European Investment Bank Annual Report 2000

EIB Group

Annual Report 2000

European Investment Bank

Key data

(EUR million)	*2000*	*1999*
Contracts signed	**36 033**	**31 800**
European Union	30 644	27 765
Accession Countries	2 948	2 373
(of which Pre-Accession Facility)	(1 618)	(1 467)
Partner Countries	2 441	1 662
• *Mediterranean Countries (excl. Cyprus and Malta)*	*1 214*	*802*
• *Africa, Caribbean, Pacific, OCT*	*401*	*341*
• *South Africa*	*140*	*150*
• *Asia, Latin America*	*532*	*310*
• *Balkans*	*154*	*60*
Loans approved	**40 940**	**35 117**
Within the European Union	35 003	30 380
Accession Countries	3 268	2 677
Partner Countries	2 669	2 060
Disbursements	**29 994**	**27 612**
From own resources	29 809	27 449
From other resources	185	163
Resources raised	**29 038**	**28 355**
Community currencies	23 764	19 658
Non-Community currencies	5 273	8 697
Outstandings		
Loans from own resources	198 918	178 775
Guarantees	223	277
Financing from budgetary resources	2 386	2 352
Short, medium and long-term borrowings	159 860	146 223
Own funds	**21 840**	**20 494**
Balance sheet total	**219 196**	**201 104**
Subscribed capital at 31 December	**100 000**	**100 000**
of which paid in	6 000	6 000

Board of Directors

	Directors:
Jean-Pierre ARNOLDI	Administrateur général de la Trésorerie, Ministère des Finances, Brussels
Lorenzo BINI SMAGHI	Dirigente Generale, Capo della Direzione III, Dipartimento del Tesoro, Ministero del Tesoro, Rome
Sinbad J.D. COLERIDGE	Project Finance Director, Private Financial Holdings Limited, EFG Private Bank, London
Isabel CORREIA BARATA	Consultora da Direcção, Departamento de Relações Internacionais, Banco de Portugal, Lisbon
Wedige Hanns von DEWITZ	Ministerialdirektor, Leiter der Abteilung Aussenwirtschafts- und Europapolitik, Bundesministerium für Wirtschaft und Technologie, Berlin
Tony FAINT	Director, International Division, Department for International Development, London
Iñigo FERNÁNDEZ DE MESA	Subdirector General de Coordinación de Organismos Monetarios Internacionales, Ministerio de Economía, Madrid
Sven-Olof JOHANSSON	Finansråd, Internationella avdelningen, Finansdepartementet, Stockholm
Rainer MASERA	Amministratore Delegato e Direttore Generale, San Paolo IMI, Rome
Constantinos MASSOURAS	Director for Financial and Fiscal Policy Affairs, Ministry for National Economy, Athens
Ingrid MATTHÄUS-MAIER	Mitglied des Vorstandes der Kreditanstalt für Wiederaufbau, Frankfurt/Main
Noel Thomas O'GORMAN	Second Secretary, Finance Division, Department of Finance, Dublin
Stéphane-Emmanuelle PALLEZ	Chef du Service des Affaires européennes et internationales, Direction du Trésor, Ministère de l'Economie, des Finances et de l'Industrie, Paris
María PÉREZ RIBES	Consejero Técnico, Dirección General de Financiación Internacional, Ministerio de Economía, Madrid
Vincenzo PONTOLILLO	Direttore Centrale, Banca d'Italia, Rome
Antoine POUILLIEUTE	Directeur général, Groupe Agence Française de Développement, Paris
Kaarina RAUTALA	Hallitusneuvos, Valtiovarainministeriö, Helsinki
Gaston REINESCH	Directeur général, Ministère des Finances, Luxembourg
Ivan ROGERS	Deputy Director for Europe and International Finance Directorate, HM Treasury, London
Gerd SAUPE	Ministerialdirigent, Bundesministerium der Finanzen, Berlin
Lars TYBJERG	Direktør i Økonomiministeriet, Copenhagen
Jos de VRIES	Plaatsvervangend Directeur Financiële Betrekkingen, Ministerie van Financiën, The Hague
	....

	Alternates:
Gerhard BOEHMER	Ministerialdirigent, Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, Bonn
Gianpaolo BOLOGNA	Dirigente, Direzione del Contenzioso Comunitario, Dipartimento del Tesoro, Ministero del Tesoro, Rome
Paul CHILCOTT	Chief Manager, Reserves Management, Bank of England, London
Guy CRAUSER	Director-General for Regional Policy, European Commission, Brussels
Bruno DELETRÉ	Sous-Directeur Europe et Affaires monétaires internationales, Direction du Trésor, Ministère de l'Economie, des Finances et de l'Industrie, Paris
Björn FRITJOFSSON	Departementsråd, Internationella avdelningen, Finansdepartementet, Stockholm
Filippo GIANSANTE	Dirigente, Direzione Rapporti Finanziari Internazionali, Dipartimento del Tesoro, Ministero del Tesoro, Rome
Rudolf de KORTE	Member of the Board of Directors of the EIB, Wassenaar
Annette MOE	Specialkonsulent, Finansstyrelsen, Copenhagen
Luis ORGAZ GARCÍA	Subdirector General de Análisis Financiero y Estratégico, Ministerio de Economía, Madrid
Pierre RICHARD	Administrateur délégué, DEXIA, Paris
Philip RUTNAM	Head of Enterprise Team, HM Treasury, London
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Directorates

Francis CARPENTER, Secretary General
Michel DELEAU, Director General, Western Europe
Terence BROWN, Director General, Central Europe
Jean-Louis BIANCARELLI, Director General, External Lending
René KARSENTI, Director General, Finance
Caroline REID, Director General, Projects

Eberhard UHLMANN, General Counsel, Legal Affairs
Alfred STEINHERR, Chief Economist
Pierluigi GILIBERT, Director General, Credit Risk
Andreas VERYKIOS, Director, Human Resources
Horst FEUERSTEIN, Director, Operations Evaluation
Patrick KLAEDTKE, Director, Financial Control

Situation at 15 April 2001

Board of Governors

Chairman
Didier REYNDERS (Belgium)

Belgium	Didier REYNDERS, Ministre des Finances
Denmark	Marianne JELVED, økonomiminister og minister for nordisk samarbejde, vicestatsminister
Germany	Hans EICHEL, Bundesminister der Finanzen
Greece	Yannos PAPANTONIOU, Minister for National Economy and Finance
Spain	Rodrigo DE RATO Y FIGAREDO, Vicepresidente del Gobierno y Ministro de Economía
France	Laurent FABIUS, Ministre de l'Économie, des Finances et de l'Industrie
Ireland	Charles McCREEVY, Minister for Finance
Italy	Vincenzo VISCO, Ministro del Tesoro, del Bilancio e della Programmazione Economica
Luxembourg	Jean-Claude JUNCKER, Premier Ministre, Ministre d'Etat, Ministre des Finances
Netherlands	Gerrit ZALM, Minister van Financiën
Austria	Karl-Heinz GRASSER, Bundesminister für Finanzen
Portugal	Joaquim PINA MOURA, Ministro das Finanças
Finland	Suvi-Anne SIIMES, Ministeri, Valtiovarainministeriö
Sweden	Bosse RINGHOLM, Finansminister
United Kingdom	Gordon BROWN, Chancellor of the Exchequer

Audit Committee

Chairman
Albert HANSEN, Secrétaire du Grand-Duc, Luxembourg

Members
Emídio MARIA, Subinspector-Geral de Finanças, Inspecção-Geral de Finanças, Lisbon
Michael P. HARALABIDIS, Senior Risk Analyst, Group Risk Management Division, National Bank of Greece, Athens

Observer
Caj NACKSTAD, Partner, KPMG, Stockholm

Management Committee

President
Philippe MAYSTADT

Vice-Presidents
Wolfgang ROTH
Massimo PONZELLINI
Ewald NOWOTNY
Francis MAYER
Peter SEDGWICK
Isabel MARTÍN CASTELLÁ
Michael G. TUTTY

The EIB's President also chairs the Bank's Board of Directors.

Situation at 15 April 2001

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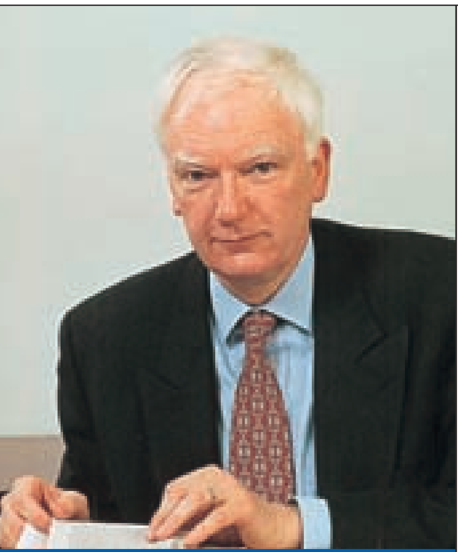
Contents



Message from the President

In 2000, the European Investment Bank continued to support the objectives of the European Union both through its borrowing (EUR 29 billion) and lending (EUR 36 billion) activities. Beyond the sheer volume of activity, the Bank concentrated its efforts on the fulfilment of its core mission, the promotion of economic and social cohesion within the Union (73% of our lending within the Union went to support investment in the less favoured regions). Another top priority set last year was the start of the "Innovation 2000 Initiative", a dedicated programme to support investment aimed at facilitating Europe's transformation into an innovation-led and knowledge-based society, the priority objective set by the Lisbon European Council in March 2000.

An important element in facilitating implementation of this was the creation in June 2000 of the EIB Group within which the European Investment Fund has become a specialist subsidiary for venture capital and SME operations, enabling the Group to offer SMEs the full range of financial products necessary for their development in a rapidly changing economy.

Outside the European Union, fully in line with the recommendations of the European Councils (in particular Helsinki in December 1999 and Nice in December 2000), our activity focused on the countries bordering the Union to the East and South, supporting the accession process and strengthening the Euro-Mediterranean Partnership. In addition to the renewal of its Pre-Accession Facility, effective in 2000, the EIB decided to combine into a single Directorate its financial teams responsible for operations in the European Union and in the Accession Countries. By applying the same criteria, project selection and lending procedures, the EIB aims to facilitate the integration of the future Member States.

On the capital markets, the Bank pursued a diversified and innovative borrowing strategy reflecting its position as one of the leading non-sovereign Triple A borrowers. The prime objective is constantly to optimise the cost of our resources thus providing the best possible financial terms for the projects financed.

Looking towards the future, the EIB will focus its activities on the areas where it provides the maximum value added in contributing to the policy objectives of the European Union, as laid down in its Statute and in decisions of the European Council. This will involve a review of internal procedures and a reorientation of our lending activity as well as evolution towards greater transparency.

Philippe Maystadt
President and Chairman of the Board of Directors

The EIB Group

Following the conclusions of the Lisbon European Council in March 2000, which called for increased support for operations to assist SMEs, the Board of Governors decided to set up the "EIB Group", consisting of the European Investment Bank and the European Investment Fund.

The EIB became the majority shareholder in the European Investment Fund (EIF), which nevertheless retains a tripartite share-ownership structure consisting of the EIB (60% of the capital since June 2000), the European Commission (30%) and European banks and financial institutions (10%).

The EIB Group is thus able to play a predominant role in boosting the competitiveness of European industry through the diversified support it provides for the activities of SMEs (medium and long-term loans, venture capital and guarantees).

In this context, the EIB continues to promote smaller businesses through its medium and long-term global loan financing, arranged in collaboration with the banking sector.

At the same time, all venture capital activities are concentrated within the EIF, thereby making it one of the leading sources of venture capital within the Union. This focus of the EIF within the EIB Group will enable it to target operations in this highly specialised field more effectively.

The EIF also continues to undertake guarantee operations involving its own resources or those of the EU budget.

This new kind of relationship between the EIB and the EIF encourages a productive sharing of expertise between the Bank and the Fund in support of finance for SMEs; it also stimulates the innovative and catalytic effect of EIB Group operations within the European banking and financial community.

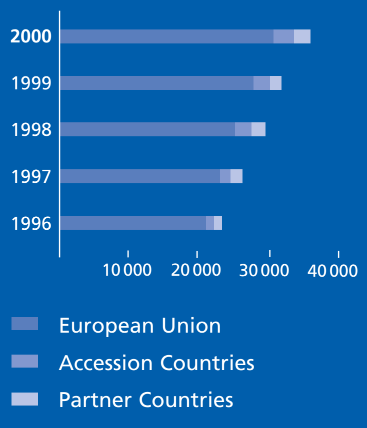
The EIB's Board of Governors authorised the Bank to release up to 2 billion from its operating profit for venture capital operations to be arranged by the EIF between now and 2003.

The Management Committee

Lending activity

In 2000, EIB lending for projects to encourage the attainment of European Union objectives totalled 36 billion (1) (a 13% increase compared with 1999). The Bank provided 30.6 billion (2) for projects located in the Member States of the Union and 2.9 billion in the Central European Accession Countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic and Slovenia), while its loans in the Partner Countries (Countries of the Euro-Mediterranean partnership, African, Caribbean and Pacific States, Asia and Latin America, and the Balkans) amounted to 2.4 billion.

Lending activity 1996-2000 : 147 billion



- True to its principal remit, the EIB granted 13.7 billion in individual loans (73% of this type of finance) for **support for economic and social cohesion** within the Union. If the impact of global loans in the less favoured regions is included, this contribution amounts to some 20 billion. A substantial proportion went to the Cohesion Countries (Ireland, Greece, Spain and Portugal) and Germany's eastern Länder. At the beginning of 2000, a cooperation agreement on increased coordination between the EIB and the Structural Funds in their respective operations was signed with the Commission.

- In accordance with the "Lisbon Strategy", formulated by the European Council in March 2000, the EIB introduced its **"Innovation 2000 Initiative",** aimed at promoting investment in favour of a knowledge-based, innovation-driven society in Europe. This programme complements traditional activities and concentrates Group financing on the following five priorities: the promotion of human capital, research and development, new networks based on information and communication technologies, the dissemination of innovation, and innovative SMEs. It also includes investment in European audiovisual projects. Since May 2000, operations totalling 1.6 billion have been signed involving either loans or venture capital operations.

- In the Central European **Accession Countries,** loans amounted to 2.9 billion, of which 1.6 billion under the Pre-Accession Facility, at the EIB's own risk. The Bank focused on transport and telecommunications projects (959 million) and on projects to enable the Accession Countries to comply with European environmental standards (746 million). Looking ahead to enlargement and in order to encourage transposal of the "*acquis communautaire*", the EIB has merged its Directorates responsible for lending in the Member States of the Union and in the Accession

(1) Unless otherwise indicated, amounts in this report are expressed in EUR million.

(2) As certain financing operations meet several objectives, the totals for the various headings hereafter cannot be meaningfully added together.

Countries, so as to adopt one and the same approach to project identification, evaluation and financing.

- The EIB provided a total of 2.4 billion to support development and cooperation with the **Partner Countries,** i.e. the Euro-Mediterranean Partnership Countries (1.2 billion), mainly for modernisation of the private sector and improvement of infrastructure and the environment; the ACP States (401 million), in particular for financing investment for large and small enterprises in the private sector; South Africa (140 million); Asia and Latin America (532 million), more than three quarters earmarked for private-sector investment, to foster joint ventures involving European firms and banks; and the Balkans (154 million) for regional reconstruction projects.

- Loans for **environmental projects** came to 6.4 billion, a significant increase (39%) compared with 1999. Lending for protection of the natural environment ran to 3.6 billion, while the urban environment received 2.8 billion, notably for public transport and urban development.

- Support for investment by **SMEs** totalled 6.2 billion, of which 5.7 billion involved global loans and 450 million venture capital operations for 24 funds, in 10 countries of the Union, transferred to the EIF on 19 January 2001.

- Lending remained buoyant for **trans-European networks and major infrastructure** in the fields of transport, energy and telecommunications (6.6 billion within the Union and 0.9 billion in the Accession Countries for projects forming part of the priority corridors).

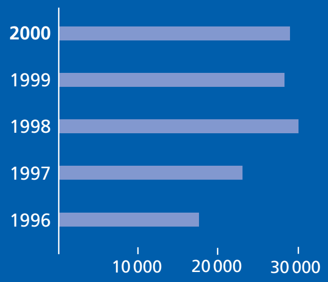
- Operations involving **human capital** amounted to 1.2 billion, of which nine tenths went on projects located in assisted areas (652 million for the health sector and 536 million for education projects). Here, as in the TEN sector, the EIB increased its involvement in public-private partnership projects.

Aggregate activity in 2000 continued to be dominated by loans for transport and telecommunications infrastructure (32%) and backing for investment in favour of SMEs or small-scale local infrastructure (35%). There was also a sharp upturn in lending for environmental projects (water resource management, urban and composite infrastructure).

Borrowing activity

By virtue of its position as the leading non-sovereign AAA issuer worldwide, the Bank borrowed **EUR 29 billion** in 2000. Its borrowings, raised against a background of volatile markets, reflect the cornerstones of the Bank's funding strategy: **seeking increased liquidity for its bonds and lower financing costs.** To achieve this, the EIB is committed to harmonising its **key strategic principles** in anticipation of growing capital market globalisation as well as to bringing its risk control and management systems into line with best banking practice. Its mission of **developing EU markets, especially in euro,** is also prompting it to foster the opening-up and development of the **markets in the Accession Countries.** Lastly, on the strength of the Bank's presence on most **non-European capital markets,** the EIB has cemented its position as a major benchmark borrower whilst at the same time diversifying its investors and counterparties.

Borrowing activity 1996-2000 : 128 billion



In marketing EIB securities, emphasis has been placed on **innovation and diversification**. The first electronic "e-bonds" were launched in EUR, GBP and USD. With a view to enhancing the **transparency of its operations and boosting liquidity on the secondary market,** an intensive market-awareness drive was launched to accompany these bonds, in conjunction with an extension of arrangements with market-makers in GBP bonds, on similar lines to those used for the EARN programme. Moreover, the range of **structured products** - which help to cut the cost of raising funds - was broadened to meet the needs of those investor groups keen to invest in high-income paper. In the case of all structured borrowings, scrupulous care is taken to analyse and hedge against any risk element.

As in 1999, the **EUR, GBP** and **USD** accounted for over **90%** of the EIB's borrowings, especially by means of benchmark issues the length of the respective yield curves, either through the launch of new issues or re-opening of fungible tranches.

