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Financial results

During 2000 the EBRD consolidated its return to profitability and recorded a profit after provisions of €152.8 million for the year compared with a profit of €42.7 million for 1999. As a result, the Bank achieved a return to positive reserves (€65.9 million at 31 December 2000) and reversed most of the financial setback of 1998.

Operating income before general administrative expenses of €519.2 million was almost 40 per cent above the €376.4 million operating results of last year, with all revenue areas performing better in 2000. In particular, net interest income of €273.3 million was 46 per cent above the 1999 reported level, and dividend income of €28.1 million from share investments was more than double the total for 1999. Profit of €166.8 million from the sale of share investments was 30 per cent higher than in 1999. During 2000 the reduction in non-accrual assets had a positive impact on net interest income. At 31 December 2000, 26 loans totalling €363.8 million were on non-accrual status, compared with 26 loans totalling €452.7 million at the end of 1999; 72 per cent or €260.1 million were in the Russian portfolio (1999: 85 per cent or €382.8 million).

Provisioning charges of €174.3 million for 2000 were slightly higher than those in 1999, which totalled €160.9 million. This increase was due to higher Treasury provisions, which represented a €7.2 million charge in 2000 (1999: €5.3 million credit). The credit in 1999 principally reflected an improvement in the risk rating of Korean exposures, allowing provisions to be reduced from the 1998 year-end levels. Banking provisioning charges in 2000 were similar to those of the previous year, at €167.2 million (1999: €166.2 million). New specific provisions on Banking assets were lower in 2000 than in 1999 due to asset recoveries resulting from restructurings, reduction in non-accrual loans and improved portfolio performance.

In the aftermath of the Russian crisis the EBRD experienced a number of problem exposures in its equity portfolio. The Bank has taken significant provisions against these. Reflecting the nature of the risks taken, it is unlikely that the Bank will recover substantial amounts from these investments. Charges for general provisions relating to Banking assets were higher than last year. Although restructured projects permitted reversals of specific provisions, they still remained high risk, thus attracting high general provisions. The risk profile of new project disbursements was higher risk than in 1999 (see below).

Banking operations achieved profitability during the year for the first time, showing a net profit of €79.1 million (1999: loss of €11.6 million) after full allocation of expenses, provisions and capital benefit. This was primarily due to increases in net interest income and profit from the sale of share investments. However, all revenue areas outperformed their 1999 levels. Treasury had another profitable year, increasing net profit after full allocation of expenses, provisions and capital benefit by more than a third to €73.7 million (1999: profit of €54.3 million), capitalising on attractive funding opportunities as well as achieving good returns on higher asset volumes.

The EBRD's general administrative expenses expressed in sterling were well within budget and comparable to those for 1999, reflecting continuing budgetary discipline and effective cost controls. However, due to the strengthening of sterling during 2000, the Bank's general administrative expenses, including depreciation, when expressed in euro, were €19.3 million above the level of the previous year at €192.1 million (1999: €172.8 million).

Total provisions for Banking operations amounted to €1.2 billion at the end of 2000, compared with €1.1 billion at the end of 1999. This represented 15.8 per cent of disbursed outstanding loans and equity investments (1999: 16.2 per cent) and reflects the EBRD's commitment to provide prudently for existing and foreseeable risks based on a continuing assessment of the portfolio and the associated inherent risks. Provisions attributable to operations in Russia accounted for approximately 37 per cent of total provisions (1999: 51 per cent); non-sovereign provisions represented 34 per cent of non-sovereign disbursed outstandings in that country (1999: 37 per cent).

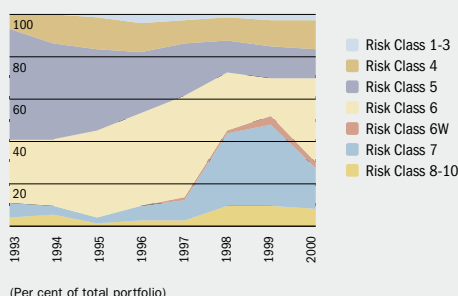
Banking operations

Portfolio

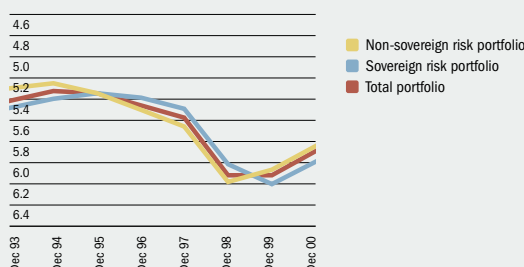
New business volume in 2000 reached €2.7 billion, representing 95 projects. This is the highest level of annual commitments achieved by the EBRD to date and represents an increase of 24 per cent over the level recorded in 1999 (€2.2 billion for 88 projects). The equity share of the new business volume was 23 per cent and the private sector share was 78 per cent. The new business included €198 million of restructured operations.

Net cumulative business volume reached €16.6 billion by the end of 2000 across all the EBRD's countries of operations, compared with €13.7 billion at the end of 1999. The portfolio of the Bank's net outstanding commitments grew from €10.8 billion at the end of 1999 to €12.2 billion at the end of 2000, an increase of 13 per cent.

Overall risk rating profile of the loan, guarantee and share investment portfolio over time by signed amounts



Weighted average overall risk rating profile over time by signed amounts



The pipeline of projects under development was strengthened during 2000 following Board approval of 107 projects. These consisted of loans and share investments by the Bank totalling €3.6 billion compared with 99 projects totalling €2.6 billion in 1999. The level of Board approvals in 2000 was the second-highest annual level to date. At the end of 2000 the cumulative approvals, net of cancellations, amounted to €20.2 billion (1999: €16.5 billion). The total project value of the cumulative Board approvals amounted to €70.6 billion compared with €55.9 billion at 31 December 1999. This includes the mobilisation of €50.4 billion at the end of December 2000 compared with €39.4 billion at the end of December 1999.

Gross disbursements totalled €1.5 billion in 2000, an increase of 3 per cent from last year. Operating assets reached €7.6 billion at the end of 2000 (1999: €7.0 billion), comprising €5.6 billion of loans and €1.9 billion of share investments.

Risks

The EBRD conducts regular reviews of individual exposures within its portfolio because of the high credit risk associated with many of the countries in which it operates. All projects that have not reached completion are formally reviewed by Risk Management at least twice a year, with more frequent reviews for exposures that are perceived to be more vulnerable to default. Annual reviews continue after project completion for private sector exposures. Each review includes a consideration of the project risk rating and, for underperforming projects, the level of specific provisions. Control of disbursement is managed by the Operation Administration Unit within Risk Management, which is responsible for ensuring compliance with project conditionality prior to disbursement. It also ensures that the correct procedures are followed in line with approved policy. In addition, the portfolio is monitored for both country and sector diversification.

Investments that are in jeopardy are transferred to the Corporate Recovery team, reporting jointly to Risk Management and Banking, for management of the restructuring process in cases where this is

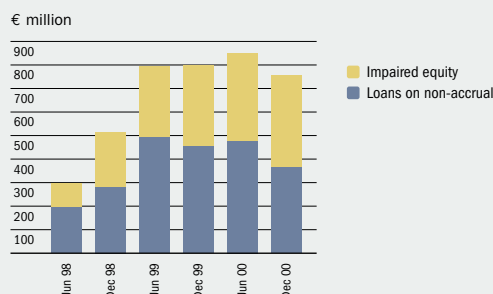
likely to achieve positive results. The Corporate Recovery team works closely with both Risk Management and Banking in the development and implementation of the particular strategy for these situations.

All projects and countries of operations are assigned credit risk ratings on an internal scale from 1 (low risk) to 10 (expected loss). For the performing portfolio, general provisions are established according to a matrix based on both external indicators of loss as well as EBRD experience, taking into account perceived project, sector and country risks. The general provisioning model used by the Bank was enhanced in 2000, using recent portfolio experience and a new model to generate expected losses from individual projects.

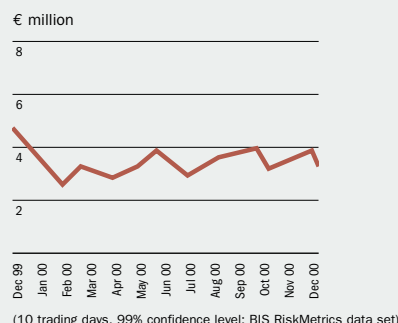
In view of the markets in which it operates and its transition mandate, the EBRD expects its project-specific ratings in normal circumstances to range from risk categories 4 to 6 (roughly equivalent to Standard & Poor's BBB to B ratings) at the time of approval. The average project risk rating of new projects signed in 2000 was 5.55 (1999: 5.36). The weighted average project risk rating of the signed portfolio at 31 December 2000 was 5.65 (1999: 5.68).

The EBRD's portfolio benefited in 2000 from a steadily improving credit climate across the region led by a recovery in Russia. The risk ratings of a number of countries of operations were upgraded by the Bank as well as by external rating agencies. The proportion of classified operations fell as a result of the resolution of a number of previous problem exposures and because of the growth in the overall portfolio. By the end of 2000, the percentage of signed operations in overall risk categories 4 to 6 rose from 47 per cent at 31 December 1999 to 68 per cent. Those in risk category 6W (Watch List) and 7 (Special Attention) declined to 23 per cent (1999: 42 per cent) and those in categories 8 (Sub-standard), 9 (Doubtful) and 10 (likely loss) decreased to 7 per cent (1999: 8 per cent).

Non-accruals and impaired equity



Total undiversified VaR – Overall limit: €18 million



The EBRD's risk portfolio improved over the year, with the average overall risk rating of the signed portfolio decreasing to 5.91 (1999: 6.14). Both the sovereign and non-sovereign sectors saw considerable improvement during 2000.

Loans are placed on non-accrual when payments are more than 60 days late for non-sovereign exposure or 180 days for sovereign exposure. In addition, performing loans may also be placed on non-accrual if future payment default is anticipated. Impaired equity is defined as all those equity investments against which specific provisions have been taken.

Performance

For the first time Banking operations achieved profitability after provisions on a fully allocated basis, with net profit after provisions of €74.0 million for 2000 compared with a net loss of €11.6 million on the same basis for 1999. Operating income of €423.0 million from the EBRD's core Banking business in 2000 was 35 per cent above the level of €313.7 million for 1999. All income-generating areas in 2000 outperformed their 1999 levels, in particular net interest income from loans (37 per cent increase), dividend income (more than doubled) and net profit on the sale of share investments (30 per cent increase).

The sale of a small number of the EBRD's more mature share-holdings generated a significant proportion of the income received from the share investment portfolio. The contribution from this sector of the portfolio to the Bank's profit and loss account is expected to show significant variability from year to year, given its dependence on the timing of equity exits. These are linked to the completion of the Bank's transition role in the specific operation and the opportunity, in the market or otherwise, to achieve a sale of its holding. Exits will increase as the growing equity portfolio continues to mature, but it remains difficult to forecast the potential timing and income from such exits.

Treasury operations

Portfolio

The value of assets under Treasury management was €12.4 billion at 31 December 2000 (1999: €10.6 billion), comprising €7.1 billion of debt securities and €5.3 billion of placements with credit institutions (including repurchase agreements and total return swaps).

At the end of 2000, approximately 3 per cent of Treasury assets were managed by a total of 11 external asset managers. The externally managed portfolios comprised a funded and notional amount of €357.3 million of a euro-denominated interest rate trading programme¹ and €364.3 million of a US dollar-denominated mortgage-backed securities programme. The funds are managed by independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines that the Bank applies to its internally managed funds.

