Council of Europe Development Bank

Report of the Governor

2002

KEY FIGURES

in million euros

	2002	2001	2000	1999	1998
Loans disbursed during the year	1 537	1 749	1 855	1 712	1 056
Projects approved during the year	1 605	1 664	1 888	2 052	2 257
Loans outstanding	9 350	8 630	8 442	7 743	6 403
Own assets (after allocation of profit)	4 254	3 962	2 466	2 381	2 283
Tangible net worth (after allocation of profit)	1 384	1 293	1 221	1 133	1 046
Balance sheet total	14 217	13 926	14 434	12 659	11 096
Profit	95.2	88.3	95	91.4	81.4
Selective Trust Account (total appropriations from profit)	63.5	58.3	55	45	35

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

OBJECTIVES

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

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

THE COUNCIL OF EUROPE AND THE CEB

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

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

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

The Council of Europe Development Bank (first known as the "Council of Europe Resettlement Fund for National Refugees and Over-Population in Europe", and then as the "Council of Europe Social Development Fund") was the subject of the first Partial Agreement, which was signed by eight countries on 16 April 1956. Today it comprises 35 member states.

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

ACTIVITIES

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

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

Since its inception, forty-six years ago, the Bank has gradually broadened its fields of action. **New priorities** have been set, embracing all the activity areas that directly contribute to strengthening social cohesion in Europe: job creation and preservation in SMEs, social housing, health, education and rehabilitation of disadvantaged urban areas.

Lastly, the CEB is also active in **other fields:** protection of the environment, rural modernisation, conservation and rehabilitation of the historic heritage.

FINANCIAL RESOURCES

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

Established in 1956 with a capital equivalent to 5.7 million euros, the Bank had a subscribed capital of 3.2 billion euros as at 31 December 2002.

Leverage is particularly impressive: since its inception the Bank has been able to pay out more than 18 billion euros in loans.

RATING

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

MANAGEMENT

The Bank's organs are:

- The Governing Board, comprising one representative per member state. Its Chairman is Mr. Orhan GÜVENEN, who was elected on 8 April 2002.

- The Administrative Council, comprising one representative per member state. Its Chairman is Mr. Heinrich HARRIES, who was reelected on 8 April 2002.

- The Governor, Mr. Raphaël ALOMAR, reelected on 27 February 2001. He is assisted by the Vice-Governor Delegate, Mr. Nunzio GUGLIELMINO, and by two other Vice-Governors, Mr. Krzysztof J. NERS and Mr. Apolonio RUIZ LIGERO, elected on 19 June 2001.

- The Auditing Board, which has three members chosen from among the member states in turn.

The 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 2002

Council of Europe
Development Bank (CEB)

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THE BANK'S MEMBER STATES Year of accession

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

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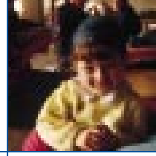

MEMBERSHIP OF THE BANK'S ORGANS
as at 31 December 2002*

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
ORHAN GÜVENEN Director, Institute of World Systems, Economies and Strategic Research, Bilkent University, Turkey	*Chairmen*	**HEINRICH HARRIES** Former Director of the Managing Board, Kreditanstalt für Wiederaufbau (KfW), Frankfurt am Main
CHARLES GHISLAIN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	*Vice-Chairs*	**JOSIP KULIŠIĆ** Assistant Finance Minister, Department for International Financial Institutions and European Integration, Ministry of Finance, Zagreb
SHPËTIM ÇAUSHI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Albania to the Council of Europe, Strasbourg	**Albania**	**IZEDIN HAJDINI** Minister's Adviser, Ministry of Economy, Tirana **ALIOSHA GJONDEDAJ** *(since 21-1-2003)* Head of the Bilateral Cooperation Sector, Ministry of Economy, Tirana
CHARLES GHISLAIN Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Belgium to the Council of Europe, Strasbourg	**Belgium**	**GINO ALZETTA** Director-Coordinator, International Relations section, Ministry of Finance, Brussels
YURI STERK Ambassador, Permanent Representative of Bulgaria to the Council of Europe, Strasbourg	**Bulgaria**	**KRASSIMIR KATEV** Deputy Minister of Finance, Ministry of Finance, Sofia
NEVEN MADEY Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Croatia to the Council of Europe, Strasbourg	**Croatia**	**JOSIP KULIŠIĆ** Assistant Finance Minister, Department for International Financial Institutions and European Integration, Ministry of Finance, Zagreb
NICHOLAS EMILIOU Ambassador, Permanent Representative of Cyprus to the Council of Europe, Strasbourg	**Cyprus**	**CHRISTOS PATSALIDES** Permanent Secretary, Ministry of Finance, Nicosia
VLASTA ŠTĚPOVÁ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Czech Republic to the Council of Europe, Strasbourg	**Czech Republic**	**DIMITRIJ LOULA** Deputy Director General, International Organisations Department, Ministry of Finance, Prague **PAVEL FRELICH** *(since 7-1-2003)* Head of International Financial Organisations Unit, Ministry of Finance, Prague

* The Bank's organs are: the Governing Board, the Administrative Council, the Governor and the Auditing Board. The Administrative Council is assisted by an Executive Committee made up of members of the Administrative Council and chaired by its Chairman.
In accordance with Article XIII, the secretariat of the Bank's organs is provided by the "Directorate of the Partial Agreement on the Development Bank" at the Council of Europe in Strasbourg (Head of the Partial Agreement: **Mrs GIUSI PAJARDI**; Executive Secretary to the organs: **Mr GÜNTER SCHIRMER**).

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
NIELS-JØRGEN NEHRING Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Denmark to the Council of Europe, Strasbourg	**Denmark**	**PETER BRIX KJELGAARD** Senior Advisor, Department of Finance, Ministry for Finance, Copenhagen
ANTS FROSCH Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Estonia to the Council of Europe, Strasbourg	**Estonia**	**RENALDO MÄNDMETS** Acting Deputy Secretary General for Foreign Relations, Ministry of Finance, Tallinn
ANN-MARIE NYROOS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Finland to the Council of Europe, Strasbourg	**Finland**	**SEPPO SUOKKO** Deputy Director General, Department of Economic Affairs, Ministry of Finance, Helsinki **KRISTINA SARJO** *(since 1-1- 2003)* Ministerial Advisor, Financial Markets Department, Ministry of Finance, Helsinki
GILLES CHOURAQUI Ambassador, Permanent Representative of France to the Council of Europe, Strasbourg	**France**	**ANNE-LAURE DE COINCY** Head of the European Affairs Office, Treasury Department, Ministry of Economic Affairs, Finance and Industry, Paris
ROLAND WEGENER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Germany to the Council of Europe, Strasbourg	**Germany**	**ULRICH KALBITZER** Head of the Multilateral Development Banks Division, Ministry of Finance, Berlin
ATHANASSIOS THEODORACOPOULOS Ambassador, Permanent Representative of Greece to the Council of Europe, Strasbourg	**Greece**	**CONSTANTINOS VGENOPOULOS** National Bank of Greece, Athens

Holy See

MGR PAUL RICHARD GALLAGHER

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

ZOLTÁN TAUBNER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Hungary to the Council of Europe, Strasbourg	**Hungary**	**LÁSZLÓ LENGYEL** Director General, Department of International Finances, Ministry of Finance, Budapest
HÖRDUR H. BJARNASON Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Iceland to the Council of Europe, Strasbourg	**Iceland**	**THRÖSTUR OLAFSSON** Economist, Member of the Board of Directors, Central Bank of Iceland, Reykjavik
PIETRO ERCOLE CARLO AGO Ambassador, Permanent Representative of Italy to the Council of Europe, Strasbourg	**Italy**	**ANTIMO PROSPERI** Director of the Second Bureau of Directorate VI of the Treasury Department, Ministry of the Treasury, Rome
GEORGS ANDREJEVS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Latvia to the Council of Europe, Strasbourg	**Latvia**	**INGŪNA SUDRABA** Deputy State Secretary, Ministry of Finance, Riga

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
	Liechtenstein	

Liechtenstein
DANIEL OSPELT
Ambassador Extraordinary and Plenipotentiary,
Permanent Representative of Liechtenstein to the Council of Europe, Strasbourg