While the **euro** accounted for a smaller proportion than in 1999 owing to the state of market conditions, it nevertheless remained the leading currency disbursed in loans as a result of the proceeds of swaps from other currencies. The Bank was the first non-sovereign issuer to have its paper along the full length of the yield curve accepted on the MTS electronic trading platforms in the secondary market. EARN issue maturities ranged from 2003 to 2010, for a total of 29 billion.

Transactions in **GBP,** the leading currency among the Bank's borrowings, favoured by an extremely dynamic strategy, consolidated the Bank's position as a major benchmark issuer, alongside the UK Treasury, by virtue of an agreement with a sterling dealer group. The yield curve for GBP benchmark issues now runs from the current year up to 2039.

In USD, in which fewer resources were mobilised than in 1999, the Bank launched two new benchmark issues and took advantage of favourable market conditions to re-open existing tranches the length of the yield curve.

The Bank also launched its **maiden euro-market Polish zloty borrowings;** a debt-issuance programme in PLN, to be signed in 2001, will facilitate the EIB's access to the domestic Polish market. In Hungary, a HUF-denominated debt-issuance programme was augmented to 50 billion and the Bank was also active on the CZK markets. Although it was not particularly present on other European markets, the Bank was heavily involved in South Africa, Asia and Pacific-rim countries (rand, yen, Hong Kong and Taiwanese dollars).

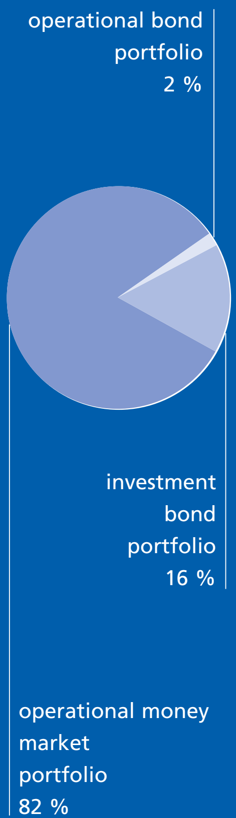
Borrowings signed in 2000 (EUR million)

	Number	Before swaps		After swaps	
EUR	17	6 607	23%	12 366	43%
GBP	69	14 352	49%	11 105	38%
USD	20	5 975	21%	3 891	13%
	106	**26 934**	**93%**	**27 362**	**94%**
Other currencies	30	2 068	7%	1 676	6%
TOTAL	**136**	**29 002**	**100%**	**29 038**	**100%**
of which EU	86	20 959	72%	23 764	82%

Liquidity management

Liquid funds, at 31 December 2000, totalled some 16 billion, i.e. 13 billion net of short-term commitments; these funds were held in 13 currencies, including the euro. In 2000, the euro accounted for 27% of short-term investments. EU currencies accounted for 62% of aggregate liquid funds. The level of the Bank's overall liquidity must fall within 25% and 40% of annual net cash flows. The breakdown of liquid funds was as follows:

Liquidity management



The operational money market portfolio of **13.2 billion** (10.1 billion net of short-term commitments) constituted the bulk of liquid funds.

This portfolio consists primarily of borrowing proceeds and surplus cash flow. Its chief purpose is to cover the Bank's day-to-day liquidity needs. These holdings must be sufficient to meet the Bank's future loan disbursements.

By definition, the operational money market portfolio comprises liquid instruments with short-dated maturities. At end-2000, the bulk of this portfolio was placed in first-class products and invested with first-class issuers and counterparties.

The purpose of ***the operational bond portfolio*** is to supply an extra line of liquidity in the form of instruments likely to offer higher returns than those obtainable from placements on the money market. This portfolio amounted to 0.4 billion.

The investment bond portfolio represents the second line of liquidity (2.5 billion), comprising bonds issued by EU Member States and other first-class public institutions. Over 99% of the total volume of securities held in the portfolio are rated AA1 or issued by EU Member States.

Liquidity management results

Whereas money market interest rates generally followed a sustained uptrend throughout 2000, trends in bond market rates were more moderate. The increase in the latter in early 2000 was gradually reversed, with a lower level recorded at the end of 2000 compared with twelve months earlier.

Liquidity management operations generated gross interest income (excluding the hedging portfolio) of 869 million in 2000, corresponding to an overall book return of 5.59%.

The ***operational money market portfolio*** yielded 708 million in interest on average holdings of 12.7 billion, i.e. a return of 5.56% against a background of a rise in average short-term interest rates compared with 1999.

Placements made under the ***operational bond portfolio*** generated gross income of 13.5 million on average annualised holdings of 326.4 million, corresponding to a gross yield of 4.13%.

(EUR million)

	2000	1999
Total gross liquidity		
Total income	869	604
Average holdings	15 551	13 933
Average return	5.59%	4.33%
of which operational money market portfolio		
Total income	708	439
Average holdings	12 735	11 114
Average return	5.56%	3.95%
Duration	0.06 years	0.08 years
of which operational bond portfolio		
Total income	14	9
Average holdings	326	307
Average return	4.13%	2.93%
Duration	0.21 years	0.25 years
of which investment bond portfolio		
Total income	147	155
Average holdings	2 490	2 512
Average return	5.90%	6.18%
Duration	5.1 years	5.2 years

The ***investment bond portfolio*** yielded total income of 147 million on average holdings of 2.5 billion. Its overall return worked out at 5.90% in 2000, compared with 5.78% in 1999 (6.18% including exceptional gains on disposal of securities in 1999). The higher return than in 1999, if the gain on disposals of securities is disregarded, can be explained by reinvestment of securities upon maturity (336.5 million) at more favourable rates. The average duration of the portfolio was 5.1 years at 31 December 2000 compared with 5.2 years at 31 December 1999. Lastly, the market value of this portfolio at 31 December 2000 stood at 2 505 million for a portfolio entry price of 2 446 million.

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2000

In EUR '000

ASSETS		***31.12.2000***
1. Cash in hand, balances with central banks and post office banks		**24 726**
2. Treasury bills eligible for refinancing with central banks (Note B)		**1 474 510**
3. Loans and advances to credit institutions		
a) repayable on demand	**135 178**	
b) other loans and advances (Note C)	**11 257 184**	
c) loans (Note D)	**75 767 232**	
		87 159 595
4. Loans and advances to customers		
Loans (Note D)	**93 101 379**	
Specific provisions (Note A.4)	**- 175 000**	
		92 926 379
5. Debt securities including fixed-income securities (Note B)		
a) issued by public bodies	**1 423 468**	
b) issued by other borrowers	**2 310 668**	
		3 734 135
6. Shares and other variable-yield securities (Note E)		**632 409**
7. Intangible assets (Note F)		**10 018**
8. Tangible assets (Note F)		**83 459**
9. Other assets		
a) receivable in respect of EMS interest subsidies paid in advance (Note G)	**7 636**	
b) sundry debtors (Note H)	**902 504**	
c) receivable in respect of currency swap contracts	**29 067 793**	
		29 977 933
10. Prepayments and accrued income (Note I)		**3 444 117**
		219 467 279

The bracketed notes refer to the Notes to the Consolidated Financial Statements

LIABILITIES

		31.12.2000
1. Amounts owed to credit institutions		
a) repayable on demand	13	
b) with agreed maturity dates or periods of notice (Note J)	507 889	
		507 902
2. Debts evidenced by certificates (Note K)		
a) debt securities in issue	161 488 067	
b) others	825 137	
		162 313 204
3. Other liabilities		
a) interest subsidies received in advance (Note G)	334 562	
b) sundry creditors (Note H)	896 320	
c) payable in respect of currency swap contracts	28 064 569	
d) sundry liabilities	38 290	
		29 333 741
4. Accruals and deferred income (Note I)		4 775 375
5. Provisions for liabilities and charges		
staff pension fund (Note L)		433 281
6. Fund for general banking risks (Note M)		980 005
7. Capital		
subscribed	100 000 000	
uncalled	- 94 000 000	
		6 000 000
8. Reserves		
a) reserve fund	10 000 000	
b) additional reserves	2 124 244	
		12 124 244
9. Funds allocated to venture capital operations		1 500 000
10. Profit for the financial year		1 307 741
11. Minority interests		191 786
		219 467 279

OFF-BALANCE-SHEET ITEMS

		31.12.2000
Commitments		
- EBRD capital (Note E)		
. Uncalled		442 500
. To be paid in		42 188
- Undisbursed loans (Note D)		
. Credit institutions	7 741 032	
. Customers	22 308 598	
		30 049 630
- Undisbursed venture capital operations		565 763
Guarantees		
. In respect of loans granted by third parties		1 718 226
. In respect of venture capital operations		57 946
Fiduciary operations (Note A)		1 526 977
Assets held on behalf of third parties (Note A)		
- Growth and environment	22 481	
- SME Guarantee Facility	60 832	
- European Technology Facility	59 310	
		142 623
Special deposits for service of borrowings (Note R)		778 552
Nominal value of interest-rate swap and deferred rate-setting contracts (Note U)		97 548 200
Borrowings arranged but not yet signed		921 327

STATEMENT OF SPECIAL SECTION (1) AS AT 31 DECEMBER 2000

In EUR '000

ASSETS	***31.12.2000***
Member States	
From resources of the European Atomic Energy Community	
Disbursed loans outstanding (2)	—
From resources of the European Community	
(New Community Instrument for borrowing and lending)	
Disbursed loans outstanding (3)	**106 191**
Turkey	
From resources of Member States	
Disbursed loans outstanding (4)	**72 041**
Mediterranean Countries	
From resources of the European Community	
Disbursed loans outstanding	220 434
Risk capital operations	
- amounts to be disbursed	129 842
- amounts disbursed	157 381
	287 223
Total (5)	**507 657**
African, Caribbean and Pacific States and Overseas Countries and Territories	
From resources of the European Community	
Yaoundé Conventions	
Loans disbursed	46 364
Contributions to the formation of risk capital	
Amounts disbursed	419
Total (6)	**46 783**
Lomé Conventions	
Operations from risk capital resources	
- amounts to be disbursed	503 993
- amounts disbursed	1 141 646
	1 645 639
Operations from other resources	
- amounts to be disbursed	8 000
Total (7)	**1 653 639**
Grand Total	**2 386 311**

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 31.12.2000: 1 447 378;
b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2000: 164 050.

(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 operations carried out by the European Investment Bank for the account of and under mandate from third parties.

(2) Initial amount of contracts signed under Council Decisions 77/271/Euratom of 29 March 1977, 80/29/Euratom of 20 December 1979, 82/170/Euratom of 15 March 1982 and 85/537/Euratom of 5 December 1985 providing for an amount of three billion as a contribution towards financing commercially-rated nuclear power stations within the Community under mandate, for the account and at the risk of the European Atomic Energy Community:

of the European Atomic Energy Community:	2 773 167
add: exchange adjustments	+ 181 690
less: repayments	– 2 954 857
	0

LIABILITIES — ***31.12.2000***

Funds under trust management		
Under mandate from the European Communities		
European Atomic Energy Community		—
European Community:		
- New Community Instrument		106 191
- Financial Protocols with the Mediterranean Countries		377 815
- Yaoundé Conventions		46 783
- Lomé Conventions		1 141 646
		1 672 435
Under mandate from Member States		72 041
	Total	**1 744 476**
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean Countries		129 842
On operations from risk capital resources under the Lomé Conventions		503 993
On operations from other resources under the Lomé Conventions		8 000
	Total	**641 835**
	Grand Total	**2 386 311**

(3) Initial amount of contracts signed under Council Decisions 78/870/EEC of 16 October 1978 (New Community Instrument), 82/169/EEC of 15 March 1982, 83/200/EEC of 19 April 1983 and 87/182/EEC of 9 March 1987 for promoting investment within the Community, as well as 81/19/EEC of 20 January 1981 for reconstructing areas of Campania and Basilicata (Italy) stricken by an earthquake on 23 November 1980 and 81/1013/EEC of 14 December 1981 for reconstructing areas stricken by earthquakes in Greece in February and March 1981, under mandate, for the account and at the risk of the European Community: 6 399 145

add:	exchange adjustments		+ 125 866
less:	cancellations	201 991	
	repayments	6 216 829	– 6 418 820
			106 191

(4) Initial amount of contracts signed for financing projects in Turkey under mandate, for the account and at the risk of Member States: 417 215

add:	exchange adjustments		+ 13 028
less:	cancellations	215	
	repayments	357 987	– 358 202
			72 041

(5) 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 EC on 1 January 1981) under mandate, for the account and at the risk of the European Community: 628 882

add:	exchange adjustments		+ 34
less:	cancellations	28 464	
	repayments	92 795	– 121 259
			507 657

(6) 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	141 986
add:		
- capitalised interest	1 178	
- exchange adjustments	9 839	+ 11 017
less:		
- cancellations	1 574	
- repayments	104 646	– 106 220
		46 783

(7) 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	2 375 074	
- equity participations	114 167	2 489 241
add:		
- capitalised interest		+ 1 663
less:		
- cancellations	330 425	
- repayments	497 957	
- exchange adjustments	16 883	– 845 265
		1 645 639
Loans from other resources:		8 000
		1 653 639

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2000

In EUR '000

			31.12.2000
1.	**Interest receivable and similar income** (Note N)		**10 654 762**
2.	**Interest payable and similar charges**		**– 9 086 590**
3.	**Income from participating interests**		**4 800**
4.	**Commission receivable** (Note O)		**35 198**
5.	**Commission payable**		**– 5 651**
6.	**Result on financial operations**		**– 3 887**
7.	**Other operating income**		**18 611**
8.	**General administrative expenses** (Note P):		**– 185 411**
	a) staff costs	**140 607**	
	b) other administrative costs	**44 804**	
9.	**Value adjustments in respect of** (Note F):		**– 12 068**
	a) intangible assets	**2 802**	
	b) tangible assets	**9 266**	
10.	**Extraordinary income** (Note Q)		**35 213**
11.	**Extraordinary charges** (Note I)		**– 67 428**
12.	**Transfer to Fund for general banking risks** (Note M)		**– 72 452**
13.	**Minority interests**		**– 7 355**
14.	**Profit for the financial year**		**1 307 741**

CONSOLIDATED OWN FUNDS

Own funds at 31 December 2000 (EUR '000)

	Situation at 31.12.2000
Capital	
- subscribed	100 000 000
- uncalled	– 94 000 000
	6 000 000
Reserves	
- Reserve Fund	10 000 000
- Additional Reserves	2 124 244
	12 124 244
Fund for general banking risks	980 005
Funds allocated to venture capital operations	1 500 000
	20 604 249
Profit for the financial year	1 307 741
Minority interests	191 786
	22 103 776

• Commitment to purchase the remaining 785 EIF shares at a fixed future price.

Under the terms of this put option, the EIB is offering to buy these shares from the EIF's other shareholders in five years for a price of EUR 315 000 per share. This purchase price represents annual appreciation of 3% compared with the purchase offer made in 2000.

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2000

In EUR '000

	31.12.2000
A. Cash flows from operating activities:	
Profit for the financial year	1 307 741
Adjustments:	
Transfer to Fund for general banking risks	110 005
Value adjustments	11 865
Exchange adjustment not subject to Article 7	1 049
Decrease in accrued interest and commissions payable and interest received in advance	– 142 932
Increase in accrued interest and commissions receivable	– 143 621
Investment portfolio amortisation	– 5 225
Profit on operating activities:	1 138 882
Net loan disbursements	– 29 834 485
Repayments	15 590 952
Net balance on NCI operations (Note H)	33 859
Increase in operational portfolio	– 81 683
Increase in venture capital operations	– 284 026
Net cash from operating activities	**– 13 436 501**
B. Cash flows from investing activities:	
EBRD shares paid up (Note E)	– 8 438
Sales of securities	337 126
Purchases of securities	– 763 465
Increases in land, buildings and furniture (Note F)	– 11 651
Increases in intangible fixed assets	– 5 583
Other increases in assets	– 309 430
Purchase of EIF shares	– 57 004
Net cash from investing activities	**– 818 445**
C. Cash flows from financing activities:	
Issue of borrowings	28 770 713
Redemption of borrowings	– 17 102 100
Increase in currency swaps receivable	– 1 515 136
Increase in currency swaps payable	2 031 577
Net increase in commercial paper	589 973
Net increase in amounts owed to credit institutions	171 276
Other increases in liabilities	467 412
Hedging portfolio sales	1 293 081
Hedging portfolio purchases	– 27 216
Net cash from financing activities	**14 679 580**
Summary statement of cash flows	
Cash and cash equivalents at beginning of the financial year (before consolidation) *)	12 200 160
EIF – initial consolidation	408 790
	12 608 950
Net cash from:	
(1) operating activities	– 13 436 501
(2) investing activities	– 818 445
(3) financing activities	14 679 580
Effects of exchange rate changes on cash and cash equivalents	269 190
Cash and cash equivalents at end of the financial year	**13 302 774**
Cash analysis (excluding investment and hedging portfolios)	
Cash in hand, balances with central banks and post office banks	24 726
Bills maturing within three months of issue	1 885 686
Loans and advances to credit institutions:	
– accounts repayable on demand	135 178
– term deposit accounts	11 257 184
	13 302 774

(*) For the first year of consolidation, the closing balances for the EIF's accounts have been incorporated in the movements for 2000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2000

In EUR '000

Note A — Significant accounting policies

1. *Consolidation principles and accounting standards*

a) The Group's consolidated financial statements have been prepared in accordance with the general principles of the Directive 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").

The accounting policies applied are in conformity with international accounting standards (IAS) in all material respects, except as explained in the relevant notes on accounting policies. On a proposal from the Management Committee, the Board of Directors decided, on 20 February 2001, to submit the consolidated financial statements to the Governors for approval at their meeting on 5 June 2001.

b) The Group's consolidated accounts comprise the accounts of the European Investment Bank ("the Bank") and those of its subsidiary, the European Investment Fund ("the EIF"), having its registered office at 43, avenue J.F. Kennedy, Luxembourg, as from 1 July 2000.

The gain arising from the elimination of the Bank's majority (60.75%) shareholding in the EIF is recorded, in accordance with IAS 22, as extraordinary income. Minority interests are disclosed separately.

c) Restatement and intra-group transactions

Prior to consolidation, the EIF's accounts have been restated in order to ensure conformity with the following accounting policies. After aggregation of the balance sheets and profit and loss accounts, intra-group balances and profits or losses arising on transactions between the two entities have been eliminated.

2. *Conversion of currencies*

The Group 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 and for presenting its financial statements.

The Group 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.

