Annual Report 2007

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

1958 / 2008

Volume II

Financial Report

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Volume II

Financial Report

The **EIB Group's 2007 Annual Report** consists of three separate volumes:

- the Activity and Corporate Responsibility Report, presenting the EIB Group's activity over the past year and future prospects;
- the Financial Report, presenting the financial statements of the EIB Group, the EIB, the Cotonou Investment Facility, the FEMIP Trust Fund 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 2007, together with a list of the EIF's projects. It also includes summary tables for the year and over the last five years.

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

EIB Group: key statutory figures

European Investment Bank

Activity in 2007

	(EUR m)
Signatures	47 820
European Union	41 431
Partner countries	6 389
Projects approved	56 455
European Union	48 664
Partner countries	7 791
Disbursements	43 420
From the Bank's resources	38 852
From budgetary resources	4 568
Resources raised (before swaps)	54 725(*)
Community currencies	32 835
Non-Community currencies	21 890

Situation as at 31.12.2007

Outstandings	
Loans from the Bank's resources	324 753
Guarantees provided	165
Financing from budgetary resources	1 785
Short, medium and long-term borrowings	254 221
Own funds	33 437
Balance sheet total	301 854
Net profit for year	1 633
Subscribed capital	164 808
of which paid in and to be paid in	*8 240*

European Investment Fund

Activity in 2007

Signatures	1 918
Venture capital	521
Guarantees	1 397

Situation as at 31.12.2007

Portfolio	15 971
Venture capital	4 388
Guarantees	11 584
Own funds	965
Balance sheet total	1 074
Net profit for year	50
Subscribed capital	2 770
of which paid in	*554*

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

Contents

Message from the President

Introducing the 2006 annual report last year, I emphasised that 2007 would be a critical year for the European Investment Bank in the implementation of its new strategy of taking more risk for more value added. Ambitious lending targets were set in the COP (Corporate Operational Plan), notably as regards the use of the SFF (Structured Finance Facility). These targets were met and, in some cases, exceeded. For instance, the level of signatures under the SFF reached more than EUR 1.5bn, an almost fivefold increase on 2006; at the same time, the EIB quadrupled its support for clean energy sources, signing loans of more than EUR 2bn for renewable energy projects. A number of new initiatives became operational in partnership with the European Commission, in particular the RSFF (Risk Sharing Finance Facility for Research).

Outside the EU, a good start was made in implementing the new external mandate granted by the EU Council for the period 2007-2013. Although the corresponding Guarantee Agreement with the Commission was signed only in August, signatures in the enlargement, neighbouring and partner countries reached more than EUR 6bn. In Turkey, the Western Balkans and the Mediterranean partner countries, the European Investment Bank is today the most active international financial institution.

To support this lending, the EIB raised nearly EUR 55bn on the international capital markets – significantly more than the EUR 48bn raised in 2006 – through 236 bond issues in 23 currencies. The European Investment Bank remains one of the largest capital market issuers, and its ability to tap these markets has held up strongly in the face of the financial turbulence since mid-2007. Quite clearly, investors have been reassured by the EIB's prudent risk management policies and its first-class credit rating, underpinned by the quality of the Bank's shareholders.

Such results are a testimony to the hard work and professionalism of its staff. They are also a gauge of the confidence of both the shareholders and the Commission in the Bank's ability to deliver on key EU policies and generate value added through its operations.

However, the Member States' and Commission's trust brings additional responsibilities and challenges, as is evident from the 2008-10 COP approved by the Bank's Board. The EIB will be expected to continue to deliver on its commitments in the fields of convergence, transport (with a reinforced focus on priority TEN projects), energy (especially renewable energy and energy efficiency), the environment, the knowledge economy (i2i) and SME financing.

Concerning this last area, following a consultation process with its banking partners, public authorities and SME associations, the EIB Group is currently looking at ways in which it can boost this support still further.

The EIB will also pursue its efforts to increase transparency and engage fully with civil society. In 2007, the Bank concluded its second formal public consultation exercise, on its anti-fraud and anti-corruption policy. In 2008, a third consultation has been launched, this time on the Bank's environmental and social rules for lending.

The European Investment Bank can now look back on 50 years of activity. Set up in 1958 to contribute to the integration, balanced development and economic and social cohesion of the European Union, during its fifty years of operations it has gained significant experience in financing investment projects across a wide range of sectors. It has supported the Union's most important achievements, fostering Europe's economic growth; it has taken up the challenge of six enlargements, increasing its capital from one billion units of account to EUR 164.8bn; and it played a major role in the run-up to the euro, launching initiatives that paved the way for the transition to a single currency.

Fifty years after the Treaty of Rome, the European adventure is only just beginning. It is now vital to embrace the challenges of the 21st century: the environmental challenge, and the fight against climate change; the scientific and industrial challenge to ensure Europe's position as a major economic power; and the challenge of world solidarity, combating poverty in other parts of the world. The EIB is eager to help Europe face these challenges.

Philippe Maystadt
President of the European Investment Bank Group

EIB Statutory Bodies

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

Board of Governors

Chairman	Tommaso PADOA-SCHIOPPA	(Italy)
Belgium	Didier REYNDERS	Ministre des Finances
Bulgaria	Plamen ORESHARSKI	Minister for Finance
Czech Republic	Miroslav KALOUSEK	Ministr financí
Denmark	Bendt BENDTSEN	Økonomi- og erhvervsminister
Germany	Peer STEINBRÜCK	Bundesminister der Finanzen
Estonia	Ivari PADAR	Rahandusminister
Greece	Georgios ALOGOSKOUFIS	Minister of Economy and Finance
Spain	Pedro SOLBES MIRA	Vicepresidente Segundo del Gobierno y Ministro de Economía y Hacienda
France	Christine LAGARDE	Ministre de l'Économie, de l'industrie et de l'emploi
Ireland	Brian COWEN	Minister for Finance
Italy	Tommaso PADOA-SCHIOPPA	Ministro dell'Economia e delle Finanze
Cyprus	Charilaos STAVRAKIS	Minister of Finance
Latvia	Atis SLAKTERIS	Finanšu ministrs
Lithuania	Rimantas ŠADŽIUS	Finansų ministras
Luxembourg	Jean-Claude JUNCKER	Premier Ministre, Ministre d'État, Ministre des Finances
Hungary	János VERES	Pénzügyminiszter
Malta	Lawrence GONZI	Prim Ministru
Netherlands	Wouter BOS	Minister van Financiën
Austria	Wilhelm MOLTERER	Bundesminister für Finanzen
Poland	Jacek ROSTOWSKI	Ministra Finansów
Portugal	Fernando TEIXEIRA DOS SANTOS	Ministro de Estado e das Finanças
Romania	Varujan VOSGANIAN	Ministrul Finanţelor Publice
Slovenia	Andrej BAJUK	Minister za finance
Slovakia	Ján POČIATEK	Minister financií
Finland	Mari KIVINIEMI	Hallinto- ja kuntaministeri
Sweden	Anders BORG	Finansminister
United Kingdom	Alistair DARLING	Chancellor of the Exchequer

Audit Committee

Chairman	Maurizio DALLOCCHIO	Dean, SDA Bocconi School of Management, Holder of Lehman Brothers Chair of Corporate Finance, Bocconi University, Milan
Members	Constantinos KARMIOS	Chief Accountant, Treasury of the Republic of Cyprus, Cyprus
	Ortwin KLAPPER	Former Chief Executive Officer of Bank Austria Creditanstalt Leasing Group, Managing Director of Mizuho Corp. Bank-BA Investment Consulting, Chairman of the Multilease Association, Brussels/Bratislava
Observers	Nikolaos PHILIPPAS	Assistant Professor and Member of the University Senate, University of Piraeus, Greece, Member of the Board of Directors of Piraeus Port Authority
	Éric MATHAY	Company auditor, cabinet Bollen, Mathay & Co., Brussels
	José RODRIGUES DE JESUS	Chartered Auditor, Oporto

Management Committee

President	Philippe MAYSTADT	The EIB's President also chairs the Bank's Board of Directors.
Vice-Presidents	Philippe de FONTAINE VIVE CURTAZ	
	Torsten GERSFELT	
	Simon BROOKS	
	Carlos da SILVA COSTA	
	Matthias KOLLATZ-AHNEN	
	Eva SREJBER	
	Marta GAJĘCKA	
	Dario SCANNAPIECO	

Situation at 11 March 2008

Board of Directors

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

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

Directors

Olivier HENIN	Directeur adjoint, responsable de la Cellule Marchés financiers internationaux, Ministère des Finances, Brussels
Dimiter IVANOVSKI	Deputy Minister, Ministry of Finance, Sofia
Zdeněk HRUBÝ	Member of the Board of Directors of the EIB, Prague
Sigmund LUBANSKI	Kontorchef, Økonomi- og Erhvervsministeriet, Copenhagen
Carsten PILLATH	Ministerialdirektor, Abteilungsleiter Europapolitik im Bundesministerium der Finanzen, Berlin
Aare JÄRVAN	Secretary General, Department of EU and International Affairs, Ministry of Finance, Tallinn
Konstantinos MOUSOUROULIS	Secretary General, Ministry of Economy and Finance, Athens
Isabel RIAÑO IBÁÑEZ	Directora General, Dirección General de Financiación Internacional, Ministerio de Economía y Hacienda, Madrid
Claire WAYSAND	Chef du service des politiques macroéconomiques et des affaires européennes, direction générale du Trésor et de la politique économique, ministère de l'Économie, de l'industrie et de l'emploi
Kevin CARDIFF	Second Secretary, Banking, Finance and International Division, Department of Finance, Dublin
Ignazio ANGELONI	Direttore per i Rapporti finanziari internazionali, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Kyriacos KAKOURIS	Senior Economic Officer, Ministry of Finance, Nicosia
Irena KRUMANE	State Secretary, The Ministry of Finance of the Republic of Latvia, Riga
Miglė TUSKIENĖ	Director, European Union and International Affairs Department, Ministry of Finance,Vilnius
Gaston REINESCH	Directeur général, Ministère des Finances, Luxembourg
János ERŐS	Chief Executive Officer, Magyar Fejlesztési Bank Zrt., Budapest
Vince GRECH	Director General (Financial Administration), Ministry of Finance and Economic Affairs, Valetta
Pim VAN BALLEKOM	Financial Counsellor, Permanent Representation of the Netherlands to the EU, Brussels
Kurt BAYER	Stellvertretender Generaldirektor für Wirtschaftspolitik und Internationale Finanzinstitutionen, Bundesministerium für Finanzen, Vienna
Katarzyna ZAJDEL-KUROWSKA	Undersecretary of State, Ministry of Finance, Warsaw
M.-Alexandra da COSTA GOMES	Membro do Conselho de Administração do BEI, Lisbon
Eugen TEODOROVICI	Secretary of State, Ministry of Public Finance, Bucharest
Sibil SVILAN	President of the Board and CEO, SID Bank Inc., Ljubljana
Katarina KASZASOVÁ	Director General of the State Reporting Section, Ministry of Finance, Bratislava
Tytti NORAS	Lainsäädäntöneuvos, valtiovarainministeriö, Helsinki
Kurt Arne HALL	Finansråd, Internationella avdelningen, Finansdepartementet, Stockholm
Stephen PICKFORD	Director Europe, H.M. Treasury, Finance Directorate, London
Klaus REGLING	Director-General, Directorate-General for Economic and Financial Affairs, European Commission, Brussels

Experts

Pierre RICHARD	Président du conseil d'administration, Dexia SA, Paris
Rainer MASERA	Presidente del Gruppo Istituzioni Finanziarie (GIF), Lehman Brothers, Rome
Timothy STONE	Chairman, Global Infrastructure and Projects Group, KPMG, London

Alternates

Karl-Ernst BRAUNER	Ministerialdirektor, Bundesministerium für Wirtschaft und Arbeit, Berlin
Ralph MÜLLER	Leiter des Referats Haushalt der Europäischen Union, Bundesministerium der Finanzen, Berlin
Benoît de la CHAPELLE BIZOT	Chef du bureau "Stratégie et coordination européenne", Direction du Trésor et de la politique économique, ministère de l'Économie, de l'industrie et de l'emploi, Paris
Jean-Michel SEVERINO	Directeur général, Groupe Agence Française de Développement, Paris
Giampaolo BOLOGNA	Dirigente, Direzione del Contenzioso Comunitario, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Pietro MASCI	Direttore dell'Ufficio per le relazioni istituzionali con la Banca europea per gli investimenti, Paesi del Mediterraneo e dei Balcani, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Jean-Christophe GRAY	Head of EU Coordination and Strategy, HM Treasury, London
Tamsyn BARTON	Head of EU Department, Department for International Development, London
Alicia VARELA	Subdirectora General, Subdirección General de Instituciones Financieras Europeas, Ministerio de Economía y Hacienda, Madrid
Rudolf de KORTE	Plaatsvervangend lid van de Raad van Bewind van de EIB, Wassenaar
Michael SOMERS	Chief Executive, National Treasury Management Agency, Dublin
Ştefan NANU	General Director, General Department of Treasury and Public Debt, Ministry of Economy and Finance, Bucharest
Madis ÜÜRIKE	Advisor to the Ministry of Finance, Ministry of Finance, Tallinn
Kristina SARJO	Finanssineuvos, Kv. toiminnot -yksikön päällikkö, Rahoitusmarkkinaosasto, valtiovarainministeriö, Helsinki
Zsuzsanna VARGA	Director General, Department of International Relations, Ministry of Finance, Budapest
Andrej KAVČIČ	Head of International Finance Department, Ministry of Finance, Ljubljana
(…)	…
Dirk AHNER	Director General, Regional Policy Directorate-General, European Commission, Brussels

Alternate experts

Óscar FANJUL	Vicepresidente, Omega Capital S.L., Madrid
Antoni SALA	Advisor, Bank Gospodarstwa Krajowego, Warsaw
Detlef LEINBERGER	Mitglied des Vorstandes, Kredianstalt für Wiederaufbau, Frankfurt/Main; Mitglied des Verwaltungsrats des EIF

Situation at 11 March 2008

EIB Financing Activity

In 2007, the European Investment Bank (EIB) lent a total of 47.8bn euros [1] in support of the objectives of the European Union: 41.4bn in the Member States of the Union and EFTA, and 6.4bn in the partner countries.

The Bank's strategic orientations are reflected in a number of objectives defined in the Bank's Corporate Operational Plan. For the period 2007-2009, six priority strategic objectives have been defined for financing operations in the Member States of the European Union: economic and social cohesion and convergence; fostering innovation; developing trans-European networks and their access routes; protecting and improving the environment; supporting small and medium-sized enterprises (SMEs); and promoting secure, competitive and sustainable energy supplies.

- **Economic and social cohesion and convergence** in the European Union remains the Bank's prime operational priority. In 2007, individual financing operations aimed at reducing economic disparities between the regions totalled 22.2bn; activity promoting convergence in the less developed regions accounted for 13.8bn. More than half of the projects were carried out in the transport and energy sectors.

- By **fostering innovation**, the EIB Group assists the development of a knowledge-based economy. Since the launch of the Innovation 2010 Initiative (i2i) in 2000, the Bank has already signed loans worth 56bn. In 2007, it advanced a total of 10.3bn in three areas: research, development and innovation (7.2bn); education and training (1.3bn); and information and communications technologies (1.6bn). The European Investment Fund (EIF) also supports i2i by taking stakes in venture capital funds [2].

- Efficient communications and energy transfer networks are a key factor in economic integration. Since 1993, the Bank has been supporting the development of **trans-European networks** (TENs) and has become the leading provider of long-term funds for these networks within the European Union. In 2007, the Bank lent 7.4bn for transport TENs and 1bn for energy TENs in the European Union. In the neighbouring countries it also provided finance totalling 916m for projects involving major transport arteries and 375m for energy supplies.

- In 2007, individual loans for capital projects relating to **the environment** amounted to 14.6bn, accounting for 31 % of total lending. The bulk of loans went to projects in the European Union (13bn). Financing centred on the urban environment (5.6bn), combating climate change (4.5bn), water treatment and pollution reduction (4.3bn), and a range of projects involving nature conservation, environmental efficiency and waste management (123m).

- **Support for investment by SMEs is intended to give them easier access to credit, or even equity capital.** In 2007, the EIB was thus able to support indirectly, via commercial banks and investment funds, an estimated 162 000 or so SMEs within the Union. To that end, it granted 5bn in the form of medium and long-term credit lines, enabling banks to lend to SMEs on better terms, and its subsidiary, the EIF, provided guarantees totalling 1.4bn to SMEs and invested 521m via venture capital funds.

- **Energy** has been made a specific priority in the COP for the period 2007-2009. Projects meeting this objective involve the following: renewable energies; energy efficiency; research, development and innovation; and security of internal and external supplies. In 2007, the Bank provided loans totalling 6.8bn to support projects in the energy sector, including a record 2.1bn for renewable energy.

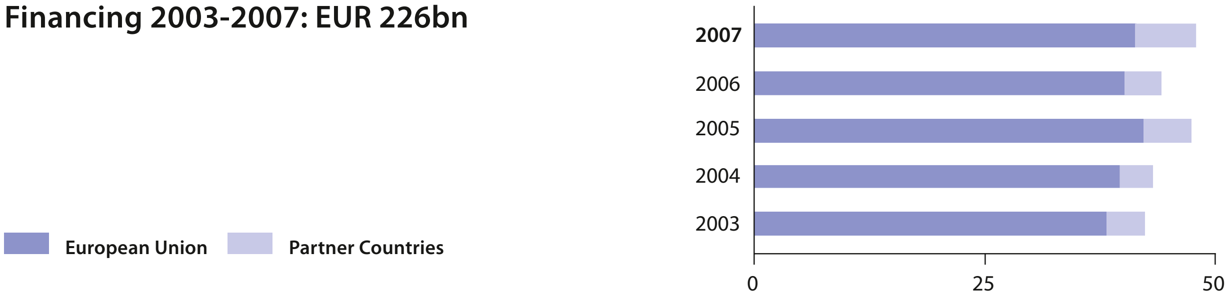
The Bank operates in **the partner countries** of the Union in accordance with the lending mandates renewed by the Council in December 2006. In 2007, EIB backing for EU development aid and cooperation policy in the partner countries amounted to 6.4bn.

- In *South-Eastern Europe* [3], where the Bank makes loans to support economic development and promote accession to the European Union, financing operations totalled 2.9bn.

[1] Unless otherwise indicated, all amounts are expressed in EUR.

[2] See section on EIF Activity.

Financing 2003-2007: EUR 226bn



- In *Eastern Europe*, the Bank signed its first loans in Moldova and Ukraine (230m provided to finance transport infrastructure).

- In the *Mediterranean countries*, loans signed under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP) totalled 1.4bn, with increased support being given to the private sector.

- In the *Asian and Latin American* countries, the amount signed came to 925m. In particular, the Bank signed a 500m framework loan in China to support a number of capital projects helping to reduce greenhouse gas emissions.

- The EIB continued its lending operations in the *African, Caribbean and Pacific (ACP) countries* (756m) and *South Africa* (113m).

The Bank's new strategy is being implemented by focusing on riskier operations, in order to increase the value added of the finance provided. The reserves specifically dedicated to these operations are taken either from the Bank's own funds or from European Commission resources (Structured or Risk Sharing Finance Facilities). There was a sharp increase in this activity in 2007, with outstanding loans more than doubling from 1.1bn at end-2006 to 2.7bn at end-2007.

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

EIB Borrowing Activity

A leading sovereign-class international debt issuer

Resilient funding in turbulent times

The EIB's funding activities were resilient during the turmoil that overshadowed capital markets in the course of 2007, thereby sustaining a continued competitive offering of loan products. In 2007, the Bank raised a total of EUR 55bn [(4)] via 236 transactions in 23 currencies, including four currencies in synthetic format. In September, in parallel with progress in its lending programme and loan disbursements, the Bank increased its funding ceiling from EUR 50bn to EUR 55bn. The funding volume of EUR 55bn was significantly larger than in the 2006 funding programme (EUR 48bn).

Such results were underpinned by the Bank's top-quality credit standing and a strategic and responsive approach to markets. The continuing support from EU sovereign shareholders remains a cornerstone of the Bank's credit standing.

The market's favourable overall reception for the Bank in 2007 was reflected in an award for *Sovereign/Supranational/Agency/Regional Issuer of the Year from the International Financing Review*.

A reliable benchmark

In this challenging environment the Bank benefited from the strength of its benchmark programmes in its core currencies (EUR, GBP and USD), which generated funding for EUR 38bn (69% of the total). This represents a significant increase versus 2006 (EUR 28bn or 59%). Benchmark funding in core currencies demonstrated the Bank's bellwether appeal, with benchmark volumes growing year on year in each of the three core currencies. The strong presence across the yield curve across all three currencies (EUR, GBP and USD) remained a strong distinguishing feature. Targeted issues in the three core currencies in plain vanilla and structured format were substantial, amounting to EUR 8bn (EUR 12bn in 2006), with EUR and USD issues providing the bulk of the volume.

EUR: strong reception for benchmarks

In EUR a total of 27 transactions were conducted in 2007, raising EUR 20.5bn in all, or 37.5% of the total funding programme for the year. Four new euro-denominated benchmarks or Euro Area Reference Notes ('EARN'™) were issued, compared with the two typically issued in recent years. This provided the largest source of benchmark funding for the Bank (EUR 16bn). The transactions were two EUR 5bn EARNs in 5 and 10-year maturities, as well as two EUR 3bn EARNs, a long 17-year and an innovative 7-year issue, the latter offering a new benchmark maturity to the market. Two of these EARNs were launched following the outbreak of severe market turmoil over the summer.

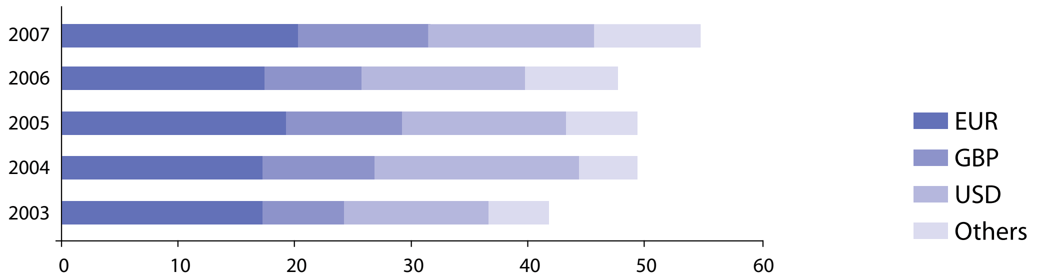
The favourable market reception for the EARN benchmark transactions was supported by a consistent strategic approach, that has delivered a highly comprehensive and liquid yield curve. The Bank remained the only borrower to complement sovereigns with benchmark issues of EUR 5bn size outstanding in maturities from three years to 30 years. As of end-2007, EARNs outstandings reached EUR 74bn across 15 issues. **Structured** bonds in EUR amounted to EUR 1.4bn (roughly 30% of all EIB structures in 2007). In addition, a EUR 2bn **targeted** bond was issued in the two-year segment.

A significant innovation, reflecting EU leadership in tackling climate change, was the **Climate Awareness Bond** (CAB) under the Bank's EPOS (European Public Offering of Securities) format – the second of its kind launched by the EIB. This EUR-denominated structured issue offered a unique combination of environmental features, including earmarking of proceeds for projects supporting cleaner energy, as well as an option to purchase and cancel CO_2 allowances via the European Union's Emissions Trading Scheme. The CAB also offered a vehicle for ongoing EU financial market integration, as the first public bond offering across all 27 EU Member States, facilitated by the passporting mechanism in the EU Prospectus Directive [(5)] and associated EPOS documentation. The issue was syndicated among an unusually large number of banks and reached an exceptional size for a structured issue (EUR 600m).

(4) Volume of EUR 54.7bn raised under the global borrowing authorisation given by the Board of Directors for 2007, including 'pre-funding' of EUR 77m completed in 2006 for 2007.

(5) The European Public Offering of Securities, or "EPOS" format, was first launched in 2006 and allows the Bank to leverage the EU Prospectus Directive, which sets out an efficient mechanism for the "passporting" of prospectuses in the Member States of the European Union: a prospectus approved by the competent authority in one Member State ("home country regulator") can be used as a valid prospectus in any other Member State ("host Member State") without the need for any further prospectus approval ("mutual recognition").

Borrowing activity 2003-2007: 245bn



GBP: largest non-gilt issuer

In GBP the Bank maintained its position as the largest non-gilt issuer, with a total outstanding sterling debt representing over 9 % of the total GBP non-gilt market at end-2007 [6]. The Bank made 58 transactions, raising a total of GBP 7.5bn (EUR 11bn) or 20.1 % of the total programme for the year. During 2007, 13 different maturities were tapped and there were three **new benchmark lines** across the yield curve (2011, 2019 and 2044). As of end-2007, the Bank's sterling yield curve, which extends to 2054, amounted to GBP 39bn in 22 bonds.

In addition, two **new long-dated inflation-linked** issues were launched with maturities in 2017 and 2022, both based for the first time on the gilt model in terms of maturity and calculation methodology for coupons and final redemptions.

USD: largest non-US issuer in Global format

The Bank remained the largest non-US issuer of Global benchmarks, raising a record volume of USD 15bn (EUR 11.3bn). In USD, 28 transactions were executed raising a total of USD 19.1bn (EUR 14.4bn), or 26.3 % of the total programme for the year. Five Global USD 3bn benchmarks were issued across major maturities: 3-year (twice), 5-year and 10-year (twice). In aggregate this was the largest amount raised by the Bank in any single year through the issuance of USD Global bonds. With its second 3-year USD 3bn issue, the Bank reopened the benchmark USD market for triple-A rated issuers in the wake of the summer turmoil. 2007 also saw a sustained interest for non-Global transactions, which included two 7-year Eurodollar issues, raising in total USD 2.25bn (EUR 1.7bn). Structured transactions amounted to USD 1.8bn (EUR 1.3bn).

Strong diversification: issuance in 23 currencies

Outside the three core currencies, EUR 8.8bn was raised in 16 other currencies. In addition, EUR 262.4m was issued in synthetic format in four additional currencies (booked under payment and settlement currencies in EUR and USD).

Innovation in other European and neighbouring country currencies

The largest volume of issuance in this region was in Nordic currencies, for a total of EUR 1.5bn. A noteworthy result was the Bank's issuance in Swedish krona (SEK), where it raised a total of SEK 8.2bn (EUR 893m), nearly tripling the volume of 2006. The Bank strengthened and extended its SEK yield curve with new 17- and two 28-year issues, both plain vanilla and inflation-linked, and the 28-year maturity went beyond the longest sovereign tenor. Issuance in other Nordic currencies included the Icelandic króna (ISK), Danish krone (DKK) and Norwegian krone (NOK).

In **Swiss** francs (CHF), the Bank launched four transactions with maturities between 2019 and 2036 (totalling CHF 725m/EUR 445m), reflecting the demand for top-quality long-dated bonds.

The Bank maintained its developmental activities in **new and future Member States** and EU neighbouring country currencies. Volumes amounted to EUR 1.5bn equivalent, raised via 26 transactions, with Turkish lira (TRY) providing the bulk of the volume. Other issuance currencies were Bulgarian leva (BGN), Hungarian forint (HUF), Polish zloty (PLN), Romanian leu (RON) and Russian rouble (RUB).

[6] Source: Barclays Sterling Non-Gilt Index, 31 December 2007.

In TRY, the Bank maintained its leading position. The Bank issued across 14 transactions for a total of TRY 2bn (EUR 1.1bn). It launched a 2-year TRY 1bn benchmark issue, the largest-ever single tranche Eurobond (of TRY 1bn), providing a new liquid reference for the market. The Bank also issued a TRY 150m zero-coupon bond due 2022, which was the longest maturity in the TRY Eurobond market.

The Bank made its debut in the domestic market for Romanian leu (RON), with a RON 300m (EUR 90m) 7-year bond. This was the longest-dated and largest RON bond at the time of issuance. The Bank also built on its presence in the international Bulgarian leva (BGN) market with a new BGN 55m (EUR 28m) 5-year bond issue.

The Bank also made its debut in the non-synthetic Russian rouble (RUB) market, where two bonds were launched: a RUB 2bn (EUR 57m) 10-year and a RUB 2bn (EUR 57m) 5-year bond.

Japan and Asian/Pacific currencies: leadership and scale

Among the non-core currencies in 2007, the largest source of funding – and hence the Bank's fourth-**largest currency** – was **Japanese yen** (JPY), with JPY 349bn (EUR 2.2bn) being raised. The Bank became the largest high-grade issuer of Global bonds in this currency. The public JPY issuance, supported by international demand from Europe and the US, did brisk business, particularly in the first half of the year. A highlight was the issuance of the first fixed-rate 5-year Global yen bond from a supranational since 1992. This was also the largest yen transaction from a foreign issuer in 2007 and won an award for Yen Bond of the Year from the *International Financing Review*.

In **Australian dollars** (AUD) the Bank was the largest foreign ("Kangaroo") issuer, raising a total of AUD 1.6bn (EUR 941m). It attracted interest early in the year with two 10-year issues. It also re-opened the Kangaroo sector in September, following the outbreak of severe market turbulence, with a shorter-dated AUD 500m transaction. The EIB was the only issuer that managed to keep transaction sizes of around AUD 500m in the Kangaroo market in the second half of 2007.

The **New Zealand dollar** (NZD) was a major source of funding in 2007, generating EUR 1.3bn equivalent. Among high-grade borrowers, the Bank launched the largest fixed-rate transaction in the "Kauri" bond market for foreign issuers, a NZD 800m (EUR 439m) 5-year issue.

Americas (ex-US): recognition for benchmark size in Canada

In Canadian dollars (CAD), the Bank issued the largest 30-year foreign ("Maple") transaction, for CAD 850m (EUR 560m), as well as some smaller similarly long-dated transactions. Among high-grade borrowers, the Bank was the first to issue a publicly marketed zero-coupon bond, that attained benchmark status. Total issuance in this currency amounted to CAD 1bn (EUR 659m).

In Latin America the Bank continued its issuance activities in Brazilian real (BRL) in synthetic format, raising an equivalent of EUR 185m across eight transactions.

African currencies: developmental impact widens

In 2007 the Bank launched 13 transactions in four African currencies totalling EUR 311m equivalent. This underlines the scale and diversity of its developmental role in the region's capital markets, and provides a stepping stone towards potential lending in local currency. The **largest contributor was the South African rand** (ZAR) market, delivering EUR 234m equivalent. The Bank issued **for the first time in Ghanaian cedi (GHS) and Mauritian rupee (MUR)**, in both cases providing top-quality alternatives for investors in markets with very limited supply. In MUR, the EIB was the first non-domestic issuer and provided a new benchmark for the market. Issuance in Botswanan pula (BWP), GHS and MUR (EUR 77m in total) was in synthetic format, with payment and settlement in EUR.

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

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

- The EIB is one of the largest and most frequent borrowers in the international capital markets. In 2007 it issued a total of EUR 55bn.
- Ownership by all EU sovereigns means EIB bonds offer a unique and diversified sovereign-class investment.
- The Bank has been consistently rated Aaa/AAA/AAA by Moody's/Standard & Poors/Fitch.
- The Bank's strategic approach to markets involves a strong focus on liquidity and transparency. It therefore offers comprehensive benchmark programmes in the Bank's three core currencies (EUR, GBP and USD). Where possible and appropriate, it also builds a benchmark presence in other currencies. It also conducts tailor-made issuance across a wide range of currencies and products.
- The Bank has historically contributed to the development of capital markets in currencies of new and future EU Member States, and selected EU partner countries. Here issuance in local currencies can support the development of lending activities.

Borrowings signed and raised in 2007[7] vs. 2006 (EUR million)

	Before swaps: 2007		Before swaps: 2006		After swaps: 2007		After swaps: 2006	
EUR	20 531	37.5 %	17 439	36.3 %	42 766	78.1 %	31 820	66.2 %
BGN (*)	28	0.1 %						
CZK			18	0.04 %			18	0.04 %
DKK	134	0.2 %	235	0.5 %	134	0.2 %	235	0.5 %
GBP	11 023	20.1 %	8 392	17.5 %	6 123	11.2 %	3 067	6.4 %
HUF	108	0.2 %	110	0.2 %	108	0.2 %	97	0.2 %
PLN	27	0.1 %	32	0.1 %	27	0.1 %	32	0.1 %
RON	90	0.2 %						
SEK	893	1.6 %	309	0.6 %	403	0.7 %	309	0.6 %
Total EU	**32 835**	**60 %**	**26 535**	**55 %**	**49 562**	**91 %**	**35 577**	**74 %**
AUD	941	1.7 %	1 840	3.8 %				
BGN (*)			102	0.2 %				
CAD	659	1.2 %						
CHF	445	0.8 %	703	1.5 %				
HKD			101	0.2 %				
ISK	261	0.5 %	501	1.0 %				
JPY	2 198	4.0 %	1 277	2.7 %				
NOK	196	0.4 %	424	0.9 %	63	0.1 %	88	0.2 %
NZD	1 344	2.5 %	933	1.9 %				
RUB	115	0.2 %						
TRY	1 097	2.0 %	1 095	2.3 %				
USD	14 400	26.3 %	14 225	29.6 %	5 099	9.3 %	12 305	25.6 %
ZAR	234	0.4 %	312	0.7 %			80	0.2 %
Total non-EU	**21 890**	**40 %**	**21 515**	**45 %**	**5 162**	**9 %**	**12 473**	**26 %**
Total	**54 725**	**100 %**	**48 050**	**100 %**	**54 725**	**100 %**	**48 050**	**100 %**

(*) Bulgaria joined the EU on 1 January 2007.

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

EIB Treasury Activity

Liquidity and portfolio management

As at 31 December 2007, the Bank's overall net liquidity amounted to EUR 14.5bn (EUR 16.9bn at year-end 2006), representing a liquidity ratio of 26.4%, above the minimum liquidity requirement of 25% of the forecast net cash requirement for the following calendar year. The 2007 monthly average net global liquidity amounted to EUR 1 8.6bn, i.e. 30% less than the 2006 level of EUR 26.4bn. On a yearly basis the average liquidity ratio was 29%, but it decreased sharply in the last two months of the year, mainly due to an acceleration of loan disbursements, surpassing the disbursement forecast.

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

- A short-term money market portfolio (A1), designed for daily liquidity management in 13 different currencies, whose benchmarks are based on the index of the daily 1-month EURIBID/LIBID for assets and the index of the daily 1-month EURIBOR/LIBOR for liabilities.
- An operational money market portfolio (A2), designed to diversify the credit risk profile and enhance the money market performance in the core currencies, i.e. EUR, GBP and USD, with a benchmark indexed to the daily 3-month EURIBID/LIBID.
- A credit spread portfolio (B1), designed to enhance overall treasury performance, with a benchmark indexed to the daily 3-month EURIBOR/LIBOR.
- An alternative investment portfolio (B2), invested in capital guaranteed structured products with coupons indexed to the performance of selected funds of hedge funds.
- A global fixed-income portfolio (B3), with a benchmark based on the iBoxx Eurozone 1 to 3-year Government Bond Index.
- An investment bond portfolio, which is being phased out.

Short-term gross liquidity held in the money market portfolios decreased at year-end from EUR 20.8bn in 2006 to EUR 19.7bn (EUR 10.5bn net of short-term commitments). Operational bond portfolios and the investment portfolio amounted to EUR 4bn (EUR 4.5bn in 2006). The breakdown of treasury net liquidity at year-end was stable in comparison with 2006: 72.5% (73.3%) for the operational money market portfolio, 12.9% (12.6%) for the operational bond portfolios and 14.6% (14.1%) for the investment bond portfolio.

Market development and treasury financial result

The 2007 environment was extremely challenging for all investors, and the second half was one of the most volatile trading periods in recent memory. The rumblings in the US sub-prime mortgage market resulted by the end of the summer in a full-blown liquidity crisis. Due to daily negative headlines and profit warnings by banks, market participants became extremely cautious and unwilling to lend to each other except for very short maturities.

As a result of this, market spreads widened enormously and official EURIBOR and LIBOR fixings bore little relevance to the daily reality. Coordinated central bank action to provide extra liquidity to the markets, mainly in the course of December, managed to ease pressure on money market interest rates around the year-end.

All market participants reassessed credit and liquidity risk. ABCP suffered by far the most in terms of volume drop, spread widening and negative headlines. The ABS market was also impacted by a systematic repricing of all structured credit risk; the European primary ABS market was mainly closed from the third quarter of 2007 onwards, with the steady negative newsflow about the scope of the sub-prime mortgage crisis preventing the market from reopening firmly, with originators reluctant to issue at these high spreads.

While the ECB reference rate remained unchanged at 4% during the year, the Federal Reserve, mindful of the risks of recession to the US economy, cut its reference fed funds rate no less than three times during the course of 2007, to arrive at an end-of-year level of 4.25%.

The treasury financial results can be considered satisfactory against this background. The 30 % fall in the average treasury holdings in 2007 vs. 2006 resulted in a reduction in the financial income of the operational portfolios from EUR 934.7m to EUR 720.9m (-23 %).

Some portfolios, notably the credit spread portfolio B1 (5.2 % of treasury assets at year-end) and to a much lesser extent the medium-term money market portfolio A2 (7.5 % of treasury assets), were affected by the widening credit spreads and their assets showed unrealised mark-to-market losses. Both of these portfolios invest in AAA-rated ABS and highly-rated securities issued by financial institutions and, to a small extent, corporates. In total, the unrealised losses included in the 2007 profit and loss account amounted to EUR 16.7m. However, all of the portfolios had a positive accounting result, and none of the assets in these portfolios were downgraded. Barring a default by the issuers, these unrealised losses will be recovered at maturity. Furthermore, earnings from the short-term portfolio (72.5 % of treasury assets) more than offset these negative results.

EIF Statutory Bodies

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

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

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

Board of Directors

Chairman

Philippe MAYSTADT	President, European Investment Bank, Luxembourg

Members

Marc AUBERGER	Directeur Général Délégué, CDC Capital Investissement
Philippe de FONTAINE VIVE CURTAZ	Vice-President, European Investment Bank, Luxembourg
Kurt Arne HALL	Director General, Ministry of Finance, International Department, Stockholm
David McGLUE	Director, Directorate for Financial Operations, Programme Management and Liaison with the EIB Group, Directorate-General for Economic and Financial Affairs, European Commission, Luxembourg
Ralph MÜLLER	Ministerialrat, Leiter des Referats Haushalt der EU und der EIB Gruppe, Bundesministerium der Finanzen, Berlin
Heinz ZOUREK	Director-General, Directorate-General for Enterprise and Industry, European Commission, Brussels

Alternates

Thomas HACKETT	Director General, Directorate for Operations in the European Union and Candidate Countries, European Investment Bank, Luxembourg
Rémy JACOB	Director General, Strategy and Corporate Centre, European Investment Bank, Luxembourg
Gaston REINESCH	Director General, Ministry of Finance, Luxembourg
Isabel RIAÑO IBÁÑEZ	General Director for International Finance, Ministry of Economy and Finance, Spain
Jean-Marie MAGNETTE	Head of Unit, Liaison with EIB Group and New Financial Instruments, Economic and Financial Affairs Directorate-General, European Commission, Luxembourg
Dirk AHNER	Director-General, Directorate-General for Regional Policy, European Commission
Detlef LEINBERGER	Mitglied des Vorstandes, KfW Bankengruppe, Frankfurt/Main

Audit Board

Chairman

Christian-Johann RÁKOS	Director Global Financial Services, Bank Austria Creditanstalt, Vienna

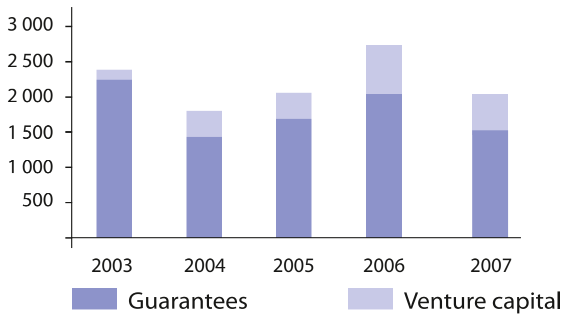
Members

Raimundo POVEDA ANADÓN	Former Director General, Banking Policy Directorate, Bank of Spain, Madrid (retired in 2000)
Tony MURPHY	Head of Internal Audit Unit, European Commission, DG ECFIN

Situation at 10 March 2008

EIF Activity

Signatures 2003-2007



The EIF is the European body specialised in SME financing. It is owned by the EIB (66 %) and the European Union, through the European Commission (25 %). It is also the only EU institution that enables public or private banks and financial institutions (31 from 17 countries) to have a shareholding (9 %). In 2007 the EIF welcomed four new shareholders. The Croatian Bank for Reconstruction and Development (HBOR) became the EIF's first shareholder in Croatia, evidence of the EIF's continuing commitment to supporting economic development in the region. Scottish Enterprise, Scotland's main economic development agency, Raiffeisen International Bank-Holding AG, the international arm of existing shareholder Raiffeisen Zentralbank Oesterreich AG (RZB), and NRW.BANK, the development bank for North Rhine-Westphalia, also joined in 2007.

With shareholders taking a positive view of the EIF's long-term prospects, it was decided in 2007 to increase the Fund's capital by 50 % to EUR 3bn, thereby ensuring its financial self-sufficiency until 2013. The EIB, as the largest EIF shareholder, demonstrated its ongoing commitment to supporting European SMEs by exercising its share of the capital increase in full.

The EIF supports SMEs by means of venture capital and guarantee instruments, using either its own funds or those available through mandates given to it by the EIB, the European Union or other third parties. Complementing the EIB's product offering, which has hitherto focused on traditional loan finance, the EIF thus has a crucial role to play throughout the value chain of enterprise creation, from the earliest stages of intellectual property development through to mid-stage SME funds.

While the EIF's venture capital instruments aim to improve the equity environment for SMEs, it is equally important to target the debt environment, as many SMEs seek finance through this more traditional route. By operating through guarantees and securitisation, the EIF can improve the availability and terms of debt for beneficiary SMEs and the lending capacity of financial intermediaries.

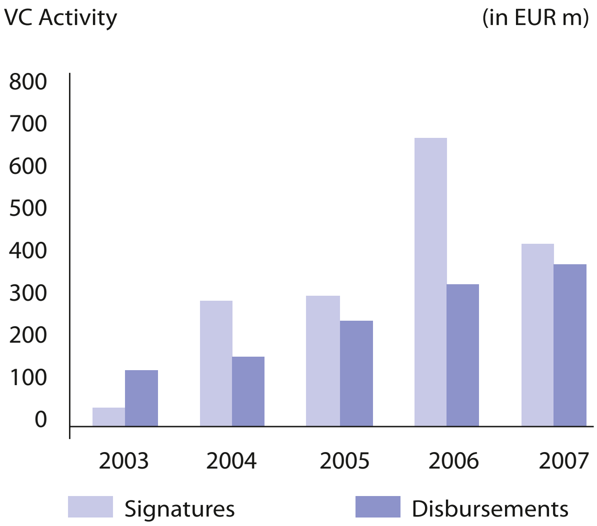
In late 2007, the European Commission gave the EIF a mandate to manage a EUR 1.1bn facility under the Competitiveness and Innovation Framework Programme (CIP), which will cover the period 2007-2013. Its objectives will remain comparable to those of its predecessor MAP (the Multiannual Programme for Enterprise and Entrepreneurship 2001-2006), namely to generate economic growth and create more jobs as well as boost productivity, competitiveness and innovation in the EU. The CIP, however, was designed to be a more ambitious programme, as it should cover a wider geographical area and will extend the range of instruments to include new SME market segments and products (for example, mezzanine products).

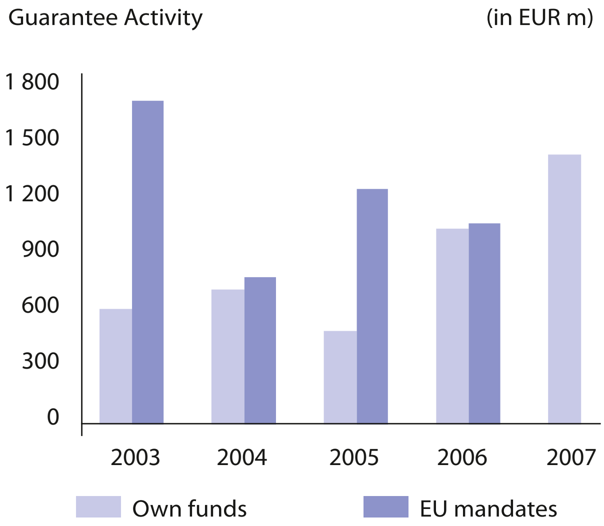
Venture capital operations

As shown in the chart above, the level of EIF disbursements has been steadily increasing. The reduction in the number of new signatures in 2007 can be explained by the fact that the CIP programme was implemented only towards the end of 2007 and by the less satisfactory market conditions, which acted as a constraint on investors, while allowing the EIF to play a significant role in supporting new or repeat venture capital operations.

Even so, in 2007 the EIF signed venture capital agreements for over EUR 521m [8], while total venture capital commitments amounted to EUR 4.4bn at the end of the year. With investments in some 270 funds, the EIF remains a leading player in European venture capital and small to mid-cap funds. This is due not only to the scale and scope of its investments, but also to its catalytic role. By applying its 'quality stamp' to funds by typically taking a 10 % to 20 % stake, the EIF encourages commitments from a wide range of investors, particularly in the private sector. In 2007, the Fund

[8] EIF activities are accounted for separately and not included in the EIB's lending figures.





continued to broaden its investment strategy beyond early-stage funds by adding mid-stage funds and investing in technology transfer, with the objective of facilitating the commercialisation of research.

Portfolio guarantee activity

The EIF offers two main product lines for its SME guarantee activity: credit insurance and credit enhancement.

The EIF's credit insurance involves guarantee or counter-guarantee schemes for portfolios of SME or microcredit loans or leases, where the Fund takes up to 50% of the credit risk of every individual loan or lease in the portfolio. The effect is to provide loss mitigation capital relief to the counterparty, thus creating scope for extending further SME loans.

The EIF credit enhancement activity supports the securitisation of SME loans and leases pooled by financial institutions in order to sell them on the capital markets . In 2007, EIF credit enhancement activity backed by own resources reached new levels in terms of both volumes and number of deals, as the EIF entered into new credit enhancement transactions for almost EUR 1.4bn, spread across a large number of countries. Three of the EIF credit enhancement operations in 2007 were joint operations with the EIB as the senior investor.

EIF guarantee operations amounted to EUR 1.4bn in 2007, while the total guarantee portfolio stood at EUR 11.6bn at year-end, comprising 190 transactions. Commitments of EUR 7.3bn were made using European Commission mandates.

As for venture capital, the decline in activity is due to the fact that implementation of the new EU CIP mandate did not start until towards the end of 2007.

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

The EIF is not concerned solely with financing but also with improving access to finance. Its JEREMIE programme, which improves SME access to the EU Structural Funds, is an important new area being developed on a nationwide or regional basis in several EU countries.

During 2006 and 2007, JEREMIE conducted some 40 gap analyses in 27 Member States. Implementation, i.e. the development of programmes for SMEs supported by the Structural Funds, is under preparation in several countries. Memoranda of Understanding have already been signed with the Slovak Republic and Bulgaria; the first JEREMIE funding agreements were signed with Greece in June 2007 and Romania in February 2008.

Audit and Control

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

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

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

Inspectorate General – The Inspectorate General for the EIB Group comprises three independent control functions, to which the Bank attaches great importance.

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. It is also finalising the introduction and maintenance of an internal control framework covering all key operational activities of the Group. Action Plans agreed with the Bank's departments are a catalyst for improving procedures and strengthening controls. Hence, Internal Audit reviews and tests controls in critical banking, information technology and administrative areas on a rotational basis using a risk-based approach.
Ex post evaluation. Ex post evaluations cover the EIB's activities and have been extended to the Group through the evaluation of the venture capital activities of the EIF and an interim evaluation of the FEMIP Trust Fund. The evaluation studies and reports enable the EIB Group to learn from past experience. Ex post evaluations are published on the website of the Bank (or EIF), thereby contributing to the transparency and accountability of the EIB Group.
Fraud investigations. Under internal procedures to combat fraud, the Inspector General has authority to conduct inquiries into allegations of possible fraud or corruption involving EIB funds. The Bank may also call upon external assistance or experts in accordance with the requirements of the inquiry, and works closely with the services of the European Anti-Fraud Office (OLAF). In addition, the Inspector General provides, when required, an independent recourse mechanism for investigating complaints that the European Ombudsman considers to be outside his remit.

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

Group with current best standards of good professional practice, with the codes of conduct and with compilations of best practices.