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
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GÉRARD PHILIPPS Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg **RONALD MAYER** *(since 20-1-2003)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Luxembourg to the Council of Europe, Strasbourg	**Luxembourg**	**JÉRÔME HAMILIUS** Government Adviser, Ministry of Finance, Luxembourg

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

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
ALEXEI TULBURE Ambassador, Permanent Representative of Moldova to the Council of Europe, Strasbourg	**Moldova**	**VEACESLAV AFANASIEV** Deputy Minister of Economy, Ministry of Economy, Chisinau
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ANNA LAMPEROVÁ Ambassador Extraordinary and Plenipotentiary, Permanent Representative of the Slovak Republic to the Council of Europe, Strasbourg	**Slovak Republic**	**VLADIMIR TVAROŠKA** State Secretary, Ministry of Finance, Bratislava

GOVERNING BOARD		ADMINISTRATIVE COUNCIL
Darja LAVTIŽAR BEBLER Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Slovenia to the Council of Europe, Strasbourg	**Slovenia**	**Irena SODIN** Undersecretary of State, Ministry of Finance, Ljubljana
Guillermo KIRKPATRICK Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg **Estanislao DE GRANDES PASCUAL** *(since 14-1-2003)* Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Spain to the Council of Europe, Strasbourg	**Spain**	**Gonzalo RAMOS PUIG** Director General, Directorate General for International Finance, Ministry of Economy, Madrid
Mats ÅBERG Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Sweden to the Council of Europe, Strasbourg	**Sweden**	**Björn FRITJOFSSON** Director, Division for International Organisations, Ministry of Finance, Stockholm
Jean-Claude JOSEPH Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Switzerland to the Council of Europe, Strasbourg	**Switzerland**	**Yves EMERY** Head of Section, Federal Department of Finance, Bern
Zvonimir JANKULOSKI Ambassador Extraordinary and Plenipotentiary, Permanent Representative of "The former Yugoslav Republic of Macedonia" to the Council of Europe, Strasbourg	**"The former Yugoslav Republic of Macedonia"**	**Goran ANCEVSKI** Head of Department, International Finance Department, Ministry of Finance, Skopje
Numan HAZAR Ambassador Extraordinary and Plenipotentiary, Permanent Representative of Turkey to the Council of Europe, Strasbourg	**Turkey**	**Aydin KARAÖZ** Director General, Directorate General of Foreign Economic Relations, Undersecretariat of the Treasury, Ankara

GOVERNOR

Raphaël ALOMAR

VICE-GOVERNORS

Nunzio GUGLIELMINO (Vice-Governor Delegate)
Krzysztof J. NERS
Apolonio RUIZ LIGERO

AUDITING BOARD

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

THE CEB'S POSITION WITHIN THE INTERNATIONAL COMMUNITY

Established in 1956, the Council of Europe Development Bank (CEB) is the oldest multilateral financial institution in Europe.

Since its inception, under the name "Resettlement Fund", it has never ceased to affirm its social vocation to serve European solidarity.

Unique and original features

The Bank's originality lies in the nature of its projects and in the very broad geographical spectrum of its shareholders.

In sectorial terms, the CEB is the only European development bank with an exclusively social mandate.

Its activity is targeted in priority to **emergency projects** and to strengthening **social cohesion** in Europe.

As the reference financial institution for victims of natural disasters, refugees and fragile population groups (orphans in Romania, former deportees from Lithuania to the USSR, Roma, etc.), the Bank acts, in priority, in favour of the most vulnerable.

The CEB also seeks to foster balanced social development through its action in the fields of health, education, social housing and employment.

In geographical terms, the field of operations of the Institution – which today has 35 member states – covers most of Europe, from Turkey to Iceland, from Portugal to Poland and the Baltic countries.

Reaching beyond the European Union and the pre-accession perimeter, the Bank is currently financing operations in 27 of its member states.

Within this framework, in social and financial terms, it more especially accompanies the **transition countries** on the road to European integration and lends support to the **least advantaged regions** of Europe.

The Bank's specific strengths

In financial terms, the Bank offers definite advantages.

Its **triple AAA rating** enables it to raise resources on the international markets on very competitive terms.

After adding a deliberately limited margin, the CEB is therefore able to grant loans at the most favourable rates.

At the same time, the Bank maintains a high **level of profitability** that enables it constantly to strengthen its financial structure.

In addition to these financial advantages, the CEB has **well adapted operating methods** that correspond to borrower expectations as well as to the nature of its projects. Thus, its simple procedures and overall flexibility minimise the time between project appraisal and loan disbursement. The Bank's capacity to react swiftly enables it to respond efficiently to emergency situations.

Always attentive to the **quality of the projects** it finances, the CEB is constantly broadening the scope of its contribution in terms of assistance and monitoring, while at the same time focussing on the most 'sensitive' social sectors and population groups.

A policy of partnerships with the other international institutions

The policy adopted in recent years of weaving partnerships with numerous institutions (World Bank, EBRD, European Union, NIB, KfW, UN specialised agencies, Stability Pact for South Eastern Europe, etc.) has enabled the Bank to enhance its means of action and its expertise, as well as to highlight the specific nature of its purpose, today fully acknowledged by the international community

During 2002, a year marked by the strengthening of its social priorities, the Bank completed the consolidation of its financial structure while at the same time maintaining its strict risk control policy in a volatile economic and financial environment.

As a result of the **1.85 billion-euro increase in capital,** approved by its member states in December 1999 and now over 99% subscribed, the Institution's **own funds** have risen to **4.25 billion euros.** This strengthening of the Bank's own funds also stems from a substantial accumulation of reserves made possible by sustained high levels of profitability. In 2002, the **Bank's net profit stood at 95.2 million euros, representing a 7.8% increase** in relation to 2001. This growth in profit was the result of a 9.2% rise in the net banking income, excluding exceptional items.

Consolidation of the Bank's financial structure, ...

The tightening of the main **prudential ratios** that regulate the activity, namely the gearing, portfolio and indebtedness ratios, the **re-balancing of the loans portfolio** and the improvements achieved in the **quality of the Bank's counterparties,** 76.5% of which are rated A or more, are all factors that have also contributed to enhancing the financial structure.

The **AAA ratings** confirmed by the agencies Moody's, Standard & Poor's and Fitch Ratings clearly evidence their excellent assessment of the CEB's signature, which enables it to raise resources in the international financial markets on the most favourable terms.

... confirmation of its triple AAA rating, ...

In a context of continuing high levels of demand, the Bank made a considerable effort in 2002 to pursue its policy of **deliberate moderation in the overall volume of its activity in order to better emphasise the added value of its action and to further strengthen its social, geographical and sectorial priorities.** The volume of new projects reached 1.605 billion euros and the volume of disbursements totalled 1.537 billion. Loans outstanding, on the other hand, reached a total of 9.350 billion euros at 31 December 2002, up 8.3% on the previous year, which represents the highest total since the Bank's inception.

... deliberate moderation in the overall volume of activity ...

... in order to enhance its social, geographical and sectorial priorities, ...

... particularly in favour of the transition countries, ...

The already substantial **growth in operations in the transition countries** recorded in 2001 increased yet further; the overall volume of projects in favour of these countries now amounts to more than 1.8 billion euros, 39% of which were approved in 2002 alone. Furthermore, one quarter of these volumes received interest rate subsidies through the **Selective Trust Account,** endowed with 60 million euros taken from the Bank's results since its creation in 1995.

... of the most vulnerable population groups ...

As the **reference European financial institution** for **refugees,** the CEB has steadily broadened the scope of its action to the social chapter of **migrations** in Europe. In the area of **natural and ecological disasters,** the CEB has continued systematically to respond to emergency situations, as illustrated by its immediate reaction to the very serious floods in August and September 2002, while at the same time striving to promote **actions in favour of prevention.**

... and of social cohesion, ...

The structure of the loans and projects activity in 2002 reflects the CEB's commitment to furthering **social cohesion** in Europe, in particular in the key areas of social housing, health, education and job creation in small and medium sized enterprises.

In order to guarantee the **efficiency** of its contribution to promoting sustainable development, the Bank is constantly adapting its **means of action.**

... constantly adapted means of action, ...

