

2000

# Council of Europe Development Bank



## Report of the Governor

# Key figures

in million euros

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| **Loans disbursed during the year** | 1 855 | 1 712 | 1 056 |
| **Projects approved during the year** | 1 888 | 2 052 | 2 257 |
| **Own assets** (after allocation of results) | 2 466 | 2 381 | 2 283 |
| **Tangible net worth** (after allocation of results) | 1 225 | 1 140 | 1 055 |
| **Balance sheet total** | 14 434 | 12 659 | 11 096 |
| **Profit** | 95 | 91.4 | 81.4 |
| **Selective Trust Account** (total appropriations from profit) | 55 | 45 | 35 |

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

The Council of Europe was established under the Treaty of London on 5 May 1949 and now comprises 43 European member states. 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 (known first 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 characterised by permanent co-operation, reinforced by the action of the Strasbourg-based Secretariat of the Partial Agreement. This Secretariat comes under the authority of the Secretary General of the Council of Europe, who issues an opinion concerning the political and social admissibility of each project submitted to the Bank.

## Activities

The Bank grants loans for social projects. 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 forced 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 contribute directly 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 the 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, the Bank had a subscribed capital of € 1.4 billion as at 31 December 2000. Leverage is particularly impressive: since its inception the Bank has been able to pay out more than € 15 billion in loans.

## Rating

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

## Management

The Bank is organised, administered and supervised by the following organs:

- 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, also comprising one representative per member state. It is chaired by Mr Heinrich Harries, who was elected on 28 June 1999;
- the Governor, Mr Raphaël Alomar, re-elected on 27 February 2001. He is assisted by three Vice-Governors: Mr Martin Murtfeld, First Vice-Governor, Mr Ignacio Garrido and Mr Nunzio Guglielmino.
- 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.



# Report of the Governor

## Financial year 2000

Council of Europe Development Bank

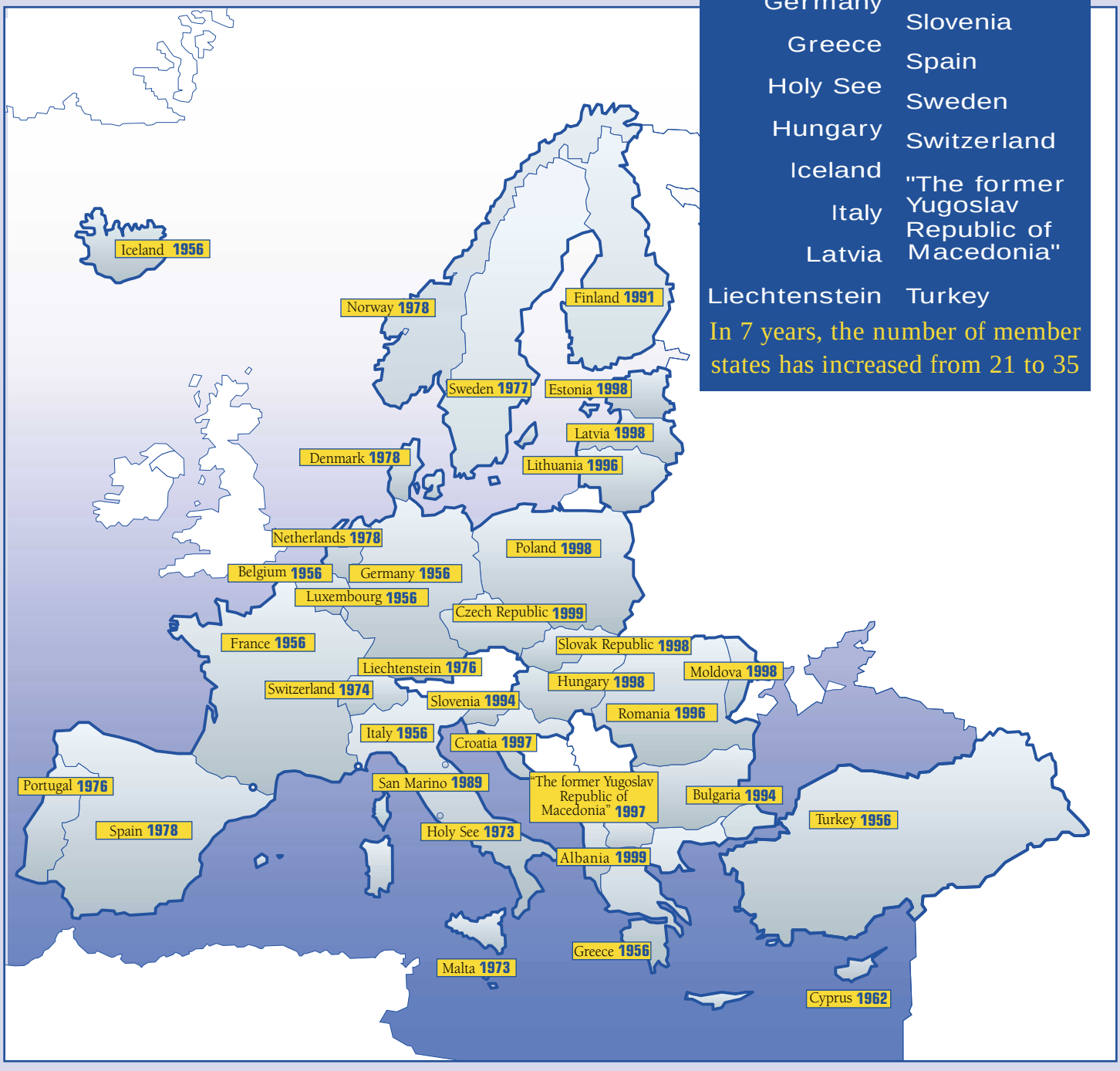
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Slovak Republic
Slovenia
Spain
Sweden
Switzerland
"The former Yugoslav Republic of Macedonia"
Turkey

In 7 years, the number of member states has increased from 21 to 35

The Bank's member states **Year of accession**



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# Membership of the Bank's organs as at 31 December 2000*

| GOVERNING BOARD | | ADMINISTRATIVE COUNCIL |
|---|---|---|
| **Kari NARS**<br>Former Director of Finance,<br>Ministry of Finance,<br>Helsinki | *Chairmen* | **Heinrich HARRIES**<br>Former Director of the Kreditanstalt für Wiederaufbau (KfW),<br>Frankfurt am Main |
| **Magdalena TOVORNIK**<br>(until 15 December 2000) Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg<br>**Marcin RYBICKI** (since 15 December 2000)<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Poland<br>to the Council of Europe, Strasbourg | *Vice-Chairs* | **Dimitar B. RADEV**<br>Deputy Minister for Finance,<br>Ministry of Finance,<br>Sofia |
| **Shpëtim CAUSHI**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Albania to the Council of Europe, Strasbourg | *Albania* | **Izedin HAJDINI**<br>Head of Co-ordination of Aid,<br>Ministry of Economic Co-ordination and Trade, Tirana |
| **Benoît CARDON de LICHTBUER**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Belgium to the Council of Europe, Strasbourg | *Belgium* | **Werner VERTONGEN**<br>Inspector General, Research Department,<br>National Bank of Belgium, Brussels |
| **Andrey TEHOV**<br>Acting Director, Directorate of Human Rights,<br>Ministry of Foreign Affairs, Sofia | *Bulgaria* | **Dimitar B. RADEV**<br>Deputy Minister for Finance,<br>Ministry of Finance, Sofia |
| **Vladimir MATEK**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Croatia<br>to the Council of Europe, Strasbourg<br>**Neven MADEY** (since 22 February 2001)<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Croatia<br>to the Council of Europe, Strasbourg | *Croatia* | **Josip KULISIC**<br>Deputy Minister,<br>Department of International Relations,<br>Ministry of Finance,<br>Zagreb |
| **Christophoros YIANGOU**<br>Ambassador, Permanent Representative of Cyprus<br>to the Council of Europe, Strasbourg | *Cyprus* | **Andreas TRYFONIDES**<br>Permanent Secretary,<br>Ministry of Finance, Nicosia |
| **Jirí MUCHA**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of the Czech Republic<br>to the Council of Europe, Strasbourg | *Czech Republic* | **Ales SATÁNEK**<br>Deputy Director General, Department of International Organisations,<br>Ministry of Finance, Prague |

* Under Article VIII of its Articles of Agreement, the Bank is organised, administered and supervised by 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 (Director General: **Mr Constantinos N. PILAVACHI**, Executive Secretary to the organs: **Ms Giusi PAJARDI**).

## GOVERNING BOARD

## ADMINISTRATIVE COUNCIL

| | | |
|---|---|---|
| **Arne BELLING**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Denmark<br>to the Council of Europe, Strasbourg | *Denmark* | **Peter Brix KJELGAARD**<br>Adviser, Department for International<br>Co-operation, Ministry of Finance,<br>Copenhagen |
| **Ants FROSCH**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Estonia<br>to the Council of Europe, Strasbourg | *Estonia* | **Renaldo MÄNDMETS**<br>Acting Deputy Secretary General<br>for Foreign Relations, Ministry of Finance,<br>Tallinn |
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| **Jacques WARIN**<br>Ambassador, Permanent Representative<br>of France to the Council of Europe,<br>Strasbourg | *France* | **Pierre MERVIEL**<br>Inspector of Finance, Treasury Directorate,<br>Ministry of Economic Affairs, Finance<br>and Industry, Paris |
| **Liselore CYRUS**<br>Vortragende Legationsrätin, Head of the Division<br>for Pan-European Political Bodies,<br>Ministry of Foreign Affairs, Berlin | *Germany* | **Knut KAGE**<br>Ministerialrat, Ministry of Finance, Bonn<br>**Heinjörg HERRMANN**<br>(since 1 January 2001) Regierungsdirektor,<br>Ministry of Finance, Berlin |
| **Athanassios THEODORACOPOULOS**<br>Ambassador, Permanent Representative of Greece<br>to the Council of Europe, Strasbourg | *Greece* | **Constantinos VGENOPOULOS**<br>National Bank of Greece,<br>Athens |

*Holy See*

**Mgr Paul-Richard GALLAGHER**

Special Envoy of the Holy See to the Council of Europe, Strasbourg

| | | |
|---|---|---|
| **János PERÉNYI**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Hungary to the<br>Council of Europe, Strasbourg | *Hungary* | **Gusztáv BÁGER**<br>Director General, International Financial<br>Institutions Secretariat,<br>Ministry of Finance, Budapest |
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| **Pietro Ercole Carlo AGO**<br>Ambassador, Permanent Representative of Italy<br>the Council of Europe,<br>Strasbourg | *Italy* | **Antimo PROSPERI**<br>Director of the Second Bureau of Division VI<br>of the Treasury Department,<br>Ministry of the Treasury, Rome |
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Ambassador Extraordinary and Plenipotentiary,
Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg

| | | |
|---|---|---|
| **Rokas BERNOTAS**<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Lithuania<br>to the Council of Europe, Strasbourg | *Lithuania* | **Asta BIELSKIENE**<br>Director, International Department,<br>Ministry of Finance,<br>Vilnius |
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*Malta*

**Joseph LICARI**
Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg

| | | |
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## GOVERNING BOARD

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## GOVERNOR

**Raphaël ALOMAR**

## VICE-GOVERNORS

**Martin MURTFELD** (First Vice-Governor)
**Ignacio GARRIDO**
**Nunzio GUGLIELMINO**

## AUDITING BOARD

Norway: **Per A. ENGESETH**, Director General, Auditor General's Office, Oslo
Portugal: **Maria Isabel CASTELÃO FERREIRA da SILVA**, Deputy Director General for Finance, Lisbon
Sweden: **Filip CASSEL**, Certified Accountant, Audit Director, Ph D, Stockholm



# A stronger financial base, commanding recognition

The Council of Europe Development Bank derives its financial resources from its own assets, its reserves and its profits and, naturally, from the issues it makes in the international capital markets. Its commitment to promoting greater solidarity in Europe necessitates a sound financial structure and good credit quality, acknowledged by the markets, since it is these two factors that determine the cost of the funds which the Bank makes available to borrowers for financing social projects.

For many years the CEB has been pursuing a policy aimed at constantly reinforcing its financial structure. Risk distribution, strict compliance with liquidity and lending ratios and growth in profitability, from an already high level, all help to strengthen the Bank's financial base. At the same time, the member states' support for the Bank's development strategy considerably enhances its financial standing.

## Capital increase currently now effective

During 2000 shareholder support was given practical expression in the procedures implemented by the member states to subscribe to an increase in the Bank's capital, which they approved in November 1999. This capital increase came into effect on 14 March 2001, once the 66.6% threshold of subscribed shares had been reached. The closing date for the subscription period has been fixed at 30 September 2001.

The capital increase gives the Bank an even stronger financial base. The chosen solution is based on an increase in subscribed capital (in an amount of € 1.8 billion) and incorporation of reserves (in an amount of € 200 million) for the paid-in share of capital. This stronger capital base will still further improve the Bank's compliance with the highest international prudential standards.

Now that the capital increase has become effective, the ceiling on the gearing ratio (prorating total loans and guarantees outstanding to capital and reserves) will be reduced to 2.5 during 2001.

This strengthened financial base also offers additional scope for developing lending activities, although growth in loans will remain modest in view of the prudential constraints referred to above. According to current projections, outstanding loans should rise from € 8.5 billion at the end of 2000 to € 11 billion by the end of 2004. In line with the policy defined by the Bank in 1999, a considerably higher share of loans will be earmarked for the transition countries.

## Ongoing improvement in credit quality

This overall policy, aimed at strengthening the financial base, increasing own assets and maintaining strict risk management, has been hailed by the rating agencies. The Bank, which was already rated AAA by Standard & Poor's and Fitch, was granted the same rating by Moody's in September 2000.

The CEB therefore now has the top rating from all three major agencies.

It is self-evident that this stronger financial base, going hand in hand with increased credibility in the capital markets, will enable the Bank to propose loans on yet more favourable terms. Hence, alongside the statutory priorities defined in its Articles of Agreement (financial support for projects in aid of refugees and victims of natural disasters), the Bank intends to pursue its new priorities with even greater determination, further enhancing its efforts to promote social cohesion and boosting its activities in the transition economies.

# Message from the Governor

**For the Bank the year 2000 was marked by both a successful conclusion to the policy pursued for a number of years and the intensification of a new development strategy.**

The year 2000 constitutes a turning point in the efforts to **redeploy lending activities.** This redeployment, which is consistent with the 2000-2004 development plan underlying the capital increase now in progress, is based on limitation of growth in loans outstanding and an increase in the share of loans earmarked for the transition countries.

In line with this strategy, and in view of the volume of projects already in stock, disbursements in 2000 - totalling € 1.86 billion, a 75% increase over a two-year period, and raising the loans portfolio to € 8.4 billion - represent a peak in the Bank's activities. On the other hand, the deliberate restraint exercised from the year 2000 has resulted in a slight decrease in the amount of new projects approved.

**Profitability has continued to grow** from an already high level. Net profit (€ 95 million) is up 4% on the previous year, and 17% on two years ago. The CEB now ranks among the best-performing multilateral financial institutions in terms of return on available equity.

Increased profitability…

At the same time, the **capital increase** is going well: by mid March 2001 three quarters of the participating certificates on offer had already been subscribed, reflecting the ongoing support of the Bank's shareholders.

… an enhanced financial structure…

This increase in capital, which has now come into effect, and will go hand in hand with a reduction of the gearing ratio, serves a twofold objective: to strengthen the Bank's financial base in order to underpin its redeployment strategy. This reorientation will entail **a deliberate slowdown of growth in activities,** along with a significant increase in operations in the transition countries.

… a deliberate moderation in activity volumes…

This overall policy, of which the Bank's high level of self-financing and the geographical diversification of the loan portfolio are naturally part and parcel, has been welcomed by the rating agencies. In September 2000 Moody's raised the CEB's rating, which is now **AAA** from Standard & Poor's, Fitch and Moody's.

… triple AAA rating …

…enable the CEB to pursue a social policy…

The structure of loans and projects activity has been kept in line with the Bank's aim of refocussing on its **priority fields** of action, of which there are several: alongside **the statutory priorities** (aid to refugees and victims of natural disasters), the Second Summit of the Council of Europe, held in Strasbourg in 1997, made it clear that all activities serving **to promote social cohesion in Europe** were to constitute a **new priority** for the Bank.

In 2000, operations in these priority fields accounted for nearly 80% of loans disbursed and 95% of projects approved.

… refocussed on its priority fields…

Against this background, special mention should be made of the fact that the Bank has shown itself capable of making rapid disbursements in response to **emergencies.** A specific example in 2000 was the amount of € 175 million (out of a total of € 300 million) made available at the very beginning of the year for a reconstruction project in the region of Marmara in Turkey, struck by an earthquake in August 1999.

As regards **refugees and migrants,** the Bank intends to become the recognised financial institution for the Balkans in such matters. To this end, it has assumed a significant role in the work of the Stability Pact for South Eastern Europe, much of which concerns the problem of refugees. The CEB will provide € 300 million in financing under the Pact. It has also stepped up co-ordination with certain United Nations agencies, such as the UNHCR and the UNDP.

… and on the transition countries…

Concurrently, the Bank's action in respect of the **transition countries,** fourteen of which have become members of the Bank over the period since 1994, is beginning to bear fruit. Funds disbursed in 2000 for projects in these countries exceeded the total amount of financing made available over the previous five years. In line with one of the main focuses of its development strategy, the Bank will intensify its operations in respect of these countries, where social needs are many and great.

As to **social cohesion,** in 2000 the Bank mainly concentrated on financing social housing schemes and job creation in SMEs, which accounted for almost 50% of loans disbursed.

Lastly, the CEB has entered into a number of bilateral co-operation agreements with other supranational institutions, such as the World Bank and the EBRD, and multilateral partnerships with the European Union, NIB, IFC and KfW. These agreements should facilitate the development of new co-financing operations, particularly in the transition countries.

**The financing policy** continues to be governed by three guidelines: consolidating the Bank's standing on the international capital markets by launching large-scale issues, responding to specific investor demands and complying with internal prudential ratios.

As at 31 December 2000 the liquidity ratio thus stood at 72%, well above the required minimum of 50%. The Bank's issues totalled € 3 billion in 2000, far exceeding the 1999 figure of € 2.2 billion. The preferred currencies were the euro and the US dollar, but the Bank was also present in the Swiss franc, sterling and Polish zloty markets. In any case, regardless of the original currency, the proceeds of all issues are immediately converted into euros.

