CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2004



CEB
COUNCIL OF EUROPE DEVELOPMENT BANK

The CEB (Council of Europe Development Bank) was set up on 16 April 1956 in order to provide solutions to the problems of refugees. Since then it has adapted to changes in social priorities in Europe. Its mission is to contribute to strengthening social cohesion in Europe.

OBJECTIVES

The Council of Europe Development Bank (CEB) is a multilateral development bank with a social vocation. It is a key instrument of solidarity policy in Europe.

Since its inception in 1956, the Bank has helped to finance social projects and responded to emergency situations, thereby contributing to the improvement of living conditions in the least privileged regions of Europe.

THE COUNCIL OF EUROPE AND THE CEB

The Bank is legally and financially independent. It has its origins in a Partial Agreement among Council of Europe member states and is subject to the Council's overall authority. Its administrative headquarters are in Paris.

The Council of Europe was established under the Treaty of London on 5 May 1949. Throughout its history, the Council has asserted its role in the defence of human rights and the promotion of democracy.

At the same time, it has encouraged the signing of a number of partial agreements between some of its member states.

The Council of Europe Development Bank (first known as the "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe", and then as the "Council of Europe Social Development Fund") was the subject of the first Partial Agreement, which was signed by eight countries on 16 April 1956. Today it comprises 38 member states.

Relations between the Bank and the Council of Europe are reinforced by the action of the Strasbourg-based Secretariat of the Partial Agreement. The Secretary General of the Council of Europe issues an opinion concerning the political and social admissibility of each project submitted to the Bank.

ACTIVITIES

The Bank grants loans to finance projects with a social purpose. Its activities complement those of the other intergovernmental financial institutions.

Loans are granted in accordance with precisely defined criteria. Statutory priority is given to projects which "help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants consequent upon movements of refugees or other movements of populations and as a result of the presence of victims of natural or ecological disasters".

Since the Bank was set up almost fifty years ago, the scope of its activity has gradually broadened to other sectors: education, health, social housing, employment and vocational training in SMEs, improving living conditions in disadvantaged urban areas and rural modernisation, protection of the environment and preservation of historic and cultural heritage.

FINANCIAL RESOURCES

Paid-up capital, reserves and capital raised on the financial markets constitute the basis for the Bank's operations, since it does not receive annual subscriptions from its members. Public issues and private placements enable it to raise funds directly on the capital markets, to which it enjoys access on the best possible terms.

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 3.3 billion euros as at 31 December 2004. Leverage is particularly impressive: since its inception the Bank has been able to pay out over 20 billion euros in loans.

RATING

For its long-term operations the Bank has been awarded the best rating by the three agencies Fitch Ratings (AAA), Moody's (Aaa) and Standard & Poor's (AAA).

MANAGEMENT

The Bank's organs are:

- The Governing Board, comprising one representative per member state. Its Chairman is Mr. Orhan GÜVENEN, who was elected on 8 April 2002.
- The Administrative Council, comprising one representative per member state. Its Chairman is Mr. Heinrich HARRIES, who was reelected on 8 April 2002.
- The Governor, Mr. Raphaël ALOMAR, reelected on 27 February 2001. He is assisted by the Vice-Governor Delegate, Mr. Nunzio GUGLIELMINO, who was reelected on 10 December 2004, and by two other Vice-Governors, Mr. Krzysztof J. NERS and Mr. Apolonio RUIZ LIGERO, both elected on 19 June 2001.
- The Auditing Board, which has three members chosen from among the member states in turn.

The Executive Committee comprises 13 members of the Administrative Council and is chaired by the Council's Chairman.

KEY FIGURES

in million euros

	2004	2003	2002	2001	2000
Loans disbursed during the year	1 530	1 589	1 537	1 749	1 855
Projects approved during the year	1 751	2 149	1 605	1 664	1 888
Loans outstanding	10 765	9 903	9 350	8 630	8 442
Own funds (after allocation of profit)	4 522	4 358	4 254	3 962	2 466
Tangible net worth (after allocation of profit)	1 581	1 470	1 384	1 293	1 221
Total assets	16 390	14 786	14 217	13 926	14 434
Net profit	115.2	86.9	95.2	88.3	95
Selective Trust Account					
Cumulative annual contributions since the STA's inception	74.4	64.4	63.5	58.3	55
Balance available (at year-end)	37.7	33.7	24.5	23.7	16

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REPORT OF THE GOVERNOR

Financial year

2004





The Bank's member states

	Year of accession
ALBANIA	1999
BELGIUM	1956
BOSNIA AND HERZEGOVINA	2003
BULGARIA	1994
CROATIA	1997
CYPRUS	1962
CZECH REPUBLIC	1999
DENMARK	1978
ESTONIA	1998
FINLAND	1991
FRANCE	1956
GERMANY	1956
GREECE	1956
HOLY SEE	1973
HUNGARY	1998
ICELAND	1956
IRELAND	2004
ITALY	1956
LATVIA	1998
LIECHTENSTEIN	1976
LITHUANIA	1996
LUXEMBOURG	1956
MALTA	1973
MOLDOVA	1998
NETHERLANDS	1978
NORWAY	1978
POLAND	1998
PORTUGAL	1976
ROMANIA	1996
SAN MARINO	1989
SERBIA AND MONTENEGRO	2004
SLOVAK REPUBLIC	1998
SLOVENIA	1994
SPAIN	1978
SWEDEN	1977
SWITZERLAND	1974
"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"	1997
TURKEY	1956





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Protection of historic and cultural heritage 31
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MEMBERSHIP OF THE BANK'S ORGANS
as at 31 December 2004*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
ORHAN GÜVENEN Director, Institute of World Systems, Economies and Strategic Research, University of Bilkent, Turkey	*Chairmen*	HEINRICH HARRIES Former Director of the Managing Board, Kreditanstalt für Wiederaufbau (KfW), Frankfurt am Main
CHARLES GHISLAIN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	*Vice-Chairs*	IRENA SODIN Under-Secretary of State, Ministry of Finance, Ljubljana
SHPËTIM ÇAUSHI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	Albania	ALIOSHA GJONDEDAJ Head of the Bilateral Cooperation Sector, Ministry of Economy, Tirana
CHARLES GHISLAIN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	Belgium	FRANCISCUS GODTS Director-Coordinator, International Relations Treasury, Federal Public Service Finances, Brussels
IGOR GAON Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Bosnia and Herzegovina to the Council of Europe, Strasbourg	Bosnia and Herzegovina	LJERKA MARIĆ Minister of Finances and Treasury, Sarajevo
YURI STERK Ambassador, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	Bulgaria	KRASSIMIR KATEV Deputy Minister of Finance, Ministry of Finance, Sofia
DANIEL BUČAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	Croatia	ANA HRASTOVIĆ Assistant Finance Minister, Department for International Financial Institutions and European Integration, Ministry of Finance, Zagreb
MARIOS LYSSIOTIS Ambassador, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	Cyprus	CHRISTOS PATSALIDES Permanent Secretary, Ministry of Finance, Nicosia
VLASTA ŠTĚPOVÁ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	Czech Republic	LENKA LOUDOVÁ Director of International Organisations Department, Ministry of Finance, Prague
NIELS-JØRGEN NEHRING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg	Denmark	PETER BRIX KJELGAARD Senior Advisor, Department of Finance, Ministry of Finance, Copenhagen

* The Bank's organs are: the Governing Board, the Administrative Council, the Governor and the Auditing Board.
In accordance with Article XIII, the secretariat of the Bank's organs is provided by the "Secretariat of the Partial Agreement on the Development Bank" at the Council of Europe in Strasbourg (Head of the Partial Agreement: MS GIUSI PAJARDI; Executive Secretary to the organs: MRS PILAR MORALES).

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
ALAR STREIMANN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg	Estonia	RENALDO MÄNDMETS Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn
ANN-MARIE NYROOS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	Finland	KRISTINA SARJO Financial Counsellor, Financial Markets Department, Unit for International Affairs, Ministry of Finance, Helsinki
GILLES CHOURAQUI Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	France	ANNE-LAURE DE COINCY Head of the European Affairs Office, Treasury Department, Ministry of Economic Affairs, Finance and Industry, Paris BENOÎT DE LA CHAPELLE BIZOT (since 15-3-2005) Head of Unit, European Strategy and Coordination, Treasury Department, Ministry of Economic Affairs, Finance and Industry, Paris
ROLAND WEGENER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Germany to the Council of Europe, Strasbourg	Germany	ECKHARDT BISKUP Head of Division, Ministry of Finance, Berlin
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MGR VITO RALLO Special Envoy of the Holy See to the Council of Europe, Strasbourg	Holy See	
ZOLTÁN TAUBNER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	Hungary	LÁSZLÓ ÖRLÖS Deputy Director General, Department of International Finances, Ministry of Finance, Budapest
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JAMES A. SHARKEY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Ireland to the Council of Europe, Strasbourg	Ireland	ROBERT BRADSHAW Principal Officer, Banking, Finance and International Division, Department of Finance, Dublin
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PĒTERIS KĀRLIS ELFERTS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	Latvia	INTA VASARAUDZE Deputy State Secretary, Ministry of Finance, Riga

GOVERNING BOARD — ADMINISTRATIVE COUNCIL

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
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	Malta	
JOSEPH LICARI Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg		
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GUIDO BELLATTI CECCOLI Ambassador, Permanent Representative of San Marino to the Council of Europe, Strasbourg	San Marino	RAFFAELE GIARDI Counsellor, Ministry of Finance, Republic of San Marino
SLADJANA PRICA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Serbia and Montenegro to the Council of Europe, Strasbourg	Serbia and Montenegro	MIROSLAV IVANICŠEVIĆ Deputy Prime Minister for Financial Sector and Public Expenditure, Podgorica

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ZVONIMIR JANKULOSKI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of "the former Yugoslav Republic of Macedonia" to the Council of Europe, Strasbourg	"the former Yugoslav Republic of Macedonia"	DZEMALI MEHAZI State Secretary, Ministry of Finance, Skopje
DARYAL BATIBAY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	Turkey	MEMDUH ASLAN AKÇAY Director General, General Directorate of Foreign Economic Relations, Undersecretariat of the Treasury, Ankara

GOVERNOR

RAPHAËL ALOMAR

VICE-GOVERNORS

NUNZIO GUGLIELMINO (VICE-GOVERNOR DELEGATE)
KRZYSZTOF J. NERS
APOLONIO RUIZ LIGERO

AUDITING BOARD

Bulgaria: NADEZHDA SANDOLOVA, Head of the Audit Department, National Audit Office, Sofia
Portugal: MARIA ISABEL CASTELÃO FERREIRA DA SILVA, Deputy General Inspector of Finance, Lisbon
Switzerland: PAUL BRÜGGER, Head of the Control of Federal Finances Legal Service, Bern

A NEW PRUDENTIAL FRAMEWORK FOR THE DEVELOPMENT

The overhaul of the CEB's prudential system constitutes an **original and appropriate response** to a double requirement: to intensify the Bank's action in favour of social development in Europe and at the same time to preserve the interests of the shareholders.

An innovative and realistic framework

The innovative approach taken by the CEB consisted in **switching from a loans volume control approach** (principle of the gearing ratio) **to a risk control approach** (principle of the capital adequacy ratio).

This approach stemmed firstly from the Basle Committee recommendations – so-called Basle II – on measuring solvency and adjusting the action capacity of financial institutions to the risks effectively incurred.

The requirements of Basle II were systematically strengthened in order to take into account the specific characteristics of the CEB, namely:

- on the one hand, **its capacity as a multilateral development bank**,
- on the other hand, **the need to maintain its maximum AAA rating.**

In view of the above, **the CEB's new prudential framework has been built around three complementary objectives:**

- to limit the default risk solely to available own funds,
- to limit the outstanding of the most risky counterparties ("below investment grade"),
- to strengthen the liquidity ratio.

Establishing a capital adequacy ratio

The limit on the loans outstanding takes into account the risks effectively incurred. To this end, the CEB regularly assesses the potential default risk on its loans portfolio, whose maximum limit consists in the amount of available own funds.

In practice, this approach consists in adding up the default risk relative to each counterparty, with cash flows to be received from each one weighted according to the default probability corresponding to its rating.

These probabilities are drawn up according to rating and time horizon.

This ratio has replaced the gearing ratio.

Setting a limit on the "below investment grade" outstanding

In the fashion of the IFI risk profile assessment ratio elaborated by the rating agencies, the CEB calculates a **"risk asset coverage ratio"**. This is the ratio of "below investment grade" counterparty outstanding to "solid" capital (available own funds and "callable" capital of AAA and AA rated shareholders).

As a precaution, this outstanding has been limited to 2/3 (66%) of the CEB's "solid" capital.

Strengthening the liquidity ratio

The CEB has committed itself to maintaining a level of liquidity 50% higher than its treasury requirements over three years: the latter now include **an additional amount equal to the risk of default, over this period, of any debtor rated "below investment grade".**

In conclusion, after taking note of the favourable opinion from the 3 rating agencies Moody's, Fitch Ratings and Standard & Poor's, the Bank's directing organs approved these measures within the framework of the **"Development Plan 2005-2009".**

The CEB is thus the **first international financial institution to implement a prudential framework of this kind,** which simultaneously ensures it:

- good control of the risks linked to its activity – given the **very conservative nature** of the ratios considered, and
- significant margins for developing its operations - given the quality of its loans portfolio.

MESSAGE FROM THE GOVERNOR



The year 2004 represented a decisive step in the development of the CEB, marked by the completion of the Development Plan 1999-2004 and the launch of a new strategy for the 2005-2009 period.

The Bank continued to **deliberately moderate its total volume of activity in order to concentrate even more on adding value to its actions**. The amount of new projects stood at € 1.751 billion, whereas disbursements were restricted to € 1.530 billion. In such a context, the expansion of operations in the transition countries accelerated even more and the volume of new projects there exceeded € 830 million, representing a record rise of 58% in one year. This particular effort was accompanied by an **improvement in the quality of the Bank's counterparties**, 83% of which are rated A or higher.

The structure of the projects and loans activity, built around three major lines of action – social integration, environmental management and support to human capital – **reflects the Bank's commitment in favour of sustainable social development**. In 2004, this commitment materialized through disbursements allocated among a total of 70 projects in 21 countries of operations. The CEB also approved 33 new projects and programmes under these three sectorial lines of action, worth respectively 782, 711 and 258 million euros.

The intensification of the CEB's social contribution went hand in hand with the improvement of an already high profitability: in 2004, **net profit reached € 115.2 million, an increase of 32.6%** over 2003. Excluding non-recurrent items, this progress is the result of an increase of 9.7% in net banking income.

The **AAA rating** confirmed by Moody's, Standard & Poor's and Fitch Ratings reflects the excellent assessment of our signature. The attraction that the CEB exercises is also shown by the fact that **it welcomed two new members this year: Serbia and Montenegro then Ireland**, respectively on 23 April and 30 November 2004.

The funding policy is characterized by compliance with the objectives defined over the past years and the adjustment to the volume of activity.

In 2004, the Bank's issues totalled € 2 billion, which represents € 400 million less than in 2003, the volume of debt to be repaid being significantly lower than that of the previous year.

In 2004, deliberate moderation in the CEB's volume of activity…

…in order to focus on its social, geographical and sectorial priorities,…

…a high level of profitability combined with its triple AAA rating,…

…accession by Serbia and Montenegro and then Ireland,…

…a funding policy adapted to the activity,…

…implementation of the development strategy through…

…loans outstanding worth 10.8 billion euros,…

…redeployment of the lending activity, notably in favour of the transition countries,…

…emphasis on project quality,…

…and constant strengthening of the Bank's financial structure,…

93% of these borrowings were denominated in US dollars, due to the opportunities offered by this market. The Bank also launched a first issue in the Australian domestic market. The average maturity of these borrowings was extended by 1 year and 2 months, in accordance with the average lifetime of loans granted in 2004, and now stands at 7 years and 7 months. All of these funding operations were systematically matched with hedge swaps, with the outstanding amount of these swaps being itself 97% collateralized. As at 31 December 2004, the liquidity ratio stood at 94%, compared with a required minimum of 50%.

During the Development Plan 1999-2004, in accordance with the orientations decided upon by the Bank's directing organs and with the constant support of its shareholders, **the CEB achieved a profound transformation**.

The Bank approved € 9.1 billion in new projects and the aggregated volume of disbursements amounted to € 8.3 billion: **the loans outstanding thus reached a total of € 10.8 billion** by end 2004, representing the highest level since the CEB's inception. Based on an average contribution of 40% per project, **the Bank currently participates in the funding of social investments worth about € 27 billion.**

The Bank also **substantially diversified its actions**: as at 31 December 2004, the CEB was active in 31 of its 38 member states, as opposed to only 20 at the start of 1999. In this context, the **redeployment of operations towards the transition countries of central and eastern Europe** was particularly significant: at the end of 2004, the accumulated amount of projects approved in favour of these countries was in excess of € 2.7 billion, more than half of which had already been disbursed, compared with only € 420 million at end 1999.

At the same time, the CEB put an emphasis on the **quality of the projects** being financed, as illustrated by the continuous enlargement of its contribution in terms of assistance and follow-up throughout the project's lifecycle as well as the creation of an ex post evaluation department.

Finally, the institution's financial soundness was considerably strengthened as a result of three factors: a fifth capital increase which was subscribed by all eligible countries, a high self-funding ratio and the impact of the accession of new members. Thanks to a high and sustained profitability, the amount of earnings accumulated over the last 5 years now stands at € 480 million, around 95% of which has been added to the general reserve. **In total, the Bank's capital**, which stood at € 2.4 billion in 1999, **now amounts to more than € 4.5 billion at end 2004**, an increase of some 90%.

In light of these results, **the directing bodies, gathered in Budapest in June 2004** shortly after the enlargement of the European Union, **unanimously adopted the CEB's new Development Plan for the next five years.**

This medium-term plan defines the institution's intervention logic for the 2005-2009 period, which is built around **a primary objective: to further increase the CEB's intervention in the social field, particularly in central and south-eastern Europe.** In concrete terms, the Bank will devote 50% of its loans to a target group of 19 countries which, together, represent less than one fifth of the subscribed capital.

The CEB also intends **to enhance its capacity as a development bank**, and, to this end, strengthen its expertise, intensify a policy of pre-existing close partnerships with other financial as well as non-financial international institutions, while at the same time improving the legibility of its actions.

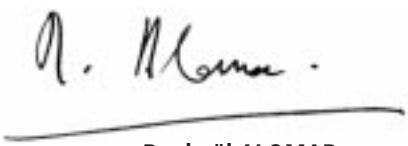
These strategic directions rely on a new prudential framework characterized by a switch from a loans volume control approach to a risk control approach. **This framework takes its inspiration directly from the Basel II recommendations**, particularly concerning **capital adequacy**, and systematically raises their requirements in view of the CEB's specificity as a development bank.

*

Thus, the year 2004 marks both the happy conclusion of the 1999-2004 medium-term plan and the adoption of a new framework of activity for 2005-2009: the CEB is therefore well positioned to enhance the added value of its contribution and assert itself as the social development bank in Europe.

Financial strength, adjustment to the new order brought about by the enlargement of the European Union, strengthened cooperation with the Council of Europe, support of its member states and commitment of its staff: the conditions are met to enable the CEB to provide even better financial leverage in favour of social cohesion in Europe.

