EIB Group

Financial Report ***2002***

European
Investment
Bank Group

EIB Group: key data

(EUR million)

European Investment Bank

Activity in 2002	
Loans signed	**39 618**
European Union	33 443
Accession Countries	3 641
Partner Countries	2 534
Loans approved	**52 824**
European Union	42 891
Accession Countries	6 589
Partner Countries	3 344
Loans disbursed	**35 214**
From the Bank's resources	35 007
From budgetary resources	206
Resources raised (after swaps)	**38 016**
Community currencies	29 165
Non-Community currencies	8 851
Situation as at 31.12.2002	
Outstandings	
Loans from the Bank's resources	233 561
Guarantees provided	466
Financing from budgetary resources	2 590
Short, medium and long-term borrowings	181 167
Own funds	**24 615**
Balance sheet total	**220 769**
Net profit for year	**1 294**
Subscribed capital	**100 000**
of which paid in	6 000

European Investment Fund

Activity in 2002	
Contracts signed	**1 707**
Venture capital *(36 funds)*	472
Guarantees *(32 operations)*	1 236
Situation as at 31.12.2002	
Operational portfolio	**6 954**
Venture capital *(184 funds)*	2 450
Guarantees *(109 operations)*	4 504
Subscribed capital	**2 000**
of which paid in	400
Net profit for year	**19**
Reserves and provisions	**162**

Contents

Message from the President

In 2002, the EIB Group's operations strongly underpinned the Union's economic and social priorities across a broad range of sectors. This activity, manifested in a volume of lending close on EUR 40 billion and borrowings of EUR 38 billion, reflects the policy lines mapped out by the successive European Councils and our Governors and embodied in our multiannual "Corporate Operational Plan".

In keeping with this strategic framework – defining the EIB's identity as a policy -driven public bank – our Governors decided to increase our subscribed capital from EUR 100 billion to EUR 150 billion with effect from 1 January 2003. Achieved by converting reserves into paid-in capital and hence without burdening the public finances of the Union or its Member States, this increase raised the ceiling for EIB lending under the Bank's Statute to EUR 375 billion. With this renewed endorsement from its shareholders, the Bank is well equipped to carry its activities forward and, in particular, to assist the integration of the ten new Member Countries set to join us in the spring of 2004.

Clearly, the historic decision taken at the Copenhagen European Council will have a far-reaching impact on both the institutions and policies of the Union, especially in terms of economic and social cohesion and solidarity among the Member States. The EIB stands ready to play to the full its role in helping the Union to meet these challenges. Accordingly, we shall take an active part in the Commission's deliberations on cohesion policies and the future trans-European networks.

Another of the Bank's tasks is to contribute to building an information and knowledge-based European economy, in accordance with the strategy adopted by the Lisbon European Council of March 2000. Considering 2010 to be a time-line compatible with the objectives set by the March 2002 Barcelona European Council, the Bank has launched a new programme: the "Innovation 2010 Initiative". This is based on an integrated approach, focusing on the links between knowledge creation and the market and covering all phases of the innovation process from education to research and development with its downstream effects in boosting productivity and competitiveness. Between 2003 and 2006, a new indicative lending package of EUR 20 billion will be earmarked for furthering the Lisbon and Barcelona European Council objectives, particularly in the field of R&D and its applications in the creation and dissemination of information and communications technologies.

Environmental protection and improvement remain a top priority in all the Bank's fields of activity. In addition to financing environmental projects, which in 2002 accounted for over 40% of loans (well above our 25-33% target range), the Bank actively contributes to implementing the Union's environmental policies, particularly as regards the reduction of greenhouse gas emissions, renewable energies and the EU Water Initiative introduced at the 2002 Johannesburg World Summit.

Outside the Union, the Bank will, under the enhanced cooperation arrangements decided by the Council, continue to support the three Candidate Countries in stepping up their preparations for accession.

In the Mediterranean region, the new Facility for Euro-Mediterranean Investment and Partnership (FEMIP) was formally inaugurated in the autumn of 2002 in response to the conclusions of the Barcelona European Council. Its prime objective is to help the Partner Countries meet the challenges of economic and social modernisation and regional integration in the run-up to the creation of a customs union by 2010. The facility will especially focus on private sector development, regional cooperation projects and investment in health and education. At the same time, the Partner Countries are closely involved in FEMIP through a newly created Policy Dialogue and Coordination Committee.

In the ACP (African, Caribbean and Pacific) countries, the Bank, with the assistance of the Member States, the European Commission and the ACP countries themselves, prepared the launch of the EUR 2.2 billion Investment Facility established under the Cotonou Agreement. Alongside the planned lending of up to EUR 1.7 billion from the Bank's own resources over the next five years, this revolving facility will contribute to the key objective of poverty reduction in these countries, with particular emphasis on small-scale private-sector projects and on health and education schemes.

The drive for operational efficiency must be matched by a commitment to transparency and accountability so as to bring the EIB closer to Europe's citizens, the ultimate beneficiaries of its activities. Accordingly, during the past year the Bank intensified its political dialogue with the European Parliament and the Union's Economic and Social Committee. In addition, it updated its policy on information and access to documents, in line with the most advanced Community legislation, while continuing its dialogue with civil society, particularly through NGOs.

As is widely known, the EIB Group funds its operations by maintaining a capital market presence worldwide. Its shareholder and loan-book quality, combined with a judicious balance of prudence and innovation in its borrowing and lending policies, has established the EIB as a benchmark borrower of quasi-sovereign status, as unanimously acknowledged by the AAA credit rating that it commands throughout EU, American and Asian capital markets.

Philippe Maystadt
President of the EIB Group

EIB Governing Bodies

Board of Governors

Chairman
Hans EICHEL (Germany)

Belgium	Didier REYNDERS, Ministre des Finances
Denmark	Bendt BENDTSEN, økonomi- og erhvervsminister
Germany	Hans EICHEL, Bundesminister der Finanzen
Greece	Nikolaos CHRISTODOULAKIS, Minister of National Economy and Finance
Spain	Rodrigo DE RATO Y FIGAREDO, Vicepresidente Segundo del Gobierno y Ministro de Economía
France	Francis MER, Ministre de l'Économie, des Finances et de l'Industrie
Ireland	Charles McCREEVY, Minister for Finance
Italy	Giulio TREMONTI, Ministro dell'Economia e delle Finanze
Luxembourg	Jean-Claude JUNCKER, Premier Ministre, Ministre d'État, Ministre des Finances
Netherlands	Hans HOOGERVORST, Minister van Financiën
Austria	Karl-Heinz GRASSER, Bundesminister für Finanzen
Portugal	Manuela FERREIRA LEITE, Ministra de Estado e das Finanças
Finland	Suvi-Anne SIIMES, Ministeri, Valtiovarainministeriö
Sweden	Bosse RINGHOLM, Finansminister
United Kingdom	Gordon BROWN, Chancellor of the Exchequer

Audit Committee

Chairman
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Members
Caj NACKSTAD, Partner, KPMG, Stockholm
Emídio MARIA, Subinspector-Geral de Finanças, Inspecção-Geral de Finanças, Lisbon

Observer
Marc COLAS, Premier Conseiller de Gouvernement, Luxembourg

Management Committee

President:
Philippe MAYSTADT

Vice-Presidents:
Wolfgang ROTH
Ewald NOWOTNY
Peter SEDGWICK
Isabel MARTÍN CASTELLÁ
Michael G. TUTTY
Gerlando GENUARDI
Philippe de FONTAINE VIVE CURTAZ

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

Situation at 25 March 2003

Board of Directors

Directors:

Jean-Pierre ARNOLDI	Administrateur général de la Trésorerie, Service Public Fédéral Finances, Brussels
Lorenzo BINI SMAGHI	Dirigente Generale, Capo della Direzione III, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Sinbad J.D. COLERIDGE	Ret. Chief Executive, BZW Structured Finance Department, London
Isabel CORREIA BARATA	Consultora da Direcção, Departamento de Relações Internacionais, Banco de Portugal, Lisbon
Wedige Hanns von DEWITZ	Member of the Board of Directors of the EIB, Bonn
Iñigo FERNÁNDEZ DE MESA	Subdirector General para Asuntos de la Unión Económica y Monetaria, Ministerio de Economía, Madrid
Kurt A. HALL	Finansråd Internationella avdelningen, Finansdepartementet, Stockholm
Barrie IRETON	Director, International Division, Department for International Development, London
Jan Willem van der KAAIJ	Plaatsvervangend Directeur van de Directie Buitenlandse Financiële Betrekkingen, The Hague
John KINGMAN	Enterprise and Growth Unit Director, H.M. Treasury, London
Rainer MASERA	Presidente, Sanpaolo IMI, Turin
Constantinos MASSOURAS	Director for Financial and Fiscal Policy Affairs, Ministry of National Economy, Athens
Ingrid MATTHÄUS-MAIER	Mitglied des Vorstandes der Kreditanstalt für Wiederaufbau, Frankfurt/Main
Noel Thomas O'GORMAN	Second Secretary-General, Banking, Finance and International Division, Department of Finance, Dublin
Stéphane-Emmanuelle PALLEZ	Chef du Service des Affaires européennes et internationales, Direction du Trésor, Ministère de l'Économie, des Finances et de l'Industrie, Paris
María PÉREZ RIBES	Coordinadora de Instituciones Financieras Europeas, Dirección General de Financiación Internacional, Ministerio de Economía, Madrid
Vincenzo PONTOLILLO	Direttore Centrale, Banca d'Italia, Rome
Per Bremer RASMUSSEN	Finansdirektør i Økonomi- og Erhvervsministeriet, Copenhagen
Kaarina RAUTALA	Hallitusneuvos, Valtiovarainministeriö, Helsinki
Klaus REGLING	Director-General for Economic and Financial Affairs, European Commission, Brussels
Gaston REINESCH	Directeur général, Ministère des Finances, Luxembourg
Pierre RICHARD	Administrateur délégué, DEXIA, Paris
Walter RILL	Abteilungsleiter für internationale Finanzinstitutionen, Bundesministerium für Finanzen, Vienna
Gerd SAUPE	Ministerialdirigent, Bundesministerium der Finanzen, Berlin
Jean-Michel SEVERINO	Directeur général, Groupe Agence Française de Développement, Paris

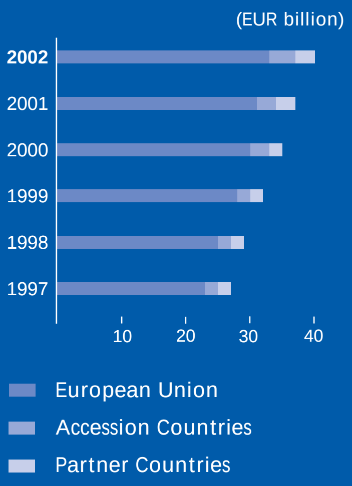
Alternates:

Marc AUBERGER	Directeur général délégué de la Société française de garantie des financements des PME (SOFARIS - groupe BDPME), Paris
Stefania BAZZONI	Dirigente, Direzione Rapporti Finanziari Internazionali, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Gerhard BOEHMER	Ministerialdirigent a.D., Bonn
Giampaolo BOLOGNA	Dirigente, Direzione del Contenzioso Comunitario, Dipartimento del Tesoro, Ministero dell'Economia e delle Finanze, Rome
Anne-Laure de COINCY	Chef du Bureau des Affaires Européennes, Direction du Trésor, Ministère de l'Économie, des Finances et de l'Industrie, Paris
Guy CRAUSER	Adviser "Hors Classe", Regional Policy Directorate General, European Commission, Brussels
Michael CROSS	Chief Manager, Reserves Management, Foreign Exchange Division, Bank of England, London
Björn FRITJOFSSON	Departementsråd, Internationella avdelningen, Finansdepartementet, Stockholm
Niels FUGMANN	Chefkonsulent i Økonomi- og Erhvervsministeriet, Copenhagen
Rudolf de KORTE	Alternate Member of the Board of Directors of the EIB, Wassenaar
Rebecca LAWRENCE	European Union Coordination and Strategy Team Leader, H.M. Treasury, London
Ralph MÜLLER	Leiter des Referats Haushalt der Europäischen Union, Bundesministerium der Finanzen, Berlin
Luis ORGAZ GARCÍA	Subdirector General de Análisis Financiero y Estratégico, Ministerio de Economía, Madrid

Situation at 25 March 2003

Lending Activity

Lending activity
1997 - 2002: 199 billion



In 2002, total lending amounted to 39.6 billion [1] compared with 36.8 billion in 2001. In the Member Countries of the European Union, financing reached 33.4 billion; the Accession Countries attracted 3.6 billion in loans paving the way for enlargement, while the EIB devoted 2.5 billion to underpinning EU policies in the Partner Countries.

At the Board of Governors meeting in June 2002, the Member States endorsed the EIB's strategic guidelines by approving a 50% increase in the Bank's capital with effect from 1 January.

During 2002, the EIB pressed ahead with the operational priorities set in the Corporate Operational Plan for the period 2002-2004.

- The EIB provided 59% of individual loans (12.5 billion) for strengthening **economic and social cohesion** within the Union, the Bank's primary remit. The proportion of global loans going to the less favoured regions is estimated at around 60%. With the inclusion of operations in the Accession Countries, the EIB's contribution to fostering regional development stood at over 23 billion in 2002.
- Projects financed under the **"Innovation 2000 Initiative"** came to 3.6 billion in 2002, of which 3.3 billion within the Union and 212 million in the Accession Countries. This initiative, designed to support the development of a knowledge-based, innovation-driven economy, centres on the promotion of human capital, R&D, the diffusion of innovation, and information and communications technology networks. Since its launch in May 2000, loans worth 14.4 billion have been approved and 10.8 billion already signed. The EIB has thus hit the target of 12-15 billion over a period of three years set for it by the European Council. With its role reaffirmed at the Barcelona European Council, the Group will continue to focus on this activity as far ahead as 2010.
- Individual loans in favour of the **environment and quality of life** climbed by 52% over the previous year to 10.7 billion: 9.3 billion was provided within the EU, 1.3 billion in the Accession Countries and 190 million in the Partner Countries. The environment accounted for 41% of aggregate lending under this heading. Within the EU, financing centred primarily on the urban environment (5.3 billion), although projects furthering energy savings and renewable energy took an increasing share (2.4 billion). The balance was divided between water treatment and air quality (1.5 billion) and the natural environment (538 million).

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

- The **Accession Countries** (Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, the Czech Republic, Romania, Slovakia, Slovenia, Cyprus and Malta) received 3.6 billion. The transport sector continued to occupy pride of place: 47% of lending was given over to establishing an efficient transport network essential for the economic development of these countries and their integration into the Union. The environment, however, assumed greater importance with 36% (1.3 billion), while health and education also forged ahead (230 million).
- EIB support for implementation of the EU's development aid and cooperation policy in the **Partner Countries** amounted to 2.5 billion in 2002.

As the leading source of bank finance for projects in the *Mediterranean Partner Countries*, the EIB advanced 1.6 billion in 2002. Following the Barcelona European Council in March 2002, it put in place a Facility for Euro-Mediterranean Investment and Partnership (FEMIP) geared mainly to bolstering resources for the private sector and creating an investment-friendly environment. This facility will bring financing in the region over the period 2003-2006 to almost 7.5 billion.

The Bank also continued its infrastructure reconstruction activity in the *Balkans* region, where lending totalled 425 million.

In the *other Partner Countries*, EIB financing broke down as follows: African, Caribbean and Pacific (ACP) Countries - 298 million; South Africa - 50 million; and Asia and Latin America - 174 million.

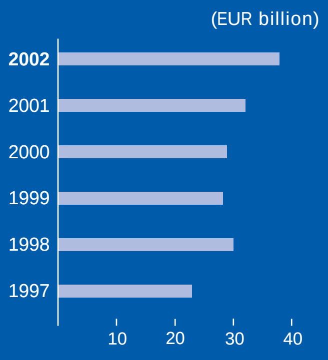
Three other areas are accorded priority under the Corporate Operational Plan, namely SMEs, trans-European networks (TENs) and health and education:

- support for **SME** investment is made available, firstly, through EIB global loans which, in 2002, reached 6.2 billion. Secondly, the EIF invested 472 million in venture capital funds and concluded 32 SME portfolio guarantee operations worth 1.2 billion;
- lending for **trans-European networks** and major infrastructure of Community interest came to 7.5 billion within the Union. A third of these operations was mounted in the form of Public-Private Partnerships. Finally, 1 billion was devoted to road and rail corridors in the Accession Countries;
- financing in the **health and education** sectors ran to 1.7 billion within the EU and the Accession Countries. The first batch of operations in the Mediterranean Countries was signed, totalling 150 million.

Over the past six years, the sectoral breakdown of aggregate lending has remained stable: in 2002, backing for transport and telecommunications infrastructure represented 34% of over-all financing and assistance for SMEs and small-scale local infrastructure, 33%. The health and education sectors are continuing to move ahead.

EIB Borrowing Activity

Borrowing activity
1997 - 2002: 181 billion



The year 2002 has been a successful year for the EIB's funding activities and the Bank reaffirmed its position as a leading AAA-rated non-sovereign benchmark borrower. A total of EUR 38 billion was raised on the international capital markets through 219 transactions in 14 currencies before swaps (and 10 currencies after swaps). As a result of favourable market conditions, the USD was the prime currency of funding, followed closely by the EUR.

Total borrowings before swaps in the three major currencies accounted for 89% of the total: 38% USD, 35% EUR and 16% GBP. Funds raised after swaps in these currencies (97%) were: 59% EUR, 22% USD and 16% GBP, the USD having heavily generated euro via currency swaps. Non-structured operations amounted to EUR 34.6 billion (representing 91% of total funds raised) in 90 transactions. Structured operations totalled EUR 3,4 billion (representing 9% of total funds raised) in 129 transactions.

In order to achieve optimal funding costs on a sustainable basis, the EIB's funding strategy adopts a judicious combination of strategic and market-driven approaches. This enables it to grant credit on the best possible terms and thus continue to serve EU objectives. A cornerstone of this funding policy remains the offering of large liquid benchmark bonds in EUR, USD and GBP. This enables the EIB to continue broadening its investor base, increasing market penetration and reaffirming its status as the consolidated European sovereign issuer.

The EIB launched three EARN transactions in 2002 including its longest dated EUR bond issue to-date - the EUR 5 billion Global EARN 2012. At the end of 2002, the EARNs curve comprised eleven benchmarks covering maturities from 2003 to 2012, with an outstanding volume of over EUR 50 billion, all of which are traded on the MTS electronic trading network.

In USD, the EIB continued its strategy of offering large sized, liquid issues on a regular basis in global format. Three Global bond issues of USD 3 billion each were brought to the market with an increasing share of placement with US investors. The total of benchmark USD bonds outstanding at the end of 2002 stood at USD 28 billion. All outstanding global benchmark bonds, comprising USD 18 billion in total, were listed on the New York Stock Exchange during the year.

It has been 25 years since the EIB launched its first sterling issue and the total outstanding of the EIB's GBP bonds at the end of 2002 stood at GBP 33 billion representing over 11% of the non-gilt sterling index. The EIB retained its position as the largest non-gilt issuer in the sterling market with about 6% share of the issuance volume in 2002.

The Bank has also continued to show flexibility and innovation by the use of bespoke products specially arranged to meet particular investor needs in a wide array of currencies. These issues cover the whole range from plain vanilla bonds to sophisticated structured securities adapted to the needs of specific investors. Structured bonds often incorporate different types of options as well as the linking of coupons and redemption amounts to different indices and currencies. These products serve the unique purpose of enhancing yields to investors on a platform of the highest credit standing. Despite the complexity of these products, EIB's risk management policy assures meticulous analysis and adequate hedging against the various types of risk embedded in these issues.

The EIB has a strong presence in Japan, the Asia/Pacific region, notably the Taiwanese and Australian domestic markets, and the South African market. These markets accounted for an equivalent of EUR 3.3 billion in 2002 comprising half of the Bank's transactions in the year and 9% of its funding volume.

The EIB has a pioneering role in the development of domestic capital markets in particular those of the Accession Countries setting up domestic issuance programmes and establishing treasury capabilities in order to on-lend in local currencies. These efforts have led the EIB to become the major external borrower in these countries during 2002. The Bank is focusing on building up issues towards liquid, benchmark size, extending maturity profiles and providing both domestic and international investors in these currencies with new instruments.

Borrowings signed in 2002 (EUR million)

	Before swaps		After swaps	
EUR	*13 305*	*35.0%*	*22 441*	*59.0%*
DKK	54	0.1%	135	0.4%
GBP	6 180	16.3%	6 227	16.4%
SEK	0	0.0%	362	1.0%
Total EU	**19 539**	**51.4%**	**29 165**	**76.7%**
AUD	1 284	3.4%	0	0.0%
CZK	232	0.6%	407	1.1%
HKD	161	0.4%	0	0.0%
HUF	139	0.4%	105	0.3%
JPY	1 245	3.3%	0	0.0%
NOK	250	0.7%	65	0.2%
NZD	50	0.1%	0	0.0%
PLN	162	0.4%	13	0.0%
TWD	458	1.2%	0	0.0%
USD	14 383	37.8%	8 231	21.7%
ZAR	109	0.3%	30	0.1%
Total non-EU	**18 473**	**48.6%**	**8 851**	**23.3%**
TOTAL	**38 012**	**100.0%**	**38 016**	**100.0%**

EIF Governing Bodies

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

- General Meeting of all shareholders (EIB, European Union, 28 financial institutions);
- Board of Directors;
- Chief Executive, Mr Francis CARPENTER.

Board of Directors

Chairman

Giovanni RAVASIO	Former Director General, Economic and Financial Affairs Directorate General, European Commission, Brussels

Members

Mauro CICCHINÈ	President, DEXIA CREDIOP, Rome
Guy CRAUSER	Adviser "Hors Classe", Regional Policy Directorate General, European Commission, Brussels
Iñigo FERNÁNDEZ DE MESA	Subdirector General para Asuntos de la Unión Económica y Monetaria, Ministerio de Economía, Madrid
Peter SEDGWICK	Vice-President, European Investment Bank, Luxembourg
Lars TYBJERG	Fhv. direktør, Økonomi- og Erhvervsministeriet, Copenhagen
...	...

Alternates

Jean-Pierre ARNOLDI	Administrateur général de la Trésorerie, Service Public Fédéral Finances, Brussels
Terence BROWN	Director General, Directorate for Lending Operations - Europe, European Investment Bank, Luxembourg
Isabel CORREIA BARATA	Consultora da Direcção, Departamento de Relações Internacionais, Banco de Portugal, Lisbon
Rémy JACOB	Deputy Secretary General, General Administration Department, General Secretariat, European Investment Bank, Luxembourg
Detlef LEINBERGER	Mitglied des Vorstandes, Kreditanstalt für Wiederaufbau, Frankfurt
David MCGLUE	Director, Directorate for "Financial Operations, Programme Management and Liaison with the EIB Group", Economic and Financial Affairs Directorate General, European Commission, Luxembourg
Timo SUMMA	Director, Directorate for "Promotion of entrepreneurship and SMEs", Enterprise Directorate General, European Commission, Brussels

Audit Board

Chairman

Sylvain SIMONETTI	Head of Unit, Human resources and administration Unit, Resources Directorate, Economic and Financial Affairs Directorate General, European Commission, Luxembourg

Members

Michael P. HARALABIDIS	Senior Associate, Group Risk Management, National Bank of Greece, Athens
Henk KROEZE	Chartered Accountant, Group Controller Holding, NIB Capital N.V., The Hague

Situation at 25 February 2003

European Investment Fund Activity

The European Investment Fund (EIF) is the EIB Group's specialised financial institution for the support, creation, and development of SMEs in Europe. It operates in the EU Member States and, since its reform in 2000, in the EU Candidate Countries. EIF intervenes by means of venture capital and guarantee instruments to financial intermediaries, acting as a fund-of-funds. The EIF's tripartite shareholding comprises the European Investment Bank as its main shareholder (60.75%), the European Commission (30%), and 28 private financial institutions (9.25%).