Risks

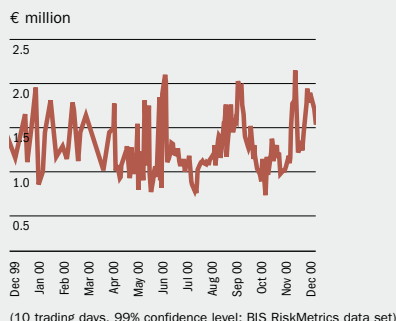
As at 31 December 2000, the aggregate Value at Risk (VaR) of the EBRD, calculated with reference to a 99 per cent confidence level and over a ten-trading-day horizon, stood at €3.3 million² (1999: €4.7 million).

These figures denote a modest utilisation of the total VaR limit for all Treasury funds, whether internally or externally managed. This limit is set out in the Bank's Treasury Authority, and amounts to €18.0 million when calculated with reference to a 99 per cent confidence level and a ten-trading-day horizon.

¹ In the euro programme, managers are assigned notional amounts for interest rate positioning without being allocated the actual cash funds.

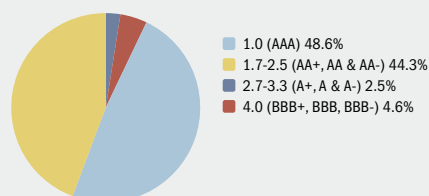
² In other terms, the EBRD had a 1 per cent chance of experiencing a loss of at least €3.3 million over a horizon of ten trading days, due to adverse movements in interest rates and foreign exchange rates.

Internally managed positions



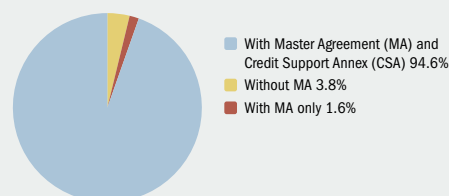
Credit quality profile of the Treasury portfolio

31 December 2000



OTC derivatives exposure*

31 December 2000



* Percentages are relative to the gross marked-to-market credit exposure.

The VaR of the internally managed portfolios stood at €1.6 million (1999: €1.3 million). The range during the year was between €0.7 million and €2.2 million, comparable, if somewhat narrower, to that experienced in 1999.

As in previous years, the contribution from foreign exchange risk to the total VaR number was fairly limited at all times in 2000, never exceeding €0.8 million, with interest rates positioning therefore representing the bulk of the EBRD's market risk exposure. The size of the internally managed portfolios to which these figures correspond was €10.7 billion as at 31 December 2000 (1999: €9.3 billion).

In addition, market risks incurred on the externally managed portfolios exhibited a year-end VaR of €0.6 million (1999: €1.0 million) for the euro-denominated programme and €1.2 million (1999: €2.4 million) for the US dollar-denominated programme.³ The net asset value of these externally managed portfolios, as at 31 December 2000, was €45.8 million and €364.3 million respectively.

The overall quality of Treasury credit exposure remained high, with the weighted average credit risk rating of 1.65 on the EBRD's internal rating scale (slightly better than AA+). At the end of 2000, 92.9 per cent of the overall exposure was rated 2.5 (split rated between A+ and AA-) or better (1999: 91.6 per cent). All exposures were investment grade quality or better, with only sovereign-related exposures in Korea and fully secured derivatives exposure to a single counterparty falling below the internal rating of 3.3 (equivalent to A-).

The portfolio's credit risk exposure was diversified across 22 countries, with no more than 8.6 per cent of the exposure in any one country, with the exception of the United States at 38.1 per cent (same as 1999).

³ The VaR of the US dollar-denominated programme is computed by an external risk information provider.

Credit risk mitigation techniques were actively pursued, notably in the area of over-the-counter (OTC) derivative transactions. At the end of 2000, 94.6 per cent of the EBRD's gross credit exposure to OTC derivative transactions was with counterparties with which both a Master Agreement (MA) and a Credit Support Annex (CSA) had been completed.

Management of operational risk in the EBRD's Treasury transactions has focused to date on risk monitoring and risk mitigation, as appropriate quantification techniques for risk measurement are still debated in the industry at large. In particular, attention has been given to ensuring that the principle of segregation of duties is complied with at all stages of the processing of transactions.

The EBRD has performed a review of all its strategic systems and initiated the replacement of its back-office and general ledger systems in a Bank-wide process, encompassing both Treasury and Banking operations.

Risk maps are regularly produced and submitted to the Audit Committee of the Board, with discussion increasingly focused on operational risk and the sub-categories adopted by the EBRD (systems risk, transactions risk, operational control risk and people risk). The operational risk indicators used to monitor Treasury transactions are also currently under review.

Performance

Treasury achieved a strong performance in 2000, contributing €73.7 million profit after provisions (1999: €54.3 million). This increase is principally attributable to improved margins earned on Treasury's investment portfolio where financial assets were available at historically wide spreads in volatile market conditions.

Funding

Capital

Paid-in capital totalled €5.2 billion at 31 December 2000 and at 31 December 1999. All but three members have now subscribed to the capital increase, with instruments of subscription deposited for 982,300 shares (1999: 972,200). This increases the number of the EBRD's subscribed shares to almost 2.0 million. The third instalment of the capital increase became due in April 2000, and paid-in capital received increased to €3.8 billion cumulative, from €3.5 billion at the end of 1999.

Overdue capital of cash and promissory notes totalled €24.6 million at the end of 2000 (1999: €31.9 million), with approximately €17.9 million relating to the capital increase. A further €5.5 million of encashments of deposited promissory notes is also overdue, of which €3.1 million relates to the capital increase.

Capital adequacy

In implementing its operational strategy, the EBRD's capital usage is guided by the Bank's statutory and financial policy parameters. Headroom is the amount of funds that the Bank has available to commit to new loans, equity investments and guarantees before it reaches its 1:1 gearing ratio limit. The 1:1 gearing ratio stipulates that the total amount of outstanding loans, equity investments and guarantees made by the Bank in its ordinary operations cannot exceed the total amount of its unimpaired subscribed capital, reserves and surpluses.

In accordance with the requirements of Article 5.3 of the Agreement Establishing the EBRD, the Bank started a review of its capital stock during 2000, which will be finalised during 2001. The traditional headroom measure of capital adequacy has been reviewed and further supplemented with a risk-based analysis applying the Bank's own risk capital model.

Borrowings

The EBRD's borrowing policy is governed by two key principles. First, it seeks to match the average maturity of its assets and liabilities to minimise refinancing risk. Secondly, it seeks to ensure the availability of long-term funds at optimum cost effectiveness for the Bank.

Total borrowings at 31 December 2000 stood at €14.1 billion, an increase of €1.5 billion compared with 1999. There were 38 new issues under the EBRD's medium- to long-term borrowing programme at an average after-swap cost of Libor minus 31 basis points. The average remaining life of medium- to long-term debt was extended during the year to stand at 9.5 years at 31 December 2000 (1999: 8.1 years).

In addition to medium- to long-term debt, the figure for total borrowings also reflects short-term debt categorised as debts evidenced by certificates that the Bank raises for cash management purposes.

Expenses

General administrative expenses and depreciation expressed in sterling were £129.5 million for 2000, well within budget and comparable to those for the previous year (1999: £129.4 million), reflecting continuing budgetary discipline, effective cost controls and a proactive cost-recovery programme. When translated into euro, the EBRD's general administrative expenses, including depreciation, were €192.1 million (1999: €172.8 million).

The increase in expenses expressed in euro was due to the higher actual sterling/euro foreign exchange rates prevailing during the year, with an average rate of 1.64 euro to sterling in 2000 compared with 1.53 in 1999. The actual weighted average rate achieved by the Bank was lower than this due to the EBRD's policy of entering into exchange rate contracts to minimise the impact of any strengthening of sterling against the euro on the largely sterling-denominated expenses, when translated into euro for reporting purposes. Consequently, a weighted average euro to sterling exchange rate of 1.52 was achieved in 2000 for expenses (1999: 1.36), resulting in a cost reduction of €15.0 million in 2000, compared with €20.3 million in 1999.

The EBRD also entered into a series of forward foreign exchange contracts to hedge the cost of sterling required for future general administrative expenses. Hedges are in place for approximately 42 per cent of the 2001 expenses budget. At 31 December 2000, the market value of these options showed a gain of €12.8 million (1999: €24.6 million). In accordance with the Bank's accounting policy, this gain has been deferred and will be recognised in subsequent years.

Provisions

The EBRD's general provisioning on non-sovereign exposures is based on a risk-rated approach, as assessed by the Bank's independent Risk Management department and applied at the end of the month of disbursement. For sovereign projects, a uniform general provision of 3 per cent on outstanding disbursed sovereign risk exposures is applied, which takes account of the Bank's preferred creditor status afforded by its members. The EBRD takes specific provisions as required on a case-by-case basis. Provisions are based on net disbursements at the relevant reporting date.

The application of the EBRD's provisioning policy resulted in a charge for the year of €174.3 million, which is 8 per cent higher than the 1999 charge of €160.9 million. Banking provisions were €167.2 million compared with €166.2 million in 1999 while Treasury provisions (see below) amounted to a €7.2 million charge (1999: €5.3 million credit). Although total Banking provisions were at a similar level to the previous year, the division between specific and general provisions was different. Specific provisions represented 62 per cent of Banking provisions in 2000 (1999: 86 per cent), reflecting the improved portfolio performance and asset recoveries. General provisions represented 38 per cent of Banking provisions in 2000 (1999: 14 per cent), reflecting a number of projects that were returned to general provisioning from specific provisions following their restructuring as well as a number of project downgradings in the portfolio.

As a result of these charges for 2000, total provisions for Banking operations reached €1.2 billion, which amounted to 15.8 per cent of the outstanding disbursed portfolio of loans and equity investments (1999: €1.1 billion and 16.2 per cent).

Provisions relating to the Treasury portfolio totalled €13.2 million at the end of 2000 (1999: €6.3 million).

Outlook for 2001

The EBRD has budgeted for a profit in 2001, although well below the level of 2000. The 2001 result is vulnerable to continuing uncertainty in the operational environment, in particular the impact of the current global economic slowdown and reduced buoyancy in equity markets.

Additional reporting and disclosures

Through its reports and disclosures, the EBRD follows the reporting conventions of private sector financial institutions, in line with its policy to reflect best industry practice.

Principles of financial management and risk management

The financial policies of the EBRD follow the guiding principles of sound financial management, building on the Agreement Establishing the Bank and providing the financial framework within which the Bank pursues its mandate.

The EBRD's financial management aims to:

- pursue financial viability;
- build up reserves and ensure sustainable profitability;
- follow market and performance orientation in all its activities;
- work within a comprehensive risk management framework; and
- ensure transparency and accountability at all levels and support effective corporate governance.

The EBRD's financial policies define the financial and risk parameters that apply to Banking and Treasury operations. These policies include provisioning, pricing and liquidity policies as well as the Treasury Authority. The provisioning policy determines the amount of general provisions for, and the process for applying specific provisions to, all assets. Pricing policies determine the considerations and parameters used to price loans, guarantees and equity investments. The liquidity policy determines the amount of liquid assets required by the Bank. Furthermore, the financial policies define capital utilisation and provide portfolio risk parameters for Banking operations, hedging policies, equity valuation, exit procedures and strategies, underwriting, risk management and corporate governance policies.

The Treasury Authority is the document by which the Board of Directors delegates authority to the Vice President Finance to manage the EBRD's Treasury operations and which defines the risk parameters to be observed in these activities. The credit process describes the procedures for approval, management and review of Banking exposures. The Financial and Operations Policies Committee reviews the Treasury Authority, and the Bank's Audit Committee reviews the Credit Process. Both are submitted to the Board for approval. The EBRD's independent Risk Management department, headed by a member of the Bank's Executive Committee, seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through comprehensive and rigorous processes.