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

EIB Group

Financial Statements

Consolidated Results for the Year

The EIB Group balance sheet total increased slightly and the profit to be appropriated decreased during the year 2007. The result of the Group for the reporting date stands at EUR 843 million, compared to an ordinary consolidated result of EUR 2 260 million for 2006, representing a decrease of EUR 1 416 million. It should be noted that an additional contribution from the sum released from the Fund for general banking risks amounting to EUR 975 million produced a final balance on the consolidated profit and loss account of EUR 3 235 million for the year ended 31 December 2006.

The main contributing factors influencing the consolidated result either positively or negatively are as follows:

Negative impacts:

- 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, decreased by EUR 1 393 million (see Note N). The major impact is the decrease related to borrowings designated at fair value and their related swaps for EUR 1 295 million. This decrease mainly stems from the widening of credit spreads in the capital markets as a consequence of the flight to quality that took place after the sub-prime crisis. Indeed, the market price of EIB bonds decreased much less than the market price of the associated hedging swaps, generating an unrealised book loss. Of course, since the intention of the Group is to hold these financial instruments until maturity, it is expected that this book loss will be neutralised when the cash flows of the bonds and the hedging swaps are unwound.
- The credit loss expense, together with the movements in the specific provision for credit risk, resulted in a loss of EUR 17 million, compared with a profit of EUR 102 million in 2006, a negative impact of EUR 120 million.
- The impairment losses on shares and other variable-yield securities resulted in a negative impact of EUR 113 million (see Note E).

Positive impacts:

- The net result of interest and similar income and charges stands at EUR 1 863 million for 2007, i.e. a positive impact on the result of EUR 173 million (items 1 and 2 of the Income Statement – see Note M).
- General administrative expenses (see Note Q) decreased, having a positive impact on the result of EUR 6 million. This was mainly due to a reduction in expenses relating to the Group's defined-benefit post-employment schemes under IAS 19, as compared with 2006.
- All other profit and loss items gave rise to an overall net increase of EUR 30 million.

Consolidated balance sheet

as at 31 December 2007 (in EUR '000)

Assets		31.12.2007		31.12.2006
1. Cash in hand, balances with central banks and post office banks		**27 318**		14 676
2. Treasury bills eligible for refinancing with central banks (Note B)		**2 273 135**		2 701 696
3. Loans and advances to credit institutions				
a) repayable on demand	286 263		209 752	
b) other loans and advances (Note C)	15 816 580		14 598 326	
c) loans (Note D)	112 323 909		115 846 949	
		128 426 752		130 655 027
4. Loans and advances to customers				
a) loans (Note D)	156 435 308		141 770 309	
b) specific provisions (Note D)	-37 050		- 82 417	
		156 398 258		141 687 892
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	580 386		719 292	
b) issued by other borrowers	10 435 661		10 572 110	
		11 016 047		11 291 402
6. Shares and other variable-yield securities (Note E)		**2 078 830**		1 671 533
7. Intangible assets (Note F)		**3 972**		5 131
8. Property, furniture and equipment (Note F)		**285 720**		219 884
9. Other assets				
a) sundry debtors (Note H)	145 445		248 683	
b) positive replacement values (Notes Q, S, U)	9 060 783		8 782 117	
		9 206 228		9 030 800
10. Subscribed capital and receivable reserves called but not paid (Note X)		**1 061 503**		1 444 700
11. Prepayments and accrued income		**30 658**		80 726
Total Assets		**310 808 421**		**298 803 467**

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

Liabilities		31.12.2007		31.12.2006
1. Amounts owed to credit institutions (Note I)				
a) with agreed maturity dates or periods of notice	341 757		218 967	
		341 757		218 967
2. Debts evidenced by certificates (Note J)				
a) debt securities in issue	259 280 003		251 742 473	
b) others	892 400		1 090 202	
		260 172 403		252 832 675
3. Other liabilities				
a) sundry creditors (Note H)	1 429 085		1 311 427	
b) sundry liabilities (Note H)	37 457		39 739	
c) negative replacement values (Notes Q, S, U)	12 945 900		9 903 281	
		14 412 442		11 254 447
4. Accruals and deferred income (Note G)		270 724		344 285
5. Provisions				
a) Pension plans and health insurance scheme (Note K)	1 038 545		945 254	
		1 038 545		945 254
Total Liabilities		**276 235 871**		**265 595 628**
6. Capital (Note X)				
- Subscribed	164 808 169		163 653 737	
- Uncalled	- 156 567 760		- 155 471 050	
		8 240 409		8 182 687
7. Consolidated reserves				
a) reserve fund	16 480 817		16 365 374	
b) additional reserves	6 067 178		2 511 342	
		22 547 995		18 876 716
8. Funds allocated to structured finance facility		1 250 000		1 250 000
9. Funds allocated to venture capital operations		1 690 940		1 663 824
10. Profit for the financial year:				
Before appropriation from Fund for general banking risks	843 206		2 259 612	
Appropriation for the year from Fund for general banking risks (Note L)	0		975 000	
Profit to be appropriated		843 206		3 234 612
Total Equity		**34 572 550**		**33 207 839**
Total Liabilities & Equity		**310 808 421**		**298 803 467**

Consolidated income statement

for the year ended 31 December 2007 (in EUR '000)

			31.12.2007		31.12.2006
1.	Interest and similar income (Note M)		**14 051 950**		13 521 846
2.	Interest expense and similar charges (Note M)		**-12 188 607**		-11 831 731
3.	Income from shares and other variable-yield securities		**68 247**		29 869
4.	Fee and commission income (Note P)		**85 924**		89 298
5.	Fee and commission expense (Note P)		**-1 842**		-589
6.	Result on financial operations (Note N)		**-676 792**		716 303
7.	Other operating income (Note O)		**26 526**		28 881
8.	General administrative expenses (Note Q)		**-365 980**		-372 156
	a) staff costs (Note K)	-280 100		- 298 220	
	b) other administrative costs	-85 880		- 73 936	
9.	Depreciation and amortisation (Note F)		**-20 027**		-18 257
	a) intangible assets	-2 984		- 3 250	
	b) tangible assets	-17 043		- 15 007	
10.	Credit loss expense		**-17 465**		102 191
11.	Impairment losses on shares and other variable-yield securities (Note E)		**-118 728**		-6 043
12.	Profit for the period		**843 206**		2 259 612
13.	Transfer from (+) / to (-) the fund for general banking risks (Note L)		**0**		975 000
14.	Profit to be appropriated		**843 206**		3 234 612

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

Statement of movements in consolidated own funds

for the year ended 31 December 2007 (in EUR '000)

	Subscribed capital	Callable capital	Fund for general banking risks (**)	Funds allocated to Structured Finance Facility	Funds allocated to venture capital operations	Reserve fund	Additional reserves		Profit of the year before appropriation	Total consolidated own funds
							Other	AFS reserve		
At 31 December 2005	**163 653 737**	**- 155 471 050**	**915 000**	**500 000**	**1 679 333**	**16 365 374**	**1 701 423**	**154 867**	**1 246 884**	**30 745 568**
Appropriation of prior year's profit	0	0	60 000	500 000	0	0	686 884	0	- 1 246 884	0
Transfer to additional reserves	0	0	0	0	- 15 509	0	15 509	0	0	0
Transfer from additional reserves	0	0	0	250 000	0	0	- 250 000	0	0	0
Changes in fair value during the year	0	0	0	0	0	0	0	202 659	0	202 659
Net profit of the year	0	0	0	0	0	0	0	0	2 259 612	2 259 612
At 31 December 2006	**163 653 737**	**- 155 471 050**	**975 000**	**1 250 000**	**1 663 824**	**16 365 374**	**2 153 816**	**357 526**	**2 259 612**	**33 207 839**
Contribution of Bulgaria and Romania as of January 2007 (***)	1 154 432	- 1 096 710	0	0	0	115 443	57 489	0	0	230 654
Appropriation of prior year's profit	0	0	- 975 000	0	0	0	3 234 612	0	- 2 259 612	0
Transfer to additional reserves (*)	0	0	0	0	27 116	0	- 27 116	0	0	0
Changes in fair value during the year	0	0	0	0	0	0	0	290 851	0	290 851
Net profit of the year	0	0	0	0	0	0	0	0	843 206	843 206
At 31 December 2007	**164 808 169**	**- 156 567 760**	**0**	**1 250 000**	**1 690 940**	**16 480 817**	**5 418 801**	**648 377**	**843 206**	**34 572 550**

(*) An amount of EUR'000 27 116 resulting from the value adjustments on venture capital operations at 31 December 2006 has been transferred from the Additional Reserves to the Funds allocated to venture capital operations.

(**) Before appropriation of current year profit.

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

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

Consolidated Cash Flow Statement

as at 31 December 2007 In EUR '000

		31.12.2007	31.12.2006
A.	**Cash flows from operating activities:**		
	Profit for the financial year	843 206	2 259 612
	Adjustments:		
	Unwinding of the discount relating to capital and reserve called, but not paid in	-45 663	-61 508
	Allowance to provision for guarantees issued	0	-30 969
	Depreciation and amortisation on tangible and intangible assets	20 027	18 257
	Impairment losses on venture capital operations	118 728	12 190
	Decrease/Increase in accruals and deferred income	-73 561	10 493
	Decrease/Increase in prepayments and accrued income	57 845	-34 009
	Investment portfolio amortisation	-17 454	-18 180
	Changes in replacement values on derivatives others than those associated with borrowings and loans	-1 526 786	-272 582
Profit on operating activities		**-623 658**	**1 883 304**
	Net loans disbursements	-39 910 416	-35 391 121
	Repayments	19 984 413	21 143 605
	Effects of exchange rate changes on loans	8 104 408	3 778 695
	Increase in prepayments and accrued income on loans	-219 593	-72 258
	Adjustment of loans (fair value option)	899 229	1 268 470
	Changes in replacement values on derivatives associated with loan	-777 549	-1 323 349
	Decrease/Increase in operational portfolio	1 090 330	-7 200
	Increase in venture capital operations	-153 690	-160 886
	Impairment losses on loans and advances	-45 367	-210 083
	Increase in shares and other variable-yield securities	-49 207	-29 913
	Decrease/Increase in other assets	103 238	-67 359
	Increase/Decrease in other liabilities	213 740	-140 234
Net cash from operating activities		-11 384 122	-9 328 329
B.	**Cash flows from investing activities:**		
	Securities matured during the year	328 790	444 272
	Purchases of securities	0	-323 639
	Increase in asset backed securities	-1 995 637	-943 224
	Purchase of property, furniture and equipment	-82 879	-54 778
	Purchase of intangible fixed assets	-1 825	-2 235
Net cash from investing activities		-1 751 551	-879 604
C.	**Cash flows from financing activities:**		
	Issue of borrowings	54 678 538	45 549 825
	Redemption of borrowings	-35 348 649	-39 904 317
	Effects of exchange rate changes on borrowings and swaps	-8 408 498	-4 709 148
	Adjustments of borrowings (fair value option)	-553 677	-6 299 275
	Changes in replacement values on derivatives associated with borrowings	1 368 022	4 302 267
	Decrease/Increase in accrual and deferred income on borrowings and swaps	157 800	-253 792
	Paid in by Member States	630 824	300 996
	Increase/Decrease in commercial paper	514 480	-207 278
	Increase/Decrease in amounts owed to credit institutions	122 790	-174 081
Net cash from financing activities		13 161 630	-1 394 803

Summary statement of cash flows:		
Cash and cash equivalents at beginning of financial year	**18 296 391**	**29 899 127**
Net cash from:		
(1) operating activities	- 11 384 122	- 9 328 329
(2) investing activities	- 1 751 551	- 879 604
(3) financing activities	13 161 630	- 1 394 803
Cash and cash equivalents at end of financial year	**18 322 348**	**18 296 391**
Cash analysis:		
Cash in hand, balances with central banks and post office banks	27 318	14 676
Bills maturing within three months of issue	2 192 187	3 473 637
Loans and advances to credit institutions:		
Accounts repayable on demand	286 263	209 752
Term deposit accounts	15 816 580	14 598 326
	18 322 348	**18 296 391**

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

European Investment Bank Group

Notes to the consolidated financial statements

as at 31 December 2007

Note A – Significant accounting policies

A.1. Basis of preparation

Statement of compliance

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

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

Basis of consolidation

The Financial Statements comprise those of the European Investment Bank (the "Bank" or the "EIB") having its registered office at 100, boulevard Konrad Adenauer and those of its subsidiary, the European Investment Fund (the "Fund" or the "EIF"), having its registered office at 43, avenue J.F. Kennedy, Luxembourg. The financial statements of the Fund are prepared for the same reporting year as the Bank, using consistent accounting policies.

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

The Bank holds 65.78 % (2006: 61.20 %) of the subscribed capital of the EIF and therefore has applied the principles pronounced by IAS 27 in preparing consolidated financial statements. Hence, the Group combines the financial statements of the EIB and the EIF line by line by adding together like items of assets, liabilities, equity, income and expenses.

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

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

A.2. Significant accounting judgements and estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and advances

The Group reviews its problem loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the consolidated income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required.

Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and advances, the Bank also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

Valuation of unquoted equity investments

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

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

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

As at 31 December 2007, there were no differences between the transaction price at initial recognition and the fair value that would be determined at that date using the valuation technique mentioned above.

Impairment of equity investments

The Group treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. The Group treats "significant" generally as 20 % or more and "prolonged" greater than 6 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

Pension and other post employment benefits

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

A.3. Changes in accounting policies

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

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

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment.

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures:

This standard requires disclosures that enable users of the Financial Statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements:

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note X.3.

IFRIC 9 Reassessment of Embedded Derivatives:

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

IFRIC 10 Interim Financial Reporting and Impairment:

The Group adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

Standards issued but not yet effective:

The following IFRS and IFRIC interpretations were issued with an effective date for financial periods beginning on or after 1 January 2008. The Group has chosen not to early adopt these standards and interpretations before their effective dates.

IFRS 8 Operating Segments:

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

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

This interpretation is to be applied for annual periods beginning on or after 1 January 2008. The interpretation addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of the surplus that can be recognised as an asset, in particular, when a minimum funding requirement exists. The Group plans to adopt this interpretation at its effective date or at the date of endorsement by the European Union, if later, and does not anticipate any significant impacts on its financial statements.

IAS 23 – Amendment – Borrowing costs:

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

IAS 27R – Consolidated Financial Statements:

This standard is applicable for annual periods beginning on or after 1 July 2009 and must be adopted simultaneously with the adoption of IFRS 3R. The revised IAS 27 will require entities to account for changes in the ownership of a subsidiary, which does not result in the loss of control, as an equity transaction and therefore will not give rise to a gain or loss in income. In addition losses incurred by a subsidiary will be required to be allocated between the controlling and non-controlling interests, even if the losses exceed the non-controlling equity investment in the subsidiary. Finally on loss of control of a subsidiary, entities will be required to re-measure to fair value any retained interest, which will impact the gain or loss recognised on the disposal linked to the loss of control. The Group plans to adopt this revised standard at its effective date or at the date of endorsement by the European Union, if later and does not anticipate any significant impacts on its financial statements.

A.4. Summary of significant accounting policies

A.4.1. Foreign currency translation

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

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

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

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

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

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

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

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the consolidated income statement.

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

A.4.2. Derivatives

All derivative instruments of the Group are measured at fair value through profit and loss account on the consolidated balance sheet and are reported as positive or negative replacement values. Fair values are obtained from quoted market 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, more in particular when a significant reduction of the accounting mismatch is thus obtained.

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

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

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

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

A.4.3. Financial assets

Financial assets are accounted for using the settlement date basis.

A.4.4. Cash and Cash Equivalents

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

A.4.5. Fee income

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

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

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

A.4.6. Securities lending

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

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

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

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

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

A.4.7.1. Held for trading portfolio

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

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

Interest income on trading portfolio assets is included in interest income.

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

A.4.7.2. Held-to-maturity portfolio

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

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

- Governments of the European Union, G10 countries and their agencies;
- Supranational public institutions, including multinational development banks.

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

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

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

The Asset Backed Securities portfolio mainly consists of obligations in the form of bonds, notes or certificates issued by a Special Purpose Vehicle (SPV) or a trust vehicle. These securities are classified as held to maturity and recorded at purchase price. Value impairments are accounted for, if these are other than temporary.

A.4.7.3. Available for sale portfolio

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

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

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

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

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

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

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

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

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

Loans and receivable are recognized in the assets of the Group when cash is advanced to borrowers. They are initially recorded at cost (their net disbursed amounts), which is the fair value of the cash given to originate the loan, including any transaction costs, and are subsequently measured at amortized cost using the effective interest rate method.

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

A.4.8.1. Interest on loans

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

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

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

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

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

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

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

A.4.8.3. Fees on loans

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

A.4.8.4. Interest subsidies

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

A.4.9. Credit loss expense

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

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

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

Impairment losses have been made for individual loans and advances outstanding at the end of the financial year and presenting objective evidence of risks of non-recovery of all or part of their amounts according to the original contractual terms or the equivalent value. Changes to these provisions are entered on the consolidated income statement as "Credit loss expense". Allowances and provisions for credit losses are evaluated on the following counterparty specific based principle.

A claim is considered impaired when the Management Committee determines that it is probable that the Group will not be able to collect all amounts due according to the original contractual terms or the equivalent value. Individual credit exposures are evaluated based upon the borrower's character, overall financial condition, resources and payment record, the prospects for support from any financially responsible guarantors and, where applicable, the realizable value of any collateral. The estimated recoverable amount is the present value of expected future cash flows, which may result from restructuring or liquidation. Impairment is measured and allowances for credit losses are established for the difference between the carrying amount and its estimated recoverable amount of any claim considered as impaired. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate.

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

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

A.4.9.2. Collective impairment

In addition to specific allowances against individually significant loans and advances, the Group also makes a collective impairment test on exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective impairment test is based on any deterioration in the internal rating of the groups of loans or investments since they were granted or acquired. These internal ratings take into consideration factors such as any deterioration in counterparties risk, values of collaterals or securities received, and sectorial outlook, as well as identified structural weaknesses or deterioration in cash flows. As at 31 December 2007, there was no need for a collective impairment allowance, following this process.

A.4.9.3. Guarantees

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

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

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

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

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

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

A.4.10. Property, furniture and equipment

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

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

Property, furniture and equipment are reviewed periodically for impairment.

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

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

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

- Buildings in Kirchberg, Hamm and Weimershof - 30 years
- Building in Lisbon - 25 years
- Permanent equipment, fixtures and fittings - 10 years
- Furniture - 5 years
- Office equipment and vehicles - 3 years

A.4.11. Intangible assets

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

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

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

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

A.4.12. Pension plans and health insurance scheme

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

A.4.12.1. Pension plan for staff

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

Commitments for retirements benefits are valued at least every year using the projected unit credit method, in order to ensure that the liability entered in the accounts is adequate. The results of the latest valuation are as at 30 September 2007, with an extrapolation to 31 December 2007. The main actuarial assumptions used by the actuary are set out in Note K. Actuarial surpluses and deficits are spread forward over the average expected remaining service lives of the plan active participants.

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

A.4.12.2. Health insurance plan

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

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

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

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

A.4.13. Debts evidenced by certificates

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

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

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

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

A.4.14. Fund for general banking risks

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

Starting from 2006, the Group no longer identifies such separate balance sheet item. The decision to release it completely does not affect the ability of the Group to cover its risks. The Group will continue to compute the amount corresponding to the general banking risks, for internal and disclosure purposes (see Note L), according to the existing methodology.

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

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

A.4.15.1. Funds allocated to venture capital operations

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

A.4.15.2. Funds allocated to the Structured Finance Facility

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

A.4.16. Taxation

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

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

These accounts comprise:

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

A.4.18. Interest income and expenses

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

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

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

A.4.19. Fiduciary operations

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

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

A.4.20. Assets held for third parties

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

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

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

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

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

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

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

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

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

A.4.21. Commitment to purchase EIF shares

Under the terms of a replacement share purchase undertaking in respect of the 948 shares held by EIF's minority shareholders (2006: 776 shares), the EIB is offering to buy these on an annual basis. The exercise price is determined on the basis of the audited annual accounts of EIF and corresponds to the part of each share in the called capital of EIF, increased by the share premium account, the statutory reserves, the fair value reserve, the retained earnings and profit of the year, net of the dividend decided by the EIF's General Meeting. The commitment to purchase is shown in the consolidated balance sheet as a debt item under sundry creditors (see also Note H).

A.4.22. Reclassification of prior year figures

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

- the sundry creditors related to Venture Capital current account amounting to EUR '000 44 528 as at 31 December 2006 are reclassified *under loans and advances to credit institutions, repayable on demand;*
- the sundry debtors related to receipts on loans to be identified amounting to EUR '000 95 694 as at 31 December 2006 are reclassified under *loans and advances to credit institutions;*
- the sundry creditors related to health insurance plan amounting to EUR '000 74 830 as at 31 December 2006 are classified under *Provision;*
- the net interest income on derivatives amounting to EUR'000 1 438 205 as at 31 December 2006 are reclassified under interest and similar income;
- the payable legs and receivable legs of FX forwards and FX swaps are netted for EUR'000 5 553 790 under other assets, positive replacement values and other liabilities, negative replacement values.

A.4.23. Accounting for operating leases

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

A.4.24. Compound financial instruments with multiple embedded derivatives

As at 31 December 2007, the Group does not have any compound financial instrument with multiple embedded derivatives.

A.4.25. Dividend income

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

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

In addition to the asset backed securities, which represent acquisitions of interest pools of loans or receivables in connection with securitization transactions, the debt securities portfolio is made up of trading financial assets (Portfolio B3), available-for-sale financial assets (portfolios A2, B1, B2 and operational portfolio-EIF) and financial assets held-to-maturity (Portfolio A1 and Investment portfolio). The detail of each portfolio is as follows as at 31 December 2007 and 2006:

	31.12.2007	31.12.2006
Treasury bills eligible for refinancing with central banks (listed)	2 273 135	2 701 696
Debt securities including fixed-income securities (of which EUR ’000 2 860 459 unlisted in 2007 and EUR ’000 1 597 397 in 2006)	11 016 047	11 291 402
	13 289 182	**13 993 098**

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

(1) including unrealised loss of EUR ’000 - 1 237
(2) including unrealised loss of EUR ’000 - 15 389
(3) including unrealised gain of EUR ’000 11 724
(4) including unrealised loss of EUR ’000 - 598

At 31.12.2006	Classification	Book value	Market value
Group Investment portfolio	Held-to-maturity	2 895 917	2 896 500
Operational money market portfolios:			
- money market securities with a max. 3 month maturity A1	Held-to-maturity	3 473 637	3 473 637
- money market securities with a max. 18 month maturity A2	Available for sale	2 685 855 (1)	2 685 855
Operational bond portfolios:			
- B1 - Credit Spread	Available for sale	1 305 043 (2)	1 305 043
- B2 - Alternative Investment	Available for sale	155 315 (3)	155 315
- B3 - Global Fixed Income	Trading	691 918	691 918
Operational portfolio – EIF	Available for sale	51 092 (4)	51 092
Asset backed securities (Note D)	Held-to-maturity	2 734 321	2 734 321
		13 993 098	**13 993 681**

(1) including unrealised loss of EUR ’000 - 864
(2) including unrealised loss of EUR ’000 - 356
(3) including unrealised gain of EUR ’000 5 315
(4) including unrealised gain of EUR ’000 149

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

The security lending activity amounts to EUR ’000 936 629 at the end of December 2007 (2006: EUR ’000 927 972).

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

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

	31.12.2007	31.12.2006
Term deposits	11 205 010	9 027 130
Tripartite reverse repos (*)	4 611 570	5 571 196
	15 816 580	**14 598 326**

(*) These operations are carried out with a third-party custodian who undertakes, on the basis of a framework contract, to guarantee compliance with the contractual terms and conditions, notably with respect to:
- delivery against payment,
- verification of collateral,
- the collateral margin required by the lender which must always be available and adequate, with the market value of the securities being verified daily by the said custodian,
- organisation of substitute collateral provided that this meets all the contractual requirements.

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

D.1. Aggregate loans granted

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

	To intermediary credit institutions	Directly to final beneficiaries	Total 2007	Total 2006
Disbursed portion	112 323 909	156 435 308	268 759 217	257 617 258
Undisbursed loans	12 341 869	41 264 752	53 606 621	53 571 902
Aggregate loans granted	**124 665 778**	**197 700 060**	**322 365 838**	**311 189 160**

	31.12.2007	31.12.2006
Aggregate loans granted	322 365 838	311 189 160
Asset backed securities portfolio (Note B)	4 729 958	2 734 321
Aggregate loans including asset backed securities portfolio (Note D.3)	**327 095 796**	**313 923 481**

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

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

Movements in the specific provision are tabulated below:

	31.12.2007	31.12.2006
Specific provision at beginning of the year	82 417	292 500
Allowance (+) / Release (-) during the year	- 44 244 (*)	- 210 404 (**)
Foreign exchange adjustment	- 1 123	321
Specific provision at end of the year	**37 050**	**82 417**

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

(**) the amount of EUR '000 210 404 comprises an amount of EUR '000 189 171 which was released following the sale, during 2006, of loan assets for which an impairment loss was established. The sale of those loan assets resulted in a realised loss of EUR '000 109 816.

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

The accrued interest on impaired loans as at 31 December 2007 amounts to EUR '000 7 838 (2006: EUR '000 7 110). As at 31 December 2007, there is no related collateral held for impaired loans.

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

Loans for projects within the Union and related loans

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Spain	603	48 224 303	4 574 687	43 649 616	14.85 %	14.65 %
Germany	794	46 835 841	1 577 160	45 258 681	14.42 %	15.00 %
Italy	543	40 513 361	4 740 443	35 772 918	12.48 %	12.51 %
France	387	34 189 863	4 361 024	29 828 839	10.53 %	10.81 %
United Kingdom	200	26 284 577	3 896 262	22 388 315	8.09 %	8.88 %
Portugal	245	17 215 588	2 028 687	15 186 901	5.30 %	5.37 %
Greece	138	13 142 910	1 683 972	11 458 938	4.05 %	4.08 %
Poland	120	12 006 945	3 822 194	8 184 751	3.70 %	3.41 %
Czech Republic	84	7 666 580	2 793 805	4 872 775	2.36 %	2.12 %
Austria	180	6 682 627	307 000	6 375 627	2.06 %	2.07 %
Hungary	84	6 313 692	1 899 437	4 414 255	1.94 %	1.72 %
Finland	99	5 623 611	749 467	4 874 144	1.73 %	1.77 %
Belgium	75	5 119 622	755 080	4 364 542	1.58 %	1.53 %
Netherlands	52	4 290 983	1 376 113	2 914 870	1.32 %	1.47 %
Romania	57	4 122 025	2 360 255	1 761 770	1.27 %	1.33 %
Sweden	68	3 537 501	720 225	2 817 276	1.09 %	1.09 %
Ireland	60	3 425 935	625 399	2 800 536	1.05 %	1.10 %
Denmark	63	3 123 593	467 841	2 655 752	0.96 %	1.10 %
Slovenia	41	2 223 882	744 000	1 479 882	0.68 %	0.56 %
Bulgaria	26	1 849 490	1 445 737	403 753	0.57 %	0.26 %
Cyprus	27	1 315 054	527 800	787 254	0.40 %	0.40 %
Slovak Republic	33	1 095 579	355 219	740 360	0.34 %	0.38 %
Luxembourg	32	732 435	132 893	599 542	0.23 %	0.26 %
Latvia	23	490 100	50 000	440 100	0.15 %	0.16 %
Lithuania	13	169 403	94 000	75 403	0.05 %	0.06 %
Estonia	13	159 997	25 000	134 997	0.05 %	0.08 %
Malta	4	55 818	47 700	8 118	0.02 %	0.01 %
Total	**4 064**	**296 411 315**	**42 161 400**	**254 249 915**	**91.27 %**	**92.18 %**

Loans for projects outside the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% nominal 2007	% nominal 2006
ACP Countries/OCT	122	1 563 180	750 216	812 964	0,48 %	0,43 %
South Africa	32	935 707	266 091	669 616	0,29 %	0,32 %
Euro-Mediterranean Partnership Countries	217	9 756 518	3 998 045	5 758 473	3,00 %	2,92 %
South-East European Countries	176	11 188 758	4 761 739	6 427 019	3,45 %	2,79 %
Russia and Western Newly Independent States	5	309 421	233 332	76 089	0,10 %	0,03 %
EFTA Countries	21	1 600 781	121 792	1 478 989	0,49 %	0,50 %
Asia and Latin American Countries	73	2 987 708	1 314 006	1 673 702	0,92 %	0,83 %
Total	**646**	**28 342 073**	**11 445 221**	**16 896 852**	**8,73 %**	**7,82 %**

Geographical breakdown of lending by region in which projects are allocated

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% nominal 2007	% nominal 2006
Loans for projects within the Union and related loans	4 064	296 411 315	42 161 400	254 249 915	91,27 %	92,18 %
Loans for projects outside the Union	646	28 342 073	11 445 221	16 896 852	8,73 %	7,82 %
IAS 39		2 342 408	0	2 342 408		
TOTAL 2007	**4 710**	**327 095 796** (*)	**53 606 621**	**273 489 175**	**100,00 %**	
TOTAL 2006	**4 745**	**313 923 481**	**53 571 902**	**260 351 579**		**100,00 %**

(*) Aggregate loans including asset backed securities

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

This item comprises:

	Venture Capital Operations	EBRD Shares	Shares acquired following loan assets restructuring	Infrastructure Funds	TOTAL
Cost					
At 1 January 2007	1 490 262	157 500 (1)	43 113	23 447	1 714 322
Net additions	153 690	0	10 192	39 067	202 949
Foreign exchange adjustments	0	0	- 52	0	- 52
At 31 December 2007	**1 643 952**	**157 500**	**53 253**	**62 514**	**1 917 219**
Unrealised Gains / Losses					
At 1 January 2007	215 582	141 040	0	0	356 622
Net additions / releases	245 094	64 454	19 926	- 6 346	323 128
At 31 December 2007	**460 676**	**205 494**	**19 926**	**- 6 346**	**679 750**
Impairment					
At 1 January 2007	- 378 253	0	- 21 158 (3)	0	- 399 411
Net additions	- 118 728	0	0	0	- 118 728
At 31 December 2007	**- 496 981**	**0**	**- 21 158**	**0**	**- 518 139**
Net book value					
At 31 December 2007	**1 607 647**	**362 994**	**52 021** (2)	**56 168**	**2 078 830**
At 31 December 2006	**1 327 591**	**298 540**	**21 955**	**23 447**	**1 671 533**

(1) The actual capital paid in by the Group in respect of its subscription of EUR '000 600 000 to the capital of the EBRD amounts to EUR '000 157 500 at 31 December 2007 (2006: EUR '000 157 500). The Group holds 3.03 % of the subscribed capital.

(2) The total number of ordinary Eurotunnel shares held by the Group as at 31 December 2007 is 1 474 279, valued at EUR 17 691 348. The total number of Eurotunnel bonds redeemable in shares (ORA) held by the Group as at 31 December 2007 is 105 450, valued at EUR 18 377 452. After the restructuring of the 28th June 2007, the Group holds 78 971 193 warrants valued at EUR 15 952 181 in the balance sheet at year-end. The total number of Eurotunnel shares held by the Group as at 31 December 2006 is 58 971 193, equivalent to EUR '000 21 955.

(3) As at 31 December 2006, the depreciation in fair market value of the shares held in Eurotunnel was recognised in the consolidated income statement as this investment was considered impaired.

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

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total property, furniture and equipment	Total intangible assets
Historical cost						
At 1 January 2007	10 415	252 682	349	57 243	320 689	7 040
Additions	0	65 868	0	17 011	82 879	1 825
Disposals	0	0	0	- 6 987	- 6 987	-3 326
At 31 December 2007	**10 415**	**318 550**	**349**	**67 267**	**396 581**	**5 539**
Accumulated depreciation						
At 1 January 2007	0	-77 180	-294	-23 331	-100 805	-1 909
Depreciation	0	-4 895	-14	-12 134	-17 043	-2 984
Disposals	0	0	0	6 987	6 987	3 326
At 31 December 2007	**0**	**- 82 075**	**- 308**	**- 28 478**	**- 110 861**	**- 1 567**
Net book value						
At 31 December 2007	**10 415**	**236 475**	**41**	**38 789**	**285 720**	**3 972**
At 31 December 2006	**10 415**	**175 502**	**55**	**33 912**	**219 884**	**5 131**

All of the land and buildings are used by the Group for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building for an amount of EUR '000 171 710 (2006: EUR '000 105 843), which will be completed in 2008.

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

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

Accruals and deferred income	31.12.2007	31.12.2006
- Interest subsidies received in advance [(1)]	186 622	209 438
- Other	84 102	134 847
	270 724	**344 285**

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

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

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

Sundry debtors	31.12.2007	31.12.2006
- Loan instalments receivable	56 115	167 797
- Staff housing loans and advances (*)	21 917	26 406
- Advances on salaries and allowances	2 825	10 492
- Commission receivable on guarantees and venture capital operations	13 777	4 505
- Other	50 811	39 483
	145 445	**248 683**

Sundry creditors	31.12.2007	31.12.2006
- European Community accounts:		
- For Special Section operations and related unsettled amounts	367 531	416 478
- Deposit accounts	517 441	428 025
- Optional Supplementary Provident Scheme (Note K)	185 626	187 532
- Commitment of purchase of minority interests (**)	338 102	266 149
- Other	20 385	13 243
	1 429 085	**1 311 427**

Sundry liabilities	31.12.2007	31.12.2006
- Financial guarantees issued in respect of venture capital operations	20 619	24 407
- Provision for employees' departure indemnities	16 838	15 332
	37 457	**39 739**

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

(**) As at 31 December 2007, the portion of minority interests on the balance sheet amounts to EUR 338 million (2006: EUR 266 million) and on the consolidated result (Note N) amounts to EUR 17 million (2006: EUR 19 million). Under the terms of replacement share purchase undertaking in respect of the 948 shares held by EIF's minority shareholders (2006: 776 shares), the Bank is offering to buy these at an exercise price of EUR 319 million (2006: EUR 247 million) determined on the basis of the audited 2006 annual accounts net of the dividend decided by the EIF's General Meeting.

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

	31.12.2007	31.12.2006
Short-term borrowings	338 720	212 892
Amounts due to EBRD including promissory notes issued in respect of paid-in capital of EBRD	3 037	6 075
	341 757	**218 967**

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

In its financing activity, one of the Group's objectives is to align its funding strategy with the funds required for the loans granted, notably in terms of currencies. The below table discloses the details per currency of debts outstanding at 31 December 2007, together with the cumulated notional amount of currency swaps associated with the debts issued, whose goal is to transform the initial currency of the debt into a new currency in line with the currency of the loan. The last column of the table indicates the total amount of debts per currency, taking into account the economic effect brought by the currency swaps in order to disclose a net exposure per currency of the debts outstanding at 31 December 2007.

BORROWINGS						CURRENCY SWAPS		NET AMOUNT	
						RECEIVABLE			
PAYABLE IN	OUT-STANDING AT 31.12.2006	AVERAGE RATE	OUT-STANDING AT 31.12.2007	AVERAGE RATE	DUE DATES	31.12.2006	31.12.2007	OUT-STANDING AT 31.12.2006	OUT-STANDING AT 31.12.2007
EUR	101 037 680	4.12	106 548 588	4.04	2008/2057	-2 011 066	-1 667 912	99 026 614	104 880 676
GBP	58 233 751	5.28	59 387 205	5.21	2008/2054	-17 691 932	-18 302 492	40 541 819	41 084 713
DKK	402 360	2.40	536 315	2.86	2010/2026	0	0	402 360	536 315
SEK	1 235 012	4.31	1 851 401	4.24	2008/2028	-165 922	-636 175	1 069 090	1 215 226
CZK	1 193 006	4.68	952 562	5.09	2008/2030	-154 630	-159 606	1 038 376	792 956
HUF	1 187 592	7.57	1 062 153	7.17	2008/2015	-907 574	-648 327	280 018	413 826
PLN	594 075	6.12	662 295	6.05	2008/2026	-101 168	-107 854	492 907	554 441
BGN	153 390	4.14	181 511	5.35	2009/2012	-153 390	-181 511	0	0
MTL	23 294	3.80	23 294	3.80	2009/2009	-23 294	-23 294	0	0
SIT	16 692	4.75	0	0.00		-16 692	0	0	0
SKK	116 926	4.84	121 261	4.79	2012/2028	0	0	116 926	121 261
RON	0	0.00	83 155	7.00	2014/2014	0	-83 155	0	0
USD	60 291 687	4.40	58 410 692	4.52	2008/2045	-19 619 710	-25 074 313	40 671 977	33 336 379
CHF	3 288 692	3.12	2 955 218	2.75	2008/2036	-1 120 169	-1 525 956	2 168 523	1 429 262
JPY	6 619 308	1.15	6 982 434	1.51	2008/2047	-6 042 000	-6 814 744	577 308	167 690
NOK	782 957	4.99	760 241	4.67	2008/2025	-600 874	-508 922	182 083	251 319
CAD	261 763	5.80	976 045	4.92	2008/2045	-196 322	-906 836	65 441	69 209
AUD	3 592 062	5.45	4 026 888	5.61	2008/2021	-3 592 062	-4 026 888	0	0
HKD	1 038 975	4.24	334 498	5.09	2008/2019	-365 206	-203 836	673 769	130 662
NZD	2 142 056	6.25	3 369 954	6.62	2008/2014	-2 142 056	-3 369 954	0	0
ZAR	1 254 633	8.97	1 167 340	8.53	2008/2018	-731 395	-726 625	523 238	440 715
MXN	135 967	9.13	61 772	8.63	2009/2015	-135 967	-61 772	0	0
TWD	375 134	1.03	255 830	0.33	2008/2013	-375 134	-255 830	0	0
TRY	2 034 897	12.64	2 659 580	14.14	2008/2022	-2 034 897	-2 659 580	0	0
ISK	563 728	7.53	739 935	8.38	2008/2011	-563 728	-739 935	0	0
RUB	0	0.00	111 154	6.50	2012/2017	0	-111 154	0	0
Fair Value Option Adjustment (IAS 39)	6 257 038		5 951 082						
Total	**252 832 675**		**260 172 403**						

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

The Group operates 3 defined benefit pension plans. The Group also provides certain post-employment healthcare benefits to former employees of EIB. These benefits are unfunded as defined by IAS19. The cost of providing benefits under the plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial valuation took place at 30 September 2007 and was rolled forward to 31 December 2007.

An additional plan is not included in the figures below: it is the Optional Supplementary Provident Scheme (a contributory defined benefit pension plan). The corresponding amount of EUR 186 million (2006: EUR 188 million) is entered under "Sundry creditors" (Note H).

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

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2007
Net current service cost [(1)]	27 708	1 035	1 258	4 388	34 389
Interest cost on benefit obligation [(2)]	48 633	1 353	477	4 174	54 637
Amortization of unrecognized past service cost [(1)]	0	0	75	0	75
Special termination benefits [(1)]	4 267	0	0	0	4 267
Recognition of actuarial (gains)/losses [(1)]	15 003	253	0	954	16 210
Net benefit expense	**95 611**	**2 641**	**1 810**	**9 516**	**109 578**

Net benefit expense (recognized in consolidated income statement) as at 31 December 2006:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2006
Net current service cost [(1)]	28 507	1 549	867	3 853	34 776
Interest cost on benefit obligation [(2)]	41 517	1 205	376	3 782	46 880
Amortization of unrecognized past service cost [(1)]	28 484	631	0	0	29 115
Special termination benefits [(1)]	3 363	0	0	0	3 363
Recognition of actuarial (gains)/losses [(1)]	18 828	582	133	1 420	20 963
Net benefit expense	**120 699**	**3 967**	**1 376**	**9 055**	**135 097**

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

Benefit liabilities as at 31 December 2007:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2007
Benefit obligation	1 046 162	30 239	12 628	87 088	1 176 117
Unrecognised net actuarial losses	- 136 626	- 1 718	- 646	- 3 293	- 142 283
Net liability	**909 536**	**28 521**	**11 982**	**83 795**	**1 033 834** [(1)]

Unrecognised net actuarial losses will be recognised, from 2008 onwards, according to the average remaining service life of the participants of each plan, in accordance with IAS 19.

Benefit liabilities as at 31 December 2006:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total 2006
Benefit obligation	1 031 399	29 202	9 928	89 796	1 160 325
Unrecognised net actuarial losses	-202 839	-1 734	-999	-13 716	-219 288
Net liability	**828 560**	**27 468**	**8 929**	**76 080**	**941 037** (1)

Movements in the benefit (asset)/liability during the year ended 31 December 2007 are as follows (in EUR '000):

	EIB Staff Pension Plan	Management Committee Pension Plan	EIF Staff Pension Plan	Health Insurance Plan	Total
At 1 January 2007	828 560	27 468	8 929	76 080	941 037
Net benefit expense	95 611	2 641	1 810	9 516	109 578
Benefit payments net of employee contributions	- 14 635	- 1 588	1 243	- 1 801	- 16 781
At 31 December 2007	**909 536**	**28 521**	**11 982**	**83 795**	**1 033 834** (1)
At 31 December 2006	**828 560**	**27 468**	**8 929**	**76 080**	**941 037** (1)

(1) This amount excludes indemnities 2007: EUR '000 4 711 (2006: EUR '000 4 217) 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:

	2007	2006
	in %	in %
Discount rate for pension plans	5.52	4.76
Discount rate for health insurance plans	5.52	4.76
Future salary increase (including inflation)	4.00	3.50
Future pension increases	2.00	1.50
Healthcare cost increase rate	4.00	3.50
Actuarial tables	LPP 2005	LPP 2000

The table below shows the sensitivity of both benefit expenses for 2007 and defined benefit obligation as at 31 December 2007 of the Health Insurance Plan to a 1 % increase and decrease in the healthcare cost increase rate:

	1 % increase	1 % decrease
Benefit expenses	2 894	- 2 172
Defined benefit obligation	21 948	-17 130

The table below shows the actuarial experience (gain)/loss for the different Plans for 2006 to 2007:

	EIB Pension	Management Committee Pension	EIF Pension	Health Insurance	Total
2007	19 790	1 481	1 230	- 6 151	16 350
2006	35 011	- 197	430	1 629	36 873

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 2007
Obligation at the beginning of the year	1 031 399	29 202	9 928	89 796	1 160 325
Net current service cost	27 708	1 035	1 258	4 388	34 389
Employee contributions	10 246	0	682	0	10 928
Interest cost	48 633	1 353	477	4 174	54 637
Benefit payments	- 24 881	- 1 588	561	- 1 801	- 27 709
Experience (gain)/loss	19 790	1 481	1 656	- 6 151	16 776
Assumption (gain)/loss	- 71 000	- 1 244	- 1 934	- 3 318	- 77 496
Special termination benefits	4 267	0	0	0	4 267
Benefit obligation as at 31 December 2007	**1 046 162**	**30 239**	**12 628**	**87 088**	**1 176 117**

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

Movements in the Fund for general banking risks are tabulated below:

	31.12.2007	31.12.2006
Fund at beginning of the year	0	975 000
Appropriated for the year	0	-975 000
Fund at end of the year	**0**	**0**

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

Evaluation of the amount representative of general banking risks:	31.12.2007	31.12.2006
Fund at beginning of the year	1 000 000 (*)	1 000 000 (**)

(*) Of which EUR '000 113 000 for Structured Finance Facility operations
(**) Of which EUR '000 40 000 for Structured Finance Facility operations

As at 31 December 2007, the general provisioning rates by Loan Grading categories are as follows:

Loan Grading	Provisioning rate for 2007	Provisioning rate for 2006
A°	0.00 %	0.00 %
A+	0.10 %	0.10 %
A-	0.20 %	0.20 %
B+	0.30 %	0.30 %
B-	0.50 %	0.50 %
C	1.00 %	1.00 %
D+	2.00 %	2.00 %
D-	3.00 %	3.00 %
E+	10.00 %	10.00 %
E-	25.00 %	25.00 %

Note M – "Interest and similar income" and "Interest expense and similar charges"
(in EUR '000)

M.1. Net interest income

	31.12.2007	31.12.2006
Interest and similar income		
Loans and advances to credits institutions and customers	13 252 385	11 381 994
Treasury bills eligible for refinancing with central banks and debt securities including fixed-income securities	709 903	583 418
Derivatives (1)	0	1 438 205
Interest subsidy from the E.U.	46 893	53 857
Cash in hand, balances with central banks and post office banks	344	1 975
Other	42 425	62 397
TOTAL	**14 051 950**	**13 521 846**
Interest expense and similar charges		
Debts evidenced by certificates	- 12 059 580	- 11 724 949
Derivatives (1)	- 7 626	0
Interest on third party mandates	- 42 610	- 39 955
Amounts owed to credit institutions	- 14 098	- 9 782
Other	- 64 693	- 57 045
TOTAL	**- 12 188 607**	**- 11 831 731**
Net interest income	**1 863 343**	**1 690 115**

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

	31.12.2007	31.12.2006
Interest and similar income		
Trading	19 289	1 457 440
Designated at fair value through profit and loss	645 422	460 461
Held to maturity	527 869	346 987
Loans and receivables (2)	12 665 166	11 058 953
Available for sale	148 541	135 154
Non financial assets	45 663	62 851
TOTAL	**14 051 950**	**13 521 846**
Interest expense and similar charges		
Trading	- 9 592	- 10 676
Designated at fair value through profit and loss	- 10 412 549	- 10 117 942
Other financial liabilities	- 1 657 092	- 1 606 558
Non financial liabilities	- 109 374	- 96 555
TOTAL	**- 12 188 607**	**- 11 831 731**
Net interest income	**1 863 343**	**1 690 115**

(1) The interest income and expenses on derivatives are netted and amount to EUR '000 -7 626 as at 31 December 2007 (EUR '000 1 438 205 as at 31 December 2006).

(2) Including in this class of financial asset accrued interests on impaired loans as at 31 December 2007 which amount to EUR '000 7 832 (2006: EUR '000 7 110).

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

	31.12.2007	31.12.2006
Germany	2 356 560	2 064 696
Spain	1 833 671	1 383 077
Italy	1 456 260	1 109 762
France	1 437 073	1 268 043
United Kingdom	1 211 146	1 049 415
Portugal	698 928	637 323
Greece	533 178	514 423
Austria	292 310	231 919
Poland	287 992	213 364
Finland	227 245	183 542
Hungary	197 499	124 049
Belgium	187 366	156 679
Czech Republic	180 895	145 099
Denmark	152 085	157 826
Netherlands	151 539	148 943
Ireland	137 067	124 705
Sweden	123 075	106 849
Romania (2)	81 155	0
Slovenia	57 535	43 865
Slovak Republic	35 134	41 617
Luxembourg	34 002	36 915
Cyprus	29 550	25 426
Bulgaria (2)	17 465	0
Latvia	16 017	11 773
Estonia	6 753	5 688
Lithuania	5 204	7 621
Malta	348	339
Total	**11 747 052**	**9 792 958**
Outside the European Union (2)	795 520	792 035
	12 542 572	**10 584 993**
Income not analysed (1)	1 509 378	2 936 853
	14 051 950	**13 521 846**

(1) Income not analysed:

1. Revenue from investment portfolio securities and ABS portfolio	289 436	210 086
2. Revenue from operational bond portfolios	80 419	55 463
3. Revenue from operational money market portfolio	340 001	317 914
4. Revenue from money-market operations	808 378	926 863
5. Unwinding of interest income from the present value adjustment of paid-in capital and reserve receivable	45 663	61 508
6. Adjustment on early repayments of loans	- 54 519	- 73 186
7. Net interest income on derivatives	0	1 438 205
	1 509 378	**2 936 853**

(2) The interest and similar income of the two New Member States in 2006 were included in "Outside the European Union»

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

N.1. Per nature of result

	31.12.2007	31.12.2006
Net result on derivatives under the fair value option	345 960	120 214
Net result on loans and associated swaps under the fair value option	- 147 208	135 554
Net result on borrowings and associated swaps under the fair value option	- 896 103	398 952
	- 697 351	**654 720**
Value adjustment on operational treasury portfolio	- 1 466	- 8 845
Minority interest (Notes A.4.21 and H)	- 17 316	- 18 955
Foreign exchange gain/loss	37 334	93 116
Other financial operations	2 007	- 3 733
TOTAL	**- 676 792**	**716 303**

N.2. Per category of assets and liabilities

	31.12.2007	31.12.2006
Financial assets available-for-sale	0	847
Financial assets designated at fair value through profit and loss	- 949 088	- 1 180 487
Financial liabilities designated at fair value through profit and loss	493 328	6 136 450
Financial instruments held for trading	- 208 496	- 4 223 349
Other	- 12 536	- 17 158
	- 676 792	**716 303**

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

	31.12.2007	31.12.2006
Income from advisory activities	20 369	14 402
Reversal of previous years' unutilized accruals	3 597	4 426
Other	2 560	10 053
	26 526	**28 881**

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

P.1. Fee and commission income

	31.12.2007	31.12.2006
Commission on Investment Facility – Cotonou	32 756	33 912
Commission on other European Community institutions and EU countries	44 755	38 539
Commission on financial guarantees	8 413	16 847
	85 924	**89 298**

P.2. Fee and commission expense

	31.12.2007	31.12.2006
Commission expense	- 1 842	- 589

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

	31.12.2007	31.12.2006
Salaries and allowances (*)	- 171 690	- 173 330
Welfare contributions and other social costs	- 108 410	- 124 890
Staff costs	**- 280 100**	**- 298 220**
Other general and administrative expenses	- 85 880	- 73 936
	- 365 980	**- 372 156**

(*) Of which the amount for members of the Management Committee is EUR '000 2 655 at 31 December 2007 and EUR '000 2 597 at 31 December 2006.

