

**Breakdown by sector commitments**



**Breakdown by stage commitments**



### 3.3. Portfolio Guarantees & Securitisation (“G&S”)

#### 3.3.1. Background:

EIF extends portfolio guarantees to financial intermediaries involved in SME financing, and by covering part of the risk faced by those institutions, it helps facilitate funding access, and in turn helps to finance SMEs.

For its G&S business, EIF has developed a set of tools to analyse portfolio guarantee and structured finance transactions in line with common market practices. Before EIF legally enters into a guarantee transaction, the G&S division, within the Transaction and Relationship Management (TRM) department, proposes an internal rating to each new own risk guarantee tranche in accordance with the EIF’s internal rules and procedures. When analysing a new transaction, and in order to estimate the expected losses and consequently assign an internal rating to a tranche, the most appropriate rating model is used in compliance with the internal rules. The rating is based on internal models, which analyse and summarise the tranche’s credit quality based on an expected loss concept. The EIF rating is based on quantitative parameters and qualitative aspects. The following quantitative factors are examples of variables having an impact on the determination of an EIF internal rating: weighted average rating of the underlying portfolio and its volatility, base default rate, weighted average life of transaction, possible loan portfolio performance triggers, available credit enhancement, timing of defaults, expected recovery rates and its volatility, level of diversification in the underlying pool of assets. The credit risk estimation also takes into account various qualitative factors, such as: reliability and completeness of the available data, size, quality and time horizon of the statistical samples, discontinuity in the origination criteria and servicing procedures, macro-economic effects.

Majority of EIF own risk guarantee tranches are also rated by at least one external rating agency. In case there are differences in the rating levels among external rating agencies and EIF’s internal rating, EIF applies a retained rating rule for the calculation of capital. The rule is derived from and aligned to Basel II regulatory capital requirements rating treatment, which is as follows:

- if there is only one assessment by an external rating agency, that assessment should be used to determine the risk weight of the tranche (i.e. capital allocation),
- if there are assessments by two external rating agencies, which map into different risk weights, the higher risk weight is applied,
- if there are three or more assessments with different risk weights, the assessments corresponding to the two lowest risk weights should be referred to and the higher of those two risk weights is applied.

To allocate capital for an own risk guarantee tranche, an EIF internal rating is disregarded from the retained rating rule only when the tranche is rated at least by one of the external rating agencies.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk-adjusted and consequently vary according to the assigned rating. EIF’s conservative capital allocation rules have already incorporated Basel II principles for several years. EIF, having a status of a Multilateral Development Bank, does not report to the national supervisor, “Commission de Surveillance du Secteur Financier” (CSSF) but has adopted rules which are in line with the Basel II framework.

The implementation of the Ratings Based Approach (RBA) for EIF’s G&S exposures has been carried out with the technical assistance of the CSSF and in close cooperation with the EIB.

As it is the responsibility of G&S within the TRM department to propose an EIF rating, which is based on an internal model, RMM – in the course of the independent opinion process, at closing and in line with the Model Review Procedure – conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable to the official EIF internal rating models.

A transaction is eligible if, at the time EIF enters into the transaction, the assigned internal rating is in the range of iAaa-iB1 (iAaa and iB1 are mapped to Moody’s Aaa and B1, respectively). The individual performance of tranches guaranteed by EIF is reviewed at least quarterly after closing. For the most relevant rating input variables a trigger value is defined and the internal rating model is typically re-run when the transaction performance breaches those limits. The EIF’s rating model may also be re-run before a trigger breach when circumstances (such as a sudden deterioration of the performance) suggest that the EIF’s rating may already be affected.

Transactions can be placed under review if there has been any external rating downgrade, any substantial change in the performance of the underlying portfolio or any other element of concern which calls for additional scrutiny (e.g. negative news regarding the servicer or originator), even without any external rating action. EIF puts on a ‘watch list’ any transaction with an internal rating below iBa2 level.

Watch Listed and Under Review transactions are closely scrutinised for a possible breach of EIF triggers, which typically motivates a prompt re-run of the rating model.

EIF also monitors a set of early warning signals for each transaction, the appearance of which flags up the need for increased surveillance and possibly preliminary action. EIF early warning signals are based on the performance parameters of each transaction (e.g. actual

cumulative default rate, actual cumulative average recovery rate), which are compared to a given predetermined threshold level or base case scenario.

The monitoring process includes for instance: checking the compliance of counterparties with any relevant contractual covenants and triggers, assessing the expected evolution of operation's performance compared to estimates set prior to its signature, applying rating stress testing scenarios and assessing whether the level of capital allocation and provisions made for each operation are still adequate.

As circumstances require, dedicated professionals within the RMM G&S unit submit proposals to the IRC to flag transaction as Under Review with positive or negative outlook and/or to initiate a model re-run.

Furthermore, a committee consisting of staff with adequate skills and appointed by the IRC may be set up in order to propose and negotiate solutions to minimise EIF's losses in underperforming deals.

The monitoring activities also include the analysis of the G&S portfolio as a whole (Portfolio Review).

### 3.3.2. Portfolio overview:

At the end of 2010, total G&S own risk transactions amounted to EUR 2 580.2 m (2009: EUR 2 893.0 m) in terms of exposure at risk (i.e. commitment less repayments).

As of 31 December 2010, 78.7 % of the reviewed transactions had a "stable" outlook ("performance as expected") and 21.3 % had a negative outlook. 15 tranches were downgraded by EIF in 2010. The total exposure at risk for EIF's own risk guarantees amounts to EUR 2 580.2 m, breaking down as follows:

in EURm	Weighted Average Rating		Exposure at risk (commitment minus repayment)		% of total	
	2010	2009	2010	2009	2010	2009
Credit Enhancement	Ba2	Baa3	2 438.4	2 739.8	94.5%	94.7%
Credit Insurance	Aa2	Aa3	135.5	131.8	5.3%	4.6%
SIV	Ba2	Ba2	6.3	17.5	0.2%	0.6%
Defaulted	-	D	0.0	3.9	0.0%	0.1%
<b>Total</b>			<b>2 580.2</b>	<b>2 893.0</b>	<b>100.0%</b>	<b>100.0%</b>

The decrease in the exposure at risk in 2010 is mainly due to terminated deals. Two new transactions were signed in 2010 for a total amount of EUR 260.0 m. During 2010, guarantees have been called for a total amount paid of EUR 6.7 m mainly stemming from two transactions. The additional provisions on the portfolio (in particular arising from the downgrades) amounted to EUR 48.1 m (see note 5.2.). The portfolio's overall initial weighted average life stabilised at 5.4 years at end 2010, the same as at end 2009.

EIF's own-risk operations consist mainly of the credit enhancement product type which, at the end of 2010, represented 94.5 % (EUR 2 438.4 m) of total exposure at risk own-risk guarantees. The credit enhancement product serves as an unconditional debt service guarantee (or as a credit default swap), with full or partial coverage of a specific tranche of an SME loan portfolio, and a maximum weighted average term of 15 years. The guarantee is called upon when losses in the portfolio would otherwise have caused a shortfall on a due payment of interest and/or principal on the guaranteed tranche.

In the past EIF also underwrote credit insurance and structured investment vehicles products. As of 31 December 2010, credit insurance products and structured investment vehicles investments accounted for 5.3 % (EUR 135.5 m) and 0.2 % (EUR 6.3 m) of all own-risk outstanding guarantees, respectively.

### 3.3.3. Portfolio quality and performance

As of 31 December 2010, 77.8 % (83.0 % at year end 2009) of the overall portfolio in relation to the number of transactions was at investment-grade level (rating from Aaa to Baa3 inclusive); 63.2 % were rated by at least one external rating agency with the remainder relying on EIF's internal rating. The credit enhancement portfolio's average rating deteriorated to Ba2 as a result of limited new origination coupled with downgrades in the existing portfolio.

## 3.4. Treasury

### 3.4.1. Background:

Treasury management has been outsourced to EIB under a treasury management agreement and is carried out according to EIF treasury guidelines. These EIF guidelines define EIF intention to hold the treasury portfolio to maturity, reflect the investment strategy, and mirror closely the relevant sections of the

EIB's own treasury guidelines. Quarterly meetings between the EIB and EIF take place to review the performance of the treasury portfolio and relevant market events.

EIF does not borrow funds. EIF operations use shareholders' equity, which is the basis for PE investments and capital allocation for G&S.

