CEB

COUNCIL OF EUROPE DEVELOPMENT BANK

REPORT OF THE GOVERNOR 2003





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 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 36 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 fields of action: 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 3.2 billion euros as at 31 December 2003. 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, and by two other Vice-Governors, Mr. Krzysztof J. NERS and Mr. Apolonio RUIZ LIGERO, 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

	2003	2002	2001	2000	1999
Loans disbursed during the year	1 589	1 537	1 749	1 855	1 712
Projects approved during the year	2 149	1 605	1 664	1 888	2 052
Loans outstanding	9 903	9 350	8 630	8 442	7 743
Own assets (after allocation of profit)	4 358	4 254	3 962	2 466	2 381
Tangible net worth (after allocation of profit)	1 470	1 384	1 293	1 221	1 133
Balance sheet total	14 786	14 217	13 926	14 434	12 659
Profit	86.9	95.2	88.3	95	91.4
Selective Trust Account (total appropriations from profit)	64.4	63.5	58.3	55	45

REPORT OF THE GOVERNOR

Financial year 2003



CEB

COUNCIL OF EUROPE
DEVELOPMENT BANK

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THE BANK'S MEMBER STATES Year of accession



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



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MEMBERSHIP OF THE BANK'S ORGANS
as at 31 December 2003*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Orhan GÜVENEN Director, Institute of World Systems, Economies and Strategic Research, Bilkent University, 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*	**Josip KULIŠIĆ** Assistant Finance Minister, Department for International Financial Relations and European Integration, Ministry of Finance, Zagreb
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 Finance and Treasury of Bosnia and Herzegovina, 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
Neven MADEY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	Croatia	**Josip KULIŠIĆ** Assistant Finance Minister, Department for International Financial Relations and European Integration, Ministry of Finance, Zagreb
Nicholas EMILIOU 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	**Pavel FRELICH** Head of International Financial Organisations Unit, 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 "Directorate 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: **Ms 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 European Affairs Office, Treasury Directorate, 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
Athanassios THEODORACOPOULOS Ambassador, Permanent Representative of Greece to the Council of Europe, Strasbourg **Constantin YEROCOSTOPOULOS** (since 11-02-2004) Ambassador, Permanent Representative of Greece to the Council of Europe, Strasbourg	Greece	**Constantinos VGENOPOULOS** National Bank of Greece, Athens

Holy See

Mgr Paul Richard GALLAGHER
Special Envoy of the Holy See to the Council of Europe, Strasbourg

Mgr Vito RALLO (since 03-03-2004)
Special Envoy of the Holy See to the Council of Europe, Strasbourg

Zoltán TAUBNER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	Hungary	**László LENGYEL** Director General, Department of International Finances, Ministry of Finance, Budapest **László ÖRLŐS** (since 01-03-2004) Deputy Director General, Department of International Finances, Ministry of Finance, Budapest
Hördur H. BJARNASON Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Strasbourg	Iceland	**Thröstur OLAFSSON** Economist, Member of the Board of Directors, Central Bank of Iceland, Reykjavik **Björn Ingi HRAFNSSON** (since 20-1-2004) Special Adviser, Ministry of Foreign Affairs, Reykjavik
Pietro Ercole Carlo AGO Ambassador, Permanent Representative of Italy to the Council of Europe, Strasbourg **Pietro LONARDO** (since 12-2-2004) Ambassador, Permanent Representative of Italy to the Council of Europe, Strasbourg	Italy	**Antimo PROSPERI** Director of the Second Bureau of Directorate VI of the Treasury Department, Ministry of Economy and Finance, Rome

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Georgs ANDREJEVS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	Latvia	**Inta VASARAUDZE** Deputy State Secretary, Ministry of Finance, Riga
Daniel OSPELT Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg	Liechtenstein	
Neris GERMANAS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	Lithuania	**Daiva KAMARAUSKIENE** Director of the Public Debt Management Department, Ministry of Finance, Vilnius
Ronald MAYER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	Luxembourg	**Jérôme HAMILIUS** Government Adviser, Ministry of Finance, Luxembourg
Joseph LICARI Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg	Malta	
Alexei TULBURE Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	Moldova	**Veaceslav AFANASIEV** Deputy Minister of Economy Ministry of Economy, Chisinau
Johannes C. LANDMAN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	Netherland	**Jan Willem van der KAAIJ** Deputy Director, Foreign Financial Relations, Ministry of Finance, The Hague
Torbjørn FRØYSNES Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Norway to the Council of Europe, Strasbourg	Norway	**Trond Folke LINDBERG** Deputy Director General, Head of Multilateral Bank and Finance Section, Ministry of Foreign Affairs, Oslo
Krzysztof KOCEL Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Poland to the Council of Europe, Strasbourg	Poland	**Jacek TOMOROWICZ** Director, Foreign Policy Department, Ministry of Finance, Warsaw
Paulo CASTILHO Ambassador, Permanent Representative of Portugal to the Council of Europe, Strasbourg	Portugal	**Lina NETO** Deputy Director General, General Directorate for European Affairs and International Relations, Ministry of Finance, Lisbon
Sabin POP Ambassador, State Counsellor to the Prime Minister for Foreign Affairs, Bucharest	Romania	**Enache JIRU** Secretary of State, Ministry of Finance, Bucharest
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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Anna LAMPEROVÁ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	Slovak Republic	**Vladimir TVAROŠKA** Secretary of State, Ministry of Finance, Bratislava
Darja LAVTIŽAR BEBLER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	Slovenia	**Irena SODIN** Under-Secretary of State, Ministry of Finance, Ljubljana
Estanislao DE GRANDES PASCUAL Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	Spain	**Ramón GUZMÁN ZAPATER** General Director for International Finance, Ministry of Economy, Madrid
Mats ÅBERG Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	Sweden	**Björn FRITJOFSSON** Director, Division for International Organisations, Ministry of Finance, Stockholm
Jean-Claude JOSEPH Ambassador, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	Switzerland	**Yves EMERY** Head of Section, Federal Department of Finance, Bern **Martin ROHNER** (since 10-03-2004) Head of Division, Multilateral Financial Institutions State Secretariat for Economic Affairs (seco), Bern
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"	**Goran ANCEVSKI** Head of Department, International Finance Department, Ministry of Finance, Skopje
Numan HAZAR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	Turkey	**Melih NEMLI** Acting Director General 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

Portugal: **Maria Isabel CASTELÃO FERREIRA da SILVA**, Deputy General Inspector of Finance, Lisbon
Sweden: **Filip CASSEL**, Chartered Accountant, Audit Director, Ph D, Stockholm
Switzerland: **Paul BRÜGGER**, Head of the Control of Federal Finances Legal Service, Bern

STRIVING FOR A MORE COHESIVE EUROPE

Since it was founded in 1956, the Council of Europe Development Bank (CEB) has unceasingly affirmed its social vocation in favour of European solidarity.

The forthcoming enlargement of the European Union therefore constitutes a major **challenge** for the Bank as well as an **opportunity** to strengthen its contribution to social development.

The challenges of a changing Europe

The accession of ten new states to the European Union on 1 May 2004, including eight countries of central and eastern Europe, **is the result of a transition process which began several years ago,** and is designed to ensure the demographic stability and prosperity of a continent united around common values.

At the same time, this enlargement process, which should continue in the coming years, will lead the European Union to face **serious social disparities** which are likely to worsen if appropriate measures are not taken.

In view of these major changes, the financial players in Europe, in particular multilateral development institutions, must seriously rethink their strategy of action.

In this context, faithful to its specific vocation and on the strength of its experience, the CEB intends to **foster social convergence in a changing Europe,** in priority for benefit of the most vulnerable populations and the most disadvantaged countries and regions.

The Bank's medium-term strategic orientations

In promoting sustainable social development, the CEB has identified **three sectorial lines of action** that must systematically structure its action:

- Firstly, **the strengthening of social integration** and the fight against exclusion
- Secondly, **development of human capital,** through financing in the fields of education and health
- And, finally, **responsible management of the environment,** promoting actions in favour of prevention as well as systematic responses to emergency situations.

At the same time, the CEB will strive to enhance its **expertise.** To do so, the Bank will intensify its **policy of close partnerships** with other international organisations, as financial and non-financial players in the field of development. It will also improve its assistance and evaluation capacity throughout the whole project cycle.

Geographically, the CEB will **broaden its operations in central and south-eastern Europe.** As the reference financial institution for matters concerning refugees and displaced persons, it will be led to devote increasingly more of its actions to the Balkan countries, where needs are greatest.

The means of an ambition

The Bank's activity must be based on an **appropriate financial structure** and its **triple AAA rating** that enables it to have access to the best resources on the international financial markets.

The CEB will therefore continue to study how it can **best develop its prudential framework** in the light of the Basle Committee recommendations, along with maintaining a strict risk control policy.

In 2004, the orientations envisaged will be set forth in **a Medium-term Development Plan** defining the overall framework for the Bank's activity for the period 2005-2009.

MESSAGE FROM THE GOVERNOR



During 2003, the CEB increased its contribution to European solidarity while reinforcing its financial structure, in order to better promote social convergence in a changing Europe.

The Bank continued to deliberately moderate its volume of activity in order to **enhance the social value of its actions.** The amount of disbursements increased slightly to reach € 1.589 billion, thereby raising the amount of the **loans outstanding to € 9.903 billion** at end 2003, representing the highest level since the CEB's inception.

Almost ten billion euros of loans outstanding,...

The Bank's deepening commitment to its social priorities led to a **further rise in the number and volume of its operations in the transition countries:** 22 new projects were approved in 2003, compared to 12 in 2002, and disbursements totalled € 380 million, representing an increase of 17% in one year.

...the rapid increase in operations in the transition countries,...

Faithful to its specific vocation, the CEB placed emphasis on its **action as a development bank** promoting social cohesion within the framework of its statutory priorities.

Out of a total amount of new projects reaching € 2.149 billion for 2003, the contribution to **greater social integration** accounted for a volume of approvals in excess of € 660 million, in favour of refugees and migrants, social housing and employment. Particular attention was paid to the **development of human capital** in the key fields of health and education: in 2003, these two sectors alone totalled € 990 million and represented 46% of all projects approved by the institution. In its commitment to **responsible management of the environment,** the Bank approved almost € 500 million, targeted to the prevention of natural or ecological disasters and to providing systematic responses to emergency situations, as well as to protection of the environment and preservation of historic and cultural heritage.

...actions promoting social integration, human capital development and improved environmental management,...

The Bank's capacity for action and the enhancement of its expertise have benefited from a **policy of close partnerships** with other international institutions, leading to a constant increase in cofinancing operations.

...a policy of close partnerships,...

…regular and sustained profitability,…

The net profit, which stood at € 86.9 million for 2003, remains at a high level. Thanks to its **sustained and regular profitability** over the past 10 years, the CEB has built up massive reserves representing more than half of its available own funds.

…combined with reinforcement of the Bank's financial structure…

The financial soundness of the institution was further reinforced in 2003 as a result of **another increase in its own funds,** which now stand at € 4.36 billion. This reinforcement went hand in hand with a constant improvement in the **quality of its counterparties,** 78% of which are rated A or higher, and the continued rebalancing of its loans portfolio.

…and confirmation of its triple AAA rating,…

Confirmation of the **AAA rating** by the agencies Moody's, Standard & Poor's and Fitch Ratings reflects the institution's excellent solvency and the quality of its signature on the international financial markets.

…the accession of Bosnia and Herzegovina, initiatives with a very strong social value added,…

Among the **highlights of 2003,** the CEB's appeal for transition countries was once again confirmed by the **accession of Bosnia and Herzegovina,** which became the Bank's 36th member state on 18 December 2003. After the Finnish Trust Account, a new Trust Account endowed with € 1 million by **Norway** was opened in order to facilitate the use of external consultants in the preparation of social projects. Jointly with the World Bank, the CEB organized a Ministerial Conference in Paris on social housing in South Eastern Europe, thereby targeting a priority geographical area as well as a sector that is one of the institution's fields of expertise. Noteworthy among the **initiatives with a very high social added value** taken by the Bank was the approval of a project aimed at improving the efficiency of blood transfusion services in Moldova and the launch of a series of six projects in favour of women entrepreneurship in the three Baltic countries.

…all in compliance with the strategic orientations of the 1999-2004 Development Plan,…

The **strategic orientations** approved by the CEB's collegiate organs and set forth in the objectives of the 1999-2004 Development Plan have been **fully respected.** The **geographic redeployment** of the Bank's activity in favour of the transition countries has been pursued. At the end of 2003, the total amount of projects approved for these countries was in excess of € 2.3 billion, more than half of which has already been disbursed, compared to only € 420 million at end 1999.

For the period 2005-2009, the CEB will increase its contribution, particularly in central and south-eastern Europe; at the same time, the Bank will enhance the **development approach** which underpins its entire activity: greater legibility of its action, improved expertise and assistance for its borrowers, intensive cooperation with other international organisations and diversification of the instruments at its disposal, will all contribute to this.

The **funding policy** was characterised by compliance with the objectives defined over the past years, and the adjustment in the volume of activity.

In 2003, **the Bank's issues totalled € 2.4 billion,** which represents a billion dollars less than in 2002, the volume of debt to be repaid being much lower than that of the previous year. More than 80% of these borrowings were denominated in US dollars. The Bank was also present on the Taiwan dollar, Japanese yen and Australian dollar markets. The average maturity of these borrowings was shortened by one year, in accordance with the average lifetime of loans granted in 2003, and now stands at six years and five months. All these funding operations were systematically matched with floating-rate hedge swaps, with the outstanding amount of these swaps being itself 95% collateralized. At 31 December 2003, the liquidity ratio was 104%, representing double the 50% minimum required.

…access to the financial markets on very favourable terms, and very strict risk control,…

*

Faced with a weak economic and financial environment, in 2003, the Bank confirmed its ability to enhance its geographic and sectorial priorities while at the same time strengthening its financial structure.

With its current loans outstanding of € 10 billion enabling it to finance around € 25 billion in social investments, based on an average contribution of 40% per project, the CEB will continue to provide financial leverage in favour of social cohesion in Europe.

...enabled the CEB to affirm, in 2003, its vocation to foster social cohesion in Europe.

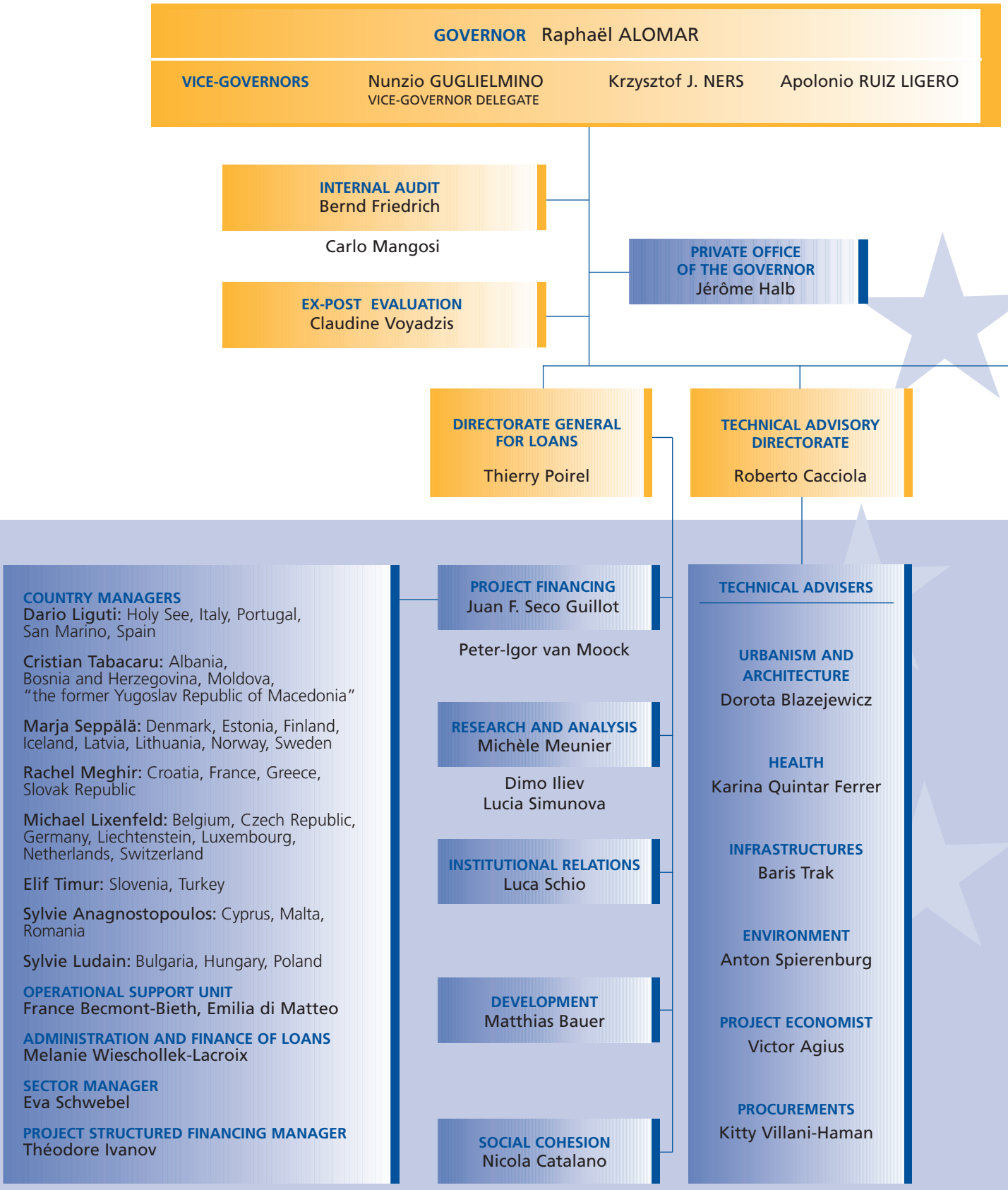
The institution must now take up the challenges of a Europe that is changing under the effect of enlargement of the Union to 10 new countries on 1 May 2004. In this perspective and with the support of its member states, the Bank will affirm its commitment to promoting sustainable social development, in close cooperation with the Council of Europe and in accordance with the prudential framework regulating its activity.