The number of persons employed by the Group was 1 569 at 31 December 2007 (1 475 at 31 December 2006).

Note R – Derivative financial instruments

R.1. Usage of derivative financial instruments

In the funding activity of the Group

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

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

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

The derivatives most commonly used are:

Currency swaps

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

Interest rate swaps

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

Asset swaps

Asset swaps are arranged for investments in bonds that do not have the desired cash-flow features. Specifically, swaps are used to convert investments into floating-rate instruments with 3-month coupon payment and reset frequency. Thus, the Group eliminates interest-rate and/or exchange risk, while retaining, as intended, the credit risk.

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

In the liquidity management of the Group

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

The notional amount of short-term currency swaps and short term forward stood at EUR 4 841 million at 31 December 2007, against EUR 5 602 million at 31 December 2006.

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 419 million at 31 December 2007 (2006: EUR 561 million).

In the Asset Liability Management of the Group

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

Accordingly, the Group:

- has adopted an own funds investment profile ensuring a stable and high flow of income;

- manages residual interest rate risks in relation to this investment profile.

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

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

R.2. Fair value of derivative financial instruments

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

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

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

Derivatives by valuation method as at 31 December 2006 (in EUR million)

	Quoted market price		Valuation techniques – market observable inputs		Valuation techniques – non observable market inputs		Total	
	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value	Notional amount	Net fair value
Derivatives related to borrowings	0	0	192 033	3 471	19 210	- 1 010	211 243	2 461
Derivatives related to loans	0	0	29 298	- 1 069	1 427	- 31	30 725	- 1 100
Derivatives related to assets portfolio	0	0	126	- 2	0	0	126	- 2
Derivatives related to Asset Liability Management	0	0	61 586	- 2 425	188	- 10	61 774	- 2 435
Derivatives related to asset backed securities	0	0	18	1	0	0	18	1
Forward foreign exchange contracts	0	0	5 602	- 48	0	0	5 602	- 48
Futures contracts	561	3	0	0	0	0	561	3
Guarantees associated to derivatives	0	0	0	0	876	- 1	876	- 1
Total	**561**	**3**	**288 663**	**- 72**	**21 701**	**- 1 052**	**310 925**	**- 1 121**

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

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

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

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

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

	Carrying value 2007	Fair value 2007	Unrecognized gain/loss 2007	Carrying value 2006	Fair value 2006	Unrecognized gain/loss 2006
Financial assets						
Loans and receivables	241 329	224 381	- 16 948	240 043	225 154	- 14 889
Financial assets held for trading	9 566	9 566	0	9 474	9 474	0
Financial assets designated at fair value through P/L	43 523	43 523	0	32 315	32 315	0
Financial assets – Available for sale	5 364	5 364	0	5 868	5 868	0
Financial assets – Held to maturity	9 499	9 486	- 13	9 104	9 105	1
Financial liabilities						
Financial liabilities held for trading	12 946	12 946	0	9 903	9 903	0
Financial liabilities designated at fair value through P/L	231 449	231 449	0	221 386	221 386	0
Financial liabilities measured at amortised cost	29 065	29 836	- 771	31 666	32 805	- 1 139
Total unrecognized change in unrealised fair value			**- 17 732**			**- 16 027**

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 recorded at fair value

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

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

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

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

	Quoted market price 2006	Valuation techniques – market observable input 2006	Valuation techniques – non market observable input 2006	Total 2006		
				Positive fair value	Negative fair value	Total
Financial assets						
Financial assets held for trading	695	8 155	624	9 474	0	9 474
Financial assets designated at fair value through P/L	0	32 202	113	32 359	- 44	32 315
Financial investments – Available for sale	4 045	20	1 803	5 868	0	5 868
Total	**4 740**	**40 377**	**2 540**	**47 701**	**- 44**	**47 657**
Financial liabilities						
Financial liabilities held for trading	0	8 227	1 676	0	9 903	9 903
Financial liabilities designated at fair value through P/L	201 671	10 508	9 207	- 697	222 083	221 386
Total	**201 671**	**18 735**	**10 883**	**- 697**	**231 986**	**231 289**

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

The potential effect of using reasonable possible alternative non market observable assumptions as input to valuation techniques from which the fair values of financial instruments designated at FVPL are determined has been quantified as a reduction of approximately EUR 32 million using less favourable assumptions and an increase of approximately EUR 75 million using more favourable assumptions for 31 December 2007 and a reduction of approximately EUR 21 million using less favourable assumptions and an increase of approximately EUR 70 million using more favourable assumptions for 31 December 2006.

Financial assets designated at fair value through profit and loss

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

The maximum credit exposure of the loans and advances to customers and to credit institutions designated at fair value through profit and loss amounts to EUR 43 523 million (2006: EUR 32 315 million). The cumulative change in fair value of the loans attributable to change in credit risk of Group's counterparts amounts to a gain of EUR 2.98 million (2006: gain of EUR 0.45 million) and the change for the current year is a gain of EUR 2.53 million (2006: gain of EUR 0.45 million). The changes in fair value of financial assets designated at fair value through profit and loss attributable to changes in credit risk have been calculated by determining the change in the Expected Credit Loss on these loans.

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

Financial liabilities designated at fair value through profit and loss

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

Due to the solid membership support and the Group's prudent financial policies, the Group's credit ratings and the outlooks published by all the reference rating agencies did not change during the last years. In this context, the cumulative changes in fair value of financial liabilities designated at fair value through profit and loss attributable to changes in the Group's credit risk and the change of the current year aren't material in 2006.

Because of the actual "subprime crisis" and the subsequent "flight to quality" of investors on the securitization and bond market, there has been an improvement in the perception of credit risk of the Group with respect to other players in the Capital Markets, that can be seen in the substantial change in the credit spreads of the Group with an important impact on the prices of quoted borrowings. The change in fair value of its quoted financial liabilities designated at fair value through profit and loss attributable to change on credit risk of the Group, which amounted to a value adjustment of EUR 1 024 million as at 31 December 2007 in accordance with IAS 39, has been calculated by determining the result of the changes in the quoted fair value minus the changes in fair value due to market risk based on valuation techniques.

The amount that the Group would contractually be requested to pay at maturity of financial instruments designated at fair value through profit and loss is EUR 5 186 million less than the carrying amount.

Note T – 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.

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

T.1. Risk Management Organisation

T.1.1. Risk Management Organisation of the Bank

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

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

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

The Risk Management Directorate (RM) has, since November 2003, initially been structured around two departments – namely the Credit Risk (CRD) and the ALM, Derivatives, Financial and Operational Risk (FRD) Departments – and a Coordination Division. In 2006, the Bank formalised credit risk policies for own resource operations outside the European Union, expanding CRD's remit. To prepare for post-signature management of riskier transactions resulting from its "take-more-risk" strategy, the Bank created in 2007 the Transaction Management & Restructuring department within RM. In doing so, the Bank will separate the EU-post signature operational activity from that of providing second opinions.

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.

T.1.1.1. Risk measurement and reporting system

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

Information on the risk measures described above are presented and explained to the Management Committee on a quarterly basis and to the Board of Directors twice a year. The reports include aggregate credit exposures, credit concentration analyses, VaR, liquidity ratios and risk profile changes.

T.1.1.2. The Bank's financial risk tolerance

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

As a consequence, the Bank does not view its treasury or funding activities as profit- maximising centres, even though performance objectives are attached to those activities. Investment activities are conducted within the primary objective of protection of the capital invested.

With respect to exposures arising from the Bank's lending and borrowing operations, the main principle of the Bank's financial risk policy is therefore that all material financial risks are hedged.

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

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

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

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

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

T.1.2. Risk Management Organisation of the Fund

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

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

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

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

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

T.1.2.1. Risk assessment venture capital

For its venture capital business, over the last years, the Fund staff has developed a tool-set to design, manage and monitor portfolios 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 funds' valuations and expected performance. This effort, supported by the development of a proprietary IT system and an integrated software (front to back), improves the investment decision-making process and the management of the portfolio's financial risks and of liquidity.

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

T.1.2.2. Risk assessment guarantees

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

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

T.2. Credit risk

T.2.1. Credit risk policies

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

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

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

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

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

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

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

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

	Maximum exposure 2007 (in EUR million)	Maximum exposure 2006 (in EUR million)
Financial assets		
Loans and receivables	241 329	240 043
Financial assets held for trading	9 566	9 474
Financial assets designated at fair value through P/L	43 523	32 315
Financial assets – Available for sale	5 364	5 868
Financial assets – Held to maturity	9 499	9 104
Non financial assets	466	555
Total	**309 747**	**297 359**
Off-balance-sheet		
Contingent liabilities	3 773	3 119
Commitments		
- Undisbursed loans	53 607	53 572
- Undisbursed Venture Capital operations	1 421	1 406
- Other	771	564
Total	**59 572**	**58 661**
Total credit risk exposure	**369 319**	**356 020**

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

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

T.2.3. Credit risk on loans

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

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

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

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

The following factors enter into the determination of an LG:

i) The borrower's creditworthiness: RM/CRD independently reviews borrowers and assesses their creditworthiness based on internal methodologies and external data.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Falling into this category, the total amount of loans signed as at 31 December 2007 amounts to EUR 23 809 million

(1) Under the new Guarantee Agreement with the Commission signed on 1 and 29 August 2007, all Community guaranteed operations signed on and after 17 April 2007 shall be covered up to 65 % of "the aggregate amount of credits disbursed". As of 31 December 2007, the disbursed exposure under the new Guarantee Agreement amounted to Eur 93.38 million. The residual risk borne by the Group in connection with operations shall be assessed and monitored by the Group yearly, on a portfolio basis, starting 2008. In addition, underwriting and monitoring of such operations are based on the fundamental credit rules and procedures.

(2006: EUR 23 374 million) including an undisbursed amount of EUR 9 180 million (2006: EUR 9 473 million).

T.2.3.3. Analysis of lending credit risk exposure

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

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

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

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

2006 (in EUR million)		Guarantor				Total disbursed	Signed not disbursed
		Corporate	Bank	Public	State		
Borrower	Corporate	32 382	25 664	4 084	14 709	76 839	18 119
	Bank	15 123	38 991	42 194	11 342	107 650	9 216
	Public	4 318	1 316	21 390	15 291	42 315	11 776
	State	0	0	0	16 911	16 911	4 989
Total disbursed		**51 823**	**65 971**	**67 668**	**58 253**	**243 715**	**44 100**
Signed not disbursed		**10 175**	**9 614**	**12 719**	**11 592**	**44 100**	

T.2.3.3.1. Credit quality on loans

The overall credit quality of risk portfolio continues to present an excellent profile, with loans internally graded A to C representing 97.2 % of the loan portfolios as at 31 December 2007, compared with 96.8 % at end-2006. The share of loans internally graded D+, the lowest acceptable internal grading for standard loan operations, was 1.8 % (2006: 2.7 %) of the loan portfolio, corresponding to EUR 5.3 billion (2006: EUR 7.8 billion).

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

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

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

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 2006 and 31 December 2007 by the Loan Grading application, based on the exposures signed (disbursed and undisbursed).

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

2006 (in EUR million)		Sovereign (*)	High Grade	Standard Grade	Min. Accept. Risk	High Risk	Past Due / Impaired (**)	Total
		A0, P	A to B-	C	D+	D- and below (*)		
Borrower	Corporate	16 187	53 112	17 319	7 139	965	236	94 958
	Bank	9 442	99 326	7 809	155	133	0	116 865
	Public	17 129	35 432	1 269	261	0	0	54 091
	State	21 208	0	493	200	0	0	21 901
TOTAL		**63 966**	**187 870**	**26 890**	**7 755**	**1 098**	**236**	**287 815**

(*) Including loans guaranteed by EU Member States as well as loans under the Pre-Accession Facility

(**) As at 31 December 2006 and 31 December 2007, the Group holds no past due loans. Furthermore, during the 2006 and 2007 years, the Group did not take possession of collateral it hold as security on past due loans.

During the 2006 and 2007 years, there were no defaults or breaches on existing loans payable and the Group does not maintain any restructured loans in its risk portfolio.

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

Credit risk exposure for each internal risk rating

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

	Rating Grade	Moody's equiv. grade	1-y history Def. rate	2007 (in EUR million)		2006 (in EUR million)	
				Exposures Signed	Weighted Exposures (1)	Exposures Signed	Weighted Exposures (1)
No rating available	n/a	n/a	0%	0	0	2 838	1 072
Internal Rating 1	1	Aaa	0%	27 812	2 405	30 573	2 491
Internal Rating 2	2+	Aa1	0%	30 677	3 100	23 229	4 913
	2	Aa2	0%	33 930	14 415	36 070	11 033
	2-	Aa3	0%	30 273	12 070	32 651	13 720
Internal Rating 3	3+	A1	0%	36 459	14 476	34 945	12 502
	3	A2	0%	32 497	11 650	34 750	13 781
	3-	A3	0%	28 876	16 218	12 913	9 128
Internal Rating 4	4+	Baa1	0%	30 513	16 136	38 343	15 805
	4	Baa2	0%	5 681	2 561	3 130	1 657
	4-	Baa3	0%	31 711	15 856	28 912	12 270
Internal Rating 5	5+	Ba1	0%	1 405	823	1 715	1 604
	5	Ba2	0%	1 568	1 114	962	480
	5-	Ba3	0%	1 411	736	968	436
Internal Rating 6	6+	B1	0%	4 940	1 921	5 638	2 046
	6	B2	0%	93	74	74	25
	6-	B3	0%	623	312	0	0
Internal Rating 7	7	C	0%	88	14	104	16
TOTAL				**298 557**	**113 881**	**287 815**	**102 979**

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

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

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

	2007 (in EUR million)		2006 (in EUR million)	
	Exposures Signed	Weighted Exposures (1)	Exposures Signed	Weighted Exposures (1)
EU (*)	291 519	110 866	282 530	100 410
Thereof :				
- Germany	46 523	12 268	47 103	11 721
- Spain	47 188	12 408	44 998	11 498
- Italy	40 061	19 392	38 945	17 242
- France	33 632	14 956	33 055	14 137
- United Kingdom	25 550	17 946	26 246	17 242
ENLARGEMENT COUNTRIES (**)	4 207	1 753	2 813	1 267
PARTNER COUNTRIES (***)	2 831	1 262	2 472	1 302
TOTAL	**298 557**	**113 881**	**287 815**	**102 979**

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

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

(**) Enlargement Countries as per end 2006 include Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYROM, Romania, Serbia and Montenegro, and Turkey.

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

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

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

	2007 (in EUR million)		2006 (in EUR million)	
	Exposures Signed	Weighted Exposures [1]	Exposures Signed	Weighted Exposures [1]
Energy	24 240	17 771	21 897	15 360
Transport	32 806	10 158	33 634	9 902
Telecommunications	662	355	562	216
Water and sewerage	10 011	5 795	9 835	6 227
Miscellaneous Infrastructure	2 465	902	2 237	882
Agriculture, forestry and fisheries	45	23	90	45
Industry	13 759	11 119	13 375	8 961
Services	210 513	66 327	202 553	59 974
Health and education	4 056	1 431	3 632	1 412
TOTAL	**298 557**	**113 881**	**287 815**	**102 979**

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

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 2006 and 31 December 2007:

End-of-Period		2007	2006
Largest Nominal and Risk-Weighted Group Exposures (*)			
Nominal Exposures (% of EIB Loan Portfolio)			
	- Top 3	8.2%	8.5%
	- Top 5	11.7%	12.1%
	- Top 10	18.8%	19.4%
Number of Exposures (% of EIB Own Funds)			
	- over 10%	13	13
	- over 15%	6	6
	- over 20%	2	3
Number of SSSR Exposures over 5% of EIB Own Funds (**)			
		2	3
Sum of all Large Risk-Weighted Exposures (% of EIB Own Funds) (***)			
		85%	86%

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

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

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

T.2.3.4. Collaterals on loans

Among other credit mitigant instruments, the Group also uses pledges of financial securities. These pledges are formalized through a Pledge Agreement, enforceable in the relevant jurisdiction. The Group does not have right to sell or repledge them. The portfolio of collaterals received in pledge contracts amounts to EUR 11 123 million (2006: EUR 8 940 million).

The fair value of the portfolio of collateral received by the Group under pledge contracts that the Group is allowed to sell or repledge amounts to EUR 3 446 million (2006: EUR 2 629 million). None of these collaterals has been sold or re-pledged to third parties.

T.2.4. Credit risk on treasury transactions

T.2.4.1. Credit risk measurement on treasury transactions

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

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

The tables below provide an illustration of the credit exposure of the Group various treasury portfolios as at 31 December 2007 and 31 December 2006:

Credit Risk Exposures as at 31 December 2007 (in EUR million) (based on book values)

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

Credit Risk Exposures as at 31 December 2006 (in EUR million) (based on book values)						
	Short term external rating	Long term external rating				Total
	A-1+/P-1	< A or NR	A	AA	Aaa	
A1 Portfolio max Maturity 3 months						
Deposits	0	46	3 048	5 770	163	9 027
Triparty Reverse Repos	0	0	1 181	4 390	0	5 571
Discount papers, Bonds	2 848	0	116	473	37	3 474
A2 Portfolio max Maturity 18 months	0	0	135	1 245	1 306	2 686
Total Monetary Treasury Assets	**2 848**	**46**	**4 480**	**11 878**	**1 506**	**20 758**
Repartition	14 %	0 %	22 %	57 %	7 %	100 %
B1 Portfolio	0	0	0	267	1 038	1 305
B2 Portfolio	0	0	0	102	53	155
B3 Portfolio	0	0	69	193	430	692
BH Portfolio (futures)	0	0	0	3	0	3
EIF - AFS	0	0	2	0	49	51
Total Operational Bond Portfolios	**0**	**0**	**71**	**565**	**1 570**	**2 206**
Repartition	0 %	0 %	3 %	26 %	71 %	100 %
Investment Portfolio	**0**	**124**	**333**	**885**	**1 554**	**2 896**
Repartition	0 %	4 %	11 %	31 %	54 %	100 %
Assets backed securities	**0**	**0**	**0**	**67**	**2 667**	**2 734**
Repartition	0 %	0 %	0 %	2 %	98 %	100 %
Total Treasury Funds	**2 848**	**170**	**4 884**	**13 395**	**7 297**	**28 594**
Repartition	10 %	1 %	17 %	47 %	25 %	100 %

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

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

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

T.2.4.2. Collateral on treasury transactions

Part of treasury transactions are tripartite reverse repurchase agreements, for an amount of EUR 4 612 million (2006: EUR 5 571 million). These transactions are governed by a Tripartite Agreement Guidelines and are implemented depending on the acceptability of collateral and valuations parameters. The exposure is fully collateralized, with daily margin calls. The market value of the collateral portfolio is monitored and additional collateral is requested when needed in accordance with the underlying agreement.

The Bank also makes use of master netting agreements with counterparties.

As part of the Tripartite Agreements, the Group has received securities that it is allowed to sell or re-pledge. The fair value of the securities accepted under theses terms as at December 31, 2007 amounts to EUR 4 611 million (2006: EUR 5 886 million). None of these securities has been sold or re-pledged to third parties in 2006 and 2007. During the 2006 and 2007 years, the Group did not take possession of any of the above mentioned collaterals.

T.2.4.3. Securities lending activity

The market value of the bonds lent in the securities lending activities is at the end of 2007 of EUR 965 million (2006: EUR 936 million). These transactions are governed by an agreement signed with Northern Trust and the exposure arising from these transactions is fully collateralised, with daily margin calls.

As part of the securities lending agreement, the Group receives securities, it is allowed to sell or repledge. The fair value of the collateral portfolio at 31 December 2007, accepted under these terms, amounts to EUR 992 million (2006: EUR 964 million). None of these securities has been sold or re-pledged to third parties in 2006 and 2007.

T.2.5. Credit risk on derivatives

T.2.5.1. Credit risk policies for derivatives

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

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

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

Contractual framework:

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

Counterparty selection:

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

Limits have been set in terms of:

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

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

Monitoring:

The derivatives portfolio is regularly valued and compared against limits.

Collateralisation:

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

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

The main types of collateral obtained are cash or securities.

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

T.2.5.2. Credit risk measurement for derivatives

The credit risk associated with derivatives varies according to a number of factors (such as interest and exchange rates) and generally corresponds to only a small portion of their notional amount.

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

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

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

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

End of period	2007 (EUR million)	2006 (EUR million)
Nominal Value of outstanding Derivatives	331 207	309 488
Total BIS I Credit Risk Equivalent (after netting)	5 101	5 002
Weighted BIS I Credit Risk Equivalent (after netting)	1 007	985
Gross Exposure (after netting)	2 012	2 206
Total Net Market Exposure (1)	670	606

(1) Positive exposure net of collaterals received.

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

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

The major part of derivatives transactions are concluded with counterparties rated at least A1. With exceptional conditions of over-collateralisation, counterparties rated A2 or A3 have been also accepted. Consequently, most of the portfolio is concentrated on counterparties rated A1 or above.

Grouped Ratings	Percentage of Nominal		Net Market Exposure (in EUR million)		CRE BIS I Swaps (in EUR million)	
Moody's or equivalent rating	2007	2006	2007	2006	2007	2006
Aaa	3.3%	5.5%	0	0	64	186
Aa1 to Aa3	86.1%	74.2%	649	563	4 366	3 843
A1	8.7%	16.0%	19	41	504	601
A2 to A3	1.9%	4.3%	2	2	165	370
Non-rated	0.0%	0.0%	0	0	2	2
Total	**100.0%**	**100.0%**	**670**	**606**	**5 101**	**5 002**

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

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

Currency swaps at 31.12.2006 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2006
Notional amount	8 888	23 471	15 784	11 148	59 291
Net discounted value	-1 215	-908	-447	-6	-2 576
Credit risk (BIS I weighted)	49	250	256	289	844

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

Interest rate swaps at 31.12.2006 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2006
Notional amount	37 278	84 434	61 385	60 691	243 788
Net discounted value	178	156	-1 175	2 148	1 307
Credit risk (BIS I weighted)	70	334	327	1 085	1 816

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

As at 31 December 2007, notional amounts of EUR 419 million (2006: EUR 561 million) of futures contracts and EUR nil of Forward Rate Agreements (2006: EUR 823 million), with respective fair values of EUR 2.9 million (2006: EUR 2.6 million) and EUR nil (2006: EUR 0.2 million) and a maturity less than 1 year are outstanding.

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

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

All option contracts embedded in, or linked with, borrowings are negotiated over the counter. From the portfolio of structured deals with embedded options, 222 swaps amounting to EUR 3 318 million of notional are Power Reverse Dual Currency. Their 'fair value' is EUR -219 million. These transactions are very dependent on the exchange rate USD/JPY and have embedded options allowing for an early termination. An appreciation of 5 % of the USD with respect to JPY will imply a 'fair value' of EUR -187 million, that is, an increase of EUR 32 million. At the same time it increases the probability of their early termination by the counterparty. The rest of structured deals include a variety transactions dependent on interest rates, FX rates, inflation rates, stock indexes and IR volatilities.

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

T.2.5.3. Collateral received for derivative transactions

As part of the ISDA and AFB agreements, the Group has received securities and cash that it is allowed to sell or repledge. The fair value of the securities accepted under theses terms as at 31 December 2007 amounts to EUR 1 550 million (2006: EUR 2 002 million) of which none has been sold or re-pledged to third parties.

During the 2006 and 2007 years, the Group did not take possession of any of these collaterals.

The collateral received for derivatives business amounts to EUR 1 550 million (2006: EUR 2 002 million, with the following composition:

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

Swap Collateral (in EUR million)						
Moody's or equivalent rating	Bonds				Cash	Total 2006
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	1 095	28	0	5	0	1 128
Aa1 to Aa3	21	0	0	0	0	21
A1	590	0	0	0	0	590
Below A1	50	0	0	0	0	50
Non-Rated	0	0	0	0	213	213
Total 2006	**1 756**	**28**	**0**	**5**	**213**	**2 002**

T.3. Liquidity risk

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

T.3.1. Liquidity risk management

Liquidity risk management of the Bank

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

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

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

Liquidity risk management of the Fund

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

T.3.2. Liquidity risk measurement (in EUR million)

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

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

Maturity (at 31 December 2007)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Fair value adjustment	Total 2007
ASSETS							
Cash in hand, balances with central banks and post office banks	27	0	0	0	0	0	27
Treasury bills eligible for refinancing with central banks	65	180	1 060	968	0	0	2 273
Other loans and advances:							
- Current accounts	286	0	0	0	0	0	286
- Others	15 793	24	0	0	0	0	15 817
	16 079	24	0	0	0	0	16 103
Loans and advances to:							
- Credit institutions	1 686	6 246	41 948	61 335	0	1 109	112 324
- Customers	1 949	7 358	43 376	102 498	0	1 217	156 398
	3 635	13 604	85 324	163 833	0	2 326	268 722
Debt securities including fixed-income securities	2 400	1 160	3 733	3 723	0	0	11 016
Positive replacement values	0	0	0	0	0	9 061	9 061
Other assets	0	0	0	0	3 606	0	3 606
Total assets	**22 206**	**14 968**	**90 117**	**168 524**	**3 606**	**11 387**	**310 808**
LIABILITIES							
Amounts owed to credit institutions	339	2	1	0	0	0	342
Debts evidenced by certificates	13 796	30 034	87 234	123 157	0	5 951	260 172
Negative replacement values	0	0	0	0	0	12 946	12 946
Capital, reserves and profit	0	0	0	0	34 572	0	34 572
Other liabilities	0	0	0	0	2 776	0	2 776
Total liabilities	**14 135**	**30 036**	**87 235**	**123 157**	**37 348**	**18 897**	**310 808**
Contingent liabilities	0	0	0	0	3 773	0	3 773
Commitments	0	0	0	0	55 799	0	55 799
Total Off Balance Sheet	**0**	**0**	**0**	**0**	**59 572**	**0**	**59 572**

Maturity (at 31 December 2006)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Fair value adjustment	Total 2006
ASSETS							
Cash in hand, balances with central banks and post office banks	15	0	0	0	0	0	15
Treasury bills eligible for refinancing with central banks	119	169	1 253	1 161	0	0	2 702
Other loans and advances:							
- Current accounts	210	0	0	0	0	0	210
- Others	14 570	28	0	0	0	0	14 598
	14 780	28	0	0	0	0	14 808
Loans and advances to:							
- Credit institutions	2 226	6 051	41 002	65 303	0	1 265	115 847
- Customers	1 459	7 046	39 935	91 411	0	1 837	141 688
	3 685	13 097	80 937	156 714	0	3 102	257 535
Debt securities including fixed-income securities	4 157	1 543	3 138	2 447	0	6	11 291
Positive replacement values	0	0	0	0	0	8 782	8 782
Other assets	0	0	0	0	3 670	0	3 670
Total assets	**22 756**	**14 837**	**85 328**	**160 322**	**3 670**	**11 890**	**298 803**
LIABILITIES							
Amounts owed to credit institutions	213	3	3	0	0	0	219
Debts evidenced by certificates	20 123	21 579	97 551	107 323	0	6 257	252 833
Negative replacement values	0	0	0	0	0	9 903	9 903
Capital, reserves and profit	0	0	0	0	33 208	0	33 208
Other liabilities	0	0	0	0	2 640	0	2 640
Total liabilities	**20 336**	**21 582**	**97 554**	**107 323**	**35 848**	**16 160**	**298 803**
Contingent liabilities	0	0	0	0	3 119	0	3 119
Commitments	0	0	0	0	55 542	0	55 542
Total Off Balance Sheet	**0**	**0**	**0**	**0**	**58 661**	**0**	**58 661**

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

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

If all calls were to be exercised at their next contractual exercise date, cumulated early redemptions for the period 2009 - 2010 would amount to EUR 18.3 billion.

T.4. Market risk

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

T.4.1. Market risk management

Market risk for the Bank :

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

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

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

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

Market risk for the Fund:

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

T.4.2. Interest rate risk

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

Interest rate risk management for the Bank:

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

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

T.4.2.1. Interest rate risk for the Bank's trading portfolios (excluding financial assets and financial liabilities designated at fair value through profit and loss)

The trading portfolio managed by the Treasury department is made up of the B3 and the BH portfolios. The B3 portfolio consists of EU sovereign securities with maturities up to 10Y and aims at tracking the iBOXX EUR 1-3 YEAR Eurozone Sovereign Index. The BH portfolio also called 'Bond Hedge Portfolio', which contains all the derivatives transactions, is used to hedge/fine-tune the interest rate exposure resulting from the treasury asset allocation decisions.

The IR risk taken in the trading portfolio B3 and the hedging portfolio BH is quantified using the Value-at-Risk (VaR) methodology. The VaR measure estimates the loss that the portfolio is expected not to exceed over a given time horizon with a defined level of confidence. The Bank measures the VaR of the B3 and BH portfolios using a 99 % confidence level and a one-day time horizon. The VaR 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 in the B3 and BH portfolios (i.e. bonds and hedging futures), the Bank deems this assumption appropriate to measure its exposure to interest rate risk. Volatility and correlation data are supplied by an external data provider (Datametrics) and are based on historical market data, which could lead to under (over) estimate the VaR whenever market volatility increases (decreases). As of December 31, 2007, the interest rate VaR of the B3 and BH portfolios stood at EUR 0.22 million (2006: EUR 0.19 million).

T.4.2.2. Interest rate risk for the Own funds of the Group (Economic perspective)

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

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

In order to measure and manage its interest rate risk position, the Bank uses NPV sensitivity indicators, which quantify the impact on all cash flows resulting from shifts in interest rates. The sensitivity figures are presented per currency and for tenors ranging within specified "time buckets".

The following table displays, for the main currencies, the sensitivity of all the positions of the Group except the trading portfolio B3 and the related hedging portfolio BH as at 31 December 2007 and 31 December 2006:

At 31/12/2007		Sensitivity of the economic value of own funds (EUR million)						
Currency	Increase in bp	[0-1y]	[2-3y]	[4-6y]	[7-11y]	[12-20y]	[+20y]	Total
EUR	+ 100	- 57	- 200	- 418	- 604	- 335	2	- 1 612
GBP	+ 75	2	- 5	11	- 8	1	- 8	- 7
USD	+ 50	0	- 2	- 2	- 12	- 2	- 9	- 27

At 31/12/2007		Sensitivity of the economic value of own funds (EUR million)						
Currency	Decrease in bp	[0-1y]	[2-3y]	[4-6y]	[7-11y]	[12-20y]	[+20y]	Total
EUR	- 100	57	204	436	657	388	- 3	1 739
GBP	- 75	- 2	5	- 12	9	- 1	10	9
USD	- 50	0	2	2	12	2	10	28

At 31/12/2006		Sensitivity of the economic value of own funds (EUR million)						
Currency	Increase in bp	[0-1y]	[2-3y]	[4-6y]	[7-11y]	[12-20y]	[+20y]	Total
EUR	+ 100	- 49	- 193	- 403	- 576	- 349	12	- 1 558
GBP	+ 75	- 2	10	- 4	3	- 5	- 5	- 3
USD	+ 50	1	0	- 2	- 6	6	0	- 1

At 31/12/2006		Sensitivity of the economic value of own funds (EUR million)						
Currency	Decrease in bp	[0-1y]	[2-3y]	[4-6y]	[7-11y]	[12-20y]	[+20y]	Total
EUR	- 100	49	194	403	577	349	- 12	1 560
GBP	- 75	2	- 10	4	- 3	5	5	3
USD	- 50	- 1	0	2	6	- 6	0	1

The 2006 figures in above table are derived from sensitivity figures computed on a "+1 basis point" shift scenario. The 2007 figures, computed on a new risk system, are based on curves incorporating the full magnitude of the shifts, allowing a better representation of the interest rate sensitivity of own funds.

The Risk Management department quantifies the VaR of own funds (for all positions including the B3 and BH portfolios and based on both IR and FX factors) and reports it to the Management Committee for information.

The Bank measures the VaR of the Group's positions using a 99% confidence level and a one-day time horizon. The VaR 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 use of historical data could lead to under (over) estimate the VaR whenever market volatility increases (decreases). More generally, VaR does not purport to measure the worst loss that could be experienced. For this reason, the VaR is complemented by regular stress testing. As at 31 December 2007, the VaR of the Group amounted to EUR 124 million (2006: EUR 86 million).

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

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

Below is a summary of the features of the Bank's callable portfolio as of 31 December 2006 and 31 December 2007, 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):

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

31/12/2006	Pay Currency							
	CZK	EUR	GBP	JPY	PLN	SKK	USD	Total
EUR Pay Notional (EUR million)	- 313	- 6 799	- 30	- 41	- 20	- 34	- 8 787	- 16 024
Average maturity date	23/10/2015	30/10/2017	23/09/2035	22/01/2032	05/05/2026	29/08/2023	01/08/2023	14/01/2021
Average expected maturity	17/11/2010	14/04/2016	01/03/2011	11/04/2023	19/12/2018	25/08/2016	10/02/2014	01/01/2015

By risk factor involved:

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

31/12/2006	Risk factor			Total
	FX level	IR curve level	IR curve shape	
EUR Pay Notional (EUR million)	- 4 122	- 9 263	- 2 639	- 16 024
Average maturity date	07/07/2031	03/03/2016	02/10/2021	14/01/2021
Average expected maturity	02/06/2017	02/05/2012	01/08/2020	01/01/2015

T.4.2.3. Interest rate risk management for the Group (Earnings perspective)

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

With the positions in place as of 31 December 2007, the Earnings would increase by EUR 11.2 million (2006: 11.1 million) if interest rate increase by 100 basis points and decrease by EUR 11.6 million (2006: 9.9 million) if interest rates decrease by 100 basis points.

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

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

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

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

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

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

T.4.3.1. Exchange position

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

Currency (at 31 December 2006)	EURO	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euros	Total 2006
ASSETS						
Cash in hand, balances with central banks and post office banks	1	14	0	0	14	15
Treasury bills eligible for refinancing with central banks	2 702	0	0	0	0	2 702
Other loans and advances:						
- Current accounts	170	5	16	19	40	210
- Others	8 126	196	4 772	1 504	6 472	14 598
	8 296	201	4 788	1 523	6 512	14 808
Loans and advances to:						
- Credit institutions	62 318	21 997	29 438	2 094	53 529	115 847
- Customers	104 993	17 371	11 778	7 546	36 695	141 688
	167 311	39 368	41 216	9 640	90 224	257 535
Debt securities including fixed-income securities	7 313	1 876	2 053	49	3 978	11 291
Positive replacement values	8 782	0	0	0	0	8 782
Other assets	3 108	300	197	65	562	3 670
Total assets	**197 513**	**41 759**	**48 254**	**11 277**	**101 290**	**298 803**
LIABILITIES						
Amounts owed to credit institutions	215	0	4	0	4	219
Debts evidenced by certificates:						
- Debt securities in issue	104 117	58 985	61 200	27 441	147 626	251 743
- Others	305	599	0	186	785	1 090
	104 422	59 584	61 200	27 627	148 411	252 833
Negative replacement values	57 373	- 17 916	- 13 048	- 16 506	- 47 470	9 903
Capital, reserves and profit	33 208	0	0	0	0	33 208
Other liabilities	2 299	88	98	155	341	2 640
Total liabilities	**197 517**	**41 756**	**48 254**	**11 276**	**101 286**	**298 803**
Net position as at 31.12.2006	**- 4**	**3**	**0**	**1**	**4**	

T.4.3.2. Foreign exchange risk management

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

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

The following tables report the effect of a possible movement of FX rate (against the euro) on the net present value of the Group positions denominated in GBP and USD (for EIF the analysis was limited to the treasury portfolios) as at 31 December 2007 and 31 December 2006:

Currency	Change in FX rate	Effect on the economic value of own funds (EUR million) 2007
USD	+ 15 %	+ 68
GBP	+ 5 %	+ 13

Currency	Change in FX rate	Effect on the economic value of own funds (EUR million) 2006
USD	+ 15 %	+ 15
GBP	+ 5 %	- 10

T.4.4. Equity price risk

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

Equity price risk management for the Bank

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

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

The effect on Own Funds for the Group (as a result of a change in the fair value of equity investments at 31 December 2006 and 31 December 2007) due to a reasonable possible change in equity indices, with all other variables held constant is as follows:

(in EUR '000)	Change in equity price 2007 %	Effect on Own Funds 2007 in EUR '000	Change in equity price 2006 %	Effect on Own Funds 2006 in EUR '000
Venture Capital Operations	+ 10	126 310 (3)	+ 10	102 759
EBRD shares	+ 10	37 205	+ 10	29 854
Eurotunnel	+65 (2)	31 819	n/a (1)	n/a (1)
Infrastructure Funds	+ 10	5 617	+ 10	2 345

(1) As of 31 December 2006, the Group held a total number of 58 971 193 Eurotunnel shares, for a value of EUR 21 955 023. As market prices were not available since April 28, 2006 and the shares were subject to a restructuring process, a reasonably possible change in the relevant risk variable could not be reliably estimated.

(2) 65 percent corresponds to one annualised standard deviation of the daily returns of the Eurotunnel Shares on the quoted market. One annualised standard deviation has been applied to calculate the sensitivity of all the Eurotunnel positions (shares, Warrants and ORAs) held by the Bank as of 31 December 2007.

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

T.5. Operational risk

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

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

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

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

(in EUR million)

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

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

31 December 2006	Note	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Non financial assets/ liabilities	Total carrying amount
Cash in hand, balances with central banks and post office banks		0	0	0	15	0	0	0	15
Debt securities portfolio	B	692	0	9 104	0	4 197	0	0	13 993
Loans and advances to credit institutions and to customers	C/D	0	32 315	0	240 028	0	0	0	272 343
Shares and other variable-yield securities	E	0	0	0	0	1 671	0	0	1 671
Intangible assets	F	0	0	0	0	0	0	5	5
Property, furniture and equipment	F	0	0	0	0	0	0	220	220
Other assets	H/S	8 782	0	0	0	0	0	249	9 031
Prepayments and accrued income		0	0	0	0	0	0	81	81
		9 474	**32 315**	**9 104**	**240 043**	**5 868**	**0**	**555**	**297 359**
Amounts owed to credit institutions	I	0	0	0	0	0	219	0	219
Debts evidenced by certificates	J	0	221 386	0	0	0	31 447	0	252 833
Other liabilities	H/S	9 903	0	0	0	0	0	1 352	11 255
Accruals and deferred income	G	0	0	0	0	0	0	344	344
Provisions	K	0	0	0	0	0	0	945	945
		9 903	**221 386**	**0**	**0**	**0**	**31 666**	**2 641**	**265 596**

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

31 December 2006	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Non financial assets/ liabilities	Total Fair value
Cash in hand, balances with central banks and post office banks	0	0	0	15	0	0	0	15
Debt securities portfolio	692	0	9 105	0	4 197	0	0	13 994
Loans and advances to credit institutions and to customers	0	32 315	0	225 139	0	0	0	257 454
Shares and other variable-yield securities	0	0	0	0	1 671	0	0	1 671
Intangible assets	0	0	0	0	0	0	5	5
Property, furniture and equipment	0	0	0	0	0	0	220	220
Other assets	8 782	0	0	0	0	0	249	9 031
Prepayments and accrued income	0	0	0	0	0	0	81	81
	9 474	**32 315**	**9 105**	**225 154**	**5 868**	**0**	**555**	**282 471**
Amounts owed to credit institutions	0	0	0	0	0	219	0	219
Debts evidenced by certificates	0	221 386	0	0	0	32 586	0	253 972
Other liabilities	9 903	0	0	0	0	0	1 352	11 255
Accruals and deferred income	0	0	0	0	0	0	344	344
Provisions	0	0	0	0	0	0	945	945
	9 903	**221 386**	**0**	**0**	**0**	**32 805**	**2 641**	**266 735**

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

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

31 December 2006	Trading	Designated at fair value through P/L	Held-to-maturity	Loans and receivables	Available-for-sale	Other financial liabilities	Non financial assets/ liabilities	Total maximum Exposure
Cash in hand, balances with central banks and post office banks	0	0	0	15	0	0	0	15
Debt securities portfolio	692	0	9 104	0	4 197	0	0	13 993
Loans and advances to credit institutions and to customers	0	34 757	0	291 158	0	0	0	325 915
Shares and other variable-yield securities	0	0	0	0	1 671	0	0	1 671
Intangible assets	0	0	0	0	0	0	5	5
Property, furniture and equipment	0	0	0	0	0	0	220	220
Other assets	8 782	0	0	0	0	0	249	9 031
Prepayments and accrued income	0	0	0	0	0	0	81	81
	9 474	**34 757**	**9 104**	**291 173**	**5 868**	**0**	**555**	**350 931**

Note V – Segment reporting

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

Consequently, the determining factors for segment reporting are:

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

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

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

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

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

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

The assets pledged by the Group are strictly for the purpose of providing collateral for the counterparty and amount as at December 31, 2007 to EUR 1.61 million (2006: EUR 1.89 million) in relation to its activities on Futures (classified as Held to Maturity) and to EUR 965 million (2006: EUR 851 million) in relation to its Securities Lending activities (classified as Held to maturity, AFS, and trading). The pledged assets will be returned to the Group when the underlying transaction is terminated but, in the event of the Group's default, the counterparty is entitled to apply the collateral in order to settle the liability.

As at December 31, 2007 and 2006, commitments, contingent liabilities and other memorandum items were as follows (in nominal amounts and in EUR '000):

		31.12.2007		31.12.2006
Commitments:				
EBRD capital (Note E)				
- uncalled		442 500		442 500
Undisbursed loans (Note D)				
- credit institutions	12 341 869		11 247 729	
- customers	41 264 752		42 324 173	
		53 606 621		**53 571 902**
Undisbursed venture capital operations (Note E)		1 420 516		1 406 469
Undisbursed infrastructure funds (Note E)		233 620		121 283
Undisbursed investment funds (Note E)		95 000		0
Guarantees:				
In respect of loans granted by third parties		3 757 557		3 099 816
In respect of venture capital operations		15 463		19 056
Fiduciary operations (Note A.4.19)		7 700 241		7 671 940
Assets held on behalf of third parties (Note A.4.20)				
CIP/SMEG 2007	35 255		0	
CIP/GIF 2007	36 448		0	
SME Guarantee Facility	71 886		80 051	
European Technology Facility	28 510		79 689	
Map Equity	91 773		121 348	
Guarantee Fund treasury management	1 152 974		1 379 698	
Investment Facility – Cotonou	1 077 418		710 544	
Map guarantee	118 671		115 906	
Seed Capital Action	185		185	
Preparatory Action	17		2 035	
Special Section	1 785 151		1 982 216	
RSFF	132 154		0	
EU-Africa	41 549		0	
HIPC	43 221		0	
FEMIP	32 911		29 841	
Bundesministerium für Wirtschaft und Technologie	19		7	
		4 648 142		**4 501 520**
Special deposits for service of borrowings (*)		129 428		193 872
Securities portfolio				
Securities receivable		0		146 285
Interest-rate swap and deferred rate-setting contracts (Note R & T)		249 510 574		243 788 117
Currency swap contracts payable (Note R & T)		80 992 893		67 706 110
Currency swap contracts receivable (Note R & T)		75 549 044		64 658 046
Put option granted to EIF minority shareholders (Note A.4.21)		319 045		237 141
Borrowings arranged but not yet signed		401 574		313 396
Swaps arranged but not yet signed		94		0
Securities lent (Note B)		936 629		927 972
Future contracts (Note R & T)		419 307		561 346
Forward rate agreements (Note R & T)		0		822 861
FX Forwards (Note R & T)		245 330		234 647
Overnight indexed swaps (Note R & T)		6 000 000		0
Credit default swaps		97 843		15 751

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

Note X – Capital and Reserves

X.1. Share capital and share premium

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

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

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

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

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

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

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

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

In EUR ´000	31.12.2007	31.12.2006
Subscribed capital called but not paid (nominal value)	306 514	426 679
Net present value adjustment	- 11 648	- 17 090
Subscribed capital called but not paid (carrying value)	**294 866**	**409 589**
Receivable reserve called but not paid (nominal value)	798 295	1 078 300
Net present value adjustment	- 31 658	- 43 189
Receivable reserve called but not paid (carrying value)	**766 637**	**1 035 111**
	1 061 503	**1 444 700**

X.3. Capital management

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

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

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

The resulting estimate of the Basel II ratio at end-2007 is 37 % to be compared with the minimum 8 % ratio.

Note Y – Conversion rates

The following conversion rates were used for establishing the balance sheets at 31 December 2007 and 31 December 2006:

	31.12.2007	31.12.2006
NON-EURO CURRENCIES OF EU MEMBER STATES		
Pound sterling	0.733350	0.6715
Danish kroner	7.4583	7.4560
Swedish kronor	9.4415	9.0404
Cyprus pound	0.585274	0.57820
Czech koruna	26.628	27.485
Estonian kroon	15.6466	15.6466
Hungarian forint	253.73	251.77
Lithuanian litas	3.4528	3.4528
Latvian lats	0.6964	0.6972
Maltese lira	0.4293	0.4293
Polish zloty	3.5935	3.8310
Slovak koruna	33.583	34.435
NON-COMMUNITY CURRENCIES		
United States dollars	1.4721	1.3170
Swiss francs	1.6547	1.6069
Japanese yen	164.93	156.93
Canadian dollars	1.4449	1.5281
Australian dollars	1.6757	1.6691
Hong Kong dollars	11.4800	10.2409
New Zealand dollars	1.9024	1.8725
Iceland krona	91.90	93.13
Moroccan dirham	11.3203	11.1256
Mauritania ouguiya	364.72	351.51
Norvegian krone	7.9580	8.2380
South African rand	10.0298	9.2124

Note Z – Post-Balance Sheet Events

On a proposal from the Management Committee, the Board of Directors reviewed these consolidated Financial Statements on 11 March 2008 and decided to submit them to the Governors for approval at their meeting to be held on 3 June 2008.

STATEMENT OF SPECIAL SECTION [(1)]

as at 31 December 2007 (in EUR '000)

ASSETS	31.12.2007	31.12.2006
Turkey		
From resources of Member States		
Disbursed loans outstanding [(2)]	14 631	17 657
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	150 859	161 441
Risk capital operations		
- amounts to be disbursed	170 085	151 609
- amounts disbursed	218 050	210 891
	388 135	362 500
Total [(3)]	**538 994**	**523 941**
African, Caribbean and Pacific State and Overseas Countries and Territories		
From resources of the European Community		
Yaoundé Conventions		
Loans disbursed	17 626	18 700
Contributions to the formation of risk capital		
- amounts disbursed	419	419
Total [(4)]	**18 045**	**19 119**
Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	144 405	260 064
- amounts disbursed	1 056 938	1 147 689
	1 201 343	1 407 753
Operations from other resources		
-amounts to be disbursed	7 274	9 838
-amounts disbursed	4 864	3 908
	12 138	13 746
Total [(5)]	**1 213 481**	**1 421 499**
TOTAL	**1 785 151**	**1 982 216**

LIABILITIES	31.12.2007	31.12.2006
Funds under trust management		
Under mandate from the European Communities		
- Financial Protocols with the Mediterranean Countries	368 909	372 332
- Yaoundé Conventions	18 045	19 119
- Lomé Conventions	1 056 938	1 147 689
- Other resources under the Lomé Conventions	4 864	3 908
	1 448 756	1 543 048
Under mandate from Member States	14 631	17 657
Total	**1 463 387**	**1 560 705**
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	170 085	151 609
On operations from risk capital resources under the Lomé Conventions	144 405	260 064
On operations from other resources under the Lomé Conventions	7 274	9 838
Total	**321 764**	**421 511**
TOTAL	**1 785 151**	**1 982 216**

For information:

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

a) Under the First, Second and Third Lomé Conventions: at 31.12.2007 = 764 994 (at 31.12.2006: 835 003)

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2007 = 115 476 (at 31.12.2006:122 412)

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 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 Communities and the Member States. No account is taken in the Statement of Special Section of provisions or value adjustments, which may be required to cover risks associated with such operations. Amounts in foreign currency are translated at exchange rates prevailing on 31 December.