The treasury is managed in such a way as to protect the value of the paid-in capital, to ensure an adequate level of liquidity to meet possible guarantee calls, PE commitments, administrative expenditure, and earn a reasonable

return on assets invested with due regard to the minimisation of risk.

### 3.4.2. Portfolio overview:

The treasury portfolio is broken down into the following separate sub-portfolios:

- current accounts;
- money market instruments;
- available for sale portfolio (made up of long-term debt instruments, floating rate and fixed rate instruments).

	31.12.2010 EUR	31.12.2009 EUR
Current accounts	31 183 332	33 311 981
Money market instruments	42 419 922	72 954 136
Available for sale portfolio	863 578 881	832 313 566
<b>Total Treasury portfolio</b>	<b>937 182 135</b>	<b>938 579 683</b>

### 3.5. Nature and extent of risks arising from financial instruments

The following table provides information relating to the main financial assets and financial liabilities by categories of financial instruments:

31.12.2010	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Total
Cash & cash equivalents	73 603 254	0	0	0	73 603 254
<b>Investments:</b>					
Debt securities and other fixed income securities	0	0	863 578 881	0	863 578 881
Shares and other variable income securities	0	3 375 484	191 009 051	0	194 384 535
<b>Total Financial Assets</b>	<b>73 603 254</b>	<b>3 375 484</b>	<b>1 054 587 932</b>	<b>0</b>	<b>1 131 566 670</b>
<b>Financial liabilities</b>					
Financial guarantees	0	0	0	26 902 034	26 902 034
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26 902 034</b>	<b>26 902 034</b>
<b>31.12.2009</b>					
Cash & cash equivalents	106 266 117	0	0	0	106 266 117
<b>Investments:</b>					
Debt securities and other fixed income securities	0	0	832 313 566	0	832 313 566
Shares and other variable income securities	0	2 759 064	162 268 673	0	165 027 737
<b>Total Financial Assets</b>	<b>106 266 117</b>	<b>2 759 064</b>	<b>994 582 239</b>	<b>0</b>	<b>1 103 607 420</b>
<b>Financial liabilities</b>					
Financial guarantees	0	0	0	26 723 389	26 723 389
<b>Total Financial Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>26 723 389</b>	<b>26 723 389</b>

### 3.5.1. Credit risk

Credit risk is the risk that another party will cause a financial loss to EIF by failing to discharge an obligation.

Credit risk concerns the EIF's G&S activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial paper and deposits. There is no credit exposure for EIF own risk PE portfolio as investments in PE funds represent equity investments and related financing structures and are always made through an equity-like participation. The Fund uses the following instruments, policies, and processes to manage the credit risk.

#### 3.5.1.A. Portfolio Guarantees & Securitisation

Credit risk arises mainly from EIF's G&S transactions funded by own resources.

This risk is managed by risk management policies covered by the statutes and Credit Risk Policy Guidelines.

The statutes of the Fund limit own-risk guarantees to three times the subscribed capital, which amounted to EUR 3 000.0 m at end 2010. Hence, the EUR 2 580.2 m exposure at risk at end 2010 was well below the statutory limit of EUR 9 000.0 m.

EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified G&S portfolio in terms of product range, counterparty exposure, obligor exposure, geographic coverage, and industry concentration.

In the context of EIF's own risk G&S operations, the credit risk is tracked from the outset on a deal-by-deal basis whilst adopting a different model analysis approach depending on the granularity and homogeneity of the underlying portfolios.

Concentration risk is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, sectors, and also with regard to regional diversification.

To cover concentration risk, EIF has strict limits (based on capital allocation) on individual transactions and

originator level (maximum aggregate exposures for originators and originator groups).

The industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, depending on the financial model used to analyse the transaction, industry exposures can be reflected in implicit correlation or can be indirectly captured based on assumption of default rate volatility, as a key model input variable.

As of 31 December 2010, EIF's overall own risk G&S portfolio was spread over 16 countries. The largest nominal individual country net exposures were Italy, United Kingdom and Germany, which jointly accounted for 44.4 % of total guarantee commitments.

Consideration of sector exposures also forms part of EIF's overall portfolio analysis.

Counterparty risk in the own resources portfolio is mitigated by the quality of EIF counterparties, which are usually major market players, and by rating triggers on the counterparty which require, in case of breach, actions such as substitution of the counterparty or collateralisation of its obligation. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of G&S, including extreme case assumptions, are regularly carried out to determine the ability of the capital base to sustain adverse shocks.

The maximum principal exposure to credit risk (not including possible guarantee calls on interest shortfalls nor foreign currencies fluctuations) in G&S corresponds to the nominal exposure at risk of EUR 2 580.2 m.

#### 3.5.1.B. Treasury

The Fund is exposed to credit risk relating to its assets held in the Treasury portfolios. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio, the eligibility criteria for counterparties are fixed according to their nature, to their credit quality (as measured by their external credit ratings) and to their own funds.

Any currency arbitrage is ruled out by the statutes.

The following table shows the maximum exposure to credit risk for treasury.

#### Breakdown by class of statement of financial position (EUR)

	Maximum exposure 2010	Maximum exposure 2009
Cash and cash equivalents	73 603 254	106 266 117
Debt securities and other fixed income securities	863 578 881	832 313 566
<b>Total Credit Risk Exposure</b>	<b>937 182 135</b>	<b>938 579 683</b>

The following table outlines the credit quality of the Fund's debt securities as of 31 December 2010 and 2009, based on external ratings.

AFS - Debt securities and other fixed income securities	31.12.2010		31.12.2009	
	Amount in EUR	In percentage	Amount in EUR	In percentage
Aaa	352 119 579	40.8%	491 233 789	59.0%
Aa1	54 509 085	6.3%	12 203 603	1.5%
Aa2	96 135 522	11.1%	46 580 486	5.6%
Aa3	8 982 575	1.0%	44 253 843	5.3%
A1	113 486 436	13.1%	132 305 845	15.9%
A2	9 414 792	1.1%	9 351 699	1.1%
A3	42 536 459	4.9%	0	0.0%
Baa1	103 212 844	12.0%	91 307 785	11.0%
Baa2	0	0.0%	0	0.0%
Baa3	4 988 681	0.6%	5 076 516	0.6%
Ba1	78 192 908	9.1%	0	0.0%
<b>Total</b>	<b>863 578 881</b>	<b>100.0%</b>	<b>832 313 566</b>	<b>100.0%</b>

The exposures in Ba1 rating consist of EU sovereign bonds. In the course of the year 2010 the treasury portfolio suffered unrealised losses of EUR 50.3 m, which stemmed mainly from sovereign and government guaranteed bonds downgrades.

As of 31 December 2010, EIF's debt securities portfolio was spread over 22 countries. The largest nominal individual country exposures were Spain, Italy and Ireland, which jointly accounted for 44.5 % of total nominal commitments.

No financial assets carried at amortised cost were past due or impaired either at 31 December 2010 or 31 December 2009.

### 3.5.2. Liquidity risk

The liquidity risk is closely related to the Fund's solvency and to the confidence that creditors have in the Fund to meet its commitments. The treasury is managed in such a way as to protect the value of the paid-in capital, ensure an adequate level of liquidity to meet possible guarantee calls, PE commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to the minimisation of risk (for further details on market risk for treasury, please refer to note 3.5.3.1.C).

#### 3.5.2.A. Private Equity

The PE market is illiquid by nature as the vehicles are closed-end funds typically with a 10-year lifespan. After the first closing, it is difficult for an investor to offload their position, needing to find a buyer in the secondary market. However, PE funds have a finite life and are self-liquidating. This results in a continuous stream of reflows, the magnitude of which mostly depends on the market conditions and the proportion of the portfolio that is in its divestment phase.

The total net commitments to PE funds amounting to EUR 388.9 m in 2010 are limited to 50 % of shareholders' equity. EIF's portfolio is diversified in terms of vintage years, which has a smoothing effect on its cash flows (see EIF's own resource portfolio broken down by vintage year in note 3.2.3).

The table below shows the Fund's PE undrawn amounts (commitments minus disbursements and excluding equalisation fees) of EUR 169.9 m classified into relevant maturity groupings based on the remaining period to the expected maturity date. It is presented using a prudent expectation of maturity dates.

EUR Private Equity	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2010	5 603 117	3 810 771	10 994 729	149 555 041
As of 31.12.2009	2 340 308	3 030 571	11 588 657	130 413 035

### 3.5.2.B. Portfolio Guarantees & Securitisation

The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensure a high degree of liquidity to cover unexpected losses arising from the G&S activity.

