# Report of the Governor 1999



# Council of Europe Development Bank

# Key figures

in million euros

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| **Loans disbursed during the year** | 1 712 | 1 056 | 862 |
| **Projects approved during the year** | 2 052 | 2 257 | 2 153 |
| **Loans disbursed since inception** | 13 573 | 11 861 | 10 805 |
| **Own assets (after allocation of results)** | 2 381 | 2 283 | 2 144 |
| **Tangible net worth (after allocation of results)** | 1 140 | 1 055 | 969 |
| **Balance sheet total** | 12 659 | 11 096 | 9 539 |
| **Profit** | 91.4 | 81.4 | 81.6 |
| **Selective Trust Account (total appropriations from profit)** | 45 | 35 | 30 |

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

## Objectives

The Council of Europe Development Bank (CEB), previously known as the "Council of Europe Social Development Fund", 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 been financing social projects and responding 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 41 European member states. Throughout its history, it has asserted its role in the defence of human rights and the promotion of democracy. In addition to this activity, the Council of Europe 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. The Bank is also backed up by the Strasbourg-based Secretariat of the Partial Agreement, under the authority of the Council of Europe Secretariat, which issues an opinion concerning the political and social admissibility of each project submitted to the Bank.

## Activities

The Bank makes loans for social projects. Its activities complement those of other intergovernmental financial organs.

Loans are granted in accordance with precisely

defined criteria. Priority is thus 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 the social problems faced by *"victims of natural or ecological disasters"*.

Since its inception over forty years ago, the Bank has gradually broadened its fields of action, which now include funding for projects relating to small and medium-sized enterprises (SMEs), social housing, health, education, protection of the environment, rural modernisation, rehabilitation of disadvantaged urban areas and restoration of the historic heritage.

As part of its projects, the Bank strives to promote and develop job creation.

This field of activity was ranked among its priority tasks by the Second Summit of the Council of Europe (Strasbourg, 1997).

## 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 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 EUR 5.7 million, the Bank had a subscribed capital of EUR 1.4 billion as at 31 December 1999. Leverage is particularly impressive: since its inception the Bank has been able to pay out more than EUR 13 billion in loans.

## Rating

For its long-term operations the Bank is rated AAA by Standard & Poor's and Fitch IBCA and Aa1 by Moody's.

## Management

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

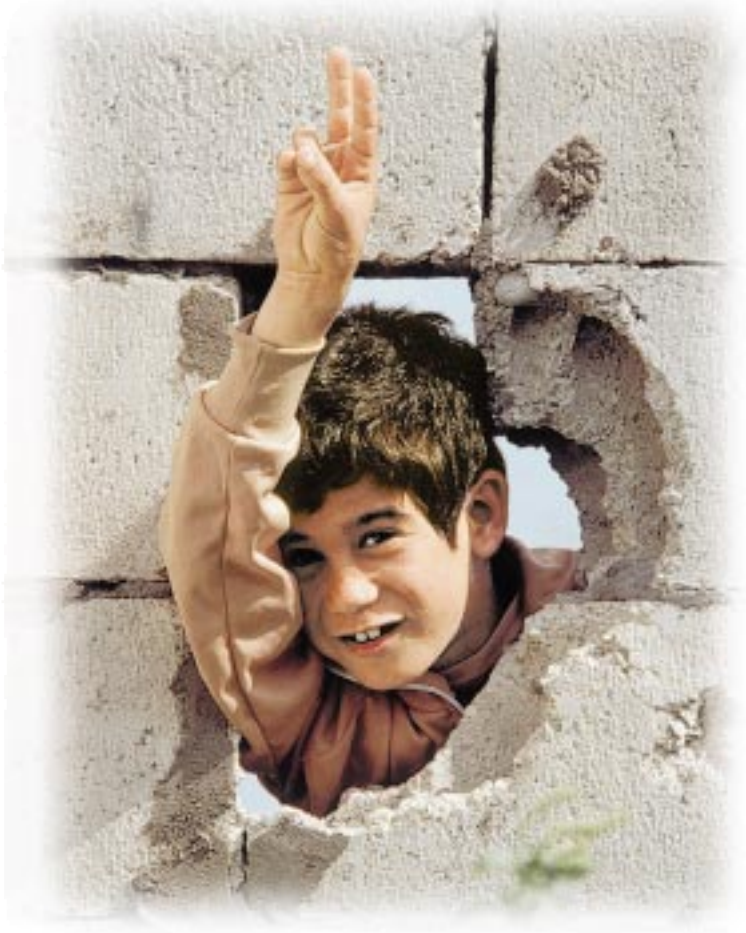
— the Governing Board, comprising one representative per member state. Its Chairman is Mr Kari Nars, who was elected on 28 June 1999;

— 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 18 June 1996. He is assisted by the First Vice-Governor, Mr Martin Murtfeld, and two Vice-Governors, 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 1999

**Council of Europe Development Bank**

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Malta
Moldova
Netherlands
Norway
Poland
Portugal
Romania
San Marino
Slovakia
Slovenia
Spain
Sweden
Switzerland
"The Former Yugoslav Rep. of Macedonia"
Turkey

In 6 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 1999*

| Governing Board | | Administrative Council |
|---|---|---|
| Kari NARS<br>Director, European Bank for Reconstruction and Development (EBRD), London | ***Chairmen*** | Heinrich HARRIES<br>Former Director of the Kreditanstalt für Wiederaufbau (KfW), Frankfurt am Main |
| Magdalena TOVORNIK<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg | ***Vice-Chairs*** | Dimitar B. RADEV<br>Deputy Minister for Finance, Ministry of Finance, Sofia |
| Fotaq ANDREA<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg | ***Albania*** | Izedin HAJDINI<br>Head of Co-ordination of Aid, Ministry of Economic Co-ordination and Trade, Tirana |
| Jan SCHOKKAERT<br>General Adviser, Ministry of Foreign Affairs, Brussels | ***Belgium*** | Werner VERTONGEN<br>Inspector General, Research Department, National Bank of Belgium, Brussels |
| Ventzislav IVANOV<br>Adviser, Human Rights and Social Affairs Directorate, Ministry of Foreign Affairs, Sofia | ***Bulgaria*** | Dimitar B. RADEV<br>Deputy Minister for Finance, Ministry of Finance, Sofia |
| Vladimir MATEK<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg | ***Croatia*** | Josip KULISIC<br>Deputy Minister, Department of International Relations, Ministry of Finance, Zagreb |
| Christophoros YIANGOU<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Cyprus to the Council of Europe, Strasbourg | ***Cyprus*** | Antonis MALAOS<br>Director, European Institute of Cyprus, Nicosia |
| Jiri MUCHA<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg | ***Czech Republic*** | Dimitrij LOULA<br>Head of the International Financial Organisation Unit, Department of International Financial Relations, Ministry of Finance, Prague |
| Arne BELLING<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg | ***Denmark*** | Peter Brix KJELGAARD<br>Adviser, Department for International Co-operation, Ministry of Finance, Copenhagen |

* Under Article VIII of the 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 comprising members of the Administrative Council and chaired by its Chairman.
In accordance with Article XIII, the Bank's secretariat is provided by the Secretariat of the Organs of the Council of Europe Development Bank, at Strasbourg.
(Director General: Mr Constantinos N. PILAVACHI,
Executive Secretary of the Bank's Organs: Mrs Giusi PAJARDI).

| Governing Board | | Administrative Council |
|---|---|---|
| Ants FROSCH<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Estonia to<br>the Council of Europe, Strasbourg | ***Estonia*** | Martin PÖDER<br>Deputy Secretary General,<br>Ministry of Finance, Tallinn |
| Erkki KOURULA<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Finland to<br>the Council of Europe, Strasbourg | ***Finland*** | Seppo SUOKKO<br>Deputy Director General, Department of<br>Economic Affairs,<br>Ministry of Finance, Helsinki |
| Jacques WARIN<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of France to<br>the Council of Europe, Strasbourg | ***France*** | Pierre MERVIEL<br>Head of Bureau, European Affairs,<br>Treasury Directorate, Ministry of Economic<br>Affairs and Finance, 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,<br>Ministry of Finance, Bonn |
| Dimitri CONSTAS<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Greece to<br>the Council of Europe, Strasbourg | ***Greece*** | Constantinos VGENOPOULOS<br>National Bank of Greece,<br>Athens |

***Holy See***
Mgr Michael COURTNEY
Special Envoy of the Holy See to the Council of Europe, Strasbourg

| | | |
|---|---|---|
| Janos PERENYI<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Hungary to<br>the Council of Europe, Strasbourg | ***Hungary*** | Gusztav BAGER<br>Director General, International Financial<br>Institutions Secretariat, Ministry of Finance,<br>Budapest |
| Sveinn BJÖRNSSON<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Iceland to<br>the Council of Europe, Strasbourg | ***Iceland*** | Thröstur OLAFSSON<br>Economist, Chairman of the Board,<br>Central Bank of Iceland, Reykjavik |
| Pietro Ercole Carlo AGO<br>Ambassador, Permanent Representative of Italy to<br>the Council of Europe, Strasbourg | ***Italy*** | Nunzio GUGLIELMINO<br>Director General, Treasury Directorate,<br>Rome |
| Georgs ANDREJEVS<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Latvia to<br>the Council of Europe, Strasbourg | ***Latvia*** | Inguna SUDRABA<br>Under-Secretary of State, Ministry of Finance,<br>Riga |

***Liechtenstein***
Josef WOLF
Ambassador Extraordinary and Plenipotentiary,
Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg

| Governing Board | | Administrative Council |
|---|---|---|
| Rokas BERNOTAS<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Lithuania to<br>the Council of Europe, Strasbourg | ***Lithuania*** | Asta BIELSKIENE<br>Deputy Director of the International Dept,<br>Ministry of Finance, Vilnius |
| Gérard PHILIPPS<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Luxembourg to<br>the Council of Europe, Strasbourg | ***Luxembourg*** | Jérôme HAMILIUS<br>Government Adviser,<br>Ministry of Finance, Luxembourg |
| | ***Malta*** | |
| Joseph LICARI<br>Ambassador, Permanent Representative of Malta to the Council of Europe, Strasbourg | | |
| Iuliana GOREA-COSTIN<br>Permanent Representative of Moldova to<br>the Council of Europe, Strasbourg | ***Moldova*** | Valentina POSTOLACHI<br>Deputy Minister for Economic<br>Affairs and Reforms, Chisinau |
| Hendrik WAGENMAKERS<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of the Netherlands to<br>the Council of Europe, Strasbourg | ***Netherlands*** | Jos HP de VRIES<br>Deputy Director of Foreign<br>Financial Relations,<br>Ministry of Finance, The Hague |
| Sten LUNDBO<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Norway to<br>the Council of Europe, Strasbourg | ***Norway*** | Knut PAUS<br>Deputy Permanent Representative of<br>Norway to the Council of<br>Europe, Strasbourg |
| Marcin RYBICKI<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Poland to<br>the Council of Europe, Strasbourg | ***Poland*** | Jacek TOMOROWICZ<br>Director, International<br>Co-operation Department,<br>Ministry of Finance, Warsaw |
| Paulo CASTILHO<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Portugal to<br>the Council of Europe, Strasbourg | ***Portugal*** | Lina NETO<br>Deputy Director General, Directorate General<br>for European Affairs and International<br>Relations, Ministry of Finance, Lisbon |
| Sabin POP<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Romania to<br>the Council of Europe, Strasbourg | ***Romania*** | Valentina SICLOVAN<br>Deputy Director General, Directorate-<br>General of International Financial Relations,<br>Ministry of Finance, Bucharest |
| Guido CECCOLI<br>Permanent Representative of San Marino<br>to the Council of Europe, Strasbourg | ***San Marino*** | Raffaele GIARDI<br>Adviser, Ministry of Finance,<br>Republic of San Marino |
| Eva GARAJOVA<br>Ambassador Extraordinary and Plenipotentiary,<br>Permanent Representative of Slovakia to<br>the Council of Europe, Strasbourg | ***Slovakia*** | Viliam VASKOVIC<br>State Secretary, Ministry of Finance,<br>Bratislava |

| Governing Board | | Administrative Council |
|---|---|---|
| Magdalena TOVORNIK<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg | ***Slovenia*** | Meta BOLE<br>Deputy State Secretary, Head of the International Finance Department, Ministry of Finance, Ljubljana |
| Guillermo KIRKPATRICK<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg | ***Spain*** | Luis de FUENTES LOSADA<br>Deputy Director General, Directorate-General for the Treasury and Finance Policy, Ministry of Economic Affairs and Finance, Madrid |
| Hakan WILKENS<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg | ***Sweden*** | Ake TÖRNQVIST<br>Director, International Department, Ministry of Finance, Stockholm |
| Alfred RÜEGG<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg | ***Switzerland*** | Yves EMERY<br>Head of Section, Federal Department of Finance, Bern |
| Jon IVANOVSKI<br>Chargé d'Affaires a.i., Permanent Delegation of "The Former Yugoslav Republic of Macedonia", Strasbourg | ***"The Former Yugoslav Republic of Macedonia"*** | Vanja MIHAJLOVA<br>Ministerial Assistant, Director of the International Department, Ministry of Finance, Skopje |
| Alev KILIC<br>Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg | ***Turkey*** | Aydin KARAÖZ<br>Director General, Directorate-General of International Economic Affairs, Treasury Under-Secretary of State, Ankara |

## Governor

Raphaël ALOMAR

## Vice-Governors

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

## Auditing Board

Luxembourg: Marc JUNG, Government Adviser, Ministry of Finance, Luxembourg
Malta: Edward SCICLUNA, Chairman, Malta Council for Economic Development, Floriana
Norway: Per A. ENGESETH, Director General, General Auditor's Office, Oslo

* Mr Nunzio Guglielmino was elected on 17 December 1999 and will take office during the 2000 financial year.

# Two key reforms at the Bank during 1999

## A substantial increase in capital

Acting on a Recommendation by the Administrative Council, on 9 November 1999, the Governing Board gave its approval in principle to an increase in capital, the main purpose of which will be to strengthen the Bank's internal structure.

Following a subscription period ending on 31 March 2001, the Bank's own funds (equity) should therefore rise from € 2.4 to 4.1 billion. This will enable member states to support the Bank's development without having to pay any monetary contribution. The strategy involves both increasing the level of subscribed capital (from € 1.4 to 3.2 billion) and simply incorporating € 200 million of reserves into the paid-up capital.

The new capital base will enable the Bank to conform to the highest international standards of prudence while simultaneously expanding its activity in the social field. When it effected this increase in capital, the Bank reaffirmed the main lines of its strategy, as set out at the Second Summit of the Council of Europe (Strasbourg, 1997). Alongside its historical priorities (which consist in lending financial support to projects on behalf of refugees and victims of natural disasters and acts of war), it plans to respond to two new policy challenges:

- the geographical challenge of developing projects in central and eastern Europe;
- the sectoral challenge of a still greater commitment to social cohesion in Europe, with regard especially to the fight against unemployment.

## A more explicit name: the Council of Europe Development Bank (CEB)

Previously known as the "Council of Europe Social Development Fund", in 1999 the institution became the Council of Europe Development Bank, or CEB for short. The new name, which took effect on 1 November 1999, makes the institution's activity as a development bank more explicit. The term "Fund" had caused the Bank to be confused with certain organs of a different nature, such as the European structural funds or pension funds.

Although its name has changed, the institution's purpose remains the same as ever. While it is indeed a development bank - and it is appropriate that this should be explicitly reflected in its title - it is concerned above all with social development.

The new name will help the CEB to explain more clearly what it does and how it does it. The increase in transparency will need to be harnessed to the social objectives for which the Bank exists.

The coming years will therefore be marked by an intensification of the Bank's social involvement and by still more clearly targeted activities for social cohesion in Europe, be they projects on behalf of refugees or natural disasters victims, job creation programmes or funding for the countries of central and eastern Europe.