The EBRD is exposed to credit risk in both its Banking operations and its Treasury activities. Credit risk arises since borrowers and Treasury counterparties could default on their contractual obligations, or the value of the Bank's investments could be impaired. Most of the credit risk is in the Banking portfolio. All ordinary operations are reviewed on a regular basis to identify promptly any changes required in the assigned risk ratings and any actions required to mitigate increased risk.

The EBRD's main market risk exposure is that movement of interest rates and foreign exchange rates may adversely affect positions taken by the Bank in its Treasury portfolio. The EBRD aims to limit and manage market risks to the extent possible in its portfolio of Treasury assets and borrowings through active asset and liability management and management of foreign exchange exposures. Interest rate risks are managed through a combination of synthetically matching the interest rate profiles of assets and liabilities, mainly through the use of derivatives for hedging purposes. Exposures to foreign currency and interest rate risks are measured independently of the Treasury function to ensure compliance with authorised limits, including VaR limits.

In a manner consistent with the EBRD's objective of capital preservation, particularly with respect to the Treasury portfolio, sensitivities to market risk factors, VaR and stress-testing figures are computed in terms of risk over and above the Bank's Libor-based benchmark for investments.¹ The Bank pays particular attention to the fact that the market risk incurred should remain well within the boundaries of its appetite for risk; thus VaR trends and stress-tests are closely monitored.

Operational risk is determined by examining all aspects of risk-related exposure other than those falling within the scope of credit and market risk. This includes the risk of loss that may occur through errors or omissions in the processing and settlement of transactions, in the reporting of financial results or failures in controls.

Within the EBRD, there are policies and procedures in place covering all significant aspects of operational risk. These include first and foremost the Bank's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties, which protect the EBRD from any initial exposure to operational risk. These are supplemented with:

- the EBRD's code of conduct;
- disaster recovery/contingency planning;
- the Public Information Policy;
- integrity due diligence procedures;
- procedures regarding corrupt practices and money laundering;
- procedures to be followed in the event of fraud or suspected fraud;
- information management policy; and
- procurement policies.

The Bank also monitors progress in risk management matters under the framework provided by the Risk Management Enhancement Programme for Treasury Transactions, which was introduced in 1995. The objective of this ongoing programme is to ensure that the EBRD's approach to managing market, credit and operational risk in its Treasury activities is kept in line with the evolving best market practice in the industry. Progress in measuring, monitoring and mitigating these risks is regularly reviewed by the Audit Committee of the Bank's Board of Directors.

Use of derivatives

The EBRD's use of derivatives is primarily focused on hedging interest rate and foreign exchange risks arising from both its Banking and Treasury activities. Market views expressed through derivatives are undertaken as part of Treasury's activities. In addition, the Bank uses credit derivatives as an alternative to investments in specific securities or to hedge certain exposures.

All risks arising from derivative instruments are combined with those deriving from all other instruments dependent on the same underlying risk factors and subject to overall market and credit risk limits. Additionally, special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, spread risk for swaps and basis risk for futures.

For the purpose of controlling credit risk in its Treasury transactions, the EBRD's policy is to pre-approve each counterparty individually and to review its eligibility regularly. Individual counterparty limits are allocated in compliance with guidelines that set a maximum size and duration of exposure based on the counterparty's credit rating.

Derivative transactions in particular are normally limited to the highest rated counterparties. Furthermore, the EBRD pays great attention to mitigating Treasury derivatives credit risks through systematic recourse to a variety of credit enhancement techniques. Over-the-counter derivatives transactions are systematically documented with Master Agreements, providing for close-out netting. The Bank has sought to expand the scope for applicability of this provision through documenting the widest possible range of instruments transacted with a given counterparty under a single International Swaps and Derivatives Association (ISDA)-based Master Agreement.

The EBRD has continued to expand its use of collateral agreements in relation to its activity in over-the-counter derivatives. By the end of 2000, 95 per cent of the Bank's gross exposure to derivatives counterparties was subject to collateral agreements, and negotiations for signing such agreements were under way with all remaining active counterparties.

Corporate governance

The EBRD is committed to effective corporate governance, with responsibilities and related controls throughout the Bank properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the EBRD, to enable the system of checks and balances on the Bank's activities to function effectively.

The EBRD's governing constitution is the Agreement Establishing the Bank, which provides that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, officers and staff.

¹ A VaR of zero, for instance, would indicate the absence of any foreign exchange risk and that the interest rate exposure on the Bank's assets matched perfectly that of its liabilities.

All the powers of the EBRD are vested in the Board of Governors representing the Bank's 62 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority.

Board of Directors and Board Committees

Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the EBRD's general operations and policies. It exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

The Board of Directors has established three Board Committees to assist the work of the Board of Directors:

- the Audit Committee;
- the Budget and Administrative Affairs Committee; and
- the Financial and Operations Policies Committee.

The composition of these committees during 2000 is detailed on page 104.

The President and the Executive Committee

The President is elected by the Board of Governors and is the legal representative of the EBRD. Under the guidance of the Board of Directors, the President conducts the current business of the Bank.

The Executive Committee is chaired by the President and is composed of members of the EBRD's senior management.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. In its financial reporting the Bank aims to provide appropriate information on the risks and performance of its activities, and to observe best practice in the content of its public financial reports. In addition, the Bank has a comprehensive system of reporting to the Board of Directors and its committees. Detailed information is available to enable management to monitor closely the implementation of business plans and the execution of budgets.

Compensation policy

The EBRD has designed a market-oriented staff compensation policy, within the constraints of the Bank's status as a multilateral institution, to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees;
- to take account of differing levels of responsibility;
- to be sufficiently flexible to respond rapidly to the market; and
- to motivate and encourage excellent performance.

To help meet these objectives, the EBRD's shareholders have agreed that the Bank should use market comparators for its staff compensation and that salary and bonus should be driven by performance.

The bonus programme allocations are structured to recognise individual and team contributions to the EBRD's overall performance. Bonus payments, although an important element of the total staff compensation package, are limited as a percentage of base salaries. In general, bonus payments do not exceed 30 per cent of base salaries.

The EBRD's Board of Directors, the President and Vice Presidents are not eligible to participate in the bonus programme. The Board of Governors establishes the remuneration of the Board of Directors and the President, whereas the Vice Presidents' remuneration is established by the Board of Directors.

Financial statements

Profit and loss account

For the year ended 31 December 2000	Note	Year to 31 December 2000 € 000	Year to 31 December 1999 € 000
Interest and similar income			
From loans		410,190	297,073
From fixed-income debt securities and other interest		581,345	368,377
Interest expenses and similar charges		(718,223)	(478,885)
Net interest income		273,312	186,565
Dividend income from share investments		28,081	13,899
Net fee and commission income	4	29,379	25,847
Financial operations			
Net profit on sale of share investments		166,770	128,530
Net profit on dealing activities and foreign exchange	5	21,685	21,584
Operating income		519,227	376,425
General administrative expenses	6	(179,002)	(159,685)
Depreciation	12	(13,099)	(13,162)
Operating profit before provisions		327,126	203,578
Provisions for losses	7	(174,334)	(160,911)
Profit for the year		152,792	42,667

Balance sheet

At 31 December 2000	Note	€ 000	31 December 2000 € 000	€ 000	31 December 1999 € 000
Assets					
Placements and debt securities					
Placements with and advances to credit institutions		5,344,328		2,773,490	
Debt securities	8	7,075,502		7,865,490	
			12,419,830		10,638,980
Other assets	9		763,672		994,620
Loans and share investments					
Loans	10	4,940,425		4,756,369	
Share investments	10	1,386,372		1,238,960	
			6,326,797		5,995,329
Property, technology and office equipment	12		38,894		41,009
Paid-in capital receivable	15		1,740,817		1,924,695
Total assets			21,290,010		19,594,633
Liabilities					
Borrowings					
Amounts owed to credit institutions		455,745		743,657	
Debts evidenced by certificates	13	13,621,661		11,818,129	
			14,077,406		12,561,786
Other liabilities	14		1,960,609		1,961,040
Subscribed capital	15	19,742,750		19,640,750	
Callable capital		(14,556,615)		(14,477,645)	
Paid-in capital			5,186,135		5,163,105
Reserves and profit for the year			65,860		(91,298)
Members' equity			5,251,995		5,071,807
Total liabilities and members' equity			21,290,010		19,594,633
Memorandum items					
Undrawn commitments	11		4,655,228		3,880,872

Statement of changes in members' equity

For the year ended 31 December 2000	Subscribed capital € 000	Callable capital € 000	Conversion reserve € 000	General reserve € 000	Special reserve € 000	Accumulated reserve € 000	(Loss)/profit for the year € 000	Reserves and profit for the year € 000	Total € 000
At 31 December 1998	19,290,750	(14,206,395)	57,854	24,366	96,383	(60,412)	(256,146)	(137,955)	4,946,400
Exchange rate differences on conversion of share capital receipts	–	–	(895)	–	–	–	–	(895)	(895)
Internal tax for the year	–	–	–	4,885	–	–	–	4,885	4,885
Qualifying fees from the prior year	–	–	–	–	19,327	(19,327)	–	–	–
(Loss) set aside from the prior year	–	–	–	–	–	(261,233)	261,233	–	–
Transfer to reserves from restatement of pension	–	–	–	–	–	5,087	(5,087)	–	–
Capital increase	350,000	(271,250)	–	–	–	–	–	–	78,750
Profit for the year	–	–	–	–	–	–	42,667	42,667	42,667
At 31 December 1999	19,640,750	(14,477,645)	56,959	29,251	115,710	(335,885)	42,667	(91,298)	5,071,807
Internal tax for the year	–	–	–	4,366	–	–	–	4,366	4,366
Qualifying fees from the prior year	–	–	–	–	9,848	(9,848)	–	–	–
Profit set aside from the prior year	–	–	–	–	–	42,667	(42,667)	–	–
Capital increase	102,000	(78,970)	–	–	–	–	–	–	23,030
Profit for the year	–	–	–	–	–	–	152,792	152,792	152,792
At 31 December 2000	19,742,750	(14,556,615)	56,959	33,617	125,558	(303,066)	152,792	65,860	5,251,995

The conversion reserve represents exchange rate differences arising on the conversion of share capital receipts in currencies other than euro. It is Bank policy to enter into forward foreign exchange rate contracts to fix the euro value of future capital subscriptions denominated in United States dollars and Japanese yen. The differences arising on the euro amounts obtained through these contracts and the euro amounts determined by the fixed exchange rates are taken directly to the conversion reserve.

The general reserve consists of internal tax paid in accordance with Article 53 of the Agreement which requires that all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank. Under the Agreement, the Bank retains the internal tax deducted for its benefit. Article 53 of the Agreement, as supplemented by Article 16 of the Headquarters Agreement, provides that salaries and emoluments paid by the Bank are exempt from United Kingdom income tax.

The special reserve is maintained, in accordance with the Agreement, for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until such time as the Board of Directors determines that the size of the special reserve is adequate. In accordance with the Agreement it is intended that an amount of €11.0 million (1999: €9.8 million), being qualifying fees and commissions earned in the year to 31 December 2000, will be appropriated in 2001 from the profit for the year to 31 December 2000 and set aside to the special reserve.

The accumulated reserve brought forward from prior years represents the accumulated losses after appropriations of qualifying fee and commission income to the special reserve.