At year end 2010, the total Fund's G&S exposure at risk amounted to EUR 2 580.2 m. However, for liquidity risk management purpose, G&S exposure at risk is analysed with reference to its expected maturity date and per the total expected loss.

At the year end 2010, the total expected losses for all G&S own risk transactions stood at EUR 142.3 m. The expected losses may materialise anytime until the tranches' expected maturity dates. However, EIF does not expect to receive guarantee calls for the amount of EUR 142.3 m within the next 3 months as most of the G&S transactions follow a debt service guarantee framework, meaning the guarantee covers timely payment of interest and ultimate (i.e. at the legal maturity date) payment of principal. It is not uncommon to have legal maturity dates for these instruments set 20 – 30 years after the expected maturity dates.

Within the next 3 months tranches with a sum of expected losses of EUR 2.2m will reach their expected maturity dates. Therefore, repayments of tranches will decrease the total expected losses of the current outstanding G&S own risk portfolio.

EUR Guarantees	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years
As of 31.12.2010	142 300 863	140 122 579	123 651 246	42 999 690
As of 31.12.2009	91 403 807	78 946 143	65 474 796	10 612 275

During 2010 the capital charge for the G&S portfolio increased significantly driven by the deterioration of some underlying assets.

### Liquidity risk: portfolio guarantees & securitisation (EURm)

	31.12.2010	31.12.2009
<b>Capital Charges</b>	110.3	163.1
Guarantees Drawn	3 160.3	3 231.5
Guarantees Undrawn	48.6	55.6
Exposure at risk	2 580.2	2 893.0
Yearly guarantee calls	6.7	0.8



### 3.5.3. Market risk

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

#### 3.5.3.1. Market risk: interest rate risk

More than half of the Fund's income and operating cash flows are unaffected by changes in market interest rates. The Fund's interest rate risk arises mainly from cash and cash equivalent positions as well as investments in debt securities.

##### 3.5.3.1.A. Private Equity

As PE fund investments are financed by equity and are not leveraged, direct sensitivity to interest rate is not a consideration.

##### 3.5.3.1.B. Portfolio Guarantees & Securitisation

Transactions in which EIF acts as guarantor are typically in illiquid markets and representative market prices are not available. EIF has therefore developed a mark-to-model approach to value these transactions, using external and internal ratings, information gathered through regular monitoring, and discounted cash flow analysis.

The value of guarantee transactions is not directly subject to fluctuations with interest rates during the life of the transactions. The interest rate risk impact on underlying portfolios is indirectly assessed during the quarterly review of the transaction's performance. A change of a transaction rating usually implies a revision of the transaction's expected loss, capital charge and transaction valuation.

##### 3.5.3.1.C. Treasury

Approximately 76.7 % of liquid assets held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long-term revenues.

Moreover, speculative operations are not authorised. Investment decisions are based on the interest rates available in the market at the time of investment.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value) at the time they reprice or mature:

At 31.12.2010 (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 and cash equivalents	73 603 254	0	0	0	0	73 603 254
AFS - Debt securities and other fixed income securities	26 070 241	100 987 208	518 442 047	178 168 380	39 911 005	863 578 881
<b>Total</b>	<b>99 673 495</b>	<b>100 987 208</b>	<b>518 442 047</b>	<b>178 168 380</b>	<b>39 911 005</b>	<b>937 182 135</b>
Percentage	10.6%	10.8%	55.3%	19.0%	4.3%	100.0%

At 31.12.2009 (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 and cash equivalents	106 266 117	0	0	0	0	106 266 117
AFS - Debt securities and other fixed income securities	13 605 484	205 843 498	401 592 792	145 115 976	66 155 816	832 313 566
<b>Total</b>	<b>119 871 601</b>	<b>205 843 498</b>	<b>401 592 792</b>	<b>145 115 976</b>	<b>66 155 816</b>	<b>938 579 683</b>
Percentage	12.8%	21.9%	42.8%	15.5%	7.0%	100.0%



The average effective interest rate on term deposit in EUR was 0.9 % for 2010 (2009: 0.5 %). The average effective interest rate on the AFS securities portfolio in EUR was 3.7 % for 2010 (2009: 3.1 %).

### **Sensitivity of earnings**

The sensitivity of earnings is an estimate of the change over the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or fall by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the EIF treasury portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life as the previous one as of 31 December 2010. Positions in floating rate assets are assumed to have quarterly repricings. For the positions in place as of 31 December 2009, the earnings of the EIF treasury portfolio would have increased by EUR 2.0 m if interest rates rose by 100 basis points or decreased by the same amount if interest rates fell by 100 basis points. For the positions in place as of 31 December 2010, the earnings of the EIF treasury portfolio would increase by EUR 1.2 m if interest rates rose by 100 basis points and decrease by the same amount if interest rates fell by 100 basis points.

### **Value at Risk**

As of 31 December 2010, the Value at Risk of the EIF treasury portfolio was EUR 2.9 m (EUR 1.7 m in 2009). It was computed on the basis of the RiskMetrics VaR methodology, using a confidence level of 99.0 % and a 1-day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1.0 %. Given the nature of the EIF treasury positions, the choice of the RiskMetrics methodology is deemed appropriate to measure their exposure to interest rate risk.

#### **3.5.3.2. Market risk: foreign currency risk**

EIF may invest in financial instruments denominated in currencies other than its functional currency. Consequently, the Fund is exposed to risks that the exchange rate of its currency relative to other currencies may change in a manner that has an adverse effect on the value of that portion of the Fund's assets or liabilities denominated in currencies other than euro (EUR).

The following section provides information on the risk that fair values and future cash flows of financial assets will fluctuate due to changes in foreign exchange rates.

The Fund's objective is to reduce exchange rate risk by limiting its investment in non-euro denominated instruments. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

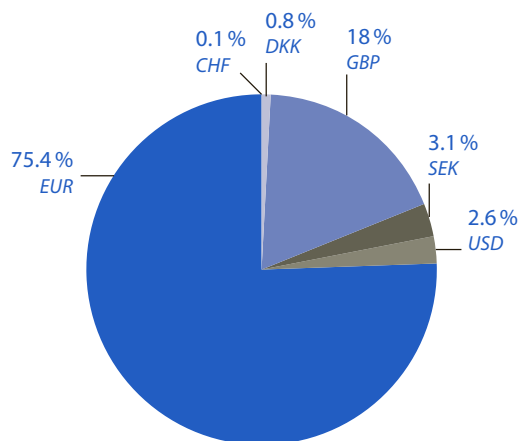
The table below shows the currency exposure (in EUR) of EIF's main financial assets and financial liabilities.

At 31.12.2010 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	71 398 973	786 437	887 029	530 815	2 204 281	73 603 254
<b>Investments</b>						
Debt securities and other fixed income securities	863 578 881	0	0	0	0	863 578 881
Shares and other variable income securities	146 391 507	35 039 418	4 994 221	7 959 389	47 993 028	194 384 535
<b>Total assets</b>	<b>1 081 369 361</b>	<b>35 825 855</b>	<b>5 881 250</b>	<b>8 490 204</b>	<b>50 197 309</b>	<b>1 131 566 670</b>
<b>Financial liabilities</b>						
Financial guarantees	15 033 265	11 729 325	0	139 444	11 868 769	26 902 034
<b>Total liabilities</b>	<b>15 033 265</b>	<b>11 729 325</b>		<b>139 444</b>	<b>11 868 769</b>	<b>26 902 034</b>
<b>Foreign currencies in % of net assets</b>		<b>2.4%</b>	<b>0.6%</b>	<b>0.8%</b>	<b>3.8%</b>	
Net commitments to private equity	285 466 362	78 864 075	8 283 012	16 264 062	103 411 149	388 877 511
Guarantees' exposure at risk	2 024 152 125	221 600 868	0	334 487 605	556 088 473	2 580 240 598
<b>Total Off BS</b>	<b>2 309 618 487</b>	<b>300 464 943</b>	<b>8 283 012</b>	<b>350 751 667</b>	<b>659 499 622</b>	<b>2 969 118 109</b>
At 31.12.2009 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalents	100 955 737	3 667 809	408 424	1 234 147	5 310 380	106 266 117
<b>Investments</b>						
Debt securities and other fixed income securities	832 313 566	0	0	0		832 313 566
Shares and other variable income securities	127 126 490	26 924 520	5 249 660	5 727 067	37 901 247	165 027 737
<b>Total assets</b>	<b>1 060 395 793</b>	<b>30 592 329</b>	<b>5 658 084</b>	<b>6 961 214</b>	<b>43 211 627</b>	<b>1 103 607 420</b>
<b>Financial liabilities</b>						
Financial guarantees	17 011 251	9 546 123	0	166 015	9 712 138	26 723 389
<b>Total liabilities</b>	<b>17 011 251</b>	<b>9 546 123</b>	<b>0</b>	<b>166 015</b>	<b>9 712 138</b>	<b>26 723 389</b>
<b>Foreign currencies in % of net assets</b>		<b>2.0%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>3.3%</b>	
Net commitments to private equity	259 953 190	60 823 036	8 367 405	12 270 954	81 461 395	341 414 585
Guarantees' exposure at risk	2 271 449 395	305 829 728	0	315 897 115	621 726 843	2 893 176 238
<b>Total Off BS</b>	<b>2 531 402 585</b>	<b>366 652 764</b>	<b>8 367 405</b>	<b>328 168 069</b>	<b>703 188 238</b>	<b>3 234 590 823</b>

"Other assets" and "Other liabilities and provisions" are denominated in EUR (for more details please see note 4.4 and 5.4).