The **policy of consultation and co-ordination with numerous international institutions** was pursued in 2002, in order to facilitate co-financing projects and exchanges of expertise and information: the bilateral and multilateral enhanced cooperation agreements entered into with several international financial institutions and the relations established with other organisations such as the High Commissioner for Refugees (UNHCR) or the United Nations Development Programme (UNDP) have thus increased the CEB's capacity for action.

... aimed at enhancing project quality, ...

Moreover, its continuing endeavour to achieve **quality in the projects** it finances has led the Bank to improve its contribution in terms of assistance and monitoring: this is evidenced by the steady increase in the number of on-site missions, by the definition of country strategies and sectorial strategies, or again by the setting up of an Ex-Post Evaluation Department.

While continuing to diversify its portfolio, the CEB has **widened the range of its operating methods** through the use of innovative instruments such as trust funds.

The **funding policy** has been characterised by pursuance of the objectives defined over the past few years and the adjustment in the volume of activity.

As at 31 December 2002, the liquidity ratio stood at 95%, compared with the minimum requirement of 50%. In order to take into account repayment of a particularly substantial amount falling due, **the Bank's issues reached a total of 3.4 billion euros** in the course of the year, representing an increase of 800 million in relation to 2001, despite the relative decline in disbursements. These borrowings, which are almost 90% denominated in US dollars because of the opportunities that market offers, are systematically matched by floating-rate hedge swaps in euros. Their average maturity has shortened slightly in keeping with the average lifetime of loans granted in 2002.

... and the backing of a dynamic funding policy ...

*

By consolidating its financial structure, by giving new impetus to the activity in favour of the transition countries and by broadening its social contribution, the Bank has fully respected its objectives for 2002 within the framework of the strategic orientations approved by its Committees.

... have enabled the CEB to achieve its objectives for 2002, in the promotion of social development in Europe.

Assured of the confidence of its member states and the international community, the quality of its signature on the financial markets worldwide, increased cooperation with the Council of Europe and the commitment of its staff, all the conditions are now met for the Bank to pursue its quest for excellence in fostering social development in Europe.

Paris, 3 March 2003

R. Alomar

Raphaël ALOMAR

GENERAL
MANAGEMENT COMMITTEE

In front
Raphaël ALOMAR
Governor

First row, centre,
Nunzio GUGLIELMINO
Vice-Governor Delegate

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

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

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

Rainer STECKHAN
Director General for Loans

Arnaud VIOLETTE
Central Director of Information
Systems and Control

Richard VENEAU
Director of Human Resources and
Communication (Dep.)

Thierry POIREL
Director General for Finance

Heikki CANTELL
General Counsel

DIRECTORATE GENERAL FOR LOANS
Rainer Steckhan

TECHNICAL ADVISORY DIRECTORATE
Roberto Cacciola

COUNTRY MANAGERS
Dario Liguti: *Albania, Holy See, Italy, San Marino*

Carlos Bendito Prieto: *Portugal, Romania, Spain*

Rachel Meghir: *Croatia, France, Greece, Slovak Republic*

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

Michael Lixenfeld: *Belgium, Czech Republic, Germany, Liechtenstein, Luxembourg, Netherlands, Switzerland*

Elif Timur: *Moldova, Slovenia, Turkey*

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

Sylvie Ludain: *Bulgaria, Hungary, Poland*

OPERATIONAL SUPPORT UNIT
Harold Akingbade Taylor,
France Becmont-Bieth, Emilia di Matteo

ADMINISTRATION AND FINANCE OF LOANS
Melanie Wieschollek-Lacroix

SECTOR MANAGERS
Eva Schwebel, Cristian Tabacaru

PROJECT STRUCTURED FINANCING MANAGER
Théodore Ivanov

PROJECT FINANCING
Juan F. Seco Guillot

Peter-Igor van Moock

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Dimo Iliev

INSTITUTIONAL RELATIONS
Luca Schio

DEVELOPMENT
Matthias Bauer

SOCIAL COHESION
Nicola Catalano

TECHNICAL ADVISERS

URBANISM AND ARCHITECTURE
Dorota Blazejewicz

HEALTH
Karina Quintar Ferrer

INFRASTRUCTURES
Baris Trak

ENVIRONMENT
Anton Spierenburg

PROJECT ECONOMIST
Victor Agius

EDUCATION
-

PROCUREMENTS
Kitty Villani-Haman

ORGANISATION CHART

GOVERNOR Raphaël ALOMAR

VICE-GOVERNORS
- Nunzio GUGLIELMINO, VICE-GOVERNOR DELEGATE
- Krzysztof J. NERS
- Apolonio RUIZ LIGERO

INTERNAL AUDIT
Bernd Friedrich
Carlo Mangosi

EX-POST EVALUATION
Claudine Voyadzis

PRIVATE OFFICE OF THE GOVERNOR
Jérôme Halb

DIRECTORATE GENERAL FOR FINANCE
Thierry Poirel

- **FINANCIAL PLANNING**
  Isabelle Damez
- **FRONT-OFFICE**
  Jacques Mirante-Péré
  Michel Semertzidis
  Arturo Seco Presencio
- **ALM**
  Antti Koura
  Teresa Hurtado León
- **BACK-OFFICE**
  Ioannis Velvitsanos
  Maria Bondar

CENTRAL DIRECTORATE FOR INFORMATION SYSTEMS AND CONTROL
Arnaud Violette

- **GLOBAL RISK MANAGEMENT**
  Martin Weigand
  Rafael Ruisanchez
- **ACCOUNTING**
  José Limet
- **CONTROLLING**
  Patrick Radhauer
  Youlia Avril
- **INFORMATION TECHNOLOGY**
  Frédéric Lardinois
  Jean-Louis Nguyen
- **ORGANISATION**
  Ahmet Kizil
  Alain Sayagh

HUMAN RESOURCES AND COMMUNICATION DIRECTORATE
Richard Veneau (Dep.)

- **HUMAN RESOURCES**
  Maria Lucia Oristanio
- **COMMUNICATION**
  Armelle de La Jugannière
- **GENERAL SERVICES**
  Gilles Coron

LEGAL AFFAIRS DIRECTORATE
Heikki Cantell

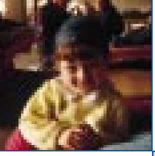
- **LEGAL COUNSEL**
  Jan De Bel
  Andrea Buccomino

Committees

General Management Committee

Treasury Committee
Risk Committee
Operations Committee
Funding Committee
ALM Committee
Information Technology Steering Committee
Internal Procedures Committee
Security Committee

1 March 2003



CEB ACTIVITIES IN THE TRANSITION COUNTRIES

The Bank contributes to economic and social development and to reducing inequalities in the transition countries. To do so it has introduced innovative instruments in order to meet the specific social needs of each country.

Since 1995, an overall total of € 1 804 million has been approved for the transition countries. Disbursements over the same period amount to € 810 million, representing 45% of the volume approved. These amounts are spread over 66 projects in 14 countries of operation.

With a total of € 696 million approved for the financing of projects in the transition countries, the Bank's operations in the region increased substantially in 2002. For the same year, disbursements reached a total of € 323 million.

These projects are financed on very favourable terms by long-term loans carrying a deferred repayment period. About one quarter of the total amount of projects approved receive interest rate subsidies through the Selective Trust Account (STA), which represents a total contribution of over € 31 million*.

