Council of Europe Development Bank



Report of the Governor 2001

KEY FIGURES

in million euros

	2001	2000	1999	1998	1997
Loans disbursed during the year	1 749	1 855	1 712	1 056	862
Projects approved during the year	1 664	1 888	2 052	2 257	2 153
Own assets (after allocation of results)	3 962	2 466	2 381	2 283	2 144
Tangible net worth (after allocation of results)	1 293	1 221	1 133	1 046	961
Balance sheet total	13 926	14 434	12 659	11 096	9 539
Profit	88.3	95	91.4	81.4	81.6
Selective Trust Account (cumulative appropriations from profits)	58.3	55	45	35	30

The Council of Europe Development Bank was set up on 16 April 1956 by the Committee of Ministers of the Council of Europe in order to provide solutions to the problems of refugees. Since then it has adapted to changes in social priorities in Europe. Its activities are founded on the principle of strengthening social cohesion in Europe.

Objectives

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

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

The Council of Europe and the CEB

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

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

At the same time, it has encouraged the signing of a number of partial agreements between certain 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 35 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 its inception, forty-five years ago, the Bank has gradually broadened its fields of action. **New priorities** have been set, embracing all the activity areas that directly contribute to strengthening social cohesion in Europe: job creation and preservation in SMEs, social housing, health, education and rehabilitation of disadvantaged urban areas.

Lastly, the CEB is also active in **other fields**: protection of the environment, rural modernisation, conservation and rehabilitation of historic 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 billion euros as at 31 December 2001. Leverage is particularly impressive: since its inception the Bank has been able to pay out more than 17 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. Kari NARS, who was elected on 28 June 1999.

- The Administrative Council, comprising one representative per member state. Its Chairman is Mr. Heinrich HARRIES, who was elected on 28 June 1999.

- 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 Administrative Council is assisted by an Executive Committee made up of members of the Administrative Council and chaired by the Council's Chairman.

* The mandates of Mr. Martin MURTFELD, 1st Vice-Governor, and Mr. Ignacio GARRIDO, Vice-Governor, ended on 17 December 2001, bringing to a close respectively seven and five years of remarkable contribution to the Bank's development.

MEMBER STATES OF THE BANK (year of accession)

In 8 years, the number of member states has increased from 21 to 35

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



MEMBERSHIP OF THE BANK'S ORGANS

as at 31 December 2001*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
KARI NARS Former Director of Finance, Ministry of Finance, Helsinki	*Chairmen*	**HEINRICH HARRIES** Former Director of the Managing Board, Kreditanstalt für Wiederaufbau (KfW), Frankfurt am Main
MARCIN RYBICKI Director of Foreign, Political, Economic Department, Ministry of Foreign Affairs, Warsaw	*Vice-Chairs*	**DIMITAR B. RADEV** International Monetary Fund, Washington
SHPËTIM ÇAUSHI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**IZEDIN HAJDINI** Minister's Adviser, Ministry of Economy, Tirana
BENOÎT CARDON DE LICHTBUER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	**Belgium**	**WERNER VERTONGEN** Inspector General, Research Department, National Bank of Belgium, Brussels **GINO ALZETTA** *(since 11-1-2002)* Director-Coordinator, International Relations, Ministry of Finance, Brussels
YURI STERK Ambassador, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**DIMITAR B. RADEV** International Monetary Fund, Washington
NEVEN MADEY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	**Croatia**	**JOSIP KULISIC** Assistant Finance Minister, Department for International Financial Institutions and European Integration, Ministry of Finance, Zagreb
CHRISTOPHOROS YIANGOU Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	**Cyprus**	**ANDREAS TRYFONIDES** Permanent Secretary, Ministry of Finance, Nicosia
JIRÍ MUCHA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**DIMITRIJ LOULA** Deputy Director General, International Organisations Department, Ministry of Finance, Prague
NIELS-JØRGEN NEHRING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg	**Denmark**	**PETER BRIX KJELGAARD** Senior Adviser, Department for International Co-operation, Ministry of Finance, Copenhagen

* The Bank's organs are: the Governing Board, the Administrative Council, the Governor and the Auditing Board. The Administrative Council is assisted by an Executive Committee made up of members of the Administrative Council and chaired by its Chairman.

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: **MR GÜNTER SCHIRMER**).

Governing Board		Administrative Council
Antis FROSCH Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg	**Estonia**	**Renaldo MÄNDMETS** Acting Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn
Erkki KOURULA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	**Finland**	**Seppo SUOKKO** Deputy Director General, Department of Economic Affairs, Ministry of Finance, Helsinki
Jacques WARIN Ambassador Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**Nacer MEDDAH** Head of Bureau, European Affairs, Treasury Directorate, Ministry of Economic Affairs, Finances and Industry, Paris
Roland WEGENER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Germany to the Council of Europe, Strasbourg	**Germany**	**Ulrich KALBITZER** Chief of the Multilateral Development Banks Division, Ministry of Finance, Berlin
Athanassios THEODORACOPOULOS 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	
János PERÉNYI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	**Hungary**	**László LENGYEL** Director General, International Financial Institutions Secretariat, 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
Pietro Ercole Carlo AGO 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 the Treasury, Rome
Georgs ANDREJEVS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Latvia**	**Ingüna SUDRABA** Permanent Under-Secretary, Ministry of Finance, Riga
	Liechtenstein **Josef WOLF** Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg	

Governing Board		Administrative Council
Rokas BERNOTAS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Lithuania to the Council of Europe, Strasbourg	**Lithuania**	**Daiva KAMARAUSKIENE** Deputy Director of the Public Debt Management Department, Ministry of Finance, Vilnius
Gérard PHILIPPS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	**Jérôme HAMILIUS** Government Adviser, Ministry of Finance, Luxembourg
	Malta	
Joseph LICARI Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg		
Vitalie GORDAS Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	**Moldova**	**Valentina POSTOLACHI** Deputy Minister for Economic Affairs and Reforms, Chisinau
Hendrik WAGENMAKERS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg **Johannes C. LANDMAN** *(since 1-1-2002)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Netherlands to the Council of Europe, Strasbourg	**Netherlands**	**Jan Willem van der KAAIJ** Deputy Director of Foreign Financial Relations, Ministry of Finance, The Hague
Torbjørn AALBU 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
Marcin RYBICKI Director of Foreign, Political, Economic Department, Ministry of Foreign Affairs, Warsaw	**Poland**	**Jacek TOMOROWICZ** Director, International Co-operation Department, Ministry of Finance, Warsaw
Paulo CASTILHO Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Portugal to the Council of Europe, Strasbourg	**Portugal**	**Lina NETO** Deputy Director General, Directorate General for European Affairs and International Relations, Ministry of Finance, Lisbon
Sabin POP Ambassador, State Counsellor to the Prime Minister for Foreign Affairs, Bucharest	**Romania**	**Daniela CERNAT** Secretary of State, Ministry of Finance, Bucharest **Enache JIRU** *(since 19-1-2002)* 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
Eva GARAJOVA Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**Viliam VASKOVIC** State Secretary, Ministry of Finance, Bratislava
Darja LAVTIZAR 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
Guillermo KIRKPATRICK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	**Luis de FUENTES LOSADA** Deputy Director General, Directorate General for the Treasury and Finance Policy, Ministry of Economic Affairs and Finance, Madrid
Hakån WILKENS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg **Mats ÅBERG** *(since 1-1-2002)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	**Sweden**	**Björn FRITJOFSSON** Deputy Director, Division for International Organisations, Ministry of Finance, Stockholm
Jean-Claude JOSEPH Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	**Switzerland**	**Yves EMERY** Head of Section, Federal Department of Finance, Bern
Jon IVANOVSKI State Counsellor, Ministry of Foreign Affairs, Skopje	**"The former Yugoslav Republic of Macedonia"**	**Dragan MARTINOVSKI** Under-Secretary, Ministry of Finance, Skopje
Numan HAZAR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	**Turkey**	**Aydin KARAÖZ** Director General, Directorate General of Foreign Economic Relations, Under-Secretariat 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, Bern



Capital increase and development strategy

The strengthening of the Bank's financial soundness has been based on the implementation of the capital increase, on the adjusting of the prudential ratios and on an overall control of the volumes of loans. It is within this framework that the redeployment of the activity has gone ahead.

An effective capital increase, tightened prudential ratios

The capital increase, whose principle was approved by the member states in December 1999, **came into effect on 14 March 2001**, the date on which the subscription threshold of 2/3 of the shares on offer was reached. By the close of the subscription period, on 30 September of this year, 27 shareholder countries, representing 87% of the capital, had increased **the CEB's own funds from 2.5 to 4 billion euros**, thereby showing their confidence in the Bank.

Moreover, owing to the additional period running until 30 April 2002, the subscription rate to the capital increase as at 31 January 2002 amounted to nearly 90%.

As a corollary to this, and within the framework of an active policy aimed at strengthening the institution's financial soundness, **the limits on the main financial ratios have been lowered**. Thus, the limit fixed for the **gearing ratio** - which prorates the global outstanding on loans and guarantees to total own funds - has been reduced from **6 to 2.5**, that of the **indebtedness ratio** - which prorates the outstanding debt to total own funds - from 6 to 4 and the limit on the **portfolio ratio** from 2.5 to 1.5.

These two measures have consolidated the Bank's financial structure, provided for greater compliance with the best international prudential standards and confirmed the AAA ratings awarded by the rating agencies Standard & Poor's, Fitch Ratings and Moody's.

The quality of the Bank's rating enables it to minimise the cost of its issues in the international capital markets, thereby enabling it to deploy its activity on the best possible terms for the benefit of its borrowers.

Redeployment of the activity

In compliance with the orientations adopted in 1999 during discussions on the capital increase, the Bank's new financial base has enabled it to further develop its operations in the transition countries, whereas the new prudential ratios imply overall restraint in the volumes of activity.

This policy has thus led to a **deliberate slowdown of activity growth**. In 2001, this effort resulted in a drop in the volume of new projects approved, which now stands at 1.66 billion euros, and in a reduction in the amount of disbursements, which reached a total of about 1.75 billion euros after the peak recorded in 2000.

Thanks to this overall strategy, however, the Bank will be able to gradually increase its **loans outstanding from some 8.6 billion euros at end 2001 to almost 11 billion euros at end 2004**.

This control of the activity has gone hand in hand with a **substantial redeployment of the new projects in favour of the transition countries**. The projects approved in 2001 in favour of these countries alone reached almost 40% of the accumulated amounts since 1995, whereas the volume of disbursements on them more than doubled in comparison with the previous year. In order to achieve this result, the CEB has continued to develop its policy of cooperation with the other international institutions and, in particular, has been playing an active role in the Stability Pact for South Eastern Europe of which it became an official partner on 28 June 2001.

Concurrently, the CEB has pursued its efforts to achieve a more balanced development, which necessarily calls for a satisfactory geographical weighting of its loans portfolio and for emphasis to be placed on the added social value of its action. In this connection, there **has been a very substantial re-balancing of loans approved in favour of more finely targeted individual projects in proportion to sector-based multi-projects programmes**.

MESSAGE FROM THE GOVERNOR

Strengthening the Bank's financial structure, redeploying its activity to the transition countries and enhancing its social vocation were the key features that characterised the 2001 financial year.

For the Bank, the year represented the fulfilment of the new orientations adopted within the framework of the capital increase voted by its member states in December 1999, and set out in the 2000-2004 medium-term Development Plan. With its financial structure reinforced, the Bank has been able to broaden its capacity for social action and redeploy its lending activity in favour of the transition countries.

The institution's financial soundness was strengthened in 2001 as a result of **the effective implementation of the capital increase**, which raised the level of own funds by over 60%, and of the sustained high level of **profitability**. The net profit for the year stands at 88.3 million euros, despite a significant drop in extraordinary items from one year to the other.

Substantial strengthening of the financial structure, ...

At the same time, the limits on the main **financial ratios** regulating the Bank's activity, namely the gearing, indebtedness and portfolio ratios, **were lowered** so as to bring them into line with the best international prudential standards.

The confirmation, in 2001, of the **AAA ratings** by the agencies Standard & Poor's, Fitch Ratings and Moody's bears witness to their positive assessment of this overall policy.

...confirmation of the triple AAA rating, ...

In accordance with the objectives set out in the 2000-2004 Development Plan and after several years of sustained growth, the Bank has undertaken to exercise **deliberate restraint in its volume of activity** in order to intensify the social impact of its actions.

...deliberate restraint in activity volumes, ...

While pursuing its policy of diversification of the loans portfolio, the Bank has at the same time made a particular effort to ensure **rapid expansion of its activity in the transition countries**. The total amount of projects in favour of these countries is **now over 1.1 billion euros**, 39% of which was approved in 2001 alone. Growth in disbursements has been even more rapid since they represented more than double the figure for the previous year and over half of all disbursements since 1995.

...and redeployment of loan operations, notably in favour of the transition countries, ...

This sustained effort has in no way affected the quality of the loans portfolio: indeed, at end 2001, counterparties rated A or more represented over 3/4 of the total outstanding.

...in order to promote social cohesion, ...

The structure of the projects and loans activity in 2001 reflects the Bank's mobilisation to promote **social cohesion**, involving 70% of the projects approved and 2/3 of the loans disbursed. The major part of the Bank's financings was earmarked for the three key sectors, social housing, education and health.

...and the Bank's statutory priorities, ...

Naturally, the Bank also remains faithful to its statutory priorities. As regards **refugees and migrants**, it will be remembered that the Bank has contributed 318 million euros to the Stability Pact for South Eastern Europe, of which it became full member on 28 June 2001. In matters of aid to **victims of natural or ecological disasters**, the CEB systematically responds to emergency situations and finances initiatives in favour of prevention.

...greater selectivity and an effort to rebalance the breakdown of loans in favour of individual projects...

The enhancement of the Bank's social vocation is further reflected in the requirement for **greater selectivity** as regards the projects that it choses to support.

In this connection, in 2001, the CEB made **a significant effort to rebalance** the breakdown of its loans **in favour of individual projects** with disbursements on them increasing by 73% in comparison with the previous year.

Moreover, the Bank is continually fine-tuning its assistance and monitoring functions in order to improve the quality of the projects it implements, in collaboration with the beneficiaries concerned, and to enhance the added social value of its action.

...based on a network of partnerships...

With the same objective in view, it has also continued to weave a **network of partnerships** with other international institutions, establishing agreements for strengthened cooperation on which to set up co-financing operations and exchanges of expertise and information: the latest agreement to have been signed was with the Nordic Investment Bank on 15 January 2002.

...and reinforced assistance and monitoring functions within the CEB, ...

In addition to the rigorous monitoring that it carries out during the main stages of a project's implementation, the Bank has also widened the range of its contributions. **Upstream**, a system of **country strategies** defined in close collaboration with several of its member states provides the framework for operational activities. **Downstream**, the decision adopted in 2001 to create **an ex-post project evaluation unit** will make it

possible to better measure the social impact of projects on target sectors and populations. Through the feedback it receives, this unit will also contribute to enhancing the quality of future projects.

The **financing policy** has remained in continuity with the objectives established over the past few years. It has adjusted to the new orientations for the activity.

As at 31 December 2001, the liquidity ratio stood at 79%, compared with the required minimum of 50%. During the year, the volume of the Bank's issues totalled 2.6 billion euros, down 400 million on 2000 in order to take into account the deliberate reduction in the stock of projects. The borrowings were 90% concentrated on the euro and more particularly on the US dollar because of the opportunities this market offers. This policy was pursued into 2002 with the launching, in January, of two issues amounting to 500 and 750 million dollars respectively. Always keen to diversify its investor base, the Bank also launched a programme of domestic issues in the Australian market.

...a financing policy consistent with the new orientations for the activity...

*

The 2001 financial year therefore marked a decisive turning point in the implementation of the Bank's strategic orientations: strengthening of the financial structure through the combined effect of the increase in own funds and the introduction of tighter prudential ratios; deliberate restraint in the volume of activity and enhancement of the social quality of projects; redeployment in favour of the transition countries following the efforts undertaken over the past few years.

...were the key features that characterized 2001 and will enable the Bank to enhance its capacity for social action.

Sustained by the support of its member states, by close cooperation with the Council of Europe, by its sound financial structure and by both the quality and commitment of its staff, the Bank is now in a good position to further enhance its vocation to promote social cohesion in Europe.

Paris, 7 March 2002



Raphaël ALOMAR

GENERAL MANAGEMENT COMMITTEE

In front
Raphaël ALOMAR
Governor

First row, from left to right
Krzysztof J. NERS
Vice-Governor

Nunzio GUGLIELMINO
Vice-Governor Delegate

Apolonio RUIZ LIGERO
Vice-Governor

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

Rainer STECKHAN
Director General for Loans

Arnaud VIOLETTE
Director of Information Systems and Control

Richard VENEAU
Director of Human Resources and General Services (Dep.)

Thierry POIREL
Director of Finance

Heikki CANTELL
General Counsel



DIRECTORATE GENERAL FOR LOANS
Rainer Steckhan

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

ADMINISTRATION AND FINANCES OF LOANS
Melanie Wieschollek-Lacroix

COUNTRY MANAGERS
Michael Lixenfeld: *Germany, Liechtenstein, Czech Republic, Switzerland*

Théodore Ivanov: *Bulgaria, France, Hungary, Portugal*

Rachel Meghir: *Croatia, Greece, Slovak Republic*

Sylvie Anagnostopoulos: *Cyprus, Malta, "The former Yugoslav Republic of Macedonia"*

Marja Seppälä: *Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, Sweden*

Magnus Sandin: *Belgium, Luxembourg, Netherlands, Turkey*

Luca Schio: *Albania, Holy See, Italy, Moldova, San Marino,*

Carlos Bendito Prieto: *Romania, Slovenia, Spain*

Sylvie Ludain: *Poland*

SPECIAL PROJECTS
Cristian Tabacaru

OPERATIONAL SUPPORT UNIT
France Becmont-Bieth
Emilia di Matteo

PROJECT FINANCING
Juan F. Seco Guillot
Peter-Igor Van Moock

RESEARCH AND ANALYSIS
Michèle Meunier
Dario Liguti
Dimo Iliev

DEVELOPMENT
Matthias Bauer
Eva Schwebel

SOCIAL COHESION
Nicola Catalano

TECHNICAL ADVISERS

ARCHITECTURE AND URBANISM
Dorota Blazejewicz

SOCIAL COHESION, MIGRATIONS, REFUGEES
Claudine Voyadzis

INFRASTRUCTURES
Baris Trak

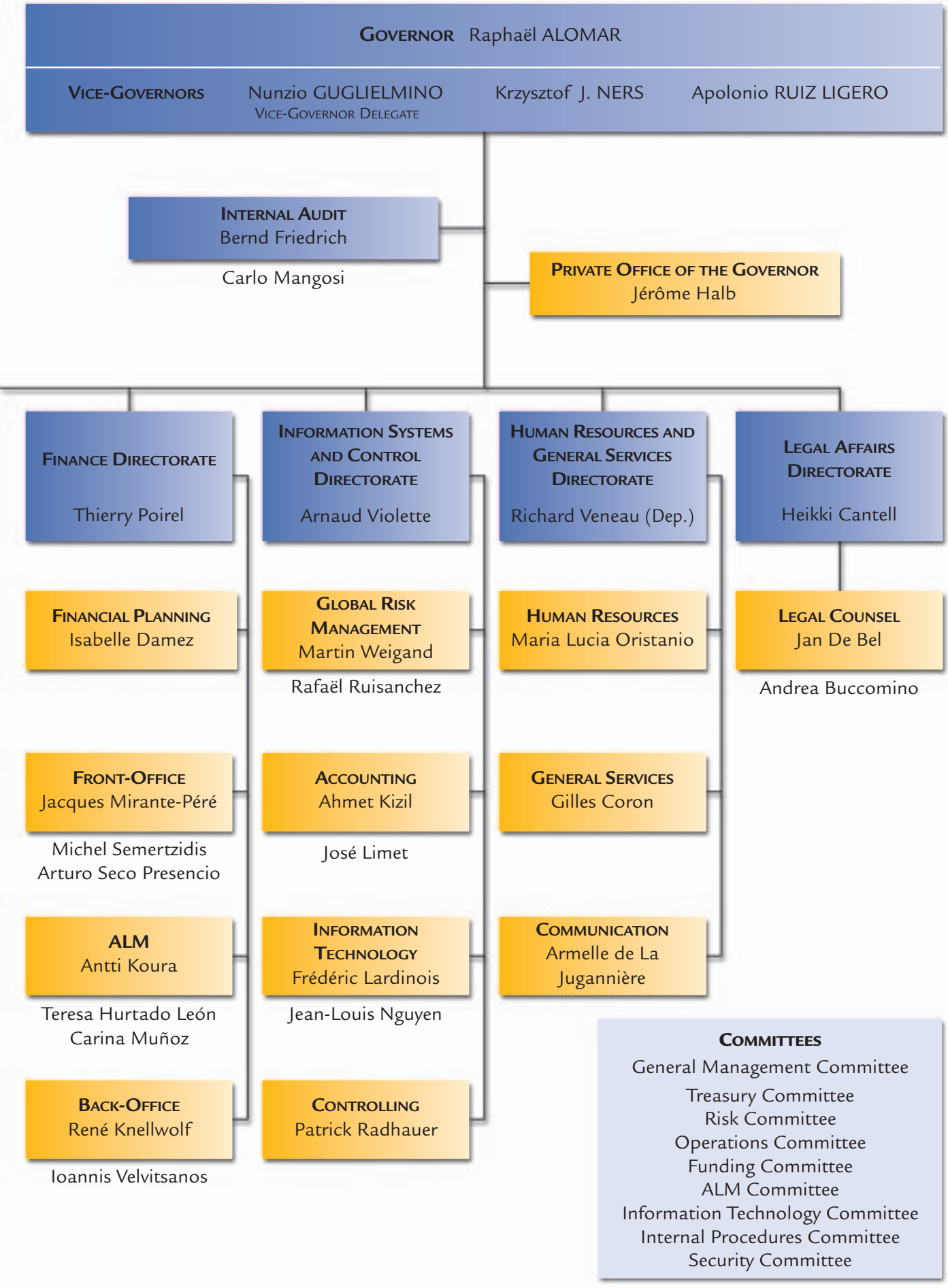
ENVIRONMENT
Anton Spierenburg

PROJECT ECONOMIST
Victor Agius

HEALTH AND EDUCATION
Marie-Odile Waty

PROCUREMENTS
Kitty Villani-Haman

Organisation Chart





The CEB within the International Community

Over and above its statutory and natural relations with the Council of Europe, the CEB has for several years now been developing a network of cooperation agreements with the other international institutions. These have already led to co-financing or parallel financing operations on 16 projects in the transition countries.