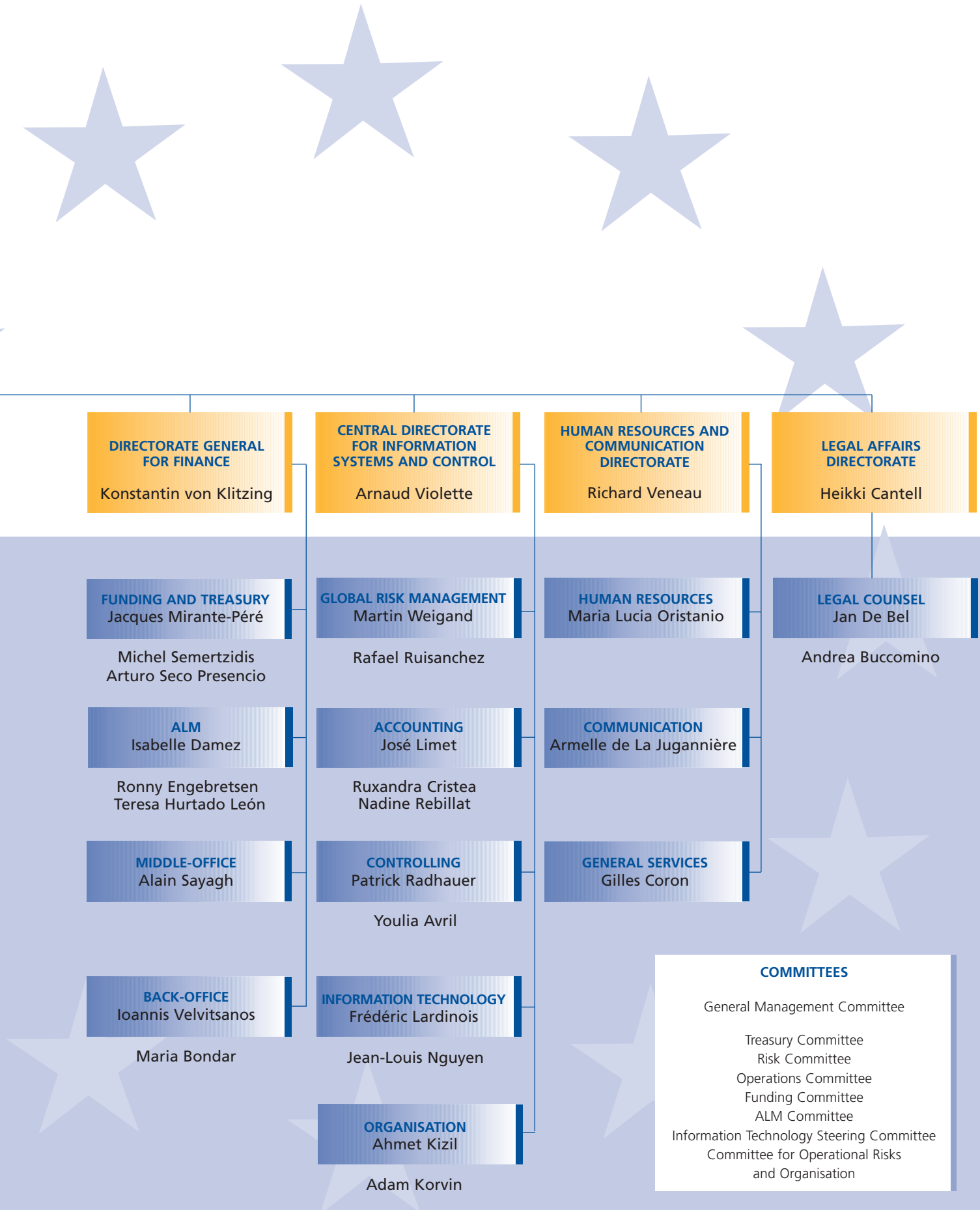
Paris, 1 March 2004



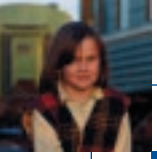
Raphaël ALOMAR

ORGANISATION CHART




DIRECTORATE GENERAL FOR FINANCE
Konstantin von Klitzing
CENTRAL DIRECTORATE FOR INFORMATION SYSTEMS AND CONTROL
Arnaud Violette
HUMAN RESOURCES AND COMMUNICATION DIRECTORATE
Richard Veneau
LEGAL AFFAIRS DIRECTORATE
Heikki Cantell
FUNDING AND TREASURY
Jacques Mirante-Péré
Michel Semertzidis
Arturo Seco Presencio
GLOBAL RISK MANAGEMENT
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Rafael Ruisanchez
HUMAN RESOURCES
Maria Lucia Oristanio
LEGAL COUNSEL
Jan De Bel
Andrea Buccomino
ALM
Isabelle Damez
Ronny Engebretsen
Teresa Hurtado León
ACCOUNTING
José Limet
Ruxandra Cristea
Nadine Rebillat
COMMUNICATION
Armelle de La Jugannière
MIDDLE-OFFICE
Alain Sayagh
CONTROLLING
Patrick Radhauer
Youlia Avril
GENERAL SERVICES
Gilles Coron
BACK-OFFICE
Ioannis Velvitsanos
Maria Bondar
INFORMATION TECHNOLOGY
Frédéric Lardinois
Jean-Louis Nguyen
ORGANISATION
Ahmet Kizil
Adam Korvin
COMMITTEES
General Management Committee
Treasury Committee
Risk Committee
Operations Committee
Funding Committee
ALM Committee
Information Technology Steering Committee
Committee for Operational Risks
and Organisation

5 April 2004



CEB PROJECTS IN THE TRANSITION COUNTRIES

The Bank undertakes significant action in favour of social development in the transition countries, where the needs in this field are considerable. At a time when several of these countries are preparing to join the European Union, the CEB is determined to lend ever greater support to the development process and to reducing social inequalities in these countries.

In 2003, the CEB naturally pursued its effort in favour of these countries, approving a total of € 526 million for the financing of operations and disbursing € 378 million.

Since 1995, the CEB's activity in the transition countries has not only significantly increased but also markedly accelerated (see graph below). In all, over the period, an accumulated amount of € 2 330 million has been approved in favour of these countries and disbursements have amounted to almost € 1.2 billion.

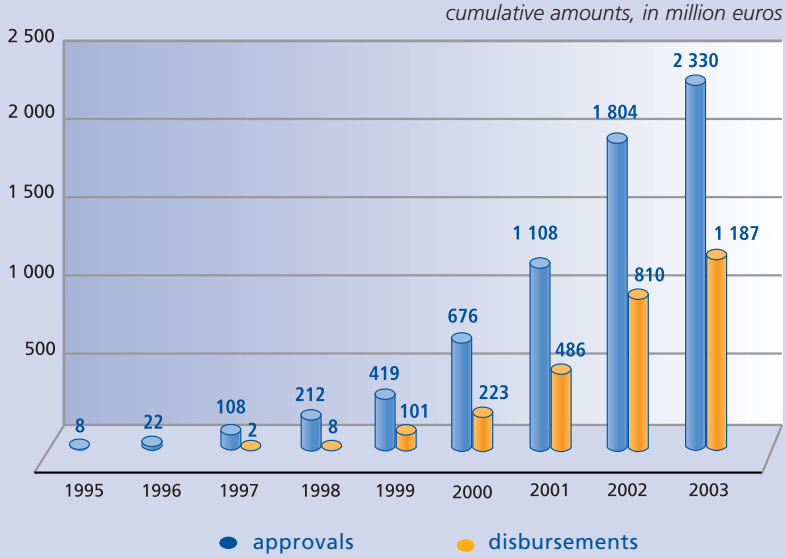
In **geographical** terms, the CEB's financing operations have had a wide impact since 88 projects implemented in 15 countries of operations, since 1995.

In **sectorial** terms, the CEB's statutory priority actions, aid to refugees and migrants and aid to regions hit by natural or ecological disasters, have represented over 20% of the total amount of projects approved in these countries since 1995.

Lastly, in **financial** terms, these operations are of particular interest to the beneficiary countries. Indeed, over and above the favourable terms on which the CEB loans are granted, approximately 25% of the total amount of the loans approved for these countries since 1995 have received interest-rate subsidies through the Selective Trust Account (STA), which represents a total contribution by the CEB of € 37 million.

Set up in 1995, the Selective Trust Account is a special account whereby interest-rate subsidies can be granted in favour of projects concerned with the Bank's priority objectives and presenting strong social characteristics. Fed by amounts taken from the Bank's annual profits (for an accumulated total of over 60 million euros), this account constitutes a real social dividend of which the transition countries are the sole beneficiaries.

Activity growth in the transition countries





PROJECTS AND LOANS

In 2003, the Council of Europe Development Bank (CEB) carried out its activity in compliance with the major orientations set forth in previous years: a reasonable increase in the outstanding, deliberate control of the volume of disbursements, intensification of actions in favour of the **transition countries** and enhancement of the social added value of its actions.

The amount of **projects approved** increased during the course of the year to **€ 2 148.5 million**, representing a 34% increase in relation to 2002. This overall amount includes a sub-total of € 842 million for 17 individual projects (IPs[1]) and another sub-total of € 1 306.5 million for 25 loan programmes (sector-based multi-project programmes, SMPs[1]), spread over 22 countries of operations, including **12 transition countries**.

In terms of disbursements, the deliberate moderation in volumes resulted in an overall amount comparable to that of the previous year.

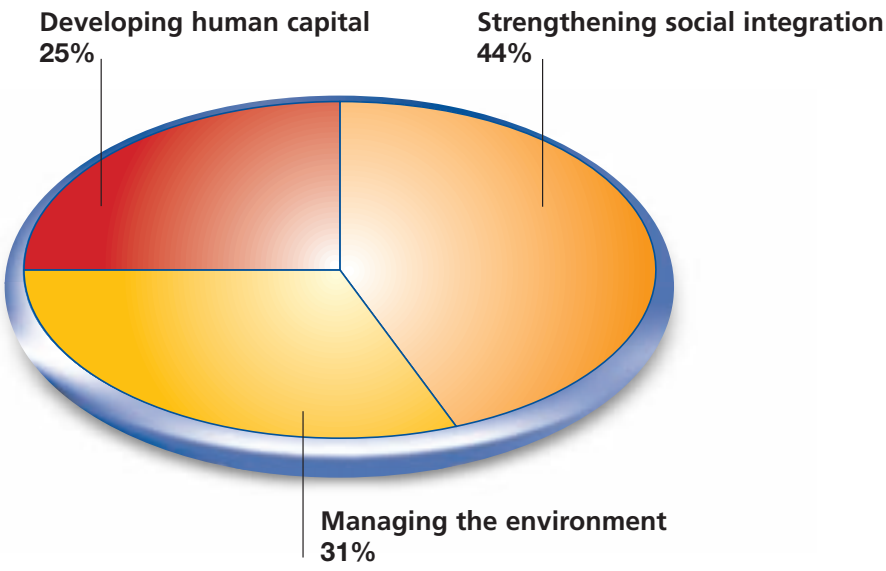
1. See definition in Notes for the Reader, p. 80

The **loans disbursed** in 2003 thus amounted to **€ 1 589.5 million**, including € 378 million in favour of the transition countries (representing 24% of the total volume). These loans were spread over a total of 24 countries of operations and 74 projects. As at 31 December 2003, the loans outstanding amounted to € 9.9 billion, spread over 29 countries.

Lastly, in sectorial terms, in 2003, the CEB pursued its action in favour of greater solidarity between social groups in Europe. Indeed, the breakdown of the actions undertaken over the past five years shows three major sectorial lines of action structuring all the institution's actions, in compliance with its social vocation:

- to contribute to **strengthening social integration**, in particular by providing aid to refugees and migrants, increasing the amount of available social housing, improving living conditions in urban and rural areas and fostering job creation and preservation.

Loans disbursed from 1999 to 2003 - Breakdown by line of action





PROJECTS APPROVED
by country and by sector, from 1999 to 2003

In thousand euros

COUNTRIES	2003 Amounts	2003 %	Total 1999-2003 Amounts	Total 1999-2003 %
Albania	-	-	6 476	0.1
Belgium	-	-	220 000	2.4
Bulgaria	20 000	0.9	58 703	0.6
Croatia	38 632	1.8	118 125	1.3
Cyprus	200 000	9.3	406 282	4.3
Czech Republic	-	-	896	< 0.1
Denmark	-	-	100 000	1.1
Estonia	-	-	10 587	0.1
Finland	50 000	2.3	450 000	4.8
France	50 000	2.3	828 343	8.9
Germany*	145 000	6.7	1 214 377	13.0
Greece	-	-	4 102	< 0.1
Hungary	-	-	313 413	3.3
Iceland	-	-	26 591	0.3
Italy**	600 000	27.9	1 569 000	16.8
Latvia	2 000	0.1	20 801	0.2
Lithuania	6 292	0.3	12 859	0.1
Malta	152 182	7.1	152 182	1.6
Moldova	6 000	0.3	6 000	0.1
Norway	-	-	122 600	1.3
Poland	110 000	5.1	612 305	6.5
Portugal	100 000	4.8	356 300	3.8
Romania	140 450	6.6	263 641	2.8
Slovak Republic	4 859	0.2	47 641	0.5
Slovenia	-	-	16 277	0.2
Spain	214 852	10.0	1 354 193	14.5
Sweden	108 257	5.0	166 356	1.8
"the former Yugoslav Republic of Macedonia"	-	-	20 113	0.2
Turkey	200 000	9.3	878 150	9.4
	2 148 524	100.0		

* *including € 77.5 million for the final benefit of transition countries*
** *including € 120 million for the final benefit of transition countries*

SECTORS***	2003 Amounts	2003 %	Total 1999-2003 Amounts	Total 1999-2003 %
STRENGTHENING SOCIAL INTEGRATION	*663 546*	*30.9*	*4 274 162*	*45.7*
Aid to refugees, migrants and displaced populations	38 632	1.8	70 957	0.8
Social housing	55 414	2.6	1 919 853	20.5
Job creation and preservation in SMEs and vocational training	422 500	19.7	1 374 679	14.7
Improving living conditions in disadvantaged urban areas and rural modernisation	147 000	6.8	908 673	9.7
MANAGING THE ENVIRONMENT	*494 413*	*23.0*	*2 705 999*	*28.9*
Natural or ecological disasters, reconstruction and preventive action	260 000	12.1	1 765 747	18.9
Protection of the environment	66 413	3.1	693 572	7.4
Preservation of historic and cultural heritage	168 000	7.8	246 680	2.6
DEVELOPING HUMAN CAPITAL	*990 565*	*46.1*	*2 376 152*	*25.4*
Education	506 957	23.6	1 161 500	12.4
Health	483 608	22.5	1 214 652	13.0
TOTAL	2 148 524	100.0		

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



- to participate in **responsible management of the environment**, through preventive action and aid to regions hit by natural or ecological disasters; the construction or rehabilitation of infrastructures for water supply and the treatment of liquid and solid waste; the production of clean and renewable energies; protection and rehabilitation of historic heritage.
- to provide support for **developing human capital** through projects in the education and health sectors.

These three lines of action represent respectively 44%, 31% and 25% of the total amount of loans disbursed over the past five years.

I - STRENGTHENING SOCIAL INTEGRATION

Social integration is a pluridimensional process involving many different actors and benefiting society as a whole. The process must be approached from a global point of view and must attack the underlying causes of social exclusion.

For the CEB, strengthening social integration means, at operational level, acting in favour of refugees and migrants, improving social housing and employment, and fighting against the marginalisation of the most destitute.

Over the period 1999-2003, this sectorial line of action represented an accumulated amount of € 4.3 billion in terms of projects approved. In 2003 alone, the total amount of project approvals stood at € 663.5 million.

Similarly, since 1999, loans disbursed in favour of increased social integration have represented an accumulated amount of € 3.7 billion, representing 44.2% of total disbursements. For 2003 alone, the total was € 635 million, including € 299 million in favour of **transition countries**.



CROATIA
Housing for refugees in Petrinja

1. Aid to refugees, migrants and displaced populations

Aid to refugees and migrants is one of the CEB's statutory priority objectives. The projects financed in this sector are principally concerned with the construction or rehabilitation of reception centres, social housing (temporary or permanent), programmes involving preventive medicine, education and vocational training, and the basic infrastructures required for the precise and immediate needs of populations that find themselves victims of exceptional situations. It is in this perspective that the Bank this year increased its cooperation with the United Nations High Commissioner for Refugees (UNHCR) in order to develop and implement joint projects.

In the course of the past five years, the CEB has responded to requests made by several member states, such as **Croatia** and **Lithuania**, for the implementation of projects targeted to refugees and displaced persons. Over that period, approvals for new operations in this sector amounted to a total of € 71 million.