**The Bank's stringent control of risks** was further reinforced. The risk control system meets the strictest international standards on liquidity ratios, hedging of interest-rate and currency risks, use of derivatives and mastery of counterparty risks. It is underpinned by very well-organised control and internal audit functions.

It should be noted that the Basel Committee recently ranked the CEB in the group of supranational institutions to be allocated a zero weighting (currently 20%) for solvency ratio calculation by counterparties.

2000 was therefore marked by sustained growth in profitability and in the lending activity, governed by a strict risk management policy. This has strengthened the Bank's financial base and its own assets should be significantly reinforced in the near future, on completion of the capital increase currently in progress. The Bank now has an AAA rating from the three main agencies.

Sustained by the support of its member states and ever-closer cooperation with the Council of Europe, the Bank is in a position to effectively pursue the policy approved by its Governing Board and Administrative Council. More than ever before, its strategy continues to be marked by allegiance to its priority objectives of promoting social cohesion in Europe and contributing to the development of the transition countries.

Paris, 27 March 2001



**Raphaël ALOMAR**

… backed by a dynamic financial strategy…

… and within the framework of stringent risk control…

… in accordance with its original vocation.

# Organisation chart




*In front*
Raphaël ALOMAR
Governor

*First row, from left to right*
Nunzio GUGLIELMINO
Vice-Governor
Martin MURTFELD
First Vice-Governor
Ignacio GARRIDO
Vice-Governor

*Second row, from left to right*
Roberto CACCIOLA
Director of Technical Advisors
Rainer STECKHAN
Director General of Loans
Arnaud VIOLETTE
Director of Information Systems and Control
Thierry POIREL
Director of Finance
Heikki CANTELL
General Counsel

**Loan Operations Directorate General**
Rainer Steckhan

**Technical Advisory Directorate**
Roberto Cacciola

**Administration and Finances, Loans**
Melanie Wieschollek-Lacroix

**Country Managers**

Michael Lixenfeld: *Czech Republic, Germany, Liechtenstein, Slovenia, Switzerland*

Théodore Ivanov: *Belgium, Bulgaria, France, Luxembourg, Netherlands, Portugal*

Marja Seppälä: *Estonia, Finland, Hungary, Latvia, Lithuania*

Magnus Sandin: *Denmark, Iceland, Norway, Poland, Sweden, Turkey*

Rachel Meghir: *Croatia, Greece, Slovak Republic, "The former Yugoslav Republic of Macedonia"*

S. Anagnostopoulos: *Cyprus, Malta*

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

Carlos Bendito Prieto: *Romania, Spain*

**Operation Support**
France Becmont-Bieth - Emilia di Matteo

**Project Financing**
Juan F. Seco Guillot
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**Architecture and Urbanism**
Dorota Blazejewicz

**Migrations, Refugees and Social Cohesion**
Claudine Voyadzis

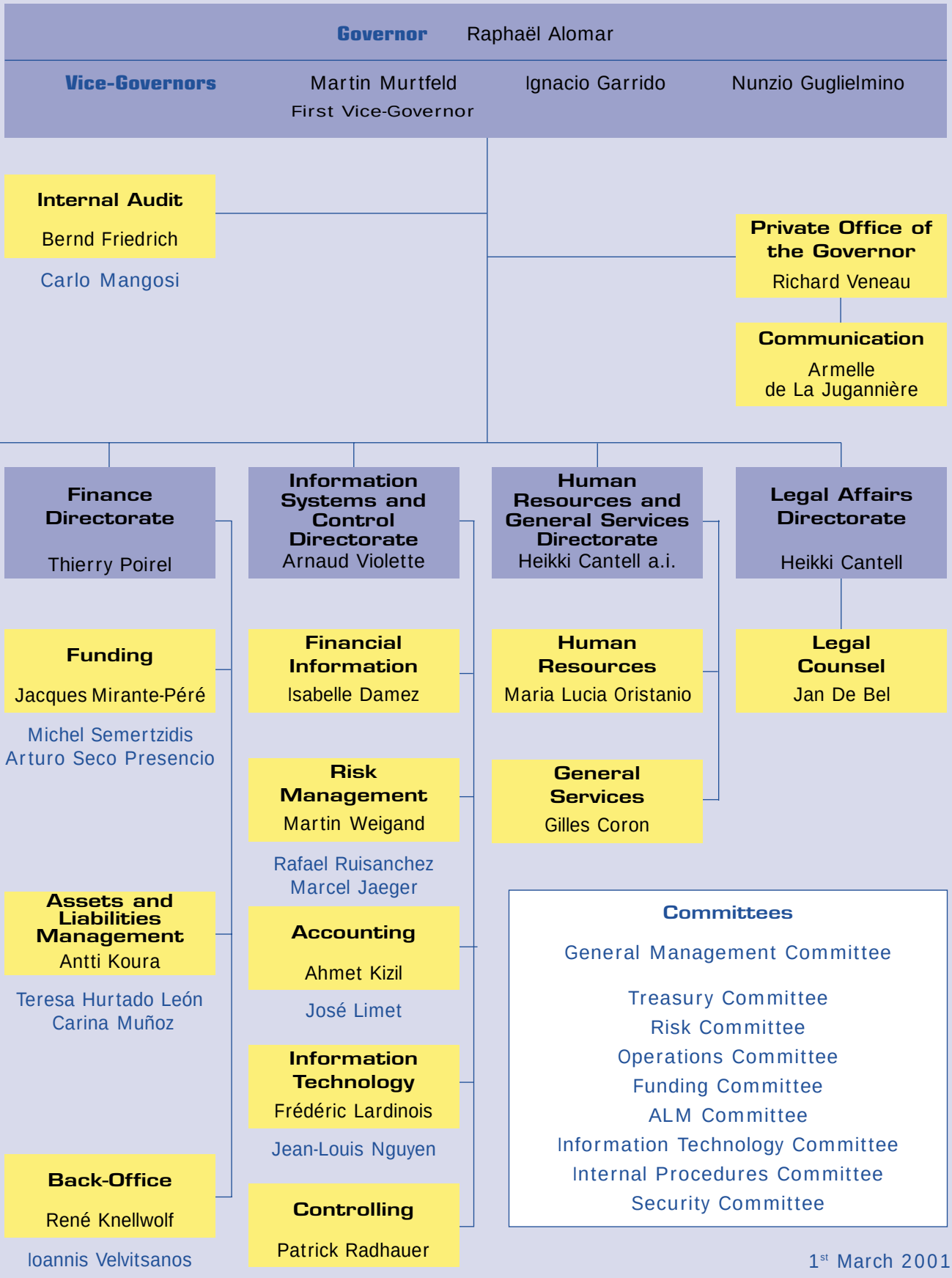
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**Project Economist**
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1st March 2001





# CEB participation in the Stability Pact for South Eastern Europe

On the European Union's initiative, the **Stability Pact for South Eastern Europe**[1] was adopted on 10 June 1999 at the European Council meeting in Cologne. Over forty countries and organisations, including the Council of Europe, committed themselves to support the countries of the region "in their efforts to foster peace, democracy, respect for human rights and economic prosperity, in order to achieve stability in the whole region". The Heads of State and Government of the countries of the European Union and of South-Eastern Europe formally entered into the Pact on 30 July 1999 in Sarajevo.

To achieve the defined objectives, a **South Eastern Europe Regional Table** has been set up. It provides action guidelines for the three "Working Tables" established to maintain and improve relations in the fields of:

- Democratisation and human rights (Table I)
- Economic reconstruction, development and co-operation (Table II)
- Security, justice and home affairs (Table III)

The Council of Europe Development Bank actively participates in the work of the Pact. It contributed to the regional strategy "The Road to Stability and Prosperity in South Eastern Europe", a general policy framework for the international community for fostering the reconstruction and economic and social development of countries in the region, published by the World Bank. At the first Regional Financing Conference, held in Brussels in March 2000, the Bank announced that it would be contributing a total of € 300 million to the region over two years.

Today, the CEB is participating in the activities of Table I, supporting the return of refugees and helping minorities (Roma). It also has a significant role in Table II, financing social infrastructure such as schools, hospitals and community centres, and job creation through loans for small and medium-sized firms, and plays an active part in the Initiative for Social Cohesion, a working group which seeks to support the social development process. Since March 2000 the Bank and the countries concerned by the Pact have identified a number of projects for a total of almost € 80 million, including over € 40 million intended for projects to facilitate the return of refugees to their countries of origin. The countries which benefited from the Bank's support under the Stability Pact in 2000 were Croatia (€ 67 million) and Bulgaria (€ 8 million).

In future, the CEB will continue to provide loans and to monitor the effective implementation of projects approved. It will also seek to identify new projects. Following the political changes in the Federal Republic of Yugoslavia, the Bank will co-operate closely with other international organisations, in order to facilitate the normalisation of that country's international relations.

*1 - The countries concerned are Albania, Bosnia and Herzegovina, Bulgaria, Croatia, the Federal Republic of Yugoslavia, Romania and "The former Yugoslav Republic of Macedonia".*





# Projects and loans

In 2000 the Bank approved **37 individual projects** and sector-based multi-project **programmes** (SMPs), representing **a total of € 1.9 billion.** This amount, slightly less than the previous year's figure, is consistent with the objective of deliberate moderation of activities. In view of the volume of projects already in stock, the annual disbursements figure, which rose from € 1.7 billion in 1999 to € 1.9 billion in 2000, corresponds to a peak in the Bank's activities. Overall, the Bank funded 62 projects in 19 countries.

As at 31 December 2000, loans outstanding totalled € 8.4 billion, up 9% on 1999. They are now spread among 23 countries. Taking into account new approvals and disbursements in 2000, the portfolio of projects awaiting financing represents an amount of € 4.6 billion, € 3.1 billion of which are committed.

One of the main focuses of the CEB's policy is financial support for the transition countries. These countries accounted for a significant share of activities in 2000, far more than in previous years in terms of both projects approved (€ 256 million) and disbursements (€ 122 million). (See the boxed text on page 18).

Projects approved in 2000 included a number of operations of particular relevance to the Bank's social objectives: the return of refugees in Croatia, reconstruction of housing after the earthquake in Turkey and vocational training in Poland.

## A varied range of lending instruments

In its loans policy the Bank distinguishes between two main types of instrument:

- **individual projects,** where there is a single borrower and a single project manager,
- **sector-based multi-project programmes (SMPs),** which group together sub-projects with a number of beneficiaries and cover activities in one or more of the Bank's fields of action.

SMPs can be broken down into various types of programme:

- "single-sector programmes", covering only one field of action,
- "multi-sector programmes", covering several fields of action,
- "finance programmes for local authorities", covering projects included in local or regional authority budgets.







**LITHUANIA** Home for the elderly

In line with the recommendations made at the Second Summit of the Council of Europe, held in Strasbourg in October 1997, the CEB has stepped up its activities to promote job creation. Projects approved in this area doubled in comparison with 1999, and disbursements have all but trebled.

Other strong growth areas in 2000 were health, education and housing, which accounted for 43% of new projects approved and 37% of disbursements.

Activities have been developed in close co-operation with the member states and certain banks with which the CEB has established close relations in recent years. The network of special contacts with high-quality financial institutions, serving as a relay for the Bank's action, has been consolidated.

In 2000 co-operation with other international financial institutions was also reinforced through a number of significant operations with the World Bank, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD).

## The Selective Trust Account

The purpose of the Selective Trust Account (STA) is to provide interest-rate subsidies for projects complying with the Bank's high priorities objectives, pursued in the transition countries. The STA was established in 1995 by the Administrative Council and is mainly funded with appropriations from the Bank's profits (€ 45 million over 6 years) and voluntary contributions from the member states. The rules governing the use of STA resources were amended in 1999 to place emphasis on the account's social purpose.

In 2000 the account was used in favour of refugees (Croatia) and victims of natural disasters (Hungary and Slovenia). For the first time projects benefiting the Roma community (in Bulgaria and the Czech Republic) were also granted an interest-rate subsidy.

Seven projects, amounting to € 123 million, were granted STA subsidies in 2000. This brings total commitments under the STA to € 30 million, representing two-thirds of the assets assigned to the account.

It should also be noted that in 1999 the STA was used for the exceptional purpose of making donations for Kosovo (€ 4 million) and to a project benefiting orphans in Romania (€ 1 million), and that it is serving as a channel for financing a joint programme for social cohesion, pursued with the Council of Europe.





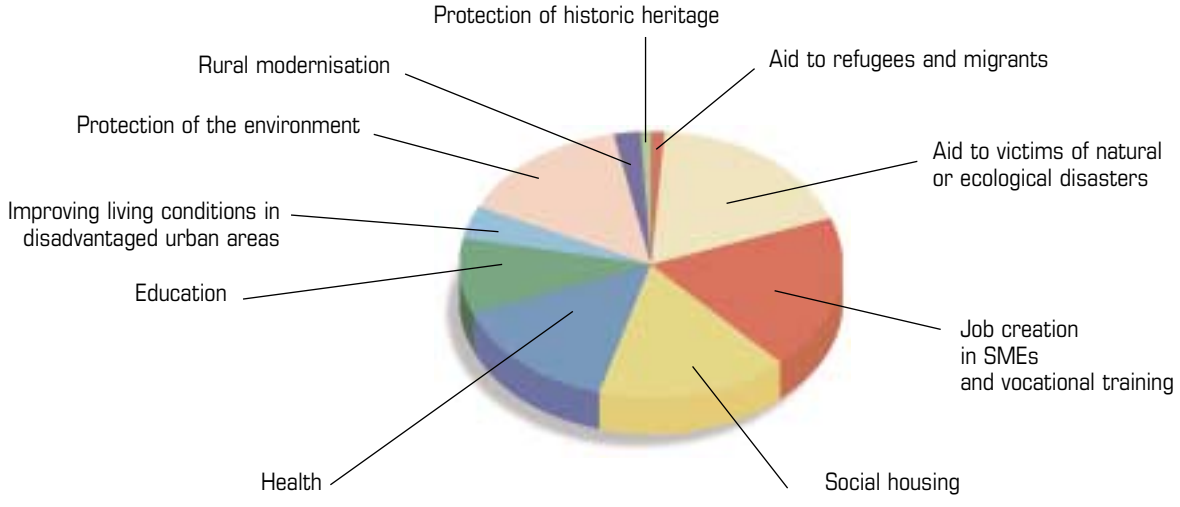
# 1 - Statutory priorities

The Bank's statutory priorities are projects in aid of refugees and of victims of natural disasters. In 2000 the Bank approved a total of € 203 million in loans for four projects of direct relevance to these areas. Disbursements in the same fields totalled € 340 million, showing a strong increase compared with the previous year.

## 1.1. Aid to refugees and migrants

In line with its primary purpose, the CEB is providing financial support for **Croatia**, under the Stability Pact for South Eastern Europe, to facilitate the return of refugees and displaced persons to their places of origin by building and renovating housing there. This project entails broad co-operation with the World Bank, the Office of the High Commissioner for Refugees (UNHCR) and a number of non-governmental organisations. 3 400 families should benefit from it. Two further projects in Croatia concern the education and health sectors and are aimed at repairing war damage in 35 schools and building 11 hospitals and 50 medical centres. They follow two other projects in the same fields, on which disbursements were made in 2000.

In 2000 disbursements also continued for the housing project in **Lithuania**. The aim is to build housing all over the country to facilitate the return of former deportees. Three homes for elderly deportees have also been built.




**Projects approved in 1996-2000**





# Expansion of CEB activities in the transition countries

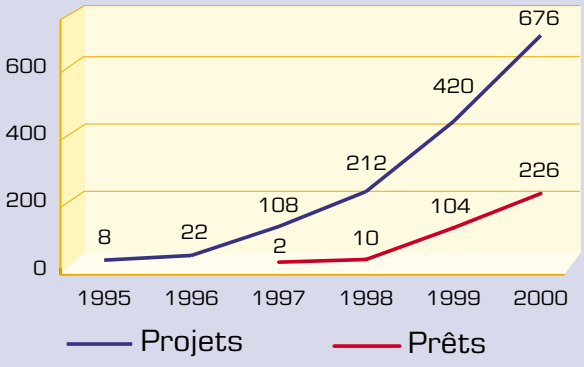
Developing activities in the transition countries of central and eastern Europe is a key objective for the CEB. Since 1994 its operations in the region have grown in pace with the arrival of the new member states. In 2000 funding of social projects in the transition countries accounted for a significant share of the Bank's activities.

A total of 38 projects has been approved for these countries, including 12 in 2000, representing € 676 million in loans, 30% of which have been disbursed. Nearly two-thirds of these projects have been granted an interest-rate subsidy through the Selective Trust Account (STA).

Particular attention is paid to reconstruction of areas hit by natural disasters, aid to vulnerable population groups (refugees, abandoned children, elderly people and people with disabilities) and the education, health and social housing sectors. The CEB also helps to promote employment in these countries, where many people are out of work, by financing vocational training schemes and investments in small and medium-sized enterprises.

A number of these projects are the subject of close co-operation with the European Union and other international financial institutions (the World Bank, the EIB, the EBRD), through seven co-financing or parallel financing operations. The CEB's contribution to the reconstruction effort in South Eastern Europe is also part of its action in support of the Stability Pact (see the boxed text on page 14).

The Bank intends to continue increasing the volume of loans disbursed in the transition countries by a significant amount, while maintaining a cautious approach in terms of risks. To guarantee the success of this development strategy, apart from strengthening its financial base, the CEB is taking a number of measures in close co-operation with the national authorities: development of strategies by country and by sector; systematic searches for priority, high-quality projects; an increase in the number of appraisal and monitoring visits carried out, with the aim of supporting borrowers throughout project implementation; innovative financing instruments and terms; co-operation with other multilateral financial institutions and development agencies.