Statement of cash flows

For the year ended 31 December 2000	€ 000	Year to 31 December 2000 € 000	Year to 31 December 1999 € 000
Cash flows from operating activities			
Operating profit for the year	152,792		42,667
Adjustments for:			
Provision for losses	174,334		160,911
Depreciation	13,099		13,162
Realised (gains) on share investments	(166,770)		(128,530)
Internal taxation	4,366		4,885
Unrealised (gains) on marked to market portfolio	(2,389)		(3,172)
Realised (gains) on investment portfolio	(1,829)		(2,764)
Foreign exchange movements on provisions	37,562		59,658
Operating profit before changes in operating assets	211,165		146,817
Decrease/(increase) in operating assets:			
Interest receivable and prepaid expenses	8,033		(137,778)
Net decrease in positions held in marked to market portfolio	41,251		303,129
Increase in operating liabilities:			
Interest payable and accrued expenses	130,649		298,588
Net cash provided in operating activities		391,098	610,756
Cash flows from investing activities			
Proceeds from repayment of loans	1,410,119		1,427,841
Net placements with credit institutions	(21,197)		1,128,166
Proceeds from sale of share investments	253,175		259,012
Proceeds from sale of investment securities	3,129,471		1,958,576
Purchases of investment securities	(2,244,432)		(4,604,509)
Funds advanced for loans and share investments	(2,190,162)		(2,740,571)
Purchase of property, technology and office equipment	(10,984)		(10,849)
Net cash provided/(used) in investing activities		325,990	(2,582,334)
Cash flows from financing activities			
Capital received	206,907		153,140
Conversion reserve	–		(895)
Issue of debts evidenced by certificates	4,721,974		4,871,412
Redemption of debts evidenced by certificates	(2,910,913)		(2,284,950)
Net cash provided by financing activities		2,017,968	2,738,707
Net increase in cash and cash equivalents		2,735,056	767,129
Cash and cash equivalents at beginning of year		2,132,329	1,365,200
Cash and cash equivalents at 31 December ¹		4,867,385	2,132,329

¹ Cash and cash equivalents comprise the following amounts maturing within 3 months:

	2000 € 000	1999 € 000
Placements with and advances to credit institutions	5,182,779	2,710,356
Amounts owed to credit institutions	(315,394)	(578,027)
Cash and cash equivalents at 31 December	4,867,385	2,132,329

Note: Operating profit includes dividends received of €28.1 million (1999: €13.9 million).

Notes to the financial statements

1 Establishment of the Bank

i Agreement Establishing the Bank

The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). As at 31 December 2000 the Bank's shareholders comprised 59 countries, together with the European Community and the European Investment Bank.

ii Headquarters Agreement

The status, privileges and immunities of the Bank and persons connected therewith in the United Kingdom are defined in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London upon the commencement of the Bank's operations on 15 April 1991.

2 Significant accounting policies

i Accounting convention

The financial statements have been prepared in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS) and the principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

The Bank's balance sheet is stated in accordance with the historical cost convention with the exception of debt securities and related derivatives held for dealing purposes, which are held at market prices, and freehold property, which is held at fair market value. Financial assets and liabilities are included on the balance sheet when associated risks and rewards have been assumed.

ii Foreign currencies

In accordance with Article 35 of the Agreement, the Bank uses the European Currency Unit (ECU) as the unit of measure for the presentation of its financial statements. Following the replacement of ECU with euro from 1 January 1999, the unit of measurement for the presentation of the financial statements is euro (€).

Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 2000. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the rate at which they occurred, except for sterling expenses, which are hedged and converted at the weighted average hedge rate.

Exchange gains and losses and hedging costs arising on contracts entered into as hedges of specific revenue or expense transactions and of anticipated future transactions are deferred, and included in 'Other assets' or 'Other liabilities', until the date of such transactions, at which time they are included in the determination of such revenue and expenses. All other exchange gains and losses relating to hedge transactions are recognised in the profit and loss account in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts, which are no longer designated as hedges, are included in the profit and loss account.

iii Capital subscriptions

Under the Agreement, capital subscriptions by members shall be settled either in euro, United States dollars or Japanese yen. Capital subscriptions in United States dollars or Japanese yen are settled at fixed exchange rates as defined in Article 6.3 of the Agreement.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into euro at market rates as at 31 December 2000 in accordance with the Bank's policy detailed in (ii) above. The differences between these euro values and those determined by the fixed exchange rates are included in 'Other assets' or 'Other liabilities'.

iv Debt securities

Debt securities intended to be held for the long term or to maturity are carried on an amortised cost basis less any provisions. The amortised premium or discount on acquisition is recognised in interest income. Securities held for dealing purposes are marked to market and the resultant gain or loss is immediately taken to the profit and loss account and included, together with the interest income arising from and the interest expense of funding these securities, within 'Net profit on dealing activities and foreign exchange'.

v Share investments

Share investments are carried at cost less any provisions.

Share investments providing the Bank with an option to redeem its investment for an interest-based return with creditworthy counterparties have the risk characteristics associated with debt instruments and, accordingly, are classified and accounted for as loans. Dividends received on an investment (accounted for as a loan) are not recognised as income but deferred until the investment is disposed of when they will be offset against the proceeds of disposal.

The Bank has considered both IAS 28 and the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions, in relation to its share investments. In cases where the Bank holds 20 per cent or more of an investee company, the Bank does not normally seek to exert significant influence. Since the Bank does not prepare consolidated financial statements, all equity investments, including associates, are carried at cost, with disclosure of their book value and of the profit and loss impact were equity accounting principles to have been applied to share investments that exceed 20 per cent. These disclosures and further details of the Bank's share investments that exceed 20 per cent of the investee share capital and where the historical cost less specific provisions exceeds €10 million are provided in note 10.

vi Provisions for losses and general portfolio risks

Provisions made are classified as specific or general as follows:

Specific provisions are made against identified loans and advances representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value.

General provisions are based on a risk-rated approach for non-sovereign risk assets applied at the end of the month of disbursement. For all sovereign risk assets a 3 per cent provision is made which takes into account the Bank's preferred creditor status afforded by its members. General provisions together with specific provisions are shown as a deduction from the loans and share investments asset categories. The provision for guarantees is applied when effective and based on utilisation using a consistent methodology to the general provision on non-sovereign risk assets and is included in 'Other liabilities'.

General provisions on Treasury investments assets are made on a risk-rated basis with no distinction made between sovereign and non-sovereign investments and are deducted from the book value of 'Debt securities'.

Provisions made, less any amounts released during the period, are charged to the profit and loss account. The Bank's provisions are detailed in note 7. When a loan is deemed uncollectable or there is no possibility of recovery of a share investment, the principal is written off against the related provision. Subsequent recoveries are credited to the profit and loss account if previously written off.

vii Property, technology and office equipment

Property, technology and office equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over the estimated life as follows:

Freehold property: Nil
Improvements on leases of less than 50 years unexpired: Unexpired periods
Technology and office equipment: 1 year.

viii Accounting for leases

Leases of equipment where the Bank assumes substantially all the benefits and risks of ownership are classified as finance leases. The assets are treated as if they had been purchased outright at the values equivalent to the estimated value of the underlying lease payments during the periods of the lease. The corresponding lease commitments are included under liabilities. The interest element of the finance charge is charged to the profit and loss account over the lease period. The equipment acquired under such leasing contracts is capitalised and depreciated in accordance with (vii) above.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. The Bank has entered into such leases for most of its office accommodation, both in London and in the Bank's countries of operations. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which the termination takes place.

ix Interest, fees and commissions and dividends

Interest is recorded on an accruals basis. For loans on which the Bank has allowed interest and fee payments to be deferred or capitalised, income may however be recognised when received based on the underlying performance of the project. The Bank does not recognise income on loans where collectability is in doubt, or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

Front-end fees are recorded as income when the loan becomes effective. Commitment fees and fees received in respect of services provided over a period of time are recorded as income over the period during which the commitment exists or the services are provided from the date when the loan becomes effective. Other fees and commissions are taken to income when received. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

Dividends are recognised when received.

x Staff retirement plan

The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to substantially all of its staff. Under the defined contribution scheme, the Bank and staff contribute equally to provide a lump sum benefit upon retirement. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme. All contributions to the schemes and all other assets and income held for the purposes of the schemes are kept by the Bank separately from all of its other assets and can be used only for providing the benefits under the schemes. Actual contributions made to the defined contribution are charged to the profit and loss account and transferred to the schemes' independent custodians. The charge to the profit and loss account in respect of the final benefit scheme includes actuarial gains and losses, the current service cost and other actuarial adjustments as determined by qualified external actuaries. Also included in this charge are actuarial gains and losses in excess of a 10 per cent corridor which are amortised over the estimated average service life remaining of the Bank's employees. The 10 per cent corridor is the higher of 10 per cent of the defined benefit obligation or fair value of assets. The actuaries also advise the Bank as to the necessary contributions to be made to the final benefit scheme which are transferred to the schemes' independent custodians.

xi Taxation

In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those parts of taxes or duties that represent charges for public utility services.

xii Government grants

Government grants relating to fixed asset expenditure considered as part of the initial establishment of the Bank are recognised in the profit and loss account on a straight-line basis over the same period as that applied for depreciation purposes. Other grants are matched against the qualifying expenditure in the period in which it is incurred. The balance of grants received or receivable that have not been taken to the profit and loss account are carried in the balance sheet as deferred income within 'Other liabilities'.

xiii Derivative financial instruments

In the normal course of business the Bank is a party to contracts for derivative financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to hedge interest rate risk and currency exposures associated with the Bank's assets and liabilities and anticipated future cash flows in foreign currencies and to recognise market views in Treasury's investment activities. The Bank also acts as an intermediate provider of these instruments to its clients, hedging itself against any related exposures by offsetting transactions with third parties. Derivative transactions, which are treated in the financial statements as hedges, must eliminate or substantially reduce the risk of loss from the position being hedged, be designated as a hedge at inception and continue to be effective throughout the hedge period. Profits and losses arising from hedging instruments are recognised on the same basis as those arising on the items being hedged. Derivatives associated with the Bank's treasury dealing activities are marked to market with the associated gains and losses being immediately taken to the profit and loss account under 'Net profit on dealing activities and foreign exchange'.

3 Segment information

Business segments

For management purposes the business of the Bank is comprised primarily of Banking and Treasury operations. Banking activities represent investments in projects which, in accordance with the Agreement Establishing the Bank, are made for the purpose of assisting the countries of operations in their transition to a market economy, while applying sound banking principles. The main investment

products are loans, share investments and guarantees. Treasury activities include raising debt finance, investing surplus liquidity, managing the Bank's foreign exchange and interest rate risks, and assisting clients in asset and liability management matters.

Primary reporting format – business segment:

	Banking 2000 € 000	Treasury 2000 € 000	Aggregated 2000 € 000	Banking 1999 € 000	Treasury 1999 € 000	Aggregated 1999 € 000
Interest income	415,805	575,730	991,535	298,302	367,148	665,450
Other income	224,230	21,685	245,915	168,276	21,584	189,860
Total segment revenue	640,035	597,415	1,237,450	466,578	388,732	855,310
Less interest expenses and similar charges	(350,948)	(516,088)	(867,036)	(240,009)	(335,740)	(575,749)
Allocation of capital benefit	133,932	14,881	148,813	87,178	9,686	96,864
Less general administrative expenses	(164,861)	(14,141)	(179,002)	(147,309)	(12,376)	(159,685)
Less depreciation	(11,855)	(1,244)	(13,099)	(11,859)	(1,303)	(13,162)
Segment result before provisions	246,303	80,823	327,126	154,579	48,999	203,578
Provisions	(167,177)	(7,157)	(174,334)	(166,184)	5,273	(160,911)
Net profit/(loss) after provisions	79,126	73,666	152,792	(11,605)	54,272	42,667
Segment assets	6,591,157	12,958,036	19,549,193	6,220,733	11,449,205	17,669,938
Paid-in capital receivable			1,740,817			1,924,695
Total assets			21,290,010			19,594,633
Segment liabilities	6,591,157	12,958,036	19,549,193	6,220,733	11,449,205	17,669,938
Members' equity receivable			1,740,817			1,924,695
Total liabilities			21,290,010			19,594,633
Capital expenditure	9,940	1,044	10,984	9,775	1,074	10,849

Interest expense and similar charges, and the capital benefit from above together total €718.2 million (1999: €478.9 million) which is the Bank's 'Interest expenses and similar charges' as reported in the profit and loss account.