The Group's assets and liabilities are converted into euro on the basis of the exchange rates obtaining at the balance sheet date. The gain or loss arising from such conversion is credited or charged to the profit and loss account.

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

3. *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 Group has decided to establish the following types of portfolio:

3.1. *Investment portfolio*

The investment portfolio consists of securities purchased with the intention of holding them until final maturity in order to ensure the Group's solvency. These securities are issued or guaranteed by:

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

The entry cost of securities in this portfolio is the purchase price or more exceptionally the transfer price (notably in the event of transfer of securities from the operational portfolio). The difference between entry price and redemption value is accounted for *pro rata temporis* over the remaining life of the securities held.

3.2. *Hedging portfolio*

The hedging portfolio, which comprises securities with a fixed maturity, is maintained as part of the Group's active management of the interest-rate risks inherent in its lending and funding activities. These investments are accounted for at cost. Gains and losses on disposal of these securities are released to income over the period of the original maturity of the borrowings.

3.3. *Operational portfolio*

The operational portfolio comprises listed securities issued and guaranteed by financial establishments. Securities held in this portfolio are marked to market in the balance sheet.

3.4. *Short-term securities*

In order to maintain an adequate level of liquidity the Group purchases money market products, in particular Treasury bills and negotiable debt securities issued by credit institutions. The securities are held until their final maturity and presented in the accounts at their nominal value.

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.

4. *Loans and advances to credit institutions and customers*

4.1. *Loans are included in the assets of the Group at their net disbursed amounts*

Specific provisions 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. These provisions are entered on the profit and loss account as "Value adjustments in respect of loans and advances".

Value adjustments with regard to interest on these loans are determined on a case-by-case basis by the Bank's Management.

4.2. *Interest on loans*

Interest on loans is recorded in the profit and loss account on the accruals basis, i.e. over the life of the loans.

4.3. *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 and is entered on the assets side of the balance sheet under item 3) Loans and advances to credit institutions - b) other loans and advances (on the liabilities side of the balance sheet under item 1) Amounts owed to credit institutions - b) with agreed maturity dates or periods of notice). The securities received (provided) as collateral are accounted for off balance sheet.

5. *Shares, other variable-yield securities and participating interests*

Shares, venture capital operations and participating interests held represent medium and long-term investments and are accounted for at cost. At the end of the year, their book value is compared with their estimated value. Should the latter be less than the book value, the corresponding carrying amount is reduced, if the decline is other than temporary.

6. *Tangible assets*

Land and buildings are stated at cost less both initial write-down of the Kirchberg headquarters and accumulated depreciation. Depreciation is calculated to write off the value of the Bank's Luxembourg-Kirchberg headquarters and its office in Lisbon on the straight-line basis over 30 and 25 years respectively. 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 balance sheet at their purchase price, less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated life of each item purchased, as set out below:

- 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.

7. *Intangible assets*

a) Intangible assets comprise investment in software developed internally, depreciated on the straight-line basis over three years as from completion.

IAS 9 stipulates, *inter alia*, that for recognition as an asset the following criteria must be met:

1 - the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;

2 - the technical feasibility of the product or process can be demonstrated.

b) Software purchases are depreciated on the straight-line basis over their estimated life (2 to 5 years).

8. *Staff pension fund and health insurance scheme*

a) Pension fund

1 - The EIB's main pension scheme is a contributory defined benefit pension scheme which covers all employees of the Bank. 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 three years in accordance with IAS 19 using the projected unit credit method, in order to ensure that the provision entered in the accounts is adequate. Actuarial surpluses and deficits are spread forward over a period based on the average expected remaining service lives of staff.

2 - The EIF's pension scheme is a contributory defined benefit pension scheme, managed externally.

b) Health insurance scheme

1 - The EIB has set up its own health insurance scheme for the benefit of staff, finan-

ced by contributions from the Bank and its employees. The health insurance scheme is currently managed on the basis of equal benefits and contributions.

2 - The EIF's staff health insurance scheme is managed externally.

9. *Fund for general banking risks*

This item includes those amounts which the Group decides to put aside to cover risks associated with loans and other financial operations, having regard to the particular risks attaching to such operations.

Amounts transferred to this Fund feature separately in the profit and loss account as "Transfer to Fund for general banking risks" in accordance with the Directive, whereas international accounting standards require that such a transfer form part of the appropriation of the profit.

10. *Funds allocated to venture capital operations*

This item comprises the amount of allocations from the annual result of the EIB, 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 these operations will be deducted from this item when allocating future results.

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 Group are exempt from all direct taxes.

12. *Currency and interest rate swaps*

The Group enters into currency swaps, in which the proceeds of a borrowing may be converted into a different currency, mainly as part of its resource-raising operations. Simultaneously, a forward exchange operation is conducted in order to obtain the amounts needed to service the borrowing in the original currency. The amounts corresponding to these operations are entered on the balance sheet either, in the case of gross amounts receivable, under "Other assets" or, in the case of gross amounts payable, under "Other liabilities".

The Group also enters into interest rate swaps as part of its hedging operations. The corresponding interest is accounted for on a *pro rata temporis* basis. The nominal amounts of interest rate swaps are accounted for off balance sheet.

13. *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).

14. *Interest receivable and similar income*

In addition to interest and commission on loans, deposits and other revenue from the securities portfolio, this heading includes the indemnities received by the Bank in respect of prepayments made by its borrowers. With a view to maintaining 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.

15. *Assets held for third parties*

Assets held for third parties represent three trust accounts established by the EIF.

The first one was set up for the administration of the budgetary contributions made by the European Commission in relation to the "Growth and Environment" pilot project. Sums held in this account remain the property of the Commission so long as they are not disbursed for the purposes of the abovementioned project.

The second trust account is opened and maintained in the name of the EIF, but for the benefit of the Commission, for the administration of the "SME Guarantee Facility". Under this scheme, the EIF is empowered to issue guarantees in its own name but on behalf and at the risk of the Commission.

The third trust account is established for the administration of the "ETF Start-up Facility" (see below), under which the EIF is empowered to acquire, manage and dispose of investments in fledgling technology-sector enterprises with high growth potential, in its own name but on behalf and at the risk of the Commission.

16. *Fiduciary operations*

Pursuant to Article 32 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 EIB and of the European Community, according to Fiduciary and Management Agreements concluded with the EIB ("European Technology Facility" and "European Technology Facility 2") and with the European Community ("ETF Start-up Facility").

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").

17. As the Group prepared consolidated financial statements for the first time in 2000, no comparative figures are shown in these financial statements.

Note B — Securities portfolio

	31.12.2000
Treasury bills eligible for refinancing with central banks (of which 12 651 unlisted):	1 474 510
Debt securities including fixed-income securities (listed):	3 734 135
	5 208 645

	Purchase price	Amortisation for the period	Book value	Amortisation to be accounted for	Value at final maturity	Market value
Investment portfolio	2 884 003	39 770	2 923 773	– 23 922	2 899 851	2 932 886
Hedging portfolio	—	—	—	—	—	—
Operational portfolio	396 102	—	399 185	—	419 021	399 185
Other short-term paper	1 885 687	—	1 885 687	—	1 885 687	—
	5 165 792	**39 770**	**5 208 645**		**5 204 559**	

Note C — Loans and advances to credit institutions (other loans and advances)

	31.12.2000
Term deposits	6 525 201
Reverse repos (*)	4 731 983
	11 257 184

(*) These operations comprise those 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 as at 31 December 2000

1. Aggregate loans granted (*)

Aggregate historical amount of loans calculated on the basis of the parities applied on the date of signature			324 991 836
Add:	capitalised interest	62 715	
	exchange adjustments	10 613 517	+ 10 676 232
Less:	terminations and cancellations	8 288 019	
	principal repayments	128 461 808	
			– 136 749 827
Aggregate loans granted			**198 918 241**

Analysis of aggregate loans granted:	Loans granted to intermediary credit institutions	Loans granted directly to final beneficiaries	Total
- Disbursed portion	75 767 232	93 101 379	168 868 611
- Undisbursed portion	7 741 032	22 308 598	30 049 630
Aggregate loans granted	**83 508 264**	**115 409 977**	**198 918 241**

(*) Aggregate loans granted comprise both the disbursed portion of loans and the portion still to be disbursed.

Note E — Shares and other variable-yield securities

Shares and other variable-yield securities

This item comprises:

- An amount of EUR 115 312 500, corresponding to the capital paid in by the Group as at 31 December 2000 in respect of its subscription of EUR 600 000 000 to the capital of the EBRD.

The Group holds 3.05% of the subscribed capital.

Neither the Group's result nor its own funds would have been materially affected had these shares been accounted for using the equity method.

- An amount of EUR 30 196 070 in other shares, with a market value of EUR 32 499 160, acquired with a view to guaranteeing recovery of loans and advances.
- An amount of EUR 486 900 000 in respect of venture capital operations.

In EUR '000	% held	Total own funds	Total net result	Balance sheet total
EBRD (31.12.1999)	3.05	3 147 112	42 667	19 594 633

Note F — Tangible and intangible assets

	Land	Kirchberg buildings	Lisbon building	Furniture and equipment	Total tangible assets	Total intangible assets
Net book value at beginning of the year	3 688	74 711	153	7 700	86 252	7 395
Acquisitions during the year	—	111	—	6 537	6 648	5 458
Depreciation during the year	—	3 989	14	5 438	9 441	2 835
	3 688	**70 833**	**139**	**8 799**	**83 459**	**10 018**

All of the land and buildings are used by the Group for its own activities.

Note G — Interest subsidies received in advance

a) 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 assets side under item 9.(a) as "Receivable in respect of EMS interest subsidies paid in advance".

b) On the liabilities side (item 3.(a)), "Interest subsidies received in advance" comprise:

– 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 mounted 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 — Other balance sheet accounts

Sundry debtors:

	31.12.2000
- Staff housing loans and advances	89 035
- Net balance of amounts disbursed in respect of borrowings and amounts received in respect of loans under NCI operations managed for the account of the European Community (Special Section)	123 413
- Borrowing proceeds to be received	226 723
- Swap receivables	227 393
- Other	235 940
	902 504

Sundry creditors:

- European Community accounts:	
. for Special Section operations and related unsettled amounts	160 692
. deposit accounts	200 426
- Swap payables	226 723
- Other	308 479
	896 320

Note I — Prepayments and accrued income - Accruals and deferred income

	31.12.2000
Prepayments and accrued income:	
Interest and commission receivable	2 627 403
Deferred borrowing charges .	815 716
Other	998
	3 444 117
Accruals and deferred income:	
Interest and commission payable	3 348 393
Deferred loan proceeds . . .	505 733
Deferred borrowing proceeds	714 868
HIPC initiative (*)	70 000
Personnel costs payable (*) .	6 939
Other	129 442
	4 775 375

(*) Included in item 11. of the profit and loss account: extraordinary charges.

Note J — Amounts owed to credit institutions

		31.12.2000
Repayable on demand		
- Credit institutions		13
With agreed maturity dates or periods of notice		
- Short-term borrowings . .	426 658	
- Promissory notes issued in respect of paid-in capital of EBRD	9 113	
- Repos	72 118	
		507 889
		507 902

Note K — Summary statement of debts evidenced by certificates as at 31 december 2000

			Borrowings			Currency swaps						Net amount	
						Amounts payable (+) or receivable (–)							
Payable in	Outstanding at 31.12.1999	Average rate	Outstanding at 31.12.2000	Average rate	Due dates	31.12.1999		Average rate	31.12.2000		Average rate	Outstanding at 31.12.1999	Outstanding at 31.12.2000
EUR	43 544 473	5.51	47 344 105	5.38	2001/2030	381 056	+	3.13	6 313 851	+	4.73	43 925 529	53 657 956
DEM	3 884 329	6.63	2 153 413	6.20	2001/2028	5 340 689	+	5.19	4 633 060	+	5.63	9 225 018	6 786 473
FRF	5 676 471	6.83	4 923 660	6.54	2001/2012	263 927	+	4.56	263 927	+	5.06	5 940 398	5 187 587
ITL	8 893 190	7.10	7 478 250	7.50	2001/2018	245 295	+	3.11	42 102	+	4.58	9 138 485	7 520 352
BEF	74 120	7.41	68 171	7.50	2002/2004	119 342	+	8.25	119 342	+	8.25	193 462	187 513
NLG	3 192 038	6.68	2 932 860	6.68	2001/2009	1 557 764	–	3.22	1 557 764	–	4.73	1 634 274	1 375 096
IEP	118 530	7.39	61 392	7.75	2003/2003	316 135	+	4.70	316 135	+	5.64	434 665	377 527
LUF	815 653	7.12	679 304	7.05	2001/2007	309 867	–	6.91	210 709	–	6.54	505 786	468 595
ESP	5 104 939	7.76	4 199 933	7.23	2001/2026	2 337 829	+	3.20	1 789 206	+	4.72	7 442 768	5 989 139
PTE	1 240 123	5.79	942 091	6.11	2001/2016	1 463 072	+	3.68	1 291 307	+	4.76	2 703 195	2 233 398
FIM	67 275	6.28	67 275	6.29	2001/2002	157 348	+	3.21	157 349	+	4.74	224 623	224 624
IN-CURRENCIES	**72 611 141**		**70 850 454**										
GBP	28 362 612	6.93	40 713 384	6.46	2001/2040	2 027 728	+	6.88	2 993 749	–	6.39	30 390 340	37 719 635
DKK	483 656	4.94	482 373	4.94	2002/2005	46 602	–	3.37	32 243	+	3.96	437 054	514 616
GRD	954 743	7.77	616 287	6.29	2001/2004	211 929	–	9.35	205 429	–	4.85	742 814	410 858
SEK	217 810	5.70	211 181	5.70	2003/2007	493 434	+	3.45	765 695	+	3.93	711 244	976 876
USD	27 672 159	6.02	34 505 658	6.11	2001/2026	3 322 750	–	5.95	4 420 494	–	6.45	24 349 409	30 085 164
CHF	3 753 567	4.90	3 627 232	4.32	2001/2014	172 388	+	7.11	181 657	+	7.11	3 925 955	3 808 889
JPY	7 851 617	3.83	4 570 277	3.42	2001/2026	3 605 636	–	4.25	1 649 598	–	1.45	4 245 981	2 920 679
NOK	260 014	5.56	255 055	5.56	2004/2007	260 014	–	5.65	177 324	–	7.22	—	77 731
CAD	2 341 867	7.84	1 841 031	8.13	2001/2008	2 273 412	–	9.00	1 769 424	–	9.00	68 455	71 607
AUD	692 193	7.88	636 553	7.88	2001/2005	692 193	–	7.88	636 553	–	7.88	—	—
CZK	204 487	10.68	296 248	9.03	2001/2015	110 794	–	12.44	57 066	–	5.10	93 693	239 182
HKD	1 185 396	7.75	1 811 844	7.74	2001/2010	1 185 396	–	7.75	1 811 844	–	7.74	—	—
NZD	154 983	7.17	142 045	7.17	2001/2004	154 983	–	7.17	142 045	–	7.17	—	—
ZAR	801 340	13.79	761 152	13.68	2001/2018	558 089	–	13.44	447 906	–	13.44	243 251	313 246
HUF	76 561	12.60	73 585	11.77	2003/2004	—		—	—		—	76 561	73 585
EEK	9 587	10.00	9 587	10.00	2001/2001	9 587	–	10.00	9 587	–	10.00	—	—
PLN	—	—	94 242	14.54	2004/2006	—		—	42 291	–	14.84	—	51 951
TWD	381 877	6.07	746 729	5.66	2003/2006	381 877	–	6.07	746 729	–	5.66	—	—
SKK	70 752	15.58	68 286	15.58	2001/2002	70 752	–	15.58	68 286	–	15.58	—	—
TOTAL	**148 086 362**		**162 313 203**										

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: 2 411 million). All such borrowings are hedged in full through swap operations.

Note L — Provisions for liabilities and charges (staff pension fund)

Commitments in respect of retirement benefits were valued at 30 June 2000 by an independent actuary using the projected unit credit method. The calculations were based on the following assumptions:

- a discount rate of 7% for determining the actuarial present value of benefits accrued;
- a retirement age of 62;
- a combined average impact of the increase in the cost of living and career progression estimated at 4%;
- a rate of adjustment of pensions of 1.5%;
- probable resignation of 3% up to age 55;
- use of the EVK/PRASA 90 actuarial tables.

Following this valuation, the Group's commitments have been found to be covered.

The movements in the pension fund provision were as follows:

- provision at 31 December 1999	395 898
- payments made during the year	– 13 730
- annual cost	+ 51 113
- provision at 31 December 2000	**433 281**

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 127.7 million is entered under "Sundry creditors/other" (Note H).

The EIF's pension scheme is a contributory defined benefit pension scheme, managed externally.

Note M — Fund for general banking risks

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

	31.12.2000
Fund at beginning of the year	903 031
Transfer for the year	76 974(*)
Fund at end of the year	**980 005**

(*) of which 4 522, transferred as at 30 June 2000, entered in the EIF's accounts but not consolidated.

Note N — Geographical analysis of "Interest receivable and similar income" (item 1 of the profit and loss account)

	31.12.2000
Germany	1 444 343
France	1 229 088
Italy	1 315 449
United Kingdom	1 452 315
Spain	1 242 882
Belgium	231 762
Netherlands	153 771
Sweden	189 422
Denmark	284 546
Austria	135 974
Finland	101 487
Greece	354 670
Portugal	506 674
Ireland	135 521
Luxembourg	23 816
	8 801 720
Outside the European Union	944 305
	9 746 025
Income not analysed (1)	908 737
	10 654 762

(1) Income not analysed:

Revenue from investment portfolio securities	155 475
Revenue from hedging portfolio securities	16 514
Revenue from short-term securities	60 607
Revenue from money-market operations	676 141
	908 737

Note O — Geographical analysis of "Commission receivable" (item 4 of the profit and loss account)

	31.12.2000
France	9
Italy	5
United Kingdom	54
Spain	—
Denmark	8
Greece	—
Ireland	27
	103
Community institutions	18 824
Income not analysed (EIF)	16 271
	35 198

Note P — Administrative expenses and charges

	31.12.2000
Salaries and allowances	97 723
Welfare contributions and other social costs	42 884
Staff costs	140 607
General and administrative expenses	44 804
	185 411

Note Q — Extraordinary income

This item comprises:

- An amount corresponding to the sale of warrants received in conjunction with a loan restructuring operation.
- The difference arising on consolidation of EUR 15.5m between the book value of the EIB's participation and the portion of EIF own funds attributable to the Bank. This has been recorded as extraordinary income in the consolidated profit and loss account.