In 2003, a new operation in favour of refugees was approved in **Croatia**, for an amount of € 38.6 million. This project is aimed at solving the housing problems that constitute an obstacle to the return of refugees, at speeding up the process of returning occupied



LOANS DISBURSED
by country and by sector, from 1999 to 2003

In thousand euros

COUNTRIES	2003 Amounts	2003 %	Total 1999-2003 Amounts	Total 1999-2003 %
Albania	673	< 0.1	673	< 0.1
Belgium	-	-	181 344	2.2
Bosnia and Herzegovina	-	-	2 986	< 0.1
Bulgaria	10 015	0.6	22 095	0.3
Croatia	33 325	2.1	95 505	1.1
Cyprus	91 600	5.8	347 521	4.1
Denmark	50 000	3.2	50 000	0.6
Estonia	2 981	0.2	8 541	0.1
Finland	75 000	4.7	369 692	4.4
France	50 000	3.2	1 019 806	12.1
Germany*	115 000	7.2	965 211	11.4
Greece	119 770	7.5	475 310	5.6
Hungary	122 200	7.7	223 500	2.7
Iceland	6 611	0.4	26 431	0.3
Italy**	242 625	15.3	990 721	11.7
Latvia	7 135	0.4	12 410	0.1
Lithuania	4 067	0.3	10 787	0.1
Malta	75 500	4.8	118 000	1.4
Norway	60 900	3.8	128 788	1.5
Poland	103 875	6.5	454 897	5.4
Portugal	50 000	3.2	235 355	2.8
Romania	6 159	0.4	119 139	1.4
San Marino	-	-	2 324	< 0.1
Slovak Republic	2 310	0.1	26 307	0.3
Slovenia	-	-	43 528	0.5
Spain	266 960	16.8	1 829 340	21.7
Sweden	70 216	4.4	110 251	1.3
"the former Yugoslav Republic of Macedonia"	-	-	13 913	0.2
Turkey	22 565	1.4	557 167	6.6
	1 589 487	100.0		

* *including € 75 million for the final benefit of transition countries*
** *including € 10 million for the final benefit of transition countries*

SECTORS***	2003 Amounts	2003 %	Total 1999-2003 Amounts	Total 1999-2003 %
STRENGTHENING SOCIAL INTEGRATION	*635 049*	*40.0*	*3 730 891*	*44.2*
Aid to refugees, migrants and displaced populations	18 853	1.2	88 725	1.1
Social housing	257 638	16.2	1 811 891	21.4
Job creation and preservation in SMEs and vocational training	237 518	15.0	1 021 225	12.1
Improving living conditions in disadvantaged urban areas and rural modernisation	121 040	7.6	809 050	9.6
MANAGING THE ENVIRONMENT	*271 011*	*17.0*	*2 608 162*	*30.9*
Natural or ecological disasters, reconstruction and preventive action	174 864	11.0	1 527 123	18.1
Protection of the environment	36 808	2.3	960 562	11.4
Preservation of historic and cultural heritage	59 339	3.7	120 347	1.4
Infrastructure	-	-	130	< 0.1
DEVELOPING HUMAN CAPITAL	*683 427*	*43.0*	*2 102 489*	*24.9*
Education	315 577	19.9	1 055 746	12.5
Health	367 850	23.1	1 046 743	12.4
	1 589 487	100.0		

*** *For these programmes (SMPs), the indicative breakdown by sector is drawn up by the borrower. It is updated as disbursements are made*



properties to their rightful owners (4 000 dwellings), and at providing alternative housing. Conscious of the need to find sustainable solutions for these population groups, in particular to re-house them and provide them with access to employment, the Croatian Government has for several years now been increasing its initiatives in this direction and, for this operation, will benefit from the experience the Bank has acquired in this sector.

The amount of loans disbursed in favour of aid to refugees, migrants and displaced populations in 2003 reached € 18.9 million.



FINLAND
Social housing in Tampere

CEB ACTION IN FAVOUR OF ROMA COMMUNITIES

In the countries of central and eastern Europe, the economic and political transition has worsened the living conditions of the Roma minorities, representing around 8 million people in Europe.

In partnership with the Finnish Government, the Bank gave its support to a Conference on the Roma, held in Budapest in June 2003 and organised jointly by the World Bank, the Soros Foundation and the European Commission. At the conference, the CEB presented its experience in financing projects in favour of the Roma community in Bulgaria, which are part of the Bulgarian national programme of action in favour of the Roma communities. The purpose of these operations is to provide for the construction and rehabilitation of municipal infrastructures for the Roma inhabitants.

Moreover, the Bank this year approved a donation in favour of UNICEF for the financing of a project aimed at improving access to education for Roma children, young girls and young women living in "the former Yugoslav Republic of Macedonia". Implemented by UNICEF, this programme is targeted to 500 beneficiaries living in two collective centres as well as 5 000 other beneficiaries located in ten towns throughout the country.

Also in Croatia, the CEB completed the financing of two projects for the rehabilitation and construction of community infrastructures for health and housing, and the reconstruction of school facilities damaged by the war. Lastly, in 2003, the CEB paid out a new loan tranche for the reconstruction and renovation of school facilities throughout the country.

Similarly, in **Lithuania**, the Bank paid out an additional loan tranche for a project concerned with the construction of housing units for deportees returning from the former USSR and for their families.

Furthermore, in 2003, donations amounting to € 872 000, were made in favour of refugee populations and Roma communities in "**the former Yugoslav Republic of Macedonia**" (See box opposite).

2. Social housing

The operations financed by the CEB in this sector concern projects for the construction and rehabilitation of housing in favour of low-income population groups. The projects can also be targeted to access to home ownership or rental accommodation within the framework of the construction of new housing, the renovation or rehabilitation of existing housing, or even the transformation of buildings into apartment blocks.



HOUSING POLICIES IN SOUTH EASTERN EUROPE
CEB - World Bank Ministerial Conference
PARIS, 23 and 24 April 2003

The CEB organised a Conference with the World Bank on housing policies in the Balkans, under the auspices of the Stability Pact for South Eastern Europe.

The purpose of the Conference, which received the support of the Swiss Agency for Development and Cooperation (Swiss Ministry of Foreign Affairs), was to give new impetus to the reform process in a sector in serious difficulty.

Providing housing for the more vulnerable population groups in a region faced with high levels of poverty constitutes a major challenge for politicians. Housing is in fact a determining factor for social cohesion and citizenship: the place of residence conditions access to social services and aid to employment.

Recent conflicts in South Eastern Europe have caused the destruction of homes and triggered a flow of refugees and displaced persons.

Several countries have already undertaken significant reforms in the housing sector. Such dynamics must be pursued and the efforts in economic, social, fiscal and legal terms must be strengthened and extended.

For financial institutions, and the CEB in particular, housing and urban development are an important field of action both in terms of financings and as a means of contributing towards strengthening the institutional framework.

All the participants at the Conference, including fourteen ministers (in charge of finance and housing) and the representatives of some ten international institutions emphasised the importance of the joint initiative taken by the two organising institutions.

This Conference for the promotion of socially sustainable housing policies, in particular in favour of refugees and vulnerable population groups, constitutes the starting point for a wider process of dialogue on the question of housing between the countries in the region and the international community.

As far as the CEB is concerned, social housing has represented 21% of the total volume of projects approved since 1999. Thus, through its financings, the CEB has continued to contribute its technical expertise for the implementation of sustainable housing policies in its member states, in close cooperation with the national and local authorities and in cooperation with other international organisations.



POLAND
Social housing in Poznan

During the past five years, the CEB has acted in the social housing sector in **17 countries**[2], including **6 transition countries**, thereby contributing to strengthening social integration. The accumulated amount of projects approved stands at € 1 919.9 million, representing 21% of the total amount of approvals during this period (€ 9 356.3 million).

In 2003, the CEB approved two operations (one in Portugal and one in Sweden) for a total of

2. Belgium, Bulgaria, Denmark, Finland, France, Germany, Hungary, Italy, Latvia, Norway, Poland, Portugal, Romania, Slovak Republic, Spain, Sweden and "the former Yugoslav Republic of Macedonia".



€ 55.4 million. In **Portugal**, a project totalling € 50 million will provide for the partial financing of the construction of social housing and the renovation of existing units by towns, municipal bodies, co-operatives and associations for the construction and management of social housing, and by private developers.

In **Sweden**, a loan programme amounting to € 5 million (out of a total of € 108 million), approved this year, through Kommuninvest i Sverige, will make it possible to finance at an advantageous cost various different investments for housing infrastructure, carried out by local communities and companies either owned or guaranteed by Swedish municipalities. These are effectively responsible for providing social housing for low-income families and for those who, by reason of age or handicap, must have access to specially equipped housing.

The loans disbursed in 2003 amounted to € 257.6 million (representing 16.2% of all disbursements), spread over the following ten countries: **Bulgaria**, **Denmark**, **Finland**, **Hungary**, **Italy**, **Latvia**, **Norway**, **Poland**, **Portugal** and **Sweden**.

In **Bulgaria**, financing of a pilot project in favour of the social integration of the Roma communities living in precarious housing in Sofia was pursued this year with the payment of an additional tranche.

Moreover, an operation implemented in **Denmark** received an initial payment this year. This € 100 million loan in favour of Danish local authorities will provide for the construction and renovation of public housing intended for the elderly throughout the country.

Similarly, in **Hungary**, a project concerned with improving housing conditions for disadvantaged social groups received an initial tranche of financing. This project comes within the framework of the National Development Plan (Szechenyi Plan) which involves aid to the handicapped, renovation of housing units in multi-family blocks, energy saving in the apartments, and increasing the amount of available rental accommodation.



LITHUANIA
Housing for repatriates in Varena

In **Italy**, in the Emilia-Romagna region, the Bank completed a project for the construction of housing and related infrastructures intended for immigrant workers, young families and the elderly.

In **Finland**, **Norway** and **Sweden**, within the framework of several loan programmes, the Bank this year also completed its financing of various projects for the renovation and construction of housing and related infrastructure facilities, intended for low-income population groups. These projects have strengthened social cohesion and facilitated the integration of different categories of population groups.

Lastly, in **Latvia**, a loan programme amounting to € 18.8 million, with Mortgage and Land Bank of Latvia (MLBL), this year received three new disbursement tranches. This programme has involved part financing of the Latvian Housing Loan Plan, a pilot project aimed at improving available housing and the living conditions of the population.





"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"
SME - Textile mill near Ohrid

3. Job creation and preservation in SMEs and vocational training

The CEB encourages two focuses for action in favour of the creation and preservation of viable employment: support for investment in SMEs, the main source of new jobs, and vocational training.

Alternating theoretical teaching and hands-on work experience constitutes an appropriate response both to the needs of businesses, in particular SMEs, and to the expectations of those who are preparing to enter active life.

The Bank thus acts in favour of SMEs in disadvantaged regions by financing projects aimed at creating and preserving both permanent and seasonal jobs.

Over the past five years, actions in favour of the **creation and preservation of jobs in SMEs** have been characterised by their wide geographical diversity. Between 1999 and 2003, the Bank approved projects in **17 countries**[3] for a total of € 1 375 million.

For 2003 alone, the Bank approved a total of € 422.5 million for SMEs (representing 20% of the total amount of loans approved).

Thus, additional amounts were approved through Kreditanstalt für Wiederaufbau (KfW), **Germany**, to part finance projects in SMEs located in **Bulgaria**, **Cyprus** and various **transition countries**, within the framework of the "Financing facility in favour of SMEs" (Phase 2), set up under the aegis of and with a contribution from the European Union. In 2003, the CEB paid out new tranches in favour of this operation.

3. Belgium, Bulgaria, Croatia, Estonia, Germany, Finland, France, Italy, Latvia, Lithuania, Poland, Portugal, Romania, Spain, Sweden, "the former Yugoslav Republic of Macedonia" and Turkey.

POLAND
Restructuring the mining industry in Silesia: CEB action in favour of job creation

In 2003, the CEB approved a project in Poland (€ 25 million) to part finance a programme to be implemented by the regional government of Silesia and aimed at creating jobs in SMEs and improving basic infrastructures.

Silesia has long been one of the most important industrial poles in Poland, predominantly devoted to heavy industry, in particular the mining, iron and steel, and energy production sectors.

During the 1990s, the region's industry underwent large-scale restructuring, which led to the liquidation of state-owned companies and the closure of several mines. This restructuring resulted in a serious deterioration in labour market conditions, leading to a substantial increase in long-term unemployment, particularly among women, young people and persons with low levels of education.

In order to speed up structural reforms and the return to economic competitivity, in January 2003, the Polish Government adopted the 2003-2006 Programme for the restructuring of the coal industry. This programme will be based in particular on the adoption of reflationary laws to revitalise the economy and on the privatisation of several mines.

This CEB loan should provide for the introduction of measures concerning aid for a return to employment in this region and should thus contribute to growth in the SME sector in Silesia.



NORWAY
Housing for the elderly near Oslo



In **Poland**, the Bank has also given substantial support to public policies promoting employment in Silesia (See box opposite).

In **Lithuania**, the setting up of a Trust Account, with the Finnish authorities (See box below) and, in **Estonia**, a co-financing operation with the Nordic Investment Bank (NIB), have played a vital role in promoting female entrepreneurship through the local banking sector. In the three Baltic countries (**Estonia**, **Latvia** and **Lithuania**), the Bank is currently implementing a series of 6 projects in favour of female entrepreneurship.

The Bank is also to participate in the financing of projects to support productive investments made by SMEs in order to increase their competitiveness and to provide for the preservation or creation of jobs in **Bulgaria** (€ 20 million), in **France** in regions suffering from high unemployment rates (€ 50 million), and also in **Portugal** (€ 50 million).

TRUST ACCOUNTS: AN ADDITIONAL MEANS OF ACTION FOR THE CEB

Intended for the financing of technical assistance activities, Trust Accounts give the CEB a new means of action, in particular for preparing pre-feasibility and feasibility studies, setting up pilot operations, or accompanying exisiting projects. Since 2001, two of the CEB's member states, Finland and Norway, have proposed setting up Trust Accounts in accordance with this principle.

In 2001, the Finland Trust Account was set up to provide financing for technical assistance in the preparation of projects in the Baltic countries. To date, 2/3 of the allocated amount has been used in Lithuania to set up two pilot projects in favour of women entrepreneurs, co-financed by the CEB and the Nordic Investment Bank (NIB).

These projects are currently underway and, according to the results of an initial evaluation, have enabled almost 1 000 jobs to be preserved and approximately another 220 created.

In 2003, the CEB also approved the principle of a Trust Account with the Norwegian authorities, in favour of the Western Balkan countries in particular.

Within the framework of its development aid policy, Norway has been active in this region since the early 1990s, providing aid amounting to a total of around € 100 million per year.

This new Trust Account will make it possible to finance innovative pilot projects, advisory activities, support for developing institutional capacities, and the organisation of workshops and round tables.

For example, the following sectors will benefit from the resources of the Norway Trust Account:

- **aid for the sustainable return and integration of refugees, displaced persons and minorities**
- **job creation through micro-credit programmes**
- **institutional capacity building at local and national level.**



In **Turkey**, a € 200 million loan programme with the Turkish Government will involve productive investments to be implemented by either already existing or newly created small and medium-sized businesses throughout the whole country.

In 2003, no less than 18 operations were financed in favour of employment in SMEs in 12 countries (**Bulgaria**, **Croatia**, **Estonia**, **France**, **Hungary**, **Italy**, **Lithuania**, **Poland**, **Portugal**, **Romania**, **Spain** and **Sweden**). The total volume of disbursements this year amounted to € 237.5 million, including € 127.7 million in favour of the **transition countries** alone.



TURKEY
Water infrastructure for irrigation near the Black Sea

4. Improving living conditions in disadvantaged urban areas and rural modernisation

This year, the CEB again undertook actions to improve living conditions in urban and rural areas in disadvantaged countries and regions.

4.1. Disadvantaged urban areas

The projects financed by the CEB in this sector concern run-down urban areas or neighbourhoods where there is an obvious lack of urban infrastructures or any social and cultural amenities. They concern the improvement or creation of service infrastructures such as drinking water, electricity and gas supply networks, refuse collection and sewers. They also provide for improvements in social and cultural amenities such as: basic medical services, primary and secondary schools, vocational training centres, socio-cultural and sports centres, exhibition parks, and the development of green areas.

For several years now (1999-2003), the Bank has been active in this sector in **Albania**, **Germany**, **Finland**, **France**, **Italy**, **Poland**, **Portugal**, **Spain** and in several **transition countries**, for an amount of projects approved totalling € 427.5 million. For 2003 alone, the Bank approved a total of € 58.5 million.

A loan programme (€ 35 million, spread over several sectors including the sector concerned with improving living conditions in disadvantaged urban areas) is to be implemented through Kreditanstalt für Wiederaufbau (KfW), **Germany** and the **European Union**, in the **Czech Republic**, **Estonia**, **Latvia**, **Lithuania**, **Poland**, and the **Slovak Republic**, within the framework of the "European Union Municipal Finance Facility" Programme.

In **Finland**, a loan programme (€ 25 million, out of an approved total of € 50 million), through Municipality Finance, will provide financing for various infrastructure investments implemented by municipalities or municipal federations and community-controlled businesses.

In **Poland**, a loan programme amounting to € 4 million (out of an approved total of € 20 million), through BISE Bank, will contribute to improving living conditions in disadvantaged urban areas thanks to investment in favour of territorial authorities (towns, villages). Some 70 projects should be financed thanks to this programme.

This year, loans disbursed in this sector amounted to € 48.5 million, spread over 6 operations implemented in 5 countries (**Albania**, **Finland**, **Italy**, **Poland** and **Spain**).



In **Albania**, within the framework of a project co-financed with the World Bank, the CEB this year paid out a first loan tranche for the implementation of micro-projects involving the construction or renovation of public infrastructures run by local authorities.

In **Spain**, in collaboration with the European Investment Bank (EIB) and Kreditanstalt für Wiederaufbau (KfW), **Germany**, the CEB completed the financing of the project for the extension of the Madrid metro in order to make certain disadvantaged neighbourhoods on the outskirts of the capital less isolated.

4.2. Rural modernisation

The Bank focuses its action in this sector on regions where the working population in the agriculture sector is equal to or over 10% of the total regional working population and incomes are below the national average. The operations financed concern infrastructure projects such as drinking water, electricity and gas supplies, the creation of roads, irrigation infrastructure, and social and cultural amenities.

Between 1999 and 2003, the Bank approved projects totalling € 481.1 million in aid for rural modernisation in disadvantaged countries and regions in 8 countries (**Finland**, **Germany**, **Italy**, **Norway**, **Poland**, **Romania**, **Spain** and **Turkey**).

In 2003, rural modernisation projects represented € 88.5 million. Some of them are located in **Finland**, **Portugal** and **Spain** and the others, presented by **Germany** and **Italy**, are intended for the final benefit of **transition countries**.

In **Spain**, two projects were approved and partially financed this year. The first will provide for improvements in cultural infrastructure in the Castilla-La-Mancha region. Amounting to € 9 million, this project will provide part-financing for the construction of cultural-purpose buildings, such as theatres, concert halls and libraries, in rural areas.

The second project, for a total of € 56 million, is situated in Galicia and targeted to rehabilitating 26 fishing ports affected by the disaster of the oil tanker Prestige and to developing the infractructures neccessary for the diversification of the local economy, today essentially dependent on the fishing sector.