# Message from the Governor

*1999 represented a major turning point in the Bank's development, both by the number of undertakings and reforms that were successfully carried through and by the development of its activity.*

*The trends of the previous years were confirmed: strong growth in loans, a marked increase in profitability, significant action in favour of social cohesion, a favourable reception for borrowings on the financial markets, control of risks and operating costs. Moreover, 1999 was marked by a number of exceptional initiatives aimed at coping with several humanitarian disasters.*

*Growth in lending activity was particularly high in 1999: for the first time since the Bank's inception in 1956, disbursements went over the threshold of 1.7 billion euros, representing a 70% increase over the previous year. In accordance with the activity guideline objectives, the amount of projects approved during the year fell slightly in relation to 1998, but still remained over 2 billion euros.*

Strong growth in activity and profitability

*Profitability, already at a very high level, also increased. The net profit (91.4 million euros) rose by 12.3%.*

*Over and above these figures, 1999 was characterised by several important reforms. The most visible of these was the change in the institution's name. Previously known as the Council of Europe Social Development Fund, on 1st November, it became the Council of Europe Development Bank (CEB). This new name more explicitly conveys the banking nature of the institution's activities, while its social vocation remains unchanged.*

… a more appropriate name…

*The Governing Board, on the recommendation of the Administrative Council, decided to increase the Bank's own funds by two thirds, bringing them from 2.4 to 4.1 billion euros. The subscription period for this capital increase will close at the end of the first quarter 2001.*

… an ongoing capital increase to strengthen its financial structure…

*This capital increase will enable the Bank to strengthen its financial structure, to conform even more closely to international prudential standards, in particular by improving the ceiling on its gearing ratio, and to intensify its action in the transition countries. This policy will be accompanied by a voluntary moderation in the number of project approvals and disbursements, planned to start in 2001.*

*Furthermore, the conditions for accession to the CEB were brought more closely in line with those of the other multilateral financial institutions.*

*The loans and projects activity was organised in accordance with both the medium-term Development Plan and the recommendations of the Second Summit of the Council of Europe, which took place in Strasbourg in 1997. A number of exceptional initiatives were taken in response to real social emergencies.*

*The policy of* re-balancing the loan portfolio *had a significant effect, since over half the outstanding loans at end 1999 concerned Germany, France, Spain or Italy.*

*As far as* the priority fields *were concerned, 1999 was marked by humanitarian disasters and natural disasters, all of which prompted immediate action from the Bank. It rapidly approved projects in favour of Hungary, Poland and Slovakia, following the flooding during the winter of 1998/1999. Likewise, a project amounting to 300 million euros for Turkey and another totalling 80 million euros for Greece were approved, in the aftermath of the earthquakes that devastated these two countries in August and September 1999.*

*In addition to this, the Bank decided, in May 1999, to grant an exceptional donation of two million euros for the victims of the conflict in Kosovo, and to cover the full cost (1.9 million euros) of Albania's accession to the Bank.*

*The policy of extending the Bank's action to the transition countries was pursued with the accession of the Czech Republic and then Albania, thereby bringing to fourteen the number of new member states that have joined since 1994. Activity in these countries is currently increasing sharply, as evidenced by a tenfold increase in disbursements on countries in this area in one year. Intensification of the activity in the transition countries is, more than ever, a major element in the Bank's development policy.*

*Lastly, following up on the recommendations of the Strasbourg Summit, the Bank committed itself very deeply to promoting* social cohesion in Europe *in 1999. This field represented more than half of the projects approved in the year. To this must be added the financings in favour of employment in small and medium-sized enterprises, which represented 13% of the approved projects for the year.*

… signifiant action in favour of disaster victims…

… a strategy targeted to the transition countries and to promoting social cohesion in Europe…

*The financing policy remained focussed on three guidelines: meeting the requirements of the liquidity ratio, consolidating the Bank's standing on the international capital markets by launching large-scale issues, and responding to specific investor demands. Thus, at 31 December 1999, the liquidity ratio stood at 66% and the Bank's borrowings totalled 2.3 billion euros. This policy was mainly concentrated on three currencies in 1999 (the euro, the American dollar and the yen).*

*The emergence of the euro market was particularly significant, representing 44% of the total volume of issues in the year. As early as 7 January 1999, the Bank was the first multilateral financial institution to launch a large-scale operation (500 million euros) in the European new single currency. The CEB has also chosen the euro for its first benchmark issue for 2000, again for a total of 500 million euros.*

*At the same time, vigilant control of risks was maintained, concordant with the policy set by the Administrative Council. This policy is based on the strictest international standards: a very conservative liquidity ratio, control of exchange and interest rate risks, systematic hedging of financial operations through the use of derivatives, reduction in counterparty risks by engaging in collateral contracts.*

*Lastly, the changeover of the information systems to Y2K was carried through without any particular problems.*

*1999 was therefore a year of strong growth in the lending activity and in profitability. At the same time, a number of unprecedented initiatives were taken in order to provide emergency aid for populations in distress. Lastly, efforts to reinforce the institution's financial and prudential soundness were pursued.*

*Strengthened by the backing of its member states, by increasingly closer coordination with the Council of Europe and by its sound financial structure, the Bank will, in future, be in a position to further enhance its action to promote social cohesion in Europe and the development of the countries in transition.*

*Paris, 7 March 2000*

R. Alomar

*Raphaël ALOMAR*

… a dynamic financial policy…

… and continuous controlling of risks and costs…

… enable the CEB to fulfil its mission, which remains more socially oriented than ever.

# Organisation chart



GENERAL MANAGEMENT COMMITTEE

Front row, in the centre
**Raphaël ALOMAR**
Governor

on the left, **Martin MURTFELD**
First Vice-Governor

on the right, **Ignacio GARRIDO**
Vice-Governor

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

**Rainer STECKHAN**
Director General of Loans

**Thierry POIREL**
Director of Finance

**Arnaud VIOLETTE**
Director of Information Systems and Control

**Heikki CANTELL**
Director of Legal Affairs

**Governor** Raphaël Alomar

**Vice-Governors** Martin Murtfeld (First Vice-Governor) · Ignacio Garrido · Nunzio Guglielmino*

**Internal Audit**
Bernd Friedrich
Carlo Mangosi

**Private Office of the Governor**
Richard Veneau

**Communication**
Armelle de La Jugannière

**Loan Operations Directorate General**
Rainer Steckhan

- **Project Financing** — Juan F. Seco Guillot; Peter-Igor van Moock
- **Research and Analysis** — Michèle Meunier; Dario Liguti
- **Development** — Matthias Bauer; Eva Schwebel
- **Social Cohesion Unit** — Nicola Catalano

**Technical Advisory Directorate**
Roberto Cacciola

- **Technical Advisors**
- **Architecture and Urbanism** — Dorota Blazejewicz
- **Migrations, Refugees and Social Cohesion** — Claudine Voyadzis
- **Infrastructures** — Baris Trak
- **Environment** — Anton Spierenburg
- **Project Economist - SMEs** — Kitty Villani-Haman
- **Health and Education** — Marie-Odile Waty

**Finance Directorate**
Thierry Poirel

- **Funding** — Jacques Mirante-Péré; Arturo Seco Presencio
- **Treasury** — Pierre Van Peteghem; Antti Koura; Michel Semertzidis
- **Assets and Liabilities Management** — Nathalie Coquelle; Teresa Hurtado León
- **Back-Office** — René Knellwolf; Ioannis Velvitsanos

**Information Systems and Control Directorate**
Arnaud Violette

- **Financial Information** — Isabelle Damez
- **Risk Management** — Martin Weigand; Rafael Ruisanchez; Daniel Kadar
- **Accounting** — Ahmet Kizil; José Limet
- **Information Technology** — Frédéric Lardinois; Jean-Louis Nguyen; Alain Sayagh; Armelle Berthet
- **Controlling** — Patrick Radhauer

**Human Resources and General Services Directorate**
Heikki Cantell a.i.

- **Human Resources** — Maria Lucia Oristanio
- **General Services** — Gilles Coron

**Legal Affairs Directorate**
Heikki Cantell

- **Legal Counsel** — Jan De Bel

**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, Malta*

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

Rachel Meghir: *Croatia, Greece, Slovakia, "The Former Yugoslav Republic of Macedonia"*

S. Anagnostopoulos: *Cyprus, Lithuania, Romania*

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

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

**Committees**

General Management Committee
Treasury Committee
Risk Committee
Operations Committee
Funding Committee
ALM Committee
Information Technology Committee
Internal Procedures Committee
Security Committee

1st March 2000

*Mr Nunzio Guglielmino was elected on 17 December 1999 and will take office during the 2000 financial year.





# A major contribution to assistance for the victims of natural disasters

One of the Bank's priorities is to provide help for regions hit by natural disasters. The affected populations come first, and the Bank is able to act at very short notice to ensure a rapid start on emergency humanitarian operations and, in the longer term, the rebuilding of damaged areas. Unfortunately, 1999 was noteworthy for many natural disasters necessitating action by the Bank.

In the case of **Turkey**, barely two weeks after the terrible earthquake which struck the regions of Izmit and the Sea of Marmara on 17 August 1999, a relief package of € 300 million was approved for the reconstruction of destroyed housing.

Similarly, in **Greece**, following the September 1999 earthquake near Athens, the Bank gave emergency approval in principle to a package worth € 80 million for rebuilding social housing.

In addition, in several other member states, the Bank helped to finance national or local urban and rural rebuilding programmes in the wake of earthquakes. In **Italy**, it approved two further projects totalling € 400 million for the regions of Umbria and the Marches, which suffered an earthquake in autumn 1997.



**GREECE** Damaged caused by the earthquake of summer 1999

Following the disastrous floods in **Hungary** in November 1998, the Bank gave its approval, with a view to long-term prevention, for a sum of € 90 million to finance the work of stabilising river banks, canals and rivers in the farming communities of Bodrog-Tisza. It is monitoring very closely the impact of the recent ecological disaster on the river Tisza.

Other countries to benefit from Bank funding for social infrastructure activities and ground stabilisation work designed to prevent further flooding were **Poland** (€ 97 million), **Slovakia** (€ 30 million), **Bulgaria** (€ 15 million) and **Spain** (€ 15 million).

**In 1999 the Bank approved € 743 million for projects to assist the victims of natural disasters. This figure was more than one third of total allocations approved during the course of the year.**



**HUNGARY** Flood prevention works





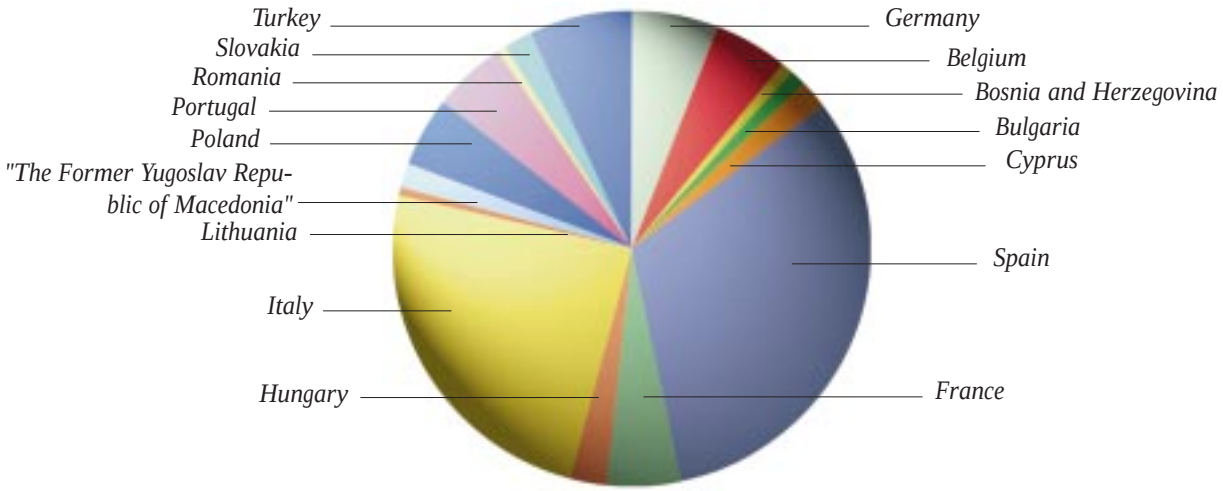
# Projects and loans

## 1 - Projects approved in 1999

In 1999 the Bank approved 30 new projects representing a total of € 2.052 billion, a figure comparable to that of 1998 (€ 2.256 billion).

Its support in 1999 went to fifteen member states: Spain (34%), Italy (26%), Turkey (7%), Germany (5.8%), France (5.2%), Belgium (4.9%), Portugal (4.9%), Poland (4.7%), Hungary (2%), Cyprus (1.6%), Slovakia (1.5%), "The Former Yugoslav Republic of Macedonia" (1%), Bulgaria (0.7%), Lithuania (0.1%) and Romania (0.07%), and one non member state, Bosnia and Herzegovina (0.1%). Projects approved were spread over the Bank's three main activity areas, each of which encompasses several strategic sectors: *aid to refugees and victims of natural disasters, job creation and preservation through investment in SMEs* and *strengthening social cohesion.* There was a marked increase in the number of projects approved on behalf of countries in transition.

Projects approved in 1999, breakdown by country




### 1.1. Emergency situations

#### 1.1.1. Help for victims of natural disasters

Eight projects concerned with building or renovating housing, public amenities, health and education facilities or cultural property were approved in seven of the Bank's member states which had been hit by natural disasters. In addition, the Administrative Council approved two finance packages for reconstruction in regions affected by the recent earthquakes in Turkey (€ 300 million) and Greece (€ 80 million).

In Turkey, under a project to rebuild and repair 23,000 housing units, the first tranche of the Bank loan (€ 142 million) should fund construction of around 6,300 units in towns and 2,000 in rural areas in the provinces affected by the earthquake of 17 August 1999 (Kocaeli, Sakarya, Yalova, Istanbul, Bursa and Eskisehir). The World Bank and the EIB are also financing this project.

# Responding to emergency situations:

## Three examples of exceptional use of the Selective Trust Account



**ALBANIA** | Osmosis plants for Kosovo refugee camps

**Donation for refugees from Kosovo**

The Council of Europe Development Bank (CEB) reacted swiftly to the emergency situation facing refugees from Kosovo by deciding in April 1999 to make an exceptional donation of € 2 million to international humanitarian organisations working in the field in Albania and "The Former Yugoslav Republic of Macedonia".

A sum of € 880,000 was made over to the UNHCR for the purchase of ten reverse osmosis plants (portable water purification systems) and six tanker trucks.

Although initially deployed in Albania, this equipment is now partly used intensively by NGOs in Kosovo and partly assigned to Albanian civil defence.



**ROMANIA** | Orphanage

The remainder of the donation - € 1,120,000 - was allocated to a project run by the United Nations Development Programme (UNDP) and the UNHCR in "The Former Yugoslav Republic of Macedonia" to improve the water distribution network in Suto Orizari and Vizbegovo, two villages which have taken in Roma refugees from Kosovo. These activities are a response to a complex situation and combine aid to refugees with aid to minorities and local development.

**Meeting the cost of Albanian membership**

Albania joined the Bank on 24 June 1999. The cost of its accession - € 1.9 million - was met by the Selective Trust Account. A number of member states (the Czech Republic, Estonia, Liechtenstein and Slovakia) have shown solidarity by contributing to this cost. By helping with Albanian accession, the Bank and its shareholders expressed their support and encouragement for this country, which was directly affected by the crisis in Kosovo. The Bank is currently looking into conducting its first operation in Albania in accordance with the guidelines of the Stability Pact for South-Eastern Europe.

**Help for abandoned children in Romania**

Confronted by the grave plight of abandoned children in Romania, the Bank took the highly unusual decision to donate € 1 million towards improving their living conditions.

This sum, which is earmarked for priority humanitarian activities, will fund food aid, the purchase of medicines and other urgently required items and heating in residential centres. Through this decision, which supplements a € 10 million project approved in 1997 to provide aid to these children, the Bank wished in particular to emphasise its support for their cause.





In Italy, the Bank approved loans totalling of € 400 million, through *Crediop and Monte dei Paschi di Siena S.p.A.* banks, for two new projects to rebuild infrastructure and buildings damaged by the autumn 1997 earthquakes in Umbria and the Marches.

In Poland, a loan of € 96.6 million was approved for the renovation, reinforcement and modernisation of infrastructure in the regions devastated by flooding in the summers of 1997 and 1998.

In Slovakia, € 30 million were approved to finance a project to rebuild and repair flood prevention systems in every part of the country.

## The Selective Trust Account

The purpose of the Selective Trust Account (STA) is to provide interest rate subsidies for loans in respect of projects complying with the Bank's foremost objectives. It was established in 1995 by the Administrative Council and is essentially maintained by contributions from the Bank (€ 45 million in six years, including 10 million from 1999 profit) and by voluntary contributions from member states. The rules governing the use of STA resources were amended by the Administratie Council in Resolution 1437 (1999) in order to emphasise the account's social objectives.

In 1999, five new projects totalling € 184 million were granted STA subsidies of € 8 million. These projects were largely concerned with reconstruction in the wake of natural disasters in Bulgaria, Hungary, Poland and Slovakia. A loan of almost € 2 million on behalf of returning Bosnian refugees will also benefit from STA subsidies.

Exceptionally, the STA was used in 1999 to channel donations (see feature on page 16) and cover the cost of Albanian membership of the Bank. Lastly, the STA helped to finance a co-operation programme run with the Council of Europe to promote social cohesion.

In Hungary, € 40 million were approved for a rebuilding project in the wake of flooding in the Tisza valley in the north-east of the country and for the development of preventive flood control systems.

A project in Bulgaria worth € 15 million will help to prevent flooding and landslides by repairing and stabilising the banks of the Danube and the shores of the Black Sea. This project will be co-financed by the EIB.

The Bank also approved a € 15 million project in Spain to rebuild housing and infrastructure destroyed or damaged in the Murcia region by the earthquake of 2 February 1999.

Loans in respect of projects in Bulgaria, Hungary, Poland and Slovakia will receive interest rate subsidies from the Selective Trust Account.

### 1.1.2. Refugees and migrants

Approval was given to a € 1.9 million project run by the German financial institution *Kreditanstalt für Wiederaufbau (KfW)* in order to encourage the voluntary return to Bosnia and Herzegovina of Bosnian refugees in Germany and to simplify access for them to housing loans on advantageous terms.
The aim of this programme is to help to rebuild and renovate 250 private houses for around 1,000 people. It is additional to the work already begun under a similar programme approved in September 1998.

Faced with the tragic events in Kosovo, in 1999 the Bank also took several exceptional measures (see feature on page 16).

## 1.2. Job creation and preservation through funding for SMEs

In accordance with the recommendations of the Second Summit of the Council of Europe (Strasbourg, 1997), the Bank's priorities include creating and maintaining employment.

In 1999 the Bank continued its efforts to encourage job creation and preservation through individual projects (IPs) and sector-based multi-project programmes (SMPs) to finance SMEs in five countries.

The total value of these projects was € 260 million, a similar figure to that approved in 1998.





## Projects approved by country and sector from 1995 to 1999

*in millions Euros*

| COUNTRY | 1999 | % | 1995-1998 | % |
|---|---|---|---|---|
| Belgium | 100 000 | 4.87 | 99 221 | 1.39 |
| Bosnia and Herzegovina* | 1 917 | 0.10 | 5 099 | 0.07 |
| Bulgaria | 15 000 | 0.73 | 8 787 | 0.12 |
| Croatia | - | - | 34 463 | 0.50 |
| Cyprus | 32 695 | 1.59 | 507 847 | 7.12 |
| Finland | - | - | 133 717 | 1.88 |
| France | 106 098 | 5.17 | 726 157 | 10.19 |
| Germany | 117 462 | 5.72 | 1 731 739 | 24.29 |
| Greece | - | - | 966 889 | 13.56 |
| Hungary | 40 000 | 1.95 | 40 000 | 0.56 |
| Iceland | - | - | 45 146 | 0.63 |
| Italy | 540 000 | 26.32 | 990 505 | 13.90 |
| Lithuania | 2 328 | 0.11 | 9 794 | 0.14 |
| Malta | - | - | 54 217 | 0.76 |
| Poland | 96 600 | 4.71 | - | - |
| Portugal | 100 000 | 4.87 | 66 596 | 0.93 |
| Romania | 1 450 | 0.07 | 52 182 | 0.73 |
| San Marino | - | - | 19 152 | 0.27 |
| Slovakia | 30 000 | 1.46 | - | - |
| Slovenia | - | - | 57 610 | 0.81 |
| Spain | 706 189 | 34.42 | 1 263 916 | 17.73 |
| "The Former Yugoslav Republic of Macedonia" | 20 113 | 1.00 | - | - |
| Turkey | 141 725 | 6.91 | 315 146 | 4.42 |
| **TOTAL** | **2 051 577** | **100.00** | **7 128 183** | **100.00** |

** Selective Trust Account*

| SECTOR | 1999 | % | 1995-1998 | % |
|---|---|---|---|---|
| A) Priority sectors | | | | |
| Aid to refugees and migrants | 1 917 | 0.09 | 76 925 | 1.07 |
| Aid to regions affected by natural or ecological disasters | 742 858 | 36.21 | 908 009 | 12.74 |
| B) Other sectors | | | | |
| SMEs | 260 229 | 12.70 | 1 104 241 | 15.49 |
| Social housing | 359 506 | 17.52 | 1 111 971 | 15.60 |
| Health | 141 612 | 6.90 | 933 814 | 13.10 |
| Education | 105 211 | 5.13 | 1 004 044 | 14.09 |
| Vocational training | - | - | 202 396 | 2.84 |
| Protection of the environment | 270 998 | 13.21 | 1 111 385 | 15.59 |
| Rural modernisation | 61 599 | 3.00 | 565 273 | 7.93 |
| Infrastructure facilities | - | - | 1 340 | 0.02 |
| Improving living conditions in disadvantaged urban areas | 76 619 | 3.73 | 77 632 | 1.09 |
| Historic heritage | 31 028 | 1.51 | 31 153 | 0.44 |
| **TOTAL** | **2 051 577** | **100.00** | **7 128 183** | **100.00** |



**SLOVENIA** | SME

Various single-sector and multi-sector programmes were approved in Italy (two programmes totalling € 96 million for *Banca Popolare di Milano* and *Banca Popolare di Verona*), Spain (two programmes totalling € 69 million for *Banco Bilbao Vizcaya* and the *Banco Sabadell*), France (a multi-sector programme worth € 60 million for *Crédit Commercial de France*) and Portugal (€ 30 million, or 30% of a multi-sector programme for *Banco Comercial Português*).