Venture capital operations

The EIF venture capital portfolio - funds committed - amounts today to EUR 2.45 billion in some 184 funds. In 2002, the EIF VC operations reached EUR 471.5 million into 36 operations. The bulk of EIF resources is provided by the EIB under the "Innovation 2000 Initiative". The Commission makes available additional sums under the Multiannual Programme for Enterprise 2001/2005. The EIF investment focus is centered on three areas:

- Support of the high-tech sector in Europe in particular through initiatives contributing to bridge the gap between research and product commercialization.
- Regional balance in particular through investments in the southern part of the EU or in the Candidate Countries.
- Investments in funds operating on a Pan-European basis.

Portfolio guarantee activity

EIF's guarantee portfolio today totals EUR 4.5 billion in 109 different operations. In 2002, EIF increased the volume of its guarantee activity with 32 guarantee operations concluded for a total of EUR 1 235.6 m (in 2001 EUR 958 m was committed for 39 operations). 8 out of the 32 operations signed in 2002 were extensions of existing agreements, as a response to the demand expressed by the financial intermediaries. This trend demonstrates the importance of EIF guarantee instruments for SME finance.

EIF portfolio guarantee activity includes three products: credit insurance, credit enhancement, and structured transactions. These guarantee products provide effective support for SMEs through their leverage effect on volume of loans. In addition, guarantee products are particularly attractive for financial institutions, which are able to benefit from the provision of financial capital relief.

In 2002, EIF began to implement the European Community resources which it manages under the SME Guarantee Facility mandate, signing 10 transactions for EUR 295.4 m. A significant amount of the latter was committed as guarantees for micro-credit operations in Belgium, France, Germany and Spain.

EIB Group
Financial Statements

CONSOLIDATED BALANCE SHEET AS A 31 DECEMBER 2002

In EUR '000

ASSETS		*31.12.2002*		*31.12.2001*
1. Cash in hand, balances with central banks and post office banks		***16 100***		22 180
2. Treasury bills eligible for refinancing with central banks (Note B)		***1 530 847***		1 519 727
3. Loans and advances to credit institutions				
a) repayable on demand	**118 433**		181 292	
b) other loans and advances (Note C)	**9 947 089**		9 917 933	
c) loans (Note D)	**92 414 790**		84 654 699	
		102 480 312		94 753 924
4. Loans and advances to customers				
Loans (Note D)	**103 506 204**		101 118 463	
Specific provisions (Note A.7.1)	**– 175 000**		– 175 000	
		103 331 204		100 943 463
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	**3 376 557**		3 262 786	
b) issued by other borrowers	**6 057 698**		3 418 539	
		9 434 255		6 681 325
6. Shares & other variable-yield securities (Note E)		***888 286***		844 172
7. Intangible assets (Note F)		***9 848***		7 788
8. Property, furniture and equipment (Note F)		***117 645***		84 528
9. Other assets				
a) receivable in respect of EMS interest subsidies paid in advance (Note G)	**282**		3 528	
b) sundry debtors (Note H)	**1 088 401**		538 779	
c) Positive replacement values (Note V)	**13 594 484**		8 184 813	
		14 683 167		8 727 120
10. Prepayments and accrued income (Note I)		***2 185 440***		2 378 477
		234 677 104		215 962 704

OFF-BALANCE-SHEET ITEMS

		31.12.2002		*31.12.2001*
Commitments				
- EBRD capital (Note E)				
. Uncalled		***442 500***		442 500
. To be paid in		***25 313***		33 750
- Undisbursed loans (Note D)				
. Credit institutions	**7 412 732**		8 523 766	
. Customers	**29 109 614**		25 729 446	
		36 522 346		34 253 212
- Undisbursed venture capital operations		***1 241 625***		1 067 531
Guarantees				
. In respect of loans granted by third parties		***1 914 976***		1 562 167
. In respect of venture capital operations		***64 810***		57 946
Fiduciary operations (Note A)		***2 945 786***		2 070 512
Assets held on behalf of third parties (Note A)				
- Growth and environment	**6 714**		16 091	
- SME Guarantee Facility	**105 795**		54 762	
- European Technology Facility	**89 740**		59 892	
- Map Equity & Guarantee	**24 832**		0	
- Seed Capital Action	**100**		0	
		227 181		130 745
Guarantee Fund treasury management		***1 646 292***		1 775 229
Securities received as collateral with respect to derivatives exposure (Note V)		***4 458 616***		5 124 892

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

LIABILITIES		*31.12.2002*		*31.12.2001*
1. Amounts owed to credit institutions (Note J)				
a) repayable on demand	**0**		0	
b) with agreed maturity dates or periods of notice	**1 182 667**		607 622	
		1 182 667		607 622
2. Debts evidenced by certificates (Note K)				
a) debt securities in issue	**193 210 101**		183 052 603	
b) others	**898 071**		857 103	
		194 108 172		183 909 706
3. Other liabilities				
a) interest subsidies received in advance (Note G)	**289 954**		324 956	
b) sundry creditors (Note H)	**1 036 001**		989 394	
c) sundry liabilities	**46 994**		44 245	
d) Currency swap contracts adjustment account	**3 549 176**		0	
e) Negative replacement values (Note V)	**5 446 623**		2 414 809	
		10 368 748		3 773 404
4. Accruals and deferred income (Note I)		***3 896 429***		3 779 972
5. Provisions for liabilities and charges				
– Staff pension fund (Note L)	**517 755**		474 951	
– Provision for guarantees issued (Note M)	**42 357**		24 312	
		560 112		499 263
6. Minority interests		***217 732***		216 349
7. Capital				
Subscribed	**100 000 000**		100 000 000	
Uncalled	**– 94 000 000**		– 94 000 000	
		6 000 000		6 000 000
8. Consolidated reserves				
a) reserve fund	**10 000 000**		10 000 000	
b) additional reserves	**3 571 323**		3 067 368	
c) special supplementary reserves	**750 000**		0	
		14 321 323		13 067 368
9. Funds allocated to structured finance facility		***250 000***		250 000
10. Funds allocated to venture capital operations		***1 499 091***		1 500 000
11. Fund for general banking risks after appropriation (Note M)		***1 105 000***		1 080 000
12. Profit for the financial year				
before appropriation	**1 192 830**		1 424 021	
appropriation for the year to Fund for general banking risks (Note M)	**– 25 000**		– 145 000	
profit to be appropriated		***1 167 830***		1 279 021
		234 677 104		215 962 704

OFF-BALANCE-SHEET ITEMS

	31.12.2002	*31.12.2001*
Special deposits for service of borrowings (Note S)	***284 367***	640 526
Securities portfolio		
. Securities receivable	***17 776***	9 327
. Securities payable	***18 132***	12 673
Nominal value of interest-rate swap and deferred rate-setting contracts (Note V)	***128 418 546***	109 868 600
FRA operations		
. Purchase	***0***	25 000 000
. Sale	***0***	25 000 000
Nominal value of currency swap contracts payable	***42 046 481***	39 356 131
Nominal value of currency swap contracts receivable	***40 793 728***	40 592 794
Put option granted to EIF minority shareholders (Note A)	***247 275***	247 275
Borrowings arranged but not yet signed	***889 175***	0

STATEMENT OF SPECIAL SECTION (1) AS AT 31 DECEMBER 2002

In EUR '000

(amounts at historic cost in foreign currency converted at exchange rates prevailing on 31 December 2002)

ASSETS	***31.12.2002***	*31.12.2001*
Member States		
From resources of the European Community		
(New Community Instrument for borrowing and lending)		
Disbursed loans outstanding (2)	**68 599**	80 959
Turkey		
From resources of Member States		
Disbursed loans outstanding (3)	**43 792**	58 953
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	201 606	211 121
Risk capital operations		
- amounts to be disbursed	117 182	96 582
- amounts disbursed	201 576	192 572
	318 758	289 154
Total (4)	**520 364**	500 275
African, Caribbean and Pacific States and Overseas Countries and Territories		
From resources of the European Community		
Yaoundé Conventions		
Loans disbursed	41 564	44 810
Contributions to the formation of risk capital		
Amounts disbursed	419	419
Total (5)	**41 983**	45 229
Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	633 407	666 171
- amounts disbursed	1 274 134	1 198 479
	1 907 541	1 864 650
Operations from other resources:		
- amounts to be disbursed	8 000	8 000
Total (6)	**1 915 541**	1 872 650
Grand total	**2 590 279**	2 558 066

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 31.12.2002: 1 332 075 / at 31.12.2001: 1 402 697

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2002: 152 326 / at 31.12.2001: 158 245

(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 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:

European Community:			6 399 145
add:	exchange adjustments		+ 123 203
less:	cancellations	201 991	
	repayments	6 251 758	– 6 453 749
			68 599

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

States:			405 899
add:	exchange adjustments		+ 23 564
less:	cancellations	215	
	repayments	385 456	– 385 671
			43 792

(4) 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:

Community:			672 007
less:	exchange adjustments	59	
	cancellations	35 800	
	repayments	115 784	– 151 643
			520 364

LIABILITIES	***31.12.2002***	*31.12.2001*
Funds under trust management		
Under mandate from the European Communities		
- New Community Instrument	68 599	80 959
- Financial Protocols with the Mediterranean Countries	403 182	403 693
- Yaoundé Conventions	41 983	45 229
- Lomé Conventions	1 274 134	1 198 479
	1 787 898	1 728 360
Under mandate from Member States	43 792	58 953
Total	**1 831 690**	1 787 313
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean Countries	117 182	96 582
On operations from risk capital resources under the Lomé Conventions	633 407	666 171
On operations from other resources under the Lomé Conventions		8 000
Total	**750 589**	770 753
Grand Total	**2 582 279**	2 558 066

(5) 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	109 446	– 111 020
		41 983

(6) 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	2 906 350	
- equity participations	109 131	3 015 481
add:		
- capitalised interest		+ 1 802
less:		
- cancellations	375 937	
- repayments	704 190	
- exchange adjustments	29 615	– 1 109 742
		1 907 541
Loans from other resources:		8 000
		1 915 541

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 december 2002
in EUR '000

		31.12.2002		*31.12.2001*
1. Interest receivable and similar income (Note N)		**9 799 939**		10 757 180
2. Interest payable and similar charges		**– 8 129 050**		– 9 072 365
3. Commission receivable (Note P)		**34 066**		32 529
4. Commission payable		**– 652**		– 1 771
5. Result on financial operations (Note O)		**– 108 919**		– 47 739
6. Other operating income		**10 270**		26 357
7. General administrative expenses (Note Q)		**– 232 923**		– 211 538
a) staff costs	**169 452**		158 669	
b) other administrative costs	**63 471**		52 869	
8. Value adjustments in respect of (Note F)		**– 18 445**		– 15 737
a) intangible assets	**4 787**		4 951	
b) tangible assets	**13 658**		10 786	
9. Value adjustment on venture capital operations (Note E)		**– 117 594**		– 22 137
10. Value adjustment on shares and other variable yield securities		**– 10 189**		0
11. Transfer to provision for guarantees issued (Note M)		**– 26 427**		– 19 665
12. Net profit from ordinary activities		**1 200 076**		1 425 114
13. Extraordinary income (Note R)		**0**		40 000
14. Extraordinary charges (Note R)		**0**		– 11 364
15. Minority interests		**– 7 246**		– 29 729
16. Profit for the financial year		**1 192 830**		1 424 021
17. Appropriation to Fund for general banking risks (Note M)		**– 25 000**		– 145 000
18. Profit to be appropriated		**1 167 830**		1 279 021

STATEMENT OF MOVEMENTS IN CONSOLIDATED OWN FUNDS

(in EUR '000)

	31.12.2002	*31.12.2001*
Share Capital		
Subscribed capital	100 000 000	100 000 000
Uncalled	– 94 000 000	– 94 000 000
Paid-in capital	**6 000 000**	**6 000 000**
Consolidated reserves and profit for the year:		
Reserve fund		
Balance at beginning of the year	10 000 000	10 000 000
Appropriation of prior year's profit	0	0
Balance at end of the year	**10 000 000**	**10 000 000**
Additional reserves		
Balance at beginning of the year without IAS adjustments	3 181 985	2 124 244
Cumulative adjustments arising from the application of IAS 39	– 114 617	– 117 883
Balance at beginning of the year with IAS adjustments	3 067 368	2 006 361
Appropriation of prior year's profit	529 930	1 057 741
Changes in fair value during the year	– 25 975	3 266
Balance at end of the year	**3 571 323**	**3 067 368**
Special supplementary reserves		
Balance at beginning of the year	0	0
Appropriation of prior year's profit	750 000	0
Balance at end of the year	**750 000**	**0**
Fund for general banking risks		
Balance at beginning of the year	935 000	870 000
Appropriation of prior year's profit	145 000	65 000
Balance at end of the year (Notes A 13(a) and M)	**1 080 000**	**935 000**
Funds allocated to structured finance facility		
Balance at beginning of the year	250 000	0
Appropriation of prior year's profit	0	250 000
Balance at end of the year	**250 000**	**250 000**
Funds allocated to venture capital operations		
Balance at beginning of the year	1 500 000	1 500 000
Appropriation of prior year's profit	– 909	0
Balance at end of the year	**1 499 091**	**1 500 000**
Profit for the year	**1 192 830**	**1 424 021**
Consolidated reserves and profit for the year:	**18 343 244**	**17 176 389**
Total consolidated own funds	**24 343 244**	**23 176 389**

At its annual meeting on 4th June 2002, the Board of Governors of the Bank unanimously adopted the following decisions:

(1) A new Special Supplementary Reserve has been created to which an amount of Eur 750 000 000 has been appropriated from the profit and loss account for the year ended 31 December 2001.

(2) The Board of Governors of the EIB decided to increase the Bank's subscribed capital from 100 000 million euro to 150 000 million euro, with effect from the 1 January 2003.

(3) The paid-in capital shall, with effect from the 1 January 2003, rise to 7 500 million euro, or 5% of the subscribed capital of 150 000 million euro; the increase in the paid-in capital shall be effected, as of 1 January 2003, through a transfer of 1 500 000 000 euro from the Bank's Additional Reserves.

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2002

In EUR '000

	31.12.2002	*31.12.2001*
A. Cash flows from operating activities:		
Profit for the financial year	1 192 830	1 424 021
Adjustments:		
Transfer to provision for guarantees issued	18 045	– 20 693
Value adjustments on tangible and intangible assets	18 445	15 737
Value adjustments on shares and other variable yield securities	10 189	0
Value adjustments on venture capital operations	117 594	22 137
Exchange adjustment not subject to Article 7	– 1 096	905
Increase/(Decrease) in accrued interest and commissions payable and interest received in advance	116 457	– 995 403
Increase in accrued interest and commissions receivable	193 037	1 065 640
Investment portfolio amortisation	– 763	– 2 711
Decrease in replacement values recognised in equity	– 25 975	– 114 617
Changes in replacement values	– 3 614 520	– 4 533 341
Profit on operating activities:	– 1 975 756	– 3 138 325
Increase in loans	– 17 529 806	– 14 746 316
Net balance on NCI operations (Note H)	49 336	16 298
Increase in operational portfolio	– 493 289	– 1 526 000
Increase in venture capital operations	– 171 102	– 219 046
Increase in securitised loans	– 717 661	– 1 003 287
Net cash from operating activities	**– 20 838 279**	**– 20 616 676**
B. Cash flows from investing activities:		
EBRD shares paid up (Note E)	– 8 438	– 8 437
Sales of securities	367 992	316 149
Purchases of securities	– 340 125	– 356 768
Increases in land, buildings and furniture (Note F)	– 46 675	– 11 855
Increases in intangible fixed assets	– 6 947	– 2 721
Other decreases/(increases) in assets	– 139 007	118 394
Reclassification of EIF portfolio		66 526
Net cash from investing activities	**– 173 200**	**121 288**
C. Cash flows from financing activities:		
Issue of borrowings	37 563 210	32 531 378
Redemption of borrowings	– 20 396 612	– 19 000 043
(Decrease)/increase in currency swaps	278 192	– 233 439
IAS 39 borrowings adjustments	4 431 648	4 759 190
Net increase in commercial paper	626 203	670 303
Net increase in amounts owed to credit institutions	575 045	99 720
Other increases in liabilities	58 541	155 656
Net cash from financing activities	**23 136 227**	**18 982 765**
Summary statement of cash flows		
Cash and cash equivalents at beginning of the financial year	12 373 408	13 302 774
Net cash from		
(1) operating activities	– 20 838 279	– 20 616 676
(2) investing activities	– 173 200	121 288
(3) financing activities	23 136 227	18 982 765
Effects of exchange rate changes on cash and cash equivalents	– 584 327	583 257
Cash and cash equivalents at end of the financial year	**13 913 829**	**12 373 408**
Cash analysis (excluding investment and hedging portfolios)		
Cash in hand, balances with central banks and post office banks	16 100	22 180
Bills maturing within three months of issue	3 832 207	2 252 003
Loans and advances to credit institutions:		
- accounts repayable on demand	118 433	181 292
- term deposit accounts	9 947 089	9 917 933
	13 913 829	**12 373 408**

EUROPEAN INVESTMENT BANK GROUP
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002

Note A — Significant accounting policies

1. *Consolidation principles and accounting standards*

a) The Group's consolidated financial statements have been prepared in accordance with international financial reporting standards (IFRS).

The accounting policies applied are in conformity, in all material respects, with the general principles of the Directive of the Council of the European Communities of 8 December 1986 (as amended by Directive 2001/65/EC of 27 September 2001) on the annual accounts and consolidated accounts of banks and other financial institutions (the "Directive"), except as explained in the relevant notes on accounting policies.

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.

Minority interests represent the interests in the EIF not held by the Group.

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.

d) On a proposal from the Management Committee, the Board of Directors decided, on 25 February 2003, to submit the consolidated financial statements to the Governors for approval at their meeting on 3 June 2003.

2. *Foreign currency translation*

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 the 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 monetary assets and liabilities denominated in foreign currencies 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. *Derivatives*

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

The Group uses derivative instruments as part of its asset and liability management activities. The Group either applies fair value or cash flow hedge accounting when it meets the specified criteria to obtain hedge accounting treatment.

In a qualifying hedge of exposures to changes in fair value, the change in fair value of the hedging derivative is recognized in net profit and loss. The change in fair value of the hedged item attributable to the hedged risks adjusts the carrying value of the hedged item and is also recognised in net profit or loss.

In a qualifying cash flow hedge, the effective portion of the gain or loss on the hedging derivative is recognised in equity while the ineffective portion is reported in net profit or loss.

The majority of the Group's swaps are concluded with a view to hedging specific bond issues.

Currency swaps receivable and payable are recorded on the balance sheet at their fair value (quoted market prices). The nominal amounts are disclosed in the off-balance sheet items.

Macro-hedging swaps used as part of asset/liability management are marked to market (fair value) using internal valuation models.

4. *Financial assets*

Financial assets are accounted for using the settlement date basis.

5. *Cash and Cash Equivalents*

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

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

6.1. *Held for trading portfolio*

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

6.2. *Held-to-maturity portfolio*

The held-to-maturity portfolio comprises the Group's Investment portfolio and the Operational portfolios A1 and A2 (see Note B).

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. The difference between entry price and redemption value is accounted for *pro rata temporis* over the remaining life of the securities held.

The Operational portfolios A1 and A2 are held for the purpose of maintaining an adequate level of liquidity in the Group and comprises 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.

6.3. *Available for sale portfolio*

The available for sale portfolio comprises of the operational bond portfolio B1 (see note B), shares, other variable yield securities and participating interests (see note E). Securities are classified as available for sale where they do not appropriately belong to one of the other categories of portfolio. Available for sale financial investments are carried at fair value. Unrealised gains or losses are reported in equity until such investment is sold, collected or otherwise disposed of, or until such investment is determined to be impaired. If an available for sale investment is determined to be impaired, the cumulative unrealised gain or loss previously recognised in own funds is included in net profit or loss for the period. A financial investment is considered impaired if its carrying value exceeds the recoverable amount. Quoted financial investments are considered impaired if the decline in market price below cost is of such a magnitude that recovery of the cost value cannot be reasonably expected within the foreseeable future.

On disposal of an available for sale investment, the accumulated unrealised gain or loss included in own funds is transferred to net profit or loss for the period.

The determination of fair values of available for sale financial investments is generally based on quoted market rates.

Venture capital operations and participating interests held represent medium and long-term investments and are accounted for at cost in accordance with IAS 39 which stipulates that financial instruments for which a fair value cannot be established shall be so valued. The estimated fair value of a venture capital investment may vary significantly in the course of the holding period and the nature of such investments is such that an accurate fair value can be determined only upon realization of the investment. The estimation by the Group of a fair value for venture capital investments for which the method and timing of realization have not yet been determined is therefore considered to be inappropriate. Value impairments are accounted for where these are other than temporary.

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

7.1. Loans (including securitised loans) are included in the assets of the Group at their net disbursed amounts. Where loans are hedged by derivatives, they are measured at their fair value (quoted market prices).

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.

7.2. *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.

7.3. *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 (are maintained in the balance sheet accounts).

8. *Property, furniture and equipment*

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, its offices in Luxembourg-Hamm 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.

9. *Intangible assets*

a) Intangible assets comprise computer software. Software development costs are capitalized when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. Internally developed software meeting these criteria are carried at cost less accumulated depreciation (straight-line basis over three years from completion).

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

10. *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. The main actuarial assumptions used by the actuary are set out in Note L. 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, financed 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.

11. *Debts evidenced by certificates*

Debts evidenced by certificates initially are measured at cost, which is the fair value of the consideration received. Transaction costs and net premiums (discounts) are included in the initial measurement. Subsequent measurement is at amortised cost at inception on a straight line basis to the redemption value over the life of the debt evidenced by certificates.

It is the Group policy to hedge the fixed interest rate risk on debt issues and apply fair value hedge accounting. The effect is such that when such hedge accounting is applied to fixed rate debt instruments, the carrying value of debt issues is adjusted for changes in fair value related to the hedged exposure rather than carried at cost.

12. *Fund for general banking risks and provision for guarantees issued*

a) 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.

International accounting standards require that the transfer to this reserve form part of the appropriation of the profit.

The Directive requires that amounts transferred to this item feature separately in the profit and loss account as "Transfer to Fund for general banking risks".

b) Provision for guarantees issued

This provision is intended to cover risks inherent in the Group's activity of issuing guarantees in favour of financial intermediaries.

13. *Funds allocated to venture capital operations and to the Structured Finance Facility*

a) Funds allocated to venture capital operations.

This item comprises the amount of appropriations 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.

b) Funds allocated to the Structured Finance Facility

This item comprises the amount of appropriations from the annual result of the EIB, determined each year by the Board of Governors to facilitate implementation of operations with a greater degree of risk for this new type of instrument.

Value adjustments on these operations will be deducted from these items when allocating future results.

14. *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.

15. *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 off balance sheet (see Note U).

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.

16. *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).

17. *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.

18. *Assets held for third parties*

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

Under the Growth and Environment Pilot Project, the EIF provides a free guarantee to the financial intermediaries for loans extended to SME's with the purpose of financing environmentally friendly investments. The ultimate risk from the guarantee rests with the EIF and the guarantee fee is paid out of European Union budget funds.

Under the SME Guarantee Facility and the MAP Guarantee programme, the EIF is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.

Under the ETF Start-Up Facility and the MAP Equity programme, the EIF is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf of and at the risk of the Commission.

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

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

19. *Fiduciary operations*

Pursuant to Article 28 of its Statutes, the EIF acquires, manages and disposes of investments in venture capital enterprises, in its own name but on behalf and at the risk of the European Community, according to Fiduciary and Management Agreements concluded with the European Community ("ETF Start-up Facility").

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").