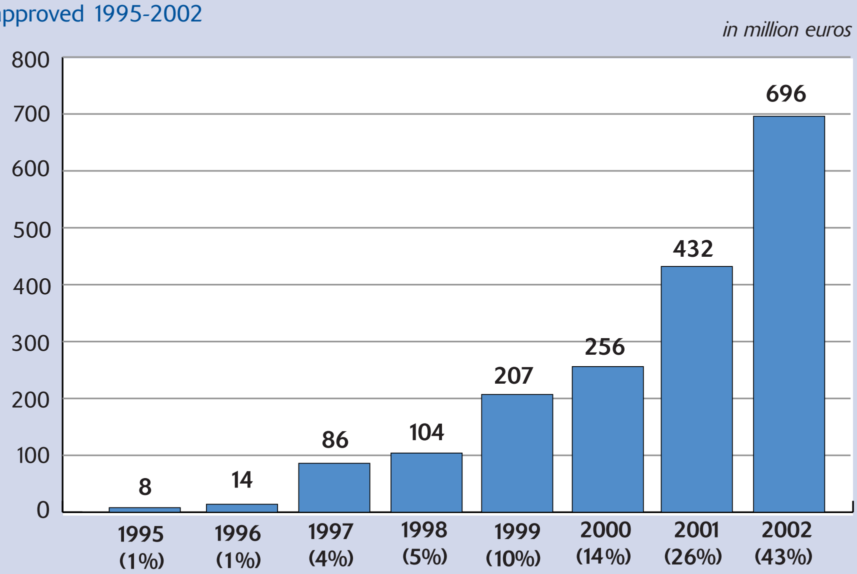
The sectorial breakdown of projects approved illustrates the CEB's capacity for action not only in its statutory priority sectors (natural disasters, refugees and migrants represent 24% of the approvals in favour of the region since 1995), but also in the fields of social housing, health and education infrastructures, employment in SMEs, vocational training and protection of the environment.

The CEB's activity has been supported by the definition of *country strategies* and *sectorial strategies*. Strategies have thus been drawn up for the health and education sectors as well as for the Roma minority; moreover, a strategy for supporting the social housing sector, which presents particular characteristics in the transition countries, has led to adaptations being made in the Bank's eligibility criteria. Following these changes, three large-scale social housing programmes were approved during 2002, in Hungary, Poland and Romania.

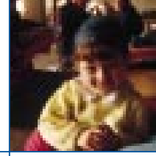
** excluding donations*

Activity growth in the transition countries

Projects approved 1995-2002



Projects in favour of the transition countries, in relation to total projects approved in the year



PROJECTS AND LOANS

In 2002, the Council of Europe Development Bank (CEB) pursued its action to foster social cohesion and balanced development in Europe.

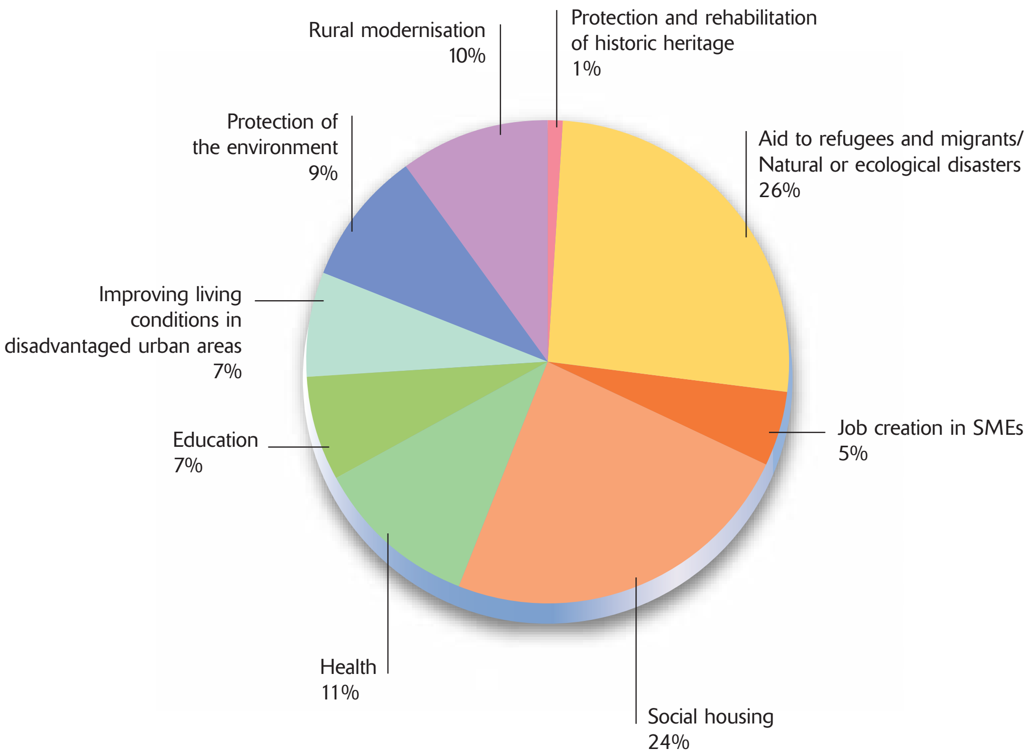
Two particular features of the Bank's action during the year were the marked increase in its operations in the transition countries, including South Eastern Europe, and the immediate responses it was able to give to natural disaster situations.

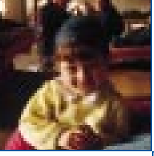
The Bank thus continued to lend its support to the transition countries, which represented 43% of approvals in the year (see boxed text opposite). At a time when several of these countries are coming closer to accession to the European Union, the CEB is contributing to their social sectors, in particular.

Moreover, after the floods in the summer of 2002, the CEB immediately proposed to help the countries concerned in order to introduce swift measures for appropriately coping with the situation (see boxed text page 22).

In 2002, projects involving the Bank's statutory priorities (aid to refugees and migrants, natural or ecological disasters) represented 20% of all projects approved and 26% of all disbursements. The new priorities (job creation in small and medium sized businesses, vocational training, social housing, health, education) accounted for 54% of all projects approved. Protection of the environment, rural modernisation, protection of historic heritage made up 26% of the approvals.

Breakdown of loans disbursed in 2002, by sector





PROJECTS APPROVED, BY COUNTRY AND BY SECTOR, FROM 1998 TO 2002

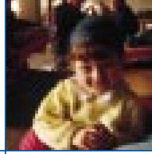
in thousand euros

	2002		Total 1998-2002	
COUNTRY	**Amount**	**%**	**Amount**	**%**
Albania	-	-	6 476	0.1
Belgium	-	-	293 521	3.1
Bulgaria	15 000	0.9	38 703	0.4
Croatia	2 876	0.2	113 956	1.2
Cyprus	100 985	6.3	265 813	2.8
Czech Republic	-	-	896	< 0.1
Denmark	100 000	6.2	100 000	1.1
Estonia	1 000	0.1	10 587	0.1
Finland	-	-	400 000	4.2
France *	250 000	15.6	1 078 841	11.4
Germany **	75 000	4.7	1 452 797	15.3
Greece	-	-	162 102	1.7
Hungary	163 413	10.2	353 413	3.7
Iceland	26 600	1.7	71 746	0.8
Italy	300 000	18.7	1 302 314	13.8
Latvia	-	-	18 801	0.2
Lithuania	1 500	0.1	6 567	0.1
Malta	-	-	54 217	0.6
Norway	-	-	122 600	1.3
Poland	194 515	12.1	502 305	5.3
Portugal	100 000	6.2	305 677	3.2
Romania	40 775	2.5	143 191	1.5
San Marino	-	-	19 152	0.2
Slovak Republic	1 534	0.1	42 782	0.5
Slovenia	-	-	21 487	0.2
Spain	56 420	3.5	1 820 370	19.2
Sweden	-	-	58 100	0.6
"The former Yugoslav Republic of Macedonia"	-	-	20 113	0.2
Turkey	175 400	10.9	678 150	7.2
TOTAL	**1 605 017**	**100.0**	**9 464 673**	**100.0**

** of which € 200 million for projects approved in favour of transition countries*
*** Projects approved in favour of transition countries*

SECTORS***	**Amount**	**%**	**Amount**	**%**
STATUTORY PRIORITIES				
Aid to refugees and migrants	-	-	78 815	0.8
Natural or ecological disasters	320 000	19.9	1 702 074	18.0
NEW PRIORITIES				
Job creation in SMEs	142 500	8.9	1 193 296	12.6
Vocational training	-	-	222 906	2.4
Social housing	563 702	35.1	2 219 361	23.4
Health	42 876	2.7	1 100 572	11.6
Education	73 134	4.6	947 976	10.0
Improving living conditions in disadvantaged urban areas	52 500	3.3	419 806	4.4
OTHER FIELDS OF ACTION				
Protection of the environment	208 485	13.0	941 322	9.9
Rural modernisation	186 820	11.6	528 711	5.6
Protection and rehabilitation of historic heritage	15 000	0.9	109 833	1.2
TOTAL	**1 605 017**	**100.0**	**9 464 673**	**100.0**

**** In the case of programmes, the breakdown by sector is supplied by the borrower, it is updated as disbursements are made.*
NB: It will be noted that the amounts approved by the CEB represent on average 40% of the total volume of the actual project.
The impact of the CEB's financings thus actually corresponds to 2.5 times the amounts indicated in this table.