Paris, 1 March 2005



Raphaël ALOMAR

…approval of the new medium-term plan 2005-2009 aimed at…

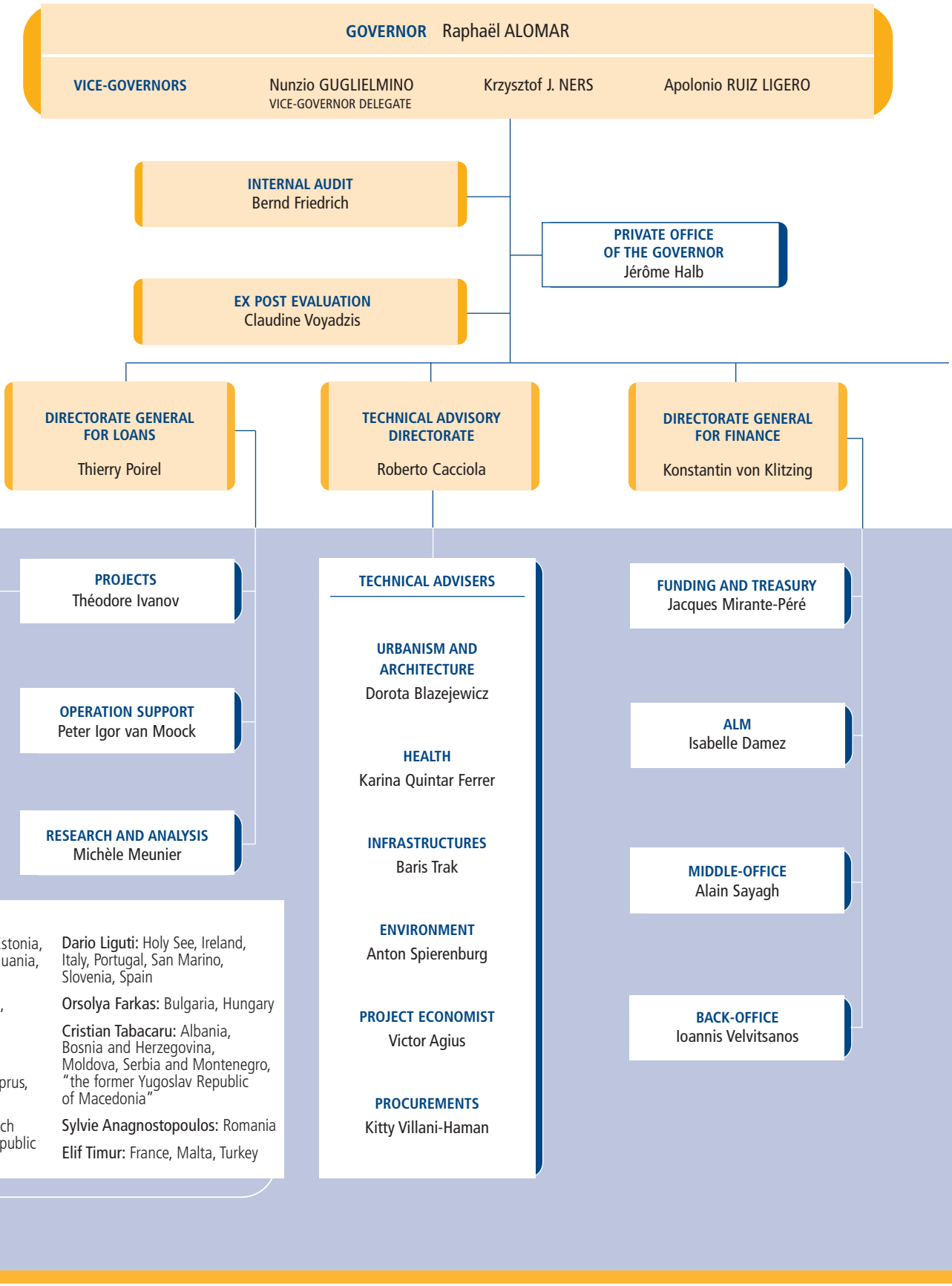
…increasing the CEB's social contribution in Central and South Eastern Europe,…

…and consolidating its position as a development bank…

…based on an innovative prudential framework that takes its inspiration from Basle II,…

…make the CEB an efficient instrument of financial leverage in favour of social cohesion in Europe.

ORGANISATION CHART



GENERAL MANAGEMENT COMMITTEE



In front
Raphaël ALOMAR
Governor

First row, centre,
Nunzio GUGLIELMINO
Vice-Governor Delegate

left, **Krzysztof J. NERS**
Vice-Governor

right, **Apolonio RUIZ LIGERO**
Vice-Governor

Second row, from left to right
Roberto CACCIOLA
Director of Technical Advisers

Arnaud VIOLETTE
Central Director for Information Systems and Control

Thierry POIREL
Director General for Loans

Christos GIAKOUMOPOULOS
Central Director for Legal and Administrative Affairs

Konstantin von KLITZING
Director General for Finance

Richard VENEAU
Director for Corporate Affairs and Human Resources

CENTRAL DIRECTORATE FOR INFORMATION SYSTEMS AND CONTROL
Arnaud Violette

- **GLOBAL RISK MANAGEMENT** — Martin Weigand
- **ACCOUNTING** — José Limet
- **CONTROLLING** — Patrick Radhauer
- **INFORMATION TECHNOLOGY** — Frédéric Lardinois
- **ORGANISATION** — Ahmet Kizil

DIRECTORATE FOR CORPORATE AFFAIRS AND HUMAN RESOURCES
Richard Veneau

- **HUMAN RESOURCES** — Maria Lucia Oristanio
- **COMMUNICATION** — Armelle de La Jugannière
- **CORPORATE AFFAIRS** — Sébastien Relland

CENTRAL DIRECTORATE FOR LEGAL AND ADMINISTRATIVE AFFAIRS
Christos Giakoumopoulos

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1 April 2005



EX POST EVALUATION OF PROJECTS: A MANAGEMENT AND ACCOUNTABILITY TOOL

The CEB increasingly relies on its expertise in order to develop a quality approach in the projects it finances. In this context, the ex post evaluation of projects is both a management tool and an accountability tool for the Bank. While ex post evaluation contributes to enhancing the transparency of the CEB's operations, its purpose is more particularly to:

- evaluate the impact and sustainability of the projects financed by the CEB, to assess their performance and quality,
- propose improvements in terms of the planning, selection and design of future projects,
- promote organisational learning within the Bank itself by placing emphasis on the problems met and lessons learnt,
- improve the quality of the assistance and services the Bank provides for its borrowers.

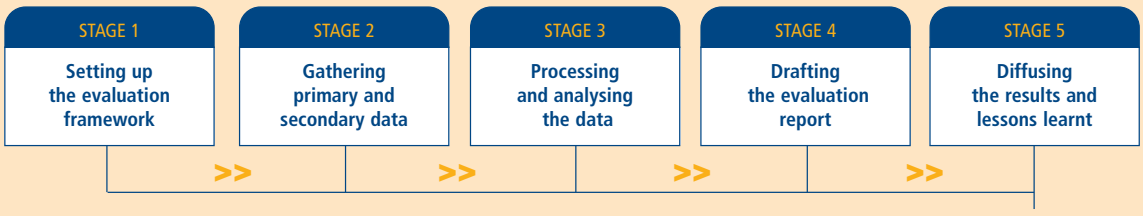
The Bank accords particular importance to the rigour with which it analyses project compliance with the anticipated project objectives and project performance. The evaluation consists in assessing the quality of the design, appraisal and implementation of the projects, with quality being measured according to a system based on the criteria of ***relevance***, ***efficacy*** (extent to which the objectives have been achieved), ***efficiency*** (use of the resources deployed to achieve those objectives), ***impact*** and ***sustainability***.

Drafting evaluation reports and capitalising on the lessons learnt from them at operational level are the guiding principles of evaluation, as established by development banks and organisations. Such lessons are the precise purpose of the Ex Post Evaluation Department (EPD), set up by the CEB in 2002 and now fully operational.

The first results of the EPD's work were presented in 2004. They come within the framework of an overall programme for the evaluation of 11 projects pertaining to the natural and ecological disaster sector, financed by the Bank between 1995 and 2002 for an amount of almost € 1 billion and spread among 5 member states: Greece, Poland, Romania, Spain and Turkey.

The first ex post evaluations were carried out in Romania and in Spain. They have shown that the objectives of the projects evaluated (one in Romania and three in Spain) were achieved, in particular thanks to the efficacy of the national and local authorities responsible for implementing the projects, but also thanks to the Bank's swift action in favour of regions hit by such exceptional events.

Ex post evaluation of projects financed by the CEB: methodological approach





PROJECTS AND LOANS

I - OPERATIONAL CONTEXT IN 2004

2004 was marked by a profound change in the context in which the Bank operates, in particular due to the effect of the enlargement of the European Union on 1 May to ten new States, all already members of the CEB, and the clearly stated wish of other countries to join the new 25-strong Europe.

For the majority of the Central and Eastern European countries this enlargement concretises a transition process characterised by constant political determination on the part of National Authorities, efficient macro-economic management and significant institutional change not only towards the principles of the Rule of Law but also to those of a market economy.

Enlargement should also make it possible to fuel economic growth and to consolidate the political stability of a continent united around common values.

At the same time, future enlargements will confront a more diverse European Union with strong social disparities that are likely to persist if the appropriate measures are not taken.

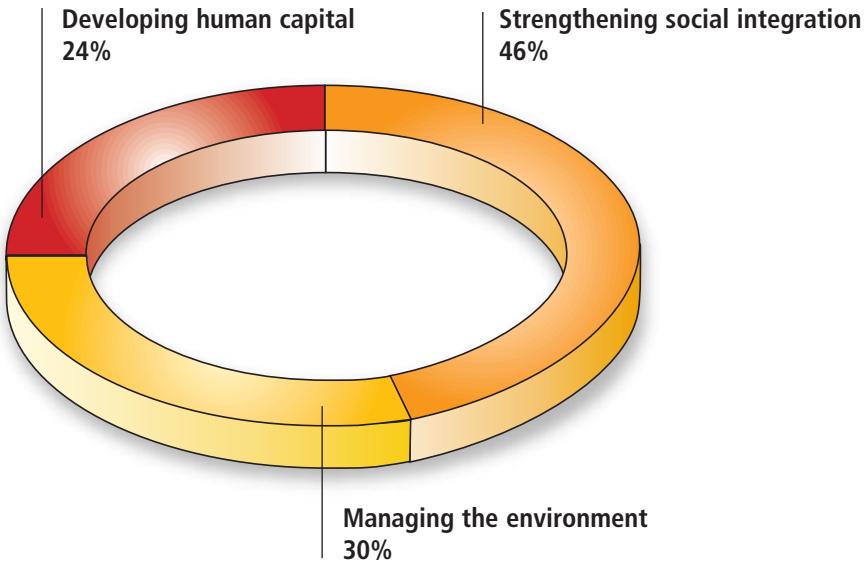
Continuing high unemployment rates, a significant proportion of the population still living below the poverty line, social investment needs that have still not been met and a shortage of housing are all evidence of the scale of the challenges for the coming years.

All these transformations are causing the financing actors in Europe to significantly re-think their strategy for action.

For the CEB, the 2004 enlargement constitutes a major challenge but also an opportunity to enhance its contribution to promoting sustainable social development.

Faithful to its specific nature and strengthened by its experience, the CEB intends fully to play its financial leverage role for the promotion of social development in Europe.

Loans disbursed from 2000 to 2004
Breakdown by sectorial action line





COOPERATION WITH THE BANKING SECTOR IN THE CENTRAL AND EASTERN EUROPEAN COUNTRIES

Within the framework of the strategy pursued by the CEB for developing its action in the Central and Eastern European Countries, cooperation with the banking sector has been strengthened.

Most of these countries are experiencing budget restrictions on account of policies to reduce imbalances and compliance with the criteria established by the European Union (EU) in matters of enlargement, notably in terms of external debt. The consequence of these restrictions has been to limit their capacity to borrow directly, or even to provide sovereign guarantees.

In these conditions, by putting to best advantage its experience in its countries of operations, the Bank has been developing part of its activity in the Central and Eastern European countries by financing projects in specific sectors through the banking sector. Developing operations of this kind allows the CEB to provide the long-term resources that are still lacking in these countries. These operations are subject to analysis of the credit risk incurred by the Bank. Wherever necessary, additional guarantees are set up in order to prevent solvency risks.

Today, half of the CEB's activity in favour of the Central and Eastern European countries is carried out in cooperation with the banking sector in the geographical area concerned. This can be done in four ways:

1. either **indirectly**, with the State acting as borrower or guarantor (sovereign guarantee) and, subsequently, onlending through the banking sector,

2. or with commercial banks as **direct borrowers**, without any sovereign guarantee,

3. or with a financial institution of a European Union (EU) country as **direct borrower** for the financing of projects in the Central and Eastern European countries which, in addition, receive a contribution from the European Funds. Two examples of this are two programmes between the EU and the CEB, in association with KfW Bankengruppe:

   - a very efficient "SME Finance Facility" programme, implemented since 2000 by KfW through partner banks, in several Central and Eastern European countries; this programme now represents a total of € 222.5 million

   - and the "Municipal Finance Facility", in favour of municipal infrastructures, implemented since 2003 by KfW in several Central and Eastern European countries, through partner banks; this programme now represents a total of € 47.5 million.

4. or with a financial institution of a European Union country as the **direct borrower**, which then onlends to a ***subsidiary*** established in the Central and Eastern European countries (or an associated local bank) to finance the project.

   Projects developed through the banking sector are mainly concerned with:

   - support for job creation and preservation in small and medium-sized businesses

   - municipal infrastructures (environment, health and education) in the form of multi-project programmes and individual projects

   - social housing.



II - A BANK PROMOTING SOCIAL DEVELOPMENT IN EUROPE

Acknowledged for its expertise and know-how in financing social projects, the CEB enjoys a unique and original position in Europe, both by the nature of the projects it finances, the sectors in which it operates and the wide scope of its shareholder base.



SLOVAK REPUBLIC
Renovation of the Bratislava Library

1. Sectorial action lines

The Bank's original mandate is to respond to emergency situations. In this context, aid to refugees and migrants and projects in the natural or ecological disaster sector are considered as statutory priorities. In almost 50 years of existence, the CEB's capacity for action has been extended to other sectors promoting social development in Europe.

In order to ensure greater readability for its action and to better affirm its mission to finance investments in social infrastructures, the Bank has regrouped its fields of action around **three sectorial action lines**, namely the *strengthening of social integration*, *responsible management of the environment* and the *development of human capital.*

These three action lines reflect not only the CEB's social vocation but also the development logic underpinning all its activity:

• to contribute to **strengthening social integration** and to attack the roots of exclusion at operational level means taking action in favour of refugees, migrants and displaced persons, improving housing and employment, and fighting against the marginalisation of the most destitute

• to participate in **managing the environment** means not only systematically responding to emergency situations in the event of natural or ecological disasters, but also undertaking sustainable action in order to foster prevention, protection of the environment and the preservation of historic and cultural heritage

BORROWING FROM THE CEB

The CEB may grant loans to its 38 member states or to their regional or local authorities as well as to public or private financial institutions (see box opposite).

The Bank finances up to 50% of the total eligible cost of the projects. However, for the Central and South Eastern European countries this proportion may be increased to 90%. An invitation for tenders must be issued for each project selected, in compliance with the provisions in force.

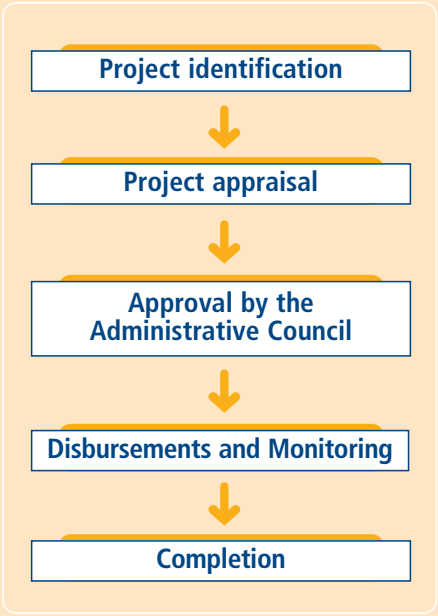
Loans are granted according to a series of specific criteria from a sectorial, geographic and social point of view. The loan request is prepared by the borrower in close relation with the Bank's departments.

Loan requests must be backed by guarantees. Once they have undergone financial and technical analysis by the CEB's teams, the requests are then submitted to the Administrative Council for approval.



THE DIFFERENT STAGES IN THE PROJECT CYCLE AT THE CEB

The "project cycle" corresponds to the different sequences marking the life of a project at the CEB:



A file is established gathering together all the elements needed in order to define the objectives of the project and the means required to achieve them.

The project is analysed, in particular from the point of view of its financial set-up and its technical feasibility, with a view to its submission to the Administrative Council.

After examination, approval of the project by the Administrative Council.

Evaluation of the project's correct implementation and of the use of the funds disbursed.

Presentation of a report giving a full description of the works carried out and the objectives achieved within the framework of the project.

• lastly, to support the **development of human capital** in key sectors such as health and education in time facilitates more dynamic and equitable economic and social growth, thereby promoting individual fulfilment and collective well-being.

2. Financing methods and project categories

The CEB proposes a whole range of financial products in order to respond to the specific nature of each project to which it contributes, according to their eligibility and category.

Thus, the CEB may grant long-term loans, usually carrying a deferred repayment period. This type of loan duration, between 10 and 30 years, is all the more essential in that it is targeted to social investments with deferred profitability. The Bank's actions therefore make it possible to ease the constraints that weigh upon access to long-term credit for projects generating "positive externalities", without creating any distortion of competition.

Through the loans it grants, the Bank finances three categories of projects:

• **individual projects** (IPs), characterised by a single sector and a single site, or by a limited number of technically related sites

• **sectorial projects** (SPs), comprising several sub-projects pertaining to one or several sectors. These projects must come within the framework of sectorial development programmes set up at national or regional level

• **multi-project programmes** (MPs), grouping together small-scale projects with a CEB loan for a maximum amount of € 5 million, irrespective of the sector concerned.

The CEB pays particular attention to the **quality** of the projects it finances in order to optimise their social impact. The Bank is therefore constantly strengthening its **assistance** and **monitoring** role throughout the project life cycle (see diagram above).

To this effect, **at the crucial stages of identification and appraisal**, the Bank ensures that the projects



comply with the following evaluation criteria: the socio-economic impact of the project; the technical aspects of the project and the cost analysis; the institutional capacity in terms of project management by the borrower and/or the loan beneficiary; and the possible environmental impact.

Once the project has been approved by the Administrative Council, the Bank's services carry out regular monitoring, paying special attention to the physical progress of the works (by on-site visits), compliance with costs, implementation of procurement procedures and the achievement of the anticipated social objectives.

Upon **completion** of the project, the Bank checks that the funds were used in line with corresponding objectives and forecasts and ensures that the project is implemented in accordance with the contract and evaluates its physical and social results.

It is also the role of the Bank's services to give the alert in respect of any difficulties that could jeopardise the success of the project and to give advice on how to resolve them. Underlying this approach is the quest for *efficacy* (namely the extent to which project objectives are achieved) and for *efficiency* (that is to say, the use of the resources deployed in order to achieve those objectives).



BOSNIA AND HERZEGOVINA
Reconstruction of housing for refugees and displaced persons

Moreover, the Bank has continued to enhance its contribution:

• upstream of projects, by having increased recourse to **country strategies**, prepared in close collaboration with the authorities concerned, and by drawing up sectorial policies to promote sustainable social development

• downstream of projects, by placing emphasis on **ex post evaluation** (see box on page 14), thereby making it possible to measure the short-term social impact of the projects and programmes following their completion, while also improving the quality of ongoing and future projects via the learning effect.

THE SELECTIVE TRUST ACCOUNT

In addition to its loan instruments, the CEB can make use of the Selective Trust Account (STA), whose purpose is to grant interest rate subsidies in favour of projects coming within the Bank's high priority objectives.

In 2004, the STA was called upon for 4 projects situated in Bosnia and Herzegovina (refugees), Croatia (reconstruction of schools), Hungary (prevention of natural disasters) and Moldova (health). Among the loans disbursed, 9 projects received STA subsidies.

The STA is also used to make donations for humanitarian purposes. Thus, in 2004, the Bank approved a number of donations in favour of several projects: in Bosnia and Herzegovina and Serbia and Montenegro (implemented with the UNHCR); in Moldova (with UNICEF). The Bank also committed itself this year to making a contribution, to be drawn from the STA, within the framework of the creation of a Roma Education Fund (see box on page 23).

III - PROJECTS AND LOANS ACTIVITIES IN 2004

In 2004, the CEB carried out its activity in accordance with the major orientations set forth during previous years: a reasonable increase in the outstanding, deliberate moderation in the volume of disbursements, intensification of its action in favour of the Central and Eastern European countries and enhancement of the added social value of its operations.