**Growth of activities in the transition countries**
(cumulative amounts, in million euros)



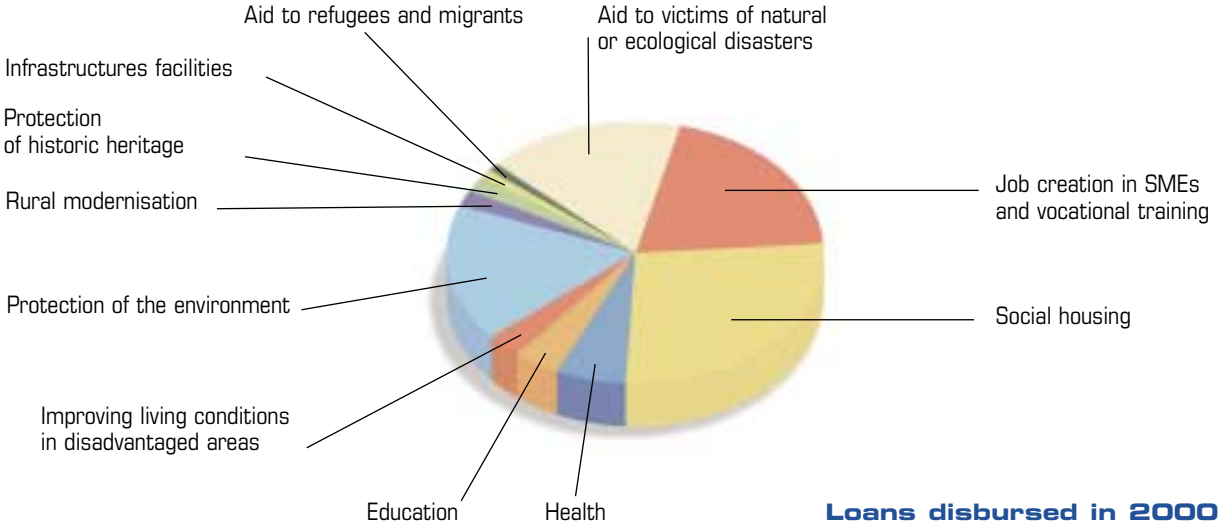
**TURKEY** Reconstruction after the 1999 earthquake

## 1.2. Aid to victims of natural or ecological disaters

It is essential for the international community to rally round and come to the aid of people suffering the consequences of natural or ecological disasters. The challenges entailed in rebuilding and breathing new life into stricken regions necessitate immediate and long-term financial support. Apart from helping with management of emergencies, the Bank's action in co-operation and co-ordination with the national and local authorities can serve as a catalyst, speeding up the inflow of funds needed for rebuilding essential infrastructure and kick-starting the economy in consultation with local people. The Bank also provides financing for disaster prevention measures.

Projects approved in 2000, some of which have already been part-financed, were in tune with these objectives.

In **Turkey,** following the earthquakes which struck the region of Marmara in August 1999, the CEB is helping to finance the provision of some 26 000 housing units, with a total loan of € 280 million. This project was given preliminary approval in 1999, in the immediate wake of the disaster, and € 175 million of financing was made available in 2000.




**Loans disbursed in 2000**





# CEB operations in favour of the Roma minority

The Roma minority, estimated at more than 10 million people, is one of the most disadvantaged population groups in Europe, especially central and eastern Europe. International organisations, including the Council of Europe and the European Union, and many NGOs have been dealing with this issue for some time now. The countries concerned recently adopted a number of significant policy measures aimed at improving a complex situation, requiring perseverance and determined, concerted action on all sides. It is against this background that the CEB pursues its activities.

In every country the Roma are the poorest of all minority groups, with the highest unemployment rate, insalubrious housing, poor sanitary conditions and low rates of literacy. In central and eastern Europe the transition period has exacerbated this situation. In the Balkans many Roma have become refugees.
The joint Council of Europe - CEB programme for social cohesion, one of the priorities of which is to improve living conditions for the Roma population, is intended to afford a response to these problems.

The following projects financed by the CEB under this programme typify the aims being pursued:
- In 1999, following the population movements engendered by the Kosovo crisis, the CEB gave € 1 million to "The former Yugoslav Republic of Macedonia" for the improvement of municipal infrastructure (drinking water and sewerage networks) in the town of Suto Orizari, which has about 14 000 inhabitants, mainly of Roma origin, including some 3 000 refugees from Kosovo. This project is being implemented by the United Nations Development Programme (UNDP), in co-operation with the Office of the High Commissioner for Refugees (UNHCR).
- A project to re-house 120 Roma families in the town of Brno, in the Czech Republic, was approved in March 2000, for an amount in the region of € 1 million. The loan, which will carry an interest-rate subsidy, will be guaranteed by the Czech Government. This project, encompassing not only improvements in housing, but also job creation, is part of the municipality's strategic plan for inter-ethnic problems and was devised through close co-operation between the Council of Europe, the national and municipal authorities and the tenants directly concerned.
- A € 3.3 million loan, guaranteed by the Bulgarian Government, was approved in September 2000, along with an interest-rate subsidy. It will be used to finance the building and rehabilitation of housing and municipal infrastructure for 1 600 Roma inhabitants of Slatina, a disadvantaged area on the outskirts of Sofia. This is an initial pilot project under the municipality's programme to combat social exclusion and is consistent with the national programme approved by the Bulgarian parliament.

In **Hungary,** the Bank is financing urgent work on flood protection measures in the town of Szolnok and the surrounding area. € 27 million was disbursed in 2000 for two projects, one approved in 1999 and the other in 2000. This work is all the more necessary in that the Tisza river basin irrigates a number of neighbouring countries, which regularly suffer serious flooding. A number of river-bank consolidation and adaptation projects in this flood risk area are being financed by the CEB in both Hungary and the **Slovak Republic**. Moreover, in **Poland**, financing of reconstruction work in the Vistula and Oder basins, following the floods of the summer of 1997, has continued, with a disbursement of € 34 million.



**ROMANIA** Reconstruction following the 1998 floods

Mention should also be made of the loan extended in 2000 for a project in **Slovenia,** aimed at restoring the local economic fabric after the earthquakes of 1998.



**GREECE** Reconstuction after the 1995 earthquake

In **Spain**, following the last disbursements, work to clean up the Doñana national park after the ecological disaster of 1998 was completed.

In **Italy** financing of reconstruction work in the regions of the Marches and Umbria, hit by an earthquake in 1997, also continued, with a € 35 million disbursement.

In **Romania** a project to rebuild infrastructure damaged by floods in 1998 and to prevent further disasters was financed in an amount of € 8 million.





# Projects approved by country and sector from 1996 to 2000

in million euros

| COUNTRY | 2000 Number of projects | 2000 Amount | 2000 % | Total 1996-2000 Number of projects | Total 1996-2000 Amount | Total 1996-2000 % |
|---|---|---|---|---|---|---|
| Belgium | 3 | 120 | 6 | 7 | 319 | 3 |
| Bosnia and Herzegovina * | - | - | - | 2 | 5 | <1 |
| Bulgaria | 1 | 4 | <1 | 3 | 19 | <1 |
| Croatia | 3 | 67 | 4 | 5 | 102 | 1 |
| Cyprus | - | - | - | 7 | 131 | 1 |
| Czech Republic | 1 | 1 | <1 | 1 | 1 | <1 |
| Estonia | 1 | 10 | 1 | 1 | 10 | <1 |
| Finland | 3 | 150 | 8 | 5 | 284 | 3 |
| France | 4 | 222 | 12 | 10 | 1 055 | 11 |
| Germany | 4 | 660 | 35 | 20 | 2 246 | 23 |
| Greece | 1 | 4 | <1 | 8 | 460 | 5 |
| Hungary | 1 | 50 | 3 | 3 | 130 | 1 |
| Iceland | - | - | - | 1 | 45 | <1 |
| Italy | 1 | 20 | 1 | 40 | 1 525 | 16 |
| Lithuania | - | - | - | 2 | 12 | <1 |
| Malta | - | - | - | 2 | 54 | 1 |
| Poland | 2 | 45 | 2 | 3 | 142 | 1 |
| Portugal | 1 | 6 | <1 | 4 | 166 | 2 |
| Romania | 1 | 10 | 1 | 7 | 64 | 1 |
| San Marino | - | - | - | 3 | 19 | <1 |
| Slovak Republic | 1 | 8 | <1 | 2 | 38 | <1 |
| Slovenia | 1 | 2 | <1 | 3 | 60 | 1 |
| Spain | 6 | 329 | 17 | 35 | 2 298 | 23 |
| Sweden | 1 | 58 | 3 | 1 | 58 | 1 |
| "The former Yugoslav Republic of Macedonia " | - | - | - | 2 | 20 | <1 |
| Turkey | 1 | 122 | 6 | 7 | 539 | 5 |
| **Total** | **37** | **1 888** | **100** | **184** | **9 802** | **100** |

*Non-member state

| SECTOR | Number of projects** | Amount | % | Number of projects** | Amount | % |
|---|---|---|---|---|---|---|
| **Statutory priorities** | | | | | | |
| Aid to refugees and migrants | 1 | 30 | 2 | 12 | 110 | 1 |
| Aid to victims of natural or ecological disasters | 3 | 173 | 9 | 32 | 1 783 | 18 |
| **New priorities** | | | | | | |
| Job creation in SMEs and vocational training | 13 | 548 | 29 | 44 | 1 849 | 19 |
| Social housing | 6 | 148 | 8 | 59 | 1 587 | 16 |
| Health | 13 | 398 | 21 | 55 | 1 430 | 15 |
| Education | 11 | 269 | 14 | 43 | 905 | 9 |
| Improving living conditions in disadvantaged urban areas | 3 | 231 | 12 | 14 | 389 | 4 |
| **Other fields of action** | | | | | | |
| Protection of the environment | 8 | 63 | 3 | 55 | 1 442 | 15 |
| Rural modernisation | 2 | 5 | <1 | 20 | 222 | 2 |
| Protection of historic heritage | 2 | 23 | 1 | 11 | 85 | 1 |
| **Total** | | **1 888** | **100** | | **9 802** | **100** |

** This corresponds to the number of projects concerning the sector. The total is not cumulative.

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







**GERMANY** Job preservation at a sawmill

## 2 - New priorities

Since the Second Summit of the Council of Europe (October 1997), activities to promote social cohesion in Europe have ranked as a new priority for the CEB.

In addition to specific action to improve the employment situation, which is an absolute necessity, promoting social cohesion in Europe means providing support for social housing schemes, better quality health systems, development of education programmes and improvement of living conditions in disadvantaged urban areas. In all of its fields of action the Bank works in close co-operation with other international organisations, in particular the Council of Europe. In 1999 it signed a special partnership agreement with that organisation, aimed at fostering greater social cohesion in Europe. This joint programme has made it possible to identify a number of projects, particularly in the transition countries.

### 2.1. Job creation in SMEs and vocational training

Despite the significant improvement in the employment situation all over Europe, unemployment remains high, above all among young people, the long-term unemployed, women and vulnerable population groups. With the aim of helping to create and preserve lasting jobs, which are essential to social integration, the CEB is particularly active in financing investments in small and medium-sized enterprises (SMEs), which are a source of growth and generate the largest number of new jobs throughout Europe. Jobs created through investments in the Bank's other fields of action are additional to these. At the same time, the CEB seeks to enhance job quality by financing training and vocational retraining projects.

In 2000 **the Bank approved a total of € 548 million in loans for new projects in these areas,** almost one-third of all projects approved during the year. By supporting investment in SMEs through the supply of loans, the CEB helps to improve the labour market situation. In 2000, 16 programmes for SMEs were financed, in an amount of € 362 million.





# Projects approved in 2000 by counterparty

in million euros

| | | | |
|---|---|---|---|
| Belgium | Fortis | SME programme | 60 |
| | KBC | Health and education programme | 10 |
| | KBC | SME programme | 50 |
| Bulgaria | Municipality of Sofia | Roma (housing, employment) | 4 |
| Croatia | Government | Health | 24 |
| | Government | Education - post-war reconstruction | 13 |
| | Government | Refugees – housing | 30 |
| Czech Republic | Municipality of Brno | Roma (housing, employment) | 1 |
| Estonia | Government | Education | 10 |
| Finland | Municipality Finance Ltd | Multi-sector programme | 100 |
| | OKOBank | SME programme | 20 |
| | OKOBank | Health, education and housing programme | 30 |
| France | Dexia | Health and housing programme | 200 |
| | Société Générale | Environment | 17 |
| | Société Générale | Vocational training | 6 |
| Germany | Commerzbank | Health and education programme | 100 |
| | Deutsche Ausgleichsbank | Health and education programme | 250 |
| | Kreditanstalt fur Wiederaufbau (KfW) | SME programme | 60 |
| | Kreditanstalt fur Wiederaufbau (KfW) | SME programme | 250 |
| Greece | Athens Academy | Addendum to health project | 4 |
| Hungary | Government | Addendum to natural disaster project | 50 |
| Italy | Banca Commerciale Italiana | SME programme | 20 |
| Poland | Bank for Socio-Economic Initiatives (BISE) | Multi-sector programme | 30 |
| | Polish State Railways (PKP) | Vocational training | 15 |
| Portugal | Caixa Econmica Montepio Geral | Health facilities | 6 |
| Romania | Government | Integrated development project | 10 |
| Slovak Republic | Slovak Water Guarantee and Development Bank (SZRB) | Housing | 8 |
| Slovenia | Regional Development Fund | Addendum to natural disaster project | 2 |
| Spain | ARPROMA | Historic heritage | 21 |
| | ARPROMA | Environment | 3 |
| | Caixa Catalunya, Barcelona | Health, education and environment programme | 45 |
| | Instituto de Crédito Oficial | Disadvantaged urban area | 30 |
| | La Caixa, Barcelona | SME programme | 30 |
| | MINTRA | Disadvantaged urban area | 200 |
| Sweden | Kommuninvest i Sverige AB | Multi-sector programme | 58 |
| Turkey | Government | Natural disasters | 121 |
| **Total** | | | **1 888** |







**BELGIUM** Job creation at a cable plant

The largest SME financing programme approved in 2000, in an amount of € 250 million, concerns the new Länder in **Germany.** It is being implemented with *Kreditanstalt fur Wiederaufbau (KfW)* and has already been half-financed. It follows two other similar programmes, for equivalent amounts, which are estimated to have had a positive effect on 87 000 jobs in all.

Where **Belgium** is concerned, the Bank has approved two new programmes covering the entire country, but with a particular focus on the least well-off regions, one with *KBC Bank* and the other with *Fortis*. A total of € 57 million in loans has been paid out.

**Spain** has also proposed investment programmes in this field: a € 30 million loan has been approved in favour of *La Caixa*, which has a strong presence in Catalonia. Overall, a total of € 56 million has been disbursed through a number of financial institutions.

In **Italy** a programme to be financed through the intermediary of *Banca Commerciale Italiana* will also include vocational training initiatives.

In **France** € 100 million has been disbursed, through *Crédit Commercial de France (CCF)*, for capital expenditure projects in SMEs. Some 1 200 firms with less than 50 employees have already benefited from financing made available to *CCF* by the CEB.

In **Finland,** a programme for equipment and building investments in SMEs located all over the country, but mainly near the cities of Helsinki and Oulu, has been financed with ***OKOBank***. Another programme, in favour of *Municipality Finance*, already part-financed in 2000, will make it possible to rehabilitate, restructure and support various industrial estates, thus preserving and creating jobs in the areas concerned.

In **Sweden** one of the main facets of the programme approved in favour of *Kommuninvest* is the installation of business parks reserved for SMEs in municipalities throughout the country.





# Loans disbursed by country and sector from 1996 to 2000

in million euros

| | 2000 | | | Total 1996-2000 | | |
|---|---|---|---|---|---|---|
| **COUNTRY** | **Number of projects** | **Amount** | **%** | **Number of projects** | **Amount** | **%** |
| Belgium | 2 | 63 | 3 | 4 | 158 | 3 |
| Bosnia and Herzegovina * | - | - | - | 1 | 5 | < 1 |
| Bulgaria | 1 | 5 | < 1 | 1 | 8 | < 1 |
| Croatia | 2 | 10 | 1 | 2 | 25 | < 1 |
| Cyprus | 4 | 44 | 2 | 10 | 183 | 3 |
| Finland | 1 | 50 | 3 | 3 | 157 | 3 |
| France | 3 | 404 | 22 | 5 | 827 | 13 |
| Germany | 5 | 345 | 18 | 11 | 1 413 | 23 |
| Greece | 1 | 3 | < 1 | 7 | 466 | 8 |
| Hungary | 3 | 37 | 2 | 3 | 56 | 1 |
| Iceland | - | - | - | 1 | 13 | < 1 |
| Italy | 1 | 35 | 2 | 39 | 404 | 7 |
| Lithuania | 2 | 2 | < 1 | 2 | 5 | < 1 |
| Malta | - | - | - | 2 | 17 | < 1 |
| Poland | 1 | 34 | 2 | 1 | 73 | 1 |
| Portugal | 2 | 75 | 4 | 3 | 77 | 1 |
| Romania | 4 | 11 | 1 | 6 | 23 | < 1 |
| San Marino | - | - | - | 1 | 1 | < 1 |
| Slovak Republic | 1 | 6 | < 1 | 1 | 6 | < 1 |
| Slovenia | 2 | 13 | 1 | 2 | 16 | < 1 |
| Spain | 19 | 513 | 27 | 30 | 1 686 | 27 |
| "The former Yugoslav Republic of Macedonia" | 2 | 4 | < 1 | 2 | 5 | < 1 |
| Turkey | 6 | 201 | 11 | 27 | 480 | 8 |
| **Total** | **62** | **1 855** | **100** | **164** | **6 104** | **100** |

*Non-member state

| **SECTOR** | **Number of projects**** | **Amount** | **%** | **Number of projects**** | **Amount** | **%** |
|---|---|---|---|---|---|---|
| **Statutory priorities** | | | | | | |
| Aid to refugees and migrants | 3 | 11 | 1 | 8 | 51 | 1 |
| Aid to victims of natural or ecological disasters | 13 | 329 | 17 | 27 | 771 | 13 |
| **New priorities** | | | | | | |
| Job creation in SMEs and vocational training | 16 | 362 | 20 | 32 | 1 228 | 20 |
| Social housing | 13 | 493 | 27 | 55 | 1 456 | 24 |
| Health | 23 | 119 | 6 | 38 | 511 | 8 |
| Education | 13 | 73 | 4 | 28 | 592 | 10 |
| Improving living conditions in disadvantaged urban areas | 7 | 60 | 3 | 11 | 132 | 2 |
| **Other fields of action** | | | | | | |
| Protection of the environment | 18 | 308 | 17 | 36 | 989 | 16 |
| Rural modernisation | 9 | 44 | 2 | 19 | 206 | 3 |
| Protection of historic heritage | 7 | 23 | 1 | 9 | 35 | 1 |
| Infrastructure facilities | 2 | 33 | 2 | 13 | 133 | 2 |
| **Total** | | **1 855** | **100** | | **6 104** | **100** |

** This corresponds to the number of projects concerning the sector. The total is not cumulative.

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







**" THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA"**

Job creation in a textile firm

The experience acquired in recent years in financing job creation and preservation in SMEs through the banking network enables the Bank to develop the same type of instruments for use in the **transition countries**, where unemployment continues to be a major concern. Although the structural reforms being implemented in those countries are beginning to bear fruit in terms of growth, whole sectors of the economy in the countries of this region are still in need of restructuring.