20. *Commitment to purchase EIF shares*

Under the terms of a put option in respect of the remaining 785 EIF shares, the EIB is offering to buy these shares from the EIF's other shareholders within a remaining period of three 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.

21. *Prior year figures*

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

Note B — Securities portfolio (in EUR '000)

	31.12.2002	31.12.2001
Treasury bills eligible for refinancing with central banks (of which 12 671 unlisted in 2002 and 12 661 in 2001)	1 530 847	1 519 727
Debt securities including fixed-income securities (listed)	9 434 255	6 681 325
	10 965 102	**8 201 052**

	Purchase price	Amortisation for the period	Book value	Amortisation to be accounted for	Value at final maturity	Market value
Investment portfolio	2 845 846	27 626	2 873 473	– 45 531	2 827 942	3 001 315
Operational money market portfolio:						
- Money market securities with a max. 3-month maturity A1	3 832 207	—	3 832 207	—	3 832 207	3 832 207
- Money market securities with a max. 18-month maturity A2	1 263 984	—	1 263 984	—	1 263 984	1 263 984
Operational bond portfolio B1 Credit Spread	696 768	– 50	699 030	– 103	696 615	699 030
Operational portfolio B3 Global Fixed Income	397 962	—	402 515 *	—	386 099	402 515
Operational portfolio Available for Sale	52 945	—	52 945 **	—	53 000	52 945
Securitised Loans (Note D)	1 840 948	—	1 840 948	—	1 840 948	1 840 948
	10 930 660	**27 576**	**10 965 102**		**10 900 795**	

* including increase in market value of EUR 2 312. ** including increase in market value of EUR 207.

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

	31.12.2002	31.12.2001
Term deposits	5 318 298	6 588 593
Reverse repos (*)	4 628 791	3 329 340
	9 947 089	**9 917 933**

(*) 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 2002
(in EUR '000)

Aggregate loans granted (*)

Aggregate historical amount of loans calculated on the basis of the parities applied on the date of signature			403 858 622
Add:	debt adjustment	913 355	
	exchange adjustments	5 509 777	
	positive fair value adjustment (IAS 39)	723 277	7 146 409
Less:	terminations and cancellations	11 109 578	
	principal repayments	167 452 113	
			– 178 561 691
Aggregate loans granted			**232 443 340**

Loans granted

Analysis of aggregate loans granted:	to intermediary credit institutions	directly to final beneficiaries	Total 2002	Total 2001
- Disbursed portion	92 414 790	103 506 204	195 197 717	185 739 983
- Undisbursed portion	7 412 732	29 109 614	36 522 346	34 253 212
Aggregate loans granted	**99 827 522**	**132 615 819**	**232 443 340**	**219 993 195**

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

	31.12.2002	31.12.2001
Aggregate loans granted	232 443 340	219 993 195
Securitised loans (Note B)	1 840 948	1 123 215
Aggregate loans (Note W)	**234 284 288**	**221 116 410**

Note E — Shares and other variable-yield securities

This item comprises (in EUR '000):

	2002	2001
Venture capital operations - after write-down of EUR 139 731 (2001: 22 137)	737 317	683 809
EBRD shares	132 188	123 750
Shares acquired with a view to guaranteeing recovery of loans and advances	18 781	36 613
	888 286	**844 172**

The amount of EUR 132 187 500 (2001: 123 750 500) corresponds to the capital paid in by the Group at 31 December 2002 in respect of its subscription of EUR 600 000 000 to the capital of the EBRD.

The Group holds 3.03% 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.

in EUR '000	% held	Total own funds	Total net result	Balance sheet total
EBRD (31.12.2001)	3.03	4 183 595	157 182	20 947 293

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

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total Property, furniture and equipment	Total intangible assets
Historical cost						
At 1 January 2002	3 688	119 535	349	22 358	145 930	13 604
Additions	6 727	28 150	0	11 798	46 675	6 947
Transfer	0	0	0	331	331	– 331
Disposals	0	0	0	– 5 420	– 5 420	– 5 384
At 31 December 2002	**10 415**	**147 685**	**349**	**29 067**	**187 516**	**14 836**
Accumulated depreciation						
At 1 January 2002	0	52 693	224	8 485	61 402	5 816
Depreciation	0	4 901	14	8 743	13 658	4 787
Transfer	0	0	0	231	231	– 231
Disposals	0	0	0	– 5 420	– 5 420	– 5 384
At 31 December 2002	**0**	**57 594**	**238**	**12 039**	**69 871**	**4 988**
Net book value						
At 31 December 2002	**10 415**	**90 091**	**111**	**17 028**	**117 645**	**9 848**
At 31 December 2001	3 688	66 842	125	13 873	84 528	7 788

All of the land and buildings are used by the Group for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building (Eur 851 000), expected to be completed in 2007.

Note G — Interest subsidies paid and 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 (in EUR '000)

Sundry debtors:

	31.12.2002	31.12.2001
- Staff housing loans and advances	70 238	82 173
- 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)	57 779	107 116
- Borrowing proceeds to be received	449 063	0
- Swap receivables	304 467	0
- Loan instalments receivable	49 461	299 010
- Other	157 393	50 480
	1 088 401	**538 779**

Sundry creditors:

	31.12.2002	31.12.2001
- European Union accounts:		
. for Special Section operations and related unsettled amounts	233 364	167 241
. deposit accounts	269 420	296 053
- Swap payables	301 625	0
- Borrowing instalments payable . .	0	172 066
- Optional Supplementary Provident Scheme (Note L)	144 264	133 689
- Other	87 328	220 345
	1 036 001	**989 394**

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

	31.12.2002	31.12.2001
Prepayments and accrued income:		
Interest and commission receivable	2 181 711	2 377 198
Other	3 729	1 279
	2 185 440	**2 378 477**
Accruals and deferred income:		
Interest and commission payable . .	3 209 683	3 181 619
Deferred loan proceeds	585 952	461 868
HIPC initiative	62 251	67 912
Personnel costs payable	7 278	7 100
External mobility costs	7 500	7 500 (*)
Other	23 765	53 973
	3 896 429	**3 779 972**

(*) Included in item 14. of the profit and loss account: extraordinary charges (Note R).

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

	31.12.2002	31.12.2001
- Short-term borrowings	1 172 542	597 497
- Promissory notes issued in respect of paid-in capital of EBRD	10 125	10 125
	1 182 667	**607 622**

Note K — Summary statement of debts evidenced by certificates as at 31 december 2002 (in EUR '000)

			Borrowings			Currency swaps Amounts payable (+) or receivable (–)				Net amount	
Payable in	Outstanding at 31.12.2001	Average rate	Outstanding at 31.12.2002	Average rate	Due dates	31.12.2001	Average rate	31.12.2002	Average rate	Outstanding at 31.12.2001	Outstanding at 31.12.2002
EUR	72 131 851	5.48	77 303 117	5.13	2003/2030	24 174 809 +	5.50	31 127 088 +	3.12	96 306 660	108 430 205
GBP	48 004 134	6.34	48 068 756	6.17	2003/2040	4 046 143 –	6.35	4 008 082 –	3.79	43 957 991	44 060 674
DKK	484 099	5.17	363 451	5.26	2003/2010	141 865 +	5.17	90 928 +	2.80	625 964	454 379
SEK	200 512	5.70	203 763	5.70	2003/2007	864 306 +	5.70	1 178 448 +	3.70	1 064 818	1 382 211
USD	45 145 774	5.50	44 451 612	5.09	2003/2026	15 983 627 –	5.56	17 553 055 –	1.94	29 162 147	26 898 557
CHF	3 213 298	3.99	3 199 532	3.61	2003/2014	54 960 –	4.00	56 114 –	5.85	3 158 338	3 143 418
JPY	3 429 706	3.04	4 052 721	3.56	2003/2032	944 455 –	3.04	1 749 289 –	– 0.16	2 485 251	2 303 432
NOK	314 406	5.67	604 761	5.99	2004/2008	213 796 –	5.67	426 082 –	6.55	100 610	178 679
CAD	1 474 036	7.98	619 336	7.71	2003/2008	1 402 998 –	7.98	558 912 –	0.00	71 038	60 424
AUD	462 963	6.28	1 533 196	5.03	2005/2005	462 963 –	6.28	1 533 196 –	0.00		
CZK	247 891	7.55	477 808	6.02	2005/2022	101 167 +	7.55	298 800 +	2.36	349 058	776 608
HKD	1 767 967	7.12	1 179 981	6.97	2003/2010	1 767 967 –	7.12	1 179 981 –	0.00		
NZD	94 273	6.50	100 125	6.50	2004/2007	94 273 –	6.50	100 125 –	0.00		
ZAR	609 566	12.88	727 895	12.20	2003/2018	371 124 –	12.88	429 651 –	12.91	238 442	298 244
HUF	161 106	10.02	311 059	9.09	2003/2012	81 573 –	10.02	120 166 –	8.39	79 533	190 893
PLN	326 416	12.52	430 714	10.93	2003/2017	118 105 –	12.52	261 225 –	0.00	208 311	169 489
TWD	1 035 766	5.00	1 289 507	4.51	2003/2013	1 035 766 –	5.00	1 289 507 –	0.00		
SKK	46 752	15.63				63 114 +	15.63	113 245 +	8.29	109 866	113 245
Negative fair value adjustment (IAS 39)	4 759 190		9 190 838								
TOTAL	**183 909 706**		**194 108 172**								

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: 1 580 million). All such borrowings are hedged in full through swap operations.

Note L — Provisions for liabilities and charges (staff pension fund) (in EUR '000)

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 2001	474 951
- payments made during the year	– 19 037
- annual cost	61 841
- provision at 31 December 2002	**517 755**

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 144.3 million (2001: EUR 133.7 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 and provision for guarantees furnished (in EUR '000)

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

	31.12.2002	31.12.2001
Fund at beginning of the year	1 080 000	935 000
Appropriated for the year . . .	25 000	145 000
Fund at end of the year	**1 105 000**	**1 080 000**

An amount of EUR 25 million has been appropriated from the profit for the 2002 financial year (see Note A 13.a).

b) Movements in the provision for guarantees issued are tabulated below:

	31.12.2002	31.12.2001
Provision at beginning of the year	24 312	45 005
Transfer for the year	26 427	19 665
Reversal of TENs' guarantee provision (Note R)	0	– 40 000
Written off	– 8 382	– 358
	42 357	**24 312**

Note N — Geographical analysis of "Interest receivable and similar income" (item 1 of the profit and loss account) (in EUR '000)

	31.12.2002	31.12.2001
Germany	1 454 812	1 552 900
France	1 146 295	1 227 998
Italy	1 145 673	1 369 824
United Kingdom	1 205 993	1 377 507
Spain	1 017 252	1 219 248
Belgium	172 412	213 288
Netherlands	119 671	149 850
Sweden	147 968	177 804
Denmark	186 848	247 954
Austria	136 309	152 647
Finland	124 832	115 649
Greece	414 251	389 539
Portugal	496 335	525 726
Ireland	93 772	113 859
Luxembourg	28 597	26 829
	7 891 020	8 860 622
Outside the European Union	1 009 465	1 061 294
	8 900 485	**9 921 916**
Income not analysed (1)	899 454	835 264
	9 799 939	**10 757 180**
(1) Income not analysed:		
Revenue from investment portfolio securities	229 350	180 039
Revenue from short-term securities	170 647	87 931
Revenue from money-market operations	487 134	556 761
EIF guarantee commission (EIB counterguarantee)	12 323	10 533
	899 454	**835 264**

Note O — Result on financial operations: (item 5 of the profit and loss account)

The result comprises the following components (in EUR '000):

	2002	2001
Net result on ALM swaps	– 132 342	– 60 756
Net result on fair value hedging operations	3 211	6 124
Operational portfolio	0	133
	– 129 131	54 499
Other financial operations . . .	20 212	6 760
	– 108 919	**– 47 739**

Note P — Geographical analysis of "Commission receivable" (item 3 of the profit and loss account) (in EUR '000)

	31.12.2002	31.12.2001
Italy	1	2
United Kingdom	50	59
Denmark	0	1
Ireland	17	20
	68	82
Community institutions	20 447	22 506
Results not analysed (EIF)	13 815	9 941
	34 066	**32 529**

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

	31.12.2002	31.12.2001
Salaries and allowances	115 356	106 813
Welfare contributions and other social costs	54 096	51 856
Staff costs	169 943	158 669
General and administrative expenses	63 471	52 869
	232 923	**211 538**

The number of persons employed by the Group was 1 171 at 31 December 2002 (1 132 at 31 December 2001).

Note R — Extraordinary income and charges

a) Extraordinary income

This item comprises:

At 31.12.2001:

• An amount of EUR 40m corresponding to reversal of the EIF TEN's guarantee provision following the counter guarantee furnished by the Bank.

b) Extraordinary charges (in EUR '000)

	31.12.2002	31.12.2001
Provision for external mobility	0	7 500
Special conversion rates	0	3 864
	0	**11 364**

Note S — Special deposits for service of borrowings

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

Note T — Estimated fair value of financial instruments

The Group records balance sheet financial instruments on the basis of their historical cost in foreign currency (apart from the operational portfolio) representing the amount received in the case of a liability or the amount paid to acquire an asset. The fair value of the financial instruments (mainly loans, treasury, securities and borrowings after long-term interest rate or currency swaps) entered under assets and liabilities compared with their carrying value is shown in the table below:

	Assets		Liabilities	
(EUR million) 31 December 2002	Carrying value	Estimated fair value	Carrying value	Estimated fair value
- Loans	197 762	205 960	—	—
- Investment portfolio	2 873	3 077	—	—
- Liquid assets	11 140	11 140	—	—
- Borrowings after swaps	—	—	199 348	191 846
Total	211 775	219 454	199 348	191 846

The method of calculation of the estimated fair value of the financial instruments making up the assets and liabilities is based on the cash flows of the instruments and of the funding curve of the Bank. The curve reflects the cost of financing of the bank at the end of the year.

Note U — 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 V).

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

As regards lending, treasury and derivatives operations, credit risk is managed by an independent 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 2002 is analysed below (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					13 006	13 006
	Public institutions	18 117	14 489	1 675	810	1 396	36 487
	Zone "A" banks	13 448	31 943	10 834	16 109	14 528	86 862
	Corporates	9 398	1 520	19 762	27 066	6 317	64 063
	Total 2002	40 963	47 952	32 271	43 985	35 247	200 418
	Total 2001	41 545	36 968	32 589	45 030	34 809	190 941

(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:

	2002	2001
Secured by:		
Member States	1 677	1 881
Community budget	21 661 (*)	21 530 (*)
Pre-Accession Facility	9 805	6 765
	33 143	30 176

(*) of which 2 546 million in risk-sharing operations as explained below (2001: 2 969 million).

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 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 3 231 million in risk-sharing loans have been signed under these agreements.

Loans granted under the Pre-Accession Facility (EUR 9 805 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 as at 31 December 2002 (in EUR '000)

Convention/agreement	Outstanding 31.12.02	Outstanding 31.12.01
Member States guarantee		
ACP/OCT Group	4 404	8 924
2nd Lomé Convention		
ACP/OCT Group 3rd Lomé Convention	118 575	177 225
ACP/OCT Group 4th Lomé Convention	677 506	867 832
ACP/OCT Group 4th Lomé Convention/2nd Financial Protocol	876 688	826 818
Total Member States guarantee	***1 677 173***	***1 880 799***
100% Community budget guarantee		
South Africa - 300m - BG Decision 19.06.95	184 859	205 887
ALA I - 750m	393 484	587 466
ALA interim (100% guarantee) - 153m	93 664	115 711
CEEC - 1bn - BG Decision 29.11.89	447 100	582 878
CEEC - 3bn - BG Decision 02.05.94	2 220 491	2 491 321
CEEC - 700m - BG Decision 18.04.91	255 222	329 195
Total: 100% Community budget guarantee	*3 594 820*	*4 312 458*
75% Community budget guarantee		
Mediterranean Protocols	3 334 112	3 903 857
Yugoslavia - Art. 18 (1984)	15 580	21 159
Yugoslavia - 1st Protocol	23 511	34 555
Yugoslavia - 2nd Protocol	168 588	193 597
Slovenia - 1st Protocol	121 304	131 268
Total: 75% Community budget guarantee	*3 663 095*	*4 284 436*
70% Community budget guarantee		
South Africa - 375m - Decision 29.01.97	277 528	327 031
ALA II - 900m	867 572	995 196
ALA interim (70% guarantee: risk sharing) - 122m	101 539	135 063
Bosnia-Herzegovina - 100m 99/2001	99 544	100 122
Euromed (EIB) - 2 310m - Decision 29.01.97	2 104 321	2 385 402
FYROM - 150m - 1998/2000	150 000	150 000
CEEC - 3 520m - Decision 29.01.97	2 977 145	3 360 841
Total: 70% Community budget guarantee	*6 577 649*	*7 453 655*
65% Community budget guarantee		
South Africa - 825m - 7/2000-7/2007	243 562	202 533
ALA III - 2/2000-7/2007	988 461	941 255
Euromed II - 2/2000-7/2007	3 164 588	1 905 885
CEEC - 9 280m - 2/2000-7/2007	2 848 245	1 979 920
Turkey special action - 2001	130 000	0
Turkey-TERRA-11/1999-11/2002	450 000	450 000
Total: 65% Community budget guarantee	***7 824 856***	***5 479 593***
Total: Community budget guarantee	***21 660 420***	***21 530 142***
Total: Pre-Accession Facility	***9 805 108***	***6 764 930***
Grand Total	**33 142 701**	**30 175 871**

A breakdown of disbursed loans outstanding (in EUR million) at 31 December 2002 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 2002	TOTAL 2001
Energy	1 893	9 397	12 032	23 322	23 751
Transport	2 060	11 465	40 479	54 004	51 496
Telecommunications	2 473	6 461	2 926	11 860	14 380
Water, sewerage	1 048	4 361	9 016	14 425	12 738
Miscellaneous infrastructure	534	3 332	5 185	9 051	8 143
Agriculture, forestry, fisheries	57	156	143	356	366
Industry	2 501	7 996	4 254	14 751	15 132
Services	226	1 445	1 218	2 889	2 418
Global loans	4 416	22 122	34 726	61 264	54 497
Health, education	59	616	4 442	5 117	3 942
Positive fair value adjustment (IAS 39)	0	0	0	723	33
	15 267	67 351	114 421	197 762	186 896

Treasury

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

Limits governing the structure of the securities portfolio and outstanding treasury instruments have been laid down by Management, in particular on the basis of the ratings awarded to counterparties by the rating agencies (these limits are reviewed regularly by the 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 2002	Securities portfolio %	Treasury instruments %
Moody's or equivalent rating		
AAA	80	12
P1	0	17
AA1 to AA3	14	45
A1	3	15
Below A1	2	10
Non-rated	1	1
Total	100	100

Interest rate risk

The Group 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 Group 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 an increase of EUR 143 000 in the differential between the net present value of the Group'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 31.12.2002	Total 2001
Assets							
Loans (gross)	105 662	2 912	5 635	36 614	46 939	197 762	186 863
Net liquidity	10 658	182	544	1 259	1 370	14 013	13 183
	116 320	3 094	6 179	37 873	48 309	211 775	200 046
Liabilities							
Borrowings and swaps	135 268	– 4 167	3 558	28 665	36 024	199 348	174 794
Interest rate risk	– 18 948	7 261	2 621	9 208	12 285		

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	16					16
Treasury bills eligible for refinancing with central banks	20	152	793	566		1 531
Other loans and advances:						
Current accounts	118					118
Others	9 947					9 947
	10 065					10 065
Loans:						
Credit institutions	1 497	5 322	32 409	53 187		92 415
Customers	1 383	7 063	34 709	59 628	723	103 506
	2 880	12 385	67 118	112 815	723	195 921
Debt securities including fixed-income securities	4 148	897	1 585	2 804		9 434
Other assets					17 710	17 710
Total assets	17 129	13 434	69 496	116 185	18 433	234 677
Liabilities						
Amounts owed to credit institutions	1 173	4	6			1 183
Debts evidenced by certificates	13 211	95 564	10 794	65 348	9 191	194 108
Currency swap contracts adjustment	99	18	2 985	447	5 447	8 996
Capital, reserves and profit					24 343	24 343
Other liabilities					6 047	6 047
Total liabilities	14 483	95 586	13 785	65 795	45 028	234 677

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 margins on operations and in general expenses incurred in non-euro currencies. The Group's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets.

Exchange position (EUR million)

Currency	Euro	Pound sterling	United States dollar	Other currencies	Total excl. euro	Grand total
Assets						
Cash in hand, central banks and post office banks	*7*	9			*9*	**16**
Treasury bills eligible for refinancing with central banks	*1 531*					**1 531**
Other loans and advances:						
Current accounts	*85*	3	11	19	*33*	**118**
Others	*6 676*	995	860	1 416	*3 271*	**9 947**
	6 761	998	871	1 435	*3 304*	**10 065**
Loans:						
Credit institutions	*53 169*	24 264	13 357	1 625	*39 246*	**92 415**
Customers	*68 572*	17 658	11 253	6 023	*34 934*	**103 506**
	121 741	41 922	24 610	7 648	*74 180*	**195 921**
Debt securities including fixed-income securities	*7 027*	1 125	950	332	*2 407*	**9 434**
Other assets	*15 719*	848	663	480	*1 991*	**17 288**
Total assets	*152 786*	44 902	27 094	9 895	81 891	**234 677**
Liabilities						
Amounts owed to credit institutions	*786*	397			*397*	**1 183**
Debts evidenced by certificates Debt securities in issue	*86 339*	47 681	44 452	14 738	*106 871*	**193 210**
Others	*155*	388		355	*743*	**898**
	86 494	48 069	44 452	15 093	*107 614*	**194 108**
Currency swap contracts adjustment	*36 904*	– 4 313	– 17 895	– 5 700	*– 27 908*	**8 996**
Capital, reserves and profit	*24 343*					**24 343**
Other liabilities	*4 263*	757	534	493	*1 784*	**6 047**
Total liabilities	*152 790*	44 910	27 091	9 886	*81 887*	**234 677**
Off balance sheet	3	– 2	– 1			
Net position as at 31.12.2002	**1**	**– 10**	**2**	**9**		
Net position as at 31.12.2001	**– 15**	**2**	**4**	**9**		

Note V — Derivatives

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

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.

Assets swaps

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

Interest rate or currency swaps allow the 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 31.12.2002**	Total 2001
Notional amount	5 251	30 071	3 156	2 316	**40 794**	38 567
Net discounted value	– 119	– 1 592	– 249	216	**– 1 744**	2 282
Credit risk (BIS 2 weighted)	79	539	46	204	**867**	1 357

The notional amounts receivable or payable in respect of currency swaps are disclosed off balance sheet (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 31.12.2002**	Total 2001
Notional amount	11 864	63 428	20 357	32 770	**128 419**	109 868
Net discounted value	319	3 221	1 048	2 013	**6 601**	4 817
Credit risk (BIS 2 weighted)	105	1 048	510	836	**2 498**	1 732

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	169	20	27
Notional amount (EUR million)	7 427	1 580	2 903
Net discounted value	– 121	– 197	226

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	8.5	574	1 227
Aa1 to Aa3	53.2	531	3 784
A1	35.7	70	2 766
A2 to Baa3	2.1	10	258
Non-rated	0.6	0	191
Total	**100**	**1 185**	**8 226**

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 2 290 million at 31 December 2002, as against EUR 2 025 million at 31 December 2001.

3. *IAS 39*

• *ALM derivatives*

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

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

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

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

Changes in "fair value" are entered in the profit and loss account.

• *Hedging derivatives*

The vast majority of the Bank's swaps are concluded with the aim of hedging bond issues. These derivatives as well as borrowings hedged are measured at fair value.

The table below shows a summary of hedged items, the nature of the risk being hedged, the hedging instrument and its fair value.