Note R — 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 S — Estimated present value of financial instruments

The Group records balance sheet financial instruments on the basis of their historical cost in foreign currency (apart from the operational portfolio) representing the amount received in the case of a liability or the amount paid to acquire an asset. The present 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:

(EUR million) 31 December 2000	Assets		Liabilities	
	net accounting value	present value	accounting value	present value
- Loans	168 869	173 972	—	—
- Hedging portfolio	0	0	—	—
- Investment portfolio	2 924	2 932	—	—
- Liquid assets	10 535	10 535	—	—
- Borrowings after swaps	—	—	158 817	163 112
Total	182 328	187 439	158 817	163 112

Note T — Risk management

The significant risks which have to be managed by the Group are:

* credit risk
* interest rate risk
* liquidity risk
* exchange risk.

Credit risk

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, hedging 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 U).

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 Credit Risk Department under the direct responsibility of the Management Committee. The Group has thus established an operationally independent structure for determining and monitoring credit risk.

Loans

In order to limit the credit risk on its loan portfolio, the Group lends only to counterparties where it has been possible to demonstrate their creditworthiness over the longer term and who can offer guarantees deemed sufficiently sound.

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

The structure of guarantees attaching to the portfolio of loans granted as at 31 December 2000 is analysed hereafter (EUR million):

- within the European Union:

		Guarantor					
		Member States	Public institutions [1]	Zone "A" banks	Corporates [1]	Without formal guarantee [2]	Total
Borrower	Member States					13 903	13 903
	Public institutions	20 696	8 181	1 720	1 152	1 214	32 963
	Zone "A" banks	11 678	23 576	9 857	14 356	10 531	69 998
	Corporates	5 499	915	18 951	25 660	5 209	56 234
	Total	37 873	32 672	30 528	41 168	30 857	173 098

(1) Loans secured by assignment of rights by category of final beneficiary.

(2) Loans for which no formal guarantee was required, the borrower's level of solvency itself representing adequate security. In the event of certain occurrences, appropriate contractual clauses ensure the Bank's right of access to independent security.

- outside the European Union:

Secured by:

Member States	1 843	
Community budget	19 506	(*)
Pre-Accession Facility	4 471	
Total	25 820	

(*) of which 2 387 million in risk-sharing operations as explained below.

Loans outside the Community (apart from those under the Pre-Accession Facility) are, in the last resort, secured by guarantees of the Community 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 Community budget.

The new 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-transfer, expropriation, war and civil disturbance. To date, finance contracts for EUR 2 387 million in risk-sharing loans have been signed under these agreements.

Loans granted under the Pre-Accession Facility (EUR 4 471 million) are not secured by guarantees of the Community budget or the Member States.

LOANS FOR PROJECTS OUTSIDE THE UNION

Breakdown of loans by guarantee (EUR '000) **as at 31 December 2000**

Convention/agreement	Outstanding
Member States guarantee	
ACP/OCT Group 2nd Lomé Convention	17 361
ACP/OCT Group 3rd Lomé Convention	227 943
ACP/OCT Group 4th Lomé Convention	968 061
ACP/OCT Group 4th Lomé Convention/2nd Financial Protocol	629 489
Total: Member States guarantee	***1 842 854***
100% Community budget guarantee	
South Africa - 300m - BG Decision 19.06.95	285 714
ALA I - 750m	603 804
ALA Interim (100% guarantee) - 153m	168 477
CEEC - 1bn - BG Decision 29.11.89	659 114
CEEC - 3bn - BG Decision 02.05.94	2 663 977
CEEC - 700m - BG Decision 18.04.91	366 338
Total: 100% Community budget guarantee	*4 747 424*
75% Community budget guarantee	
Mediterranean Protocols	3 964 057
Yugoslavia - Art. 18 (1984)	26 253
Yugoslavia - 1st Protocol	48 360
Yugoslavia - 2nd Protocol	215 237
Slovenia - 1st Protocol	139 229
Total: 75% Community budget guarantee	*4 393 136*

Convention/agreement	Outstanding
70% Community budget guarantee	
South Africa - 375m - Decision 29.01.97	363 257
ALA II - 900m	963 759
ALA Interim (70% guarantee: risk sharing) - 122m	136 196
Bosnia-Herzegovina - 100m - 1999/2001	60 000
Euromed (EIB) - 2310m - Decision 29.01.97	2 421 834
FYROM - 150m - 1998-2000	130 000
CEEC - 3 520m - Decision 29.01.97	3 425 935
Total: 70% Community budget guarantee	*7 500 981*
65% Community budget guarantee	
South Africa - 825m - 7/2000-7/2007	50 000
ALA III - 2/2000-7/2007	391 601
Euromed II - 2/2000-7/2007	700 574
CEEC - 8 680m - 2/2000-7/2007	1 347 000
Turkey - TERRA - 11/1999-11/2002	375 000
Total: 65% Community budget guarantee	*2 864 175*
Total: Community budget guarantee	***19 505 716***
Pre-Accession Facility	
Cyprus - Pre-Accession - 1998/2000	250 000
CEEC - Pre-Accession II - 2/2000-7/2003	1 124 000
CEEC - Pre-Accession - 1998/2000	3 097 112
Total: Pre-Accession Facility	***4 471 112***
Grand Total	**25 819 682**

A breakdown of disbursed loans outstanding (in EUR million) at year end according to the sectors in which borrowers are engaged is set out below:

Sector	Maturity			
	not more than 1 year	1 year to 5 years	more than 5 years	TOTAL 2000
Energy	2 019	8 730	11 468	22 217
Transport	2 609	11 232	33 582	47 423
Telecommunications	1 461	8 625	4 118	14 204
Water, sewerage	1 036	4 867	7 097	13 000
Miscellaneous infrastructure	393	1 922	5 246	7 561
Agriculture, forestry, fisheries	60	115	150	325
Industry	1 648	7 578	3 516	12 742
Services	217	704	763	1 684
Global loans	3 753	17 834	25 714	47 301
Health, education	14	364	2 035	2 413
	13 210	61 970	93 689	168 869

Treasury

The credit risk associated with the 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 Credit Risk Department).

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 2000	Securities portfolio %	Treasury instruments %
Moody's or equivalent rating		
AAA	55	8
AA1 to AA3	44	62
A1	—	25
Below A1	—	4
Non-rated	1	1
Total	100	100

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 revenue.

Given a notional own funds portfolio in line with 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 fall of EUR 1 051 000 in the differential between the net present value of the Bank's own funds and the net present value targeted by the ALM Strategy.

The following table illustrates the Group's exposure to interest rate risk. It presents the nominal amounts according to maturities affected by the incidence of interest rate changes, as regards the main balance sheet items subject to reindexation:

Reindexation interval (EUR million):

	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 31.12.2000
Assets						
Loans (gross)	71 070	4 179	4 910	40 944	47 766	168 869
Net liquidity	10 618	105	182	1 189	1 365	13 459
	81 688	4 284	5 092	42 133	49 131	182 328
Liabilities						
Borrowings and swaps	80 283	5 310	3 086	34 868	35 270	158 817
Interest rate risk	1 405	– 1 026	2 006	7 265	13 861	

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 (EUR million)

Maturity	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Maturity undefined	Total
Assets						
Cash in hand, central banks and post office banks	25					25
Treasury bills eligible for refinancing with central banks	31	84	729	630		1 474
Other loans and advances :						
Current accounts	135					135
Others	11 257					11 257
	11 392	0				11 392
Loans :						
Credit institutions	1 805	4 255	29 058	40 649		75 767
Customers	1 534	5 614	32 911	53 042		93 101
	3 339	9 869	61 969	93 691		168 868
Debt securities including fixed-income securities	2 082	191	650	811		3 734
Receivable in respect of currency swap contracts	2 283	3 417	16 103	7 265		29 068
Other assets					4 906	4 906
Total assets	19 152	13 561	79 451	102 397	4 906	219 467
Liabilities						
Amounts owed to credit institutions	499	3	6			508
Debts evidenced by certificates	9 242	10 783	70 297	71 991		162 313
Capital, reserves and profit					21 912	21 912
Other liabilities					6 669	6 669
Payable in respect of currency swap contracts	2 221	3 246	15 555	7 043		28 065
Total liabilities	11 962	14 032	85 858	79 034	28 581	219 467

A securities portfolio, termed an "investment portfolio" (Note B), has also been created in order to ensure the Group's solvency and to contend with unforeseen liquidity needs. This securities portfolio consists of mainly fixed-income securities issued by first-class counterparties, largely bonds issued by Member States, with the intention of holding them until final maturity.

Exchange risk

The sources of exchange risk are to be found in the accumulation of own funds denominated in non-euro currencies, in the margins on operations and in general expenses incurred in non-euro currencies. The purpose of asset-liability management is to minimise this risk by re-allocating net balance sheet positions either in euro or in euro-in currencies. Any divergence from this objective is eliminated by regular operations on the foreign exchange markets.

Exchange position (EUR million)

Currency	euro	euro-in currencies	Pound sterling	United States dollar	Other currencies	Total excl. euro	Grand total
Assets							
Cash in hand, central banks and post office banks	*4*		21			*21*	**25**
Treasury bills eligible for refinancing with central banks	*1 426*	48					**1 474**
Other loans and advances:							
Current accounts	*111*	1	1	12	10	*23*	**135**
Others	*4 803*		2 131	3 862	461	*6 450*	**11 257**
	4 914	1	2 132	3 874	471	*6 477*	**11 392**
Loans:							
Credit institutions	*30 105*	14 614	17 736	11 245	2 067	*31 048*	**75 767**
Customers	*35 942*	19 021	17 630	13 267	7 241	*38 138*	**93 101**
	66 047	33 635	35 366	24 512	9 308	*69 186*	**168 868**
Debt securities including fixed-income securities	*2 453*	222	16	1 039	4	*1 059*	**3 734**
Receivable in respect of currency swap contracts	*1 142*	2 718	5 081	11 100	9 027	*25 208*	**29 068**
Other assets	*1 803*	1 199	853	624	427	*1 904*	**4 906**
Total assets	*77 789*	37 823	43 469	41 149	19 237	*103 855*	**219 467**
Liabilities							
Amounts owed to credit institutions	*460*			47	1	*48*	***508***
Debts evidenced by certificates:							
Debt securities in issue	*47 344*	23 335	40 473	34 506	15 830	*90 809*	**161 488**
Others		172	240		413	*653*	**825**
	47 344	23 507	40 713	34 506	16 243	*91 462*	**162 313**
Capital, reserves and profit	*21 912*						**21 912**
Other liabilities	*3 204*	1 575	791	575	524	*1 890*	**6 669**
Payable in respect of currency swap contracts	*8 245*	9 562	1 957	6 013	2 288	*10 258*	**28 065**
Total liabilities	*81 165*	34 644	43 461	41 141	19 056	*103 658*	**219 467**
Off balance sheet	21	– 17	– 1	– 3			
Net position as at 31.12.2000	**– 3 355**	**3 162**	**7**	**5**	**181** (1)		

(1) of which GRD: 172 (euro-in currency as from 01.01.2001)

Note U — Derivatives

Derivatives are contractual financial instruments, the value of which fluctuates according to trends in the underlying assets, interest rates, exchange rates or indexes.

1. *As part of funding activity*

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.

The derivatives most commonly used are:

* Currency swaps
* Interest rate swaps
* Deferred rate-setting (DRS) agreements.

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 it is generally agreed to exchange floating-rate interest for fixed-rate interest or vice versa.

Deferred rate-setting (DRS) agreements

This derivative is similar to an interest rate swap contract (fixed rate/floating rate or vice versa). However, it is used more specifically by long-term financing institutions such as the EIB, which raises substantial amounts on the capital markets.

Interest rate or 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 make it possible to access certain capital markets by exchanging with counterparties their advantageous conditions of access to these markets, so reducing funding costs.

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

All interest rate and currency swaps linked with the borrowing portfolio have maturities identical to the borrowings concerned and are therefore long term.

Derivatives credit risk hedging policy

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 was put in place to safeguard the Group against loss arising out of the use of this instrument.

Contractual framework:

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

Counterparty selection:

Minimum rating A1 at the outset, the Group having the right of early termination if the rating drops below a certain level.

Limits:

- total net market value of derivatives exposure with a counterparty;
- unsecured exposure to a counterparty;
- furthermore, specific concentration limits expressed as nominal amounts.

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 present 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 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 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 2 weighted risk).

The following tables show the maturities of currency swaps and interest rate swaps plus DRS combined, sub-divided according to their notional amount and the associated credit risk:

Currency swaps (EUR million)

	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	**Total 31.12.2000**
Notional amount	4 758	16 103	6 391	874	**28 126**
Net discounted value	323	997	387	24	**1 732**
Credit risk (BIS 2 weighted)	151	621	198	134	**1 103**

It should be pointed out that the notional amounts receivable or payable in respect of currency swaps are entered on the balance sheet under "Other assets" and "Other liabilities" respectively (see 2. below for short-term swaps).

Interest rate swaps and DRS (EUR million)

	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	**Total 31.12.2000**
Notional amount	8 431	39 967	25 480	23 670	**97 548**
Net discounted value	397	839	447	1 291	**2 974**
Credit risk (BIS 2 weighted)	95	373	386	526	**1 380**

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 least cost, the Bank enters into borrowing contracts encompassing notably interest rate or stock exchange index options. Such borrowings are covered by swap contracts to hedge the corresponding market risk.

Tabulated below are the number and notional amount of the various types of option attaching to borrowings:

	Embedded option	Stock exchange index	Special structure coupon or similar
Number of transactions	89	42	54
Notional amount (EUR million)	10 264	2 411	4 597
Net discounted value	113	357	339

All options contracts embedded in, or linked with, borrowings are negotiated by mutual agreement.

Generally, there is no credit risk on these options, except in some cases where they are based on a stock exchange index, but for which security exists in the form of regularly monitored collateral.

Ratings exposure table

All new transactions are concluded with counterparties rated at least A1. Consequently, most of the portfolio is concentrated on counterparties rated A1 or above.

Rating	% of nominal	Net market exposure	Credit risk & BIS2
Aaa	13.2	605	1 118
Aa1 to Aa3	71.7	1 617	5 067
A1	13.1	431	1 078
A2 to Baa3	0.8	81	159
Non-rated	1.2	9	148
Total	**100**	**2 743**	**7 569**

2. *As part of liquidity management*

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

The notional amount of short-term currency swaps stood at EUR 981 million at 31 December 2000.

It should be pointed out that the notional amounts receivable or payable in respect of short-term currency swaps are also entered on the balance sheet under "Other assets" and "Other liabilities" respectively.

Note V — Geographical breakdown of lending by country in which projects are located

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total
1. Loans for projects within the Union and related loans					
Germany	685	27 262 118	315 185	26 946 933	13.71 %
France	379	22 232 198	1 929 177	20 303 021	11.18 %
Italy	1 429	27 924 107	3 461 559	24 462 548	14.04 %
United Kingdom	326	24 212 439	3 589 514	20 622 925	12.17 %
Spain	436	25 577 387	2 608 367	22 969 020	12.86 %
Belgium	94	4 192 118	319 280	3 872 838	2.11 %
Netherlands	51	2 966 848	505 609	2 461 239	1.49 %
Sweden	106	3 775 097	370 729	3 404 368	1.90 %
Denmark	119	4 796 742	192 388	4 604 354	2.41 %
Austria	89	2 892 176	0	2 892 176	1.45 %
Finland	45	2 415 172	366 129	2 049 043	1.21 %
Greece	191	7 503 576	1 233 510	6 270 066	3.77 %
Portugal	205	12 362 984	3 015 877	9 347 107	6.22 %
Ireland	115	2 366 947	667 918	1 699 029	1.19 %
Luxembourg	32	601 133	165 676	435 457	0.30 %
Related loans (*)	21	2 017 517	219 433	1 798 084	1.01 %
Total	**4 323**	**173 098 559**	**18 960 351**	**154 138 208**	**87.02 %**
2. Loans for projects outside the Union					
2.1. ACP Countries/OCT					
Kenya	11	160 183	65 000	95 183	
Jamaica	12	144 007	28 217	115 790	
Namibia	9	127 397	21 225	106 172	
ACP Group	3	118 904	50 000	68 904	
Zimbabwe	14	114 385	18 030	96 355	
Trinidad and Tobago	5	99 976	499	99 477	
Mauritius	11	99 948	27 589	72 359	
Ghana	5	83 648	25 059	58 589	
Senegal	3	76 571	42 977	33 594	
Botswana	8	69 933	0	69 933	
Barbados	5	66 653	35 173	31 480	
Mozambique	4	65 478	8 849	56 629	
Côte-d'Ivoire	10	59 802	0	59 802	
Lesotho	3	57 846	38 414	19 432	
Mauritania	3	54 183	35 258	18 925	
Nigeria	3	52 230	0	52 230	
Papua New Guinea	6	47 856	0	47 856	
Bahamas	4	42 049	3 527	38 522	
Regional - Africa	2	32 890	0	32 890	
Dominican Republic	3	22 490	10 456	12 034	
Gabon	3	21 331	16 861	4 470	
Regional - Caribbean	1	20 032	6 024	14 008	
Regional - West Africa	1	19 987	12 000	7 987	
Swaziland	2	17 500	17 500	0	
Uganda	2	17 319	0	17 319	
Cameroon	6	16 240	5 000	11 240	
Mali	1	14 543	0	14 543	
Saint Lucia	4	13 662	0	13 662	
Guinea	2	12 068	0	12 068	
French Polynesia	4	11 259	4 000	7 259	
Malawi	5	10 947	0	10 947	
Dominica	1	10 000	10 000	0	
British Virgin Islands	3	7 734	2 000	5 734	
Cayman Islands	3	7 455	0	7 455	
New Caledonia and Dependencies	2	5 425	0	5 425	
Saint Vincent and the Grenadines	2	5 378	882	4 496	
OCT Group	1	5 000	5 000	0	
Suriname	1	4 186	0	4 186	
Grenada	1	4 101	0	4 101	
Tonga	3	3 908	0	3 908	
Netherlands Antilles	3	3 751	0	3 751	
Falkland Islands	2	3 498	0	3 498	
Fiji	2	3 454	0	3 454	
Aruba	3	3 020	2 000	1 020	
Belize	1	2 969	0	2 969	
Democratic Republic of Congo	1	869	0	869	
Togo	1	468	0	468	
Seychelles	1	319	0	319	
Sub-total	186	1 842 852	491 540	1 351 312	0.93 %

(*) Loans authorised under the second paragraph of Article 18 (1) of the Statute for projects located outside the territory of Member States of the Union but offering benefits for the Union are considered as related to loans within the Union.