A loan programme (€ 10 million in favour of rural modernisation out of a total of € 100 million) was approved through Banca OPI, **Italy**, for the final benefit of several **transition countries**, including **Croatia**, **Czech Republic**, **Estonia**, **Hungary**, **Latvia**, **Lithuania**, **Poland**, **Slovak Republic**, **Romania** and **Slovenia**. These projects are concerned with the construction of small-scale electricity distribution networks, the provision of drinking water and gas, as well as the introduction of refuse collection and drainage and irrigation systems in these different countries.

Loans disbursed in favour of rural modernisation amounted to € 72.6 million in 2003.

In **Spain**, the Bank paid out a number of new loan tranches on a project for the renovation and modernisation of the irrigation network on the left



SPAIN
Installing filters for irrigation water





BULGARIA
Protecting the banks of the Danube against erosion

bank of the River Genil, and in **Turkey**, again this year, the Bank continued to lend its support for modernisation of the rural environment through several irrigation projects throughout the country.

In **Hungary**, the CEB financed basic infrastructure facilities linked to rural modernisation in different regions of the country.

And finally, in **Romania**, in cooperation with the World Bank and the Romanian Social Development Fund, this year the CEB also contributed to financing a loan programme for the creation of social infrastructures in favour of rural communities and disadvantaged social groups.

II - MANAGING THE ENVIRONMENT

Through its projects in favour of regions affected by natural or ecological disasters (one of the Bank's statutory priorities) and actions for the preservation of historic heritage, the CEB has been able to gain first rate expertise in terms of environmental management.

Over the period 1999-2003, this sectorial line of action represented an accumulated amount of € 2.7 billion in terms of projects approved. For 2003 alone, project approvals amounted to € 494.4 million.

At the same time, loans disbursed since 1999 in favour of the environment have reached an accumulated amount of € 2.6 billion, representing 30.9% of total disbursements. For 2003 alone, the amount was € 271 million, including 18% for **transition countries**.

1. Natural or ecological disasters, reconstruction and preventive action

The operations carried out are aimed at providing the national and local authorities with help in the reconstruction of the affected areas requiring immediate financial support and for natural disaster prevention. Emergency financings are systematically proposed to member states facing these types of situations, and provision is made for speeding up procedures for the appraisal and approval of projects. The projects are concerned with reconstruction or rehabilitation of destroyed or damaged public amenities and, more precisely, basic infrastructures such as water supply, waste water and solid waste treatment, electricity and gas supply networks.

During the past years, the Bank has undertaken action in 10 countries (**Bulgaria**, **Germany**, **Hungary**, **Italy**, **Poland**, **Romania**, **Slovak Republic**, **Slovenia**, **Spain** and **Turkey**). Over the period 1999-2003, the amount of projects approved reached a total of € 1 765.7 million.

In 2003, approvals for new operations in this sector amounted to € 260 million, spread among 3 countries (**Germany**, **Italy** and **Romania**) and accounting for 12% of all approvals; disbursements totalled € 174.9 million, representing 11% of the total amount of loans disbursed.

A loan programme (€ 40 million) was approved this year within the framework of Kreditanstalt für



Wiederaufbau's (KfW) Special reconstruction Plan in favour of the Länder in East **Germany**, badly affected by the summer 2002 floods. This operation was fully financed in a very short time in order to respond as quickly as possible to the needs of the regions concerned.

Moreover, in **Italy**, a project amounting to € 180 million will provide financing for carrying out urgent repair work on public infrastructures and private housing, setting up flood prevention measures and restoring damaged cultural heritage, in 14 regions.



HUNGARY
Consolidating the banks of the Tisza in Tiszarof

EX POST EVALUATION OF PROJECTS: NATURAL AND ECOLOGICAL DISASTERS IN SPAIN

The CEB strives continually to enhance the quality of the projects it finances. The Bank's teams are increasingly active upstream of the projects in order to help borrowers in their preparation. The expertise thus provided early on in the preparation stage of the projects brings results in terms of improved project quality. The number of on-site missions, whereby the impact of such operations can be rigorously monitored, has also been increased, especially in the transition countries.

Within the framework of this overall approach, the CEB has set up an Ex Post Evaluation Department whose task is to evaluate the long-term socio-economic impact of projects in order to learn lessons for the Bank's future actions.

Thus, the CEB has introduced a programme to evaluate projects concerned with natural and ecological disasters, which will study a series of eleven projects financed by the Bank between 1995 and 2001, representing a total of almost € 1 billion. These projects are spread over five member states: Greece, Poland, Romania, Spain and **Turkey.**

The analytical framework for this programme, which highlights the socio-economic impact of the projects, was defined with comparable objectives and indicators for all eleven projects in order to learn overall lessons for the CEB's future activities.

Within the framework of this programme, the Bank has undertaken the ex post evaluation of three projects financed by the Bank in Spain (Andalucia). The first two projects are concerned with repairing the damage caused by the breaking of a mine tailings reservoir in 1998, which required the removal of the contaminated sludge, purification of the polluted waters and restoration of the ecological system. The third project is concerned with the reconstruction of roads, water supply and treatment systems and public buildings damaged during the serious floods in 1997-1998.

The performance and the quality of the implementation of these projects have been measured by means of a scoring system based on criteria of *relevance, efficacy, efficiency, impact* and *sustainability.*

The team in charge of the study is composed of environmental experts, civil engineers and social scientists.

According to their first findings, the projects' objectives were reached thanks to the efficiency of the central and local authorities, and thanks to the CEB's swift action.





SLOVENIA
Construction of a retirement home in Tolmin, following the 1998 earthquake in the Soca valley

Another operation approved this year in **Romania** (€ 40 million) will involve protection against floods and atmospheric pollution. This project is a continuation of the CEB's financing of the Government plan for reconstruction and prevention.

During the year, the Bank financed 7 operations in 5 countries (**Bulgaria, Germany, Hungary, Italy** and **Spain**) that experienced major natural disasters.

In **Spain**, a project to part finance the rehabilitation of the road network in Galicia, hit by the storms in 2000 and 2001, was fully financed this year.

In **Hungary**, the Bank paid out new amounts in part-financing of flood protection works, in the

NATURAL OR ECOLOGICAL DISASTERS: PREVENTION AND RECONSTRUCTION

Aid to regions hit by natural or ecological disasters is one of the CEB's statutory fields of action. Within this framework, the Bank strives to provide responses that are appropriate to the urgency of the needs and to the necessity to undertake sustainable action in a long-term perspective of prevention.

In matters of prevention, the Bank has pursued its effort to promote enhanced cooperation among all those involved, whether it be the public authorities, the emergency services or other international organisations. To do this, the CEB impresses upon its partners and counterparties the need to pool the competencies of each and every one in order to provide increasingly efficient and appropriate aid to the countries in which the civil protection services and institutional capacity need to be improved.

Moreover, the Bank takes action very swiftly following a disaster in order to enable emergency action to get started quickly and, in the longer term, to provide for the reconstruction of the disaster regions, rehabilitation of the devastated regions, the securitisation of buildings and installations and the prevention of any future damage.

Numerous examples illustrate the variety of actions undertaken by the Bank over the past few years in order to revitalise the areas affected by exceptional phenomena.

In Poland, in the wake of the floods in summer 1997 in the south of the country, financing for the reconstruction and installation of water level regulation infrastructure, and for consolidating the river banks, canals and streams has now been completed.

In Hungary, the Bank took urgent action to cope with the consequences of the floods in the Tisza River basin.

The Bank has also continued to finance two projects involving reconstruction and preventive measures in the wake of earthquakes in Greece and Slovenia.

Lastly, in Turkey, reconstruction of the areas destroyed by the earthquake that hit the Marmara region in the summer of 1999 has been completed. This action should provide for the reconstruction of over 20 000 housing units to anti-seismic standards.



wake of the flooding of the Tisza river and its affluents during summer 2002.

Similarly, two operations were completed this year in **Italy** for the reconstruction and rehabilitation of infrastructures, buildings and other installations damaged by the earthquakes in autumn 1997, mainly in the Marches and Umbria regions.

Finally, in **Bulgaria**, with a contribution from the Selective Trust Account, the CEB has continued its financing for the rehabilitation and consolidation of the banks of the Danube and the shores of the Black Sea.

2. Protection of the environment

The initiatives undertaken in this sector today are very diverse in geographical terms. In parallel to its specific action in this field, it is important to remember that the Bank systematically takes into consideration the environmental aspects of all the projects that it appraises.

Over the past 5 years (1999-2003), the Bank has approved new operations in 11 countries (**Belgium**, **Cyprus**, **Finland**, **France**, **Germany**, **Italy**, **Poland**, **Portugal**, **Romania**, **Spain** and **Sweden**) for an accumulative total of € 693.6 million. This year, new operations were approved with banking institutions in **Germany** and **Italy** (in both cases for the final benefit of **transition countries**), in **Finland**, in **Poland** and in **Sweden**, for a total of € 66.4 million.

Thus, in **Italy**, a loan programme, worth € 20 million in favour of protection of the environment (out of a total of € 100 million), has been set up through Banca OPI for the final benefit of **transition countries**. It provides for investments targeted to preserving the natural environment by facilitating adaptation of the industrial and social structure of these countries to European environmental standards, in compliance with the *"acquis communautaire"*.



BELGIUM
Solid waste treatment and management in Houthalen

Several sector-based multi-project programmes were also approved this year in **Poland**. Among these, one loan programme (€ 25 million) in favour of protection of the environment, with Bank Ochrony Srodowiska (BOS), out of an approved total of € 50 million, provides for the partial financing of the investment needs of Polish municipalities in matters of social infrastructures linked to environmental protection in an urban environment. Some 500 towns should benefit from this programme, which represents almost 6 million inhabitants.

In terms of disbursements for 2003, 9 operations located in 8 countries of operations (**Cyprus**, **Finland**, **Hungary**, **Italy**, **Poland**, **Romania**, **Spain** and **Sweden**), received an accumulative total of € 36.8 million, including € 10.3 million in favour of **transition countries**. Three of these loan programmes have now been fully financed.

3. Preservation of historic and cultural heritage

The CEB undertakes its actions within the framework of projects targeted to the protection and rehabilitation of cultural and historic heritage.

Since 1999, the Bank has approved new operations for a total of € 246.7 million in 8 countries (**Croatia**, **Finland**, **France**, **Italy**, **Portugal**, **Romania**,



ROMANIA
Bucharest - Rehabilitation of the Atheneum

Slovak Republic and **Spain**). In 2003, the Bank's activity in this sector involved the approval of 5 new operations for a total of € 168 million, which represents 8% of the total amount of projects approved.

In **Spain**, a project (€ 3 million) aimed at rehabilitating and restoring part of the historic heritage of the Castilla-La-Mancha region was approved.

In **Italy**, a loan programme totalling € 150 million was approved this year. In 2003, this operation received the first loan payments for the implementation of works for the maintenance, restructuring and rehabilitation of sites and monuments, museums and historic town centres, in different regions of the country possessing an immensely valuable artistic and cultural heritage.

The Bank also approved and fully financed a project in **Romania** this year, for a total of € 2.5 million. Thanks to this financing, restoration work was carried out on the Atheneum concert hall and its dome, in Bucharest. The Atheneum is the leading concert hall in Romania and is a symbol of the artistic and cultural life of the country.

And finally, a loan programme amounting to € 10 million for the preservation of heritage (out of an overall total of € 100 million spread over several sectors) was approved and implemented in several **transition countries**, through Banca OPI (Italy).

The total amount of loans disbursed on this sector stood at € 59.3 million this year.

Three operations were completed this year, in **Hungary**, in **Italy** and in **Romania**, and the first payments were made on another project, implemented in **Spain**. The CEB also continued its disbursement of additional loan tranches on a project in the **Slovak Republic** for the rehabilitation and modernisation of the University of Bratislava library, classified as a historic monument.



ITALY
Reconstruction of the historic village of Serravalle del Chianti, in the Marches region, destroyed by an earthquake.

III - DEVELOPING HUMAN CAPITAL

The CEB contributes to developing human capital through its financings in the fields of education and health. The Bank is active in both sectors not only for the construction or rehabilitation of infrastructures but also to provide amenities that are adapted to the needs of the populations concerned.

These two sectors play a vital role in achieving balanced development and greater social cohesion in Europe. Indeed, modern services in education and health are essential for promoting economic growth and national and regional development in Europe, and for reducing inequalities.

Over the period 1999-2003, this sectorial line of action represented an accumulated amount of € 2.4 billion in terms of projects approved. For 2003 alone, the total for projects approved was € 990.6 million (representing 46% of all projects approved), including € 187 million in favour of **transition countries**.

At the same time, since 1999, loans disbursed in favour of human capital development have reached a cumulated total of € 2.1 billion, representing 24.9% of total disbursements. For 2003 alone, the total amount was € 683.4 million, including € 29.4 million in favour of **transition countries**.

1. Education

The CEB undertakes action at all levels of the education system, whether it be for primary schools, secondary schools or universities. The Bank thus finances the construction and modernisation of school infrastructures as well as modern teaching equipment.

During the past few years, the CEB has approved new operations in **17 countries**[4] for a cumulative total of € 1 161.5 million (1999-2003). In 2003, the total amount of approvals in this sector reached € 507 million, representing 24% of all projects approved.

In **Germany**, a loan programme (€ 10 million, out of an approved total of € 20 million) implemented through Deutsche Kreditbank was approved. This programme provides for the part-financing of public and private projects in the education field (including related infrastructure) in the East German Länder.



PORTUGAL
Kindergarten in Caldelas, Guimares

The Bank also approved several operations this year in order to support the efforts undertaken in various countries to modernise their education systems. In **Cyprus**, for example, a large-scale project (€ 200 million) will provide support for the efforts deployed by the Cypriot Government to reshape the whole teaching system for schools. This project should make it possible to introduce new school programmes, adapt school buildings and build up teaching resources.

Similarly, new operations were approved this year in **Finland**, **Italy**, **Lithuania**, **Poland**, **Romania**, **Spain** and **Sweden**.

In terms of disbursements effected in favour of education, this year the Bank paid out a total of € 315.6 million. These payments were made in 12 countries (**Cyprus**, **Estonia**, **Finland**, **Greece**, **Hungary**, **Iceland**, **Italy**, **Norway**, **Poland**, **Romania**, **Spain** and **Sweden**).

In **Cyprus**, the Bank disbursed a new amount within the framework of the project for the reconstruction of the University Campus in Nicosia.

4. Belgium, Croatia, Cyprus, Estonia, Finland, France, Germany, Iceland, Italy, Lithuania, Norway, Poland, Portugal, Romania, Slovak Republic, Spain and Sweden.





GREECE
Primary school in Chania

In **Estonia**, a new contribution was paid in order to improve the living and working conditions of students through the rehabilitation of university halls of residence, for example. This year, new loan payments were also made for different projects in the education sector (renovation and construction of primary and secondary schools and daycare centres in **Finland** and **Iceland** and rehabilitation of pre-university establishments in **Romania**).

And finally, in **Norway**, the CEB made a final payment (€ 24.4 million) in favour of an operation aimed at part-financing the construction and rehabilitation of teaching establishments and basic infrastructures.

2. Health

Facilitating access to reliable healthcare services also contributes to building greater social cohesion in Europe. In the health sector, the CEB contributes to the construction, renovation and modernisation of medical infrastructures such as neighbourhood healthcare centres, hospitals, university hospitals or specialised centres for the elderly and the handicapped.

Over the past five years, the CEB has approved new operations for an accumulated total of € 1 215 million in favour of **20 countries**[5]. For the year 2003 alone, the total amount of projects approved in this sector reached € 484 million, accounting for 23% of all approvals.

Among the actions undertaken by the CEB in the health sector in 2003, one of the most noteworthy was the first project in favour of **Moldova** aimed at improving the quality and the efficiency of the country's blood transfusion system (See box opposite).

REFORM OF THE BLOOD TRANSFUSION SYSTEMS IN BULGARIA AND MOLDOVA

Since 1995, the CEB has financed two projects aimed at improving healthcare quality and reforming the blood transfusion system. These actions come within the framework of the support that the Bank gives to the process of reform and modernisation of national health systems.

An initial operation, approved in 1995 for a total of € 8.3 million, was aimed at improving the efficiency of the medical services and facilitating the restructuring of the blood transfusion system in Bulgaria. Thanks to this project, an efficient blood transfusion network has been set up and access to reliable healthcare services improved.

In 2003, Moldova called upon the Bank for the first time for a programme aimed at improving the quality of the blood transfusion services at all stages of the process, from collection to transfusion (€ 6 million). By improving the availability and quality of blood products, this important project will contribute to solving the problem of insufficient quantities of available blood for patients who need it, and to preventing the spread of infections.

5. Albania, Belgium, Croatia, Finland, France, Germany, Greece, Italy, Lithuania, Malta, Moldova, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and Turkey.



A loan programme (€ 20 million in favour of the health sector, out of an approved total of € 100 million involving other fields of action) is to be implemented in several **transition countries**, through Banca OPI (Italy). This programme is aimed at improving the quality of social healthcare infrastructures through the purchase of medical supplies, the construction of new buildings or the renovation of existing premises.

Another loan programme was approved and fully financed this year in **Spain** (€ 100 million). This operation has facilitated investments in healthcare (primary healthcare services and hospital infrastructures) and social infrastructures (long-stay centres, homes for the elderly, palliative care centres and centres for the treatment of the mentally ill) in Catalonia.

In **Italy**, another loan programme (€ 75 million in the health sector, out of an approved total of € 150 million, through Banca OPI) concerning the regions in the south of the country will provide financing for healthcare equipment and infrastructures and thus contribute to promoting the economic and social development of these regions.

The Bank also approved a total of € 152.2 million for the construction of a hospital in **Malta** (the Mater Dei Hospital) that will boast state-of-the-art therapeutic techniques.

In 2003, the CEB approved and started financing a project in the **Slovak Republic** (€ 4.9 million) concerned with the construction and rehabilitation of buildings and infrastructure in 25 centres providing social services for vulnerable population groups.