Table of hedging derivatives (in EUR million)

Hedging Instrument				Hedged item	
Hedging Instrument	Description	Positive fair value EUR	Negative fair value EUR	Description of hedged item	Carrying value
Interest rate Swap	Receive fixed - pay variable	5 382	– 1 020	Fixed interest rate debt	4 362
Interest rate Swap	Receive structured - pay variable	462	– 331	Structured debt	131
Interest rate Swap	Receive structured - pay fixed	214	– 3	Structured terms of debt	211
Interest rate Swap	Receive variable - pay fixed	96	– 1 457	Fixed interest rate loans	– 1 361
Currency Swap	Receive currency A - pay currency B	358	– 355	Fixed interest rate debt in curr.B	3
Currency Swap	Receive fixed currency A - pay variable currency B	1 580	– 1 011	Fixed interest rate debt in curr.A	569
Currency Swap	Receive struct. currency A - pay variable currency B	127	– 1 157	Structured debt in currency A	– 1 030
Currency Swap	Receive currency A - pay currency B	145	– 45	Fixed interest rate loans in curr.A	100
DRS	Receive fixed - pay fixed	443	– 54	Fixed interest rate loans	389
RRS	Receive fixed - pay fixed	5	– 7	Fixed interest rate loans	– 2
		8 812	**– 5 440**		**3 372**
	Position de change	4 782	– 6		4 776
	Total	**13 594**	**– 5 446**		**8 148**

Note W — 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 2002	% fin. year 2001
1. Loans for projects within the Union and related loans						
Germany	783	35 016 192	648 049	34 368 143	14.99%	14.58%
Italy	1 061	31 620 017	2 848 303	28 771 714	13.54%	13.49%
Spain	471	29 528 723	2 825 512	26 703 211	12.64%	12.37%
France	318	26 754 412	3 112 088	23 642 324	11.45%	11.45%
United Kingdom	265	23 628 008	3 218 571	20 409 437	10.12%	11.33%
Portugal	225	14 675 328	3 259 453	11 415 875	6.28%	6.13%
Greece	128	9 830 944	1 627 970	8 202 974	4.21%	4.03%
Denmark	102	5 430 342	945 289	4 485 053	2.32%	2.52%
Sweden	116	4 357 062	948 084	3 408 978	1.87%	1.99%
Belgium	87	4 149 636	433 479	3 716 157	1.78%	1.87%
Austria	122	4 044 781	30 000	4 014 781	1.73%	1.61%
Finland	61	3 470 450	218 956	3 251 494	1.49%	1.29%
Netherlands	49	3 033 618	945 500	2 088 118	1.30%	1.38%
Ireland	76	2 310 962	522 701	1 788 261	0.99%	1.12%
Related Loans (*)	22	1 979 622	300 000	1 679 622	0.85%	0.91%
Luxembourg	33	588 213	12 300	575 913	0.25%	0.27%
Total	**3 919**	**200 418 310**	**21 896 255**	**178 522 055**	**85.81%**	**86.35%**

(*) 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 W — 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 2002	% fin. year 2001
2. Loans for projects outside the Union						
2.1. ACP Countries/OCT						
Namibia	10	147 782	18 500	129 282		
Mauritius	12	136 434	70 416	66 018		
Kenya	8	125 160	21 139	104 021		
Jamaica	10	105 323	7 249	98 074		
Acp Group	3	102 720	34 220	68 500		
Zimbabwe	10	80 721	18 030	62 691		
Barbados	6	71 470	45 000	26 470		
Mozambique	5	69 201	10 000	59 201		
Dominican Republic	5	67 317	50 000	17 317		
Ghana	5	66 473	17 365	49 108		
Trinidad And Tobago	4	63 624	0	63 624		
Regional - Africa	2	60 417	33 000	27 417		
Senegal	2	56 038	17 904	38 134		
Botswana	7	54 320	0	54 320		
Lesotho	3	53 162	27 414	25 748		
Regional - Central Africa	1	52 264	44 636	7 628		
Mauritania	3	46 083	15 000	31 083		
Cameroon	3	31 023	5 000	26 023		
Bahamas	3	29 666	0	29 666		
Papua New Guinea	6	29 176	0	29 176		
Cote-D'ivoire	6	26 924	0	26 924		
Nigeria	2	22 162	0	22 162		
Gabon	3	20 152	15 500	4 652		
Cape Verde	1	20 000	14 500	5 500		
Regional - West Africa	1	19 529	0	19 529		
Swaziland	2	17 500	7 500	10 000		
Saint Lucia	4	14 465	5 000	9 465		
Regional - Caribbean	1	12 429	0	12 429		
French Polynesia	3	8 560	3 000	5 560		
Malawi	4	8 160	0	8 160		
Guinea	2	8 001	0	8 001		
British Virgin Islands	3	6 149	0	6 149		
Uganda	1	5 491	0	5 491		
Oct Group	1	4 960	3 422	1 538		
Cayman Islands	3	4 781	0	4 781		
New Caledonia and Dependencies	2	4 370	0	4 370		
Saint Vincent and the Grenadines	2	4 236	0	4 236		
Chad	1	4 073	0	4 073		
Surinam	1	3 349	0	3 349		
Grenada	1	3 063	0	3 063		
Falkland Islands	2	2 648	0	2 648		
Aruba	3	2 553	2 000	553		
Tonga	2	2 324	0	2 324		
Belize	1	2 108	0	2 108		
Netherlands Antilles	2	810	0	810		
Sub-total	162	1 677 171	485 795	1 191 376	0.72%	0.85%
2.2. South Africa *Sub-total*	23	705 948	100 394	605 554	0.30%	0.33%
2.3. Euro-Mediterranean Partnership Countries and the Balkans						
Turkey	28	1 994 351	950 495	1 043 856		
Morocco	37	1 574 037	683 100	890 937		
Algeria	33	1 522 685	519 432	1 003 253		
Egypt	33	1 425 144	578 238	846 906		
Tunisia	41	1 324 283	527 200	797 083		
Lebanon	13	450 183	185 600	264 583		
Federal Republic Of Yugoslavia	15	387 885	279 000	108 885		
Jordan	27	363 006	55 000	308 006		
Croatia	13	331 613	238 350	93 263		
Syria	4	307 539	290 000	17 539		
Bosnia-Herzegovina	4	184 544	150 010	34 534		
FYROM	8	170 829	72 840	97 989		

Note W — 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 2002	% fin. year 2001
Gaza-West Bank	8	156 350	106 270	50 080		
Albania	6	128 643	81 000	47 643		
Israel	3	41 040	0	41 040		
Sub-total	273	10 362 132	4 716 535	5 645 597	4.44%	4.18%
2.4. Accession Countries						
Poland	66	5 385 661	2 970 446	2 415 215		
Czech Republic	36	3 246 091	1 435 344	1 810 747		
Romania	39	2 529 072	1 333 930	1 195 142		
Hungary	47	2 140 540	662 000	1 478 540		
Slovenia	28	1 214 152	578 891	635 261		
Slovak Republic	25	1 110 514	163 000	947 514		
Bulgaria	24	865 774	557 000	308 774		
Cyprus	19	683 799	455 000	228 799		
Lettonia	14	310 158	214 744	95 414		
Lithuania	15	253 392	102 342	151 050		
Estonia	13	177 971	77 800	100 171		
Malta	4	35 604	25 000	10 604		
Sub-total	330	17 952 728	8 575 497	9 377 231	7.68%	7.03%
2.5. Asian and Latin American Countries						
Brazil	17	668 452	3 448	665 004		
Argentina	10	414 675	84 348	330 327		
Indonesia	6	295 054	256 818	38 236		
Philippines	6	240 098	80 835	159 263		
China	3	133 226	56 167	77 059		
Thailand	2	93 690	35 650	58 040		
Panama	2	91 037	4 881	86 156		
Mexico	3	86 846	36 307	50 539		
Peru	2	78 153	0	78 153		
Regional - Central America	2	57 279	30 000	27 279		
Vietnam	1	55 000	55 000	0		
Pakistan	2	45 010	28 214	16 796		
Sri Lanka	1	40 000	40 000	0		
Costa Rica	1	38 616	0	38 616		
Bangladesh	1	36 202	36 202	0		
Regional - Andean Pact	1	34 472	0	34 472		
India	1	26 449	0	26 449		
Uruguay	1	10 463	0	10 463		
Sub-total	62	2 444 722	747 870	1 696 852	1.05%	1.25%
Total	**850**	**33 142 701**	**14 626 091**	**18 516 610**	**14.19% (*)**	**13.65%**
IAS 39		**723 277**		**723 277**		
Grand Total	**4 769**	**234 284 288 (**)**	**36 522 346**	**197 761 942**	**100.00%**	**100.00%**

(*) 9.9% excluding Pre-Accession Facility.
(**) including securitised loans (Note B).

Note X — 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 W);
- tangible and intangible assets by country of location (Note F).

Note Y — Conversion rates

The following conversion rates were used for drawing up the balance sheets at 31 December 2002 and at 31 December 2001:

1 euro =

EURO-12: rates fixed irrevocably

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
Drachmas	340.750
Irish pounds	0.787564
Luxembourg francs	40.3399
Portuguese escudos	200.482

	31.12.2002	31.12.2001
PRE-IN:		
Pounds sterling	0.650500	0.608500
Danish kroner	7.42880	7.43650
Swedish kronor	9.15280	9.30120
NON-COMMUNITY CURRENCIES:		
United States dollars	1.04870	0.881300
Swiss francs	1.45240	1.48290
Lebanese pounds	1541.27	1359.01
Japanese yen	124.390	115.330
Canadian dollars	1.65500	1.40770
Australian dollars	1.85560	1.72800
CFA francs	655.957	655.957
Czech koruny	31.5770	31.9620
Hong Kong dollars	8.17810	6.87230
New Zealand dollars	1.99750	2.12150
South African rand	9.00940	10.4302

Results for the Year

Before provisions, write-downs and extraordinary result (after deduction of minority interests), the profit for the financial year 2002 ran to EUR 1 347 million as against 1 437 million for 2001, down 6.3%, and net profit to EUR 1 168 million compared with 1 279 million for 2001, representing a decrease of 8.7%.

The transfer to the Fund for general banking risks is EUR 25 million for 2002 (145 million in 2001), while, for venture capital operations, write-downs and the provision for guarantees provided came to EUR 144 million in 2002 (42 million in 2001).

On the interest rate front, movements were modest with the average rate on loans falling from 5.64% in 2001 to 4.74% in 2002 and the average rate on borrowings down over the same period from 5.34% to 4.33%.

Receipts of interest and commission on loans in 2002 totalled 8 938 million against 9 921 million in 2001, while interest and commission on borrowings amounted to 7 966 million against 8 895 million in 2001.

Overall, treasury operations yielded net income of 747 million in 2002, or 57 million above the 2001 figure of 690 million, producing an average overall return of 3.58% in 2002 compared with 4.83% in 2001.

The increase in the absolute level of interest income from treasury operations in 2002 stemmed chiefly from the higher return on operational portfolios, up by 60 million compared to 2001. This increase was due to a higher level of holdings but remained limited by the impact of falling short-term rates.

General administrative expenses together with depreciation of tangible and intangible assets amounted to 225 million in 2002, or 9.8% more than in 2001 (205 million).

Taking into account IAS 39, the fair value of derivatives had a negative impact of EUR 324 million on the EIB Group's own funds. This negative impact corresponds to the fair value, as at 31 December 2002, of a number of interest rate swaps that have been entered into, between 1999 and 2002, in order to hedge the Group's overall interest rate position. These derivatives are accounted for at their fair value. However, they do not comply with specific criterias of the IAS 39 standard which allow for hedge-accounting to be applied.

Report of the Auditor

The Chairman of the Audit Committee
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the consolidated financial statements, as identified below, of the European Investment Bank for the year ended 31 December 2002. 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 International Financial Reporting Standards and with the general principles of the Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions 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 2002 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
- Statement of movements in consolidated own funds
- Consolidated cash flow statement
- Notes to the consolidated financial statements

ERNST & YOUNG
Société Anonyme

Luxembourg, 25 February 2003

Kenneth A. HAY

The Audit Committee

The Audit Committee reports to the Board of Governors, the following statement being communicated to the Governors prior to their approval of the Annual Report and the 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

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

and considering

- the consolidated financial statements for the financial year ending on 31 December 2002 as drawn up by the Board of Directors at its meeting on 25 February 2003,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

confirms that the consolidated financial statements, comprising the consolidated balance sheet, the statement of special section, the consolidated profit and loss account, the consolidated own funds, the consolidated cash-flow statement and the notes to the consolidated financial statements give a true and fair view of the financial position of the Bank as at 31 December 2002 and of the results of its operations and cash flows for the year then ended.

Luxembourg, 18 March 2003

The Audit Committee

M. HARALABIDIS C. NACKSTAD E. MARIA

EIB
Financial Statements

BALANCE SHEET AS AT 31 DECEMBER 2002

In EUR '000

ASSETS		***31.12.2002***		*31.12.2001*
1. Cash in hand, balances with central banks and post office banks		***16 100***		22 180
2. Treasury bills eligible for refinancing with central banks (Note B)		***1 398 458***		1 377 061
3. Loans and advances to credit institutions				
a) repayable on demand	**107 236**		142 213	
b) other loans and advances (Note C)	**9 932 089**		9 907 933	
c) loans (Note D)	**92 414 790**		84 654 699	
		102 454 115		94 704 845
4. Loans and advances to customers				
Loans (Note D)	**102 782 927**		101 085 284	
Specific provisions (Note A.6)	**– 175 000**		– 175 000	
		102 607 927		100 910 284
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	**3 229 725**		3 099 397	
b) issued by other borrowers	**5 831 782**		3 222 928	
		9 061 507		6 322 325
6. Shares & other variable-yield securities (Note E)		***839 200***		788 992
7. Participating interests (Note E)		***269 942***		269 942
8. Intangible assets (Note F)		***9 848***		7 687
9. Property, furniture and equipment (Note F)		***112 705***		79 460
10. Other assets				
a) receivable in respect of EMS interest subsidies paid in advance (Note G)	**283**		3 528	
b) sundry debtors (Note H)	**1 106 822**		586 790	
c) Currency swap contracts adjustment account	**0**		1 236 663	
		1 107 105		1 826 981
11. Prepayments and accrued income (Note I)		***2 892 516***		3 066 660
		220 769 423		209 376 417

OFF-BALANCE-SHEET ITEMS

		31.12.2002		*31.12.2001*
Commitments				
- EBRD capital (Note E)				
. Uncalled		***442 500***		442 500
. To be paid in		***25 313***		33 750
- EIF capital (Note E)				
. Uncalled		***972 000***		972 000
- Undisbursed loans (Note D)				
. Credit institutions	**7 412 732**		8 523 766	
. Customers	**29 109 614**		25 729 446	
		36 522 346		34 253 212
- Undisbursed venture capital operations		***1 166 113***		1 015 800
Guarantees (Note D)				
. In respect of loans granted by third parties		***401 626***		484 936
. In respect of venture capital operations		***64 810***		57 946
EIF treasury management		***530 034***		525 051
Guarantee Fund treasury management		***1 646 292***		1 775 229
Securities received as collateral with respect to derivatives exposure (Note U)		***4 458 616***		5 124 892

The bracketed notes refer to the notes to the financial statements

LIABILITIES		***31.12.2002***		*31.12.2001*
1. Amounts owed to credit institutions (Note J)				
a) repayable on demand	**0**		0	
b) with agreed maturity dates or periods of notice	**1 182 667**		607 622	
		1 182 667		607 622
2. Debts evidenced by certificates (Note K)				
a) debt securities in issue	**184 019 263**		178 293 413	
b) others	**898 071**		857 103	
		184 917 334		179 150 516
3. Other liabilities				
a) interest subsidies received in advance (Note G)	**289 954**		324 956	
b) sundry creditors (Note H)	**1 036 001**		989 394	
c) sundry liabilities	**45 690**		42 230	
d) Currency swap contracts adjustment account	**3 549 176**		0	
		4 920 821		1 356 580
4. Accruals and deferred income (Note I)		***4 599 543***		4 490 597
5. Provisions for liabilities and charges				
Staff pension fund (Note L)	**517 205**		474 951	
Provision for guarantees issued	**16 835**		0	
		534 040		474 951
6. Fund for general banking risks (Note M)		***1 105 000***		1 080 000
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	**3 717 060**		3 154 706	
c) special supplementary reserves	**750 000**		0	
		14 467 060		13 154 706
9. Funds allocated to structured finance facility		***250 000***		250 000
10. Funds allocated to venture capital operations		***1 499 091***		1 500 000
11. Profit for the financial year		***1 293 867***		1 311 445
		220 769 423		209 376 417

OFF-BALANCE-SHEET ITEMS

	31.12.2002	*31.12.2001*
Special deposits for service of borrowings (Note R)	***284 367***	640 526
Securities portfolio		
. Securities receivable	***17 776***	9 327
. Securities payable	***18 132***	12 673
Nominal value of interest-rate swap and deferred rate-setting contracts (Note U)	***128 418 546***	109 868 600
FRA operations		
. Purchase	***0***	25 000 000
. Sale	***0***	25 000 000
Nominal value of currency swap contracts payable	***46 633 273***	39 356 131
Nominal value of currency swap contracts receivable	***43 084 097***	40 592 794
Borrowings arranged but not yet signed	***889 175***	0

STATEMENT OF SPECIAL SECTION (1) AS AT 31 DECEMBER 2002

In EUR '000

(amounts in foreign currency converted at exchange rates prevailing on 31 December 2002)

ASSETS	***31.12.2002***	*31.12.2001*
Member States		
From resources of the European Community (New Community Instrument for borrowing and lending)		
Disbursed loans outstanding (2)	**68 599**	80 959
Turkey		
From resources of Member States		
Disbursed loans outstanding (3)	**43 792**	58 953
Mediterranean Countries		
From resources of the European Community		
Disbursed loans outstanding	201 606	211 121
Risk capital operations		
- amounts to be disbursed	117 182	96 582
- amounts disbursed	201 576	192 572
	318 758	289 154
Total (4)	**520 364**	500 275
African, Caribbean and Pacific States and Overseas Countries and Territories		
From resources of the European Community		
Yaoundé Conventions		
Loans disbursed	41 564	44 810
Contributions to the formation of risk capital		
Amounts disbursed	419	419
Total (5)	**41 983**	45 229
Lomé Conventions		
Operations from risk capital resources:		
- amounts to be disbursed	633 407	666 171
- amounts disbursed	1 274 134	1 198 479
	1 907 541	1 864 650
Operations from other resources		
- amounts to be disbursed	8 000	8 000
Total (6)	**1 915 541**	1 872 650
Grand total	**2 590 279**	2 558 066

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 31.12.2002: 1 332 075 / at 31.12.2001: 1 402 697

b) Under Financial Protocols signed with the Mediterranean Countries: at 31.12.2002: 152 326 / at 31.12.2001: 158 245

(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 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		+ 123 203
less:	cancellations	201 991	
	repayments	6 251 758	– 6 453 749
			68 599

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

			405 899
add:	exchange adjustments		+ 23 564
less:	cancellations	215	
	repayments	385 456	– 385 671
			43 792

(4) 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:

			672 007
less:	exchange adjustments	59	
	cancellations	35 800	
	repayments	115 784	– 151 643
			520 364

LIABILITIES

	31.12.2002	*31.12.2001*
Funds under trust management		
Under mandate from the European Communities		
- New Community Instrument	68 599	80 959
- Financial Protocols with the Mediterranean Countries	403 182	403 693
- Yaoundé Conventions	41 983	45 229
- Lomé Conventions	1 274 134	1 198 479
	1 787 898	1 728 360
Under mandate from Member States	43 792	58 953
Total	**1 831 690**	1 787 313
Funds to be disbursed		
On loans and risk capital operations in the Mediterranean countries	117 182	96 582
On operations from risk capital resources under the Lomé Conventions	633 407	666 171
On operations from other resources under the Lomé Conventions	8 000	8 000
Total	**758 589**	770 753
Grand Total	**2 590 279**	2 558 066

(5) 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	109 446	– 111 020
		41 983

(6) 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	2 906 350	
- equity participations	109 131	3 015 481
add:		
- capitalised interest		+ 1 802
less:		
- cancellations	375 937	
- repayments	704 190	
- exchange adjustments	29 615	– 1 109 742
		1 907 541
Loans from other resources:		8 000
		1 915 541

PROFIT AND LOSS ACCOUNT

For the year ended 31 december 2002
In EUR '000

		31.12.2002		*31.12.2001*
1. Interest receivable and similar income (Note N)		**9 773 256**		10 729 506
2. Interest payable and similar charges		**– 8 128 699**		– 9 072 365
3. Income from participating interests		**9 477**		7 333
4. Commission receivable (Note O)		**20 515**		22 841
5. Commission payable		**– 7 402**		– 8 110
6. Result on financial operations		**24 465**		6 903
7. Other operating income		**12 434**		20 037
8. General administrative expenses (Note P):		**– 226 125**		– 203 764
a) staff costs	**163 348**		152 903	
b) other administrative costs	**62 777**		50 861	
9. Value adjustments in respect of (Note F):		**– 18 061**		– 15 359
a) intangible assets	**4 787**		4 872	
b) tangible assets	**13 274**		10 487	
10. Value adjustment on venture capital operations (Note E)		**– 106 253**		– 19 213
11. Transfer to provision for guarantees issued		**– 25 216**		0
12. Value adjustment on shares and other variable yield securities		**– 10 189**		0
13. Extraordinary income (Note Q)		**665**		0
14. Transfer to Fund for general banking risks (Note M)		**– 25 000**		– 145 000
15. Extraordinary charges (Note Q)		**0**		– 11 364
16. Profit for the financial year		**1 293 867**		1 311 445

OWN FUNDS AND APPROPRIATION OF PROFIT

On 4 June 2002 the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 2001, which, after transfer of EUR 145 000 000 to the Fund for general banking risks, amounted to EUR 1 311 444 923, as follows:

- an amount of EUR 908 728 as deduction to the funds allocated to the Venture Capital Operations;
- an amount of EUR 562 353 651, for appropriation to the Additional Reserves
- an amount of EUR 750 000 000, for appropriation to the Special Supplementary Reserve

Statement of movements in own funds (in EUR '000)

	31.12.2002	*31.12.2001*
Share Capital		
Subscribed capital	100 000 000	100 000 000
Uncalled	– 94 000 000	– 94 000 000
Paid-in capital	**6 000 000**	**6 000 000**
Reserves and profit for the year:		
Reserve fund		
Balance at beginning of the year	10 000 000	10 000 000
Appropriation of prior year's profit	0	0
Balance at end of the year	**10 000 000**	**10 000 000**
Additional reserves		
Balance at beginning of the year	3 154 706	2 124 244
Appropriation of prior year's profit	562 354	1 030 462
Balance at end of the year	**3 717 060**	**3 154 706**
Special Supplementary reserve		
Balance at beginning of the year	0	0
Appropriation of prior year's profit	750 000	0
Balance at end of the year	**750 000**	**0**
Fund for general banking risks		
Balance at beginning of the year	1 080 000	935 000
Appropriation of prior year's profit	25 000	145 000
Balance at end of the year	**1 105 000**	**1 080 000**
Funds allocated to structured finance facility		
Balance at beginning of the year	250 000	0
Appropriation of prior year's profit	0	250 000
Balance at end of the year	**250 000**	**250 000**
Funds allocated to venture capital operations		
Balance at beginning of the year	1 500 000	1 500 000
Appropriation of prior year's profit	– 909	0
Balance at end of the year	**1 499 091**	**1 500 000**
Profit for the year	**1 293 867**	**1 311 445**
Reserves and profit for the year:	**18 615 018**	**17 296 151**
Total own funds	**24 615 018**	**23 296 151**

STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL OF THE BANK AS AT 31 DECEMBER 2002

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.