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

Initial amount:			405 899
add:	exchange adjustments		21 784
less:	cancellations	215	
	repayments	412 837	
			-413 052
			14 631

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

Initial amount:			841 007
less:	exchange adjustments	13 109	
	cancellations	62 118	
	repayments	226 786	
			- 302 013
			538 994

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

- loans on special conditions		139 483	
- contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interest	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	133 200	
			- 134 958
			18 045

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

Loans from risk capital resources:			
- conditional and subordinated loans		3 121 877	
- equity participations		120 984	
Initial amount:			3 242 861
add:	capitalised interest		7 372
less:	cancellations	578 112	
	repayments	1 420 980	
	exchange adjustments	49 798	
			-2 048 890
			1 201 343
Loans from other resources:			
Initial amount:			17 838
less:	cancellations	2 690	
	repayments	2 824	
	exchange adjustments	186	
			-5 700
			12 138
			1 213 481

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of the European Investment Bank, which show a profit to be appropriated of EUR 843.206 million and a total balance sheet of EUR 310,808.421 million and which comprise the consolidated balance sheet as at December 31, 2007, the consolidated income statement, the statement of movements in consolidated own funds, the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the consolidated financial statements.

Management Committee's responsibility for the consolidated financial statements

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

Responsibility of the "Réviseur d'Entreprises"

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the European Investment Bank as of December 31, 2007, of its consolidated financial performance, of its movements in consolidated own funds and of its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

March 12, 2008

ERNST & YOUNG

Société Anonyme

Réviseur d'Entreprises

Alain KINSCH

Bernard LHOEST

The Audit Committee

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

Statement by the Audit Committee on the EIB consolidated financial statements

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

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the consolidated financial statements of the European Investment Bank for the year ended 31 December 2007 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 2007 as drawn up by the Board of Directors at its meeting on 11 March 2008,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the consolidated financial statements, comprising the consolidated balance sheet, the consolidated income statement, the statement of movements in consolidated own funds, the consolidated cash flow statement and the notes to the consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007 in respect of its assets and liabilities, and of the results of its operations and cash flows for the year then ended.

Luxembourg, 12 March 2008

The Audit Committee

M. DALLOCCHIO C. KARMIOS O. KLAPPER

EIB

Financial Statements

Results for the Year

The Bank's profit for the financial year 2007 stands at EUR 1 633 million, which, compared to an ordinary result of EUR 1 591 million for 2006, represents an increase of EUR 43 million or 3 %. It should be noted that an additional contribution from the sum released from the Fund for general banking risks amounting to EUR 975 million produced a final balance on the profit and loss account of EUR 2 566 million for the year ended 31 December 2006.

Operating income increased by EUR 127 million to EUR 1 684 million, whereas interest income, at EUR 1 872 million, rose by EUR 109 million.

The main factors influencing the results either positively or negatively are as follows:

Positive impacts:

- The average interest rate on outstanding loans increased by 0.58 percentage points to 4.86 %, whereas the average interest rate on outstanding debt increased by 0.61 percentage points to 4.64 %.
- The average interest rate on outstanding treasury assets increased by 0.42 percentage points to 4.32 %.
- The value adjustment on venture capital operations provided a profit of EUR 22.1 million, against a profit of EUR 2.2 million in 2006.
- An amount of EUR 64.9 million was released following the restructuring, during 2007, of loan assets for which a specific provision was established. This amount compares favourably with the credit loss expense of EUR 61.5 million resulting from the restructuring.

Negative impacts:

- Value adjustments on loans amounted to EUR 19.6 million, up from EUR 3.8 million in 2006.

The cost of general administrative expenses, depreciations, amortisations and extraordinary charges increased by EUR 22.9 million or 6 % to EUR 379 million. This was due mainly to an EUR 11.3 million rise in other administrative costs, while staff costs increased slightly by some 3.6 % or EUR 9.8 million.

Other salient facts:

- The volume of disbursed loans increased by 18 % to EUR 43.4 billion.
- The volume of loan signatures increased by 4 % to EUR 47.8 billion.
- The volume of borrowings before swaps cashed in the calendar year 2007 increased by 21 % versus 2006 to EUR 54.5 billion.
- The Bank issued a Climate Awareness Bond for EUR 600 million. The proceeds of the bond were earmarked for future projects in the fields of renewable energy and energy efficiency, thereby supporting climate protection. In 2007, the proceeds were placed in a segregated sub-portfolio invested in money market instruments within the EIB's treasury, pending disbursement. As at 31 December 2007, EUR 108.2 million had been committed to projects and EUR 2 million had been disbursed.

Appropriation of the result for the year 2007 in 2008:

On the basis of the EIB 2007 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 2007, which amounts to EUR 1 633 460 081, to the Additional Reserves.

It is recommended that an amount of EUR 1 500 000 000 be transferred from the Additional Reserves to the Funds allocated to the Structured Finance Facility.

It is also recommended that an amount of EUR 73 364 730 resulting from the value adjustment on venture capital operations be transferred from the Additional Reserves to the Funds allocated to venture capital operations. Following this transfer, the balance of the Funds allocated to venture capital operations will amount to EUR 1 764 304 801 and the Additional Reserves to EUR 5 305 876 121.

Balance sheet

as at 31 December 2007 (in EUR '000)

Assets		31.12.2007		31.12.2006
1. Cash in hand, balances with central banks and post office banks		27 318		14 676
2. Treasury bills eligible for refinancing with central banks (Note B)		2 126 591		2 551 274
3. Loans and advances to credit institutions				
a) repayable on demand	264 388		183 956	
b) other loans and advances (Note C)	15 476 020		14 497 629	
c) loans (Note D.1)	111 215 441		114 581 860	
		126 955 849		129 263 445
4. Loans and advances to customers				
a) loans (Note D.1)	155 222 398		140 034 385	
b) specific provisions (Note D.3)	-41 550		-86 917	
		155 180 848		139 947 468
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	451 974		548 751	
b) issued by other borrowers	10 068 851		10 278 098	
		10 520 825		10 826 849
6. Shares and other variable-yield securities (Note E)		1 395 666		1 223 151
7. Participating Interests (Note E)		479 272		276 989
8. Intangible assets (Note F)		3 972		5 131
9. Property, furniture and equipment (Note F)		280 257		214 597
10. Other assets				
a) sundry debtors (Note H)	125 211		238 804	
		125 211		238 804
11. Subscribed capital and receivable reserves, called but not paid (Note Y)		1 104 809		1 504 979
12. Prepayments and accrued income (Note I)		3 653 733		3 090 211
Total Assets		**301 854 351**		**289 157 574**

Off-balance-sheet items		31.12.2007		31.12.2006
Commitments				
- EBRD capital (Note E)				
- uncalled		442 500		442 500
- EIF capital (Note E)				
- uncalled		1 457 600		979 200
- Undisbursed loans (Notes D and W)				
- credit institutions	12 341 869		11 247 729	
- customers	41 264 752		42 324 173	
		53 606 621		53 571 902
- Undisbursed venture capital operations (Note E)		1 252 992		1 255 633
- Undisbursed infrastructure funds (Note E)		233 620		121 283
- Undisbursed investment funds (Note E)		95 000		0
Guarantees (Note D)				
- In respect of loans granted by third parties		149 779		48 500
- In respect of venture capital operations		15 463		19 056
EIF treasury management		799 946		543 168
Guarantee Fund treasury management		1 152 974		1 379 698

The accompanying notes form an integral part of these financial statments

Liabilities		31.12.2007		31.12.2006
1. Amounts owed to credit institutions (Note J)				
a) with agreed maturity dates or periods of notice	341 718		218 927	
		341 718		218 927
2. Debts evidenced by certificates (Note K)				
a) debt securities in issue	253 328 921		245 485 435	
b) others	892 400		1 090 202	
		254 221 321		246 575 637
3. Other liabilities				
a) sundry creditors (Note H)	1 141 002		1 144 477	
b) sundry liabilities	16 838		15 332	
c) foreign exchange neutralization on currency swap contracts (Note K)	5 458 234		3 062 164	
		6 616 074		4 221 973
4. Accruals and deferred income (Notes G and I)		**5 030 476**		4 478 135
5. Provisions for liabilities and charges				
a) pension plans and health insurance scheme (Note L)	1 097 574		979 827	
b) provision for guarantees issued in respect of venture capital operations	5 781		5 781	
		1 103 355		985 608
6. Capital (Note Y)				
- Subscribed	164 808 169		163 653 737	
- Uncalled	- 156 567 760		- 155 471 050	
		8 240 409		8 182 687
7. Reserves				
a) reserve fund	16 480 817		16 365 374	
b) additional reserves	5 245 781		2 649 498	
		21 726 598		19 014 872
8. Funds allocated to structured finance facility		**1 250 000**		1 250 000
9. Funds allocated to venture capital operations		**1 690 940**		1 663 824
10. Profit for the financial year		**1 633 460**		2 565 911
Total Liabilities		**301 854 351**		**289 157 574**

Off-balance-sheet items	31.12.2007	31.12.2006
Special deposits for service of borrowings (Note S)	**129 428**	193 872
Securities receivable	**0**	146 285
Nominal value of interest rate swap contracts (Note V.1)	**249 510 574**	243 788 117
Nominal value of currency swap contracts payable (Note V)	**80 992 893**	67 706 110
Nominal value of currency swap contracts receivable (Note V)	**75 549 044**	64 658 046
Nominal value of credit default swaps	**97 843**	15 751
Nominal value of put option granted to EIF minority shareholders (Note E.2)	**319 045**	237 141
Borrowings arranged but not yet signed	**401 574**	313 396
Swaps arranged but not yet signed	**94**	0
Securities lending (Note B)	**858 762**	842 740
Futures contracts (Note V)	**419 307**	561 346
Forward rate agreement	**0**	822 861
FX forward (Note V)	**245 330**	234 647
Nominal value of overnight Indexed swaps (Note V)	**6 000 000**	0

Statement of Special Section [1]

as at 31 December 2007 (in EUR '000)

Assets	31.12.2007	31.12.2006
Turkey		
From resources of Member States		
Disbursed loans outstanding [2]	14 631	17 657
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	150 859	161 441
Risk capital operations		
- amounts to be disbursed	170 085	151 609
- amounts disbursed	218 050	210 891
	388 135	362 500
Total [3]	**538 994**	**523 941**
African, Caribbean and Pacific States and Overseas Countries and Territories		
From resources of the European Community		
- **Yaoundé Conventions**		
Loans disbursed	17 626	18 700
Contributions to the formation of risk capital		
- amounts disbursed	419	419
Total [4]	**18 045**	**19 119**
- **Lomé Conventions**		
Operations from risk capital resources:		
- amounts to be disbursed	144 405	260 064
- amounts disbursed	1 056 938	1 147 689
	1 201 343	1 407 753
Operations from other resources		
- amounts to be disbursed	7 274	9 838
- amounts disbursed	4 864	3 908
	12 138	13 746
Total [5]	**1 213 481**	**1 421 499**
TOTAL	**1 785 151**	**1 982 216**

Liabilities	31.12.2007	31.12.2006
Funds under trust management		
Under mandate from the European Communities		
- Financial Protocols with the Mediterranean Countries	368 909	372 332
- Yaoundé Conventions	18 045	19 119
- Lomé Conventions	1 056 938	1 147 689
- Other resources under the Lomé Conventions	4 864	3 908
	1 448 756	1 543 048
Under mandate from Member States	14 631	17 657
Total	**1 463 387**	**1 560 705**
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	170 085	151 609
On operations from risk capital resources under the Lomé Conventions	144 405	260 064
On operations from other resources under the Lomé Conventions	7 274	9 838
Total	**321 764**	**421 511**
TOTAL	**1 785 151**	**1 982 216**

For information:

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

a) Under the First, Second and Third Lomé Conventions: at 31.12.2007 = 764 994 (at 31.12.2006: 835 003)

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2007 = 115 476 (at 31.12.2006:122 412)

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 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 Communities and the Member States. No account is taken in the Statement of Special Section of provisions or value adjustments, which may be required to cover risks associated with such operations. Amounts in foreign currency are translated at exchange rates prevailing on 31 December.

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

Initial amount:			405 899
add:	exchange adjustments		21 784
less:	cancellations	215	
	repayments	412 837	
			-413 052
			14 631

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

Initial amount:			841 007
less:	exchange adjustments	13 109	
	cancellations	62 118	
	repayments	226 786	
			- 302 013
			538 994

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

- loans on special conditions		139 483	
- contributions to the formation of risk capital		2 503	
Initial amount:			141 986
add:	capitalised interest	1 178	
	exchange adjustments	9 839	
			11 017
less:	cancellations	1 758	
	repayments	133 200	
			- 134 958
			18 045

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

Loans from risk capital resources:			
- conditional and subordinated loans		3 121 877	
- equity participations		120 984	
Initial amount:			3 242 861
add:	capitalised interest		7 372
less:	cancellations	578 112	
	repayments	1 420 980	
	exchange adjustments	49 798	
			- 2 048 890
			1 201 343
Loans from other resources:			
Initial amount:			17 838
less:	cancellations	2 690	
	repayments	2 824	
	exchange adjustments	186	
			- 5 700
			12 138
			1 213 481

Profit and Loss Account

for the year ended 31 December 2007 (in EUR '000)

			31.12.2007		31.12.2006
1.	Interest and similar income [Note N]		**14 271 925**		13 735 253
2.	Interest and similar charges [Note N]		**- 12 400 153**		- 11 972 175
3.	Income from securities with variable-yield		**73 552**		33 343
	a) income from participating interests	11 980		10 376	
	b) income from shares and variable-yield securities	61 572		22 967	
4.	Commission income [Note O]		**64 487**		53 443
5.	Commission expense [Note O]		**- 10 382**		- 9 046
6.	Result on financial operations [Note P]		**- 9 835**		- 3 030
7.	Other operating income [Note Q]		**27 616**		23 598
8.	General administrative expenses [Note R]		**- 359 916**		- 338 847
	a) staff costs [Note L]	- 279 255		- 269 481	
	b) other administrative costs	- 80 661		- 69 366	
9.	Depreciation and amortization [Note F]		**- 19 021**		- 17 193
	a) intangible assets	- 2 984		- 3 250	
	b) tangible assets	- 16 037		- 13 943	
10.	Result on sale of loans and advances		**- 61 490**		- 109 816
11.	Value adjustments on loans and advances [Note D.3]		**44 244**		185 404
12.	Value adjustments on shares and other variable-yield securities and participating interests [Note E]		**11 530**		8 374
13.	Release from provision for guarantees issued		**903**		1 603
14.	Release from fund for general banking risks [Note M]		**0**		975 000
15.	Profit for the financial year		**1 633 460**		2 565 911

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

Own Funds and Appropriation of Profit

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

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

At its annual meeting on 5 June 2007, the Board of Governors decided the following appropriation of the balance of the profit and loss account for the year ended 31 December 2006, which amounted to EUR '000 2 584 026 (including the contribution of the two new Member States to their share of profit and loss account for the year ended 31 December 2006 for an amount of EUR '000 18 115):

- EUR '000 2 584 026, as an increase to the account 'Additional Reserves'

An amount of EUR '000 27 116 resulting from the value adjustment on venture capital operations has also been transferred to the Funds allocated to venture capital operations from the Additional Reserves. Following the transfer, the Funds allocated to venture capital operations amount to EUR '000 1 690 940 and the Additional Reserves to EUR '000 5 245 781.

Statement of movements in own funds (in EUR '000)	**31.12.2007**	**31.12.2006**
Share Capital		
- Subscribed capital	**164 808 169**	163 653 737
- Uncalled	**-156 567 760**	-155 471 050
- Called capital	**8 240 409**	8 182 687
- Less: Capital called but not paid	**-306 514**	-426 679
- Paid in capital	**7 933 895**	7 756 008
Reserves and profit for the year:		
Reserve Fund		
- Balance at beginning of the year	**16 365 374**	16 365 374
- Payable by Member States	**115 443**	0
- Balance at end of the year	**16 480 817**	16 365 374
- Less: Receivable from Member States	**-798 295**	-1 078 300
- Paid-in balance at end of the year	**15 682 522**	15 287 074
Additional reserves		
- Balance at beginning of the year	**2 649 498**	1 995 112
- Appropriation of prior year's profit	**2 584 026**	888 877
- Payable by Member States	**39 373**	0
- Transfer to/from Funds allocated to venture capital operations	**-27 116**	15 509
- Transfer to Funds allocated to structured finance facility	**0**	-250 000
- Balance at end of the year	**5 245 781**	2 649 498
Fund for general banking risks		
- Balance at beginning of the year	**0**	975 000
- Appropriation of current year's profit	**0**	0
- Transfer to current year's profit	**0**	-975 000
- Balance at end of the year	**0**	0
Funds allocated to structured finance facility		
- Balance at beginning of the year	**1 250 000**	500 000
- Appropriation of prior year's profit	**0**	500 000
- Transfer from additional reserves	**0**	250 000
- Balance at end of the year	**1 250 000**	1 250 000
Funds allocated to venture capital operations		
- Balance at beginning of the year	**1 663 824**	1 679 333
- Transfer from/to Additional reserves	**27 116**	-15 509
- Balance at end of the year	**1 690 940**	1 663 824
Profit for the financial year	**1 633 460**	2 565 911
Total own funds	**33 436 598**	**31 172 315**

The accompanying notes form an integral part of these financial statments

Statement of Subscriptions to the Capital of the Bank

as at 31 December 2007 (in EUR)

Member States	Subscribed capital	Uncalled capital (*)	Paid-in and to be paid-in capital at 31.12.2007 (**)
GERMANY	26 649 532 500	25 316 065 017	1 333 467 483
FRANCE	26 649 532 500	25 316 065 017	1 333 467 483
ITALY	26 649 532 500	25 316 065 017	1 333 467 483
UNITED KINGDOM	26 649 532 500	25 316 065 017	1 333 467 483
SPAIN	15 989 719 500	15 191 419 977	798 299 523
NETHERLANDS	7 387 065 000	7 018 606 548	368 458 452
BELGIUM	7 387 065 000	7 018 606 548	368 458 452
SWEDEN	4 900 585 500	4 655 556 231	245 029 269
DENMARK	3 740 283 000	3 553 721 865	186 561 135
AUSTRIA	3 666 973 500	3 483 624 843	183 348 657
POLAND	3 411 263 500	3 240 700 325	170 563 175
FINLAND	2 106 816 000	2 001 475 188	105 340 812
GREECE	2 003 725 500	1 903 781 233	99 944 267
PORTUGAL	1 291 287 000	1 226 879 033	64 407 967
CZECH REPUBLIC	1 258 785 500	1 195 846 225	62 939 275
HUNGARY	1 190 868 500	1 131 325 075	59 543 425
IRELAND	935 070 000	888 429 814	46 640 186
ROMANIA	863 514 500	820 338 775	43 175 725
SLOVAK REPUBLIC	428 490 500	407 065 975	21 424 525
SLOVENIA	397 815 000	377 924 250	19 890 750
BULGARIA	290 917 500	276 371 625	14 545 875
LITHUANIA	249 617 500	237 136 625	12 480 875
LUXEMBOURG	187 015 500	177 687 377	9 328 123
CYPRUS	183 382 000	174 212 900	9 169 100
LATVIA	152 335 000	144 718 250	7 616 750
ESTONIA	117 640 000	111 758 000	5 882 000
MALTA	69 804 000	66 313 800	3 490 200
TOTAL	**164 808 169 000**	**156 567 760 550**	**8 240 408 450**

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

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

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

Cash Flow Statement as at 31 December 2007

(in EUR '000)

	31.12.2007	31.12.2006
A. Cash flows from operating activities:		
Profit for the financial year	1 633 460	2 565 911
Adjustments:		
Transfer from Fund for general banking risks	0	- 975 000
Value adjustments on tangible and intangible assets	19 021	17 193
Value adjustments on shares and other variable yield securities and participating interests	- 11 530	- 8 374
Increase/Decrease in accruals and deferred income	552 341	77 350
Increase in prepayments and accrued income	- 563 522	- 624 550
Investment portfolio amortisation	- 13 303	- 17 886
Profit on operating activities	1 616 467	1 034 644
Net loans disbursements	- 39 910 415	- 35 391 121
Repayments	19 984 413	21 143 605
Effects of exchange rate changes on loans	8 104 408	3 778 695
Decrease in treasury portfolios	1 180 112	6 445
Increase in venture capital operations	- 111 778	- 132 330
Specific provisions on loans and advances	- 45 367	- 185 083
Increase in shares and other variable yield securities	- 49 207	- 23 766
Decrease/Increase in other assets	113 593	274 134
Net cash from operating activities	- 9 117 774	- 9 494 777
B. Cash flows from investing activities:		
Purchases/Sales of EIF shares	- 202 283	3 168
Securities matured during the year	278 346	395 894
Purchases of securities (investment portflios)	0	- 249 029
Increase in asset backed securities	- 1 986 532	- 937 679
Increases in property, furniture and equipment	- 81 697	- 54 165
Increases in intangible fixed assets	- 1 825	- 2 235
Net cash from investing activities	- 1 993 991	- 844 046
C. Cash flows from financing activities:		
Issue of borrowings	54 678 538	45 549 825
Redemption of borrowings	- 35 348 649	- 39 904 317
Effects of exchange rate changes on borrowings & swaps	- 9 802 615	- 6 456 245
Paid in by Member States	630 824	300 996
Increase/Decrease in commercial paper	514 480	- 207 278
Increase/Decrease in amounts owed to credit institutions	122 791	- 174 098
Increase/Decrease in other liabilities	115 778	- 349 447
Net cash from financing activities	10 911 147	- 1 240 564
Summary statement of cash flows:		
Cash and cash equivalents at beginning of financial year	18 166 313	29 745 700
Net cash from:		
(1) operating activities	- 9 117 774	- 9 494 777
(2) investing activities	- 1 993 991	- 844 046
(3) financing activities	10 911 147	- 1 240 564
Cash and cash equivalents at end of financial year	17 965 695	18 166 313
Cash analysis (excluding investment and hedging portfolios):		
Cash in hand, balances with central banks and post office banks	27 318	14 676
Bills maturing within three months of issue [Note B ; See A1 portfolio]	2 197 969	3 470 052
Loans and advances to credit institutions:		
Accounts repayable on demand	264 388	183 956
Term deposit accounts	15 476 020	14 497 629
	17 965 695	18 166 313

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

European Investment Bank

Notes to the financial statements

as at 31 december 2007

Note A – Significant accounting policies

A.1. Accounting standards

The unconsolidated financial statements (the 'Financial Statements') of the European Investment Bank (the 'Bank' or 'EIB') have been prepared in accordance with the general principles of the Directive 86/635/EEC of the Council of the European Communities of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions (the 'Directive'), as amended by Directive 2001/65/EC of 27 September 2001 and by Directive 2003/51/EC of 18 June 2003 on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings (the 'Directives'). However, the Financial Statements do not include any management report. The Bank prepares an Activity Report which is presented separately from the Financial Statements and its consistency with the Financial Statements is not audited.

On a proposal from the Management Committee, the Board of Directors decided on 11 March 2008 to submit the Financial Statements to the Governors for approval at their meeting on 3 June 2008.

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, the single currency of the Member States participating in the third stage of Economic and Monetary Union, as the unit of measure for the capital accounts of Member States and for presenting its Financial Statements.

The Bank conducts its operations in the currencies of its Member States, in euro and in non-Community currencies.

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

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

The Bank's assets and liabilities denominated in currencies other than in euro are translated at closing exchange rates prevailing at the balance sheet date. The gain or loss arising from such translation is recorded in the profit and loss account.

The elements of the profit and loss accounts are translated into euro monthly on the basis of the exchange rates prevailing at the end of each month.

A.3. Derivatives

The Bank uses derivative instruments, i.e. mainly currency and interest rate swaps, as part of its asset and liability management activities to manage exposures to interest rate and foreign currency risks, including exposures arising from forecast transactions.

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

The Bank also enters into currency, interest rate and overnight index swaps as part of its hedging operations on loans or for the global ALM position. The corresponding interest is accounted for on a prorata temporis basis. The nominal amounts of these swaps are booked as off-balance sheet items at the date of the transaction.

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

The Bank also enters into credit default swaps as part of its credit risk mitigation. The corresponding amounts are booked as off-balance sheet items at the date of the transaction.

A.4. Financial assets

Financial assets are accounted for using the settlement date basis.

A.5. Cash and Cash Equivalents

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

A.6. Treasury bills and other bills eligible for refinancing with central banks and debt securities including fixed-income securities

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

A.6.1. Investment portfolio

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

- Governments of the European Union, G10 countries and their agencies;
- Supranational public institutions, including multinational development banks.

These securities are initially recorded at purchase price or more exceptionally at transfer price. Value impairments are accounted for, if these are other than temporary. The difference between entry price and redemption value is accounted for prorata temporis over the remaining life of the securities.

In 2006, the Bank decided to phase out the investment portfolio. Since then, the Bank did not make any new addition to the investment portfolio and will keep the existing portfolio lines until final maturity upon which the redemption proceeds of such matured securities will be invested in the operational portfolios described in paragraph A.6.2.

A.6.2. Operational portfolios

- Operational money market portfolios A1 and A2

In order to maintain an adequate level of liquidity, the Bank purchases money market products with a maximum maturity of twelve months, in particular Treasury bills and negotiable debt securities issued by credit institutions. The securities in the A1 portfolio are held until their final maturity and presented in the financial statements at their nominal value. Value impairments are accounted for, if these are other than temporary. The securities in the A2 portfolio are available for sale and presented in the accounts at the lower of cost or market value. Value adjustments are recorded under item 6. *Result on financial operations* in the profit and loss account.

Treasury bills appear on the assets side of the balance sheet under item 2. *Treasury bills eligible for refinancing with central banks.*

Negotiable debt securities issued by credit institutions appear on the assets side of the balance sheet under item 5. *Debt securities including fixed-income securities - b) issued by other borrowers.*

- Operational bond portfolios B1, B2 and B3

The B1 'Credit Spread' portfolio comprises floating-rate and fixed-rate bonds issued or guaranteed by national governments, supranational institutions, financial institutions and corporations with a maximum residual maturity of 5 years. As at 31 December 2005, the securities in the portfolio were presented in the financial statements at their amortised cost and were held until their final maturity. As from 1 July 2006, the securities were converted into available for sale securities, and the related realised result from the conversion has been recognized in the 2006 profit and loss account under item 6. *Result on financial operations*. The securities are presented in the financial statements at the lower of cost or market value. Value adjustments are recorded under item 6. *Result on financial operations* in the profit and loss account.

The B2 'Alternative investment' portfolio comprises capital guaranteed notes, by issuers which meet the Bank's Treasury investment criteria and with coupons linked to the performance of underlying Funds of Hedge Funds with initial maturities of approximately five years. The securities are available for sale and presented in the accounts at the lower of cost or market value. Value adjustments are recorded under item 6. *Result on financial operations* in the profit and loss account.

The B3 'Global Fixed income' portfolio comprises listed securities with a maximum residual maturity of 10 years, issued and guaranteed by financial institutions. Securities held in this portfolio are marked to market value in the balance sheet; the corresponding value adjustment is recorded under item 6. *Result on financial operations* in the profit and loss account.

A.6.3. Asset Backed Securities

This portfolio mainly consists of obligations in the form of bonds, notes or certificates issued by a Special Purpose Vehicle (SPV) or a trust vehicle. These securities are classified as held to maturity and recorded at purchase price. Value impairments are accounted for, if these are other than temporary.

A.7. Securities lending

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

Securities lent are recorded at the amount of cash collateral received, plus accrued interest as an off balance-sheet item. Securities received as collateral under securities lending transactions are not recognized in the balance sheet unless control of the contractual rights that comprise these securities received is gained. Securities lent are not derecognised from the balance sheet unless control of the contractual rights that comprise these securities transferred is relinquished. The Bank monitors the market value of the securities lent on a daily basis and provides or requests additional collateral in accordance with the underlying agreements.

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

A.8. Loans and advances to credit institutions and customers

A.8.1. Loans and advances

Loans and advances are included in the assets of the Bank at their net disbursed amounts. Specific value adjustments have been made for loans and advances outstanding at the end of the financial year and presenting risks of non-recovery of all or part of their amounts. Such value adjustments are held in the same currency as the asset to which they relate. Value adjustments are accounted for in the profit and loss account as 'Value adjustments on loans and advances' and are deducted from the appropriate asset items on the balance sheet.

A.8.2. Interest on loans

Interest on loans is recorded in the profit and loss account on an accruals basis, i.e. over the life of the loans. On the balance sheet, accrued interest is included in 'Prepayments and accrued income' under assets. Value adjustments to interest amounts on these loans are determined on a case-by-case basis by the Bank's Management and recorded under 'Specific provisions' under assets together with the relevant line item under assets.

A.8.3. Reverse repurchase and repurchase operations (reverse repos and repos)

The Bank enters into tripartite reverse repos for the purpose of optimising credit risk usage involved in assets held in operational portfolios.

Under a Tripartite repo a custodian/clearing agency arranges for custody, clearing and settlement of repos transactions between the Bank and a third party. They operate under a standard global master purchase agreement and provides for delivery against payment system, substitution of securities, automatic marking to market, reporting and daily administration by single agency which takes care of the risk on itself and automatic rollovers while does not insist on disclosing the identities by counterparties.

This type of operation is considered for the purposes of the Bank to be a loan (borrowing) at a guaranteed rate of interest. They are carried at the amounts of cash advanced or received, plus accrued interest and are entered on the assets side of the balance sheet under asset item *3. Loans and advances to credit institutions – b) other loans and advances* or liability *item 1. Amounts owed to credit institutions – with agreed maturity dates or periods of notice.*

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

A.8.4. Interest subsidies

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

A.9. Shares, other variable-yield securities and participating interests

A.9.1. Shares and other variable-yield securities

Shares and other variable-yield securities are recorded at acquisition cost. At the balance sheet date, their carrying value is adjusted to the lower of cost or market value. The Bank acquires shares and other variable-yield securities when it enters into venture capital operations or infrastructure funds under the Structured Finance Facility (see Note A.15).

Investments in venture capital enterprises, infrastructure funds and investment funds represent shares and other variable-yield securities acquired for the longer term in the normal course of the Bank's activities and are initially shown in the balance sheet at their original purchase cost. Based on the reports received from fund managers up to the balance sheet date, the portfolios of investments are valued on a line-by-line basis at the lower of cost or attributable net asset value ('NAV'), thus excluding any attributable unrealised gain that may be prevailing in the portfolio. The attributable NAV is determined through applying either the Bank's percentage ownership in the underlying vehicle to the NAV reflected in the most recent report or, to the extent available, the value per share at the same date, submitted by the respective Fund Manager. The attributable NAV is adjusted for events having occurred between the date of the latest available NAV and the balance sheet date to the extent that such adjustment is considered to be material. Unrealised losses due solely to administrative expenses and management fees of venture capital, infrastructure funds and investment funds in existence for less than two years at the balance sheet date are not taken into consideration in determining the attributable NAV.

A.9.2. Participating interests

Participating interests held represent medium and long-term investments and are accounted for at cost. Value impairments are accounted for, if these are other than temporary.

A.10. Property, furniture and equipment

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

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

Permanent equipment, fixtures and fittings, furniture, office equipment and vehicles have been recorded in the balance sheet at their acquisition cost, less accumulated depreciation.

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

- Buildings in Kirchberg, Hamm and Weimershof — 30 years
- Building in Lisbon — 25 years
- Permanent equipment, fixtures and fittings — 10 years
- Furniture — 5 years
- Office equipment and vehicles — 3 years

Works of art are depreciated in full in the year of acquisition.

A.11. Intangible assets

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

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

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

A.12. Pension plans and health insurance scheme

A.12.1. Pension plans

The Bank's main pension scheme is a defined benefit pension scheme funded by contributions from staff and from the Bank which covers all employees. All contributions of the Bank and its staff are invested in the assets of the Bank. These annual contributions are set aside and accumulated as a specific provision on the liabilities side of the Bank's balance sheet, together with annual interest.

Commitments for retirement benefits are valued at least every year using the projected unit credit method, in order to ensure that the provision entered in the accounts is adequate. The latest valuation was carried out as at 30 September 2007, but updated as at 31 December 2007 with an extrapolation (roll forward method) for the last three months of 2007. The main actuarial assumptions used by the actuary are set out in Note L. Actuarial surpluses do not influence provisioning and deficits result in an additional specific provision.

The main pension scheme of the European Investment Fund ('EIF') is a defined benefit scheme funded by contributions from staff and from the EIF which covers all employees. The scheme entered into force in March 2003, replacing the previous defined contribution scheme. The funds allocated to the pension scheme are in the custody of and invested by the EIB, following the rules and principles applied by EIB for its own pension scheme.

A.12.2. Health insurance scheme

The Bank has set up its own health insurance scheme for the benefit of staff, financed by contributions from the Bank and its employees. The health insurance scheme is managed under the same principles as the pension scheme. The latest valuation was carried out as at 30 September 2007.

A.12.3. The Management Committee pension plan

The Management Committee pension plan is a defined benefit pension scheme funded by contributions from the Bank only which covers all Management Committee members. All contributions of the Bank are invested in the assets of the Bank. These annual contributions are set aside and accumulated as a specific provision on the liabilities side of the Bank's balance sheet, together with annual interest.

A.13. Debts evidenced by certificates

Debts evidenced by certificates are presented in this account at their redemption amounts. Transaction costs and premiums/ discounts are amortized in the profit and loss account on a straight line basis over the life of the debt through *'accruals and deferred income'* or *'prepayments and accrued income'.*

Interest expense on debt instruments is included in *'Interest and similar charges'* in the profit and loss account.

A.14. Fund for general banking risks and provision for guarantees issued

A.14.1. Fund for general banking risks

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

Starting from 2006, the Bank no longer identifies such separate balance sheet item. The decision to release it completely does not affect the ability of the Bank to cover its risks. The Bank continues to compute the amount corresponding to the general banking risks for internal and disclosure purposes (see Note M), according to the existing methodology.

The amount corresponding to the general banking risks with respect to operations of the Structured Finance Facility is disclosed in *'Funds allocated to Structured Finance Facility'* on the balance sheet.

A.14.2. Provision for guarantees issued

This provision is intended to cover risks inherent in the Bank's activity of issuing guarantees in favour of financial intermediaries or issued in respect of loans granted by third parties. A provision for credit losses is established if there is objective evidence that the Bank will have to incur a credit loss in respect of a given guarantee granted.

A.15. Funds allocated to structured finance facility and to venture capital operations

A.15.1. Funds allocated to structured finance facility

This item comprises the cumulative amount of appropriations from the annual result of the Bank, determined each year by the Board of Governors to facilitate the implementation of operations with a greater degree of risk for this new type of instrument.

A.15.2. Funds allocated to venture capital operations

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

Value adjustments on venture capital and structured finance operations are accounted for in the profit and loss account. Upon appropriation of the Bank's result, such value adjustments are taken into consideration for determining the amounts to be recorded in *'Funds allocated to structured finance facility'* and *'Funds allocated to venture capital operations'.*

A.16. Taxation

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

A.17. Prepayments and accrued income – Accruals and deferred income

These accounts comprise:

Prepayments and accrued income: Expenditure incurred during the financial year but relating to a subsequent financial year, together with any income which, though relating to the financial year in question, is not due until after its expiry (principally interest on loans).

Accruals and deferred income: Income received before the balance sheet date but relating to a subsequent financial year, together with any charges which, though relating to the financial year in question, will be paid only in the course of a subsequent financial year (principally interest on borrowings).

A.18. Interest and similar income

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

A.19. Management of third-party funds

A.19.1. EIF treasury

The EIF treasury is managed by the Bank in accordance with the treasury management agreement signed between the two parties in December 2000.

A.19.2. Guarantee Fund

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

A.19.3. Investment Facility

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

A.19.4. Femip Trust Fund

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

A.19.5. Risk-Sharing Finance Facility

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

A.19.6. Heavily Indebted Poor Countries (HIPC) Initiative

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

A.19.7. EU-Africa Infrastructure Trust Fund (the 'Trust Fund')

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

A.20. Reclassification of prior year figures

Certain prior-year figures have been reclassified to conform with the current year's presentation.

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

In addition to asset backed securities, which represent acquisitions of interests pools of loans or receivables in connection with securitisation transactions, the debt securities portfolio is composed of the investment portfolio, the operational money market portfolios A1 and A2 and the operational bonds B1 'Credit Spread', B2 'Alternative Investment' and B3 'Global Fixed income' portfolios. The detail of these portfolios and their classification as at 31 December 2007 and 2006 are as follows:

	31.12.2007	31.12.2006
Treasury bills eligible for refinancing with central banks (listed)	2 126 591	2 551 274
Debt securities including fixed-income securities (of which EUR '000 2 860 459 unlisted in 2007 and EUR '000 1 597 397 in 2006)	10 520 825	10 826 849
	12 647 416	**13 378 123**

At 31.12.2007	Classification	Purchase price	Book value	Premiums/ Discounts to be amortized	Value at final maturity	Market value
Investment portfolio	Held to Maturity	2 148 726	2 121 399	-32 066	2 089 333	2 142 477
Operational money market portfolios:						
- A1: money market securities with a max. 3 month maturity	Held to Maturity	2 197 969	2 197 969	0	2 197 969	2 197 969
- A2: money market securities with a max. 18 month maturity	Available for sale	1 745 057	1 741 989	0	1 744 880	1 743 820
Operational bond portfolios:						
- B1: Credit Spread	Available for sale	1 247 822	1 232 342	0	1 247 925	1 232 433
- B2: Alternative Investment	Available for sale	150 000	150 000	0	150 000	161 724
- B3: Global Fixed Income	Trading	496 862	494 789	0	494 200	494 789
Asset backed securities [Note D]	Held to Maturity	4 708 928	4 708 928	0	4 708 928	4 702 566
		12 695 364	**12 647 416**	**-32 066**	**12 633 235**	**12 675 778**

At 31.12.2006	Classification	Purchase price	Book value	Premiums/ Discounts to be amortized	Value at final maturity	Market value
Investment portfolio	Held to Maturity	2 427 072	2 386 442	-38 510	2 347 932	2 455 978
Operational money market portfolios:						
- A1: money market securities with a max. 3 month maturity	Held to Maturity	3 470 052	3 470 052	0	3 470 052	3 470 052
- A2: money market securities with a max. 18 month maturity	Available for sale	2 673 394	2 672 224	0	2 672 010	2 672 530
Operational bond portfolios:						
- B1: Credit Spread	Available for sale	1 297 378	1 296 718	0	1 296 677	1 297 022
- B2: Alternative Investment	Available for sale	150 000	150 000	0	150 000	155 315
- B3: Global Fixed Income	Trading	689 674	680 290	0	684 300	680 290
Asset backed securities [Note D]	Held to Maturity	2 722 397	2 722 397	0	2 722 397	2 718 430
		13 429 967	**13 378 123**	**-38 510**	**13 343 368**	**13 449 617**

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

The security lending activity amounts to EUR '000 858 762 at the end of December 2007 (2006: EUR '000 842 740).

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

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

	31.12.2007	31.12.2006
Term deposits	10 883 383	8 957 707
Tripartite reverse repos (*)	4 592 637	5 539 922
	15 476 020	**14 497 629**

(*) These operations are carried out with a third-party custodian who undertakes, on the basis of a framework contract, to guarantee compliance with the contractual terms and conditions, notably with respect to:
- delivery against payment,
- verification of collateral,
- the collateral margin required by the lender which must always be available and adequate, with the market value of the securities being verified daily by the said custodian,
- organisation of substitute collateral provided that this meets all the contractual requirements.

Note D – Summary statement of loans and guarantees

D.1. Aggregate loans granted (in EUR '000)

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

	To intermediary credit institutions	Directly to final beneficiaries	Total 2007	Total 2006
Disbursed portion	111 215 441	155 222 398	266 437 839	254 616 245
Undisbursed loans	12 341 869	41 264 752	53 606 621	53 571 902
Aggregate loans granted	**123 557 310**	**196 487 150**	**320 044 460**	**308 188 147**
Asset backed securities portfolio [Note B]			4 708 928	2 722 397
Aggregate loans including asset backed securities portfolio [Note W]			**324 753 388**	**310 910 544**

D.2. Statutory ceiling on lending and guarantee operations (in EUR million)

Under the terms of Article 18 (5) of the Statute, the aggregate amount outstanding at any time of loans and guarantees granted by the Bank must not exceed 250% of its subscribed capital.

The present level of capital implies a ceiling of EUR 412 billion (2006: EUR 409 billion) in relation to aggregate loans and guarantees furnished; these currently total EUR 328 billion and are broken down as follows:

	31.12.2007	31.12.2006
Aggregate loans granted	320 044	308 188
Aggregate venture capital operations	2 716	2 605
Aggregate guarantees furnished in respect of loans granted by third parties and venture capital operations	165	68
Aggregate asset backed securities portfolio	4 709	2 722
Aggregate infrastructure funds	296	145
Aggregate investment funds	95	0
	328 025	**313 728**

D.3. Specific provision for loans (in EUR '000)

Movements in the specific provision are detailed below:

	31.12.2007	31.12.2006
Provision at beginning of the year	86 917	272 000
Use for the year	- 64 917 (*)	- 189 171 (**)
Allowance during the year	20 673	3 767
Foreign exchange adjustment	- 1 123	321
Provision at end of the year	**41 550**	**86 917**

(*) The amount of EUR '000 64 917 was released following the sale during 2007 of loan assets for which a specific provision has previously been established. The sale of those loan assets resulted in a realized loss of EUR '000 61 490.

(**) The amount of EUR '000 189 171 was released following the sale during 2006 of loan assets for which a specific provision has previously been established. The sale of those loan assets resulted in a realised loss of EUR '000 109 816.

Note E – Shares and other variable-yield securities and participating interests

E.1. Shares and other variable-yield securities

This item comprises (in EUR '000):

	Venture Capital Operations	EBRD Shares	Shares acquired following loan assets restructuring	Infrastructure Funds	TOTAL
Cost					
At 1 January 2007	1 351 203	157 500	43 113	23 447	1 575 263
Net additions	111 778	0	10 192	39 067	161 037
Foreign exchange adjustments	0	0	- 52	0	- 52
At 31 December 2007	**1 462 981**	**157 500**	**53 253**	**62 514**	**1 736 248**
Value adjustments					
At 1 January 2007	- 330 954	0	- 21 158	0	- 352 112
Net additions / releases	22 087	0	- 4 211	- 6 346	11 530
At 31 December 2007	**- 308 867**	**0**	**- 25 369**	**- 6 346**	**- 340 582**
Net book value					
At 31 December 2007	**1 154 114**	**157 500**	**27 884**	**56 168**	**1 395 666**
At 31 December 2006	**1 020 249**	**157 500 (1)**	**21 955 (2)**	**23 447**	**1 223 151**

(1) The amount of EUR '000 157 500 (2006: EUR '000 157 500) corresponds to the capital paid in by the Bank as at 31 December 2007 with respect to its subscription of EUR '000 600 000 to the capital of the EBRD.

The Bank holds 3.03 % of the subscribed capital.

As at 31 December 2007 the share of underlying net equity of the Bank in EBRD amounts to EUR 368.8 million (2006: 299.4 million). This is based on the audited 2006 financial statements prepared in accordance with International Financial Reporting Standards.

In EUR million	% held	Total own funds	Total net result	Balance sheet
EBRD (31.12.2005) restated	3.03	9 881	1 522	28 384
EBRD (31.12.2006)	3.03	12 172	2 389	30 691

(2) The total number of ordinary Eurotunnel shares held by the Bank as at 31.12.07 is 1 474 279, valued at EUR 17 691 348. The total number of Eurotunnel bonds redeemable in shares (ORA) held by the Bank as at 31.12.07 is 105 450, valued at EUR 10 191 857. After the restructuring of the 28th June 2007, the Bank holds 78 971 193 warrants valued at EUR 0 in the balance sheet at year-end.

As at 31 December 2007, concerning the investment funds, there is no amount disbursed.

The undisbursed amounts disclosed on Off-balance-sheet are respectively:

- for venture capital operations EUR '000 1 252 992,
- for infrastructure funds EUR '000 233 620,
- for investment funds EUR '000 95 000.

E.2. Participating interests

The account 'participating interests' for an amount of EUR '000 479 272 (2006 EUR '000 276 989) corresponds to the capital paid in by the Bank in respect of its subscription which amounts to EUR '000 1 822 000 (2006: EUR '000 1 224 000) to the capital of the European Investment Fund, with its registered office in Luxembourg.

The Bank holds 65.78 % (2006 – 61.20 %) of the subscribed capital of the EIF. As at 30 June 2007, the subscribed capital of the EIF has increased from EUR 2 billion to EUR 2.77 billion. At the EIF Annual General Meeting of Shareholders held on 7 May 2007, it was decided to issue 1 000 new shares, identical to the 2 000 existing ones (nominal value EUR 1 million each, paid in ratio of 20 %) between the 30 June 2007 and 30 June 2010. Out of the 1 000 new shares, 770 were subscribed on 31 December 2007, and for the remainder there is an option for subscription over the next 3 years. The Bank has decided to subscribe 609 new shares on 30 June 2007, explaining the increase in its relative shareholding.

By 30 June 2010, all shares not subscribed by the other shareholders will be subscribed by the Bank.

During 2007, the Bank sold a total of 11 EIF shares. With regard to the remaining 948 EIF shares, the EIB is offering to buy these shares at any time from the EIF's other shareholders under a Replacement Share Purchase Undertaking at a price per share of EUR '000 337. This price corresponds to the part of each share in the called capital of the EIF, increased by the share premium account, the statutory reserves, the disclosed unrealised gains in venture capital operations, the profit brought forward and the profit of the year and decrease by the dividend for the 2006 financial year. Given that the dividend for the year 2006 will still be due to the other shareholders, the dividend decided has been deducted from the price determined as described above.

The nominal value of the put option granted to EIF minority shareholders, shown as an off – balance sheet item, EUR '000 319 045 (2006 EUR '000 237 141) has been calculated on the basis of the 2006 audited EIF statutory accounts.

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

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total property, furniture and equipment	Total intangible assets
Historical cost						
At 1 January 2007	10 085	247 850	349	52 499	310 783	7 040
Additions	0	65 867	0	15 830	81 697	1 825
Disposals	0	0	0	- 6 749	- 6 749	- 3 326
At 31 December 2007	**10 085**	**313 717**	**349**	**61 580**	**385 731**	**5 539**
Accumulated depreciation						
At 1 January 2007	0	- 75 687	- 294	- 20 205	- 96 186	- 1 909
Depreciation	0	- 4 734	- 14	- 11 289	- 16 037	- 2 984
Disposals	0	0	0	6 749	6 749	3 326
At 31 December 2007	**0**	**- 80 421**	**- 308**	**- 24 745**	**- 105 474**	**- 1 567**
Net book value						
At 31 December 2007	**10 085**	**233 296**	**41**	**36 835**	**280 257**	**3 972**
At 31 December 2006	**10 085**	**172 163**	**55**	**32 294**	**214 597**	**5 131**

All of the land and buildings are used by the Bank for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building for EUR '000 171 710 (2006: EUR '000 105 843), expected to be completed in 2008.

Note G – Interest subsidies received in advance

Part of the amounts received from the European Commission through EMS (European Monetary System) arrangements has been made available as a long-term advance which is entered on the liabilities side under item 3. Other liabilities - a) interest subsidies received in advance, and comprises:

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

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

Sundry debtors	31.12.2007	31.12.2006
- Loan instalments receivable	56 115	167 797
- Staff housing loans and advances [(*)]	21 917	26 406
- Advances on salaries and allowances	2 817	10 492
- Other	44 362	34 109
	125 211	**238 804**

Sundry creditors	31.12.2007	31.12.2006
- European Community accounts:		
- For Special Section operations and related unsettled amounts	367 531	416 478
- Deposit accounts	517 441	428 025
- Optional Supplementary Provident Scheme [Note L]	185 626	187 532
- Transitory account on loans	44 938	95 694
- Other	25 466	16 748
	1 141 002	**1 144 477**

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

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

	31.12.2007	31.12.2006
Prepayments and accrued income:		
Interest and commission receivable	2 415 383	2 209 892
Deferred borrowing charges	810 120	538 062
Swaps receivable	393 177	305 989
Investment Facility's commission receivable	32 756	33 912
Other	2 297	2 356
	3 653 733	**3 090 211**
Accruals and deferred income:		
Interest and commission payable	3 045 726	2 889 142
Deferred loan proceeds	203 713	258 232
Deferred borrowing proceeds	1 235 930	919 042
Swaps payable	274 300	115 341
HIPC initiative	48 683	50 460
Personnel costs payable	7 607	5 266
Interest subsidies received in advance [Note G]	186 622	209 438
Other	27 895	31 214
	5 030 476	**4 478 135**

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

	31.12.2007	31.12.2006
Short-term borrowings	338 681	212 852
Promissory notes issued in respect of paid-in capital of EBRD	3 037	6 075
	341 718	**218 927**

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

In its financing activity, one of the Bank's objectives is to align its funding strategy with the funds required for the loans granted, notably in terms of currencies. The below table discloses the details per currency of debts outstanding at 31 December 2007, together with the cumulated notional amount of currency swaps associated with the debts issued, whose goal is to transform the initial currency of the debt into a new currency in line with the currency of the loan. The last column of the table indicates the total amount of debts per currency, taking into account the economic effect brought by the currency swaps in order to disclose a net exposure per currency of the debts outstanding at 31 December 2007.