Approval was also given to an SMP worth € 5 million for "The Former Yugoslav Republic of Macedonia", which should lead to the creation of 1,000 to 1,200 jobs in SMEs.

## 1.3. Strengthening social cohesion

This field includes the *social housing, urban infrastructure, historic heritage, health, education, protection of the environment* and *rural modernisation* sectors.

In 1999 it amounted to € 1.046 billion, or half the total value of projects approved.

### 1.3.1. Housing, urban infrastructure and conservation of the historic heritage

*Housing*

In 1999 the total value of projects approved in the housing sector came to € 360 million.

In Spain, 17,600 social housing units and the associated infrastructure will be built or refurbished by means of two extensive single-sector programmes spread over the whole country and worth a total of € 300 million. This loan will be organised in partnership with two banks, *La Caixa* and *Caja Madrid.*

In Belgium too, the financing of investment in the housing sector is covered by a multi-sector programme (worth € 12.5 million) with *Dexia-Crédit Communal de Belgique*, which provides for social housing to be built in each of the three regions (Brussels, Flanders and Wallonia).

### A varied range of lending instruments

In its lending policy, the Bank's terminology distinguishes between two main types of instrument:

- firstly, **individual projects (IPs)** are characterised by a single borrower and a single project manager.
- secondly, **sector-based multi-project programmes (SMPs)** correspond to projects grouping together more than one beneficiary for activities in one or more of the Bank's fields of action.

SMPs can be broken down into various programme types:

- "single-sector programmes" covering a single field of action;
- "finance programmes for local authorities", grouping together projects included in local or regional authority budgets;
- "multi-sector programmes" covering more than one field of action.





# Co-operation with other international institutions

Since 1994, partnerships established by the Council of Europe Development Bank (CEB) with several other international institutions have led to greater co-operation through the pooling of information and the development of joint projects, especially in the countries in transition.

Firstly, the CEB participates in several consultative and planning bodies in connection with both its economic activities and its lending operations. For example, it enjoys observer status on the World Bank's Development Committee and takes part in meetings of the Institute of International Finance. Other CEB involvement in coordination activities includes its membership of HELCOM's Implementation Task Force for the Helsinki Convention on the Protection of the Baltic Sea and its contribution to the work of the Danube River Protection Convention. Its contacts with the European Union have been stepped up since 1995 in order to coordinate finance strategies in the transition countries. It is actively involved with the Stability Pact for South-Eastern Europe, and more specifically with the Working Table on economic reconstruction, development and co-operation.

On the operational side, the CEB has already co-financed several projects with the World Bank and the EIB. Furthermore, a Memorandum of Understanding signed with the EBRD on 3 May 1999 will result in a joint finance programme for SMEs and protection of the environment. The CEB also funds projects under the European Union's PHARE programme and is associated with the "SME Facility" in central and eastern Europe.

Finally, the Bank's operational co-operation with UN specialised agencies - especially the UNHCR - has been reinforced, leading to the establishment in 1998 of a joint task force. From the start of the Kosovo crisis, for example, the Bank contacted the UNHCR in connection with use in Albania of the donation for refugees from Kosovo. Operational contact is also maintained with the United Nations Development Programme (UNDP) in respect of the remainder of the donation, which is being used to help refugees from Kosovo in "The Former Yugoslav Republic of Macedonia" (see feature on page 16).

A sector-based multi-project programme (SMP) was also approved in Portugal with *Banco Comercial Português*. One-third of the project concerns social housing.

In "The Former Yugoslav Republic of Macedonia", 800 social housing units will be built under a project worth € 15 million.

Finally, in Italy, € 1.5 million of an SMP for *Banca Popolare di Verona* are essentially earmarked for building and refurbishing social housing and for building reception centres for migrants from the south of the country.

*Urban infrastructure*

Three finance programmes for local authorities were approved in Spain, with a total of € 70.6 million going to three banks - *Banco Bilbao Vizcaya, Banco Central Hispanoamericano* and *Caja Madrid*. This sum will be used for infrastructure renovation and construction in disadvantaged urban districts.

In Italy, 20% - € 6 million - of an approved *Banca Popolare di Milano* programme will be allocated to the renovation of urban infrastructure.

*Conservation of the historic heritage*

€ 16.5 million of three SMPs approved in Spain have been earmarked for the historic and cultural heritage.

In Italy, under a multi-sector programme run in partnership with *Banca Popolare di Verona*, a sum of € 4.5 million will fund investment in this field. Previous Bank disbursements have also been used to revive historic areas affected by the earthquakes in Umbria and the Marches and to rehabilitate historic centres.



**ITALY** Reconstruction work in the town of Assisi

## 1.3.2. Education

In 1999, education finance was essentially provided through programmes for local authorities in Belgium, Germany, Spain, France and Italy.

In Belgium, a programme worth € 37 million was approved with *Dexia-Crédit Communal de Belgique*, which has extensive experience in local authority finance.

In Germany, approval was given for an individual project covering the building of an audiovisual university in Potsdam (€ 17.9 million). Part (€ 16 million) of a *Landesbank Baden-Württemberg* programme will finance the building or refurbishment of primary and secondary schools, universities and special training colleges (such as nursing schools) in various Länder.

In Spain, approval was given for loans totalling € 24 million to two local authority school and university building programmes. € 5 million of a multi-sector programme approved in France for *Crédit Commercial de France (CCF)* will be used in the education sector on school improvement projects. In the context of a programme approved in Italy with *Banco Popolare di Verona*, € 4 500 000 will be used for the building and rehabilitation of schools and universities.



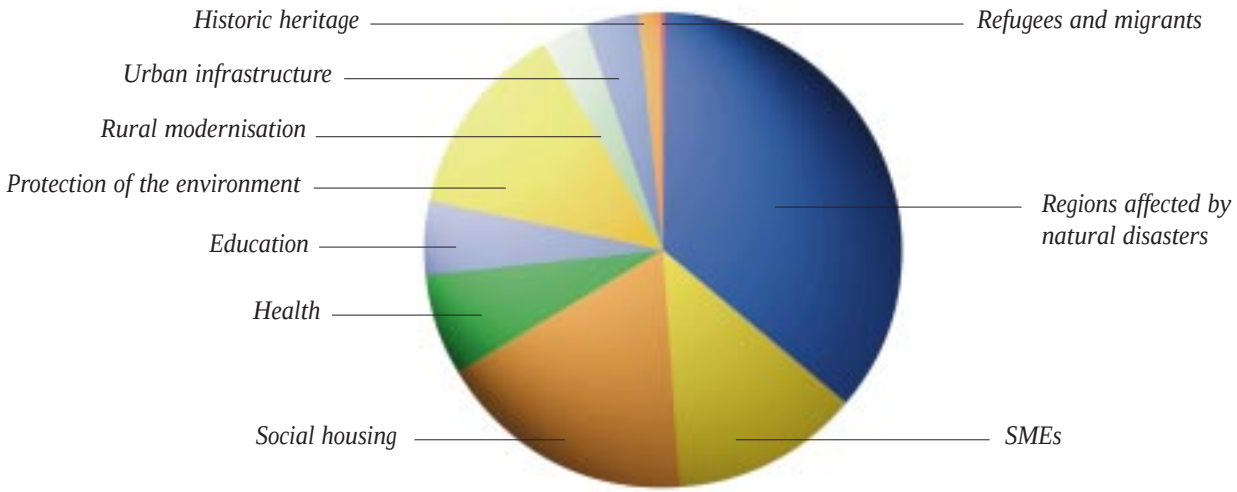

**TURKEY** School

## 1.3.3. Health and social facilities

Projects in this sector are located in Belgium, France, Germany, Italy, Lithuania, Romania and Spain.

In Belgium, the sum of € 37.5 million was approved in the context of an SMP with *Crédit Communal de Belgique* for the development and equipment of healthcare infrastructure facilities throughout the country.

Projects approved in 1999, breakdown by sector




In Germany, the Bank approved a project worth € 50 million to extend and refurbish four hospitals in the Land of Thuringia, and € 16 million of a *Landesbank Baden-Württemberg* SMP will be used to improve access to health care. In Spain, a total of € 25 million was approved for two multi-sector programmes in the health sector through *Banco Central Hispanoamericano* and *Banco Bilbao Vizcaya*. In France, € 5 million will be used to fund hospital buildings and equipment in partnership with *Crédit Commercial de France (CCF)*. In Italy, the health sector will share approved finance worth € 4.5 million. In Lithuania, a € 2 million project is to refurbish centres for abandoned and abused children, disabled people and the elderly. In Romania, a sum of € 1.5 million was approved for a project to renovate the country hospital at Gura Ocnitei.

### 1.3.4. Protection of the environment and rural modernisation

*a-* In 1999, for the protection of the environment the Bank approved projects totalling € 271 million in Belgium, Cyprus, Germany, Spain, Italy, France and Portugal. This corresponds to 13% of the overall value of projects approved.

Environmental investment in the three regions of Belgium (Brussels, Flanders and Wallonia), to be carried out through *Dexia-Crédit Communal de Belgique*, will amount to € 12.5 million. The Bank also approved € 33 million for an individual project in Cyprus to fund sewerage, drainage and irrigation systems and a wastewater purification plant in the area of Paphos. In Germany, a total of € 18 million was approved in the context of an SMP with *Landesbank Baden-Württenberg* for the treatment of solid waste and wastewater. In Spain, three environmental protection SMPs were approved with *Banco Bilbao Vizcaya*, *Banco Central Hispanomericano* and *Caja Madrid* for a total of € 120 million. Two similar programmes worth € 20 million were approved in Italy through *Banca Popolare di Verona* and *Banca Popolare di Milano*, which are both heavily involved in local economic development.



**CYPRUS** Wastewater treatment in Paralimni





In France, an SMP (€ 30 million) is to be carried out with *Credit Commercial de France (CCF)* and an approval was given for a € 6 million project to build a treatment, conversion and recycling plant for solid toxic waste at the industrial estate in Le Havre. This project will be the first time that technology for the recycling and recovery of very toxic heavy metals has been used on an industrial scale in Europe. In Portugal, in the context of an SMP with *Banco Comercial Português*, € 30 million were approved for the treatment of solid waste and wastewater.

*b-* Concerning rural modernisation, projects totalling € 62 million were set up in Spain by small rural municipalities under programmes run with *Caja Madrid*, *Banco Bilbao Vizcaya* and *Banco Central Hispanoamericano*.

## Projects approved in 1999, breakdown by counterparty

*in thousand euros*

| Borrower | Country | Sector | Amount |
|---|---|---|---|
| Caja Madrid | Spain | Sector-based multi-project programme (SMP) | 120 202 |
| | | Social housing | 120 202 |
| Crediop | Italy | Natural disasters | 200 000 |
| Banca Monte dei Paschi di Siena | Italy | Natural disasters | 200 000 |
| La Caixa, Barcelona | Spain | Social housing | 180 305 |
| Government | Turkey | Natural disasters | 141 725 |
| Banco Central Hispanoamericano | Spain | SMP | 120 202 |
| Crédit Communal de Belgique | Belgium | SMP | 100 000 |
| Banco Comercial Português | Portugal | SMP | 100 000 |
| Crédit Commercial de France | France | SMP | 100 000 |
| Government | Poland | Natural disasters | 96 600 |
| Banco Bilbao Vizcaya S.A. | Spain | SMP | 90 152 |
| Banca Popolare di Milano (BPM) | Italy | SMP | 70 000 |
| Banca Popolare di Verona | Italy | SMP | 30 000 |
| | | SMEs | 40 000 |
| Banco Sabadell, Barcelona | Spain | SMEs | 60 101 |
| Landesbank Baden-Württemberg, Stuttgart | Germany | SMP | 50 000 |
| HELABA, Landesbank Hessen-Thüringen Girozentrale, Frankfurt | Germany | Health | 49 592 |
| Government | Hungary | Natural disasters | 40 000 |
| Sewage Department, Paphos | Cyprus | Protection of the environment | 32 695 |
| Slovak Water Management Enterprise | Slovakia | Natural disasters | 30 000 |
| Government | "The former Yugoslav Republic of Macedonia" | Social housing | 15 000 |
| | | SMEs | 5 113 |
| Investitionsbank des Landes Brandenburg (ILB) | Germany | Education | 17 870 |
| Autonomous Community of Murcia | Spain | Natural disasters | 15 025 |
| Government | Bulgaria | Natural disasters | 15 000 |
| Banque Nationale de Paris | France | Protection of the environment | 6 098 |
| Government | Lithuania | Health | 2 328 |
| Kreditanstalt für Wiederaufbau (KfW) | Germany | Refugees | 1 917 |
| Government | Romania | Health | 1 450 |
| Total | | | 2 051 577 |





## Loans disbursed by country and sector from 1995 to 1999

*in thousand euros*

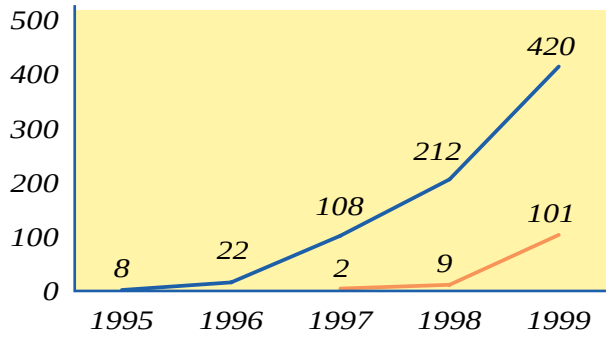
| Country | 1999 | % | 1995-1998 | % |
|---|---|---|---|---|
| Belgium | 38 608 | 2.26 | 60 430 | 2.01 |
| Bosnia and Herzegovina* | 2 986 | 0.17 | 1 991 | 0.07 |
| Bulgaria | - | - | 2 986 | 0.10 |
| Croatia | 15 051 | 0.88 | - | - |
| Cyprus | 21 503 | 1.26 | 122 913 | 4.09 |
| Finland | 67 192 | 3.93 | 46 785 | 1.56 |
| France | 152 000 | 8.88 | 271 676 | 9.03 |
| Germany | 251 565 | 14.70 | 946 529 | 31.46 |
| Greece | 227 092 | 13.26 | 311 842 | 10.37 |
| Hungary | 20 000 | 1.17 | - | - |
| Iceland | - | - | 13 000 | 0.43 |
| Italy | 152 296 | 8.90 | 228 352 | 7.59 |
| Lithuania | 575 | 0.03 | 3 484 | 0.12 |
| Malta | - | - | 19 156 | 0.64 |
| Poland | 38 169 | 2.23 | - | - |
| Portugal | 1 500 | 0.09 | - | - |
| Romania | 12 054 | 0.70 | 219 | 0.01 |
| San Marino | 1 162 | 0.07 | - | - |
| Slovenia | 2 831 | 0.17 | - | - |
| Spain | 622 250 | 36.35 | 630 247 | 20.96 |
| “The Former Yugoslav Republic of Macedonia” | 1 278 | 0.07 | - | - |
| Turkey | 83 615 | 4.88 | 347 637 | 11.56 |
| Total | 1 711 727 | 100.00 | 3 007 247 | 100.00 |

** Selective Trust Account*

| Sector | 1999 | % | 1995-1998 | % |
|---|---|---|---|---|
| A) Priority sector: | | | | |
| Aid to refugees and migrants | 23 202 | 1.36 | 17 412 | 0.59 |
| Aid to regions affected by natural or ecological disasters | 202 108 | 11.79 | 288 551 | 9.60 |
| B) Other sector: | | | | |
| SMEs | 131 266 | 7.67 | 769 647 | 25.59 |
| Social housing | 504 368 | 29.47 | 593 379 | 19.73 |
| Health | 174 141 | 10.17 | 259 298 | 8.62 |
| Education | 252 100 | 14.73 | 316 042 | 10.51 |
| Vocational training | - | - | 102 486 | 3.41 |
| Protection of the environment | 312 517 | 18.26 | 376 114 | 12.51 |
| Rural modernisation | 73 438 | 4.29 | 100 276 | 3.33 |
| Infrastructure facilities | 129 | 0.01 | 142 691 | 4.74 |
| Improving living conditions in disadvantaged urban areas | 29 036 | 1.70 | 40 060 | 1.33 |
| Historic heritage | 9 422 | 0.55 | 1 291 | 0.04 |
| Total | 1 711 727 | 100.00 | 3 007 247 | 100.00 |

## 2- Loans disbursed in 1999

In 1999, loan disbursements amounted to € 1.712 billion, or 62% more than in 1998. Disbursements were made in respect of 38 individual projects and 31 SMPs. The total value of loans for individual projects was € 454 million, up 33% on 1998.
As at 31 December 1999, loans outstanding totalled € 7.743 billion, up 18% on the € 6.403 billion outstanding on 31 December 1998.
Disbursements were spread among 19 countries (see the table opposite). Significantly, loans to the transition countries were considerably higher than in 1998.