Secondary reporting format – geographical segment:

Banking activities in the countries of operations are divided into three regions for internal management purposes.

	Segment revenue 2000 € 000	Segment revenue 1999 € 000	Segment assets 2000 € 000	Segment assets 1999 € 000
Advanced countries ¹	235,207	217,936	2,869,969	2,746,986
Early/Intermediate countries ²	285,081	154,176	2,637,139	2,319,480
Russian Federation	119,747	94,466	1,084,049	1,154,267
Total	640,035	466,578	6,591,157	6,220,733

Geographical segment data in respect of Banking activities is disclosed above. A geographical analysis of Treasury activities is not considered beneficial due to the use of derivative instruments switching revenues into different currencies and locations to that from which the assets originate. The geographical segment revenue above and the Treasury business segment revenue together form total segment revenue of €1.2 billion.

¹ Advanced countries are Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia.

² Early/Intermediate countries are Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Former Yugoslav Republic of Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

4 Net fee and commission income

The main components of net fee and commission income are as follows:

	2000 € 000	1999 € 000
Commitment fees	11,669	10,906
Front-end fees	9,685	8,959
Management fees	3,434	3,489
Trade finance fees	2,496	1,048
Other	2,095	1,445
Net fee and commission income	29,379	25,847

5 Net profit on dealing activities and foreign exchange

	2000 € 000	1999 € 000
Investment portfolio	749	2,764
Dealing portfolio	22,925	25,440
Foreign exchange	(1,989)	(6,620)
Net profit on dealing activities and foreign exchange	21,685	21,584

Net profit on dealing activities represents, in the case of the Bank's investment portfolio, the realised gains arising on disposal of debt securities in that portfolio. In the case of the dealing portfolio, net profit includes both realised and unrealised gains or losses together with associated interest income and expense.

6 General administrative expenses

	2000 € 000	1999 € 000
Personnel costs ¹	111,183	95,954
Overhead expenses net of government grants ²	67,819	63,731
General administrative expenses ³	179,002	159,685

The Bank has a policy of entering into exchange rate contracts to minimise the impact of any strengthening of sterling against the euro on the largely sterling denominated expenses, when translated into euro for reporting purposes. The application of this policy had the impact of reducing general administrative expenses by €15.0 million in 2000 (1999: €20.3 million). Also the Bank has entered into a series of forward foreign exchange contracts to hedge the cost of sterling required for future general administrative expenses. Hedges are in place for approximately 42 per cent for 2001. At 31 December 2000 the market value of these transactions shows a gain of €12.8 million, which, in accordance with the Bank's accounting policy, has been deferred and will be recognised in the subsequent year.

¹ The average numbers of staff included in personnel costs during the year were: regular staff of 848 (1999: 836), contract staff of 64 (comprising special contract staff of 38 and interns/short-term staff of 26), locally hired staff in Resident Offices of 232, and Board of Directors personnel of 76. Of these 39 were externally funded.

Staff numbers at 31 December 2000 were: regular staff of 862 (1999: 833), contract staff of 56 (comprising special contract staff of 28 and interns/short-term staff of 28), locally hired staff in Resident Offices of 238, and Board of Directors personnel of 75. Of these 39 were externally funded.

In addition, 206 Project Bureau staff (1999: 207) were engaged by the Regional Venture Funds and Russia Small Business Fund on projects in the Russian Federation.

² During the year, government grants of €2.1 million (1999: €2.1 million) were taken to the profit and loss account.

³ Sterling general administrative expenses totalled £119.3 million (1999: £118.9 million).

7 Provisions for losses and general portfolio risks

Profit and loss charges	Loans € 000	Share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	2000 Total € 000	1999 Total € 000
Provision charge this year:							
General provisions on							
Outstanding disbursements	78,537	140,878	219,415	2,033	7,157	228,605	10,186
Outstanding commitments	(29,742)	(54,293)	(84,035)	(6,013)	–	(90,048)	(14,748)
Guarantees	–	–	–	14,305	–	14,305	4,481
General sovereign risk provisions	1,866	–	1,866	–	–	1,866	14,128
Specific provisions	21,171	80,396	101,567	1,612	–	103,179	142,052
Portfolio risk	(65,302)	(15,218)	(80,520)	(3,053)	–	(83,573)	4,812
For the year ended 31 December 2000	6,530	151,763	158,293	8,884	7,157	174,334	
For the year ended 31 December 1999	47,356	111,720	159,076	7,108	(5,273)		160,911
Movement in provisions							
	Loans € 000	Share investments € 000	Total loans and share investments € 000	Guarantees and other € 000	Treasury provisions € 000	Total € 000	
At 1 January 2000	666,942	446,874	1,113,816	10,957	6,320	1,131,093	
Provision charges	6,530	151,763	158,293	8,884	7,157	174,334	
Foreign exchange adjustments	39,322	–	39,322	(1,475)	(285)	37,562	
Release against amounts written off	(112,719)	(18,177)	(130,896)	–	–	(130,896)	
At 31 December 2000	600,075	580,460	1,180,535	18,366	13,192	1,212,093	
<i>Analysed between</i>							
General provisions on outstanding disbursements	194,039	282,381	476,420	4,061	13,192	493,673	
General sovereign risk provisions	68,121	–	68,121	–	–	68,121	
Specific provisions	337,915	298,079	635,994	–	–	635,994	
Provisions for losses deducted from assets	600,075	580,460	1,180,535	4,061	13,192	1,197,788	
Provisions for losses deducted from other liabilities	–	–	–	14,305	–	14,305	
At 31 December 2000	600,075	580,460	1,180,535	18,366	13,192	1,212,093	

During the year ended 31 December 2000 the Bank refined its general provision methodology taking into account the experience gained from ongoing operations and the developments in market practice in the banking industry. At the date when the refined methodology was first applied, the difference in total provisions from those calculated using the previous methodology was not material. As disclosed in note 2 vi), general provisions as at 31 December 2000 are now calculated on disbursed assets using a risk-rated approach for non-sovereign assets and at 3 per cent for sovereign risk assets. The provision for general portfolio risks, carried by the Bank in prior periods in other liabilities, which comprised general provisions on commitments and for portfolio risk, has been incorporated into this new general provision calculation which is accounted for as a deduction from the carrying value of the related assets.

8 Debt securities

<i>Analysis by issuer</i>	Book value 2000 € 000	Book value 1999 € 000
Governments	701,060	618,693
Public bodies	904,537	1,042,636
Other borrowers	5,469,905	6,204,161
At 31 December	7,075,502	7,865,490

<i>Analysis by portfolio</i>	2000 € 000	1999 € 000
Investment portfolio	5,208,121	6,093,159
Dealing portfolio		
Internally managed funds	1,190,365	1,160,547
Externally managed funds	625,440	571,476
	1,815,805	1,732,023
Banking portfolio	51,576	40,308
At 31 December	7,075,502	7,865,490

9 Other assets

	2000 € 000	1999 € 000
Interest receivable	382,853	414,501
Treasury-related	290,964	502,710
Other	89,855	77,409
At 31 December	763,672	994,620

10 Loans and share investments

Outstanding disbursements	Loans € 000	Share investments € 000	Total loans and share investments € 000
At 1 January 2000	5,328,267	1,616,323	6,944,590
Disbursements	1,480,940	455,091	1,936,031
Repayments, prepayments and disposals at cost	(1,410,119)	(86,405)	(1,496,524)
Foreign exchange movements	254,131	–	254,131
Written off	(112,719)	(18,177)	(130,896)
At 31 December 2000	5,540,500	1,966,832	7,507,332
Provisions at 31 December 2000	(600,075)	(580,460)	(1,180,535)
Total net of provisions at 31 December 2000	4,940,425	1,386,372	6,326,797
Total net of provisions at 31 December 1999	4,756,369	1,238,960	5,995,329

At 31 December 2000 the Bank had 26 loans amounting to €363.8 million (1999: 26 loans totalling €452.7 million) in non-accrual status due to overdue interest and principal repayments. Specific provisions amounting to €278.9 million (1999: €314.2 million) have been made against these loans.

Since the Bank has no subsidiaries it does not prepare consolidated financial statements. It accounts for all share investments at cost less provision for permanent diminution in value. If the Bank were to have equity accounted for all investments in which it owns 20 per cent or more of the investee share capital, the book value of which, included in share investments in the balance sheet as at 31 December 2000, was approximately €585.0 million, the net incremental impact on the profit and loss account would be a profit of approximately €17.2 million. This represents the Bank's share of net profits or losses from the most recent available audited financial statements of its investee companies. Due to the time delay in obtaining audited financial statements that have been prepared in accordance with International Accounting Standards from all investee companies, these figures are based on profits or losses from the most recent 12-month period for which such information is available.

Listed below are all share investments where the Bank owned more than 20 per cent of the investee share capital at 31 December 2000 and where the Bank's total investment less specific provisions exceeded €10.0 million. Significant shareholdings are normally only taken in anticipation of, wherever possible, subsequent external participation.

	% Ownership
Black Sea Fund	32
Budapest Bank	34
Cargill Industrial Complex	33
Danone – Ciastka	25
East Europe Food Fund	21
Lafarge – Romania	38
Lafarge – Kujawy and RMC	22
Lafarge – Malogoszcz and Wierzbica	22
Polish Private Equity Fund	33

11 Analysis of operational activity

<i>Analysis by country</i>	Operating assets 2000 € 000	Operating assets 1999 € 000	Undrawn commitments 2000 € 000	Undrawn commitments 1999 € 000
Albania	31,924	27,813	46,926	51,780
Armenia	74,666	53,497	29,724	9,581
Azerbaijan	204,204	177,144	90,171	69,335
Belarus	87,903	110,467	7,365	16,049
Bosnia and Herzegovina	57,133	35,218	79,903	44,177
Bulgaria	305,924	237,604	57,670	43,211
Croatia	336,318	275,975	232,733	187,612
Czech Republic	294,691	277,548	141,801	115,159
Estonia	199,082	204,925	40,760	27,650
Former Yugoslav Republic of Macedonia	94,377	74,278	88,122	66,988
Georgia	89,481	53,541	85,502	110,926
Hungary	489,086	486,828	108,158	118,935
Kazakhstan	233,800	161,072	324,552	304,070
Kyrgyzstan	109,782	101,723	25,778	36,764
Latvia	95,534	105,123	68,576	82,212
Lithuania	250,858	187,581	54,531	24,597
Moldova	75,109	72,884	69,229	40,784
Poland	863,884	741,775	526,418	332,832
Romania	880,414	794,627	339,971	369,635
Russian Federation	1,494,710	1,619,082	732,937	595,887
Slovak Republic	206,613	253,505	35,628	39,550
Slovenia	200,879	184,266	22,322	36,267
Tajikistan	10,972	8,655	2,786	5,126
Turkmenistan	40,473	31,272	111,467	117,996
Ukraine	336,531	310,203	629,728	459,885
Uzbekistan	255,443	220,392	217,526	227,539
Regional	243,192	179,870	484,944	346,325
At 31 December	7,562,983	6,986,868	4,655,228	3,880,872

Analysis by instrument

Loans	5,540,500	5,328,267	3,527,185	2,961,410
Ordinary share investments	1,966,832	1,616,323	806,876	731,080
Debt securities	55,651	42,278	–	–
Guarantees	–	–	321,167	188,382
At 31 December	7,562,983	6,986,868	4,655,228	3,880,872

Analysis by sector

Commerce and tourism	222,636	291,964	72,016	78,240
Community and social services	122,133	136,908	126,859	113,501
Energy/power generation	847,324	568,345	1,393,283	1,061,068
Extractive industries	506,013	607,385	263,123	174,201
Finance	2,330,210	2,292,162	1,166,492	1,124,407
Manufacturing	1,807,801	1,439,086	596,054	527,541
Primary industries	111,902	109,458	106,053	16,713
Telecommunications	709,042	702,812	210,735	230,584
Transport and construction	905,922	838,748	720,613	554,617
At 31 December	7,562,983	6,986,868	4,655,228	3,880,872

Note: the term 'operating assets' replaces 'outstanding disbursements' and is before provisions and the term 'undrawn commitments' replaces 'committed but not yet disbursed'.