Note V — Geographical breakdown of lending by country in which projects are located (continued)

Countries and territories in which projects are located		Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total
2.2. South Africa	*Sub-total*	*20*	*698 971*	*228 924*	*470 047*	*0.35%*
2.3. Mediterranean Countries						
Egypt		36	1 414 875	448 193	966 682	
Algeria		27	1 278 145	265 650	1 012 495	
Morocco		33	1 270 519	565 244	705 275	
Turkey		19	1 149 333	561 007	588 326	
Tunisia		38	882 067	414 323	467 744	
Jordan		30	459 549	188 233	271 316	
Lebanon		12	457 412	163 594	293 818	
Cyprus		16	445 546	249 044	196 502	
Gaza-West Bank		10	194 051	115 459	78 592	
Syria		2	96 598	75 000	21 598	
Israel		3	48 462	0	48 462	
Malta		3	14 906	0	14 906	
	Sub-total	229	7 711 463	3 045 747	4 665 716	3.87%
2.4. Central and Eastern European Countries						
Poland		43	3 630 602	1 653 802	1 976 800	
Romania		31	2 214 472	1 604 830	609 642	
Czech Republic		25	2 164 662	880 663	1 283 999	
Hungary		30	1 410 575	409 000	1 001 575	
Slovak Republic		22	1 104 711	374 004	730 707	
Slovenia		19	878 110	431 217	446 893	
Bulgaria		18	810 701	552 000	258 701	
Lithuania		15	245 491	89 044	156 447	
Latvia		11	201 452	127 612	73 840	
FYROM		8	157 441	85 000	72 441	
Estonia		11	130 564	53 213	77 351	
Bosnia-Herzegovina		3	120 516	120 000	516	
Albania		4	84 981	55 700	29 281	
Croatia		6	82 574	0	82 574	
Federal Republic of Yugoslavia		15	65 704	0	65 704	
	Sub-total	261	13 302 556	6 436 085	6 866 471	6.69%
2.5. Asian and Latin American Countries						
Brazil		12	580 656	130 200	450 456	
Argentina		8	366 078	135 351	230 727	
Indonesia		4	222 029	183 640	38 389	
Philippines		6	195 459	95 751	99 708	
Thailand		4	168 153	65 765	102 388	
Mexico		3	126 559	52 646	73 913	
Peru		2	96 083	0	96 083	
China		2	91 449	9 912	81 537	
Panama		1	57 755	0	57 755	
India		1	55 488	37 827	17 661	
Vietnam		1	55 000	55 000	0	
Costa Rica		1	48 795	0	48 795	
Pakistan		2	44 995	39 603	5 392	
Regional - Andean Pact		1	41 703	28 162	13 541	
Bangladesh		1	36 202	36 202	0	
Regional - Central America		1	34 388	16 924	17 464	
Chile		1	31 256	0	31 256	
Uruguay		1	11 792	0	11 792	
	Sub-total	52	2 263 840	886 983	1 376 857	1.14%
	Total	**748**	**25 819 682**	**11 089 279**	**14 730 403**	**12.98%** *
	Grand total	**5 071**	**198 918 241**	**30 049 630**	**168 868 611**	**100.00%**

* 10.7% excluding Pre-Accession Facility.

Note W — IAS 14 - Segment reporting

In accordance with the determining factors set out in revised IAS 14, the Group considers that lending constitutes its main business segment; its organisation and entire management systems are given over to developing and providing loans for its customers.

Consequently, pursuant to the above standard, the determining factors for segment reporting are:

- primary determining factor: lending as the main business segment;
- 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 receivable and similar income by geographical area (Note N);
- lending by country in which projects are located (Note V);
- tangible and intangible assets by country of location (Note F).

Note X — Conversion rates

The following conversion rates were used for drawing up the balance sheets at 31 December 2000:

1 euro =

EURO-11: Rates fixed irrevocably on 31 December 1998

Deutsche Mark	1.95583
French francs	6.55957
Italian lire	1936.27
Spanish pesetas	166.386
Belgian francs	40.3399
Netherlands guilders	2.20371
Austrian Schillings	13.7603
Finnish markka	5.94573
Portuguese escudos	200.482
Irish pounds	0.787564
Luxembourg francs	40.3399

	31.12.2000
PRE-IN:	
Pounds sterling	0.624100
Danish kroner	7.46310
Drachmas	340.750
Swedish kronor	8.83130
NON-COMMUNITY CURRENCIES:	
United States dollars	0.930500
Swiss francs	1.52320
Lebanese pounds	1351.02
Japanese yen	106.9200
Canadian dollars	1.39650
Australian dollars	1.67700
CFA francs	655.957
Czech koruny	35.0470
Hong Kong dollars	7.25780
New Zealand dollars	2.11200
South African rand	7.03920

Report of the auditor

The Chairman of the Audit Committee
European Investment Bank
Luxembourg

Following our appointment by the Bank on 20 June 1996, we have audited the consolidated financial statements, as identified below, of the European Investment Bank for the year ended 31 December 2000. These consolidated financial statements are the responsibility of the management of the European Investment Bank. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements identified below give, in accordance with the general principles of the Directive of the Council of the European Communities on the annual accounts and consolidated accounts of banks and other financial institutions and International Accounting Standards except as explained in the relevant notes on accounting policies, a true and fair view of the financial position of the European Investment Bank as at 31 December 2000 and of the results of its operations and its cash flows for the year then ended.

The consolidated financial statements on which our opinion is expressed comprise:

Consolidated balance sheet
Statement of Special Section
Consolidated profit and loss account
Consolidated own funds
Consolidated cash flow statement
Notes to the consolidated financial statements.

ERNST & YOUNG
Société Anonyme

Luxembourg, 20 February 2001

Kenneth A. HAY

The Audit Committee

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

Statement by the Audit Committee

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 studied the documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the reports drawn up by Ernst & Young,

considering the 2000 Annual Report and the consolidated financial statements for the financial year ending on 31 December 2000 as drawn up by the Board of Directors at its meeting on 20 February 2001,

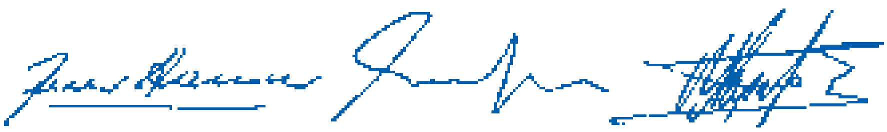
considering Articles 22, 23 & 24 of the Rules of Procedure,

hereby confirms:

that the consolidated financial statements, comprising the consolidated balance sheet, the consolidated profit and loss account, the statement of Special Section, the notes to the consolidated financial statements, as well as any other financial information contained in the consolidated financial statements, give a true and fair view of the financial position of the Bank in respect of its assets and liabilities, and of the results of its operations and its cash flows for the financial year 2000.

Luxembourg, 27 March 2001

The Audit Committee



A. HANSEN E. MARIA M. HARALABIDIS

Results for the year

Profit for the 2000 financial year came to **1 280 million** compared with 1 067 million in 1999, representing an increase of 19.96%. Prior to transfers to provisions, the operating surplus worked out at 1 345 million in 2000 as against 1 187 million in 1999. This rise of 13.31% is attributable mainly to the general and sustained uptrend in money market interest rates in 2000 and to the growth in the Bank's balance sheet.

The moderate performance of long-term interest rates resulted in an upturn in the average rate on loans which climbed from 5.91% in 1999 to 6.06% in 2000. Over the same period, the average rate on borrowings moved up from 5.64% to 5.86%.

Receipts of **interest and commission on loans** in 2000 totalled **9 746 million** as against 8 608 million in 1999, while **interest and commission on borrowings** amounted to **8 857 million** (7 712 million in 1999).

Overall, **treasury** operations yielded interest income of **698 million** in 2000, or 202 million more than the 1999 figure of 496 million, corresponding to an average overall return of 5.60% in 2000, compared with 3.99% in 1999.

The increase in interest income accruing from treasury operations in 2000 stemmed chiefly from the higher return on money market placements, up by 211 million in 2000 on a year-on-year basis, under the combined impetus of rising short-term rates and the 9% upturn in money market treasury holdings.

A detailed breakdown of the Bank's treasury by compartment is presented on page 8.

General administrative expenses together with depreciation of tangible and intangible assets amounted to **186.5 million** in 2000, or 7.5% more than in 1999 (173.5 million)

On 5 June 2000, the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 1999, which, after transfer of EUR 120 000 000 to the Fund for general banking risks, amounted to EUR 1 067 390 168, as follows: (i) an amount of EUR 500 000 000 for addition to the Funds allocated to venture capital operations, and (ii) the balance, i.e. EUR 567 390 168, for appropriation to the Additional Reserves.

Acting on a proposal from the Management Committee, the Board of Directors is recommending that the Governors appropriate the balance of the profit and loss account for the year ended 31 December 2000 – after transfer of EUR 65 000 000 to the Fund for general banking risks – i.e. EUR 1 280 461 896 as follows:

- EUR 250 000 000 to the new fund earmarked for the Structured Finance Facility;

- the balance of EUR 1 030 461 896 to the Additional Reserves.

BALANCE SHEET AS AT 31 DECEMBER 2000

In EUR '000

ASSETS		*31.12.2000*		*31.12.1999*
1. Cash in hand, balances with central banks and post office banks		***24 726***		11 542
2. Treasury bills eligible for refinancing with central banks (Note B)		***1 410 978***		2 066 543
3. Loans and advances to credit institutions				
a) repayable on demand	**130 668**		77 228	
b) other loans and advances (Note C)	**11 235 552**		11 022 396	
c) loans (Note D)	**75 767 232**		65 031 526	
		87 133 452		76 131 150
4. Loans and advances to customers				
Loans (Note D)	**93 101 379**		88 122 260	
Specific provisions (Note A.4)	**– 175 000**		– 175 000	
		92 926 379		87 947 260
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	**1 254 787**		2 241 863	
b) issued by other borrowers	**2 075 684**		856 165	
		3 330 471		3 098 028
6. Shares and other variable-yield securities (Note E)		***605 934***		340 063
7. Participating interests (Note E)		***269 942***		160 000
8. Intangible assets (Note F)		***9 863***		7 195
9. Tangible assets (Note F)		***78 327***		80 913
10. Other assets				
a) receivable in respect of EMS interest subsidies paid in advance (Note G)	**7 636**		13 483	
b) sundry debtors (Note H)	**899 491**		394 242	
c) receivable in respect of currency swap contracts	**29 067 793**		27 552 657	
		29 974 920		27 960 382
11. Prepayments and accrued income (Note I)		***3 430 962***		3 300 496
		219 195 956		201 103 572

The bracketed notes refer to the Notes to the Financial Statements

LIABILITIES		*31.12.2000*		*31.12.1999*
1. Amounts owed to credit institutions				
a) repayable on demand	**0**		0	
b) with agreed maturity dates or periods of notice (Note J)	**507 889**		336 626	
		507 889		336 626
2. Debts evidenced by certificates (Note K)				
a) debt securities in issue	**161 488 067**		147 240 921	
b) others	**825 137**		845 441	
		162 313 203		148 086 362
3. Other liabilities				
a) interest subsidies received in advance (Note G)	**334 562**		348 897	
b) sundry creditors (Note H)	**896 320**		456 134	
c) payable in respect of currency swap contracts	**28 064 569**		26 032 992	
d) sundry liabilities	**37 482**		34 112	
		29 332 934		26 872 135
4. Accruals and deferred income (Note I)		**4 768 943**		4 918 307
5. Provisions for liabilities and charges				
Staff pension fund (Note L)		**433 281**		395 898
6. Fund for general banking risks (Note M)		**935 000**		870 000
7. Capital				
subscribed	**100 000 000**		100 000 000	
uncalled	**– 94 000 000**		– 94 000 000	
		6 000 000		6 000 000
8. Reserves				
a) reserve fund	**10 000 000**		10 000 000	
b) additional reserves	**2 124 244**		1 556 854	
		12 124 244		11 556 854
9. Funds allocated to venture capital operations		**1 500 000**		1 000 000
10. Profit for the financial year		**1 280 462**		1 067 390
		219 195 956		201 103 572

OFF-BALANCE-SHEET ITEMS

		31.12.2000		*31.12.1999*
Commitments				
- EBRD capital (Note E)				
. Uncalled		**442 500**		442 500
. To be paid in		**42 188**		50 625
- EIF capital (Note E)				
. Uncalled		**972 000**		640 000
- Undisbursed loans (Note D)				
. Credit institutions	**7 741 032**		7 345 950	
. Customers	**22 308 598**		18 276 584	
		30 049 630		25 622 534
- Undisbursed venture capital operations		**549 952**		303 175
Guarantees (Note D)				
. In respect of loans granted by third parties		**223 187**		276 911
. In respect of venture capital operations		**57 946**		57 946
Special deposits for service of borrowings (Note R)		**778 552**		1 208 891
Nominal value of interest-rate swap and deferred rate-setting contracts (Note U)		**97 548 200**		82 781 300
Borrowings arranged but not yet signed		**921 327**		361 911
Loans committed but not yet signed		**0**		884 481

STATEMENT OF SPECIAL SECTION (1) AS AT 31 DECEMBER 2000

In EUR '000

ASSETS	***31.12.2000***	*31.12.1999*
Member States		
From resources of the European Atomic Energy Community		
Disbursed loans outstanding (2)	—	12 238
From resources of the European Community		
(New Community Instrument for borrowing and lending)		
Disbursed loans outstanding (3)	**106 191**	145 995
Turkey		
From resources of Member States		
Disbursed loans outstanding (4)	**72 041**	86 248
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	220 434	229 564
Risk capital operations		
- amounts to be disbursed	129 842	148 486
- amounts disbursed	157 381	130 436
	287 223	278 922
Total (5)	**507 657**	508 486
African, Caribbean and Pacific States and Overseas Countries and Territories		
From resources of the European Community		
Yaoundé Conventions		
Loans disbursed	46 364	47 833
Contributions to the formation of risk capital		
Amounts disbursed	419	419
Total (6)	**46 783**	48 252
Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	503 993	466 818
- amounts disbursed	1 141 646	1 084 122
	1 645 639	1 550 940
Operations from other resources:		
- amounts to be disbursed	8 000	
Total (7)	**1 653 639**	1 550 940
Grand Total	**2 386 311**	2 352 159

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 31.12.2000: 1 447 378; at 31.12.1999: 1 477 066

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2000: 164 050; at 31.12.1999: 169 626

(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 operations carried out by the European Investment Bank for the account of and under mandate from third parties.

(2) Initial amount of contracts signed under Council Decisions 77/271/Euratom of 29 March 1977, 80/29/Euratom of 20 December 1979, 82/170/Euratom of 15 March 1982 and 85/537/Euratom of 5 December 1985 providing for an amount of three billion as a contribution towards financing commercially-rated nuclear power stations within the Community under mandate, for the account and at the risk of the European Atomic Energy Community: 2 773 167

add:	exchange adjustments	+ 181 690
less:	repayments	– 2 954 857
		0

LIABILITIES	***31.12.2000***	*31.12.1999*
Funds under trust management		
Under mandate from the European Communities		
European Atomic Energy Community	—	12 238
European Community:		
- New Community Instrument	106 191	145 995
- Financial Protocols with the Mediterranean Countries	377 815	360 000
- Yaoundé Conventions	46 783	48 252
- Lomé Conventions	1 141 646	1 084 122
	1 672 435	1 650 607
Under mandate from Member States	72 041	86 248
Total	**1 744 476**	1 736 855
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean Countries	129 842	148 486
On operations from risk capital resources under the Lomé Conventions	503 993	466 818
On operations from other resources under the Lomé Conventions	8 000	—
Total	**641 835**	615 304
Grand Total	**2 386 311**	2 352 159

(3) Initial amount of contracts signed under Council Decisions 78/870/EEC of 16 October 1978 (New Community Instrument), 82/169/EEC of 15 March 1982, 83/200/EEC of 19 April 1983 and 87/182/EEC of 9 March 1987 for promoting investment within the Community, as well as 81/19/EEC of 20 January 1981 for reconstructing areas of Campania and Basilicata (Italy) stricken by an earthquake on 23 November 1980 and 81/1013/EEC of 14 December 1981 for reconstructing areas stricken by earthquakes in Greece in February and March 1981, under mandate, for the account and at the risk of the European Community: 6 399 145

add:	exchange adjustments		+ 125 866
less:	cancellations	201 991	
	repayments	6 216 829	– 6 418 820
			106 191

(4) Initial amount of contracts signed for financing projects in Turkey under mandate, for the account and at the risk of Member States: 417 215

add:	exchange adjustments		+ 13 028
less:	cancellations	215	
	repayments	357 987	– 358 202
			72 041

(5) 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 EC on 1 January 1981) under mandate, for the account and at the risk of the European Community: 628 882

add:	exchange adjustments		+ 34
less:	cancellations	28 464	
	repayments	92 795	– 121 259
			507 657

(6) 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	141 986
add:		
- capitalised interest	1 178	
- exchange adjustments	9 839	+ 11 017
less:		
- cancellations	1 574	
- repayments	104 646	– 106 220
		46 783

(7) 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	2 375 074	
- equity participations	114 167	2 489 241
add:		
- capitalised interest		+ 1 663
less:		
- cancellations	330 425	
- repayments	497 957	
- exchange adjustments	16 883	– 845 265
		1 645 639
Loans from other resources:		8 000
		1 653 639

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2000
In EUR '000

		31.12.2000		*31.12.1999*
1. Interest receivable and similar income (Note N)		**10 644 426**		9 329 487
2. Interest payable and similar charges		**– 9 086 590**		– 7 980 575
3. Income from participating interests		**4 800**		3 119
4. Commission receivable (Note O)		**18 927**		18 290
5. Commission payable		**– 6 588**		– 3 474
6. Result on financial operations		**– 5 082**		– 339
7. Other operating income		**16 220**		3 477
8. General administrative expenses (Note P):		**– 181 057**		– 173 891
a) staff costs	**137 435**		134 746	
b) other administrative costs	**43 622**		39 145	
9. Value adjustments in respect of (Note F):		**– 11 865**		– 8 774
a) intangible assets	**2 760**		1 646	
b) tangible assets	**9 105**		7 128	
10. Value adjustments in respect of transferable securities held as financial fixed assets, participating interests and shares in affiliated undertakings				10 070
11. Extraordinary income (Note Q)		**19 699**		0
12. Extraordinary charges (Note I)		**– 67 428**		– 10 000
13. Transfer to Fund for general banking risks (Note M)		**– 65 000**		– 120 000
14. Profit for the financial year		**1 280 462**		1 067 390

OWN FUNDS AND APPROPRIATION OF PROFIT

On 5 June 2000 the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 1999, which, after transfer of EUR 120 000 000 to the Fund for general banking risks, amounted to EUR 1 067 390 168, as follows:

- an amount of EUR 500 000 000 for addition to the funds allocated to venture capital operations;
- the balance, i.e. EUR 567 390 168, for appropriation to the Additional Reserves.