3.5.3.2.A. Private Equity

On the PE side, at 31 December 2010, currency exposure for the PE funds can be broken down as follows:



(as % of the total fair value, EUR 194.4 m)

For 2010, changes due to foreign exchange rates for shares and other variable income amount to EUR 2 499 130, of which EUR 2 294 406 has been posted to the fair value reserve (2009: respectively EUR 2 358 344 and EUR 1 320 601).

The sensitivity analysis is performed for all currencies representing more than 5 % of the total exposure. As of year end, only Pound Sterling falls into this category and has been stress tested with an increase / decrease of 15 % vs. the Euro.

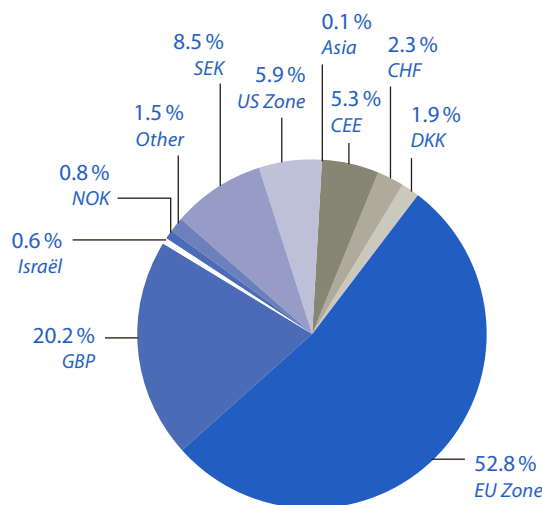
31.12.2010	
Foreign exchange rate risk	
GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
Impact in EUR	Impact in EUR
5 684 746	(4 201 769)

31.12.2009	
Foreign exchange rate risk	
GBP increase of 15% vs. EUR	GBP decrease of 15% vs. EUR
Impact in EUR	Impact in EUR
4 581 704	(3 386 477)

It should be noted however, that these impacts are measured at a fund level (impact on the net asset values denominated in out-currency). Accordingly, they do not take into account indirect potential effects on the underlying portfolio companies which could be in out-currencies. In practice fund managers try to hedge any positions they hold in currency other than the fund's main currencies.

In addition, the underlying investments are also diversified and the indirect exposure of EIF broadly follows the exposure at fund level, as illustrated by the graph below:

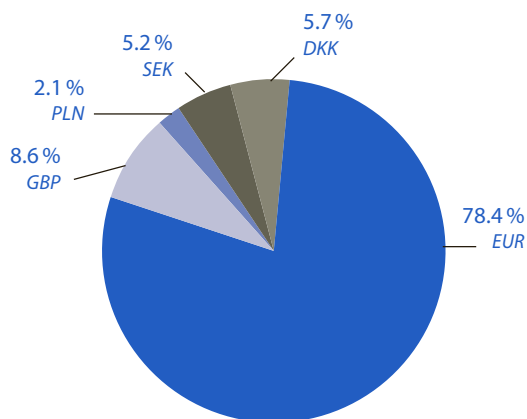


3.5.3.2.B. Portfolio Guarantees & Securitisation

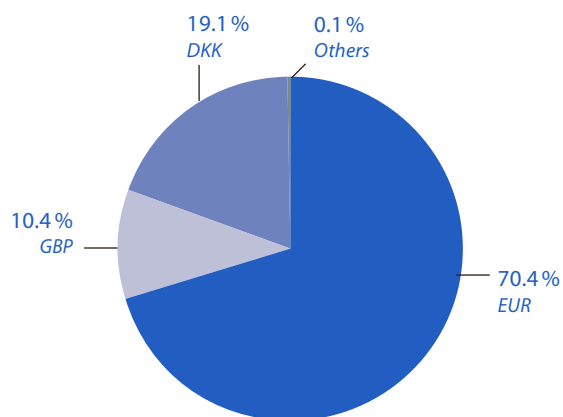
As of end 2010, 78.4 % of exposure at risk (70.4 % of expected loss) was in EUR. The GBP and DKK are the two main foreign currency exposures representing 8.6 % and 5.7 % of exposure at risk, respectively (10.4 % and 19.1 % of expected loss, respectively).

### Own Risk Portfolio breakdowns by currency and Assets Fair Value at 31 December 2010:

#### Exposure at risk breakdown



#### Expected Loss breakdown



EIF is monitoring its non-euro exposure and performs regular stress tests with regard to currency risk and the impact on unexpected loss. Additional capital charges on non-euro exposures are assumed and the outcome is compared with the available margin.

#### 3.5.3.2.C. Treasury

Foreign currency risk is deemed negligible regarding EIF's debt securities portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR.

#### 3.5.3.3. Market risk: other price risk

Other price risk is the risk that the fair value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk), whether caused by factors specific to an individual investment, its issuer or factors affecting all instruments traded in the markets.

#### 3.5.3.3.A. Private Equity

The specific characteristics of the PE asset class make it difficult to apply traditional approaches to risk analysis.

Market risk analysis requires an estimation of the correlation between the asset class assessed and the changes in market risks other than those arising from interest rate risk or currency risk. This can be done based on the capital asset pricing model. This model uses the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, such data is lacking for PE and in particular Venture Capital. Analysis of PE returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which is not fully representative of the market. In particular, data does not fully capture the uncertainty of the asset class. Furthermore, as the IRR, the standard performance measure used for PE funds, is capital-weighted, while for public market assets it is traditionally time-weighted, it is not possible to analyse the correlation between PE and other asset classes without significant adjustments and therefore potentially large biases.

The EIF uses a beta derived from the betas of three listed PE indices, LPX Europe Price Index, LPX Venture Price Index and LPX Buyout Price Index, to estimate the sensitivity of the valuation of EIF's PE investment to market prices. Regression has been carried out using the Dow Jones Euro Stoxx 50 over the last two years.

Using the most conservative beta from the three indices mentioned above and assuming market price movements of  $\pm 10\%$ , the final sensitivity (i.e.  $\beta \times \pm 10\%$ ) is applied to the net asset value to give an adjusted net asset value, which is then compared to the net paid in. The calculated value adjustment is then recorded using the methodology described in note 3.2.1. EIF's PE investment value would be impacted as follows:

31.12.2010					
Public market risk: ALL PRIVATE EQUITY					
+10 % Retained Beta 1.3 Final Sensitivity: +13 %			-10 % Retained Beta 1.3 Final Sensitivity: -13 %		
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on equity (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on equity (EUR)
378 829	22 363 253	22 742 082	(14 592 133)	(8 129 976)	(22 722 110)

31.12.2009					
Public market risk: ALL PRIVATE EQUITY					
+10 % Retained Beta 1.3 Final Sensitivity: +13 %			-10 % Retained Beta 1.3 Final Sensitivity: -13 %		
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on equity (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Total effect on equity (EUR)
270 701	20 274 657	20 545 358	(6 105 450)	(15 569 320)	(21 674 770)

### 3.5.3.3.B. Portfolio Guarantees and Securitisation

As EIF's G&S transactions are not actively traded on public markets, direct sensitivity to price risk is not a consideration.

## 3.6. Fair value of financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the EIF measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in note 2.3.2.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

PE is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by a few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and in accordance with customary industry valuation guidelines.

For loans and receivables as well as other liabilities, the carrying values approximate fair values.