In the short term the programmes implemented to breathe new life into these countries have a high social cost. All of the countries have suffered the adverse consequences of economic restructuring to differing degrees. High unemployment also causes exclusion and tensions within society, sometimes jeopardising social cohesion. The CEB has begun to take action with a view to helping the countries of the region to overcome these difficulties.

One result of the close co-operation established between the European Union and the CEB is an innovative programme for investment in SMEs, with a contribution from PHARE; this programme is being run by the *Kreditanstalt fur Wiederaufbau (KfW)* through the local banking network in eight central European countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic and Slovenia), all candidates for EU membership. The Bank's loan will total € 60 million.

In **Poland** half of a programme approved in favour of *BISE Bank (Bank for Socio-Economic Initiatives)* will be earmarked for SMEs achieving part of their turnover in export markets. The CEB has also approved a particularly innovative project concerning a vocational training scheme for employees being made redundant by the state rail company, *PKP*, which is currently undergoing restructuring with the support of the EBRD. Up to 27 000 employees will be given training that should permit their vocational resettlement. The € 15 million provided by the Bank will mainly be used to fund training material.

In **Romania** job creation will also be assisted through an integrated social development programme in disadvantaged rural communities. This local development programme, which includes the provision of micro-loans, is being co-financed with the World Bank.





In "**The former Yugoslav Republic of Macedonia**" disbursements have been made for a programme, being run through two local banks, to enable local SMEs to modernise and expand their production equipment. The loan has a government guarantee.

In **Hungary**, investment loans for SMEs, made available through the *Hungarian Development Bank*, intended in particular for the purchase of land and equipment and the building and fitting out of commercial and industrial premises, will help to foster job creation and preservation.

## 2.2. Health and education

Projects and programmes approved in these sectors account for more than **one-third of projects approved in 2000** (€ 667 million).

In an attempt to target its loans so that they have the best possible impact, the Bank works in close co-operation with specialist financial agencies, which serve as intermediary borrowers, on-lending the funds to the end beneficiaries. In the health and education sectors, local and regional authorities, which are in touch with local people's needs, are often heavily involved in project implementation.

In **Germany** a significant € 250 million programme, for which *Deutsche Ausgleichsbank* is the intermediary borrower, will make it possible to rebuild and modernise hospitals, schools and old people's homes, primarily in the new Länder. It follows a similar programme, which received a € 39 million disbursement in 2000, for financing 88 health-care facilities for children, young people and the elderly. Again in Germany, another € 100 million programme has been approved in favour of *Commerzbank*.

In **Belgium** investment projects in schools and hospitals will be funded through the intermediary of *KBC*.

In **France** a country-wide programme for building, renovating and equipping hospitals is being financed through *Dexia*.

In **Portugal** a project to build and equip an old people's home offering medical services is being financed through the intermediary of *Caixa Econòmica Montepio Geral*.



**CYPRUS** Primary school



**FINLAND** Hospital in Loviisa

In **Spain** two-thirds of the funding being made available under a programme with *Caixa Catalunya* will be allocated to projects for the building and renovation of emergency medical centres, primary and secondary schools and vocational training facilities in municipalities in the province of Barcelona.

In **Poland** too the CEB will be participating in a programme with *BISE Bank* to provide local authorities with funds for building and rehabilitating basic municipal facilities, such as schools, hospitals and other health-service structures.

In **Sweden** a € 58 million programme, approved in 2000, will include funding for building special schools for children with learning difficulties, for health protection projects and for the construction of social housing for vulnerable population groups (the elderly, the disabled, refugees and migrants).

In **Lithuania** a loan was disbursed in 2000 for the rehabilitation of a number of specialist health and day-care centres for people with disabilities and elderly people.

In **Finland** a programme with the main aim of renovating and building social housing has been approved in favour of *OKOBank*. Another programme financed through *Municipality Finance*, a specialist financial institution providing loans for local authorities, has already received a disbursement of the amount of € 50 million, including 13 million that have been used for the renovation of 24 day-care centres, primary schools and vocational training centres, serving the needs of 6 800 children and young adults, and of 7 centres for the elderly and people with disabilities.

In **Estonia** a project to improve living and study conditions for students from disadvantaged social backgrounds has been approved. Halls of residence will be built at two major higher-education establishments in Tartu.

In 2000 financing was also made available for individual health-sector projects in **Bulgaria**, **Cyprus** and **Turkey**, approved in previous years.





The amount of the loan approved for the Biomedical Research Foundation of the Athens Academy in **Greece** has been increased. The purpose of this project is to improve the standard of biomedical research, the quality of health care and the training of post-doctoral students. An initial disbursement took place in 2000.



**BULGARIA** Blood transfusion centre

In **Turkey** the CEB has funded the purchase of equipment for teaching hospitals, through a number of disbursements on projects approved in previous years.

In **Romania** a € 10 million programme has been approved, including a project to combat poverty through the funding of neighbourhood welfare services throughout the country. The CEB has also continued to finance the project in aid of abandoned children, entailing the building of facilities more suited to the children's needs. In addition, the Bank is providing financing for the building and renovation of 800 secondary schools.

## 2.3. Social housing

Financing social housing, which accounted for 27% of disbursements in 2000, contributes directly to greater social cohesion in Europe, as having somewhere to live is often a condition for finding work and gaining access to welfare services.

In **France** a large-scale multi-project programme in the social housing sector will be financed through *Dexia*. The programme, for people of very limited means, will be implemented by approved low-cost housing organisations (HLM) and home-ownership or rehabilitation schemes managing the funds raised under the "1% housing contribution" mechanism, a compulsory contribution to the housing effort payable by French employers. Two loans of € 150 million each have moreover been disbursed through *Caisse Nationale du Crédit Agricole (CNCA)* and *Crédit Local de France*. Under the latter programme work has begun on 5 600 housing units, while under that financed through *CNCA*, which was completed in 2000, a total of 22 300 housing units was built.





In **Spain** disbursements for the social housing sector, mainly made through *Banco Santander* and *La Caixa*, totalled € 152 million in 2000. The latter bank has already served as intermediary for the financing of nearly 6 000 housing units.

In **German**y loans to the social housing sector have been channelled through *Investitionsbank des Landes Brandenburg (ILB)*.

In the **Slovak Republic** a € 8 million project has been approved, with the aim of facilitating access to housing for low-income families, young couples and the socially disadvantaged. This programme should concern several thousand families.

In 2000 a first disbursement was made on a project to provide housing for people in particularly vulnerable population groups in **"The former Yugoslav Republic of Macedonia ".**

## 2.4. Improving living conditions in disadvantaged urban areas

In the year 2000 rehabilitation of infrastructure and facilities in disadvantaged urban areas accounted for 12% of projects approved. The approval of two projects in **Spain**, for a total of € 231 million, tripled the amount of financing made available by the Bank in this sector, compared with the previous year. At the request of the Autonomous Community of Madrid, the CEB will finance the extension of underground lines, an environment-friendly means of transport, in co-operation with the EIB and *KfW* and through the intermediary of *MINTRA*. The primary aim of this project, in an amount of € 200 million, is to make it easier for people to commute from the outlying, sometimes disadvantaged, areas of the conurbation to the districts where businesses, universities and hospitals are located. Another expansion project was approved in 2000, this time in the suburbs of Barcelona (Montjuic II); it is being implemented in co-operation with *Instituto de Credito Oficial* and should create jobs and promote social cohesion in this disadvantaged urban area. Half of the total loan approved, € 30 million, has already been paid out.



**SLOVENIA** School of nursing





# 3 - Other fields of action

## 3.1. Protection of the environment

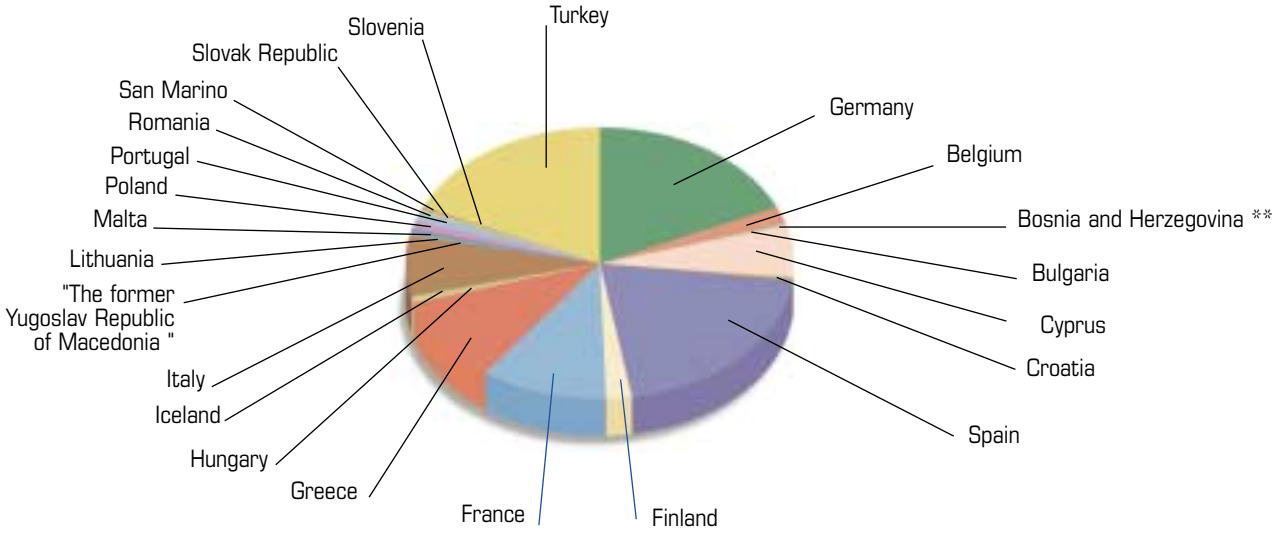
This sector shows significant geographical diversification: nine projects in eight countries, representing a total of € 308 million in disbursements during the year 2000.

In **Spain** environmental protection projects have been approved under programmes being implemented with *ARPROMA* (the finance company of the Autonomous Community of Madrid) and *Caixa Catalunya*. Loans disbursed in 2000 totalled € 125 million, including € 90 million made available through *Caja Madrid* for investments in some fifteen small firms producing wind energy.

In **Finland**, under a multi-sector programme with *Municipality Finance*, projects concerning the installation of sewerage networks, water-treatment plants, solid domestic waste collection and recycling systems have been approved and financed.

In **Poland** part of the multi-sector programme in favour of *BISE* will concern inter alia urban heating systems and other local authority investments in the environmental protection sector.

**Loans outstanding as at 31 December 2000***
**1 - Breakdown by country**




* Details of the outstanding are given in the Financial Statements pages 58 and 59
**Non-member state



**ITALY** Sewage network in Ariccia

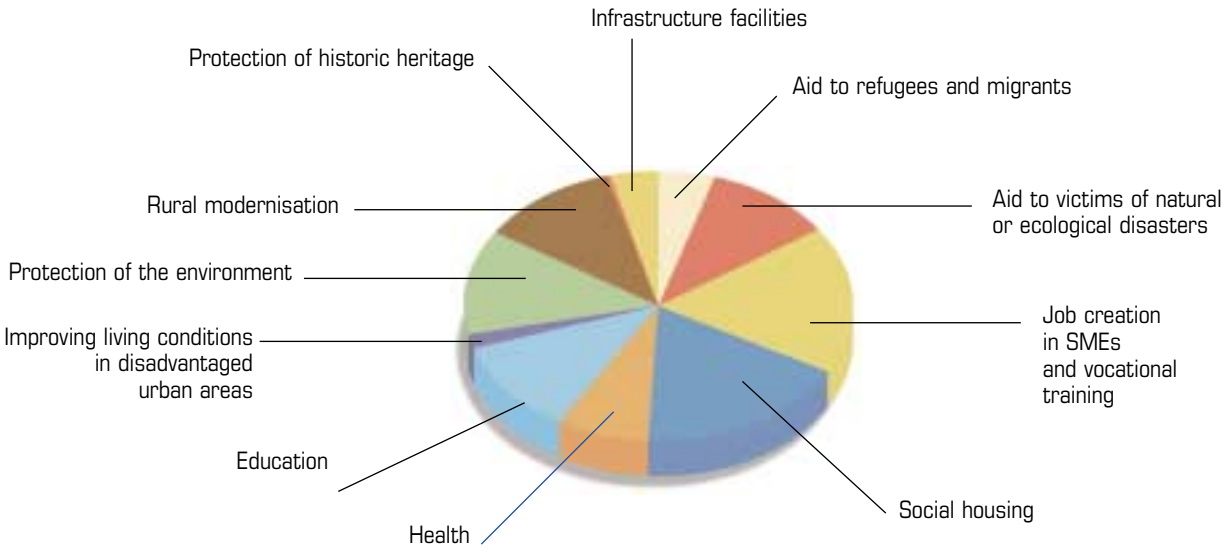
In **France** the CEB has approved the part-financing of a project to build and equip a co-generation power plant on an industrial site in the north of the country.

In **Cyprus**, where the Bank has long been financing this kind of project, disbursements continued for the construction of sewerage networks and water-treatment plants in Larnaca and Paphos.

In **Hungary** the Bank also provided financing for the construction of water supply networks. In this country reconstruction and prevention projects in the natural disasters sector also have a positive environmental impact. For instance, action to reduce the danger of flooding in industrial and urban areas lessens the risk of pollution of surface and ground water and of land instability.

In **Germany** € 130 million has been disbursed under a programme with *KfW* to finance environment-related municipal infrastructure projects all over the country.

**2 - Breakdown by sector**







## 3.2. Rural modernisation

A social development programme in **Romania** encompasses financing of small-scale infrastructure projects in rural communities (roads, water supply networks and farmland irrigation systems).

## 3.3. Conservation and rehabilitation of historic heritage

This is a recent field of action for the Bank. However, it should be noted that the CEB has long been involved in financing conservation of the cultural or natural heritage as part of its operations in other sectors.

In **Spain** a project being implemented with *ARPROMA* (the finance company of the Autonomous Community of Madrid) was already part-financed in 2000. It will allow the conservation of a number of old buildings, listed as historic monuments, under a scheme to convert the former industrial district of Arganzuela into a residential area, and includes the construction of a regional library for the Autonomous Community and a new set of buildings for storage of the Community archives.



**SPAIN**

Rehabilitation of historic heritage
creation of a library in Madrid

# Financial activity

## 1 - The economic environment in 2000

The global economy grew by approximately 5% in 2000, the highest growth-rate since the mid-eighties. Growth was primarily driven by the performance of the US economy; Europe and particularly Japan lagged far behind.

However, the global economic situation began to look more vulnerable as the year progressed. At the year end capital markets staged their most dismal performance of recent memory, led by steep depreciations in new economy and technology company valuations. Oil prices also dropped sharply in late 2000, after reaching 37 dollars a barrel in the course of the year.

### United States: from euphoria to disappointment

The wealth-boosting effect of strong stock markets encouraged US households to spend, and personal savings diminished as a result. Weak domestic savings were insufficient to fund the continuing new economy boom, and the United States were forced to rely on foreign capital to close the gap. As a consequence, the current account deficit reached a record level, and a rising inventory-to-sales ratio smothered output. The euphoria of the beginning of the year gradually gave way to a gloomier outlook. In response to weakening growth, the Federal Reserve Board seemed ready to change the direction of monetary policy so as to ease pressures by the year end. The previously extremely strong US dollar also started to lose ground. The events surrounding the presidential elections, pointing to an increasingly partisan political environment, were scarcely good for economic prospects.

### Europe: slightly more resistant to slowdown

The European economies remained buoyant during most of 2000, but also started to show the first signs of faltering towards the year end. Europe's relative insulation from the effects of a US slowdown (compared with other world regions) can be ascribed to two factors: first, its exports to the United States are fairly small and, second, Europe has implemented structural reforms, particularly of fiscal systems.

The European Central Bank (ECB) raised its rates over the year in an effort to contain looming inflationary pressures due to the low euro. The ECB also resorted to intervening in the foreign exchange markets. The ECB is faced with a huge challenge given the threat of a global hard landing and its small margin of manoeuvre in view of diverging economic trends in the countries of the euro area.
Central and east European economies grew faster than in any year since the fall of the Berlin Wall. On the political front, further steps were taken towards the establishment of a Greater Europe.

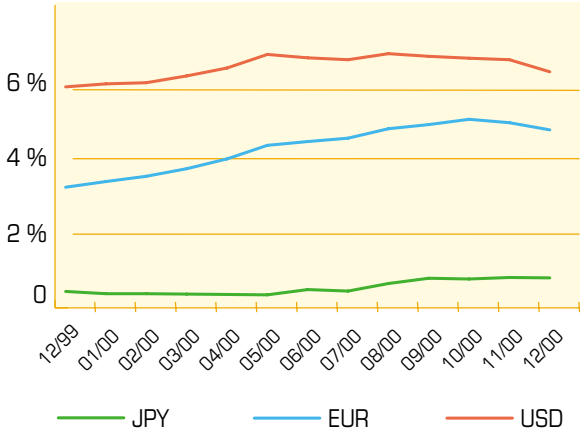
## Japan: a still precarious economy

The Bank of Japan finally abandoned its zero-rate monetary policy, since the economy was showing some positive signs, particularly in corporate earnings. However, the economy remains very fragile, and deflationary concerns persist given the extreme wariness shown by consumers.

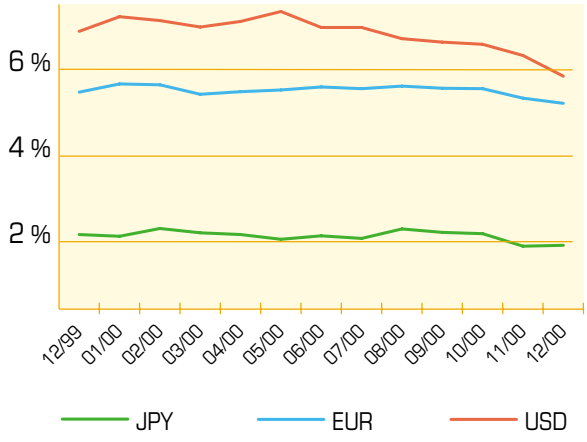
## Yield curves flatten

Short rates were driven up as the US and European monetary authorities tightened their policies over the year. However, with the first signs of economic cooling down, long government bond yields took a downward turn. Credit spreads widened towards the year end as corporate concerns increased.

**3-month rates**




**10-year rates**



## 2 - Bond portfolios

The Bank has two bond portfolios: the investment portfolio and the held-for-sale portfolio. Securities with a maturity of more than one year must be rated at least AA or Aa2.