PROJECTS APPROVED
per country and per sectorial action line, from 2000 to 2004

In thousand euros

	2004		Total 2000-2004	
COUNTRIES	**Amounts**	**%**	**Amounts**	**%**
Albania	-	-	6 476	0.1
Belgium	-	-	120 000	1.3
Bosnia and Herzegovina	8 000	0.5	8 000	0.1
Bulgaria	20 000	1.1	63 702	0.7
Croatia	79 367	4.5	197 492	2.2
Cyprus	17 054	1.0	390 641	4.3
Czech Republic	20 000	1.1	20 896	0.2
Denmark	-	-	100 000	1.1
Estonia	-	-	10 587	0.1
Finland	50 000	2.9	500 000	5.5
France	-	-	722 245	8.0
Germany *	60 000	3.4	1 155 000	12.8
Greece	-	-	4 102	<0.1
Hungary	369 221	21.1	642 634	7.1
Iceland	-	-	26 591	0.3
Ireland **	100 000	5.7	100 000	1.1
Italy ***	330 200	18.9	1 359 200	15.0
Latvia	5 000	0.3	25 800	0.3
Lithuania	-	-	10 531	0.1
Malta	-	-	152 182	1.7
Moldova	-	-	6 000	0.1
Norway	119 000	6.8	241 600	2.7
Poland	75 000	4.3	590 705	6.5
Portugal	204 660	11.7	460 960	5.1
Romania	23 300	1.3	285 491	3.2
Slovak Republic	-	-	17 641	0.2
Slovenia	20 000	1.1	36 277	0.4
Spain	250 000	14.3	898 004	9.9
Sweden	-	-	166 356	1.8
Turkey	-	-	736 425	8.1
TOTAL	**1 750 802**	**100.0**	**9 055 538**	**100.0**

* *for the final benefit of Central and Eastern European countries (2004)*
** *including € 50 million for projects approved in favour of Central and Eastern European countries (2004)*
*** *including € 100 million for the final benefit of Central and Eastern European countries (2004)*

	2004		Total 2000-2004	
SECTORIAL ACTION LINES ****	**Amounts**	**%**	**Amounts**	**%**
STRENGTHENING SOCIAL INTEGRATION	781 198	44.6	4 308 226	47.6
Aid to refugees, migrants and displaced populations	26 044	1.5	107 819	1.2
Social housing	100 000	5.7	1 660 347	18.3
Job creation and preservation in SMEs and vocational training	416 000	23.8	1 530 450	16.9
Urban and rural modernisation	239 154	13.6	1 009 610	11.2
MANAGING THE ENVIRONMENT	711 969	40.7	2 373 084	26.2
Natural and ecological disasters and preventive action	399 421	22.8	1 422 311	15.7
Protection of the environment	282 131	16.1	704 704	7.8
Protection of historic and cultural heritage	30 417	1.8	246 069	2.7
DEVELOPING HUMAN CAPITAL	257 635	14.7	2 374 228	26.2
Education	145 068	8.3	1 188 621	13.1
Health	112 567	6.4	1 185 607	13.1
TOTAL	**1 750 802**	**100.0**	**9 055 538**	**100.0**

**** *For these programmes, the indicative breakdown is provided by the borrower; it is updated as disbursements are made.*
NB: It should be noted that the amounts approved by the CEB represent on average 40% of the effective total investment. The impact of CEB financings thus in fact corresponds to 2.5 times the amounts indicated in the table.



PROJECTS APPROVED
per counterparty, in 2004

In million euros

COUNTRIES	COUNTERPARTIES	PROJECT TYPES	SECTORS	AMOUNTS
Bosnia and Herzegovina	Government	IP	Refugees, migrants and displaced populations	8
Bulgaria	Encouragement Bank	MP	SMEs	20
Croatia	Government	IP	- Refugees, migrants and displaced populations - Education	54
	Government	SP	Rural modernisation	26
Cyprus	Limassol-Amathus Sewerage Board	IP	Protection of the environment	17
Czech Republic	VB Leasing CZ	MP	SMEs	20
Finland	OKO Bank	MP	Multi-sector	50
Germany	KfW Bankengruppe *	MP	SMEs	47.5
	KfW Bankengruppe *	MP	Multi-sector	12.5
Hungary	Government	SP	Natural disasters	169
	OTP Bank	MP	SMEs	100
	Magyar Fejlesztési Bank	MP	SMEs	50
	Magyar Külkereskedelmi Bank	MP	SMEs	50
Ireland	DEPFA Bank plc **	MP	Multi-sector	100
Italy	Government	IP	Natural disasters	175
	Banca OPI	IP	Natural disasters	55
	Banca Intesa *	MP	Multi-sector	70
	Banca Intesa *	MP	SMEs	30
Latvia	Vereinsbank Riga	MP	Multi-sector	5
Norway	Kommunalbanken Oslo	MP	Multi-sector	119
Poland	Europejski Fundusz Leasingowy	MP	SMEs	50
	Government	MP	- SMEs - Urban and rural modernisation	25
Portugal	Banco Espirito Santo	SP	Protection of the environment	109
	Institut Nacional de Habitação	MP	Social housing	40
	Caixa Geral de Depósitos	IP	Protection of the environment	36
	Banco Português de Investimento	MP	Social housing	20
Romania	Volksbank Romania	MP	SMEs	20
	Government	IP	Health	3
Slovenia	Nova Kreditna Banka Maribor	MP	SMEs	20
Spain	Banco Santander Central Hispano	MP	Multi-sector	200
	Banco Santander Central Hispano	MP	- Education - Health	50
TOTAL				**1 751**

* *for the final benefit of Central and Eastern European countries*

** *including 50% for the final benefit of Central and Eastern European countries*



The amount of **projects approved** for the year 2004 thus reached € 1 751 million. This global amount comprises a number of sub-totals, namely € 348 million for 8 individual projects (IPs), € 323 million for 3 sectorial projects (SPs), and € 1 079 million for 22 multi-project programmes (MPs), spread among 17 countries of operations, including 9 countries in Central and Eastern Europe.

In terms of **loans disbursed**, the deliberate moderation in volumes resulted in an overall amount markedly comparable to that of the previous year. The loans disbursed in 2004 thus amounted to € 1 530 million, including € 484 million for the Central and Eastern European countries (representing 32% of the total volume). They were spread among a total of 21 countries of operations and 70 projects. As at 31 December 2004, the loans outstanding stood at € 10.8 billion, spread among 31 countries.

Through its action, the Bank intends to facilitate improvements in living conditions and in social cohesion, in cooperation with the national authorities. The sectorial breakdown of projects approved and loans disbursed during 2004 reflects this determination.



SERBIA AND MONTENEGRO
Reconstruction of housing for refugees

1. Strengthening social integration

Aid to refugees, migrants and displaced populations

Aid to refugees and migrants is one of the CEB's statutory priorities. The projects financed in this sector are mainly concerned with the construction or rehabilitation of reception centres, social housing (both temporary and permanent), programmes of preventive medicine, education and vocational training, and with the necessary basic infrastructures for the immediate needs of populations victims of exceptional situations.

Over the past five years, the CEB has responded to requests from several of its member states for the implementation of projects in favour of refugees and displaced persons. The CEB has thus approved a total of almost € 108 million (including € 26 million in 2004) for the implementation of new operations in this sector.

This year, a new operation in favour of refugee populations was approved in **Bosnia and Herzegovina**, for an amount of € 8 million, and also received a contribution from the STA. This project concerns the rehabilitation of some 1 100 dwellings damaged during the war.

Similarly, in **Croatia**, a new project was approved this year in favour of the Government. This operation, which also received support from the STA, will provide € 18 million to part-finance the construction and reconstruction of school infrastructure facilities throughout the country, for the benefit of refugees or displaced populations. This project is targeted to strengthening social cohesion in the country by creating the necessary conditions for the provision of quality schooling.

Within the framework of the collaboration between the CEB and the United Nations High Commissioner for Refugees (UNHCR), the CEB this year approved two donations in favour of refugee populations and displaced persons. A donation of 300 000 US dollars in favour of **Bosnia and Herzegovina** will provide financing for the allocation of permanent housing to very vulnerable households still living in collective centres and where the heads of the households are women. Another donation, amounting to 700 000 US dollars in **Serbia and Montenegro**, will go towards financing a project for refugees who have opted for integration in Serbia.



INCREASED SUPPORT FOR ROMA COMMUNITIES IN AN EXPANDING EUROPE

In July 2003, a regional conference entitled "Roma in an Expanding Europe" was held in Budapest. This meeting, jointly organised by the World Bank, the Open Society Institute (Soros foundation), the European Commission and the CEB, resulted in:

1. the setting up of a programme for the period 2005-2015, the "Decade of Roma Inclusion", whose purpose is to improve the social and economic condition of the Roma through concentrated support in the education, employment, public health and housing sectors.

The Decade was officially launched on 2 February 2005 in Sofia (Bulgaria), in the presence of the prime ministers of the Decade's eight beneficiary countries.

2. the creation of a Roma Education Fund (REF), targeted to providing financial support, through the granting of donations, for the implementation of training and remedial learning projects for Roma of all ages: young children, adolescents and adults.

In order to enable the REF to be set up, a Donors' Conference was held in Paris on 2 and 3 December 2004, jointly organised by the World Bank, the CEB and the Open Society Institute.

This event marked the finalisation of a process aimed at endowing the Fund with a real financial base for 2005 and thereafter. It brought together 70 representatives of international organisations, donor countries, the eight beneficiary countries of the "Decade of Roma Inclusion", Roma organisations and private foundations.

At the Donors' Conference, the CEB announced that it would host part of the REF's services on its premises and that it would pay over to the Fund a contribution of € 500 000 drawn from the Selective Trust Account and an amount of about € 60 000 drawn from the Trust Fund Finland.

In terms of **loans disbursed** in 2004 for aid to refugees, migrants and displaced populations, the Bank this year paid out a total of € 22 million in favour of **Croatia**.

Social housing

The operations financed by the CEB in this sector involve projects for the construction and rehabilitation of housing in favour of low-income families. Projects can also be aimed at facilitating access to home-ownership or rented housing within the framework of the construction of new housing units, or the renovation or rehabilitation of existing housing, or the conversion of buildings for housing purposes.

In the last five years, the CEB's action in terms of projects approved for the financing of social housing has involved an accumulated amount of € 1 660 million, representing 18.3% of all approvals for the period 2000-2004 (€ 9 056 million).

In 2004, the CEB approved three new operations in this sector (one in **Finland** and two in **Portugal**) for a total amount of € 100 million (representing 5.7% of the total amount of projects approved).



BULGARIA
Housing for Roma in Sofia





"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
Clothes manufacturing in a textile SME

In **Finland**, a loan programme with *OKO Bank* will provide € 40 million for projects targeted to improving the housing conditions of low-income persons throughout the country.

In **Portugal**, the first loan programme (€ 20 million), with *Banco Português de Investimento*, will be concerned with financing the construction and renovation of social housing. The second, for an amount of € 40 million, will be implemented through *Instituto Nacional de Habitação.* It will provide for the part-financing of programmes for the acquisition of social housing units intended for resale to municipalities.

In terms of **loans disbursed** in favour of social housing, in 2004, the Bank disbursed a total of € 294 million, representing 19.2% of all disbursements made during the year.

Job creation and preservation in SMEs and vocational training

The CEB privileges two lines of focus for its action in favour of job creation and preservation: support for investment in small and medium-sized businesses (SMEs) as the main source of new jobs, and vocational training. As regards vocational training, alternating theoretical teaching and in-company training constitutes an appropriate solution both for the needs of businesses, particularly SMEs, and for the expectations of those who are about to enter the workforce for the first time.

The Bank therefore takes action in favour of SMEs in disadvantaged regions by financing projects targeted to the creation and preservation of permanent or seasonal jobs.

Over the last 5 years, the Bank has approved projects in this sector for a total amount of € 1 530 million.

For 2004 alone, the amount of projects approved reached € 416 million (representing 23.8% of all projects approved during the year).

The Bank will therefore be financing several new operations involving productive investment projects aimed at the creation and preservation of jobs in SMEs. These include a new loan programme in **Bulgaria**, with *Encouragement Bank* (€ 20 million), another in **Romania** with *Volksbank Romania* (€ 20 million), and a third in **Slovenia** with *Nova Kreditna Banka Maribor,* amounting to € 20 million for the financing of 100 to 130 sub-projects in the manufacturing, building, trading and service sectors.

The Bank also approved three new loan programmes in **Hungary** for the creation and preservation of jobs in SMEs. The first programme (€ 50 million), with *Magyar Külkereskedelmi Bank,* involves financing for over 150 individual projects in favour of SMEs located all over the country; the second (€ 100 million), with *OTP Bank,* will provide financing for between 500 and 1 000 individual projects throughout the country; the third loan programme (€ 50 million), with *Magyar Fejlesztési Bank* (*MFB*), is for the co-financing of individual investment projects in favour of SMEs within the framework of MFB's "Europe Technology Development Loan Programme". Given the average size of the projects financed by this programme to date, the CEB should thus be financing some 400 individual projects.

In **Poland**, two new loan programmes were approved this year. The first, with the Government, is to devote € 6 million to developing the private sector and to creating jobs in SMEs located in the Silesia and Malopolska regions. This involves businesses with precise and duly justified development objectives such





SWEDEN
Social housing for the handicapped in Visby

as, for example, the transfer to new technologies, improvements in product design, the search for new international partners, or staff training in crucial areas.

The second programme (€ 50 million), with *Europejski Fundusz Leasingowy SA (EFL)*, will provide for the co-financing of a leasing programme for the creation and preservation of jobs in Polish SMEs, mainly by providing the commercial vehicles, IT and office supplies, machines and equipment needed by SMEs in order to pursue and develop their activities.

Lastly, another loan programme (€ 20 million) was also approved this year in **Czech Republic**, with *VB Leasing CZ.* This new operation will provide financing for investments in equipment, supplies and technologies in the local SMEs, in order to help them maintain and develop their activities.

Loans disbursed in 2004 for operations in favour of job creation and preservation in SMEs amounted to € 297 million, representing 19.4% of the total amount of disbursements.

Urban and rural modernisation

This year, the CEB again took action to improve the quality of life in urban and rural areas in disadvantaged regions.

The projects financed by the CEB for the **modernisation of urban areas** concerned towns or run-down neighbourhoods in which there is a clear lack of infrastructures or social and cultural amenities. These projects are concerned with improving or creating service infrastructures such as the supply of drinking water, electricity, gas, refuse collection and sewage disposal. They also serve to improve the social and cultural amenities such as basic healthcare services, primary and secondary schools, vocational training centres and socio-cultural and sports centres, exhibition parks and the development of green spaces.

At the same time, the Bank has been concentrating its actions in favour of **rural modernisation** on regions where the workforce in the agricultural sector represents 10% of the total active population in the region and incomes are below the national average. The operations financed are concerned with infrastructure projects such as the supply of drinking water, electricity and gas, the building of roads, irrigation infrastructures and social and cultural amenities.

Over the period 2000-2004, the Bank contributed to urban and rural modernisation with the approval of projects totalling more than € 1 billion.

For 2004 alone, the total amount of **approvals of new operations** reached € 239 million, representing 13.6% of the total amount of approvals, and disbursements amounted to € 181 million, representing 11.8% of the total amount of loans disbursed.

Thus, a new loan programme was approved this year in **Germany** with *KfW Bankengruppe.* This operation will enable € 5 million to be devoted to financing urban and rural infrastructure projects implemented in municipalities located in **6 Central and Eastern European countries** (Czech Republic, Estonia, Latvia, Lithuania, Poland and Slovak Republic).

Similarly, a new operation (€ 26 million) was approved with the Government in **Croatia.** It is targeted to improving the living conditions of the populations on islands in the Adriatic Sea through investments in the health, education and environmental protection sectors.



LOANS DISBURSED
per country and per sectorial action line, from 2000 to 2004

In thousand euros

COUNTRIES	2004 Amounts	2004 %	Total 2000-2004 Amounts	Total 2000-2004 %
Albania	2 329	0.2	3 002	<0.1
Belgium	80 000	5.2	222 735	2.7
Bulgaria	28 088	1.8	50 184	0.6
Croatia	23 191	1.5	103 645	1.3
Cyprus	37 600	2.5	363 618	4.4
Denmark	50 000	3.3	100 000	1.2
Estonia	-	-	8 541	0.1
Finland	82 500	5.4	385 000	4.7
France	50 000	3.3	917 806	11.1
Germany *	52 500	3.4	766 146	9.3
Greece	-	-	248 217	3.0
Hungary	174 295	11.4	377 795	4.6
Iceland	-	-	26 431	0.3
Ireland **	50 000	3.3	50 000	0.6
Italy ***	263 761	17.2	1 102 186	13.3
Latvia	4 513	0.3	16 923	0.2
Lithuania	2 972	0.2	13 185	0.2
Malta	-	-	118 000	1.4
Norway	-	-	128 788	1.6
Poland	23 311	1.5	440 040	5.3
Portugal	289 826	18.9	523 680	6.3
Romania	88 660	5.8	195 744	2.4
San Marino	-	-	1 162	<0.1
Slovak Republic	6 495	0.4	32 803	0.4
Slovenia	-	-	40 697	0.5
Spain	153 000	10.0	1 360 091	16.5
Sweden	-	-	110 251	1.3
"the former Yugoslav Republic of Macedonia"	3 000	0.2	15 635	0.2
Turkey	63 897	4.2	537 448	6.5
TOTAL	**1 529 938**	**100.0**	**8 259 753**	**100.0**

* *including € 42.5 million for the final benefit of Central and Eastern European countries (2004)*
** *including € 25 million for projects in Central and Eastern European countries (2004)*
*** *including € 60 million for the final benefit of Central and Eastern European countries (2004)*

SECTORIAL ACTION LINES ****	2004 Amounts	2004 %	Total 2000-2004 Amounts	Total 2000-2004 %
STRENGTHENING SOCIAL INTEGRATION	793 485	51.8	3 764 066	45.5
Aid to refugees, migrants and displaced populations	21 625	1.4	87 147	1.1
Social housing	294 055	19.2	1 601 578	19.4
Job creation and preservation in SMEs and vocational training	296 988	19.4	1 186 947	14.3
Urban and rural modernisation	180 817	11.8	888 394	10.7
MANAGING THE ENVIRONMENT	406 283	26.6	2 491 768	30.2
Natural or ecological disasters and preventive action	158 436	10.4	1 483 450	18.0
Protection of the environment	226 864	14.8	875 410	10.6
Protection of historic and cultural heritage	20 983	1.4	132 908	1.6
DEVELOPING HUMAN CAPITAL	330 170	21.6	2 003 919	24.3
Education	196 216	12.8	997 362	12.1
Health	133 954	8.8	1 006 557	12.2
TOTAL	**1 529 938**	**100.0**	**8 259 753**	**100.0**

**** *For these programmes, the indicative breakdown per sector is provided by the borrower; it is updated as disbursements are made*



LOANS DISBURSED
per counterparty, in 2004

In million euros

COUNTRIES	COUNTERPARTIES	PROJECT TYPES	SECTORS	AMOUNTS
Albania	Government	IP	Urban and rural modernisation	2
	Government	IP	Health	<1
Belgium	Dexia Bank Belgium	MP	Multi-sector	50
	KBC Bank	MP	Education, Health	25
	KBC Bank	MP	SMEs	5
Bulgaria	Raiffeisen Bank	MP	SMEs	20
	Encouragement Bank	MP	SMEs	7
	Government	IP	Natural disasters	1
	Government	IP	Social housing	<1
Croatia	Government	IP	Refugees, migrants and displaced populations	22
	Government	IP	Health	1
	Government	IP	Historic heritage	<1
Cyprus	Electricity Authority of Cyprus	IP	Rural modernisation	31
	Limassol-Amathus Sewerage Board	IP	Protection of the environment	7
Denmark	KommuneKredit, Copenhagen	MP	Social housing	50
Finland	OKO Bank	MP	Multi-sector	50
	Municipality Finance, Helsinki	MP	Multi-sector	25
	City of Vantaa	MP	Education, Health	7.5
France	Crédit du Nord	MP	SMEs	25
	Crédit d'équipement des PME	MP	SMEs	25
Germany	KfW Bankengruppe *	MP	SMEs	25
	KfW Bankengruppe *	MP	Multi-sector	17.5
	Deutsche Kreditbank	MP	Education, Health	10
Hungary	Government	PM	Social housing	72
	Government	IP	Natural disasters	8
	Government	SP	Natural disasters	5
	OTP Bank	MP	SMEs	50
	Magyar Fejlesztési Bank	MP	SMEs	40
Ireland	DEPFA Bank plc **	MP	Multi-sector	50
Italy	Government	IP	Natural disasters	105
	Banca OPI	MP	Education, Health	75
	Banca OPI *	MP	Multi-sector	50
	Banca OPI	IP	Natural disasters	24
	Banca Intesa *	MP	SMEs	10
Latvia	Mortgage and Land Bank of Latvia	MP	Social housing	3
	Mortgage and Land Bank of Latvia	MP	SMEs	<1
	Hansabanka	MP	SMEs	1
Lithuania	Government	MP	Education	3
	Siauliu Bankas	MP	SMEs	<1
Poland	Bank Inicjatyw Spoleczno-Ekonomicznych	MP	Multi-sector	15
	Bank Gospodarstwa Krajowego	MP	Social housing	7
	University of Warsaw	IP	Education	<1
Portugal	Banco Espirito Santo	SP	Protection of the environment	97
	Banco Espirito Santo	MP	SMEs	25
	Caixa Geral de Depósitos	MP	Multi-sector	50
	Caixa Geral de Depósitos	IP	Protection of the environment	30
	Instituto Nacional de Habitação	MP	Social housing	53
	Banco Comercial Português	MP	Multi-sector	25
	Banco Português de Investimento	MP	Social housing	10
Slovak Republic	Slovak Water Management Enterprise	IP	Natural disasters	5.5
	Government	IP	Historic heritage	1
	Slovak Guarantee and Development Bank	IP	Social housing	<1
Spain	Banco Santander Central Hispano	MP	Multi-sector	100
	Banco Santander Central Hispano	MP	Education, Health	25
	Xunta de Galicia	IP	Rural modernisation	28
Romania	Government	IP	Education	53
	Government	IP	Social housing	25
	Government	IP	Natural disasters	10
	Government	IP	Health	1
	Government	IP	Multi-sector	<1
"the former Yugoslav Republic of Macedonia"	Government	IP	Social housing	3
Turkey	Government	MP	SMEs	54
	Government	IP	Rural modernisation	10
TOTAL				**1 530**

* *for the final benefit of Central and Eastern European countries*

** *including 50% for the final benefit of Central and Eastern European countries*



The Bank also approved a programme in **Spain** with *Banco Santander Central Hispano*. Through this new operation, € 120 million will be targeted to projects for rural modernisation and for the improvement of living conditions in disadvantaged urban areas. In terms of urban infrastructures, this will involve the construction of social and cultural amenities such as basic healthcare services, primary and secondary schools, socio-cultural and sports centres. As regards rural modernisation, the CEB loan will be used, in eligible areas, to finance infrastructures such as the supply of drinking water, electricity and gas, telecommunication networks, as well as the building of roads, sewerage systems and irrigation infrastructures.