In all, 21 individual projects and multi-sector programmes, representing a total of € 1.6 billion, were approved in 17 countries of operation, including 8 transition countries. Disbursements amounted to € 1.5 billion in 26 countries of operation, through 72 projects. As at 31 December 2002, loans outstanding stood at € 9.35 billion, spread over 27 countries.

The **Selective Trust Account (STA),** whose purpose is to grant interest-rate subsidies for projects involving the Bank's high priority objectives in the transition countries, was used for two projects in 2002, one in the Slovak Republic (Roma) and the other in Hungary (floods). Fifteen projects received disbursements carrying interest-rate subsidies this year.

CROATIA | Rebuilding housing for refugees returning to their country

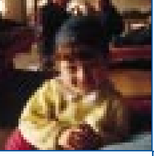
The STA is also used for making humanitarian donations. This year, a donation of € 150 000 was granted in favour of Estonia for the construction of the first centre for the detoxification and rehabilitation of drug addicts in the city of Tartu. Other donations, amounting to € 1.5 million, were made for the reconstruction of infrastructures destroyed by the war in Macedonia, the rebuilding of the Mostar Bridge in Bosnia and Herzegovina (see boxed text below) and for the continuation of a joint project with the Council of Europe for strengthening social cohesion in Europe.

Lastly, the CEB is continually seeking to enhance the quality of the projects it finances. The Bank's teams are increasingly present 'upstream' to assist borrowers in preparing their projects. The expertise they provide early on in the preparation of projects has borne fruit in terms of improvements in project quality. On-site visits, whereby the impact of operations can be rigorously monitored, have also increased, in particular in the transition countries.

Within the framework of these overall measures, in 2002, the CEB created an Ex-Post Evaluation Department, whose purpose is to evaluate the social impact of projects that have been completed for at least two years, in order to draw conclusions for the Bank's future actions.

BOSNIA AND HERZEGOVINA
Reconstruction of the Mostar Bridge: a symbol of reconciliation

Built of stone, 29 metres long and dating back to the 16th century, the Mostar Bridge (Stari Most), included on UNESCO's World Heritage list, was destroyed during the events of 1993. In 1998, UNESCO, the World Bank, several donors and the city of Mostar launched a project for the reconstruction of an identical bridge as a "symbol of peace and reconciliation between the communities". The CEB is participating in the financing of the project with a donation of $ 1 million. The new Stari Most, which will be rebuilt in the same materials as before, should be completed by end 2003.



LOANS DISBURSED, BY COUNTRY AND BY SECTOR, FROM 1998 TO 2002

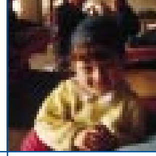
in thousand euros

	2002		Total 1998-2002	
COUNTRY	**Amount**	**%**	**Amount**	**%**
Belgium	50 000	3.2	231 567	2.9
Bosnia and Herzegovina*	-	-	3 843	< 0.1
Bulgaria	4 552	0.3	14 652	0.2
Croatia	22 430	1.5	62 181	0.8
Cyprus	141 360	9.2	288 047	3.6
Estonia	3 643	0.2	5 560	0.1
Finland	10 000	0.7	325 547	4.1
France	213 357	13.9	1 050 921	13.3
Germany	50 000	3.2	1 234 319	15.6
Greece	29 733	1.9	458 883	5.8
Hungary	17 800	1.2	101 300	1.3
Iceland	7 819	0.5	32 819	0.4
Italy	307 500	20.0	887 053	11.2
Latvia	5 274	0.3	5 274	0.1
Lithuania	3 331	0.2	8 863	0.1
Malta	25 500	1.7	53 508	0.7
Norway	67 888	4.4	67 888	0.9
Poland	151 150	9.8	351 022	4.4
Portugal	103 855	6.8	185 355	2.3
Romania	63 116	4.1	113 168	1.4
San Marino	1 162	0.1	2 324	< 0.1
Slovak Republic	7 813	0.5	23 997	0.3
Slovenia	5 520	0.4	43 528	0.6
Spain	168 296	11.0	1 726 810	21.8
Sweden	13 035	0.8	40 035	0.5
"The former Yugoslav Republic of Macedonia"	8 556	0.6	13 913	0.2
Turkey	53 972	3.5	575 716	7.3
TOTAL	**1 536 661**	**100.0**	**7 908 094**	**100.0**

** Non member state*

SECTOR	**Amount**	**%**	**Amount**	**%**
STATUTORY PRIORITIES				
Aid to refugees and migrants	14 434	0.9	65 601	0.8
Natural or ecological disasters	372 167	24.2	1 418 198	17.9
NEW PRIORITIES				
Job creation in SMEs	84 284	5.5	1 039 459	13.1
Vocational training	-	-	102 258	1.3
Social housing	375 036	24.4	1 673 531	21.2
Health	176 058	11.5	780 375	9.9
Education	110 158	7.2	888 216	11.2
Improving living conditions in disadvantaged urban areas	101 267	6.6	341 782	4.3
OTHER FIELDS OF ACTION				
Protection of the environment	138 266	9.0	1 090 842	13.8
Rural modernisation	148 795	9.7	419 275	5.3
Protection and rehabilitation of historic heritage	16 195	1.1	64 598	0.8
Infrastructure	-	-	23 957	0.3
TOTAL	**1 536 661**	**100.0**	**7 908 094**	**100.0**

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



BULGARIA | Rehabilitating the Roma quarter in Sofia

I - STATUTORY PRIORITIES

In these sectors, the total amount of approvals this year reached € 320 million, with the total amount of disbursements standing at € 387 million, including € 51.5 million for the transition countries.

1. Aid to refugees and migrants

The financing of projects in favour of refugees and migrants is one of the statutory priorities of the CEB, which acts in close collaboration with its member states (see boxed text page 24).

In 2002, the CEB financed projects concerned with aid to refugees for a total of € 14.4 million, involving a contribution of € 665 000 from the STA.

In **Croatia,** the Bank continued to promote a policy of return and resettlement of refugees, within the framework of a project for the rehabilitation and construction of health infrastructures in Eastern Slavonia, with the project reaching completion this year. By providing for the rehabilitation of 89 healthcare centres, the equipping of 177 emergency services and 6 blood transfusion centres and the training of some 6 400 people, the project has been of real benefit to the whole population of the region. Moreover, a project for the reconstruction of 41 school buildings damaged during the war has been continued; almost 75% of the approved amount has now been disbursed.

As regards housing, in 2002, the CEB disbursed a new loan tranche for a very big project involving housing for refugees. This project, implemented by the Croatian Government with the backing of the High Commissioner for Refugees (UNHCR), has had a considerable socio-economic impact. Almost 1 200 housing units have been built and reconstruction of municipal infrastructures has continued in 35 towns, thereby benefiting over 10 000 people.

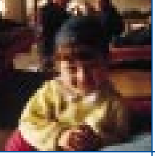
In **Lithuania,** the Bank has continued to finance a project for the construction of housing units intended for deportees returning from the former USSR and for their families. This project has now enabled over 3 650 people to reintegrate their country.

2. Natural or ecological disasters

The Bank's projects provide support not only for the reconstruction of the affected regions requiring immediate financial backing, but also for the prevention of natural disasters, in collaboration with the national and local authorities.

In 2002, a year marked by very serious flooding in Central Europe (see boxed text page 22), this field of action accounted for 20% of all the projects approved during the year, totalling € 320 million, while disbursements amounted to € 372 million, spread over twelve projects and ten countries.

In **Hungary,** the Government submitted an urgent request for a loan to cope with the consequences of the floods in the Tisza basin. A



Migratory flows in Europe: the CEB's role

The Bank was created in 1956 with a priority mandate to contribute to providing aid for refugees, displaced persons and migrants. Successful integration of migrants must be considered in terms of their legal status, political participation, equal treatment and by their access to education, vocational training, healthcare, housing and employment.