Disbursements made in the health sector in 2003 reached a total of € 367.9 million, including € 20.3 million in favour of **transition countries**.

This year, 20 operations have thus received loan payments in favour of 12 countries (**Cyprus**, **Croatia**, **Finland**, **Greece**, **Hungary**, **Italy**, **Malta**, **Norway**, **Romania**, **Slovak Republic**, **Spain** and **Sweden**).

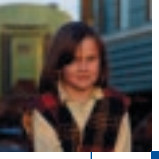


SLOVAK REPUBLIC
Rehabilitation of centres for the handicapped

In **Greece**, a project for the construction and fitting out of the premises of the Academy of Athens Foundation for Biomedical Research received new loan payments, thereby making it possible to improve conditions for bio-medical research and university training.

In 2003, the breakdown of new project approvals and of disbursements bear witness to the CEB's fidelity to its three major lines of action, namely **social integration**, **responsible management of the environment** and the **development of human capital**.

This year, these financings brought the loans outstanding to € 9.9 billion and the stock of projects awaiting financing to € 2.7 billion. This last figure naturally constitutes a solid reserve of operations for the CEB in the forthcoming years.



PROJECTS APPROVED
in 2003, by counterparty

In million euros

COUNTRIES	COUNTERPARTIES	FIELDS OF ACTION	AMOUNTS
Bulgaria	Raiffeisen Bank	SME Programme	20
Croatia	Government	Refugees	39
Cyprus	Government	Education	200
Finland	Municipality Finance, Helsinki	Sector-based Multi-project Programme	50
France	Crédit d'équipement des PME	SME programme	50
Germany	Kreditanstalt für Wiederaufbau (KfW)	SME Programme/Transition countries	50
	Kreditanstalt für Wiederaufbau (KfW)	Municipal insfrastructure programme/ Transition countries	35
	Kreditanstalt für Wiederaufbau (KfW)	Natural disaster Programme	40
	Deutsche Kreditbank	Education/Health Programme	20
Italy	Government	Natural disasters	180
	Banca OPI	Education/Health Programme	150
	Banca OPI	Municipal infrastructure programme/ Transition countries	100
	Dexia Crediop	Historic heritage Programme	150
	Banca Intesa	SME Programme/Transition countries	20
Latvia	Mortgage and Land Bank of Latvia, Riga	SME Programme	1
	Hansabanka, Riga	SME Programme	1
Lithuania	Government	Education programme	6
	Siauliu Bankas, Siauliai	SME Programme	0.5
Malta	Government	Health	152
Moldova	Government	Health	6
Poland	Bank Ochrony Srodowiska	Environment Programme Urban infrastructures	50
	BISE Bank (Bank Inicjatyw Spoleczno-Ekonomicznych)	Sector-based Multi-project Programme	30
	Government	SME Programme	25
	University of Warsaw	Education	5
Portugal	Banco Espirito Santo	SME Programme	50
	Instituto Nacional de Habitação	Housing Programme	50
Romania	Government	Education	98
	Government	Natural disasters	40
	Government	Historic heritage	2.5
Spain	Institut Catalá de Finances, Barcelona	Health Programme	100
	Institut Catalá de Finances, Barcelona	Health	19
	Gicaman, Toledo	Health	22
	Gicaman, Toledo	Rural modernisation	9
	Gicaman, Toledo	Education	6
	Gicaman, Toledo	Historic heritage	3
	Xunta de Galicia	Rural modernisation	56
Sweden	Kommuninvest i Sverige AB, Orebro	Sector-based Multi-project Programme	108
Turkey	Government	SME Programme	200
TOTAL			2 149



FINANCIAL ACTIVITIES

I - ECONOMIC ENVIRONMENT IN 2003

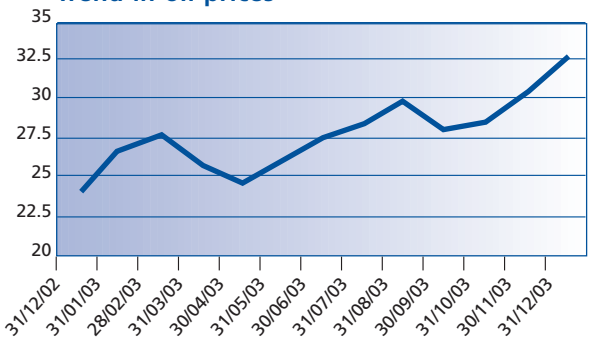
1. A global economy that is picking up again …

The start of 2003 saw the preliminaries to war in Iraq. The year ended with a recovery in the global economy, that is already perceptible in Asia, North America and the United Kingdom.

As of the second half of 2003, the global economy showed signs of recovery, even though the strength of this recovery is not yet clearly evident. This economic improvement is due in particular to the rapid end to fighting in Iraq, the turnaround in the capital markets and interest rate cuts in the United States and Europe. Moreover, the aftermath of the bursting of the financial bubble surrounding the "New Economy" is fading away, and the effects of massive economic stimulus are starting to be felt. As a consequence, the growth rate for the world economy is estimated by the IMF at 3.2%.

The downward stock market spiral came to a halt practically everywhere as of March 2003, following a sharp fall under the combined effect of both economic and geopolitical uncertainties, and share prices have recovered sharply. Both in the United States and in Europe, the recovery has been driven by technology and telecom stocks, as attested by the strong recovery of the Nasdaq, which regained 50% in 2003. The Dow Jones, for its part, rose by more than 25%, and the Euro Stoxx 50 by around 11%.

Trend in oil prices



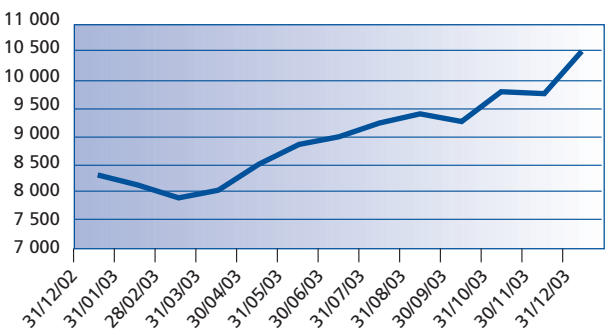
Oil prices have generally trended upward. The current prices come within the context of a general increase in the price of raw materials, due in particular to the very significant needs of China, which is expanding rapidly.

2. …and is driving the recovery, slow and still hesitant, of the euro zone

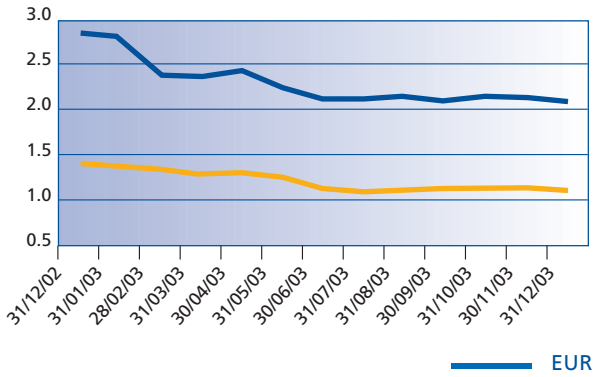
After falling virtually into recession in the first half of 2003, the European economy recovered during the summer and seems to have also returned to a growth path. The economy grew in many countries as of the third quarter, driven by the strength of the US economy and renewed confidence.

Over the full year, however, growth in the euro zone is expected to be only 0.5%. This is because, during the first half, the recovery was largely stifled by the decline in production in Germany and France. This

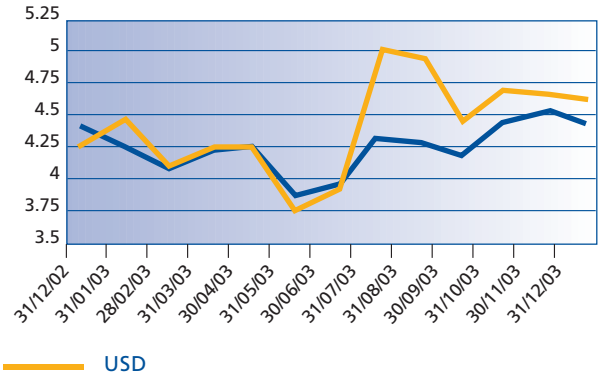
Trend in the Dow Jones index



3-month rates



10-year rates



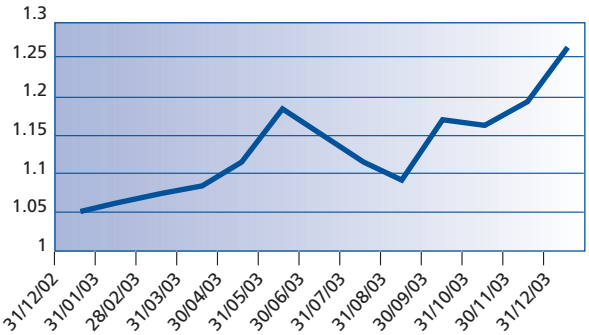
EUR USD

decline is largely due to a sharp fall in exports and weak domestic demand. This year again, the budget deficits of Germany and France are expected to exceed the 3% ceiling authorised by the Stability and Growth Pact. Italy is also facing an increase in its public sector deficit. Spain, for its part, posts good results thanks to an acceleration in consumer spending, supported by falling interest rates and a sharp improvement in the job market. This year again, it should remain the leading contributor to euro zone growth, with a 2.4% growth rate.

The European Central Bank has adopted a monetary policy aimed at supporting the economic recovery, lowering its refinancing rate on two occasions, first by 0.25% in March, and then by 0.50% in June, bringing it down to 2%. Inflation is expected to be approximately 2% in 2003, thus meeting the European Central Bank's targets.

That said, the continuing appreciation of the euro against the US dollar (a 20% rise since the start of year) may put brakes on the recovery in Europe.

Euro against US dollar



Long-term euro interest rates have remained at a very low level, fluctuating in a range between 3.90% and 4.55%.

3. The rebound of the US economy

Since the spring, the US economy has shown signs of recovery which seem to have a strength unmatched since a very long time. As of the second quarter, growth gathered momentum with the revival of consumer spending, boosted by the Federal Reserve's accommodating monetary policy, the administration's huge budget stimulus package and the exceptional military expenditures for the war in Iraq.

Added to this are increased corporate investment and stronger foreign trade, boosted by the decline in the dollar, which brought growth, at an annualised rate, up to the unexpected level of 8.2% in the third quarter.

The economy was strongly supported by the key Fed Funds rate, at 1% since June. This rate, the lowest since 1958, is half as low as the equivalent rate set by the European Central Bank.

As a consequence, for 2003, the United States should post a 3.1% increase in GDP.

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 trade current account deficits, which is starting to worry the markets.

In this context, the trend for long-term 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 vanishing deflation fears due to the US recovery, and also concern at the widening US budget and trade deficits.

4. Nascent recovery in Japan

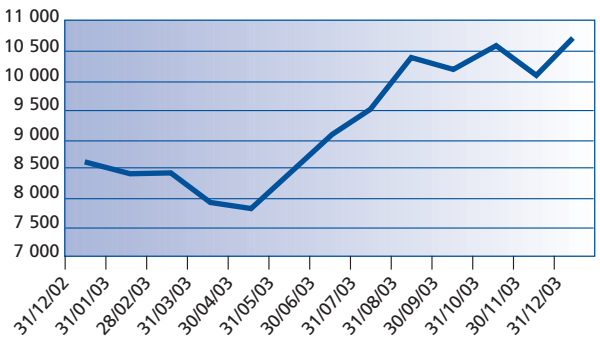
Since the summer, Japan appears to have returned to growth and should see a 2.5% rise in GDP over the full year. This recovery is largely driven by exports and by the regained strength of world trade.

After bottoming out in April, the Nikkei 225 Index has advanced by almost 25% since the start of year.

But this recovery, although encouraging, is not without grey areas. It is taking place without any real creation of jobs, and the unemployment rate, which is expected to be 5.5% this year, is depressing domestic demand. The banks have not yet solved all their bad debt problems.

The Government is continuing its efforts to speed up restructuring of the banking sector and to eradicate the risk of deflation. In all, the Japanese economy remains still highly vulnerable.

Trend in the Nikkei 225 index



II - SECURITIES PORTFOLIOS

Two securities portfolios appear on the asset side of the CEB'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 tangible net worth (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.

In 2003, the CEB purchased € 175 million worth of investment securities with maturities ranging between 5 and 30 years. 78% of the assets in this portfolio have a AAA rating.

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

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

Longer-term securities, of maturity 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.

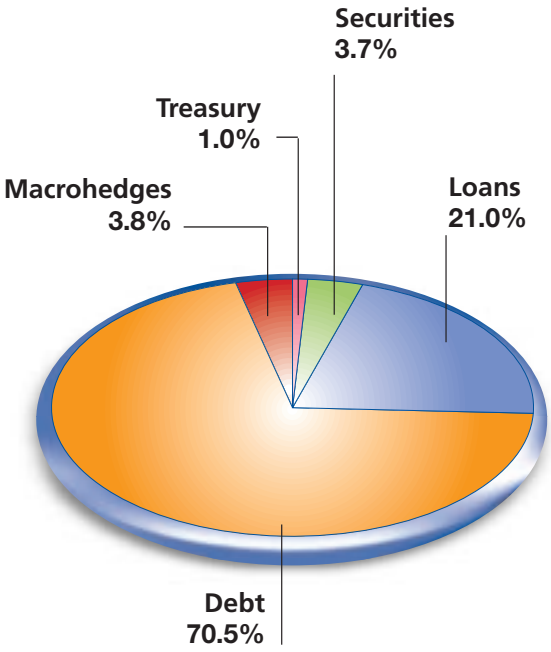
As at 31 December 2003, the total value of the held-for-sale portfolio stood at € 1 634 million, half of it long-term. The securities in this portfolio are accounted for at historical cost. A provision is set aside for price depreciation.

Most of these securities are denominated in euros and US dollars, the currencies that constitute the bulk of the CEB'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 CEB employs derivatives solely for hedging purposes.

As at 31 December 2003, 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 CEB has adopted a strict derivatives management policy, the principles of which are outlined in the section entitled "Integrated Risk Management Policy" (See page 43).

To limit its credit risk, the Bank has signed collaterals contracts with nearly all its counter-parties. Thus, as at 31 December 2003, 95% 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, remains very low.

IV - FUNDING IN 2003

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 2003, the Bank borrowed a total amount of € 2.4 billion, breaking down into 23 funding operations, including six reopenings of existing issues with maturities of 1 year or more. This amount was less than the funding volume in 2002 (€ 3.4 billion), to meet two main objectives:

- Cover lending needs, slightly greater than in 2002
- Meet the CEB's debt repayment instalments (€ 967 million), which were far less in 2003 than in 2002.

The volume of resources raised in 2003 also enabled the CEB to maintain a liquidity level in compliance with the rules set by the Administrative Council. It is the CEB's policy to allow for its stock of projects in projecting cash requirements. In accordance with prudential liquidity policy, the CEB 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.



2003 BORROWINGS

Date of payment	Currency	Term	Amount	Lead Manager/Arranger
21/01/2003	USD	7 years	750 000 000	BNP Paribas plc / Dresdner Kleinwort Wasserstein
13/02/2003	JPY	15 years*	1 000 000 000	Norinchukin International plc
14/02/2003	USD	4 years 10 months**	100 000 000	Royal Bank of Canada Europe Ltd.
25/02/2003	USD	3 years 8 months	500 000 000	BNP Paribas plc / Crédit Suisse First Boston Europe Ltd.
03/03/2003	JPY	30 years*	1 300 000 000	Mizuho International plc
06/03/2003	JPY	30 years*	1 300 000 000	Mizuho International plc
10/03/2003	JPY	20 years*	1 500 000 000	Daiwa Securities SMBC Europe Ltd.
17/03/2003	JPY	30 years*	1 100 000 000	Mizuho International plc
21/03/2003	TWD TWD	6 years 7 years	1 000 000 000 9 000 000 000	Chinatrust Commercial Bank Chinatrust Securities Co Ltd.
24/03/2003	JPY	30 years*	1 500 000 000	Daiwa Securities SMBC Europe Ltd.
26/03/2003	JPY	30 years*	1 200 000 000	Mizuho International plc
27/03/2003	JPY	30 years*	1 100 000 000	Mizuho International plc
03/04/2003	JPY	30 years*	550 000 000	Mizuho International plc
10/04/2003	USD	6 years 9 months**	100 000 000	Dresdner Kleinwort Wasserstein
22/04/2003	USD	10 years	500 000 000	BNP Paribas plc / Daiwa Securities SMBC Europe Ltd.
06/05/2003	JPY	30 years*	500 000 000	Daiwa Securities SMBC Europe Ltd.
07/05/2003	AUD	8 years 8 months**	50 000 000	TD Securities
22/05/2003	JPY	30 years*	1 000 000 000	Tokyo-Mitsubishi International plc
07/07/2003	USD	6 years 6 months**	150 000 000	Dresdner Kleinwort Wasserstein
26/08/2003	JPY	30 years*	500 000 000	Mizuho International plc
16/09/2003	JPY	20 years*	500 000 000	Nomura International plc
25/11/2003	JPY	30 years*	600 000 000	Tokyo-Mitsubishi International plc
25/11/2003	JPY	30 years*	500 000 000	Mizuho International plc

* *with early repayment option*
** *re-opening of existing issues*

To ensure constant access to the resources needed to fund its activities, the CEB'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.

82% of the funds raised by the CEB in 2003 were denominated in US dollars, versus 89% in 2002. The Taiwanese dollar is far behind in second position, with 12% of funds raised. The other CEB currencies of issue account for smaller percentages: the Japanese yen (5%) and the Australian dollar (1%). The preponderant role of the American dollar, swapped for floating euros, can be explained by the attractive funding conditions in this market.

Nearly all these borrowing operations were combined with hedging swaps which cancel both the interest-rate risk and the exchange-rate risk.

The average maturity of the issues launched in 2003 was 6 years and 5 months, shorter than in 2002 (7 years and 5 months). The table on page 39 gives details of the funds raised in their original currencies.