On 4 June 2002 the Board of Governors decided to raise the subscribed capital to 150 billion as from 1 January 2003, as a result of the transformation of 1.5 billion into subscribed and paid-in capital by way of a transfer from the Additional Reserves and the increase of 48.5 billion in Members States' subscriptions.

CASH FLOW STATEMENT AS AT 31 DECEMBER 2002

In EUR '000

	31.12.2002	*31.12.2001*
A. Cash flows from operating activities:		
Profit for the financial year	1 293 867	1 311 445
Adjustments:		
Transfer to Fund for general banking risks	25 000	145 000
Value adjustments on tangible and intangible assets	18 061	15 359
Value adjustments on shares and other variable yield securities	10 189	0
Value adjustments on venture capital operations	106 253	19 213
Exchange adjustment not subject to Article 7	– 1 096	905
Increase/(Decrease) in accrued interest and commissions payable and interest received in advance	108 946	– 278 346
Increase in accrued interest and commissions receivable	174 144	364 302
Investment portfolio amortisation	– 2 045	4 597
Profit on operating activities:	1 733 319	1 573 281
Net loan disbursements	– 40 357 837	– 30 485 314
Repayments	23 518 129	15 772 177
Net balance on NCI operations (Note H)	49 336	16 298
Increase in treasury portfolios	– 473 407	– 1 483 626
Increase in venture capital operations	– 160 211	– 193 059
Increase in securitised loans	– 717 661	– 1 003 287
Net cash from operating activities	**– 16 408 333**	**– 15 803 530**
B. Cash flows from investing activities:		
EBRD shares paid up (Note E)	– 8 438	– 8 437
Sales of securities	333 543	281 949
Purchases of securities	– 333 101	– 290 489
Increases in land, buildings and furniture (Note F)	– 46 519	– 11 620
Increases in intangible fixed assets	– 6 947	– 2 696
Other (decreases)/increases in assets	– 115 061	73 015
Net cash from investing activities	**– 176 524**	**41 722**
C. Cash flows from financing activities:		
Issue of borrowings	37 563 210	32 531 378
Redemption of borrowings	– 20 396 612	– 19 000 043
Increase/(decrease) in currency swaps receivable	278 192	– 233 439
Net increase in commercial paper	626 203	670 303
Net increases in amounts owed to credit institutions	575 045	99 733
Other increases in liabilities	74 154	129 886
Net cash from financing activities	**18 720 192**	**14 197 818**
Summary statement of cash flows		
Cash and cash equivalents at beginning of financial year	12 261 325	13 242 058
Net cash from:		
(1) operating activities	– 16 408 333	15 803 530
(2) investing activities	– 176 524	41 722
(3) financing activities	18 720 192	14 197 818
Effects of exchange rate changes on cash and cash equivalents	– 584 328	583 257
Cash and cash equivalents at end of financial year	**13 812 332**	**12 261 325**
Cash analysis (excluding investment and hedging portfolios)		
Cash in hand, balances with central banks and post office banks	16 100	22 180
Bills maturing within three months of issue	3 756 907	2 188 999
Loans and advances to credit institutions:		
- accounts repayable on demand	107 236	142 213
- term deposit accounts	9 932 089	9 907 933
	13 812 332	**12 261 325**

NOTES TO THE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2002

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 (as amended by Directive 2001/65/EC of 27 September 2001) on the annual accounts and consolidated accounts of banks and other financial institutions (the "Directive").

On a proposal from the Management Committee, the Board of Directors decided, on 25 February 2003, to submit the financial statements to the Governors for approval at their meeting on 3 June 2003.

The Bank also publishes consolidated financial statements.

2. *Foreign currency translation*

In accordance with Article 4 (1) of its Statute, the EIB uses the euro, the single currency of the Member States participating in the third stage of Economic and Monetary Union, as the unit of measure for the capital accounts of Member States and for presenting its financial statements.

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

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

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. *Financial assets*

Financial assets are accounted for using the settlement date basis.

4. *Cash and cash equivalents*

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

5. *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:

5.1. *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. The difference between entry price and redemption value is accounted for *pro rata temporis* over the remaining life of the securities held.

5.2. *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.

5.3. *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.

5.4. *Short-term securities*

In order to maintain an adequate level of liquidity the Bank purchases money market products with a maximum maturity of twelve months, in particular Treasury bills and negotiable debt securities issued by credit institutions. The securities 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.

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

6.1. *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.

6.2. *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.

6.3. *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 (are maintained in the balance sheet accounts).

7. *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. Value impairments are accounted for, if these are other than temporary.

8. *Property, furniture and equipment*

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, its offices in Luxembourg-Hamm 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.

9. *Intangible assets*

a) Intangible assets comprise computer software. Software development costs are capitalized when they meet certain criteria relating to identifiability, it is probable that future economic benefits will flow to the enterprise, and the cost can be measured reliably. Internally developed software meeting these criteria are carried at cost less accumulated depreciation (straight-line basis over three years from completion).

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

10. *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 using the projected unit credit method, in order to ensure that the provision entered in the accounts is adequate. The main actuarial assumptions used by the actuary are set out in Note L. 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.

11. *Debts evidenced by certificates*

Debts evidenced by certificates initially are measured at cost, which is the fair value of the consideration received. Transaction costs and net premiums (discounts) are included in the initial measurement. Subsequent measurement is at amortised cost at inception on a straight line basis to the redemption value over the life of the debt evidenced by certificates.

12. *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".

13. *Funds allocated to venture capital operations and to the Structured Finance Facility*

a) Funds allocated to venture capital operations

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

b) Funds allocated to the Structured Finance Facility

This item comprises the amount of appropriations from the annual result of the EIB, determined each year by the Board of Governors to facilitate implementation of operations with a greater degree of risk for this new type of instrument.

Value adjustments on these operations will be deducted from these items when allocating future results.

14. *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.

15. *Currency and interest rate swaps*

The Bank 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 off balance sheet.

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.

16. *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).

17. *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.

18. *Management of third-party funds*

a) EIF treasury

The EIF treasury is managed by the Bank in accordance with the treasury management agreement signed between the two parties in December 2000.

b) Guarantee Fund treasury

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

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

Note B — Securities portfolio (in EUR '000)

	31.12.2002	31.12.2001
Treasury bills eligible for refinancing with central banks (of which 12 671 unlisted in 2002 and 12 661 in 2001)	1 398 458	1 377 061
Debt securities including fixed-income securities (listed):	9 061 507	6 322 325
	10 459 965	**7 699 386**

	Purchase price	Amortisation for the period	Book value	Amortisation to be accounted for	Value at final maturity	Market value
Investment portfolio	2 473 731	32 161	2 505 892	– 41 719	2 464 173	2 624 728
Operational money market portfolio:						
- Money market securities with a max. 3-month maturity A1	3 756 907	0	3 756 907	0	3 756 907	3 756 907
- Money market securities with a max. 18-month maturity A2	1 256 985	0	1 256 985	0	1 256 985	1 256 985
Operational bond portfolio B1 Credit Spread	696 768	– 51	696 718	– 103	696 615	699 030
Operational portfolio B3 Global Fixed Income	397 962	0	402 515	0	386 099	402 515
Securitised loans (Note D)	1 840 948	0	1 840 948	0	1 840 948	1 840 948
	10 423 301	**32 110**	**10 459 965**		**10 401 727**	

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

	31.12.2002	31.12.2001
Term deposits	5 303 298	6 578 593
Reverse repos (*)	4 628 791	3 329 340
	9 932 089	**9 907 933**

(*) 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 2002 (in EUR '000)

1. Aggregate loans granted (*)

Aggregate historical amount of loans calculatd on the basis of the parities applied on the date of signature			403 858 622
Add:	debt adjustement	913 355	
	exchange adjustments	5 509 777	6 423 132
Less:	terminations and cancellations	11 109 578	
	principal repayments	167 452 113	
			– 178 561 691
Aggregate loans granted			**231 720 063**

Loans granted

Analysis of aggregate loans granted:	to intermediary credit institutions	directly to final beneficiaries	Total 2002	Total 2001
- Disbursed portion	92 414 790	102 782 927	195 197 717	185 739 983
- Undisbursed portion	7 412 732	29 109 614	36 522 346	34 253 212
Aggregate loans granted	**99 827 522**	**131 892 541**	**231 720 063**	**219 993 195**

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

	31.12.2002	31.12.2001
Aggregate loans granted	231 720 063	219 993 195
Securitised loans (Note B)	1 840 948	1 123 215
Aggregate loans (Note V)	**233 561 011**	**221 116 410**

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 236 007 million and broken down as follows:

Aggregate loans granted:	231 720
Venture capital operations:	1 980
Aggregate guarantees furnished in respect of loans granted by third parties:	466
Aggregate securitised loans:	1 841
	236 007

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

Shares and other variable-yield securities

This item comprises (in EUR '000):	2002	2001
Venture capital operations - after write-down of EUR 125 467 (2001: 19 213)	688 231	634 272
EBRD shares	132 188	123 750
Shares acquired with a view to guaranteeing recovery of loans and advances	18 781	30 970
	839 200	**788 992**

The amount of EUR 132 187 500 (2001: EUR 123 750 000) corresponds to the capital paid in by the Bank as at 31 December 2002 in respect of its subscription of EUR 600 000 000 to the capital of the EBRD.

The Bank holds 3.03% 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.

In EUR '000	% held	Total own funds	Total net result	Balance sheet total
EBRD (31.12.2001)	3.03	4 183 595	157 182	20 947 293

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.

Under the terms of a put option in respect of the remaining 785 EIF shares, the EIB is offering to buy these shares from the EIF's other shareholders within a remaining period of three 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 2002 does not require any provision to be made by the Bank as a result of this commitment.

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

	Land	Luxembourg buildings	Lisbon building	Furniture and equipment	Total property, furniture and equipement	Total intangible assets
Historical cost						
At 1 January 2002	3 358	114 703	349	21 397	139 807	13 273
Additions	6 727	28 150	0	11 642	46 519	6 947
Disposals	0	0	0	– 5 420	– 5 420	– 5 384
At 31 December 2002	**10 085**	**142 853**	**349**	**27 619**	**180 906**	**14 836**
Accumulated depreciation						
At 1 January 2002	0	52 005	224	8 118	60 347	5 585
Depreciation	0	4 740	14	8 520	13 274	4 787
Disposals	0	0	0	– 5 420	– 5 420	– 5 384
At 31 December 2002	**0**	**56 745**	**238**	**11 218**	**68 201**	**4 988**
Net book value						
At 31 December 2002	**10 085**	**86 108**	**111**	**16 401**	**112 705**	**9 848**
At 31 December 2001	3 358	62 698	125	13 279	79 460	7 687

All of the land and buildings are used by the Bank for its own activities. The Luxembourg buildings category includes cost relating to the construction of the new building (Eur 851 000), expected to be completed in 2007.

Note G — Interest subsidies paid and 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 (in EUR '000)

	31.12.2002	31.12.2001
Sundry debtors:		
- Staff housing loans and advances	70 238	82 173
- 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)	57 779	107 116
- Borrowing proceeds to be received	449 063	0
- Swap receivables	304 467	0
- Loan instalments receivable	49 461	299 010
- Other	175 814	98 491
	1 106 822	**586 790**
Sundry creditors:		
- European Community accounts:		
. for Special Section operations and related unsettled amounts	233 364	167 241
. deposit accounts	269 420	296 053
- Swap payables	301 625	0
- Borrowing instalments payable . .	0	172 066
- Optional Supplementary Provident Scheme (Note L)	144 264	133 689
- Other	87 328	220 345
	1 036 001	**989 394**

Note I — Prepayments and accrued income - Accruals and deferred income (in EUR '000)

	31.12.2002	31.12.2001
Prepayments and accrued income:		
Interest and commission receivable	2 170 871	2 356 774
Deferred borrowing charges	720 290	708 607
Other	1 355	1 279
	2 892 516	**3 066 660**
Accruals and deferred income:		
Interest and commission payable . .	3 198 493	3 165 785
Deferred loan proceeds	585 952	461 868
Deferred borrowing proceeds	713 250	726 459
HIPC initiative	62 251	67 912
Personnel costs payable	7 278	7 100
External mobility costs	7 500	7 500 (*)
Other	24 819	53 973
	4 599 543	**4 490 597**

(*) Included in item 15 of the profit and loss account: extraordinary charges (Note Q).

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

	31.12.2002	31.12.2001
- Short-term borrowings	1 172 542	597 497
- Promissory notes issued in respect of paid-in capital of EBRD	10 125	10 125
	1 182 667	**607 622**

NOTE K — Summary statement of debts evidenced by certificates as at 31 December 2002 (in EUR '000)

	Borrowings					Currency swaps						Net amount	
						Amounts payable (+) or receivable (–)							
Payable in	Outstanding at 31.12.2001	Average rate	Outstanding at 31.12.2002	Average rate	Due dates	31.12.2001		Average rate	31.12.2002		Average rate	Outstanding at 31.12.2001	Outstanding at 31.12.2002
EUR	72 131 851	5.48	77 303 117	5.13	2003/2030	24 174 809	+	5.50	31 127 088	+	3.12	96 306 660	108 430 205
GBP	48 004 134	6.34	48 068 756	6.17	2003/2040	4 046 143	–	6.35	4 008 082	–	3.79	43 957 991	44 060 674
DKK	484 099	5.17	363 451	5.26	2003/2010	141 865	+	5.17	90 928	+	2.80	625 964	454 379
SEK	200 512	5.70	203 763	5.70	2003/2007	864 306	+	5.70	1 178 448	+	3.70	1 064 818	1 382 211
USD	45 145 774	5.50	44 451 612	5.09	2003/2026	15 983 627	–	5.56	17 553 055	–	1.94	29 162 147	26 898 557
CHF	3 213 298	3.99	3 199 532	3.61	2003/2014	54 960	–	4.00	56 114	–	5.85	3 158 338	3 143 418
JPY	3 429 706	3.04	4 052 721	3.56	2003/2032	944 455	–	3.04	1 749 289	–	– 0.16	2 485 251	2 303 432
NOK	314 406	5.67	604 761	5.99	2004/2008	213 796	–	5.67	426 082	–	6.55	100 610	178 679
CAD	1 474 036	7.98	619 336	7.71	2003/2008	1 402 998	–	7.98	558 912	–	0.00	71 038	60 424
AUD	462 963	6.28	1 533 196	5.03	2005/2005	462 963	–	6.28	1 533 196	–	0.00		
CZK	247 891	7.55	477 808	6.02	2005/2022	101 167	+	7.55	298 800	+	2.36	349 058	776 608
HKD	1 767 967	7.12	1 179 981	6.97	2003/2010	1 767 967	–	7.12	1 179 981	–	0.00		
NZD	94 273	6.50	100 125	6.50	2004/2007	94 273	–	6.50	100 125	–	0.00		
ZAR	609 566	12.88	727 895	12.20	2003/2018	371 124	–	12.88	429 651	–	12.91	238 442	298 244
HUF	161 106	10.02	311 059	9.09	2003/2012	81 573	–	10.02	120 166	–	8.39	79 533	190 893
PLN	326 416	12.52	430 714	10.93	2003/2017	118 105	–	12.52	261 225	–	0.00	208 311	169 489
TWD	1 035 766	5.00	1 289 507	4.51	2003/2013	1 035 766	–	5.00	1 289 507	–	0.00		
SKK	46 752	15.63				63 114	+	15.63	113 245	+	8.29	109 866	113 245
TOTAL	**179 150 516**		**184 917 334**										

The redemption of certain borrowings is indexed to stock exchange indexes (historical value: 1 580 million). All such borrowings are hedged in full through swap operations.

Note L — Provisions for liabilities and charges (staff pension fund) (in EUR '000)

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 2001	474 951
- payments made during the year	– 19 037
- annual cost	61 291
- provision at 31 December 2002	**517 205**

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 144.3 million (2001: EUR 133.7 million) is entered under "Sundry creditors/other" (Note H).

Note M — Fund for general banking risks (in EUR '000)

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

	31.12.2002	31.12.2001
Fund at beginning of the year	1 080 000	935 000
Transfer for the year	25 000	145 000
Fund at end of the year	**1 105 000**	**1 080 000**

Note N — Geographical analysis of "Interest receivable and similar income" (item 1 of the profit and loss account) (in EUR '000)

	31.12.2002	31.12.2001
Germany	1 454 812	1 552 900
France	1 146 295	1 227 998
Italy	1 145 673	1 369 824
United Kingdom	1 205 993	1 377 507
Spain	1 017 252	1 219 248
Belgium	172 412	213 288
Netherlands	119 671	149 850
Sweden	147 968	177 804
Denmark	186 848	247 954
Austria	136 309	152 647
Finland	124 832	115 649
Greece	414 251	389 539
Portugal	496 335	525 726
Ireland	93 772	113 859
Luxembourg	28 597	26 829
	7 891 020	8 860 622
Outside the European Union . .	1 009 465	1 061 294
	8 900 485	**9 921 916**
Income not analysed (1)	872 771	807 590
	9 773 256	**10 729 506**

(1) Income not analysed:

Revenue from investment portfolio securities	208 606	158 125
Revenue from short-term securities	168 768	85 696
Revenue from money-market operations	485 958	556 133
EIF guarantee commission (*) (EIB counterguarantee)	9 439	7 636
	872 771	**807 590**

(*) Net of annual amortisation.

Note O — Geographical analysis of "Commission receivable" (item 4 of the profit and loss account) (in EUR '000)

	31.12.2002	31.12.2001
Italy	1	2
United Kingdom	50	59
Denmark	0	1
Ireland	17	20
	68	82
Community institutions	20 447	22 759
	20 515	**22 841**

Note P — Administrative expenses and charges (in EUR '000)

	31.12.2002	31.12.2001
Salaries and allowances	109 983	101 849
Welfare contributions and other social costs	53 365	51 054
Staff costs	163 348	152 903
General and administrative expenses	62 777	50 861
	226 125	**203 764**

The number of persons employed by the Bank was 1 113 at 31 December 2002 (1 097 at 31 December 2001).

Note Q — Extraordinary income and charges

a) Extraordinary income (in EUR '000)

Extraordinary income of Eur 665 000 at 31.12.02 relates to the reversal of expense accruals which were made in 2001.

b) Extraordinary charges (in EUR '000)

	31.12.2002	31.12.2001
Provision for external mobility	0	7 500
Special conversion rates	0	3 864
	0	**11 364**

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 2002	Assets		Liabilities	
	net accounting value	present value	accounting value	present value
- Loans	197 039	205 237	—	—
- Investment portfolio	2 506	2 699	—	—
- Liquid assets	10 976	10 976	—	—
- Borrowings after swaps	—	—	184 710	191 846
Total	210 521	218 912	184 710	191 846

The method of calculation of the present value of the financial instruments making up the assets and liabilities is based on the cash flows of the instruments and of the funding curve of the Bank. The curve reflects the cost of financing of the bank at the end of the year.

Note T — Risk management

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

* credit risk
* interest rate risk
* iquidity 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 2002 is analysed below (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					13 006	13 006
	Public institutions	18 117	14 489	1 675	810	1 396	36 487
	Zone "A" banks	13 448	31 943	10 834	16 109	14 528	86 862
	Corporates	9 398	1 520	19 762	27 066	6 317	64 063
	Total 2002	40 963	47 952	32 271	43 985	35 247	200 418
	Total 2001	41 545	36 968	32 589	45 030	34 809	190 941

(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:

	2002	2001
Secured by:		
Member States	1 677	1 881
Community budget	21 661 (*)	21 530 (*)
Pre-Accession Facility	9 805	6 765
Total	33 143	30 176

(*) of which 2 546 million in risk-sharing operations as explained below (2001: 2 969 million).

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 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 3 231 million in risk-sharing loans have been signed under these agreements.

Loans granted under the Pre-Accession Facility (EUR 9 805 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 as at 31 December 2002

(in EUR '000)

Convention/agreement	Outstanding 31.12.02	Outstanding 31.12.01
Member States guarantee		
ACP/OCT Group 2nd Lomé Convention	4 404	8 924
ACP/OCT Group 3rd Lomé Convention	118 575	177 225
ACP/OCT Group 4th Lomé Convention	677 506	867 832
ACP/OCT Group 4th Lomé Convention/ 2nd Financial Protocol	876 688	826 818
Total Member States guarantee	***1 677 173***	***1 880 799***
100 % Community budget guarantee		
South Africa - 300m - BG Decision 19.06.95	184 859	205 887
ALA I - 750m	393 484	587 466
ALA interim (100% guarantee) - 153m	93 664	115 711
CEEC - 1bn - BG Decision 29.11.89	447 100	582 878
CEEC - 3bn - BG Decision 02.05.94	2 220 491	2 491 321
CEEC - 700m - BG Decision 18.04.91	255 222	329 195
Total: 100% Community budget guarantee	*3 594 820*	*4 312 458*
75% Community budget guarantee		
Mediterranean Protocols	3 334 112	3 903 857
Yugoslavia - Art. 18 (1984)	15 580	21 159
Yugoslavia - 1st Protocol	23 511	34 555
Yugoslavia - 2nd Protocol	168 588	193 597
Slovenia - 1st Protocol	121 304	131 268
Total: 75% Community budget guarantee	*3 663 095*	*4 284 436*

Convention/agreement	Outstanding 31.12.02	Outstanding 31.12.01
70% Community budget guarantee		
South Africa - 375m - Decision 29.01.97	277 528	327 031
ALA II - 900m	867 572	995 196
ALA interim (70% guarantee: risk sharing) -122m	101 539	135 063
Bosnia-Herzegovina - 100m - 99/2001	99 544	100 122
Euromed (EIB) - 2 310m - Decision 29.01.97	2 104 321	2 385 402
FYROM - 150m - 1998/2000	150 000	150 000
CEEC - 3 520m - Decision 29.01.97	2 977 145	3 360 841
Total: 70% Community budget guarantee	*6 577 649*	*7 453 655*
65% Community budget guarantee		
South Africa - 825m - 7/2000-7/2007	243 562	202 533
ALA III - 2/2000-7/2007	988 461	941 255
Euromed II - 2/2000-7/2007	3 164 588	1 905 885
CEEC - 9 280m - 2/2000-7/2007	2 848 245	1 979 920
Turkey special action - 2001	130 000	0
Turkey-TERRA-11/1999-11/2002	450 000	450 000
Total: 65% Community budget guarantee	*7 824 856*	*5 479 593*
Total: Community budget guarantee	***21 660 420***	***21 530 142***
Total: Pre-Accession Facility	***9 805 108***	***6 764 930***
Grand Total	**33 142 701**	**30 175 871**

A breakdown of disbursed loans outstanding (in EUR million) at 31 December 2002 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 2002	TOTAL 2001
Energy	1 893	9 397	12 032	23 322	23 751
Transport	2 060	11 465	40 479	54 004	51 496
Telecommunications	2 473	6 461	2 926	11 860	14 380
Water, sewerage	1 048	4 361	9 016	14 425	12 738
Miscellaneous infrastructure	534	3 332	5 185	9 051	8 143
Agriculture, forestry, fisheries	57	156	143	356	366
Industry	2 501	7 996	4 254	14 751	15 132
Services	226	1 445	1 218	2 889	2 418
Global loans	4 416	22 122	34 726	61 264	54 497
Health, education	59	616	4 442	5 117	3 942
	15 267	67 351	114 421	197 039	186 863

Treasury

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

Limits governing the structure of the securities portfolio and outstanding treasury instruments have been laid down by Management, in particular on the basis of the ratings awarded to counterparties by the rating agencies (these limits are reviewed regularly by the 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 2002	Securities portfolio %	Treasury instruments %
Moody's or equivalent rating		
AAA	83	12
P1	0	17
AA1 to AA3	12	45
A1	3	15
Below A1	1	10
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 an increase of EUR 143 000 in the differential between the net present value of the Bank's own funds and the net present value targeted by 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 31.12.2002	Total 2001
Assets							
Loans (gross)	104 939	2 912	5 635	36 614	46 939	197 039	186 863
Net liquidity	10 494	182	177	1 259	1 370	13 482	12 632
	115 433	3 094	5 812	37 873	48 309	210 521	199 495
Liabilities							
Borrowings and swaps	120 630	– 4 167	3 558	28 665	36 024	184 710	174 794
Interest rate risk	– 5 197	7 261	2 254	9 208	12 285		

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	16					16
Treasury bills eligible for refinancing with central banks	20	145	704	529		1 398
Other loans and advances:						
Current accounts	107					107
Others	9 932					9 932
	10 039	0				10 039
Loans:						
Credit institutions	1 497	5 322	32 409	53 187		92 415
Customers	1 383	7 063	34 709	59 628		102 783
	2 880	12 385	67 118	112 815		195 198
Debt securities including fixed-income securities	4 056	868	1 448	2 690		9 062
Other assets					5 056	5 056
Total assets	17 011	13 398	69 270	116 034	5 056	220 769
Liabilities						
Amounts owed to credit institutions	1 173	4	6			1 183
Debts evidenced by certificates	13 211	95 564	10 794	65 348		184 917
Currency swap contracts adjustment	99	18	2 985	447		3 549
Capital, reserves and profit					24 615	24 615
Other liabilities					6 505	6 505
Total liabilities	14 483	95 586	13 785	65 795	31 120	220 769

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 margins on operations and in general expenses incurred in non-euro currencies. The Bank's objective is to eliminate exchange risk by reducing net positions per currency through operations on the international foreign exchange markets.