In addition to the prospects they offer for co-financing and risk-sharing, these **bilateral cooperation agreements** can facilitate exchanges of views and the transfer of best practices. A number of framework agreements have thus successively been signed:

- with the EBRD, on 5 May 1999, especially for operations in favour of SMEs in the transition countries,
- with the World Bank, on 30 May 2000, concerning social projects, also in the transition countries,
- with the NIB, on 15 January 2002, in order to deploy joint activities in the Nordic countries and the Baltic States.

The CEB's close and constructive collaboration with the European Investment Bank (EIB) is also being pursued, in line with the longstanding working relations that exist between the two institutions.

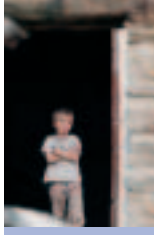
The CEB is also developing its cooperation with the European Commission for the financing of SMEs in the transition countries. On 11 December 2000, it signed a **trilateral agreement** with the European Community and Kreditanstalt für Wiederaufbau (KfW) which has resulted in numerous loan operations for SMEs in the candidate countries for accession to the European Union.

At the same time, the CEB is a party to several **multilateral agreements**. Namely:

- on 31 March 2000, a multilateral agreement was signed between the CEB, the European Commission, the European Bank for Reconstruction and Development (EBRD), the World Bank, the International Finance Corporation (IFC), the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO), on co-operation in the preparation of pre-accession to the European Union by the central and eastern European countries.
- in 2001, the CEB negotiated a framework agreement with the European Commission, the European Bank for Reconstruction and Development (EBRD) and the World Bank, on cooperation in the western Balkans .

This latter agreement comes within the Process of Stabilisation and Association initiated by the European Union. It will complement the CEB's action within the framework of the Stability Pact for South Eastern Europe, of which it officially became a member on 28 June 2001.

In addition, the CEB is working on the question of refugees with a number of United Nations agencies such as the High Commissioner for Refugees (UNHCR) and the United Nations Development Programme (UNDP) as well as on the management of the donations the Bank has made in Albania, in Kosovo and in "The former Yugoslav Republic of Macedonia". It has also established contacts with WHO, UNESCO, the United Nations Food and Agriculture Organisation (FAO), the United Nations Centre for Habitat (UN-Habitat) and the International Organisation for Migration (IOM) in order to explore the potential for synergies. On environmental issues, it has also had contacts with the Danube Commission and engaged in exchanges of information with Helcom in northern Europe. Lastly, the CEB has observer status with the World Bank's Development Committee and takes an active part in the international debate on questions of development, in particular the fight against poverty.



ACTIVITIES OF THE BANK IN 2001

PROJECTS AND LOANS

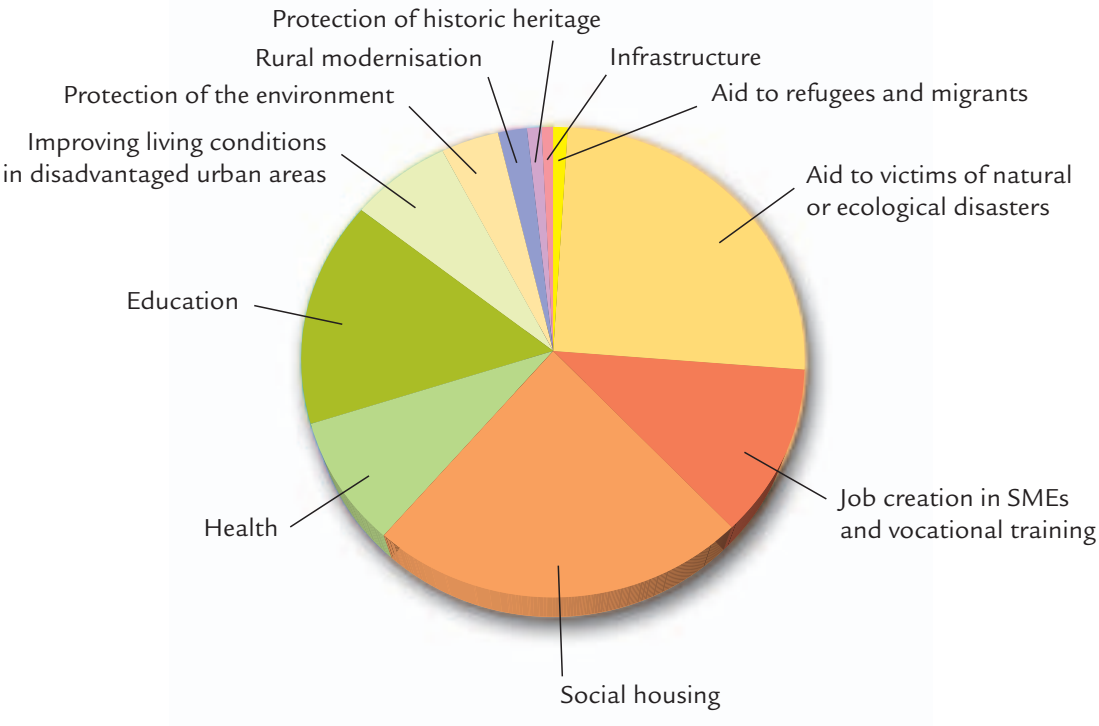
In accordance with its mission, in 2001 the Council of Europe Development Bank (CEB) intensified its action in favour of social cohesion in Europe and substantially developed its operations in the transition countries.

In the operating countries, whose differing levels of development and social problems call for different individual solutions, the CEB offers its expertise and custom-made financing. Through concrete actions, carried out in close co-ordination with the appropriate governmental and financial relays, the Bank contributes to improvements in people's living conditions and to reducing inequalities, thereby strengthening social cohesion.

2001 was also marked by a balanced distribution of projects approved among the various sectors of activity. Projects corresponding to the **statutory priorities** (aid to refugees and migrants, aid to victims of natural disasters) represented 16% of project approvals. The **new priorities** (job creation in small and medium-sized enterprises, vocational training, social housing, health, education) accounted for 70%, whereas **protection of the environment, rural modernisation** and **protection of historic heritage** made up 14% of the projects approved.

Lastly, the objective of **re-balancing the activity in favour of individual projects has been pursued**: the share of individual projects approved has increased substantially, from 30% in 2000 to 41% this year.

Breakdown of loans disbursed in 2001, by sector





In 2001, **the CEB's disbursements totalled over € 1.7 billion, against nearly € 1.9 billion in 2000, in 22 operating countries,** the largest share going to borrowers in Spain, Italy, Germany, France and Turkey. Disbursements to 9 transition countries represented 15% of the total. Over one third of the disbursements went to projects approved during the year. In all, 57 projects received financing through the disbursement of 75 loan tranches.

As at 31 December 2001, loans outstanding totalled € 8.6 billion, which is approximately equivalent to the level at year-end 2000, loan re-payments having reached a particularly high level during the year.

Taking into account the newly approved projects, the disbursements made and the removal of projects that were too old from the stock of projects, the portfolio of 119 projects awaiting financing represents € 3.3 billion, including 2.6 billion already committed.

BULGARIA

Promoting integration of the Roma community

In Bulgaria, the town of Plovdiv and the CEB have been developing a pilot project aimed at the social integration of the Roma population living in precarious housing located in the disadvantaged areas of the town. The purpose of this project is to build new housing for some 2 300 Roma families and to improve local social infrastructure facilities. This is in line with the policy implemented by the National Council on Ethnic and Demographic Questions.

Given the complexity of implementing such a project and its very high social content, the joint Programme between the Bank and the Council of Europe for social cohesion has been called upon to provide accompanying measures in support of the project as it develops.

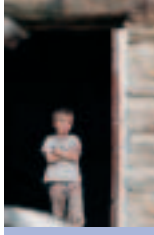


SLOVAK REPUBLIC | Water treatment plants in the Roma quarter in Vranov

The CEB has been particularly active in the transition countries. In 2001, almost one third of all the projects were approved in favour of 10 transition countries as well as two sector-based multi-project programmes (SMPs) financed through German banks for projects in the same geographical area, making a total of € 432 million. This brings the total amount approved since the start of operations in these new member states to over € 1.1 billion, and enables the Bank to accompany these countries in the process of their accession to the European Union in the sectors corresponding to its competence and specific purpose.

The Bank has also enhanced its social mission through its use of the Selective Trust Account (STA). Interest rate subsidies will be granted to four new projects approved in 2001 in the CEB's priority fields, in Albania (1 project), Bulgaria (1 project) and Hungary (2 projects). These subsidies represent a total of € 3.1 million.

The CEB has also continued to adapt its working methods and means of action. In order to respond to financing needs in situations of extreme emergency, in 2001 the Bank decided to earmark part of the amounts allocated to the Selective Trust Account (STA) for granting donations for humanitarian purposes in eligible countries.



During the year, three donations for a total of € 2.4 million were allocated to projects situated in "The former Yugoslav Republic of Macedonia", in Kosovo and in Bosnia and Herzegovina.

In order to provide support for operational activities, **country strategies and sectoral strategies have been drawn up in close collaboration with several member states.**

In addition, the CEB has proceeded to review its eligibility criteria in order to adapt its instruments to the financing of social housing in disadvantaged urban areas and to actions in favour of local authorities.

Project quality is a constant priority for the Bank. The Bank's teams are increasingly involved in the early stages of each project so as to accompany the borrowers and provide them with support in preparing their projects. This support is continued throughout the whole project cycle. On-site visits by the CEB's technical teams have been increased and monitoring of the impact of projects enhanced.

Lastly, in 2001, the Bank decided on the creation of an Ex-post Evaluation Unit. This unit will be responsible for evaluating the social impact of projects two years after their completion and for determining what lessons can be learnt from them for the future.



ROMANIA | Home for handicapped children in Iasi

CROATIA

A strong commitment to facilitating the return and integration of refugees

Initiated within the framework of the Stability Pact, a project was approved in 2001 for an amount of € 30 million. The aim of the project is to facilitate the resettlement of refugees returning from the Federal Republic of Yugoslavia and from Bosnia and Herzegovina and to recreate the multi-ethnic environment that existed before the war. The social and economic impact of this project should be considerable since it involves over 10 000 people and the reconstruction of infrastructure facilities in 35 towns.

This project, implemented by the Croatian Government with the support of the United Nations High Commissioner for Refugees, is being followed with great interest by the international community. An initial amount of € 8 million was paid out in 2001. The project is benefiting from interest rate subsidies through the Selective Trust Account (STA).

I. STATUTORY PRIORITIES

1. Aid to refugees and migrants

South Eastern Europe is currently having to cope with very large numbers of refugees and displaced persons. By reaffirming its statutory missions, the CEB intends to confirm its position as the reference financial institution on this question. The Bank has become particularly involved in the Stability Pact for South Eastern Europe and has continued to take concrete action in favour of refugees, displaced persons and minorities.

In 2001, donations were made to projects targeting refugees and minorities in **"The former Yugoslav Republic of Macedonia"**



Aid to victims of natural and ecological disasters and disaster prevention

The Council of Europe Development Bank is the only multilateral development bank whose Articles of Agreement make specific provision for aid to the victims of natural and ecological disasters. The Bank endeavours to respond as swiftly as possible to requests from its member states affected by such disasters, the social and economic effects of which are often considerable and may concern several different countries.

In 2001, the Bank continued its action in this sector with the approval of five projects involving Spain, Hungary, Italy and Turkey. The total for loans approved in this sector was € 269 million, which represents 16% of the total amount of projects approved.

Increasingly frequent natural disasters in Europe

It is an inescapable fact that natural disasters have unfortunately become increasingly frequent in Europe over the past ten years:

- *earthquakes*: Greece, Italy, Turkey, are among the countries worst affected (in terms of victims) by earthquakes.
- *flooding and landslides*: most of the recent flooding occurred in Germany, Spain, France, Hungary, Italy, Poland, the Slovak Republic and Romania.

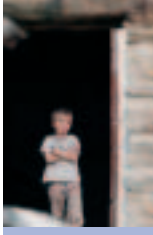
A preventive approach

Recent studies have evidenced the importance of management capacities and of a country's preparedness in the event of an emergency of this kind. At international level, there is a need to strengthen cooperation and dialogue between all the actors in favour of prevention and integrated risk management.

The increasing emphasis placed today not only on reconstruction work but also on measures for disaster prevention led the CEB to organise, in April 2001, a workshop focussed on this subject. Participants included representatives of the World Bank, the EIB, the European Union, KfW, the Inter-American Development Bank and the Council of Europe's EUR-OPA major hazards Agreement. All agreed that efficient action can only be achieved if it goes hand in hand with in-depth studies of the risks and their consequences. One example of this is a study carried out by the CEB on housing, which highlighted the fact that part of the housing in South Eastern Europe has a very low capacity for withstanding such disasters, often due to insufficient compliance with safety standards.

In all cases, the implementation of preventive measures is more efficient than simply repairing the damage. Although such safety measures do not alter the probability of a disaster occurring, the degree of preparedness of the population, the public authorities and all the actors concerned is one of the major factors capable of reducing the impact of the disaster, both in the critical phases of the emergency and in the aftermath.

Joint efforts are therefore needed to bring aid to those countries in which civil protection, institutional capabilities and the vulnerability of the population need to be improved.



and in **Kosovo**. Similarly, a contribution was made in the form of a donation to finance the reconstruction of the Old Bridge in Mostar, in **Bosnia and Herzegovina**, a project of high symbolic value for rapprochement between the communities.

In **Croatia**, the Bank has continued to support the policy for the return and resettlement of refugees. Its financing has served to build up the health and education infrastructure in the regions affected by the war. In 2001, it also made initial disbursements on one of the most important housing projects ever implemented in the region, aimed at facilitating the return of refugees.

In **Lithuania**, the Bank continued its financing of a project for the construction of housing for deportees returning from the former USSR, bringing the total disbursements to over one third of the amount approved. Of the 2 000 housing units planned, 1 265 (63%) have been built or bought and attributed to 3 651 beneficiaries. The project has already had a very positive impact on the socio-economic integration of the former deportees concerned.

TURKEY

A major commitment to help in the reconstruction of the areas destroyed by the 1999 earthquake

The Bank is contributing to the reconstruction of over 20 000 housing units either destroyed or seriously damaged by the 1999 earthquake in the Marmara region. The aim of the project is to replace the housing destroyed by the earthquake in accordance with anti-seismic standards: this will enable 70 000 persons to be re-housed.

In 2001, the CEB responded to a request by the Turkish authorities to bring its participation in the financing of this project up to 70%. The CEB's contribution therefore now totals € 367 million, 96% of which has already been paid out (€ 176 million were paid out in 2001).



TURKEY | Reconstruction after the 1999 earthquake in the Marmara region

2. Aid to the victims of natural of ecological disasters

Financing projects for reconstruction in the wake of natural or ecological disasters and for preventive measures all come within the Bank's statutory priorities *(see boxed text page 18)*.
Again this year, the Bank has taken concrete action in this sector, approving five projects situated in **Hungary**, **Italy**, **Spain** and **Turkey**. The overall amount for projects approved in this field stands at € 269 million, representing 16% of the approved total.

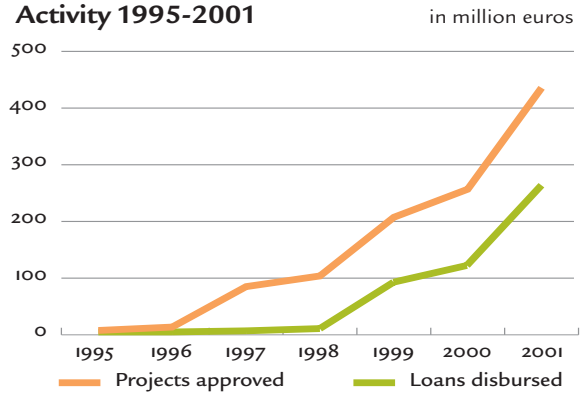
In **Hungary**, the Bank has increased its contribution to financing two projects involving reconstruction work and protection against flooding in the central Tisza basin, bringing the total increase to € 60 million. These projects mainly concern the reconstruction of flood control systems and the development of protective structures. In 2001 a total of € 24 million was disbursed.

In **Spain**, following the storms in 2000 and 2001, the *Sociedade Publica de investimentos de Galicia*, is to finance, with participation from the CEB, the rehabilitation of the network of secondary and country roads in Galicia.



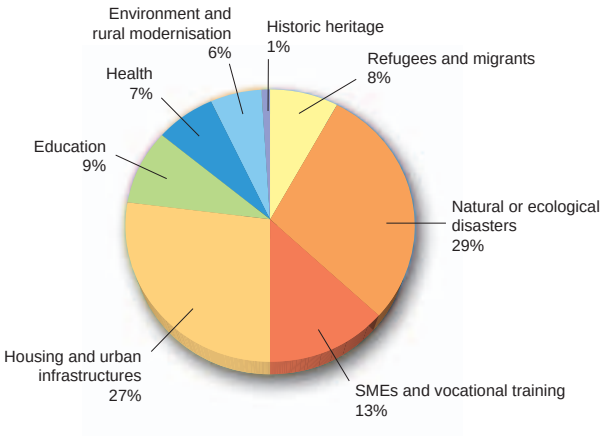
Developing activities in the transition countries

In 2001, the CEB intensified its activity in the transition countries in response to the wishes expressed by the member states and in order to accompany these countries in pursuing their social reforms. In order to enhance the impact of its action, the CEB deploys its activity in close cooperation with its member states and in synergy with the other international institutions, in particular in South Eastern Europe.



Since 1995, an overall amount of € 1 108 million has been approved for the transition countries, spread over 54 projects situated in 14 countries. In 2001, 26% of the total amount of loans approved by the Bank were located in these countries. Almost 44% of the accumulated amounts approved have been disbursed, thereby illustrating the Bank's capacity for putting its commitments to practical effect. The accumulated amount of loans disbursed represents € 485 million, half of which was disbursed in 2001 (54%).

The Selective Trust Account (STA), a specific instrument for providing subsidised interest rates, has been used for 21 projects, concerning loans of € 460 million, representing a total contribution of over € 30 million. The STA has also been used for making donations for humanitarian purposes[1], for an overall amount of € 5.3 million. Three exceptional donations were approved in 2001: one (€ 0.3 million) in favour of minorities in Kosovo, another (€ 1 million) in favour of refugees in "The former Yugoslav Republic of Macedonia", and a third (1 million US dollars) in Bosnia and Herzegovina, for the reconstruction of the Old Bridge in the town of Mostar, a symbol of reconciliation between the communities.



This very significant increase is the result of the proactive policy implemented in previous years. In cooperation with the national authorities, the Bank systematically seeks out projects that correspond to priority needs. This is the case when natural disasters occur. Furthermore, great attention is paid to projects involving refugees, displaced persons and minorities. The CEB has thus become deeply involved in the Stability Pact for South Eastern Europe[2]. It plays a substantial role in the *Steering group for refugee matters* as well as in the *Initiative for Social Cohesion*, which it helped create, and in the *Infrastructure Steering group*. At end 2001, the CEB's commitments in the region amounted to € 318 million.