The financial resources committed by the Bank to achieving its objectives have been considerable: between 1956 and 2002, almost € 4.3 billion have been targeted to financing this type of project:

- The CEB's financings for **aid to refugees** have followed the consequences of political developments in Europe. Over the years, the Bank has been called upon, in particular, to contribute to financing important programmes in Germany, Turkey, and in South Eastern Europe. Since the Bank's inception, an overall total of more than € 1.5 billion has been allocated to this sector.

- A very significant effort has gone into the construction of **housing** for migrants, following the rapid industrialisation of certain regions of Europe and the consequent massive influx of immigrant workers. € 1.3 billion has been allocated to this sector since 1956.

- The Bank has financed projects for **rural modernisation** (€ 1.3 billion), thereby enabling certain countries to curtail the exodus of their populations. These projects have, in particular, concerned Turkey, where substantial financing has made it possible to improve infrastructures such as irrigation systems, water supply and road networks.

- Lastly, financing for **vocational training** projects, although less significant in terms of the amounts involved (€ 108 million), has contributed to facilitating the social integration of young migrants in their new host countries.

total of € 20 million was approved, together with a contribution from the Selective Trust Account, bringing the CEB's total contribution to flood prevention in the country to € 90 million.

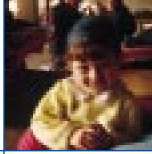
LATVIA | Converting a building into social housing

Hungary has already received disbursements amounting to € 17.8 million for two previous projects.

Other requests for financial aid are currently under study and are expected to be submitted to the CEB in 2003, in particular for **Germany** and **Romania.**

In **Bulgaria,** the CEB has started to finance the rehabilitation and consolidation of the banks of the Danube and the shores of the Black Sea (first disbursement of € 1.2 million in 2002).

In **Poland,** following the floods in the south of the country in the summer of 1997, financing of the reconstruction and creation of infrastructures



LITHUANIA | Centre for handicapped children

for controlling water levels is now complete; the € 6 million disbursed in 2002 bring the CEB's total contribution to this project to over € 96 million. In the **Slovak Republic,** a project for the construction and consolidation of prevention infrastructures throughout the country has continued (€ 7 million). In **Romania,** the Bank completed its financing of a project for flood prevention and the rehabilitation of infrastructures for a total of € 20 million.

Moreover, the CEB has continued its financing of two projects involving reconstruction work in the aftermath of earthquakes **in Greece** (June 1995), for a total of € 30 million, and in **Slovenia** (April 1998), for a total of € 3 million. In **Turkey,** reconstruction of the areas devastated by the 1999 earthquake in the Marmara region is now complete; the total contribution paid over by the CEB, namely € 358 million, has provided for the construction of over 20 000 housing units.

Lastly, in 2002, the Bank approved a large-scale programme totalling € 300 million in **Italy.** It will contribute to safeguarding the historic heritage of the city of Venice (see boxed text page 32).

II - NEW PRIORITIES

The projects approved in these sectors for 2002 amounted to € 875 million, including € 606 million for the transition countries, while disbursements reached a total of € 847 million.

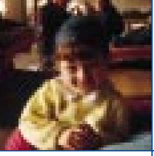
1. Job creation in SMEs and vocational training

One of the CEB's new priorities is to promote employment and to stimulate the development of SMEs by facilitating their access to credit. Investment projects in favour of job creation and preservation in small and medium-sized enterprises are part of the European strategy to combat unemployment.

In 2002, the CEB approved € 142.5 million in favour of job creation in SMEs through six sector-based multi-project programmes. In terms of disbursements, the Bank financed eleven programmes to promote employment in SMEs located in **Croatia, Finland, Poland, Portugal, Romania, Spain, Sweden and "The former Yugoslav Republic of Macedonia".** Loan disbursements totalled € 84.3 million.

More particularly, in **Bulgaria,** a total of € 15 million was approved for a programme implemented through the *Encouragement Bank* and aimed at promoting job creation. The programme involved the financing of productive investments in favour of already existing or newly created SMEs.

In **Croatia,** the CEB started to finance a project concerned with investment in productive equipment (namely the purchase of commercial premises and machines) for SMEs and Croatian craft industries with the disbursement of an initial tranche of € 2 million, representing 25% of the approved amount. This programme was set up by the *Croatian Bank for Reconstruction and Development*



Natural disasters: summer 2002, floods in central Europe

The floods that affected the transition countries during the summer of 2002 were without precedent in the history of the past hundred years. Their effect was devastating: almost 100 lives were lost, hundreds of thousands of people were forced to abandon their homes and a heavy toll was taken in terms of municipal infrastructures, productive activity and jobs. Over and above the physical and economic losses, a large part of the cultural heritage of the towns affected was either damaged or completely destroyed.

The countries worst hit by the floods were the Czech Republic, Hungary, Romania, Bulgaria, the Slovak Republic and the new Länder in Germany (Saxony and Saxony-Anhalt).

Following the disaster, the Administrative Council approved the Governor's proposal to make up to € 500 million available for financings.

In addition to this, in September 2002, the CEB took the initiative of bringing together a group of national and international development banks for an exchange of information on the situation and on their respective reactions to the summer 2002 floods. This provided an opportunity for improving the co-ordination of responses and for gaining a deeper understanding of the way in which each institution operates when faced with such disasters. The work of evaluating the causes of the disasters is still underway, with the CEB participating in several initiatives, such as the Stability Pact for South Eastern Europe's *"Disaster Preparedness and Prevention Initiative"*, and the launching of a project on the flooding of the Danube, in partnership with the Council of Europe's Partial Agreement known as "EUR-OPA Major Hazards Agreement". The CEB has also been taking part in the work of the World Bank's "ProVention Consortium".

(HBOR) and co-financed with the *European Bank for Reconstruction and Development (EBRD).*

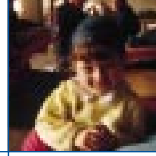
In **Spain**, within the framework of a multi-sector Programme, investments made with *Gipuzkoa Donostia Kutxa* in SMEs in the Autonomous Community of the Basque Country should lead to the creation and preservation of over 500 jobs.

SPAIN Ironworks

In **France,** a programme was approved with *Crédit du Nord,* amounting to € 50 million and targeted to the most disadvantaged regions in terms of employment (unemployment rate higher than the national average).

In **"The former Yugoslav Republic of Macedonia",** disbursements corresponding to 100% of the approved amount have been allocated to a programme involving the modernisation and expansion of the production tools in labour-intensive local SMEs. Set up with the local banks, the project has so far resulted in the preservation of 1 900 jobs and the creation of 560 new jobs.

In **Portugal,** as part of a multi-sector programme completed this year, the CEB disbursed € 2.5 million through the *Banco Espirito Santo* for job creation and preservation in SMEs.



ITALY | Reshaping the hillsides after mudslides

2. Health and education

In 2002, the Bank approved € 116 million in the health and education sectors, including € 64 million in the transition countries. Disbursements in favour of these two sectors for the year amounted to € 286 million.

In the HEALTH sector, three projects were approved in 2002 for a total of € 43 million: one sector-based multi-project programme with *Dexia* for the transition countries, for a total of € 30 million; in **Croatia,** a project totalling € 3 million (see boxed text page 27); in **Portugal,** a multi-sector programme for a total of € 10 million. This programme received the first financing at end 2002.

In terms of disbursements, the health sector received € 176 million through 17 multi-sector programmes or individual projects in **Belgium, Bulgaria** (see boxed text page 28), **France,**

Furthermore, in collaboration with the *Nordic Investment Bank (NIB),* the CEB approved three loan programmes amounting to € 2.5 million for businesses in **Lithuania** (€ 1.5 million through *Siauliu Bankas,* Siauliai and *UAB Sampo Bankas,* Vilnius) and in **Estonia** (€ 1 million through *AS Sampo Pank,* Tallinn) (see boxed text opposite).

In all, to combat unemployment and its consequences in terms of social exclusion, the Bank's operations in the **transition countries** have involved four new programmes and the approval of additional financing for a programme set up two years ago.