Exchange position (EUR million)

Currency	Euro	Pound sterling	United States dollar	Other currencies	Total excl. euro	Grand total
Assets						
Cash in hand, central banks and post office banks	*7*	9			*9*	**16**
Treasury bills eligible for refinancing with central banks	*1 398*					**1 398**
Other loans and advances:						
Current accounts	*76*	3	11	17	*31*	**107**
Others	*6 661*	995	860	1 416	*3 271*	**9 932**
	6 737	998	871	1 433	*3 302*	**10 039**
Loans:						
Credit institutions	*53 169*	24 264	13 357	1 625	*39 246*	**92 415**
Customers	*67 849*	17 658	11 253	6 023	*34 934*	**102 783**
	121 018	41 922	24 610	7 648	*74 180*	**195 198**
Debt securities including fixed-income securities	*6 655*	1 125	950	332	*2 407*	**9 062**
Other assets	*3 065*	848	663	480	*1 991*	**5 056**
Total assets	*138 880*	44 902	27 094	9 893	*81 889*	**220 769**
Liabilities						
Amounts owed to credit institutions	*786*	397			*397*	**1 183**
Debts evidenced by certificates						
Debt securities in issue	*77 148*	47 681	44 452	14 738	*106 871*	**184 019**
Others	*155*	388		355	*743*	**898**
	77 303	48 069	44 452	15 093	*107 614*	**184 917**
Currency swap contracts adjustment	*31 457*	– 4 313	– 17 895	– 5 700	*– 27 908*	**3 549**
Capital, reserves and profit	*24 615*					**24 615**
Other liabilities	*4 721*	757	534	493	*1 784*	**6 505**
Total liabilities	*138 882*	44 910	27 091	9 886	*81 887*	**220 769**
Off balance sheet	3	– 2	– 1			
Net position as at 31.12.2002	**1**	**– 10**	**2**	**7**		
Net position as at 31.12.2001	**– 15**	**2**	**4**	**9**		

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
* Asset swaps

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.

Assets swaps

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

Interest rate or currency swaps allow the Bank to modify the interest 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 31.12.2002**	Total 2001
Notional amount	5 251	30 071	3 156	2 316	**40 794**	38 567
Net discounted value	– 119	– 1 592	– 249	216	**– 1 744**	2 282
Credit risk (BIS 2 weighted)	79	539	46	204	**867**	1 357

The notional amounts receivable or payable in respect of currency swaps are disclosed off balance sheet (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 31.12.2002**	Total 2001
Notional amount	11 864	63 428	20 357	32 770	**128 419**	109 868
Net discounted value	319	3 221	1 048	2 013	**6 601**	4 817
Credit risk (BIS 2 weighted)	105	1 048	510	836	**2 498**	1 732

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 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	169	20	27
Notional amount (EUR million)	7 427	1 580	2 903
Net discounted value	– 121	– 197	226

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 risk	Credit risk & BIS2
Aaa	8.5	574	1 227
Aa1 to Aa3	53.2	531	3 784
A1	35.7	70	2 766
A2 to Baa3	2.1	10	258
Non-rated	0.6	0	191
Total	**100**	**1 185**	**8 226**

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 2 290 million at 31 December 2002, as against EUR 2 025 million at 31 December 2001.

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 2002	% fin. year 2001
1. Loans for projects within the Union and related loans						
Germany	783	35 016 192	648 049	34 368 143	14.99%	14.58%
Italy	1 061	31 620 017	2 848 303	28 771 714	13.54%	13.49%
Spain	471	29 528 723	2 825 512	26 703 211	12.64%	12.37%
France	318	26 754 412	3 112 088	23 642 324	11.45%	11.45%
United Kingdom	265	23 628 008	3 218 571	20 409 437	10.12%	11.33%
Portugal	225	14 675 328	3 259 453	11 415 875	6.28%	6.13%
Greece	128	9 830 944	1 627 970	8 202 974	4.21%	4.03%
Denmark	102	5 430 342	945 289	4 485 053	2.32%	2.52%
Sweden	116	4 357 062	948 084	3 408 978	1.87%	1.99%
Belgium	87	4 149 636	433 479	3 716 157	1.78%	1.87%
Austria	122	4 044 781	30 000	4 014 781	1.73%	1.61%
Finland	61	3 470 450	218 956	3 251 494	1.49%	1.29%
Netherlands	49	3 033 618	945 500	2 088 118	1.30%	1.38%
Ireland	76	2 310 962	522 701	1 788 261	0.99%	1.12%
Related Loans (*)	22	1 979 622	300 000	1 679 622	0.85%	0.91%
Luxembourg	33	588 213	12 300	575 913	0.25%	0.27%
Total	**3 919**	**200 418 310**	**21 896 255**	**178 522 055**	**85.81%**	**86.35%**
2. Loans for projects outside the Union						
2.1. ACP Countries/OCT						
Namibia	10	147 782	18 500	129 282		
Mauritius	12	136 434	70 416	66 018		
Kenya	8	125 160	21 139	104 021		
Jamaica	10	105 323	7 249	98 074		
Acp Group	3	102 720	34 220	68 500		
Zimbabwe	10	80 721	18 030	62 691		
Barbados	6	71 470	45 000	26 470		
Mozambique	5	69 201	10 000	59 201		
Dominican Republic	5	67 317	50 000	17 317		
Ghana	5	66 473	17 365	49 108		
Trinidad And Tobago	4	63 624	0	63 624		
Regional - Africa	2	60 417	33 000	27 417		
Senegal	2	56 038	17 904	38 134		
Botswana	7	54 320	0	54 320		
Lesotho	3	53 162	27 414	25 748		
Regional - Central Africa	1	52 264	44 636	7 628		
Mauritania	3	46 083	15 000	31 083		
Cameroon	3	31 023	5 000	26 023		
Bahamas	3	29 666	0	29 666		
Papua New Guinea	6	29 176	0	29 176		
Cote-d'Ivoire	6	26 924	0	26 924		
Nigeria	2	22 162	0	22 162		
Gabon	3	20 152	15 500	4 652		
Cape Verde	1	20 000	14 500	5 500		
Regional - West Africa	1	19 529	0	19 529		
Swaziland	2	17 500	7 500	10 000		
Saint Lucia	4	14 465	5 000	9 465		
Regional - Caribbean	1	12 429	0	12 429		
French Polynesia	3	8 560	3 000	5 560		
Malawi	4	8 160	0	8 160		
Guinea	2	8 001	0	8 001		
British Virgin Islands	3	6 149	0	6 149		
Uganda	1	5 491	0	5 491		
Oct Group	1	4 960	3 422	1 538		

(*) 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 2002	% fin. year 2001
Cayman Islands	3	4 781	0	4 781		
New Caledonia And Dependencies	2	4 370	0	4 370		
Saint Vincent And The Grenadines	2	4 236	0	4 236		
Chad	1	4 073	0	4 073		
Surinam	1	3 349	0	3 349		
Grenada	1	3 063	0	3 063		
Falkland Islands	2	2 648	0	2 648		
Aruba	3	2 553	2 000	553		
Tonga	2	2 324	0	2 324		
Belize	1	2 108	0	2 108		
Netherlands Antilles	2	810	0	810		
Sub-total	162	1 677 171	485 795	1 191 376	0.72%	0.85%
2.2. South Africa *Sub-total*	23	705 948	100 394	605 554	0.30%	0.33%
2.3. Euro-Mediterranean Partnership Countries and the Balkans						
Turkey	28	1 994 351	950 495	1 043 856		
Morocco	37	1 574 037	683 100	890 937		
Algeria	33	1 522 685	519 432	1 003 253		
Egypt	33	1 425 144	578 238	846 906		
Tunisia	41	1 324 283	527 200	797 083		
Lebanon	13	450 183	185 600	264 583		
Federal Republic Of Yugoslavia	15	387 885	279 000	108 885		
Jordan	27	363 006	55 000	308 006		
Croatia	13	331 613	238 350	93 263		
Syria	4	307 539	290 000	17 539		
Bosnia-Herzegovina	4	184 544	150 010	34 534		
FYROM	8	170 829	72 840	97 989		
Gaza-West Bank	8	156 350	106 270	50 080		
Albania	6	128 643	81 000	47 643		
Israel	3	41 040	0	41 040		
Sub-total	273	10 362 132	4 716 535	5 645 597	4.44%	4.18%
2.4. Accession Countries						
Poland	66	5 385 661	2 970 446	2 415 215		
Czech Republic	36	3 246 091	1 435 344	1 810 747		
Romania	39	2 529 072	1 333 930	1 195 142		
Hungary	47	2 140 540	662 000	1 478 540		
Slovenia	28	1 214 152	578 891	635 261		
Slovak Republic	25	1 110 514	163 000	947 514		
Bulgaria	24	865 774	557 000	308 774		
Cyprus	19	683 799	455 000	228 799		
Lettonia	14	310 158	214 744	95 414		
Lithuania	15	253 392	102 342	151 050		
Estonia	13	177 971	77 800	100 171		
Malta	4	35 604	25 000	10 604		
Sub-total	330	17 952 728	8 575 497	9 377 231	7.68%	7.03%
2.5. Asia and Latin American Countries						
Brazil	17	668 452	3 448	665 004		
Argentina	10	414 675	84 348	330 327		
Indonesia	6	295 054	256 818	38 236		
Philippines	6	240 098	80 835	159 263		
China	3	133 226	56 167	77 059		
Thailand	2	93 690	35 650	58 040		
Panama	2	91 037	4 881	86 156		
Mexico	3	86 846	36 307	50 539		
Peru	2	78 153	0	78 153		

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 2002	% fin. year 2001
Regional - Central America	2	57 279	30 000	27 279		
Vietnam	1	55 000	55 000	0		
Pakistan	2	45 010	28 214	16 796		
Sri Lanka	1	40 000	40 000	0		
Costa Rica	1	38 616	0	38 616		
Bangladesh	1	36 202	36 202	0		
Regional - Andean Pact	1	34 472	0	34 472		
India	1	26 449	0	26 449		
Uruguay	1	10 463	0	10 463		
Sub-total	62	2 444 722	747 870	1 696 852	1.05%	1.25%
Total	**850**	**33 142 701**	**14 626 091**	**18 516 610**	**14.19% (*)**	**13.65%**
Grand total	**4 769**	**233 561 011 (**)**	**36 522 346**	**197 038 665**	**100.00%**	**100.00%**

(*) 9.9% excluding Pre-Accession Facility.
(**) including securitised loans (Note B).

Note W — Segment reporting

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, 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 2002 and 31 December 2001:

1 euro =

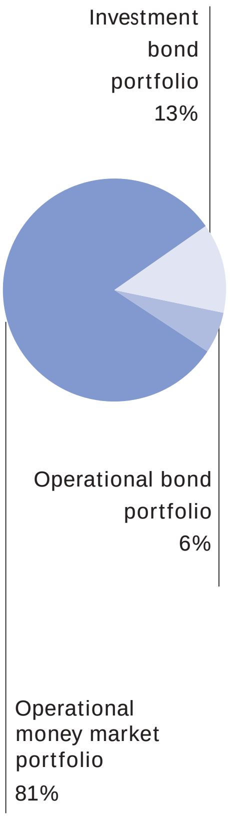
EURO-12: Rates fixed irrevocably

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
Drachmas	340.750
Irish pounds	0.787564
Luxembourg francs	40.3399
Portuguese escudos	200.482

	31.12.2002	31.12.2001
PRE-IN:		
Pound sterling	0.650500	0.608500
Danish kroner	7.42880	7.43650
Swedish kronor	9.15280	9.30120
NON-COMMUNITY CURRENCIES:		
United States dollars	1.04870	0.881300
Swiss francs	1.45240	1.48290
Lebanese pounds	1541.27	1359.01
Japanese yen	124.390	115.330
Canadian dollars	1.65500	1.40770
Australian dollars	1.85560	1.72800
CFA francs	655.957	655.957
Czech koruny	31.5770	31.9620
Hong Kong dollars	8.17810	6.87230
New Zealand dollars	1.99750	2.12150
South African rand	9.00940	10.4302

Liquidity Management

Liquidity management



At 31 December 2002, liquid assets amounted to EUR 18.7 billion or EUR 13.5 billion net of short-term commitments; these assets are held in 14 currencies, including 3 Accession Country currencies. In 2002, the euro accounted for 55% of short-term investments. EU currencies represented 68% of aggregate funds. The level of the Bank's overall liquidity was kept above a floor set at 25% of annual net cash flows. At year-end, the liquidity ratio was within its 25%-40% target range. The breakdown of treasury assets was as follows:

- The **Operational Money Market Portfolio** of EUR 15.1 billion (EUR 9.9 billion net of short-term commitments) is divided into two short-term sub-portfolios, i.e. a one-month and a three-month money market portfolio and constitutes the major part of liquid assets.

This portfolio receives its funds from borrowing proceeds and surplus cash flow. Its main purpose is to cover at all times the Bank's day-to-day liquidity needs, i.e. loan disbursements, debt servicing and administrative expenses. It represents the first line of liquidity. By definition, the operational money market portfolio comprises liquid instruments with short-dated tenors, invested with top-rated issuers and counterparties.

- The **Operational Bond Portfolio** is divided into two sub-portfolios - a credit spread portfolio, and a fixed rate bond management portfolio. Its purpose is to diversify investment strategies, the remuneration profile and credit risks relative to money market placements. This portfolio amounted to EUR 1.1 billion.

- The **Investment Bond Portfolio** (EUR 2.5 billion) is a long-term portfolio through which part of the Bank's Own Funds are invested in 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 equivalent. The Operational and Investment Bond Portfolios together constitute the second line of liquidity.

Liquidity management results

Liquidity management operations generated gross interest income of 810 million in 2002 (net income of 724 million), corresponding to an average overall return on gross liquidity of 3.23%.

The **operational money market portfolio** yielded 626 million in interest income on average holdings of 21.7 billion, i.e. an average return of 2.89% against a background of relatively stable short-term interest rates.

The **operational bond portfolio** generated interest income of 43 million on average annualised holdings of 0.9 billion, corresponding to an average yield of 4.59%.

The **investment bond portfolio** yielded total interest income of 141 million on average holdings of 2.5 billion. Its overall return worked out at 5.65% in 2002 compared with 5.91% in 2001. The lower return observed in 2002 compared to the previous year can be explained by the reinvestment of securities maturing (333.5 million) at lower rates, given the general decline in long-term rates. The market value of this portfolio at 31 December 2002 stood at 2 625 million for a portfolio entry price of 2 474 million.

(EUR million)

	2002	2001
Total gross liquidity		
Total income	810	784
Average holdings	25 085	16 756
Average return	3.23%	4.69%
of which operational money market portfolio		
Total income	626	631
Average holdings	21 651	14 100
Average return	2.89%	4.48%
Duration	0.19 yr	0.18 yr
of which operational bond portfolio		
Total income	43	6
Average holdings	929	160
Average return	4.59%	3.45%
Duration	0.81 yr	0.42 yr
of which investment bond portfolio		
Total income	141	147
Average holdings	2 505	2 496
Average return	5.65%	5.91%
Duration	5.25 yrs	5.20 yrs

Risk Management

The Bank has aligned its risk management systems to changing economic and regulatory conditions and adapts them on an ongoing basis so as to achieve best market practice. Systems are in place to control and report on the main risks inherent to its lines of business, i.e. credit, market and operational risk.

The guiding principles for operational risk are modelled on those recommended by "Basel II". The guidelines also define responsibilities for measuring and managing operational risk within the various departments of the Bank and set out the applicable management processes. The Bank's operational risk profile is driven by the increased complexity of the products as well as by the organisational and systems environment, including any changes thereto. Operational risks are assessed by taking into account all available information, including historical data as well as the risk control environment of the various business lines. A set of indicators developed from this data is employed and includes tracking of operational risk with a view to early detection.

The EIB's Credit Risk Policy Guidelines set out credit quality levels for both borrowers and guarantors in lending operations, as well as for treasury and derivatives transactions. The Guidelines also detail the minimum requirements, which loan contracts must meet in terms of key legal clauses and other contractual stipulations. In addition, via the counterpart and sector limit system the Guidelines ensure an acceptable degree of diversification in the Bank's loan portfolio. The Bank's limit system draws its inspiration from the traditional prudential regulations on concentration and "large exposure" management of the main EU banking directives, though the Bank has generally a more restrictive approach to risk-taking than commercial banks, in line with its statutory requirements. The Guidelines undergo periodic adaptations to incorporate evolving operational circumstances and in response to new mandates the Bank may receive from its shareholders. The latest adaptations of the Guidelines, designed to strengthen the Bank's capacity to manage loan exposures in a more volatile and challenging credit environment, were introduced in December 2002. In line with prevailing practices in the banking sector, and to be consistent with the Internal Rating Based approach recommended by "Basel II", an internal "Loan Grading" system (relying on "expected loss" methodology) has been implemented for lending operations. This has become an important part of the loan appraisal process and of credit risk monitoring; it is one of the elements taken into consideration for annual general provisioning calculations, as well as providing a reference designed to "price" credit risk at a level commensurate with the loan's contribution to the general provisioning. Furthermore, using a recently introduced credit software package, a portfolio view of credit exposures is being implemented, fully integrating the concentration and correlation effects in the Bank's loan portfolio created by the dependence of various exposures on common risk factors. By adding a portfolio view of credit risks, this new tool complements the Loan Grading's deal-by-deal approach to credit assessment. For certain corporate loans, and on a case-by-case basis, this novel tool may be used in appropriate circumstances to quantify an additional pricing charge designed to compensate for risks arising from concentration effects in the loan portfolio, while also creating incentives for better credit diversification. The combination of these elements allows for better assessment of credit exposures and a more disciplined approach to their management. The Bank is also adopting EIB Group-wide credit risk management taking into consideration the exposure generated by its SME guarantee activity of its subsidiary, the European Investment Fund.

Market risks are captured in the context of Market Risk and Asset and Liability Management Systems (ALM). The applicable guidelines for ALM and market risk management define a structured process by which risks are identified, measured, managed and reported. The management of these risks relies on several indicators, the evolution of which is monitored through different analyses and processes. Such models can be differentiated into two main categories: economic value or earnings–based models. In 2002, the Bank enhanced its transfer pricing system by taking also into account all strategic activities, such as venture capital activities and long-term equity participations. It is in the process of developing short-term gap-models to measure the impact of short-term interest income and its volatility. In the beginning of 2004, the Bank will have implemented a new software package, which will contribute through earnings-at risk and value-at risk methodology to capturing more accurately the variability of all components of the earnings and economic value variations of the Bank.

Results for the Year

Before provisions, write-downs and extraordinary result, the profit for the financial year 2002 ran to EUR 1 460 million as against 1 487 million for 2001, down 1.8%, and net profit to EUR 1 294 million compared with 1 311 million for 2001, representing a decrease of 1.3%.

The transfer to the Fund for general banking risks is EUR 25 million for 2002 (145 million in 2001), while, for venture capital operations, write-downs and the provision for guarantees provided came to EUR 131 million in 2002 (19 million in 2001).

On the interest rate front, movements were modest with the average rate on loans falling from 5.64% in 2001 to 4.74% in 2002 and the average rate on borrowings down over the same period from 5.34% to 4.33%.

Receipts of interest and commission on loans in 2002 totalled 8 938 million against 9 921 million in 2001, while interest and commission on borrowings amounted to 7 966 million against 8 895 million in 2001.

Overall, treasury operations yielded net income of 724 million in 2002, or 58 million above the 2001 figure of 666 million, producing an average overall return of 3.55% in 2002 compared with 4.85% in 2001.

The increase in the absolute level of interest income from treasury operations in 2002 stemmed chiefly from the higher return on operational portfolios, up by 60 million compared to 2001. This increase was due by an higher level of holdings but remained limited by the impact of falling short-term rates. A detailed breakdown of the Bank's treasury by compartment is presented on page 71 of the Financial Report.

General administrative expenses together with depreciation of tangible and intangible assets amounted to 220.3 million in 2002, or 8.8% more than in 2001 (202.4 million).

On 4 June 2002, the Board of Governors decided to appropriate the balance of the profit and loss account for the year ended 31 December 2001, which, after transfer of EUR 145 000 000 to the Fund for general banking risks, amounted to EUR 1 311 444 923, as follows: (i) an amount of EUR 908 728 for deduction from the Funds allocated to venture capital operations following transfer of the net result on these operations as at 31 December 2001, (ii) an amount of EUR 750 000 000 to the new special supplementary reserve for venture capital operations and operations under the Structured Finance Facility, and (iii) the balance, i.e. EUR 562 353 651, 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 2002, which, after transfer of EUR 25 000 000 to the Fund for general banking risks, amounted to EUR 1 293 866 980, as follows:

- deduction of EUR 130 321 808 from the funds allocated to venture capital operations following transfer of the net year result on these operations as at 31 December 2002.

- the balance of EUR 1 424 188 788 to the Reserve Fund.

Report of the Auditor

The Chairman of the Audit Committee
EUROPEAN INVESTMENT BANK
Luxembourg

We have audited the financial statements, as identified below, of the European Investment Bank for the year ended 31 December 2002. 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 Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions, a true and fair view of the financial position of the European Investment Bank as at 31 December 2002 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, 25 February 2003

Kenneth A. HAY

The Audit Committee

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

Statement by the Audit Committee

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

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

and considering

- the financial statements for the financial year ending on 31 December 2002 as drawn up by the Board of Directors at its meeting on 25 February 2003,
- that the foregoing provides a reasonable basis for its statement and,
- Articles 22, 23 & 24 of the Rules of Procedure,

to the best of its knowledge and judgement:

has verified that the Bank's operations have been carried out in compliance with the formalities and procedures laid down by the Statute and Rules of Procedure;

confirms that the financial statements, comprising the balance sheet, the statement of special section, the profit and loss account, the statement of own funds and appropriation of profit, the statement of subscriptions to the capital of the Bank, the cash-flow statement and the notes to the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2002 and of the results of its operations and cash flows for the year then ended.