At the operational level, the CEB's presence in the region has been marked by an increasing number of appraisal and supervision missions to accompany borrowers in preparing and implementing their projects, and by developing appropriate instruments of cooperation either with the local banking sector or with subsidiaries of foreign banks.

Country strategies have been drawn up as a basis for this activity. Sector strategies have also been drawn up for health and education, social housing and the Roma minority, all of which present specific characteristics in the region. A systematic effort is made to set up co-financing operations with the other international financial institutions (16 co-financed projects) and with national bodies for bilateral cooperation. One example to illustrate this policy is the first *Special Fund for Technical Cooperation of the CEB*, set up in 2001 by Finland. Active cooperation with the European Union, the UN agencies, especially in South Eastern Europe, has proven essential and will be pursued.

1 - The cost of Albania's accession (€ 1.8 million) must also be added to this.

2 - The CEB became an official member of the Stability Pact on 28 June 2001.

In the field of natural disaster prevention, in **Italy**, in a parallel financing operation with the EIB, the Bank has contributed, through the *Banca OPI SPA Roma*, to strengthening the fire-fighting capacity of the State Forestry Corps. The CEB approved a total of € 94 million in favour of this project, 85 million (90%) of which have already been disbursed. This project should produce a 25% reduction in the number of hectares of forest and scrubland destroyed by fires each year. Also in Italy, financing has continued for reconstruction in areas affected by the 1997 earthquake, in Umbria and the Marches, with a disbursement of € 114 million through the *Dexia-Crediop Group*.

In **Poland**, following the floods of the summer of 1997 in the south of the country, financing of reconstruction work and the creation of infrastructures for regulating water levels has continued, with a disbursement of € 18 million in 2001.



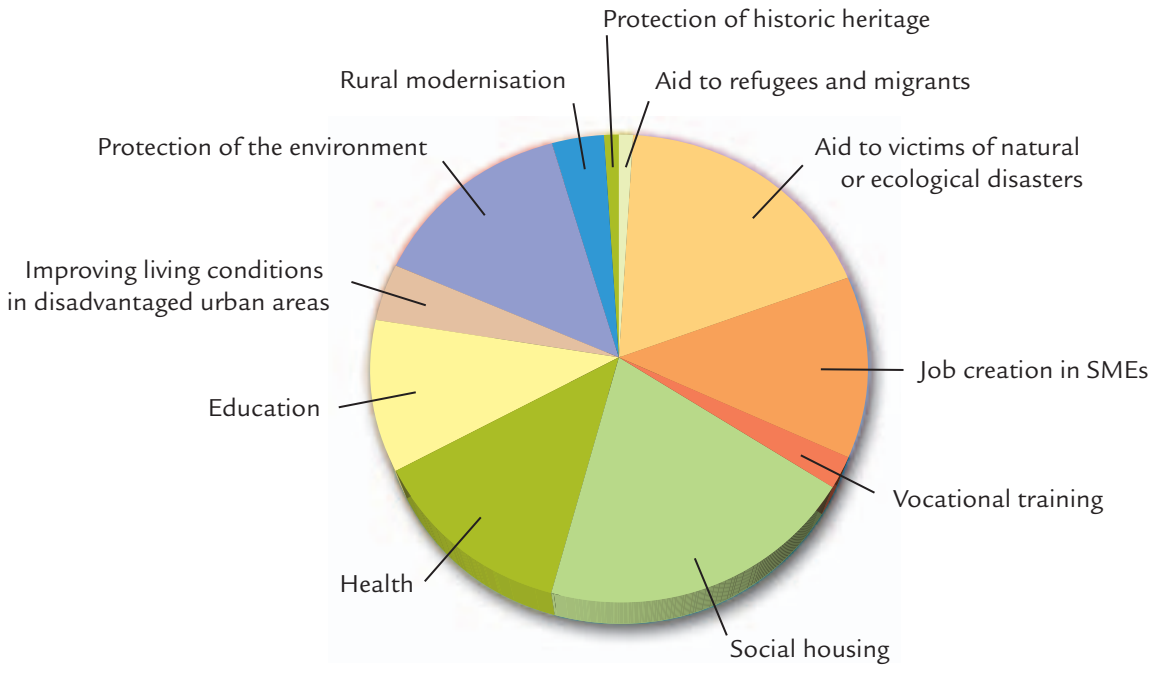
"THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA — SME Dairy plant

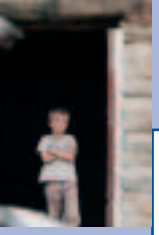
II. NEW PRIORITIES

1. Job creation in SMEs and vocational training

Employment and vocational training are at the heart of the CEB's priorities. Although all the Bank's actions have a positive impact on employment, particular attention is paid to projects involving aid to SMEs.

Breakdown of projects approved in 1997-2001, by sector





Projects approved, by country and by sector, from 1997 to 2001

in million euros

COUNTRY	2001 Amount	2001 %	Total 1997-2001 Amount	Total 1997-2001 %
Albania	6	0.4	6	0.1
Belgium	-	-	294	2.9
Bosnia and Herzegovina*	-	-	1	<0.1
Bulgaria	5	0.3	24	0.2
Cyprus	73	4.4	170	1.7
Croatia	9	0.6	111	1.1
Czech Republic	-	-	1	<0.1
Estonia	-	-	10	0.1
Finland	250	15.0	500	5.0
France	200	12.0	1 255	12.5
Germany	215	12.9	2 095	20.9
Greece	-	-	330	3.3
Hungary	60	3.6	190	1.9
Iceland	-	-	45	0.5
Italy	109	6.6	1 432	14.3
Latvia	19	1.1	19	0.2
Lithuania	3	0.2	5	0.1
Malta	-	-	54	0.5
Norway	123	7.4	123	1.2
Poland	166	10.0	308	3.1
Portugal	50	3.0	216	2.2
Romania	71	4.3	134	1.3
San Marino	-	-	19	0.2
Slovak Republic	3	0.2	41	0.4
Slovenia	14	0.9	74	0.7
Spain	48	2.9	1 976	19.7
Sweden	-	-	58	0.6
"The former Yugoslav Republic of Macedonia"	-	-	20	0.2
Turkey	240	14.4	503	5.0
TOTAL	**1 664**	**100.0**	**10 013**	**100.0**

**Non-member state*

SECTOR	Amount	%	Amount	%
Statutory priorities				
Aid to refugees and migrants	-	-	96	1.0
Aid to regions hit by natural or ecological disasters	269	16.2	1 842	18.4
New priorities				
Job creation in SMEs	42	2.5	1 256	12.5
Vocational training	-	-	223	2.2
Social housing	781	47.0	2 010	20.1
Health	128	7.7	1 292	12.9
Education	187	11.3	1 050	10.5
Improving living conditions in disadvantaged urban areas	9	0.5	398	4.0
Other fields of action				
Protection of the environment	97	5.8	1 390	13.9
Rural modernisation	133	8.0	355	3.5
Protection of historic heritage	16	0.9	101	1.0
TOTAL	**1 664**	**100.0**	**10 013**	**100.0**

NB: - In the case of programmes the breakdown by sector is supplied by the borrower; it is updated as disbursements are made.

- It will be noted that the amounts approved by the CEB represent on average 40% of the total volume of the actual project. The impact of the CEB's financings thus actually corresponds to 2.5 times the amounts indicated in this table.

In 2001, the CEB approved three sector-based multi-project programmes (SMPs) for a total of € 42 million in favour of *job creation in small and medium-sized enterprises*.

The CEB has continued to search for innovative ways of setting up financing in the transition countries. Thus, in order to promote the social and economic integration with the European Union of five candidate countries, the CEB will participate in financing projects providing support for SMEs situated in **Hungary, Poland, Czech Republic, Slovak Republic** and **Slovenia** through the German bank *IKB*. This will involve a € 30 million loan for the financing of investment projects to create and preserve jobs in SMEs situated in these countries.

Promoting employment by supporting SMEs in the transition countries

EU/KfW/CEB financing Facility in favour of SMEs
Approval: € 60 million
Disbursements in 2001: € 30 million

The purpose of this instrument is to encourage local banks to grant long-term loans to SMEs for productive investments, and thereby for the creation and preservation of jobs in 8 transition countries. In December 2000, the CEB and KfW signed a contribution agreement with the European Union involving an overall amount of € 113 million, including 60 million financed by the CEB. A contribution from the European Union, amounting to € 21 million and managed by the CEB, will be used to compensate for the higher risks incurred by the participating banks. The social effect will be substantial: evaluation of a previous program by KfW in four countries showed that an investment of € 180 million had contributed to the creation and preservation of over 4 000 jobs.

In view of these results, there are plans to expand and further adapt this Facility in 2002.



SLOVENIA | SME: manufacturing parts for the automobile industry

In **Croatia**, within the framework of the Memorandum of Understanding between the CEB and the EBRD, financing has been approved for a total of € 8 million for investment projects in production equipment aimed at the creation and preservation of jobs in small and medium-sized entreprises and craft industries. This programme is to be set up by *HBOR* (*Croatian Bank for Reconstruction and Development*).

In **Germany**, with the disbursement of € 125 million, the Bank has continued the financing of a vast programme run by *Kreditanstalt für Wiederaufbau (KfW)* to promote employment in SMEs in the eastern Länder. Financing to promote employment in SMEs has also been made within the framework of sector-based multi-project programmes in **Belgium, Finland, Hungary, Italy, Spain** and **Sweden**. Within the context of its actions in support of **vocational training**, the Bank has approved the partial financing, in **Spain**, of the "Programme in favour of the Roma population". This project is being developed by *Caja Madrid*, with European Union backing and participation by Roma community associations. This pilot project aims to provide vocational training for more than 20 000 young



Loans disbursed, by country and by sector, from 1997 to 2001

in million euros

COUNTRY	2001 Amount	2001 %	Total 1997-2001 Amount	Total 1997-2001 %
Belgium	30	1.7	188	2.6
Bosnia and Herzegovina*	-	-	5	0.1
Bulgaria	2	0.1	10	0.1
Croatia	15	0.8	40	0.5
Cyprus	49	2.8	200	2.8
Estonia	2	0.1	2	<0.1
Finland	168	9.6	316	4.4
France	200	11.4	1 027	14.2
Germany	204	11.6	1 488	20.6
Greece	96	5.5	475	6.6
Hungary	27	1.5	84	1.2
Iceland	12	0.7	25	0.3
Italy	253	14.5	648	9.0
Lithuania	1	0.1	6	0.1
Malta	17	1.0	34	0.5
Poland	127	7.3	200	2.8
Portugal	5	0.3	82	1.1
Romania	27	1.5	50	0.7
San Marino	-	-	1	<0.1
Slovak Republic	10	0.6	16	0.2
Slovenia	22	1.3	38	0.5
Spain	259	14.8	1 702	23.5
Sweden	27	1.5	27	0.4
"The former Yugoslav Republic of Macedonia"	-	-	5	0.1
Turkey	196	11.2	567	7.8
TOTAL	**1 749**	**100.0**	**7 233**	**100.0**

**Non-member state*

SECTOR	Amount	%	Amount	%
Statutory priorities				
Aid to refugees and migrants	12	0.7	63	0.9
Aid to regions hit by natural or ecological disasters	447	25.5	1 139	15.8
New priorities				
Job creation in SMEs	200	11.5	1 186	16.4
Vocational training	-	-	102	1.4
Social housing	418	23.9	1 400	19.4
Health	150	8.6	721	10.0
Education	279	16.0	813	11.2
Improving living conditions in disadvantaged urban areas	116	6.6	265	3.7
Other fields of action				
Protection of the environment	72	4.1	1 123	15.5
Rural modernisation	28	1.6	275	3.8
Protection of historic heritage	12	0.7	48	0.7
Infrastructure	15	0.8	98	1.4
TOTAL	**1 749**	**100.0**	**7 233**	**100.0**

NB: In the case of programmes the breakdown by sector is supplied by the borrower; it is updated as disbursements are made.

people from the Roma community all over Spain so as to facilitate their social integration and improve their living conditions.

Given the trends in the indicators showing an increase in unemployment rates in Europe, the CEB should be continuing to develop its actions in favour of employment and vocational training in the coming years.

2. Health and education

Just as access to quality education and training conditions integration in society, so does access to healthcare. The modernisation of health infrastructure and educational establishments directly contributes to strengthening social cohesion and constitutes a key focus of the Bank's action.

During 2001, the Bank continued to be very active in these fields. 8 individual projects, including an integrated development programme, were approved for a total of € 184 million together with four sector-based multi-project programmes (SMPs) for a total of € 132 million. The projects approved in the health and education fields in 2001 totalled € 315 million, representing 19% of all the projects approved during the year.

These projects are spread over 10 countries. Most of them, representing 82% of the total approved, are concentrated in countries such as **Cyprus**, **Finland**, **Norway** and **Spain**. The other projects approved are situated in **Albania**, **Germany**, **Lithuania**, **Portugal**, **Slovenia** and **Turkey**.

In the field of ***health***, the CEB is to finance the construction and equipping of retirement homes offering medical services in **Slovenia**, through the *Nova Ljubljanska Banka*.



BELGIUM | University clinic in Brussels

In **Albania**, access to healthcare will be facilitated by the renovation of a maternity unit and the construction and equipping of a radiology department in the hospital in Shkoddra.

In **Spain**, hospital equipment is to be purchased for a new hospital for victims of road accidents that is currently under construction near Barcelona. The Bank is also to participate in financing the construction of healthcare centres for the elderly.

LITHUANIA

Aid to the handicapped, to the elderly and to abandoned or ill-treated children

A loan of € 2 million has been granted to a project for the rehabilitation of 10 centres. The aim is to provide social assistance and community services for very vulnerable and dependent population groups.

Within the context of social policy reform, the objective is to avoid dependent persons being put into institutions and to contribute to their social integration. By developing infrastructure for neighbourhood social services, municipal authorities have been asked to set up and equip day centres especially adapted to the needs of such groups. In terms of social impact, this project has also led to the creation of some 300 jobs.



In the *education* field, the CEB will participate in financing three projects in **Lithuania** amounting to an overall € 93 million. These projects will involve the rehabilitation of 22 higher education establishments and science institutes.

In **Cyprus**, the construction of a campus for the University created in 1989, and in **Spain**, the construction, extension and rehabilitation of over 750 schools in the Autonomous Region of Castilla-La-Mancha, have also been approved and already partially financed for a total of almost € 37 million.

In **Finland**, within the framework of an urban development programme, a project has been approved in favour of the town of Vantaa, to finance the construction, extension and renovation of schools, day-care centres, hospitals and other social institutions in the town. The CEB will participate for a total of € 50 million, a quarter of which has already been disbursed.

The financing of projects in the health and education fields also forms an integral part of the sector-based multi-project programmes approved for **Germany** and channelled

The CEB and local authorities

The long-term financing of projects with a high social content and implemented by local authorities is one type of action that the CEB particularly privileges in its endeavour to promote social cohesion. The social dimension of the Bank's activity requires that those who promote projects should have an especially close relationship with the local population, and this is precisely the vocation and the mission of local authorities.

Over the past five years, the CEB has contributed an overall amount of over € 3 billion to this type of project in 19 member states. These projects have been either individual projects (€ 1.8 billion) or sector-based multi-project programmes (SMPs).

The individual projects are often implemented by local governments or specialised agencies. Among other things, they have led to the construction or renovation of large-scale hospital complexes (Limassol, Madrid), of school buildings and equipment (Reykjavik), and to the rehabilitation of historic monuments (Dubrovnik and Bratislava). They have also been concerned with housing, a vital vector of social cohesion, in particular in disadvantaged urban areas (Sofia) and with municipal infrastructure facilities (urban heating in Bucharest, wastewater treatment in Paphos, Larnaca and Limassol). This approach also includes projects for reconstruction in the wake of natural disasters in the Marmara region of Turkey, or in the Marches and Umbria, in Italy.

In sector-based multi-project programmes (SMPs) the borrower is a financial institution that on-lends these financial resources to local authorities. This type of financing generally involves a large number of projects spread throughout the country concerned. The CEB has thus financed the construction or rehabilitation of run-down urban areas in several towns in the eastern Länder of Germany and in Spain, as well as the equipping and renovation of school and healthcare facilities in Belgium, Iceland, Italy, Finland, Hungary and Poland.

In 2001, the Bank approved several operations concerned with protection of the environment (drinking water supply and the treatment of waste in Saxony), with upgrading school infrastructures in the Autonomous Region of Castilla-La-Mancha, and with social infrastructure facilities in the town of Vantaa in Finland.

In the future, the challenge that the CEB must meet is to further increase the support it provides to the different forms of local government that exist within its member states, while at the same time respecting an appropriate risk profile. With its long experience of this type of financing, the Bank thus lends its support to the social and economic development of local and regional authorities all over Europe.

approved for **Germany** and channelled through *Deutsche Kreditbank AG (DKB)*. The purpose of these programmes is to create and modernise healthcare facilities, school and university buildings, kindergartens and other social institutions linked to health and education in the eastern Länder. An initial disbursement of 30% has been made under this programme.

In 2001, **Norway** applied to the CEB for the first time. The Bank is to participate in part-financing an investment programme through the *Kommunalbanken*, an institution specialised in financing local authorities for municipal projects.

In 2001, loans were disbursed in the health and education sectors for € 150 and 279 million respectively. These loans were spread over 20 member states, in particular, **Cyprus**, **Germany**, **Greece**, **Iceland**, **Romania**, **Slovenia** and **Spain**.

3. Social housing and improving living conditions in disadvantaged urban areas

Housing is a determining factor for social cohesion and citizenship: having somewhere to live is an essential condition for gaining access to social services and to help in finding a job. During 2001, the Bank continued to lend support to this sector, which represents a major part of all its financing activity: **47% of the projects approved involve the social housing sector.**

They are essentially targeted sector-based multi-project programmes. In all, 10 projects and programmes were approved for a total amount of almost € 800 million. This large volume corresponds to two major trends in the



GERMANY | Potsdam University

housing sector in Europe today:
- in the transition countries, emphasis is placed on increasing the amount of available housing through the launching of new building programmes,

- in the other European countries, priority is given more to the rehabilitation and renovation of existing housing.

In 2001, one third of all the projects targeted to the housing sector, representing € 260 million, was allocated to the transition countries. This significant amount corresponds to a special situation: in the early 90s, a large majority of these countries made substantial reductions in their public housing in order to minimise the impact of this sector on their budgetary expenditure. Today, the vast majority of these countries have had to engage in reforming their



FINLAND | Kindergarten near Lempäälä

housing policies.

The CEB will therefore be participating in the public housing programmes being set up: one in **Latvia**, by the *Mortgage and Land Bank of Latvia* for a total € 19 million and another in **Poland**, by *BGK*, for € 166 million; the latter programme, which has already received a disbursement of € 109 million, representing two thirds of the approved total, will enable over 10 000 housing units to be made available to low-income families.

In **Romania**, a project financed in 2001 through the National Housing Agency for a total of € 71 million will provide for 12 000 housing units to be made available, in priority to young people.

Two programmes, each amounting to € 200 million, were approved this year, in **France**, in favour of the *Caisse Nationale de Crédit Agricole*, and, in **Finland**, for the *Housing Fund of Finland*. The aim is to allow low-income families access to social housing, within the framework of state-subsidised loans. Each of these programmes has already received 50% of the financing.

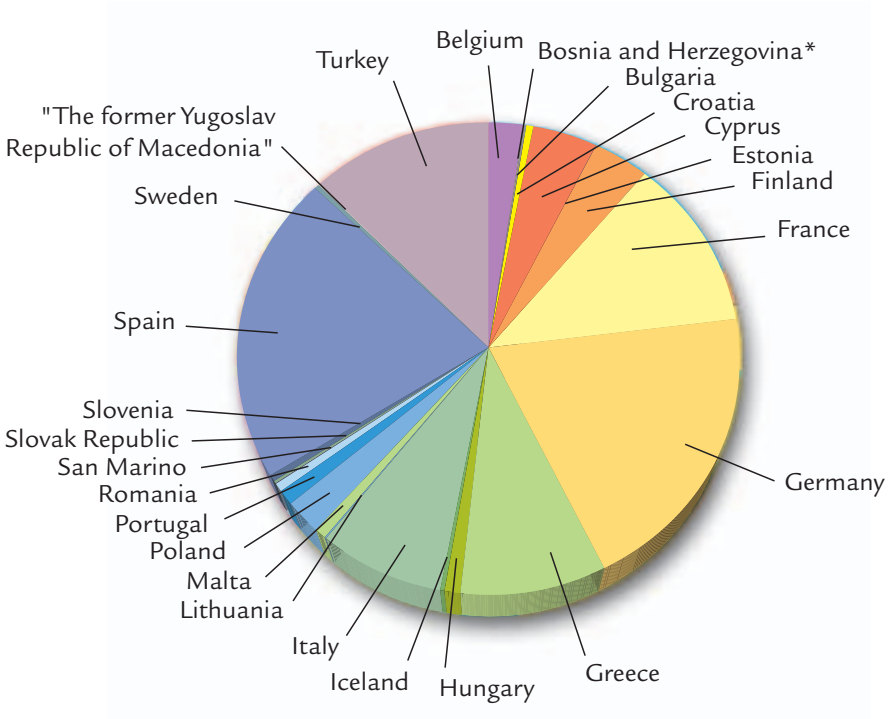


ITALY | Social housing

In **Italy**, within the framework of a regional programme for public social housing, 250 social housing units, part-financed by the CEB through the *Banca Popolare dell'Emilia Romagna*, will be made available to low-income families, to young couples and to immigrant families from the transition countries.