A new loan programme approved in **Latvia**, with *Vereinsbank Riga*, will devote over € 800 000 to part-financing small-scale projects aimed at improving and modernising various urban and rural infrastructures, in particular in the poorest regions in the country. The projects concerned will also benefit from European Union Structural and Cohesion Funds.

In **Norway**, a loan programme with *Kommunalbanken* was approved this year providing € 23.8 million to part-finance investments in urban and rural infrastructures. This operation follows on from a programme already implemented with this same bank, the results of which at social level have been very impressive.

Lastly, in **Poland**, a new programme approved this year in favour of the Government will make it possible to allocate € 19 million to the co-financing of projects for improving basic infrastructures and communication networks in order to respond the needs of businesses and to promote their development. In particular, it should involve the following measures: servicing of industrial and commercial areas by roads connected to the main road network; construction of plants for the treatment of industrial waste and waste water; conversion of buildings so as to make them available to businesses (business incubators, commercial centres and business centres, etc.); renovation of run-down urban neighbourhoods, by improving the possibilities for developing tourist and leisure activities; creation of activity parks; vocational training.

Loans disbursed in favour of urban and rural modernisation projects amounted to € 181 million in 2004, representing 11.8% of total disbursements.

2. Managing the environment

Through its projects in favour of regions hit by natural or ecological disasters (one of the Bank's two statutory priorities) and actions aimed at preserving historic heritage, the CEB has succeeded in developing top quality expertise in matters of environmental management.

For the period 2000-2004, this sectorial action line represented an accumulated amount of almost € 2.4 billion in terms of projects approved. For 2004 alone, **project approvals** amounted to € 712 million. At the same time, since 2000, **loans disbursed** in favour of environmental management reached an accumulated amount of € 2.5 billion, representing 30.2% of all disbursements over the period.

For 2004 alone, the total amount was € 406 million, including 15% for the final benefit of Central and Eastern European countries.

Natural or ecological disasters: reconstruction and preventive action

The purpose of the operations undertaken is, on the one hand, to provide national and local authorities with assistance in the reconstruction of the disaster-stricken regions requiring immediate financial assistance and, on the other hand, to develop means for the prevention of natural or ecological disasters.

In the first case, emergency financings are systematically proposed for member states confronted with situations of this kind and there exist accelerated procedures for the appraisal and approval of such projects. The projects are concerned with the reconstruction or rehabilitation of



HUNGARY: THE VÁSÁRHELYI PLAN AND CEB ACTION FOR THE PREVENTION OF NATURAL DISASTERS

Hungary is exposed to a high risk of flooding, particularly in the Danube and Tisza basins, and has consequently equipped itself with vast flood prevention infrastructures.

Following the 1998 floods, the Hungarian Government adopted a series of measures aimed at improving its flood prevention infrastructures and invested € 450 million for flood protection, reconstruction and compensation. As early as 1999, the CEB supported this effort by participating in the financing of two projects for reconstruction and for the development of protection systems to fight against floods in the Tisza basin, for a total amount of € 170 million.

In October 2003, the Government approved the Vásárhelyi Plan, drawn up on the basis of previous programmes. This plan introduced new elements in matters of protection against floods. Up to that time, protection of the Tisza valley against floods was based on an ambitious project designed and implemented by Pál Vásárhelyi in the XIXth century.

The new, entirely updated concept is aimed at reducing the level of the floods by improving the water carrying capacity of the flood bed and by introducing a flood control system for storing the flood waters in the flood plains. The Plan also includes investment measures for regional development and job creation in the region.

This Plan, which will cost some € 680 million in all, is to be implemented over a ten-year period. It will make it possible not only to prevent new floods but, as a major investment in terms of infrastructure, it will also serve as a catalyst for regional development and job creation.

It is within this framework that, in 2004, the CEB approved a new project worth € 169 million, involving reconstruction and natural disaster prevention in the valley of the River Tisza.

destroyed or damaged public structures and, more particularly, basic infrastructures such as water supply, treatment of waste water and solid waste, electricity and gas supplies.

In the course of the past 5 years, the Bank has taken action in **7 countries** (Germany, Hungary, Italy, Romania, Slovenia, Spain and Turkey). Over the period 2000-2004, the total amount of projects approved reached € 1 422 million.

For 2004 alone, **approvals of new operations** in this sector amounted to a total of € 399 million, spread between two countries (Hungary and Italy), representing 22.8% of all approvals.

Thus, in terms of reconstruction and natural disaster prevention, the Bank approved a new project (€ 169 million) in **Hungary**. This project will provide for the co-financing of major flood prevention works in



ROMANIA
Flood prevention works along the River Olt



the valley of the River Tisza, as defined in phase I of the new Vásárhelyi Plan, approved by the Hungarian Government in October 2003 (see box on page 29).

In **Italy**, the Bank this year also approved a project (€ 175 million), with the Government, for the reconstruction and renovation of infrastructures and buildings in 6 regions in the north of the country hit by floods between 1994 and August 2003.

Lastly, again in **Italy**, a new project (€ 55 million) with *Banca OPI* will provide financing for continuing the reconstruction work made necessary following the floods that hit Tuscany in November 2000 and for the work of land consolidation and protection in the Arno River basin.

During the year, the Bank financed 7 operations in **5 countries** (Bulgaria, Hungary, Italy, Romania, Slovak Republic) hit by major natural or ecological disasters. In 2004, **loans disbursed** in favour of projects for reconstruction work and preventive action thus amounted to € 158 million, representing 10.4% of all the total amount of disbursements.

Protection of the environment

Initiatives undertaken in this sector today present a wide geographical diversity. In parallel with its specific action in this sector, it should be remembered that the Bank systematically takes into account the environmental aspects of all the projects it appraises.

During the past 5 years (2000-2004), the Bank has approved new projects in this sector for an accumulated amount of almost € 705 million.

In 2004, several new operations were approved for a total amount of € 282 million.

Among these, in **Cyprus**, an additional project was approved in favour of the Limassol-Amathus Sewerage Board for an amount € 17 million. This project will make it possible to pursue implementation of the Master Plan for sewerage and drainage in the Limassol-Amathus area. Extension of the network should provide about 200 000 persons with access to sewage disposal services in the Limassol sector. The beneficiaries of this Plan will be firstly the permanent residents (including refugees, whose numbers are estimated at 15 000) and then tourists, whose presence causes the volume of waste water to increase by up to 50% during the peak tourist season.

The Bank has also approved a new programme in **Spain** with *Banco Santander Central Hispano:* € 80 million are to be used to part-finance the construction of infrastructures for the protection of the environment such as solid waste and waste water treatment plants, the cleaning-up of waterways, decontamination and protection of soils and aquifers, protection against noise, as well as the production of non-polluting renewable energy.



TURKEY
Irrigation of market gardens in Anatolia

Lastly, two new projects concerned with protection of the environment were approved this year in **Portugal**. The first project, implemented with *Banco Espirito Santo* (€ 109 million), is aimed at part-financing the cost of equipment in the field of wind energy in all regions of Portugal.

The second project, with *Caixa Geral de Depósitos* (€ 36 million) will involve part-financing the construction of a windmill park in Serra dos Candeeiros. Thanks to the production of electricity





PORTUGAL
Water treatment facilities in Barcelos

from renewable sources, these projects will make it possible to respond, in part, to the increasing demand for energy without worsening global pollution, thereby helping to reduce toxic emissions into the atmosphere.

In 2004, **loans disbursed** in favour of environmental protection amounted to € 227 million, representing 14.8% of all disbursements.

Protection of historic and cultural heritage

During the period 2000-2004, the Bank approved a total amount of € 246 million. In 2004, **project approvals** in favour of the protection and rehabilitation of elements of historic and cultural heritage amounted to over € 30 million.

Among the operations approved this year is a new loan programme to be implemented with *Banca Intesa.* This programme will devote € 10 million to financing projects for the preservation of historic and cultural heritage implemented by municipalities in **Croatia, Czech Republic, Hungary,** and **Slovak Republic.**

In terms of **loans disbursed** in 2004, a total of € 21 million was paid out this year in favour of projects in this sector, representing 1.4% of the total amount of loans disbursed during the year.

3. Developing human capital

The CEB contributes to the development of human capital through its financings in the education and health sectors. The Bank undertakes actions in these two sectors not only for the construction or rehabilitation of infrastructures but also for the provision of materials and equipment.

It should be remembered that these two sectors play a crucial role in the quest for balanced development and enhanced social cohesion in Europe. Indeed, modern education and health services are essential for the promotion of economic growth, regional and national development in Europe and the reduction of inequalities.

Over the period 2000-2004, this sectorial action line represented an accumulated amount of almost € 2.4 billion in terms of projects approved. For the year 2004 alone, the amount of **projects approved** was almost € 258 million (representing 14.7% of all projects approved in the year), including € 82 million in favour of countries in Central and Eastern Europe.

At the same time, since 2000, **loans disbursed** for the development of human capital have amounted to an accumulated total of € 2 billion, representing 24.3% of all disbursements. For 2004 alone, the amount was € 330 million, including € 88 million for the final benefit of Central and Eastern European countries.



ITALY
Safeguarding Venice: rehabilitation of canal banks in Burano



Education

The CEB takes action at all levels of the education system, targeting primary schools, secondary schools and universities.

In schools, the Bank thus finances the construction or modernisation of school infrastructures as well as the supply of modern pedagogical equipment. During the past years, the CEB has approved new operations amounting to an accumulated total of almost € 1.2 billion (2000-2004).

In 2004, the total amount of **approvals** in this sector reached € 145 million, representing 8.3% of the amount of all projects approved during the year.

The Bank has thus approved a new project (€ 36 million) in **Croatia**. The aim of this project is to part-finance the construction and reconstruction of school infrastructures throughout Croatia. The work envisaged includes the purchase of equipment to fit out the repaired or new installations and, in certain cases, the construction of gymnasiums annexed to the school buildings.

Another loan programme in **Spain** is to be implemented through *Banco Santander Central Hispano.* An amount of € 25 million is to go to modernising education infrastructures in economically disadvantaged towns and regions in the country.



POLAND
Rehabilitation and extension of the University of Warsaw

Similarly, a new loan programme approved this year in **Finland**, with *OKO Bank*, will provide € 5 million for the part-financing of projects for the construction of university halls of residence, implemented by the local authorities or by specific organisations such as student associations.

Lastly, in **Norway**, a new loan programme approved this year with *Kommunalbanken* is to devote almost € 48 million to part-finance investments in education infrastructures. This new operation follows on from a programme already implemented with the same bank and the results of which at social level were considered satisfactory.

In 2004, the **amounts disbursed** in favour of education projects reached € 196 million, representing 12.8% of all disbursements.

Health

Facilitating access to reliable health services for all contributes to building greater social cohesion in Europe. For this reason, in the health sector, the CEB contributes to financing the construction, renovation and modernisation of medical infrastructures such as neighbourhood healthcare centres, hospitals, university hospital centres and specialised centres catering for the elderly and handicapped.

During the past five years, the CEB has approved new operations for an accumulated total of almost € 1.2 billion.

For 2004 alone, the total amount of **projects approved** in this sector reached almost € 113 million, representing 6.4% of the total amount of approvals.

In **Spain**, a new loan programme, implemented through *Banco Santander Central Hispano*, will be devoting € 25 million to improving the quality of the health services in economically disadvantaged towns



FINANCING NEW SOCIAL SERVICES IN FAVOUR OF STREET CHILDREN

In 2004, the CEB approved a project (€ 3.3 million) in Romania for the part-financing of a programme in favour of abandoned children.

This project will involve the creation of some twenty centres (shelters, day-care centres, small group homes, emergency reception centres) with a capacity for providing day or night accommodation for 300 children. In the first three years of its functioning, about 3 000 children should benefit from this project. In parallel to this, some 150 social workers are to receive specialised training, in particular in the prevention and treatment of drug abuse and dependence.

With this new operation approved this year for setting up new types of services in favour of street children in Romania, the CEB is not only enabling the Government to achieve one of the last objectives in its reform of the child protection services, but it will also highlight the institution's position as one of the most active organisations in this sector in the Central and Eastern European countries.

This new project is in line with two previous CEB loan programmes aimed at improving the living conditions of abandoned children in Romania and in Lithuania:

- **a first project, approved in 1997 in favour of Romania (€ 10 million), enabled the CEB to finance the conversion of orphanages into neighbourhood services structures, within the framework of the programme for the reform of the child protection system launched by the Romanian Government**

- **a second operation, approved in 1999 in favour of Lithuania (€ 2 million), was concerned with the renovation of centres intended in particular for the reception of abandoned or ill-treated children in Lithuania. This project provided an opportunity to promote social cohesion by making social assistance and community services (designed to avoid children being placed in institutions) available to this particularly vulnerable category of population.**

and regions in the country. This project should provide for improved access to social services, thereby promoting social cohesion in the country.



CYPRUS
Renovation of schools

Similarly, in **Finland**, under a new loan programme approved with *OKO Bank*, € 5 million will be made available to part-finance projects for the construction of retirement homes and housing for the handicapped, implemented by local authorities and organisations caring for the elderly. This programme follows on from a previous operation in the health sector, also implemented with *OKO Bank*.

Lastly, the Bank is to finance a new project in **Romania** (€ 3 million), implemented with the Government. Thanks to this operation, new social services will be set up for abandoned children, including drug-addicted children. The project will also include the prevention and treatment of drug abuse and dependence (see box above).





CROATIA
Sisak General Hospital

The Selective Trust Account (STA) was also called upon this year for the benefit of **Moldova**, within the framework of cooperation between the CEB and UNICEF (project coordinator) in favour of abandoned children or children in difficulty. A donation of 200 000 US dollars will be used to finance the conversion of an orphanage into a reception and temporary support centre for some 300 children abandoned or at risk of abandonment as well as for young mothers in situations of distress.

This year, the Bank paid out a total of € 134 million (representing 8.8% of all disbursed made during the year) in **loans disbursed** in favour of projects in the health sector.

In 2004, the breakdown of approvals of new projects and of disbursements evidences the CEB's fidelity to these **three major action lines**, namely social integration, management of the environment and development of human capital.

This year, these financings brought the loans outstanding to a total of € 10.8 billion and the stock of projects awaiting financing to € 2.6 billion. This last figure naturally constitutes a solid reserve of projects for the CEB for the coming years.

FINANCIAL ACTIVITIES

I - ECONOMIC ENVIRONMENT IN 2004

The year 2004 began on an optimistic note, in the hope of a consolidation of the resumption in growth following the encouraging signs observed in the second half of 2003. Given this, the year ended in a subdued manner, with the very sharp fall of the US dollar, especially against the euro, and very volatile oil prices at a very high level.

In general, in 2004 the global economy regained relatively high growth rates. In 2005, growth should stabilise at a more moderate level. The rise in short-term interest rates, except in the Eurozone, the accelerating increase in raw material prices and the termination of certain budget incentives are all factors explaining this expected slowdown. One should note in particular the volatility of oil prices, the impact of which on world growth is very hard to determine.

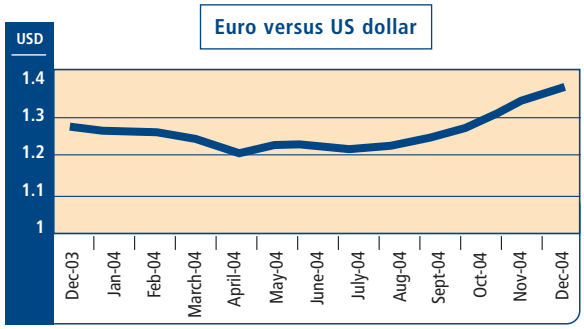
It should be emphasised that, despite the good growth figures in 2004, job creations in the major industrialised countries remained weak, which is causing some uncertainty regarding the upturn in consumption and consolidation of the growth figures.

Finally, geopolitical risks remain, especially in the Middle East, and are liable to heighten a rather anxious sentiment that is currently prevalent in the economic world.

The United States: presidential election and sustained growth

A feature of the year was the presidential election, and the economy was one of the major campaign issues.

Euro versus US dollar

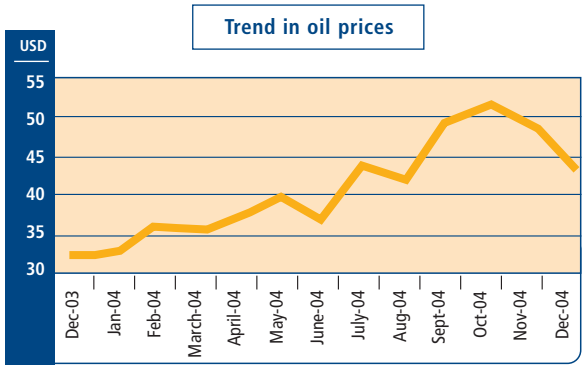


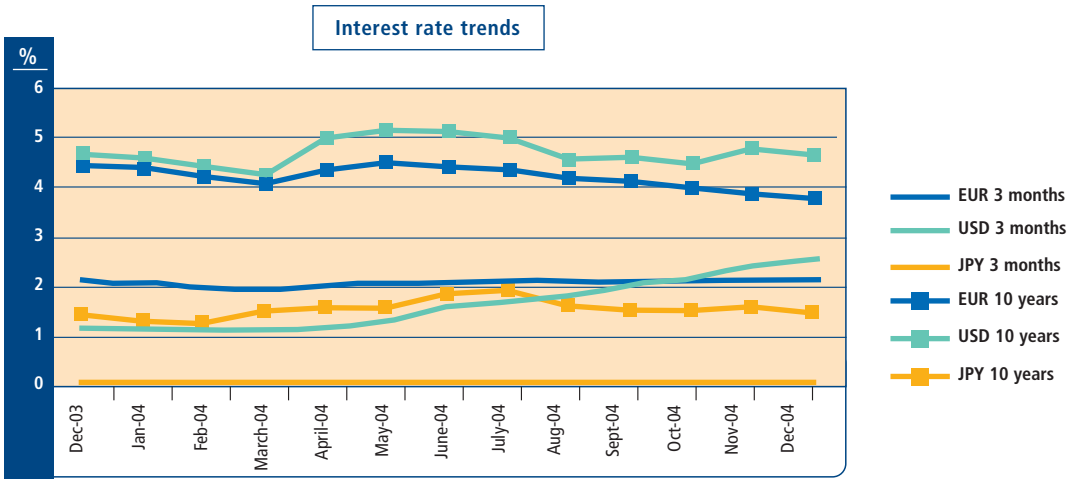
The US economy grew robustly in the context of an historically very low Fed funds rate and due to stronger exports, boosted by the US dollar's decline.