The countries in transition: projects approved and loans disbursed

*Cumulative figures, in million euros*

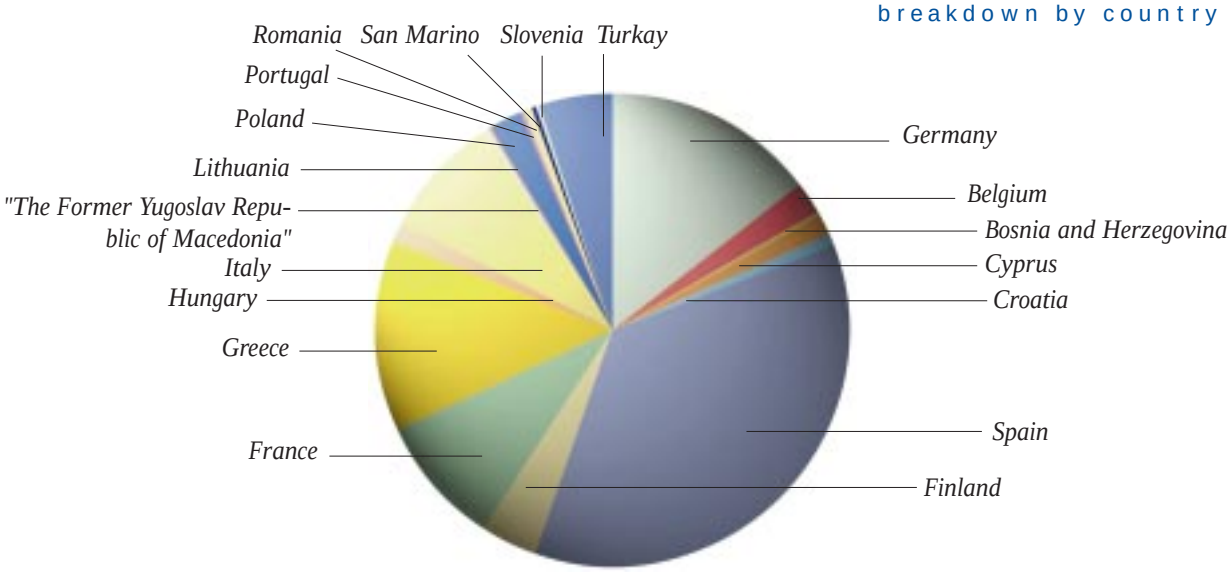
### Spain

A total of € 622 million (36% of overall disbursements for 1999) went to Spain. In the social housing sector, two disbursements totalling € 135 million were made through *La Caixa* in Barcelona for the building of 15,000 housing units. This sector also featured prominently in multi-sector programmes financed through *Caja Madrid* (€ 120 million) and *Banco Central Hispanoamericano* (€ 60 million). A further two programmes received disbursements through *Banco Bilbao Vizcaya* (€ 75 million) and *Banco Santander* (€ 60 million). In the education sector, a major project run by the *Autonomous Community of Andalusia* received € 21 million to build and refurbish primary and secondary schools, and € 12 million went to the same counterparty for the decontamination of water and land polluted in April 1998 by highly toxic mudflows. The *Autonomous Community of Murcia* received € 3.7 million in aid for the victims of the earthquake in that region; this sum will be used to restore normal living and working conditions, rebuild destroyed homes and other amenities (schools, irrigation channels and water distribution networks) and bring buildings into conformity with anti-seismic norms.



**SPAIN** Social housing in Cascante, Navarra

Loans disbursed in 1999, breakdown by country






**GERMANY** Co-generation plant, Darmstadt

## Germany

Five loans totalling € 252 million (15% of overall disbursements for 1999) were disbursed, primarily for projects in the new Länder. A sum of € 125 million was paid to *Kreditanstalt für Wiederaufbau (KfW)* in respect of long-term investment in the treatment and storage of solid waste. In Brandenburg, € 25 million were paid through *Investitionsbank des Landes Brandenburg (ILB)* to finance a project to build and refurbish public health infrastructure and social housing. *Commerzbank* received a loan of € 51 million for various projects to build or refurbish social housing and retirement homes. The Bank contributed € 13 million towards an SMP run by *Deutsche Bank* in the health, education, social housing, protection of the environment and SME sectors. Another multi-sector programme focusing mainly on education and health received € 38 million through *Deutsche Ausgleichsbank (DtA)*.

## Greece

A total of € 227 million (13% of overall disbursements for 1999) was paid to Greece. 60% of this sum was allocated under major education projects for the building and refurbishment of classrooms in ten of the 35 prefectures included in a government programme for improvements in education. The Bank also paid € 95 million for two projects to rebuild property and infrastructure in zones hit by the earthquakes in the summer of 1995. This will enable more than 12,000 families to return to normal life.

## Italy

A total of € 152 million (9% of overall disbursements for 1999), went to Italy in partnership with various banks. A major SMP for protection of the environment and improvements to education infrastructure in the more disadvantaged regions of the country received € 103 million in two tranches through the financial institution *Crediop*. A loan of € 25 million was made to *Cassa di Depositi e Prestiti* for the construction of retirement homes and nursery and primary schools. The final beneficiaries of initiatives financed in this way are local authorities in every part of Italy. The bank *San Paolo/IMI* received € 21 million to finance an SMP in the health and education sectors. Lastly, two social housing projects received partial funding through *Banca Mediocredito* to build more than 500 units in Piedmont and Lombardy.

## France

A loan of € 152 million (9% of overall disbursements for 1999) was paid over for social housing through *Caisse Nationale du Crédit Agricole*. This multi-sector programme will also create or preserve around 2,000 jobs.

## Turkey

Eight individual projects received loans totalling € 84 million (5% of overall disbursements for 1999) through the government. Half of this sum was earmarked for infrastructure projects in the rural modernisation sector, in particular water-related projects in Anatolia and wastewater treatment plants in Burhaniye.

In response to a major social housing shortage in Istanbul province, the Bank also part-financed the construction of a new town there. Finally, under the Turkish authorities' Sixth Development Plan for improving the quality of university education, the Bank funded an extension (600 additional beds) to the Firat University Medical Centre and the development of health facilities at Baskent University in Ankara.

## Finland

A loan of € 67 million (4% of overall disbursements for 1999) was made through *Municipality Finance Ltd.*, a financial institution specialising in local authority finance. More than half of this sum was allocated to secondary school extensions, refurbishment of primary schools and nurseries and funding for a municipal library. The remainder was spent on building retirement homes, renovating hospitals, expanding the natural gas distribution grid and constructing industrial units for SMEs, leading to the creation or preservation of over 1,000 jobs.



**FINLAND** Murto primary school

## Belgium

A total of € 39 million was paid over in 1999. A first single-sector programme concentrating chiefly on funding for SMEs received a third tranche of € 6 million through the bank *Fortis*. A further € 13 million were made available through *Dexia-Crédit Communal de Belgique* to expand the social housing stock, enforce EU rules for better protection of the environment and improve services in the health sector. Lastly, € 20 million were paid out through *Artesia BC* for public health, education and housing expenditure, chiefly in the Flemish part of the country.

## Poland

A total of € 38 million was paid over in three instalments for the repair, strengthening and modernisation of infrastructure in the south-west of the country, which was devastated by floods in 1998.

## Cyprus

Disbursements totalled € 22 million. A sum of € 10 million was earmarked for work on the sewerage systems in the towns of Limassol, Paralimni and Aghia Napa, and € 12 million for building a new hospital complex in Nicosia.

## Hungary

Disbursements amounted to € 20 million. The *Hungarian Development Bank* received € 10 million to fund projects in various sectors (chiefly SMEs, protection of the environment and protection of the historic heritage). For the most part, these projects are located in regions with particularly high unemployment and a *per capita* income below the national average. A further € 10 million was disbursed in the wake of flooding affecting the middle and upper reaches of the Tisza in November 1998 to finance the rebuilding of infrastructure and the engineering and strengthening of flood barriers.

## Croatia

Two projects to help refugees in Eastern Slavonia received a total of € 15 million for the refurbishment of three hospitals and 16 first aid centres and rebuilding of 34 schools damaged during the war.

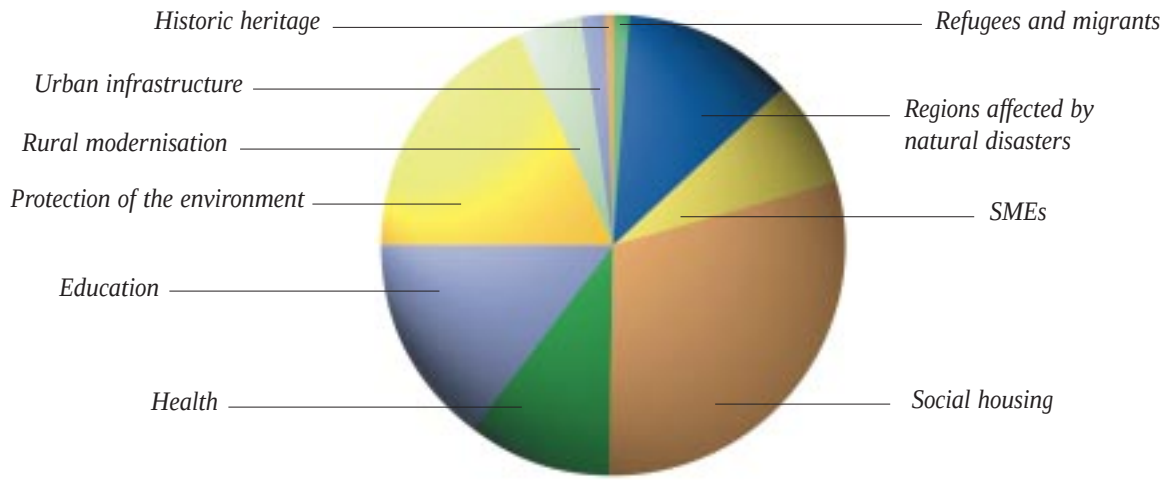


**POLAND** Renovation of the Duszniki sanatorium following the 1997 floods

## Romania

A total of € 12 million was disbursed for four individual projects. Most of this sum (€ 10 million) was earmarked for the renovation of infrastructure damaged in the most recent floods. A project approved in 1997 received a first tranche of funds for the refurbishment of specialised centres for abandoned children. The Bank and the EIB will co-finance work to renew the urban heating grid in Bucharest. The last part of the money will be used to increase patient capacity at the hospital at Gura Ocnitei in the county of Dâmbovita.

Loans disbursed in 1999, breakdown by sector




## Slovenia

Disbursements in 1999 totalled € 2.8 million for a project to rebuild homes in villages destroyed by the earthquake which hit the regions of Posocje and Gorenjska in April 1998.

## Portugal

A single-sector programme for pre-school teaching received a first tranche of € 1.5 million through *Caixa Geral do Depositos* for the conversion, extension and construction of education infrastructure.

## "The Former Yugoslav Republic of Macedonia"

A sum of € 1.3 million was paid over to finance the modernisation and extension of several textile factories and an agri-foodstuffs factory, thereby creating and preserving hundreds of jobs.

## San Marino

A loan of € 1.2 million will be used to fund protection of the environment through the collection and treatment of waste water.

## Lithuania

The Government received a loan of € 0.6 million to spend on refurbishing ten drug dispensaries and purchasing medical materials and equipment. This will benefit physically and mentally disabled people, improve social and medical assistance for the elderly and ensure medical, psychological and legal help for children in need.

## Bosnia and Herzegovina

Although Bosnia and Herzegovina is not a member of the Bank, the Ministry of Health received a loan of € 3 million covered by the Selective Trust Account. The purpose of the project concerned, which is being co-financed by the World Bank, is to help war victims to reintegrate into normal social and economic life by providing psychological and social support, reparatory surgery, orthopaedic equipment and physiotherapy.





## Loans disbursed since inception, as at 31 December 1999

*in thousand euros*

| Country | | % |
|---|---|---|
| Belgium | 95 679 | 0.70 |
| Bosnia and Herzegovina* | 4 749 | 0.03 |
| Bulgaria | 2 572 | 0.02 |
| Croatia | 15 051 | 0.11 |
| Cyprus | 978 742 | 7.21 |
| Finland | 106 826 | 0.79 |
| France | 430 882 | 3.17 |
| Germany | 1 551 000 | 11.43 |
| Greece | 1 464 194 | 10.79 |
| Hungary | 20 000 | 0.15 |
| Iceland | 59 661 | 0.44 |
| Italy | 2 999 307 | 22.10 |
| Lithuania | 3 624 | 0.03 |
| Malta | 65 151 | 0.48 |
| Poland | 38 169 | 0.28 |
| Portugal | 502 395 | 3.70 |
| Romania | 12 242 | 0.09 |
| San Marino | 3 777 | 0.03 |
| Slovenia | 4 148 | 0.03 |
| Spain | 1 767 876 | 13.03 |
| "The Former Yugoslav Republic of Macedonia" | 1 278 | 0.01 |
| Turkey | 3 382 455 | 24.92 |
| Former Yugoslavia** | 62 754 | 0.46 |
| **Total** | **13 572 532** | **100.00** |

** Selective Trust Account*
*** Associate member from 1986 to 1991*

| Sector | | % |
|---|---|---|
| A) Priority sector | | |
| Aid to refugees and migrants | 1 652 150 | 12.16 |
| Aid to regions affected by natural or ecological disasters | 1 333 731 | 9.83 |
| B) Other sectors | | |
| SMEs | 1 772 079 | 13.06 |
| Social housing | 3 120 890 | 22.99 |
| Health | 620 493 | 4.57 |
| Social infrastructure | 47 977 | 0.35 |
| Education | 1 085 545 | 8.00 |
| Vocational training | 209 930 | 1.55 |
| Protection of the environment | 679 929 | 5.01 |
| Rural modernisation | 1 455 742 | 10.73 |
| Infrastructure facilities | 1 514 378 | 11.16 |
| Improving living conditions in disadvantaged urban areas | 68 975 | 0.51 |
| Historic heritage | 10 713 | 0.08 |
| **Total** | **13 572 532** | **100.00** |

# Financial activity

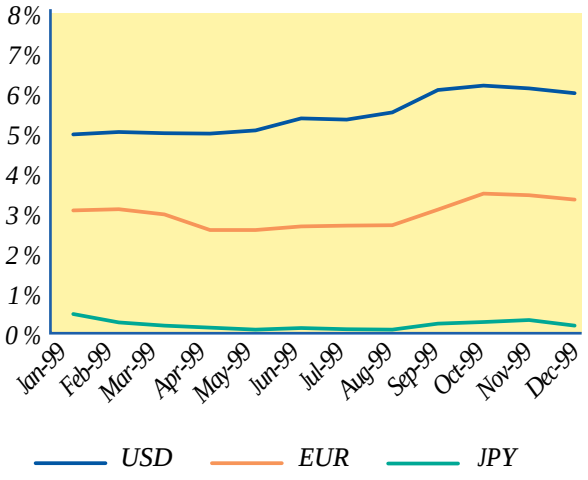
## 1- The economic situation in 1999

After a year dominated by turbulent financial markets and subdued growth, the economic outlook grew brighter over the course of 1999.
Asian economies, the most worrying factor during 1998, recovered strongly. US growth continued unabated, while the European Union member states started to show signs of accelerating growth.
Inflation was not considered much of a threat, but policy-makers became more wary of price stability as the year progressed.
Central banks started to raise interest rates after having previously slashed them. After a strong bull run in 1998 in the US and the Euroland bond market, the bond markets turned bearish in 1999 as the effects of the 1998 emerging markets crisis proved to be less dramatic than anticipated and economies returned to a sustained growth trajectory.

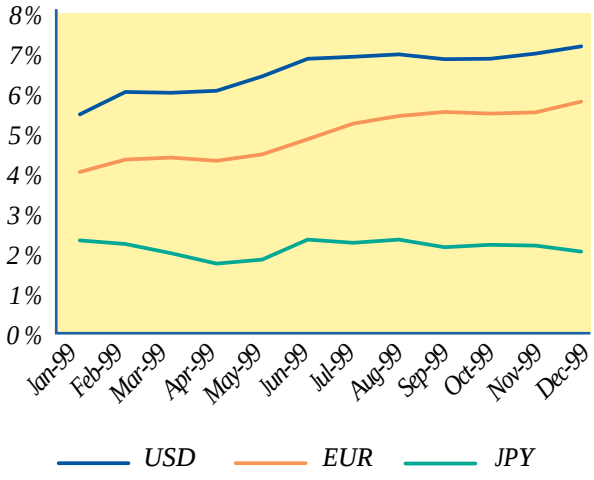
### 1.1. Fed responds to accelerating economy by tightening monetary policy

US growth continued at an impressive pace of over 4% during 1999, with inflation readings at relatively low levels. However, both the markets and the Fed started to perceive modest inflationary pressures towards the end of the year. Interest rates rose overall.
In the second half of the year, the Fed tightened monetary policy in three steps of 25 base points to calm an increasingly buoyant economy.
The economic outlook seemed generally good, but there were slight worries about high equity valuations, tight labour market conditions and wide current account and trade deficits.

3-month rates




10-years rates



The European Central Bank responded with a sudden 50 bp hike in its refinancing rate. Nonetheless, real short-term rates remained at historically low levels, supportive to sustained growth in the future.

The single European currency was launched at the beginning of January 1999 in the eleven countries participating in monetary union. A relatively weak economy coupled with uncertainty over the conduct of monetary policy dragged the euro down to near parity with the US dollar.

### 1.2. Asian economies end the year on a positive note

Fiscal stimulus packages together with generous monetary policy began to bear fruit in Japan in the third quarter of 1999, and the stock market rallied spectacularly. However, the foreign demand for Japanese assets put upward pressure on the currency, which may pose problems for a sustained upturn.

A stimulating fiscal policy and accommodating monetary stance helped the emerging Asian markets to an impressive recovery during 1999.

## 2 - Bond portfolios

The Bank's assets include two bond portfolios, one for investment and the other held for sale. Securities purchased must have a minimum rating of AA with Standard & Poor's or Aa2 with Moody's.

The investment portfolio consists of fixed-rate bonds denominated in euros with a maturity not exceeding 15 years. It is limited to the amount of the Bank's own funds (paid-up capital, reserves and FGBR) increased by the provision for the staff pension fund. The aim is to achieve a satisfactory long-term yield on these resources. This portfolio is accounted for at historical cost; consequently, its constituent securities can be exchanged or sold only in exceptional circumstances.
In practice, the portfolio manager implements an annual purchasing programme which consists of reinvesting mature stock and adjusting the overall balance after incorporating part of the previous year's profits into the reserves. The portfolio grew from € 970 million in 1998 to € 1.06 billion in 1999, the € 90 million increase reflecting the balance between € 130 million in purchases and € 40 million in redemptions.