The fair value hierarchy reflects the significance of the inputs used in making the measurements. These levels differ from the category classification mentioned under 2.3.2a:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The table below analyses financial instruments measured at fair value at the end of the reporting period by the level in the fair value hierarchy into which the fair value measurement is categorised:

At 31.12.2010	Level 1	Level 3	Total
	EUR	EUR	EUR
<b>Financial assets</b>			
Financial investments - AFS	864 451 939	190 135 993	1 054 587 932
Financial assets designated at fair value through P&L	0	3 375 484	3 375 484
	<b>864 451 939</b>	<b>193 511 477</b>	<b>1 057 963 416</b>

At 31.12.2009	Level 1	Level 3	Total
	EUR	EUR	EUR
<b>Financial assets</b>			
Financial investments - AFS	833 146 329	161 435 910	994 582 239
Financial assets designated at fair value through P&L	0	2 759 064	2 759 064
	<b>833 146 329</b>	<b>164 194 974</b>	<b>997 341 303</b>

Details of the movements of financial assets in 2010 are given in notes 4.2 and 4.3.

There was no transfer of financial assets between Level 1 and Level 3 in 2010.

Out of Level 3, disbursements amounted to EUR 37.6 m, capital repayments amounted to EUR 12.9 m and terminated deals amounted to EUR 1.7 m.

## 4. Detailed disclosures relating to asset headings

### 4.1. Cash and cash equivalents

The effective interest rate on short-term bank deposits is 0.8 % (2009: 0.5 %). These deposits have an average remaining maturity of 33 days (2009: 26 days).

Cash and cash equivalents is as follows:

	31.12.2010 EUR	31.12.2009 EUR
Current accounts	31 183 332	33 311 981
Money market instruments	42 419 922	72 954 136
	<b>73 603 254</b>	<b>106 266 117</b>

#### 4.2. Debt securities and other fixed income securities

The Fund's portfolio includes long-term debt instruments i.e. bonds, notes and other obligations.

	31.12.2010 EUR	31.12.2009 EUR
Available-for-Sale portfolio	847 111 106	817 899 583
Accrued interests	16 467 775	14 413 983
	<b>863 578 881</b>	<b>832 313 566</b>

Debt securities and other fixed income securities held by the Fund are all quoted on an active market.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties; the fair value of securities lent at year-end amounts to EUR 94 711 487 (2009: EUR 51 225 956).

#### Movement in debt securities and other fixed income securities:

	2010 EUR	2009 EUR
<b>Fair value at 1 January</b>	832 313 566	495 733 011
Additions	360 000 091	449 476 970
Disposals	(281 972 280)	(129 495 650)
Effective interest rate adjustment	3 554 286	1 082 109
Change in Fair value reserve	(50 316 782)	15 517 126
<b>Fair value at 31 December</b>	<b>863 578 881</b>	<b>832 313 566</b>

The total fair value reserve recognised in equity at the end of 2010 is EUR (42 709 617) (2009: EUR 7 607 165).

Debt securities and other fixed income securities include accrued interest of EUR 16 467 775 (2009: EUR 14 413 983) and are classified as Level 1.

In 2010, there was no impairment on the portfolio (2009: EUR 0).

Gains and losses on disposals of debt securities and other fixed income securities amounts to EUR 2 002 257 (2009: EUR (1 328 508)), of which none relates to Level 3.

#### 4.3. Shares and other variable income securities

Shares and other variable income securities are analysed as follows:

	2010 EUR	2009 EUR
Investment at cost at 1 January	205 499 005	191 515 919
Disbursements	38 850 610	23 424 940
Capital repayments	(14 802 596)	(6 127 778)
Terminated deals	(1 710 648)	(3 314 076)
<b>Investment at cost at 31 December</b>	<b>227 836 371</b>	<b>205 499 005</b>
Fair value adjustment and foreign exchange adjustment at 1 January	(40 471 268)	(32 801 096)
Terminated deals	1 710 648	3 142 765
Adjustments to Fair value reserve	9 842 310	(5 616 070)
Impairment	(4 533 526)	(5 196 867)
<b>Value adjustment and foreign exchange adjustment at 31 December</b>	<b>(33 451 836)</b>	<b>(40 471 268)</b>
	<b>194 384 535</b>	<b>165 027 737</b>

Investments in PE funds generated total capital repayments of EUR 10 878 493 (2009: EUR 932 384), which relates to Level 3.

Terminated deals include deals matured during 2010. They represent EUR 1 710 648 (2009: EUR 3 142 765) which includes the remaining net paid in of EUR 1 710 648 (2009: EUR 2 919 212) and the foreign exchange impact of EUR 0 (2009: EUR 223 553).

The fair value changes recorded in the fair value reserve amount to EUR 9 842 310 (2009: EUR (5 616 070)) and include the impact of changes in the value of investments EUR 7 547 903 (2009: EUR (6 936 671)) and in the foreign exchange rates on the investments EUR 2 294 407 (2009: EUR 1 320 601).

A portion of the total fair value of shares and other variable income securities amounting to EUR 873 058 (2009: 832 763) is classified as Level 1.

Investments belonging to Category III amount to EUR 3 377 259 (2009: EUR 132 938).

The fair value as of 31 December 2010 includes an amount of EUR 3 375 484 (2009: EUR 2 759 064) related to Investment in joint ventures.

#### 4.4. Other assets

Other assets are made up of the following:

	31.12.2010 EUR	31.12.2009 EUR
Accounts receivable relating to pensions managed by the EIB	31 000 848	23 216 814
Advanced payments	25 085	0
Accrued commission & other income	21 389 882	14 768 798
Fees receivable on financial guarantees	3 865 429	4 915 786
Other debtors	541 617	1 887 517
	<b>56 822 861</b>	<b>44 788 915</b>

Accounts receivable relating to pensions managed by the EIB: following the introduction of a defined benefit pension scheme in 2003 (see note 2.7), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management on behalf of the Fund. See also note 5.3.

The following table discloses the ageing of other assets past due or not past due but not impaired:

	Total EUR	Neither past due nor impaired EUR	Past due but not impaired		
			0-6 months EUR	6-12 months EUR	> 12 months EUR
2010	56 822 861	52 869 902	0	3 905 554	47 405
2009	44 788 915	44 536 019	7 982	52 790	192 124



#### 4.5. Intangible assets

	Internally Generated Software EUR	Purchased Software EUR	Total EUR
Cost	4 007 301	582 560	4 589 861
Accumulated amortisation	(2 240 235)	(479 833)	(2 720 068)
<b>Carrying amount at 01.01.2009</b>	<b>1 767 066</b>	<b>102 727</b>	<b>1 869 793</b>
Opening net book amount	1 767 066	102 727	1 869 793
Additions	649 928		649 928
Amortisation charge	(281 944)	(54 633)	(336 577)
<b>Carrying amount at 31.12.2009</b>	<b>2 135 050</b>	<b>48 094</b>	<b>2 183 144</b>
Cost	4 657 229	582 560	5 239 789
Accumulated amortisation	(2 522 179)	(534 466)	(3 056 645)
<b>Carrying amount at 01.01.2010</b>	<b>2 135 050</b>	<b>48 094</b>	<b>2 183 144</b>
Opening net book amount	2 135 050	48 094	2 183 144
Additions	9 268	0	9 268
Amortisation charge	(778 952)	(28 683)	(807 635)
<b>Carrying amount at 31.12.2010</b>	<b>1 365 366</b>	<b>19 411</b>	<b>1 384 777</b>
<b>31.12.2010</b>			
Cost	4 666 497	582 560	5 249 057
Accumulated amortisation	(3 301 131)	(563 149)	(3 864 280)
<b>Carrying amount</b>	<b>1 365 366</b>	<b>19 411</b>	<b>1 384 777</b>

There were no indications of impairment of intangible assets either in 2010 or 2009.