The return to an improved job situation supported consumption. Capital investment remained at a high level thanks to the growth in earnings.

But there are still uncertainties regarding the strength of this recovery. The improvement in the job market remains fragile, the recovery seeming to be marked more by productivity gains than by job creations. Moreover, this growth has been achieved at the cost of a deterioration in the budget and current account deficits, which worry the markets and have no doubt contributed to the decline of the US dollar.

Trend in oil prices





In this context, the trend for long-term US dollar interest rates is turning around: after falling sharply up to the middle of the year, they have started to rise again in an environment marked by concern at the widening US budget and trade deficits.

Europe: European Union enlargement and stronger economic growth than in 2003

Europe continued its process of enlargement, with the accession of ten new countries to European Union membership. The signs of a pickup in growth glimpsed in 2003, except in the Eurozone, were confirmed this year; inflation has stayed moderate, but the unemployment rate remains high.

Moreover, in some large countries such as Germany and France, consumption was disappointing.

The European Central Bank has kept its key rate at 2.00% since it was last lowered by 0.50% in June 2003. Inflation is expected to be approximately 2% in 2004, in line with the European Central Bank's targets.

The continuing appreciation of the euro against the US dollar may hold back recovery in Europe by handicapping exports. This trend is largely the result of the US administration's strong determination not to support its currency, and the United States' current account deficit.

Ten-year rates in the euro market stayed at a very low level, fluctuating in a range between 4.40% and 3.70% with the overall tendency to decline.

Asia: overheating in China and recovery in Japan

Very strong growth in China and India, together with the decline of the US dollar, caused the prices of raw materials and oil to rise.

Faced with this situation, which it considers worrying, the Central Bank of China agreed to raise its key rates to try to bring its economy down to a soft landing. The performance of the Chinese economy in 2005 will without any doubt be an important factor determining economic trends for the coming year, especially for oil prices.

In Japan, following the encouraging signs observed in 2003, the growth rate in 2004 is confirmed at around 4%. In particular, bankruptcies in prior years have reduced the number of firms in distress, as well as wage costs, but firms remain cautious despite their rising profits, and are not reinvesting sufficiently.

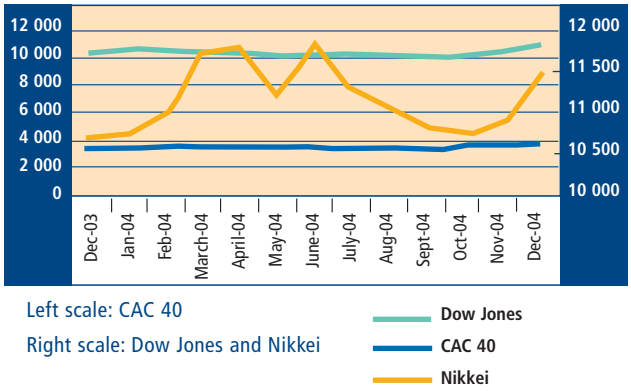
Also, despite this good performance, the job situation is not improving, with job creations remaining at a low level.

Moreover, the Japanese economy is still heavily dependent on external demand, which may be a factor of fragility in its economic recovery.

Relatively stable stock markets

The major stock markets are practically unchanged, following a generally bullish year for all the stockmarket indices in 2003.

Stockmarket performance



Left scale: CAC 40
Right scale: Dow Jones and Nikkei

Dow Jones
CAC 40
Nikkei

II - BOND PORTFOLIOS

Two securities portfolios appear on the asset side of the Bank's balance sheet: the investment portfolio and the held-for-sale portfolio.

The **investment portfolio** consists of euro-denominated plain vanilla fixed-rate bonds with a maximum maturity of 30 years. To be eligible for the investment portfolio, securities must have a rating of at least AA or Aa2. Securitised products and other special-purpose vehicles, however, must have an AAA/Aaa rating and not exceed a total limit of € 500 million. The size of the investment portfolio is limited to the amount of own funds available (paid-in capital, reserves, Fund for General Banking Risks) plus the provision for the staff pension fund.

The strategic objective is for these resources to be remunerated by a satisfactory long-term return. This portfolio is accounted for at historical cost. By nature, the securities contained in it can be neither exchanged nor sold, except under exceptional circumstances.

As at 31 December 2004, the total value of the investment portfolio stood at € 1.6 billion.

In practice, the CEB implements an annual purchasing programme under which the cash generated by bonds maturing and the current year's profits are re-invested.

The **held-for-sale portfolio** consists of securities with a maximum maturities of seven years. In order to limit exposure to interest rate risk, securities of maturities greater than one year are floating-rate, through asset swaps where applicable. Short-term instruments, of maturities less than one year, also include Euro Commercial Paper (ECP), as an alternative to bank deposits.

Longer-term securities, of maturities greater than one year, must have an AA or Aa2 rating, and shall not exceed a € 1 billion ceiling. For instruments maturing in less than one year, the prerequisite minimum rating is A-1 or P-1.

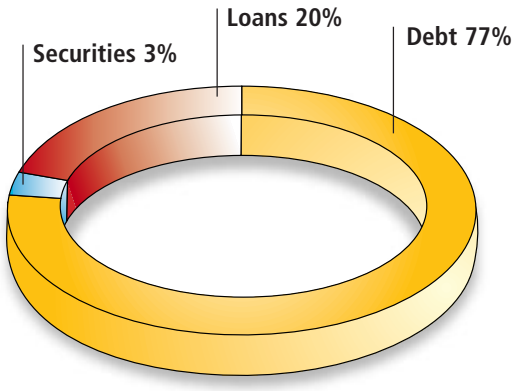
As at 31 December 2004, the total value of the held-for-sale portfolio maturing in more than one year stood at € 1 billion. The securities in this portfolio are accounted for at historical cost. A provision is set aside for price depreciation.

Most of these securities are denominated in euros and US dollars, the currencies that constitute the bulk of the Bank's liquidity pool.

III - DERIVATIVES

The market risks resulting from financing and investment transactions are systematically hedged by using derivatives, in accordance with the policy adopted by the directing bodies. As an end user, the Bank employs derivatives solely for hedging purposes.

As at 31 December 2004, the breakdown of derivatives by type of hedge was as follows:



To guard against the risks inherent in the use of these financial instruments, the Bank follows a strict derivatives management policy, the principles of which are outlined in the section entitled "Integrated Risk Management" (see page 42).

To limit its credit risk, the Bank has signed collaterals contracts with nearly all its counterparties. Thus, as at 31 December 2004, almost all of the CEB's swaps contracts are collateralised. The residual credit risk, calculated as the sum of the positive market values not covered by collaterals received, remains very low.

IV - FUNDING IN 2004

1. Borrowings

Within the framework of the annual borrowing allowance set by the Administrative Council, the CEB makes issues in the international capital markets. In 2004, the Bank borrowed a total amount of € 2 billion, broken down into seven funding operations, with maturities of 1 year or more, including five reopenings of existing issues. This amount, less than the funding volume in 2003 (€ 2.4 billion), meets two main objectives:

- cover lending needs, slightly less than in 2003, and
- meet the Bank's repayment of maturing debt (€ 465 million), which in 2004 was far less than in 2003.

The volume of resources raised in 2004 also enabled the Bank to maintain a liquidity level in accordance with the rules set by the Administrative Council. It is CEB policy to include its stock of projects in projecting cash requirements. In accordance with prudential liquidity policy, the CEB's liquidity ratio requires that the pool of liquid assets be sufficient to cover at least 50% of projected cash requirements three years out, including funding of approved projects.

To ensure constant access to the resources needed to fund its activities, the Bank's strategy is to combine benchmark borrowings in major currencies targeting a broad range of institutional investors and opportunistic borrowings in various currencies or with a more specific structure meeting special investor demand.

In 2004, 93% of the funds raised by the Bank were denominated in US dollars, versus 82% in 2003. The remaining 7% were raised in Australian dollars, with the CEB on this occasion launching its first issue in the Australian domestic market, via a purely domestic "kangaroo" programme. The preponderant role of the US dollar, swapped for floating euros, can be explained by the attractive funding conditions in this market. In that respect, it should be underlined that at the start of the year the CEB launched an issue denominated in US dollars, for an initial amount of US dollars 1 billion, the biggest single issue ever launched by the Bank.

Moreover, it should be noted that no structured operation was launched in the Japanese yen market this year, which explains the relatively small number of issues in 2004. This market has slowed down very sharply, and the CEB's activity therefore focused on large conventional issues.

2004 BORROWINGS

DATE OF PAYMENT	DATE OF MATURITY	CURRENCY	TERM	NOMINAL AMOUNT (in millions)	LEAD MANAGER
12/01/2004	30/06/2014	USD	10 years 6 months	1 000	JP Morgan Chase Bank / Dresdner Kleinwort Wasserstein
22/04/2004	20/01/2010	USD	5 years 9 months *	250	UBS
30/07/2004	20/01/2010	USD	5 years 6 months *	150	Bank of America Securities
18/08/2004	22/04/2013	USD	8 years 8 months *	100	Royal Bank of Canada
15/09/2004	15/08/2008	AUD	3 years 11 months	250	Royal Bank of Canada
15/10/2004	22/04/2013	USD	8 years 6 months *	400	Morgan Stanley
26/10/2004	20/12/2007	USD	3 years 2 months *	400	BNP Paribas

** re-opening of existing issues*

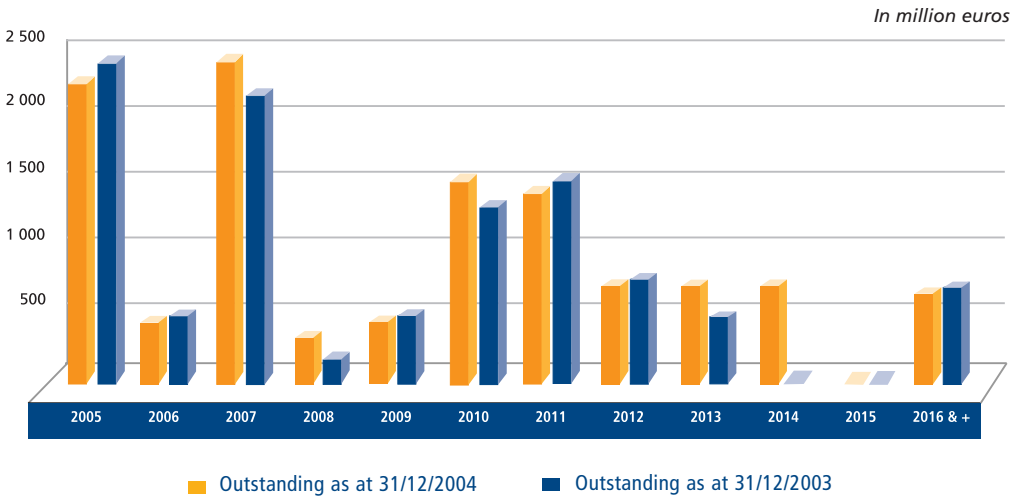
All these borrowing operations were combined with hedging swaps which eliminate both the interest rate risk and the currency risk.

The average maturity of the issues launched in 2004 was 7 years and 7 months, longer than in 2003 (6 years and 5 months). The table above gives details of the funds raised in their original currencies.

Nearly 80% of the issues launched under the programme were of a maturity of five years or more, to enable refinancing of the Bank's loans and to avoid cash gaps over the coming financial years.

The multi-currency MTN programme was updated in October 2003 to adapt the legal framework of the Bank's issues to new capital market features. The Bank makes priority use of this programme whenever possible.

Breakdown of the debt by maturity in 2004 and 2003



2. Trend in debt position

As at 31 December 2004, the total outstanding debt evidenced by securities, excluding interest payable, stood at € 11.3 billion, up from the previous year (€ 10.5 billion).

The Bank bought back a total € 16 million worth of its own debt and made an early repayment of € 11 million. The breakdown of debt by maturity, taking into account these operations and new issues launched, is shown in the diagram on page 39.

V - PROFIT AND RATIOS

1. Trend in profits

Net profit for the financial year was € 115.2 million, versus € 86.9 million in 2003. The significant profit increase in 2004 (32.6%) can notably be explained by:

• a strong 9.6% improvement in net banking income (operating profit before provisions), due to the increase in interest earning asset size, and following a financial year 2003 characterised by a cyclical contraction in profitability (time lag in re-indexing the variable rates for assets and liabilities, in a context of rapidly falling interest rates)

• an extraordinary reversal of the remaining provisions for arrears by Bosnia and Herzegovina, and Serbia and Montenegro, namely € 26.7 million, after these two countries became members of the CEB

• finally, € 7.6 million were added to the provision for pension obligations (tax adjustment and health insurance).

General operating expenses (including depreciation for the financial year) increased by 4.5%, due mainly to increased payroll expenditures.

2. Trend in balance sheet

As at December 2004, total assets stood at € 16.4 billion, up sharply by 10.8% from end December 2003.

• On the **assets** side, loans outstanding amounted to € 10.8 billion, up sharply (by 8.7%) from 31 December 2003. This increase is the result of major new loan disbursements, particularly for the Central and Eastern European countries (up 28% from 2003), and a cyclical reduction in loan repayments during the 2004 financial year. Besides, liquid assets (bank deposits and held-for-sale portfolio) increased by 23.6% in order to meet projected loan disbursements and maintain the liquidity reserves.

TREND IN PROFITS

In million euros

	2004	2003	Change Amount	Change %
NET BANKING INCOME	**115.0**	**104.9**	**+ 10.1**	**9.6**
General operating expenses	(24.5)	(23.5)	+ 1.1	4.5
Net reversal of provisions	24.7	4.6	+ 20.1	81.4
Gain on fixed assets	-	0.9	(0.9)	100.0
NET PROFIT	**115.2**	**86.9**	**28.2**	**32.6**
Return on equity (ROE)*	7.8%	6.3%		

** Before allocating profits*

• On the **liabilities** side, debt increased by 8.2%, financing the loan portfolio and building up liquidity reserves. The "Other liabilities" item includes in particular the foreign currencies adjustment account. This account balances the difference between the nominal value of balance sheet assets and liabilities and their revaluation by means of financial instruments for hedging against exchange rate fluctuations. The own funds available, including the 2004 profit before allocation, grew by 9.1%, due to the combined effects of allocation of profit for 2003, the accession of Serbia and Montenegro (April 2004) and Ireland (November 2004), and finally a substantially increased net profit in 2004.

3. Financial ratios

The limits of the control ratios set by the Administrative Council were complied with throughout financial year 2004:

• **Gearing ratio**: ratio setting total loans and guarantees outstanding against total own funds in the broadest sense (subscribed capital, reserves, FGBR and profit). As at 31 December 2004, the ratio stood at 2.40 compared with a maximum limit of 2.5.

• **Indebtedness ratio**: ratio setting total debt outstanding against total own funds in the broadest sense. As at 31 December 2004, the ratio stood at 3.09 compared with a maximum limit of 4.

• **Portfolio ratio**: ratio setting the total value of the securities portfolio plus cash transactions not evidenced by securities (bank deposits, repos) against the amount of own funds in the broadest sense. As at 31 December 2004, the ratio stood at 1.06 compared with a maximum limit of 1.5.

• **Liquidity ratio**: ratio setting the total value of cash transactions and held-for-sale and trading securities with a residual maturity of less than 18 months against the amount of net cash requirements over three years, including the stock of projects to be financed. As at 31 December 2004, the ratio stood at 94% compared with a minimum requirement of 50%.

CONDENSED BALANCE SHEET

In million euros

	2004	2003	Change Amount	Change %
ASSETS				
Loans	10 836	9 971	865	8.7
Employment of cash	3 225	2 609	616	23.6
Investment portfolio	1 663	1 568	95	6.0
Other assets	666	638	28	4.5
TOTAL ASSETS	**16 390**	**14 786**	**1 604**	**10.8**
LIABILITIES				
Borrowing and debts evidenced by bonds	11 813	10 920	893	8.2
Cash resources	113	101	12	11.7
Own funds and FGBR	1 607	1 474	133	9.1
Other liabilities	2 857	2 291	566	24.7
TOTAL LIABILITIES	**16 390**	**14 786**	**1 604**	**10.8**

INTEGRATED RISK MANAGEMENT

Risk management and control are decisive factors in maintaining the financial soundness of a lending institution. That is why the CEB is constantly revising its risk management and monitoring systems so as to comply with best practices in the profession, the Basle Committee Recommendations and European Union Directives.

I - A STRUCTURED, DYNAMIC FUNCTION

Dedicated departments

The **Risk Management Department**: it identifies, assesses and manages all the risks inherent in the CEB's operations, as a result of both on- and off-balance sheet transactions. For each new loan, the Department analyses the transaction, taking into account the standing of the counterparty, the transactions already in progress with it and the country risk, and, if necessary, recommends obtaining guarantees/credit enhancement. The Department also keeps constant watch on the application of portfolio management rules (loans, securities, derivatives) and monitors the Bank's situation with regard to large exposures.

The **ALM Department**: this Department performs monitoring of market risk (interest rate risk, currency risk) and liquidity risk incurred by the Bank. Its conclusions are presented in a quarterly report submitted to the ALM Committee. This report analyses, through stress tests, the consequences of a variation in interest rates for the Bank's profitability and provides an analysis of the projected liquidity situation. It reports, where applicable, actual or foreseeable cases of limits being exceeded and proposes recommendations to the ALM Committee so as to limit the detected risks.

The **Organisation Department**: this Department is in charge of activities designed to protect the bank from operational risks; it identifies all the events that could cause operating losses. It manages the business continuity plan (updating and tests with retreat to the back-up site), and reviews the internal procedures covering all activities, within the scope of operational risks. In concrete terms, the Department is implementing the operational risk policy and, for this purpose, is establishing a complete map of processes and the associated operational risks. At the same time, as part of raising security awareness among the personnel, various training courses are provided during the year.

Decision-making committees

The **Risk Committee**: this is the keystone of the CEB's risk management system. Each week, decisions on this matter are taken here (counterparty and country limits, etc.), based on the recommendations made by the Risk Management Department.

The **Assets and Liabilities (ALM) Committee**: this Committee decides on assets and liabilities management strategy. It takes the necessary decisions with regard to financial risks in light of the ALM report and on the basis of the financial policies validated by the Administrative Council.

The **Funding Committee**: this Committee decides on borrowing strategy (amounts, currencies, conditions and timing) taking into account the Bank's projected liquidity needs and within the framework of the annual borrowing authorisation set by the Administrative Council.

The **Committee for Operational Risks and Organisation**: this Committee validates the Bank's security policy and takes decisions relating to operational risk prevention.

Controlling bodies

Internal control: each Directorate controls the risks specific to its activity (self-assessment). Prior to signature, the Central Directorate for Legal and Administrative Affairs validates all contracts committing CEB (loans, issues, derivatives, etc.) so as to control all the legal risks inherent in the banking business and more specifically those faced by a multilateral development bank.

The *Internal Audit Department*, reporting directly to the Governor, completes the Bank's control system; through regular reviews of all activities, it ensures that the procedures are systematically complied with.

Finally, the *Auditing Board*, consisting of three members coming from shareholder countries and appointed by the Governing Board for a three-year term, examines the Bank's accounts and checks their accuracy, in accordance with the Articles of Agreement. The Auditing Board's report, an excerpt from which is included in the Financial Statements, is presented to the Bank's directing bodies at the time of annual approval of the accounts for the financial year.