The held-for-sale portfolio consists of EURIBOR-reference securities (that is, those with a maturity of less than one year or offering a floating rate).
Securities in this portfolio are accounted for at historical cost. Securities are generally held until maturity and provisions are made for any reduction in market value.

Placements are usually denominated in USD and EUR, the currencies in which most of the Bank's liquid assets are managed.

The portfolio consists largely of short-term securities (up to one year) in the form of ECP (Euro-Commercial Paper) securities, which offer an alternative to placement on deposit account. Investments with a maturity of between one and seven years are also effected in this portfolio, up to a maximum value of € 1 billion. This section of the portfolio showed sustained growth during the year, rising from € 405 million at the end of 1998 to € 630 million at the end of 1999. Its purpose is to generate additional revenue by creating a positive differential between income from securities and the Bank's average financing cost.

## 3 - Derivatives

In order to hedge its interest-rate and currency risks, the Bank is an end-user of derivatives. As at 31 December 1999, total outstanding derivatives amounted to € 12.1 billion, up 5.3% on 1998 and in keeping with the Bank's greater lending and investment activity. € 7.4 billion were held in interest-rate derivatives and € 4.7 billion in currency derivatives.

The Bank's total exposure to market risk remained modest throughout the 1999 financial year. The residual exchange risk from income formation in currencies other than the euro is systematically hedged. Similarly, the policy of systematically hedging all possible rate positions means that the interest-rate risk on the Bank's balance sheet as a whole can be held below € 1 million per currency.

To guard against the risk associated with these financial instruments, the Bank has adopted stringent management rules in line with its role as end-user. Its counterparties must have a credit line determined in advance by the Risk Committee on the basis of the ratings awarded by the specialised agencies and of an analysis which is updated at least once a year. Transactions with a maturity of five years or more can only be concluded with institutions possessing at least an AA rating, while those with a maturity of more than ten years must include additional guarantees allowing elective (anticipatory) termination. In all cases a framework agreement modelled on that of the International Swap Dealers Association (ISDA) must be signed. During 1999 a high average rating was maintained, with 78% of the notional outstandings being rated at least AA-.

In 1999 the Bank continued to strengthen controls on its derivatives by signing new collateral contracts. The residual credit risk, which is calculated as the sum of non-collateralised positive market values, stands at less than 2% of the total notional amount. Negotiations are under way to set up this kind of contract with all the Bank's active counterparties.

# 4 - Financing in 1999

## 4.1. Borrowing

In 1999 the Bank made 21 issues with a maturity of one year or more to a total value of € 2.2 billion. This followed a record year in 1998, when the volume of financing reached € 2.8 billion, largely in the expectation that 1999 would see a great deal of disbursement activity.

During 1999, owing to the concentration on disbursements and the policy of stabilising activity levels, there was also a decline in the total value of projects approved. The size of the stock of projects has a direct impact on the financing programme insofar 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.

### 1999 borrowings

| Date of payment | Currency | Period | Amount | Lead manager / Arranger |
|---|---|---|---|---|
| 07/01/99 | USD | 6 years 10 months | 350 000 000 | Paribas |
| 11/01/99 | GRD | 3 years | 10 000 000 000 | Royal Bank of Canada |
| 20/01/99 | EUR | 12 years | 500 000 000 | Tokyo-Mitsubishi International Plc/Paribas |
| 01/02/99 | EUR | 20 years | 145 000 000 | Lehman Brothers |
| 22/02/99 | EUR | 20 years | 50 000 000 | Merrill Lynch |
| 26/02/99 | EUR | 25 years | 125 000 000 | Morgan Stanley Dean Witter |
| 08/03/99 | EUR | 20 years | 15 000 000 | Merrill Lynch |
| 11/03/99 | JPY | 1 year 1 month | 10 000 000 000 | Nomura International Plc |
| 15/03/99 | EUR | 20 years | 90 000 000 | Warburg Dillon Read |
| 31/03/99 | JPY | 10 years* | 1 000 000 000 | BNP Securities Ltd |
| 12/04/99 | TWD | 5 years | 6 000 000 000 | Nomura International Plc |
| 29/04/99 | HKD | 3 years | 200 000 000 | Paribas |
| 10/06/99 | JPY | 1 year | 5 100 000 000 | Daiwa Europe Ltd |
| 17/06/99 | EUR | 20 years | 40 000 000 | Salomon Smith Barney |
| 16/07/99 | JPY | 15 years* | 1 000 000 000 | Tokyo-Mitsubishi International Plc |
| 29/07/99 | JPY | 18 years* | 1 000 000 000 | Tokyo-Mitsubishi International Plc |
| 02/08/99 | USD | 2 years | 69 190 000 | Nikko Salomon Smith Barney |
| 17/09/99 | USD | 3 years | 500 000 000 | Morgan Stanley Dean Witter/ Paribas |
| 14/10/99 | JPY | 10 years* | 1 100 000 000 | Tokyo-Mitsubishi International Plc |
| 08/11/99 | JPY | 20 years* | 500 000 000 | Morgan Stanley Dean Witter |
| 08/12/99 | JPY | 15 years* | 1 000 000 000 | ABN AMRO NV |

** with early repayment option*

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.

44% of the financing raised by the Bank in 1999 came from the euro market, which from its inception established itself as a leading market. Indeed, on 7 January 1999, the Bank became one of the first institutions to launch a major issue, with a 12-year maturity, in the new European single currency. These issues were subscribed mainly by European investors, both institutional and private, but also by Asian investors. Remarkable within the euro market was the great demand from the Italian market, which, through specifically structured transactions, provided 20% of the funds raised.

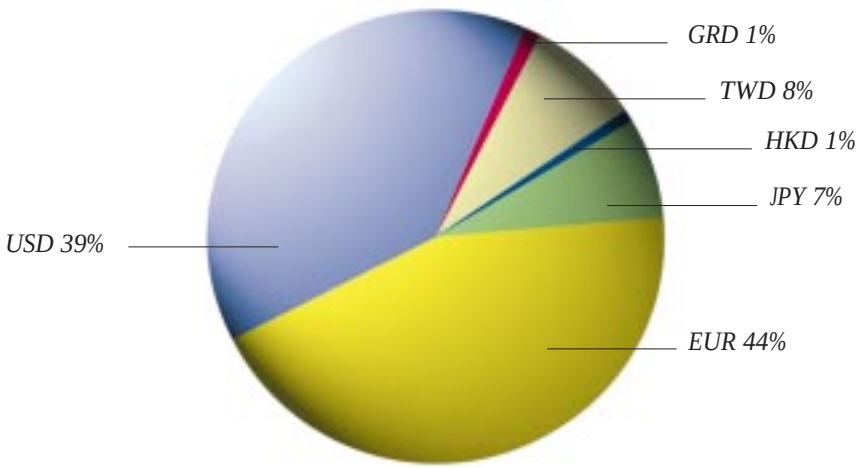
The average maturity of the issues launched in 1999 is ten years. This needs to be seen in the light of the longer average maturity of loans granted in the same period.

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

For the first time, the Bank made an issue (representing 8% of total borrowings in 1999) denominated in Taiwanese dollars. The fact that 7% of the total issue was in Japanese yen reflects the return to health of this important market.

The chart below shows details of the primary currencies of issue, almost all of which were swapped for euros.

Breakdown of borrowing by original currency

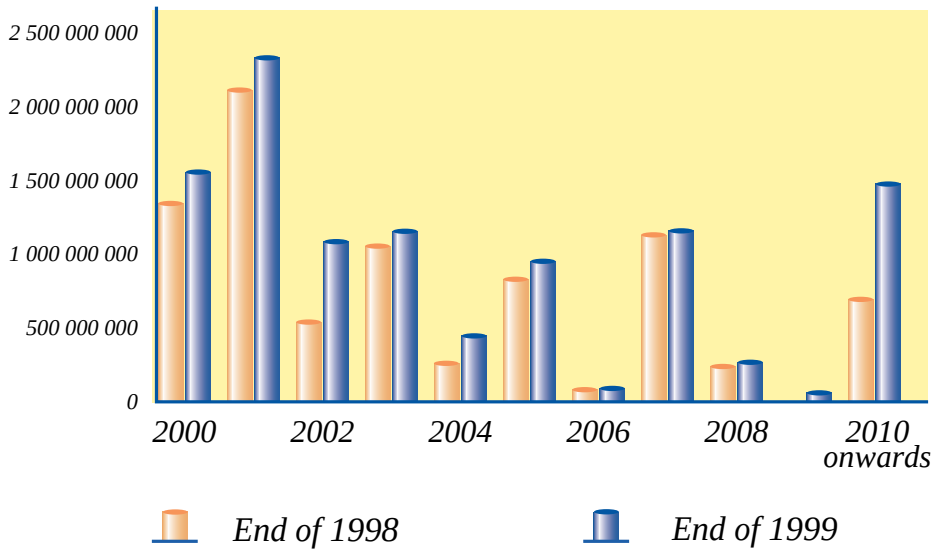



## 4.2. Trend of the Bank's debt

As at 31 December 1999, the Bank's total outstanding securitised debt amounted to € 11.050 billion, 13.6% up on the figure for the previous year. This rise in debt outstanding is the result of an increase in borrowings in order to sustain a satisfactory liquidity ratio. At the year end the Bank's liquidity ratio was 66%, to be compared with a minimum requirement of 50%.

The Bank also paid off € 185 million of its debt through buy-back transactions and repaid € 145 million in advance of the maturity date. As a result of these operations and of the issues launched in 1999, the maturity profile of the Bank's debt has changed slightly compared with 1998, in particular as regards long-term maturities, as can be seen from the following chart.

Analysis of year-end debt maturity in 1998 and 1999




## 4.3. Results

The net profit for 1999 stands at € 91.4 million, as compared with € 81.4 million for the previous year.

This marked increase of 12.3% is basically attributable to a rise in banking income from € 94.6 million as at 31 December 1998 to € 106.3 million one year later (+12.3%). The principal cause of growth was the expansion of the loans portfolio during 1999.

Operating expenses showed a moderate increase of 5%, owing to the very small rise in staff costs (+1.8%).

Finally, releases from provisions were lower in 1999 (€ 1.8 million) than in 1998 (€ 2.6 million). These are contra-entries in respect of repayments on the overdue debt of The Former Yugoslavia.

As at 31 December 1999, the subscribed capital stood at € 1.4 billion, of which € 155 million was paid-up. Taking into account accumulated resources and 1999 earnings, the Bank's own funds in the broad sense amounted to € 2.4 billion.

The Bank's ratios were slightly up on 1998, as a result of the need to finance the growth in lending. The loan ratio, which sets outstanding loans against own funds and is subject to an upper limit of 6, stands at 3.24 for 1999, compared with 2.79 for 1998. The long-term debt ratio, which sets long-term debt against own assets in the broad sense, rose from 3.22 to 3.75 but nonetheless remains below the permitted ceiling of 4. The rise in the ratio can be ascribed to the fact that long-term debt has increased while short-term debt has decreased because of the need to preserve a sufficient pool of liquid assets and finance the increase in lending activity.

# Integrated risk management



The Bank pursues a policy of integrated management of the various risks associated with its activity. The system of internal risk control is structured around the recommendations of the major prudential regulation authorities and conforms to the highest international standards.

## 1 - Stringent controls on credit risk

The credit risk management policy relies on monitoring positions in relation to limits, regular adjustment of these limits and analysis of possible scenarios.
That the Bank adopts a generally cautious attitude towards credit risk can be seen by the fact that it has never recorded a loss in this area.

1.1. The Risk Committee is at the heart of credit risk management. Its primary function is to set limits of all kinds (by country, counterparty and product), to take decisions in principle about the Bank's potential counterparties (for both lending and borrowing), to take the necessary measures to ensure that the everyday conduct of operations complies with the risk strategy, and to pronounce on all specific questions directly or indirectly connected with risk management (such as guarantees, collateralisation and new regulations).
Authorised risk levels are recorded on the Bank's central computer network. The databases can be used to monitor outstanding loans, in relation to the corresponding limits, by counterparty or group of counterparties, by type of product, by geographical zone, by activity sector or by the rating awarded to counterparties by rating agencies.

1.2. The analysis of country risk is conducted by the Risk Management Department using external and internal evaluation criteria. The Bank takes a pragmatic approach, aiming to set limits which in no circumstances exceed the ceilings on outstandings authorised by its prudential ratios while at the same time remaining flexible enough to allow its activities to expand.
The need to respect both risk management imperatives and Administrative Council guidelines has been met by setting limits by groups of countries.

1.3. The management of banking counterparty risk is based on a system of internal limits established according to a matrix which emphasises key factors concerning the counterparty's financial structure, asset soundness and profitability and takes account of qualitative criteria such as shareholder support, management quality and market share.
A points system is used to award an internal rating and allocate a theoretical limit. Limits are subsequently adjusted to reflect the constraints on the Bank (in respect of its own funds, etc). They constitute a flexible system which can be used to minimise risk while maximising the Bank's capacity for action.

## 2- Strict control of market risk

2.1. Market risk management is a function of the Assets and Liabilities Management Department of the Finance Directorate. It is responsible for keeping properly abreast of developments in market risk, systematically evaluating it and setting up suitable procedures for monitoring limits. It also reports on a regular basis to the Assets and Liabilities Management Committee on liquidity, interest-rate and currency risks both on and off the balance sheet and submits proposals for minimising them.

In order exclusively to hedge its interest-rate and currency risks, the Bank has recourse to derivatives as an end-user. In accordance with the prudential policy which governs its financial operations, derivative transactions are possible only with counterparties of excellent standing in respect of which prior commitment authorisation has been granted. Where maturity is greater than 5 years, the counterparty must enjoy a certain minimum rating or be subject to a collateral contract or additional guarantees.

2.2. Liquidity policy is determined by the Funding Committee in the context of the rules set by the Administrative Council. The Bank manages liquidity risk by preserving a long-term balance between the use of funds and resources. By feeding a pool of liquid assets to cover projected disbursements over three years and maintaining a conservative liquidity ratio, the Bank ensures it has the necessary funds in times of extreme market volatility.

## 3- Managing operational risk

3.1. Organisation. In keeping with the recommendations of the prudential regulation authorities, the Bank rigidly adheres in its internal structure to the principle of clear separation between the tasks and duties of different departments, between transaction generation and administration on the one hand and risk management on the other. The risk of failure is also controlled and limited by means of exhaustive checks on all systems, back-up measures and close coordination between internal and external information systems.

3.2. Computer risk. In accordance with the recommendations of the Basle Committee and the international financial community's highest standards, the Bank implemented a programme of action to guard as well as possible against possible fallout from the Millennium Bug. All systems were tested and brought into conformity. The Bank contacted all its partners in order to ensure that they too were well prepared. At the same time an emergency plan was drawn up with an outside consultant to deal with any incidents. In the event, the Millennium computer threat came and went without mishap.

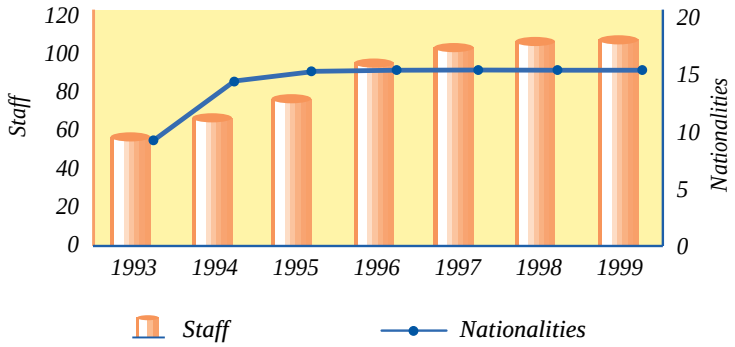




# Human resources

The Bank's staff has doubled since 1993 as a result of the arrival of new member states, the expansion of activity and the desire to conform to the highest international standards.
As at 31 December 1999 the Bank had 108 permanent members of staff, a very moderate figure in view of the development of activity.
The recruitment of specialised staff from different countries has continued, although the trend since 1997 has been to stabilise staffing levels. In 1999 the Bank filled four managerial level posts with recruits of four different nationalities.

Trend of staff number and nationalities represented




At the same time, the Bank has taken steps to ensure active careers management and so strengthen staff involvement. The Bank's human resources management methods are geared to nurturing an institution-wide culture, allowing all staff members to take a direct role in achieving the institution's social purpose.

In keeping with this policy, gradual changes have been made to the Staff Regulations, and reform of the pension scheme was finalised in 1999. This reform entails one fundamental change, namely the switch to internal management, and one more formal modification - the adoption of pension scheme rules specific to the Bank. On 28 January 1999, the Administrative Council finally adopted the Pension Scheme Rules for CEB staff members.

Finally, the skills assessment and improvement policy has continued. The Bank's performance-related bonus system has proved to be an effective means of motivating staff, and appropriate training courses are proposed to enable staff to update their knowledge. In this last connection, it should be noted that, although language and computer courses continue to absorb a large proportion of the training budget, specialist and advanced training in finance-related matters is also on offer.