The **investment portfolio** consists of euro-denominated, fixed-rate bonds with a maximum maturity of 15 years. The investment portfolio corresponds to the Bank's own funds (paid-in capital, reserves and the FBGR) plus 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. Consequently, the securities contained in it can be sold only under exceptional circumstances.

In practice, the portfolio manager implements an annual purchasing programme. This consists in reinvesting the cash from maturing bonds and investing the part of the previous year's profits channelled into reserves.

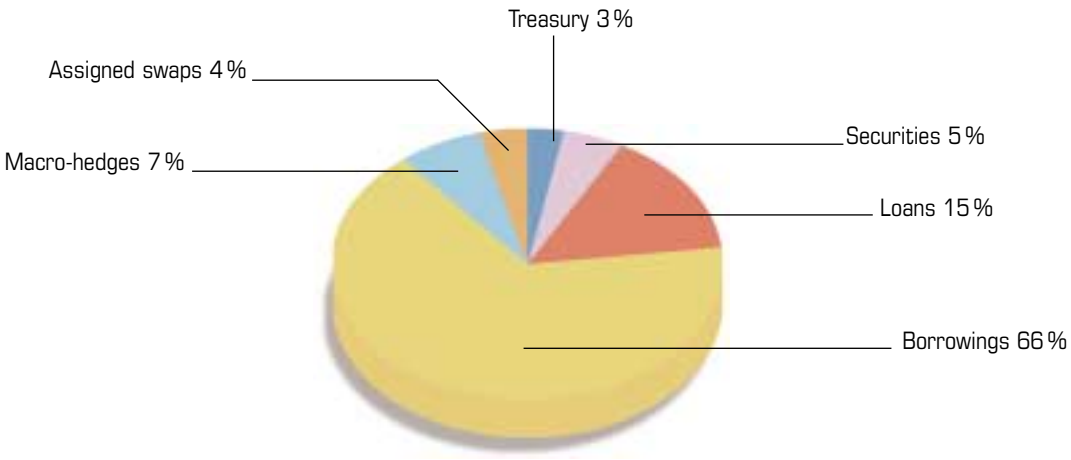
The **held-for-sale portfolio** consists of Euribor or USD-Libor linked instruments. As a general rule, these are floating-rate securities (including asset swaps) or other instruments with a maturity of less than one year, such as Euro Commercial Paper (ECP). These short-term instruments are an alternative to bank deposits.

The portfolio's purpose is to provide liquidity and generate additional revenue on the basis of the differential between the Bank's funding cost and the return on the portfolio.

The instruments in this portfolio are accounted for at historical cost. They are generally held to maturity, and provisions are made to cover adverse changes in market value.

## 3 - 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 on integrated risk management (see page 42).




**Breakdown of derivatives by type of hedge as at 31 december 2000**

# 4 - Financing in 2000

## Borrowing

In 2000 the Bank made 32 issues with a maturity of one year or more. The total value of these issues reached € **3 billion**, largely in the expectation that 2000 would see a great deal of disbursement activity. This exceeds the previous record attained in 1998, when the volume of financing raised reached € 2.8 billion, and is far higher than the 1999 figure of € 2.2 billion.

The size of the stock of projects awaiting financing has a direct impact on the financing programme in so far as, under the Bank's prudential liquidity policy, the pool of liquid assets must suffice to cover at least 50% of projected treasury requirements over three years, including for the financing of approved projects.

To ensure that it maintains access to the funds needed to pursue its activities, the Bank continues to have recourse both to large-scale borrowings in major currencies, aimed at a broad range of institutional investors, and to issues in given currencies or with specific structures corresponding to more particular desiderata.

53% of the financing raised by the Bank in 2000 came from the USD market. The euro market was the second most important, with 19% of funding requirements originally raised in the euro.
The average maturity of the issues launched in 2000 is 5 years and 4 months.

The following table gives details of all issues raised in their original currencies.

| Date of payment | Currency | Maturity | Amount | Lead manager/Arranger |
|---|---|---|---|---|
| 20/01/00 | GBP | 1 year | 30 000 000 | Paine Webber Int. Ltd |
| 15/02/00 | GBP | 1 year | 37 200 000 | Paine Webber Int. Ltd |
| 08/03/00 | USD | 1 year | 100 000 000 | Merrill Lynch |
| 24/05/00 | USD | 2 years | 500 000 000 | Nomura/Morgan Stanley |
| 25/05/00 | USD | 2 years** | 250 000 000 | Nomura/Morgan Stanley |
| 30/10/00 | PLN | 1 year | 100 000 000 | Royal Bank of Canada |
| 28/01/00 | EUR | 5 years | 500 000 000 | UBS |
| 21/02/00 | CHF | 7 years | 200 000 000 | UBS |
| 14/02/00 | JPY | 20 years* | 600 000 000 | Morgan Stanley |
| 23/03/00 | JPY | 20 years* | 900 000 000 | Nomura |
| 27/04/00 | JPY | 20 years* | 1 000 000 000 | DKB International |
| 10/04/00 | EUR | 4 years 9 months** | 100 000 000 | SSB |
| 11/05/00 | JPY | 20 years* | 1 000 000 000 | DKB International |
| 27/04/00 | JPY | 20 years* | 500 000 000 | DKB International |
| 18/05/00 | JPY | 20 years* | 500 000 000 | BNP Paribas |
| 01/06/00 | JPY | 20 years* | 500 000 000 | BNP Paribas |
| 01/06/00 | JPY | 20 years* | 600 000 000 | UBS |
| 30/05/00 | JPY | 15 years* | 600 000 000 | DKB International |
| 08/06/00 | JPY | 20 years* | 500 000 000 | UBS |
| 15/06/00 | JPY | 19 years 9 months* | 500 000 000 | DKB International |
| 15/06/00 | USD | 5 years | 500 000 000 | Nomura/UBS |
| 29/06/00 | JPY | 20 years* | 600 000 000 | Kokusai |
| 29/06/00 | JPY | 20 years* | 500 000 000 | Morgan Stanley |
| 07/07/00 | JPY | 20 years* | 1 200 000 000 | Kokusai |
| 06/07/00 | JPY | 20 years* | 2 100 000 000 | Nomura |
| 17/07/00 | JPY | 20 years* | 1 500 000 000 | Nomura |
| 17/07/00 | JPY | 20 years* | 500 000 000 | Daiwa |
| 28/09/00 | JPY | 20 years* | 700 000 000 | DKB International |
| 25/09/00 | JPY | 20 years* | 2 000 000 000 | Nomura |
| 06/10/00 | GBP | 10 years | 150 000 000 | Royal Bank of Canada |
| 02/10/00 | JPY | 20 years* | 1 000 000 000 | SSB |
| 12/10/00 | JPY | 20 years* | 700 000 000 | IBJ |
| 20/11/00 | TWD | 5 years | 6 000 000 000 | Chinatrust |
| 04/12/00 | JPY | 20 years* | 1 000 000 000 | Nomura |

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

Following its first issue in Taiwanese dollars in 1999, the Bank made a new TWD 6 billion issue in 2000, representing 7% of total borrowings during the year.

Structured issues in the Japanese yen were launched to satisfy investor demand. They represented 6% of total funds raised and 65% of the total number of deals during 2000.

During the year the Bank was also active in the Swiss franc, sterling and Polish zloty markets.

# 5 - Results and ratios

## 5.1 - Trend in the balance sheet

As at 31 December 2000 the balance-sheet total stood at € 14.4 billion, a 14% increase over the previous year-end figure. The main changes were as follows:

- **Assets:** a 9% rise in loans outstanding, which reached € 8.4 billion. This is a consequence of the overall increase in disbursements, especially in favour of the new member states undergoing transition (+ 32% compared with 1999).

- **Liabilities:** a 13% rise in borrowings and debt materialised by bonds, to fund growth in the loans portfolio and the corresponding increase in liquidity reserves to cover projected disbursements.

in million euros

| CONDENSED BALANCE SHEET | 31-12-2000 | 31-12-1999 | Variation Amount | Variation % |
|---|---|---|---|---|
| **Assets** | | | | |
| Uses of treasury(1) | 3 663 | 2 837 | 825 | 29.1 |
| Loans outstanding | 8 442 | 7 743 | 699 | 9.0 |
| Investment securities | 1 292 | 1 230 | 62 | 5.0 |
| Other assets (2) | 1 037 | 848 | 189 | 22.3 |
| **Total assets** | **14 434** | **12 659** | **1 775** | **14.0** |
| **Liabilities** | | | | |
| Sources of treasury (3) | 916 | 681 | 235 | 34.5 |
| Borrowings and debts materialised by bonds | 11 548 | 10 209 | 1 339 | 13.1 |
| Other liabilities (4) | 735 | 620 | 116 | 18.7 |
| Own funds and FGBR | 1 235 | 1 150 | 85 | 7.4 |
| **Total liabilities** | **14 434** | **12 659** | **1 775** | **14.0** |

(1) including held-for-sale securities
(2) including all related receivables
(3) including negotiable debt securities (ECP)
(4) including all related debts

## 5.2 - Trend in profit and loss

Net profit for the year 2000 stands at € 95 million, compared with € 91.4 million in 1999.

The 4% increase is the outcome of:

- a comparative improvement in net banking income, driven by growth in loans outstanding, in an unfavourable interest-rate market context;

- a slight increase in administrative expenses owing to a 6% rise in the total payroll as a result of an increase in staff numbers and statutory salary adjustments;
- higher net releases from provisions in 2000, in view of the payment of the arrears of the former Yugoslavia.

in million euros

| | 31-12-2000 | 31-12-1999 | Variation Amount | Variation % |
|---|---|---|---|---|
| **Net banking income** | **107.00** | **106.26** | **0.74** | **0.7** |
| Administrative expenses | (17.82) | (16.65) | (1.17) | 7.1 |
| Net releases from provisions | 5.86 | 1.80 | 4.07 | NS |
| **Net profit** | **95.04** | **91.41** | **3.63** | **4.0** |
| **Return on equity*** | **8.36** | **8.69** | | |

*before allocation of results

## 5.3 - Financial ratios

In March 2000 the Administrative Council approved an adjustment of the limits on ratios, so as to maintain the coherency of the Bank's control system with the 5th capital increase coming into effect. New limits will be fixed by the Administrative Council in 2001, taking into account the change in the capital.

- **Gearing ratio:** This ratio sets loans and guarantees outstanding against own funds in the broadest sense. As at 31 December 2000 it stood at 3.41, compared with 3.25 in 1999 (pro forma). The permitted ceiling is 6.
- **Debt-equity ratio:** This ratio sets total debt against total own funds in the broadest sense. As at 31 December 2000 it stood at 4.91, compared with 4.45 in 1999 (pro forma). The permitted ceiling is 6.
- **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 2000, the ratio stood at 2, compared with 1.7 in 1999 (pro forma). The permitted ceiling is 2.5.
- **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 net treasury requirements over three years, including the stock of projects awaiting financing. As at 31 December 2000 the ratio stood at 72%, compared with 63% in 1999 (pro forma). The required minimum is 50%.

  Once the readjustments have been made, the limits on the Bank's ratios will be reduced to 2.5 for the gearing ratio, to 4 for the debt-equity ratio and to 1.5 for the portfolio ratio.

# 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. In a context of constantly changing exposures, the Bank has expanded its risk management and control system.
In view of its activity as a development bank, the CEB is exposed to various kinds of risks: credit and counterparty risks, market risks and operating risks.

## 1 - Credit and counterparty risks

### 1.1 - Loans portfolio

Credit risk can be defined as the risk of loan losses in the event of counterparties' defaulting.

The **Risk Management Department** assesses and monitors all of the Bank's credit risks on both balance sheet and off-balance sheet transactions.

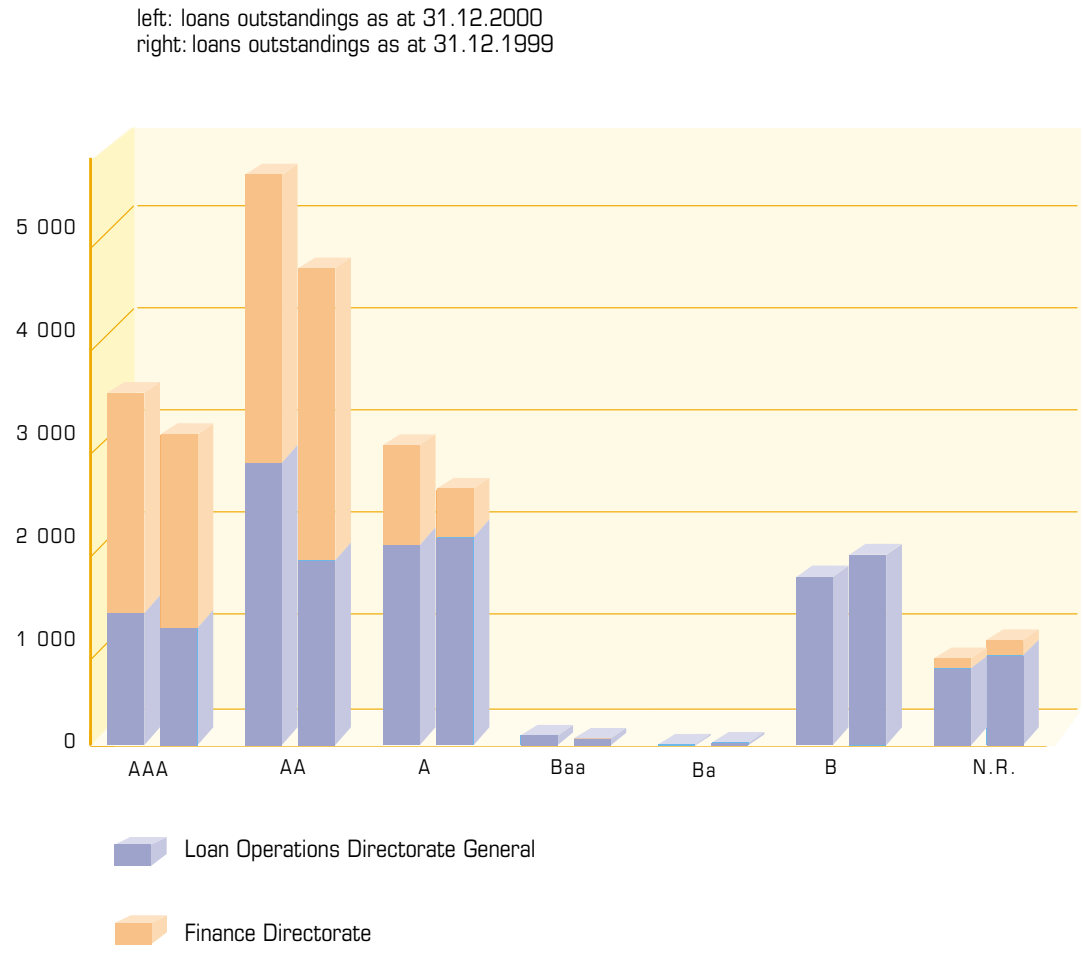
The **Risk Committee** is at the heart of credit risk management. Its role is to set limits on the basis of analyses and proposals submitted by the Risk Management Department. Apart from taking decisions on all risk-related issues, it constantly monitors external (prudential standards, regulators' recommendations) and internal (new operations) developments likely to modify the Bank's risk profile.

**Country risk analysis** is based on a global portfolio-oriented approach, taking into account the Bank's strategy and its spread of 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 posed by counterparties** (banks, local authorities and so on) is based on an in-house model, making it possible to determine a theoretical maximum balance 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.

In concrete terms, as at 31 December 2000 loans outstanding totalled € 8.4 billion, spread among 23 countries, compared with € 7.7 billion at the end of 1999. The breakdown by counterparty rating shows a significant increase (53.3%) in the AA category, due inter alia to growth in loan operations with very high-quality banking-sector counterparties. Counterparties rated A or higher account for 70.7% of total outstandings as at 31 December 2000 (63.8% in 1999). The breakdown by category of borrower has changed somewhat: governments and central or local public authorities account for 41% of loans outstanding as at 31 December 2000, compared with 46% in 1999, and banks and specialist financial institutions 59%, compared with 54%.

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




(1). Outstanding balance at risk, calculated by a flat-rate method.
(2). Moody's rating has been used (or Standard & Poor's where no Moody's rating is available).

So as to maintain prudential standards consistent with best banking industry practice, the Bank has adopted revised rules on hedging of credit risks, applicable as from the 2000 year end. These new rules provide for ex ante 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 2000 provisions had been made only in respect of loans to two non-member countries. They amounted to € 42.6 million, which is less than the 1999 figure of € 48.7 million. This decrease is the result of payment of arrears due by "The former Yugoslav Republic of Macedonia", Croatia and Slovenia. Lastly, it should be noted that an arrears repayment agreement has already been concluded with Bosnia and Herzegovina and that negotiations on this subject have begun with the Federal Republic of Yugoslavia.

## 1.2 - Bond portfolio

To be eligible for inclusion in the investment portfolio, securities must have a long-term rating of at least AA from Standard & Poor's and Aa2 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.

## 1.3 - Derivatives

As an end user the Bank uses derivatives only in order to hedge its risks (see page 37).
Derivatives transactions in any case necessitate credit clearance of the counterparty concerned by the Risk Committee and signature of a preliminary framework agreement (an example being the ISDA Master Agreement). For transactions with a maturity of five years or more, the counterparty must also be rated at least AA, have signed a collateralisation agreement with the Bank or offer other supplementary guarantees.

From 1998 the Bank adopted an active collateralisation agreement management policy, with the aim of reducing the credit risk linked to use of derivatives. At present, 42% of derivatives transactions outstanding are collateralised, and the proportion should increase in future.

The following table shows maturity of off-balance sheet instruments (interest-rate swaps, currency swaps and caps) at their notional amount:

in million euros

| Maturity | Under 1 year | 1 to 5 years | 5 to 10 years | 10 years or more | Total 2000 |
|---|---|---|---|---|---|
| Interest-rate instruments | 1 583 | 3 237 | 1 886 | 1 496 | 8 202 |
| Currency instruments | 1 183 | 4 253 | 924 | 222 | 6 582 |
| **Total** | **2 766** | **7 490** | **2 810** | **1 718** | **14 784** |
| of which collateralised | 626 | 3 621 | 997 | 995 | 6 239 |

# 2 - Market risks

## 2.1 - 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 Department 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 corresponds 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. Lastly, the trading portfolio is currently inactive.

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.

## 2.2 - Liquidity risks

Liquidity policy is determined by the Funding Committee, which meets every quarter. 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 2000 the ratio stood at 72%, compared with 63% at the previous year end.