#### 4.6. Equipment and investment property

	Investment property EUR	Office Equipment EUR	Computer Equipment EUR	Other Fixed Assets EUR	Total Equipment EUR
Cost	0	220 668	818 355	8 764	1 047 787
Accumulated depreciation	0	(106 277)	(507 837)	0	(614 114)
<b>Net book amount at 01.01.2009</b>	<b>0</b>	<b>114 391</b>	<b>310 518</b>	<b>8 764</b>	<b>433 673</b>
Opening net book amount	0	114 391	310 518	8 764	433 673
Depreciation charge	0	(46 780)	(169 456)	0	(216 236)
<b>Net book amount at 31.12.2009</b>	<b>0</b>	<b>67 611</b>	<b>141 062</b>	<b>8 764</b>	<b>217 437</b>
Cost	0	220 668	818 355	8 764	1 047 787
Accumulated depreciation	0	(153 057)	(677 293)	0	(830 350)
<b>Net book amount at 01.01.2010</b>	<b>0</b>	<b>67 611</b>	<b>141 062</b>	<b>8 764</b>	<b>217 437</b>
Opening net book amount	0	67 611	141 062	8 764	217 437
Reclassification from non-current assets held for sale	7 139 812	0	0	0	0
Additions	0	9 477	0	0	9 477
Depreciation charge	(810 732)	(36 571)	(108 688)	0	(145 259)
<b>Net book amount 31.12.2010</b>	<b>6 329 080</b>	<b>40 517</b>	<b>32 374</b>	<b>8 764</b>	<b>81 655</b>
<b>31.12.2010</b>					
Cost	7 139 812	230 145	818 355	8 764	1 057 264
Accumulated depreciation	(810 732)	(189 628)	(785 981)	0	(975 609)
<b>Net book amount</b>	<b>6 329 080</b>	<b>40 517</b>	<b>32 374</b>	<b>8 764</b>	<b>81 655</b>

There were no indications of impairment of equipment or investment property in either 2010 or 2009.

Following its assessment of the market, the Fund has decided in 2010 to hold the non-current asset for use and has found an opportunity for renting. Consequently, non-current assets previously classified in the statement of financial position as held for sale have been reclassified to "Investment property".

Upon reclassification, the building was remeasured at the lower of its recoverable amount and the carrying amount including depreciation that would have been recognised had the building never been classified as held for sale.

The fair value of the investment property is EUR 8.5 m. The valuation was performed by external experts in October 2008 and is presumed not to have changed materially since.

## 5. Detailed disclosures relating to liability and equity headings

### 5.1. Financial liabilities

The movements relating to financial guarantees payables are set out below:

	2010 EUR	2009 EUR
Balance at the beginning of the financial year	26 723 389	21 594 769
Guarantee calls	(232 105)	(797 244)
Net increase/decrease in Financial Guarantees	(4 542 895)	2 702 970
Up/ Downgrading	7 329 636	10 451 348
Transfer to provision for guarantees	(2 375 991)	(7 228 454)
<b>Balance at the end of the financial year</b>	<b>26 902 034</b>	<b>26 723 389</b>

When a guarantee operation measured under IAS 39 is derecognised and treated under IAS 37, its value previously recorded under Financial guarantees is transferred to the heading Provisions for guarantees.

### 5.2. Provisions for guarantees

	2010 EUR	2009 EUR
Balance at 1 January	64 630 966	8 983 874
Additions	48 105 740	56 696 942
Utilised	(5 267 313)	0
Release of provision	0	(1 049 850)
<b>Balance at 31 December</b>	<b>107 469 393</b>	<b>64 630 966</b>

Additions include the increase in existing provisions on guarantee operations EUR 32 937 470 (2009: EUR 5 344 291), the value of the guarantee operations transferred from IAS 39 to IAS 37 in 2010 of EUR 2 062 362 (2009: EUR 7 228 454), and the additional provision on these transferred operations of EUR 13 105 908 (2009: EUR 44 124 197).

EUR 5 267 313 was utilised in 2010 for guarantee calls (2009: EUR 0).

### 5.3. Retirement benefit obligations

The retirement benefit obligation comprises the pension scheme and the health insurance scheme as follows:

Retirement benefit obligations	31.12.2010 EUR	31.12.2009 EUR
Pension scheme	23 438 632	19 208 222
Health insurance scheme	2 365 000	1 936 000
	<b>25 803 632</b>	<b>21 144 222</b>

Commitments in respect of retirement benefits as of 31 December, 2010 have been valued by an independent actuary. The calculations are based on the following main assumptions:

Principal Assumptions	2010	2009
Discount rate for obligations	5.06%	6.19%
Rate of future compensation increases	4.50%	4.50%
Rate of pension increases	2.00%	2.00%
Actuarial tables	ISCLT	Swiss BVG 2005

It was decided in 2010 to use the ISCLT longevity table instead of the LPP 2005 tables in the actuarial calculations, as this table is considered more appropriate for the EIF as a European Institution.

The pension commitment as valued in the independent actuary report dated February 2011 amounts to EUR 23 438 632. As of December 2010, the Fund allocated EUR 27 445 003 (2009: EUR 21 154 591) to pensions assets to ensure full coverage of the commitments.

Net Periodic Benefit Cost as at 31.12.2010	EIF Pension EUR	Health Insurance EUR	Total 2010 EUR
Current net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Amortisation of unrecognised gains/losses	36 000	(17 000)	19 000
<b>Net Benefit Expense</b>	<b>2 663 000</b>	<b>429 000</b>	<b>3 092 000</b>

Net Periodic Benefit Cost as at 31.12.2009	EIF Pension EUR	Health Insurance EUR	Total 2009 EUR
Current net service cost	1 655 000	286 000	1 941 000
Interest cost	938 000	78 000	1 016 000
Amortisation of unrecognised gains/losses	(5 000)	(14 000)	(19 000)
<b>Net Benefit Expense</b>	<b>2 588 000</b>	<b>350 000</b>	<b>2 938 000</b>

Benefit Liabilities as at 31.12.2010	EIF Pension EUR	Health Insurance EUR	Total 2010 EUR
Present value of unfunded obligation	35 457 000	3 351 000	38 808 000
Unrecognised net actuarial gains/(losses)	(12 018 000)	(986 000)	(13 004 000)
<b>Net liability</b>	<b>23 439 000</b>	<b>2 365 000</b>	<b>25 804 000</b>

Benefit Liabilities as at 31.12.2009	EIF Pension EUR	Health Insurance EUR	Total 2009 EUR
Present value of unfunded obligation	19 677 000	1 587 000	21 264 000
Unrecognised net actuarial gains/(losses)	(469 000)	349 000	(120 000)
<b>Net liability</b>	<b>19 208 000</b>	<b>1 936 000</b>	<b>21 144 000</b>

The movements in the "Retirement benefit obligations" rounded to the nearest EUR 1 000 are as follows:

Changes in Defined Benefit Obligation as at 31.12.2010	EIF Pension EUR	Health Insurance EUR	Total 2010 EUR
Defined benefit obligation, Beginning of year	19 677 000	1 587 000	21 264 000
Net service cost	1 409 000	348 000	1 757 000
Interest cost	1 218 000	98 000	1 316 000
Employee contributions	1 365 000	0	1 365 000
Benefits Paid	203 000	0	203 000
Experience (Gain)/ Loss	1 137 000	162 000	1 299 000
(Gain)/ Loss due to assumption changes	10 448 000	1 156 000	11 604 000
<b>Defined benefit obligation, End of year</b>	<b>35 457 000</b>	<b>3 351 000</b>	<b>38 808 000</b>

Changes in Defined Benefit Obligation as at 31.12.2009	EIF Pension EUR	Health Insurance EUR	Total 2009 EUR
Defined benefit obligation, Beginning of year	15 340 000	1 298 000	16 638 000
Net service cost	1 655 000	286 000	1 941 000
Interest cost	938 000	78 000	1 016 000
Employee contributions	1 058 000	0	1 058 000
Benefits Paid	163 000	0	163 000
Experience (Gain)/ Loss	1 452 000	10 000	1 462 000
(Gain)/ Loss due to assumption changes	(929 000)	(85 000)	(1 014 000)
<b>Defined benefit obligation, End of year</b>	<b>19 677 000</b>	<b>1 587 000</b>	<b>21 264 000</b>

#### History of asset values

Amounts for the current and previous four periods are as follows:

	2010 EUR	2009 EUR	2008 EUR	2007 EUR	2006 EUR
Defined Benefit Obligation, End of year	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)	(9 928 000)
Surplus/ (Deficit) in the Plan	(38 808 000)	(21 264 000)	(16 638 000)	(13 748 000)	(9 928 000)
Experience Gains/ (losses) on DBO	(1 299 000)	(1 462 000)	(647 000)	(406 000)	(430 000)

The Defined Benefit Obligation (DBO) at the end of the year is calculated using the DBO at the beginning of the year, plus net service cost, plus interest cost, plus employee contributions, plus net benefits paid, plus liability due to experience, less gain due to assumption changes.