BORROWINGS						CURRENCY SWAPS		NET AMOUNT	
						RECEIVABLE			
PAYABLE IN	OUT-STANDING AT 31.12.2006	AVERAGE RATE	OUT-STANDING AT 31.12.2007	AVERAGE RATE	DUE DATES	31.12.2006	31.12.2007	OUT-STANDING AT 31.12.2006	OUT-STANDING AT 31.12.2007
EUR	101 037 680	4.12	106 548 588	4.04	2008/2057	- 2 011 066	- 1 667 912	99 026 614	104 880 676
GBP	58 233 751	5.28	59 387 205	5.21	2008/2054	- 17 691 932	- 18 302 492	40 541 819	41 084 713
DKK	402 360	2.40	536 315	2.86	2010/2026	0	0	402 360	536 315
SEK	1 235 012	4.31	1 851 401	4.24	2008/2028	- 165 922	- 636 175	1 069 090	1 215 226
CZK	1 193 006	4.68	952 562	5.09	2008/2030	- 154 630	- 159 606	1 038 376	792 956
HUF	1 187 592	7.57	1 062 153	7.17	2008/2015	- 907 574	- 648 327	280 018	413 826
PLN	594 075	6.12	662 295	6.05	2008/2026	- 101 168	- 107 854	492 907	554 441
BGN	153 390	4.14	181 511	5.35	2009/2012	- 153 390	- 181 511	0	0
MTL	23 294	3.80	23 294	3.80	2009/2009	- 23 294	- 23 294	0	0
SIT	16 692	4.75	0	0.00		- 16 692	0	0	0
SKK	116 926	4.84	121 261	4.79	2012/2028	0	0	116 926	121 261
RON	0	0.00	83 155	7.00	2014/2014	0	- 83 155	0	0
USD	60 291 687	4.40	58 410 692	4.52	2008/2045	- 19 619 710	- 25 074 313	40 671 977	33 336 379
CHF	3 288 692	3.12	2 955 218	2.75	2008/2036	- 1 120 169	- 1 525 956	2 168 523	1 429 262
JPY	6 619 308	1.15	6 982 434	1.51	2008/2047	- 6 042 000	- 6 814 744	577 308	167 690
NOK	782 957	4.99	760 241	4.67	2008/2025	- 600 874	- 508 922	182 083	251 319
CAD	261 763	5.80	976 045	4.92	2008/2045	- 196 322	- 906 836	65 441	69 209
AUD	3 592 062	5.45	4 026 888	5.61	2008/2021	- 3 592 062	- 4 026 888	0	0
HKD	1 038 975	4.24	334 498	5.09	2008/2019	- 365 206	- 203 836	673 769	130 662
NZD	2 142 056	6.25	3 369 954	6.62	2008/2014	- 2 142 056	- 3 369 954	0	0
ZAR	1 254 633	8.97	1 167 340	8.53	2008/2018	- 731 395	- 726 625	523 238	440 715
MXN	135 967	9.13	61 772	8.63	2009/2015	- 135 967	- 61 772	0	0
TWD	375 134	1.03	255 830	0.33	2008/2013	- 375 134	- 255 830	0	0
TRY	2 034 897	12.64	2 659 580	14.14	2008/2022	- 2 034 897	- 2 659 580	0	0
ISK	563 728	7.53	739 935	8.38	2008/2011	-563 728	-739 935	0	0
RUB	0	0.00	111 154	6.50	2012/2017	0	- 111 154	0	0
Total	**246 575 637**		**254 221 321**			**- 58 745 188**	**- 68 796 671**	**187 830 449**	**185 424 650**

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: EUR 600 million). All such borrowings are hedged in full through swap operations.

Note L – Provisions for liabilities and charges – pension plans and health insurance scheme

(in EUR '000)

The Defined Benefit Obligation in respect of future retirement and health insurance benefits was valued as at 30 September 2007 by an independent actuary using the projected unit credit method. The actuarial valuation was updated as at 31 December 2007 with an extrapolation ('roll forward' method) for the last 3 months of 2007, using the prevailing market rates of 31 December 2007 and following assumptions (for the staff pension and medical plan):

- a discount rate of 5.52 % (2006: 4.76 %) for determining the actuarial present value of benefits accrued in the pension and health insurance schemes, corresponding to 14.19 year duration (2006: 14.9 year duration);
- in the light of past experience, the Bank estimates that the overall expected remuneration of post-employment reserves are set at a rate of 1.5 % above the discount rate mentioned above. As a consequence, the final discount rate used is 7.02 % (2006: 6.26 %);
- a progressive retirement between the age of 55-65 (2006: retirement at the age of 62);
- a combined average impact of the increase in the cost of living and career progression of 4 % (2006: 3.5 %);
- probable resignation of 3 % up to age 55 (same as 2006);
- a rate of adjustment of pensions of 2 % per annum (2006 : 1.5 %);
- use of the LPP 2005 actuarial tables (2006: LPP 2000);
- a medical cost inflation rate of 4 % per annum (2006: 3.5 %).

The provisions for liabilities and charges for these schemes are adjusted when needed (Note A.12.1) according to the actuarial valuation, as per the tables below. These adjustments have been accounted for in 2007 and are disclosed in the Profit and Loss account under staff costs.

The staff pension and the Management Committee pension plans provision are as follows (in EUR '000):

	31.12.2007	31.12.2006
Staff Pension Plan:		
Provision at beginning of the year	872 501	764 628
Payments made during the year	- 32 909	- 28 191
Provision for actuarial deficit	0	0
Contribution arising from measures with a social character	13 300	10 800
Annual contributions and interest	128 193	125 264
Sub Total	**981 085**	**872 501**
Management Committee Pension Plan	31 739	31 175
Provision at 31 December	**1 012 824**	**903 676**

The above figures do not include the liability towards members of staff in respect of the Optional Supplementary Provident Scheme (a contributory defined benefit pension scheme). The corresponding amount of EUR 186 million (2006: EUR 188 million) is classified under 'Sundry creditors' [Note H].

The health insurance scheme provision is as follows (in EUR '000):

	31.12.2007	31.12.2006
Staff Pension Plan:		
Provision at beginning of the year	76 151	67 671
Payments made during the year	- 7 204	- 6 474
Contribution arising from measures with a social character	665	1 000
Annual contributions and interest	15 138	13 954
Provision at 31 December	**84 750**	**76 151**

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

Movements in the Fund for general banking risks are detailed below:

	31.12.2007	31.12.2006
Fund at beginning of the year	0	975 000
Transfer for the year	0	- 975 000
Fund at end of the year	**0**	**0**

In line with Note A.14.1, the Bank no longer identifies the fund for general banking risks as a separate balance sheet item but continues to compute the amount corresponding to the fund, accordingly to last year methodology for disclosure purpose.

Evaluation of the amount representative of general banking risks:	31.12.2007	31.12.2006
	1 000 000 (*)	1 000 000 (**)

(*) Of which EUR '000 113 000 for Structured Finance Facility operations
(**) Of which EUR '000 40 000 for Structured Finance Facility operations

Note N – 'Interest and similar income' and 'Interest and similar charges'

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

	31.12.2007	31.12.2006
Interest and similar income		
Cash in hand, balance with central banks and post office banks	344	1 029
Treasury bills eligible for refinancing with central banks and debt securities including fixed income securities	686 369	562 551
Loans and advances to credits institutions and customers	13 343 188	11 508 792
Derivatives	0	1 438 205
Other	242 024	224 676
TOTAL	**14 271 925**	**13 735 253**
Interest expense and similar charges		
Amounts owed to credit institutions	- 14 098	- 9 782
Debts evidenced by certificates	- 12 059 580	- 11 724 949
Derivatives	- 7 626	0
Other	- 318 849	- 237 444
TOTAL	**- 12 400 153**	**- 11 972 175**
Net interest income	**1 871 772**	**1 763 078**

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

	31.12.2007	31.12.2006
Germany	2 356 560	2 064 696
Spain	1 833 671	1 383 077
Italy	1 456 260	1 109 762
France	1 437 073	1 268 043
United Kingdom	1 211 146	1 049 415
Portugal	698 928	637 323
Greece	533 178	514 423
Austria	292 310	231 919
Poland	287 992	213 364
Finland	227 245	183 542
Hungary	197 499	124 049
Belgium	187 366	156 679
Czech Republic	180 895	145 099
Denmark	152 085	157 826
Netherlands	151 539	148 943
Ireland	137 067	124 705
Sweden	123 075	106 849
Romania (2)	81 155	0
Slovenia	57 535	43 865
Slovak Republic	35 134	41 617
Luxembourg	34 002	36 915
Cyprus	29 550	25 426
Bulgaria (2)	17 465	0
Latvia	16 017	11 773
Estonia	6 753	5 688
Lithuania	5 204	7 621
Malta	348	339
Total	**11 747 052**	**9 792 958**
Outside the European Union (2)	795 520	792 035
Total	**12 542 572**	**10 584 993**
Income not analysed (1)	1 729 353	3 150 260
Total	**14 271 925**	**13 735 253**

(1) Income not analysed:

• Revenue from Investment portfolio and ABS portfolios	265 949	189 174
• Revenue from Operational bond portfolios	80 419	55 463
• Revenue from Operational money-market portfolios	340 001	317 914
• Revenue from money-market operations	1 042 984	1 149 504
• Net interests income on derivatives	0	1 438 205
	1 729 353	**3 150 260**

(2) The interest and similar income of the two New Member States in 2006 were included in 'Outside the European Union'

Note O – 'Commission income' and 'Commission expense' (in EUR '000)

[items 4 and 5 of the profit and loss account]	31.12.2007	31.12.2006
Commission income		
Investment Facility / Cotonou	32 756	33 912
Other Community institutions	31 731	19 531
	64 487	**53 443**
Commission expense	**- 10 382**	**- 9 046**

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

[item 6 of the profit and loss account]	31.12.2007	31.12.2006
Value adjustment on operational treasury portfolio	- 20 621	- 11 214
Gain and loss on long-term futures	1 725	5 848
Foreign exchange gain/loss	4 634	5 530
Other financial operations	4 427	-3 194
	- 9 835	**- 3 030**

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

[item 7 of the profit and loss account]	31.12.2007	31.12.2006
Income from advisory activities	20 369	14 402
Reversal of previous years' unutilized accruals	3 597	4 426
Other	3 650	4 770
	27 616	**23 598**

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

[item 8 of the profit and loss account]	31.12.2007	31.12.2006
Salaries and allowances (*)	- 154 373	- 145 715
Welfare contributions and other social costs	- 124 882	- 123 766
Staff costs	- 279 255	- 269 481
Other general administrative expenses	- 80 661	- 69 366
	- 359 916	**- 338 847**

The number of persons employed by the Bank was 1 441 at 31 December 2007 (1 369 at 31 December 2006).

(*) of which the amount for members of the Management Committee is EUR '000 2 655 at 31 December 2007 and EUR '000 2 597 at 31 December 2006.

Note S – Special deposits for service of borrowings

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

Note T – Fair value of financial instruments

The Bank records balance sheet financial instruments on the basis of their historical cost in foreign currency (apart from the operational portfolio) representing the amount received in the case of a liability or the amount paid to acquire an asset. The fair value of the financial instruments (mainly loans, treasury, securities and borrowings after long-term interest rate or currency swaps) entered under assets and liabilities compared with their accounting value is shown in the table below:

	ASSETS		LIABILITIES	
At 31 December 2007 (in EUR million)	Net accounting value	Fair value	Accounting value	Fair value
Loans	271 147	272 580		
Investment portfolio	2 121	2 142		
Liquid assets	12 462	12 476		
Borrowings after swaps			251 367	251 906
Total 2007	**285 730**	**287 198**	**251 367**	**251 906**

	ASSETS		LIABILITIES	
At 31 December 2006 (in EUR million)	Net accounting value	Fair value	Accounting value	Fair value
Loans	257 339	260 188		
Investment portfolio	2 386	2 456		
Liquid assets	14 575	14 660		
Borrowings after swaps			241 833	245 081
Total 2006	**274 300**	**277 304**	**241 833**	**245 081**

Note U – Financial risk management

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

- credit risk,
- interest rate risk,
- liquidity risk,
- exchange rate risk.

U.1. Credit risk

Credit risk concerns mainly the Bank's lending activity and, to a lesser extent, treasury instruments such as fixed-income securities held in the investment and operational portfolios, certificates of deposit and interbank term deposits.

The credit risk associated with the use of derivatives is also analysed hereafter in the 'Derivatives' section [Note V].

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

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

U.1.1. Loans

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

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

The structure of guarantors and borrowers relating to the loan portfolio as at 31 December 2007 is analysed below (in EUR million), including undisbursed portions:

Within the European Union

Guarantor [1] / Borrower	Member States	Public institutions	Zone 'A' banks	Corporates	Total 2007	Total 2006
Member States	24 925	0	0	0	24 925	21 468
Public institutions	19 441	35 088	1 291	3 878	59 698	53 525
Zone 'A' banks	11 444	42 727	43 713	16 850	114 734	116 054
Corporates	15 928	6 530	30 435	44 059	96 952	93 831
Total 2007 [1] [2] [3] [4]	**71 738**	**84 345**	**75 439**	**64 787**	**296 309**	
Total 2006 [1] [2] [3] [4]	**68 786**	**79 888**	**74 921**	**61 283**		**284 878**

(1) This amount includes loans for which no formal guarantee independent from the borrower and the loan itself was required for a total of EUR 90 063 million as at 31 December 2007 (2006: EUR 73 905 million), the borrower's level of solvency itself representing adequate security. In the event of certain occurrences, appropriate contractual clauses ensure the Bank's right to access independent security.

(2) This amount includes loans (2007: EUR 3 102 million, 2006: EUR 2 763 million) in risk-sharing operations

(3) This amount includes loans granted under the Facilities (2007: EUR 3 186 million, 2006: EUR 2 730 million). Loans granted under the Facilities are not secured by guarantees of the Community budget or the Member States. Therefore, lending under the Facilities is from the Bank's own resources and at the Bank's own risk.

(4) This amount does not include asset backed securities (2007: EUR 4 709 million, 2006: EUR 2 722 million).

Loans outside the European Communities (apart from those under the Pre-Accession Facility and the Mediterranean Partnership Facility – the 'Facilities') are, in the last resort, secured by guarantees of the European Communities budget or the Member States (loans in the ACP Countries and the OCT). In all regions (South Africa, non-member Mediterranean Countries, Central and Eastern Europe, Asia and Latin America), apart from the ACP Countries and the OCT, in the case of loans secured by a sovereign guarantee, all risks are, in the last resort, covered by the European Communities budget.

The agreements decided by the Council of the European Union on 14 April 1997 (Decision 97/256/EC) introduced the concept of risk sharing whereby certain bank loans are secured by third-party guarantees with respect to the commercial risk, the budgetary guarantee applying in the case of political risks solely arising from currency non-transferability, expropriation, war and civil disturbance.

Outside the European Union

Secured by:	31.12.2007	31.12.2006
Member States	1 567	1 339
Community budget	25 270 [*]	24 735 [*]
Total	**26 837**	**26 074**

(*) of which EUR 3 102 million in risk-sharing operations as explained above (2006: EUR 2 763 million).

LOANS FOR PROJECTS OUTSIDE THE UNION (in EUR million)

(including loans in the new Member States before accession)

BREAKDOWN OF LOANS BY GUARANTEE AS AT 31 DECEMBER

AGREEMENT	Outstanding 31.12.2007	Outstanding 31.12.2006
75 % Member States global guarantee		
- ACP/OCT Group 3 rd Lomé Convention	4	12
- ACP/OCT Group 4 th Lomé Convention	200	290
- ACP/OCT Group 4 th Lomé Convention/2 nd Financial Protocol	586	657
Total 75 % Member States global guarantee	790	959
75 % Member States guarantee		
- Cotonou partnership agreement	777	380
Total 75 % Member States guarantee	777	380
Total Member States guarantee	1 567	1 339
100 % Community budget guarantee		
- South Africa - 300m - BG Decision 19.06.95	62	103
- ALA I - 750m	145	177
- ALA interim (100 % guarantee) -153m	22	40
- CEEC - 1bn - BG Decision 29.11.89	127	169
- CEEC - 3bn - BG Decision 02.05.94	730	930
- CEEC – 700m - BG Decision 18.04.91	17	36
- Russia – 100 m - 2001-2005	79	84
- Russia – 500 m - 2004-2007	230	0
Total 100 % Community budget guarantee	1 412	1 539
75 % Community budget guarantee		
- Mediterranean Protocols	1 180	1 431
- Yugoslavia – Art.18 (1984)	3	3
- Yugoslavia - 1 st Protocol	5	6
- Yugoslavia - 2 nd Protocol	40	71
- Slovenia - 1 st Protocol	71	81
Total 75 % Community budget guarantee	1 299	1 592
70 % Community budget guarantee		
- South Africa - 375m - Decision 29.01.97	165	197
- ALA II – 900m	200	313
- ALA interim (70 % guarantee: risk sharing) -122m	21	35
- Bosnia-Herzegovina - 100m 99/2001	92	97
- Euromed (EIB) - 2 310m - Decision 29.01.97	1 016	1 162
- FYROM - 150m – 1998/2000	126	133
- CEEC - 3 520m - Decision 29.01.97	1 790	2 022
Total 70 % Community budget guarantee	3 410	3 959
65 % Community budget guarantee		
- South Africa - 825m – 7/2000-7/2007	705	690
- ALA III – 2480m – 2/2000-7/2007	1 329	1 528
- ALA Decision – 2/2007-12/2013	304	0
- Euromed II - 6520m – 2/2000-1/2007	5 787	6 024
- South Eastern Neighbours – 9185m - 2/2000-7/2007	8 513	8 458
- Turkey special action – 450m – 2001-2006	347	356
- Turkey TERRA- 600m - 11/1999-11/2002	570	589
- PEV MED 1/2/2007-31/12/2013	1 205	0
- Pre-Accession – 8 700m - 2007-2013	389	0
Total 65 % Community budget guarantee	19 149	17 645
Total Community budget guarantee	25 270	24 735
TOTAL	26 837	26 074

Collateral on loans (EUR million)

Among other credit mitigant instruments, the Bank also uses pledges of financial securities. These pledges are formalized through a Pledge Agreement, enforceable in the relevant jurisdiction. The portfolio of collateral received in pledge contracts amounts to EUR 11 123 million, with the following composition:

Loan Financial Collateral (in EUR million) [(1)]

Moody's or equivalent rating	Bonds						Equities & Funds	Cash	**Total 2007**
	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS			
Aaa	972	4	0	260	398	616	0	0	**2 250**
Aa1 to Aa3	1 583	0	0	12	1 604	146	0	0	**3 345**
A1	1 055	0	0	0	1 062	0	0	0	**2 117**
Below A1	1 619	0	21	0	1 051	0	0	0	**2 691**
Non-Rated	0	0	0	0	195	0	102	423	**720**
Total 2007	**5 229**	**4**	**21**	**272**	**4 310**	**762**	**102**	**423**	**11 123**

[(1)] Bonds are valued at their market value.

Loan Financial Collateral (in EUR million) [(1)]

Moody's or equivalent rating	Bonds						Equities & Funds	Cash	**Total 2006**
	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS			
Aaa	1 192	6	77	139	336	610	0	0	**2 360**
Aa1 to Aa3	1 168	0	0	0	913	0	0	0	**2 081**
A1	1 668	0	576	0	658	0	0	0	**2 902**
Below A1	1 002	0	0	0	55	0	0	0	**1 057**
Non-Rated	0	0	0	0	236	0	151	153	**540**
Total 2006	**5 030**	**6**	**653**	**139**	**2 198**	**610**	**151**	**153**	**8 940**

[(1)] Bonds are valued at their market value.

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

	Maturity				
Sector :	not more than 1 year	1 year to 5 years	more than 5 years	**Total 2007**	Total 2006
Energy	2 165	10 508	13 876	**26 549**	24 658
Transport	3 245	17 139	64 853	**85 237**	80 413
Telecommunications	1 146	4 169	2 742	**8 057**	7 861
Water, sewerage	1 063	4 719	10 019	**15 801**	15 695
Miscellaneous infrastructure	1 029	3 874	11 432	**16 335**	15 639
Agriculture, forestry, fisheries	20	108	110	**238**	238
Industry	1 847	8 852	4 926	**15 625**	15 138
Services	360	2 869	7 963	**11 192**	8 469
Global loans	6 126	32 254	38 097	**76 477**	75 632
Health, education	321	2 695	12 620	**15 636**	13 596
TOTAL 2007	**17 322**	**87 187**	**166 638**	**271 147**	
TOTAL 2006	**16 881**	**81 978**	**158 480**		**257 339**

U.1.2. Treasury

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

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

The table below provides a percentage breakdown of the credit risk associated with the securities portfolio and treasury instruments in terms of the credit rating of counterparties and issuers (as at 31 December):

Moody's or equivalent rating	Securities portfolio %		Treasury instruments %	
Long-term rating:	**2007**	2006	**2007**	2006
- Aaa	**55**	53	**4**	2
- Aa1 to Aa3	**41**	40	**61**	68
- A1 to A3	**4**	7	**32**	18
Below A3	**0**	0	**0**	0
Short-term rating:				
- A-1+P-1	**0**	0	**3**	12
Total	**100**	**100**	**100**	**100**

As part of its treasury management activities, the Bank holds investments in capital guarantee notes, the coupons of which embed options on the performance of funds of hedge funds. At 31 December 2007, the total nominal amount of such notes stood at EUR 150 million and are part of the Securities portfolio.

Collateral on Treasury transactions (EUR million)

Part of the Treasury transactions are tripartite reverse repos, for an amount of EUR 4 593 million (2006: EUR 5 540 million). These transactions are governed by a Tripartite Agreement, the exposure is fully collateralised, with daily margin calls. The market value of the collateral portfolio at 31 December 2007 amounts to EUR 4 611 million (2006: EUR 5 886 million), with the following classification:

Tripartite Agreements Collateral (in EUR million)							
At 31.12.07	Bonds						Total 2007
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	667	206	5	212	269	444	1 803
Aa1 to Aa3	653	0	62	34	1 036	0	1 785
A1	345	0	14	0	144	26	529
Below A1	370	0	0	0	124	0	494
Non-Rated	0	0	0	0	0	0	0
Total 2007	**2 035**	**206**	**81**	**246**	**1 573**	**470**	**4 611**

Tripartite Agreement Collateral (in EUR million)							
At 31.12.06	Bonds						Total 2006
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Bank and Corporate Bonds	ABS	
Aaa	281	699	68	40	806	1 243	3 137
Aa1 to Aa3	206	0	113	0	2 094	7	2 420
A1	12	0	0	0	226	1	239
Below A1	30	0	0	0	60	0	90
Non-Rated	0	0	0	0	0	0	0
Total 2006	**529**	**699**	**181**	**40**	**3 186**	**1 251**	**5 886**

U.1.3. Securities lending

The market value of the bonds lent in the securities lending activities amounts to EUR 888 million at 31 December 2007 (2006: 851 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 2007 amounts to EUR 912 million (2006: 877 million), with the following classification:

Securities Lending Collateral (in EUR million)							
At 31.12.07	Bonds						Total 2007
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Certificate of Deposits	Time Deposit	
Aaa	755	0	0	0	14	0	769
Aa1 to Aa3	0	0	0	0	7	99	106
A1	0	0	0	0	0	23	23
Below A1	0	0	0	0	14	0	14
Non-Rated	0	0	0	0	0	0	0
Total 2007	**755**	**0**	**0**	**0**	**35**	**122**	**912**

Securities Lending Collateral (in EUR million)							
At 31.12.06	Bonds						Total 2006
Moody's or equivalent rating	Govt	Supra-national	Agency	Secured Bonds (Pfandbriefe, Cedulas)	Certificate of Deposits	Time Deposit	
Aaa	457	0	0	0	27	9	493
Aa1 to Aa3	13	0	0	0	18	224	255
A1	2	0	0	0	27	100	129
Below A1	0	0	0	0	0	0	0
Non-Rated	0	0	0	0	0	0	0
Total 2006	**472**	**0**	**0**	**0**	**72**	**333**	**877**

U.2. Interest rate risk

The Bank has established an organisational structure for the asset-liability function, applying best practices in the financial industry, and, in particular, an Asset-Liability Management Committee (ALCO) under the direct responsibility of the Bank's Management Committee. Accordingly, it has decided on an asset-liability management strategy which involves maintaining an own funds duration of around 5 years, thereby safeguarding the Bank against substantial fluctuations in its long-term revenues.

As a result of the above objective of an own funds duration equal to around 5 years, an increase in interest rates of 0.01 % on all currencies would result in a decrease of EUR 17.3 million in the net present value of the Bank's own funds.

The following table illustrates the Bank's exposure to interest rate risk. The table shows interest rate sensitive assets and liabilities classified as a function of their re-pricing in each of the indicated intervals and not on the accounting carrying amount :

Reindexation interval (in EUR million)

At 31.12.2007	not more than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total 31.12.2007
Assets:						
Loans	166 227	10 769	3 656	41 030	49 465	271 147
Net liquidity	10 820	111	416	2 321	915	14 583
	177 047	10 880	4 072	43 351	50 380	285 730
Liabilities:						
Borrowings after swaps	181 325	6 985	1 716	25 881	35 460	251 367
Interest rate risk	**-4 278**	**3 895**	**2 356**	**17 470**	**14 920**	

At 31.12.2006	not more than 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	more than 5 years	Total 31.12.2006
Assets:						
Loans	162 379	6 169	5 075	33 479	50 237	257 339
Net liquidity	14 095	-322	161	1 865	1 162	16 961
	176 474	5 847	5 236	35 344	51 399	274 300
Liabilities:						
Borrowings after swaps	177 230	4 381	1 791	24 168	34 263	241 833
Interest rate risk	**-756**	**1 466**	**3 445**	**11 176**	**17 136**	

U.3. Liquidity risk

The table hereafter analyses assets and liabilities by maturity on the basis of the period remaining between the balance sheet date and the contractual maturity date.

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

Liquidity Risk (in EUR million)

Maturity (at 31.12.2007)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2007
ASSETS						
Cash in hand, central banks and post office banks	27	0	0	0	0	27
Treasury bills eligible for refinancing with central banks	47	159	995	926	0	2 127
Other loans and advances:						
- Current accounts	264	0	0	0	0	264
- Others	15 452	24	0	0	0	15 476
	15 716	24	0	0	0	15 740
Loans:						
- Credit institutions	1 686	6 246	41 948	61 335	0	111 215
- Customers	1 949	7 358	43 376	102 498	0	155 181
	3 635	13 604	85 324	163 833	0	266 396
Debt securities including fixed-income securities	2 404	1 095	3 510	3 512	0	10 521
Other assets	0	0	0	0	7 043	7 043
Total assets	**21 829**	**14 882**	**89 829**	**168 271**	**7 043**	**301 854**
LIABILITIES						
Amounts owed to credit institutions	339	2	1	0	0	342
Debts evidenced by certificates	13 796	30 034	87 234	123 157	0	254 221
Foreign exchange neutralization on currency swap contracts	16	1 091	2 010	2 341	0	5 458
Capital, reserves and profit	0	0	0	0	34 541	34 541
Other liabilities	0	0	0	0	7 292	7 292
Total liabilities	**14 151**	**31 127**	**89 245**	**125 498**	**41 833**	**301 854**

Maturity (at 31.12.2006)	not more than 3 months	3 months to 1 year	1 year to 5 years	more than 5 years	maturity undefined	Total 2006
ASSETS						
Cash in hand, central banks and post office banks	15	0	0	0	0	15
Treasury bills eligible for refinancing with central banks	100	142	1 191	1 118	0	2 551
Other loans and advances:						
- Current accounts	184	0	0	0	0	184
- Others	14 470	28	0	0	0	14 498
	14 654	28	0	0	0	14 682
Loans:						
- Credit institutions	2 226	6 051	41 002	65 303	0	114 582
- Customers	1 555	7 046	39 935	91 411	0	139 947
	3 781	13 097	80 937	156 714	0	254 529
Debt securities including fixed-income securities	4 149	1 508	2 955	2 215	0	10 827
Other assets	0	0	0	0	6 554	6 554
Total assets	**22 699**	**14 775**	**85 083**	**160 047**	**6 554**	**289 158**
LIABILITIES						
Amounts owed to credit institutions	213	3	3	0	0	219
Debts evidenced by certificates	20 123	21 579	97 551	107 323	0	246 576
Foreign exchange neutralization on currency swap contracts	1 325	35	919	783	0	3 062
Capital, reserves and profit	0	0	0	0	32 677	32 677
Other liabilities	0	0	0	0	6 624	6 624
Total liabilities	**21 661**	**21 617**	**98 473**	**108 106**	**39 301**	**289 158**

The 'investment portfolio' [Note B] consists mainly of fixed-income securities issued by first-class counterparties, largely bonds issued by Member States, acquired with the intention of holding them until final maturity. See also Note A.6.1.

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

If all calls were to be exercised at their next contractual exercise date, cumulated early redemptions for the period 2008 - 2010 would amount to EUR 18.3 billion.

U.4. Foreign exchange rate risk

The sources of foreign exchange rate risk are to be found in the margins on operations and in general expenses incurred in non-euro currencies. The Bank's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets.

An FX hedging program exists in order to protect the known loan margins in USD and in GBP for the next 3 years.

Foreign exchange position (in EUR million)

Currency at 31.12.2007	Euro	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euro	Total 2007
ASSETS						
Cash in hand, central banks and post office banks	1	26	0	0	26	27
Treasury bills eligible for refinancing with central banks	2 127	0	0	0	0	2 127
Other loans and advances:						
- Current accounts	218	8	20	18	46	264
- Others	9 110	1 640	3 987	739	6 366	15 476
	9 328	1 648	4 007	757	6 412	15 740
Loans:						
- Credit institutions	62 636	20 112	25 567	2 900	48 579	111 215
- Customers	119 940	17 504	9 690	8 047	35 241	155 181
	182 576	37 616	35 257	10 947	83 820	266 396
Debt securities including fixed-income securities	7 295	1 858	1 143	225	3 226	10 521
Other assets	5 131	871	353	688	1 912	7 043
Total assets	**206 458**	**42 019**	**40 760**	**12 617**	**95 396**	**301 854**
LIABILITIES						
Amounts owed to credit institutions	291	0	51	0	51	342
Debts evidenced by certificates:						
- Debt securities in issue	106 341	58 774	58 411	29 802	146 987	253 328
- Others	207	613	0	73	686	893
	106 548	59 387	58 411	29 875	147 673	254 221
Foreign exchange neutralization on currency swap contracts	60 027	- 18 352	- 18 069	- 18 148	- 54 569	5 458
Capital, reserves and profit	34 541	0	0	0	0	34 541
Other liabilities	5 062	986	363	881	2 230	7 292
Total liabilities	**206 469**	**42 021**	**40 756**	**12 608**	**95 385**	**301 854**
Net position as at 31.12.2007	**-11**	**-2**	**4**	**9**		

Currency at 31.12.2006	Euro	Pounds Sterling	US Dollars	Other currencies	Sub-Total except Euro	Total 2006
ASSETS						
Cash in hand, central banks and post office banks	1	14	0	0	14	15
Treasury bills eligible for refinancing with central banks	2 551	0	0	0	0	2 551
Other loans and advances:						
- Current accounts	151	2	13	18	33	184
- Others	8 063	195	4 740	1 500	6 435	14 498
	8 214	197	4 753	1 518	6 468	14 682
Loans:						
- Credit institutions	61 412	21 814	29 278	2 078	53 170	114 582
- Customers	103 540	17 212	11 684	7 511	36 407	139 947
	164 952	39 026	40 962	9 589	89 577	254 529
Debt securities including fixed-income securities	6 849	1 873	2 056	49	3 978	10 827
Other assets	4 948	813	397	396	1 606	6 554
Total assets	**187 515**	**41 923**	**48 168**	**11 552**	**101 643**	**289 158**
LIABILITIES						
Amounts owed to credit institutions	215	0	4	0	4	219
Debts evidenced by certificates:						
- Debt securities in issue	100 733	57 634	60 292	26 827	144 753	245 486
- Others	305	599	0	186	785	1 090
	101 038	58 233	60 292	27 013	145 538	246 576
Foreign exchange neutralization on currency swap contracts	48 677	- 17 193	- 12 528	- 15 894	- 45 615	3 062
Capital, reserves and profit	32 677	0	0	0	0	32 677
Other liabilities	4 914	885	396	429	1 710	6 624
Total liabilities	**187 521**	**41 925**	**48 164**	**11 548**	**101 637**	**289 158**
Net position as at 31.12.2006	**- 6**	**- 2**	**4**	**4**		

Note V – Derivatives

Derivatives are contractual financial instruments, the value of which fluctuates according to trends in the underlying assets, interest rates, exchange rates or indices.

V.1. As part of funding and hedging activity

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

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

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

The derivatives most commonly used are:

- Currency swaps;
- Interest rate swaps;
- Asset swaps.

V.1.1. Currency swaps

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

V.1.2. Interest rate swaps

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

V.1.3. Asset swaps

Asset swaps are arranged for investments in bonds, included in the B1 portfolio, that do not have the desired cash-flow features. Specifically, swaps are used to convert investments into floating-rate instruments with 3-month coupon payment and reset frequency. Thus, the Bank eliminates interest-rate and/or exchange risk, while retaining, as intended, the credit risk.

Interest rate or currency swaps allow the Bank to modify the interest rate and currency structure of its borrowing portfolio in order to accommodate requests from its clients and also to reduce funding costs by exchanging its advantageous access conditions to certain capital markets with its counterparties.

- Derivatives credit risk mitigation policy:

The credit risk with respect to derivatives lies in the loss, which the Bank would incur where a counterparty would be unable to honour its contractual obligations.

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

- Contractual framework:

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

- Counterparty selection:

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

- Limits:

Limits have been set in terms of:

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

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

- Monitoring:

The derivatives portfolio is regularly valued and compared against limits.

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

The credit risk associated with derivatives varies according to a number of factors (such as interest and exchange rates) and generally corresponds to only a small portion of their notional value. In the Bank's case, where only mutually agreed derivatives are negotiated, the credit risk is evaluated on the basis of the 'current exposure' method recommended by the Bank for International Settlements (BIS). Hence, the credit risk is expressed in terms of the positive 'fair value' or replacement value of the contracts, increased by the potential risks, contingent on the duration and type of transaction, weighted by a coefficient linked to the category of counterparty (BIS I weighted risk).

The following tables show the maturities of currency swaps (excluding short-term currency swaps – see Note V.2) and interest rate swaps, sub-divided according to their notional amount and the associated credit risk. The notional amounts are disclosed off balance sheet.

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

Currency swaps at 31.12.2006 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2006
Notional amount	8 888	23 471	15 784	11 148	59 291
Net discounted value	-1 215	-908	-447	-6	-2 576
Credit risk (BIS I weighted)	49	250	256	289	844

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

Interest rate swaps at 31.12.2006 (in EUR million)	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	Total 2006
Notional amount	37 278	84 434	61 385	60 691	243 788
Net discounted value (*)	178	156	-1 175	2 148	1 307
Credit risk (BIS I weighted)	70	334	327	1 085	1 816

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

Notional amounts of EUR 419 million of futures contracts, with fair values of EUR 2.9 million and a maturity less than 1 year are outstanding as at 31 December 2007.

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

Tabulated below are the number and notional amounts of the various types of options embedded in borrowings:

	Option embedded		Stock exchange index		Special structure coupon or similar	
	2007	2006	2007	2006	2007	2006
Number of transactions	429	448	3	1	322	282
Notional amount (in EUR million)	18 433	19 523	600	30	20 817	18 533
Net discounted value (in EUR million)	-969	-739	-23	2	-187	-452

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

All option contracts embedded in, or linked with, borrowings are negotiated over the counter. From the portfolio of structured deals with embedded options, 222 swaps amounting to EUR 3 318 million of notional are Power Reverse Dual Currency. Their 'fair value' is EUR -219 million. These transactions are very dependent on the exchange rate USD/JPY and have embedded options of earlier termination. An appreciation of 5 % of the USD with respect to JPY will imply a 'fair value' of EUR -187 million, that is an increase of EUR 32 million as well as an increase of the probability of their early exercise. The rest of structured deals include a variety of transactions dependent on interest rates, FX rates, inflation rates, stock indexes and IR volatilities.

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

Collateral (EUR million)

The collateral received for derivatives business amounts to EUR 1 550 million, with the following composition:

Swap Collateral (in EUR million)

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

Swap Collateral (in EUR million)

Moody's or equivalent rating	Bonds				Cash	Total 2006
	Govt	Supranational	Agency	Secured Bonds (Pfandbriefe)		
Aaa	1 095	28	0	5	0	1 128
Aa1 to Aa3	21	0	0	0	0	21
A1	590	0	0	0	0	590
Below A1	50	0	0	0	0	50
Non-Rated	0	0	0	0	213	213
Total 2006	**1 756**	**28**	**0**	**5**	**213**	**2 002**

Ratings exposure table: The major part of new derivatives transactions are concluded with counterparties rated at least A1. With exceptional conditions of over-collateralisation, counterparties rated A2 or A3 have been also accepted. Consequently, most of the portfolio is concentrated on counterparties rated A1 or above.

Grouped Ratings	Percentage of Nominal		Net Market Exposure (in EUR million)		CRE BIS2 Swaps (in EUR million)	
Moody's or equivalent rating	2007	2006	2007	2006	2007	2006
Aaa	3.3 %	5.5 %	0	0	64	186
Aa1 to Aa3	86.1 %	74.2 %	649	563	4 366	3 843
A1	8.7 %	16.0 %	19	41	504	601
A2 to A3	1.9 %	4.3 %	2	2	165	370
Non-rated	0.0 %	0.0 %	0	0	2	2
Total	**100.0 %**	**100.0 %**	**670**	**606**	**5 101**	**5 002**

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

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

V.2. As part of liquidity management

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

The notional amount of short-term currency swaps and short term forwards stood at EUR 4 941 million at 31 December 2007, against EUR 5 602 million at 31 December 2006.

The notional amount of Overnight indexed swaps stood at EUR 6 000 million at 31 December 2007 (nil at 31 December 2006).

Long-term futures are also used by the Bank to adjust the medium-term (2y) interest rate exposure of its treasury bond portfolios. The notional amount of long-term futures stood at EUR 419 million at 31 December 2007 (2006: EUR 561 million).

Note W – Geographical breakdown of lending by country in which projects are allocated

(in EUR '000)

W.1. Loans for projects within the Union

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Spain	603	48 224 303	4 574 687	43 649 616	14.85 %	14.65 %
Germany	794	46 835 841	1 577 160	45 258 681	14.42 %	15.00 %
Italy	543	40 513 361	4 740 443	35 772 918	12.48 %	12.51 %
France	387	34 189 863	4 361 024	29 828 839	10.53 %	10.81 %
United Kingdom	200	26 284 577	3 896 262	22 388 315	8.09 %	8.88 %
Portugal	245	17 215 588	2 028 687	15 186 901	5.30 %	5.37 %
Greece	138	13 142 910	1 683 972	11 458 938	4.05 %	4.08 %
Poland	120	12 006 945	3 822 194	8 184 751	3.70 %	3.41 %
Czech Republic	84	7 666 580	2 793 805	4 872 775	2.36 %	2.12 %
Austria	180	6 682 627	307 000	6 375 627	2.06 %	2.07 %
Hungary	84	6 313 692	1 899 437	4 414 255	1.94 %	1.72 %
Finland	99	5 623 611	749 467	4 874 144	1.73 %	1.77 %
Belgium	75	5 119 622	755 080	4 364 542	1.58 %	1.53 %
Netherlands	52	4 290 983	1 376 113	2 914 870	1.32 %	1.47 %
Romania	57	4 122 025	2 360 255	1 761 770	1.27 %	1.33 %
Sweden	68	3 537 501	720 225	2 817 276	1.09 %	1.09 %
Ireland	60	3 425 935	625 399	2 800 536	1.05 %	1.10 %
Denmark	63	3 123 593	467 841	2 655 752	0.96 %	1.10 %
Slovenia	41	2 223 882	744 000	1 479 882	0.68 %	0.56 %
Bulgaria	26	1 849 490	1 445 737	403 753	0.57 %	0.26 %
Cyprus	27	1 315 054	527 800	787 254	0.40 %	0.40 %
Slovak Republic	33	1 095 579	355 219	740 360	0.34 %	0.38 %
Luxembourg	32	732 435	132 893	599 542	0.23 %	0.26 %
Latvia	23	490 100	50 000	440 100	0.15 %	0.16 %
Lithuania	13	169 403	94 000	75 403	0,05 %	0.06 %
Estonia	13	159 997	25 000	134 997	0.05 %	0.08 %
Malta	4	55 818	47 700	8 118	0.02 %	0.01 %
Total	**4 064**	**296 411 315**	**42 161 400**	**254 249 915**	**91.27 %**	**92.18 %**

W.2. Loans for projects outside the Union

W.2.1. ACP Countries/OCT

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Madagascar	1	260 000	260 000	0		
Ghana	5	137 886	106 829	31 057		
Nigeria	3	121 265	65 424	55 841		
Mauritius	13	120 509	79 153	41 356		
Namibia	10	91 967	0	91 967		
Regional – West Africa	3	85 154	0	85 154		
Dominican Republic	4	82 052	80 000	2 052		
Mozambique	6	76 109	0	76 109		
Lesotho	4	48 947	14 300	34 647		
Swaziland	3	46 297	19 503	26 794		
Kenya	4	45 660	0	45 660		
Zambia	2	45 249	31 187	14 062		
Barbados	5	44 031	11 250	32 781		
Regional – Caribbean	2	42 753	27 453	15 300		
Senegal	2	41 002	15 000	26 002		
Botswana	5	37 106	0	37 106		
Jamaica	6	36 970	0	36 970		
Regional – Africa	2	27 724	0	27 724		
ACP Group	3	26 056	0	26 056		
Fiji Islands	1	24 500	24 500	0		
Mauritania	2	21 760	0	21 760		
Cape Verde	1	18 721	0	18 721		
Zimbabwe	6	13 142	0	13 142		
Benin	1	13 000	13 000	0		
Bahamas	2	11 080	0	11 080		
Saint Vincent and The Grenadines	2	8 497	1 462	7 035		
Trinidad and Tobago	3	7 875	0	7 875		
Saint Lucia	3	7 220	1 155	6 065		
Gabon	1	4 928	0	4 928		
French Polynesia	2	2 686	0	2 686		
Malawi	1	2 635	0	2 635		
British Virgin Islands	3	1 961	0	1 961		
Côte-d'Ivoire	1	1 911	0	1 911		
New Caledonia and Dependencies	2	1 396	0	1 396		
Papua New Guinea	1	1 373	0	1 373		
Regional PTOM	1	1 238	0	1 238		
Grenada	1	1 042	0	1 042		
Cayman Islands	1	534	0	534		
Belize	1	461	0	461		
Falkland Islands	1	281	0	281		
Tonga	1	141	0	141		
Netherlands Antilles	1	61	0	61		
Sub-total	**122**	**1 563 180**	**750 216**	**812 964**	**0.48 %**	**0.43 %**

W.2.2. South Africa

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
South Africa	32	935 707	266 091	669 616		
Sub-total	**32**	**935 707**	**266 091**	**669 616**	**0.29 %**	**0.32 %**

W.2.3. Euro-Mediterranean Partnership Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Egypt	42	2 461 290	485 343	1 975 947		
Morocco	49	2 358 545	924 500	1 434 045		
Tunisia	54	2 269 510	927 438	1 342 072		
Syria	11	998 124	620 921	377 203		
Lebanon	24	825 251	532 197	293 054		
Israel	5	414 261	395 000	19 261		
Jordan	22	315 791	67 646	248 145		
Gaza-West Bank	7	78 816	45 000	33 816		
Algeria	3	34 930	0	34 930		
Sub-total	**217**	**9 756 518**	**3 998 045**	**5 758 473**	**3.00 %**	**2.92 %**

W.2.4. South-East European Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Turkey	76	7 546 577	2 837 448	4 709 129		
Croatia	22	1 280 806	680 404	600 402		
Serbia	37	1 203 355	642 268	561 087		
Bosnia-Herzegovina	21	725 374	440 350	285 024		
Albania	12	248 614	141 829	106 785		
FYROM	6	149 032	19 440	129 592		
Montenegro	2	35 000	0	35 000		
Sub-total	**176**	**11 188 758**	**4 761 739**	**6 427 019**	**3.45 %**	**2.79 %**

W.2.5. Russia and Western Newly Independent States

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Ukraine	1	200 000	200 000	0		
Russia	3	79 421	3 332	76 089		
Moldova	1	30 000	30 000	0		
Sub-total	**5**	**309 421**	**233 332**	**76 089**	**0.10 %**	**0.03 %**

W.2.6. EFTA Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
Norway	10	958 761	99 792	858 969		
Island	10	374 298	22 000	352 298		
Switzerland	1	267 722	0	267 722		
Sub-total	**21**	**1 600 781**	**121 792**	**1 478 989**	**0.49 %**	**0.50 %**

W.2.7. Asia and Latin American Countries

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total 2007	% fin. year 2006
China	5	1 035 289	744 463	290 826		
Brazil	17	572 882	181 290	391 592		
Sri Lanka	4	153 207	64 000	89 207		
Indonesia	4	127 051	38 290	88 761		
Peru	4	125 358	16 318	109 040		
Philippines	6	123 619	67 196	56 423		
Vietnam	3	95 266	30 000	65 266		
Mexico	3	94 298	0	94 298		
Colombia	1	88 010	15 345	72 665		
Pakistan	4	81 985	0	81 985		
Argentina	4	79 518	0	79 518		
Panama	2	61 106	27 141	33 965		
Regional - Andean Pact	2	52 647	40 000	12 647		
Regional - Central America	3	50 990	35 590	15 400		
Maldives	1	46 721	16 152	30 569		
Equator	1	34 756	0	34 756		
Laos	1	33 002	0	33 002		
Thailand	1	28 427	0	28 427		
Uruguay	3	28 071	18 221	9 850		
Bangladesh	1	22 302	0	22 302		
Honduras	1	20 000	20 000	0		
Costa Rica	1	17 205	0	17 205		
India	1	15 998	0	15 998		
Sub-total	**73**	**2 987 708**	**1 314 006**	**1 673 702**	**0.92 %**	**0.83 %**
Total	**646**	**28 342 073**	**11 445 221**	**16 896 852**	**8.73 % (1)**	**7.82 %**
TOTAL	4 710	324 753 388	53 606 621	271 146 767 (2)	100.00 %	100.00 %

(1) 7.77 % excluding Pre-Accession Facility.

(2) including asset backed securities [Note B and D.1]

Note X – Conversion rates

The following conversion rates were used for establishing the balance sheets at 31 December 2007 and 31 December 2006:

	31.12.2007	31.12.2006
NON-EURO CURRENCIES OF EU MEMBER STATES		
Pound sterling	0.733350	0.6715
Swedish kronor	9.4415	9.0404
Czech koruna	26.628	27.485
Polish zloty	3.5935	3.8310
Hungarian forint	253.73	251.77
Slovak koruna	33.583	34.435
Danish kroner	7.4583	7.4560
Cyprus pound	0.585274	0.57820
NON-COMMUNITY CURRENCIES		
United States dollars	1.4721	1.3170
Japanese yen	164.93	156.93
Swiss francs	1.6547	1.6069
South African rand	10.0298	9.2124
Norvegian krone	7.9580	8.2380
Franc CFA	655.96	655.96
Moroccan dirham	11.3203	11.1256
Mauritania ouguiya	364.72	351.51
Canadian dollars	1.4449	1.5281
Jordanian dinar	1.0327	0.9322
Australian dollars	1.6757	1.6691
Samoan tala	3.4613	3.3927
Swozi lilangeni	9.9358	9.1518
Dominican peso	48.220	43.257
Rwanda franc	789.32	719.05

Note Y – Subscribed capital and receivable reserves, called but not paid

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

As at 1 January 2007, the subscribed capital has increased from EUR 163 653 737 000 to EUR 164 808 169 000, by virtue of the contributions of two new Member States that joined on 1 January 2007: Bulgaria and Romania. As a consequence of this capital increase, the two new Member States had to contribute to their share of Paid-in capital (EUR 57.7 million), and also their share of the Reserves and General Provisions (EUR 172.9 million) for the amounts outstanding as of 31 December 2006. The total amount to be paid has been equally spread over 8 instalments: 31 May 2007, 31 May 2008, 31 May 2009, 30 November 2009, 31 May 2010, 30 November 2010, 31 May 2011 and 30 November 2011. The instalments up to and including 31 May 2007 have been entirely settled.