Own funds at 31 December 2000 (EUR '000)

	Situation at 31.12.1999	Appropriation of profit for the 1999 financial year	Transfer for the 2000 financial year	Situation at 31.12.2000
Capital				
- subscribed	100 000 000			100 000 000
- uncalled	– 94 000 000			– 94 000 000
	6 000 000			6 000 000
Reserves				
- Reserve Fund	10 000 000			10 000 000
- Additional Reserves	1 556 854	+ 567 390		2 124 244
	11 556 854			12 124 244
Fund for general banking risks	870 000		65 000	935 000
Funds allocated to venture capital operations	1 000 000	+ 500 000		1 500 000
Profit to be appropriated	1 067 390	– 1 067 390		0
	20 494 244		65 000	20 559 244
Profit for the financial year				1 280 462
				21 839 706

STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL OF THE BANK AS AT 31 DECEMBER 2000

In EUR

Member States	Subscribed capital	Uncalled capital(*)	Paid-in capital
Germany	17 766 355 000	16 699 382 842	1 066 972 158
France	17 766 355 000	16 699 382 842	1 066 972 158
Italy	17 766 355 000	16 699 382 842	1 066 972 158
United Kingdom	17 766 355 000	16 699 382 842	1 066 972 158
Spain	6 530 656 000	6 140 003 092	390 652 908
Belgium	4 924 710 000	4 630 122 198	294 587 802
Netherlands	4 924 710 000	4 630 122 198	294 587 802
Sweden	3 267 057 000	3 071 033 586	196 023 414
Denmark	2 493 522 000	2 344 363 695	149 158 305
Austria	2 444 649 000	2 297 970 078	146 678 922
Finland	1 404 544 000	1 320 271 348	84 272 652
Greece	1 335 817 000	1 255 909 988	79 907 012
Portugal	860 858 000	809 362 903	51 495 097
Ireland	623 380 000	586 090 514	37 289 486
Luxembourg	124 677 000	117 219 032	7 457 968
	100 000 000 000	**94 000 000 000**	**6 000 000 000**

(*) 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.

CASH FLOW STATEMENT AS AT 31 DECEMBER 2000

In EUR '000

	31.12.2000	31.12.1999
A. Cash flows from operating activities:		
Profit for the financial year	1 280 462	1 067 390
Adjustments:		
Transfer to Fund for general banking risks	65 000	120 000
Value adjustments	11 865	8 774
Exchange adjustment not subject to Article 7	1 049	596
(Decrease)/increase in accrued interest and commissions payable and interest received in advance	– 149 364	362 762
Increase in accrued interest and commissions receivable	– 130 466	– 151 194
Investment portfolio amortisation	– 5 225	4 756
Hedging portfolio premium	0	680
Profit on operating activities:	1 073 321	1 413 764
Net loan disbursements	– 29 834 485	– 27 085 622
Repayments	15 590 952	14 007 544
Net balance on NCI operations (Note H)	33 859	44 408
Increase in operational portfolio	– 81 683	– 25 351
Increase in venture capital operations	– 257 551	– 202 875
Net cash from operating activities	**– 13 475 587**	**– 11 848 132**
B. Cash flows from investing activities:		
EBRD shares paid up (Note E)	– 8 438	– 8 438
Sales of securities	337 126	2 022 045
Purchases of securities	– 330 843	– 2 013 202
Increases in land, buildings and furniture (Note F)	– 6 519	– 5 437
Increases in intangible fixed assets	– 5 428	– 4 041
Other increases/(decreases) in assets	– 306 420	12 364
Purchase of EIF shares	– 109 942	0
Net cash from investing activities	**– 430 464**	**3 291**
C. Cash flows from financing activities:		
Issue of borrowings	28 770 713	29 720 169
Redemption of borrowings	– 17 102 100	– 16 062 560
Increase in currency swaps receivable	– 1 515 136	– 1 208 853
Increase/(decrease) in currency swaps payable	2 031 577	– 754 036
Net increase in commercial paper	589 973	1 863 493
Net increase/(decrease) in amounts owed to credit institutions	171 263	– 306 998
Other increases/(decreases) in liabilities	466 604	– 249 067
Hedging portfolio sales	1 293 081	3 236 144
Hedging portfolio purchases	– 27 216	– 2 238 721
Net cash from financing activities	**14 678 759**	**13 999 571**
Summary statement of cash flows		
Cash and cash equivalents at beginning of financial year	12 200 160	7 891 180
Net cash from:		
(1) operating activities	– 13 475 587	– 11 848 132
(2) investing activities	– 430 464	3 291
(3) financing activities	14 678 759	13 999 571
Effects of exchange rate changes on cash and cash equivalents	269 190	2 154 250
Cash and cash equivalents at end of financial year	**13 242 058**	**12 200 160**
Cash analysis (excluding investment and hedging portfolios)		
Cash in hand, balances with central banks and post office banks	24 726	11 542
Bills maturing within three months of issue	1 851 112	1 088 994
Loans and advances to credit institutions:		
- accounts repayable on demand	130 668	77 228
- term deposit accounts	11 235 552	11 022 396
	13 242 058	**12 200 160**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2000

In EUR '000

Note A — Significant accounting policies

1. *Accounting standards*

The unconsolidated financial statements have been prepared in accordance with the general principles of the Directive 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").

The accounting policies applied are in conformity with international accounting standards (IAS) in all material respects, except as explained in the relevant notes on accounting policies. On a proposal from the Management Committee, the Board of Directors decided, on 20 February 2001, to submit the financial statements to the Governors for approval at their meeting on 5 June 2001.

The Bank also publishes consolidated financial statements.

2. *Conversion of currencies*

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.

The Bank's assets and liabilities are converted into euro on the basis of the exchange rates obtaining at the balance sheet date. The gain or loss arising from such conversion is credited or charged to the profit and loss account.

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

3. *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 decided to establish the following types of portfolio:

3.1. *Investment portfolio*

The investment portfolio consists of securities purchased with the intention of holding them until final maturity in order to ensure the Bank's solvency. These securities are issued or guaranteed by:

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

The entry cost of securities in this portfolio is the purchase price or more exceptionally the transfer price (notably in the event of transfer of securities from the operational portfolio). The difference between entry price and redemption value is accounted for *pro rata temporis* over the remaining life of the securities held.

3.2. *Hedging portfolio*

The hedging portfolio, which comprises securities with a fixed maturity, is maintained as part of the Bank's active management of the interest-rate risks inherent in its lending and funding activities. These investments are accounted for at cost. Gains and losses on disposal of these securities are released to income over the period of the original maturity of the borrowings.

3.3. *Operational portfolio*

The operational portfolio comprises listed securities issued and guaranteed by financial establishments. Securities held in this portfolio are marked to market in the balance sheet.

3.4. *Short-term securities*

In order to maintain an adequate level of liquidity the Bank purchases money market products with a maximum maturity of three 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 accounts at their nominal value.

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.

4. *Loans and advances to credit institutions and customers*

4.1. *Loans are included in the assets of the Bank at their net disbursed amounts*

Specific provisions 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. These provisions are entered on the profit and loss account as "Value adjustments in respect of loans and advances".

Value adjustments with regard to interest on these loans are determined on a case-by-case basis by the Bank's Management.

4.2. *Interest on loans*

Interest on loans is recorded in the profit and loss account on the accruals basis, i.e. over the life of the loans.

4.3. *Reverse repurchase and repurchase operations (reverse repos and repos)*

A reverse repurchase (repurchase) operation is one under which the Bank 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 Bank's (counterparty's) custodian in exchange for settlement at the agreed price, which generates a return (cost) for the Bank linked to the money market.

This type of operation is considered for the purposes of the Bank to be a loan (borrowing) at a guaranteed rate of interest and is entered on the assets side of the balance sheet under item 3) Loans and advances to credit institutions - b) other loans and advances (on the liabilities side of the balance sheet under item 1) Amounts owed to credit institutions - b) with agreed maturity dates or periods of notice). The securities received (provided) as collateral are accounted for off balance sheet.

5. *Shares, other variable-yield securities and participating interests*

Shares, venture capital operations and participating interests held represent medium and long-term investments and are accounted for at cost. At the end of the year, their book value is compared with their estimated value. Should the latter be less than the book value, the corresponding carrying amount is reduced, if the decline is other than temporary.

6. *Tangible assets*

Land and buildings are stated at cost less both initial write-down of the Kirchberg headquarters and accumulated depreciation. Depreciation is calculated to write off the value of the Bank's Luxembourg-Kirchberg headquarters and its office in Lisbon on the straight-line basis over 30 and 25 years respectively. 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 balance sheet at their purchase price, less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated life of each item purchased, as set out below:

- 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.

7. *Intangible assets*

Intangible assets comprise investment in software developed by the Bank, depreciated on the straight-line basis over three years as from completion.

IAS 9 stipulates, *inter alia*, that for recognition as an asset the following criteria must be met:

1- the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably;

2- the technical feasibility of the product or process can be demonstrated.

8. *Staff pension fund and health insurance scheme*

a) Pension fund

The Bank's main pension scheme is a contributory defined benefit pension scheme 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 three years in accordance with IAS 19 using the projected unit credit method, in order to ensure that the provision entered in the accounts is adequate. Actuarial surpluses and deficits are spread forward over a period based on the average expected remaining service lives of staff.

b) 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 currently managed on the basis of equal benefits and contributions.

9. *Fund for general banking risks*

This item includes those amounts which the Bank decides to put aside to cover risks associated with loans and other financial operations, having regard to the particular risks attaching to such operations.

Amounts transferred to this Fund feature separately in the profit and loss account as "Transfer to Fund for general banking risks" in accordance with the Directive, whereas international accounting standards require that such a transfer form part of the appropriation of the profit.

10. *Funds allocated to venture capital operations*

This item comprises the amount of allocations 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 these operations will be deducted from this item when allocating future results.

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 Bank are exempt from all direct taxes.

12. *Currency and interest rate swaps*

The EIB enters into currency swaps, in which the proceeds of a borrowing may be converted into a different currency, mainly as part of its resource-raising operations. Simultaneously, a forward exchange operation is conducted in order to obtain the amounts needed to service the borrowing in the original currency. The amounts corresponding to these operations are entered on the balance sheet either, in the case of gross amounts receivable, under "Other assets" or, in the case of gross amounts payable, under "Other liabilities".

The Bank also enters into interest rate swaps as part of its hedging operations. The corresponding interest is accounted for on a *pro rata temporis* basis. The nominal amounts of interest rate swaps are accounted for off balance sheet.

13. *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).

14. *Interest receivable and similar income*

In addition to interest and commission on loans, deposits and other revenue from the securities portfolio, this heading includes the indemnities received by the Bank in respect of prepayments made by its borrowers. With a view to maintaining 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.

15. Certain prior-year figures have been reclassified to conform with the current year's presentation.

Note B — Securities portfolio	31.12.2000	31.12.1999
Treasury bills eligible for refinancing with central banks (of which 12 651 unlisted in 2000 and 12 641 in 1999):	1 410 978	2 066 543
Debt securities including fixed-income securities (listed):	3 330 471	3 098 028
	4 741 449	**5 164 571**

	Purchase price	Amortisation for the period	Book value	Amortisation to be accounted for	Value at final maturity	Market value
Investment portfolio	2 445 565	45 587	2 491 152	– 18 178	2 472 974	2 505 427
Hedging portfolio	—	—	—	—	—	—
Operational portfolio	396 102	—	399 185	—	419 021	399 185
Other short-term paper	1 851 112	—	1 851 112	—	1 851 112	—
	4 692 779	**45 587**	**4 741 449**		**4 743 107**	

Note C — Loans and advances to credit institutions (other loans and advances)

	31.12.2000	31.12.1999
Term deposits	6 503 569	7 854 434
Reverse repos (*)	4 731 983	3 167 962
	11 235 552	**11 022 396**

(*) These operations comprise those 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 as at 31 December 2000

1. Aggregate loans granted(*)

Aggregate historical amount of loans calculated on the basis of the parities applied on the date of signature		324 991 836
Add: capitalised interest	62 715	
exchange adjustments	10 613 517	+ 10 676 232
Less : terminations and cancellations	8 288 019	
principal repayments	128 461 808	
		– 136 749 827
Aggregate loans granted		**198 918 241**

Analysis of aggregate loans granted:	Loans granted to intermediary credit institutions	Loans granted directly to final beneficiaries	Total
- Disbursed portion	75 767 232	93 101 379	168 868 611
- Undisbursed portion	7 741 032	22 308 598	30 049 630
Aggregate loans granted	**83 508 264**	**115 409 977**	**198 918 241**

(*) Aggregate loans granted comprise both the disbursed portion of loans and the portion still to be disbursed.

2. Statutory ceiling on lending and guarantee operations

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 250 billion in relation to aggregate loans and guarantees furnished currently totalling EUR 200.209 billion and broken down as follows:

Aggregate loans granted:	198.918
Venture capital operations:	1.010
Aggregate guarantees furnished in respect of loans granted by third parties:	0.281
	200.209

Note E — Shares and other variable-yield securities and participating interests

Shares and other variable-yield securities

This item comprises:

- An amount of EUR 115 312 500 (1999: EUR 106 875 000), corresponding to the capital paid in by the Bank as at 31 December 2000 in respect of its subscription of EUR 600 000 000 to the capital of the EBRD.

The Bank holds 3.05% of the subscribed capital.

Neither the Bank's result nor its own funds would have been materially affected had these shares been accounted for using the equity method.

- An amount of EUR 30 196 070 (1999: EUR 30 312 638) in other shares, with a market value of EUR 32 499 160, acquired with a view to guaranteeing recovery of loans and advances.

- An amount of EUR 460 425 732 (1999: EUR 202 875 125) in respect of venture capital operations.

In EUR '000	% held	Total own funds	Total net result	Balance sheet total
EBRD (31.12.1999)	3.05	3 147 112	42 667	19 594 633

Participating interests

- This item for EUR 269 941 795 corresponds to the capital paid in by the Bank in respect of its subscription (EUR 1 215 000 000) to the capital of the European Investment Fund (EIF), with its registered office in Luxembourg.

The Bank holds 60.75% of the subscribed capital.

- Commitment to purchase the remaining 785 EIF shares at a fixed future price.

Under the terms of this put option, the EIB is offering to buy these shares from the EIF's other shareholders in five years for a price of EUR 315 000 per share. This purchase price represents annual appreciation of 3% compared with the purchase offer made in 2000. The EIF's financial situation as at 31 December 2000 does not require any provision to be made by the Bank as a result of this commitment.

- Events after the balance sheet date

As part of reform of the EIF and as from 1 January 2001, the EIF's existing portfolio of Trans-European Network (TEN) guarantees will be counterguaranteed by the EIB. This portfolio totals EUR 2 billion, comprising EUR 1 600 million in guarantees on EIB loans and EUR 400 million in guarantees on third party loans.

Note F – Tangible and intangible assets

	Land	Kirchberg buildings	Lisbon building	Furniture and equipment	Total tangible assets	Total intangible assets
Net book value at beginning of the year	3 358	70 358	153	7 044	80 913	7 195
Acquisitions during the year	—	—	—	6 519	6 519	5 428
Depreciation during the year	—	3 830	14	5 261	9 105	2 760
	3 358	**66 528**	**139**	**8 302**	**78 327**	**9 863**

All of the land and buildings are used by the Bank for its own activities.

Note G — Interest subsidies received in advance

(a) 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 assets side under item 10.(a) as "Receivable in respect of EMS interest subsidies paid in advance".

(b) On the liabilities side (item 3.(a)), "Interest subsidies received in advance" comprise:

- 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 mounted 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 — Other balance sheet accounts

	31.12.2000	31.12.1999
Sundry debtors:		
- staff housing loans and advances	89 035	96 377
- net balance of amounts disbursed in respect of borrowings and amounts received in respect of loans under NCI operations managed for the account of the European Community (Special Section)	123 413	157 272
- borrowing proceeds to be received	226 723	0
- swap receivables	227 393	0
- other	232 927	140 593
	899 491	**394 242**
Sundry creditors:		
- European Community accounts:		
. for Special Section operations and related unsettled amounts	160 692	160 366
. deposit accounts	200 426	56 343
- swap payables	226 723	0
- other	308 479	239 425
	896 320	**456 134**

Note I — Prepayments and accrued income – Accruals and deferred income

	31.12.2000	31.12.1999
Prepayments and accrued income:		
Interest and commission receivable	2 614 248	2 620 230
Deferred borrowing charges	815 716	679 435
Other	998	831
	3 430 962	**3 300 496**
Accruals and deferred income:		
Interest and commission payable	3 341 800	3 410 074
Deferred loan proceeds	505 733	594 921
Deferred borrowing proceeds	714 868	735 921
HIPC initiative (*)	70 000	10 000
Personnel costs payable (*)	6 939	0
Other	129 603	167 391
	4 768 943	**4 918 307**

(*) Included in item 12 of the profit and loss account: extraordinary charges.