Loans outstanding as at 31 December 2001

1. Breakdown by country



NB : Detail of trend is given in the Financial Statements, pages 59 and 60.

**non-member country*

Financing for social housing also forms an integral part of the sector-based multi-project programmes approved this year in **Germany**. € 80 million are to be targeted to social housing in Saxony.

In **Portugal**, a total of € 15 million has been approved in favour of local authorities for the construction of new social housing units and for the rehabilitation of existing housing throughout the country. This programme will be financed through the Portuguese subsidiary of *Banco Bilbao Vizcaya Argentaria*. Another section of this programme will be devoted to financing the rehabilitation and upgrading of urban infrastructure facilities.

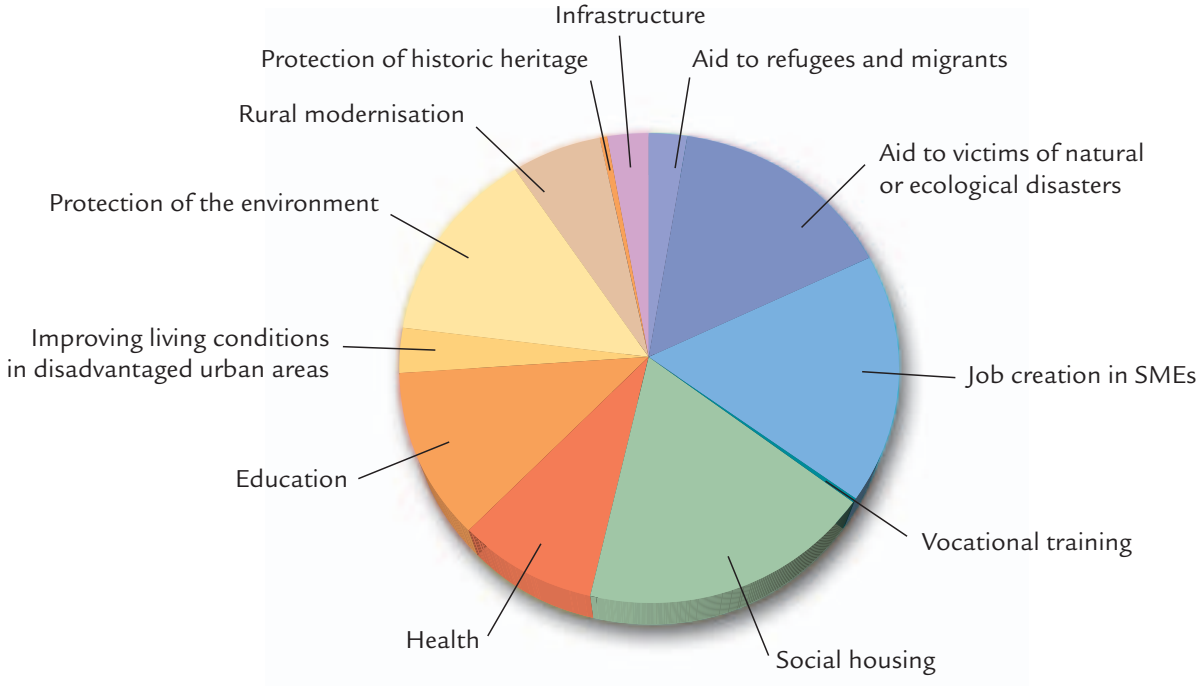
Disbursements in this sector represented 24% of the loans paid over during the year, namely € 418 million, in **Finland, France, Germany, Poland, Romania, Slovak Republic, Spain** and **Sweden**.

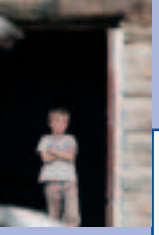


POLAND | Social housing near Bialystok

Operations aimed at ***improving living conditions in disadvantaged urban areas*** were financed for a total of € 116 million in 2001, and included several projects in **Cyprus** and in **Italy** as well as SMPs intended for local authorities, mainly in **Finland** and in **Spain**.

2. Breakdown by sector





Projects approved in 2001, by counterparty

in million euros

ALBANIA	Government	Rural Development	4
	Government	Health	3
BULGARIA	Government	Housing (Roma)	5
CROATIA	Croatian Bank for Reconstruction and Development (HBOR)	SME programme	8
	Government	Historic heritage	1
CYPRUS	Government	Education	73
FINLAND	Housing Fund of Finland (ARA)	Housing programme	200
	Town of Vantaa	Health, education	50
FRANCE	Caisse Nationale de Crédit Agricole, Paris	Housing programme	200
GERMANY	Deutsche Kreditbank AG (DKB)	Health, education programme	15
	Deutsche Kreditbank AG (DKB)	Housing programme, environment	25
	Deutsche Kreditbank AG (DKB)	Rural modernisation and environment programme	25
	IKB Deutsche Industriebank AG	SME programme, environment	50
	SAB-Sächsische Aufbaubank GmbH	Housing programme, environment	100
HUNGARY	Government	Natural disasters	30
	Government	Natural disasters	30
ITALY	Banca OPI	Natural disasters	94
	Banca Popolare dell'Emilia Romagna	Housing programme	15
LATVIA	Mortgage and Land Bank of Latvia (MLBL), Riga	Housing programme	19
LITHUANIA	Government	Education	3
NORWAY	Kommunalbanken AS, Oslo	Sector-based multi-project programme	123
POLAND	Government	Housing programme	166
PORTUGAL	Banco Bilbao Vizcaya Argentaria (Portuguese subsidiary)	Sector-based multi-project programme	50
ROMANIA	Government	Housing	71
SLOVAK REPUBLIC	Government	Historic heritage	3
SLOVENIA	Nova Ljubljanska Banka d.d.	Health	14
SPAIN	Caja Madrid, Madrid	SME programme (Roma)	4
	La Caixa, Barcelona	Health	5
	Región Autónoma de Castilla-La-Mancha (CACM)	Education	18
	Sociedade Publica de Investimentos de Galicia SA	Natural disasters	12
	Sociedade Publica de Investimentos de Galicia SA	Health	8
TURKEY	Government	Natural disasters	104
	Government	Health	13
	Government	Rural modernisation	123
TOTAL			**1 664**

These projects concerned the creation of social infrastructure facilities (nurseries, primary schools, neighbourhood health and welfare centres, ambulance networks), cultural facilities (theatres, libraries, conservatories of music), sports facilities (swimming pools, stadiums) and the development of urban spaces (public gardens, street furniture). Also in **Spain**, at the request of the Autonomous Community of Madrid, the Bank has continued financing the extension of the metro in Madrid towards disadvantaged suburban areas. This project, which received a loan totalling € 87 million in 2001, is cofinanced by the EIB and *KfW*. In the suburbs of Barcelona, a project to improve the situation in "difficult" neighbourhoods has also been financed.

The Nordic dimension of the CEB's activity

As all the countries of northern Europe are members of the CEB, the Bank is developing a *Nordic dimension* in its operations with the countries bordering the Baltic Sea, from the North Sea to the Norwegian Sea.

The purpose of this action is to provide support for regional integration through the financing of projects aimed at the protection of a very diversified but also very fragile environment. In this context, the CEB participates in the work of Helcom, a forum responsible for finding solutions to the region's environmental problems.

The CEB's action also involves financing the construction of social housing as well as social, health, university and school infrastructure facilities.

Thus, for the first time, the CEB has this year approved financing in favour of municipalities in Norway and has renewed its support for local authorities in Estonia, Finland, Iceland, Latvia, Lithuania, Poland and Sweden.



ICELAND | Primary school in Reykjavik

Moreover, this project should have a very strong impact in terms of employment, both directly and indirectly.

III. Other fields of action

1. Protection of the environment

Loans disbursed in 2001 for the protection of the environment totalled € 72 million.

Each of the programmes concerned with protection of the environment is aimed at improving the life, environment and wellbeing of the populations in the countries where the CEB operates.

In 2001, financing in the environmental field increased by 50% in comparison with the previous year. Over € 97 million was allocated to environmental projects, which are an integral part of sector-based multi-project programmes and are for the most part implemented by local authorities.

The Bank is to part-finance two programmes, for a total of € 50 million, channelled through the German bank *Deutsche Kreditbank AG (DKB)*. These investment projects in favour of local authorities are situated in the **Czech Republic** (€ 20 million spread over 40 projects) and in the new Länder in **Germany**

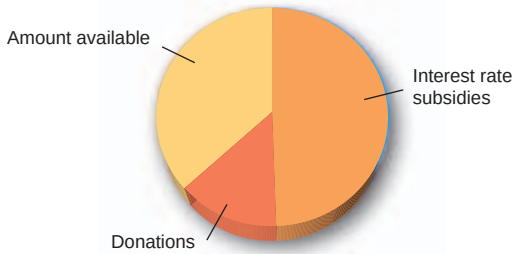


The Selective Trust Account (STA)
Situation as at 31 December 2001

The purpose of the Selective Trust Account (STA) is to provide interest rate subsidies for projects complying with the Bank's high priority objectives, pursued in the transition countries. Set up in 1995, the account is funded with appropriations from the Bank's profits and with voluntary contributions from member states.
In 1999, the Administrative Council exceptionally gave its authorisation for the account to be used for a number of exceptional donations. In November 2001, in order to highlight the STA's social purpose, this type of use was made official by Resolution 1437 (1999) revised in order to allow such donations to be made on a regular basis.

Situation of the STA

	in thousand euros
Interest rate subsidies	31 700
Donations	8 756
Amount available	23 643
TOTAL	**64 099**



Projects approved with interest rate subsidies from the STA

in thousand euros

Projects	Number of projects	Amounts approved	interest rate subsidies through the STA	relative share of total STA (projects)	Amounts disbursed
Albania	1	1 937	231	0.7%	-
Bosnia and Herzegovina	3	8 241	6 679	21%	5 902
Bulgaria	3	23 703	1 802	6%	-
Croatia	5	101 719	3 692	11.5%	1 565
Hungary	2	150 000	6 000	19%	2 420
Lithuania	1	9 794	3 196	10%	1 015
Poland	1	96 600	3 773	12%	3 532
Romania	3	30 175	4 859	15%	3 179
Slovak Republic	1	30 000	1 208	4%	576
Slovenia	1	7 210	259	0.8%	141
TOTAL	**21**	**459 379**	**31 700**	**100.0%**	**18 330**

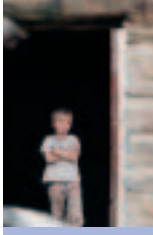
Donations

in thousand euros

Beneficiaries	Date of approval	Amounts approved	Amounts disbursed	%
Council of Europe / CEB Joint programme for social cohesion	February 1999	1 500	200	13%
Accession of Albania	May 1999	1 861	1 861	100%
Aid to abandoned children in Romania	September 1999	1 000	1 000	100%
Aid to refugees from Kosovo (in partnership with UNHCR for the refugees in Albania and with UNDP for the refugees in "The former Yugoslav Republic of Macedonia")	April 1999	2 000	1965*	100%
Aid to refugees in "The former Yugoslav Republic of Macedonia" (in partnership with UNDP)	March 2001	1 000	300	30%
Aid to minorities (Roma and Serb) from Kosovo (in partnership with UNHCR)	May 2001	300	300	100%
Reconstruction of the Mostar Bridge in Bosnia and Herzegovina (participation in the World Bank Trust Fund)	November 2001	1 095	-	-
Total		**8 756**	**5 626**	**64%**

** variation due to change in exchange rate*

NB: The STA balance sheet is shown on page 65 of the Financial Statements



(€ 30 millions). Half of this latter programme was financed this year.

A number of initiatives for the protection of the environment will also be financed by the CEB for a total of € 20 million through a sector-based multi-project programme approved in favour of *IKB Deutsche Industriebank* for projects located in **Hungary, Poland, Czech Republic, Slovak Republic** and **Slovenia**. This programme will contribute to helping these countries to adapt to European standards and to facilitating their forthcoming social and economic integration with the European Union.

In **Norway**, through *Kommunalbanken*, in **Germany**, through *Sächsische Aufbaubank Gmbh*, and in **Portugal**, through the Portuguese subsidiary of *Banco Bilbao Vizcaya Argentaria*, the investments approved this year in the environmental field will essentially be concerned with installations for the treatment of solid waste and waste water, operations to clean up watercourses and protect bio-diversity, the depollution and protection of soil and ground water. They also involve investments to combat the greenhouse effect through the development of solar and wind energies. These investments represent a total of over € 47 million.



SPAIN | Windmills near Burgos



CYPRUS | Wastewater treatment plant near Limassol

Other loans have been distributed through SMPs comprising numerous small-scale projects in **Finland, Germany, Spain** and **Sweden**. In **Romania**, disbursement has continued for a project involving the rehabilitation of the urban heating system in Bucharest, co-financed with the EIB.

2. Rural modernisation

In 2001, the Bank continued to approve investments in rural areas in order to contribute to promoting local development. These investments have doubled in comparison with the previous year to reach € 133 million, representing 8% of the total.

Two projects in **Turkey** involve a whole set of initiatives promoting the stabilisation of the rural population through the construction of irrigation systems and flood prevention infrastructure, for a total of € 123 million. These two projects, approved by the CEB in the early 90s, have undergone several structural modifications.

In **Germany**, a sector-based multi-project programme, channelled through *Deutsche Kreditbank AG (DKB)*, was approved this year.



It concerns social infrastructure related to rural modernisation in favour of local authorities in the new Länder; it has already been 50% disbursed.

In order to improve the quality of life in rural areas in **Albania**, the CEB is to contribute almost € 4 million to a government programme for the construction of country roads, water supply networks, systems for protection against flooding and the elimination of waste water. This programme will be set up by the *Albanian Development Fund* and the World Bank, in cooperation with Albanian local authorities.

Other loans disbursed in 2001 for this sector totalled € 28 million and were spread over numerous projects in **Finland**, **Germany** and **Spain**. In **Cyprus**, the Bank has continued to finance projects involving sewerage and irrigation networks as well as a wastewater treatment plant in a rural area. In parallel, a project for the reinforcement and extension of the electricity network throughout the country has also been financed.

3. Protection and rehabilitation of historic heritage

Protection of historic heritage is a recent field of action for the CEB. The Bank recognises the importance of the cultural and historic heritage as a vector of social cohesion, even though the relative share of this sector remains modest. During 2001, a total of € 16 million was approved in favour of 4 projects situated in **Croatia**, **Norway**, **Portugal** and in the **Slovak Republic**.

In **Croatia**, the town of Dubrovnik has been on UNESCO's World Heritage List since 1979. In 2001, within the framework of a programme to restore the architectural heritage of Dubrovnik,



CROATIA | Rehabilitation of the Mala Braca Monastery in Dubrovnik

the CEB contributed financially to the protection and restoration of the Mala Braca Franciscan monastery.

In the **Slovak Republic**, the CEB will also be providing financial support for the restoration of historic buildings and for the creation of a modern cultural centre within the Bratislava University Library.

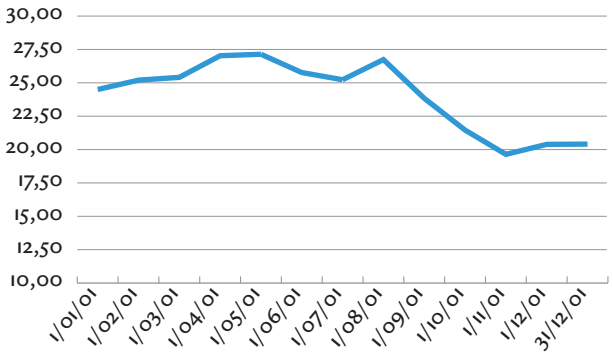
One part of the sector-based multi-project programmes implemented in **Portugal**, through the Portuguese subsidiary of *Banco Bilbao Vizcaya Argentaria*, and in **Norway**, through *Kommunalbanken*, involves preservation and rehabilitation of these countries' cultural and architectural heritage.

I. The economic environment in 2001

1. A subdued global economy

The financial year 2001 saw a reversal of trend in the global economy marked by the contraction of the three major world economies (United States, Europe, Japan).

Trend in oil prices



The oil producing countries were also affected: the economic slowdown and the fall in the number of commercial flights, linked to the attack on the United States on 11 September, significantly lessened demand. Oil prices reached their lowest point at around 19 dollars a barrel at the end of October 2001.

It was also a bleak year for Latin America. In particular, Argentina, after over forty months of recession, is on the verge of bankruptcy.

In all, according to IMF, the global economy grew by 1.4% in 2001. Not since 1993 has this figure been so low.

Faced with this substantial slowdown, the monetary and political authorities reacted sharply. The situation in the markets in the United States and in other western countries was conditioned throughout the year by the accommodative policy moves of both the Federal Reserve and the European Central Bank.

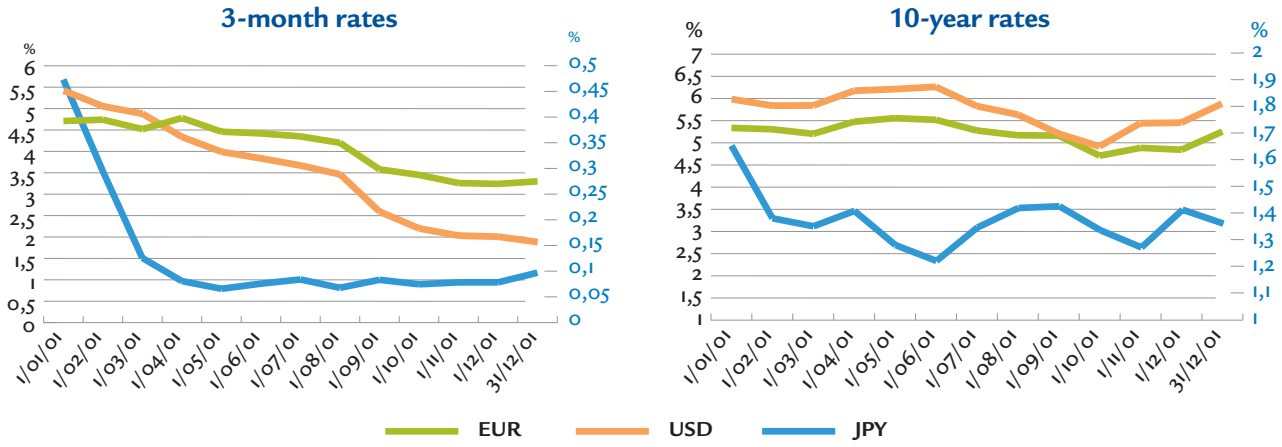
2. A weakened American economy

The gloom that prevailed during 2001 confirmed the worsening economic situation. After 10 years of prosperity, the United States entered into a downward economic cycle in March 2001, and the events of 11 September only accentuated an already ongoing trend. Slowing demand combined with the accumulation of inventories weighed heavily on production. Companies recorded heavy falls in profits and the service sector remained strongly affected following the bursting of the Internet "bubble".

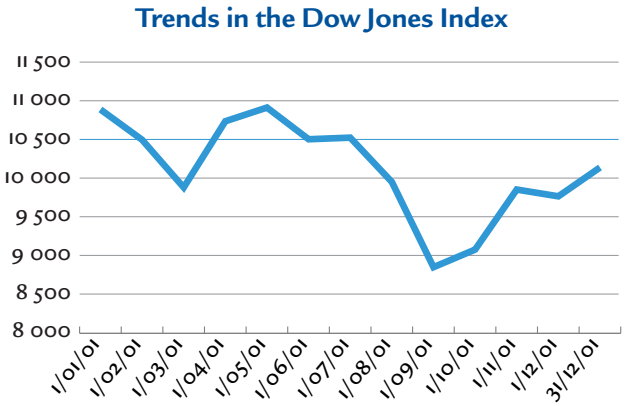
The unemployment rate reached at 5.7%, its highest level since 1995.

The continuing fall in share prices on Wall Street was accelerated by the events of 11 September.

This situation led the American Federal Reserve to take a very aggressive accommodative stance: from January, rates were cut consecutively eleven times, bringing the Federal Funds target rate from 6.5% to



1.75% in just 12 months. This is the lowest historical rate ever reached in 40 years. In fact, the fall of 475 basis points since the beginning of the year has led to negative real interest rates.