The effect of a 1 % increase or decrease in the medical trend costs on the current service cost and interest cost, or the post-employment benefit obligation, would not have a material impact on the EIF's financial statements.

#### 5.4. Other liabilities and provisions

	31.12.2010 EUR	31.12.2009 EUR
Related parties payables	4 255 232	3 654 767
Employee benefit payables	14 195 402	10 820 153
Trade creditors	1 072 783	2 228 827
	<b>19 523 417</b>	<b>16 703 747</b>

Employee benefit payables mostly include staff-related costs such as the Bonus, the Optional Supplementary Pension Scheme (OSPS) and the Severance Grant.

## 5.5. Share capital

The authorised capital amounts to EUR 3 billion, divided into 3 000 shares with a nominal value of EUR 1 000 000 each, all of which have now been issued. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

New shares were issued on 30 June and 31 July 2010 from authorised share capital as follows:

	31.12.2009	New shares issued 30.06.2010	New shares issued 31.07.2010	31.12.2010
<b>Authorised Shares</b>	<b>3 000</b>			<b>3 000</b>
of which				
subscribed	2 940	39	21	3 000
un-subscribed	60	(39)	(21)	0

The authorised and subscribed share capital of EUR 3 000 000 000 representing 3 000 shares is called and paid in for an amount of EUR 600 000 000 representing 20 % of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital require the approval of the General Meeting of Shareholders.

The 60 new shares were issued at a price of EUR 349 909.66 per share increasing the share premium reserve by EUR 8 994 580.

The subscribed share capital is detailed as follows:

	31.12.2010 EUR	31.12.2009 EUR
Subscribed and paid in (20%)	600 000 000	588 000 000
Subscribed but not yet called (80%)	2 400 000 000	2 352 000 000
	<b>3 000 000 000</b>	<b>2 940 000 000</b>

The capital is subscribed as follows :

	31.12.2010 Number of shares	31.12.2009 Number of shares
European Investment Bank	1 835	1 826
European Commission	900	861
Financial Institutions	265	253
	<b>3 000</b>	<b>2 940</b>

## 5.6. Statutory reserve and retained earnings

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20 % of its annual net profit until the aggregate reserve amounts to 10 % of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 1 446 411 is required to be appropriated in 2011 with respect to the financial year ended 31 December, 2010.

There was no dividend distributed in 2010 relating to the year 2009 (2009: EUR 14 044 432). Dividends are distributed in line with Article 27 of the Fund's statutes.

Further details of the Fund's capital management requirements are explained in note 3.2 and note 3.5.2.B.

## 5.7. Fair value reserve

The fair value reserve includes the following:

	31.12.2010 EUR	31.12.2009 EUR
Fair value reserve on debt securities and other fixed income securities	(42 709 617)	7 607 165
Fair value reserve on shares and other variable income securities	15 159 194	5 316 884
	(27 550 423)	12 924 049

The fair value reserve contains fair value changes related to EIF treasury and private equity portfolios.

## 6. Disclosures relating to off-balance sheet items

### 6.1. Assets held for third parties

Assets held for third parties represent investments managed by the Fund and trust accounts opened and maintained in the name of the Fund but for the benefit of third parties. EIF acts as an integrated operational platform for SME finance, deploying resources mandated for management by its related parties (EIB and EC see note 8.1 and 8.2, respectively) and other third parties (public and private entities) depending on the nature of the investment as detailed below.

- **EIB resources**

The Fund manages EIB resources through the following mandates:

- **European Technology Facilities (ETF)** 1 and 2 implemented since 1998 which were fully invested by the end of 2008 and 2010, respectively.
- The **Risk Capital Mandate (RCM)** signed with the EIB in 2000 to support, on a revolving basis, technology and industrial innovation through early stage, expansion and lower mid-market capital.

The portfolio includes EIB's then existing private equity portfolio that was transferred to EIF in the context of the mandate.

- Under the **RCM Micro window** signed with EIB in February 2009, the Fund provides financial support through equity instruments and funded or unfunded risk-sharing arrangements to micro-credit providers in EU and Accession Countries. The funding was made available by the EIB through the Risk Capital Mandate.
- The **Mezzanine Facility for Growth (MFG) mandate** signed in early 2009 for the Fund to invest in **hybrid debt/equity funds** over an initial period of three years. The MFG aims at filling the financing gap for European SME and lower mid cap companies by providing hybrid debt/equity products for the benefit of mature European small companies with strong market positions and growth potential as well as high technology companies in their expansion stage.
- EIB co-funding to the **EPMF FCP** is described in the European Commission resources section.
- **European Commission resources**
- Under the European Union's Growth and Employment Initiative (G&E) and under the **Multi-Annual Programme (MAP)** for enterprises and

entrepreneurship, the Fund manages resources on behalf and at the risk of the Commission. This resource is split equally between private equity and guarantee products. The equity segment known as **ESU 1998 (G&E)** and **ESU 2001 (MAP)** covers the ETF start-up investments. The guarantees segment known as **SMEG 1998 (G&E)** and **SMEG 2001 (MAP)**, provides guarantees against the beneficiary's undertaking.

- Under the **Technology Transfer Pilot Project (TTP)**, financed by the European Commission and signed in November 2008, the Fund has supported a technology transfer structure through pre-seed funding and seed funding, as well as funding in the context of licensing and Intellectual Property transaction.
- Under the **Competitiveness and Innovation Framework Programme (CIP)**, the Fund manages resources on behalf and at the risk of the Commission. The equity segment of CIP known as **GIF (High Growth and Innovative SME Facility)** covers early stage (seed and start-up) investments and expansion stage (mid-market) investments. Under the guarantees segment of CIP, the **SME Guarantee Facility (SMEG 2007)**, capped portfolio guarantees are provided against the beneficiary's undertaking to enable increased financing to SMEs and to increase the risk taking in the SME financing.
- Under the **Joint Action to Support Microfinance Institutions in Europe (JASMINE)** initiative the Fund manages the technical assistance initiative with European Commission resources.
- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)** annual Contribution Agreements entered into with the European Commission, the Fund has been mandated to undertake technical assistance and networking activities to support the preparation and structuring of JEREMIE holding fund mandates in cooperation with EU Member States and regions.
- Within the involvement of the European Union in the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF manages the European Union's participation in the fund as trustee and represents the Commission's interests. Secondly, the EIF holds a technical assistance mandate for AIDCO for which related activities are implemented by GEEREF Front Office.
- In 2010 the Fund signed the **European Parliament Preparatory Action (EPPA)** with DG REGIO, under which EIF is providing risk capital and financial support for capacity building purposes in order to help a select number of microfinance institutions to reach a meaningful size and improve their prospects for sustainability.
- The **European Progress Microfinance Facility (EPMF)** aims to increase access to finance for individuals who have difficulties entering the labour market and to promote the start-up and growth of

micro-enterprises with a particular view to providing jobs for the unemployed or the disadvantaged. EPMF is implemented by EIF through two separate mandates: Under a **direct mandate** signed with the European Commission in July 2010, the EIF provides portfolio guarantees to micro credit lenders. Further financial instruments such as debt, equity, and risk-sharing are deployed through a **Luxembourg fonds commun de placement (FCP)**, managed by EIF in its capacity as management company. Initial funding for the FCP is provided by the Commission and the EIB.

- The EIF acts as trustee for the European Commission in two funds called **EFSE (European Fund for South East Europe)** and **GGF (Green for Growth – former SE4F)**. EFSE does microfinance in South East Europe and the European Neighbourhood region and the fund was launched in 2006. The EC's participation managed via the EIF currently amounts to approximately EUR 100m. GGF has been set up in December 2009 and focuses on energy efficiency financings in South East Europe including Turkey. Furthermore, the EIF acts as trustee for the European Commission in the technical assistance facility of the GGF (**GGF TA**).