Luxembourg, 18 March 2003

The Audit Committee

M. HARALABIDIS | C. NACKSTAD | E. MARIA

Financial Statements
as at 1st January 2003

BALANCE SHEET AS AT 1 JANUARY 2003

In EUR '000

ASSETS		***01.01.2003***		*31.12.2002*
1. Cash in hand, balances with central banks and post office banks		***16 100***		16 100
2. Treasury bills eligible for refinancing with central banks (Note B)		***1 398 458***		1 398 458
3. Loans and advances to credit institutions				
a) repayable on demand	**107 236**		107 236	
b) other loans and advances (Note C)	**9 932 089**		9 932 089	
c) loans (Note D)	**92 414 790**		92 414 790	
		102 454 115		102 454 115
4. Loans and advances to customers				
Loans (Note D)	**102 782 927**		102 782 927	
Specific provisions (Note A.6)	**– 175 000**		– 175 000	
		102 607 927		102 607 927
5. Debt securities including fixed-income securities (Note B)				
a) issued by public bodies	**3 229 725**		3 229 725	
b) issued by other borrowers	**5 831 782**		5 831 782	
		9 061 507		9 061 507
6. Shares and other variable-yield securities (Note E)		***839 200***		839 200
7. Participating interests (Note E)		***269 942***		269 942
8. Intangible assets (Note F)		***9 848***		9 848
9. Property, furniture and equipment (Note F)		***112 705***		112 705
10. Other assets				
a) receivable in respect of EMS interest subsidies paid in advance (Note G)	**283**		283	
b) sundry debtors (Note H)	**1 106 822**		1 106 822	
c) currency swap contracts adjustment account*	**0**		0	
		1 107 105		1 107 105
11. Prepayments and accrued income (Note I)		***2 892 516***		2 892 516
		220 769 423		220 769 423

OFF-BALANCE-SHEET ITEMS

		01.01.2003		*31.12.2002*
Commitments				
- EBRD capital (Note E)				
. Uncalled		***442 500***		442 500
. To be paid in		***25 313***		25 313
- EIF capital (Note E)				
. Uncalled		***972 000***		972 000
- Undisbursed loans (Note D)				
. Credit institutions	**7 412 732**		7 412 732	
. Customers	**29 109 614**		29 109 614	
		36 522 346		36 522 346
- Undisbursed venture capital operations		***1 166 113***		1 166 113
Guarantees (Note D)				
. In respect of loans granted by third parties		***401 626***		401 626
. In respect of venture capital operations		***64 810***		64 810
EIF treasury management		***530 034***		530 034
Guarantee Fund treasury management		***1 646 292***		1 646 292
Securities received as collateral with respect to derivatives exposure (Note U)		***4 458 616***		5 124 892

(*) The amount of currency swap contracts has not been included in the balance sheet.

The bracketed notes refer to the notes to the financial statements

LIABILITIES		*01.01.2003*		*31.12.2002*
1. **Amounts owed to credit institutions** (Note J)				
a) repayable on demand	**0**		0	
b) with agreed maturity dates or periods of notice	**1 182 667**		1 182 667	
		1 182 667		1 182 667
2. **Debts evidenced by certificates** (Note K)				
a) debt securities in issue	**184 019 263**		184 019 263	
b) others	**898 071**		898 071	
		184 917 334		184 917 334
3. **Other liabilities**				
a) interest subsidies received in advance (Note G)	**289 954**		289 954	
b) sundry creditors (Note H)	**1 036 001**		1 036 001	
c) sundry liabilities	**45 690**		45 690	
d) currency swap contracts adjustment account*	**3 549 176**		3 549 176	
		4 920 821		4 920 821
4. **Accruals and deferred income** (Note I)		***4 599 543***		4 599 543
5. **Provisions for liabilities and charges**				
Staff pension fund (Note L)	**517 205**		517 205	
Provision for guarantees issued	**16 835**		16 835	
		534 040		534 040
6. **Fund for general banking risks** (Note M)		***1 105 000***		1 105 000
7. **Capital**				
Subscribed	**150 000 000**		100 000 000	
Uncalled	**– 142 500 000**		– 94 000 000	
		7 500 000		6 000 000
8. **Reserves**				
a) reserve fund	**12 217 060**		10 000 000	
b) additional reserves	**0**		3 717 060	
c) special supplementary reserves	**750 000**		750 000	
		12 967 060		14 467 060
9. **Funds allocated to structured finance facility**		***250 000***		250 000
10. **Funds allocated to venture capital operations**		***1 499 091***		1 499 091
11. **Profit for the financial year**		***1 293 867***		1 293 867
		220 769 423		220 769 423

OFF-BALANCE-SHEET ITEMS

	01.01.2003	*31.12.2002*
Special deposits for service of borrowings (Note R)	***284 367***	284 367
Securities portfolio		
. Securities receivable	***17 776***	17 776
. Securities payable	***18 132***	18 132
Nominal value of interest-rate swap and deferred rate-setting contracts (Note U)	***128 418 546***	128 418 546
FRA operations		
. Purchase	***0***	0
. Sale	***0***	0
Nominal value of currency swap contracts payable	***46 633 273***	46 633 273
Nominal value of currency swap contracts receivable	***43 084 097***	43 084 097
Borrowings arranged but not yet signed	***889 175***	889 175

STATEMENT OF SUBSCRIPTIONS TO THE CAPITAL OF THE BANK AS AT 1 JANUARY 2003

In EUR

Member States	Subscribed capital	Uncalled capital	Paid in capital at 31.12.02	Transfer from additional reserve	Paid in capital at 01.01.03
Germany	26 649 532 500	25 316 065 017	1 066 972 158	266 495 325	1 333 467 483
France	26 649 532 500	25 316 065 017	1 066 972 158	266 495 325	1 333 467 483
Italy	26 649 532 500	25 316 065 017	1 066 972 158	266 495 325	1 333 467 483
United Kingdom	26 649 532 500	25 316 065 017	1 066 972 158	266 495 325	1 333 467 483
Spain	9 795 984 000	9 307 371 252	390 652 908	97 959 840	488 612 748
Belgium	7 387 065 000	7 018 606 548	294 587 802	73 870 650	368 458 452
Netherlands	7 387 065 000	7 018 606 548	294 587 802	73 870 650	368 458 452
Sweden	4 900 585 500	4 655 556 231	196 023 414	49 005 855	245 029 269
Denmark	3 740 283 000	3 553 721 865	149 158 305	37 402 830	186 561 135
Austria	3 666 973 500	3 483 624 843	146 678 922	36 669 735	183 348 657
Finland	2 106 816 000	2 001 475 188	84 272 652	21 068 160	105 340 812
Greece	2 003 725 500	1 903 781 233	79 907 012	20 037 255	99 944 267
Portugal	1 291 287 000	1 226 879 033	51 495 097	12 912 870	64 407 967
Irland	935 070 000	888 429 814	37 289 486	9 350 700	46 640 186
Luxembourg	187 015 500	177 687 377	7 457 968	1 870 155	9 328 123
	150 000 000 000	**142 500 000 000**	**6 000 000 000**	**1 500 000 000**	**7 500 000 000**

At its annual meeting on 4th June 2002, the Board of Governors of the Bank unanimously adopted the following decisions:

(1) The Board of Governors of the EIB decided to increase the Bank's subscribed capital from 100 000 million euro to 150 000 million euro.

(2) The paid-in capital shall, with effect from the 1 January 2003, rise to 7 500 million euro, or 5% of the subscribed capital of 150 000 million euro; the increase in the paid-in capital shall be effected, as of 1 January 2003, through a transfer of 1 500 000 000 euro from the Bank's Additional Reserves.

EIF
Financial Statements

BALANCE SHEET AS AT DECEMBER 31, 2002

(expressed in EUR)

ASSETS	*Notes*	***2002***	*2001*
Current assets			
Cash at bank and in hand			
current accounts		**11 195 881**	39 079 199
term deposits	3.1	**15 000 000**	10 000 000
		26 195 881	49 079 199
Debtors		**646 585**	2 255 558
Fixed-income securities			
Commercial paper	3.2	**74 862 446**	52 578 086
		101 704 912	103 912 843
Fixed assets	3.5		
Debt securities and other fixed-income securities held as fixed assets	3.3	**431 852 442**	452 321 997
Investments in venture capital enterprises	3.4	**49 305 307**	48 428 308
Intangible assets		**35 697**	100 622
Tangible and other fixed assets		**4 904 435**	5 068 425
		486 097 881	505 919 352
Prepayments and accrued income	3.6	**14 482 767**	15 202 680
Total assets		**602 285 560**	625 034 875

LIABILITIES	Notes	2002	2001
Creditors	4.1	**3 438 016**	31 863 938
Accruals and deferred income	4.2	**15 955 426**	15 545 636
Provisions for liabilities and charges			
Provision relating to guarantees	4.3	**25 522 421**	24 311 610
Provision for staff pension plan	6.4	**550 000**	–
Other provisions		**1 780 033**	1 444 167
		27 852 454	25 755 777
Capital	4.4		
Subscribed		**2 000 000 000**	2 000 000 000
Uncalled		**(1 600 000 000)**	(1 600 000 000)
		400 000 000	400 000 000
Share premium account		**12 770 142**	12 770 142
Statutory reserve	4.5	**54 613 022**	39 464 505
Profit brought forward	4.5	**68 886 360**	23 892 297
Profit for the financial year	4.5	**18 770 140**	75 742 580
Total liabilities		**602 285 560**	625 034 875

OFF-BALANCE SHEET ITEMS

Guarantees in respect of loans granted by third parties	5.1		
Drawn		**2 642 723 393**	2 260 093 563
Undrawn		**420 280 619**	529 552 812
		3 063 004 012	2 789 646 375
Commitments	5.3	**75 512 464**	51 777 298
Assets held for third parties	5.4	**210 683 007**	130 745 377
Fiduciary operations	5.5	**5 109 410 869**	3 852 205 889
	5.6	**8 458 610 352**	6 824 374 939

The accompanying notes form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2002 (expressed in EUR)

	Notes	2002	2001
Net interest and similar income	6.1	**23 837 716**	24 759 424
Income from securities			
Income from investments in venture capital enterprises		**1 943 526**	6 332 804
Commission income	6.2	**20 575 145**	15 872 131
Net profit / (loss) on financial operations		**(403 108)**	(491 187)
Other operating income		**24 780**	3 897
General administrative expenses:			
Staff costs:			
- wages and salaries	6.3	**(6 682 869)**	(5 691 120)
- social security costs *of which*: EUR 338 662 relating to pensions contributions (2001: EUR 244 706)		**(411 537)**	(298 743)
		(7 094 406)	(5 989 863)
Other administrative expenses		**(4 216 928)**	(2 277 584)
		(11 311 334)	(8 267 447)
Value adjustments in respect of tangible and intangible assets		**(384 189)**	(377 774)
Value adjustment in respect of investments in venture capital enterprises	3.4	**(11 340 972)**	(2 924 364)
Transfer (to)/from the provision relating to guarantees	4.3	**(3 621 424)**	20 335 096
Transfer to provision for staff pension plan	6.4	**(550 000)**	–
Extraordinary result	6.5	**–**	20 500 000
Profit for the financial year		**18 770 140**	75 742 580

The accompanying notes form an integral part of these annual accounts.

1 General

The EUROPEAN INVESTMENT FUND (hereafter the "Fund") was incorporated on June 14, 1994 as an international financial institution.

The primary task of the Fund, while providing adequate return on equity, is to contribute to the pursuit of European Community objectives through :

- the provision of guarantees;
- the acquisition, holding, managing and disposal of equity participations;
- the administration of special resources entrusted by third parties, and
- related activities.

The Fund operates as a partnership the members of which are the European Investment Bank (hereafter the "EIB"), the European Union, represented by the Commission of the European Communities (the "Commission"), and a group of financial institutions of Member States of the European Union. The members of the Fund shall be liable for the obligations of the Fund only up to the amount of their share of the capital subscribed and not paid in.

The financial year of the Fund runs from January 1 to December 31 each year.

As detailed in note 4.4, the EIB has a majority shareholding in the Fund. Consequently the Fund is included in the consolidated accounts of the EIB Group. The consolidated accounts may be obtained from the registered office of the EIB at 100, boulevard Konrad Adenauer, L-2950 Luxembourg.

2 Accounting policies and presentation of annual accounts

2.1 *Presentation of annual accounts*

These annual accounts have been prepared in accordance with the historical cost convention, using the accounting policies set out below.

The Fund's accounting policies are based on the Council Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions.

Although the comparative figures in these annual accounts have not been restated following the changes in accounting policies as indicated in notes 2.4 and 2.6, the related financial impact of these changes has been disclosed in the relevant notes.

2.2 *Valuation of foreign currency balances and transactions*

The share capital of the Fund is expressed in euro ("EUR") and the accounting records are maintained in that currency. Share capital subscriptions paid in national currencies were converted into EUR at the rate prevailing on the payment date.

Non-monetary items denominated in a foreign currency are reported using the exchange rate at the date of the transaction (historical cost).

Monetary items, which include all other assets, liabilities, and off-balance sheet items expressed in a currency other than EUR are reported using the closing foreign exchange rate as issued by the European Central Bank.

Income and charges in foreign currencies are translated into EUR at the exchange rate ruling on the date of the transaction.

Other exchange differences arising from the translation of monetary items are recognised in the profit and loss account in the period in which they arise.

2.3 *Debt securities and other fixed-income securities*

Debt securities and other fixed-income securities intended for use on a continuing basis in the Fund's activities and normally held until final maturity are deemed to be fixed assets.

Debt securities and other fixed-income securities have been categorised and valued as follows:

- the floating rate notes, with maturities exceeding one year, have been included into the portfolio considered as "Available for Sale" and consequently valued at the lower of cost or market value,

- the fixed rate notes, and the floating rate notes with a maturity of less than one year, have been included into the "Investment Portfolio Held to Maturity" and valued at cost.

Premiums paid over the maturity value, and discounts received in comparison to the maturity value of securities, are taken to the profit and loss account in equal instalments over the remaining period to maturity. The net cumulative amortisation from the date of acquisition is included in "Accruals and deferred income" on the liability side of the balance sheet.

Other debt securities and other fixed-income securities with initial maturity of less than one year are disclosed as current assets and valued at cost. Premiums and Discounts are amortised over the life of the instruments.

2.4 *Investments in venture capital enterprises*

Investments in venture capital enterprises represent shares and other variable-yield securities and participating interests acquired for the longer term in the normal course of the Fund's activities and are shown in the balance sheet at their original purchase cost.

Based on the reports received from fund managers up to the balance sheet date, the Venture Capital Investments are valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV"), thus excluding any attributable unrealised gain that may be prevailing in this portfolio.

The attributable net asset value is determined through applying either the Fund's percentage ownership in the underlying vehicle to the net asset value reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager.

For the final valuation, the attributable net asset value is adjusted for the events having occurred between the available NAV date and the balance sheet date to the extent that it is considered to be material.

In order to better conform with fair value accounting principles, investments in venture capital funds in existence for less than two years at balance sheet date are valued based on the same principles. Unrealised losses due only to administrative expenses of these recently created funds will however be ignored. This represents a change to the previous accounting policy applied up to December 31, 2001: no value adjustments were recorded then in relation with the investments in existence for less than two years, except in case of significant investment activities by the fund.

2.5 *Valuation of intangible and tangible assets*

Intangible and tangible assets are valued at purchase price, reduced by accumulated value adjustments calculated to write off the value of such assets on a straight line basis over their expected useful life as follows:

	Useful life
Intangible assets	
Software	2 to 5 years
Tangible assets :	
Buildings	30 years
Fixtures and fittings	3 to 10 years
Office equipments	3 to 5 years
Computer equipments and vehicles	3 years

2.6 *Provision relating to guarantees*

Provisions relating to guarantees have been calculated in line with the methodology set out in the Fund's Credit Risk Policy Guidelines approved by the Board of Directors on December 4, 2001. This results in a credit ratings based, transaction-by-transaction, valuation of the provisioning requirements.

Accordingly on a prospective basis, for the operations signed since January 1, 2002 the provisioning requirements are built up during the two thirds of the weighted average life of the guarantees in order to better conform with fair value accounting principles. This represents a change to the accounting policy applicable in relation to the guarantee operations signed until December 31, 2001, inasmuch as for these operations the provisioning requirements remain booked in full.

2.7 *Guarantees in respect of loans granted by third parties*

The amount disclosed in respect of issued guarantees represents the total commitment which refers to both the drawn and undrawn principal amounts of the underlying loans and, if relevant, to the present value of the flow of future interest payments covered by the guarantees.

2.8 *Net interest and similar income*

Interest and similar income are recognised on a time proportion basis taking account of the effective yield on the asset.

Premiums on fixed-income securities held as fixed assets amortised during the financial year, and interest and similar expenses paid are deducted from the gross amount of interest and similar income received.

2.9 *Commission income*

Up-front commissions received for arranging and granting guarantees are recognised when a binding obligation has been entered into.

Guarantee commissions received are recognised on a time proportion basis over the life of the guarantee.

3 Detailed disclosures relating to asset headings

3.1 *Term deposits*

The remaining life of term deposits is detailed as follows:

	2002 EUR	2001 EUR
Up to three months	15 000 000	10 000 000

3.2 *Commercial paper*

The market value of commercial paper amounts to EUR 72 183 089 as at December 31, 2002 (2001: EUR 52 797 700).

3.3 *Debt securities and other fixed-income securities held as fixed assets*

The securities held by the Fund are all quoted on a recognised market.

Debt securities and other fixed-income securities held as fixed assets are analysed as follows:

	2002 EUR	2001 EUR
Held to Maturity	379 114 792	428 007 727
Available for Sale	52 737 650	24 314 270
	431 852 442	452 321 997

Securities with a remaining duration to maturity of less than one year amount to EUR 54 756 739 (2001: EUR 62 916 035).

The market value of debt securities held as fixed assets amounts to EUR 445 090 007 (2001: EUR 453 509 860).

The Fund participates as lender in a Securities Lending and Borrowing Programme with Euroclear and Clearstream. The market value of securities lent at year-end amounts to EUR 5 638 772 (2001: EUR 4 257 802).

3.4 *Investments in venture capital enterprises*

Investments in venture capital enterprises are analysed as follows:

	2002 EUR	2001 EUR
Net disbursed amount at cost	63 789 635	51 352 671
Value adjustment	(14 265 336)	(2 924 364)
Unrealised loss on foreign currencies	(218 992)	–
Net book value	49 305 307	48 428 308

Investments in venture capital enterprises represent equity investments and related financing structures.

The unrealised foreign exchange loss arising from the revaluation of venture capital enterprises at year-end closing rates amounts to EUR 218 992 (2001: unrealised gain of EUR 1 109 446). In accordance with the Fund's provisioning policy this amount is included in the exchange loss of the year (the unrealised gain was not recognised in 2001).

As disclosed in note 2.4, the accounting policy relating to the valuation of the investments in venture capital enterprises has been modified in order to take into consideration potential value adjustments on investments in existence for less than two years at the balance sheet date, being EUR 1 640 919. Had this valuation method been applied in 2001, the value adjustment would have been increased by an estimated amount of EUR 431 890.

The unrealised gains on these investments, which are not recorded in the accounts, in accordance with the valuation method described in note 2.4, amount to EUR 6 706 891 (2001: EUR 16 806 141).

3.5 *Movements in fixed assets (expressed in EUR)*

Headings	Purchase price at the beginning of the year	Additions	Disposals	Purchase price at the end of the year	Cumulative value adjustments at the end of the year	Carrying amount at the end of the year
Debt securities and other fixed income securities held as fixed assets	452 321 997	52 410 600	(72 824 914)	431 907 683	(55 241)	431 852 442
Investments in venture capital enterprises	51 352 671	13 188 894	(751 931)	63 789 634	(14 484 327)	49 305 307
Intangible assets (software)	330 982			330 982	(295 285)	35 697
Tangible and other fixed assets	6 122 963	155 275		6 278 238	(1 373 803)	4 904 435
of which:						
a) Land and buildings	5 161 380			5 161 380	(848 560)	4 312 820
b) Fixtures and fittings	234 203	33 254		267 457	(116 371)	151 086
c) Office equipment	442 330	122 021		564 351	(241 422)	322 929
d) Computer equipment	192 214			192 214	(87 133)	105 081
e) Vehicles	84 072			84 072	(80 317)	3 755
f) Other fixed assets	8 764			8 764		8 764
Total	510 128 613	65 754 769	(73 576 845)	502 306 537	(16 208 656)	486 097 881

3.6 *Prepayments and accrued income*

Prepayments and accrued income are analysed as follows:

	2002 EUR	2001 EUR
Interest receivable on debt securities	10 621 538	10 915 316
Income receivable on commercial paper	207 875	213 763
Interest receivable on term deposits	10 963	7 929
Accrued discount on fixed-income securities		1 531 320
Accrued commission on guarantees	3 642 390	2 533 840
Prepaid expenses and others		512
	14 482 767	15 202 680

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been EUR 2 001 284.

The total amount of the discount to be accrued on the remaining life of fixed-income securities amounted to EUR 3 136 606 as at December 31, 2002 (2001: EUR 3 957 694).

4 Detailed disclosures relating to liability headings

4.1 *Creditors*

Creditors are analysed as follows:

	2002 EUR	2001 EUR
Trade creditors and other payables	3 433 813	1 686 542
Current account	4 203	30 177 396
	3 438 016	31 863 938

Last year's accounts included funds advanced by the EIB for additional investments in venture capital enterprises managed for the EIB, which were also included in the Fund's current accounts reported in "Cash at bank".

In 2002, the funds managed on behalf of the EIB in relation with the venture capital operations are shown as off-balance sheet item in "Assets held for third parties" as separate and identifiable bank accounts have been opened for these operations.

4.2 *Accruals and deferred income*

Accruals and deferred income are analysed as follows:

	2002 EUR	2001 EUR
Deferred income on issued guarantees	11 421 152	10 296 926
Premium amortised on fixed-income securities	4 534 274	5 248 710
	15 955 426	15 545 636

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been EUR 6 535 557 in 2002.

The total amount of the premium to be amortised over the remaining life of debt securities amounts to EUR 6 948 245 (2001: EUR 9 029 153).

4.3 *Provisions relating to guarantees*

The movements relating to provisions in respect of contingent losses that may arise from the guarantee portfolio are set out below:

	2002 EUR	2001 EUR
Balance at the beginning of the financial year	24 311 610	45 005 169
Release with regards to transfer of TEN portfolio (see note 1)		(40 000 000)
Transfer relating to SME guarantees	3 621 424	19 664 904
Utilisation of the provision	(2 410 613)	(358 463)
Balance at the end of the year	25 522 421	24 311 610

The balance of EUR 25 522 421 (2001: EUR 24 311 610) solely pertains to the Fund's own risks SME guarantee portfolio.

The Growth and Environment programme of the Commission, the credit risk of which is however assumed by the Fund, required the transfer to the provision relating to guarantees for the financial year of EUR 3 237 428, and EUR 2 034 668 of the utilisation of the provision.

As disclosed in the note 2.6, the accounting policy relating to provision on guarantees has been modified in order to spread the provisioning requirements over the two thirds of the weighted average life of the guarantees. Had this valuation method been applied in 2001, the provision relating to guarantees would have decreased by EUR 8 328 766.

4.4 *Capital*

The authorised capital amounts to EUR 2 billion, divided into 2 000 shares with a nominal value of EUR 1 000 000 each.

The subscribed share capital of EUR 2 000 000 000 representing 2 000 shares is called for an amount of EUR 400 000 000 representing 20% of the subscribed share capital.

The subscribed share capital is detailed as follows:

	2002 EUR	2001 EUR
Subscribed and paid in (20%)	400 000 000	400 000 000
Subscribed but not yet called (80%)	1600 000 000	1600 000 000
Balance at the end of the year	2 000 000 000	2 000 000 000

	2002 Number of shares	2001 Number of shares
European Investment Bank	1 215	1 215
European Commission	600	600
Financial Institutions	185	185
	2 000	2 000

4.5 *Statutory reserve and profit brought forward*

Under the terms of Article 27 of its Statutes, the Fund is required to appropriate to a statutory reserve at least 20% of its annual net profit until the aggregate reserve amounts to 10% of subscribed capital. Such reserve is not available for distribution.