Note J — Amounts owed to credit institutions (with agreed maturity dates or periods of notice)

	31.12.2000	31.12.1999
– Short-term borrowings	426 658	329 539
– Promissory notes issued in respect of paid-in capital of EBRD	9 113	7 087
– Repos	72 118	0
	507 889	**336 626**

Note K — Summary statement of debts evidenced by certificates as at 31 december 2000

	Borrowings					Currency swaps Amounts payable (+) or receveible (-)				Net amount	
Payable in	Outstanding at 31.12.1999	Average rate	Outstanding at 31.12.2000	Average rate	Due dates	31.12.1999	Average rate	31.12.2000	Average Rate	Outstanding at 31.12.1999	Outstanding at 31.12.2000
EUR	43 544 473	5.51	47 344 105	5.38	2001/2030	381 056 +	3.13	6 313 851 +	4.73	43 925 529	53 657 956
DEM	3 884 329	6.63	2 153 413	6.20	2001/2028	5 340 689 +	5.19	4 633 060 +	5.63	9 225 018	6 786 473
FRF	5 676 471	6.83	4 923 660	6.54	2001/2012	263 927 +	4.56	263 927 +	5.06	5 940 398	5 187 587
ITL	8 893 190	7.10	7 478 250	7.50	2001/2018	245 295 +	3.11	42 102 +	4.58	9 138 485	7 520 352
BEF	74 120	7.41	68 171	7.50	2002/2004	119 342 +	8.25	119 342 +	8.25	193 462	187 513
NLG	3 192 038	6.68	2 932 860	6.68	2001/2009	1 557 764 –	3.22	1 557 764 –	4.73	1 634 274	1 375 096
IEP	118 530	7.39	61 392	7.75	2003/2003	316 135 +	4.70	316 135 +	5.64	434 665	377 527
LUF	815 653	7.12	679 304	7.05	2001/2007	309 867 –	6.91	210 709 –	6.54	505 786	468 595
ESP	5 104 939	7.76	4 199 933	7.23	2001/2026	2 337 829 +	3.20	1 789 206 +	4.72	7 442 768	5 989 139
PTE	1 240 123	5.79	942 091	6.11	2001/2016	1 463 072 +	3.68	1 291 307 +	4.76	2 703 195	2 233 398
FIM	67 275	6.28	67 275	6.29	2001/2002	157 348 +	3.21	157 349 +	4.74	224 623	224 624
IN-CURRENCIES	**72 611 141**		**70 850 454**								
GBP	28 362 612	6.93	40 713 384	6.46	2001/2040	2 027 728 +	6.88	2 993 749 –	6.39	30 390 340	37 719 635
DKK	483 656	4.94	482 373	4.94	2002/2005	46 602 –	3.37	32 243 +	3.96	437 054	514 616
GRD	954 743	7.77	616 287	6.29	2001/2004	211 929 –	9.35	205 429 –	4.85	742 814	410 858
SEK	217 810	5.70	211 181	5.70	2003/2007	493 434 +	3.45	765 695 +	3.93	711 244	976 876
USD	27 672 159	6.02	34 505 658	6.11	2001/2026	3 322 750 –	5.95	4 420 494 –	6.45	24 349 409	30 085 164
CHF	3 753 567	4.90	3 627 232	4.32	2001/2014	172 388 +	7.11	181 657 +	7.11	3 925 955	3 808 889
JPY	7 851 617	3.83	4 570 277	3.42	2001/2026	3 605 636 –	4.25	1 649 598 –	1.45	4 245 981	2 920 679
NOK	260 014	5.56	255 055	5.56	2004/2007	260 014 –	5.65	177 324 –	7.22	—	77 731
CAD	2 341 867	7.84	1 841 031	8.13	2001/2008	2 273 412 –	9.00	1 769 424 –	9.00	68 455	71 607
AUD	692 193	7.88	636 553	7.88	2001/2005	692 193 –	7.88	636 553 –	7.88	—	—
CZK	204 487	10.68	296 248	9.03	2001/2015	110 794 –	12.44	57 066 –	5.10	93 693	239 182
HKD	1 185 396	7.75	1 811 844	7.74	2001/2010	1 185 396 –	7.75	1 811 844 –	7.74	—	—
NZD	154 983	7.17	142 045	7.17	2001/2004	154 983 –	7.17	142 045 –	7.17	—	—
ZAR	801 340	13.79	761 152	13.68	2001/2018	558 089 –	13.44	447 906 –	13.44	243 251	313 246
HUF	76 561	12.60	73 585	11.77	2003/2004	—	—	—	—	76 561	73 585
EEK	9 587	10.00	9 587	10.00	2001/2001	9 587 –	10.00	9 587 –	10.00	—	—
PLN	—	—	94 242	14.54	2004/2006	—	—	42 291 –	14.84	—	51 951
TWD	381 877	6.07	746 729	5.66	2003/2006	381 877 –	6.07	746 729 –	5.66	—	—
SKK	70 752	15.58	68 286	15.58	2001/2002	70 752 –	15.58	68 286 –	15.58	—	—
TOTAL	**148 086 362**		**162 313 203**								

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: 2 411 million). All such borrowings are hedged in full through swap operations.

Note L — Provisions for liabilities and charges (staff pension fund)

Commitments in respect of retirement benefits were valued at 30 June 2000 by an independent actuary using the projected unit credit method. The calculations were based on the following assumptions:

- a discount rate of 7% for determining the actuarial present value of benefits accrued;
- a retirement age of 62;
- a combined average impact of the increase in the cost of living and career progression estimated at 4%;
- a rate of adjustment of pensions of 1.5%;
- probable resignation of 3% up to age 55;
- use of EVK/PRASA 90 actuarial tables.

Following this valuation, the EIB's commitments have been found to be covered.

The movements in the pension fund provision were as follows:

- provision at 31 December 1999	395 898
- payments made during the year	– 13 730
- annual cost	+ 51 113
- provision at 31 December 2000	**433 281**

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 127.7 million (1999: EUR 119.1 million) is entered under "Sundry creditors/other" (Note H).

Note M — Fund for general banking risks

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

	31.12.2000	31.12.1999
Fund at beginning of the year	870 000	750 000
Transfer for the year	65 000	120 000
Fund at end of the year	**935 000**	**870 000**

Note N — Geographical analysis of "Interest receivable and similar income" (item 1 of the profit and loss account)

	31.12.2000	31.12.1999
Germany	1 444 343	1 187 974
France	1 229 088	1 146 025
Italy	1 315 449	1 259 349
United Kingdom	1 452 315	1 361 692
Spain	1 242 882	1 062 014
Belgium	231 762	220 618
Netherlands	153 771	146 018
Sweden	189 422	159 417
Denmark	284 546	243 726
Austria	135 974	78 841
Finland	101 487	73 042
Greece	354 670	299 413
Portugal	506 674	449 831
Ireland	135 521	139 391
Luxembourg	23 816	21 086
	8 801 720	7 848 437
Outside the European Union	944 305	759 677
	9 746 025	**8 608 114**
Income not analysed (1)	898 401	721 373
	10 644 426	**9 329 487**
(1) Income not analysed:		
Revenue from investment portfolio securities	146 523	144 693
Revenue from hedging portfolio securities	16 514	90 684
Revenue from short-term securities	59 253	67 549
Revenue from money-market operations	676 111	418 447
	898 401	**721 373**

Note O — Geographical analysis of "Commission receivable" (item 4 of the profit and loss account):

	31.12.2000	31.12.1999
France	9	42
Italy	5	32
United Kingdom	54	141
Spain	—	1
Denmark	8	42
Greece	—	38
Ireland	27	39
	103	335
Community institutions	18 824	17 955
	18 927	**18 290**

Note P — Administrative expenses and charges

	31.12.2000	31.12.1999
Salaries and allowances	94 924	91 970
Welfare contributions and other social costs	42 511	42 776
Staff costs	137 435	134 746
General and administrative expenses	43 622 (1)	39 145
	181 057	**173 891**

(1) of which 2 000 in donations: – 1 500 for flood relief
– 500 in respect of earthquake in Italy.

The number of persons employed by the Bank was 1 033 at 31 December 2000 (1 011 at 31 December 1999).

Note Q — Extraordinary income

This amount corresponds to the sale of warrants received in conjunction with a loan restructuring operation.

Note R — 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 S — Estimated present 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 present 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:

(EUR million) 31 December 2000	Assets		Liabilities	
	net accounting value	present value	accounting value	present value
- Loans	168 869	173 972	—	—
- Hedging portfolio	0	0	—	—
- Investment portfolio	2 491	2 505	—	—
- Liquid assets	10 488	10 488	—	—
- Borrowings after swaps	—	—	158 817	163 112
Total	181 848	186 965	158 817	163 112

Note T — Risk management

The significant risks which have to be managed by the Bank are:

* credit risk
* interest rate risk
* liquidity risk
* exchange risk

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, hedging 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 U).

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 Credit Risk Department under the direct responsibility of the Management Committee. The Bank has thus established an operationally independent structure for determining and monitoring credit risk.

Loans

In order to limit the credit risk on its loan portfolio, the Bank lends only to counterparties where it has been possible to demonstrate their creditworthiness over the longer term and who can offer guarantees deemed sufficiently sound.

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 guarantees attaching to the portfolio of loans granted as at 31 December 2000 is analysed hereafter (EUR million):

- within the European Union:

		Guarantor					
		Member States	Public institutions (1)	Zone "A" banks	Corporates(1)	Without formal guarantee (2)	Total
Borrower	Member States					13 903	13 903
	Public institutions	20 696	8 181	1 720	1 152	1 214	32 963
	Zone "A" banks	11 678	23 576	9 857	14 356	10 531	69 998
	Corporates	5 499	915	18 951	25 660	5 209	56 234
	Total	37 873	32 672	30 528	41 168	30 857	173 098

(1) Loans secured by assignment of rights by category of final beneficiary.

(2) Loans for which no formal guarantee was required, the borrower's level of solvency itself representing adequate security. In the event of certain occurrences, appropriate contractual clauses ensure the Bank's right of access to independent security.

- outside the European Union:

Secured by:

Member States	1 843	
Community budget	19 506	(*)
Pre-Accession Facility	4 471	
Total	25 820	

(*) of which 2 387 million in risk-sharing operations as explained below.

Loans outside the Community (apart from those under the Pre-Accession Facility) are, in the last resort, secured by guarantees of the Community 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 Community budget.

The new 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-transfer, expropriation, war and civil disturbance. To date, finance contracts for EUR 2 387 million in risk-sharing loans have been signed under these agreements.

Loans granted under the Pre-Accession Facility (EUR 4 471 million) are not secured by guarantees of the Community budget or the Member States.

LOANS FOR PROJECTS OUTSIDE THE UNION

Breakdown of loans by guarantee (EUR '000) **as at 31 December 2000**

Convention/agreement	Outstanding
Member States guarantee	
ACP/OCT Group 2nd Lomé Convention	17 361
ACP/OCT Group 3rd Lomé Convention	227 943
ACP/OCT Group 4th Lomé Convention	968 061
ACP/OCT Group 4th Lomé Convention/2nd Financial Protocol	629 489
Total: Member States guarantee	***1 842 854***
100% Community budget guarantee	
South Africa – 300m – BG Decision 19.06.95	285 714
ALA I – 750m	603 804
ALA Interim (100% guarantee) - 153m	168 477
CEEC – 1bn – BG Decision 29.11.89	659 114
CEEC – 3bn – BG Decision 02.05.94	2 663 977
CEEC – 700m – BG Decision 18.04.91	366 338
Total: 100% Community budget guarantee	*4 747 424*
75% Community budget guarantee	
Mediterranean Protocols	3 964 057
Yugoslavia – Art. 18 (1984)	26 253
Yugoslavia – 1st Protocol	48 360
Yugoslavia – 2nd Protocol	215 237
Slovenia – 1st Protocol	139 229
Total: 75% Community budget guarantee	*4 393 136*
70% Community budget guarantee	
South Africa – 375m – Decision 29.01.97	363 257
ALA II – 900m	963 759
ALA Interim (70% guarantee: risk sharing) -122m	136 196
Bosnia-Herzegovina – 100m 1999/2001	60 000
Euromed (EIB) – 2 310m – Decision 29.01.97	2 421 834
FYROM – 150m – 1998/2000	130 000
CEEC – 3 520m – Decision 29.01.97	3 425 935
Total: 70% Community budget guarantee	*7 500 981*
65% Community budget guarantee	
South Africa – 825m – 7/2000-7/2007	50 000
ALA III – 2/2000-7/2007	391 601
Euromed II – 2/2000-7/2007	700 574
CEEC – 8 680m – 2/2000-7/2007	1 347 000
Turkey – TERRA – 11/1999-11/2002	375 000
Total: 65% Community budget guarantee	*2 864 175*
Total: Community budget guarantee	***19 505 716***
Pre-Accession Facility	
Cyprus – Pre-Accession – 1998/2000	250 000
CEEC – Pre-Accession II – 2/2000-7/2003	1 124 000
CEEC – Pre-Accession – 1998/2000	3 097 112
Total: Pre-Accession Facility	***4 471 112***
Grand Total	**25 819 682**

A breakdown of disbursed loans outstanding (in EUR million) at year end according to the sectors in which borrowers are engaged is set out below:

Sector	Maturity				
	not more than 1 year	1 year to 5 years	more than 5 years	Total 2000	Total 1999
Energy	2 019	8 730	11 468	22 217	22 014
Transport	2 609	11 232	33 582	47 423	42 088
Telecommunications	1 461	8 625	4 118	14 204	14 694
Water, sewerage	1 036	4 867	7 097	13 000	12 532
Miscellaneous infrastructure	393	1 922	5 246	7 561	6 593
Agriculture, forestry, fisheries	60	115	150	325	482
Industry	1 648	7 578	3 516	12 742	12 556
Services	217	704	763	1 684	1 690
Global loans	3 753	17 834	25 714	47 301	39 155
Health, education	14	364	2 035	2 413	1 553
	13 210	61 970	93 689	168 869	153 357

Treasury

The credit risk associated with the 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 Credit Risk Department).

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 2000	Securities portfolio %	Treasury instruments %
Moody's or equivalent rating		
AAA	57	8
AA1 to AA3	42	62
A1	—	25
Below A1	—	4
Non-rated	1	1
Total	100	100

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 revenue.

Given a notional own funds portfolio in line with 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 fall of EUR 1 051 000 in the differential between the Bank's net present value and the net present value targeted by the ALM strategy.

The following table illustrates the Bank's exposure to interest rate risk. It presents the nominal amounts according to maturities affected by the incidence of interest rate changes, as regards the main balance sheet items subject to reindexation:

Reindexation interval (EUR million):

	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 2000	Total 1999
Assets							
Loans (gross)	71 070	4 179	4 910	40 944	47 766	168 869	153 357
Net liquidity	10 532	99	150	1 017	1 181	12 979	13 703
	81 602	4 278	5 060	41 961	48 947	181 848	167 060
Liabilities							
Borrowings and swaps	80 283	5 310	3 086	34 868	35 270	158 817	144 704
Interest rate risk	1 319	– 1 032	1 974	7 093	13 677		

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 (EUR million):

Maturity	Not more than 3 months	More than 3 months but not more than 1 year	More than 1 year but not more than 5 years	More than 5 years	Maturity undefined	Total
Assets						
Cash in hand, central banks and post office banks	25					25
Treasury bills eligible for refinancing with central banks	31	84	679	617		1 411
Other loans and advances:						
Current accounts	131					131
Others	11 236					11 236
	11 367	0				11 367
Loans:						
Credit institutions	1 805	4 255	29 058	40 649		75 767
Customers	1 534	5 614	32 911	53 042		93 101
	3 339	9 869	61 969	93 691		168 868
Debt securities including fixed-income securities	2 008	153	529	640		3 330
Receivable in respect of currency swap contracts	2 283	3 417	16 103	7 265		29 068
Other assets					5 127	5 127
Total assets	19 053	13 523	79 280	102 213	5 127	219 196
Liabilities						
Amounts owed to credit institutions	499	3	6			508
Debts evidenced by certificates	9 242	10 783	70 297	71 991		162 313
Capital, reserves and profit					21 839	21 839
Other liabilities					6 471	6 471
Payable in respect of currency swap contracts	2 221	3 246	15 555	7 043		28 065
Total liabilities	11 962	14 032	85 858	79 034	28 310	219 196

A securities portfolio, termed an "investment portfolio" (Note B), has also been created in order to ensure the Bank's solvency and to contend with unforeseen liquidity needs. This securities portfolio consists of mainly fixed-income securities issued by first-class counterparties, largely bonds issued by Member States, with the intention of holding them until final maturity.

Exchange risk

The sources of exchange risk are to be found in the accumulation of own funds denominated in non-euro currencies, in the margins on operations and in general expenses incurred in non-euro currencies. The purpose of asset-liability management is to minimise this risk by re-allocating net balance sheet positions either in euro or in euro-in currencies. Any divergence from this objective is eliminated by regular operations on the foreign exchange markets.

Exchange position (EUR million)

Currency	euro	euro-in currencies	Pound sterling	United States dollar	Other currencies	Total excl. euro	Grand total
Assets							
Cash in hand, central banks and post office banks	*4*		21			*21*	**25**
Treasury bills eligible for refinancing with central banks	*1 363*	48					**1 411**
Other loans and advances:							
Current accounts	*107*	1	1	12	10	*23*	**131**
Others	*4 786*		2 128	3 862	460	*6 450*	**11 236**
	4 893	1	2 129	3 874	470	*6 473*	**11 367**
Loans:							
Credit institutions	*30 105*	14 614	17 736	11 245	2 067	*31 048*	**75 767**
Customers	*35 942*	19 021	17 630	13 267	7 241	*38 138*	**93 101**
	66 047	33 635	35 366	24 512	9 308	*69 186*	**168 868**
Debt securities including fixed-income securities	*2 051*	220	16	1 039	4	*1 059*	**3 330**
Receivable in respect of currency swap contracts	*1 142*	2 718	5 081	11 100	9 027	*25 208*	**29 068**
Other assets	*2 024*	1 199	853	624	427	*1 904*	**5 127**
Total assets	*77 524*	37 821	43 466	41 149	19 236	*103 851*	**219 196**
Liabilities							
Amounts owed to credit institutions	*460*			47	1	*48*	**508**
Debts evidenced by certificates:							
Debt securities in issue	*47 344*	23 335	40 473	34 506	15 830	*90 809*	**161 488**
Others		172	240		413	*653*	**825**
	47 344	23 507	40 713	34 506	16 243	*91 462*	**162 313**
Capital, reserves and profit	*21 839*						**21 839**
Other liabilities	*3 006*	1 575	791	575	524	*1 890*	**6 471**
Payable in respect of currency swap contracts	*8 245*	9 562	1 957	6 013	2 288	*10 258*	**28 065**
Total liabilities	*80 894*	34 644	43 461	41 141	19 056	*103 658*	**219 196**
Off balance sheet	21	– 17	– 1	– 3			
Net position as at 31.12.2000	**– 3 349**	**3 160**	**4**	**5**	**180** (1)		
Net position as at 31.12.1999	**– 14 900**	**14 893**	**– 18**	**41**	**– 16**		

(1) of which GRD : 172 (euro- in currency as from 01.01.2001)

Note U — Derivatives

Derivatives are contractual financial instruments, the value of which fluctuates according to trends in the underlying assets, interest rates, exchange rates or indexes.