3. Dimming prospects in Europe

After a relatively optimistic start to the year, the European economy was showing signs of running out of breath by spring, and these were clearly confirmed by the end of the year. Europe, forcefully struck by the international economic slowdown, was being dragged into a cycle of economic stagnation. Faced with a drastic reduction in orders, businesses have been accumulating inventories and reducing production. At the same time, they have cut down on investment. Consumer purchasing power is being eroded under the double effect of rising prices and increasing unemployment. In 2001, inflation in the euro zone went over the 2% limit fixed by the European Central Bank, to reach 2.6%. Exports, on the other hand, dropped as a result of the stagnation in world trade. In all, growth in the euro zone reached no more than 1.5% in 2001.

Concerned by inflation, the European Central Bank was slow to ease its monetary policy to boost the economy. Nevertheless, reducing its main refinancing rate by one and a half points in four steps caused long-term rates in the euro zone to drop. In the United States, long-term interest rates reached the levels at which they stood at the start of the year, after falling to their lowest level in September 2001.

The central and eastern European countries have remained largely unscathed by the global economic slowdown and are continuing to attract investors. However, growth was due not only to foreign investment but also to strong domestic demand. Efforts undertaken in preparation for joining the European Union have boosted investor confidence.

4. A distinctly fragile Japanese economy

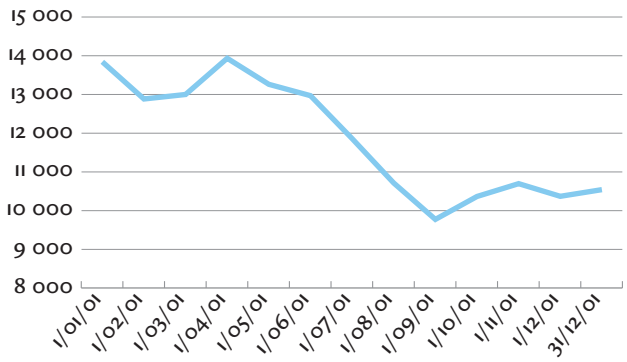
In Japan, the economy remains very fragile with no clear sign of any turnaround, and the deflationary trends recorded over the past years are still present in the economy.

All the indicators show the situation to be severely worsening. Businesses are over-indebted and the banking sector is burdened with bad loans. The upsurge in bankruptcies has gone hand in hand with a rising unemployment rate, which has now gone through the 5% mark.

Despite near zero interest rates, bank credit is shrinking.

The Nikkei 225 (-23.5% in one year at 10 542.62) reached its lowest level for 15 years.

Trends in the Nikkei 225 Index



II. Securities Portfolios

Two bond portfolios are registered on the asset side of the balance sheet: the investment portfolio and the held-for-sale portfolio. In the context of prudential credit risk management, the minimum rating for securities purchased must be AA with Standard & Poor's or Aa2 with Moody's.

Securitisation products and other special purpose vehicles must be rated AAA and have a total limit of € 500 million.

The investment portfolio consists of euro-denominated, fixed-rate plain vanilla bonds with a maximum maturity of 15 years. Its size is limited to the amount of available own funds (paid-in capital, reserves, FGBR) plus the provision for the staff pension fund.

The strategic objective is to achieve a satisfactory long-term return on these resources. 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 practice, the CEB implements an annual purchasing programme. This consists in reinvesting the cash from maturing bonds and investing the part of the previous year's profits allocated to the reserves.

The held-for-sale portfolio consists of securities with a maximum maturity of 7 years. In order to limit the exposure to interest rate risk, instruments of maturity greater than one year are floating rate or, if need be, swapped into floating.

The majority of these securities are denominated in dollars or euros, these being the currencies that constitute the bulk of the Bank's liquidity pool. They represent an alternative to bank deposits. The bonds in this portfolio are accounted for at historical cost.

III. DERIVATIVES

The Bank is an end user of derivatives. To guard against the risks inherent in use of these financial instruments, the Bank has adopted a strict derivatives management policy, which is summarised in the section entitled "Integrated Risk Management Policy" *(see page 45)*.

The Bank continued to mitigate its credit risk on derivatives by entering into new collateral contracts this year. The residual credit risks, calculated as the sum of the positive market values not covered by collaterals, represented 2.3% of the total notional value. Negotiations are underway to extend these collateral contracts to all the Bank's active counterparties.

As at 31 December 2001, the breakdown of derivatives by hedge type is given in the chart below.

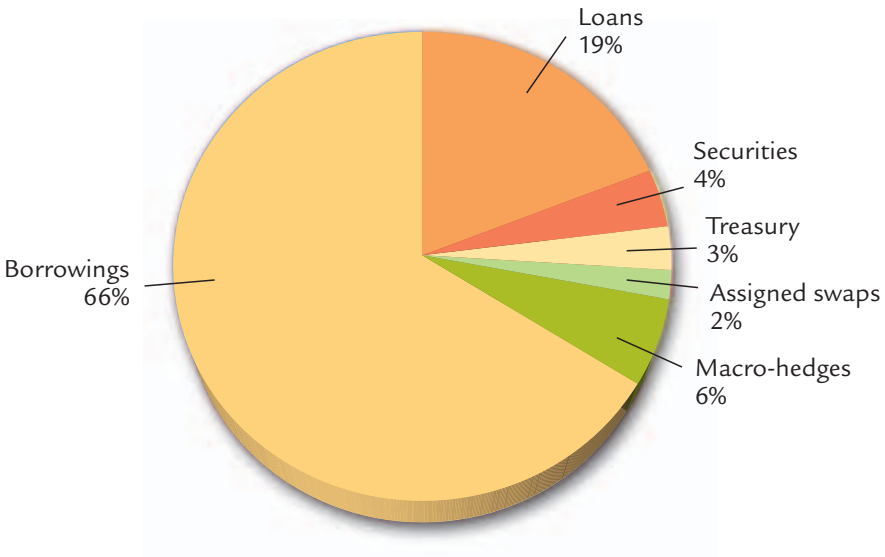
IV. FINANCING IN 2001

1. Borrowings

In 2001, the Bank launched 21 funding operations including 6 re-openings of existing issues with maturities of 1 year or more, representing a **total value of € 2.6 billion**. This is less than the volume recorded in 2000 (€ 3 billion). It corresponds to the desire expressed by the directing bodies and restated in the Medium-Term Development Plan to stabilise the activity. The intentional reduction in the stock of projects at 31 December 2001 partly explains the drop in the Bank's borrowing volume.

Indeed, the size of the stock of projects awaiting financing has a direct impact on the borrowing programme: under the Bank's prudential liquidity policy, the pool of liquid assets must be sufficient to cover at least 50% of projected treasury requirements over three years, including the financing of approved projects.

To ensure continuous access to the funds needed to pursue its activities, the Bank's strategy is to use benchmark borrowings in major currencies, aimed at a broad range of institutional investors, and opportunistic issuance in various currencies or with specific structures corresponding to special investor demand.





2001 Borrowings

Date of payment	Currency	Maturity	Amount	Lead Manager / Arranger
25/01/01	USD	10 years	750 000 000	BNP Paribas, London / Tokyo Mitsubishi International, London
15/02/01	EUR	3 years 11 months**	100 000 000	Salomon Smith Barney, London
21/02/01	HKD	3 years	800 000 000	HSBC, London
22/02/01	USD	4 years**	250 000 000	BNP Paribas, London
12/03/01	JPY	1/20 years*	1 200 000 000	Salomon Smith Barney, London
15/03/01	JPY	1/20 years*	1 000 000 000	Daiwa Securities SBCM, London
26/03/01	JPY	1/20 years*	500 000 000	Kokkusai Europe Ltd, London
28/03/01	JPY	3/20 years*	500 000 000	Mizuho International Plc, London
29/03/01	JPY	1/20 years*	500 000 000	Tsubasa Europe Ltd, London
23/04/01	EUR	7 years	30 000 000	Dresdner Bank AG, Francfurt
23/05/01	USD	6 years	100 000 000	Nomura International Plc, London
24/05/01	JPY	1/20 years*	1 000 000 000	BNP Paribas, London
24/05/01	JPY	1/15 years*	1 000 000 000	Tokyo Mitsubishi International Plc, London
24/05/01	USD	4 years 5 months**	200 000 000	BNP Paribas, London
25/05/01	USD	10 years**	100 000 000	RBC Dominion Securities, London
06/06/01	EUR	10 years	200 000 000	Daiwa Securities SMBC Europe Ltd, London
20/06/01	USD	9 years 7 months**	150 000 000	BNP Paribas, London
06/07/01	JPY	15 years	3 000 000 000	JP Morgan Securities Ltd, London
10/07/01	USD	9 years 6 months**	250 000 000	Nomura, London
01/08/01	JPY	1/15 years*	1 000 000 000	Tokyo Mitsubishi International Plc, London
18/12/01	AUD	10 years	100 000 000	Toronto Dominion Securities, London

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

78% of the funds raised by the Bank in 2001 came from the USD market, against 52% in 2000. The euro market was the second most important, with 13% of the funding requirements originated in euro.

The average maturity of the issues launched in 2001 was 8 years and 4 months compared with 5 years and 3 months in 2000. This increase in average maturity of the issues is due to the longer average life of loans granted in 2001.

The table page 39 gives details of the funds raised in their original currencies.

In all, the Bank launched issues in five different currencies. 90% of the funds raised by the Bank in 2001 came from the USD and EUR markets, the bulk coming from the USD market due to good funding opportunities.

In general, these issues were largely sold to both institutional and private investors in Europe and in Asia.

In 2001, the Bank was also active in the Japanese yen, Hong Kong dollar and Australian dollar markets.

The multi-currency MTN programme is regularly updated in order to standardise the issues and meet investor demands. The Bank makes priority use of this programme whenever possible. As at 31 December 2001, the programme showed a 52% utilisation rate.

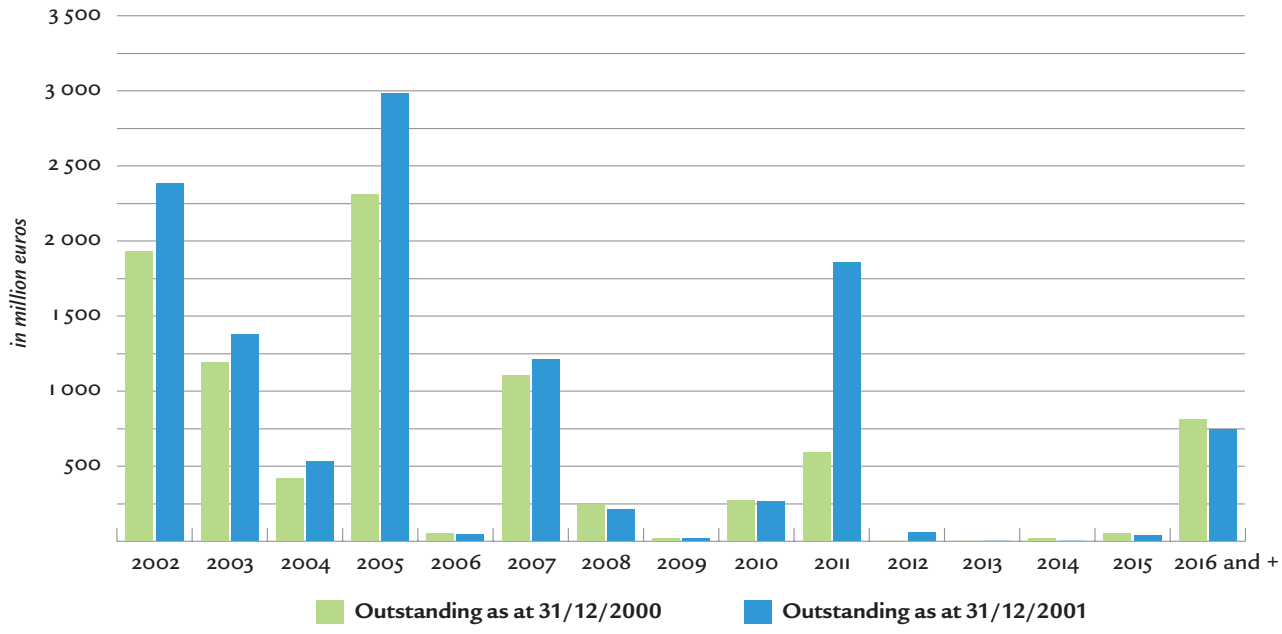
Moreover, in order to diversify its investor base, the Bank regularly studies the possibility of issuing in domestic markets and, with this in view, in 2001 established a domestic programme in the Australian market.

2. Trend in the debt

As at 31 December 2001, the nominal outstanding of the debt materialised by a security stood at € 11 629 million, slightly down from the previous year. This drop is due to a reduction in the volume of new borrowings, to maturities falling due and to dynamic management of existing debt.

The Bank thus proceeded to buy back its own debt for a total amount of € 262 million and to engage in early repayment operations for a total amount of € 202 million. Taking into account these operations and the issues launched, the breakdown of the debt by maturity is as follows:

Breakdown of the debt by maturity at year-end 2000 and 2001





V. RESULTS AND RATIOS

1. Trend in the balance sheet

As at 31 December 2001, the balance sheet total stood at € 13.9 billion, down 3.5% in relation to the previous year-end figure.

- **Assets:** the € 0.9 billion drop (-25%) recorded on treasury appropriations (held-for-sale portfolio and fixed-term deposits) reflects the fall in financing requirements (stock of projects), in compliance with the objective stated in the 2000-2004 Development Plan. Standing at € 8.6 billion, loans outstanding increased slightly (+2.2%), reflecting, in particular, the very strong increase in outstanding loans in favour of the transition countries. These rose by 51% to reach € 462 million at end December 2001, against € 227 million at 31 December 2000.

- **Liabilities:** Treasury resources and debt, used to finance the loans portfolio and the liquidity reserves, showed an overall decrease of 4.5% in 2001. The Bank's own funds increased by 5.1%.

2. Trend in the result

The net result for 2001 was € 88.3 million against € 95 million for the previous financial year. This variation stems principally from:

- a slight decrease in the net banking income, given the lower amount of extraordinary items, in particular call premiums and early loan redemption premiums (- € 3.0 million in 2001),

- an increase in operating costs, resulting from an increase in the wage bill (+7.4%), taking into account increased staff numbers and statutory salary increments,

- a € 3.8 million reduction in provision release on loans in 2001, due to extraordinary repayments on former Yugoslavia's arrears recorded in 2000.

in million euros

Condensed balance sheet	31.12.2001	31.12.2000	Variation Amount	Variation %
Assets				
Uses of treasury (1)	2 754	3 663	(909)	(24.8)
Loans outstanding	8 630	8 442	188	2.2
Investment securities	1 386	1 292	94	7.3
Other assets (2)	1 156	1 037	119	11.5
Total assets	**13 926**	**14 434**	**(508)**	**(3.5)**
Liabilities				
Resources of treasury	526	916	(390)	(42.6)
Borrowings and debt materialised by bonds	11 381	11 548	(167)	(1.4)
Other liabilities (3)	721	735	(14)	(1.9)
Own funds and FGBR (4)	1 298	1 235	63	5.1
Total liabilities	**13 926**	**14 434**	**(508)**	**(3.5)**

(1) Including held-for-sale securities
(2) Including all related receivables
(3) Including all related debt
(4) Including result for the year before allocation

in million euros

Trend in the result	2001	2000	Variation Amount	Variation %
Net banking income	105.4	107.0	(1.6)	(1.5)
Administrative expenses	(19.2)	(17.9)	1.3	7.3
Net release of provision on loans	2.1	5.9	(3.8)	(64.4)
Provisions for contingency	(16.0)	-	(16.0)	(100.0)
Release from FGBR	16.0	-	16.0	100.0
Net result	88.3	95.0	(6.7)	(7.1)
Return on equity (ROE)*	7.3%	8.6%		

** Before allocation of result*

For the record, in 2001, a € 16 million provision for contingency was formed, following a litigation opposing the Bank to one of its paying agents. As this was the realisation of an operational risk, the incidence of this provision on the result has been neutralised by a release of the same amount from the FGBR.

3. Financial ratios

Approved in March 2000, the changes in the parameters for calculating the ratios and lowering the limits came into effect on 1 October 2001, following the 5th capital increase.

- **Gearing ratio:** This ratio sets loans and guarantees outstanding against own funds in the broadest sense (subscribed capital, reserves, FGBR and results). As at 31 December 2001, the ratio stood at 2.18 for a limit of 2.5.

- **Indebtedness ratio:** This ratio sets the total amount of the debt against total own funds in the broadest sense. At 31 December 2001, the ratio stood at 2.90 for a maximum limit of 4.

- **Portfolio ratio:** This ratio sets the total value of the securities portfolio plus treasury transactions not represented by a security (bank deposits, repos) against own funds. As at 31 December 2001, the ratio stood at 1.06 for a maximum limit of 1.5.

- **Liquidity ratio:** This ratio sets the total value of treasury transactions and held-for-sale and trading securities with a residual maturity of less than 18 months against the total amount of net treasury requirements over three years, including the stock of projects awaiting financing. At 31 December 2001, the ratio was 79% for a minimum requirement of 50%.



INTEGRATED RISK MANAGEMENT POLICY

Risk management and control are essential factors to be taken into consideration when assessing the financial soundness of a lending institution. It is for this reason that the Bank is constantly revising its risk management and monitoring systems so as to comply with best practices in the profession.

In financing development operations of a social nature, the Bank is exposed to three different types of risks: credit and counterparty risks, market risks, operational risks.

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

I. Credit and counterparty 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 Bank's credit risks on both on- and off-balance sheet transactions.

The **Risk Committee** is at the heart of the risk management system. Its role is to set limits on the basis of proposals submitted by the 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 Bank's strategy 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 risk counterparty (banks, local authorities, etc.) is based on an in-house model, making it possible to determine a theoretical maximum outstanding per counterparty.

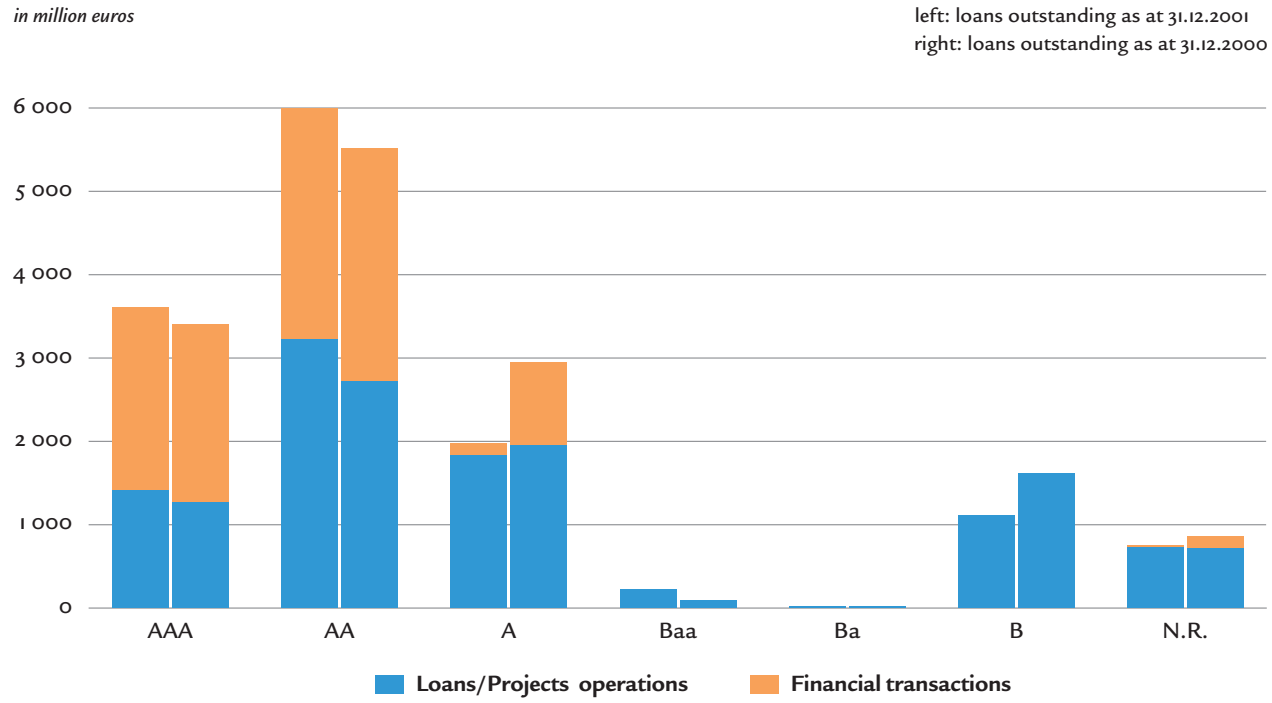
All limits are reviewed at least once a year and whenever a counterparty's economic or financial position justifies a revision. Computerised limits monitoring allows the Bank to keep track in real time of observance of the limits set by the Risk Committee. During 2001, financing commitments (stock of projects) were also included in the assessment of exposure in order to better determine the extent to which the credit limits are used up by counterparties.