A minimum amount of EUR 3 754 028 is required to be appropriated in 2003 with respect to the financial year ended December 31, 2002.

Movements in reserves and profit brought forward are detailed as follows (in EUR):

	Statutory reserve	Profit brought forward	Profit for the financial year
Balance at the beginning of the financial year	39 464 505	23 892 297	75 742 580
Dividend paid			(15 600 000)
Other allocation of last financial year profit	15 148 517	44 994 063	(60 142 580)
Profit for the financial year			18 770 140
Balance at the end of financial year	54 613 022	68 886 360	18 770 140

The General Meeting of Shareholders of April 29, 2002 approved the distribution of a dividend amounting to EUR 15 600 000 (2001: EUR 12 498 710), corresponding to EUR 7 800 per share.

5 Disclosures relating to off-balance sheet items

5.1 *Guarantees*

Guarantees issued in respect of loans drawn down and those not yet drawn down by the obligor are analysed with reference to their maturity as follows:

	Drawn EUR	Undrawn EUR	Total 2002 EUR	Total 2001 EUR
Up to five years	1 117 252 935	129 559 898	1 246 812 833	834 589 358
From five to ten years	940 467 665	219 142 386	1 159 610 051	1 310 217 396
From ten to fifteen years	291 599 065	25 000 000	316 599 065	297 752 292
Over fifteen years	293 403 728	46 578 335	339 982 063	347 087 329
	2 642 723 393	420 280 619	3 063 004 012	2 789 646 375

Included in the above total is an amount of EUR 1 576 464 993 representing the TEN guarantee operations managed by and at the risk of the EIB on behalf of the Fund since January 2001. Included in this amount, EUR 1 181 154 329 (2001: EUR 1 322 531 700) has been issued in favour of the EIB.

The drawn down portion of the guarantees issued includes an amount of EUR 62 844 104 (2001: EUR 67 461 129) representing the present value of future interest covered by guarantees.

5.2 *Statutory ceiling on the overall commitments for operations*

As regards guarantee operations, under the terms of Article 26 of the Fund's Statutes, the overall commitment of the Fund, excluding commitments made by the Fund on behalf of third parties, may not exceed, three times the amount of its subscribed capital for guarantee operations.

The present level of capital establishes a ceiling of EUR 6 000 000 000 in relation to total guarantees outstanding currently totalling EUR 1 486 539 018 (2001: EUR 2 789 646 375).

The TEN guarantee operations managed by and at the risk of the EIB, on behalf of the Fund (EUR 1 576 464 993), are not included in the above amount of guarantees outstanding.

In accordance with Article 12 and in conjunction with Article 26 of the Statutes, the ceiling presently applied in respect of the Fund's own venture capital operations is 50% of own funds. Taking into account the 2002 results, the ceiling stands at EUR 273 819 332 whilst the commitments in respect of the venture capital operations amount to EUR 162 818 519 (2001: EUR 126 246 832).

5.3 *Commitments*

Commitments represent investments in venture capital enterprises committed and not yet disbursed amounting to EUR 75 512 464 (2001: EUR 51 777 298).

5.4 *Assets held for third parties*

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

Under the Growth and Environment Pilot Project, the Fund provides a free guarantee to the financial intermediaries for loans extended to SME's with the purpose of financing environmentally friendly investments. The ultimate risk from the guarantee rests with the Fund and the guarantee fee is paid out of European Union budget funds.

Under the SME Guarantee Facility and the MAP Guarantee programme, the Fund is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission.

Under the ETF Start-Up Facility and the MAP Equity programme, the Fund is empowered to acquire, manage and dispose of ETF start-up investments, in its own name but on behalf of and at the risk of the Commission.

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

Within the context of its venture capital activity, EIF manages on behalf of the EIB on the one hand the European Technology Facilities (ETF) 1 and 2, which have been implemented by the EIF since 1998.

On the other hand, in the framework of the Risk Capital Mandate signed with the EIB in 2000, the EIF took over the EIB's existing venture capital portfolio, with further investments being funded as part of the "Innovation 2000 Initiative" of the EIB.

	2002 EUR	2001 EUR
Growth and Environment Pilot Project	6 714 312	16 091 609
SME Guarantee facility	105 795 347	54 762 256
ETF Start-up Facility (*)	43 035 289	59 891 512
Seed Capital Action	100 337	
MAP Guarantee	5 868 191	
MAP Equity (*)	18 103 597	
Trust accounts with the Commission	179 617 073	130 745 377
Trust accounts with the EIB (**)	31 065 934	
	210 683 007	130 745 377

(*) The figures above do not include the net investment position in Venture Capital, of EUR 46 704 169 for ETF Start-Up (2001: EUR 34 466 483) and EUR 860 000 for MAP Equity Facility (2001: EUR 0) made on behalf of the Commission that are included in 5.5. Had the same method been applied in 2001, the amount of cash managed on behalf of the Commission for ETF Start-Up would have been EUR 25 425 029.
(**) EIB trust accounts in 2001 was amounting to EUR 30 098 175 and was included in the balance sheet under the items "Cash at bank – Current accounts" on the assets side and "Creditors" on the liabilities side (see note 4.1).

Had the same method been used in 2001, the overall total of Assets held for third parties would have reached EUR 126 377 069.

5.5 *Fiduciary operations*

Pursuant to Article 28 of its Statutes, the Fund acquires, manages and disposes of investments in venture capital enterprises, in its own name but on behalf of and at the risk of the EIB and of the Commission, according to Fiduciary and Management Agreements concluded with the EIB ("European Technology Facility", "European Technology Facility 2" and "Transfer, Implementation and Management of Risk Capital Investments" (Risk Capital Mandate)) and with the Commission ("ETF Start-Up Facility", "MAP Equity Facility" and "Seed Capital Action").

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

Fiduciary operations concluded pursuant to the Fiduciary and Management Agreements are analysed as follows:

	2002 EUR	2001 EUR
Guarantees signed on behalf of the Commission		
Under the SME Guarantee Facility		
Drawn	1 937 501 373	1 302 384 060
Undrawn	588 568 708	662 955 077
Under the MAP Guarantee Facility		
Drawn		
Undrawn	295 358 333	
Investments made on behalf of the Commission:		
Under ETF Start-Up Facility (*):		
Drawn (**)	62 100 589	50 106 275
Undrawn	52 956 823	55 066 686
Under MAP Equity		
Drawn (**)	860 000	
Undrawn	8 440 000	
Investments made on behalf of the EIB:		
Under EIB Risk Capital Mandate		
Drawn (**)	808 774 334	629 059 524
Undrawn	1 109 821 666	916 986 370
Under European Technology Facility		
Drawn (**)	123 312 774	106 063 926
Undrawn	121 716 270	129 583 971
	5 109 410 869	3 852 205 889

(*) The operations reported above are valued at current exchange rate as at December 31, 2002. In 2001, ETF Start-up Program with the Commission was taking into consideration the historical exchange rate. Would the current exchange rate have been used in 2001, the drawn amount would have been EUR 49 833 340 and the undrawn amount EUR 55 465 948.
(**) The operations reported above are valued at cost as at December 31, 2002 and December 31, 2001. Would the valuation method described in note 2.4 have been used for those operations in 2002 and in 2001, the following amounts would have been disclosed:
- On behalf of the EIB, a value adjustment of EUR 150 682 608 (EUR 30 962 147 estimated amount for 2001) leading to a net adjusted value of EUR 781 404 500 (2001: EUR 704 161 303 estimated amount)
- On behalf of the Commission, a value adjustment of EUR 11 740 217 (EUR 4 472 898 estimated amount for 2001) leading to a net adjusted value of EUR 51 220 372 (2001: EUR 45 363 377 estimated amount.

5.6 *EIF commitments included in the off-balance sheet items*

From the total of EUR 8 458 610 352 (2001: EUR 6 824 374 939) the Fund's only bears the final credit risk for the following operations:

	2002 EUR	2001 EUR
Guarantees in respect of loans granted by third parties		
Drawn	1 172 558 275	708 852 939
Undrawn	313 980 743	385 579 486
	1 486 539 018	1 094 432 425
Commitments in venture capital operations	75 512 464	51 777 298
	1 562 051 482	1 146 209 723

6 Detailed information on the profit and loss account

6.1 *Net interest and similar income*

Net interest and similar income comprises:

	2002 EUR	2001 EUR
Interest on debt securities	24 043 112	25 405 316
Interest on term deposits	977 035	708 218
Accrued discount on debt securities		819 505
Interest on bank current accounts	207	628 186
Premium amortised on debt securities	(1 287 799)	(2 701 123)
Interest and similar charges	105 162	(100 678)
	23 837 716	24 759 424

As mentioned in the note 2.3, the discounts and premiums on fixed-income securities held as fixed assets are netted. This was not the case in 2001. Had there been no netting in 2002 the comparable figure would have been Accrued discount on debt securities: EUR 821 789; and Premium amortised on debt securities: EUR 2 109 587.

6.2 *Commission income*

Commission income is detailed as follows:

	2002 EUR	2001 EUR
Commissions on guarantees issued in respect of loans drawn down	6 808 298	4 519 523
Commissions on guarantees issued in respect of loans not yet drawn down	159 355	134 257
Up-front commissions in respect of guarantees issued	1 031 390	958 786
Commission on European Technology Facility	767 855	2 291 875
Commission on European Technology Facility 2	1 250 000	
Commission on ETF Start-up Facility	1 253 390	1 400 521
Commission on SME Guarantee Facility	3 912 173	2 928 326
Commission on MAP Guarantee Facility	250 000	
Commission on MAP Equity Facility	400 500	
Commission on EIB Risk Capital Mandate	4 732 188	3 607 843
Other commissions	9 996	31 000
	20 575 145	15 872 131

6.3 *Wages and salaries*

Wages and salaries include expenses of EUR 2 723 249 (2001: EUR 2 162 345) incurred in relation to staff seconded from the EIB.

6.4 *Staff pension plan*

The Board of Directors in its meeting of December 3, 2002 approved, the principle of a creation of a defined benefit pension fund in substitution of the current defined contribution pension scheme. The provisioning of an amount of EUR 550 000 was considered to be appropriate to create the initial Risk Fund.

6.5 *Extraordinary result*

During the course of the previous financial year two exceptional items increased the Profit of the year by EUR 60 500 000, of which EUR 40 000 000 was the release of the provision relating to the TEN operations, and EUR 20 500 000 was the proceeds of the sale of the TEN portfolio to the EIB.

Not taking into consideration the income linked to the sale of the TEN portfolio to be comparable to the financial year 2002, the profit for the financial year 2001 would have been a profit of EUR 15 242 580.

7 Personnel

The number of persons (including 15 EIB secondees, of which 1 is the Chief Executive) employed at the year-end was as follows:

	2002	2001
Chief Executive	1	1
Employees	57	51
Total	58	52
Average of the year	55	47

8 Related parties transactions

8.1 *European Investment Bank*

	2002 EUR	2001 EUR
ASSETS		
Accounts Receivable	1 284 491	1 128 833
Trust accounts	0	30 098 175
LIABILITIES		
Accounts Payable	4 215 141	32 175 909
Deferred fees	230 004	240 000
Capital paid in	243 000 000	243 000 000
OFF BALANCE SHEET		
Guarantees drawn	1 179 728 051	1 265 614 119
Guarantees undrawn	27 937 615	56 917 581
Assets held for third parties	31 065 934	0
Investments drawn in venture capital	932 087 108	735 123 450
Investments undrawn in venture capital	1 231 537 936	1 046 570 341
INCOME		
Management fees	6 760 039	5 930 718
Extraordinary income		20 500 000
EXPENSES		
Wages and Salaries	2 723 249	2 386 348
IT expenses	1 450 000	452 786
Services	938 918	437 851

The accounting method for trust account has been modified (see 4.1).

8.2 *Commission of the European Communities*

	2002 EUR	2001 EUR
ASSETS		
Accounts Receivable	1 694 365	2 697 782
LIABILITIES		
Accounts Payable	25 035	0
Deferred fees	11 190 721	10 040 637
Capital paid in	120 000 000	120 000 000
OFF BALANCE SHEET		
Guarantees drawn	1 937 501 373	1 302 384 060
Guarantees undrawn	883 927 041	662 955 077
Assets held for third parties	179 617 073	130 745 377
Investments drawn in venture capital	62 960 589	50 106 275
Investments undrawn in venture capital	61 396 823	55 066 686
INCOME		
Management fees	5 816 063	4 328 847
Commissions received	3 027 344	2 685 399
EXPENSES		
Treasury management fees	53 468	0

The accounting method for Assets held for third parties has been modified in 2002 (see note 5.4).

The accounting method for investments in venture capital under the ETF Start-up Program with the Commission has been modified in 2002 (see note 5.5).

The commission fees received in framework of the Growth & Environment are structured to cover the risk and expenses born by the Fund (see 4.3).

8.3 *Other related parties*

The venture capital fund investments held by the EIF are not to be considered as related parties, as the aim is not to exercise control over the financial and operating policies of the fund's management.

9 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, applies to the Fund, which means that the assets, revenues and other property of the Fund are exempt from all direct taxes.

Results for the year

The EIF has made a net profit in 2002 of EUR 18 770 140. It should be compared with EUR 15 242 580 in 2001 (this being last year's net profit after deduction of the two exceptional items of income EUR 40 000 000 release of the TENs provision and EUR 20 500 000 proceeds of the sale of the TENs portfolio).

Of gross operating income of EUR 46 381 167, 51.4% stemmed from income on financial investments, 44.4% from commissions on operations, and 4.2% from income on venture capital operations (2001: 52.7%, 33.8% and 13.5% respectively).

A net transfer of EUR 3 621 424 has been made to the provision related to guarantees this year.

EUR 11 340 972 has increased the value adjustment in respect with venture capital operations on own resources during the financial year, to reach EUR 14 265 336 at balance sheet date.

In 2002, the cash managed under EIB Risk Capital Mandate has been structured as fiduciary account and does no longer appear on the balance sheet. That explains the reduction of the balance sheet total from EUR 625 034 875 on 31 December 2001 to EUR 602 285 560 on 31 December 2002.

On the liabilities side the provision relating to guarantees stood at EUR 25 522 421. The statutory reserve stood at EUR 54 613 022, a rise of 38.4% compared to 2001.

Off-balance sheet commitments increased by 23.9% from EUR 6 824 374 939 at December 31, 2001 to EUR 8 458 610 352 at December 31, 2002. Of the 2002 year-end balance, 62.9% related to fiduciary operations and the remainder essentially to guarantee operations from own resources.

Independent Auditor's Report

To the Audit Board of
the EUROPEAN INVESTMENT FUND
43, avenue J.F. Kennedy
L-2968 Luxembourg

Following our appointment by the Audit Board, we have audited the accompanying annual accounts of the EUROPEAN INVESTMENT FUND for the year ended December 31, 2002. These annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts 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 annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the attached annual accounts give, in accordance with the Council Directives of the European Union on the annual accounts and consolidated accounts of banks and other financial institutions, a true and fair view of the financial position of the EUROPEAN INVESTMENT FUND as of December 31, 2002 and of the results of its operations for the year then ended.

Pricewaterhouse Coopers S. à r.l.
Réviseur d'Entreprises
Represented by

Pierre Krier　　Didier Mouget

Luxembourg, February 21, 2003

Report of the Audit Board

The Audit Board set up pursuant to Article 22 of the Statutes,

- acting in accordance with the customary standards of the audit profession,
- having studied the books of accounts and such documents which it deemed necessary to examine in the discharge of its duties,
- having examined the report dated February 21, 2003 drawn up by Pricewaterhouse Coopers, S. à r.l. Réviseur d'entreprises,

considering Articles 17, 18 and 19 of the Rules of Procedure,

hereby confirms

- that the operations of the Fund have been carried out in compliance with the formalities and procedures laid down in the Statutes, the Rules of Procedure and the guidelines and directives from time to time adopted by the Board of Directors;
- that the balance sheet and profit and loss account of the Fund give a true and fair view of the financial position of the Fund in respect of its assets and liabilities, and of the results of its operations for the financial year under review.

Luxembourg, February 21, 2003

The Audit Board

Sylvain SIMONETTI

Michael HARALABIDIS

Henk KROEZE

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 Statements by the Committee (on the consolidated and non-consolidated financial statements), 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.

During 2002, under close monitoring of the Audit Committee and in line with "best banking practices", the Bank pursued the strengthening of its control structures through a further integration into its internal control systems of the method and recommendations of the Basle Committee on Banking Supervision (BIS - Bank for International Settlements) set out in the "Framework for Internal Control Systems in Banking Organisations".

EXTERNAL AUDITORS - The independent external auditors report directly to the Audit Committee, which they inform each year of their work programme and of the coordination of their activity with that 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. The contract has been renewed for a 3-year period commencing in 2002.

INTERNAL AUDIT - Catering for audit needs at all levels of management of the EIB Group and acting with the guarantees of independence and of professional standards conferred upon it by its Charter revised in 2001, Internal Audit examines and evaluates the relevance and effectiveness of the internal control systems and the procedures involved. It is also introducing an internal control framework based on BIS guidelines. Hence, Internal Audit reviews and tests controls in critical banking, information technology and administrative areas over a two to five year cycle. Under 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).

ALM AND MARKET RISK - The Financial Policy, ALM and Market Risk Division within the Finance Directorate holds primary responsibility for asset and liability management through the allocation of funds employed and resources and application of strategic investment rules. This includes measuring and attributing the economic contributions of the Bank's various activities. Naturally, the division is also responsible for assessing the impact of market risks on the asset and liability position of the Bank as well as measuring the performance of treasury portfolios. Risks are identified, measured, managed and reported according to a structured process approved by the Management Committee. The appropriate policies and procedures for monitoring and limiting risk are documented in guidelines.

The Asset and Liability Committee (ALCO), formed of members of various directorates of the bank who meet once a month, is also in charge of monitoring the implementation of the Bank's ALM strategy and validating reports.

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 reviews cover 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.

CREDIT RISK - The EIB's credit policy is codified in a set of Guidelines defining the types of credit risk which are acceptable. These Guidelines set out minimum credit quality levels for both borrowers and guarantors in lending operations, as well as for treasury and derivatives transactions. Recently, eligibility criteria for loans in the EU have been extended to lending operations in Accession Countries. The Guidelines also detail the minimum requirements which loan contracts must meet in terms of key legal clauses and other contractual stipulations to ensure that the Bank's position ranks at least as high as that of other senior lenders, with prompt access to security when required. In addition, via the counterpart and sector limit system the Guidelines ensure an acceptable degree of diversification in the Bank's loan portfolio. The bank's limit system draws its inspiration from the traditional prudential regulations on concentration and "large exposure" management of the main EU banking directives, though the Bank has generally a more restrictive approach to risk-taking than commercial banks.

The Guidelines undergo periodic adaptations to incorporate evolving operational circumstances and in response to new mandates the bank may receive from its shareholders. The latest adaptations of the Guidelines, designed to strengthen the Bank's capacity to manage loan exposures in a more volatile and challenging credit environment, were introduced in December 2002.

In line with "best practice" in the banking sector, and to comply with the Internal Rating Based approach recommended by "Basel II", an internal "Loan Grading" system (relying on "expected loss" methodology) has been implemented for lending operations. This has become an important part of the loan appraisal process, of credit risk monitoring and is the basis for annual general provisioning calculations, as well as providing a reference designed to "price" credit risk at a level commensurate with the loan's contribution to the general provisioning. Furthermore, utilising a recently introduced credit software package, a portfolio view of credit exposures is implemented, fully integrating the concentration and correlation effects in the bank's loan portfolio created by the dependence of various exposures from common risk factors. By adding a portfolio view of credit risks, this new tool complements the Loan Grading's deal-by-deal approach to credit assessment. In the case of unsecured corporate loans, and on a case by case basis, this novel tool may be used in appropriate circumstances to quantify an additional pricing charge designed to compensate for risks arising from concentration effects in the loan portfolio, while also creating incentives for better credit diversification.

The combination of these elements allows for better assessment of credit exposures and a more disciplined approach to their management.The Bank is also adopting an EIB Group-wide credit risk management taking into consideration the exposure generated by its SME guarantee activity of its subsidiary, the European Investment Fund.

OPERATIONS EVALUATION - This department carries out *ex post* evaluations and coordinates the self-evaluation process in the Bank. It ensures 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, and posting the results on the Bank's website. Through its work, this department familiarises external observers with the performance of the Bank and encourages the institution to learn from experience.

In 2002, the department completed and published evaluation reports on the Bank's current portfolio approach for SME global loans and its financing of solid waste management projects.

The above-mentioned controls stem from the Bank's Statute or other internal organisational provisions. As both a Community body and financial institution, the Bank cooperates with other independent control bodies entrusted with such tasks under the Treaty or other regulations.

EUROPEAN COURT OF AUDITORS - Under Article 248 of the EC Treaty, the Court has the task of examining the accounts of all revenue and expenditure of the Community. The results of the Court's audits are published (www.eca.eu.int). In accordance with the Agreement mentioned in Article 248(3) and which sets out the arrangements governing the Court's audit of the use of Community funds managed by the Bank under mandate, the Bank continued in 2002 to provide the Court of Auditors with all information it requested.

OLAF (European Anti-Fraud Office) - The Bank's policies regarding the investigation of cases of suspected fraud or corruption provide for close cooperation with OLAF. No files were submitted, nor were any requests for information received from OLAF during 2002.

EUROPEAN OMBUDSMAN - Pursuant to Article 195 of the Treaty, the Ombudsman conducts investigations into alleged instances of maladministration by the Community institutions and bodies. The Treaty vests the Ombudsman with full independence in the performance of his duties. The Bank's responses to requests for information or opinions, either in the context of a citizen's complaint or of an investigation opened at the Ombudsman's own initiative, aim to demonstrate the Bank's compliance with the various rules that are binding on it. The Ombudsman publishes the results of his enquiries (www.euro-ombudsman.eu.int). In 2002, the Bank responded to information requests prior to decisions by the Ombudsman on three complaints.

EIB Group addresses

European Investment Bank
100, boulevard Konrad Adenauer
L-2950 Luxembourg
Tel. (+352) 43 79-1
Fax (+352) 43 77 04

Website: **www.eib.org**
E-mail: **info@eib.org**

European Investment Bank

Department for Interinstitutional Affairs
Brussels Office:
Rue de la Loi 227
B-1040 Bruxelles
Tel. (+32-2) 235 00 70
Fax (+32-2) 230 58 27

Department for Lending Operations in Italy, Greece, Cyprus and Malta:
Via Sardegna 38
I-00187 Roma
Tel. (+39) 06 47 19-1
Fax (+39) 06 42 87 34 38

Athens Office:
364, Kifissias Ave & 1, Delfon
GR-152 33 Halandri/Athens
Tel. (+30) 21 06 82 45 17
Fax (+30) 21 06 82 45 20

Berlin Office:
Lennéstraße 11
D-10785 Berlin
Tel. (+49-30) 59 00 47 90
Fax (+49-30) 59 00 47 99

Lisbon Office:
Avenida da Liberdade, 144-156, 8°
P-1250-146 Lisboa
Tel. (+351) 213 42 89 89
Fax (+351) 213 47 04 87

London Office:
2 Royal Exchange Buildings
London EC3V 3LF
United Kingdom
Tel. (+44) 20 73 75 96 60
Fax (+44) 20 73 75 96 99

Madrid Office:
Calle José Ortega y Gasset, 29
E-28006 Madrid
Tel. (+34) 914 31 13 40
Fax (+34) 914 31 13 83

Cairo Office:
6 Boulos Hannah Street
Dokki, Giza (Cairo)
Egypt
Tel. (+20-2) 762 00 77

European Investment Fund
43, avenue J.F. Kennedy
L-2968 Luxembourg
Tel. (+352) 42 66 88-1
Fax (+352) 42 66 88-200

Website: **www.eif.org**
E-mail: **info@eif.org**

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