Nearly 70% of the issues launched under the programme were of maturity seven years or more, to enable refinancing of the CEB's loans and to avoid cash gaps over the coming financial years. Issues including an option for early repayment after one year, denominated in yen exclusively, accounted for 4% of funds raised. These small issues constitute a short-term liquidity pool that the CEB restores as these issues mature.

The multi-currency MTN programme, with a ceiling of € 15 billion, was updated in October 2003 to adapt the legal framework of the CEB's issues to new capital market features. The CEB makes priority use of this programme whenever possible.

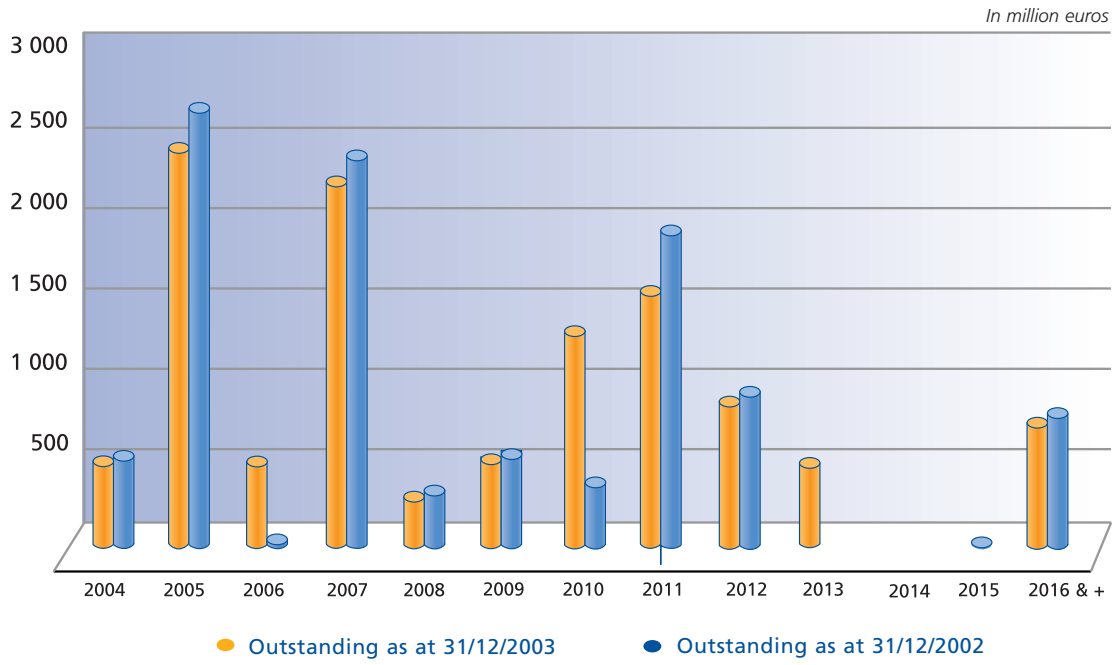
2. Trend in debt position

As at 31 December 2003, the total outstanding debt materialised by securities, excluding interest payable, stood at € 10 457 million, down slightly from the previous year.

The CEB bought back a total € 216 million worth of its own debt and made early repayment of € 109 million.

Taking into account these operations and the issues launched, the breakdown of debt by maturity is as follows:

Breakdown of the debt by maturity at year-end 2003 and 2002





V - PROFIT AND RATIOS

1. Trend in balance sheet

As at 31 December 2003, total assets stood at € 14.8 billion, up 4% from 31 December 2002.

- On the asset side, loans outstanding increased sharply (up 5.9%), reaching € 9.9 billion. In line with the objective stated in the 1999-2004 Development Plan, this trend reflects, in particular, the very strong increase in outstanding loans to transition economies, up 43% at € 1.1 billion as at 31 December 2003.

- On the liability side, cash resources and debt, which finance the loan portfolio and the liquidity reserves, decreased by 5.3% overall.

The significant increase in the "Other liabilities" item is chiefly due to the € 1.2 billion increase in the foreign currencies adjustment account compared with 2002. This amount represents the depreciation on hedging currency swap transactions, resulting from the drop in value of the US dollar compared to the euro (-20%) in 2003. Own funds available, including the 2003's profit before allocation, grew by 6%, due to the combined effects of allocation of profit for 2002 to the reserves, Moldova's payment of the balance due for its contribution to the capital and reserves (March 2003) and accession of Bosnia and Herzegovina (December 2003).

CONDENSED BALANCE SHEET

In million euros

	2003	2002	Change Amount	Change %
ASSETS				
Employment of cash [1]	2 586	2 583	3	0.1
Loans outstanding	9 903	9 349	554	5.9
Investment securities	1 513	1 439	74	5.1
Other assets [2]	784	846	(62)	(7.3)
TOTAL ASSETS	**14 786**	**14 217**	**569**	**4.0**
LIABILITIES				
Cash resources	101	86	15	17.8
Borrowing and debts materialised by bonds	10 494	11 091	(597)	(5.4)
Other liabilities [2]	2 717	1 650	1 067	64.7
Own funds and FGBR [3]	1 474	1 390	84	6.0
TOTAL LIABILITIES	**14 786**	**14 217**	**569**	**4.0**

(1) Including held-for-sale securities
(2) These items include in particular all related receivables and debt
(3) Including FGBR, profit for the financial year before allocation (called capital and reserves not yet paid are included in "Other assets")

TREND IN PROFITS

In million euros

	2003	2002	Change Amount	Change %
NET BANKING INCOME	**104.9**	**112.0**	**(7.1)**	**(6.3)**
General operating expenses	(23.5)	(20.8)	2.7	13.0
Net release of provisions on loans	4.6	4.0	0.6	15.0
Gain on fixed assets	0.9	-	0.9	100.0
NET PROFIT	**86.9**	**95.2**	**(8.3)**	**(8.7)**
Return on equity (ROE)*	6.3%	7.4%		

** Before allocating profits*

2. Trend in profits

Net profit for the financial year was € 86.9 million, versus € 95.2 million the previous year. This 8.7% decline can be explained by:

1. A fall in net banking income (operating profit before provisions) by € 7.1 million, i.e. a 6.3% contraction. This decline is due to several cyclical factors:

- A time lag between refinancing operations (issues in the first quarter of 2003) and loan disbursements (chiefly in the second half of 2003), on the one hand, and a difference between the dates of re-indexing of the variable rates for balance sheet assets and liabilities on the other hand, in a context of falling interest rates
- A decline in the volume of debt redemption operations which had made a significant contribution to net banking income in 2002.

2. A 13% increase in general operating expenses (including depreciation for the financial year), chiefly due to an increase in the payroll, resulting from a slight increase in permanent staff numbers and, to a larger extent, from the statutory salary increment.

In the end, the CEB maintains a profit level close to the average observed over the past five years (a 4.8% decline), even though the sharp fall in interest rates weighed on the profitability of the investment portfolio, which backs up own funds available.

3. Financial ratios

The limits of the control ratios set by the Administrative Council were complied with throughout financial year 2003:

- ***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 2003, the ratio stood at 2.30 compared with a limit of 2.5.

- ***Indebtedness ratio***: ratio setting total debt outstanding against total own funds in the broadest sense. As at 31 December 2003, the ratio stood at 2.89 compared with a maximum limit of 4.

- ***Portfolio ratio***: ratio setting the total value of the securities portfolio plus cash transactions not materialised by securities (bank deposits, repos) against the amount of own funds in the broadest sense. As at 31 December 2003, the ratio stood at 0.94 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 2003, the ratio stood at 104% compared with a minimum requirement of 50%.

INTEGRATED RISK MANAGEMENT POLICY

Risk management and control are determining factors in maintaining the financial soundness of a lending institution. It is for this reason that the CEB is constantly revising its risk management and monitoring systems so as to comply with best practices in the profession.

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

The risk management strategy implemented by the CEB is therefore aimed at providing global coverage of all these risks.

I - CREDIT RISKS

1. General principles

Credit risk can be defined as the risk of loan losses in the event of counterparty default.

To guard against this, the **Risk Management Department** assesses and monitors all the CEB's credit risks on both on- and off-balance sheet transactions.

The **Risk Committee**, comprising representatives of the CEB's General Management, is at the heart of the risk management system. Its role is to set limits on the basis of proposals submitted by the Global Risk Management Department. The Committee also deals with all questions of a prudential nature (Basle Committee recommendations) as well as with operational matters (new financing instruments, guarantee mechanisms, etc.).

Country risk analysis is based on a global portfolio-oriented approach, taking into account the CEB's strategic objectives and the segmentation of its risks by country or group of countries.

This makes it possible to set a number of different limits: an overall limit for all countries and limits by groups of countries or by country, which are then sub-divided into limits for lending operations and financial transactions.

Analysis of the counterparty risk (banks, local authorities, etc.) is based on in-house models, making it possible to determine a theoretical maximum outstanding per counterparty.

All limits are reviewed at least once a year or whenever a counterparty's economic or financial position justifies a revision. Computerised limits monitoring allows the CEB to check in real time that its transactions are in compliance with the authorised limits.

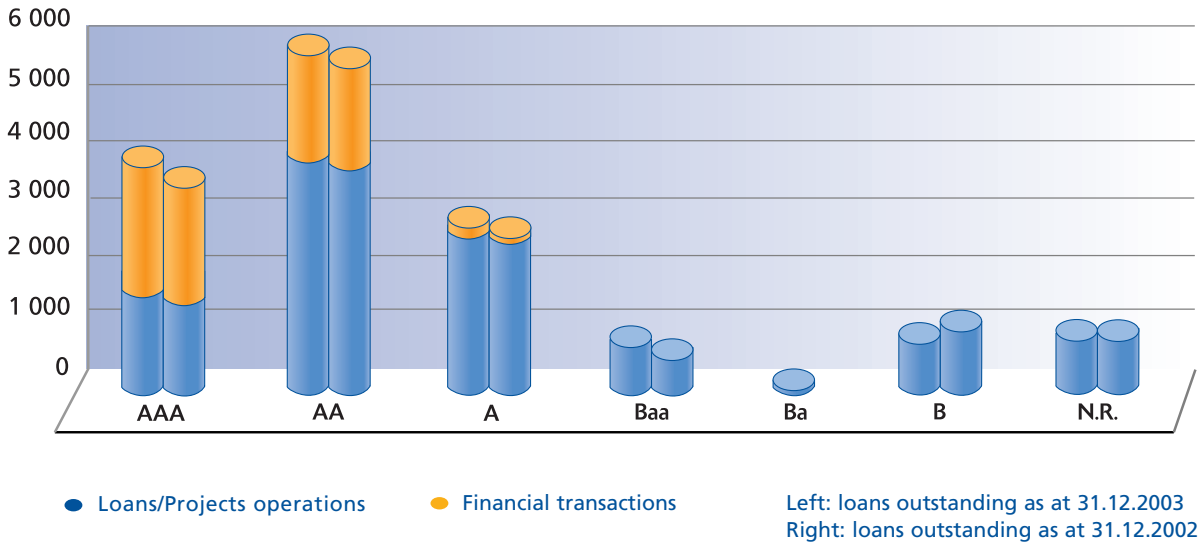
Analysis of large exposure: in application of the Basle Committee recommendations and European Union Directives, the CEB carries out daily monitoring in order to ensure compliance with the limit of 25% of own funds for each counterparty or group of counterparties and of 800% for all large exposures.

2. Loans portfolio

As at 31 December 2003, loans outstanding totalled € 9.9 billion, spread among 29 countries, against 9.3 billion at year-end 2002. The breakdown of this outstanding by counterparty rating (see chart on page 44) shows a significant increase in category AAA (+19.9%). Counterparties rated A or higher accounted for 77.8% of total outstandings as at 31 December 2003, against 76.0% in 2002. Thus, the strong growth of loans outstandings in favour of the transition countries (+43%) has not resulted in any deterioration in the risk profile for the loans portfolio.

Trend in loans outstanding[1] by counterparty rating[2]

in million euros



1. Outstanding balance at risk (for swaps, net present value + add-on).
2. Rating according to Basle Committee recommendations, after taking into account guarantees received.

Breakdown by category of borrower has remained unchanged: as at 31 December 2003, central governments or local public authorities accounted for 37% of loans outstanding and banks and specialised financial institutions 63%.

In order to maintain prudential standards consistent with best banking practices, the CEB has adopted a system of ex-ante risk coverage of unidentified credit risk, calculated on the basis of counterparty default probability rates for the loans portfolio and determined according to rating agency statistics.

As at 31 December 2003, the substantial increase in the loans outstanding (+ 5.9% in relation to 2002) was found to have had no detrimental effect on the quality of the outstanding, on the contrary. Indeed, it is important to highlight the following trends:

- a decrease in the relative weighting of speculative counterparties. The outstanding on Turkey (rated B1 by Moody's) fell by 22.9% in relation to December 2002.

- a rise in the relative weighting of counterparties rated Aa, which represented around 45% of the loans outstanding at end 2003, against 38% in 2002.

As at December 2003, the provision in respect of loans concerned only Bosnia and Herzegovina, and Serbia and Montenegro, and amounted to € 32.3 million, representing a drop in relation to 2002 (€ 36.5 million) as a result of payments of arrears.

3. Bond portfolios

To be eligible for inclusion in the investment portfolio, securities must have a minimum long-term rating of either AA– from Standard & Poor's and Aa2 from Moody's, or AA from Standard & Poor's and Aa3 from Moody's. Held-for-sale securities with a maturity of less than one year must be rated at least A-1 by Standard & Poor's or P-1 by Moody's.

During 2003, the Risk Committee decided to sell one of its investment securities on account of the steady deterioration in its rating by the agencies. This partial sale generated a net capital gain of € 0.9 million.

4. Derivatives

As an end-user, the CEB has recourse to derivatives only in order to hedge its risks (See page 38).

Derivative transactions in any case necessitate 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) collateralization agreement with the CEB.

The CEB has pursued and extended its active collateralization agreement management policy in order to reduce the credit risk linked to the use of derivatives. To date, 95% of the outstanding on derivatives are collateralized, against 89% at end 2002.

The table below shows maturities of off-balance sheet instruments (interest-rate swaps, currency swaps, caps) at their nominal amount.

As of 2003, 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 coverage if needed.

II - MARKET RISKS

1. Interest-rate and currency risks

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

The **Assets and Liabilities (ALM) Committee**, which includes all members of the CEB's General Management, decides on the institution's assets and liabilities strategy. The Assets and Liabilities (ALM) Department, within the Directorate General for Finance, is in charge of the operational management of these risks.

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

The bond portfolio does not involve any interest-rate risk except the investment portfolio, which is matched to the CEB's own funds. Securities in the held-for-sale portfolio are financed with floating-rate funds and provide floating-rate yields, either directly or after swapping.

As regards currency risks, the CEB's strategy is not to take any position. Residual risk, linked to gains

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 2003
Interest-rate instruments[1]	214	3 291	1 642	1 294	6 441
Currency instruments[1]	456	3 664	4 377	375	8 872
Total **(a)**	670	6 955	6 019	1 669	15 313
including: collateralized ***(b)***	419	6 518	6 003	1 624	14 564
(b)/(a)	**63%**	**94%**	**100%**	**97%**	**95%**

1. The total amount of receivable currency is used to calculate the outstanding on swaps at risk.

and losses in currencies other than the euro, is systematically hedged on a monthly basis.

2. Liquidity risks

Liquidity policy is determined by the **Funding Committee**, made up of members of the CEB's General Management, which meets on a quarterly basis. A weekly report on the liquidity situation is submitted to the **Treasury Committee**. 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 2003, the ratio stood at 104%.

III - OPERATIONAL RISKS

Operational risks represent the risks of direct or indirect loss resulting from inadequate or failed structures, procedures, persons or systems as well as from external events.

By deliberately choosing to operate within the framework of the Basle Committee recommendations, the CEB is committed constantly to assess its operational risks and to put in place the appropriate preventive measures, including:

- rigorous internal procedures that cover all the activities and which are regularly updated
- an inventory of all the different types of events that have caused or are likely to cause losses, in order to define the appropriate financial and logistic coverage
- a business continuity plan that is periodically tested and updated according to trends in the activities.

In compliance with the measures approved by the Administrative Council in 2000, the CEB has adopted an all-inclusive approach to coverage of its operational risks consisting in the allocation of a corresponding amount from the Fund for General Banking Risks.

An appropriate organisational structure

In response to these imperatives, in December 2002, the CEB created a structure devoted to the above-mentioned functions: the Organisation Department.

Moreover, to back up this measure, **a Committee for Operational Risks and Organisation (CORO)** was created in 2003, stemming from the merging of the Internal Procedures Committee and the Security Committee that existed hitherto. Comprising members of the CEB's General Management, the Committee keeps itself regularly informed in matters of internal procedures and decides on the CEB's security policy. It constitutes the CEB's steering body for operational risks.

Concrete achievements

The security policy, whose purpose is to ensure the resumption of the CEB's strategic activities within 24 hours in the event of a major disaster, was pursued by the Organisation Department, as evidenced in particular by:

- a detailed updating of the CEB's business continuity plan, incorporating the lessons learnt from the full-scale tests with retreat to the back-up site by operational staff, carried out in May 2003
- introduction of a global approach in matters of archiving.



HUMAN RESOURCES MANAGEMENT

To accompany the latest geographical and sectorial trends in its activity and to comply with the standards of quality and security that a multilateral development bank must meet, the CEB has significantly increased its staff numbers in the past few years.

Since 1994, the number of permanent staff employed at the Bank has risen by an average of 9% per year; however steps have been taken to moderate this trend in 2003. As at 31 December 2003, the total number of permanent staff members and elected officials at the CEB was 134, which remains a very reasonable number given its activity volumes.

To accompany this recruitment policy, the Bank has taken active measures to diversify the nationalities represented on its staff, to the advantage of the most recent member states, in particular.

Between 1993 and 2003, the number of nationalities represented on the staff almost doubled, increasing from 11 to 20 over the period. This effort to diversify the represented nationalities was even more marked among the management staff where the number almost tripled over the same period, increasing from 7 to 20 nationalities.