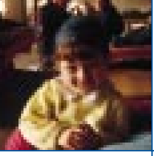
Since 2000, the Bank has been developing its cooperation with the *European Commission* through a programme targeted to financing SMEs and set up with *Kreditanstalt für Wiederaufbau (KfW).* This programme is continuing and has been increased by € 75 million. It will be remembered that this programme, implemented through the local banking network, helps SMEs in eight transition countries to preserve and to create jobs. In 2002, a total of € 30 million was disbursed, bringing the total already paid over to € 60 million.

Supporting female entrepreneurship in the Baltic countries

The CEB was called upon to participate, with the Nordic Investment Bank (NIB), in three pilot operations promoting female entrepreneurship in the Baltic countries.

In 2002, the Bank approved two projects each amounting to € 1 million, one with *AS Sampo Pank* in Estonia and the other with *UAB Sampo Bankas* (both subsidiaries of the Finnish group *Sampo PLC*) and a project worth € 500 000 with *Siauliu Bankas* in Lithuania aimed at financing productive investments in businesses run by women.

These investments are intended to facilitate women's access to business, particularly in rural areas. A "Trust Account", fed by the Finnish Government, provided financing for the technical assistance required to set up the projects.



Stability Pact for South Eastern Europe and action in favour of refugees

The CEB actively participates in the work of the Stability Pact for South Eastern Europe, of which it became an official member on 28 June 2001. It regularly takes part in all the Working Tables and, in particular, in the *Migration, Asylum and Refugees Regional Initiative (MARRI),* a forum in which the High Commissioner for Refugees (UNHCR) and a number of donor countries also participate. As a participant in the *Initiative for Social Cohesion* the Bank supports health and education policies. It also participates in the *Infrastructure Steering Group* in collaboration with the other international financial institutions, the European Commission and the Pact's Bureau. In accordance with its priorities, it has also become involved in the *Disaster Prevention and Preparedness Initiative (DPPI).*

The CEB's commitments in the countries covered by the Stability Pact for South Eastern Europe currently amount to € 380 million.

Important projects have been financed in Croatia and in "The former Yugoslav Republic of Macedonia" in order to facilitate the return and resettlement of refugees and their access to social infrastructures. Moreover, ratification of the agreement on arrears with the Federal Republic of Yugoslavia, on 31 July 2002, has opened the way to an active policy in favour of refugees throughout the region.

The CEB also co-operates with the Council of Europe in the field of minority groups and, in particular, in favour of the Roma minority. It plays an active role in the "Roma under Stability Pact" project, an initiative financed by the European Commission and implemented by the Council of Europe and the Organisation for Security and Cooperation in Europe (OSCE). New contacts have been established with the European Fund for Refugees, set up within the European Union to promote either the integration of asylum-seekers and displaced persons in host countries or their voluntary return to their countries of origin. These operational contacts come within the framework of partnerships with the European Union and its instruments (PHARE) and with various United Nations agencies: the High Commissioner for Refugees (UNHCR), United Nations Development Programme (UNDP), World Health Organisation (WHO) and the United Nations Centre for Habitat (UNHabitat).

Lastly, for April 2003, the CEB is taking the initiative of organising a ministerial Conference on social housing in the countries covered by the Stability Pact. The purpose of the conference is to give new impetus to the reform process and to implementation of a sustainable policy in this sector, in particular by facilitating access to housing for vulnerable population groups, notably refugees and displaced persons.

ROMANIA | Orphanage

Germany, Malta, Norway, Poland, Portugal, Romania, Slovenia, Spain, Sweden and **Turkey.**

In **France,** within the framework of a multi-sector programme with *Dexia* (approved in 2000), a total of € 100 million has been allocated for the construction, rehabilitation and equipping of clinics, hospitals and other public or State-approved private healthcare establishments, in order to improve the quality of healthcare available to regional and local populations. In terms of capacity, this action has involved over 25 000 beds.

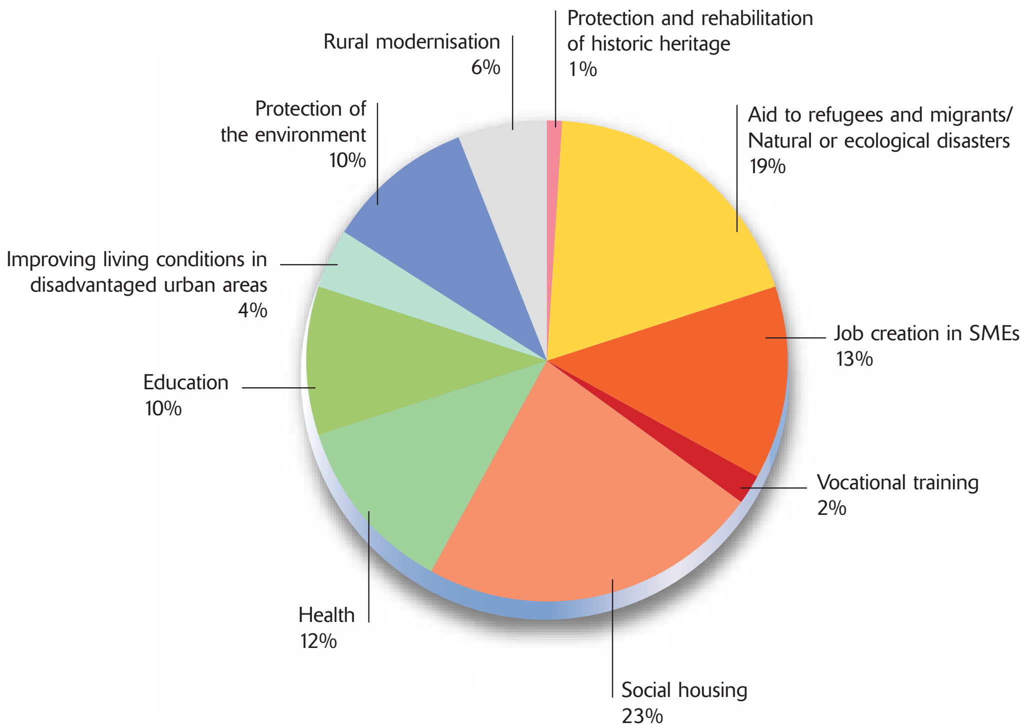
ESTONIA | Hall of residence for students at the University of Tartu

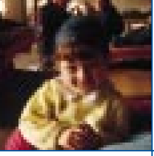
In **Romania,** financing continued for an individual project involving the conversion of 50 orphanages into maternal, day care centres, and family-style healthcare centres for 10 000 children in difficulty. The project is now 80% disbursed, representing a total of € 8 million and involving a contribution of € 2 million from the STA.

In **Slovenia,** working through *Nova Ljubljanska Banka,* the CEB has started to finance a project to build and equip medicalized retirement homes.

In the EDUCATION sector, the Bank approved € 73 million through the *Dexia* programme targeted to the transition countries (€ 30 million), € 27 million in **Iceland** to build, renovate and equip 5 primary and secondary schools belonging to the municipality of Reykjavik, a multi-sector

Breakdown of projects approved in 1998-2002, by sector





CEB support for sustainable development

There is no doubt that the United Nations Conference, held in Johannesburg in September 2002, marked a major step in the field of sustainable development.

The idea of reconciling growth, social progress and protection of the environment fully corresponds to the objectives pursued by the CEB in close cooperation with the national strategies of its member states, many of which were the driving force behind the commitments subscribed to in Johannesburg.

While it is clear that the CEB's constant concern is with the economic and environmental dimensions of sustainable development, the particularity of its approach rests principally on its support for projects that foster social cohesion and access to social rights.

Thus, projects that are directly concerned with human capital (health and education) represent 22% of the volume of projects approved by the CEB between 1998 and 2002. For this same period, projects involving protection of the environment account for 10% of the total amount of projects approved. The Bank encourages the development of projects involving sanitation and the treatment of water and waste, renewable energy, the fight against greenhouse gas emissions, soil decontamination and protection of bio-diversity.

Similarly, the CEB directs priority attention to the social and environmental effects of natural disasters.