1. As part of funding activity

The Bank 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.

The derivatives most commonly used are:

* Currency swaps
* Interest rate swaps
* Deferred rate-setting (DRS) agreements.

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 it is generally agreed to exchange floating-rate interest for fixed-rate interest or vice versa.

Deferred rate-setting (DRS) agreements

This derivative is similar to an interest rate swap contract (fixed rate/floating rate or vice versa). However, it is used more specifically by long-term financing institutions such as the EIB, which raises substantial amounts on the capital markets.

Interest rate or currency swaps allow the Bank to modify the interest rates and currencies of its borrowing portfolio in order to accommodate requests from its clients and also make it possible to access certain capital markets by exchanging with counterparties their advantageous conditions of access to these markets, so reducing funding costs.

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

All interest rate and currency swaps linked with the borrowing portfolio have maturities identical to the borrowings concerned and are therefore long term.

Derivatives credit risk hedging policy

The credit risk with respect to derivatives lies in the loss which the Bank 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 was put in place to safeguard the Bank against loss arising out of the use of this instrument.

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, Credit Support Annexes, which specify the conditions of exposure collateralisation. These are generally accepted and practised contract types.

Counterparty selection:

Minimum rating A1 at the outset, the EIB having the right of early termination if the rating drops below a certain level.

Limits:

- total net market value of derivatives exposure with a counterparty;
- unsecured exposure to a counterparty;
- furthermore, 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 present 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 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 2 weighted risk).

The following tables show the maturities of currency swaps and interest rate swaps plus DRS combined, sub-divided according to their notional amount and the associated credit risk:

Currency swaps (EUR million)

	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	**Total 31.12.2000**	Total 1999
Notional amount	4 758	16 103	6 391	874	**28 126**	25 035
Net discounted value	323	997	387	24	**1 732**	1 425
Credit risk (BIS 2 weighted)	151	621	198	134	**1 103**	813

It should be pointed out that the notional amounts receivable or payable in respect of currency swaps are entered on the balance sheet under "Other assets" and "Other liabilities" respectively (see 2. below for short-term swaps).

Interest rate swaps and DRS (EUR million)

	less than 1 year	1 year to 5 years	5 years to 10 years	more than 10 years	**Total 31.12.2000**	Total 1999
Notional amount	8 431	39 967	25 480	23 670	**97 548**	82 782
Net discounted value	397	839	447	1 291	**2 974**	1 560
Credit risk (BIS 2 weighted)	95	373	386	526	**1 380**	1 019

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 least cost, the Bank enters into borrowing contracts encompassing notably interest rate or stock exchange index options. Such borrowings are covered by swap contracts to hedge the corresponding market risk.

Tabulated hereafter are the number and notional amount of the various types of option attaching to borrowings:

	Embedded option	Stock exchange index	Special structure coupon or similar
Number of transactions	89	42	54
Notional amount (EUR million)	10 264	2 411	4 597
Net discounted value	113	357	339

All options contracts embedded in, or linked with, borrowings are negotiated by mutual agreement.

Generally, there is no credit risk on these options, except in some cases where they are based on a stock exchange index, but for which security exists in the form of regularly monitored collateral.

Ratings exposure table

Rating	% of nominal	Net market risk	Credit risk & BIS2
Aaa	13.2	605	1 118
Aa1 to Aa3	71.7	1 617	5 067
A1	13.1	431	1 078
A2 to Baa3	0.8	81	159
Non-rated	1.2	9	148
Total	**100**	**2 743**	**7 569**

All new transactions are concluded with counterparties rated at least A1. Consequently, most of the portfolio is concentrated on counterparties rated A1 or above.

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 stood at EUR 981 million at 31 December 2000, as against EUR 2 431 million at 31 December 1999.

It should be pointed out that the notional amounts receivable or payable in respect of short-term currency swaps are also entered on the balance sheet under "Other assets" and "Other liabilities" respectively.

Note V — Geographical breakdown of lending by country in which projects are located

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total	% fin. year 1999
1. Loans for projects within the Union and related loans						
Germany	685	27 262 118	315 185	26 946 933	13.71 %	12.59 %
France	379	22 232 198	1 929 177	20 303 021	11.18 %	11.62 %
Italy	1429	27 924 107	3 461 559	24 462 548	14.04 %	15.08 %
United Kingdom	326	24 212 439	3 589 514	20 622 925	12.17 %	13.27 %
Spain	436	25 577 387	2 608 367	22 969 020	12.86 %	12.75 %
Belgium	94	4 192 118	319 280	3 872 838	2.11 %	2.30 %
Netherlands	51	2 966 848	505 609	2 461 239	1.49 %	1.69 %
Sweden	106	3 775 097	370 729	3 404 368	1.90 %	1.88 %
Denmark	119	4 796 742	192 388	4 604 354	2.41 %	2.47 %
Austria	89	2 892 176	0	2 892 176	1.45 %	1.24 %
Finland	45	2 415 172	366 129	2 049 043	1.21 %	1.11 %
Greece	191	7 503 576	1 233 510	6 270 066	3.77 %	3.36 %
Portugal	205	12 362 984	3 015 877	9 347 107	6.22 %	6.16 %
Ireland	115	2 366 947	667 918	1 699 029	1.19 %	1.27 %
Luxembourg	32	601 133	165 676	435 457	0.30 %	0.23 %
Related loans (*)	21	2 017 517	219 433	1 798 084	1.01 %	1.07 %
Total	**4 323**	**173 098 559**	**18 960 351**	**154 138 208**	**87.02 %**	**88.09 %**
2. Loans for projects outside the Union						
2.1. ACP Countries/OCT						
Kenya	11	160 183	65 000	95 183		
Jamaica	12	144 007	28 217	115 790		
Namibia	9	127 397	21 225	106 172		
ACP Group	3	118 904	50 000	68 904		
Zimbabwe	14	114 385	18 030	96 355		
Trinidad and Tobago	5	99 976	499	99 477		
Mauritius	11	99 948	27 589	72 359		
Ghana	5	83 648	25 059	58 589		
Senegal	3	76 571	42 977	33 594		
Botswana	8	69 933	0	69 933		
Barbados	5	66 653	35 173	31 480		
Mozambique	4	65 478	8 849	56 629		
Cote-d'Ivoire	10	59 802	0	59 802		
Lesotho	3	57 846	38 414	19 432		
Mauritania	3	54 183	35 258	18 925		
Nigeria	3	52 230	0	52 230		
Papua New Guinea	6	47 856	0	47 856		
Bahamas	4	42 049	3 527	38 522		
Regional – Africa	2	32 890	0	32 890		
Dominican Republic	3	22 490	10 456	12 034		
Gabon	3	21 331	16 861	4 470		
Regional – Caribbean	1	20 032	6 024	14 008		
Regional – West Africa	1	19 987	12 000	7 987		
Swaziland	2	17 500	17 500	0		
Uganda	2	17 319	0	17 319		
Cameroon	6	16 240	5 000	11 240		
Mali	1	14 543	0	14 543		
Saint Lucia	4	13 662	0	13 662		
Guinea	2	12 068	0	12 068		
French Polynesia	4	11 259	4 000	7 259		
Malawi	5	10 947	0	10 947		
Dominica	1	10 000	10 000	0		

(*) Loans authorised under the second paragraph of Article 18 (1) of the Statute for projects located outside the territory of Member States of the Union but offering benefits for the Union are considered as related to loans within the Union.

Note V — Geographical breakdown of lending by country in which projects are located (continued)

Countries and territories in which projects are located	Number of loans	Aggregate loans granted	Undisbursed portion	Disbursed portion	% of total	% fin. year 1999
British Virgin Islands	3	7 734	2 000	5 734		
Cayman Islands	3	7 455	0	7 455		
New Caledonia and Dependencies	2	5 425	0	5 425		
Saint Vincent and the Grenadines	2	5 378	882	4 496		
OCT Group	1	5 000	5 000	0		
Suriname	1	4 186	0	4 186		
Grenada	1	4 101	0	4 101		
Tonga	3	3 908	0	3 908		
Netherlands Antilles	3	3 751	0	3 751		
Falkland Islands	2	3 498	0	3 498		
Fiji	2	3 454	0	3 454		
Aruba	3	3 020	2 000	1 020		
Belize	1	2 969	0	2 969		
Democratic Republic of Congo	1	869	0	869		
Togo	1	468	0	468		
Seychelles	1	319	0	319		
Sub-total	186	1 842 852	491 540	1 351 312	0.93 %	1.00 %
2.2. South Africa *Sub-total*	20	698 971	228 924	470 047	0.35 %	0.33 %
2.3. Mediterranean Countries						
Egypt	36	1 414 875	448 193	966 682		
Algeria	27	1 278 145	265 650	1 012 495		
Morocco	33	1 270 519	565 244	705 275		
Turkey	19	1 149 333	561 007	588 326		
Tunisia	38	882 067	414 323	467 744		
Jordan	30	459 549	188 233	271 316		
Lebanon	12	457 412	163 594	293 818		
Cyprus	16	445 546	249 044	196 502		
Gaza-West Bank	10	194 051	115 459	78 592		
Syria	2	96 598	75 000	21 598		
Israel	3	48 462	0	48 462		
Malta	3	14 906	0	14 906		
Sub-total	229	7 711 463	3 045 747	4 665 716	3.87 %	3.74 %
2.4. Central and Eastern European Countries						
Poland	43	3 630 602	1 653 802	1 976 800		
Romania	31	2 214 472	1 604 830	609 642		
Czech Republic	25	2 164 662	880 663	1 283 999		
Hungary	30	1 410 575	409 000	1 001 575		
Slovak Republic	22	1 104 711	374 004	730 707		
Slovenia	19	878 110	431 217	446 893		
Bulgaria	18	810 701	552 000	258 701		
Lithuania	15	245 491	89 044	156 447		
Latvia	11	201 452	127 612	73 840		
FYROM	8	157 441	85 000	72 441		
Estonia	11	130 564	53 213	77 351		
Bosnia-Herzegovina	3	120 516	120 000	516		
Albania	4	84 981	55 700	29 281		
Croatia	6	82 574	0	82 574		
Federal Republic of Yugoslavia	15	65 704	0	65 704		
Sub-total	261	13 302 556	6 436 085	6 866 471	6.69 %	5.89 %
2.5. Asian and Latin American Countries						
Brazil	12	580 656	130 200	450 456		
Argentina	8	366 078	135 351	230 727		
Indonesia	4	222 029	183 640	38 389		
Philippines	6	195 459	95 751	99 708		
Thailand	4	168 153	65 765	102 388		
Mexico	3	126 559	52 646	73 913		
Peru	2	96 083	0	96 083		
China	2	91 449	9 912	81 537		
Panama	1	57 755	0	57 755		
India	1	55 488	37 827	17 661		
Vietnam	1	55 000	55 000	0		
Costa Rica	1	48 795	0	48 795		
Pakistan	2	44 995	39 603	5 392		
Regional – Andean Pact	1	41 703	28 162	13 541		
Bangladesh	1	36 202	36 202	0		
Regional – Central America	1	34 388	16 924	17 464		
Chile	1	31 256	0	31 256		
Uruguay	1	11 792	0	11 792		
Sub-total	52	2 263 840	886 983	1 376 857	1.14 %	0.95 %
Total	**748**	**25 819 682**	**11 089 279**	**14 730 403**	**12.98 % ***	**11.91 %**
Grand total	**5 071**	**198 918 241**	**30 049 630**	**168 868 611**	**100.00 %**	**100.00 %**

* 10.7 % excluding Pre-Accession Facility.

Note W — IAS 14 – Segment reporting

In accordance with the determining factors set out in revised IAS 14, the Bank considers that lending constitutes its main business segment; its organisation and entire management systems are given over to developing and providing loans for Bank customers.

Consequently, pursuant to the above standard, the determining factors for segment reporting are:

- primary determining factor: lending as the main business segment;
- 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 receivable and similar income by geographical area (Note N);
- lending by country in which projects are located (Note V);
- tangible and intangible assets by country of location (Note F).

Note X – Conversion rates

The following conversion rates were used for drawing up the balance sheets at 31 December 2000 and 31 December 1999:

1 euro =

EURO-11: Rates fixed irrevocably on 31 December 1998

Deutsche Mark	1.95583
French francs	6.55957
Italian lire	1936.27
Spanish pesetas	166.386
Belgian francs	40.3399
Netherlands guilders	2.20371
Austrian Schillings	13.7603
Finnish markka	5.94573
Portuguese escudos	200.482
Irish pounds	0.787564
Luxembourg francs	40.3399

PRE-IN:	31.12.2000	31.12.1999
Pounds sterling	0.624100	0.62170
Danish kroner	7.46310	7.44330
Drachmas	340.750	330.300
Swedish kronor	8.83130	8.56250
NON-COMMUNITY CURRENCIES:		
United States dollars	0.930500	1.00460
Swiss francs	1.52320	1.60510
Lebanese pounds	1 351.02	1511.04
Japanese yen	106.9200	102.730
Canadian dollars	1.39650	1.46080
Australian dollars	1.67700	1.54220
CFA francs	655.957	655.957
Czech koruny	35.0470	36.1030
Hong Kong dollars	7.25780	7.80330
New Zealand dollars	2.11200	1.93570
South African rand	7.03920	6.18701

Report of the auditor

The Chairman of the Audit Committee
European Investment Bank
Luxembourg

Following our appointment by the Bank on 20 June 1996, we have audited the financial statements, as identified below, of the European Investment Bank for the year ended 31 December 2000. These financial statements are the responsibility of the management of the European Investment Bank. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements identified below give, in accordance with the general principles of the Directive of the Council of the European Communities on the annual accounts and consolidated accounts of banks and other financial institutions and International Accounting Standards except as explained in the relevant notes on accounting policies, a true and fair view of the financial position of the European Investment Bank as at 31 December 2000 and of the results of its operations and its cash flows for the year then ended.

The financial statements on which our opinion is expressed comprise:

Balance sheet
Statement of Special Section
Profit and loss account
Own funds and appropriation of profit
Statement of subscriptions to the capital of the Bank
Cash flow statement
Notes to the financial statements.

ERNST & YOUNG
Société Anonyme

Luxembourg, 20 February 2001

Kenneth A. HAY

The Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being read 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

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 studied the documents which it deemed necessary to examine in the discharge of its duties,
- having examined and discussed the reports drawn up by Ernst & Young,

considering the 2000 Annual Report and the financial statements for the financial year ending on 31 December 2000 as drawn up by the Board of Directors at its meeting on 20 February 2001,

considering Articles 22, 23 & 24 of the Rules of Procedure,

hereby confirms:

that the Bank's operations during the 2000 financial year have been carried out in compliance with the formalities and procedures laid down by the Statute and the Rules of Procedure,

that the financial statements, comprising the balance sheet, the profit and loss account, the statement of Special Section, the notes to the financial statements, as well as any other financial information contained in the financial statements, give a true and fair view of the financial position of the Bank in respect of its assets and liabilities, and of the results of its operations and its cash flows for the financial year 2000.

Luxembourg, 27 March 2001

The Audit Committee

A. HANSEN E. MARIA M. HARALABIDIS

Control and Evaluation

AUDIT COMMITTEE – As an independent statutory body, answerable directly to the Board of Governors, the Audit Committee verifies that the Bank's operations have been conducted in compliance with the procedures laid down in its Statute and the Rules of Procedure and that its books have been kept in a proper manner. The Governors take note of the report of the Audit Committee and its conclusions, and of the Statement by the Committee, before approving the Annual Report of the Board of Directors.

The Audit Committee meets every month to coordinate its own work and that of the external and internal auditors and holds regular meetings with the members of the Management Committee and key staff members.

In furtherance of "best banking practice" and action to strengthen the control structures embarked upon by the Bank over a number of years, the Audit Committee continued during 2000 to monitor closely the gradual integration into the Bank's internal control systems of the method and recommendations of the Basle Committee on Banking Supervision (BIS), set out in the "Framework for Internal Control Systems in Banking Organisations". The Audit Committee also conducts on-site visits to projects financed by the Bank. In 2000, it visited industrial and infrastructure projects in Austria and Slovakia.

EXTERNAL AUDITORS – The external auditors report directly to the Audit Committee, which, every year, decides their programme of work and coordinates their activities with those of the Bank's Internal Audit. The firm Ernst & Young was appointed by the Audit Committee in 1997, after consultation with the Bank's Management Committee, for a period of five years.

INTERNAL AUDIT – Catering for the audit needs at all levels of management of the Bank 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. Over the past year Internal Audit has reviewed and tested controls in critical areas of the Bank, in particular the treasury and borrowing and lending activity within the Union. Under the internal procedures to combat fraud, the Head of Internal Audit has authority to conduct enquiries. The Bank may also call upon external assistance or experts in accordance with the requirements of the enquiry, including the services of the European Anti-Fraud Office (OLAF). A cooperative relationship was established with OLAF in 2000.

FINANCIAL CONTROL – This independent department, set up as part of measures to tighten financial controls within the Bank, is responsible for general accounting and for preparing the Bank's financial statements. Financial Control is also called upon to express a second opinion on certain aspects of the Bank's financial policies and their implementation. Financial Control covers all the Bank's activities whose data streams have an important impact on its financial position, such as credit risk, performance indicators, information and management systems, the administrative budget, ALM and market risks. Thus the Financial Control function includes analysing financial management instruments as well as associated systems.

CREDIT RISK – This Directorate assesses the credit risk associated with each financing proposal and monitors that risk throughout the life of each loan. The Directorate's remit is to contribute towards the Bank's policy on financial controls.

OPERATIONS EVALUATION – This Department carries out *ex post* evaluations and coordinates the self-evaluation process in the Bank. It provides transparency vis-à-vis the EIB's governing bodies as well as interested outside parties by carrying out thematic, sector and regional/country evaluations of projects financed by the Bank once they have been completed. Through its work, it reinforces accountability and encourages the organisation to learn from experience.

In 2000, the Department concentrated its evaluation work on regional development, energy projects within the European Union and in the Central and Eastern European Countries as well as on risk capital operations in the ACP States. Reports of wide general interest are published.

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