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# Balance sheet as at 31.12.1999

*in thousand EUR*

## ASSETS

| Items | | 31.12.99 | 31.12.98 |
|---|---|---|---|
| 1 | Cash in hand, balances with central banks | 120 | 43 |
| 2 | Loans and advances to credit institutions | | |
| | (a) advances repayable on demand | 2 987 | 2 239 |
| | (b) loans and advances | | |
| | - advances (notes 3.1 and 12) | 1 052 065 | 1 560 198 |
| | - loans (a) (notes 3.1 and 12) | 4 223 153 | 3 152 712 |
| 3 | Loans to customers | | |
| | - loans (b) (notes 3.2 and 12) | 3 618 026 | 3 333 784 |
| | *Total loans (a + b)* (notes 3.3 to 3.6) | *7 841 179* | *6 486 496* |
| 4 | Treasury bills and similar securities (notes 4.1 and 12) | 473 600 | 445 806 |
| 5 | Debt securities, other fixed-income securities (notes 4.2 and 12) | 2 624 120 | 2 236 727 |
| 6 | Shares and other variable-yield securities (notes 4.3 and 12) | 755 | 687 |
| | *Total portfolio* | *3 098 475* | *2 683 220* |
| 7 | Intangible fixed-assets (note 5) | 1 365 | 1 423 |
| 8 | Tangible fixed-assets (note 5) | 11 980 | 9 213 |
| 9 | Capital subscribed, called, unpaid and reserves to be paid (note 6) | 7 244 | 9 155 |
| 10 | Other assets (note 8) | 4 398 | 4 306 |
| 11 | Prepayments and accrued income (note 8) | 639 455 | 340 197 |
| | TOTAL ASSETS (note 11) | 12 659 268 | 11 096 490 |

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

*in thousand EUR*

## LIABILITIES

| Items | | 31.12.99 | 31.12.98 |
|---|---|---|---|
| 1 | Amounts owed to credit institutions | | |
| | (a) repayable on demand | 162 | 83 |
| | (b) with agreed maturity dates or periods of notice (notes 9.1 and 12) | 19 504 | 6 862 |
| 2 | Amounts owed to customers | | |
| | with agreed maturity dates or periods of notice (notes 9.1 and 12) | 63 428 | - |
| 3 | Debt materialized by securities (notes 9.2, 9.3 and 12) | 11 050 401 | 9 728 981 |
| 4 | Other liabilities (note 10) | 61 961 | 6 267 |
| 5 | Accruals and deferred income (note 10) | 256 930 | 262 485 |
| 6 | Deposit from Selective Trust Account (S.T.A.) (notes 2.10 and 16) | 32 971 | 31 557 |
| 7 | Provisions for liabilities and charges Pension Fund (notes 2.8 and 17) | 23 494 | - |
| 8 | Fund for General Banking Risk (F.G.B.R.)/Del Credere Fund (note 2.7) | 150 000 | 150 000 |
| 9 | Capital (note 6) | | |
| | a) Subscribed (including 154 900 paid) | 1 400 693 | 1 386 086 |
| | b) Uncalled capital | (1 241 018) | (1 228 024) |
| | | *159 675* | *158 062* |
| 10 | General reserve (note 7) | 749 334 | 670 805 |
| 11 | Profit for the financial year | 91 408 | 81 388 |
| | TOTAL LIABILITIES (note 11) | 12 659 268 | 11 096 490 |

## OFF-BALANCE-SHEET ITEMS

| | | | |
|---|---|---|---|
| | Commitments given | | |
| I | Awaiting financing on approved projects (note 3.5 to 3.7) | 3 606 729 | 3 838 896 |
| II | Guarantees | | |
| | a) Guarantees for loans granted by third parties | 11 126 | 10 540 |
| | b) Guarantees on assigned interest swaps | 645 704 | 611 364 |
| | Commitments received | | |
| III | Guarantees received | 11 222 | 10 636 |
| | Off-balance-sheet financial instruments (notes 2.9 and 13) | | |
| IV | Interest rate-based instruments | 7 449 936 | 6 194 805 |
| V | Currency-based instruments | 4 722 934 | 5 362 169 |

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

Financial statements

# Profit and loss account as at 31.12.1999

*in thousand EUR*

| | ITEMS | 31.12.99 | 31.12.98 |
|---|---|---|---|
| 1 | Interest and similar income (notes 14.1 and 14.2) | 1 319 154 | 1 187 861 |
| 2 | Interest and similar expenses (note 14.3) | (1 213 297) | (1 092 631) |
| | NET INTEREST AND SIMILAR INCOME | 105 857 | 95 230 |
| 3 | Income from variable-yield securities | 45 | 42 |
| 4 | Commissions received | - | - |
| 5 | Commissions paid | (155) | (300) |
| 6 | Net profit (loss) on financial operations (note 14.4) | 818 | (221) |
| 7 | Other operating income | 117 | 148 |
| 8 | Other operating expenses | (423) | (261) |
| | GROSS OPERATING INCOME | 106 259 | 94 638 |
| | *General administrative expenses* | *(16 648)* | *(15 837)* |
| 9 | Staff costs (note 15) | (9 815) | (9 643) |
| 10 | Other administrative expenses (note 15) | (5 185) | (4 710) |
| 11 | Depreciation of fixed assets | (1 648) | (1 484) |
| | NET OPERATING INCOME | 89 611 | 78 801 |
| 12 | Value adjustments in respect of loans | 1 797 | 2 587 |
| | PROFIT FOR THE FINANCIAL YEAR | 91 408 | 81 388 |

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

# Statement of cash flows as at 31.12.1999

*in thousand EUR*

| | 31.12.99 | 31.12.98 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Profit for the financial year | 91 408 | 81 388 |
| Ajustments: | | |
| Value adjustments | 3 017 | 170 |
| Increase in accrued interest and commissions receivable | (124 325) | (154 990) |
| Increase in accrued interest and commissions payable | 126 614 | 153 879 |
| Premium on investment securities | 2 442 | 1 875 |
| *Profit after adjustment:* | *99 156* | *82 322* |
| Loans disbursements | (1 711 727) | (1 056 039) |
| Loans repayments received | 703 544 | 539 352 |
| *Net cash from loans:* | *(1 008 183)* | *(516 687)* |
| *Net cash flows from operating activities:* | *(909 027)* | *(434 365)* |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Net change in the securities portfolio | (129 420) | (403 150) |
| Purchase of tangible and intangible fixed assets | (3 770) | (1 900) |
| Other increases/(decreases) in assets | (93) | 172 |
| *Net cash flows from investing activities:* | *(133 283)* | *(404 878)* |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Issue of capital and reserves | 3 219 | 9 158 |
| Issue of borrowings | 2 465 719 | 2 870 779 |
| Redemption of borrowings | (2 391 406) | (1 427 054) |
| Decrease in short-term borrowings | 241 666 | (171 969) |
| Net change in foreign currency exchange expenses and income | 40 468 | 41 492 |
| Other increases/(decreases) in liabilities | 55 670 | 5 535 |
| *Net cash flows from financing activities:* | *415 336* | *1 327 941* |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 1 556 170 | 1 058 979 |
| Net cash flows from: | | |
| - operating activities | (909 027) | (434 365) |
| - investing activities | (133 283) | (404 878) |
| - financing activities | 415 336 | 1 327 941 |
| Effects of exchange rate changes on cash and cash equivalents | 97 886 | 8 493 |
| *Net increase/(decrease) in cash and cash equivalents:* | *(529 088)* | *497 191* |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (1) | 1 027 082 | 1 556 170 |

*(1) Loans and advances to credit institutions net of amounts owed, on demand and payable at maturity when reaching maturity in less than 3 months.*

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

# Notes to the Financial Statements as at 31 December 1999

## Note 1: The Bank's purpose

The Council of Europe Development Bank (CEB) is a multilateral financial development institution, set up in 1956, whose primary purpose 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.
The policy of the Council of Europe Development Bank, like that of other multilateral financial institutions, is to not reschedule interest or principal payments on its loans or participate in debt rescheduling agreements.
The Bank's principal office is in Strasbourg, France, and the headquarters of the operational services are located in Paris, France.

## Note 2: Summary of accounting policies

### 2.1. Standards and general principles

The Financial Statements for the year ended 31 December 1999 have been prepared in accordance with International Accounting Standards, as formulated by the International Accounting Standards Committee (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".
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 countries 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 n°6: Net profit (loss) on financial operations).

The accounts have been drawn up in euros, on the basis of the following rates of exchange at 31.12.1999:

| Currency | Currency rate against EUR | Currency | Currency rate against EUR |
|---|---|---|---|
| Australian Dollar (AUD) | 1.5422 | New Zealand Dollar (NZD) | 1.9357 |
| Canadian Dollar (CAD) | 1.4608 | Norwegian Krone (NOK) | 8.0765 |
| Croatian Kuna (HRK) | 7.6782 | Polish Zloty (PLN) | 4.1587 |
| Cyprus Pound (CYP) | 0.57667 | Pound Sterling (GBP) | 0.6217 |
| Czech Koruna (CZK) | 36.103 | Singapore Dollar (SGD) | 1.6726 |
| Danish Krone (DKK) | 7.4433 | Slovenian Tolar (SIT) | 198.9055 |
| Drachma (GRD) | 330.3 | South African Rand (ZAR) | 6.1768 |
| Hong Kong Dollar (HKD) | 7.8062 | Swedish Krona (SEK) | 8.5625 |
| Hungarian Forint (HUF) | 254.7 | Swiss Franc (CHF) | 1.6051 |
| Icelandic Krona (ISK) | 72.8483 | Taiwan Dollar (TWD) | 31.516 |
| Japanese Yen (JPY) | 102.73 | Turkish Lira (TRL) | 541 270 |
| Lithuanian Litas (LTL) | 4.018 | US Dollar (USD) | 1.0046 |
| Maltese Lira (MTL) | 0.4147 | EUR | 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 revaluation are debited or credited to the profit and loss account.

2.3.2. Investment securities

Investment securities are purchased with the intention of holding to maturity. They are accounted for at their historical cost. The premium or discount of the investment securities (the difference between purchase price and the nominal price) is amortized over the life of the security.

2.3.3. Held-for-sale securities

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

## 2.4 - Loans

Loans are stated at their nominal value. Issue premiums received or paid when the loans are granted are amortized using the straight-line method over the life of the loan.

Regarding unpaid principal and interest due for more than 90 days, a 100% interest provision has been set up. Specific provisions 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 - Debt evidenced by certificates

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

## 2.7 - Fund for General Banking Risks (FGBR) / Del credere fund

According to European Directive 86/635, the FGBR/Del Credere Fund is intended to cover potential risks not yet identified resulting from the Bank's lending activities, securities transactions and from other derivative transactions. Notwithstanding the International Accounting Standards Committee, the potential entries of the FGBR are registered under the profit and loss account (increase/reversal).

## 2.8 - Pension Fund

The Bank's Pension Fund is organised as a defined benefit plan. It is financed partly by 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.

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 utilized by the Bank include interest rate instruments (interest rate swaps, forward rate agreements, futures, caps, floors, interest rate options and swaptions) and currency instruments (currency swaps, forward exchange 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 amortized over the life of the underlying instrument.
b) Trading activities
Trading positions are marked to market and the resulting realized and unrealized gains or losses are entered in the profit and loss account.

## 2.10 - Selective Trust Account (STA)

In view of Governing Board Resolution 279 (1994) and in compliance with Article VII, Section 3 of the Bank's new Articles of Agreement, the Administrative Council decided, by its Resolution 1380 (1995), to establish a permanent trust account called Selective Trust Account, described as follows:
- 1. The purpose of the account is to provide interest rate subsidies for loans granted by the Bank for projects complying with its priority objectives having high social value (in connection with natural disasters, acts of war and migration), and concerning regions in poor countries with low income levels, in particular in Central and Eastern European countries.
- 2. The account shall operate solely on the basis of interest rate subsidies, covering the interest rate differential between the rate usually applied by the Bank and the rate repaid by the borrower.
- 3. The account will be broken down as follows:
  3.1 Bank contributions allocated from annual profits. Such allocations shall not be automatic but shall be decided upon by the Administrative Council.
  3.2 Voluntary contributions from Bank member states.
  3.3 Voluntary contributions from Council of Europe members.
  3.4 Voluntary contributions from non-members of the Council of Europe or international institutions following the agreement of the Governing Board and the Administrative Council.
- 4. Any subsidy proposal, stated in basis points and in euros is calculated according to standard loans characteristics. The subsidy is mentioned in the loan request (Fund/Project) which the Governor submits for Administrative Council approval (Resolution CA 1437 (1999), point 6.5, item 2).
The accepted subsidy value in euros is that one of the day on which the loan is disbursed.
Acounting for the Selective Trust Account is carried out separately (note 16).

## 2.11 - 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.

## 2.12 - Presentation of the 1999 Financial Statements

Change in presentation:
The Administrative Council decided, by its Resolution 1429 (1998), that the management of the Pension Fund assets should be entrusted to the Bank itself and not to an independent entity.
These commitments were previously materialized within the Pension Fund, whose financial statements were presented in the Notes to the Bank's Financial Statements.
As the Pension Fund has no legal status of its own, these assets could be considered as direct investments of the CEB. The assets have been now transferred. The CEB has reinvested the funds thus made available in investment securities. By way of compensation for the assets integrated into the investment portfolio, the Bank has entered a provision for liabilities and charges in order to meet pension commitments.
The registering of this provision has had no effect on the Bank's result. The detail of this provision is presented in note 17.

# Note 3: Loans

## Note 3.1: Loans and advances to credit institutions, analysis by type

*in thousand EUR*

| (ASSET, ITEM 2) | 31.12.99 | 31.12.98 |
|---|---|---|
| Repayable on demand | 2 987 | 2 239 |
| Related interest receivable | - | - |
| *Sub-total* | *2 987* | *2 239* |
| Advances (deposits) | 1 043 638 | 1 553 971 |
| Related interest receivable | 8 427 | 6 227 |
| *Sub-total* | *1 052 065* | *1 560 198* |
| Total demand and term deposits (1) | 1 055 052 | 1 562 437 |
| Ordinary loans | 4 165 872 | 3 103 125 |
| STA soft loans (*) | 3 470 | 639 |
| Social loans (**) | 658 | 825 |
| Related interest receivable | 53 224 | 48 340 |
| Provisions | (71) | (217) |
| Total ordinary and social loans (2) | 4 223 153 | 3 152 712 |
| TOTAL (1+2) | 5 278 205 | 4 715 149 |

*(*) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 16).*

*(**) Social loans are granted at 1% interest rate.*

## Note 3.2: Loans to customers, analysis by type

*in thousand EUR*

| (ASSETS, ITEM 3) | 31.12.99 | | | | 31.12.98 | | | |
|---|---|---|---|---|---|---|---|---|
| | Ordinary loans | STA loans (*) | Social loans (**) | Total | Ordinary loans | Social loans | STA loans (*) | Total |
| Outstanding amount | 3 477 531 | 82 355 | 13 584 | 3 573 470 | 3 277 851 | 15 211 | 4 902 | 3 297 964 |
| Related interest receivable | 45 548 | 635 | 35 | 46 218 | 40 446 | 41 | 49 | 40 536 |
| Unpaid principal and interest due (***) | 46 770 | | | 46 770 | 45 366 | | | 45 366 |
| Provisions | (48 432) | | | (48 432) | (50 082) | | | (50 082) |
| TOTAL | | | | 3 618 026 | | | | 3 333 784 |

*(*) Loans subsidised according to Selective Trust Account (STA) procedure (see notes 2.10 and 16).*

*(**) Social loans are granted at 1% interest rate.*

*(***) Unpaid principal and interest due are fully provisionned.*

## Note 3.3: Outstanding loans on the main borrower categories (*)

*in thousand EUR*

| (ASSETS, ITEMS 2 & 3) | 31.12.99 | 31.12.98 |
|---|---|---|
| 1) Credit institutions | 4 170 000 | 3 104 590 |
| 2) Customers | | |
| Member states | 3 179 423 | 3 042 462 |
| Non member states | 5 244 | 2 742 |
| Member states' public institutions | 387 856 | 250 068 |
| Non member states' public institutions | 947 | 2 547 |
| Other institutions | 0 | 145 |
| | 3 573 470 | 3 297 964 |
| TOTAL (1 + 2) (**) | 7 743 470 | 6 402 554 |

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

*(**) As at 31.12.99, total loans according to the type of interest rate applied were as follows:*

*Fixed rate loans: KEUR 4 902 550 (KEUR 4 696 133 as at 31.12.98)*

*Floating rate loans: KEUR 2 840 920 (KEUR 1 706 421 as at 31.12.98)*

*TOTAL AS AT 31.12.99: KEUR 7 743 470 (KEUR 6 402 554: TOTAL AS AT 31.12.98)*

## Note 3.4: Outstanding loans by currency (*)

*in thousand EUR*

| (ASSETS, ITEMS 2 & 3) | 31.12.99 | 31.12.98 |
|---|---|---|
| EUR | 5 820 533 | 4 551 964 |
| USD | 990 534 | 767 988 |
| JPY | 657 905 | 711 129 |
| CHF | 274 498 | 371 473 |
| TOTAL | 7 743 470 | 6 402 554 |

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

## Note 3.5: Outstanding loans and funding commitments by country (*)

*in thousand EUR*

| (ASSETS, ITEMS 2 & 3) | 31.12.99 | | | 31.12.98 | | |
|---|---|---|---|---|---|---|
| COUNTRY | Funding commitments (off balance sheet, item 1) | Outstanding | % | Funding commitments (off Balance sheet, item 1) | Outstanding | % |
| Turkey | 218 930 | 1 830 683 | 23.64 | 303 970 | 1 861 430 | 29.07 |
| Germany (**) | 365 703 | 1 453 740 | 18.77 | 615 468 | 1 202 175 | 18.78 |
| Spain | 617 429 | 1 371 687 | 17.71 | 606 712 | 759 165 | 11.86 |
| Greece | 507 509 | 988 827 | 12.77 | 800 751 | 802 310 | 12.53 |
| Italy | 704 382 | 783 258 | 10.12 | 618 408 | 844 555 | 13.19 |
| Cyprus | 498 888 | 493 901 | 6.38 | 413 571 | 468 022 | 7.31 |
| France | 309 603 | 423 316 | 5.47 | 156 705 | 271 677 | 4.24 |
| Finland | 25 190 | 113 977 | 1.47 | 92 382 | 40 283 | 0.63 |
| Belgium | 5 723 | 99 038 | 1.28 | 43 104 | 56 321 | 0.88 |
| Malta | 62 732 | 55 319 | 0.71 | 58 911 | 53 347 | 0.83 |
| Poland (**) | 53 946 | 38 169 | 0.49 | - | - | - |
| Hungary (**) | 60 000 | 20 000 | 0.26 | - | - | - |
| Croatia (**) | 16 979 | 15 326 | 0.20 | 32 938 | 975 | 0.02 |
| Iceland | 35 102 | 13 000 | 0.17 | 31 453 | 13 000 | 0.20 |
| Romania (**) | 43 345 | 12 229 | 0.16 | 31 828 | 188 | 0.01 |
| Portugal | 8 975 | 10 211 | 0.13 | 10 475 | 14 931 | 0.23 |
| Bosnia and Herzegovina (**) | - | 4 977 | 0.06 | 2 571 | 2 742 | 0.04 |
| Lithuania | 11 052 | 4 326 | 0.06 | 7 714 | 2 999 | 0.05 |
| San Marino | 1 162 | 3 228 | 0.04 | - | 2 582 | 0.04 |
| Bulgaria | 7 963 | 2 986 | 0.04 | 6 857 | 2 571 | 0.04 |
| Slovenia (**) | 48 281 | 2 906 | 0.04 | 5 079 | 233 | 0.00 |
| "The Former Yugoslav Republic of Macedonia" | 3 835 | 1 418 | 0.02 | - | 501 | 0.01 |
| Fed. Rep. Yugoslavia (***) | - | 948 | 0.01 | - | 2 547 | 0.04 |
| TOTAL | 3 606 729 | 7 743 470 | 100.00 | 3 838 897 | 6 402 554 | 100.00 |