External control: as a multilateral development bank, the CEB is not subject to any national or international regulatory authority. However, in accordance with its statutory provisions, and in accordance with best practices, it undergoes control by the following external entities:

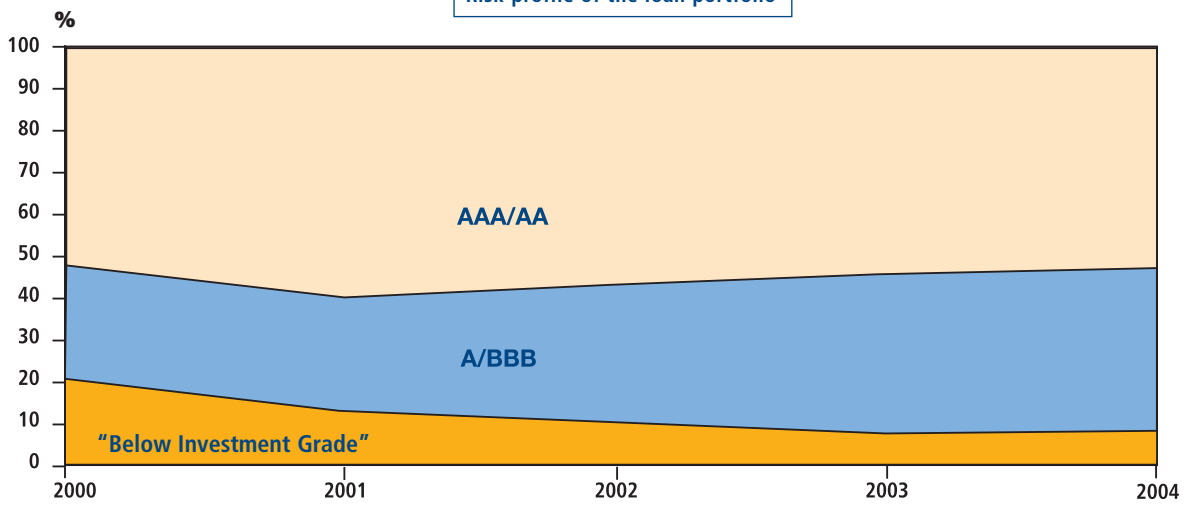
• *External Auditors*: appointed for a three-year term, upon the decision of the Governing Board, following an invitation to tender, its task is to audit the Bank's financial statements and carry out a review of internal control and risks. At the end of each financial year, the External Auditor certifies the accounts and issues a report setting out his opinion (cf Financial Statements). It also prepares, for the directing bodies, an interim report bringing together its conclusions on procedures and internal control, and a long form report on the accounts for the financial year.

• The Bank also undergoes strict assessment by the *international rating agencies*, Moody's, Standard & Poor's and Fitch Ratings, which each year carry out an in-depth analysis of the Bank's financial structure to check its solidity and assign it a rating. In 2004, they all confirmed the maximum rating (AAA) that they have been assigning to the CEB for several years now.

II - SITUATION AS AT 31 DECEMBER 2004

Within the framework of its project and treasury financing activities, the CEB is exposed to three different types of risk: credit risk, market risk and operational risk.

Risk profile of the loan portfolio



MATURITIES OF OFF-BALANCE SHEET INSTRUMENTS

In million euros

MATURITY	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total 2004
Interest rate instruments *	1 149	2 268	1 741	945	6 103
Currency instruments *	1 775	2 520	5 186	384	9 865
Total value (a)	**2 924**	**4 788**	**6 927**	**1 329**	**15 968**
including: collateralised (b)	2 908	4 783	6 927	1 329	15 947
(b)/(a)	99.5%	99.9%	100%	100%	99.9%

** The total amount of receivable currency is used to calculate the outstanding value of risk swaps*

1. Credit risk

Credit risk can be defined as the risk of loan losses in the event of counterparty default. The credit risk on the loan portfolio is measured on the basis of a rating system. In accordance with the Basle Committee Recommendations, when a counterparty has various ratings, the second best rating is adopted. In the case of a guarantee with risk transferred to the guarantor, the CEB takes into account the latter's rating. In the absence of a rating, an internal rating is applied.

Loans portfolio

In 2004, loans outstanding increased by 8.7% relative to 2003. Loans rated AAA/AA account for 53% of the total portfolio, while the proportion of loans ranked *below investment grade* remained stable at 8% of the portfolio. As regards loans rated A/BBB, they currently constitute 39% of the total, versus 29% last year, representing a 47% increase (see chart on page 43).

As far as breakdown by nature of counterparties, in 2004, 48% of the loans were allocated to financial institutions and 52% to states or government administrations.

Bond portfolios

The CEB manages two categories of bond portfolios: an investment portfolio and a held-for-sale portfolio (see Financial Activities, page 37). The breakdown, by rating, of the outstanding value of each of these portfolios at 31 December 2004 is given in the table below:

OUSTANDING VALUE OF BOND PORTFOLIOS, BY RATING

In million euros

	AAA	AA	A	Total
Held-for-sale-portfolio	**1 179** 67.7%	**533** 30.6%	**30** 1.7%	**1 742** 100%
Investment portfolio	**1 447** 91.3%	**131** 8.2%	**7** 0.5%	**1 585** 100%
Total	**2 626** 79%	**664** 20%	**37** 1%	**3 327** 100%

Derivatives

As an end-user, the CEB has recourse to derivatives only in order to hedge its risks (see page 37).

Derivative transactions, in all cases, require prior credit clearance of the issuing counterparty by the **Risk Committee** and prior signing of a framework agreement (for example, the ISDA Master Agreement). In addition, for transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a CSA ("Credit Support Annex") collateral agreement with the CEB.

All swap operations are valued at their net present value and daily monitoring of the positions by counterparty is carried out in order to be able to make a request for additional collateral if needed.

The CEB has pursued and extended its active policy of collateral agreement management in order to further reduce the credit risk entailed in the use of derivatives. At present, almost all the outstanding value of derivatives is collateralised, compared with 95% at end 2003. Moreover, 86% of the outstanding loans and 100% of the risk concern counterparties having ratings at least equal to AA.

Large exposure

"Large exposure" is an aggregate exposure, including firm funding commitments, to a single counterparty (or group of counterparties) exceeding 10% of own funds. In this respect, the CEB adopts as the definition of own funds paid-in capital, reserves, FGBR, profits plus uncalled capital of shareholder countries with an AAA or AA rating (according to Moody's, Standard & Poor's and Fitch Ratings).

In accordance with the Basle Committee Recommendations and European Union directives, the CEB ensures that no counterparty (or group of counterparties) exceeds the limit of 25% of own funds as defined above, and that the cumulative total of large exposures does not exceed 800% of said own funds.

At the end of 2004, no counterparty exceeds the limit of 25% of the CEB's own funds, and only four counterparties exceed 10%. The total outstanding exposure to these four counterparties amounts to € 2.1 billion, representing 54% of the CEB's own funds, versus a limit of 800%.

2. Market risk

Interest rate and currency risks

Market risk includes, in particular, the risk of a loss being incurred as a result of an adverse fluctuation in interest or exchange rates.

The strategy adopted by the directing bodies with regard to interest rate risks is based on systematic hedging of positions, so as to reduce the CEB's interest rate exposure to a minimum.

To guard against the interest rate risk on its lending and borrowing operations, the Bank uses derivatives. Macro-hedging can also be considered if necessary. Moreover, since the Bank performs no trading operations, there is no credit risk which requires matching with part of its own funds, in accordance with the Basle Committee Recommendations. In conclusion, the interest rate risk in the CEB's balance sheet is confined to the fixed-rate investment portfolio, matched by the Bank's own funds.

As regards currency risk, the CEB's strategy is not to take any position and to finance assets and liabilities in a single currency. The residual risk due to gains and losses in currencies other than the euro is systematically hedged on a monthly basis. The net open position is limited to the equivalent of € 1 million per currency. As at 31 December 2004, the net open position was next to nil.

Liquidity risk

The projected liquidity situation is covered by a weekly report submitted to the Treasury Committee. This is supplemented by stress tests presented to the ALM Committee, based on borrower default assumptions.

The CEB complies with a liquidity ratio requirement whereby liquid assets must at all times represent at least 50% of projected net financing needs for the next three years. As at 31 December 2004, the ratio stood at 94%.

3. Operational risk

Operational risk represents the risk of direct or indirect loss resulting from inadequate or failed structures, procedures, people or systems as well as from external events.

By deliberately choosing to operate within the framework of the Basle Committee Recommendations, the CEB has undertaken to assess constantly its operational risks and to put in place the appropriate preventive measures. The Basic Indicator Approach method (BIA) is adopted to calculate the operational risk charge against the Bank's own funds, namely € 17 million as at 31 December 2004.

III - NEW PRUDENTIAL FRAMEWORK FOR 2005

Whilst establishing its Development Plan 2005-2009 and in order to define a precise framework for the new strategic guidelines which characterise it, the Bank has defined a new prudential framework inspired by the Basle Committee Recommendations, especially with regard to capital adequacy.

This new prudential framework, approved by the CEB's Administrative Council in June 2004 and taking effect as of 1 January 2005, is organised around three ratios:

• The **capital adequacy ratio**: this ratio, replacing the gearing ratio, enables the default risk to be limited to usable capital.

• The **risk asset coverage ratio**: this ratio is an additional limitation on the volume of loans outstanding. In accordance with the analysis methodology already applied by the rating agencies, it limits the value of the loan portfolio rated below investment grade to the "usable capital" plus uncalled AAA/AA capital.

• The **reinforced liquidity ratio**: the CEB's cash position must not be less than 50% of the net liquidity needs on a three-year horizon, including the additional liquidity needs equal to the risk of default within this timeframe.

NEW PRUDENTIAL FRAMEWORK FOR 2005

CAPITAL ADEQUACY RATIO

$$\frac{\text{Weighted loan portfolio}}{\text{Usable capital}} < 100\%$$

- Weighted loan portfolio: $\sum$ [(Capital + Interest)* Probability of Default]
- Usable capital: paid-in capital, reserves, profits and FGBR

At the end of 2004, this ratio stood at 29%.

RISK ASSET COVERAGE RATIO

$$\frac{\text{Loan portfolio rated below investment grade}}{\text{Usable capital + Uncalled AAA/AA capital}} < 66\%$$

At the end of 2004, this ratio stood at 23.3%.

REINFORCED LIQUIDITY RATIO

$$\frac{\text{Liquid assets (bank deposits + investment securities)}}{\text{Liquidity needs three years out (including stock of projects) + liquidity to cover the risk of default over three years}} > 50\%$$

At the end of 2004, the reinforced liquidity ratio stood at 92%.



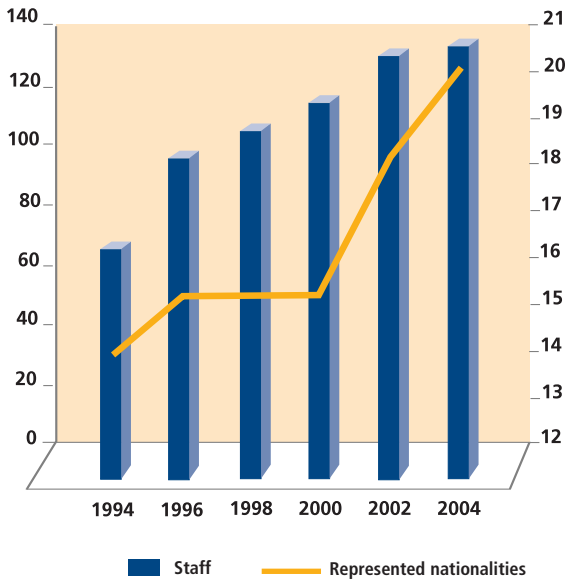
HUMAN RESOURCES MANAGEMENT

Since 1994, the accession of 17 new member states, the increase in loans outstanding, sectorial changes in the activity and the desire to achieve the strictest standards in terms of quality and risk have all led the Bank to steadily increase its staff numbers.

Since that date, the CEB has seen its permanent staff numbers practically double, representing an average annual growth of 7%. In all, at end 2004, the Bank had 133 elected or permanent staff members, which remains a very modest figure with respect to its level of activity.

The recruitment effort, which had been moderated in 2003, resumed this year following approval of the Development Plan 2005-2009 in June 2004. During the second semester alone, the Bank thus began hiring for 8 positions in order to accompany the redeployment of the activity.

Trend in staff number and nationalities represented



This approach has gone hand in hand with a significant effort to diversify the nationalities represented among the staff of the CEB, in particular in favour of the most recent member states. Since 1994, the number of nationalities represented among the staff has thus increased by over 40% to reach 20 nationalities at end December 2004 (see graph).

This increase has been even greater among the management staff where the number has almost tripled, increasing from 7 to 20. In all, at end 2004, the states that have joined the Bank since 1994 represented one quarter of the nationalities represented on the Bank's staff.

At the same time, during 2004, the CEB pursued an important process of reflection on best practices in matters of human resources management, undertaken in collaboration with the Coordinated Organisations and the other international financial institutions. In particular, it went further in the reflections initiated the previous year concerning possible changes in the flexible elements of its remuneration system.

During the year, the Bank also continued to pursue its policy of strengthening staff skills, in particular through in-house training programmes adapted to the specific nature of the institution's activity. In all, in the course of the year, almost 75% of the staff underwent either technical, linguistic or I.T. training.

Lastly, during 2004, the Bank created a Health and Safety Committee, responsible for advising the Governor on ways of improving working conditions and protecting the health and safety of the CEB's staff, as well as ensuring correct compliance with the rules in force on such matters.

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BALANCE SHEET

At 31 December 2004

In thousand euros

	NOTES	2004	2003
ASSETS			
Cash in hand, balances with central banks		49	52
Loans and advances to credit institutions and to customers	3		
Loans		10 836 308	9 971 412
Advances		1 467 395	954 393
Securities portfolio	4	3 419 873	3 222 102
Fixed assets	5	20 571	21 536
Capital subscribed, called, unpaid and reserves receivable	12	16 073	2 272
Other assets, prepayments and accrued income	6	629 509	614 283
Total assets		**16 389 778**	**14 786 050**
LIABILITIES			
Amounts owed to credit institutions and to customers	7	68 263	46 318
Debt securities	8	11 776 777	10 882 732
Other liabilities	9	2 835 546	2 293 911
Selective Trust Account (STA)	10	57 431	55 746
Provision for financial risks	11	44 710	33 722
Fund for General Banking Risks (FGBR)		144 000	144 000
Capital	12		
Subscribed		3 293 570	3 249 061
Uncalled		(2 924 922)	(2 885 326)
Called		368 648	363 735
General reserve		979 237	878 991
Profit for the year		115 166	86 895
Total liabilities		**16 389 778**	**14 786 050**
OFF-BALANCE SHEET			
Financing commitments on approved projects	3	2 199 658	2 170 985
Off-balance sheet financial instruments	16	18 534 393	17 318 099
Guarantees given		2 764	3 736

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

In thousand euros

	NOTES	2004	2003
Interest receivable and similar income			
Loans	13	241 539	253 287
Treasury assets		62 834	78 468
Investment portfolio		83 012	81 775
Interest expenses and similar charges		(272 352)	(307 877)
Net interest income		**115 033**	**105 653**
Income from shares and other variable-yield securities		55	55
Foreign exchange		(161)	(33)
Held-for-sale securities		8	(339)
Commissions and other net operating expenses		90	(475)
Total operating income		**115 025**	**104 861**
General administrative expenses	14	(22 696)	(21 240)
Depreciation	5	(1 843)	(2 241)
Operating profit before provisions		**90 486**	**81 380**
Net provisions	15	24 680	4 556
Profit on sale of investment securities	4	-	959
Profit for the year		**115 166**	**86 895**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The table below presents the developments in CEB's equity during the financial year 2004:

In thousand euros

FOR THE YEAR ENDED 31 DECEMBER	2004	2003
Capital		
Subscribed capital	3 293 570	3 249 061
Uncalled capital	(2 924 922)	(2 885 326)
Called capital	**368 648**	**363 735**
Unpaid called capital	(4 166)	(642)
Paid-in capital	**364 482**	**363 093**
General reserve		
Balance at the beginning of the year	877 361	788 510
Preceding year's profit appropriation	86 000	90 000
Movements during the year	3 969	(1 149)
Balance at the end of the year	**967 330**	**877 361**
Profit for the year	115 166	86 895
Total shareholders' equity	**1 446 978**	**1 327 349**
Fund for General Banking Risks (FGBR)		
Balance at the beginning of the year	144 000	144 000
Movements during the year	-	-
Balance at the end of the year	**144 000**	**144 000**
Total shareholders' equity	**1 590 978**	**1 471 349**

The net profit for the 2003 financial year has been allocated as follows: 86 million euros to the general reserve and 0.9 million euros to the Selective Trust Account.

In 2004, the subscribed capital increased by 44.5 million euros following:

- membership of Serbia and Montenegro whose subscribed capital amounts to 15.5 million euros, of which the amount of 1.7 million euros has been called. Its contribution to the reserves amounts to 4.3 million euros. A first instalment of 1.5 million euros has been made in terms of capital and reserves.

- Ireland's membership whose subscribed capital amounts to 29 million euros, of which the amount of 3.2 million euros has been called. Its contribution to the reserves amounts to 9.9 million euros. A first instalment of 3.3 million euros has been made in terms of capital and reserves.

In addition, Bosnia and Herzegovina paid 0.6 million euros in terms of capital and reserves.

STATEMENT OF CASH FLOWS

In thousand euros

For the year ended 31 December	2004	2003
Cash flows from operating activities		
Profit for the financial year	115 166	86 895
Adjustments to the year's profits for:		
- Value adjustments	(19 456)	1 174
- Increase in accrued interest and commissions receivable	(15 047)	69 704
- Increase in accrued interest and commissions payable	10 286	(106 034)
- Premium on investment securities	2 352	1 725
Loan disbursements	(1 529 938)	(1 589 487)
Loan repayments	649 016	829 041
Net cash flows from operating activities	**(787 621)**	**(706 982)**
Cash flows from investing activities		
Net change in the securities portfolio	(215 501)	(217 087)
Purchase of tangible and intangible fixed assets	(792)	(9 033)
Increases/(decreases) in other assets	617	518
Net cash flows from investing activities	**(215 676)**	**(225 602)**
Cash flows from financing activities		
Subscription of capital and reserves	5 358	456
Issue of borrowings	1 831 762	2 030 718
Redemption of borrowings	(457 751)	(1 423 851)
Increases/(decreases) in short-term borrowings	21 678	1 430
Change in foreign currency transactions payable and receivable	125 232	264 162
Increases/(decreases) in other liabilities	(11 271)	13 799
Net cash flows from financing activities	**1 515 008**	**886 714**
Cash and cash equivalents at the beginning of the year	953 013	1 029 385
Net increase/(decrease) in cash and cash equivalents	511 711	(45 870)
Effects of foreign exchange on cash and cash equivalents	(1 042)	(30 502)
Cash and cash equivalents at 31 December	**1 463 682**	**953 013**

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

	2004	2003
Cash in hand, balances with central banks	49	52
Advances to credit institutions	1 464 734	952 961
Amounts owed to credit institutions	(1 101)	-
Cash and cash equivalents at 31 December	**1 463 682**	**953 013**

NOTES TO THE FINANCIAL STATEMENTS

Note 1 - The Bank's objectives

"The primary purpose of the Bank is to help in solving the social problems with which European countries are or may be faced as a result of the presence of refugees, displaced persons or migrants consequent upon movements of refugees or other forced movements of populations and as a result of the presence of victims of natural or ecological disasters.

The investment projects to which the Bank contributes may be intended either to help such people in the country in which they find themselves or to enable them to return to their countries of origin when the conditions for return are met or, where applicable, to settle in another host country. These projects must be approved by a member of the Bank.

The Bank may also contribute to the realisation of investment projects approved by a member of the Bank which enable jobs to be created in disadvantaged regions, people in low income groups to be housed or social infrastructure to be created".
(Articles of Agreement, Article II).

Since it was created, the Bank's fields of action have gradually broadened to encompass the following areas of intervention: education, health, social housing, employment and vocational training in SMEs, improvement of quality of life in disadvantaged urban areas and rural modernisation, protection of the environment, and the protection of historic and cultural heritage. These fields of action are defined under the provisions of the Administrative Council's Resolution 1480 (2004).

The Bank's policy, similar to that of other multilateral financial institutions, is not to reschedule interest or capital payments on its loans and not to participate in debt rescheduling agreements.

Note 2 - Key accounting policies

2.1 - Accounting standards

The Bank's financial statements have been prepared in accordance with its accounting policies, which comply with the overall principles of the European Parliament and European Union's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions.

Unless otherwise indicated, the Bank's balance sheet is presented in accordance with the conventional historical cost.

2.2 - Foreign currencies

In accordance with Article IV (Section 1) of the Bank's Articles of Agreement, the Bank used the euro as the reporting currency for the presentation of its financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into euro at the exchange rates at 31 December 2004. Revenue and expense items are translated into euro at the exchange rate at the end of the month during which they occurred. Exchange profits or losses resulting from assets and liabilities conversions are recorded in the profit and loss account.

2.3 - Securities portfolio

Securities are classified as follows:

- by nature: treasury bills and similar securities, debt securities and other fixed income securities, shares and other variable-yield securities
- by destination: trading, investment, held-for-sale, corresponding to the economic purpose of their holding. Each portfolio is subject to the following specific valuation rules:

Trading securities

Trading securities are purchased and held with the intention of selling them in the short term. They are marked to market. Any unrealised gains or losses from revaluation are debited or credited to the profit and loss account.