In all, at end 2003, the transition countries accounted for almost 1/3 of the nationalities represented among the staff (See graph).

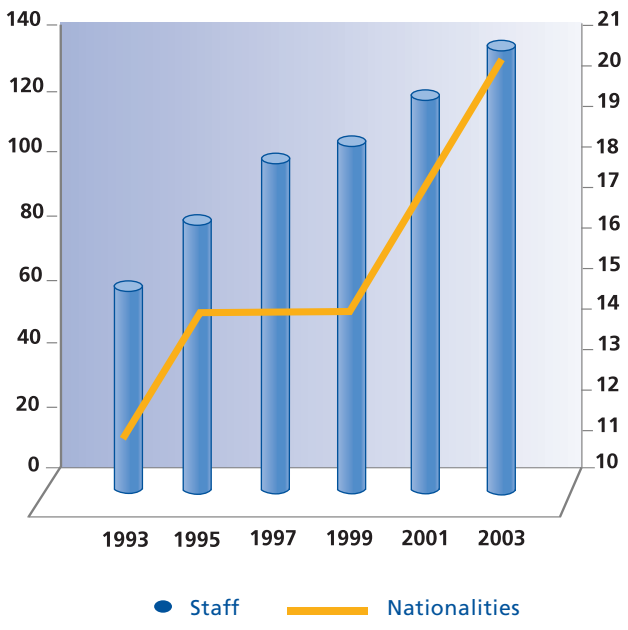
At the same time, the CEB has striven to pursue the modernisation of its human resources management tools.

In 2003, a new Intranet site was created, providing staff with a whole range of documents covering numerous legal aspects of the working conditions at the Bank as well as a platform for in-house information and communication.

With the introduction of new assessment forms for the 2003 performance evaluations, the performance evaluation system has gained both in efficiency and accuracy. At the same time, the CEB has been giving further consideration to the possibility of making changes in the flexible elements of its remuneration system.

Lastly, in 2003, the CEB continued its efforts to build up the competencies of its staff members, in particular through in-house training programmes especially adapted to the particular characteristics of the Bank's activities.

Trend in staff and nationalities represented



FINANCIAL STATEMENTS

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BALANCE SHEET
At 31 December 2003

In thousand euros

	NOTES	2003	2002
ASSETS			
Cash in hand, balances with central banks		52	107
Loans and advances to credit institutions and to customers	3		
Loans		9 971 412	9 429 930
Advances		954 393	1 030 293
Securities portfolio	4	3 222 102	3 069 111
Fixed assets	5	21 536	14 067
Capital subscribed, called, unpaid and reserves receivable	12	2 272	456
Other assets, prepayments and accrued income	6	614 283	673 467
Total assets		**14 786 050**	**14 217 431**
LIABILITIES			
Amounts owed to credit institutions and to customers	7	46 318	56 755
Debt securities	8	10 882 732	11 505 868
Other liabilities	9	2 293 911	1 173 951
Selective Trust Account (STA)	10	55 746	53 120
Provision for financial risks	11	33 722	38 081
Fund for General Banking Risks (FGBR)		144 000	144 000
Capital	12		
Subscribed		3 249 061	3 231 388
Uncalled		(2 885 326)	(2 869 604)
Called		363 735	361 784
General reserve		878 991	788 670
Profit for the year		86 895	95 202
Total liabilities		**14 786 050**	**14 217 431**
OFF-BALANCE SHEET			
Financing commitments on approved projects	3	2 170 985	1 906 488
Off-balance sheet financial instruments	16	17 318 099	16 423 106
Guarantees given		3 736	138 406

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2003

In thousand euros

	NOTES	2003	2002
Interest receivable and similar income			
Loans	13	253 287	328 081
Treasury assets		78 468	103 427
Investment portfolio		81 775	80 597
Interest expenses and similar charges		(307 877)	(399 490)
Net interest income		**105 653**	**112 615**
Income from shares and other variable-yield securities		55	55
Foreign exchange		(33)	(319)
Held-for-sale securities		(339)	44
Commissions and other net operating expenses		(475)	(445)
Total operating income		**104 861**	**111 950**
General administrative expenses	14	(21 240)	(18 950)
Depreciation	5	(2 241)	(1 868)
Operating profit before provisions		**81 380**	**91 132**
Net provisions	15	4 556	4 070
Profit on sale of investment securities	4	959	-
Profit for the year		**86 895**	**95 202**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The table below presents the developments in CEB's equity during the financial year 2003:

In thousand euros

For the year ended 31 December	2003	2002
Capital		
Subscribed capital	3 249 061	3 231 388
Uncalled capital	(2 885 326)	(2 869 604)
Called capital	**363 735**	**361 784**
Unpaid called capital	(642)	(296)
Paid-in capital	**363 093**	**361 488**
General reserve		
Balance at the beginning of the year	788 510	728 395
Preceding year's profit appropriation	90 000	85 000
Movements during the year	(1 149)	(24 885)
Balance at the end of the year	**877 361**	**788 510**
Profit for the year	86 895	95 202
Total shareholders' equity	**1 327 349**	**1 245 200**
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	**1 471 349**	**1 389 200**

The net profit for the 2002 financial year has been allocated as follows: 90 million euros to the general reserve and 5.2 million euros to the Selective Trust Account.

In 2003, the subscribed capital increased by 17.7 million euros following:

- Luxembourg's subscription to the 5th capital increase amounting to 11.9 million euros. The amount of 1.3 million euros has been allocated from the Bank's reserves;

- the adhesion of Bosnia and Herzegovina whose subscribed capital amounts to 5.8 million euros, of which the amount of 0.6 million euros has been called. Its contribution to the Bank's reserves amounts to 1.6 million euros.

In addition, Moldova paid the total amount of 456 thousand euros in terms of capital and reserves.

STATEMENT OF CASH FLOWS

In thousand euros

For the year ended 31 December	2003	2002
Cash flows from operating activities		
Profit for the financial year	86 895	95 202
Adjustments to the year's profits for:		
- Value adjustments	1 174	3 033
- Increase in accrued interest and commissions receivable	69 704	(131 808)
- Increase in accrued interest and commissions payable	(106 034)	142 138
- Premium on investment securities	1 725	2 175
Loan disbursements	(1 589 487)	(1 536 661)
Loan repayments	829 041	619 480
Net cash flows from operating activities	**(706 982)**	**(806 441)**
Cash flows from investing activities		
Net change in the securities portfolio	(217 087)	(284 084)
Purchase of tangible and intangible fixed assets	(9 033)	(3 745)
Increases/(decreases) in other assets	518	133
Net cash flows from investing activities	**(225 602)**	**(287 696)**
Cash flows from financing activities		
Subscription of capital and reserves	456	682
Issue of borrowings	2 030 718	2 951 973
Redemption of borrowings	(1 423 851)	(2 088 130)
Increases/(decreases) in short-term borrowings	1 430	(262 485)
Change in foreign currency transactions payable and receivable	264 162	335 414
Increases/(decreases) in other liabilities	13 799	(74 143)
Net cash flows from financing activities	**886 714**	**863 311**
Cash and cash equivalents at the beginning of the year	1 029 385	1 316 774
Net increase/(decrease) in cash and cash equivalents	(45 870)	(230 826)
Effects of foreign exchange on cash and cash equivalents	(30 502)	(56 563)
Cash and cash equivalents at 31 December	**953 013**	**1 029 385**

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

	2003	2002
Cash in hand, balances with central banks	52	107
Advances to credit institutions	952 961	1 029 278
Amounts owed to credit institutions	-	-
Cash and cash equivalents at 31 December	**953 013**	**1 029 385**

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)

In furtherance of the Bank's objective of strengthening its actions in favour of social cohesion, in conformity with the provisions of Resolution 1424 (1997) and as revised in 2003, the Bank's fields of action have been broadened. Since 2001, the Bank may, beyond its initial statutory priorities, contribute to the financing of social infrastructures related to the protection of the environment and the rehabilitation of the historical heritage. Financing investment plans in small and medium-sized enterprises and small industrial firms, which contribute to job creation, is also one of the Bank's major fields of action. Earlier in 2001, the Bank had already undertaken to redefine certain eligibility criteria concerning projects for the improvement of quality of life in disadvantaged urban areas, social housing, as well as those applicable to sector-based multi-project programmes (SMPs), and this with a view to better adapting itself to the social and economic realities of its member states.

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. Consequent to the changes in certain international financial standards as well as discussions currently taking place within the regulatory bodies, mainly in relation to the implementation of the norm IAS 39, the Bank opted not to uphold these standards as an accounting reference.

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 2003. 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.

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, litigations…). 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

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 retirement benefits are valued once a year using the projected unit credit method. This valuation is carried out by an independent actuary in order to ensure that the provision entered in the accounts is adequate.

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

Profit and loss on hedging instruments is accounted for in the profit and loss account in the same way as the profit and loss 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 in particular transition 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	2003	2002
Loans to credit institutions		
Loans	6 425 002	6 052 156
Interest receivable	36 633	46 327
Sub-total	**6 461 635**	**6 098 483**
Loans to customers		
Loans	3 477 566	3 297 350
Interest receivable	32 338	34 253
Unpaid receivables	32 256	36 388
Provisions [1]	(32 383)	(36 544)
Sub-total	**3 509 777**	**3 331 447**
Total loans	**9 971 412**	**9 429 930**

In thousand euros as at 31 December

Other loans and advances	2003	2002
Advances repayable on demand	7 231	3 960
Advances with agreed maturity dates or periods of notice	945 729	1 025 479
Interest receivable	1 433	854
Total advances	**954 393**	**1 030 293**

(1) Provisions cover unpaid receivables as well as related interest receivables, amounting to 127 thousand euros (2002: 156 thousand euros).

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 2003, outstanding loans benefiting from the STA amounted to 369 378 thousand euros (304 004 thousand euros in 2002). Outstanding social loans (granted at a 1% interest rate) amounted to 1 920 thousand euros in 2003 (2002: 5 040 thousand euros). Loans are guaranteed up to the amount of 1 127 151 thousand euros (2002: 1 008 218 thousand euros). These guarantees could be either in the form of securities or other financial commitments.

Loan disbursements and reimbursements during the 2003 financial year are indicated below:

In thousand euros as at 31 December

Movement in loans	2003	2002
At 1 January	9 349 506	8 630 274
Disbursements	1 589 487	1 536 661
Reimbursements	(824 909)	(615 409)
Foreign exchange movements	(211 516)	(202 020)
At 31 December	9 902 568	9 349 506
Interest receivable	68 844	80 424
Total	**9 971 412**	**9 429 930**

Breakdown of outstanding loans and financial commitments by borrower country as at 31 December 2003:

In thousand euros as at 31 December

	Outstanding				Financing commitments	
Breakdown by country	2003	%	2002	%	2003	2002
Spain	1 942 264	19.61	1 858 710	19.88	70 724	110 455
Germany [1]	1 424 177	14.38	1 562 000	16.70	51 917	101 917
France	1 287 600	13.00	1 239 338	13.25	50 000	50 000
Italy [2]	1 062 904	10.73	920 801	9.85	389 761	80 323
Greece	757 541	7.65	725 364	7.76	84 208	214 895
Turkey	681 194	6.88	883 030	9.44	182 112	246 229
Cyprus	473 265	4.78	445 269	4.76	324 469	220 844
Poland	444 879	4.49	351 022	3.75	109 909	121 363
Finland	366 192	3.70	327 770	3.51	147 500	172 500
Portugal	236 697	2.39	188 639	2.02	125 000	75 000
Hungary	223 500	2.26	101 300	1.08	129 913	108 700
Belgium	214 435	2.17	234 933	2.51	80 000	80 000
Malta	133 297	1.35	83 954	0.90	79 061	8 520
Norway	128 788	1.30	67 888	0.73	-	67 025
Sweden	110 251	1.11	40 035	0.43	55 036	14 613
Romania	102 414	1.03	109 181	1.17	122 922	50 462
Croatia	93 981	0.95	61 867	0.66	18 013	52 306
Denmark	50 000	0.50	-	-	50 000	-
Slovenia	33 650	0.34	38 634	0.41	-	22 050
Iceland	33 229	0.34	29 569	0.32	28 277	36 697
Slovak Republic	26 226	0.26	23 997	0.26	20 077	17 483
Bulgaria	22 024	0.22	13 992	0.15	24 460	19 758
"the former Yugoslav Republic of Macedonia"	13 913	0.14	13 913	0.15	6 200	6 200
Lithuania	13 102	0.13	9 922	0.11	12 559	8 833
Latvia	11 601	0.12	5 274	0.06	3 013	10 891
Estonia	8 541	0.09	5 560	0.06	2 046	4 027
Bosnia and Herzegovina	3 906	0.04	4 704	0.05	-	-
San Marino	2 324	0.02	2 840	0.03	-	-
Albania	673	0.01	-	-	3 808	5 397
Total	**9 902 568**	**100.00**	**9 349 506**	**100.00**	**2 170 985**	**1 906 488**

(1) of which 135 639 thousand euros outstanding in favour of transition countries as at 31 December 2003 (31 December 2002: 60 639 thousand euros)

(2) of which 10 000 thousand euros outstanding in favour of transition countries as at 31 December 2003 (31 December 2002: nil)

In thousand euros as at 31 December

Breakdown by sector-based activities	Outstanding 2003	%	Outstanding 2002	%	Financing commitments 2003	Financing commitments 2002
Strengthening social integration						
Aid to refugees, migrants and displaced populations	132 933		153 298		10 005	24 881
Social housing	1 990 048		1 880 180		373 427	367 786
Job creation and preservation in SMEs, and vocational training	1 377 721		1 420 979		198 074	223 110
Disadvantaged urban areas and rural modernisation	888 613		910 085		274 748	276 161
Sub-total	**4 389 315**	**44**	**4 364 542**	**47**	**856 254**	**891 938**
Managing the environment						
Natural or ecological disasters and preventive actions	1 566 801		1 570 685		250 808	201 739
Protection of the environment	1 210 898		1 214 410		193 527	166 764
Protection of historic and cultural heritage	113 402		62 340		118 375	27 306
Infrastructure	151 486		202 579		-	-
Sub-total	**3 042 587**	**31**	**3 050 014**	**32**	**562 710**	**395 809**
Developing human capital						
Education	1 258 131		1 043 716		470 147	376 128
Health	1 212 535		891 234		281 874	242 613
Sub-total	**2 470 666**	**25**	**1 934 950**	**21**	**752 021**	**618 741**
Total	**9 902 568**	**100**	**9 349 506**	**100**	**2 170 985**	**1 906 488**

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	2001 and before	2002	2003	Total
Projects				
With signed framework loan agreements	345 567	485 279	1 033 932	1 864 778
With at least one financing	277 930	28 277	-	306 207
Total	**623 497**	**513 556**	**1 033 932**	**2 170 985**

Note 4 - Securities portfolio

In thousand euros as at 31 December

Breakdown by issuer	2003	2002
Treasury bills and similar securities		
Book value	615 431	420 057
Interest receivable	20 797	19 072
Net amount	**636 228**	**439 129**
Debt securities and other fixed-income securities		
Book value	2 529 986	2 572 161
Provisions	(620)	(443)
Interest receivable	55 762	57 498
Net amount	**2 585 128**	**2 629 216**
Shares		
Book value	1 366	1 366
Provisions	(634)	(614)
Interest receivable	14	14
Net amount	**746**	**766**
Total portfolio	**3 222 102**	**3 069 111**

In thousand euros as at 31 December

Breakdown by portfolio	2003		2002	
	Book value	Market value	Book value	Market value
Held-for-sale	1 633 003	1 654 008	1 553 971	1 578 484
Investment	1 512 526	1 610 797	1 438 556	1 549 196
Sub-total	**3 145 529**	**3 264 805**	**2 992 527**	**3 127 680**
Interest receivable	76 573		76 584	
Total	**3 222 102**		**3 069 111**	

The investment portfolio comprises bonds issued by countries or similar institutions rated at least AA. In 2003, in accordance with a decision by the Bank's Risk Committee, one investment securities portfolio has been partially sold before maturity as a result of the continued downgrading of the rating of the issuer.

Note 5 - Fixed assets

In thousand euros as at 31 December

	Buildings	Fixtures and equipment	Other	Total tangible fixed assets	Intangible assets	Grand total
Gross book value						
At 1 January 2003	12 756	7 617	3 657	24 030	3 215	27 245
Additions	8 299	1 262	1 137	10 698	289	10 987
Disposals/write-offs	-	-	(677)	(677)	-	(677)
Other movements	-	(884)	(34)	(918)	(359)	(1 277)
At 31 December 2003	**21 055**	**7 995**	**4 083**	**33 133**	**3 145**	**36 278**
Depreciation						
At 1 January 2003	(4 714)	(3 713)	(2 706)	(11 133)	(2 045)	(13 178)
Charge for the year	(657)	(607)	(588)	(1 852)	(389)	(2 241)
Disposals	-	-	677	677	-	677
At 31 December 2003	**(5 371)**	**(4 320)**	**(2 617)**	**(12 308)**	**(2 434)**	**(14 742)**
Net book value						
At 31 December 2003	**15 684**	**3 675**	**1 466**	**20 825**	**711**	**21 536**
At 31 December 2002	8 042	3 905	951	12 897	1 170	14 067

During the 2003 financial year, the Bank purchased new premises in the building at 55 avenue Kléber in Paris where the Headquarters of its operational services are located, for a total amount of 8.23 million euros.

Note 6 - Other assets, prepayments and accrued income

In thousand euros as at 31 December

	2003	2002
Accrued interest receivable	463 075	516 720
Other expenses to be amortised	82 360	92 227
Prepaid expenses	64 463	59 622
Sundry debtors	4 187	4 506
Purchased conditional instruments	191	392
Other accrued income and sundry debtors	7	-
Total	**614 283**	**673 467**

Note 7 - Amounts owed to credit institutions and to customers

In thousand euros as at 31 December

	2003	2002
Amounts owed to credit institutions		
Repayable on demand	-	161
With agreed maturity dates or periods of notice	-	-
Interest payable	-	-
Sub-total	**-**	**161**
Amounts owed to customers		
Interest bearing accounts	8 751	7 650
With agreed maturity dates or periods of notice	37 023	48 235
Interest payable	544	709
Sub-total	**46 318**	**56 594**
Total	**46 318**	**56 755**

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.