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

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

*(***) The Federal Republic of Yugoslavia is not a member of the Bank. This outstanding represents its share of the debts of former Yougoslavia, associate member of the Bank from 15/01/1986 to 22/10/1991.*

## Note 3.6: Outstanding loans and funding commitments, by economic sector (*)

*in thousand EUR*

| (ASSETS, ITEMS 2 & 3) | 31.12.99 | | | 31.12.98 | | |
|---|---|---|---|---|---|---|
| Sector (**) According to Resolution 1424 (97) | Funding commitments (off balance sheet, item 1) | Outstanding | % | Funding commitments (off balance sheet, item 1) | Outstanding | % |
| A) Priority fields of action: | | | | | | |
| Aid for refugees and migrants | 30 948 | 772 352 | 9.97 | 46 431 | 749 250 | 11.70 |
| Aid to regions hit by natural or ecological disasters | 473 761 | 676 120 | 8.73 | 504 603 | 474 261 | 7.41 |
| B) Other fields of action: | | | | | | |
| Job creation in small and medium sized enterprises | 364 223 | 970 129 | 12.53 | 253 569 | 1 038 863 | 16.23 |
| Social housing | 462 614 | 1 589 715 | 20.53 | 649 479 | 1 085 457 | 16.95 |
| Health | 456 487 | 501 773 | 6.48 | 481 811 | 367 643 | 5.74 |
| Social infrastructure | - | - | 0.00 | - | - | 0.00 |
| Education | 477 153 | 911 204 | 11.77 | 649 622 | 689 144 | 10.76 |
| Vocational training | 0 | 65 160 | 0.84 | 0 | 65 160 | 1.02 |
| Protection of the environment | 512 939 | 677 961 | 8.76 | 568 399 | 365 444 | 5.71 |
| Rural modernisation | 629 097 | 1 049 003 | 13.55 | 562 735 | 975 866 | 15.24 |
| Infrastructure facilities | 106 170 | 451 535 | 5.83 | 91 803 | 551 406 | 8.61 |
| Improvement of living conditions in disadvantaged urban areas | 71 172 | 69 096 | 0.89 | 30 444 | 40 060 | 0.63 |
| Historic heritage | 22 165 | 9 422 | 0.12 | - | - | - |
| TOTAL | 3 606 729 | 7 743 470 | 100.00 | 3 838 896 | 6 402 554 | 100.00 |

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

*(**) The breakdown by sector of the loans related to sector-based multi-project (SMP) programmes is made by application of the statistical percentages used when approving each project.*

## Note 3.7: Funding commitments

*in thousand EUR*

| (OFF BALANCE SHEET, ITEM 1) | 1997 and before (a) | 1998 (b) | 1999 (c) | Total (a) + (b) + (c) |
|---|---|---|---|---|
| Projects with framework agreements signed (1) | 732 828 | 769 886 | 454 447 | 1 957 161 |
| Projects without framework agreements (2) | 1 112 925 | 523 282 | 13 361 | 1 649 568 |
| SUB-TOTAL | 1 845 753 | 1 293 168 | 467 808 | 3 606 729 |

*(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

## Note 4.1: Treasury bills and similar securities

*in thousand EUR*

| (ASSETS, ITEM 4) | 31.12.99 Trading | Held-for-sale | Investment | Total | 31.12.98 Trading | Held-for-sale | Investment | Total |
|---|---|---|---|---|---|---|---|---|
| Securities held | - | - | 451 635 | 451 635 | - | - | 428 182 | 428 182 |
| Related interest receivable | - | - | 21 965 | 21 965 | - | - | 17 624 | 17 624 |
| Gross total | - | - | 473 600 | 473 600 | - | - | 445 806 | 445 806 |
| Provisions | - | - | - | - | - | - | - | - |
| Net total (1) | - | - | 473 600 | 473 600 | - | - | 445 806 | 445 806 |
| Potential gain on sale (2) | - | - | 4 323 | 4 323 | - | - | 41 075 | 41 075 |
| Redemption price less net book value | - | - | (12 159) | (12 159) | - | - | (12 604) | (12 604) |

*1) The total net book value of listed securities represents bonds and other securities issued by countries or equivalent institutions (rated AAA or AA) as at 31.12.99 and 31.12.98.*

*2) Difference between purchase price and market price as at 31.12.99 or as at 31.12.98.*

## Note 4.2: Debt securities and other fixed-income securities

*in thousand EUR*

| (ASSETS, ITEM 5) | 31.12.99 Trading | Held-for-sale | Investment | Total | 31.12.98 Trading | Held-for-sale | Investment | Total |
|---|---|---|---|---|---|---|---|---|
| Government securities | - | 95 720 | 217 696 | 313 416 | - | 51 680 | 223 082 | 274 762 |
| Other securities | - | 1 693 474 | 560 780 | 2 254 254 | - | 1 449 374 | 469 530 | 1 918 904 |
| Related interest receivable | - | 29 027 | 27 682 | 56 709 | - | 18 706 | 24 603 | 43 309 |
| Gross total | - | 1 818 221 | 806 158 | 2 624 379 | - | 1 519 760 | 717 215 | 2 236 975 |
| Provisions | - | (259) | - | (259) | - | (248) | - | (248) |
| Net total (1) | - | 1 817 962 | 806 158 | 2 624 120 | - | 1 519 512 | 717 215 | 2 236 727 |
| Potential gain/loss on sale (2) | - | 9 665 | 39 369 | 49 034 | - | 8 510 | 56 967 | 65 477 |
| Redemption price less net book value | - | 13 342 | (2 799) | 10 543 | - | 21 575 | (5 457) | 16 118 |

*1) The total net book value of listed and non listed securities is, respectively, KEUR 764 040 and KEUR 1 429 626 (as compared to KEUR 653 591 and KEUR 1 286 929 as at 31.12.98).*

*2) Difference between purchase price and market price as at 31.12.99 or as at 31.12.98.*

## Note 4.3: Shares and other variable-yield securities

*in thousand EUR*

| (ASSETS, ITEM 6) | 31.12.99 Held-for-sale | 31.12.98 Held-for-sale |
|---|---|---|
| Securities held | 1 463 | 1 463 |
| Related interest receivable | 11 | 10 |
| Gross total | 1 474 | 1 473 |
| Provisions | (719) | (786) |
| Net total (1) | 755 | 687 |
| Potential gain on sale (2) | 57 | 53 |

*1) The total net book value of listed and non listed securities is, respectively, KEUR 97 and KEUR 647 (as compared to KEUR 96 and KEUR 508 as at 31.12.98).*

*2) Difference between purchase price and market price as at 31.12.99 or as at 31.12.98.*

## Note 5: Fixed assets

*in thousand EUR*

| A - ASSETS, ITEMS 7 & 8 | 31.12.98 | Variations for the year | 31.12.99 |
|---|---|---|---|
| GROSS VALUE | | | |
| 1) Intangible fixed assets | | | |
| Software | 1 778 | (221) | 1 557 |
| Fixed assets in progress | 489 | 193 | 682 |
| Total A1 | 2 267 | (28) | 2 239 |
| 2) Tangible fixed assets | | | |
| Headquarters real estate | 8 597 | 2 076 | 10 673 |
| Fixtures and equipment | 3 867 | 1 835 | 5 702 |
| Other tangible fixed assets | 2 431 | 307 | 2 738 |
| Fixed assets in progress | 504 | (420) | 84 |
| Total A2 | 15 399 | 3 798 | 19 197 |
| **B - AMORTISATION/DEPRECIATION** | **31.12.98** | **Allowances for the year** | **31.12.99** |
| 1) Intangible fixed assets | | | |
| Software | 844 | 30 | 874 |
| Total B1 | 844 | 30 | 874 |
| 2) Tangible fixed assets | | | |
| Headquarters real estate | 3 003 | 378 | 3 381 |
| Fixtures and equipment | 1 851 | 438 | 2 289 |
| Other tangible fixed assets | 1 332 | 215 | 1 547 |
| Total B2 | 6 186 | 1 031 | 7 217 |
| NET BOOK VALUE OF TANGIBLE FIXED ASSETS (A1-B1) | 1 423 | (58) | 1 365 |
| NET BOOK VALUE OF TANGIBLE FIXED ASSETS (A2-B2) | 9 213 | 2 767 | 11 980 |

## Note 6: Subscribed capital as at 31.12.1999

In accordance with the Articles of Agreement, may become members of the Bank:
- All member Governments of the Council of Europe.
- Other Governments upon authorization of the Governing Board of the Bank.

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

*in thousand EUR*

| (ASSETS, ITEM 9 & LIABILITIES, ITEM 9) | Subscribed capital | Uncalled capital | Called capital (c) | | Reserves to be received | Called and unpaid capital and reserves to be paid |
|---|---|---|---|---|---|---|
| COUNTRY | (a) | (b) | Paid (1) at 31.12.99 (c1) | To be paid (c2) | (d) | 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 | 45 786 | 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 | 1 833 | 1 833 | 994 | 2 827 |
| Denmark | 23 214 | 20 649 | 2 565 | | | |
| Switzerland | 23 214 | 15 998 | 7 216 | | | |
| Finland | 18 067 | 16 072 | 1 995 | | | |
| Norway | 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 | 640 | 640 | 262 | 902 |
| Czech Republic (2) | 11 142 | 9 912 | 308 | 922 | 497 | 1 419 |
| Luxembourg | 8 992 | 8 000 | 992 | | | |
| Croatia | 5 534 | 4 923 | 458 | 153 | 62 | 215 |
| Cyprus | 5 147 | 4 579 | 568 | | | |
| Slovakia | 4 908 | 4 366 | 136 | 407 | 219 | 626 |
| Albania (2) (5) | 3 465 | 3 083 | 383 | | | |
| Latvia (4) | 3 316 | 2 950 | 92 | 275 | 164 | 439 |
| Estonia | 3 294 | 2 930 | 364 | | | |
| "The Former Yugoslav Republic of Macedonia" | 3 294 | 2 930 | 182 | 182 | 74 | 256 |
| Moldova (3) | 3 294 | 2 930 | | 364 | 197 | 561 |
| 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 AS AT 31.12.99 | 1 400 693 | 1 241 018 | 154 900 | 4 775 | 2 469 | 7 244 |
| TOTAL AS AT 31.12.98 | 1 386 086 | 1 228 024 | 151 960 | 6 102 | 3 053 | 9 155 |
| Variation | 14 607 | 12 994 | 2 940 | (1 327) | (584) | (1 911) |

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

*(2) New member states of the Bank in 1999.*

*(3) Instalments from Moldova (EUR 280 500) still pending, since 4 June 1998 and 4 June 1999.*

*(4) Instalment payed by Latvia (EUR 146 250) on 11 January 2000.*

*(5) Albania's membership has been financed by the CEB and by voluntary contributions from certain countries. See note 16 for details.*

## Note 7: Reserve as at 31.12.1999

*in thousand EUR*

| (LIABILITIES, ITEM 8) | General Reserve |
|---|---|
| Balance as at 31.12.98 | 670 805 |
| Appropriation of net profit 1998 (*) | 76 389 |
| Czech Republic (**) | 662 |
| Albania (**) (***) | 1 478 |
| Balance as at 31.12.99 | 749 334 |

*(*) The Administrative Council has decided to allocate EUR 76 388 422 of the profits from the 1998 financial year to the General Reserve (Resolution 1433 (1999) of 25.03.99).*

*(**) New member states of the Bank in 1999.*

*(***) Albania's membership has been financed by the CEB and by voluntary contributions from certain countries. See note 16 for details.*

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

*in thousand EUR*

| (ASSETS, ITEMS 10 & 11) | 31.12.99 | 31.12.98 |
|---|---|---|
| Sundry debtors | 3 400 | 3 107 |
| Conditional instruments purchased | 998 | 1 199 |
| TOTAL OTHER ASSETS | 4 398 | 4 306 |
| Accrued interest receivable | 353 997 | 273 697 |
| Foreign currencies adjustment account | 202 515 | 0 |
| Other expenses to be amortised | 78 622 | 65 137 |
| Prepaid expenses | 4 100 | 1 121 |
| Other accrued income and sundry debtors/creditors | 221 | 242 |
| TOTAL PREPAYMENTS AND ACCRUED INCOME | 639 455 | 340 197 |

## Note 9: Debts

### Note 9.1: Amounts owed to credit institutions and to customers, analysis by type

*in thousand EUR*

| (LIABILITIES, ITEM 2) | 31.12.99 | 31.12.98 |
|---|---|---|
| Amounts owed to credit institutions: | | |
| Repayable on demand | 162 | 83 |
| With agreed maturity dates or periods of notice | 19 500 | 6 848 |
| Related interest payable | 4 | 14 |
| Total | 19 666 | 6 945 |
| Amounts owed to customers: | | |
| With agreed maturity dates or periods of notice | 62 406 | 0 |
| Related interest payable | 1 022 | 0 |
| TOTAL | 63 428 | 0 |

## Note 9.2: Debt materialized by securities, analysis by type

*in thousand EUR*

| (LIABILITIES, ITEM 2) | 31.12.99 | 31.12.98 |
|---|---|---|
| Bonds | 10 019 366 | 9 046 167 |
| Euro Commercial Paper | 544 275 | 263 039 |
| Perpetual debt (*) | 126 811 | 126 600 |
| *Sub-total* | *10 690 452* | *9 435 806* |
| Related interest payable | 359 949 | 293 175 |
| TOTAL | 11 050 401 | 9 728 981 |

*(*) The outstanding at 31.12.99 comprises a debt of CHF 203 545 000 (EUR: 126 811 413) at a fixed rate of 5.5% p.a.*

## Note 9.3: Debt materialized by securities, analysis by currency (*)

*in thousand EUR*

| (LIABILITIES, ITEM 3) | 31.12.99 | 31.12.98 |
|---|---|---|
| EUR | 4 615 857 | 3 939 093 |
| USD | 3 899 320 | 2 763 394 |
| JPY | 1 057 992 | 1 386 931 |
| HKD | 448 362 | 769 410 |
| CHF | 220 264 | 313 193 |
| TWD | 190 379 | - |
| CAD | 68 456 | 55 367 |
| ZAR | 65 163 | 58 769 |
| GRD | 60 660 | 45 497 |
| SEK | 32 117 | 28 984 |
| PLN | 18 034 | 18 340 |
| CZK | 13 849 | 56 828 |
| TOTAL | 10 690 452 | 9 435 806 |

*(*) Except related interest payable.*

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

*in thousand EUR*

| (LIABILITIES, ITEMS 4 & 5) | 31.12.99 | 31.12.98 |
|---|---|---|
| Sundry creditors | 1 575 | 627 |
| Deposits of guarantee received (*) | 60 386 | 5 640 |
| TOTAL OTHER LIABILITIES | 61 961 | 6 267 |
| Deferred income | 72 121 | 54 659 |
| Accrued expenses | 181 019 | 140 223 |
| Foreign currencies adjustment account | 0 | 64 304 |
| Other accruals and sundry debtors/creditors | 3 790 | 3 299 |
| TOTAL ACCRUALS AND DEFERRED INCOME LIABILITY | 256 930 | 262 485 |

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

## Note 11: Total balance sheet denominated in foreign currency

*in thousand EUR*

| | ASSETS | | | | LIABILITIES | | | |
|---|---|---|---|---|---|---|---|---|
| | 31.12.99 | | 31.12.98 | | 31.12.99 | | 31.12.98 | |
| EURO | 8 593 922 | 67.9% | 3 439 832 | 30.0% | 6 178 299 | 48.8% | 2 371 997 | 21.4% |
| "IN" currencies | | | 3 609 844 | 30.0% | | | 2 944 995 | 26.5% |
| *Sub-total* | *8 593 922* | *67.9%* | *7 049 676* | *60.0%* | *6 178 299* | *48.8%* | *5 316 992* | *47.9%* |
| Other currencies | 4 065 346 | 32.1% | 4 046 814 | 40.0% | 6 480 969 | 51.2% | 5 779 498 | 52.1% |
| TOTAL | 12 659 268 | 100.0% | 11 096 490 | 100.0% | 12 659 268 | 100.0% | 11 096 490 | 100.0% |

## Note 12: Analysis of assets and liabilities based on residual period to maturity (*)

*in thousand EUR*

| ITEMS | <3 months<br>1 | >3 months <1 year<br>2 | >1 year <5 years<br>3 | >5 years<br>4 | TOTAL<br>5 | Maturing in 2000<br>6 = 1 + 2 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| 1 - Treasury bills and similar securities | 0 | 17 294 | 86 810 | 350 175 | 454 279 | 17 294 |
| 2 - Loans and advances to credit institutions and customers | 1 163 932 | 1 055 512 | 3 360 394 | 3 207 269 | 8 787 107 | 2 219 444 |
| 3 - Debt securities and other fixed-income securities | 755 698 | 619 285 | 826 178 | 366 630 | 2 567 791 | 1 374 983 |
| TOTAL AS AT 31.12.99 | 1 919 630 | 1 692 091 | 4 273 382 | 3 924 074 | 11 809 177 | 3 611 721 |
| TOTAL AS AT 31.12.98 | 2 749 488 | 575 771 | 4 557 175 | 2 698 793 | 10 581 227 | 3 325 259 |
| LIABILITIES | | | | | | |
| 1 - Amounts owed to credit institutions | 19 662 | | | | 19 662 | 19 662 |
| 2 - Amounts owed to customers | | 4 000 | | 58 406 | 62 406 | 4 000 |
| 3 - Debt evidenced by certificates | | | | | | |
| Negotiable debt securities (ECP) | 515 275 | 29 000 | | | 544 275 | 544 275 |
| Subordinated debt and bonds | 362 289 | 3 474 553 | 2 592 882 | 3 589 642 | 10 019 366 | 3 836 842 |
| Perpetual debt | | | | 126 811 | 126 811 | |
| TOTAL AS AT 31.12.99 | 897 226 | 3 507 553 | 2 592 882 | 3 774 859 | 10 772 520 | 4 404 779 |
| TOTAL AS AT 31.12.98 | 534 614 | 1 359 955 | 4 856 665 | 2 691 420 | 9 442 654 | 1 894 569 |

*(*) Not including the current account, related interest receivable, unpaid principal and interest, premium/discount amortizations and provisions.*