12 Property, technology and office equipment

	Property € 000	Technology and office equipment € 000	Total € 000
<i>Cost</i>			
At 1 January 2000	67,915	65,812	133,727
Additions	796	10,188	10,984
Disposals	–	(220)	(220)
At 31 December 2000	68,711	75,780	144,491
<i>Depreciation</i>			
At 1 January 2000	33,339	59,379	92,718
Charge	4,617	8,482	13,099
Disposals	–	(220)	(220)
At 31 December 2000	37,956	67,641	105,597
<i>Net book value</i>			
At 31 December 2000	30,755	8,139	38,894
At 31 December 1999	34,576	6,433	41,009

Additions include €1.0 million of computer equipment purchased under finance leases, with related depreciation of €0.2 million. The related minimum payments under finance leases amount to €1.0 million, of which €0.4 million are due within

12 months of the balance sheet date and €0.6 million are due after 1 year but within 5 years of the balance sheet date. These future payments are included in 'Other liabilities'.

13 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 2000 are summarised below:

	Principal at nominal value € 000	Unamortised premium € 000	Adjusted principal value € 000	Currency swaps payable/ (receivable) € 000	Net currency obligations 2000 € 000	Net currency obligations 1999 € 000
Australian dollars	253,422	–	253,422	(253,422)	–	–
Canadian dollars	139,652	–	139,652	(139,652)	–	–
Czech koruna	45,566	–	45,566	(45,566)	–	–
Estonian kroons	6,389	–	6,389	(6,389)	–	–
Euro	1,752,395	21,255	1,773,650	490,972	2,264,622	2,556,037
Gold bullion	707,179	–	707,179	(707,179)	–	–
Greek drachmas	227,668	–	227,668	(227,668)	–	–
Hong Kong dollars	337,553	–	337,553	(337,553)	–	–
Hungarian forints	7,549	–	7,549	–	7,549	7,852
Japanese yen	1,480,864	–	1,480,864	(1,000,863)	480,001	548,527
New Taiwan dollars	831,544	–	831,544	(831,544)	–	–
Polish zloty	603,486	–	603,486	(603,486)	–	–
Russian roubles	33,189	–	33,189	(33,189)	–	–
Singapore dollars	93,023	–	93,023	(93,023)	–	–
Slovak koruna	51,956	–	51,956	(51,956)	–	–
South African rands	501,224	–	501,224	(501,224)	–	–
South Korean won	74,720	–	74,720	(74,720)	–	–
Sterling	2,878,284	–	2,878,284	(1,008,663)	1,869,621	1,529,024
United States dollars	3,564,551	10,192	3,574,743	5,425,125	8,999,868	7,176,689
At 31 December	13,590,214	31,447	13,621,661	–	13,621,661	11,818,129

During the year the Bank redeemed €212.9 million of bonds and medium-term notes prior to maturity generating a net gain of €5.0 million.

14 Other liabilities

	2000 € 000	1999 € 000
Interest payable	369,246	388,345
Treasury-related	1,437,085	1,287,561
Other	154,278	285,134
At 31 December	1,960,609	1,961,040

15 Subscribed capital

	Number of shares 2000	2000 Total € 000	Number of shares 1999	1999 Total € 000
Authorised share capital	2,000,000	20,000,000	2,000,000	20,000,000
<i>of which</i>				
Subscriptions by members – initial capital	991,975	9,919,750	991,875	9,918,750
Subscriptions by members – capital increase	982,300	9,823,000	972,200	9,722,000
Subtotal – subscribed capital	1,974,275	19,742,750	1,964,075	19,640,750
Shares to be allocated ¹	4,675	46,750	4,675	46,750
Unallocated shares ²	6,050	60,500	16,250	162,500
Authorised and issued share capital	1,985,000	19,850,000	1,985,000	19,850,000
Not yet subscribed	15,000	150,000	15,000	150,000
At 31 December	2,000,000	20,000,000	2,000,000	20,000,000

¹ Shares potentially available to the countries previously forming part of Yugoslavia.

² Shares potentially available to new or existing members.

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of €10,000. Payment for the paid-in shares subscribed to by members is made over a period of years determined in advance. Article 6.4 of the Agreement provides that payment of the amount subscribed to the callable capital shall be subject to call, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 provides that in the event of termination of the operations of the Bank, the liability of all members for all uncalled subscriptions to the capital stock shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

Under the Agreement, payment for the paid-in shares of the original capital stock subscribed to by members was made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and

payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the capital increase is to be made in eight equal annual instalments, and a member may pay up to 60 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the member and payable to the Bank at par value upon demand.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares and votes, is set out in the following table. Under Article 29 of the Agreement, the voting rights of members which have failed to pay any part of the amounts due in respect of their capital subscription obligations are proportionately reduced for so long as the obligation remains outstanding.

Summary of paid-in capital receivable:	2000 € 000	1999 € 000
Promissory notes issued by members:		
– not yet due for encashment	317,368	237,079
– due for encashment	6,420	4,027
Total promissory notes received	323,788	241,106
Paid-in subscribed capital:		
– amounts not yet due	1,392,463	1,651,737
– amounts due but not yet received	24,566	31,852
Total paid-in subscribed capital receivable	1,417,029	1,683,589
Paid-in capital receivable at 31 December	1,740,817	1,924,695

15 Subscribed capital (continued)**Statement of capital subscriptions****At 31 December 2000**

Members	Total shares (number)	Resulting votes ¹ (number)	Total capital € 000	Callable capital € 000	Paid-in capital ² € 000
Members of the European Union					
Austria	45,600	45,600	456,000	336,300	119,700
Belgium	45,600	45,600	456,000	336,300	119,700
Denmark	24,000	24,000	240,000	177,000	63,000
Finland	25,000	25,000	250,000	184,370	65,630
France	170,350	170,350	1,703,500	1,256,335	447,165
Germany	170,350	170,350	1,703,500	1,256,335	447,165
Greece	13,000	13,000	130,000	95,870	34,130
Ireland	6,000	6,000	60,000	44,250	15,750
Italy	170,350	170,350	1,703,500	1,256,335	447,165
Luxembourg	4,000	4,000	40,000	29,500	10,500
Netherlands	49,600	49,600	496,000	365,800	130,200
Portugal	8,400	8,400	84,000	61,950	22,050
Spain	68,000	62,730	680,000	501,500	178,500
Sweden	45,600	45,600	456,000	336,300	119,700
United Kingdom	170,350	170,350	1,703,500	1,256,335	447,165
European Community	60,000	60,000	600,000	442,500	157,500
European Investment Bank	60,000	60,000	600,000	442,500	157,500
Other European countries					
Cyprus	2,000	2,000	20,000	14,750	5,250
Iceland	2,000	2,000	20,000	14,750	5,250
Israel	13,000	13,000	130,000	95,870	34,130
Liechtenstein	400	400	4,000	2,950	1,050
Malta	200	200	2,000	1,470	530
Norway	25,000	25,000	250,000	184,370	65,630
Switzerland	45,600	45,600	456,000	336,300	119,700
Turkey	23,000	23,000	230,000	169,620	60,380
Countries of operations					
Albania	2,000	1,592	20,000	14,750	5,250
Armenia	1,000	960	10,000	7,370	2,630
Azerbaijan	2,000	1,114	20,000	14,750	5,250
Belarus	4,000	4,000	40,000	29,500	10,500
Bosnia and Herzegovina	3,380	2,240	33,800	24,930	8,870
Bulgaria	15,800	15,800	158,000	116,520	41,480
Croatia	7,292	7,292	72,920	53,780	19,140
Czech Republic	17,066	17,066	170,660	125,860	44,800
Estonia	2,000	2,000	20,000	14,750	5,250
Former Yugoslav Republic of Macedonia	1,382	1,382	13,820	10,200	3,620
Georgia	2,000	992	20,000	14,750	5,250
Hungary	15,800	15,800	158,000	116,520	41,480
Kazakhstan	4,600	4,381	46,000	33,920	12,080
Kyrgyzstan	2,000	1,292	20,000	14,750	5,250
Latvia	2,000	2,000	20,000	14,750	5,250
Lithuania	2,000	2,000	20,000	14,750	5,250
Moldova	2,000	1,558	20,000	14,750	5,250
Poland	25,600	25,600	256,000	188,800	67,200
Romania	9,600	9,600	96,000	70,800	25,200
Russian Federation	80,000	80,000	800,000	590,000	210,000
Slovak Republic	8,534	8,534	85,340	62,940	22,400
Slovenia	4,196	4,039	41,960	30,940	11,020
Tajikistan	2,000	886	20,000	14,750	5,250
Turkmenistan	200	180	2,000	1,470	530
Ukraine	16,000	15,360	160,000	118,000	42,000
Uzbekistan	4,200	4,137	42,000	30,970	11,030
Unallocated shares reserved for countries previously forming part of Yugoslavia	4,675 ³	–	46,750	32,730	14,020
Non-European countries					
Australia	20,000	20,000	200,000	147,500	52,500
Canada	68,000	68,000	680,000	501,500	178,500
Egypt	2,000	1,750	20,000	14,750	5,250
Japan	170,350	170,350	1,703,500	1,256,335	447,165
Korea, Republic of	20,000	20,000	200,000	147,500	52,500
Mexico	3,000	3,000	30,000	21,000	9,000
Mongolia	200	200	2,000	1,470	530
Morocco	1,000	1,000	10,000	7,000	3,000
New Zealand	1,000	1,000	10,000	7,000	3,000
United States of America	200,000	200,000	2,000,000	1,475,000	525,000
Capital subscribed by members	1,974,275	1,957,235	19,742,750	14,556,615	5,186,135
Unallocated shares	10,725		107,250		
Authorised and issued share capital	1,985,000		19,850,000		

¹ Voting rights are restricted for non-payment of amounts due in respect of the member's obligations in relation to paid-in shares. Total votes before restrictions amount to 1,969,600 (1999: 1,959,400).

(1999: €1.65 billion), most of which relates primarily to the capital increase and is payable on or before 15 April 2005.

³ The voting rights attached to these shares have been suspended pending their reallocation.

² Of paid-in capital, €3.77 billion has been received (1999: €3.48 billion), €24.6 million is overdue (1999: €31.9 million). In addition €5.5 million relates to overdue encashments of deposited promissory notes (1999: €3.2 million). €1.40 billion is not yet due

16 Promissory notes issued by member countries

Currency of issue	Total received € 000	Exchange gain € 000	Amount drawn down € 000	Amount outstanding 2000 € 000	Amount outstanding 1999 € 000
Euro	917,646	–	(758,510)	159,136	116,410
Japanese yen	179,235	12,037	(153,035)	38,237	30,967
United States dollars	512,864	25,781	(412,230)	126,415	93,729
At 31 December	1,609,745	37,818	(1,323,775)	323,788	241,106

The promissory notes or other obligations deposited relating to share capital are denominated in euro, United States dollars or Japanese yen. In accordance with a policy adopted by the Board of Directors for the drawdown of promissory notes or other obligations deposited by members in connection with their initial subscriptions, each such promissory note or other obligation deposited in 1992 or later has been drawn down in three equal annual instalments. The policy adopted in connection with subscriptions to the capital increase calls for the drawdown of promissory notes or other obligations in five equal annual instalments.