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	2003	2002
Bonds	10 325 973	10 903 437
Perpetual debt	130 654	140 144
Interest payable	426 105	462 287
Total	**10 882 732**	**11 505 868**

During the financial year, the Bank reimbursed debts for a total amount of 1 416 466 thousand euros (2 088 130 thousand euros in 2002).

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 2003	Net value 2002
Euro	2 286 118	9 250 625	11 536 743	10 159 978
US Dollar	6 333 139	(5 564 440)	768 699	1 662 500
Swiss Franc	259 031	(128 378)	130 653	254 737
Japanese Yen	411 518	(364 869)	46 649	-
Taiwan Dollar	513 647	(513 647)	-	-
Australian Dollar	220 212	(220 212)	-	-
Pound sterling	212 826	(212 826)	-	-
Canadian Dollar	92 399	(92 399)	-	-
Hong Kong Dollar	81 592	(81 592)	-	-
South African Rand	46 145	(46 145)	-	-
Total	**10 456 627**	**2 026 117**	**12 482 744**	**12 077 215**

Note 9 - Other liabilities, accruals and deferred income

In thousand euros as at 31 December

	2003	2002
Foreign currencies adjustment account	1 925 661	746 632
Accrued expenses	182 266	250 554
Deferred income	143 701	147 446
Deposits of guarantees received	36 863	25 421
Other accruals and sundry creditors	5 420	3 898
Total	**2 293 911**	**1 173 951**

The balance of the foreign currencies adjustment account represents exchange unrealised gains or losses on currency swaps maturity flows. The difference of 1 179 million euros recorded between 31 December 2003 and 31 December 2002 is mainly a result of the strengthening of the euro against the US dollar by 20%.

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 to grant 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	2003	2002	Liabilities	2003	2002
Deposits to CEB	55 746	53 120	Contribution received from CEB	63 521	58 319
Securities portfolio	3 035	3 436	Other contributions received	107	106
			Accruals and deferred income	3 092	3 823
			Results brought forward	(5 692)	(3 825)
			Result for the financial year	(2 247)	(1 867)
Total	**58 781**	**56 556**		**58 781**	**56 556**

Profit and loss account

In thousand euros as at 31 December

For the year ended 31 December 2003	2003	2002
Payments from CEB	1 248	1 677
Income from securities portfolio	203	244
Income	**1 451**	**1 921**
Interest subsidies paid	(2 357)	(2 017)
Donations	(1 138)	(1 529)
Provisions	(203)	(242)
Expenses	**(3 698)**	**(3 788)**
Result for the year	**(2 247)**	**(1 867)**

Donations

Since it was set up in 1995, donations for a total amount of 8.3 million euros have been granted from the STA, mainly to Albania, Kosovo, "the former Yugoslav Republic of Macedonia" and Romania.

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

In thousand euros as at 31 December

Payments	2003	2002
Infrastructural repairs in "the former Yugoslav Republic of Macedonia"	568	110
Creation of basic infrastructure related to health, education and professional training for Rom children and women in "the former Yugoslav Republic of Macedonia"	304	-
Joint programme CEB/Council of Europe	266	261
Reconstruction of the Mostar bridge in Bosnia and Herzegovina	-	1 158
Total	**1 138**	**1 529**

The donation granted for infrastructural repairs in "the former Yugoslav Republic of Macedonia" finances repairs of the water distribution systems and wasted water collection.

The purpose of the subsidy granted to the Council of Europe is to finance studies for projects related to strengthening of social cohesion.

Outstanding loans and funding commitments

In thousand euros as at 31 December

	Outstanding		Financing commitments	
Breakdown by country	2003	2002	2003	2002
Hungary	111 800	78 300	58 200	91 700
Poland	96 977	96 977	-	-
Croatia	88 494	59 237	11 318	42 683
Romania	28 000	28 000	42 000	2 000
Slovak Republic	21 184	21 184	8 816	8 816
Slovenia	6 734	6 734	-	-
Lithuania	6 156	4 725	6 517	8 833
Bulgaria	4 815	3 503	17 960	19 758
Bosnia and Herzegovina	3 906	4 704	-	-
Albania	673	-	2 019	-
Germany	639	639	1 917	1 917
Total	**369 378**	**304 003**	**148 747**	**175 707**

Note 11 – Provisions for financial risks

The provisions for financial risks are composed of a provision for retirement benefit commitments of the Bank's staff and another provision, set up in 2001, to cover the operational risks related to litigation between the Bank and one of its paying agents.

In thousand euros as at 31 December

	2003	2002
Provision for staff pension commitments	33 722	30 632
Provisions for litigation	-	7 449
Total	**33 722**	**38 081**

Provision for staff pension commitments

With reference to the International Accounting Standard IAS 19, an actuarial valuation of the staff pension scheme has been carried out as at 31 December 2003 by an independent actuary. Commitments for retirement benefits are valued using 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 40
- an average retirement age of 62
- the use of mortality tables INSEE 1998 and disability tables EVK 90

The provision covers commitments undertaken accordingly.

Movements in the provision for pension commitments are presented below:

In thousand euros as at 31 December

	2003	2002
At 1 January	**30 632**	**27 898**
Employer's contribution	1 364	1 137
Staff contribution	662	552
Interest income (CEB)	1 782	1 675
Income	**3 808**	**3 364**
Pensions paid	(512)	(454)
Departure grants	(188)	(158)
Others	(18)	(18)
Expenses	**(718)**	**(630)**
Net profit for the year	**3 090**	**2 734**
At 31 December	**33 722**	**30 632**

Provisions for litigation

In accordance with Resolution 1461 (2001) of the Administrative Council, a provision of 16 million euros was settled by direct deduction from the FGBR in order to cover the operational risks related to a litigation between the Bank and one of its paying agents and, as at 31 December 2003, the total amount of this provision has been used. Legal proceedings instituted by the Bank to seek redress are still pending.

In thousand euros as at 31 December

	2003	2002
At 1 January	**7 449**	**15 243**
Provision charges	-	-
Provision release	(7 449)	(7 794)
Net movements for the year	**(7 449)**	**(7 794)**
At 31 December	**-**	**7 449**

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.

On 18 December 2003, Bosnia and Herzegovina joined the Council of Europe Development Bank. Called capital and reserves to be paid, recorded in the assets, amount to 2 272 thousand euros.

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
Hungary	26 884	23 916	2 968
Czech Republic	25 833	22 981	2 852
Luxembourg	20 849	18 547	2 302
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 2003	**3 249 061**	**2 885 326**	**363 735**
Total 2002	**3 231 388**	**2 869 604**	**361 784**

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	2003	2002
Germany	60 697	76 453
Turkey	52 740	66 695
Spain	49 481	67 814
Greece	37 124	42 002
France	36 630	40 723
Italy	27 202	31 408
Poland	18 966	14 937
Cyprus	15 153	15 897
Finland	11 665	12 778
Hungary	5 975	5 039
Belgium	5 579	6 606
Malta	5 376	2 961
Portugal	4 934	3 719
Croatia	3 773	3 047
Norway	2 624	973
Romania	2 447	2 263
Slovenia	1 326	1 652
Sweden	1 298	900
Iceland	842	804
Slovak Republic	768	655
Lithuania	612	545
"the former Yugoslav Republic of Macedonia"	438	433
Bulgaria	438	329
Estonia	366	274
Bosnia and Herzegovina	299	360
Denmark	213	-
San Marino	153	186
Latvia	146	81
Albania	16	-
Sub-total	**347 281**	**399 534**
Hedging instruments	(95 234)	(72 418)
Provision release	1 240	965
Total	**253 287**	**328 081**

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

Note 14 - General administrative expenses

In thousand euros as at 31 December

	2003	2002
Staff costs		
Wages and salaries	11 993	10 755
Social Security	809	685
Pension costs	1 364	1 240
Other general expenses	7 074	6 270
Total	**21 240**	**18 950**

As at 31 December 2003, the Bank has a permanent staff of 134 agents (131 at 31 December 2002), divided into three categories: 4 appointed officials (Governor and Vice-Governors), 65 professional staff (2002: 66) and 65 support staff (2002: 61).

Note 15 - Provision analysis

In thousand euros as at 31 December

	2003	2002
Releases		
Provision releases for risks on loans	4 132	4 070
Provision release for risks and litigation	424	-
Total releases	**4 556**	**4 070**

In 2003, provision releases for risks on loans relate to the repayment of loans by Bosnia and Herzegovina and Serbia and Montenegro.

The provision release for risks and litigation represents the balance of the provision set up in 2001 to cover the operational risks of a transaction carried out in 2003 (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

	2003	2002
Over-the-counter transactions		
Interest rate swaps	6 482 760	7 480 290
Foreign currency swaps	10 667 645	8 667 145
Other	129 582	237 559
Conditional transactions		
Interest rate options	38 112	38 112
Total	**17 318 099**	**16 423 106**

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	1 222 510	90 550	-
AA	11 474 815	837 522	12 201
A	3 679 984	363 775	-
Non-rated	940 790	117 289	2 308
Total	**17 318 099**	**1 409 136**	**14 509**

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 2003	Net position 2002
Euro	12 726 416	6 090 402	(8 562 266)	(1 926 252)	(772 893)
US Dollar	1 387 705	6 719 625	5 333 003	1 083	4 166
Japanese Yen	299 829	457 284	158 464	1 009	1 376
Swiss Franc	152 904	268 662	114 613	(1 145)	21 298
Pound Sterling	6 113	218 922	212 826	17	114
Other currencies	213 083	1 031 155	818 217	145	69
Total	**14 786 050**	**14 786 050**	**(1 925 143)**	**(1 925 143)**	**(745 870)**

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	52	-	-	-	-	-	52
Loans and advances to credit institutions and to customers							
Loans	71 194	45 192	536 403	3 726 042	5 592 581	-	9 971 412
Advances	874 146	80 247	-	-	-	-	954 393
Securities portfolio	262 000	17 125	739 476	950 075	1 252 680	746	3 222 102
Other assets	-	-	-	-	-	638 091	638 091
Total assets	**1 207 392**	**142 564**	**1 275 879**	**4 676 117**	**6 845 261**	**638 837**	**14 786 050**
LIABILITIES							
Amounts owed to credit institutions and to customers	8 751	-	-	37 567	-	-	46 318
Debt securities	-	82 119	374 995	5 195 775	5 229 843	-	10 882 732
Capital, reserves and profit for the year	-	-	-	-	-	1 329 621	1 329 621
Other liabilities	-	-	-	-	-	2 527 379	2 527 379
Total liabilities	**8 751**	**82 119**	**374 995**	**5 233 342**	**5 229 843**	**3 857 000**	**14 786 050**
Derivative instruments	5 467	(27 430)	3 105	(832 683)	(1 073 602)	-	(1 925 143)
Net liquidity position 2003	**1 204 108**	**33 015**	**903 989**	**(1 389 908)**	**541 816**	**(3 218 163)**	**(1 925 143)**
Accumulated liquidity position 2003	**1 204 108**	**1 237 123**	**2 141 112**	**751 204**	**1 293 020**	**(1 925 143)**	
Accumulated liquidity position 2002	536 571	743 197	1 696 592	(243 328)	1 220 183	(745 870)	

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 2003, the estimated net realisable value is of -558 thousand euros (31 December 2002: 13 529 thousand euros).

In thousand euros as at 31 December

	Balance sheet value 2003	Value adjustment	Estimated value 2003	Estimated value 2002
ASSETS				
Loans and advances to credit institutions and to customers	10 925 805	(57 221)	10 868 584	10 643 852
Securities portfolio	3 222 103	(58 569)	3 163 534	3 086 446
Other assets	638 142	1 616 894	2 255 036	687 990
Total	**14 786 050**	**1 501 104**	**16 287 154**	**14 418 288**
LIABILITIES				
Amounts owed to credit institutions and to customers	46 318	7 073	53 391	48 647
Debt securities	10 882 732	1 494 589	12 377 321	11 525 000
Other liabilities	2 383 379	-	2 383 379	1 441 456
Shareholders' equity	1 473 621	-	1 473 621	1 389 656
Total	**14 786 050**	**1 501 662**	**16 287 712**	**14 404 759**
Net estimated realisable value			**(558)**	**13 529**

Note 20 - Post-balance sheet events

No significant post-balance sheet event has occurred that would necessitate disclosure or adjustment to these financial statements as approved by the Governing Board.

EXTERNAL AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

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Téléphone 01 56 57 58 59
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EXTERNAL AUDITOR'S REPORT
ON THE FINANCIAL STATEMENTS
(Free translation of the original French report)

Year ended December 31, 2003

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, 2003, presented in euros, of the Council of Europe Development Bank and the related statement of cash flows for the year ended December 31, 2003.

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 2003, 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 26, 2004

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 2003

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 and Strasbourg on four occasions in 2003 and from 23-27 February 2004 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 2003.

Based on Resolution 343 (2002) of the Governing Board 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 2003 as follows:

- consulting the Governor, the Vice-Governors, the Directors and other pertinent staff;
- examining the financial statements of the Bank for the year 2003, including the balance sheet at 31 December 2003, 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 25 February 2004;
- consulting the Internal Audit Department ;
- consulting the External Auditor of the Bank at two meetings and examining his interim report, and his detailed report (Long Form Report) for the year 2003;
- obtaining the opinion signed by the External Auditor on 26 February 2004;
- 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 2003 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, 27 February 2004

M.I. CASTELÃO FERREIRA DA SILVA
F. CASSEL
P. BRÜGGER

EXTRACT FROM THE MINUTES OF THE 230TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 1478 (2004) **CA/PV 230 (2004)**

Paris, 18 March 2004

The Administrative Council,

Having regard to Article XI, Section 2, of the Bank's 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 2003,

Having taken note of the external auditor's report dated 26 February 2004,

Having taken note of the Auditing Board's report dated 27 February 2004,

Having taken note of the Governor's Memorandum dated 1 March 2004,

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 2003,

2. discharges the Governor from his responsibility for financial management in respect of the financial year 2003,

3. resolves to allocate the net profit for 2003 (+ € 86 894 616), as follows:
   - € 86 000 000 to the General reserve
   - € 894 616 to the Selective Trust Account,

4. recommends that the Governing Board approve point 3 above.

EXTRACT FROM THE MINUTES OF THE 175TH MEETING OF THE GOVERNING BOARD OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 349 (2004) **CD/PV 175 (2004)**

Paris, 16 April 2004

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 2003,

Having taken note of the certification by the external auditor, dated 26 February 2004,

Having regard to the reports of the Bank's statutory organs, viz:
- the Report of the Governor for the financial year 2003,
- the Auditing Board's report dated 27 February 2004,

Having regard to Resolution 1478 (2004) of the Administrative Council,

Having heard the Auditing Board,

Decides:

- to approve the Bank's annual report, accounts and other financial statements for 2003,
- to discharge the Administrative Council from his responsibility for the financial year 2003,
- to endorse point 3 of Resolution 1478 (2004) of the Administrative Council of 18 March 2004, by which the Administrative Council agreed to allocate the net profit for 2003, amounting to € 86 894 616, as follows:
  - € 86 000 000 to the General reserve
  - € 894 616 to the Selective Trust Account.

BALANCE SHEET AS AT 31 DECEMBER 2003
AFTER ALLOCATION OF PROFIT

In thousand euros

	NOTES	2003	2002
ASSETS			
Cash in hand, balances with central banks		52	107
Loans and advances to credit institutions and to customers	3		
Loans		9 971 412	9 429 930
Advances		954 393	1 030 293
Securities portfolio	4	3 222 102	3 069 111
Fixed assets	5	21 536	14 067
Capital subscribed, called, unpaid and reserves receivable	12	2 272	456
Other assets, prepayments and accrued income	6	614 283	673 467
Total assets		**14 786 050**	**14 217 431**
LIABILITIES			
Amounts owed to credit institutions and to customers	7	46 318	56 755
Debt securities	8	10 882 732	11 505 868
Other liabilities	9	2 293 911	1 173 951
Selective Trust Account (STA)	10	56 641	58 322
Provision for financial risks	11	33 722	38 081
Fund for General Banking Risks (FGBR)		144 000	144 000
Capital	12		
Subscribed		3 249 061	3 231 388
Uncalled		(2 885 326)	(2 869 604)
Called		363 735	361 784
General reserve		964 991	878 670
Total liabilities		**14 786 050**	**14 217 431**
OFF-BALANCE SHEET			
Financing commitments on approved projects	3	2 170 985	1 906 488
Off-balance sheet financial instruments	16	17 318 099	16 423 106
Guarantees given		3 736	138 406

NOTES FOR THE READER

1. Title: The Bank was set up in 1956 under the title "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe". The simplified title "Council of Europe Social Development Fund", in use since 1989, became official with the entry into force of the new Articles of Agreement on 18 March 1997. Since 1 November 1999 the new title has been "Council of Europe Development Bank", and the acronym CEB.

2. Member States: As at 31 December 2003, the Bank had 36 member states: Albania, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "the former Yugoslav Republic of Macedonia", Turkey. Former Yugoslavia was an associate member from 1986 to 1991.

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 the member states.

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

5. Loan disbursed: A loan that 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 between two main types of instrument: individual projects, characterised by a single borrower and a single project manager and SMPs (see below).

8. Sector-based multi-project programmes (SMPs): Loan programmes agreed with major financial institutions (master agreements), corresponding to projects grouping together more than one beneficiary for activities in one or more of the Bank's fields of action. They make it possible to use a central borrower as a relay in order to reach a large number of individual beneficiaries.

9. 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.

10. 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 concern the transition countries. The account is fed with allocations from the Bank's profits and voluntary contributions from member states.

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

12. Subscribed capital: Participating certificates issued by the Bank and subscribed by its member states.

13. Called capital: Total capital paid in and to be paid.

14. Uncalled capital: Difference between the subscribed capital and called capital.

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