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

2. Loans portfolio

As at 31 December 2001, loans outstanding totalled € 8.6 billion, spread among 33 countries, compared with 8.4 billion at year-end 2000. The breakdown of this outstanding by counterparty rating *(see chart page 44)* shows

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



1. Outstanding balance at risk (for swaps, net present value).

2. Moody's rating has been used (or Standard & Poor's rating where no Moody's rating is available).

a significant increase in the AA category (+ 18.5%), due among other things to growth in loan operations with very high-quality banking-sector counterparties. Counterparties rated A or higher accounted for 75.5% of total outstandings as at 31 December 2001, against 70.7% in 2000. The strong growth in activities in favour of the transition countries, mainly in central and eastern Europe, has not resulted in any deterioration in the risk profile for the loans portfolio.

Breakdown by category of borrower has changed somewhat: as at 31 December 2001, governments and central or local public authorities accounted for 36% of loans outstanding, against 41% in 2000, and banks and specialist financial institutions 64% compared with 59%.

So as to maintain prudential standards consistent with best banking industry practices, the Bank has adopted a system of exante risk coverage, calculated on the basis of counterparty default probability rates determined according to rating agency statistics. In this way, coverage of unidentified risks is improved.

As at 31 December 2001, the provision in respect of loans to two non-member countries has been slightly reduced from € 42.6 million in 2000 to € 40.5 million. This decrease is the result of payment of amounts owed by Bosnia and Herzegovina. Lastly, it should be noted that discussions regarding the payment of arrears due by the Federal Republic of Yugoslavia are now underway.

3. Bond portfolios

To be eligible for inclusion in the investment portfolio, securities must have a maximum 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 A1 by Standard & Poor's or P1 by Moody's.

4. Derivatives

As an end user the Bank has recourse to derivatives only in order to hedge its risks *(see page 38)*.

Derivative transactions in any case necessitate credit clearance of the counterparty concerned 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 collateralisation agreement with the Bank.

The Bank has pursued and extended its active collateralisation agreement management policy in order to reduce the credit risk linked to the use of derivatives. To date, 67% of the outstanding on derivatives are collateralised, against 42% at end 2000, and the proportion should increase in the future.

The table below shows maturities of off-balance sheet instruments (interest-rate swaps, currency swaps, caps) at their nominal amount. In 2001, swap transactions were no longer valued at fixed price but at net present value.

Daily monitoring of the positions by counterparty is carried out in order to be able to make a request for additional cover should it be necessary.

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 Management (ALM) Committee, which includes all members of general management, decides on the Bank's assets and liabilities management strategy. The Assets and Liabilities Management (ALM) Department, in the Finance Directorate, manages and monitors these risks.

The strategy adopted by the Bank's organs with regard to interest-rate risks is based on systematic hedging of positions, so as to keep interest-rate exposure on the balance sheet to a low level.

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

Maturities of off-balance sheet instruments as at 31 December 2001

in million euros

Maturity	under 1 year	1 to 5 years	5 to 10 years	10 years and more	Total 2001
Interest-rate instruments	410.61	4 735.83	1 451.54	916.92	7 514.90
Currency instruments	2 289.95	3 864.46	1 933.81	164.78	8 253.00
Total (a)	2 700.56	8 600.29	3 385.35	1 081.70	15 767.90
of which collateralised (b)	1 982.71	4 799.91	3 190.00	531.45	10 504.07
(b)/(a)	73%	56%	94%	49%	67%



As regards currency risks, the Bank's strategy is not to take any position. Residual risk, linked to gains and losses in currencies other than the euro, is systematically hedged.

2. Liquidity risks

Liquidity policy is determined by the Funding Committee, which meets on a quarterly basis. A weekly report on the liquidity situation is submitted to the Treasury Committee. The Bank 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 2001 the ratio stood at 79%.

III. OPERATIONAL RISKS

Operational risks in the broadest sense can be defined as all categories of exposure other than those directly related to credit, market or liquidity risks.

In compliance with the recommendations of the Basle Committee (September 2001), and having already carried out a systematic review of its systems and procedures, the Bank has engaged in a process of reflection with a view to adopting a more quantitative approach to these risks.

Organisation

Introduction of appropriate procedures has made it possible to ensure that everyone's tasks and responsibilities are clearly defined and to guarantee separation of the duties of origination, recording and control of transactions. The Internal Procedures Committee verifies the uniform application of internal controls and their constant adaptation to changes in the Bank's activities. The Internal Audit Department carries out regular reviews of procedures.

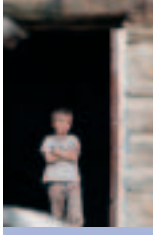
Risk prevention

Various measures have been taken to cover the main operational risks and are regularly reviewed by the Security Committee, comprising representatives of each Directorate. Special mention can be made of the following:

- Use of the SWIFT system to guarantee against settlement risk.

- Installation of an external back-up site, allowing for the resumption of strategic operations within 24 hours in the event of a problem. A full emergency exercise was successfully carried out in October 2001 during which all the systems set up over the last few years were effectively activated.

- Adoption of a security policy with the aim of protecting both the Bank's headquarters (access controls, fire alarm) and its computer systems (off-site storage of back-up copies, virus detection measures, etc.). IT project management, in the functional fields as well as in terms of security measures, is regularly supervised by the Information Technology Committee, which includes all members of general management.



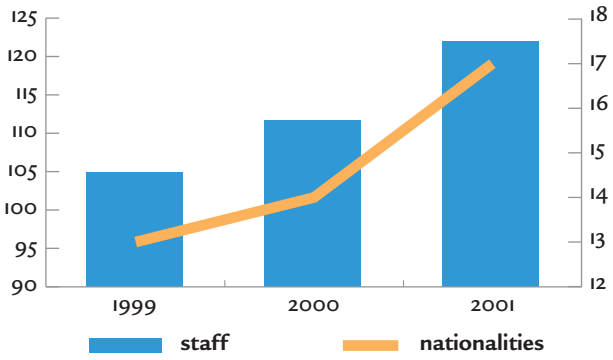
HUMAN RESOURCES MANAGEMENT

Since 1994, the arrival of 14 new member states, growth in the volume of activity and the need to comply with the standards applied in comparable institutions have led to a steady increase in the Bank's work teams. In the course of the past two years, the number of staff members has risen by 16%, reaching a total of 122 at 31 December 2001, which remains a modest number in relation to the volume of activity.

Within the framework of this proactive recruitment policy, the Bank has pursued a twofold objective: to recruit highly qualified specialist staff and to ensure the greatest possible diversification of the nationalities represented among the staff, in particular as regards the transition countries.

The diagram below illustrates how this policy has been put to practical effect since 1999.

Trend in staff and nationalities represented



In all, the number of nationalities represented in the Bank's management staff has increased from 7 at end 1993 to 17 at end 2001.

At the same time, the Bank has further developed its active careers management policy by encouraging internal mobility and this policy should be further developed in the future. Moreover, a process of reflection is currently underway with other financial institutions in order to promote increased cooperation in human resources development.

The skills assessment and improvement policy has been pursued. The performance-related bonus system, which has been in place for several years, has now proven its worth, and especially tailored training courses have also been developed to enable staff to update their knowledge and skills. In this connection, although language and computer training have always taken up a large part of the training budget, it should be noted that advanced courses in finance-related subjects and negotiations seminars are also available.

Lastly, and in close collaboration with staff representatives, a code of conduct was drawn up and submitted to the Bank's collegiate organs in 2001. Coming within the framework of the Bank's Articles of Agreement, this text sets out a certain number of ethical rules that the CEB's staff members are expected to observe, both in their behaviour in the workplace and in their dealings with outside service providers. By drawing up this document, the CEB has shown its determination to comply with the best practices observed in supranational institutions.

BALANCE SHEET AS AT 31 DECEMBER 2001

ASSETS *in thousand euros*

ITEMS	NOTES	2001	2000
Cash in hand, balances with central banks		32	52
Loans and advances to credit institutions			
(a) advances repayable on demand		3 301	4 605
(b) loans and advances:			
- advances	*3*	1 336 513	906 427
- loans (a)	*3*	5 555 525	5 052 340
Loans to customers			
- loans (b)	*4*	3 156 504	3 491 111
Total loans (a + b)	*3, 4, 5, 17*	**8 712 029**	**8 543 451**
Treasury bills and similar securities	*6*	459 052	455 131
Debt securities and other fixed-income securities	*6*	2 411 928	3 677 773
Shares and other variable-yield securities	*6*	716	792
Total portfolio	*6, 17*	**2 871 696**	**4 133 696**
Intangible fixed assets	*7*	1 001	980
Tangible fixed assets	*7*	10 734	11 475
Capital subscribed, called, unpaid and reserves to be paid	*15*	1 137	3 957
Other assets	*8*	5 036	4 492
Prepayments and accrued income	*8*	984 345	825 099
TOTAL ASSETS	*16*	**13 925 824**	**14 434 234**

The accompanying notes form an integral part of the Financial Statements.

LIABILITIES

in thousand euros

ITEMS	NOTES	2001	2000
Amounts owed to credit institutions			
(a) repayable on demand		-	41 643
(b) with agreed maturity dates or periods of notice	*9*	20 437	-
Amounts owed to customers			
with agreed maturity dates or periods of notice	*9*	60 117	56 950
Debt materialized by securities	*10*	12 023 316	12 526 296
Other liabilities	*11*	103 154	172 552
Accruals and deferred income	*11*	325 678	333 792
Selective Trust Account (STA)	*12*	52 228	42 163
Provision for financial risks	*13*	43 141	25 384
Fund for General Banking Risks (FGBR)	*13*	144 000	150 000
Capital	*14*		
(a) Subscribed (paid-in 335 922)		3 003 828	1 400 693
(b) Uncalled		(2 667 167)	(1 241 018)
		336 661	**159 675**
General reserve	*15*	728 793	830 742
Profit for the financial year		88 299	95 037
TOTAL LIABILITIES	*16*	**13 925 824**	**14 434 234**
OFF-BALANCE SHEET ITEMS			
Commitments given			
Awaiting financing on approved projects	*5*	2 547 814	3 091 912
Guarantees			
(a) Guarantees for loans granted by third parties		6 113	8 091
(b) Guarantees on assigned interest swaps		323 904	563 013
Commitments received			
Guarantees received		6 113	8 187
Off-balance sheet financial instruments	*18*	15 444 023	14 221 056

The accompanying notes form an integral part of the Financial Statements.

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2001

in thousand euros

ITEMS	NOTES	2001	2000
Interest receivable and similar income	*20*	1 604 289	1 556 973
Interest payable and similar expenses	*21*	(1 499 616)	(1 449 435)
Net interest and similar income		**104 673**	**107 538**
Income from shares and other variable-yield securities		56	48
Commissions received		18	-
Commissions paid		(128)	(152)
Net gain (loss) on financial transactions	*22*	675	(91)
Other operating income		633	104
Other operating expenses		(524)	(450)
Total operating income		**105 403**	**106 997**
General administrative expenses		*(19 198)*	*(17 822)*
Staff costs	*23*	(11 561)	(10 389)
Other administrative expenses	*23*	(5 750)	(5 596)
Depreciation of fixed assets	*7*	(1 887)	(1 837)
Profit before provisions		**86 205**	**89 175**
Value adjustments in respect of loans and contingency	*24*	(13 906)	5 862
Profit before FGBR		**72 299**	**95 037**
Value adjustments in respect of FGBR	*24*	16 000	-
PROFIT FOR THE FINANCIAL YEAR		**88 299**	**95 037**

The accompanying notes form an integral part of the Financial Statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2001

in thousand euros

	2001	2000
Cash flows from operating activities		
Profit for the financial year	88 299	95 037
Adjustments:		
- Value adjustments	12 803	6 334
- Increase in accrued interest and commissions receivable	37 721	(101 203)
- Increase in accrued interest and commissions payable	(13 322)	115 928
- Premium on investment securities	3 058	2 302
Loan disbursements	(1 748 762)	(1 854 905)
Loan repayments	1 584 558	1 228 332
Net cash flows from operating activities	**(35 643)**	**(508 175)**
Cash flows from investing activities		
Net change in the securities portfolio	1 260 644	(998 841)
Purchase of tangible and intangible fixed assets	(1 116)	(948)
Other increases/(decreases) in assets	(541)	(92)
Net cash flows from investing activities	**1 258 987**	**(999 881)**
Cash flows from financing activities		
Issue of capital and reserves	2 820	3 287
Issue of borrowings	2 630 824	2 922 512
Redemption of borrowings	(3 005 661)	(1 847 401)
Decrease in short-term borrowings	(356 130)	44 239
Net change in foreign currency/transactions payable and receivable	14 559	79 063
Other increases/(decreases) in liabilities	(72 681)	108 675
Net cash flows from financing activities	**(786 269)**	**1 310 375**
Cash and cash equivalents at the beginning of the year	**863 844**	**1 027 082**
Net cash flows from:		
- operating activities	(35 643)	(508 175)
- investing activities	1 258 987	(999 881)
- financing activities	(786 269)	1 310 375
Effects of exchange rate changes on cash and cash equivalents	15 856	34 443
Net increase/(decrease) in cash and cash equivalents	**452 930**	**(163 239)**
Cash and cash equivalents at the end of the year	**1 316 774**	**863 844**
Analysis of cash and cash equivalents		
Cash in hand, balances with central banks	32	52
Advances to credit institutions		
- Advances repayable on demand	3 301	4 605
- Advances	1 333 865	900 830
Amounts owed to credit institutions		
- Repayable on demand	-	(41 643)
- With agreed maturity dates or periods of notice	(20 424)	-
	1 316 774	**863 844**

The accompanying notes form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2001

Note 1 - The Bank's purpose

"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).

The broadening of the Bank's fields of action, validated by Resolution 1424 (1997) revised November 2001, complies with the reinforcement of its actions in favour of social cohesion. Henceforth, the Bank can contribute - beyond its statutory priorities - to the financing of social infrastructures related to the protection of the environment and the rehabilitation of the historic heritage. Financing investments in small and medium-sized enterprises, which contribute to job creation, is also one of its major fields of action. Lastly, following the redefinition, in October 2001, of certain eligibility criteria concerning projects for the improvement of living conditions in disadvantaged urban areas and for social housing, and those applicable to sector-based multi-project programmes (SMPs), the Bank is now better able to adapt itself to the social and economic realities of its member states.

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

The Bank's principal office is in Strasbourg, France. The headquarters of the operational services are in Paris, France.

Note 2 - Summary of accounting policies

2.1 - Standards and general principles

The recent changes in certain International Accounting Standards (IAS) and the current discussions within the regulatory bodies regarding the difficulties in their practical application, mainly related to the implementation of the IAS 39, led the Bank to prepare its financial statements on the basis of the European Union Directive (86/635/EEC), "Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions".

Unless otherwise specified, assets and liabilities are accounted for at historical cost.

2.2 - Foreign currency translation

In accordance with Article IV (section 1) of the Bank's Articles of Agreement, capital subscribed by member states and the Financial Statements are expressed in euros.

During the year, transactions are recorded in their original currencies. Assets and liabilities in foreign currencies are translated in euros at the end-of-year exchange rate.

Exchange profits or losses resulting from assets and liabilities conversions are entered in the profit and loss account (Net profit (loss) on financial operations).

The accounts have been drawn up in euros, on the basis of the following exchange rates as at 31 December 2001:

ISO	Currency	EUR exchange rate	ISO	Currency	EUR exchange rate
AUD	Australian Dollar	1.728	JPY	Japanese Yen	115.33
CAD	Canadian Dollar	1.4077	LTL	Lithuanian Litas	3.5228
CHF	Swiss Franc	1.4829	MTL	Maltese Lira	0.3994
CYP	Cyprus Pound	0.57504	NOK	Norwegian Krone	7.9515
CZK	Czech Koruna	31.962	NZD	New Zealand Dollar	2.1215
DKK	Danish Krone	7.4365	PLN	Polish Zloty	3.4953
EUR	Euro	1	SEK	Swedish Krona	9.3012
GBP	Pound Sterling	0.6085	SGD	Singapore Dollar	1.6306
GRD	Greek Drachma	340.75	SIT	Slovenian Tolar	218.8364
HKD	Hong Kong Dollar	6.8723	TRL	Turkish Lira	1 269.0
HRK	Croatian Kuna	7.349	TWD	Taiwan Dollar	30.857
HUF	Hungarian Forint	245.18	USD	United States Dollar	0.8813
ISK	Icelandic Krona	91.48	ZAR	South African Rand	10.4302

2.3 - Securities portfolio

2.3.1 - 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.

2.3.2 - 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.

2.3.3 - 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

Loans are stated at their nominal value.
A 100% interest provision is set up when the interest is due and unpaid for more than 90 days. When the principal is not reimbursed, a detailed risk analysis is performed and an appropriated provision is set up.

2.5 - Tangible and intangible fixed assets

Fixed assets are stated at cost and depreciated using the straight-line method over their estimated useful life:

Buildings	25 years
Fixtures and furniture	10 years
Software and related development costs	1 to 5 years
Vehicles	4 years
Computers and office equipment	3 years

2.6 - Debt evidenced by certificates

These borrowings are recorded at their nominal value. Issue premiums received or paid 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, associated with future losses and unexpected other risks. The Fund for General Banking Risks covers all unidentified risks on transactions related to loans, portfolio activities and financial instruments, but also of an operational nature (damages, litigations, etc). It is registered separately on the liabilities side of the Bank's balance sheet, according to the European Directive.
A change in the accounting method was adopted in the financial year 2001 *(see note 2.13)*.

2.8 - Provision for financial risks - Pension Fund

The Bank's Pension Fund is organised as a defined benefit pension scheme. It is financed partly by the Bank and partly by the employees. All the flows relative to the plan, as well as yearly interest, are entered in a specific provision account, on the liabilities side of the Bank's balance sheet *(see note 13)*.
Commitments for retirement benefits are valued once a year according to IAS 19 (reviewed in 1998) using the "projected unit credit method" in order to ensure that the provision entered in the accounts is adequate. This valuation is carried out by an independent actuary.

2.9 - Financial instruments

The financial instruments used by the Bank include interest rate derivatives (interest rate swaps, forward rate agreements, futures, caps, floors, interest rate options and swaptions) and foreign currency derivatives (currency swaps, forward exchange rate contracts and currency options). These financial instruments are evaluated as follows:

a) Hedging activities
   Profit and loss on hedging instruments is accounted for in the same way as the profit or loss on the underlying asset or liability. Premiums paid or received are amortised over the life of the underlying instrument.

b) Trading 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 is the Bank's favoured tool in order to amplify the effects of its action in social priority sectors (natural disasters, acts of war, migrations), its main features being defined in Resolution CA 1380 (1995) and revised by Resolution CA 1437 (1999).
The purpose of this account is to provide interest rate subsidies for loans granted by the Bank on projects of high social value, concerning low-income countries or other countries, in particular those from central and eastern Europe. The STA can also be used for the granting of donations in aid of the victims of wars, refugees, displaced persons and those most vulnerable. The accounting of the STA is held separately *(see note 12)*.

2.11 - Special accounts

Interest bearing account / European Community
In July 2000, the Administrative Council approved the CEB's participation in the "Contribution Arrangements" for partial financing of productive investment projects aimed at the maintenance or creation of jobs in SMEs located in transition countries in central and eastern Europe.
A "Contribution Arrangement in respect of a SME Finance Facility Phase 2 Special Fund" was signed in December 2000 between the European Community and the CEB in association with the Kreditanstalt für Wiederaufbau. According to this Arrangement, the CEB has opened an interest bearing account which operates as a Trust account. The contributions from the European Community will be administered until disbursements in accordance with said "Contribution Arrangement" *(see note 9)*.

Interest bearing account / Finland
On 14 June 2001, the Finnish government and the CEB signed a Trust Account Agreement to provide financing for technical assistance activities in Estonia, Latvia and Lithuania, members of the Bank, in the CEB's field of action and, in particular, in sectors of health, education, environment and aid for refugees and migrants.

2.12 - Tax status

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.

2.13 - Change in method

Originally provisioned through the profit and loss account, the FGBR has suffered since its creation only one variation, in the appropriation of the profits for the year 2000 (as a consequence of the IAS 30). Starting with the financial year 2001, in order to improve the accounting application of the FGBR and in concordance with the European Directive (86/635) *(see note 2.1 - Standards and general principles)*, movements of the account are recorded respectively by charge or release of the profit and loss account of the Bank. In this respect, a release of an amount of 16 million euros was recorded in the financial year 2001 as a result of a risk related to a litigation against one of the Bank's paying agents.
For information, it is important to underline that if the method used in 2001 had been applied for the previous financial year, the net income of the 2000 financial year would have been reduced by 10 million euros, with no incidence on the amount of the own funds *(see note 15)*.