Investment securities

Investment securities are purchased with the intention of holding them until final maturity. They are accounted for at their historical cost. The premium or discount on the investment securities (the difference between purchase price and nominal price) is amortised prorata temporis over the life of the security.

Held-for-sale securities

Securities other than trading and investment securities are considered as held-for-sale securities. They are accounted for at historical cost. A provision is made for any reduction in market value.

2.4 - Loans

The accounting basis for loans and advances issued by the Bank is the historical cost. Provisions are set up for risks of non-recovery of a part or the total amount of the loan granted.

2.5 - Fixed assets

Fixed assets are recorded on the assets side of the balance sheet at their historical cost. Depreciation is calculated over their estimated life using the straight-line method.

Land	non-amortizable
Real estate	25 years
Fixtures and furniture	10 years
Software	1 to 5 years
Vehicles	4 years
Office equipment	3 years

2.6 - Debts evidenced by certificates

These borrowings are recorded at their nominal value. Issue premiums and issuance fees are amortised using the straight-line method over the life of the issue.

2.7 - Fund for General Banking Risks (FGBR)

The Fund for General Banking Risks includes those amounts intended to cover general potential risks not yet identified, including future losses and other unexpected risks. The Fund for General Banking Risks covers all non-specific risks on transactions related to loans, portfolio activities and financial instruments, including those of an operational nature (damages, litigation…). The FGBR is registered separately on the liabilities side of the balance sheet and movements are recorded in the profit and loss account.

2.8 - Provision for financial risks - Pension Scheme and related commitments

The Bank's Pension Scheme is organised as a defined benefit pension scheme. It is funded partly by the Bank and partly by the employees. Calculation of the provisions is based on the number of years of service and a percentage of the basis remuneration of the last year of activity.

All movements relative to the scheme are entered in a specific provision account, recorded on the liabilities side of the Bank's balance sheet.

With reference to the International Accounting Standard IAS 19, commitments with regard to pension benefits are valued using the projected unit credit method. This valuation is carried out by an independent actuary in order to ensure that provisions entered in the accounts are adequate.

Moreover, this provision covers related commitments with respect to CEB's fiscal adjustment on pensions paid and medical insurance of pensioners and future pensioners.

2.9 - Financial instruments

The financial instruments used by the Bank include interest rate derivatives and foreign currency derivatives. These financial instruments are evaluated as follows:

Hedging activities

Profits and losses on hedging instruments are accounted for in the profit and loss account in the same way as profits and losses on the underlying asset or liability. Premiums paid or received are amortised over the life of the underlying instrument.

Revenue and expenses relating to hedging instruments for net risks between assets and liabilities (macro hedging) are recorded prorata temporis in the profit and loss account.

Other activities

Trading positions are marked to market and the resulting realised and unrealised gains or losses are recorded in the profit and loss account.

2.10 - Selective Trust Account (STA)

The Selective Trust Account (STA) is the Bank's special instrument enabling it to accentuate the impact of its action in social priority sectors (natural disasters, refugees, minorities and disadvantaged persons, as well as migrants), whose main features are defined in Resolution CA 1380 (1995) and revised by Resolution CA 1437 (1999, revised in 2001).

The purpose of this account is to provide interest rate subsidies for loans granted by the Bank for projects of high social value, concerning low-income countries particularly Central and Eastern European countries. The STA can also be used in granting donations in aid of victims of natural disasters, refugees, minorities and disadvantaged persons. Accounting of the STA is held separately (see note 10).

2.11 - Taxation

The Third Protocol to the General Agreement on Privileges and Immunities of the Council of Europe states that the Bank's assets, income and other property are exempt from all direct taxes.

Note 3 - Loans and advances to credit institutions and to customers

In thousand euros as at 31 December

Breakdown by category of borrower	2004	2003
Loans to credit institutions		
Loans	7 104 849	6 425 002
Interest receivable	40 755	36 633
Sub-total	**7 145 604**	**6 461 635**
Loans to customers		
Loans	3 659 973	3 477 566
Interest receivable	30 731	32 338
Unpaid receivables	-	32 256
Provisions [1]	-	(32 383)
Sub-total	**3 690 704**	**3 509 777**
Total loans	**10 836 308**	**9 971 412**

In thousand euros as at 31 December

Other loans and advances	2004	2003
Advances repayable on demand	9 011	7 231
Advances with agreed maturity dates or periods of notice	1 455 724	945 729
Interest receivable	2 660	1 433
Total advances	**1 467 395**	**954 393**

(1) In 2003, provisions covered unpaid receivables as well as related interest receivables. In 2004, credit risk analysis made it possible to release provisions existing at 31 December 2003.

Outstanding loans granted to credit institutions and to customers consist of ordinary loans, social loans and loans benefiting from the Selective Trust Account subsidies. At 31 December 2004, outstanding loans benefiting from the STA amounted to 422 157 thousand euros (2003: 369 378 thousand euros). Outstanding social loans (granted at a 1% interest rate) amounted to 1 217 thousand euros in 2004 (2003: 1 920 thousand euros). Loans are guaranteed up to the amount of 1 212 298 thousand euros (2003: 1 127 151 thousand euros). These guarantees could be either in the form of securities or other financial commitments.

Loan disbursements and reimbursements during the 2004 financial year are indicated below:

In thousand euros as at 31 December

Movement in loans	2004	2003
At 1 January	9 902 568	9 349 506
Disbursements	1 529 938	1 589 487
Reimbursements	(649 017)	(824 909)
Foreign exchange movements	(50 923)	(211 516)
Provision release	32 256	-
At 31 December	10 764 822	9 902 568
Interest receivable	71 486	68 844
Total	**10 836 308**	**9 971 412**

Breakdown of outstanding loans and financial commitments by borrower country as at 31 December 2004:

In thousand euros as at 31 December

	Outstanding				Financing commitments	
Breakdown by country	2004	%	2003	%	2004	2003
Spain	2 002 235	18.60	1 942 264	19.61	166 582	70 724
Germany [1]	1 460 503	13.57	1 424 177	14.38	104 417	51 917
Italy [2]	1 241 409	11.53	1 062 904	10.73	181 200	389 761
France	1 142 601	10.61	1 287 600	13.00	-	50 000
Greece	667 424	6.20	757 541	7.65	84 208	84 208
Turkey	635 905	5.91	681 194	6.88	280 327	182 112
Portugal	521 281	4.84	236 697	2.39	39 834	125 000
Poland	481 277	4.47	444 879	4.49	143 129	109 909
Cyprus	464 031	4.31	473 265	4.78	306 223	324 469
Finland	438 942	4.08	366 192	3.70	15 000	147 500
Hungary	390 625	3.63	223 500	2.26	277 688	129 913
Belgium	270 614	2.51	214 435	2.17	-	80 000
Romania	186 205	1.73	102 414	1.03	86 353	122 922
Norway	128 788	1.20	128 788	1.30	121 411	-
Malta	120 819	1.12	133 297	1.35	78 588	79 061
Croatia	116 574	1.08	93 981	0.95	111 941	18 013
Sweden	110 251	1.02	110 251	1.11	55 398	55 036
Denmark	100 000	0.93	50 000	0.50	-	50 000
Ireland [3]	50 000	0.46	-	-	50 000	-
Bulgaria	48 929	0.45	22 024	0.22	16 308	24 460
Slovak Republic	32 409	0.30	26 226	0.26	14 257	20 077
Slovenia	31 773	0.30	33 650	0.34	20 000	-
Iceland	30 528	0.28	33 229	0.34	30 259	28 277
Serbia and Montenegro	24 598	0.23	-	-	-	-
"the former Yugoslav Republic of Macedonia"	16 913	0.16	13 913	0.14	3 200	6 200
Latvia	15 561	0.14	11 601	0.12	500	3 013
Lithuania	15 313	0.14	13 102	0.13	9 586	12 559
Estonia	8 343	0.08	8 541	0.09	2 046	2 046
Bosnia and Herzegovina	5 694	0.05	3 906	0.04	-	-
Albania	2 953	0.03	673	0.01	1 203	3 808
San Marino	2 324	0.02	2 324	0.02	-	-
Total	**10 764 822**	**100.00**	**9 902 568**	**100.00**	**2 199 658**	**2 170 985**

(1) of which 178 139 thousand euros outstanding in favour of transition countries as at 31 December 2004 (31 December 2003: 135 639 thousand euros)

(2) of which 70 000 thousand euros outstanding in favour of transition countries as at 31 December 2004 (31 December 2003: 10 000 thousand euros)

(3) of which 25 000 thousand euros outstanding in favour of transition countries as at 31 December 2004 (31 December 2003: nil)

In thousand euros as at 31 December

Breakdown by sector-based activities	Outstanding 2004	%	Outstanding 2003	%	Financing commitments 2004	Financing commitments 2003
Strengthening social integration						
Aid to refugees, migrants and displaced populations	143 974		132 933		44 997	10 005
Social housing	2 189 648		1 990 048		83 515	373 427
Job creation and preservation in SMEs, and vocational training	1 601 336		1 377 721		353 846	198 074
Urban and rural modernisation	999 882		888 613		291 838	274 748
Sub-total	**4 934 840**	**46**	**4 389 315**	**44**	**774 196**	**856 254**
Managing the environment						
Natural or ecological disasters and preventive actions	1 611 970		1 566 801		320 378	250 808
Protection of the environment	1 345 697		1 210 898		239 285	193 527
Protection of historic and cultural heritage	132 102		113 402		117 460	118 375
Infrastructure	116 747		151 486		-	-
Sub-total	**3 206 516**	**30**	**3 042 587**	**31**	**677 123**	**562 710**
Developing human capital						
Education	1 363 275		1 258 131		484 066	470 147
Health	1 260 191		1 212 535		264 273	281 874
Sub-total	**2 623 466**	**24**	**2 470 666**	**25**	**748 339**	**752 021**
Total	**10 764 822**	**100**	**9 902 568**	**100**	**2 199 658**	**2 170 985**

Financing commitments

Financing commitments include projects for which a framework agreement has been signed, or which have been granted at least one financing.

In thousand euros as at 31 December

Breakdown by year of approval	2002 and before	2003	2004	Total
Projects				
With signed framework loan agreements	342 523	806 154	810 080	1 958 757
With at least one financing	226 865	-	14 036	240 901
Total	**569 388**	**806 154**	**824 116**	**2 199 658**

Note 4 - Securities portfolio

In thousand euros as at 31 December

Breakdown by issuer	2004	2003
Treasury bills and similar securities		
Book value	781 556	615 431
Interest receivable	22 060	20 797
Net amount	**803 616**	**636 228**
Debt securities and other fixed-income securities		
Book value	2 566 088	2 529 986
Provisions	(537)	(620)
Interest receivable	49 959	55 762
Net amount	**2 615 510**	**2 585 128**
Shares		
Book value	1 366	1 366
Provisions	(633)	(634)
Interest receivable	14	14
Net amount	**747**	**746**
Total portfolio	**3 419 873**	**3 222 102**

In thousand euros as at 31 December

Breakdown by portfolio	2004		2003	
	Book value	Market value	Book value	Market value
Held-for-sale	1 736 515	1 757 425	1 633 003	1 654 008
Investment	1 611 325	1 769 397	1 512 526	1 610 797
Sub-total	**3 347 840**	**3 526 822**	**3 145 529**	**3 264 805**
Interest receivable	72 033		76 573	
Total portfolio	**3 419 873**		**3 222 102**	

The investment portfolio comprises bonds issued by countries or similar institutions rated at least AA.

Note 5 - Fixed assets

In thousand euros as at 31 December

	Land and buildings	Fixtures and equipment	Other	Total tangible fixed assets	Intangible assets	Total
Gross book value						
At 1 January 2004	21 055	7 995	4 083	33 133	3 145	36 278
Additions	-	392	612	1 004	313	1 317
Disposals/write-offs	-	-	(86)	(86)	-	(86)
Other movements	-	(202)	(87)	(289)	(150)	(439)
At 31 December 2004	**21 055**	**8 185**	**4 522**	**33 762**	**3 308**	**37 070**
Depreciation						
At 1 January 2004	(5 371)	(4 320)	(2 617)	(12 308)	(2 434)	(14 742)
Charge for the year	(276)	(635)	(619)	(1 530)	(313)	(1 843)
Disposals	-	-	86	86	-	86
At 31 December 2004	**(5 647)**	**(4 955)**	**(3 150)**	**(13 752)**	**(2 747)**	**(16 499)**
Net book value						
At 31 December 2004	**15 408**	**3 230**	**1 372**	**20 010**	**561**	**20 571**
At 31 December 2003	15 684	3 675	1 466	20 825	711	21 536

Note 6 - Other assets, prepayments and accrued income

In thousand euros as at 31 December

	2004	2003
Accrued interest receivable	469 017	463 075
Other expenses to be amortised	76 139	82 360
Prepaid expenses	59 788	64 463
Other accrued income and sundry debtors	20 806	7
Sundry debtors	3 759	4 187
Purchased conditional instruments	-	191
Total	**629 509**	**614 283**

Note 7 - Amounts owed to credit institutions and to customers

In thousand euros as at 31 December

	2004	2003
Amounts owed to credit institutions		
With agreed maturity dates or periods of notice	1 101	-
Interest payable	1	-
Sub-total	**1 102**	**-**
Amounts owed to customers		
With agreed maturity dates or periods of notice	35 804	37 023
Interest bearing accounts (European Community: 29 626 thousand euros)	30 829	8 751
Interest payable	528	544
Sub-total	**67 161**	**46 318**
Total	**68 263**	**46 318**

The Bank has opened interest-bearing accounts as follows:

- in December 2000, an account to receive the European Community contributions ("Contribution Arrangement in respect of a SME Finance Facility Phase 2 Special Fund") for partial financing of productive investment projects designed to create or safeguard jobs in SMEs located in transition countries

- in June 2001, an account to receive the Finnish government's contributions for the financing of technical assistance within the ambit of projects in Estonia, Latvia and Lithuania

- in April 2004, an account to receive the Norwegian government's contributions for the financing of technical assistance within the ambit of projects in support of economic and social reforms in the western Balkans

- in December 2004, the Swiss government effected a payment for the setting-up of a fund for the education of the Roma community.

Note 8 - Debt securities

The breakdown of debt securities issued is detailed below:

In thousand euros as at 31 December

Breakdown by type of debt	2004	2003
Bonds	11 209 681	10 325 973
Perpetual debt	131 924	130 654
Interest payable	435 172	426 105
Total	**11 776 777**	**10 882 732**

During the financial year, the Bank reimbursed debts for a total amount of 457 751 thousand euros (1 416 466 thousand euros in 2003).

The table below presents the outstanding debt securities after breakdown of currency swaps:

In thousand euros as at 31 December

Breakdown by currency	Outstanding	Currency swap	Net value 2004	Net value 2003
Euro	2 049 633	10 981 550	13 031 183	11 536 743
US Dollar	7 560 939	(6 853 654)	707 285	768 699
Swiss Franc	261 550	(129 626)	131 924	130 653
Japanese Yen	390 802	(345 689)	45 113	46 649
Taiwan Dollar	369 465	(369 465)	-	-
Australian Dollar	355 118	(355 118)	-	-
Pound sterling	212 751	(212 751)	-	-
Canadian Dollar	91 374	(91 374)	-	-
South African Rand	49 973	(49 973)	-	-
Total	**11 341 605**	**2 573 900**	**13 915 505**	**12 482 744**

Note 9 - Other liabilities, accruals and deferred income

In thousand euros as at 31 December

	2004	2003
Foreign currencies adjustment account	2 478 344	1 925 661
Accrued expenses	181 296	182 266
Deferred income	133 373	143 701
Deposits of guarantees received	23 804	36 863
Other accruals and sundry creditors	18 729	5 420
Total	**2 835 546**	**2 293 911**

The balance of the foreign currencies adjustment account represents exchange unrealised gains or losses on currency swaps maturity flows. The difference of 552 683 thousand euros recorded between 31 December 2004 and 31 December 2003 is mainly a result of the strengthening of the euro against the US dollar.

Note 10 - Selective Trust Account (STA)

General operating principle

Interest rate subsidies are the basis of the underlying operating principle of this account. Within the framework of financing high social value projects, the Selective Trust Account covers the interest rate differential between the rate usually applied by the Bank and the rate repaid by the borrower. Any proposal for an interest rate subsidy is specified in the loan application submitted by the Governor to the Administrative Council for approval. The STA can also be used for donations.

Funding

The STA is supplied with contributions from the CEB's annual profits, as well as voluntary contributions made by member States of the Bank or of the Council of Europe. This account can also be supplied with voluntary contributions from non member States of the Council of Europe or international institutions upon agreement by the Governing Board and Administrative Council.

The Bank remunerates the STA funds in conformity with the provisions of Resolution 1437 (1999) as revised in 2001.

Financial statements

Balance sheet

In thousand euros as at 31 December

Assets	2004	2003	Liabilities	2004	2003
Deposits to CEB	57 431	55 746	Contribution received from CEB	64 416	63 521
Securities portfolio	-	3 035	Other contributions received	107	107
			Accruals and deferred income	73	3 092
			Results brought forward	(7 939)	(5 692)
			Result for the financial year	774	(2 247)
Total	**57 431**	**58 781**		**57 431**	**58 781**

Profit and loss account

In thousand euros as at 31 December

For the year ended 31 December 2004	2004	2003
Payments from CEB	1 088	1 248
Securities portfolio (interest and profit on sale)	395	203
Provisions release [1]	3 225	-
Income	**4 708**	**1 451**
Interest subsidies paid	(2 723)	(2 357)
Donations	(816)	(1 138)
Provisions charges	(395)	(203)
Expenses	**(3 934)**	**(3 698)**
Result for the year	**774**	**(2 247)**

(1) Credit risk analysis carried out in 2004 made it possible to release a provision existing at 31 December 2003.

Donations

Since it was set up in 1995, donations for a total amount of 9.1 million euros have been granted from the STA, mainly to Albania, Bosnia and Herzegovina, Kosovo, "the former Yugoslav Republic of Macedonia", Romania and Serbia and Montenegro.

The breakdown of donations granted during the last two financial years is the following:

In thousand euros as at 31 December

Payments	2004	2003
Serbia and Montenegro (UNHCR): help for refugees having opted for local integration in Serbia	572	-
Bosnia and Herzegovina (UNHCR): provision of permanent housing for displaced persons	244	-
Infrastructural repairs in "the former Yugoslav Republic of Macedonia"	-	568
Creation of basic infrastructure related to health, education and professional training for Roma children and women in "the former Yugoslav Republic of Macedonia"	-	304
Joint programme CEB/Council of Europe	-	266
Total	**816**	**1 138**

Outstanding loans and funding commitments benefiting from interest-rate subsidies

In thousand euros as at 31 December

	Outstanding		Financing commitments	
Breakdown by country	2004	2003	2004	2003
Hungary	124 800	111 800	218 006	58 200
Croatia	109 688	88 494	81 485	11 318
Poland	96 977	96 977	-	-
Romania	39 000	28 000	31 000	42 000
Slovak Republic	26 714	21 184	3 286	8 816
Slovenia	6 734	6 734	-	-
Bulgaria	6 294	4 815	16 308	17 960
Lithuania	5 394	6 156	6 517	6 517
Bosnia and Herzegovina	3 622	3 906	-	-
Albania	2 423	673	74	2 019
Germany	511	639	1 917	1 917
Total	**422 157**	**369 378**	**358 593**	**148 747**

Note 11 - Provisions for financial risks

Provisions for financial risks are detailed below:

In thousand euros as at 31 December

	2004	2003
Provision for pension commitments	37 134	33 722
Provision for other commitments to the pension scheme	7 576	-
Total	**44 710**	**33 722**

Provision for pension commitments

With reference to the International Accounting Standard IAS 19, an actuarial valuation of the staff pension scheme commitments has been carried out as at 31 December 2004 by an independent actuary in accordance with the "projected unit credit method".

The main assumptions used for this valuation are:

a) Economic assumptions
- an interest rate of 5.25%
- an inflation rate of 1.75%
- a revalorisation rate of the pension of 1.75%
- a salary increase of 5%

b) Demographic assumptions
- a mobility rate of 0.44% after age 45
- an average retirement age of 62
- the use of mortality tables INSEE 1998 and disability tables EVK 90.

The provision covers commitments undertaken accordingly.