## 3 - Operating risks

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

The Bank has taken a number of measures to reduce 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 function carries out regular reviews of procedures.

**Risk prevention**

Various measures have been taken to cover the main operating risks and are currently being formalised in an emergency plan, which is regularly reviewed by the Security Committee, made up of representatives of each directorate. Special mention can be made of the following:

- Use of the SWIFT system to guarantee against settlement risk.
- Installation of a back-up computer site off the Bank's premises, allowing a resumption of strategic operations within 24 hours in the event of a problem. Operating tests are periodically run on this back-up system.
- Adoption of a security policy with the aim of protecting both the Bank's headquarters (access controls, fire alarm) and its computer systems (storage of back-up copies off site, virus detection measures, etc.).

Computer system development work is supervised by the Information Technology Committee, which includes all members of general management.



# Human resources management



Since 1994 the Bank has been introducing effective human resources management tools, so as to keep pace with growth in the number of member states, redeployment of activities, internal organisational changes and to meet the need for increasing compliance with the standards applied in comparable institutions.

As at 31 December 2000 the Bank had 111 permanent staff members, a very moderate figure in view of its volume of activities.

The CEB is developing a proactive recruitment policy, which it will continue to strengthen in coming years. This serves the dual aim of recruiting highly qualified specialist staff and ensuring the greatest possible diversification of the nationalities represented among the staff, especially as regards the transition countries. In 2000 the Bank filled seven managerial level posts with recruits of six different nationalities.

During 2000 the CEB has been developing a dynamic human resources management policy, favouring internal mobility, exchanges with other financial institutions and the development of management methods. The Bank has, for instance, worked on improving its active careers management approach, in consultation with staff representatives.

Lastly, the skills assessment and improvement policy has been maintained. The performance-related bonus system has proved to be an effective means of motivating staff, and appropriate training courses are also proposed to enable staff to update their knowledge. In this connection, it should be noted that in 2000 the Bank strengthened its training team, with the aim of offering specialist and advanced courses in finance-related subjects, closely corresponding to staff's desiderata and to banking sector requirements.

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# Balance sheet as at 31 December 2000

## ASSETS

*in thousand euros as at 31 December*

| ITEMS | | 2000 | 1999 |
|---|---|---|---|
| 1 | **Cash in hand, balances with central banks** | 52 | 120 |
| 2 | **Loans and advances to credit institutions** | | |
| | (a) advances repayable on demand | 4 605 | 2 987 |
| | (b) loans and advances: | | |
| | - advances (notes 3.1 and 12) | 906 427 | 1 052 065 |
| | - loans (a) (notes 3.1 and 12) | 5 052 340 | 4 223 153 |
| 3 | **Loans to customers** | | |
| | - loans (b) (notes 3.2 and 12) | 3 491 111 | 3 618 026 |
| | *Total loans (a + b)* (notes 3.3 to 3.6) | *8 543 451* | *7 841 179* |
| 4 | **Treasury bills and similar securities** (notes 4 and 12) | 455 131 | 473 600 |
| 5 | **Debt securities and other fixed-income securities** (notes 4 and 12) | 3 677 773 | 2 624 120 |
| 6 | **Shares and other variable-yield securities** (notes 4 and 12) | 792 | 755 |
| | *Total portfolio* | *4 133 696* | *3 098 475* |
| 7 | **Intangible fixed assets** (note 5) | 980 | 1 365 |
| 8 | **Tangible fixed assets** (note 5) | 11 475 | 11 980 |
| 9 | **Capital subscribed, called, unpaid and reserves to be paid** (notes 6 and 7) | 3 957 | 7 244 |
| 10 | **Other assets** (note 8) | 4 492 | 4 398 |
| 11 | **Prepayments and accrued income** (note 8) | 825 099 | 639 455 |
| **Total** (note 11) | | **14 434 234** | **12 659 268** |

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

## LIABILITIES

*in thousand euros as at 31 December*

| ITEMS | | 2000 | 1999 |
|---|---|---|---|
| 1 | **Amounts owed to credit institutions** | | |
| | (a) repayable on demand | 41 643 | 162 |
| | (b) with agreed maturity dates or periods of notice (notes 9.1 and 12) | 0 | 19 504 |
| 2 | **Amounts owed to customers** | | |
| | with agreed maturity dates or periods of notice (notes 9.1 and 12) | 56 950 | 63 428 |
| 3 | **Debt materialized by securities** (notes 9.2 and 12) | 12 526 296 | 11 050 401 |
| 4 | **Other liabilities** (note 10) | 172 552 | 61 961 |
| 5 | **Accruals and deferred income** (note 10) | 333 792 | 256 930 |
| 6 | **Selective Trust Account (S.T.A.)** (notes 2.10 and 16) | 42 163 | 32 971 |
| 7 | **Provision for financial risks** | | |
| | **Pension Fund** (notes 2.8 and 17) | 25 384 | 23 494 |
| 8 | **Fund for General Banking Risks** (note 2.7) | 150 000 | 150 000 |
| 9 | **Capital** (notes 6 and 7) | | |
| | (a) Subscribed (including 157 074) | 1 400 693 | 1 400 693 |
| | (b) Uncalled capital | (1 241 018) | (1 241 018) |
| | | *159 675* | *159 675* |
| 10 | **General reserve** (note 7) | 830 742 | 749 334 |
| 11 | **Profit for the financial year** | 95 037 | 91 408 |
| **Total** (note 11) | | **14 434 234** | **12 659 268** |

## OFF-BALANCE-SHEET ITEMS

| | | | |
|---|---|---|---|
| | **Commitments given** | | |
| I | Awaiting financing on approved projects (notes 3.5 to 3.7) | 3 091 912 | 3 606 729 |
| II | **Guarantees** | | |
| | (a) Guarantees for loans granted by third parties | 8 091 | 11 126 |
| | (b) Guarantees on assigned interest swaps | 563 013 | 645 704 |
| | **Commitments received** | | |
| III | Garantees received | 8 187 | 11 222 |
| | **Off-balance-sheet financial instruments** (notes 2.9 and 13) | 14 221 056 | 12 172 869 |

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

# Profit and loss account as at 31 December 2000

*in thousand euros as at 31 December*

| ITEMS | | 2000 | 1999 |
|---|---|---|---|
| 1 | Interest receivable and similar income (notes 14.1 and 14.2) | 1 556 973 | 1 319 154 |
| 2 | Interest payable and similar expenses (note 14.3) | (1 449 435) | (1 213 297) |
| | **NET INTEREST AND SIMILAR INCOME** | **107 538** | **105 857** |
| 3 | Income from share and variable-yield securities | 48 | 45 |
| 4 | Commissions received | - | - |
| 5 | Commissions paid | (152) | (155) |
| 6 | Net gain (loss) on financial transactions (note 14.4) | (91) | 818 |
| 7 | Other operating income | 104 | 117 |
| 8 | Other operating expenses | (450) | (423) |
| | **TOTAL OPERATING INCOME** | **106 997** | **106 259** |
| | *General administrative expenses* | *(17 822)* | *(16 648)* |
| 9 | Staff costs (note 15) | (10 389) | (9 815) |
| 10 | Other administrative expenses (note 15) | (5 596) | (5 185) |
| 11 | Depreciation of fixed assets | (1 837) | (1 648) |
| | **NET OPERATING INCOME** | **89 175** | **89 611** |
| 12 | Value adjustments in respect of loans | 5 862 | 1 797 |
| | **PROFIT FOR THE FINANCIAL YEAR** | **95 037** | **91 408** |

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

# Cash flow Statement as at 31 December 2000

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the financial year | 95 037 | 91 408 |
| Adjustments: | | |
| - Value adjustments | 6 334 | 3 017 |
| - Increase in accrued interest and commissions receivable | (101 203) | (124 325) |
| - Increase in accrued interest and commissions payable | 115 928 | 126 614 |
| - Premium on Investment securities | 2 302 | 2 442 |
| Loan disbursements | (1 854 905) | (1 711 727) |
| Loan repayments | 1 228 332 | 703 544 |
| *Net cash flows from operating activities:* | *(508 175)* | *(909 027)* |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in the securities portfolio | (998 841) | (129 420) |
| Purchase of tangible and intangible fixed assets | (948) | (3 770) |
| Other increases/(decreases) in assets | (92) | (93) |
| *Net cash flows from investing activities:* | *(999 881)* | *(133 283)* |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of Capital and Reserves | 3 287 | 3 219 |
| Issue of borrowings | 2 922 512 | 2 465 719 |
| Redemption of borrowings | (1 847 401) | (2 391 406) |
| Decrease in short-term borrowings | 44 239 | 241 666 |
| Net change in Foreign currency / transactions payable and receivable | 79 063 | 40 468 |
| Other increases/(decreases) in liabilities | 108 675 | 55 670 |
| *Net cash flows from financing activities:* | *1 310 375* | *415 336* |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **1 027 082** | **1 556 170** |
| Net cash flows from: | | |
| - operating activities | (508 175) | (909 027) |
| - investing activities | (999 881) | (133 283) |
| - financing activities | 1 310 375 | 415 336 |
| Effects of exchange rate changes on cash and cash equivalents | 34 443 | 97 886 |
| *Net increase/(decrease) in cash and cash equivalents:* | *(163 239)* | *(529 088)* |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** (1) | **863 844** | **1 027 082** |

*(1) Loans and advances to credit institutions on demand and payable at maturity when these come to maturity in less than 3 months*

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

# Notes to the Financial Statements as at 31 December 2000

## 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 the Resolution 1424 (1997) revised November 2000, complies with the reinforcement of its actions in favour of social cohesion in Europe. 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 the job creation, is also one of its major fields of action.

The Bank's policy, similar to that of other multilateral financial institutions, is to not reschedule the interests or the capital of loans and to not participate to 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 Financial Statements for the year ended 31 December 2000 have been prepared in accordance with International Accounting Standards, as formulated by the International Accounting Standards Commitee (IASC), and the European Accounting Standards of the European Union Directive (86/635/EEC),"Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions".
The impact of IAS 39 on the Bank's accounts is now under study. This Standard, applicable from the 1 January 2001, recommends to evaluate all financial instruments at fair value.
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 (Item 6: net profit (loss) on financial operations).

The accounts have been drawn up in euros, on the basis of the follwing exchange rates as at 31 December 2000:

| ISO | Currency | EUR exchange rate | ISO | Currency | EUR exchange rate |
|---|---|---|---|---|---|
| DKK | Danish Krone | 7.4631 | HUF | Hungarian Forint | 265 |
| ISK | Icelandic Krona | 78.8 | CHF | Swiss Franc | 1.5232 |
| NOK | Norwegian Krone | 8.2335 | HRK | Croatian Kuna | 7.58 |
| SEK | Swedish Krona | 8.8313 | LTL | Lithuanian Litas | 3.7229 |
| CZK | Czech Koruna | 35.047 | CYP | Cyprus Pound | 0.57369 |
| AUD | Australian Dollar | 1.677 | MTL | Maltese Lira | 0.4075 |
| CAD | Canadian Dollar | 1.3965 | GBP | Pound Sterling | 0.6241 |
| HKD | Hong Kong Dollar | 7.2578 | TRL | Turkish Lira | 624 267 |
| NZD | New Zealand Dollar | 2.112 | ZAR | South African Rand | 7.0392 |
| SGD | Singapore Dollar | 1.6126 | SIT | Slovenian Tolar | 213.5401 |
| TWD | Taiwan Dollar | 30.758 | JPY | Japanese Yen | 106.92 |
| USD | United States Dollar | 0.9305 | PLN | Polish Zloty | 3.8498 |
| GRD | Greek Drachma | 340.75 | EUR | Euro | 1 |

## 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 revalution 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 of 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 investement securities are considered 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. Issue premiums received or paid when the loans are granted are amortised using the straight-line method over the life of the loan.

Reparding unpaid principal and interest due for more than 90 days, a 100 % interest provision has been set up. Specific provision, entered as a diminution of the amounts owed recorded in the assets, are established when there is a risk of either partial or total non-recovery of principal or interest .

## 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 .

## 2.6: Dept 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 (F.G.B.R.)

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. It is registered separately on the liabilities side of the bank's balance sheet.

In accordance with IAS 30, the movements of the F.G.B.R. are recorded through appropriation of income and no longer through the profit and loss account.

This change in method has no impact on the balance sheet nor on the profit and loss account for the 1999 financial year (see note 2.13)

## 2.8: Pension Fund

The Bank's Pension Fund is organised as a defined benefit pension scheme. It is financed partly the Bank and partly by the employees. All the flows relative to the plan, as well as yearly interests, are entered in a specific provision account, on the liabilities side of the Bank's balance sheet (see note 17).

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 of 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 entered 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). Defined in the Resolution CA 1380 (1995) and revised by Resolution CA 1437 (1999), its main features are the following:

**Purpose of the STA**

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 transition countries.

**Feeding of the account**

- Bank contributions allocated, but not automatically, 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. Exceptionally, the STA has been used for donations.
The accounting of the STA is held separately (see note 16).

## 2.11: 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".

## 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

By its Resolution 1448 (2000), the Administrative Council decided, in accordance with IAS standards, to record the eventual movements in the F.G.B.R. through appropriation of income (see note 2.7).
Originally provisionned through the profit and loss account (European Directive 86/635), the F.G.B.R. has not changed since. Consequently, this change in method does not result in any restatment of the balance sheet or profit and loss account of the exercice 1999.

# Note 3: Loans

## 3.1: Loans and advances to credit institutions

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| **Term deposits** | | |
| Advances (deposits) | 900 830 | 1 043 638 |
| Related interest receivable | 5 597 | 8 427 |
| **Total** | **906 427** | **1 052 065** |
| **Loans** | | |
| Ordinary loans | 4 991 680 | 4 165 872 |
| STA subsidised loans (1) | 4 383 | 3 470 |
| Social loans (2) | 316 | 658 |
| Related interest receivable | 55 961 | 53 224 |
| Provisions | | (71) |
| **Total** | **5 052 340** | **4 223 153** |

*(1) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 16).*
*(2) Social loans are granted at 1% interest rate.*

## 3.2: Loans to customers

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Ordinary loans | 3 268 259 | 3 477 531 |
| STA subsidised loans (1) | 169 912 | 82 355 |
| Social loans (2) | 7 558 | 13 584 |
| Related interest receivable | 45 492 | 46 218 |
| Unpaid principal and interest due (3) | 42 530 | 46 770 |
| Provisions | (42 640) | (48 432) |
| **Total** | **3 491 111** | **3 618 026** |

*(1) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 16).*
*(2) Social loans are granted at 1% interest rate.*
*(3) Unpaid principal and interest due are fully provisioned*

## 3.3: Breakdown of loans by type of borrower

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| **Credit institutions (1)** | | |
| Outstanding amount | 4 996 379 | 4 170 000 |
| Related interest receivable | 55 961 | 53 224 |
| Provisions | - | (71) |
| *Sub-total* | *5 052 340* | *4 223 153* |
| **Customers (1)** | | |
| Member states | 3 004 747 | 3 179 423 |
| Non member states | 5 302 | 5 244 |
| Member states' public institutions | 435 680 | 387 856 |
| Non member states' public institutions | - | 947 |
| Related interest receivable | 45 492 | 46 218 |
| Unpaid principal and interest due | 42 530 | 46 770 |
| Provisions | (42 640) | (48 432) |
| *Sub-total* | *3 491 111* | *3 618 026* |
| **Total loans** | **8 543 451** | **7 841 179** |

| *(1) Total loans per interest rate type:* | *2000* | *1999* |
|---|---|---|
| *Fixed rate loans* | *4 608 741* | *4 902 550* |
| *Floating rate loans* | *3 833 367* | *2 840 920* |

## 3.4: Breakdown of loans (*)

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| EUR | 6 766 487 | 5 820 533 |
| USD | 969 387 | 990 534 |
| JPY | 513 737 | 657 905 |
| CHF | 192 497 | 274 498 |
| **Total** | **8 442 108** | **7 743 470** |

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

## 3.5: Outstanding loans and financing commitments, by country

*in thousand euros as at 31 December*

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| Country | Financing commitments | Outstanding (1) | % | Financing commitments | Outstanding (1) | % |
| Spain | 353 615 | 1 776 370 | 21.04 | 617 429 | 1 371 687 | 17.71 |
| Turkey | 248 976 | 1 599 340 | 18.94 | 218 930 | 1 830 683 | 23.64 |
| Germany | 167 347 | 1 594 322 | 18.89 | 365 703 | 1 453 740 | 18.77 |
| Greece | 435 963 | 888 832 | 10.53 | 507 509 | 988 827 | 12.77 |
| France | - | 827 294 | 9.80 | 309 603 | 423 316 | 5.47 |
| Italy | 802 025 | 557 768 | 6.61 | 704 382 | 783 258 | 10.12 |
| Cyprus | 493 981 | 481 421 | 5.70 | 498 888 | 493 901 | 6.38 |
| Finland | 100 000 | 167 703 | 1.99 | 25 190 | 113 977 | 1.47 |
| Belgium | 60 000 | 165 713 | 1.96 | 5 723 | 99 038 | 1.28 |
| Portugal | 83 855 | 83 469 | 0.99 | 8 975 | 10 211 | 0.13 |
| Poland | 22 556 | 72 561 | 0.86 | 53 946 | 38 169 | 0.49 |
| Malta | 51 540 | 56 746 | 0.67 | 62 732 | 55 319 | 0.71 |
| Hungary | 73 500 | 56 500 | 0.67 | 60 000 | 20 000 | 0.26 |
| Croatia | 7 024 | 25 744 | 0.30 | 16 979 | 15 326 | 0.20 |
| Romania | 44 527 | 22 940 | 0.27 | 43 345 | 12 229 | 0.16 |
| Slovenia | 35 231 | 15 995 | 0.19 | 48 281 | 2 906 | 0.04 |
| Iceland | 32 451 | 13 000 | 0.15 | 35 102 | 13 000 | 0.17 |
| Bulgaria | 18 224 | 8 598 | 0.10 | 7 963 | 2 986 | 0.04 |
| "The former Yugoslav Republic of Macedonia" | 14 757 | 7 492 | 0.09 | 3 835 | 1 418 | 0.02 |
| Slovak Republic | 23 856 | 6 144 | 0.07 | - | - | - |
| Lithuania | 10 126 | 6 142 | 0.07 | 11 052 | 4 326 | 0.06 |
| Bosnia and Herzegovina | 1 612 | 5 302 | 0.06 | - | 4 977 | 0.06 |
| San Marino | 1 162 | 2 711 | 0.03 | 1 162 | 3 228 | 0.04 |
| Fed. Rep. Yugoslavia (2) | - | - | - | - | 948 | 0.01 |
| Estonia | 9 587 | - | - | - | - | - |
| **Total** | **3 091 912** | **8 442 108** | **100.0** | **3 606 729** | **7 743 470** | **100.0** |
| Unpaid loans | | 42 530 | | | 46 770 | |
| Related interest receivable | | 101 453 | | | 99 442 | |
| Provisions | | (42 640) | | | (48 503) | |
| **Net total** | **3 091 912** | **8 543 451** | | **3 606 729** | **7 841 179** | |