Promissory notes or other obligations denominated in United States dollars or Japanese yen have been translated into euro either at the rates of exchange ruling at the dates of draw down, or, if outstanding at the year end, at market rates ruling at 31 December 2000.

17 Net currency position

	Euro € 000	United States dollars € 000	Japanese yen € 000	Sterling € 000	Other currencies € 000	Total € 000
Assets						
Placements with and advances to credit institutions	1,852,811	3,428,701	29,347	19,311	14,158	5,344,328
Debt securities	1,023,798	4,618,294	1,023,658	340,830	68,922	7,075,502
Other assets	110,285	435,515	29,580	49,609	138,683	763,672
Loans	1,521,667	3,378,122	10,429	–	30,207	4,940,425
Share investments	–	–	–	–	1,386,372	1,386,372
Property, technology and office equipment	38,894	–	–	–	–	38,894
Paid-in capital receivable	996,618	562,981	181,218	–	–	1,740,817
Total assets	5,544,073	12,423,613	1,274,232	409,750	1,638,342	21,290,010
Liabilities						
Amounts owed to credit institutions	(285,144)	(11,679)	(140,351)	(1,616)	(16,955)	(455,745)
Debts evidenced by certificates	(1,773,650)	(3,574,743)	(1,480,864)	(2,878,284)	(3,914,120)	(13,621,661)
Other liabilities	(1,050,022)	(655,652)	(26,080)	(117,382)	(111,473)	(1,960,609)
Total liabilities	(3,108,816)	(4,242,074)	(1,647,295)	(2,997,282)	(4,042,548)	(16,038,015)
Net assets/(liabilities)	2,435,257	8,181,539	(373,063)	(2,587,532)	(2,404,206)	5,251,995
Derivative financial instruments	1,428,807	(8,189,499)	377,441	2,586,612	3,796,639	–
Currency position at 31 December 2000	3,864,064	(7,960)	4,378	(920)	1,392,433	5,251,995
Currency position at 31 December 1999	3,846,793	25,592	5,171	(7,799)	1,202,050	5,071,807

In addition to the Bank's functional currency, euro, currencies individually disclosed are those in which the Bank primarily raises funds (see note 13) and which expose the Bank to exchange rate risk. Amounts aggregated under 'Other currencies' and which, after allowing for off balance sheet instruments, expose the Bank to exchange rate risk, are primarily derived from the currency risks undertaken through the Bank's share investments in countries of operations where currency hedges were not readily available.

18 Liquidity position

Liquidity is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank's commitment to maintaining a strong liquidity position is embodied in policies which require a minimum target liquidity ratio, based on a multi-year context, of 45 per cent of its next three years' net cash requirements, with full coverage of all committed but undisbursed project financing, together with a requirement that 40 per cent of its net Treasury investments mature within one year. This policy is implemented by maintaining liquidity in a target zone, above the required minimum level, of 90 per cent of the next three years' net cash requirements.

sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the 'Maturity undefined' category.

The table below provides an analysis of assets, liabilities and members' equity into relevant maturity groupings based on the remaining period from the balance

	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Maturity undefined € 000	Total € 000
Assets							
Placements with and advances							
to credit institutions	4,304,354	878,425	128,870	–	32,679	–	5,344,328
Debt securities	223,843	233,507	326,851	2,707,375	3,583,926	–	7,075,502
Other assets	336,823	34,328	345,847	21,255	25,419	–	763,672
Loans	221,857	142,890	797,860	2,404,103	1,635,875	(262,160)	4,940,425
Share investments	–	–	–	–	–	1,386,372	1,386,372
Property, technology and office equipment	–	–	–	–	–	38,894	38,894
Paid-in capital receivable	–	–	384,189	1,324,217	–	32,411	1,740,817
Total assets	5,086,877	1,289,150	1,983,617	6,456,950	5,277,899	1,195,517	21,290,010
Liabilities							
Amounts owed to credit institutions	(314,098)	(1,296)	–	–	(140,351)	–	(455,745)
Debts evidenced by certificates	(2,092,513)	(266,733)	(1,626,198)	(4,584,235)	(5,051,982)	–	(13,621,661)
Other liabilities	(333,071)	(89,265)	(379,655)	(63,614)	(142,536)	(952,468)	(1,960,609)
Members' equity	–	–	–	–	–	(5,251,995)	(5,251,995)
Total liabilities and members' equity	(2,739,682)	(357,294)	(2,005,853)	(4,647,849)	(5,334,869)	(6,204,463)	(21,290,010)
Liquidity position at 31 December 2000	2,347,195	931,856	(22,236)	1,809,101	(56,970)	(5,008,946)	–
Cumulative liquidity position at 31 December 2000	2,347,195	3,279,051	3,256,815	5,065,916	5,008,946	–	–
Cumulative liquidity position at 31 December 1999	1,768,242	1,181,967	3,288,867	4,911,979	4,760,416	–	–

19 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of

its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Securities that comprise the Bank's dealing portfolio are assumed to reprice within the 'Up to and including 1 month' category.

Repricing interval	Up to and including 1 month € 000	Over 1 month and up to and including 3 months € 000	Over 3 months and up to and including 1 year € 000	Over 1 year and up to and including 5 years € 000	Over 5 years € 000	Non- interest- bearing funds € 000	Total € 000
Assets							
Placements with and advances to credit institutions	4,304,354	878,425	161,549	–	–	–	5,344,328
Debt securities	3,143,418	2,029,642	317,561	1,039,460	545,421	–	7,075,502
Other assets	98,486	–	382,854	–	–	282,332	763,672
Loans	589,046	1,589,321	2,264,846	351,521	407,851	(262,160)	4,940,425
Non-interest-earning assets including paid-in capital receivable	–	–	–	–	–	3,166,083	3,166,083
Total assets	8,135,304	4,497,388	3,126,810	1,390,981	953,272	3,186,255	21,290,010
Liabilities							
Amounts owed to credit institutions	(314,098)	(1,296)	–	–	(140,351)	–	(455,745)
Debts evidenced by certificates	(2,199,970)	(437,986)	(1,454,946)	(4,476,777)	(5,051,982)	–	(13,621,661)
Other liabilities	(413,977)	–	(369,245)	–	–	(1,177,387)	(1,960,609)
Members' equity	–	–	–	–	–	(5,251,995)	(5,251,995)
Total liabilities and members' equity	(2,928,045)	(439,282)	(1,824,191)	(4,476,777)	(5,192,333)	(6,429,382)	(21,290,010)
Net assets	5,207,259	4,058,106	1,302,619	(3,085,796)	(4,239,061)	(3,243,127)	–
Derivative financial instruments	(887,537)	(2,489,491)	(3,947,829)	3,085,796	4,239,061	–	–
Interest rate risk at 31 December 2000	4,319,722	1,568,615	(2,645,210)	–	–	(3,243,127)	–
Cumulative interest rate risk at 31 December 2000	4,319,722	5,888,337	3,243,127	3,243,127	3,243,127	–	–
Cumulative interest rate risk at 31 December 1999	3,910,845	5,050,994	2,898,639	2,827,911	2,827,911	–	–

The Bank's interest rate risk measurement is complemented by accepted market techniques including Value-at-Risk ("VaR"), spread risk and volatility risk on which frequent management reporting takes place. At 31 December 2000, the Bank's total VaR, including externally managed investment programmes, calculated with reference to a 99 per cent confidence level over a 10-trading-days horizon, was €3.3 million (1999: €4.7 million).

20 Credit-related information on Treasury derivative financial instruments

	2000 € 000	1999 € 000
Credit derivatives ¹	3,133,554	2,070,629
Swaps and over-the-counter option agreements: ²		
Pre netting/collateral agreements	717,220	877,018
Post netting/collateral agreements	103,140	330,394

The Bank is highly selective in its choice of counterparties and considers that non-performance does not represent a significant risk. Derivative transactions in particular are normally limited to AA- or better-rated counterparties which have entered into a collateral agreement with the Bank.

¹ These amounts represent the total notional value of all credit derivatives, including total return swaps, contracted by the Bank.

² These amounts represent the replacement cost to the Bank in the event of non-performance by the counterparties to those swap and over-the-counter option agreements that have a positive value to the Bank.

21 Estimated realisable value information

Presented below is information on the estimated realisable values of the Bank's financial assets and liabilities. This represents the estimated amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists for a particular instrument, quoted prices have been used. Where an active market does not exist, estimated values have been derived from internal pricing models based on discounted cash flow techniques, except in the case of share investments (see (d) below).

The following should be noted in the presentation of estimated realisable values set out below:

- (a) the value of short-term financial instruments, i.e. those maturing within one year, approximates to the value stated in the Bank's balance sheet.
- (b) the value in respect of debt securities and debts evidenced by certificates incorporates the estimated realisable value of associated derivative instruments. For the Bank's issues of debts evidenced by certificates that are private placements, information is available only for those issues in which the Bank has subsequently repurchased part of the issue.

(c) the balance sheet value of loans is stated net of provisions, which approximates to their estimated realisable value. Due to the fact that the Bank manages its interest rate risk on a portfolio basis, it is not possible to identify the specific derivative instruments which hedge the interest rate risk on the Bank's loan portfolio. Consequently, the stated amount of the loan portfolio does not allow for the estimated value of any associated hedging derivative instrument.

(d) the value of share investments that are traded on a recognised stock exchange is determined using quoted stock exchange prices. The Bank's quoted share investments are generally in markets which are relatively illiquid and volatile and the value presented below makes no additional allowance for this. In all other cases value is assumed to correspond with the Bank's historical cost, net of provisions.

	Balance sheet value 2000 € 000	Estimated realisable value adjustment 2000 € 000	Estimated realisable value 2000 € 000	Estimated realisable value 1999 € 000
Assets				
Placements with and advances to credit institutions	5,344,328	–	5,344,328	2,773,490
Debt securities	7,075,502	(1,994)	7,073,508	7,863,637
	12,419,830	(1,994)	12,417,836	10,637,127
Loans	4,940,425	–	4,940,425	4,756,369
Share investments	1,386,372	232,920	1,619,292	1,557,163
Other non-financial assets	2,543,383	–	2,543,383	2,960,324
Total assets	21,290,010	230,926	21,520,936	19,910,983
Liabilities				
Amounts owed to credit institutions	(455,745)	–	(455,745)	(743,657)
Debts evidenced by certificates	(13,621,661)	17,823	(13,603,838)	(11,807,187)
	(14,077,406)	17,823	(14,059,583)	(12,550,844)
Other non-financial liabilities	(1,960,609)	–	(1,960,609)	(1,961,040)
Members' equity	(5,251,995)	–	(5,251,995)	(5,071,807)
Total liabilities and members' equity	(21,290,010)	17,823	(21,272,187)	(19,583,691)
Net estimated realisable value at 31 December			248,749	327,292

Debt securities held in the Bank's investment portfolio are intended to be held to maturity and are consequently stated in the balance sheet at amortised cost.

22 Operating lease commitments

The Bank leases its headquarters building in London and certain of its Resident Office buildings in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. After such a review rent may stay the same or be increased. The Bank has a break clause effective in the year 2006, which allows the Bank to terminate the lease.