In thousand euros as at 31 December

	2004	2003
At 1 January	**33 722**	**30 632**
Employer's contribution	1 463	1 364
Staff contribution	710	662
Interest income (CEB)	1 906	1 782
Income	**4 079**	**3 808**
Pensions paid	(579)	(512)
Departure grants	(70)	(188)
Others	(18)	(18)
Expenses	**(667)**	**(718)**
Net profit for the year	**3 412**	**3 090**
At 31 December	**37 134**	**33 722**

Provision for other commitments to the pension scheme

In order to account for the whole of its commitments towards its staff, in 2004 the Bank set up a provision of 7.6 million euros, corresponding to its actuarial commitment at 31 December 2004, both for its working staff and retired staff. This provision relates mainly to the financing of pensioners' medical insurance.

Note 12 - Subscribed capital

The capital is composed of participating certificates of 1 000 euros each. Each participating certificate represents one vote. All member States of the Council of Europe or other States, upon authorisation by the Governing Board, may subscribe to the capital. This subscription is effective upon acceptance of the Articles of Agreement.

In 2004, Ireland and Serbia and Montenegro joined the Council of Europe Development Bank.

In thousand euros as at 31 December

Members	Subscribed capital	Uncalled capital	Called capital
Germany	549 692	489 000	60 692
France	549 692	489 000	60 692
Italy	549 692	489 000	60 692
Spain	358 504	318 922	39 582
Turkey	233 077	207 344	25 733
Netherlands	119 338	106 161	13 177
Belgium	98 634	87 746	10 888
Greece	98 634	87 746	10 888
Portugal	83 538	74 315	9 223
Sweden	83 538	74 315	9 223
Poland	76 988	68 488	8 500
Switzerland	53 824	43 229	10 595
Denmark	53 823	47 879	5 944
Finland	41 889	37 264	4 625
Norway	41 889	37 264	4 625
Bulgaria	37 491	33 352	4 139
Romania	35 963	31 993	3 970
Ireland	28 998	25 797	3 201
Hungary	26 884	23 916	2 968
Czech Republic	25 833	22 981	2 852
Luxembourg	20 849	18 547	2 302
Serbia and Montenegro	15 511	13 799	1 712
Croatia	12 831	11 414	1 417
Cyprus	11 934	10 617	1 317
Slovak Republic	11 380	10 123	1 257
Albania	8 034	7 147	887
Latvia	7 688	6 840	848
Estonia	7 637	6 794	843
"the former Yugoslav Republic of Macedonia"	7 637	6 794	843
Lithuania	7 556	6 722	834
Slovenia	7 380	6 565	815
Iceland	6 089	5 417	672
Malta	6 089	5 417	672
Bosnia and Herzegovina	5 816	5 174	642
Moldova	3 294	2 930	364
Liechtenstein	2 921	2 374	547
San Marino	2 921	2 478	443
Holy See	82	58	24
Total 2004	**3 293 570**	**2 924 922**	**368 648**
Total 2003	**3 249 061**	**2 885 326**	**363 735**

Subscribed, called, and unpaid capital as well as reserves to be paid, are detailed below:

In thousand euros as at 31 December

	Capital	Reserves	Total
Ireland	2 401	7 423	9 824
Serbia and Montenegro	1 284	3 261	4 545
Bosnia and Herzegovina	481	1 223	1 704
Total	**4 166**	**11 907**	**16 073**

Note 13 - Interest and similar income

The following is the breakdown of interest received on loans:

In thousand euros as at 31 December

Breakdown by country	2004	2003
Germany	49 452	60 697
Spain	45 869	49 481
Turkey	44 243	52 740
Greece	36 419	37 124
France	34 313	36 630
Italy	30 985	27 202
Poland	24 240	18 966
Cyprus	14 732	15 153
Finland	12 439	11 665
Hungary	8 447	5 975
Portugal	6 964	4 934
Belgium	6 941	5 579
Malta	5 928	5 376
Croatia	5 176	3 773
Romania	3 383	2 447
Norway	2 644	2 624
Sweden	2 249	1 298
Denmark	1 256	213
Slovenia	1 232	1 326
Serbia and Montenegro	1 037	-
Bulgaria	958	438
Slovak Republic	892	768
Iceland	717	842
Lithuania	716	612
"the former Yugoslav Republic of Macedonia"	407	438
Estonia	406	366
Latvia	292	146
Bosnia and Herzegovina	290	299
Ireland	212	-
San Marino	117	153
Albania	69	16
Sub-total	**343 025**	**347 281**
Hedging instruments	(101 614)	(95 234)
Provision release	128	1 240
Total	**241 539**	**253 287**

The provision release relates to interest on unpaid loans, reimbursed by Bosnia and Herzegovina, and Serbia and Montenegro.

In 2004, credit risk analysis made it possible to release provisions existing at 31 December 2003.

Note 14 - General administrative expenses

In thousand euros as at 31 December

	2004	2003
Staff costs		
Wages and salaries	12 981	11 993
Social Security	828	809
Pension costs	1 524	1 364
Other general expenses	7 363	7 074
Total	**22 696**	**21 240**

As at 31 December 2004, the Bank's staff was composed of 133 appointed or permanent agents divided as follows: 4 appointed officials (Governor and Vice-Governors) and 129 professional staff.

Note 15 - Provision analysis

In thousand euros as at 31 December

	2004	2003
Provision releases for risks on loans	32 256	4 132
Provision release for risks and litigation	-	424
Provision charge for pension scheme-related commitments	(7 576)	-
Total provisions	**24 680**	**4 556**

Provision releases for risks on loans relate to debts owed by Bosnia and Herzegovina, and Serbia and Montenegro.

The provision charge for pension scheme commitments has been set up to enhance the Bank's overall commitments towards its staff (see Note 11).

Note 16 - Off-balance sheet financial instruments

Derivative transactions are carried out only for hedging to maturity purposes. The notional amount by type of instrument is presented below:

In thousand euros as at 31 December

	2004	2003
Over-the-counter transactions		
Foreign currency swaps	12 329 145	10 667 645
Interest rate swaps	6 102 806	6 482 760
Other	102 442	129 582
Conditional transactions		
Interest rate options	-	38 112
Total	**18 534 393**	**17 318 099**

Within the framework of counterparty risk management, these transactions are evaluated and analysed on a daily basis in comparison with set up limits and collateral received. This collateral is represented by cash deposits or first rank bonds.

The breakdown of counterparties by rating is presented below:

In thousand euros as at 31 December

Rating	Notional amount	Net present value	Collateral received
AAA	1 070 778	(109 646)	-
AA	12 325 213	(1 252 651)	17 108
A	4 214 511	(608 160)	-
Non-rated	923 891	(176 058)	601
Total	**18 534 393**	**(2 146 515)**	**17 709**

Note 17 - Net position in currency transactions

The net exchange rate risks are the result of margins from banking transactions and general operating expenses. Exchange market transactions are conducted so as to minimise these risks.

In thousand euros as at 31 December

Breakdown by currency	Assets	Liabilities	Derivative instruments	Net position 2004	Net position 2003
Euro	14 367 952	6 556 564	(10 289 142)	(2 477 754)	(1 926 252)
US Dollar	1 365 125	7 960 794	6 595 936	267	1 083
Japanese Yen	226 328	433 690	208 339	977	1 009
Swiss Franc	195 619	271 107	74 036	(1 452)	(1 145)
Pound Sterling	5 718	218 417	212 751	52	17
Other currencies	229 036	949 206	720 323	153	145
Total	**16 389 778**	**16 389 778**	**(2 477 757)**	**(2 477 757)**	**(1 925 143)**

Note 18 - Liquidity position

The liquidity risk is a measure which defines the projected situation of the Bank's treasury.

The table below provides an analysis of assets, liabilities and derivative instruments grouped on the basis of the remaining period between the balance sheet end date and the operations' contractual maturity date.

Those assets, liabilities and derivative instruments that do not have a contractual maturity date are grouped together under the "maturity undefined" category.

In thousand euros as at 31 December

	up to 1 month	1 to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	maturity undefined	Total
ASSETS							
Cash in hand, balances with central banks	49	-	-	-	-	-	49
Loans and advances to credit institutions and to customers							
Loans	35 329	52 107	889 203	4 743 538	5 116 131	-	10 836 308
Advances	929 639	403 517	134 239	-	-	-	1 467 395
Securities portfolio	274 202	82 111	731 093	1 137 390	1 194 330	747	3 419 873
Other assets	-	-	-	-	-	666 153	666 153
Total assets	**1 239 219**	**537 735**	**1 754 535**	**5 880 928**	**6 310 461**	**666 900**	**16 389 778**
LIABILITIES							
Amounts owed to credit institutions and to customers	31 931	-	-	36 332	-	-	68 263
Debt securities	815 162	-	1 603 671	3 473 654	5 884 290	-	11 776 777
Capital, reserves and profit for the year	-	-	-	-	-	1 463 051	1 463 051
Other liabilities	-	-	-	-	-	3 081 687	3 081 687
Total liabilities	**847 093**	**-**	**1 603 671**	**3 509 986**	**5 884 290**	**4 544 738**	**16 389 778**
Derivative instruments	-	2 188	(527 817)	(696 238)	(1 255 890)	-	(2 477 757)
Net liquidity position 2004	**392 126**	**539 923**	**(376 953)**	**1 674 704**	**(829 719)**	**(3 877 838)**	**(2 477 757)**
Accumulated liquidity position 2004	**392 126**	**932 049**	**555 096**	**2 229 800**	**1 400 081**	**(2 477 757)**	
Accumulated liquidity position 2003	1 204 108	1 237 123	2 141 112	751 204	1 293 020	(1 925 143)	

Note 19 - Estimated realisable value information

The estimated realisable value of the Bank's balance sheet, which represents the estimated amount for which an asset could be exchanged or a liability settled between willing and knowledgeable parties in an arm's length transaction, is presented below.

In presenting these evaluations, the following should be noted:

- the totality of the estimated value takes into account the associated derivative instruments
- the value of the loans is net of provisions, thus close to their estimated realisable value
- due to the fact that the Bank manages some risks on a global basis, it is not possible to determine precisely which transactions are hedged. Moreover, the estimated value of the hedged transactions does not take into account the value of these derivative instruments.

At 31 December 2004, the estimated net realisable value is of 220 thousand euros (31 December 2003: -558 thousand euros).

In thousand euros as at 31 December

	Balance sheet value 2004	Value adjustment	Estimated value 2004	Estimated value 2003
ASSETS				
Loans and advances to credit institutions and to customers	12 303 703	113 048	12 416 751	10 868 584
Securities portfolio	3 419 873	29 799	3 449 672	3 163 534
Other assets	666 202	-	666 202	2 255 036
Total	**16 389 778**	**142 847**	**16 532 625**	**16 287 154**
LIABILITIES				
Amounts owed to credit institutions and to customers	68 263	(5 761)	62 502	53 391
Debt securities	11 776 777	(2 184 898)	9 591 879	12 377 321
Other liabilities	2 937 687	2 333 286	5 270 973	2 383 379
Shareholders' equity	1 607 051	-	1 607 051	1 473 621
Total	**16 389 778**	**142 627**	**16 532 405**	**16 287 712**
Net estimated realisable value			**220**	**(558)**

Note 20 - Post-balance sheet events

There have been no material post-balance sheet events that would require disclosure or adjustment to these financial statements since the closing of the accounts by the Governor.

EXTERNAL AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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EXTERNAL AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
(Free translation of the original French report)

Year ended December 31, 2004

To the members of the Governing Board and the Administrative Council
Council of Europe Development Bank
55, Avenue Kléber
75116 Paris

In compliance with the assignment entrusted to us by the Governing Board, we have audited the accompanying balance sheet, profit and loss account and notes to the financial statements at December 31, 2004, presented in euros, of the Council of Europe Development Bank and the related statement of cash flows for the year ended December 31, 2004.

The financial statements are the responsibility of the Governor. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the international standards on auditing as prescribed by the International Federation of Accountants (IFAC). These 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 the Governor, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Bank at 31 December 2004, the results of operations and cash flows for the year in accordance with the generally accepted accounting principles based on the European Union Directive (EEC Directive 86/635 modified by Directive 2001/65/EC and Directive 2003/51/EC).

Paris, February 24, 2005

PricewaterhouseCoopers Audit

Dominique Paul

Société d'expertise comptable inscrite aux tableaux de l'ordre de Paris – Ile-de-France • Strasbourg – Alsace • Lille – Nord-Pas-de-Calais • Lorraine • Rhône-Alpes • Provence – Côte d'Azur – Corse • Pays de Loire • Rouen – Normandie • Toulouse – Midi-Pyrénées.
Société de commissariat aux comptes membre de la compagnie régionale de Paris. Bureaux : Grenoble, Lille, Lyon, Marseille, Metz, Mulhouse, Nantes, Paris La Défense, Rouen, Sophia Antipolis, Strasbourg, Toulouse. Siège social : 32, rue Guersant, 75017 Paris.
Société Anonyme au capital de 2 510 460 €. RCS Paris B 672 006 483 – code APE 741 C – TVA n° FR 76 672 006 483.

AUDITING BOARD'S REPORT ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT AND THE NOTES TO THE FINANCIAL STATEMENTS FOR 2004

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank and Resolutions 334 (2001) and 335 (2001) adopted by the Governing Board, having heard the Administrative Council, the Auditing Board met in Paris on five occasions in 2004 and from 21-25 February 2005 in Paris in order to audit the Bank's balance sheet and profit and loss account and the Notes to the financial statements for the year ended 31 December 2004.

Based on Resolution 343 (2002) of the Governing Board clarified by its decision taken at its meeting of 10 December 2004, following the Administrative Council's recommendation on this issue and on the Auditing Board's previous years' findings, the External Auditor, PricewaterhouseCoopers (Paris), presented his statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the audit of the Bank for the year 2004 as follows:

- Consulting the Governor, the Vice-Governors, the Directors and other pertinent staff;
- Examining the financial statements of the Bank for the year 2004, including the balance sheet at 31 December 2004, the profit and loss account and the Notes to the financial statements, which had been prepared by the accounting department of the Bank and signed by the Governor on 24 February 2005;
- Consulting the Internal Audit Department and examining its reports;
- Consulting the External Auditor of the Bank and examining his interim report and his detailed report (Long Form Report) for the year 2004;
- Obtaining the opinion signed by the External Auditor on 24 February 2005;
- Obtaining all necessary documents, information, and explanations which the Auditing Board deemed necessary. These were readily given by the Governor, the Vice-Governors, the Internal Auditor, the Directors and other pertinent staff.

The Auditing Board certifies, on the basis of the information which was made available to it and to the best of its understanding, that the Bank's balance sheet and profit and loss account including the Notes to the financial statements are in agreement with the books and other records and give a true and fair picture, in all material respects, of the state of the Bank's affairs as at 31 December 2004 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting standards set out by the relevant EC Directives.

Paris, 25 February 2005

Maria Isabel CASTELÃO FERREIRA DA SILVA
Nadejda SANDOLOVA
Paul BRÜGGER

EXTRACT FROM THE MINUTES OF THE 236TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE CEB

Resolution 1489 (2005) **CA/PV 236 (2005)**

Paris, 17 March 2005

The Administrative Council,
Having regard to Article XI, Section 2, of the Bank's Articles of Agreement,
Having regard to the balance sheet, profit and loss account and notes to the Financial Statements as at 31 December 2004,
Having taken note of the external auditor's report dated 24 February 2005,
Having taken note of the Auditing Board's report dated 25 February 2005,
Having taken note of the Governor's Memorandum dated 28 February 2005,

1. recommends that the Governing Board approve the balance sheet, the profit and loss account and the Notes to the Financial Statements as at 31 December 2004,
2. discharges the Governor from his responsibility for financial management in respect of the financial year 2004,
3. resolves to allocate the net profit for 2004 (€ 115 166 047) as follows:
   - € 105 166 047 to the general reserve
   - € 10 000 000 to the Selective Trust Account,
4. recommends that the Governing Board approve point 3 above.

EXTRACT FROM THE MINUTES OF THE 178TH MEETING OF THE GOVERNING BOARD OF THE CEB

Resolution 356 (2005) **CD/PV 178 (2005)**

Paris, 1 April 2005

The Governing Board,
Having regard to Article IX, Section 3, paragraph 1, litt.e of the Articles of Agreement,
Having regard to the balance sheet, the profit and loss account and the Notes to the Financial Statements as at 31 December 2004,
Having taken note of the certification by the external auditor, dated 24 February 2005,
Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2004,
- the Auditing Board's report dated 25 February 2005,

Having regard to Resolution 1489 (2005) of the Administrative Council,
Having heard the Auditing Board,

Decides:
- to approve the Bank's annual report, accounts and other financial statements for 2004,
- to discharge the Administrative Council from its responsibility for the financial year 2004,
- to endorse point 3 of Resolution 1489 (2005) of the Administrative Council of 17 March 2005, by which the Administrative Council agreed to allocate the net profit for 2004, amounting to € 115 166 047, as follows:
  - € 105 166 047 to the general reserve
  - € 10 000 000 to the Selective Trust Account.
- to invite the Administrative Council to provide for regular contributions to the Selective Trust Account depending on the financial year results.

BALANCE SHEET AS AT 31 DECEMBER 2004 AFTER ALLOCATION OF PROFIT

In thousand euros

	NOTES	2004	2003
ASSETS			
Cash in hand, balances with central banks		49	52
Loans and advances to credit institutions and to customers	3		
Loans		10 836 308	9 971 412
Advances		1 467 395	954 393
Securities portfolio	4	3 419 873	3 222 102
Fixed assets	5	20 571	21 536
Capital subscribed, called, unpaid and reserves receivable	12	16 073	2 272
Other assets, prepayments and accrued income	6	629 509	614 283
Total assets		**16 389 778**	**14 786 050**
LIABILITIES			
Amounts owed to credit institutions and to customers	7	68 263	46 318
Debt securities	8	11 776 777	10 882 732
Other liabilities	9	2 835 546	2 293 911
Selective Trust Account (STA)	10	67 431	56 641
Provision for financial risks	11	44 710	33 722
Fund for General Banking Risks (FGBR)		144 000	144 000
Capital	12		
Subscribed		3 293 570	3 249 061
Uncalled		(2 924 922)	(2 885 326)
Called		368 648	363 735
General reserve		1 084 403	964 991
Total liabilities		**16 389 778**	**14 786 050**
OFF-BALANCE SHEET			
Financing commitments on approved projects	3	2 199 658	2 170 985
Off-balance sheet financial instruments	16	18 534 393	17 318 099
Guarantees given		2 764	3 736

NOTES FOR THE READER

1. **Title:** Since its creation in 1956, the Bank has been known successively under three different titles. Since 1 November 1999, it has been known as Council of Europe Development Bank. Its official acronym is CEB, which corresponds to the contracted form (Council of Europe – Bank) of its full title.

2. **Member states:** As at 31 December 2004, the Bank had 38 member states: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Ireland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Serbia and Montenegro, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia", Turkey.
   From 1986 to 1991, a contract of association linked the former Yugoslavia to the Bank as an Associate member.

3. **Articles of Agreement:** The first Articles of Agreement were adopted by the Committee of Ministers of the Council of Europe on 16 April 1956 under Resolution (56)9. New Articles of Agreement, adopted by the Committee of Ministers on 16 June 1993 under Resolution (93)22, came into force on 18 March 1997, following their ratification by all member states.

4. **Project approved:** A project which has been submitted to the Administrative Council and approved for funding.

5. **Loan disbursed:** A loan which has actually been paid to the beneficiary.

6. **Loan tranche:** Loans are paid in several tranches, depending on the progress of the work, up to the maximum amount approved by the Administrative Council.

7. **Projects:** The CEB distinguishes three categories of projects:
   - individual projects (IPs), characterised by a single sector and a single site, or by a limited number of technically related sites.
   - sectorial projects (SPs), comprising several sub-projects pertaining to one or several sectors. These projects must come within the framework of sectorial development programmes set up at national or regional level.
   - multi-project programmes (MPs), grouping together small-scale projects with a CEB loan for a maximum amount of € 5 million, irrespective of the sector concerned.

8. **Awaiting financing:** Total amount of signed master agreements to be disbursed and of individual projects (not within master agreements) for which at least one disbursement has already been made.

9. **Selective Trust Account (STA):** A special account set up in 1995 to provide interest rate subsidies for projects that comply with the Bank's priority objectives and have a high social value. The account is fed with allocations from the Bank's profits and voluntary contributions from member states. This account may also be used to make donations, granted by the Administrative Council.

10. **Loans outstanding:** Total amount of loans disbursed and not yet repaid.

11. **Subscribed capital:** Participating certificates issued by the Bank and subscribed by its members.

12. **Called capital:** Total capital paid in and to be paid in.

13. **Uncalled capital:** Difference between the subscribed capital and the called capital.

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