Note 3 - Loans and advances to credit institutions

in thousand euros as at 31 December

	2001	2000
Term deposits		
Advances (deposits)	1 333 865	900 830
Related interest receivable	2 648	5 597
Total	**1 336 513**	**906 427**
Loans		
Ordinary loans	5 506 179	4 991 680
STA subsidised loans (1)	4 383	4 383
Social loans (2)	-	316
Related interest receivable	44 963	55 961
Provisions	-	-
Total	**5 555 525**	**5 052 340**

(1) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 12).
(2) Social loans are granted at 1% interest rate.

Note 4 - Loans to customers

in thousand euros as at 31 December

	2001	2000
Ordinary loans	2 874 644	3 268 259
STA subsidised loans (1)	239 094	169 912
Social loans (2)	5 975	7 558
Related interest receivable	36 879	45 492
Unpaid principal and interest due (3)	40 458	42 530
Provisions	(40 546)	(42 640)
Total	**3 156 504**	**3 491 111**

(1) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 12).
(2) Social loans are granted at 1% interest rate.
(3) Unpaid principal and interest due are fully provisioned.

Note 5 - Additional information on loans

5.1 - Outstanding loans by main borrower categories

in thousand euros as at 31 December

	2001	2000
Credit institutions		
Outstanding amount	5 510 562	4 996 379
Related interest receivable	44 963	55 961
Provisions	-	-
Sub-Total	**5 555 525**	**5 052 340**
Customers		
Member states	2 600 979	3 004 747
Non member states	5 599	5 302
Member states' public institutions	513 135	435 680
Non member states' public institutions	-	-
Related interest receivable	36 879	45 492
Unpaid principal and interest due	40 458	42 530
Provisions	(40 546)	(42 640)
Sub-Total	**3 156 504**	**3 491 111**
Total loans	**8 712 029**	**8 543 451**

5.2 - Outstanding loans by interest rate type (*)

in thousand euros as at 31 December

	2001	2000
Fixed rate loans	4 194 770	4 608 741
Floating rate loans	4 435 504	3 833 367
Total loans	**8 630 274**	**8 442 108**

(*) Except related interest receivable and unpaid principal, interest due and provisions.

5.3 - Breakdown of loans by foreign currency (*)

in thousand euros as at 31 December

	2001	2000
EUR	7 043 827	6 766 487
USD	1 141 008	969 387
JPY	311 600	513 737
CHF	133 839	192 497
Total	**8 630 274**	**8 442 108**

(*) Except related interest receivable and unpaid principal, interest due and provisions.

5.4 - Outstanding loans and financing commitments, by country

in thousand euros as at 31 December

	2001			2000		
COUNTRY	Financing commitments	Outstanding (1)	%	Financing commitments	Outstanding (1)	%
Spain	312 186	1 828 448	21.18	353 615	1 776 370	21.04
Germany	104 847	1 695 611	19.65	167 347	1 594 322	18.89
Turkey	264 432	1 060 832	12.29	248 976	1 599 340	18.94
France	200 000	1 026 703	11.90	-	827 294	9.80
Greece	244 628	778 368	9.02	435 963	888 832	10.53
Italy	212 823	672 842	7.80	802 025	557 768	6.61
Cyprus	263 178	376 346	4.36	493 981	481 421	5.70
Finland	182 500	325 541	3.77	100 000	167 703	1.99
Belgium	30 000	201 053	2.33	60 000	165 713	1.96
Poland	71 485	199 872	2.32	22 556	72 561	0.86
Portugal	78 855	86 727	1.00	83 855	83 469	0.99
Hungary	106 500	83 500	0.97	73 500	56 500	0.67
Malta	35 462	63 547	0.74	51 540	56 746	0.67
Romania	86 915	50 067	0.58	44 527	22 940	0.27
Croatia	72 749	40 793	0.47	7 024	25 744	0.30
Slovenia	13 776	38 692	0.45	35 231	15 995	0.19
Sweden	27 210	27 000	0.31	-	-	-
Iceland	16 386	23 375	0.27	32 451	13 000	0.15
Slovak Republic	21 811	16 184	0.19	23 856	6 144	0.07
Bulgaria	25 052	11 233	0.13	18 224	8 598	0.10
Lithuania	9 693	7 406	0.09	10 126	6 142	0.07
"The former Yugoslav Republic of Macedonia"	14 756	6 424	0.07	14 757	7 492	0.09
Bosnia and Herzegovina	-	5 598	0.06	1 612	5 302	0.06
San Marino	1 162	2 195	0.03	1 162	2 711	0.03
Estonia	7 670	1 917	0.02	9 587	-	-
Latvia	17 976	-	-	-	-	-
Norway	125 762	-	-	-	-	-
Total	**2 547 814**	**8 630 274**	**100.0**	**3 091 915**	**8 442 108**	**100.0**
Unpaid principal		40 458			42 530	
Related interest receivable		81 843			101 453	
Provisions		(40 546)			(42 640)	
Net Total	**2 547 814**	**8 712 029**		**3 091 915**	**8 543 451**	

(1) Comprises the outstanding loans within the framework of the STA (see note 12).

5.5 - Outstanding loans and financing commitments, by sector

This note should be read in connection with note 1 (The Bank's purpose). The breakdown by sector of the loans related to sector-based multi-project programmes (SMPs) is made by application of the statistical percentages used when approving each project.

in thousand euros as at 31 December

	2001				2000			
SECTOR	Financing commitments	%	Outstanding	%	Financing commitments	%	Outstanding	%
Statutory priorities	**328 090**	**12.9**	**1 547 911**	**17.9**	**739 634**	**23.9**	**1 299 087**	**15.4**
Aid to refugees and migrants	41 262	1.6	227 419	2.6	22 508	0.7	395 086	4.7
Aid to victims of natural or ecological disasters	286 828	11.3	1 320 492	15.3	717 126	23.2	904 001	10.7
New priorities	**1 682 133**	**66.0**	**4 981 993**	**57.7**	**1 564 849**	**50.6**	**4 744 431**	**56.2**
Job creation and preservation in SMEs	269 722	10.6	1 472 035	17.1	424 753	13.7	1 358 545	16.1
Vocational training	-	-	27 076	0.3	-	-	133 655	1.6
Social housing	477 885	18.8	1 582 933	18.3	192 127	6.2	1 494 456	17.7
Health	361 530	14.2	752 042	8.7	375 790	12.2	650 672	7.7
Education	413 974	16.2	998 199	11.6	496 970	16.1	961 056	11.4
Improvement of living conditions in disavantaged urban areas	159 022	6.2	149 708	1.7	75 209	2.4	146 047	1.7
Other fields of action	**537 591**	**21.1**	**2 100 370**	**24.3**	**787 429**	**25.5**	**2 398 590**	**28.4**
Protection of the environment	156 357	6.1	1 173 782	13.6	185 630	6.0	1 066 337	12.6
Rural modernisation	281 257	11.0	522 170	6.1	473 421	15.3	958 833	11.4
Protection and rehabilitation of the historic heritage	46 004	1.8	45 674	0.5	48 822	1.6	35 808	0.4
Infrastructure facilities	53 973	2.1	358 744	4.2	79 556	2.6	337 612	4.0
Gross total	**2 547 814**	**100.0**	**8 630 274**	**100.0**	**3 091 912**	**100.0**	**8 442 108**	**100.0**
Unpaid principal			40 458				42 530	
Related interest receivable			81 843				101 453	
Provisions			(40 546)				(42 640)	
Net total	**2 547 814**		**8 712 029**		**3 091 912**		**8 543 451**	

5.6 - Financing commitments

in thousand euros as at 31 December

Year of approval	1999 and before (a)	2000 (b)	2001 (c)	Total (a)+(b)+(c)
Projects				
With framework loan agreements (1)	500 756	450 279	659 939	1 610 974
Without framework loan agreements (2)	730 457	27 791	178 594	936 841
Total	**1 231 213**	**478 070**	**838 532**	**2 547 814**

(1) The Bank is legally committed as soon as a framework agreement is signed.
(2) Projects which have been granted at least one financing.

Note 6 - Securities portfolio

in thousand euros as at 31 December

	Financial year 2001			
	Treasury bills and similar securities	Debt securities and other fixed-income securities	Shares and other variable-yield securities	**Total**
Trading portfolio	-	-	-	-
Held-for-sale portfolio				
Gross amount	11 347	1 409 202	1 366	1 421 915
Provisions	-	(552)	(664)	(1 216)
Related interest receivable	77	24 951	14	25 042
Net amount	**11 424**	**1 433 601**	**716**	**1 445 741**
Investment portfolio				
Gross amount	434 380	951 468	-	1 385 848
Premium and discount amount	(7 237)	(3 530)	-	(10 767)
Provisions	-	-	-	-
Related interest receivable	20 485	30 389	-	50 874
Net amount	**447 628**	**978 327**	**-**	**1 425 955**
Total	**459 052**	**2 411 928**	**716**	**2 871 696**

	Financial year 2000			
	Treasury bills and similar securities	Debt securities and other fixed-income securities	Shares and other variable-yield securities	**Total**
Trading portfolio	-	-	-	-
Held-for-sale portfolio				
Gross amount	-	2 755 676	1 463	2 757 139
Provisions	-	(683)	(682)	(1 365)
Related interest receivable	-	34 934	11	34 945
Net amount	**-**	**2 789 927**	**792**	**2 790 719**
Investment portfolio				
Gross amount	439 039	858 863	-	1 297 902
Premium and discount amount	(4 969)	(771)	-	(5 740)
Provisions	-	-	-	-
Related interest receivable	21 061	29 754	-	50 815
Net amount	**455 131**	**887 846**	**-**	**1 342 977**
Total	**455 131**	**3 677 773**	**792**	**4 133 696**

6.1 - Additional information on the securities portfolio

in thousand euros as at 31 December

	2001	2000
Debt securities and other fixed-income securities		
Government securities (1)	262 970	289 467
Other securities (1)	2 097 700	3 325 071
	2 360 670	3 614 538
Held-for-sale portfolio		
Market value	1 445 605	2 775 530
Potential gain on sale (2)	25 576	15 258
Investment portfolio (3)		
Market value	1 423 475	1 309 026
Potential gain on sale (2)	37 627	11 125
Sale of securities before maturity	-	-
Securities with changing category during the financial year	-	-
Premium securities amount (4)	2 354 042	2 612 692
Discount securities amount (4)	442 954	1 436 608

(1) Except related interest receivable, provisions and premium or discount.
(2) Except valuation of financial instruments for interest rates hedging.
(3) Bonds and securities issued by countries or equivalent institutions rated AAA or AA.
(4) Net book value for portfolio securities.

Note 7 - Fixed assets

in thousand euros as at 31 December

	Tangible fixed assets				Intangible fixed assets	
	Buildings	Fixtures and equipment	Other tangible fixed assets	**Total**	Intangible assets	**Grand total**
Gross book value at 31 December 2000	10 673	6 101	3 352	**20 126**	2 258	**22 384**
Additions	-	300	435	**735**	432	**1 167**
Disposals	-	-	(51)	**(51)**	-	**(51)**
Other movements	-	42	(42)	**-**	-	**-**
Gross book value at 31 December 2001	**10 673**	**6 443**	**3 694**	**20 810**	**2 690**	**23 500**
Accumulated depreciation at 31 December 2000	(3 808)	(2 732)	(2 111)	**(8 651)**	(1 278)	**(9 929)**
Charge for the year	(427)	(476)	(573)	**(1 476)**	(411)	**(1 887)**
Disposals	-	-	51	**51**	-	**51**
Accumulated depreciation at 31 December 2001	**(4 235)**	**(3 208)**	**(2 633)**	**(10 076)**	**(1 689)**	**(11 765)**
Net book value at 31 December 2001	**6 438**	**3 235**	**1 061**	**10 734**	**1 001**	**11 735**
Net book value at 31 December 2000	6 865	3 369	1 241	11 475	980	12 455

Note 8 - Other assets, prepayments and accrued income

in thousand euros as at 31 December

	2001	2000
Sundry debtors	4 442	3 679
Conditional instruments purchased	594	813
Total other assets	**5 036**	**4 492**
Accrued interest receivable	438 246	446 804
Foreign currencies adjustment account	457 862	293 300
Other expenses to be amortised	85 991	83 048
Prepaid expenses	1 062	944
Other accrued income and sundry debtors/creditors	1 184	1 003
Total prepayments and accrued income	**984 345**	**825 099**

Note 9 - Amounts owed to credit institutions and to customers

in thousand euros as at 31 December

	2001	2000
Amounts owed to credit institutions		
Repayable on demand	-	41 643
With agreed maturity dates or periods of notice	20 425	-
Related interest payable	12	-
Total	**20 437**	**41 643**
Amounts owed to customers		
With agreed maturity dates or periods of notice	52 025	56 117
Related interest payable	772	833
Interest bearing accounts	**7 320**	**-**
(European Community: 7 150)		
(Finland: 170)		
Total	**60 117**	**56 950**

Note 10 - Debt materialized by securities

in thousand euros as at 31 December

	2001	2000
Bonds	11 184 445	11 357 984
Euro Commercial Paper	307 632	635 857
Perpetual debt (1)	137 261	133 630
Sub-Total	**11 629 338**	**12 127 471**
Related interest payable	393 978	398 825
Total	**12 023 316**	**12 526 296**

(1) The outstanding amount as at 31 December 2001 comprises a debt of CHF 203 545 000 (euros 137 261 447) at a fixed rate of 5.5% p.a.

10.1 - Additional information on debts materialized by securities, by currency

in thousand euros as at 31 December

	Nominal value	Currency swap	Net value 2001	Net value 2000
Euro	3 295 602	5 898 847	9 194 449	8 666 499
US Dollar	6 891 407	(4 931 329)	1 960 078	2 760 592
Swiss Franc	388 434	(101 052)	287 382	279 774
Japanese Yen	474 731	(474 731)	-	407 301
Taiwan Dollar	397 585	(397 585)	-	-
Pound Sterling	250 218	(250 218)	-	-
Hong Kong Dollar	191 408	(191 408)	-	-
South Africa Rand	58 624	(58 624)	-	-
Australian Dollar	57 985	(57 985)	-	-
Czech Koruna	17 323	(17 323)	-	-
Total	**12 023 316**	**(581 407)**	**11 441 909**	**12 114 166**

Note 11 - Other liabilities, accruals and deferred income

in thousand euros as at 31 December

	2001	2000
Other liabilities		
Sundry creditors	1 288	1 261
Deposits of guarantee received (1)	101 866	171 291
Total	**103 154**	**172 552**
Accruals and deferred income		
Deferred income	81 453	77 276
Accrued expenses	242 215	253 840
Other accruals and sundry debtors/creditors	2 010	2 676
Total	**325 678**	**333 792**

(1) These deposits represent transactions known as collateral.

Note 12 - Selective Trust Account (STA)

Feeding of the account

- Bank contributions allocated from annual profits and decided upon by the Administrative Council;
- Voluntary contributions from CEB member states;
- Voluntary contributions from members of the Council of Europe;
- Voluntary contributions from non members of the Council of Europe or international institutions following the agreement of the Governing Board and of the Administrative Council.

General operating principles

The 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, expressed in basis points and euro, is calculated on the same basis as standard loans. It is set out in the loan application submitted by the Governor to the Administrative Council for approval. The STA can be used to grant donations.

12.1 - STA balance sheet and profit and loss account

BALANCE SHEET — *in thousand euros as at 31 December*

ASSETS	2001	2000	LIABILITIES	2001	2000
Deposit to the CEB	52 228	42 163	Contribution received from the CEB	55 127	45 020
Securities portfolio	3 828	3 379	Other contributions received	-	107
			Accruals and deferred income	4 753	1 257
			Results brought forward	(841)	164
			Result for the financial year	(2 983)	(1 006)
Total	**56 056**	**45 542**		**56 056**	**45 542**

in thousand euros as at 31 December

PROFIT AND LOSS ACCOUNT	2001	2000
Income		
Payment from the CEB (1)	2 118	1 790
Income from securities portfolio	309	296
Expenses		
Interest subsidies paid directly from the STA to the CEB	(1 490)	(1 172)
Donations	(610)	(1 920)
Provisions	(3 310)	-
Result for the financial year	**(2 983)**	**(1 006)**

(1) Calculated according to Resolution 1380 (1995) of the Administrative Council.

12.2 - Donations (*)

in thousand euros as at 31 December

	Paid in 2001	Paid in 2000
Aid to Kosovo refugees	610	1 020
Social cohesion Council of Europe (1)	-	200
Child welfare in Romania	-	700
Total	**610**	**1 920**

(*) Since its creation, this account has paid out a total amount of 5 625 952 euros in donations (especially to Albania, to Kosovo, to "The former Republic of Macedonia" and to Romania).

(1) Special subsidy allocated to finance studies for projects linked to the reinforcement of social cohesion.

12.3 - Analysis of funding commitments and loans outstanding within the framework of the STA

in thousand euros as at 31 December

	2001			2000		
COUNTRY	Financing commitments	Outstanding	%	Financing commitments	Outstanding	%
Poland	5 955	90 913	37.3	22 556	72 561	41.6
Hungary	89 500	60 500	24.9	53 500	36 500	20.9
Croatia	63 344	40 793	16.8	7 024	25 744	14.8
Romania	8 000	22 000	9.0	11 000	19 095	11.0
Slovak Republic	15 816	14 184	5.8	23 856	6 144	3.5
Bosnia and Herzegovina	-	5 598	2.3	1 612	5 302	3.0
Lithuania	9 084	5 106	2.1	8 864	4 567	2.6
Slovenia	2 940	3 744	1.5	3 013	3 744	2.2
Germany	3 717	639	0.3	3 717	639	0.4
Bulgaria	23 804	-	-	15 000	-	-
Total	**222 160**	**243 477**	**100.0**	**150 142**	**174 296**	**100.0**

Note 13 - Provision for financial risks

	in thousand euros as at 31 December	
	2001	**2000**
Pension Fund (FAP)	27 898	25 384
Provisions for risks and litigations	15 243	-
Total	**43 141**	**25 384**

13.1 - Pension Fund

Pension commitments

Commitments related to retirement benefits were valued at 31 December 2001 by an independent actuary, using the projected unit credit method, in compliance with the principle described in note 2.8. The calculations were based on the following assumptions:

- An interest rate of 5.5%
- An annual rate of inflation of 1.5%
- An average retirement age of 62.

		in thousand euros
	2001	**2000**
Provision as at 1 January	**25 384**	**23 494**
Income		
Employer contribution	1 160	1 030
Staff contribution	548	494
Interest income	1 539	1 443
Expenses		
Pensions paid	(471)	(469)
Departure grants	(239)	(584)
Others	(23)	(24)
Provision as at 31 December	**27 898**	**25 384**

13.2 - Provision for risks and litigations

In accordance with Resolution 1461 (2001) of the CEB's Administrative Council, a provision of 16 000 thousand euros was settled by direct deduction from the FGBR in order to cover the operational risks related to a dispute arisen between the Bank and one of its paying agents.

	in thousand euros as at 31 December	
	2001	**2000**
Provision charges	16 000	-
Provision release	(757)	-
Total provision for risks and litigations	**15 243**	**-**

Note 14 - Subscribed capital

In accordance with the Articles of Agreement, may become members of the Bank, all member governments of the Council of Europe and other governments upon authorization of the Governing Board of the Bank.

Membership is acquired by accepting the Articles of Agreement and by subscribing participating certificates. Such certificates are issued in denominations of EUR 1 000 each. Each member is granted one vote for each participating certificate held.

in thousand euros as at 31 December

MEMBER STATES	Subscribed capital	Uncalled capital	Called capital	Called capital	
				Paid-in (1)	To be paid
France	549 692	489 000	60 692	60 692	-
Germany	549 692	489 000	60 692	60 692	-
Italy	549 692	489 000	60 692	60 692	-
Spain	358 504	318 922	39 582	39 582	-
Turkey	233 077	207 344	25 733	25 733	-
Greece	98 634	87 745	10 889	10 889	-
Portugal	83 538	74 315	9 223	9 223	-
Poland	76 988	68 488	8 500	8 500	-
Switzerland	53 824	43 229	10 595	10 595	-
Netherlands	51 471	45 787	5 684	5 684	-
Belgium	42 541	37 845	4 696	4 696	-
Finland	41 889	37 264	4 625	4 625	-
Bulgaria	37 491	33 352	4 139	4 139	-
Sweden	36 030	32 052	3 978	3 978	-
Romania	35 963	31 993	3 970	3 970	-
Hungary	26 884	23 916	2 968	2 968	-
Czech Republic	25 833	22 981	2 852	2 544	308
Denmark	23 214	20 649	2 565	2 565	-
Norway	18 067	16 072	1 995	1 995	-
Croatia	12 831	11 414	1 417	1 417	-
Cyprus	11 934	10 617	1 317	1 317	-
Slovak Republic	11 379	10 123	1 257	1 121	136
Luxembourg	8 992	8 000	993	993	-
Albania	8 034	7 147	887	887	-
Latvia	7 688	6 840	849	849	-
Estonia	7 637	6 794	844	844	-
"The former Yugoslav Republic of Macedonia"	7 637	6 794	844	844	-
Lithuania	7 556	6 722	834	834	-
Slovenia	7 380	6 565	815	815	-
Iceland	6 089	5 417	672	672	-
Malta	6 089	5 417	672	672	-
Moldova (2)	3 294	2 930	364	68	296
Liechtenstein	2 921	2 374	547	547	-
San Marino	1 260	1 000	260	260	-
Holy See	82	58	24	24	-
Total 2001	**3 003 828**	**2 667 167**	**336 661**	**335 922**	**739**
Total 2000	**1 400 693**	**1 241 018**	**159 675**	**157 074**	**2 601**

(1) By payment of cash and incorporation of reserves.