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

(In EUR´ 000):

	31.12.2007	31.12.2006
Receivable reserves called but not paid:	798 295	1 078 300
Subscribed capital called but not paid:	306 514	426 679
	1 104 809	**1 504 979**

Note Z – Related party – European Investment Fund

Related party transactions with the European Investment Fund are mainly related to the management by the Bank of the EIF treasury, the IT, the pension fund and other services on behalf of the EIF. In addition, the European Investment Fund manages the venture capital activity of the Bank. The amounts included in the financial statements and relating to the European Investment Fund are disclosed as follows:

(in EUR´ 000)	2007	2006
ASSETS		
Sundry debtors	1 567	4 218
Total assets	**1 567**	**4 218**
LIABILITIES		
Sundry Creditors	14 090	11 299
Total liabilities	**14 090**	**11 299**
PROFIT AND LOSS ACCOUNT		
Commission expenses	- 8 540	- 8 457
Other operating income	1 446	1 292
General administrative expenses	3 821	4 515
Total profit and loss account	**- 3 273**	**- 2 650**
OFF BALANCE SHEET		
EIF capital - uncalled	1 457 600	979 200
EIF treasury management	799 946	543 168
Nominal value of put option granted to EIF minority shareholders	319 045	237 141
Total off balance sheet	**2 576 591**	**1 759 509**

Independent Auditor's Report

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

We have audited the accompanying financial statements of the European Investment Bank, which show a profit of EUR 1,633.460 million and a total balance sheet of EUR 301,854.351 million and which comprise the balance sheet as at December 31, 2007, the profit and loss account, the statement of Special Section, the own funds and appropriation profit, the statement of subscriptions to the capital of the Bank, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes to the financial statements.

Management Committee's responsibility for the financial statements

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

Responsibility of the "Réviseur d'Entreprises"

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the European Investment Bank as of December 31, 2007, of its financial performance, of its own funds and appropriation profit, of its statement of Special Section, of its subscriptions to the capital of the Bank and of its cash flows for the year then ended in accordance with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

March 12, 2008

ERNST & YOUNG

Société Anonyme

Réviseur d'Entreprises

Alain KINSCH

Bernard LHOEST

The Audit Committee

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

Statement by the Audit Committee on the Bank unconsolidated financial statements

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

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the European Investment Bank for the year ended 31 December 2007 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 2007 as drawn up by the Board of Directors at its meeting on 11 March 2008,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the Bank are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Bank have been conducted and its books kept in a proper manner and that to this end, it has verified that the Bank's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the statement of special section, the profit and loss account, the statement of own funds and appropriation of profit, the statement of subscriptions to the capital of the Bank, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2007 in respect of its assets and liabilities, and of the results of its operations and cash flows for the year then ended.

Luxembourg, 12 March 2008

The Audit Committee

M. DALLOCCHIO C. KARMIOS O. KLAPPER

Investment Facility

Financial Statements

Income statement

For the year 2007 (in EUR '000)

	Notes	Year to 31.12.2007	Year to 31.12.2006
Interest and similar income	5	46 580	23 816
Interest and similar expense	5	(1 218)	(2 493)
Net interest and similar income		**45 362**	**21 323**
Net fees and commission income	6	1 396	4 366
Net fees and commission income		**1 396**	**4 366**
Net result on financial operations	7	(8 005)	(283)
Impairment charge for credit loss	11	(2 770)	(1 693)
Member States special contribution to general administrative expenses	8	32 756	33 913
General administrative expenses	8	(32 756)	(33 913)
Profit for the year		**35 983**	**23 713**

Balance sheet

At 31 December 2007 (in EUR '000)

	Notes	2007	2006
ASSETS			
Cash and cash equivalents	9	184 772	190 780
Derivative financial instruments	10	25 279	8 592
Loans and receivables	11	572 530	338 997
Of which accrued interest		10 779	3 784
Financial investments - available-for-sale	12		
Equity investment - available-for-sale		109 363	66 449
Amounts receivable from contributors	13	181 183	103 913
Other assets	14	4 291	1 813
Total Assets		**1 077 418**	**710 544**
LIABILITIES AND EQUITY			
LIABILITIES			
Derivative financial instruments	10	841	119
Deferred income	15	18 030	7 908
Amount owed to third parties	16	131 152	134 425
Other liabilities	17	916	1 911
Total Liabilities		**150 939**	**144 363**
EQUITY			
Facility Member States Contribution called	18	830 000	515 000
Retained earnings		77 167	41 184
Fair value reserve		19 312	9 997
Total Equity		**926 479**	**566 181**
Total Liabilities and Equity		**1 077 418**	**710 544**

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

Statement of changes in equity

As at 31 December 2007 (in EUR '000)

For the year ended 31 December 2007	Facility Member States Contribution	Retained earnings	Fair value reserve on AFS investments	Total Equity
At 1 January 2007	515 000	41 184	9 997	566 181
Net changes in equity investments - available-for-sale			9 315	9 315
Facility Member States contribution called during the year	315 000			315 000
Profit for the year		35 983		35 983
Changes in contributors' resources	315 000	35 983	9 315	360 298
At 31 December 2007	**830 000**	**77 167**	**19 312**	**926 479**
At 1 January 2006	370 000	17 471	6 443	393 914
Net changes in equity investments - available-for-sale			3 554	3 554
Facility Member States contribution called during the year	145 000			145 000
Profit for the year		23 713		23 713
Changes in contributors' resources	145 000	23 713	3 554	172 267
At 31 December 2006	**515 000**	**41 184**	**9 997**	**566 181**

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

Cash flow statement

As at 31 December 2007 (in EUR '000)

	2007	2006
OPERATING ACTIVITIES		
Profit for the financial year	35 983	23 713
Adjustments		
Impairment on equity investment available-for-sale	366	130
Impairment on loans	2 770	1 693
Interest capitalised	(6 747)	(4 303)
Increase in accruals and deferred income	4 150	8 038
Profit on operating activities before changes in operating assets and liabilities	36 522	29 271
Net loan disbursements	(286 028)	(157 004)
Repayments	34 214	3 585
Fair value movement on derivatives	(15 965)	(14 057)
Increase in prepayments and accrued income on loans		(1 062)
Increase in equity investments available-for-sale	(43 143)	(31 965)
Proceeds from equity investments available-for-sale	8 248	25
Increase in other assets	(2 456)	(1 014)
Increase in other liabilities	(518)	1 463
Net cash flows from operating activities	(269 126)	(170 758)
FINANCING ACTIVITIES		
Paid in by Facility Member States	315 000	145 000
Increase / (decrease) in amount receivable from contributors	(77 271)	(11 458)
Net increase in amount payable from interest subsidies	(3 273)	17 312
Increase in amount payable to third parties	(538)	1 458
Net cash flows from/(used in) financing activities	233 918	152 312
Net increase in cash and cash equivalents	**(35 208)**	**(18 446)**
Cash and cash equivalents at beginning of financial year	190 780	194 916
Effect of exchange rate changes on loans and equity investments	29 200	14 310
Cash and cash equivalents at end of financial year	**184 772**	**190 780**

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

Investment Facility

Notes to the financial statements

1. General information

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

The Investment Facility is managed by the European Investment Bank (the "EIB" or the "Bank"). Under the terms of the Agreement up to EUR 2,200 million for ACP and EUR 20 million for OCT (as agreed by the Council Decision of 27 November 2001 on the association of the Overseas Countries and Territories with the European Community) may be allocated to finance the Investment Facility. Within the framework of the Agreement, the EIB also manages loans granted from its own resources. All other financial resources and instruments under the Agreement are administered by the European Commission.

2. Significant accounting policies

2.1. Basis of preparation

In line with the Investment Facility Management Agreement the preparation of the financial statements of the Facility is guided by International Public Sector Accounting Standards or International Financial Reporting Standards, as appropriate. The Facility's financial statements have been prepared on the basis of the following significant accounting principles:

2.2. Significant accounting judgments and estimates

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

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

Fair value of financial instruments

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

Impairment losses on loans and receivables

The Investment Facility reviews its problem loans and receivables at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and receivables, the Investment Facility also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Valuation of unquoted available-for-sale equity investments

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

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

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

Impairment of available-for-sale financial investments

The Investment Facility treats available-for-sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of whether a decline is significant or prolonged is based on a judgmental appreciation.

2.3. Change in accounting policies

The accounting policies adopted are consistent with those used in the previous financial years.

2.4. Summary of significant accounting policies

The balance sheet represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

2.4.1. Foreign currency translation

The Investment Facility uses the Euro (EUR) for presenting its financial statements, which is also the functional and presentational currency.

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

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

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

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealized foreign exchange differences on unsettled foreign currency monetary assets and liabilities, are recognized in the income statement.

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

2.4.2. Cash and cash equivalents

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

2.4.3. Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

Loans

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

Available-for-sale financial investments

Available-for-sale financial investments are those which are designated as such or do not qualify to be classified as designated at fair value through profit or loss, held-to-maturity or loans and receivables. They include equity instruments, investments in venture capital funds and other debt instruments.

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

a. Venture capital funds

The fair value of each venture capital fund will be based on the Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standards. The Investment Facility may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standard is applied, the valuation will be conducted on the basis of the underlying portfolio.

b. Direct equity investments

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

Unrealized gains or losses on equity investments are reported in equity until such investments are sold, collected or disposed of, or until such investment are determined to be impaired. If an available-for-sale investment is determined to be impaired, the cumulative unrealized gain or loss previously recognized in equity is included in the income statement.

For unquoted investment, the fair value is determined by applying recognized valuation technique. These investments are accounted for at cost when the fair value cannot be reliably measured.

Guarantees

Financial guarantees are initially recognized at fair value in the balance sheet under item “Financial guarantees”. Subsequent to initial recognition, the Investment Facility’s liabilities under each guarantee are measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the income statement under item "Impairment charge for credit loss". The premium received is recognized in the income statement under item "Net fee and commission income" using the effective interest rate method over the life of the guarantee.

2.4.4. Impairment of financial assets

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

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

The Investment Facility conducts credit risk assessments based on which there is no need for a collective impairment provision.

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

For held-to-maturity investments the Investment Facility assesses individually whether there is objective evidence for impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amount formerly charged are credited to the "Net result on financial operations".

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

2.4.5. Derivative financial instruments

Derivatives include cross currency swaps and cross currency interest rate swaps.

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

However, the Investment Facility has not entered into any hedge accounting transactions as at 31 December 2007. Therefore, all derivatives are measured at fair value through the income statement. Fair values are derived primarily from discounted cash-flow models, option-pricing models and from third party quotes.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivative financial instruments are included in "Net result on financial operations".

2.4.6. Contributions

Contributions from Member States are recognized as receivable in the balance sheet on the date of the Council Decision fixing the financial contribution to be paid by the Member States to the Investment Facility.

2.4.7. Interest income on loans

Interest on loans originated by the Investment Facility is recorded in the profit and loss account ("Interest and similar income") and on the balance sheet ("Loan and receivables") on an accrual basis using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the loan to the net carrying amount of the loan. Once the recorded value of a loan has been reduced due to impairment, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

2.4.8. Interest subsidies

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

The part of the Member States contributions allocated to the payment of interest subsidies is not accounted for in the Investment Facility's equity but is classified as an amount owed to third parties.

2.4.9. Interest income on treasury

Under the terms of the Investment Facility and according to the Financial Regulation applicable to the 9th European Development Fund, the funds received by the EIB on behalf of the Investment Facility are recorded in an account in the Commission's name. Interest on these deposits, placed by the Investment Facility with the EIB, is not accounted for by the Investment Facility as it is payable directly to the European Commission.

Reflows, being repayment of principal, interest or commissions stemming from financial operations, and interest calculated on these reflows are accounted for within the Investment Facility.

2.4.10. Fees, commissions and dividends

Fees received in respect of services provided over a period of time are recognized as income as the services are provided. Commitment fees are deferred and recognized in income using the effective interest method over the period from disbursement to repayment of the related loan.

Dividends relating to available-for-sale equity investments are recognized when received.

2.4.11. Taxation

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

2.4.12. Reclassification of prior years figures

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

3. Risk management

3.1. Credit risk

This section presents financial information about the investments made by the Facility.

3.1.1. Exposure disbursed by nature of borrower (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of borrower.

	2007	2006
Banks/ Financial Institut.	190 218	88 951
Proj. Fin. / Struct. Op.	320 670	227 231
Sovereign	58 852	23 235
Venture Capital Fund	65 583	34 551
Corporates	35 791	27 694
Total	**671 114**	**401 662**

3.1.2. Exposure disbursed by nature of instrument (in EUR '000)

The table hereafter analyses the Investment Facility exposure disbursed by nature of investment instrument used.

	2007	2006
Senior Loans (exposure disbursed)	409 765	226 392
of which Global Loans	144 265	96 841
Subordinated Loans and Quasi Equity	151 986	108 821
Equity	109 363	66 449
Total	**671 114**	**401 662**

3.1.3. Risk concentrations of the exposure disbursed to credit risk (in EUR '000)

The table below analyses the Investment Facility exposure disbursed by sector.

	2007	2006
Global loans	104 418	61 663
Energy	107 096	38 291
Industry	235 274	184 475
Services	165 683	72 699
Transports	9 199	
Water, sewerage	2 000	
Agriculture, fisheries, forestry	7 590	9 349
Agency agreements	39 854	35 185
Total	**671 114**	**401 662**

3.2. Liquidity risk and funding management

3.2.1. Analysis of financial liabilities by remaining contractual maturities (in EUR '000)

The table below sets out the Facility's assets and liabilities by relevant maturity groupings based on the remaining period to the contractual maturity date.

Financial liabilities	Up to 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
ASSETS					
Cash and cash equivalents	184 772				184 772
Derivative financial instruments		433	11 803	13 043	25 279
Loans and receivables	7 735	3 082	85 010	476 703	572 530
Financial investments - available-for-sale					
Equity investment - available-for-sale				109 363	109 363
Amounts receivable from contributors	181 183				181 183
Other assets	3 783			508	4 291
Total assets	**377 473**	**3 515**	**96 813**	**599 617**	**1 077 418**
LIABILITIES					
Derivative financial instruments	532	5	140	164	841
Deferred income				18 030	18 030
Amount owed to third parties	131 152				131 152
Other liabilities	408			508	916
Total liabilities	**132 092**	**5**	**1 400**	**18 702**	**150 939**
Net liquidity position at 31 December 2007	**245 476**	**3 510**	**96 673**	**580 914**	**926 479**
Net liquidity position at 31 December 2006	**162 115**	**1 518**	**17 272**	**385 276**	**566 181**

3.3. Market risk

A sensitivity analysis to be prepared for each type of market risk:

3.3.1. Interest rate risk (in EUR '000)

The table below summarizes the Investment Facility's exposure to interest rate risk through its investments.

	2007	2006
Fixed rate interest	291 468	170 790
Floating rate interest	270 283	164 423
Total	**561 751**	**335 213**

3.3.2. Currency risk (or Foreign exchange risk) (in EUR '000)

	EUR	USD	CAD	ACP/OCT Currencies	Total
ASSETS					
Cash and cash equivalents	178 097	6 675			184 772
Derivative financial instruments	24 609	670			25 279
Loans and receivables	277 084	264 765		30 681	572 530
Financial investments - available-for-sale					
Equity investment - available-for-sale	31 697	63 906	3 397	10 363	109 363
Amounts receivable from contributors	181 183				181 183
Other assets	711	2 722		858	4 291
Total assets	**693 381**	**338 738**	**3 397**	**41 902**	**1 077 418**
LIABILITIES					
Derivative financial instruments	841				841
Deferred income	18 030				18 030
Amount owed to third parties	131 152				131 152
Other liabilities	408			508	916
Total liabilities	**150 431**			**508**	**150 939**
Equity					
Facility Member States Contribution called	830 000				830 000
Retained earnings	77 167				77 167
Fair value reserve	7 094	5 570	6 857	(209)	19 312
Total equity	**914 261**	**5 570**	**6 857**	**(209)**	**926 479**
Currency position as at 31 December 2007	**(371 311)**	**333 168**	**(3 460)**	**41 603**	
Currency position as at 31 December 2006	**(244 924)**	**206 935**	**3 797**	**34 192**	
COMMITMENTS					
Undisbursed loans and equity investments	573 913	183 408			757 321
Guarantees drawn	10 116				10 116
CONTINGENT LIABILITIES					
Guarantees undrawn	113 875				113 875

4. Segment information

In accordance with IAS 14, the primary segment of the Investment Facility is business operation and the secondary segment is geographical.

4.1. By business segment (in EUR '000)

The activity of the Investment Facility is divided into two main business segments on a worldwide basis:

- Banking operations – incorporating investments in projects which are made with the purpose of supporting investments of private and commercially run public sector entities. The main investment products are loans, available-for-sale equity investments and financial guarantees.
- Treasury activities – including investing surplus liquidity and managing the Investment Facility foreign exchange risk.

At 31 December 2007	Treasury	Banking	Total
Revenue from segments	5 365	43 638	49 003
Expenses and charges from segments	(9 442)	(3 578)	(13 020)
Profit for the year			**35 983**
Segment assets	213 436	682 798	896 234
Unallocated assets			181 184
Total assets			**1 077 418**
Segment liabilities	1 241	18 546	19 787
Unallocated liabilities			131 152
Total liabilities			**150 939**
Other segment information			
Contingent liabilities and commitments		881 312	881 312

At 31 December 2006	Treasury	Banking	Total
Revenue from segments	2 098	26 084	28 182
Expenses and charges from segments	(2 646)	(1 823)	(4 469)
Profit for the year			**23 713**
Segment assets	200 186	406 445	606 631
Unallocated assets			103 913
Total assets			**710 544**
Segment liabilities	1 247	8 691	9 938
Unallocated liabilities			134 425
Total liabilities			**144 363**
Other segment information			
Contingent liabilities and commitments		939 594	939 594

4.2. By geographical segment (in EUR '000)

The Investment Facility's activities are divided into five regions for internal management purposes.

At 31 December 2007	Revenues (*)	Total assets	Total liabilities	Contingent liabilities and commitments
Caribbean and Pacific	4 881	63 089		102 658
Central and Eastern Africa	4 560	114 401	15 837	414 592
Regional Africa and ACP States	4 253	77 923		163 377
Southern Africa and Indian Ocean	16 787	216 175	707	82 803
West Africa and Sahel	9 631	187 602	2 003	117 882
Others (**)		418 228	132 392	
Total	**40 112**	**1 077 418**	**150 939**	**881 312**

At 31 December 2006	Revenues (*)	Total assets	Total liabilities	Contingent liabilities and commitments
Caribbean and Pacific	4 217	42 558		69 801
Central and Eastern Africa	2 216	57 161	8 155	296 819
Regional Africa and ACP States	2 536	54 944		192 882
Southern Africa and Indian Ocean	12 990	161 006	51	124 241
West Africa and Sahel	2 502	75 509	150	255 851
Others (**)		319 366	136 007	
Total	**24 461**	**710 544**	**144 363**	**939 594**

(*) Revenues represent the net profit on the Investment Facility's operational activity (i.e. interest and similar income, interest subsidies, net fee and commission income, credit loss expense and impairment losses on financial investments).

(**) Under geographical segment "Others" are considered the amount payable to or receivable from the Member States or the European Investment Bank and the Investment Facility cash and cash equivalent.

5. Net interest income (in EUR '000)

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

	2007	2006
Cash and short term funds	5 755	2 098
Loans and receivables	40 192	21 556
Interest subsidies	633	162
Total interest and similar income	**46 580**	**23 816**

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

	2007	2006
Due to banks	(441)	
Derivative financial instruments	(738)	(2 483)
Remuneration paid to EC	(39)	
Other		(10)
Total interest and similar expense	**(1 218)**	**(2 493)**

6. Net fee and commission income (in EUR '000)

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

	2007	2006
Loans and receivables	1 136	4 168
Financial guarantees	260	198
Total fee and commission income	**1 396**	**4 366**

7. Net result on financial operations (in EUR '000)

The main components of net result on financial operations are as follows:

	2007	2006
Fair value movement on derivatives	15 965	14 057
Foreign exchange	(24 631)	(14 210)
Dividend income from financial investments		
Equity investments – available-for-sale		
- Quoted		
- Unquoted	24	
Gains less losses from financial investments		
Equity investments – available-for-sale	637	(130)
Net result on financial operations	**(8 005)**	**(283)**

8. General administrative expenses (in EUR '000)

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

	2007	2006
Actual cost incurred by the EIB	(34 260)	(35 413)
Income from appraisal fees charged to clients of the Facility	1 504	1 500
Net general administrative expenses	**(32 756)**	**(33 913)**

Under Council Decision of 8 April 2003, the Member States agreed to cover in full the expenses incurred by the EIB for the management of the Investment Facility for the first 5 years of the 9th European Development Fund.

9. Cash and cash equivalent (in EUR '000)

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

The cash and cash equivalents can be broken down between the funds received from the Member States and not yet disbursed and the funds from the Investment Facility's operational and financial activities.

	2007	2006
Member States contributions received and not yet disbursed	23 566	69 720
Funds from the Facility's financial and operational activities	161 206	121 060
Cash and cash equivalents	**184 772**	**190 780**

10. Derivative financial instruments (in EUR '000)

At 31 December 2007	Assets	Liabilities	Notional amount
Cross currency swaps	16 433	(729)	114 124
Cross currency interest rate swaps	8 176	(112)	137 261
Warrants	670		1 350
Total	**25 279**	**(841)**	

At 31 December 2006	Assets	Liabilities	Notional amount
Cross currency swaps	6 165	(119)	114 597
Cross currency interest rate swaps	2 427		86 963
Total	**8 592**	**(119)**	

11. Loans and receivables (in EUR '000)

	Global loans	Senior loans	Subordinated loans	Total
At 1 January 2007	**96 840**	**129 550**	**108 823**	**335 213**
Impairment		(2 770)		(2 770)
Change in amortised cost	(378)	(580)	(64)	(1 022)
Disbursement	155 013	111 242	19 773	286 028
Interest capitalised	446	33	6 268	6 747
Repayments	(13 310)	(15 405)	(5 499)	(34 214)
Foreign exchange difference	(15 325)	(10 693)	(2 213)	(28 231)
At 31 December 2007	**223 286**	**211 377**	**127 088**	**561 751**
Accrued interest income				10 779
Loans and receivables at 31 December 2007				**572 530**
At 1 January 2006	**50 314**	**61 279**	**82 416**	**194 009**
Impairment		(1 693)		(1 693)
Change in amortised cost		(350)	34	(316)
Disbursement	55 467	79 375	22 162	157 004
Interest capitalised			4 303	4 303
Repayments	(3 585)			(3 585)
Foreign exchange difference	(5 356)	(9 061)	(92)	(14 509)
At 31 December 2006	**96 840**	**129 550**	**108 823**	**335 213**
Accrued interest income				3 784
Loans and receivables at 31 December 2006				**338 997**

At 31 December 2007, 2 operations were impaired for a total of EUR 4,4 million, of which 1,7 million were already accounted for as per 31 December 2006, at the rates prevailing at this date.

12. Financial investments

12.1. Equity investments – available-for-sale (in EUR '000)

The main components of available-for-sale equity investments are as follows:

Equity investments available-for-sale	2007	2006
At 1 January	**66 449**	**30 886**
Movement in fair value	9 315	3 554
Impairment	(366)	(130)
Disbursement	43 143	31 965
Proceeds	(8 248)	(25)
Foreign exchange difference	(930)	199
At 31 December	**109 363**	**66 449**

13. Amounts receivable from contributors (in EUR '000)

The main components of amounts receivable from contributors are as follows:

	2007	2006
Contribution called but not paid	148 427	70 000
Special contribution to general administrative expenses	32 756	33 913
Total amount receivable from contributors	**181 183**	**103 913**

14. Other assets (in EUR '000)

The main components of other assets are as follows:

	2007	2006
Interest on loans not yet collected	397	551
Amounts receivable from EIB	3 386	814
Financial guarantees	508	448
Total amount of other assets	**4 291**	**1 813**

15. Deferred income (in EUR '000)

The main components of deferred income are as follows:

	2007	2006
Deferred interest subsidies	17 947	7 687
Deferred commissions on loans and receivables	83	221
Total deferred income	**18 030**	**7 908**

16. Amount owed to third parties (in EUR '000)

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

	2007	2006
Net general administrative expense payable to EIB	32 756	33 913
Interest subsidies not yet disbursed	98 396	100 512
Total amount owed to third parties	**131 152**	**134 425**

17. Other liabilities (in EUR '000)

The main components of other liabilities are as follows:

	2007	2006
Remuneration repayable to the Commission with regard to the Contribution account	27	538
Amount repayable to EIB		925
Financial guarantees	508	448
Other	381	
Total amount of other liabilities	**916**	**1 911**

18. Investment Facility Member States Contribution called (in EUR '000)

Member States	Contribution to the Facility	Contribution to interest subsidies	Total contributed	Called and not paid [(*)]
Austria	21 995	3 180	25 175	4 505
Belgium	32 536	4 704	37 240	6 664
Denmark	17 762	2 568	20 330	3 638
Finland	12 284	1 776	14 060	2 516
France	201 690	29 160	230 850	41 310
Germany	193 888	28 032	221 920	39 712
Greece	10 375	1 500	11 875	2 125
Ireland	5 146	744	5 890	1 054
Italy	104 082	15 048	119 130	21 318
Luxembourg	2 407	348	2 755	493
Netherlands	43 326	6 264	49 590	8 874
Portugal	8 051	1 164	9 215	1 649
Spain	48 472	7 008	55 480	9 928
Sweden	22 659	3 276	25 935	4 641
United Kingdom	105 327	15 228	120 555	
Total	**830 000**	**120 000**	**950 000**	**148 427**

[(*)] On 20 December 2007, the Council fixed the amount of financial contributions to be paid by each Member State by 21 January 2008.

19. Contingent liabilities and commitments (in EUR '000)

	2007	2006
Commitments		
Undisbursed loans	669 117	779 241
Undisbursed commitment in respect of equity investments	88 204	88 552
Guarantees drawn	10 116	7 925
Contingent liabilities		
Guarantees undrawn	113 875	63 876
Total	**881 312**	**939 594**

20. Subsequent events

There have been no material post balance sheet events which could require disclosure or adjustment to the 31 December 2007 financial statements.

On a proposal from the Management Committee, the Board of Directors reviewed these financial statements on 11 March 2008 and decided to submit them to the Board of Governors for approval at their meeting to be held on 3 June 2008.

Independent Auditor's Report

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

We have audited the accompanying financial statements of the Investment Facility, which show a profit of KEUR 35,983 and a total balance sheet of KEUR 1,077,418 and which comprise the balance sheet as at December 31, 2007, the income statement, the statement of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

The Management Committee of the European Investment Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

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

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

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

Opinion

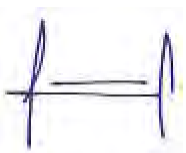
In our opinion, the financial statements give a true and fair view of the financial position of the Investment Facility as of December 31, 2007, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with the measurement and recognition principles as described in Note 2 of the accompanying financial statements.

March 12, 2008

ERNST & YOUNG

Société Anonyme

Réviseur d'Entreprises



Alain KINSCH

Bernard LHOEST

The Audit Committee

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

Statement by the Audit Committee on the Investment Facility financial statements[(1)]

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

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the Investment Facility for the year ended 31 December 2007 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the financial period ending on 31 December 2007 as drawn up by the Board of Directors at its meeting on 11 March 2008,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the Investment Facility are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the Investment Facility have been conducted and its books kept in a proper manner and that to this end, it has verified that the Investment Facility's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the Investment Facility as at 31 December 2007 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 12 March 2008

The Audit Committee

M. DALLOCCHIO C. KARMIOS O. KLAPPER

(1) The Financial Regulation applicable to the 9th European Development Fund in Article 112 with regard to the operations managed by the European Investment Bank states that these operations shall be subject to the audit and discharge procedures laid down in the Statute of the Bank for all of its operations. On this basis, the Audit Committee issues the above statement.

FEMIP Trust Fund

Financial Statements

Income statement

For the year ended 31 December 2007 (in EUR '000)

	Notes	Year to 31.12.2007	Year to 31.12.2006
Interest and similar income		1 229	842
Net operating income		**1 229**	**842**
General administrative expenses	3	(87)	(686)
Projects financed	4	(229)	(1 090)
Net gain and loss on financial assets and liabilities designated at fair value through profit or loss	8	(9)	
Total operating expenses		**(325)**	**(1 776)**
Net Profit/Loss of the financial year		**904**	**(934)**

Balance sheet

At 31 December 2007 (in EUR '000)

	Notes	2007	2006
ASSETS			
Cash and cash equivalents		32 450	29 841
Financial assets designated at fair value through profit or loss (Equity investments)	8	461	0
Total Assets		**32 911**	**29 841**
LIABILITIES AND EQUITY			
LIABILITIES			
EQUITY			
Contributions called	5	33 716	31 550
Retained earnings		(805)	(1 709)
Total Equity		**32 911**	**29 841**
Total Liabilities and Equity		**32 911**	**29 841**

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

Statements of changes in equity

(in EUR '000)

	Issued capital	Retained earnings	Total equity
At 1 January 2007	31 550	(1 709)	29 841
Contributions called during the year	2 166	0	2 166
Profit for the year	0	904	904
Changes in contributors' resources	2 166	904	3 070
At 31 December 2007	**33 716**	**(805)**	**32 911**

	Issued capital	Retained earnings	Total equity
At 1 January 2006	28 800	(775)	28 025
Contributions called during the year	2 750	0	2 750
Loss for the year	0	(934)	(934)
Changes in contributors' resources	2 750	(934)	1 816
At 31 December 2006	**31 550**	**(1 709)**	**29 841**

Cash flow statement

(in EUR '000)

	2007	2006
OPERATING ACTIVITIES		
Profit for the financial year		
Interest and similar income	1 229	842
General administrative expenses	(87)	(110)
Projects financed	(229)	(1 090)
Profit on operating activities before changes in operating assets and liabilities	913	(358)
Increase in financial investments designated at fair value through profit or loss	(470)	0
Net cash flows from operating activities	443	(358)
FINANCING ACTIVITIES		
Paid in by contributors	2 166	2 750
Net cash flows from/(used in) financing activities	2 166	2 750
Net increase in cash and cash equivalents	**2 609**	**2 392**
Cash and cash equivalents at beginning of financial year	29 841	27 449
Cash and cash equivalents at end of financial year	**32 450**	**29 841**

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

The FEMIP Trust Fund

Notes to the financial statements

1. General information

In March 2002, the Barcelona European Council decided to enhance the existing activities of the European Investment Bank (the "Bank" or "EIB") in the Mediterranean Partner Countries through the creation of the Facility for Euro-Mediterranean Investment and Partnership (the "FEMIP"). The Council's overall objective was to "stimulate private sector development in the Mediterranean Partner Countries, in order to facilitate a higher level of economic growth consistent with the growth of the labour force in the region".

The European Council of 12 December 2003 endorsed the conclusions reached on 25 November 2003 by the ECOFIN Council to reinforce the FEMIP within the Bank, leading to the creation of a "reinforced FEMIP". In particular, the ECOFIN Council decided to strengthen the FEMIP operations with a number of features and instruments in support of the private sector, including the establishment of a trust fund allowing resources to complement on a voluntary basis the Bank's own resources as well as the financial resources provided to the Bank by the European Community budget.

The Bank and a number of donor countries entered into discussions to establish a trust fund (the "FEMIP Trust Fund" or the "Fund") dedicated to the Mediterranean Partner Countries, directing resources to operations in certain priority sectors which can be enhanced through the provision of technical assistance or made viable via a risk capital operation.

By a decision dated 14 October 2004, the Bank's Board of Directors approved the Rules relating to the establishment and administration of the FEMIP Trust Fund (the "Rules").

In line with Article 6.01(b) of the Rules "the financial year of the FEMIP Trust Fund shall be the calendar year, except for the first financial period, which shall begin with reception of the first contribution and end on 31 December 2005."

2. Significant accounting policies

2.1. Basis of preparation

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

These financial statements cover the year to 31 December 2007 with the comparatives covering the year to 31 December 2006.

These financial statements are presented in Euro, which is also its functional currency. For the preparation of the financial statements, assets and liabilities denominated in currencies other than the Euro are translated into Euro at the spot rates of exchange prevailing on the balance sheet date. The gain or loss arising from such translation is recorded in the income statement. The elements of the income statement are translated into Euro monthly on the basis of the exchange rates prevailing at the end of each month.

2.2. Significant accounting judgments and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed.

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

Fair value of financial instruments

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

Valuation of unquoted equity investments

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

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

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

2.3. Change in accounting policies

The accounting policies adopted are consistent with those used in the previous year except as follow:

As of 1 January 2007, the FEMIP Trust Fund adopted IFRS 7 Financial Instruments-disclosures which require a specific disclosure of the significance of the financials instruments position and performance of the fund and the nature and the extent of risks arising from the detention of such financial instruments. A description of how those risks are monitored by the fund should also be disclosed.

At the closing date, the financial instruments held by the fund concerns mainly cash deposit and an equity investment (insignificant), which are subject to a very low risk of value.

As a result, non significant additional disclosures are made from previous years by the Fund.

2.4. Summary of significant accounting policies

The balance sheet represents assets and liabilities in decreasing order of liquidity and does not distinguish between current and non-current items.

2.4.1. Contributions

Contributions, net of banking charges, are recognised in the balance sheet on the date when payment of a contribution by a contributor is received.

2.4.2. Disbursements for operations

Disbursements related to operations financed by the FEMIP Trust Fund are recorded as expenditures in the income statement as projects financed over the year during which the services are received.

2.4.3. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, which are available for use at short notice and which are subject to insignificant risk of changes in value. This definition includes balances of cash and current accounts with the Bank. The liquid assets of the FEMIP Trust Fund, deposited with the Bank, are remunerated based on the Euro Overnight Index Average (EONIA) and are all denominated in EUR.

2.4.4. Financial assets other than derivatives

Financial assets are accounted for using the settlement date basis.

Financial investments

After initial measurement, financial investments are subsequently carried at fair value through profit or loss as they only concern investments in associates. IAS 28 authorizes Investments Funds to record investments done in associates at fair value in accordance with IAS 39 and variations of fair value through profit or loss.

Note the following details for the fair value measurement of equity investment:

a. Venture capital funds

The fair value of each venture capital fund will be based on the Net Asset Value (NAV), reported by the fund, if calculated based on international valuation standards recognized to be compliant with IFRS. The Fund may however decide to adjust the NAV reported by the fund if there are issues that may affect the valuation.

If no internationally recognized fair valuation standards are applied, the valuation will be conducted on the basis of the underlying portfolio.

b. Direct equity investments

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

Unrealized gains or losses on equity investments are recorded in the income statement.

For unquoted investment, the fair value is determined by applying recognized valuation technique. These investments are accounted for at cost when the fair value cannot be reliably measured.

2.4.5. Taxation

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

3. General administrative expenses

General administrative expenses are directly relating to the Fund and include an administrative and operation support and financial management fee payable to the Bank (hereafter referred to as the management fee). This is a total fixed fee of 4% of the total amount of the net contributions made available to the FEMIP Trust Fund for such activities over a period of service to be terminated in December 2007.

Such fee shall be payable out of the amount of the net contributions at the time the contribution is actually paid in.

4. Projects financed

Four disbursements for technical assistance operations and other programmes were made in 2007 totalling EUR 228 579 (2006: 8 disbursements for an amount of EUR 1 090 149), these being:

- EUR 65 381 & EUR 7 474 – Morocco Study on promotion of long term private savings;
- EUR 55 292 – Regional Study on CDM project identification in FEMIP countries;
- EUR 32 000 – Regional Review of existing trade finance services;
- EUR 68 432 – FEMIP Internship Program.

5. Contributions

Contributions received and expected to be received in future years are detailed below:

Member States	Received up to 2007 (EUR)	To be received post 2007 (*) (EUR)	TOTAL (EUR)
Austria	999 950	0	999 950
Belgium	1 000 000	0	1 000 000
Cyprus	700 000	300 000	1 000 000
European Commission	1 000 000	0	1 000 000
Finland	999 950	0	999 950
France	4 000 000	0	4 000 000
Germany	2 000 000	0	2 000 000
Greece	2 000 000	0	2 000 000
Ireland	500 000	500 000	1 000 000
Italy	2 500 000	0	2 500 000
Luxembourg	1 000 000	0	1 000 000
Malta	1 000 000	0	1 000 000
Netherlands	2 000 000	0	2 000 000
Portugal	1 000 000	0	1 000 000
Spain	10 000 000	0	10 000 000
United Kingdom	3 015 891	0	3 015 891
Total at 31 December 2007	**33 715 791**	**800 000**	**34 515 791**
Total at 31 December 2006	**31 549 950**	**1 950 000**	**33 499 950**

(*) Conditional on the continuation of the FEMIP Trust Fund by common agreement of the Assembly of Donors.

6. Liquidity Position (in EUR '000)

The table below provides an analysis of assets, liabilities and contributors' resources into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

	Up to 3 months EUR	Maturity undefined EUR	Total EUR
Assets			
Placements with the Bank	32 450	0	32 450
Financial investments at fair value through profit or loss	0	461	461
Total Assets	**32 450**	**461**	**32 911**
Equity			
Total Equity	0	(32 911)	(32 911)
Total Equity	**0**	**(32 911)**	**(32 911)**
Net liquidity position at 31 December 2007	**32 450**	**(32 450)**	**0**
Cumulative net liquidity position at 31 December 2007	**32 450**	**0**	**0**
Cumulative net liquidity position at 31 December 2006	**29 841**	**0**	**0**

7. Interest Rate Risk

The FEMIP Trust Fund is exposed to an interest rate risk through its cash and cash equivalents deposited with the Bank, and remunerated based on the Euro Overnight Index Average (EONIA).

8. Equity investments – at fair value through profit or loss (in EUR '000)

The main components of the equity investments are as follows:

	2007	2006
At 1 January 2007	0	0
Movement in fair value	0	0
Impairment	0	0
Change in amortized cost	0	0
Disbursement	470	0
Interest capitalised	0	0
Repayments	0	0
Foreign exchange difference	(9)	0
At 31 December 2007	**461**	**0**

9. Commitments (in EUR '000)

The Fund's commitments are as follows:

	2007	2006
Commitments		
Undisbursed commitment in respect of equity investments	1 530	0
Total	**1 530**	**0**

10. Subsequent events

There have been no material post-balance sheet events, which would require disclosure or adjustment to the financial statements as at 31 December 2007.

The FEMIP Trust Fund Assembly of Donors has approved these financial statements by tacit procedure on or before 7 March 2008.

On a proposal from the Management Committee of the Bank, the Board of Directors of the Bank received these financial statements on 11 March 2008 who decided to submit them to the Governors for approval at their meeting to be held on 3 June 2008.

Independent Auditor's Report

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

We have audited the accompanying financial statements of The FEMIP Trust Fund, which show a profit of KEUR 904 and a total balance sheet of KEUR 32,911 and which comprise the balance sheet as at December 31, 2007, the income statement, the statements of changes in equity, the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management Committee's responsibility for the financial statements

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

Responsibility of the "Réviseur d'Entreprises"

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The FEMIP Trust Fund as of December 31, 2007, of its financial performance, of its changes in equity and of its cash flows for the year then ended in accordance with International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

March 12, 2008

ERNST & YOUNG

Société Anonyme

Réviseur d'Entreprises

Alain KINSCH

Bernard LHOEST

The Audit Committee

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

Statement by the Audit Committee on the FEMIP Trust Fund financial statements[1]

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

- designated Ernst & Young as external auditors, reviewed their audit planning process, examined and discussed their reports,
- noted that the opinion of Ernst & Young on the financial statements of the FEMIP Trust Fund for the year ended 31 December 2007 is unqualified,
- convened on a regular basis with the Heads of Directorates and relevant services, and studied the documents which it deemed necessary to examine in the discharge of its duties,
- received assurance from the Management Committee concerning the effectiveness of the internal control structure and internal administration,

and considering

- the financial statements for the year ended 31 December 2007 as drawn up by the Board of Directors at its meeting on 11 March 2008,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the activities of the FEMIP Trust Fund are conducted in a proper manner, in particular with regard to risk management and monitoring;

has verified that the operations of the FEMIP Trust Fund have been conducted and its books kept in a proper manner and that to this end, it has verified that the FEMIP Trust Fund's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the income statement, the statement of changes in equity, the cash flow statement and the notes to the financial statements give a true and fair view of the financial position of the FEMIP Trust Fund as at 31 December 2007 in respect of its assets and liabilities, and of the results of its operations for the year then ended.

Luxembourg, 12 March 2008

The Audit Committee

M. DALLOCCHIO C. KARMIOS O. KLAPPER

[1] The conditions with regard to the approval of Financial Statements of the FEMIP Trust Fund contained in the Rules Relating to the Establishment and Administration of the FEMIP Trust Fund state that that the Financial Statements shall be subject to the presentation and approval laid down in the Statute of the Bank for its ordinary operations. On this basis, the Audit Committee issues the above statement.

EIF

Financial Statements

Independent Auditor's Report

To the Audit Board
of the EUROPEAN INVESTMENT FUND
43, avenue J. F. Kennedy
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying financial statements of the European Investment Fund, which comprise the balance sheet as at December 31, 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements as of and for the year ended December 31, 2006 were audited by another auditor who has expressed an unqualified opinion on his report dated April 2, 2007.

Management responsibility for the financial statement

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the "Réviseur d'Entreprises"

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

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

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of European Investment Fund as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

ERNST & YOUNG
Société Anonyme
Réviseur d'Entreprises

Luxembourg, 12 March 2008

Alain KINSCH

Statement by The Audit Board

The Audit Board, set up pursuant to article 22 of the Statutes of the European Investment Fund (EIF) to audit annually the accounts of the EIF

- having designated ERNST & YOUNG Société Anonyme Réviseur d'Entreprises as external auditor of the Fund,
- acting in accordance with the customary standards of the audit profession,
- 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 12 March 2008 drawn up by ERNST & YOUNG Société Anonyme Réviseur d'Entreprises,
- noting that this report gives an unqualified opinion on the financial statements of EIF for the financial period ending 31 December 2007,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms

- that the financial operations of the EIF have been carried out in compliance with the formalities and procedures laid down in the Statutes, the Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors;
- that the financial statements, comprising the balance sheet, income statements, cash flow statement, statement of changes in equity, and notes to the accounts of the European Investment Fund, give a true and fair view of the financial position of the EIF in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, 12 March 2008

The Audit Board

Raimundo Poveda Anadón	Christian-Johann Rákos	Tony Murphy

Balance sheet

as at 31 December 2007 (expressed in EUR)

	Notes	31.12.2007	31.12.2006
ASSETS			
Cash and cash equivalents	4.1	291 604 538	52 866 663
Investments:			
Debt securities and other fixed income securities	4.2	522 470 401	517 033 602
Shares and other variable income securities	4.3	167 876 521	133 668 178
		690 346 922	650 701 780
Guarantees operations	3.5		
Financial guarantees receivables		48 592 549	38 281 429
Derivatives		435 130	145 529
		49 027 679	38 426 958
Other assets	4.6	33 072 223	19 922 245
Intangible assets	4.4	1 161 484	831 630
Property, plant and equipment	4.5	8 245 595	8 611 983
TOTAL ASSETS		**1 073 458 441**	**771 361 259**
LIABILITIES			
Financial liabilities	5.1		
Financial guarantees payables		63 430 281	56 907 239
Derivatives		2 014 394	1 289 229
		65 444 675	58 196 468
Retirement benefit obligations	5.2	13 232 407	10 178 908
Other liabilities	5.3	9 416 044	10 466 196
Total Liabilities		**88 093 126**	**78 841 572**
EQUITY			
Share capital	5.4		
Subscribed		2 770 000 000	2 000 000 000
Uncalled		(2 216 000 000)	(1 600 000 000)
		554 000 000	400 000 000
Share Premium		117 909 669	12 770 142
Statutory reserve	5.5	104 329 810	84 899 624
Retained earnings	5.5	136 353 969	126 638 689
Fair value reserve	5.6	22 369 530	19 635 766
Profit for the financial year	5.5	50 402 337	48 575 466
TOTAL EQUITY		**985 365 315**	**692 519 687**
TOTAL EQUITY and LIABILITIES		**1 073 458 441**	**771 361 259**

The notes on pages 186 to 225 are an integral part of these financial statements.

Income statement

for the year ended 31 December 2007 (expressed in EUR)

	Notes	31.12.2007	31.12.2006
Net interest and similar income	8.1	30 231 070	23 645 288
Income from securities			
Income from investments in shares and other variable income securities	4.3	6 674 654	6 902 149
Net income from guarantees operations	8.2	21 349 024	16 288 735
Commission income	8.3	29 072 382	26 277 510
Net loss on financial operations	8.4	(1 908 880)	(524 335)
Other operating income		18 955	9 062
General administrative expenses	8.5		
Staff costs:			
- wages and salaries		(17 317 160)	(14 614 519)
- social security costs		(2 130 900)	(1 123 415)
		(19 448 060)	(15 737 934)
Other administrative expenses		(6 665 063)	(5 862 253)
		(26 113 123)	(21 600 187)
Depreciation of property, plant and equipment and intangible assets	4.4 & 4.5	(1 219 062)	(1 277 236)
Impairment losses on available-for-sale investments	4.2 & 4.3	(7 702 683)	(1 145 520)
Profit for the financial year		**50 402 337**	**48 575 466**

The notes on pages 186 to 225 are an integral part of these financial statements.

Cash Flow Statement

for the year ended 31 December 2007 (expressed in EUR)

	Notes	31.12.2007	31.12.2006
A. Cash Flow from Operating Activities:			
Profit for the financial year (*)		50 402 337	48 575 466
Increase / (decrease) in accrued interest on debt securities	4.2	465 186	(409 283)
Interest received from debt securities		(17 648 283)	(11 590 400)
Impairment on debt securities and other fixed income securities	4.2	197 156	0
Increase in shares & other variable income securities	4.3	(28 789 755)	(18 381 494)
Impairment on shares & other variable income securities	4.3	8 393 697	1 121 222
Depreciation for intangible assets, property, plant and equipment	4.4; 4.5	1 219 062	1 277 236
Increase in Other assets	4.6	(13 149 978)	(4 739 287)
Increase in retirement for benefit obligations	5.2	3 053 499	2 074 474
Decrease effective interest on debt securities portfolio		(4 187 074)	(269 688)
Decrease / Increase in Other liabilities	5.3	(1 050 152)	4 192 453
Decrease in amortisation of financial guarantees		(3 788 076)	(1 705 378)
Increase / (decrease) in fair value of Derivatives		435 564	(4 029 930)
Net Cash from Operating Activities		(4 446 817)	16 115 391
B. Cash Flow from Investing activities			
Purchase of intangible assets	4.4	(892 952)	(292 856)
Net movements on purchase of property, plant and equipment	4.5	(289 576)	(319 987)
Interest received from debt securities		17 648 283	11 590 400
Increases in debt securities & other fixed income securities		(12 990 590)	(30 304 066)
Net Cash from Investing Activities		3 475 165	(19 326 509)
C. Cash Flow from Financing Activities			
Dividends paid	5.5	(19 430 000)	(17 144 000)
Capital increase		259 139 527	0
Net Cash from Financing Activities		239 709 527	(17 144 000)
Summary statement of Cash Flows:			
Cash & cash equivalents at beginning of financial year		**52 866 663**	**73 221 781**
Net Cash from:			
Operating activities		(4 446 817)	16 115 391
Investing activities		3 475 165	(19 326 509)
Financing activities		239 709 527	(17 144 000)
Cash & cash equivalents at the end of financial year	**4.1**	**291 604 538**	**52 866 663**

(*) Profit for the financial year includes dividends received of EUR 6 674 654 (2006: EUR 6 902 149)

The notes on pages 186 to 225 are an integral part of these financial statements.