*(1) See note 16: Selective Trust Account.*

*(2) The Federal Republic of Yugoslavia is not a member of the Bank. This outstanding represents its share of the debts of former Yugoslavia, associate member of the Bank from 15 January 1986 to 22 October 1991.*

## 3.6: Outstanding loans and financing commitments, by sector

*in thousand euros as at 31 December*

| Sector | 2000 Financing commitments | % | 2000 Outstanding | % | 1999 Financing commitments | % | 1999 Outstanding | % |
|---|---|---|---|---|---|---|---|---|
| **Statutory priorities** | | | | | | | | |
| Aid to refugees and migrants | 22 508 | 0.7 | 395 086 | 4.7 | 30 948 | 0.9 | 772 352 | 10.0 |
| Aid to victims of natural or ecological disasters | 717 126 | 23.2 | 904 001 | 10.7 | 473 761 | 13.1 | 676 120 | 8.7 |
| **New priorities** | | | | | | | | |
| Job creation and preservation in SMEs | 424 753 | 13.7 | 1 358 545 | 16.1 | 364 223 | 10.1 | 970 129 | 12.5 |
| Vocational training | - | - | 133 655 | 1.6 | - | - | 65 160 | 0.8 |
| Social housing | 192 127 | 6.2 | 1 494 456 | 17.7 | 462 614 | 12.8 | 1 589 715 | 20.5 |
| Health | 375 790 | 12.2 | 650 672 | 7.7 | 456 487 | 12.7 | 501 773 | 6.5 |
| Education | 496 970 | 16.1 | 961 056 | 11.4 | 477 153 | 13.2 | 911 204 | 11.8 |
| Improvement of living conditions in disavantaged urban areas | 75 209 | 2.4 | 146 047 | 1.7 | 71 172 | 2.0 | 69 096 | 0.9 |
| **Other fields of action** | | | | | | | | |
| Protection of the environment | 185 630 | 6.0 | 1 066 337 | 12.6 | 512 939 | 14.2 | 677 961 | 8.8 |
| Rural modernisation | 473 421 | 15.3 | 958 833 | 11.4 | 629 097 | 17.4 | 1 049 003 | 13.5 |
| Protection and rehabilitation of historic heritage | 48 822 | 1.6 | 35 808 | 0.4 | 22 165 | 0.6 | 9 422 | 0.1 |
| Infrastructure facilities | 79 556 | 2.6 | 337 612 | 4.0 | 106 170 | 2.9 | 451 535 | 5.8 |
| **Gross Total** | **3 091 912** | **100.0** | **8 442 108** | **100.0** | **3 606 729** | **100.0** | **7 743 470** | **100.0** |
| Unpaid loans | | | 42 530 | | | | 46 770 | |
| Related interest receivable | | | 101 453 | | | | 99 442 | |
| Provisions | | | (42 640) | | | | (48 503) | |
| **Net total** | **3 091 912** | | **8 543 451** | | **3 606 729** | | **7 841 179** | |

*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 (SMP) is made by application of the statistical percentages used when approving each project.*

## 3.7: Financing commitments

*in thousand euros as at 31 December*

| Approbation years | 1998 and before | 1999 | 2000 | TOTAL |
|---|---|---|---|---|
| **Projects** | | | | |
| With framework loan agreements (1) | 546 308 | 433 102 | 382 293 | **1 361 703** |
| Without framework loan agreements (2) | 1 388 812 | 201 859 | 139 538 | **1 730 209** |
| **Sub-total** | **1 935 120** | **634 961** | **521 831** | **3 091 912** |

*(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 4: Securities portfolio

## 4.1: Securities portfolio

*in thousand euros as at 31 December*

| | 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** | | | | |
| 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** |

| | Financial year 1999 | | | |
|---|---|---|---|---|
| | Treasury bills and similar securities | Debt securities and other fixed-income securities | Shares and other variable-yield securities | Total |
| **Trading portfolio** | - | - | - | - |
| **Held-for-sale** | | | | |
| Gross amount | - | 1 789 194 | 1 463 | 1 790 657 |
| Provisions | - | (259) | (719) | (978) |
| Related interest receivable | - | 29 027 | 11 | 29 038 |
| Net amount | - | 1 817 962 | 755 | 1 818 717 |
| **Investment portfolio** | | | | |
| Gross amount | 454 279 | 778 598 | - | 1 232 877 |
| Premium and discount amount | (2 644) | (122) | - | (2 766) |
| Provisions | - | - | - | - |
| Related interest receivable | 21 965 | 27 682 | - | 49 647 |
| Net amount | 473 600 | 806 158 | - | 1 279 758 |
| **Total** | **473 600** | **2 624 120** | **755** | **3 098 475** |

## 4.2: Additional infomation on the securities portfolio

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| **Debt securities and other fixed-income securities** | | |
| Government securities | 289 467 | 314 505 |
| Other securities | 3 325 071 | 2 253 286 |
| | 3 614 538 | 2 567 791 |
| **Held-for-sale portfolio** | | |
| Potential gain on sale | 15 258 | 9 722 |
| **Investment portfolio (1)** | | |
| Potential gain on sale | 11 125 | 43 692 |
| Sale of securities before maturity | - | - |
| Securities with changing category during the financial year | - | - |
| Premium securities amount (2) | 2 612 692 | 1 381 253 |
| Discount securities amount (2) | 1 436 608 | 1 187 161 |

*(1) Bonds and securities issued by countries or equivalent institutions rated AAA or AA.*
*(2) Net book value for portfolio securities.*

## Note 5: Fixed assets

*in thousand euros as at 31 December*

| | Gross value 1999 | Purchase 2000 | Assignment 2000 | Other movements 2000 | Gross value 2000 | Depreciation and provisions accrued 2000 | Net book value 2000 |
|---|---|---|---|---|---|---|---|
| **Intangible fixed assets** | | | | | | | |
| Establishment expenses | - | - | - | - | - | - | - |
| Software | 1 557 | 572 | - | - | 2 129 | (1 278) | 851 |
| Other intangible fixed assets | 682 | 7 | - | (560) | 129 | - | 129 |
| **Total** | **2 239** | **579** | **-** | **(560)** | **2 258** | **(1 278)** | **980** |
| **Tangible fixed assets** | | | | | | | |
| Headquarters real estate | 10 673 | - | - | - | 10 673 | (3 808) | 6 865 |
| Fixtures and equipment | 5 702 | 399 | - | - | 6 101 | (2 732) | 3 369 |
| Other tangible fixed assets | 2 822 | 614 | - | (84) | 3 352 | (2 111) | 1 241 |
| **Total** | **19 197** | **1 013** | **-** | **(84)** | **20 126** | **(8 651)** | **11 475** |
| **Total fixed assets** | **21 436** | **1 592** | **-** | **(644)** | **22 384** | **(9 929)** | **12 455** |

## Note 6: Subscribed capital as at 31 December 2000 (*)

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 authorisation 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 1 000 euros each.
Each member is granted one vote for each participating certificate held.

*in thousand euros as at 31 December*

| COUNTRY | Subscribed capital (a) | Uncalled capital (b) | Called capital (c) Paid (1) (c1) | Called capital (c) To be paid (c2) | Reserves to be paid (d) | Called and unpaid capital and reserves to be paid e = c2 + d |
|---|---|---|---|---|---|---|
| Germany | 237 083 | 210 904 | 26 180 | | | |
| France | 237 083 | 210 904 | 26 180 | | | |
| Italy | 237 083 | 210 904 | 26 180 | | | |
| Spain | 154 624 | 137 550 | 17 074 | | | |
| Turkey | 100 527 | 89 427 | 11 099 | | | |
| Netherlands | 51 471 | 45 787 | 5 684 | | | |
| Belgium | 42 541 | 37 845 | 4 696 | | | |
| Greece | 42 541 | 37 845 | 4 696 | | | |
| Portugal | 36 030 | 32 052 | 3 978 | | | |
| Sweden | 36 030 | 32 052 | 3 978 | | | |
| Poland | 33 205 | 29 539 | 2 750 | 917 | 497 | 1 413 |
| Switzerland | 23 214 | 15 998 | 7 216 | | | |
| Denmark | 23 214 | 20 649 | 2 565 | | | |
| Norway | 18 067 | 16 072 | 1 995 | | | |
| Finland | 18 067 | 16 072 | 1 995 | | | |
| Bulgaria | 16 170 | 14 385 | 1 785 | | | |
| Romania | 15 511 | 13 799 | 1 712 | | | |
| Hungary | 11 595 | 10 315 | 960 | 320 | 131 | 451 |
| Czech Republic | 11 142 | 9 912 | 615 | 615 | 331 | 946 |
| Luxembourg | 8 992 | 8 000 | 993 | | | |
| Croatia | 5 534 | 4 923 | 611 | | | |
| Cyprus | 5 147 | 4 579 | 568 | | | |
| Slovak Republic | 4 908 | 4 366 | 271 | 271 | 146 | 417 |
| Albania | 3 465 | 3 083 | 383 | | | |
| Latvia | 3 316 | 2 950 | 275 | 92 | 55 | 146 |
| Estonia | 3 294 | 2 930 | 364 | | | |
| "The former Yugoslav Republic of Macedonia" | 3 294 | 2 930 | 273 | 91 | 37 | 128 |
| Moldova (2) | 3 294 | 2 930 | 68 | 296 | 160 | 456 |
| Lithuania | 3 259 | 2 899 | 360 | | | |
| Slovenia | 3 183 | 2 832 | 351 | | | |
| Iceland | 2 626 | 2 337 | 289 | | | |
| Malta | 2 626 | 2 336 | 290 | | | |
| San Marino | 1 260 | 1 000 | 260 | | | |
| Liechtenstein | 1 260 | 897 | 363 | | | |
| Holy See | 35 | 17 | 18 | | | |
| **Total 2000** | **1 400 693** | **1 241 018** | **157 074** | **2 601** | **1 356** | **3 957** |
| **Total 1999** | **1 400 693** | **1 241 018** | **154 900** | **4 775** | **2 469** | **7 244** |

*(*) The Governing Board approved on 9 November 1999 by its Resolution 321 the principle of a 5th capital increase whose characteristics are the following:*
*- Increase in subscribed capital of 1 847 million euros;*
*- Subscription period running until 31 March 2001;*
*- Unchanged called capital: 11.04% of the subscribed capital through a partial incorporation of reserves;*
*- Effectiveness of the capital increase as soon as 66.66% of the shares offered have been subscribed;*
*As at 31 December 2000, 14 countries had subscribed, representing 35.53% of the total amount of the capital to be subscribed.*
*The Governing Board decided on 27 February 2001 by its Resolution 329 to extend the period for the participation in the 5th capital increase from 31 March 2001 until 30 September 2001.*

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

*(2) On the installments due since 4 June 1998, 1999 and 2000, Moldova has made one payment of 105 406.41 euros. 315 343.59 euros are still pending.*

## Note 7: Statement of changes in shareholders' equity

*in thousand euros as at 31 December*

| | 1999 | Appropriation of profit 1999 (1) | Payments and profit 2000 | 2000 |
|---|---|---|---|---|
| **Capital** | | | | |
| - Subscribed | 1 400 693 | | | 1 400 693 |
| - Uncalled | (1 241 018) | | | (1 241 018) |
| Called capital | 159 675 | | | 159 675 |
| Unpaid capital | (4 775) | | 2 174 | (2 601) |
| | **154 900** | | **2 174** | **157 074** |
| **Reserves** | | | | |
| General reserve | 749 334 | 81 408 | | 830 742 |
| Reserves to be paid | (2 469) | | 1 113 | (1 356) |
| | **746 865** | **81 408** | **1 113** | **829 386** |
| **Unappropriated profit of the financial year** | 91 408 | (91 408) | 95 037 | 95 037 |
| **Shareholders' equity** | **993 173** | **(10 000)** | **98 324** | **1 081 497** |
| Fund for General Banking Risks | 150 000 | | | 150 000 |
| **Total equity** | **1 143 173** | **(10 000)** | **98 324** | **1 231 497** |

*(1) The net profit for the financial year 1999 was allocated for an amount of 10 million euros to the Selective Trust Account and for an amount of 81.4 million euros to the general reserve.*

## Note 8: Other assets, prepayments and accrued income

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Sundry debtors | 3 679 | 3 400 |
| Conditional instruments purchased | 813 | 998 |
| **Total other assets** | **4 492** | **4 398** |
| Accrued interest receivable | 446 804 | 353 997 |
| Foreign currencies adjustment account | 293 300 | 202 515 |
| Other expenses to be amortised | 83 048 | 78 622 |
| Prepaid expenses | 944 | 4 100 |
| Other accrued income and sundry debtors/creditors | 1 003 | 221 |
| **Total prepayments and accrued income** | **825 099** | **639 455** |

# Note 9: Debts

## 9.1: Amounts owed to credit institutions and to customers

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| **Amounts owed to credit institutions** | | |
| Repayable on demand | 41 643 | 162 |
| With agreed maturity dates or periods of notice | - | 19 500 |
| Related interest payable | - | 4 |
| **Total** | **41 643** | **19 666** |
| **Amounts owed to customers** | | |
| With agreed maturity dates or periods of notice | 56 117 | 62 406 |
| Related interest payable | 833 | 1 022 |
| **Total** | **56 950** | **63 428** |

## 9.2: Debt materialised by securites

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Bonds | 11 357 984 | 10 019 366 |
| Euro Commercial Paper | 635 857 | 544 275 |
| Perpetual debt (1) | 133 630 | 126 811 |
| *Sub-Total* | **12 127 471** | **10 690 453** |
| Related interest payable | 398 825 | 359 949 |
| **Total** | **12 526 296** | **11 050 401** |

*(1) The outstanding as at 31 December 2000 comprises a debt of CHF 203 545 000 (euros 133 629 858.19) at a fixed rate of 5.5% p.a.*

## 9.3: Debt materialised by securites, analysis by currency

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| USD | 5 473 379 | 3 899 320 |
| EUR | 4 277 900 | 4 615 857 |
| JPY | 992 120 | 1 057 992 |
| TWD | 390 142 | 190 379 |
| CHF | 363 409 | 220 264 |
| GBP | 341 627 | |
| CAD | 71 608 | 68 456 |
| HKD | 68 891 | 448 362 |
| ZAR | 54 591 | 65 163 |
| GRD | 53 561 | 60 660 |
| PLN | 25 975 | 18 034 |
| CZK | 14 267 | 13 849 |
| SEK | - | 32 117 |
| *Sub-total* | **12 127 471** | **10 690 452** |
| Related interest payable | 398 825 | 359 949 |
| **Total** | **12 526 296** | **11 050 401** |

## Note 10: Other liabilities, accruals and deferred income

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| **Other liabilities** | | |
| Sundry creditors | 1 261 | 1 575 |
| Deposits of guarantee received (1) | 171 291 | 60 386 |
| **Total** | **172 552** | **61 961** |
| Accruals and deferred income | | |
| Deferred income | 77 276 | 72 121 |
| Accrued expenses | 253 840 | 181 019 |
| Other accruals and sundry debtors/creditors | 2 676 | 3 790 |
| **Total** | **333 792** | **256 930** |

*(1) These deposits represent transactions known as collateral.*

## Note 11: Foreign currency transactions

*in thousand euros as at 31 December*

| | 2000 | | | | |
|---|---|---|---|---|---|
| | Assets | Liabilities | Currencies to be received | Currencies to be paid | Net position |
| 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** |

| | 1999 | | | | |
|---|---|---|---|---|---|
| | Assets | Liabilities | Currencies to be received | Currencies to be paid | Net position |
| EUR | 8 598 082 | 6 243 119 | 616 542 | 2 768 474 | 203 031 |
| **Other currencies** | | | | | |
| USD | 2 344 242 | 4 118 621 | 2 676 838 | 902 941 | (481) |
| JPY | 1 191 204 | 1 165 441 | 795 634 | 821 457 | (59) |
| CHF | 363 131 | 233 867 | - | 130 039 | (775) |
| GBP | 36 492 | 2 467 | - | 33 394 | 632 |
| Others | 126 116 | 895 753 | 836 360 | 66 630 | 94 |
| *Sub-total* | **4 061 186** | **6 416 149** | **4 308 833** | **1 954 460** | **(590)** |
| **Total** | **12 659 268** | **12 659 268** | **4 925 374** | **4 722 934** | **202 441** |

## Note 12: Liquidity position

*in thousand euros as at 31 December*

| | 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 | 52 | | | | | 52 |
| Loans and advances to credit institutions and customers | | | | | | |
| - repayable on demand | 4 605 | | | | | 4 605 |
| - advances (deposits) | 906 427 | | | | | 906 427 |
| - loans | 57 323 | 1 374 266 | 2 234 338 | 4 877 525 | | 8 543 451 |
| Securities portfolio | 939 360 | 1 407 416 | 1 003 742 | 782 398 | 780 | 4 133 696 |
| Other assets | | | | | 846 004 | 846 004 |
| *Sub-total* | **1 907 766** | **2 781 682** | **3 238 079** | **5 659 923** | **846 784** | **14 434 234** |
| **LIABILITIES** | | | | | | |
| Amounts owed to credit institutions and customers | 41 643 | | | 56 950 | | 98 593 |
| Debt evidenced by certificates | | | | | | |
| - Negotiable debt securities (ECP) | 526 648 | 120 778 | | | | 647 427 |
| - Subordinated debt and bonds | 678 703 | 2 266 079 | 5 845 446 | 2 955 011 | | 11 745 239 |
| - Perpetual debt | | | | 133 630 | | 133 630 |
| Capital, reserves and result | | | | | 1 085 454 | 1 085 454 |
| Other liabilities | | | | | 723 892 | 723 892 |
| *Sub-total* | **1 246 994** | **2 386 858** | **5 845 446** | **3 145 591** | **1 809 345** | **14 434 234** |
| Currency swaps and forward exchange rate contracts | (5 563) | 41 967 | 260 274 | (1 577) | 0 | 295 101 |
| **Net liquidity position** | **655 209** | **436 791** | **(2 347 092)** | **2 512 754** | **(962 561)** | **295 101** |