(2) Payment of the outstanding amount of 296 thousand euros is pending.

Note 15 - Statement of changes in shareholders' equity

On 9 November 1999 by its Resolution 321 the Governing Board approved the principle of a 5th capital increase with a subscription period running until 30 September 2001.
As at 31 December 2001 the subscriptions registered for an amount of 1.6 billion euros of which 177 million euros were called and paid up by incorporation of reserves.
The table below presents the changes in shareholders' equity during the 2001 financial year.

in thousand euros as at 31 December

	2000	Increase/ decrease	Appropriation of profit 2000 (1)	2001
Capital				
Subscribed	1 400 693	1 603 135	-	3 003 828
Uncalled	(1 241 018)	(1 426 149)	-	(2 667 167)
Called capital	159 675	176 986	-	336 661
Unpaid capital	(2 601)	1 862	-	(739)
	157 074	**178 848**		**335 922**
Reserves				
General reserve	830 742	(176 986)	75 037	728 793
Reserves to be paid	(1 356)	958	-	(398)
	829 386	**(176 028)**	**75 037**	**728 395**
Unappropriated profit for the financial year	**95 037**	**88 299**	**(95 037)**	**88 299**
Shareholders' equity	**1 081 497**	**91 119**	**(20 000)**	**1 152 616**
Fund for General Banking Risks	150 000	(16 000)	10 000	144 000
Total equity	**1 231 497**	**75 119**	**(10 000)**	**1 296 616**

(1) The net profit for the financial year 2000 was allocated for an amount of 10 000 000 euros to the Selective Trust Account, 10 000 000 euros to FGBR and for 75 036 610 euros to the general reserve.

Note 16 - Net position in foreign currency transactions

The net exchange rate risks presented below are the result of margins from banking operations as well as from general operating expenses. Exchange market transactions are realised in order to minimise these risks.

in thousand euros as at 31 December

	Assets	Liabilities	Currencies to be received	Currencies to be paid	Net position
			2001		
EUR	10 702 206	4 957 566	1 070 344	6 354 278	460 706
Other currencies					
USD	2 182 201	7 058 874	6 015 520	1 138 513	334
JPY	634 757	530 579	519 600	623 212	566
CHF	291 020	389 835	134 871	37 579	(1 523)
GBP	8 256	254 561	246 508	-	203
Others	107 384	734 409	688 412	61 322	65
Sub-Total	**3 223 618**	**8 968 258**	**7 604 911**	**1 860 626**	**(355)**
Total	**13 925 824**	**13 925 824**	**8 675 255**	**8 214 904**	**460 351**
			2000		
EUR	10 826 741	6 084 735	537 904	4 984 656	295 255
Other currencies					
USD	2 271 927	5 848 414	4 501 288	925 534	(733)
JPY	838 068	1 085 776	740 044	491 346	990
CHF	290 297	379 728	131 303	43 149	(1 278)
GBP	99 543	359 545	341 627	80 854	771
Others	107 657	676 036	625 474	57 000	95
Sub-Total	**3 607 493**	**8 349 499**	**6 339 736**	**1 597 884**	**(154)**
Total	**14 434 234**	**14 434 234**	**6 877 640**	**6 582 540**	**295 101**

Note 17 - Liquidity position

The liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments within the framework of banking operations.
The table below presents an analysis of assets, liabilities and derivative instruments grouped on the basis of the period remaining between the balance sheet date and the contractual maturity date.
Those assets, liabilities and derivative instruments that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

in thousand euros as at 31 December

	up to 1 month	up 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	32	-	-	-	-	-	32
Loans and advances to credit institutions and customers							
- repayable on demand	3 301	-	-	-	-	-	3 301
- advances (deposits)	504 669	831 844	-	-	-	-	1 336 513
- loans	11 755	28 935	383 896	2 278 228	6 009 215	-	8 712 029
Securities portfolio	17 564	231 230	512 111	1 025 249	1 084 840	702	2 871 696
Other assets	-	-	-	-	-	1 002 253	1 002 253
Sub-Total	**537 321**	**1 092 009**	**896 007**	**3 303 477**	**7 094 055**	**1 002 955**	**13 925 824**
LIABILITIES							
Amounts owed to credit institutions and customers	20 437	-	-	-	60 117	-	80 554
Debt materialized by securities							
- Euro Commercial Papers	169 973	137 914	-	-	-	-	307 887
- Bonds	44 382	-	2 399 142	4 932 224	4 202 419	-	11 578 167
- Perpetual debt	-	-	-	-	137 262	-	137 262
Capital, reserves and result	-	-	-	-	-	1 153 753	1 153 753
Other liabilities	-	-	-	-	-	668 201	668 201
Sub-Total	**234 792**	**137 914**	**2 399 142**	**4 932 224**	**4 399 798**	**1 821 954**	**13 925 824**
Currency swaps and forward exchange rate contracts	13 241	9 015	220 144	230 562	(12 610)	-	460 352
Net liquidity position	**315 770**	**963 110**	**(1 282 991)**	**(1 398 185)**	**2 681 647**	**(818 999)**	**-**
Accrued liquidity position	**315 770**	**1 278 880**	**(4 111)**	**(1 402 296)**	**1 279 351**	**460 352**	
2000 Accrued liquidity position	-	655 209	1 092 000	(1 255 092)	1 257 662	295 101	

Note 18 - Off-balance sheet financial instruments

Derivative transactions are realised only with the intention of hedging to maturity. The notional amount by type of instruments is presented below.

in thousand euros as at 31 December

	2001	2000
Over-the-counter transactions		
- interest rate swaps	7 191 008	7 600 405
- foreign currency swaps	7 749 234	6 158 793
- other	465 669	423 746
Conditional transactions		
- interest rate options	38 112	38 112
- currency options	-	-
- other options	-	-
Total	**15 444 023**	**14 221 056**

Within the framework of counterparty risk management, these transactions are evaluated and analysed daily in comparison with the limits set up and collateral received. These collaterals are represented by cash deposits or first rank bonds. The breakdown of counterparties by rating is presented below.

in thousand euros

S&P rating or equivalent	Notional amount	Net present value	Collaterals received
AAA	3 111 845	100 723	75 094
AA	12 220 070	708 746	500 236
A	9 850	(420)	-
Lower than A	-	-	-
Non-rated	102 258	4 928	-
Total	**15 444 023**	**813 977**	**575 330**

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 knowledgeable, willing parties in an arm length transaction, are presented below.

The following should be noted in the presentation of the estimations:

- The whole of the estimated value takes into account the associated derivative instruments;
- The value of the loans is stated net of provisions, which is 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. Consequently, the estimated value of the hedged transactions does not take into account the value of these derivative instruments.

in thousand euros as at 31 December

	Balance sheet value 2001	Value adjustment	Estimated value 2001
ASSETS			
Loans and advances to credit institutions	6 895 339	13 824	6 909 163
Loans to customers	3 156 504	56 860	3 213 364
Securities portfolio	2 871 696	(15 400)	2 856 296
Other assets	1 002 285	530 046	1 532 331
Total assets	**13 925 824**	**585 330**	**14 511 154**
LIABILITIES			
Amounts owed to credit institutions	20 437	-	20 437
Amounts owed to customers	60 117	(14 992)	45 125
Debt materialized by securities	12 023 316	578 535	12 601 851
Other liabilities	524 201	-	524 201
Shareholders' equity	1 297 753	-	1 297 753
Total liabilities	**13 925 824**	**563 543**	**14 489 367**
Net estimated realisable value			**21 787**

The net realisable value shows an additional profit of 21 787 thousand euros.

Note 20 - Interest and similar income

in thousand euros as at 31 December

PROFIT AND LOSS ACCOUNT	2001	2000
Interest income from current accounts	83	56
Interest income from short-term deposits	58 826	55 596
Interest income from loans (1)	249 271	243 110
Interest on financial transactions hedging assets	29 817	25 881
Interest and similar income on operations with credit institutions	**337 997**	**324 643**
Interest income from loans (1)	227 363	239 972
Interest on financial transactions hedging assets	81 658	72 335
Interest and similar income on operations with customers	**309 021**	**312 307**
Income from held-for-sale securities	112 985	111 188
Income from investment securities	79 634	81 887
Interest on financial transactions hedging assets	34 624	48 916
Interest and similar income on debt securities and other fixed-income securities	**227 243**	**241 991**
Redemption of issue premiums	17 578	16 160
Interest on macro-hedging instruments	36 271	39 829
Interest on instruments hedging debts evidenced by certificates	650 240	615 454
Other interest and similar income	25 939	6 589
Other interest income	**730 028**	**678 032**
Total	**1 604 289**	**1 556 973**

(1) i.e. interests received on loans amounting to 476 634 thousand euros for the 2001 financial year and 483 083 thousand euros for the financial year 2000.

20.1 - Interest income from loans, by beneficiary country

in thousand euros as at 31 December

	2001	2000
Turkey	116 554	128 413
Spain	85 263	76 685
Germany	79 454	80 505
Greece	53 312	59 798
France	39 747	29 682
Italy (1)	33 944	48 596
Cyprus	24 239	28 656
Belgium	8 983	6 348
Finland	8 455	7 446
Poland	5 799	3 082
Portugal	3 972	2 695
Hungary	3 926	2 041
Malta	3 268	3 640
Slovenia	2 082	1 029
Croatia	1 863	1 174
Romania	1 482	764
Sweden	945	1
Iceland	772	563
Bosnia and Herzegovina (2)	675	747
Bulgaria	506	382
Slovak Republic	476	157
Lithuania	412	309
"The former Yugoslav Republic of Macedonia"	271	100
San Marino	177	219
Estonia	57	-
Federal Republic of Yugoslavia	-	51
Total	**476 634**	**483 083**
Interest on hedging instruments	111 475	98 216
Total	**588 109**	**581 299**

(1) Including penalties on early redemption of 494 thousand euros for 2001 financial year and of 2 290 thousand euros for 2000 financial year.

(2) This amount includes 88 thousand euros representing interest related to unpaid principal which was 100% provisioned.

Note 21 - Interest and similar expenses

in thousand euros as at 31 December

	2001	2000
Interest charge on current accounts	57	97
Interest charge on short-term borrowings	9 713	7 111
Interest on financial transactions hedging assets	34 792	27 467
Interest and similar charges on operations with credit institutions	**44 562**	**34 675**
Interest charge on current accounts	2 118	1 790
Interest charge on short-term borrowings	1 808	2 099
Interest on financial transactions hedging assets	110 618	91 560
Interest and similar charges on operations with customers	**114 544**	**95 449**
Interest charge on transferable debt securities	8 275	31 005
Interest charge on debt and bonds	768 204	758 347
Interest on financial transactions hedging assets	475 576	441 280
Interest and similar charges on debt evidenced by certificates	**1 252 055**	**1 230 632**
Interest on macro-hedging instruments	39 822	33 632
Interest on securities portfolio hedging instruments	39 023	50 196
Other interest and similar charges	9 610	4 851
Total	**1 499 616**	**1 449 435**

Note 22 - Net gain (loss) on financial transactions

in thousand euros as at 31 December

	2001	2000
Trading securities	-	-
Off-balance sheet financial instruments	-	-
Sub-Total	**-**	**-**
Foreign currency transactions	207	(31)
Held-for-sale securities	468	(60)
Total	**675**	**(91)**

Note 23 - General and administrative expenses

	in thousand euros as at 31 December	
	2001	**2000**
Wages and salaries	9 694	8 668
Social security	716	700
Pension costs	1 151	1 021
Other administrative expenses	5 750	5 596
Total	**17 311**	**15 985**

Staff

At 31 December 2001, the Bank had a permanent staff of 124 (115 at 31 December 2000) comprised as follows:

	as at 31 December	
	2001	**2000**
Appointed officials (1)	4	4
Management staff	63	54
Non-management staff	57	57
Total	**124**	**115**

(1) Governor and Vice-Governors.

Note 24 - Movements in provision charges and releases

	in thousand euros as at 31 December	
	2001	**2000**
Provision charge for risks on loans	(293)	(453)
Provision release for risks on loans	2 387	6 315
Provision charge for risks and litigations	(16 000)	-
Sub-Total provision charges and releases	**(13 906)**	**5 862**
FGBR release	16 000	-
Net total provision charges and releases	**2 094**	**5 862**

EXTERNAL AUDITOR'S REPORT

ANDERSEN

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To the members of the Administrative Council and the members of the Governing Board

In accordance with the terms of our appointment by the Governing Board, we have audited the accompanying financial statements of the Council of Europe Development Bank - CEB - for the financial year ended 31 December 2001. These 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 IFAC's international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of the Council of Europe Development Bank as at 31 December 2001, and the results of its operations and its cash flow for the year then ended, in accordance with the accounting standards set out by EC Directive (86/635 EEC).

Without qualifying our opinion, we draw the reader's attention to Notes (2.1), (2.7) and (2.13) to the financial statements regarding the change in method for setting up and using the Fund for General Banking Risks. If the standards used for the year-end accounts closing had been applied, the income for the previous financial period would have been reduced by EUR 10 million, without any impact on equity.

Neuilly-sur-Seine, 28 february, 2002

Barbier Frinault & Autres
Andersen
Philippe Peuch-Lestrade

Extract from the report by the Auditing Board on the balance sheet and the profit and loss account and the Notes to the Financial Statements for 2001

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank, the Auditing Board was convened on the basis of the decision that the Governing Board, having heard the Administrative Council, adopted at its 167th meeting (14 December 2001). The Auditing Board met in Paris from 19 to 20 November 2001 for a preliminary meeting and from 25 February to 1st March 2002 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 2001;

Based on Resolution 326 (2000) of the Governing Board and on the Auditing Board's previous years' findings, the External Auditor (Andersen) 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 2001 as follows:

- consulting the Governor, the Vice-Governors and the Directors of the Bank;
- examining the financial statements of the Bank for the year 2001, including the balance sheet at 31 December 2001, 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 27 February 2002;
- consulting the Internal Audit Department;
- consulting the External Auditor of the Bank and examining his preliminary report and his long-form report, for the year 2001;
- obtaining the opinion signed by the External Auditor on 28 February 2002;
- obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These had readily been given by the Governor, pertinent staff and the External Auditor.

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 2001 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting standards set out by EC Directive (86/635/EEC).

The Auditing Board, without qualifying its opinion, wishes to draw the reader's attention to the following Notes to the financial statements:

1. Note 2.1 which states that, due to the recent changes in certain International Accounting Standards and the difficulties in their practical application, mainly related to the implementation of IAS 39, led the Bank to prepare its financial statements on the basis of EC Directive (86/635/EEC).
2. Notes 2.7 and 2.13 regarding the change in method for setting up and using the Fund for General Banking Risks. If the standards used for the year 2001 had been applied for the previous financial year, the income for that year would have been reduced by EUR 10 million, without any impact on equity.

Paris, 1st March 2002

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

BALANCE SHEET AS AT 31 DECEMBER 2001
AFTER ALLOCATION OF RESULTS

in thousand euros

ASSETS

Items	Notes	2001	2000
Cash in hand, balances with central banks		32	52
Loans and advances to credit institutions			
(a) advances repayable on demand		3 301	4 605
(b) loans and advances			
- advances	3	1 336 513	906 427
- loans (a)	3	5 555 525	5 052 340
Loans to customers			
- loans (b)	4	3 156 504	3 491 111
Total loans (a + b)	*3, 4, 5 and 17*	**8 712 029**	**8 543 451**
Treasury bills and similar securities	6	459 052	455 131
Debt securities and other fixed-income securities	6	2 411 928	3 677 773
Shares and other variable-yield securities	6	716	792
Total portfolio	*6 and 17*	**2 871 696**	**4 133 696**
Intangible fixed assets	7	1 001	980
Tangible fixed assets	7	10 734	11 475
Capital subscribed, called, unpaid and reserves to be paid	15	1 137	3 957
Other assets	8	5 036	4 492
Prepayments and accrued income	8	984 345	825 099
TOTAL ASSETS	*16*	**13 925 824**	**14 434 234**

LIABILITIES

Items	Notes	2001	2000
Amounts owed to credit institutions			
(a) repayable on demand		-	41 643
(b) with agreed maturity dates or periods of notice	9	20 437	-
Amounts owed to customers with agreed maturity dates or periods of notice	9	60 117	56 950
Debt materialized by securities	10	12 023 316	12 526 296
Other liabilities	11	103 154	172 552
Accruals and deferred income	11	325 678	333 792
Selective Trust Account (STA.)	12	55 227	52 163
Provision for financial risks	13	43 141	25 384
Fund for General Banking Risks (FGBR)	13	144 000	160 000
Capital	14		
a) Subscribed (paid-in 335 922)		3 003 828	1 400 693
b) Uncalled		(2 667 167)	(1 241 018)
		336 661	**159 675**
General reserve	15	813 793	905 779
TOTAL LIABILITIES	*16*	**13 925 524**	**14 434 234**

OFF-BALANCE SHEET ITEMS

Items	Notes	2001	2000
Commitments given			
Awaiting financing on approved projects	5	2 547 814	3 091 912
Guarantees for loans granted by third parties		6 113	8 091
Guarantees on assigned interest swaps		323 904	563 013
Commitments received			
Guarantees received		6 113	8 187
Off-Balance sheet financial instruments	*18*	**15 444 023**	**14 221 056**

The accompanying notes form an integral part of the Financial Statements.

EXTRACT FROM THE MINUTES OF THE 218TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 1464 (2002) **CA/PV 218 (2002)**

Paris, 26 March 2002

The Administrative Council,

Having regard to Article XI, Section 2, of the Articles of Agreement of the Bank,

Having regard to the balance sheet, the profit-and-loss account and the Notes to the Financial statements as at 31 December 2001,

Having taken note of the external auditor's report dated 28 February 2002,

Having taken note of the Auditing Board's report dated 1 March 2002,

Having taken note of the Governor's Memorandum dated 6 March 2002,

1. recommends to the Governing Board the approval of the balance sheet, the profit-and-loss account and the Notes appended to the Financial Statements as at 31 December 2001,

2. discharges the Governor from his responsibility for the financial year 2001,

3. allocates the net profits for 2001, amounting to € 88 298 792, as follows:
   - € 85 000 000 to the general reserve
   - € 3 298 792 to the Selective Trust Account,

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

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 2001, the Bank had 35 member states: Albania, Belgium, 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. **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.
8. **Awaiting financing:** Total amount of signed master agreements to be disbursed and of individual projects (not within master agreements) for which at least one disbursement has already been made.
9. **Selective Trust Account (STA):** A special account set up in 1995 to provide interest-rate subsidies for projects that comply with the Bank's priority objectives and concern the transition countries. The account is fed with allocations from the Bank's profits and voluntary contributions from member states.
10. **Loans outstanding:** Total amount of loans disbursed and not yet repaid.
11. **Subscribed capital:** Participating certificates issued by the Bank and subscribed by its member states.
12. **Called capital:** Total capital paid in and to be paid.
13. **Uncalled capital:** Difference between the subscribed capital and called capital.

Photos: Cover and picture inserts page 14-34 and 47, *Corbis-Sygma*; picture inserts page 35-46, *Photodisc;* other photos, *CEB photographic library*.

EXTRACT FROM THE MINUTES OF THE 168TH MEETING OF THE GOVERNING BOARD OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 337 (2002) **CD/PV 168 (2002)**

Paris, 8 April 2002

The Governing Board,

Having regard to Article XI, 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 appended to the Financial Statements as at 31 December 2001,

Having taken note of the certification by the external auditor, dated 28 February 2002,
Having regard to the reports of the Bank's statutory organs viz :
- the Report of the Governor for financial year 2001,
- the report by the Auditing Board's report dated 1 March 2002,

Having regard to Resolution 1464 (2002) of the Administrative Council,

Having heard the Auditing Board,

Decides:

- to approve the Bank's annual report, accounts and other Financial Statements for 2001,
- to discharges the Administrative Council from his responsibility for the financial year 2001,
- to endorse point 3 of Resolution 1464 (2002) of the Administrative Council of 26 March 2002, by which the Administrative Council agreed to allocate from the net profits for 2001, amounting to € 88 298 792, as follows:
  - € 85 000 000 to the general reserve
  - € 3 298 792 to the Selective Trust Account.