The Bank has entered into sub-lease arrangements for two floors of its headquarters building. The terms of the sub-leases mirror the terms of the Bank's head lease. The total minimum future lease payments expected to be received under these assignments is €17.4 million at 31 December 2000. Income from sub-lease payments for the year amounted to €3.9 million.

Minimum future lease payments under long-term non-cancellable operating leases are shown below.

Payable:	2000 € 000	1999 € 000
Not later than one year	26,536	26,222
Later than one year and not later than five years	98,988	100,371
Later than five years	17,321	40,630
At 31 December	142,845	167,223

23 Staff retirement schemes

Defined benefit scheme

A full actuarial valuation of the defined benefit scheme is performed every three years by a qualified actuary using the projected unit method. For IAS 19 purposes this will be rolled forward annually. The most recent valuation was as at 31 August 1999 and has been reviewed subsequently to ensure there has been no material change to 31 December 2000. The key assumptions used are as disclosed below. The present value of the defined benefit obligation and current service cost was calculated using the projected unit credit method.

Amounts recognised in the balance sheet are as follows:

	2000 € 000	1999 € 000
Fair value of plan assets	81,095	65,058
Present value of the defined benefit obligation	(57,286)	(50,726)
	23,809	14,332
Unrecognised actuarial losses	1,610	8,374
Prepayment at 31 December	25,419	22,706

Movement in the prepayment (included in 'Other assets'):

At 1 January	22,706	20,525
Exchange differences	(120)	571
Contributions paid	11,119	10,789
Total expense as below	(8,286)	(9,179)
At 31 December	25,419	22,706

The amounts recognised in the profit and loss account are as follows:

Current service cost	(9,778)	(9,823)
Interest cost	(3,712)	(2,899)
Expected return on assets	5,524	3,865
Amortisation of actuarial loss	(320)	(322)
Total included in staff costs	(8,286)	(9,179)

Principal actuarial assumptions used:

Discount rate	6.50%	5.50%
Expected return on plan assets	7.50%	6.50%
Future salary increases	4.00%	3.50%
Average remaining working life of employees	15 years	15 years

Defined contribution scheme

The pension charge recognised under the defined contribution scheme was €5.1 million (1999: €4.4 million) and is included in 'General administrative expenses'.

24 Other fund agreements

In addition to the Bank's operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral grant agreements to provide technical assistance and investment support in the countries of operations. These agreements focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

At 31 December 2000 the Bank administered 68 technical cooperation fund agreements (1999: 63) for an aggregate of €715.7 million (1999: €700.9 million) which includes €276.4 million for the Tacis and Phare programmes of the European Commission under the Bangkok Facility. Of this pledged amount, funds received at 31 December 2000 totalled €576.5 million. The total uncommitted balance of the funds at 31 December 2000 was €182.4 million. In addition, the Bank administered 65 project-specific technical cooperation agreements for an aggregate amount of €35.1 million.

The Bank also administered nine investment cooperation fund agreements during the year for an aggregate amount of €56.6 million and two EU Pre-accession Preparation Funds for an aggregate amount of €34.9 million for the specific purpose of co-financing EBRD projects.

Also, the Bank administered the EBRD-Japan Special Earmarked Fund which was established in 1994 as a mechanism to channel the Japanese contributions to the Russia Small Business Programme. This Fund was terminated by mutual consent in October 2000 and the balance transferred to the Japan-Europe Cooperation Fund.

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account ("the NSA") was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for funding immediate safety improvement measures. At 31 December 2000, 15 contributors had made pledges up to a total amount of €260.6 million, using the fixed exchange rates defined in the Rules of the NSA.

At their Denver Summit in June 1997, the G-7 countries and the European Union endorsed the setting up of the Chernobyl Shelter Fund ("the CSF"). The CSF was established on 7 November 1997, when the Rules of the CSF were approved by the Board, and became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 2000, 22 contributors had made pledges up to a total amount of €344.3 million using the fixed exchange rates defined in the Rules of the CSF.

In 1999, in pursuit of their policy to accede to the European Union, three central European countries, namely Lithuania, Bulgaria and the Slovak Republic, undertook firm commitments to close and decommission their nuclear power plant units with RBMK and VVER 440/230 type reactors by certain dates. In response to this, the European Commission announced its intention to support the decommissioning of these reactors with substantial grants over a period of eight to ten years, and invited the Bank to administer three International Decommissioning Support Funds (IDSFs). On 12 June 2000, the Bank's Board of Directors approved the Rules of the Ignalina, Kozloduy and Bohunice IDSFs and the role of the Bank as their Administrator. The Funds will finance selective projects which will support the first phase of decommissioning of the designated reactors as well as financial measures for facilitating the necessary restructuring, upgrading and modernisation of the energy production, transmission and distribution sectors and improvements in energy efficiency which are consequential to the closure decisions. At 31 December 2000, eight contributors had made pledges to the Ignalina International Decommissioning Support Fund up to a total amount of €18.0 million using the fixed exchange rates defined in the Rules of the Ignalina IDSF. By that date, no contribution agreements had yet been concluded for the Kozloduy and Bohunice IDSFs.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the European Bank for Reconstruction and Development as of 31 December 2000, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 75 to 93. The preparation of these financial statements is the responsibility of the Bank's management. 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2000, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and the overall principles of the European Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.



Arthur Andersen
London, 13 March 2001

Summary of Special Funds

Special Funds are established in accordance with Article 18 of the Agreement Establishing the Bank and are administered, *inter alia*, under the terms of Rules and Regulations approved by the Board of Directors of the Bank. At 31 December 2000, the Bank administered 11 Special Funds: eight Investment Special Funds and three Technical Cooperation Special Funds. Extracts from the financial

statements of the Special Funds are summarised in the following tables, together with a summary of contributions pledged by donor country. Financial statements for each Special Fund have been separately audited. The audited financial statements are available on application to the Bank.

The objectives of the Special Funds are as follows:

**The Baltic Investment Special Fund and
The Baltic Technical Assistance Special Fund:**

To promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania.

**The Russia Small Business Investment Special Fund and
The Russia Small Business Technical Cooperation Special Fund:**

To assist the development of small businesses in the private sector in the Russian Federation.

The Moldova Micro Business Investment Special Fund:

To assist the development of micro businesses through support for small and medium-sized enterprises in the Republic of Moldova.

The Financial Intermediary Investment Special Fund:

To support financial intermediaries in the countries of operations of the Bank by investing in their capital.

The Italian Investment Special Fund:

To assist the modernisation, restructuring, expansion and development of small and medium-sized enterprises in certain countries of operations of the Bank.

The SME Finance Facility Special Fund:

To alleviate the financing problems of small and medium-sized enterprises in Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

The Balkan Region Special Fund:

To assist the reconstruction of Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia and Romania.

The EBRD Technical Cooperation Special Fund:

To serve as a facility for financing technical cooperation projects in countries of operations of the Bank.

The EBRD SME Special Fund:

To assist the development of small and medium-sized enterprises in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Former Yugoslav Republic of Macedonia and Romania.

Investment Special Funds

Extract from the profit and loss account for the period ended 31 December 2000	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	The Moldova Micro Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	The EBRD SME Special Fund € 000	Aggregated Investment Special Funds € 000
Operating profit/(loss) before provisions	2,397	6,345	251	630	1,240	(532)	(204)	(238)	9,889
(Charge)/release for provisions for losses	(837)	(4,551)	329	(441)	(43)	(62)	–	–	(5,605)
Profit/(loss) for the period	1,560	1,794	580	189	1,197	(594)	(204)	(238)	4,284
Extract from the balance sheet at 31 December 2000									
Loans	5,913	38,303	448	814	1,471	–	–	–	46,949
Provisions	(442)	(14,159)	(224)	(110)	(190)	–	–	–	(15,125)
	5,471	24,144	224	704	1,281	–	–	–	31,824
Share investments	9,938	5,356	–	2,400	86	600	–	–	18,380
Provisions	(1,452)	(2,678)	–	(476)	(25)	(62)	–	–	(4,693)
	8,486	2,678	–	1,924	61	538	–	–	13,687
Placements and other assets	27,928	42,281	1,762	4,643	12,199	8,849	9,696	6,875	114,233
Contributions not yet received	–	–	–	8,597	–	40,000	750	1,075	50,422
Total assets	41,885	69,103	1,986	15,868	13,541	49,387	10,446	7,950	210,166
Other liabilities and provisions	50	31,553	6	33	6	6	165	3	31,822
Contributions	41,500	59,351	1,261	15,066	11,435	50,000	10,485	8,185	197,283
Reserves and profit/(loss) for the period	335	(21,801)	719	769	2,100	(619)	(204)	(238)	(18,939)
Total liabilities	41,885	69,103	1,986	15,868	13,541	49,387	10,446	7,950	210,166
Undrawn commitments and guarantees	13,239	60,885	950	1,424	1,929	8,053	6,268	907	93,655

Technical Cooperation Special Funds

Extract from the statement of movement in fund balance and balance sheet for the year ended 31 December 2000

	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	The EBRD Technical Cooperation Special Fund € 000	Aggregated Technical Cooperation Special Funds € 000
Balance of fund brought forward	8,258	16,416	298	24,972
Contributions received	–	1,551	17	1,568
Interest and other income	246	2,656	8	2,910
Reimbursements of disbursements	–	269	–	269
Disbursements	(2,735)	(7,785)	(120)	(10,640)
Other operating expenses	(5)	(52)	(8)	(65)
Balance of fund available	5,764	13,055	195	19,014
Cumulative commitments approved	20,218	59,625	879	80,722
Cumulative disbursements	(15,258)	(51,580)	(686)	(67,524)
Allocated fund balance	4,960	8,045	193	13,198
Unallocated fund balance	804	5,010	2	5,816
Balance of fund available	5,764	13,055	195	19,014

Special Fund contributions pledged by donor country

	The Baltic Investment Special Fund € 000	The Russia Small Business Investment Special Fund € 000	Moldova Micro Business Investment Special Fund € 000	The Financial Intermediary Investment Special Fund € 000	The Italian Investment Special Fund € 000	The SME Finance Facility Special Fund € 000	The Balkan Region Special Fund € 000	The EBRD SME Special Fund € 000	The Baltic Technical Assistance Special Fund € 000	The Russia Small Business Technical Cooperation Special Fund € 000	Aggregated Special Funds € 000
Austria	–	–	–	–	–	–	276	–	–	–	276
Canada	–	2,707	–	–	–	–	1,472	–	–	4,309	8,488
Denmark	8,940	–	–	–	–	–	750	–	1,450	–	11,140
European Community	–	–	–	–	–	50,000	–	–	–	–	50,000
Finland	8,629	–	–	–	–	–	–	–	1,411	–	10,040
France	–	7,686	–	–	–	–	–	–	–	4,980	12,666
Germany	–	9,843	–	–	–	–	2,250	–	–	3,025	15,118
Iceland	427	–	–	–	–	–	–	–	69	–	496
Italy	–	8,401	–	–	11,435	–	–	–	–	1,360	21,196
Japan	–	21,162	–	–	–	–	–	–	–	3,295	24,457
Norway	7,732	–	–	–	–	–	1,145	–	1,256	–	10,133
Sweden	15,772	–	–	–	–	–	–	–	2,564	–	18,336
Switzerland	–	2,360	1,261	655	–	–	3,097	–	–	1,244	8,617
Taipei China	–	–	–	12,674	–	–	1,495	–	–	–	14,169
United Kingdom	–	–	–	–	–	–	–	–	–	12,824	12,824
United States of America	–	7,192	–	1,737	–	–	–	8,185	–	24,677	41,791
Total at 31 December 2000	41,500	59,351	1,261	15,066	11,435	50,000	10,485	8,185	6,750	55,714	259,747