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

*in thousand EUR*

| ( OFF BALANCE SHEET, ITEMS 4 & 5 ) | 31.12.99 Nominal amounts | 31.12.98 Nominal amounts |
|---|---|---|
| Transactions in interest rate instruments on exchange traded markets and equivalents | | |
| Futures | - | - |
| Over-the-counter transactions in interest rate instruments | | |
| Hedging instruments including interest rate swaps | 7 207 307 | 5 901 047 |
| Interest rate options used as hedges | 242 629 | 242 629 |
| Other instruments including interest rate swaps | - | - |
| Other options | 0 | 51 129 |
| Transactions in currency instruments on exchange traded markets and equivalents | - | - |
| Over-the-counter transactions in currency instruments | | |
| Hedging instruments | 4 722 934 | 5 362 169 |
| Currency options used as hedges | - | - |

## Note 14: Result

### Note 14.1: Interest and similar income, analysis by type

*in thousand EUR*

| (PROFIT AND LOSS ACCOUNT, ITEM 1) | 31.12.99 | 31.12.98 |
|---|---|---|
| Interest income from current accounts | 37 | 68 |
| Interest income from short-term time deposits | 35 182 | 51 421 |
| Interest income from loans | 192 811 | 167 292 |
| Interest on financial transaction hedging assets | 19 327 | 14 653 |
| Total interest and similar income on operations with credit institutions | 247 357 | 233 434 |
| Interest income from loans | 233 202 | 237 707 |
| Interest on financial transaction hedging assets | 40 134 | 38 100 |
| Total interest and similar income on operations with customers | 273 336 | 275 807 |
| Income from held-for-sale securities | 94 270 | 82 552 |
| Income from investment securities | 77 886 | 75 226 |
| Interest on financial transaction hedging assets | 39 878 | 25 704 |
| Total interest and similar income on debt securities and other fixed-income securities | 212 034 | 183 482 |
| Redemption of issue premiums | 11 057 | 6 892 |
| Other interest income (*) | 575 370 | 488 246 |
| Total other interest income | 586 427 | 495 138 |
| TOTAL | 1 319 154 | 1 187 861 |

*(*) This item notably includes interest income from financial instruments used as macro-hedging and hedging for debt whether evidenced by certificates or not.*

## Note 14.2: Analysis of interest on loans by country (*)

*in thousand EUR*

| (PROFIT AND LOSS ACCOUNT, ITEM 1) | 31.12.99 | 31.12.98 |
|---|---|---|
| Turkey | 138 701 | 142 333 |
| Germany | 68 956 | 57 733 |
| Italy | 61 497 | 71 895 |
| Greece | 56 550 | 52 694 |
| Spain | 46 303 | 38 348 |
| Cyprus | 24 643 | 25 077 |
| France | 13 569 | 7 807 |
| Finland | 3 866 | 1 809 |
| Malta | 3 280 | 2 856 |
| Belgium | 3 163 | 587 |
| Portugal | 580 | 880 |
| Croatia | 475 | - |
| Poland | 424 | - |
| Iceland | 406 | 353 |
| Bosnia and Herzegovina | 357 | - |
| San Marino | 233 | 210 |
| Hungary | 228 | - |
| Lithuania | 227 | 143 |
| Federal Republic of Yugoslavia | 167 | 726 |
| Bulgaria | 158 | 40 |
| Romania | 106 | 6 |
| Slovakia | 94 | - |
| "The Former Yugoslav Republic of Macedonia" | 37 | - |
| TOTAL | 424 020 | 403 497 |

*(*) Except interest on hedging instruments and penalties on early redemption.*

## Note 14.3: Interest and similar charges, analysis by type

*in thousand EUR*

| (PROFIT AND LOSS ACCOUNT, ITEM 2) | 31.12.99 | 31.12.98 |
|---|---|---|
| Interest charge on current accounts | 59 | 42 |
| Interest charge on short-term borrowings | 1 750 | 389 |
| Interest on financial transaction hedging assets | 25 883 | 16 832 |
| Total interest and similar charges on operations with credit institutions | 27 692 | 17 263 |
| Interest charge on current accounts | 1 015 | 1 267 |
| Interest charge on short-term borrowings | 549 | - |
| Interest on financial transaction hedging assets | 66 392 | 53 453 |
| Total interest and similar charges on operations with customers | 67 956 | 54 720 |
| Interest charge on transferable debt securities | 12 267 | 8 061 |
| Interest charge on debt and bonds | 722 781 | 633 723 |
| Interest on financial transaction hedging assets | 297 001 | 294 505 |
| Total interest and similar charges on debt evidenced by certificates | 1 032 049 | 936 289 |
| Other interest and charges (*) | 85 600 | 84 359 |
| TOTAL | 1 213 297 | 1 092 631 |

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

## Note 14.4: Net profit (loss) on financial operations, analysis by type

*in thousand EUR*

| (PROFIT AND LOSS ACCOUNT, ITEM 6) | 31.12.99 | 31.12.98 |
|---|---|---|
| - Trading securities | 0 | 0 |
| - Off-balance-sheet financial instruments | 0 | 0 |
| *Sub-total* | *0* | *0* |
| - Foreign currency transactions | 768 | (215) |
| - Held-for-sale securities | 50 | (6) |
| TOTAL | 818 | (221) |

## Note 15: General and administrative expenses

*in thousand EUR*

| (PROFIT AND LOSS ACCOUNT, ITEM 8) | 31.12.99 | 31.12.98 |
|---|---|---|
| Wages and salaries | 8 100 | 7 563 |
| Social security taxes (*) | 740 | 1 103 |
| Pension costs | 975 | 977 |
| Other administrative expenses | 5 185 | 4 710 |
| TOTAL | 15 000 | 14 353 |

*(*) A private health insurance scheme came into effect on 1 March 1999, reducing social security contributions.*

### Staff

At 31.12.99, the Bank had a permanent staff of 108 (107 at 31.12.98) comprised as follows :

| | 31.12.99 | 31.12.98 |
|---|---|---|
| Unclassified staff (*) | 3 | 3 |
| Management staff (category A) | 46 | 43 |
| Non-management staff (categories B and C) | 59 | 61 |
| TOTAL | 108 | 107 |

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

# Note 16: Selective Trust Account (STA)

## Note 16.1: Financial Statements

*in thousand EUR*

| BALANCE SHEET | | | | | |
|---|---|---|---|---|---|
| ASSETS | 31.12.99 | 31.12.98 | LIABILITIES | 31.12.99 | 31.12.98 |
| Deposit to the CEB | 32 971 | 31 557 | Contribution paid by the CEB (1) | 35 020 | 30 020 |
| Securities portfolio | 2 856 | 1 005 | Other contributions paid (2) | 107 | 58 |
| Accruals and deferred income | 0 | 122 | Accruals and deferred income | 536 | 46 |
| | | | Result brought forward | 2 560 | 1 403 |
| | | | Result for the financial year | (2 396) | 1 157 |
| TOTAL | 35 827 | 32 684 | | 35 827 | 32 684 |

*(1) According to Resolution 1385 (1996) of the Administrative Council*

*(2) In 1999, the countries listed below made voluntary contributions to Albania's accession to the Bank's capital: Liechtenstein (18 KEUR), Czech Republic (13 KEUR), Slovakia (10 KEUR) and Estonia (8 KEUR).*

*in thousand EUR*

| PROFIT AND LOST ACCOUNT | | |
|---|---|---|
| | 31.12.99 | 31.12.98 |
| INCOME | | |
| Payment from the CEB (1) | 1 015 | 1 266 |
| Income from securities portfolio | 88 | 42 |
| EXPENSES | | |
| Subsidies paid to the CEB | (402) | (151) |
| Accession of Albania to the Bank's capital | (1 861) | |
| Donations (2) | (1 236) | |
| RESULT FOR THE FINANCIAL YEAR | (2 396) | 1 157 |

*(1) Payment according to Resolution 1380 (1995).*

*(2) See following table.*

*in thousand EUR*

| APPROVED DONATIONS | | | |
|---|---|---|---|
| | Commitment | Paid in 1999 | Still to pay |
| Aid to Kosovo refugees | 2 000 | 936 | 1 064 |
| Social cohesion CE (1) | 1 500 | - | 1 500 |
| Child welfare in Romania | 1 000 | 300 | 700 |
| TOTAL | 4 500 | 1 236 | 3 264 |

*(1) Special subsidy allocated to finance studies, within the Council of Europe, for projects linked to the reinforcement of social cohesion*

## Note 16.2: Funding commitments

### Analysis of funding commitments and loans outstanding within the framework of the STA

*in thousand EUR*

| | 31.12.99 | | | 31.12.98 | | |
|---|---|---|---|---|---|---|
| Country | Funding commitments (off-balance sheet, item 1) | Outstanding (assets, items 2&3) | % | Funding commitments (off-balance sheet, item 1) | Outstanding (assets, items 2&3) | % |
| Poland | 53 946 | 38 168 | 44.47 | | | |
| Croatia | 16 980 | 15 051 | 17.54 | 32 937 | | |
| Romania | 19 500 | 10 675 | 12.44 | 10 000 | 188 | 3.39 |
| Hungary | 30 000 | 10 000 | 11.65 | | | |
| Bosnia and Herzegovina | | 4 977 | 5.80 | 2 571 | 1 714 | 30.94 |
| Lithuania | 8 960 | 3 484 | 4.06 | 7 714 | 3 000 | 54.14 |
| Slovenia | 2 057 | 2 831 | 3.30 | | | |
| Germany | 3 717 | 639 | 0.74 | 1 917 | 639 | 11.53 |
| TOTAL | 135 160 | 85 825 | 100.00 | 55 139 | 5 541 | 100.00 |

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

### Retirement commitments

Commitments relative to retirement benefits were valued at 31/12/1999 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 discounting rate of 5.5%
- an annual rate of inflation of 1.5%
- an average retirement age of 62.

### Provision as at 31.12.99 (*)

*in thousand EUR*

| | | |
|---|---|---|
| Pension Fund net assets as at 31.12.98 | | 21 754 |
| Income | | 2 431 |
| Employer contribution | 1 059 | |
| Staff contribution | 497 | |
| Interests received | 875 | |
| Expenses | | -691 |
| Pensions paid | -520 | |
| Departure grants | -113 | |
| Others | -58 | |
| PROVISION AS AT 31.12.99 | | 23 494 |

*(*) See note 2.12 concerning the change in presentation.*

## External auditor's report

ARTHUR ANDERSEN

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92576 Neuilly sur Seine Cedex
France
Téléphone +33 (0) 1 55 61 00 00
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Neuilly-sur-Seine, 22 March 2000

To the members of the Administrative Council and the members of the Government Board,

In accordance with the terms of our appointment as Independent Auditor by the Governing Board, we have audited the accompanying balance sheet of the Council of Europe Development Bank - CEB as of December 31, 1999 and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Governor. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Governor, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present fairly, in all material respects, the financial position of the Council of Europe Development Bank as at December 31, 1999, and the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and in light of the European Directives regarding the accounting of the Fund for General Banking Risks.

Without further qualifying our opinion, we wish to draw the reader's attention to the note (2.12) to the financial statements regarding the change in presentation of pension commitments, this change in presentation has affected neither the net equity nor the income of the CEB.

Neuilly-sur-Seine, 22 March 2000

Barbier Frinault & Autres
Arthur Andersen
Philippe Peuch-Lestrade

## Extract of the report by the Auditing Board on the balance sheet and the profit and loss account and the Notes to the Financial Statements for 1999

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 160th meeting (17 December 1999). The Auditing Board met in Paris from 13 to 16 March 2000 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 1999.

Based on Resolution 311 (1997) 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 1999 as follows:
- consulting the Governor, the Vice-Governors and some main officials of the Bank;
- examining the profit and loss account of the Bank for the year 1999 and the balance sheet at 31 December 1999 (including the Notes to the Financial Statements), which had been presented by the Accounting Department of the Bank and the external auditor;
- consulting the Internal Audit Department;
- consulting the external auditors of the Bank and examining their preliminary report (including the review of the Information System), the Financial Statements as at 31 December 1999 and their long form report for the year ended 1999;
- obtaining all relevants documents and information which the Auditing Board deemed necessary;
- obtaining all necessary information and explanations which had readily been given by the Governor, pertinent staff and the external auditors who had concluded their audit in accordance with International Standards on Auditing.

### 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 1999 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.

Paris, 16 March 2000

P. A. ENGESETH
M. JUNG
E. SCICLUNA

# Balance sheet as at 31.12.1999 after allocation of results

*in thousand EUR*

## ASSETS

| Items | 31.12.99 | 31.12.98 |
|---|---|---|
| 1 Cash in hand, balances with central banks | 120 | 43 |
| 2 Loans and advances to credit institutions | | |
| (a) advances repayable on demand | 2 987 | 2 239 |
| (b) loans and advances | | |
| - advances (notes 3.1 and12) | 1 052 065 | 1 560 198 |
| - loans (a) (notes 3.1 and 12) | 4 223 153 | 3 152 712 |
| 3 Loans to customers | | |
| - loans (b) (notes 3.1 and 12) | 3 618 026 | 3 333 784 |
| *Total loans (a+b)* (notes 3.3 to 3.6) | *7 841 179* | *6 486 496* |
| 4 Treasury bills and similar securities (notes 4.1 and 12) | 473 600 | 445 806 |
| 5 Debt securities, other fixed-income securities (notes 4.2 and 12) | 2 624 120 | 2 236 727 |
| 6 Shares and other variable-yield securities (notes 4.3 and 12) | 755 | 687 |
| *Total portfolio* | *3 098 475* | *2 683 220* |
| 7 Intangible fixed-assets (note 5) | 1 365 | 1 423 |
| 8 Tangible fixed-assets (note 5) | 11 980 | 9 213 |
| 9 Capital subscribed, called, unpaid and reserves to be paid (note 6) | 7 244 | 9 155 |
| 10 Other assets (note 8) | 4 398 | 4 306 |
| 11 Prepayments and accrued income (note 8) | 639 455 | 340 197 |
| TOTAL ASSETS (note 11) | 12 659 268 | 11 096 490 |

## LIABILITIES

| Items | 31.12.99 | 31.12.98 |
|---|---|---|
| 1 Amounts owed to credit institutions | | |
| (a) repayable on demand | 162 | 83 |
| (b) with agreed maturity dates or periods of notice (notes 9.1 and 12) | 19 504 | 6 862 |
| 2 Amounts owed to customers | | |
| with agreed maturity dates or periods of notice (notes 9.1 and 12) | 63 428 | - |
| 3 Debt materialized by securities (notes 9.2, 9.3 and 12) | 11 050 401 | 9 728 981 |
| 4 Other liabilities (note 10) | 61 961 | 6 267 |
| 5 Accruals and deferred income (note 10) | 256 930 | 262 485 |
| 6 Deposit from Selective Trust Account (STA) (notes 2.10 and 16) | 42 971 | 31 557 |
| 7 Provisions for liabilities and charges-Pension Fund (notes 2.8 and 17) | 23 494 | - |
| 8 Fund for General Banking Risk (F.G.B.R.)/Del Credere Fund (note 2.7) | 150 000 | 150 000 |
| 9 Capital (note 6) | | |
| a) Subscribed (including 154 900 paid) | 1 400 693 | 1 386 086 |
| b) Uncalled capital | (1 241 018) | (1 228 024) |
| | *159 675* | *158 062* |
| 10 General reserve (note 7) | 830 742 | 747 193 |
| TOTAL LIABILITIES (note 11) | 12 659 268 | 11 096 490 |

## OFF-BALANCE-SHEET ITEMS

| | | |
|---|---|---|
| | Commitments given | |
| I | Awaiting financing on approved projects (notes 3.5 to 3.7) | 3 606 729 | 3 838 896 |
| II | Guarantees | | |
| | a) Guarantees for loans granted by third parties | 11 126 | 10 540 |
| | b) Guarantees on assigned interest swaps | 645 704 | 611 364 |
| | Commitments received | | |
| III | Guarantees received | 11 222 | 10 636 |
| | Off-balance-sheet financial instruments (notes 2.9 and 13) | | |
| IV | Interest rate-based instruments | 7 449 936 | 6 194 805 |
| V | Currency-based instruments | 4 722 934 | 5 362 169 |

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

# Extract from the minutes of the 206th meeting of the Administrative Council of the Council of Europe Development Bank

Resolution 1442 (2000) CA/PV 206 (2000)

Paris, 31 March 2000

The Administrative Council,

- Having regard to Article IX, Section 3, paragraph 2 of the Articles of Agreement of the Bank,

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

- Having regard to the balance sheet, the profit and loss account and the Notes appended to the Financial Statements as at 31 December 1999,

- Having taken note of the external auditor's report dated 10 March 2000,

- Having taken note of the Auditing Board's report dated 16 March 2000,

- Having taken note of the Governor's Memorandum dated 7 March 2000,

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 1999,

2. discharges the Governor from his responsibility for the financial year 1999,

3. allocates the net profits for 1999, amounting to EUR 91 408 173 as follows:

- EUR 10 000 000 to the Selective Trust Account,
- EUR 81 408 173 to the General Reserve.

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

# Extract from the minutes of the 161st meeting of the Governing Board of the Council of Europe Development Bank

Resolution 325 (2000) CD/PV 161 (2000)

Paris, 17 April 2000

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 1999,

- Having taken note of the certification by the external auditor, Arthur Andersen, dated 10 March 2000,

- Having regard to the reports of the Bank's statutory organs viz :
  - the Report of the Governor for financial year 1999,
  - the Report by the Auditing Board's dated 16 March 2000,

- Having regard to Resolution 1442 (2000) of the Administrative Council,

- Having heard the Auditing Board,

Decides:
- to approve the Bank's annual report, accounts and other Financial Statements for 1999,
- to discharge the Administrative Council from its responsibility for the 1999 financial year,
- to endorse point 3 of Resolution 1442 (2000) of the Administrative Council of 31 March 2000, by which the Administrative Council agreed to allocate from the net profits for 1999, amounting to EUR 91 408 173,
  - EUR 10 000 000 to the Selective Trust Account,
  - EUR 81 408 173 to the General Reserve.

# Notes for the reader

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 1999 the Bank had 35 member states: Albania, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, the Holy See, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovakia, 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 the 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 (excluding 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 by allocations from the Bank's annual results, decided on by the Administrative Council, voluntary contributions from Bank or Council of Europe member states, and payments from other organisations.

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 subscribed capital and called capital.

14. Unit of account: On 1 January 1999 the euro (EUR) became the Bank's unit of account. The former unit of account, the European Currency Unit (ECU) had itself replaced the US dollar on 1 January 1989.

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