## Note 13: Off-balance-sheet financial instruments

*in thousand euros as at 31 December*

| | 2000 | | 1999 |
|---|---|---|---|
| | Hedging instruments | Total | Total |
| **Over-the-counter transactions** | | | |
| - interest rate swaps | 7 600 405 | 7 600 405 | 7 207 307 |
| - foreign currency swaps | 6 158 793 | 6 158 793 | 4 703 632 |
| - other | 423 746 | 423 746 | 19 302 |
| **Conditional transactions** | | | |
| - interest rate options | 38 112 | 38 112 | 242 629 |
| - currency options | - | - | - |
| - other options | - | - | - |
| **Total** | **14 221 056** | **14 221 056** | **12 172 870** |

# Note 14: Result

## 14.1: Interest and similar income

*in thousand euros as at 31 December*

| Profit and loss account | 2000 | 1999 |
|---|---|---|
| Interest income from current accounts | 56 | 37 |
| Interest income from short-term deposits | 55 596 | 35 182 |
| Interest income from loans (1) | 243 110 | 192 811 |
| Interest on financial transactions hedging assets | 25 881 | 19 327 |
| **Interest and similar income on operations with credit institutions** | **324 643** | **247 357** |
| Interest income from loans (1) | 239 972 | 233 202 |
| Interest on financial transactions hedging assets | 72 335 | 40 134 |
| **Interest and similar income on operations with customers** | **312 307** | **273 336** |
| Income from held-for-sale securities | 111 188 | 94 270 |
| Income from investment securities | 81 887 | 77 886 |
| Interest on financial transactions hedging assets | 48 916 | 39 878 |
| **Interest and similar income on debt securities and other fixed-income securities** | **241 991** | **212 034** |
| Redemption of issue premiums | 16 160 | 11 057 |
| Other interest income (2) | 661 872 | 575 370 |
| **Other interest income** | **678 032** | **586 427** |
| **Total** | **1 556 973** | **1 319 154** |

*(1) i.e. interests received on loans amounting to euros 483 082 thousands for the 2000 Financial year and to euros 426 013 thousands for the 1999 financial year*

*(2) This item includes interests on financial instruments used as macro-hedging and hedging for debt evidenced or not by a certificate.*

## 14.2: Analysis of interest on loans by country

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Turkey | 128 413 | 138 701 |
| Germany | 80 505 | 68 956 |
| Spain | 76 685 | 46 303 |
| Greece | 59 798 | 56 550 |
| Italy (1) | 48 596 | 63 490 |
| France | 29 682 | 13 569 |
| Cyprus | 28 656 | 24 643 |
| Finland | 7 446 | 3 866 |
| Belgium | 6 348 | 3 163 |
| Malta | 3 640 | 3 280 |
| Poland | 3 082 | 424 |
| Portugal | 2 695 | 580 |
| Hungary | 2 041 | 228 |
| Croatia | 1 174 | 475 |
| Slovenia | 1 029 | 94 |
| Romania | 764 | 106 |
| Bosnia and Herzegovina | 747 | 357 |
| Iceland | 563 | 406 |
| Bulgaria | 382 | 158 |
| Lithuania | 309 | 227 |
| San Marino | 219 | 233 |
| Slovak Republic | 157 | - |
| "The former Yugoslav Republic of Macedonia" | 100 | 37 |
| Federal Republic of Yugoslavia | 51 | 167 |
| Sweden | 1 | - |
| **Total** | **483 082** | **426 013** |
| **Interest on hedging instruments** | **98 216** | **59 461** |
| **Total** | **581 298** | **485 474** |

*(1) Including penalties on early redemption of 2.29 million euros for 2000 financial year and of 1.99 million euros for 1999 financial year.*

## 14.3: Interest and similar charges

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Interest charge on current accounts | 97 | 59 |
| Interest charge on short-term borrowings | 7 111 | 1 750 |
| Interest on financial transactions hedging assets | 27 467 | 25 883 |
| **Interest and similar charges on operations with credit institutions** | **34 675** | **27 692** |
| Interest charge on current accounts | 1 790 | 1 015 |
| Interest charge on short-term borrowings | 2 099 | 549 |
| Interest on financial transactions hedging assets | 91 560 | 66 392 |
| **Interest and similar charges on operations with customers** | **95 449** | **67 956** |
| Interest charge on transferable debt securities | 31 005 | 12 267 |
| Interest charge on debt and bonds | 758 347 | 722 781 |
| Interest on financial transactions hedging assets | 441 280 | 297 001 |
| **Interest and similar charges on debt evidenced by certificates** | **1 230 632** | **1 032 049** |
| Other interest and charges (1) | 88 679 | 85 600 |
| **Total** | **1 449 435** | **1 213 297** |

*(1) This item notably includes interest charges on the financial instruments used as macro-hedging and hedging for the securities portfolio.*

## 14.4: Net profit on financial operations

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| - Trading securities | 0 | 0 |
| - Off-balance-sheet financial instruments | 0 | 0 |
| *Sub-Total* | **0** | **0** |
| - Foreign currency transactions | (31) | 768 |
| - Held-for-sale securities | (60) | 50 |
| **Total** | **(91)** | **818** |

# Note 15: General administrative expenses

*in thousand euros as at 31 December*

| | 2000 | 1999 |
|---|---|---|
| Wages and salaries | 8 668 | 8 100 |
| Social security taxes | 700 | 740 |
| Pension costs | 1 021 | 975 |
| Other administrative expenses | 5 596 | 5 185 |
| **Total** | **15 985** | **15 000** |

## Staff

At 31 December 2000, the Bank had a permanent staff of 115 (108 at 31 December 1999) comprised as follows:

| As at 31 December | 2000 | 1999 |
|---|---|---|
| Unclassified staff (1) | 4 | 3 |
| Management staff | 54 | 46 |
| Non-management staff | 57 | 59 |
| **Total** | **115** | **108** |

*(1) Governor and Vice-Governors, elected.*

# Note 16: Selective Trust Account (STA)

## 16.1: Financial Statements

*in thousand euros as at 31 December*

| ASSETS | 2000 | 1999 | LIABILITIES | 2000 | 1999 |
|---|---|---|---|---|---|
| Deposit to the CEB | 42 163 | 32 971 | Contribution paid by the CEB | 45 020 | 35 020 |
| Securities portfolio | 3 379 | 2 856 | Other contributions paid | 107 | 107 |
| | | | Accruals and deferred income | 1 257 | 536 |
| | | | Results brought forward | 164 | 2 560 |
| | | | Result for the financial year | (1 006) | (2 396) |
| **Total** | **45 542** | **35 827** | | **45 542** | **35 827** |

*in thousand euros as at 31 December*

| PROFIT AND LOSS ACCOUNT | 2000 | 1999 |
|---|---|---|
| **Income** | | |
| Payment from the CEB (1) | 1 790 | 1 015 |
| Income from securities portfolio | 296 | 88 |
| **Expenses** | | |
| Subsidies paid to the CEB | (1 172) | (402) |
| Accession of Albania to the Bank's capital | - | (1 861) |
| Donations | (1 920) | (1 236) |
| **Result for the financial year** | **(1 006)** | **(2 396)** |

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

*in thousand euros as at 31 December*

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

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

### 16.2: Breakdown of financing commitments and loans outstanding within the framework of the STA

*in thousand euros as at 31 December*

| | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|
| Country | Financing commitments | Outstanding | % | Financing commitments | Outstanding | % |
| Poland | 22 556 | 72 561 | 41.6 | 53 946 | 38 168 | 44.5 |
| Hungary | 53 500 | 36 500 | 20.9 | 30 000 | 10 000 | 11.7 |
| Croatia | 7 024 | 25 744 | 14.8 | 16 980 | 15 051 | 17.5 |
| Romania | 11 000 | 19 095 | 11.0 | 19 500 | 10 675 | 12.4 |
| Slovak Republic | 23 856 | 6 144 | 3.5 | - | - | - |
| Bosnia and Herzegovina | 1 612 | 5 302 | 3.0 | - | 4 977 | 5.8 |
| Lithuania | 8 864 | 4 567 | 2.6 | 8 960 | 3 484 | 4.1 |
| Slovenia | 3 013 | 3 744 | 2.2 | 2 057 | 2 831 | 3.3 |
| Germany | 3 717 | 639 | 0.4 | 3 717 | 639 | 0.7 |
| Bulgaria | 15 000 | - | - | - | - | |
| **Total** | **150 142** | **174 296** | **100 %** | **135 160** | **85 825** | **100 %** |

## Note 17: Provision for liabilities and charges/Pension Fund

### Staff retirement commitments

Commitments related to retirement benefits were valued at 31 Decmber 2000 by an independant actuary, using the projected unit credit method, in compliance with the principle described in the Note 2.8.
The calculations were based on the following assumptions:

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

### Changes in provisions

*in thousand euros as at 31 December*

| | | |
|---|---|---|
| **Provision as at 31 December 1999** | | **23 494** |
| **Income** | | **2 967** |
| - Employer contribution | 1 030 | |
| - Staff contribution | 494 | |
| - Interest income | 1 443 | |
| **Expenses** | | **(1 077)** |
| - Pensions paid | (469) | |
| - Departure grants | (584) | |
| - Others | (24) | |
| **Provision as at 31 December 2000** | | **25 384** |

# External auditor's report

ARTHUR ANDERSEN

Barbier Frinault & Autres
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France
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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 annual financial statements of the Council of Europe Development Bank - CEB - for the financial year ended December 31, 2000. As independent auditor, our responsibility is to express an opinion on these financial statements, which were drawn up under the responsibility of the Governor.

We conducted our audit in accordance with IFAC's international auditing standards and we deem that our audit provides a reasonable basis for formulating our opinion. These standards require that we plan and perform the audit to obtain reasonable assurance as to 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 and in the notes thereto. An audit also includes assessing the accounting principles and methods used and the estimates made by the Governor, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

We certify that the accompanying financial statements present fairly, in all material respects, the financial position of the Council of Europe Development Bank as of December 31, 2000, and the results of its operations and its cash flows for the year then ended, in accordance with international GAAP (IASC), and in light of the European Directives authorising the setting-up of a Fund for General Banking Risks.

Without further qualifying our opinion, we wish to draw the reader's attention to notes (2.7) and (2.13) to the financial statements regarding the change in method of setting up the Fund for General Banking Risks. This change in method affects neither the balance sheet nor the income statement as of December 31, 1999.

Neuilly-sur-Seine, 7 March, 2001

Barbier Frinault & Autres
Arthur 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 2000

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 Adminitrative Council, adopted at its 163rd meeting (15 December 2000). The Auditing Board met in Paris on 2 February 2001 for a prelimany meeting and from 5 to 9 March 2001 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 2000.

Based on Resolution 326 (2000) of the Governing Board and on the Auditing Board's previous years' findings, the external auditor, Arthur Andersen (Paris) presented its 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 2000 as follows:
- consulting the Governor, the Vice-Governors and the Directors of the Bank;
- examining the Financial Statements of the Bank for the year 2000, including the balance sheet at 31 December 2000, 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 7 March 2001;
- consulting the Internal Audit Department;
- consulting the external auditor of the Bank and examining his preliminary report and his draft long-form report, for the year 2000;
- obtaining the opinion signed by the external auditor on 7 March 2001;
- 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 of the state of the Bank's affairs as at 31 December 2000 and the results of its operations and its cash flows for the year then ended, in accordance with the International Accounting Standards and the European Directives regarding the Accounting Fund for General Banking Risks.

The Auditing Board, without qualifying its opinion, wishes to draw the readers' attention to the following notes to the Financial Statements:
1. Notes 2.7 and 2.13 that represent a change in the method of setting up the Fund fo General Banking Risks. This change in the method affects neither the balance sheet nor the income statement as of 31 December 1999.
2. Note 3.6 which emphasises that the interpretation of the primary purposes of the Bank (aid to refugees and migrants and to victims of natural and ecological disasters) has been broadened to include also actions in favour of social cohesion in Europe following the Second Summit of Heads of State and Government of the Council of Europe member States and as subsequently set out in Resolution 1424 rev.3 (2000) of the Administrative Council.

Paris, 9 March 2001

P. A. ENGESETH
M. I. CASTELÃO FERREIRA da SILVA
F. CASSEL

# Balance sheet as at 31 December 2000 after allocation of results

*in thousand euros as at 31 December*

## ASSETS

| Items | | 2000 | 1999 |
|---|---|---|---|
| 1 | **Cash in hand, balances with central banks** | 52 | 120 |
| 2 | **Loans and advances to credit institutions** | | |
| | (a) advances repayable on demand | 4 605 | 2 987 |
| | (b) loans and advances: | | |
| | - advances (notes 3.1 and 12) | 906 427 | 1 052 065 |
| | - loans (a) (notes 3.1 and 12) | 5 052 340 | 4 223 153 |
| 3 | **Loans to customers** | | |
| | - loans (b) (notes 3.2 and 12) | 3 491 111 | 3 618 026 |
| | *Total loans (a+b)* (notes 3.3 to 3.6) | *8 543 451* | *7 841 179* |
| 4 | **Treasury bills and similar securities** (notes 4 and 12) | 455 131 | 473 600 |
| 5 | **Debt securities and other fixed-income securities** (notes 4 and 12) | 3 677 773 | 2 624 120 |
| 6 | **Shares and other variable-yield securities** (notes 4 and 12) | 792 | 755 |
| | *Total portfolio* | *4 133 696* | *3 098 475* |
| 7 | **Intangible fixed assets** (note 5) | 980 | 1 365 |
| 8 | **Tangible fixed assets** (note 5) | 11 475 | 11 980 |
| 9 | **Capital subscribed, called, unpaid and reserves to be paid** (notes 6 and 7) | 3 957 | 7 244 |
| 10 | **Other assets** (note 8) | 4 492 | 4 398 |
| 11 | **Prepayments and accrued income** (note 8) | 825 099 | 639 455 |
| | **Total** (note 11) | 14 434 234 | 12 659 268 |

## LIABILITIES

| Items | | 2000 | 1999 |
|---|---|---|---|
| 1 | **Amounts owed to credit institutions** | | |
| | (a) repayable on demand | 41 643 | 162 |
| | (b) with agreed maturity dates or periods of notice (notes 9.1 and 12) | 0 | 19 504 |
| 2 | **Amounts owed to customers** with agreed maturity dates or periods of notice (notes 9.1 and 12) | 56 950 | 63 428 |
| 3 | **Debt materialized by securities** (notes 9.2 and 12) | 12 526 296 | 11 050 401 |
| 4 | **Other liabilities** (note 10) | 172 552 | 61 961 |
| 5 | **Accruals and deferred income** (note 10) | 333 792 | 256 930 |
| 6 | **Selective Trust Account (STA)** (notes 2.10 and 16) | 52 163 | 42 971 |
| 7 | **Provision for financial risks Pension Fund** (notes 2.8 and 17) | 25 384 | 23 494 |
| 8 | **Fund for General Banking Risks** (note 2.7) | 160 000 | 150 000 |
| 9 | **Capital** (notes 6 and 7) | | |
| | (a) subscribed (including 157 074) | 1 400 693 | 1 400 693 |
| | (b) uncalled capital | (1 241 018) | (1 241 018) |
| | | *159 675* | *159 675* |
| 10 | **General reserve** | 905 779 | 830 742 |
| | **Total** (note 11) | 14 434 234 | 12 659 268 |

## OFF-BALANCE-SHEET ITEMS

| Items | | 2000 | 1999 |
|---|---|---|---|
| | **Commitments given** | | |
| I | Awaiting financing on approved projects (notes 3.5 to 3.7) | 3 091 912 | 3 606 729 |
| II | Guarantees | | |
| | a) Guarantees for loans granted by third parties | 8 091 | 11 126 |
| | b) Guarantees on assigned interest swaps | 563 013 | 645 704 |
| | **Commitments received** | | |
| III | Guarantees received | 8 187 | 11 222 |
| | **Off-balance-sheet financial instruments** (notes 2.9 and 13) | 14 221 056 | 12 172 869 |

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

# Extract from the minutes of the 212th meeting of the Administrative Council of the Council of Europe Development Bank

**Resolution 1456 (2001)** **CA/PV 212 (2001)**

Paris, 30 March 2001

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 notes to the Financial Statements as at 31 December 2000,
- Having taken note of the report of the external auditor dated 7 March 2001,
- Having taken note of the Auditing Board's report dated 9 March 2001,
- Having taken note of the Governor's Memorandum dated 9 March 2001,

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 2000,

2. discharges the Governor from his responsibility for the financial year 2000,

3. decides to allocate the net profits for 2000, amounting to € 95 036 610 as follows:

   - € 10 000 000 to the Fund for General Banking Risks,

   - € 75 036 610 to the General Reserve,

   - € 10 000 000 to the Selective Trust Account,

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

# Extract from the minutes of the 165th meeting of the Governing Board of the Council of Europe Development Bank

**Resolution 331 (2001)** **CD/PV 165 (2001)**

Paris, 20 April 2001

The Governing Board,

- Having regard to Article IX, Section 3, paragraph 1, litt.e of the Articles of Agreement,
- Having regard to the balance sheet, the profit and loss account and the Notes appended to the Financial Statements as at 31 December 2000,
- Having taken note of the certification by the external auditor, Arthur Andersen, dated 7 March 2001,
- Having regard to the reports of the Bank's statutory organs, viz:
    - the Report of the Governor for the financial year 2000,
    - the report by the Auditing Board dated 9 March 2001,
- Having regard to Resolution 1456 (2001) of the Administrative Council,
- Having heard the Auditing Board,

Decides

- to approve the Bank's annual report, accounts and other Financial Statements for 2000,
- to discharge the Administrative Council from its responsibility for the 2000 financial year,
- to endorse point 3 of Resolution 1456 (2001) of the Administrative Council of 30 March 2001, by which the Administrative Council agreed to allocate from the net profits for 2000, amounting to € 95 036 610:
    - € 10 000 000 to the Fund for General Banking Risks,
    - € 75 036 610 to the General Reserve,
    - € 10 000 000 to the Selective Trust Account.

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 2000, 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" and 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 member states.

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

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

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

**7. 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:** A special account set up in 1995 to provide interest-rate subsidies for projects that comply with the Bank's priority objectives and have a high social value. The account is fed with allocations from the Bank's profits and voluntary contributions from member states.

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

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

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

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

**14. Translation:** The report of the Governor is also available in French (ISSN 1563-2598) and German (ISSN 1563-261X).

**Photos:** Cover and picture inserts, Corbis; picture inserts page 35, Getty One Stone; other photos, photographic library CEB.




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