Statement of Changes in Equity

for the year ended 31 December 2007 (expressed in EUR)

	Note	Subscribed Capital	Callable Capital	Share Capital	Share Premium	Statutory Reserve	Retained Earnings	Fair value Reserve	Profit for the Year before Appropriation	Total Equity
Balance as at 01/01/2006		**2 000 000 000**	**(1 600 000 000)**	**400 000 000**	**12 770 142**	**67 755 278**	**124 179 463**	**26 345 596**	**36 747 573**	**667 798 052**
Appropriation of prior year's profit inc. dividend		0	0	0	0	17 144 346	2 459 226	0	(36 747 573)	(17 144 000)
Fair value reserve		0	0	0	0	0	0	(6 709 830)	0	(6 709 831)
Profit for the Year		0	0	0	0	0	0	0	48 575 466	48 575 466
Balance as at 31/12/2006		**2 000 000 000**	**(1 600 000 000)**	**400 000 000**	**12 770 142**	**84 899 624**	**126 638 689**	**19 635 766**	**48 575 466**	**692 519 687**
Appropriation of prior year's profit inc. dividend	5.5	0	0	0	0	19 430 186	9 715 280	0	(48 575 466)	(19 430 000)
Share issue	5.4	770 000 000	(616 000 000)	154 000 000	105 139 527	0	0	0	0	259 139 527
Fair value reserve	5.6	0	0	0	0	0	0	2 733 764	0	2 733 764
Profit for the Year		0	0	0	0	0	0	0	50 402 337	50 402 337
Balance as at 31/12/2007		**2 770 000 000**	**(2 216 000 000)**	**554 000 000**	**117 909 669**	**104 329 810**	**136 353 969**	**22 369 530**	**50 402 337**	**985 365 315**

The notes on pages 186 to 225 are an integral part of these financial statements.

European Investment Fund

Notes to the accounts

for the year ended 31 December 2007 (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 43, avenue J.F. Kennedy 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, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

The Fund operates as a partnership of which the members are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union and of one acceding state. 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 January 1 to December 31 each year.

The EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated accounts of the EIB Group. The consolidated accounts may be obtained from the registered office of the EIB at 100, boulevard Konrad Adenauer, L-2950 Luxembourg.

The Fund's financial statements have been authorised for issue by the Board of Directors on 10 March 2008.

2. Significant accounting policies and basis of preparation

2.1. Basis of preparation

The Fund's Financial statements were until 31 December 2005 prepared in accordance with the general principles of the Council Directive of the European Communities 86/635/EEC of 8 December 1986 as amended by the Council Directive 2001/65/EC of 27 September 2001 relating to the annual accounts and consolidated accounts of banks and other financial institutions referenced as the "previous GAAP". Since 2006, the Fund's financial statements have been prepared in accordance with International Financial Reporting Strandards, as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (IFRS).

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss including all derivative contracts which are valued at fair-value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in more detail below. Use of available information and application of judgement are inherent in the formation of estimates. Actual results in the future could differ from such estimates and the differences may be material to the financial statements.

Statement of compliance

The Fund's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

2.2. Foreign currency translation

The Euro (EUR) is the functional and presentation currency.

Non-monetary items, which include "Intangible assets" and "Tangible assets" denominated in a foreign currency, are reported using the exchange rate at the date of the transaction (historical cost). Exchange differences on non-monetary financial assets are a component of the change in their fair value. Depending on the classification of a non-monetary financial asset, exchange differences are either recognized in the income statement or within the equity reserves.

Monetary items, which include all other assets and liabilities expressed in a currency other than EUR are reported using the closing foreign exchange rate ruling on the date of the closure of the financial statements, as issued by the European Central Bank. The exchange differences are recognised in the income statement in the period in which they arise.

Income and charges in foreign currencies are translated into EUR at the exchange rate ruling on the date of the transaction.

2.3. Investments

2.3.1. Classification and Measurement

Classification

The Fund classifies the investments in debt securities and shares in the category Available For Sale financial assets ("AFS"). The classification of the investments is determined at initial recognition.

AFS financial assets are non-derivative financial instruments that are either designated in this category at initial recognition or not classified in any other categories.

Initial recognition and derecognition

Purchases and sales of AFS financial assets are initially recognised on trade-date. They are initially recognised at fair value plus transaction costs. Fair value consideration is explained in the section below.

Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or where the EIF has substantially transferred all risks and rewards of ownership.

Subsequent measurement

AFS financial assets are subsequently measured at fair value. Changes in fair value of financial assets classified as AFS are directly recognised in the fair value reserve in the equity section of the balance sheet, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised in income statement.

Interest on AFS debt securities and other fixed income securities is calculated using the effective interest method is recognised in the income statements. Dividends on equity investments are recognised in the income statement when the Fund's right to receive payment is established.

Differences from currency translation from non-monetary items, such as equity instruments, are recognised in the fair value reserve in equity.

Impairment of financial assets

EIF assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from reserves and recognised in the income statement. Impairment losses on equity instruments previously recognised in the income statement are not reversed through the income statement. In contrast, if in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.3.2. Investments in shares and other variable income securities

Investments in venture capital funds are included in "Shares and other variable income securities". They are acquired for the longer term in the normal course of the Fund's activities.

a) Categories of venture capital investments:

Fair value considerations:

Under the valuation technique, the fair value of venture capital 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, IPEVCVG, as established by the EVCA, the BVCA and AFIC) which will need more detailed monitoring and review.

In accordance with this method, the funds are classified into three categories:

- Category I – funds that have adopted the fair value requirements of IAS 39 or IPEVCVG for which a specific review is performed to ensure that the NAV is a reliable estimation 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 estimation 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.

b) Impairment considerations:

The fund's valuation committee assesses unrealized losses for impairment, unrealised gains resulting from the fair value measurement are recognised in fair value reserve and unrealised losses for impairment so as to determine whether they are recognised as impairment losses in the income statement or as changes in the fair value reserve. The decline in value will be estimated as significant or prolonged only when funds are graded P-D.

Investments belonging to category III are valued at cost less impairment with any unrealised losses booked through profit and loss. If an investment is deemed to be impaired as reflected in operational status grades OC-OD the amount of impairment is calculated based on a matrix of fixed impairment percentages in tranches of 25 % depending on the operational and performance grading of the respective funds.

The fair value attributable NAV is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager. In order to bridge the interval between the last available NAV and the year-end reporting period, a monitoring procedure is performed and if necessary the reported NAV is adjusted.

2.3.3. Investments in debt securities and other fixed income securities

Debt securities and other fixed-income securities are categorised as follows:

- floating rate notes with maturities exceeding one year and fixed rate note other than commercial papers are included in the "Investment Portfolio".
- floating rate notes and commercial paper with maturities of less than one year are included in the "Short term portfolio".

Securities held by the Fund are all listed on a recognised market. Consequently, the fair value of financial instruments is based on bid prices at the balance sheet date.

Premiums paid over the maturity value, discounts received in comparison to the maturity value of securities and interests on securities are calculated using the effective interest method and are recognised in the income statement.

2.3.4. Investment in Interest in Joint Ventures

Joint ventures are contractual agreements whereby EIF and other parties undertake an economic activity that is subject to joint control. The joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control (the venturers).

Investments in a joint venture shall be accounted for using proportionate consolidation, or, the equity method. However, as an alternative, EIF has elected to use the venture capital and similar entities exemption and not consolidate under this exemption. In this case, the holding in the joint ventures are upon initial recognition designated as at fair value through profit and loss and measured at fair value in accordance to IAS 39, with changes in fair value recognised in profit and loss in the period of the change.

2.4. Classification and measurement of guarantee operations

Initial recognition and classification

EIF has undertaken a classification analysis of each guarantee contract to determine if the definition of a financial guarantee in accordance with IAS 39.9 is fulfilled. Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. If one of the definition criteria is not met, the contract is considered as a derivative.

In accordance with the classification, the guarantees contracts are classified either as financial guarantees or as derivatives.

Financial guarantees measurement:

Financial guarantees are initially recognised at fair value plus transaction costs that are directly attributable to the issuance of the financial guarantees. At initial recognition, the fair value 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 and is recognised in the asset side as "Financial Guarantees receivables" and in the liabilities side as "Financial guarantees payables".

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

- the amount determined in accordance with IAS 37 Provisions, Contingent liabilities and Contingent Assets; and
- the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

EIF's amortisation of the amount initially recognised is in line with the risk profile of the transactions, namely a slow linear amortisation over the first two third of the Weighted Average Life (WAL) of the transaction, followed by a quicker linear amortisation down to zero at expected maturity date.

The best estimate of expenditure is determined in accordance with IAS 37 (provisions, contingent liabilities and contingent assets). Guarantee provisions correspond to the cost of settling the obligation, the expected loss, which is estimated based on all relevant factors and information existing at the balance sheet date.

Any increase or decrease in the liability relating to financial guarantees is taken to the income statement under "Net income from guarantees operations".

Derivatives measurement:

Guarantee transactions, which do not comply with the definition of a financial guarantee contract, are regarded as derivatives in terms of IAS 39. A derivative is a financial instrument or other contract where its value changes in response to the change in a specified underlying, it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled at a future date. At initial recognition and subsequent measurement, derivatives are measured at fair value. The best approach for fair value will in this case be the market price. However, operations in which EIF act as guarantors are typically illiquid. Hence EIF has derived a measurement based on an alternative valuation technique using as much market information as possible. The fair value of derivatives equals to the net of the NPV of expected premium inflow and the cost of settling the exposure.

At initial measurement, the fair value equals zero. Subsequent to initial measurement, derivatives are re-measured to fair value at each balance sheet date. All derivatives are carried as financial assets when fair value is positive and as financial liabilities when fair value is negative. Gains and losses arising from changes in the fair value of derivatives are immediately recognised in the income statement.

2.5. Property, plant and equipment and Intangible assets

2.5.1. Intangible Assets

Intangible assets are composed of internally generated software and purchased computer software, and they are accounted for at cost net of accumulated amortisation and of impairment losses.

Direct costs associated with the development of software are capitalised provided that those costs are separately identifiable, that the software provides a future benefit to the Fund and the cost can be reliably measured. Maintenance costs are recognised as expenses during the period in which they occur. However costs to develop additional functionalities are recognised as separate intangible assets. Intangible assets are reviewed for indicators of impairment at the balance sheet date.

Intangible assets are amortised using the straight-line method over the following estimated useful lives:

- Internally developed software: 3 years
- Software: 2 to 5 years

2.5.2. Property, Plant and Equipment

Property, plant and equipment include buildings and other machines and equipment; they are stated at cost minus accumulated amortisation and impairment losses. Property, plant and equipment are reviewed for indications of impairment at the balance sheet date.

Amortisation is calculated on a straight-line basis over the following estimated useful lives:

- Buildings: 30 years
- Fixtures and Fittings: 3 to 10 years
- Office Equipment: 3 to 5 years
- Computer Equipment and Vehicles: 3 years

2.6. Employee benefits

2.6.1. Post-employment benefits

Pension fund

The EIF operates an unfunded pension plan of the defined benefit type as defined by IFRS, providing retirement benefits based on final salary. The cost of providing this benefit is calculated using the projected unit credit actuarial valuation method.

Actuarial gains and losses have been recognised using a faster method than the corridor approach, that is gains and losses are amortised over the average remaining working life of the population through the profit and loss account.

The Fund's defined benefit scheme was initiated in March 2003 to replace the previous defined contribution scheme. The scheme is funded by contributions from staff and the EIF. These funds are transferred to the EIB for management with the Bank's own assets and appear on the Fund's balance sheet as an asset under the caption "other assets".

The charge for the year, actuarial gains and losses, and the total defined benefit obligation are calculated annually by qualified external actuaries.

Health insurance scheme

The Fund has subscribed to a health insurance scheme with an insurance company for the benefit of staff at retirement age, financed by contributions from the Fund and its employees. The entitlement is of a defined benefit type and is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of this benefit are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. The health insurance liabilities are determined based on actuarial calculations as per the same dates as the pension fund.

2.6.2. Short term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for outstanding annual leave as a result of services rendered by employees up to the balance sheet date.

2.6.3. Other long-term employee benefits

An accrual for other long-term employee benefit costs relating to the period is included in the Income statement under caption "Staff Costs", resulting in a provision for the estimated liability at the balance sheet date.

2.7. Interest income and expenses

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

2.8. Income from Guarantees operations

Income from guarantees operations and guarantees commissions mainly includes:

- Guarantees commissions received on derivatives contracts and net income arising from changes in the fair value of derivatives;
- Interest income on the discounting of the expected premium inflows and any decrease in the liability relating to financial guarantees payables contracts (due to amortisation of the initially recognised amount).

2.9. Fee and commission income

This section is mainly made-up of fees and commissions on mandates and advisory activities.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Portfolio and management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Asset management fees related to investment funds are recognised rateably over the period in which the service is provided.

2.10. Dividend income

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

2.11. Leases

The leases entered into by EIF as a lessee are operating leases under which all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged to the income statement 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.

2.12. Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires the use of certain accounting estimates. The EIF makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and based on historical experience and other factors. Actual results may differ from those estimates and judgmental decisions.

Judgements and estimates are principally made in the following areas:

- Impairment of available-for-sale equity investments (see note 2.3.1);
- Determination of fair values of equity investments (see note 2.3.2);
- Determination of the values of financial guarantees and the fair value of derivatives (see note 2.4);
- Provision for risk on guarantee operations;
- Actuaries' assumptions related to the measurement of pension liabilities (see note 2.6.1 and 5.2).

2.13. New Standards

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

The Fund has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Fund. They did however give rise to additional disclosures.

- IFRS 7 Financial Instruments: Disclosures
- IAS 1 Amendment - Presentation of Financial Statements

The principal effects of these changes are as follows:

IFRS 7 Financial Instruments: Disclosures:

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Fund's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

IAS 1 Presentation of Financial Statements:

This amendment requires the Fund to make new disclosures to enable users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital. These new disclosures are shown in Note 5.4 and 5.5 of the financial statement.

The following new standards were issued with an effective date for financial periods beginning on or after 1 January 2007 but are not applicable to the Fund:

- IFRIC 8 Scope of IFRS 2
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment

The following IFRS and IFRIC interpretations were issued with an effective date for financial periods beginning on or after 1 January 2008. The Fund has chosen not to early adopt these standards and interpretations at their effective date. When applicable to the Fund, the Fund's plans to adopt these interpretations at their effective date or at the date of endorsement by the European Union, if later, and does not anticipate any significant impacts on its financial statements.

- IFRS 8 Operating Segments
- IFRIC 11 IFRS 2 - Group and Treasury Share Transactions
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IAS 23 – Amendment – Borrowing costs

3. Financial Risk Management

3.1. Overview of EIF Risk Management

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

Risk Management and Monitoring (RMM) independently reports directly to the Chief Executive. This segregation of duties and the "four-eyes" principle ensures an unbiased review of EIF's business activities. Moreover, within the EIB Group context, RMM operates in close contact with the European Investment Bank's Risk Management Directorate. RMM is divided into two main areas: venture capital and for portfolio guarantees & securitisation activities. Each of these encompasses a Risk Management team and an Administration and Monitoring team, adding to a total of four teams within RMM. RMM covers own resources, fully public mandates (RCM, G&E, SME GF (1998, 2001, 2007), Jeremie, ERP Dachfonds), and non-fully public mandates (Dahlia, Neotec).

In general, RMM's functions comprehend the collection of information (information gathering, checking, and inputting), the aggregation and analysis of information (assessment of financial risks, valuations, and cash flow projections), risk reporting, and advice. The main challenges and limitations to fulfil these functions are the complexity of structure of transactions in relatively opaque markets, the absence of transparent market values, and the long-term nature of the business (up to 10 years and more).

Generally, EIF aims to control its financial risks by creating a well-diversified portfolio within the constraints imposed by shareholders or mandates. Exposures and risk-taking is monitored against predetermined tolerances as determined by the Board of directors, senior management or as set under mandates. The basis for an effective risk management process is the identification and analysis of existing and potential risks inherent in any product.

RMM covers EIF's VC and portfolio guarantee & securitisation activities, monitors risk regularly on individual transactions as well as on a portfolio level, and assesses new and existing transactions. For this purpose, RMM:

- reviews the risk management methodologies, processes, and instruments used in Investments;
- issues independent opinions on all transaction proposals;
- independently reviews internal ratings (portfolio guarantees)/grades (VC) assigned by Investments; and
- checks limits.

3.2. Venture Capital

3.2.1. Background:

For its venture capital business, over the last years, EIF staff has developed a tool-set to design, manage and monitor portfolios 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 EIF to better assess and verify funds' valuations and expected performances. This effort supported by the development of a proprietary IT system and an integrated software (front to back) improves the investment decision process and the management of portfolio's financial risks and of liquidities.

Interaction between Investments and risk management includes flash reports to highlight "hot spots" in the portfolio and an internal grading methodology to determine the monitoring coverage and intensity as well as the range for the expected performance.

The grading is defined as follows:

Expected performance grade

P-A	At the time of the grading the fund's rank falls into the first quartile of the peer group.
P-B	At the time of the grading the fund's rank falls into the second quartile of the peer group.
P-C	At the time of the grading the fund's rank falls into the third quartile of the peer group.
P-D	At the time of the grading the fund's rank falls into the fourth quartile of the peer group.

Operational Status Grade

O-A	No adverse signals or information so far.
O-B	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for a first quartile fund. Absence of signals or information that would be inconsistent with an expected second quartile performance.
O-C	Presence of signals or information that – if no appropriate measures are quickly put in place – would be atypical for an above average fund. Absence of signals or information that would be inconsistent with an expected third quartile performance.
O-D	Events that if no appropriate measures are quickly put in place, will result in a sub-standard performance or even in a failure or collapse of the private equity fund.

Valuation review under IFRS

Part of the monitoring is the valuation review for venture capital funds under IFRS. This process includes different steps to get what is called Operational Adjustment:

- Collecting financial quarterly reports sent by the fund managers as basis for valuation.
- Assessing whether valuations are in line with IPEVCVG. EIF produces monitoring templates that capture events relevant for valuation, such as:
- "Flash reviews" of regular financial reporting received from venture capital funds.
- Monitoring visits.
- Any significant information with potential evaluation impact.
- Subsequent events.
- Classification of funds: depending on the outcome of the monitoring described above, funds will be judged as IFRS compliant or not. Following the analysis performed above, the funds are classified into three categories as described in note 2.3.2.
- Valuation Committee sign-off: The Valuation Committee comprises the Chief Executive and the Director of Operations. Based on the documentation provided (financial reporting received from venture capital funds and monitoring notes) the Valuation Committee has to give its sign-off to validate the classification.
- Determine impairment for Category III based on the gradings of the funds. A percentage of provisioning is applied to the net paid in.

As a conclusion, EIF portfolio management systems are not mechanical exercises, rely on the judgement of experienced staff.

3.2.2. Portfolio overview:

Under its venture capital operations, EIF is a fund of funds, taking equity participations in funds. The dearth of available funds for venture capital financing makes EIF's role particularly meaningful in this area. EIF's minority stakes in funds have catalyzed commitments from a wide range of investors. EIF's venture capital ("VC") operations are mainly focused on early-stage and seed capital, with 40 % of the portfolio destined for investments at those stages in 2007. However, the portfolio is also expanding in well-established mid- and later-stage investments, which, generally speaking, have a lower risk profile.

All mandates

At the end of 2007, the EIF's total venture capital investments amounted to EUR 4.4 billion in terms of signatures. The investments were made in 273 funds and helped mobilize total capital of over EUR 26 billion with other investors. The majority of EIF's venture capital activities are carried out on behalf of the EIB under the EUR 4 billion Risk Capital Mandate (RCM). Total signatures using EIB resources reached about EUR 3.5 billion. The Fund also manages venture capital investments on behalf of the EC under G&E, MAP and since recently CIP mandates. The cumulative portfolio that EIF manages under MAP was EUR 314 million at the end of December 2007.

The Fund has also put in place joint investment facilities with four public and/or private partners.

EIF own resources

At the end of 2007, own-risk venture capital commitment (i.e. commitments given to underlying funds to invest) amounted to EUR 413 million. 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 venture capital funds, with the private sector investors providing at least 50 % of the equity. All investments are done one a pari-passu basis with other investors, granting then no specific rights (or obligations) to EIF. All of the EIF's risk existing from its own-risk VC operations is fully covered by shareholders' equity. As a sub-ceiling, venture capital commitments may not exceed 50 % of shareholders' equity, equivalent to EUR 482 602 190 at year-end 2007. Of the EUR 413 million of own-risk funds committed at that time, EUR 246 million had been disbursed. Venture capital investments are evaluated quarterly according to the IPEVCVG. Following the methodology described in the Background part, EIF records value adjustments on a line by line basis, either through the profit and loss in case of impairment or through the fair value reserve, which forms part of EIF's shareholder's equity. Consequently, net disbursed own-risk funds (at cost) of EUR 164 million (vs. EUR 139 million at the end of 2006) are valued at EUR 168 million in EIF's 2007 balance sheet (vs. EUR 134 million at the end of 2006).

3.2.3. Significance of financial instruments for financial position and performance

Activities

In terms of activities, 2007 represents a record year for the EIF venture capital portfolio. All figures, signatures, disbursements and reflows have exceeded historical yearly figures:

EIF yearly cash flow activity (EUR m)

Signatures	Disbursements	Capital Repayments	Income & Dividends
70.6	47.6	18.9	6.7

Value adjustments including impairments have increased by EUR 9.5 million.

The proportion of funds considered as impaired have increased from 10 % to 16 % of the EIF portfolio (see table) based on committed funds.

Venture Capital assets not impaired vs. impaired (EUR m)

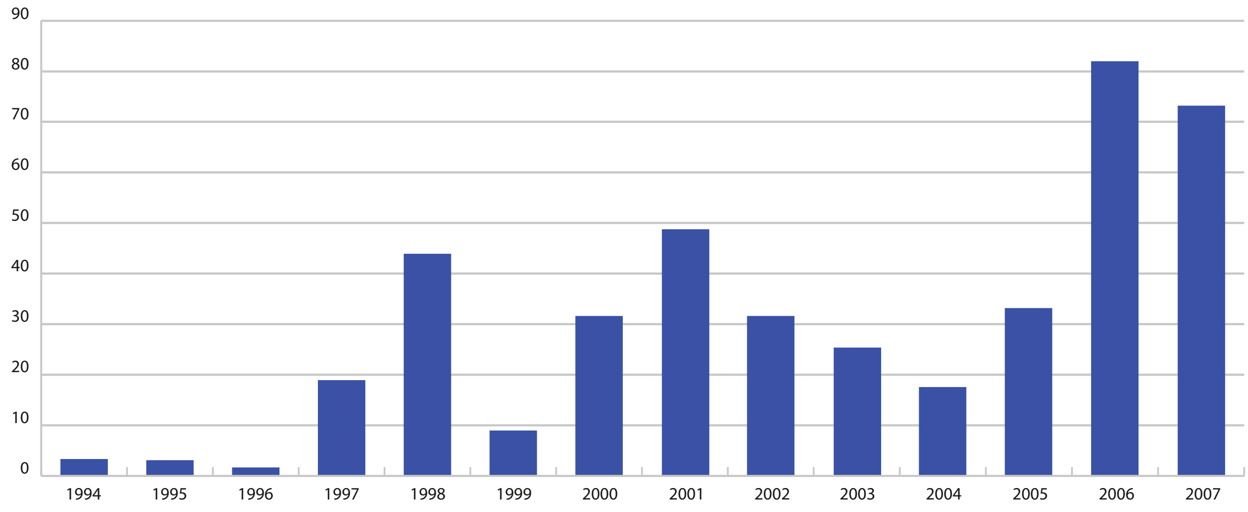
	Signatures		
Funds	Dec 2006	Dec 2007	+/-
Not impaired	317.6	348.0	+ 9.6 %
Impaired	34.9	65.3	+ 87.1 %
Impair. (% of sign.)	10 %	16 %	+ 6.0 %

Diversification

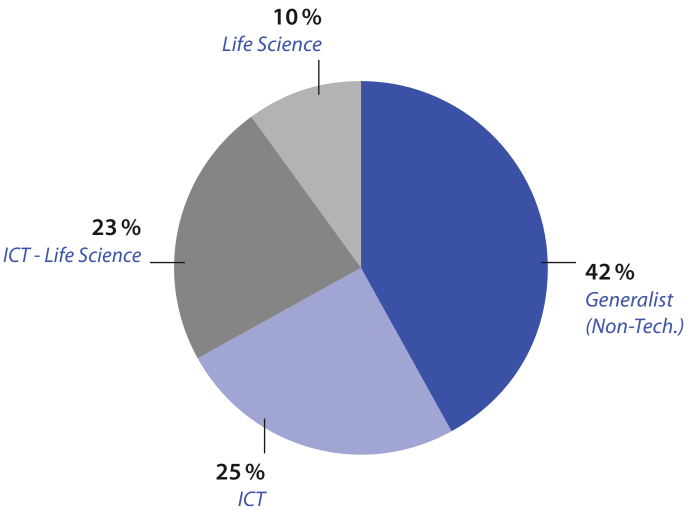
The EIF own-resource portfolio can be considered as well diversified. As of 31 December 2007, EIF has committed EUR 413 millions in 155 private equity funds with the biggest exposure amounting to EUR 15.0m (4 % of total signatures). These PE funds have invested in more than 1 000 investees.

In terms of vintage year, sector and stage the portfolio is well balanced, illustrated by the followings split by signature as at 31 December 2007:

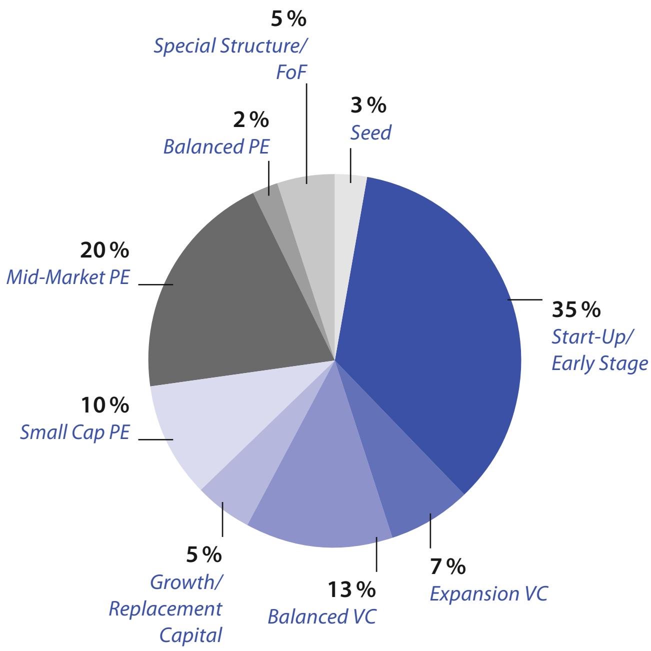
Vintage year (signatures) in EUR m



Split per sector (signatures) in percentage



Split per stage (signatures) in percentage



Finally, in terms of maturity, the EIF portfolio is still young. Its commitment weighted average age has increased from 3.9 years in 2006 to 4.2 years in 2007.

3.3. Portfolio Guarantees & Securitisation

3.3.1. Background:

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

For its guarantee & securitisation business, over the last years, EIF staff has developed a tool-set to analyse portfolio guarantee and structured financial transactions in line with best market practices. Before EIF enters legally into a guarantee transaction, Guarantees & Securitisation, within the Investments department, assigns an internal rating to each new own risk guarantee transaction in accordance with the EIF Credit Risk Policy Guidelines. The rating is based on internal models, which analyse and summarise the transaction's credit quality (expected loss concept), considering not only quantitative parameters but also qualitative aspects.

Capital allocation and pricing are functions of the expected loss, i.e. they are risk adjusted and consequently vary according to the assigned rating. Over the past years EIF's conservative capital allocation rules have already considered the Basel II ideas and will be adjusted in line with Basel II.

As the rating is based on a model, RMM – in the course of the independent opinion process and in line with the Model Review Procedure – conducts a model review for each new rating, as well as sample checks of updated ratings. The purpose of this procedure is to reduce the model risk and to establish guidelines applicable for the official EIF internal rating models. It defines, inter alia, that each basic model has to be independently reviewed within EIF and that assumptions to adjust basic model for individual transactions in the course of the rating process have to be documented, and reviewed by RMM.

A transaction is eligible if the assigned rating falls between Aaa-B1. It is EIF's intention to maintain an average rating portfolio of minimum Baa3. Once EIF guarantees a particular tranche, the individual internal rating assigned to such a tranche is reviewed quarterly upon closing. Furthermore, the principle of "monitoring by exception" is applied. If there is an event which could cause an upgrade or a downgrade of a tranche an analysis and further review is triggered.

The guarantee transactions are monitored regularly. The monitoring process includes:

- ongoing risk review of each existing guarantee operation;
- checking compliance of contractual obligations by the relevant counterparty (e.g. timely reporting, compliance with eligibility criteria, verification of financial covenants, timely payment of fees due, etc.);
- assessing the expected evolution of each guarantee operation in terms of its performance compared to ex-ante estimates set prior to signature of the operation;
- assessing whether the level of capital allocation and general provisions made for each operation are adequate and to propose, if deemed necessary, specific provisions for individual loss items;
- establishing and maintaining of the Watch list (for transactions rated below Ba2) in accordance with the internal guidelines (Watch-listed cases require a more important monitoring and joint internal decisions to be taken by an operational committee consisting of staff from the Guarantees & Securitisation Division, RMM and the Legal Service (Watch List Operational Committee));
- analysis of the Guarantee Portfolio as a whole (Portfolio Review);
- on-site monitoring visits;
- valuation of portfolio guarantees in line with IFRS accounting rules (financial guarantees & derivatives).

3.3.2. Portfolio overview:

Of the EUR 11.58 billion ("bn") guarantee commitments at the end of December 2007, EUR 4.27bn (of which outstanding is EUR 3,487 bn) (38 %) are for "own risk" activities. The remaining EUR 7.3bn (62 %) relate to "trust" activities on behalf of the EC. These trust activities include EUR 4.9 bn under MAP and EUR 2.4 bn under the SME Guarantee Facility (SME GF) which in turn is under the umbrella of MAP (replaced by CIP in-2008).

EIF's own-risk operations are based on three product types:

- **Credit Enhancement Products** accounted for 94.6 % of total own-risk outstanding guarantees (EUR 3.3bn) as of end-2007. Credit enhancement is the EIF's core own-risk guarantee activity, accounting for EUR 1.4bn of own-risk signatures in 2007. Credit enhancement serves as an unconditional debt service guarantee (or as a credit default), covering a specific tranche of a SME loan portfolio, with a maximum weighted average term of 15 years. The guarantee is called upon once a loss threshold has been reached in the relevant tranche.
- **Credit Insurance Products** accounted for 4.9 % of all own-risk outstanding guarantees (EUR 171.2m) as of end-2007. In these cases, the fund guarantees up to 50 % of a loan or loan portfolio extended to SMEs by a financial institution. Almost 40 % of this portfolio (EUR63m) consists of the Growth and Environment Programme sponsored by the EU.
- **Structured Investment Vehicles** accounted for 0.5 % of own-risk outstanding guarantees (EUR 15.7m) at end-2007. In this instance, the EIF guarantees specific tranches (EUR10m–EUR50m) of SIVs. These funds are set up to make mezzanine or equity investments in SMEs that would not normally qualify for bank financing and therefore present a higher risk than typical special-purpose vehicles.

3.3.3. Significance of financial instruments for financial position and performance

The performance of EIF's guarantee portfolio has been quite strong because of careful project selection and a keen eye to avoid excessive risk.

End of 2007, the quality of the overall portfolio related to the number of transactions was at investment-grade level (89.2 % against 89.7 % at end-2006). The weighted average internal rating was Baa1 (of which 76 % was confirmed by rating agencies and the remaining relied on the fund internal rating.). SIVs represented the riskiest portion of the portfolio, carrying an average internal rating of 'Ba1', while the safest guarantee facilities were credit insurance ('A2') and credit enhancement ('Baa1').

At the end of 2007, 82 % of the transactions reviewed had a "neutral" outlook ("performance as expected"); 13 % - had a positive outlook ("rating upgrade is likely"), and a few transactions had a negative outlook ("possible rating downgrade").

The total exposure at risk (commitment deducted of repayments) for EIF's own risk guarantees amounts to EUR 3.607m with the following split:

	Weighted Average Rating		Exposure at risk (commitment minus repayment); in m EUR		% of total	
	2007	2006	2007	2006	2007	2006
Credit Enhancement	Baa1	Baa1	3 367	2 652	93.34 %	86.90 %
Credit Insurance	A2	A2	212	367	5.86 %	12.00 %
SIV	Ba1	Ba1	25	28	0.70 %	0.90 %
Defaulted	D	D	3	3	0.10 %	0.10 %
Total			**3 607**	**3 050**	**100.00 %**	**99.90 %**

In 2007, no new contract was classified as defaulted. Since inception, guarantees have been called-upon on 23 deals for a total amount paid of EUR16.7m which in aggregated accounted for 0.4 % of total commitments at end-2007.

The portfolio's overall weighted average life was stabilised at 4.9 years in 2007, compared with 5.2 years at end-2006.

While EIF's guarantee portfolio is still relatively young, meaning that results to date may not be indicative of future performance, no meaningful deterioration of asset quality is expected.

3.4. Treasury

3.4.1. Background:

Treasury management has been outsourced to EIB under a treasury management agreement signed by both parties and it is carried out according to EIF treasury guidelines.

EIF's operations are not cash driven, and are almost exclusively based on shareholders' equity, which is the basis for VC investments and capital allocation for guarantees. Consequently, EIF does not borrow funds.

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

3.4.2. Portfolio overview:

The treasury portfolio is split into four distinct subportfolios:

- the operational portfolio (containing short-term instruments with a maximum duration of six months);
- the investment portfolio (made up of long-term debt instruments with a maximum duration of six years);
- the hedging portfolio (floating-rate instruments);
- a cash portfolio.

The portfolio's average maturity is 3.79 years (2006: 3.4 years).

3.4.3. Significance of financial instruments for financial position and performance

In recent years, the EIF core business has increasingly surpassed treasury as the main income provider, accounting for 66 % of total income in 2007, down from 68 % in 2006.

3.5. Nature and extent of risks arising from financial instruments

The following table provides information relating to the categories of financial instruments:

31.12.2007	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Other financial liabilities	Non-financial assets / liabilities	Total	Fair value
Cash & cash equivalents	291 604 538	0	0	0	0	0	291 604 538	291 604 538
Investments:								
Debt securities and other fixed income securities	0	0	522 470 401	0	0	0	522 470 401	522 470 401
Shares and other variable income securities	0	1 599 263	166 277 258	0	0	0	167 876 521	167 876 521
Guarantee operations								
Financial guarantees receivables	0	0	0	48 592 549	0	0	48 592 549	48 592 549
Derivatives	0	435 130	0	0	0	0	435 130	435 130
Other assets [note 4.6]	19 739 594	0	0	0	0	13 332 629	33 072 223	33 072 223
Intangible assets	0	0	0	0	0	1 161 484	1 161 484	1 161 484
Property, plant and equipment	0	0	0	0	0	8 245 595	8 245 595	8 245 595
Total Assets	**311 344 132**	**2 034 393**	**688 747 659**	**48 592 549**	**0**	**22 739 708**	**1 073 458 441**	**1 073 458 441**
Financial liabilities:								
Financial guarantees payables	0		0	60 031 682	0	3 398 599	63 430 281	63 430 281
Derivatives	0	2 014 394	0	0	0	0	2 014 394	2 014 394
Retirement benefit obligations	0	0	0	0	0	13 232 407	13 232 407	13 232 407
Other liabilities [note 5.3]	0	0	0	0	1 357 583	8 058 461	9 416 044	9 416 044
Total Liabilities	**0**	**2 014 394**	**0**	**60 031 682**	**1 357 583**	**24 689 467**	**88 093 126**	**88 093 126**

31.12.2006	Loans and Receivable	Fair value through profit and loss	Available for sale	Financial guarantees	Other financial liabilities	Non-financial assets / liabilities	Total	Fair value
Total Assets	**63 022 731**	**682 292**	**650 165 017**	**38 281 429**	**0**	**19 209 789**	**771 361 258**	**771 361 258**
Total Liabilities	**0**	**1 289 229**	**0**	**50 991 539**	**3 456 479**	**23 104 325**	**78 841 572**	**78 841 572**

3.5.1. Credit risk

Credit risk concerns mainly the EIF Guarantee activity and, to a lesser extent, treasury instruments such as fixed income securities and floating rate notes held in the AFS portfolio, commercial papers and deposits. The Fund uses appropriate instruments, policies, and processes to manage the credit risk.

The tables below show the maximum exposure to credit risk without taking into account any collateral (in EUR) :

Split by classes of balance sheet and Off balance sheet

	Maximum exposure 2007	Maximum exposure 2006
Cash and cash equivalent	291 604 538	52 866 663
Investments		
Debt securities and other fixed income securities	522 470 401	517 033 602
Guarantees operations		
Financial guarantees payables	60 031 682	50 991 539
Derivatives	1 579 264	1 143 700
Total BS	**875 685 885**	**622 035 504**
Guarantees	3 606 967 244	3 038 293 307
Fiduciary Operations	10 467 106 367	10 301 018 906
Assets held on behalf of third parties	423 136 577	368 776 504
Total Off BS	**14 497 210 188**	**13 708 088 717**
Total Credit Risk Exposure	**15 372 896 074**	**14 330 124 221**

A) Venture Capital

For EIF own risk venture capital portfolio, there is no credit exposure as investments are always done through an equity participation. As such, EIF is only exposed to market risk.

B) Portfolio Guarantees & securitisation

Credit risk arises mainly from EIF's guarantee transactions funded by own resources.

This risk is managed by conservative risk management policies covered by the statutory and Credit Risk Policy Guidelines.

The statutes of the fund limit own-risk guarantees to 3.0x subscribed capital, which amounted to EUR 3.0 bn at end-2007. Hence, the EUR 4.27 bn committed at end-2007 was well below the statutory limit of EUR 9.0 bn.

The EIF Credit Risk Policy Guidelines ensure that EIF continues to develop a diversified guarantee portfolio in terms of product range, geographic coverage, counterparty exposure, obligor exposure, industry concentration and also set out the capital allocation rules based on the ratings of the exposures.

Concentration risk is limited because of the granular nature of EIF's transactions; typically the underlying portfolios are highly diversified in terms of single obligor concentration, sectors, and also with regard to regional diversification.

To cover concentration risk, EIF has strict limits (based on capital allocation) for individual transactions and on originator level (maximum aggregate exposures for originators and originator groups).

End of 2007, EIF's overall own risk guarantee portfolio was spread over 19 countries. The largest nominal individual country net exposures were Italy, Belgium, Germany and UK, which jointly accounted for 51 % of total guarantee commitments.

Own Funds guarantees: Exposures at risk by country end-2007:

Country	Ccy	2007 EUR m	2007 share	2006 share
Austria	EUR	4	0.1%	0.2%
Belgium	EUR	473	13.1%	7.0%
Bulgaria	EUR	50	1.4%	1.6%
Denmark	DKK; EUR	164	4.5%	3.3%
Finland	EUR	17	0.5%	0.7%
France	EUR	60	1.7%	1.6%
Germany	EUR	379	10.5%	15.1%
Greece	EUR	61	1.7%	1.6%
Ireland	EUR	4	0.1%	0.1%
Italy	EUR	495	13.7%	19.7%
Luxembourg	EUR	0	0.0%	0.0%
Netherlands	EUR	144	4.0%	1.3%
Non EU	EUR	20	0.5%	0.6%
Pan EU & Multi	EUR	527	14.6%	15.0%
Poland	PLN	79	2.2%	1.8%
Portugal	EUR	279	7.7%	8.7%
Spain	EUR	228	6.3%	8.1%
Sweden	SEK	144	4.0%	5.0%
United Kingdom	GBP; EUR	480	13.3%	8.6%
TOTAL		**3 607**	**100%**	**100%**

Compensating controls track exposures on a sectoral basis: in the context of EIF's own risk guarantee & securitisation operations, industry sector exposures are analysed on a deal-by-deal basis through their impact on the ratings assigned by EIF to each transaction/tranche. For instance, dependent on the financial model to analyse the transaction, sector exposures can be reflected in diversity scores or can be indirectly captured through the assumption on default rate volatility, as a key model input variable. In addition, sector exposures are analysed in the context of each deal using qualitative measures such as current status and forecast for sectors with high concentrations in the portfolio. Exceptionally, some deals have a concentrated exposure in the same (broad) sector. This is typically captured through increased credit enhancement (e.g. subordination) to the benefit of EIF. Typically, deals with replenishing features have portfolio criteria, such as maximum single obligor, maximum top 5 obligors, and maximum industry concentration levels. All together help to model industry concentration and portfolio correlation. Furthermore, the consideration of sector exposures is part of EIF's overall portfolio analysis.

Counterparty risk is mitigated by the quality of EIF counterparties which are usually major market players. EIF performs additional on-site monitoring visits to ensure compliance with procedures and processes during the transaction life. Stress-test scenarios for the portfolio of guarantees, including extreme case assumptions, are carried out once a year to determine the ability of the capital base to sustain adverse shocks.

Actual performance on the guarantee operations to date has been very satisfactory, reflecting the high credit quality of exposures, the diversification of assets and the granularity of the portfolio.

C) Treasury

The Fund is exposed to residual credit risk relating to its liquid assets portfolio. However, the EIF adheres to conservative credit investment guidelines and internal limits. For each portfolio under the EIF's management, the eligibility criteria for counterparts are fixed according to their nature and credit quality (as measured by their external agency rating), while limits are fixed according to counterparts' own funds.

Any currency arbitrage not directly required to carry out EIF's operations is ruled out by the statutes.

The following tables outline the credit quality by investment grade of the Fund's debt securities as on 31 December 2007 and 2006, based on external ratings. Figures are presented without accrued interests.

AFS - Debt securities and other fixed income securities	31.12.2007		31.12.2006	
Rating	Amount in EUR	In percentage	Amount in EUR	In percentage
AAA	379 388 527	74.18 %	348 853 074	69.01 %
AA1	12 541 320	2.45 %	17 609 306	3.48 %
AA2	23 278 108	4.55 %	54 620 328	10.80 %
AA3	38 649 549	7.56 %	15 303 760	3.03 %
AA+	0	0.00 %	5 488 722	1.09 %
A1	11 247 280	2.20 %	0	0.00 %
A2	41 417 450	8.10 %	38 915 833	7.70 %
A3	0	0.00 %	10 026 260	1.98 %
BAA1	4 811 728	0.94 %	0	0.00 %
NR [*]	98 579	0.02 %	4 743 997	0.94 %
P1 [**]	0	0.00 %	9 969 276	1.97 %
Total	**511 432 541**	**100 %**	**505 530 556**	**100 %**

(*) Non-rated

(**) Short-term rating, equivalent of (Aaa-A2)

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, private equity commitments and administrative expenditure and earn a reasonable return on assets invested with due regard to minimisation of risk.

The table below shows the Fund's assets and liabilities classified into relevant maturity groupings based on the remaining period to the contractual maturity date. It is presented using the most prudent expectation of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Maturity at 31.12.2007 (in EUR)	Not more than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Undefined Maturity	Total
Cash and cash equivalent	291 604 538	0	0	0	0	291 604 538
Investments						
Debt securities and other fixed income securities	26 263 700	73 880 810	226 810 079	195 515 812	0	522 470 401
Shares and other variable income securities	3 078 893	13 081 039	72 402 857	79 313 732	0	167 876 521
Guarantees operations						
Financial guarantees	216 154	189 504	34 575 841	13 611 050	0	48 592 549
Derivatives	0	0	370 924	64 206	0	435 130
Other assets	13 554 019	0	4 144 063	15 374 141	0	33 072 223
Intangible assets	592	51 068	1 109 825	0	0	1 161 484
Property, plant & equipment	4 394	29 275	415 656	7 796 269	0	8 245 594
Total assets	**334 722 290**	**87 231 696**	**339 829 245**	**311 675 210**	**0**	**1 073 458 440**
Financial liabilities						
Financial guarantees	59 597	785 858	48 122 186	14 462 639	0	63 430 281
Derivatives	0	582 930	436 844	994 620	0	2 014 394
Retirements benefit obligations	0	0	0	13 232 407	0	13 232 407
Other liabilities	1 880 898	2 844 388	50 000	4 640 758	0	9 416 044
Equity	0	0	0	0	985 365 315	985 365 315
Total liabilities	**1 940 495**	**4 213 176**	**48 609 030**	**33 330 424**	**985 365 315**	**1 073 458 440**
Net liquidity position at 31.12.2007	332 781 794	83 018 520	291 220 215	278 344 785	(985 365 315)	0
Cumulative liquidity position at 31.12.2007	332 781 794	415 800 314	707 020 529	985 365 315	0	0
Commitments	29 100 371	49 405 259	106 032 678	228 749 142	0	413 287 450
Guarantees	228 885 425	192 150 747	2 361 417 882	825 324 501	0	3 607 778 555
Total Off BS	257 985 796	241 556 006	2 467 450 560	1 054 073 643	0	4 021 066 005

Maturity at 31.12.2006 (in EUR)	Not more than 3 months	Less than 1 year	1 to 5 years	More than 5 years	Undefined Maturity	Total
Total Assets		**161 088 156**	**295 140 502**	**315 132 601**		**771 361 259**
Total Liabilities		**10 288 265**	**37 881 440**	**30 671 867**	**692 519 687**	**771 361 259**
Net liquidity position at 31.12.2006		150 799 891	257 259 062	284 460 734	(692 519 687)	0
Cumulative liquidity position at 31.12.2006		150 799 891	408 058 953	692 519 687		0
Commitments		9 592 704	150 896 433	192 017 221	0	352 506 358
Guarantees		729 950 791	1 699 266 134	622 098 783	0	3 051 315 708

Guarantees issued on behalf of the EIF are analysed with reference to their maturity as follows:

	Drawn EUR	Undrawn EUR	Total 31.12.2007 EUR	Total 31.12.2006 EUR
Up to five years	462 218 868	42 879 931	505 098 799	469 835 256
From five to ten years	1 328 407 368	43 087 734	1 371 495 102	1 150 074 290
From ten to fifteen years	1 018 783 583	29 022 657	1 047 806 240	742 670 397
Over fifteen years	683 378 414	0	683 378 414	688 735 765
	3 492 788 233	**114 990 322**	**3 607 778 555**	**3 051 315 708**

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and un-drawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

Of the above total amount, EUR 1 627 750 (2006: EUR 3 304 323) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 811 311 representing the present value of future interest for guarantees contracts in default (2006: EUR 1 106 129).

A. Venture Capital

The private equity market is by nature not liquid as the vehicles are closed-end funds with in general a 10-year life contract. After the first closing it is difficult for an investor to get out from its position except if it can find a buyer through the secondary market.

B. Portfolio Guarantees & securitisation

The nature of EIF's capital structure and the capital charge limits defined in the EIF Credit Risk Policy Guidelines ensures a high degree of liquidity to cover unexpected losses arising from the guarantee activity.

The total capital charge for guarantees is limited to 50 % of shareholders' equity.

At year-end 2007 the capital charge represented 54 % of the limit versus 66 % in 2006. The reduction in the limit utilisation is mainly due to EIF net capital increase of EUR 266m paid in 2007.

	31.12.2007	31.12.2006
Capital Charges EURm :	259	221
Capital Ceiling :	483	337
Utilisation:	54 %	66 %
Headroom:	224	116
Commitments EURm:	4 268	3 801
Guarantees Drawn:	4 153	3 690
Guarantees Undrawn:	115	110
Maximum Exposure:	3 607	3 038
Aggregated Guarantee calls:	16.7	15.5

C. Treasury

At the end of 2007, 74.18 % of the Fund's liquid asset exposure was awarded 'AAA'- status. 14.56 % were rated 'AA'-entities and only 0.02 % were not rated. In view of the quality of the securities held (averaging 'AA+'), liquidity risk on this portfolio is not significant.

3.5.3. Market risk

1. Market Risk-Interest rate risk

More than half of the Fund's income and operating cash flows are independent of changes in market interest rates. The Fund's interest rate risk arises mainly from cash & cash equivalents positions as well as investments in debt securities.

A. Venture Capital

Venture capital being an equity product, sensitivity to interest rate is not performed.

B. Portfolio Guarantees & securitisation

For transactions in which EIF acts as guarantor are typically in no liquid markets and representative market prices are not available. Hence, EIF has developed a mark-to-model approach to value these transactions, using external and internal ratings, information from the regular monitoring, and discounted cash-flow analysis.

The value of guarantee transactions classified as Financial Guarantees are not subject to fluctuations on interest rate during transactions' life since valuations are carried under IAS 37 provisions rules.

The value of guarantee transactions classified as Derivatives (which do not comply with all the definition criteria of a financial guarantee contract in terms of IAS 39) are valued monthly and current market interest rates are inputted in the model.

However, the interest rates used by the model are only applied to calculate the present value of expected premiums. Fluctuations on present value are then included on the guarantee fair value and recognized in the P&L. The interest rate impact on the underlying rating model of these transactions is not measured.

At the end of 2007, own risk guarantees transactions classified as "Derivative" amounts to EUR 1.27bn and represents 30.2 % of total guarantee commitments (EUR 4.27bn). Capital allocation charges for derivatives amounting to EUR 73,9m represent 28.5 % of total guarantee capital allocation charges (EUR 259 m).

C. Treasury

Approximately 50 % of the cash and cash equivalents held have an average duration of up to 5 years, thereby safeguarding the Fund against the substantial fluctuations in its long term revenues.