- **Other third party resources**

The Fund has sought to further enhance its market impact by establishing **joint investment facilities with public and private entities** through trust accounts; country, multi-country or sector-specific funds of funds, such as:

- Under the **Joint European Resources for Micro to Medium Enterprises (JEREMIE)**, Member States have appointed EIF to manage JEREMIE funds as Holding Fund manager. The JEREMIE initiative is aimed at promoting SME access to finance and financial engineering products, such as private equity funds, guarantee funds and loan funds. The Fund has signed 11 JEREMIE Funding Agreements with Member States/regions: Greece, Romania, Latvia, Lithuania, Languedoc-Roussillon, Campania, Slovakia, Bulgaria, Sicily, Cyprus, Malta.
- Under the **Global Energy Efficiency and Renewable Energy Fund (GEEREF)**, the EIF acts as investment advisor with the objective to invest primarily in regional funds with assets in projects and companies involved in energy efficiency and renewable energy enhancing access to clean energy in developing countries and economies in transition. The GEEREF Front Office is located within the EIB and cooperates closely with the EIF services supporting the investment activities.
- Under the **Greater Anatolia Guarantee Facility (GAGF)** signed in May 2010, the Fund manages the Instrument for Pre-Accession Assistance (IPA) funds allocated for the Regional Competitiveness Operational Programme by the European Union and the Republic of Turkey. The facility provides tailor-made financial help to SMEs and micro-enterprises in



- Turkey's least developed provinces in partnership with major Turkish banks.
- ERP-EIF Dachfonds, which EIF manages on behalf of the German Federal Ministry of Economics and Technology (BWMi) and the European Recovery Programme (ERP);
- NEOTEC, a fund of funds, is a joint venture between EIF and a Spanish government entity, including significant Spanish Blue Chips as investors. It seeks to invest in technology funds in Spain and has already invested a large portion of its commitments.
- Istanbul Venture Capital Initiative (iVCi), a dedicated Turkish fund of funds advised by EIF.
- Portugal Venture Capital initiative (PVCi), a fund of funds focused on private equity and venture capital funds in Portugal. The investor base comprises main financial institutions in Portugal.
- LfA-EIF Facility, signed in 2009 is a joint EIF and Lfa Förderbank Bayern venture providing investments to support technology-oriented early and expansion stage companies in Bavaria, Germany.
- UK Future Technologies Fund (UK FTF), signed in 2010, is a fund of funds investing in venture capital funds in technology companies with high growth potential. EIF was confirmed as manager for two separate funds of funds together making up the UK Innovation Investment Fund (UKIIF).

The table below shows the Trust accounts held by the EIF on behalf of third parties, which includes cash at bank, money market balances as well as the relevant accruals:

	31.12.2010 EUR	31.12.2009 EUR
SMEG 1998	59 550 370	61 991 728
ESU 1998	9 896 169	6 572 619
SMEG 2001	44 748 228	72 590 532
ESU 2001	46 348 734	65 794 671
CIP/ SMEG 2007	80 966 776	93 703 050
CIP/ GIF	73 576 917	99 998 716
TTP	1 809 155	2 010 227
Progress FMA	6 004 173	0
EPPA	1 003 001	0
GEEREF Technical Support Facility	3 750 370	2 390 480
GEEREF Trusteeship	1 633 422	57 998 741
EFSE - Trust Account	27	10 000 066
GGF - Trust Account	120	27
GGF - Technical Assistance - Trust Account	5 000 045	0
Trust accounts with the Commission	334 287 507	473 050 857
GAGF	31 332 230	0
Trust accounts with the EIB	25 174 075	23 994 356
Trust account with the BWMi	517 280	102 145
Trust account with the LFA-GV	113 873	24 487
Trust account with member states/regions JEREMIE initiative	928 876 214	763 174 834
	<b>1 320 301 179</b>	<b>1 260 346 679</b>

Additional information on PE investments and G&S managed by EIF are given in notes 3.2.2 and 3.3.2.

## 7. Detailed information on the statement of comprehensive income

### 7.1. Interest and similar income

Interest and similar income comprises:

	31.12.2010 EUR	31.12.2009 EUR
Interest on debt securities	29 072 530	23 885 776
Interest on money market instruments	272 241	3 129 835
Interest on bank current accounts	167 464	147 289
Other interest	1 970 989	1 454 578
	<b>31 483 224</b>	<b>28 617 478</b>

The above figures include discounts of EUR 1 485 097 (2009: EUR 1 061 199) and premiums amount to EUR 3 497 706 (2009: EUR 3 235 272).

### 7.2. Net result from guarantee operations

Net income from guarantee operations comprises:

	31.12.2010 EUR	31.12.2009 EUR
Net increase in the financial guarantees contracts	21 526 582	32 936 271
Provision for guarantees under IAS 37	(46 445 360)	(54 327 760)
Release of provision	0	1 049 850
	<b>(24 918 778)</b>	<b>(20 341 639)</b>

### 7.3. Commission income

Commission income is detailed as follows:

	31.12.2010 EUR	31.12.2009 EUR
Commissions on EIB mandates	12 091 848	11 660 548
Commissions on EC mandates	6 180 996	2 743 795
Commissions on Regional and Funds of Funds mandates	18 555 892	11 854 840
Other commissions	320 720	585 055
	<b>37 149 456</b>	<b>26 844 238</b>

### 7.4. Net gain/ loss on financial operations

Net gains/(losses) on financial operations amounting to EUR 2 180 690 (2009: EUR (1 351 432)) corresponds to realised gains/(losses) on the debt securities portfolio of EUR 2 002 257 (2009: EUR (1 328 508)) and gains/(losses) arising from transactions or cash positions in foreign currencies of EUR 178 432 (2009: EUR (22 924)).

### 7.5. Other operating income

Other operating income includes rent from leased office space. Income relating to these operating leases amount to EUR 326 000 (2009: EUR 0).

Future minimum lease payments under non-cancellable operating leases	Less than 1 year EUR	1 to 5 years EUR	more than 5 years EUR	Total EUR
2010	579 294	868 940	-	1 448 234
2009	-	-	-	-

### 7.6. General administrative expenses

Wages and salaries include expenses of EUR 2 797 706 (2009: EUR 3 080 059) incurred in relation to staff seconded from the EIB.

Key management compensation, including pension, for the year is EUR 1 624 894 (2009: EUR 1 573 758).

Other administrative expenses include rents for office space leased. Expenses relating to these operating leases amount to EUR 1 950 334 (2009: EUR 1 048 434).

Future minimum lease payments under non-cancellable operating leases	Less than 1 year EUR	1 to 5 years EUR	Total EUR
2010	2 669 948	3 577 142	6 247 090
2009	1 764 628	2 280 726	4 045 354

The number of persons, including 4 EIB secondees (2009: 8 EIB secondees), employed at the year-end is as follows:

	2010	2009
Chief Executive/Deputy Chief Executive	2	2
Employees	213	185
<b>Total</b>	<b>215</b>	<b>187</b>
Average of the year	196	172

## 8. Related parties transactions

EIB is the majority owner of the Fund with 61.2 % (2009: 62.1 %) of the shares. The remaining percentage is held by the European Commission 30.0 % (2009: 29.3 %) and the Financial Institutions 8.8 % (2009: 8.6%).

### 8.1. European Investment Bank

Related party transactions with the EIB mainly concern the management by the Fund of the PE activity as described in notes 6. In addition, the EIB manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the EIB are disclosed as follows:

	31.12.2010 EUR	31.12.2009 EUR
<b>ASSETS</b>		
Other assets	33 614 684	26 946 561
<b>LIABILITIES AND EQUITY</b>		
Other liabilities and provisions	4 943 188	4 521 603
Share capital	367 000 000	365 200 000
<b>INCOME</b>		
Commission income	12 091 848	11 660 548
<b>EXPENSES</b>		
General administrative expenses	7 354 009	6 654 257
<b>OFF BALANCE SHEET</b>		
Guarantees Drawn	250 063 807	281 437 973
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	25 174 075	23 994 356
Net disbursed in private equity	1 880 592 079	1 714 399 857
Investments undrawn in private equity	1 554 753 533	1 261 737 957

## 8.2. European Commission

Related party transactions with the European Commission mainly concern the management by the Fund of private equity and guarantee activities as described in the notes 6. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	31.12.2010 EUR	31.12.2009 EUR
<b>ASSETS</b>		
Other assets	4 143 848	5 504 720
<b>LIABILITIES AND EQUITY</b>		
Other liabilities and provisions	16 051	69 033
Share capital	180 000 000	172 200 000
<b>INCOME</b>		
Commission income	6 335 436	2 743 795
<b>EXPENSES</b>		
General administrative expenses	131 953	139 220
<b>OFF BALANCE SHEET</b>		
Guarantees Drawn	8 990 672 110	8 025 814 964
Guarantees undrawn	2 704 562 598	2 675 088 511
Assets held for third parties	334 287 507	473 050 857
Net disbursed in private equity	245 410 387	200 200 515
Investments undrawn in private equity	204 955 912	209 944 263

## 9. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct and indirect taxes.



## EIB Group Addresses



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