Moreover, operations of a speculative nature shall not be authorised. Investment decisions are based on the interest rates available in the market at the time of investment. Interest rate expectations shall not be taken into account.

The following table illustrates the Fund's exposure to interest rate risk (figures are presented at fair value):

At 31.12.2007 (in EUR)	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash & cash equivalents	291 604 538	0	0	0	0	291 604 538
AFS - Debt securities and other fixed income securities	26 263 699	73 880 810	179 547 928	165 071 575	77 706 389	522 470 401
Total	**317 868 237**	**73 880 810**	**179 547 928**	**165 071 575**	**77 706 389**	**814 074 939**
Percentage	39.05 %	9.08 %	22.06 %	20.28 %	9.55 %	100.00 %

At 31.12.2006 (in EUR)	Fixed rate				Variable rate	Total
	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years		
Cash & cash equivalents	52 866 663	0	0	0	0	52 866 663
AFS - Debt securities and other fixed income securities	36 514 743	37 176 930	172 822 899	219 928 170	50 590 860	517 033 602
Total	**89 381 406**	**37 176 930**	**172 822 899**	**219 928 170**	**50 590 860**	**569 900 265**
Percentage	15.68 %	6.52 %	30.33 %	38.59 %	8.88 %	100.00 %

The average effective interest rate on term deposit in EUR is 4.05 % for the year 2007 (2006: 2.89 %). The average effective interest rate on the AFS securities portfolio in EUR is 4.54 % for 2007 (2006: 4.55 %).

Sensitivity analysis applied to the positions of the EIF treasury managed by the EIB as at 31 December 2007 and 31 December, 2006

Sensitivity of economic value of own funds (EUR millions)

Sensitivity of earnings

The sensitivity of the earnings is an estimate of the the change during the next 12 months in the earnings of the EIF treasury portfolio managed by the EIB if all interest rate curves rise by one percentage point or decrease by one percentage point. The sensitivity measure is computed by taking into consideration the coupon repricings of all the positions present in the portfolio on a deal by deal basis. Each fixed rate asset is assumed to be reinvested at maturity in a new asset with the same residual life of the previous one as of 31.12.2007. Positions in floating rate assets are assumed to have quarterly repricings. With the positions in place as of 31.12.06, the earnings of the EIF treasury portfolio would increase by EUR 0.79 million if interest rate increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points. With the positions in place as of 31.12.07, the earnings of the EIF treasury portfolio would increase by EUR 2.8 million if interest rate increase by 100 basis points and decrease by the same amount if interest rates decrease by 100 basis points.

		Sensitivity of economic value of own funds						
31/12/2007	Increase in Bp	[0 - 1y]	[2y - 3y]	[4y - 6y]	[7y - 11y]	[12y - 20y]	[+20y]	Total
EUR	+100	-1	-2	-6	-6	0	0	-15
USD	+75	0	0	0	0	0	0	0
GBP	+50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31/12/2007	Decrease in Bp	[0 - 1y]	[2y - 3y]	[4y - 6y]	[7y - 11y]	[12y - 20y]	[+20y]	Total
EUR	-100	1	2	6	6	0	0	15
USD	-75	0	0	0	0	0	0	0
GBP	-50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31/12/2006	Increase in Bp	[0 - 1y]	[2y - 3y]	[4y - 6y]	[7y - 11y]	[12y - 20y]	[+20y]	Total
EUR	+100	-1	-2	-6	-9	0	0	-18
USD	+75	0	0	0	0	0	0	0
GBP	+50	0	0	0	0	0	0	0

		Sensitivity of economic value of own funds						
31/12/2006	Decrease in Bp	[0 - 1y]	[2y - 3y]	[4y - 6y]	[7y - 11y]	[12y - 20y]	[+20y]	Total
EUR	-100	1	2	6	9	0	0	18
USD	-75	0	0	0	0	0	0	0
GBP	-50	0	0	0	0	0	0	0

Value at Risk

The VaR estimates the potential negative change in the value of a portfolio at a given confidence level and over a specified time horizon. As of 31.12.07, the value-at-risk of the EIF treasury portfolio was EUR 1.6 million (EUR 1.2 million as of 31.12.06). It was computed on the basis of the Riskmetrics VaR methodology, using a confidence level of 99% and a 1 day time horizon. This means that the VaR figure represents the maximum loss over a one-day horizon such that the probability that the actual loss will be larger is 1%. The choice of the Riskmetrics VaR methodology has some limitations because it assumes that the portfolio exposures are linear and that the future movements in the risk factors will follow a Normal distribution. More generally, VaR does not purport to measure the worst loss that could happen.

2. Market risk: Foreign currency risk

The following section provides information on the risk that fair values and future cash flows of financial assets fluctuate due to changes in foreign exchange rates.

The Fund's objective is to reduce exchange risk by limiting its investment in out-currency. The Fund's capital is denominated in EUR and the majority of its assets and liabilities are in that currency.

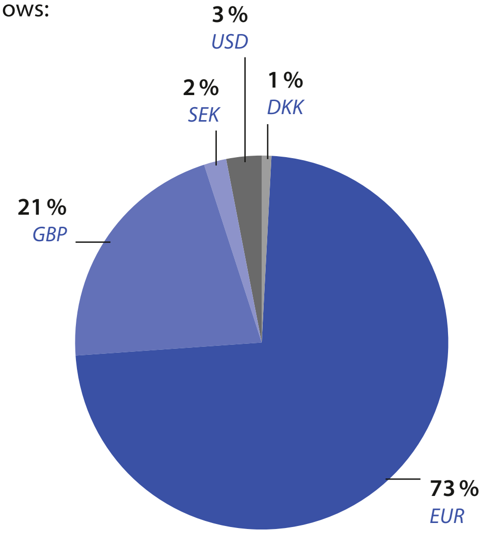
The table below shows the exchange positions (in EUR) of EIF's main assets and liabilities.

At 31.12.2007 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Cash and cash equivalent	285 336 884	2 277 354	2 587 459	1 402 841	6 267 654	291 604 538
Investments						
Debt securities and other fixed income securities	522 470 401	0	0	0	0	522 470 401
Shares and other variable income securities	122 267 894	35 053 480	5 150 527	5 404 620	45 608 627	167 876 521
Guarantees operations						
Financial guarantees	42 896 428	1 859 782	0	3 836 339	5 696 121	48 592 549
Derivatives	299 215	135 915	0	0	135 915	435 130
Other assets	33 072 223	0	0	0	0	33 072 223
Intangible assets	1 161 484	0	0	0	0	1 161 484
Property, plant & equipment	8 245 594	0	0	0	0	8 245 594
Total assets	**1 015 750 123**	**39 326 531**	**7 737 986**	**10 643 801**	**57 708 318**	**1 073 458 441**
Financial liabilities						
Financial guarantees	53 202 974	7 108 765	0	3 118 541	10 227 306	63 430 281
Derivatives	1 261 934	752 460	0	0	752 460	2 014 394
Retirements benefit obligations	13 232 407	0	0	0	0	13 232 407
Other liabilities	9 416 044	0	0	0	0	9 416 044
Total liabilities	**77 113 359**	**7 861 225**	**0**	**3 118 541**	**10 979 766**	**88 093 126**
Commitments	299 555 513	90 517 442	11 754 636	11 459 859	113 731 937	413 287 450
Guarantees	2 857 823 627	393 727 589	0	356 227 339	749 954 928	3 607 778 555
Total Off BS	**3 157 379 140**	**484 245 031**	**11 754 636**	**367 687 198**	**863 686 865**	**4 020 254 693**

At 31.12.2006 (in EUR)	EUR	Pound Sterling	US Dollars	Other currencies	Sub total except EUR	Total
Total assets	715 658 388	41 400 751	8 022 505	6 279 615	55 702 871	771 361 259
Total liabilities	73 605 429	3 566 351	0	1 669 793	5 236 144	78 841 572
Commitments	245 959 407	85 541 275	13 138 952	7 866 724	106 546 951	352 506 358
Guarantees	2 445 247 952	262 419 014	0	343 648 742	606 067 756	3 051 315 708
Total Off BS	**2 691 207 359**	**347 960 289**	**13 138 952**	**351 515 466**	**712 614 707**	**3 403 822 066**

A. Venture Capital

On the venture capital side, at 31 December 2007, currency exposure for the investments funds can be split as follows:



(as % of the total fair value, EUR 168 million)

As assets in the EIF balance sheet are recorded at the historical cost (e.g. for each separate operations (disbursements and capital repayments) with the exchange rate at the end of the month preceding the operation), they need to be readjusted at the exchange rate of 31 December 2007.

For 2007, changes in foreign exchange rates for shares and other variable income amount to EUR -4 083 903 out of which EUR 3 195 734 have been recorded in the fair value reserve.

The sensitivity analysis performed below includes 4 scenarios:

1. An increase/decrease of 15 % of USD vs. the euro

2. An increase/decrease of 5 % of GBP vs. the euro

The other currencies are not tested separately as their weight in the total exposure is below 5 % and any change would then have no material impact.

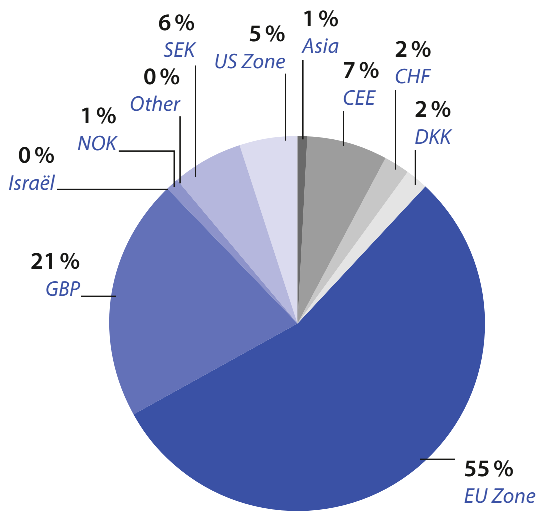
Foreign exchange rate risk			
USD +15 %		USD -15 %	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
0	(842 710)	0	842 710
GBP +10 %		GBP -10 %	
(487 116)	(1 404 834)	487 116	1 404 834

Closing rates at balance sheet date were (1 EUR/CCY):

DKK	7.4583
GBP	0.73335
SEK	9.4415
USD	1.4721

It has to be noted however, that these impacts are measured at the fund level (impact on the net asset values denominated in out-currency). Therefore they do not take into account indirect potential effects on the underlying investments (investee companies) which could be in out-currencies. In practice most of the fund managers try to hedge the positions they could have in currency different of the fund main currencies.

However, the underlying investments are also well diversified and the indirect exposure of EIF is following broadly the exposure at the fund level, as illustrated by the graph below:

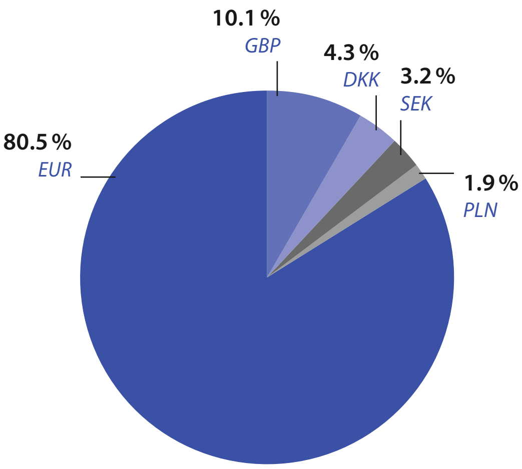


B. Portfolio Guarantees & securitisation

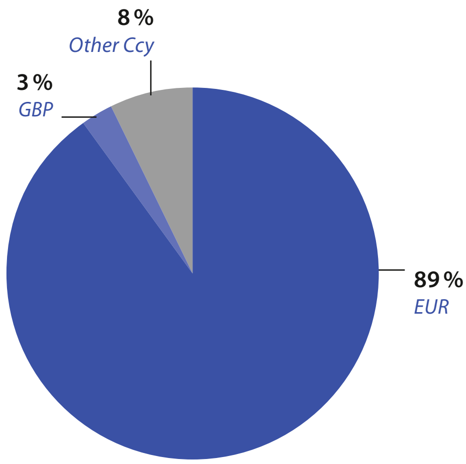
The Own Risk guarantees portfolio is mainly denominated in EUR. As of end-2007, 80.5 % of commitments (89 % of Fair Value) were in EUR. The GBP is the main foreign currency exposure and represented 10.1 % of commitments (3 % of Fair Value). Therefore this risk is limited and characterized by a low volatility of EUR/GBP (4.6 % for the period 2000-2007).

Own Risk Portfolio breakdowns by currency and Assets Fair Value at 31.12.2007:

Commitments breakdown



Breakdown of Assets Fair Value



EIF is monitoring its non-Euro exposure, performs regular stress tests, with regard to currency risk (impact on unexpected loss). Additional capital charges on non-EUR exposures are assumed and the outcome is compared with the available headroom. Analyses are done on what potential actions are required in order to limit the foreign exchange risk exposure. For Trust operations the exchange risk is typically borne by the EIF counterparties. In some cases specific budgetary allocations can be made in order to mitigate the risk taken by the intermediary. Related to Trust activities no currency exposures emerge on behalf of EIF.

C. Treasury

No risk is taken regarding EIF's debt securities' portfolio, as all investments in debt securities and other fixed income securities are denominated in EUR. Included in the above exchange positions are the financial assets classified by currency. It shows that risk regarding foreign currency exchange rates is insignificant.

3. Market risk: public market risk

A. Venture Capital

The specificities of private equity asset class make the use of traditional approaches to market risk analysis difficult to apply. Market risk analysis requires the estimation of the correlation between the assessed asset class and the public market. This can be done based on the capital asset pricing model. This model requires estimating the beta, i.e. a measure of risk relative to the market, which is estimated by regressing returns on an asset against a public market index.

While public market managers can rely on reliable statistical data to support their analysis, private equity and in particular venture capital lacks such data. Indeed, the analysis of private equity returns, volatility and correlations is limited by the relatively short time series of the publicly available data, which are not fully representative of the market. Most of all, data does not fully capture the uncertainty of the asset class. Furthermore, as the standard performance measure used for private equity funds, the IRR, is capital-weighted, while for the public market assets, it is traditionally time-weighted, an analysis of correlation between private equity and other asset classes is not possible without significant adjustments and therefore induces potentially important biases.

To circumvent this issue, the EIF uses the Listed Private Equity (LPE) indices (LPX indices). This index family is published by LPX GmbH and provide a basis for various private equity sub-markets, including:

- LPX Europe: the most actively traded LPE companies covered by LPX that are listed on a European exchange,
- LPX Buyout: the most actively traded LPE companies covered by LPX whose business model consists mainly in the appropriation of buyout capital or in the investment in such funds, and
- The LPX Venture: the most actively traded LPE companies covered by LPX whose core business lies mainly in the provision of venture capital or in the investment in venture capital funds.

The betas of these indices can be used as a proxy for the sensitivity of the economics valuation of EIF's PE investment to market prices.

Beta	Start date	Oct 04 - Nov 07	Start date - Nov 07	Delta
LPX Europe	31/12/1993	0.945	0.679	0.266
LPX Venture	31/12/1993	1.365	0.992	0.373
LPX Buyout	31/12/1997	0.906	0.509	0.397
Average		**1.072**	**0.727**	**0.345**

Using betas from LPX Europe and applying it on all the operations without any stage distinction and assuming market price movements of ±10%, EIF's Private Equity investments' economics value would be impacted as follows:

Public market risk: ALL PRIVATE EQUITY			
+10%		-10%	
Beta 0.7		Beta 0.7	
Final Sensitivity: +7%		Final Sensitivity: -7%	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
763 904	10 145 958	(774 731)	(10 242 830)
Beta 1.0		Beta 1.0	
Final Sensitivity: +10%		Final Sensitivity: -10%	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
1 053 572	14 528 423	(1 106 759)	(14 634 733)
Average			
908 738	12 337 191	(940 745)	(12 438 782)
Sum			
	13 245 929		(13 379 527)

Using betas from LPX Venture and buyout and applying it on all the operations depending on their stages (Buyout or venture capital) and assuming market price movements of ±10%, EIF's PE investments' economics value would be impacted as follows:

Public market risk: BY STAGE			
+10%		-10%	
Min Beta BO: 0.5 / VC: 1.0		Min Beta BO: 0.5 / VC: 1.0	
Final Sensitivity: +5% / +10%		Final Sensitivity: -5% / -10%	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
995 770	11 214 418	(995 770)	(11 311 305)
Max Beta BO: 0.9 / VC: 1.4		Max Beta BO: 0.9 / VC: 1.4	
Final Sensitivity: +9% / +14%		Final Sensitivity: -9% / -14%	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
1 385 287	17 054 411	(1 441 507)	(17 164 142)

For all these simulations, the final sensitivity (i.e beta x +/- 10%) is applied to the net asset value giving an adjusted net asset value, which is then compared to the net paid. The calculated value adjustment will then be recorded following the methodology described in the "background" part.

These results can only be seen as indications of the potential sensitivity. Indeed, despite the notions of fair value, private equity – like real estate, art or antiques – is an appraised asset class, valued not by the consensus of many market players in an active and efficient market but by few experts, normally the fund managers who value each investment based on their views of the investment's earnings potential and/or comparisons with other investments and following normally industry valuation guidelines, such as the IPEV ones, which are widely used within EIF's portfolio as legally required for the new operations.

Quoted investments

At the end of 2006, the fair value of the investments in venture capital funds amounts to EUR 168 million out of which EUR 19 million or 11.7% are underlying invested indirectly in quoted companies. It is then possible for these specific investments to do a more in-depth and direct analysis of the impact of public market on their valuation. For this simulation, the fair value of each quoted underlying investees is re-assessed. With the information provided by the fund managers, (value, price per share, number of shares), prices from Bloomberg as of 31 December 2007 are increased or decreased by 10%. The difference in valuation obtained is then multiplied by EIF interest held in the fund and this final difference is deducted or added to each PE fund valuation to get the final fund value adjustments. The value adjustment treatment will then follow the methodology for "operational" adjustments.

Shares and other variable income securities (note 4.3)

Public market risk			
+10%		-10%	
Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)	Profit & loss account (EUR)	Equity (Fair value reserve) (EUR)
39 932	1 426 330	(39 932)	(1 426 330)

3.6. Fair Value of Financial Assets and Financial Liabilities

Table setting out a comparison by categories of the carrying amounts and fair values of the Fund's financial assets and liabilities:

	Carrying amount 2007	Fair value 2007	Carrying amount 2006	Fair value 2006
Financial assets				
Loans and receivables	311 344 132	311 344 132	63 022 731	63 022 731
Financial investments - AFS	687 335 660	687 335 660	649 665 005	649 665 005
Financial assets designated at fair value through P&L	2 034 393	2 034 393	682 292	682 292
Financial guarantees	48 592 549	48 592 549	38 281 429	38 281 429
TOTAL	**1 049 306 734**	**1 049 306 734**	**751 651 457**	**751 651 457**
Financial liabilities				
Financial guarantees	60 031 682	60 031 682	50 991 539	50 991 539
Financial liabilities designated at fair value through P&L	2 014 394	2 014 394	1 289 229	1 289 229
Other liabilities	1 357 583	1 357 583	3 456 479	3 456 479
TOTAL	**63 403 659**	**63 403 659**	**55 737 247**	**55 737 247**

The financial liabilities designated at fair value through profit and loss consisting of the guarantees operations are EUR 62 046 076. The change for the current year is a gain of EUR 289 601 (2006: gain of EUR 5 167) included in the captions "Net income from guarantees operations".

Table showing an analysis of financial assets and liabilities recorded at fair value according to how the fair value is determined

At 31.12.2007	Quoted market	Valuation techniques - non market observable input	Total
Financial assets			
Loans and receivables	311 344 132	0	311 344 132
Financial investments - AFS	526 040 135	161 295 525	687 335 660
Financial assets designated at fair value through P&L	0	2 034 393	2 034 393
Financial guarantees	0	48 592 549	48 592 549
	837 384 267	**211 922 467**	**1 049 306 734**
Financial liabilities			
Financial guarantees	0	60 031 682	60 031 682
Financial liabilities designated at fair value through P&L	0	2 014 394	2 014 394
	0	**62 046 076**	**62 046 076**

At 31.12.2006	Quoted market	Valuation techniques - non market observable input	Total
Financial assets			
Loans and receivables	63 022 731	0	63 022 731
Financial investments - AFS	521 118 795	128 546 209	649 665 004
Financial assets designated at fair value through P&L	0	682 292	682 292
Financial guarantees	0	38 281 429	38 281 429
	584 141 527	**167 509 930**	**751 651 456**
Financial liabilities			
Financial guarantees	0	50 991 539	50 991 539
Financial liabilities designated at fair value through P&L	0	1 289 229	1 289 229
	0	**52 280 768**	**52 280 768**

Fair value of derivative financial instruments

	Valuation techniques - non market observable input	
Derivatives	Fair value at 31.12.20007 (EUR)	Fair value at 31.12.20006 (EUR)
Negative value of Derivatives	(2 014 394)	(1 289 229)
Positive value of Derivatives	435 130	145 529
At 31.12.2007	**(1 579 264)**	**(1 143 700)**

Derivatives nominal value amounts to EUR 1 268 070 381 (2006: EUR 876 022 764).

4. Detailed disclosures relating to asset headings

4.1. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets, highly liquid securities. They include cash at bank and in hand, interest earning deposits with original maturities of 3 months or less and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

The remaining life of cash and cash equivalents is as follows:

	31.12.2007 EUR	31.12.2006 EUR
Repayable on demand	21 874 539	25 796 170
Up to three months	269 729 999	27 070 493
	291 604 538	**52 866 663**

The effective interest rate on short-term bank deposits is 4.05% (2006: 2.89%). These deposits have an average maturity of 38 days (2006: 29 days).

4.2. Debt securities and other fixed-income securities

The Fund's portfolio includes money market funds and other money market instruments; long-term debt instruments e.g. bonds, notes and other obligations.

Debt securities and other fixed-income securities are analysed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Short-term Portfolio	0	14 456 143
Investment Portfolio	522 470 401	502 577 459
of which accrued interests	*11 037 860*	*11 503 046*
	522 470 401	**517 033 602**

Debt securities and other fixed-income securities held by the Fund are all listed on an active market. Figures above are presented at fair value.

The Fund participates as lender in a Securities Lending and Borrowing Programme with three counterparties, the market value of securities lent at year-end amounts to EUR 77 319 235 (2006: EUR 85 091 001). Derecognition criteria in accordance with IAS 39 are not fulfilled.

Movement in debt securities and other fixed income securities:

	31.12.2007 EUR	31.12.2006 EUR
Fair value at 1 January	517 033 602	504 361 053
Additions	104 291 000	91 155 772
Disposals	(91 300 412)	(60 851 706)
Effective interest rate adjustement	3 721 889	678 970
Change in Fair value reserve	(11 078 522)	(18 310 487)
Impairment	(197 156)	0
Fair value at 31 December	**522 470 401**	**517 033 602**

The total amount of fair value changes that has been recognised in equity during the year 2007 is EUR – (7 521 129) (2006: EUR 3 557 393).

As at end of March 2007 impairment for an amount of EUR 197 156 has been recorded corresponding to 2/3 of its carrying value as at December 31, 2007. In 2006, no impairment losses on debt securities and other fixed income securities categorised as AFS had been booked.

4.3. Shares and other variable income securities

Shares and other variable income securities include investments in venture capital funds and are analysed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Investment at cost at 1 January	139 026 112	120 644 616
Additions	47 694 091	39 146 739
Disposals	(18 904 337)	(20 765 243)
Investment at cost at 31 December	167 815 866	139 026 112
Value Adjustment at 1 January	(5 392 075)	(15 269 533)
Value Adjustment to Fair value reserve	17 008 019	11 022 978
Impairment	(7 505 527)	(1 145 520)
Value Adjustment at 31 December	4 110 417	(5 392 075)
Foreign exchange adjustment at 1 January	34 141	(567 834)
Value Adjustment to Fair value reserve	(3 195 734)	577 679
Impairment	(888 169)	24 296
Foreign exchange adjustment at 31 December	(4 049 762)	34 141
	167 876 521	**133 668 178**

Investments in venture capital funds represent equity investments and related financing structures.

During the year, dividends in the amount of EUR 6 674 654 (2006: 6 902 149) were paid to the fund. They are shown under the caption "Income from investments in shares and other variable income securities" in the income statement.

The cumulated fair value changes on these investments, which are recorded in the fair value reserve, in accordance with the valuation method described in note 2.3.2, amount to EUR 17 008 019 (2006: EUR 11 022 978).

The cumulated unrealised foreign exchange loss arising from the revaluation of venture capital funds at year-end closing rates amounts to EUR 3 195 734 (2006: gain of EUR 577 678).

Investments belonging to the Category III are measured at cost less impairment, as no reliable fair value is available. These amount to EUR 247 500 (2006: EUR 247 500).

The Fair Value as at 31 December 2007 includes an amount of EUR 1 599 263 related to Investment in joint-venture. After initial recognition at fair value, changes in fair value are recognized in the income statement.

4.4. Intangible assets

	Internally Generated Software EUR	Purchased Software EUR	Total EUR
At 01.01.2006			
Cost	2 069 580	335 705	2 405 285
Accumulated depreciation	(853 585)	(334 333)	(1 187 918)
Net book amount	**1 215 995**	**1 372**	**1 217 367**
Opening net book amount	1 215 995	1 372	1 217 367
Additions	251 486	41 369	292 855
Depreciation charge	(666 572)	(12 020)	(678 592)
Closing net book amount 2006	**800 909**	**30 721**	**831 630**
At 01.01.2007			
Cost	2 321 066	377 074	2 698 140
Accumulated depreciation	(1 520 157)	(346 353)	(1 866 510)
Net book amount	**800 909**	**30 721**	**831 630**
Opening net book amount	800 909	30 721	831 630
Additions	773 516	119 436	892 952
Depreciation charge	(508 645)	(54 453)	(563 098)
Closing net book amount 2007	**1 065 779**	**95 704**	**1 161 484**
At 31.12.2007			
Cost	3 094 582	496 510	3 591 092
Accumulated depreciation	(2 028 802)	(400 806)	(2 429 608)
Net book amount	**1 065 780**	**95 704**	**1 161 484**

There were no indications of impairment of intangible assets in either 2007 or 2006.

4.5. Property, plant and equipment

	Land & Buildings EUR	Fixtures & Fittings EUR	Office Equipment EUR	Computer Equipment EUR	Vehicles EUR	Other Fixed Assets EUR	Total EUR
At 01.01.2006							
Cost	8 590 527	357 469	768 516	506 773	84 073	8 764	10 316 122
Accumulated depreciation	(390 696)	(215 081)	(440 124)	(295 509)	(84 073)	0	(1 425 483)
Net book amount	**8 199 831**	**142 388**	**328 392**	**211 263**	**0**	**8 764**	**8 890 640**
Opening net book amount	8 199 831	142 388	328 392	211 263	0	8 764	8 890 640
Additions	0	0	169 882	150 106	0	0	319 988
Depreciation charge	(374 150)	(24 951)	(87 009)	(112 534)	0	0	(598 645)
Closing net book amount 2006	**7 825 681**	**117 437**	**411 266**	**248 835**	**0**	**8 764**	**8 611 983**
At 01.01.2007							
Cost	8 590 527	357 469	938 398	656 879	84 073	8 764	10 636 110
Accumulated depreciation	(764 846)	(240 032)	(527 133)	(408 043)	(84 073)	0	(2 024 127)
Net book amount	**7 825 681**	**117 437**	**411 266**	**248 835**	**0**	**8 764**	**8 611 983**
Opening net book amount	7 825 681	117 437	411 266	248 835	0	8 764	8 611 983
Additions	0	0	115 737	173 839	0	0	289 576
Disposals	0	0	0	237 909	0	0	237 909
Depreciation charge	(374 150)	(24 951)	(94 224)	(162 637)	0	0	(655 963)
Closing net book amount 2007	**7 451 531**	**92 486**	**432 779**	**497 946**	**0**	**8 764**	**8 483 505**
At 31.12.2007							
Cost	8 590 527	357 469	1 054 136	592 808	84 073	8 764	10 687 777
Accumulated depreciation	(1 138 996)	(264 984)	(621 357)	(332 771)	(84 073)	0	(2 442 181)
Net book amount	**7 451 531**	**92 486**	**432 779**	**260 037**	**0**	**8 764**	**8 245 595**

There were no indications of impairment of property, plant and equipment in either 2007 or 2006.

4.6. Other Assets

Other assets are made up of the following:

	31.12.2007 EUR	31.12.2006 EUR
Accounts receivable relating to pensions managed by the EIB	13 294 567	9 709 504
Advanced payments	8 220	26 830
Accrued commission on management fees & other income	14 572 826	6 095 465
Other debtors	5 196 610	4 090 446
	33 072 223	**19 922 245**

Accounts receivables relating to pensions managed by the EIB: Following the introduction of a defined benefit pension scheme in 2003 (see note 2.6), contributions from staff and the Fund are set aside to cover future obligations. The assets of the scheme are transferred to the EIB for management and investment on behalf of the Fund. See also note 5.2.

5. Detailed disclosures relating to liability and equity headings

5.1. Financial liabilities

The movements relating to financial guarantees payables are set out below:

Financial Guarantees Payables	2007 EUR	2006 EUR
Balance at 1 January	56 907 239	51 673 280
Additions	23 195 710	16 138 074
Transfer relating to SME guarantees	366 472	686 021
Utilisation of the financial guarantees	(896 303)	(1 769 290)
Financial guarantees amortisation (note 2.4)	(16 142 837)	(9 820 846)
Balance at 31 December	**63 430 281**	**56 907 239**

The balance of EUR 63 430 281 (2006: EUR 56 907 239) includes a provision for an amount of EUR 3 398 599 (2006: EUR 5 915 700).

Derivatives	2007 EUR	2006 EUR
Balance at 1 January	1 289 229	5 313 992
Fair value changes	725 165	(4 024 763)
Balance at 31 December	**2 014 394**	**1 289 229**

5.2. Retirement benefit obligation

The retirement benefit obligation consists of the pension scheme and the health insurance scheme as follows:

Retirement benefit obligations	31.12.2007 EUR	31.12.2006 EUR
Pension scheme	11 982 407	8 928 908
Health insurance scheme	1 250 000	1 250 000
	13 232 407	**10 178 908**

Commitments in respect of retirement benefits as at 31 December 2007 have been valued in February 2008 by an independent actuary using the projected unit credit method. The calculations are based on the following main assumptions:

Principal Assumptions	2007	2006
Discount rate for obligations	5.52%	4.76%
Rate of future compensation increases	4.00%	3.50%
Rate of pension increases	2.00%	1.50%
Actuarial tables	Swiss BVG 2005	Swiss BVG 2000

The pension commitment as evaluated in the independent actuary report dated February 2008 amounts to EUR 11 982 000. As of December 2007, the Fund has allocated EUR 12 456 911 to the provisions relating to pensions to ensure full coverage of the commitments.

The health insurance obligation was measured by a full actuarial calculation at the end of 2007 and the existing liability found to be appropriate so no cost was recorded in the year. From 2008 the health insurance will have annual cost under IAS 19.

The movements in the "retirement benefit obligations" are as follows:

Benefit Liabilities as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Present value of funded obligation	0	0	0
Present value of unfunded obligation	12 628 000	1 120 000	13 748 000
Unrecognised net actuarial gains/losses	(646 000)	130 000	(516 000)
Net liability	**11 982 000**	**1 250 000**	**13 232 000**

Benefit Liabilities as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006
Present value of funded obligation	0	0	0
Present value of unfunded obligation	9 928 000	1 250 000	11 178 000
Unrecognised net actuarial gains/losses	(999 000)	0	(999 000)
Net liability	**8 929 000**	**1 250 000**	**10 179 000**

Net Periodic Benefit Cost as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Current net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Amortisation of unrecognised gains/losses	75 000	0	75 000
Net Benefit Expense	**1 810 000**	**0**	**1 810 000**

Net Periodic Benefit Cost as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006
Current net service cost	867 000	0	867 000
Interest cost	376 000	0	376 000
Amortisation of unrecognised gains/losses	133 000	0	133 000
Net Benefit Expense	**1 376 000**	**0**	**1 376 000**

Changes in Defined Benefit Obligation as at 31.12.2007	EIF Pension EUR	Health Insurance EUR	Total 2007
Defined benefit obligation, Beginning of year	9 928 000	1 250 000	11 178 000
Net service cost	1 258 000	0	1 258 000
Interest cost	477 000	0	477 000
Employee contributions	682 000	0	682 000
Benefits Paid	561 000	0	561 000
Experience Gain / (Loss)	1 656 000	293 000	1 949 000
Gain / (Loss) due to assumption changes	(1 934 000)	(423 000)	(2 357 000)
Defined benefit obligation	**12 628 000**	**1 120 000**	**13 748 000**

Changes in Defined Benefit Obligation as at 31.12.2006	EIF Pension EUR	Health Insurance EUR	Total 2006
Defined benefit obligation, Beginning of year	8 635 000	1 250 000	9 885 000
Net service cost	867 000	0	867 000
Interest cost	376 000	0	376 000
Employee contributions	513 000	0	513 000
Benefits Paid	185 000	0	185 000
Experience Gain / (Loss)	430 000	0	430 000
Gain / (Loss) due to assumption changes	(1 078 000)	0	(1 078 000)
Defined benefit obligation	**9 928 000**	**1 250 000**	**11 178 000**

5.3. Other Liabilities

	31.12.2007 EUR	31.12.2006 EUR
Trade creditors	775 000	4 936 054
Other taxation and social security costs	1 182	33 504
Other payables	8 639 862	5 496 638
	9 416 044	**10 466 196**

Other liabilities are mainly composed of the following elements:

Trade Creditors mainly includes amounts payable to the SMEGF and other sundry items.

Other payables include amounts relating to accrued fees for professional services. It also includes treasury management fees, accruals for EIF staff compensation and a provision related to derivatives for a total amount of EUR 1 657 366 (2006: EUR 534 696).

5.4. Share Capital

The authorised capital amounts to EUR 3 bn, divided into 3 000 shares with a nominal value of EUR 1 000 000 each of which 2 770 have been issued. The shares confer rights of ownership of the assets of the Fund as described in Article 8 of its Statutes. Shareholders are entitled to any distribution of net profits, which is limited by the requirements of the statutory reserve.

The EIF's authorised share capital was increased by 50% to EUR 3 bn after a unanimous vote by shareholders at the Annual General meeting. New shares were issued on the 30th June 2007 as follows:

Authorised Shares at 01.01.07	**2000**
New shares 30.06.07	
New shares issued	770
Shares authorised but not yet issued	230
Authorised shares at 31.12.07	**3 000**

The authorised and subscribed share capital of EUR 2 770 000 000 representing 2 770 shares is called and paid in for an amount of EUR 554 000 000 representing 20% of the authorised and subscribed share capital.

Further payments of the subscribed but not paid in capital need the approval by the General meeting of shareholders.

The subscribed share capital is detailed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Subscribed and paid in (20%)	554 000 000	400 000 000
Subscribed but not yet called (80%)	2 216 000 000	1 600 000 000
	2 770 000 000	**2 000 000 000**

The capital is subscribed as follows:

	31.12.2007 Number of shares	31.12.2006 Number of shares
European Investment Bank	1 822	1 224
European Commission	691	600
Financial Institutions	257	176
	2 770	**2 000**

5.5. 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 10 080 467 is required to be appropriated in 2008 with respect to the financial year ended December 31, 2007. Movements in reserves and profit brought forward are detailed as follows:

	Statutory reserve EUR	Retained earnings EUR	Profit for the financial year EUR
Balance at the beginning of the financial year	84 899 624	126 638 689	48 575 466
Dividend paid	0	0	(19 430 000)
Other allocation of last financial year profit	19 430 186	9 715 280	(29 145 466)
Profit for the financial year	0	0	50 402 337
Balance at the end of financial year	**104 329 810**	**136 353 969**	**50 402 337**

The General Meeting of Shareholders of 7 May 2007 approved the distribution of a dividend amounting to EUR 19 430 000 relating to the year 2006 (2005: EUR 17 144 000), corresponding to EUR 9 715 per share.

5.6. Fair value reserve

The fair value reserve includes the followings:

	31.12.2007 EUR	31.12.2006 EUR
Fair value reserve on debt securities and other fixed income securities	(7 521 128)	3 557 393
Fair value reserve on shares and other variable income securities	29 890 658	16 078 373
	22 369 530	**19 635 766**

6. Commitments

Commitments represent investments in venture capital funds committed and not yet disbursed amounting to EUR 167 523 540 at current rate (2006: EUR 150 836 248).

7. Disclosures relating to off-balance sheet items

7.1. TEN Guarantees

TEN infrastructure guarantee operations, complementary to EIB's activities, have been transferred to the latter. The relevant contract was signed with the EIB on December 7, 2000. The EIB receives the benefits of the transferred portfolio, but also bears the ultimate risk of the transactions, the Fund remaining merely a guarantor of record.

	Drawn EUR	Undrawn EUR	Total 2007 EUR	Total 2006 EUR
Up to five years	112 831 414	0	112 831 414	146 468 721
From five to ten years	119 187 366	16 750 000	135 937 366	183 301 353
From ten to fifteen years	182 155 122	0	182 155 122	161 170 743
Over fifteen years	45 345 263	0	45 345 263	76 270 734
	459 519 165	**16 750 000**	**476 269 165**	**567 211 551**

The drawn down portion of the guarantees issued includes an amount of EUR 19 014 126 (2006: EUR 19 935 442) representing the present value of future interest covered by guarantees.

7.2. Assets held for third parties

Assets held for third parties, as set out below, represent trust accounts opened and maintained in the name of the Fund but for the benefit of the Commission, the EIB and the German Federal Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"). Sums held in these accounts remain the property of the Commission, the EIB and the BMWi so long as they are not disbursed for the purposes set out in relation to each programme.

Under the SME Guarantee Facility (SMEG 1998, SMEG 2001 under the Multi-Annual Programme for enterprises (MAP) and SMEG 2007 under the Competitiveness and Innovation Framework Programme), the Fund is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

Under the ETF Start-Up Facility (ESU 1998, ESU 2001 under the Multi-Annual Programme for enterprises (MAP) and GIF 2007 under the Competitiveness and Innovation Framework Programme), the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf and at the risk of the Commission.

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

Within the context of its venture capital activity, the Fund manages on behalf and at the risk of the EIB the European Technology Facilities (ETF) 1 and 2, which have been implemented by the Fund since 1998.

Within the framework of the Risk Capital Mandate signed with the EIB in 2000, the EIF took over the EIB's existing venture capital portfolio, with further investments being funded as part of the "Innovation 2000 Initiative" of the EIB.

Under the ERP-EIF Dachfond agreement, initiated in 2004, the Fund manages venture capital activity on behalf, and at the risk of the BWMi.

The Fund is managing a European Commission facility, the Preparatory Action Facility (PA 2004 and PA 2005), on behalf of the EIB Group. The facility is particularly targeting micro lending and will be used for grants to finance technical assistance to SMEs, which must be coupled with an EIF guarantee or an EIB global loan.

	31.12.2007 EUR	31.12.2006 EUR
Preparatory Action Facility 2004	16 767	2 035 024
SMEG 1998 (SME Guarantee 1998)	71 885 622	80 045 053
ESU 1998 (ETF Start-up 1998) (*)	28 509 679	32 566 875
Seed Capital Action	185 233	185 176
SMEG 2001 (MAP Guarantee)	118 671 399	115 905 351
ESU 2001 (MAP Equity) (*)	91 773 212	93 386 930
CIP/ SMEG 07	35 255 356	0
CIP/ GIF 07	36 447 745	0
Trust accounts with the Commission (**)	382 745 013	324 124 409
Trust accounts with the EIB	40 372 364	44 528 353
Trust account with the BWMi	19 198	123 742
	423 136 575	**368 776 504**

(*) The figures above do not include the net cash flow in venture capital, of EUR 44 597 618 for ESU 1998 (2006: EUR 47 867 842) and EUR 53 806 983 for ESU 2001 (2006: EUR 26 073 020) made on behalf of the Commission that are included in 8.3.

(**) The trust accounts with the Commission include cash at bank, money market balances, investments in securities at nominal value and the relevant security accruals. They do not represent a final valuation of the relevant programmes.

7.3. Fiduciary operations

Pursuant to Article 28 of its Statutes, the Fund may accept the tasks of administering special resources entrusted to it by third parties. In execution of this article, the Fund manages and disposes of investments in venture capital funds, in its own name but on behalf and at the risk of

- the EIB, in accordance with European Technology Facility, European Technology Facility 2 and Transfer, Implementation and Management of Risk Capital Investments (Risk Capital Mandate) agreements,
- the Commission, in accordance with ETF Start-Up Facility, the High Growth and Innovative SME Facility and Seed Capital Action agreements, and
- the German Ministry of Economics and Technology (Bundesministerium für Wirtschaft und Technologie "BMWi"), in accordance with ERP-EIF Dachfond agreement.

The Fund is also empowered to issue guarantees in its own name but on behalf and at the risk of the Commission according to the Fiduciary and Management Agreement concluded with the Commission (SME Guarantee Facility). However, the EC programmes are only liable for a contracted percentage of the full signature amounts shown below, up to the limit of the agreed budgetary allocation.

Fiduciary operations concluded pursuant to the Fiduciary and Management Agreements are analysed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Guarantees committed on behalf of the Commission		
Under the SMEG 1998 (*)		
Drawn	2 407 638 575	2 332 846 185
Undrawn	1 664 115	93 010 423
Under the SMEG 2001 (*)		
Drawn	4 629 662 857	3 661 541 835
Undrawn	276 876 349	1 247 116 128
Under the SMEG 2007 (*)		
Drawn	0	0
Undrawn	0	0
Investments made on behalf of the Commission (**)		
Under ESU 1998:		
Net disbursed	55 992 520	62 098 578
Undrawn	8 727 939	14 569 689
Under ESU 2001:		
Net disbursed	57 584 408	28 249 549
Undrawn	131 730 410	128 076 705
Under GIF 2007:		
Net disbursed	0	0
Undrawn	10 000 000	0
Under Seed Capital Action:		
Net disbursed	150 000	150 000
Undrawn	50 000	50 000
Investments made on behalf of the EIB (**)		
Under EIB Risk Capital Mandate		
Net disbursed	1 370 579 363	1 248 520 533
Undrawn	1 242 905 845	1 204 359 297
Under European Technology Facility		
Net disbursed	124 725 313	130 025 976
Undrawn	28 434 532	46 173 159
Investments made on behalf of the External mandators (**)		
Under ERP-EIF Dachfond		
Net disbursed	47 514 956	30 375 557
Undrawn	72 869 186	73 855 292
	10 467 106 367	**10 301 018 906**

(*) Those amounts are valued based on the valuation method described in note 2.3.

(**) Those amounts are valued at current rate. The drawn amounts correspond to the net disbursed. The value adjustment calculation is performed based on the valuation method described in note 2.3.

- value adjustment has been estimated at EUR 83 639 222 (2006: EUR 195 621 038) leading to a net adjusted value of EUR 1 411 665 454 (2006: EUR 1 182 925 472), on the investments managed on behalf of the EIB.
- value adjustment has been estimated at EUR 15 172 327 (2006: EUR 16 407 266 estimated amount) leading to a net adjusted value of EUR 98 404 600 (2006: EUR 73 940 862 estimated amount), on the investments made on behalf of the Commission.

8. Detailed information on the income statement

8.1. Net interest and similar income

Net interest and similar income comprises:

	31.12.2007 EUR	31.12.2006 EUR
Interest on debt securities	23 853 812	21 344 796
Interest on term deposits	4 778 046	900 209
Interest on bank current accounts	898 741	946 287
Other interest	700 471	453 996
	30 231 070	**23 645 288**

As mentioned in the note 2.7, the discounts and premiums are calculated with the effective interest rate method. The above figures are presented netted. Discounts amount to EUR 3 316 906 (2006: EUR 1 149 607) and premiums amount to EUR 1 732 099 (2006: EUR 1 945 169).

8.2. Net income from guarantees operations

Net income from guarantees operations comprises:

	31.12.2007 EUR	31.12.2006 EUR
Net guarantees fees on derivatives	7 579 840	1 183 644
Loss/Gain on fair value changes on derivatives	(870 260)	4 564 626
Interest (expenses)/income on amortisation of NPV	(341 388)	1 254 315
Reversal of provision	2 517 101	2 140 674
Provision for guarantees under IAS 37	(1 122 670)	(534 696)
Net increase in the financial guarantees contracts	13 586 401	7 680 172
	21 349 024	**16 288 735**

8.3. Commission income

Commission income is detailed as follows:

	31.12.2007 EUR	31.12.2006 EUR
Commissions on mandates relating to venture capital operations	14 798 524	15 580 893
Commissions on mandates relating to guarantees	8 412 985	7 733 288
Income from Advisory activity	5 850 873	2 953 329
Other commissions	10 000	10 000
	29 072 382	**26 277 510**

8.4. Net loss on financial operations

Net loss on financial operations amounting to EUR (1 908 880) (2006: loss EUR 524 335) corresponds to losses arising entirely from transactions or cash positions in foreign currencies, of which EUR 813 477 is a foreign exchange loss on venture capital impaired funds (2006: gain EUR 24 296).

8.5. General administrative expenses

	31.12.2007 EUR	31.12.2006 EUR
Wages and salaries	17 317 160	14 614 519
Social security costs	2 130 900	1 123 415
	19 448 060	15 737 934
Other administrative expenses	6 665 063	5 862 253
	26 113 123	**21 600 187**

Wages and salaries include expenses of EUR 4 078 735 (2006: EUR 3 671 243) incurred in relation to staff seconded from the EIB.

Key management compensation for the year is EUR 1 300 648 (2006: EUR 1 264 687).

Other administrative expenses include office space leased in addition to the EIF's owned premises. Expenses relating to these operational leases amount to EUR 1 154 045 (2006: EUR 645 159).

	Less than 1 year EUR	1 to 5 years EUR	more than 5 years EUR	Total EUR
Future minimum lease payments under non-cancellable operating leases	1 053 359	4 213 437	1 053 359	6 320 155

The number of persons, including 14 EIB secondees (2006: 14 EIB secondees), employed at the year-end is as follows:

	31.12.2007	31.12.2006
Chief Executive	1	1
Employees	141	120
Total	**142**	**121**
Average of the year	135	111

9. Related parties transactions

The European Investment Bank is the majority owner of the Fund with 66% of the shares. The remaining percentage is held by the European Commission (25%) and the Financial Institutions (9%).

9.1. European Investment Bank

Related party transactions with the European Investment Bank are mainly related to the management by the Fund of the venture capital activity as described in the note 7.3. In addition, the European Investment Bank manages the EIF treasury, the IT, the pension fund and other services on behalf of the Fund. The amounts included in the financial statements and relating to the European Investment Bank are disclosed as follows:

	31.12.2007 EUR	31.12.2006 EUR
ASSETS		
Prepayments and accrued income	795 703	1 589 529
Other assets	13 294 567	9 709 504
LIABILITIES		
Creditors	84 122	2 646 501
Other provisions	1 482 798	1 571 360
Accruals & deferred income	180 000	190 000
Capital paid in	365 000 000	244 800 000
OFF BALANCE SHEET		
Guarantees Drawn	410 445 884	503 386 265
Guarantees undrawn	16 250 000	16 250 000
Assets held for third parties	40 372 364	44 528 353
Investments drawn in venture capital	1 495 304 677	1 378 546 509
Investments undrawn in venture capital	1 271 340 376	1 250 532 456
INCOME		
Management fees	8 540 072	8 456 922
EXPENSES		
Wages & Salaries	2 928 735	2 802 613
IT expenses	866 775	850 635
Services	1 134 982	1 884 472
Treasury management fees	337 176	269 363

9.2. Commission of the European Communities

Related party transactions with the Commission are mainly related to the management by the Fund of the venture capital and guarantees activities as described in the note 7.3. In addition, the Commission manages the EC programmes treasury on behalf of the Fund. The amounts included in the financial statements and relating to the Commission of the European Communities are disclosed as follows:

	31.12.2007 EUR	31.12.2006 EUR
ASSETS		
Accounts Receivable	8 078 322	3 828 075
LIABILITIES		
Accounts Payable	499 675	258 813
Capital paid in	138 200 000	120 000 000
OFF BALANCE SHEET		
Guarantees Drawn	7 037 301 432	5 994 388 020
Guarantees undrawn	278 540 464	1 340 126 551
Assets held for third parties	382 745 013	324 124 409
Net disbursed in venture capital	113 726 928	90 498 127
Investments undrawn in venture capital	150 508 348	142 696 395
INCOME		
Management fees	11 849 856	12 296 812
EXPENSES		
Treasury management fees	57 528	88 213

10. Taxation

The Protocol on the Privileges and Immunities of the European Communities, appended to the Treaty of 29 October 2004 establishing a Constitution for Europe, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

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