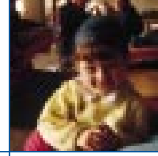
Throughout 2002, the CEB continued to finance several projects in countries affected by natural disasters, in particular in Turkey (1999 earthquake), in Greece, and in the transition countries (Bulgaria, Hungary, Poland) following the floods in the summer of 2002. One fifth of the projects approved in 2002 were projects involving aid to regions hit by natural or ecological disasters.

programme in **Portugal** (€ 15 million), and a project in the **Slovak Republic** (€ 1.5 million). This last project, backed by the Government, is aimed at improving living conditions for the Roma minority by providing the necessary teaching facilities for the towns of Secovce and Kosice. It will contribute to the efforts of the inhabitants belonging to the Roma minority to integrate the socio-economic life of the region.

SLOVENIA Centre for the elderly

In 2002, disbursements in the education sector totalled € 110 million and concerned **Belgium, Cyprus, Croatia, Estonia, Germany, Iceland, Lithuania, Norway, Poland, Portugal, Romania, Spain** and **Sweden.**

In **Germany,** a programme for the creation and modernisation of health infrastructures, school and university buildings, kindergartens and other health and education-related social institutions in



the new Länder was completed through *Deutsche Kreditbank AG (DKB),* with the CEB's participation amounting to € 15 million.

In **Cyprus,** the Bank disbursed a loan for the reconstruction of the Nicosia University campus, representing 30% of the approved amount.

In **Lithuania,** rehabilitation was completed on 22 higher education establishments and science institutes.

Norway received the first financings, totalling € 68 million, for a programme of municipal projects implemented with *Kommunalbanken.*

In **Poland,** 27 600 pupils have had their study environment improved thanks to work on the extension or construction of school buildings in a programme launched jointly with *BISE Bank.*

In **Portugal,** 6 000 pupils have so far benefited from a programme involving the construction, conversion or rehabilitation of primary and secondary schools, implemented through *Caixa Geral de Depósitos.*

In **Sweden,** € 5.2 million have been disbursed, through *Kommuninvest i Sverige AB,* within the framework of a programme set up in 2000.

GERMANY - New Länder | Rehabilitating a retirement home

CROATIA
Developing the public health potential in South Eastern Europe

The CEB's project for the renovation and modernisation of the "Andrija Stampar" School of Public Health in Zagreb and of an annex in Dubrovnik comes within the context of the "Initiative for Social Cohesion" implemented by the Stability Pact for South Eastern Europe. The project was approved by the Conference of Health Ministers of the countries of South Eastern Europe (Dubrovnik, 2001).

The School of Public Health will serve as a regional centre for education and research. As soon as it has been renovated, the building in Dubrovnik is to become the *"Andrija Stampar" International Centre* for healthcare services management. It is estimated that this project will provide vocational training for some 2 700 people.

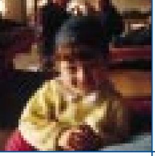
Through a joint programme with the Council of Europe, the Bank is also contributing to course design.

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

In 2002, social housing and improving living conditions in disadvantaged urban areas accounted for the major part of all the projects approved, representing € 616.5 million or 38% of the total, while disbursements in these sectors amounted to € 476,3 million.

In the SOCIAL HOUSING sector, a total of € 564 million was approved, including € 429 million for the transition countries.

In **Bulgaria,** the CEB has started to finance a pilot project being developed by the Ministry for Regional Development and Public Works, aimed at



SLOVAK REPUBLIC | Social housing

the social integration of the Roma community living in precarious housing in disadvantaged areas of the town of Plovdiv. The aim of the project is to provide new housing and to improve local infrastructures for some 2 300 Roma families. The CEB is also financing a similar project in favour of the city of Sofia: a total of € 1.3 million was disbursed this year.

Denmark called upon the Bank for the first time in 2002, using *Kommunekredit* as the partner bank in Copenhagen. A loan of € 100 million in favour of Danish local authorities will provide financing for the construction and renovation of public housing for the elderly throughout the country.

In **France,** the CEB has finalised a programme with *Caisse Nationale de Crédit Agricole* aimed at providing easy access to social housing for very low income families through state-subsidised loans. The total amount disbursed stands at € 200 million. The first tranche, totalling € 100 million, has contributed to the building of approximately 17 000 housing units.

The main objective of a new € 143.5 million programme in favour of disadvantaged social groups in **Hungary** is to improve housing conditions. This project comes within the framework of the Hungarian Development Plan (Szechényi Plan), and has four component parts: renovation of housing units in multi-family apartment blocks; energy saving in the apartments; increasing the amount of available rental accommodation; aid to the handicapped. It should be remembered that social housing management comes under the responsibility of local authorities.

In **"The former Yugoslav Republic of Macedonia"**, a project to provide housing for particularly vulnerable people is now 60% financed. The objective is to build 800 social housing units.

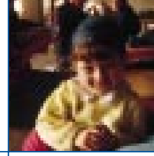
Poland was granted a second programme aimed at part-financing the development of the rental

BULGARIA
Reform of the health system and aid for blood transfusion

This project, co-financed with the World Bank and representing a total of € 8.3 million, was approved in 1995 and entirely disbursed by end 2002. As the first project approved by the CEB in favour of a transition country, its objectives were to improve the efficiency of the health services and to facilitate restructuring of the national health system.

The CEB financed the improvements in the quality of primary healthcare, the reform of the emergency services and the restructuring of the blood transfusion sector.

Two noteworthy results of this project are the introduction of a reliable and efficient blood transfusion network, in compliance with the quality requirements set forth in Recommendation R (95)15 of the Committee of Ministers and Article 152 of the Treaty of Amsterdam, and the reduction in mortality rates among persons admitted to emergency services from 6/1000 to 2.5/1000.



accommodation sector through *Bank Gospodarstwa Krajowego (BGK)*. The new programme, representing an approved total of € 194.5 million, is to provide for the construction and modernisation of approximately 12 500 housing units intended for low-income families. It will enable over 40 000 people to gain access to rented social housing. The programme has already received payment of the first loan tranche, representing 30% of the approved amount.

In **Romania,** within the framework of a large-scale public programme for the construction of social housing units intended for young people and low-income families, an additional project totalling € 40.8 million has been approved, bringing the total amount to over € 110 million (see boxed text). This year the Bank disbursed € 46 million in favour of this project.

In the sector concerned with IMPROVING LIVING CONDITIONS IN DISADVANTAGED URBAN AREAS, a total of € 52.5 million was approved through three multi-sector programmes. In terms of disbursements, the sector received financing amounting to € 101 million.

In **Spain,** in 2002, the CEB continued to finance the project for the extension of the Metro in Madrid towards the disadvantaged suburban areas to the south of the city, for a total of € 89 million. This project is being carried out in collaboration with the *European Investment Bank (EIB)* and *Kreditanstalt für Wiederaufbau (KfW)*. Also in Spain, as part of a programme implemented with *Banco Santander Central Hispano* and completed this year, several Autonomous Communities received financing (€ 12 million in all) targeted to developing the urban fabric and municipal infrastructures in disadvantaged urban areas.

PORTUGAL | Rehabilitating the port of Gaia

III - OTHER FIELDS OF ACTION

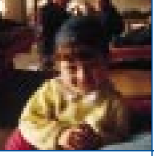
For 2002, the total amount of approvals in these fields stands at € 410 million, including € 70 million for the transition countries, while the total amount of disbursements reached € 303 million, including € 11 million for the transition countries.

ROMANIA
Aid for access to housing for young couples

Approved in 2001 for a total of € 71 million, this project was increased by € 40.8 million in 2002. Its aim is to provide sustained levels of available rental accommodation for young people.

From a sectorial point of view, it contributes to solving a structural problem in the housing sector in Romania that is common to several of the transition countries, namely the deficit that exists in available publicly-owned rental accommodation in relation to the demand for low-rent housing, which acts as a brake on worker mobility and makes access to housing difficult for low-income families.

The Bank's support will provide for the construction of 10 000 rental units. By end 2002, approximately 3 500 units had already been built.



ICELAND | Primary school

1. Protection of the environment

The CEB finances projects specifically targeted to protecting the environment, but also systematically takes environmental considerations into account in all the projects it appraises (see boxed text page 26).

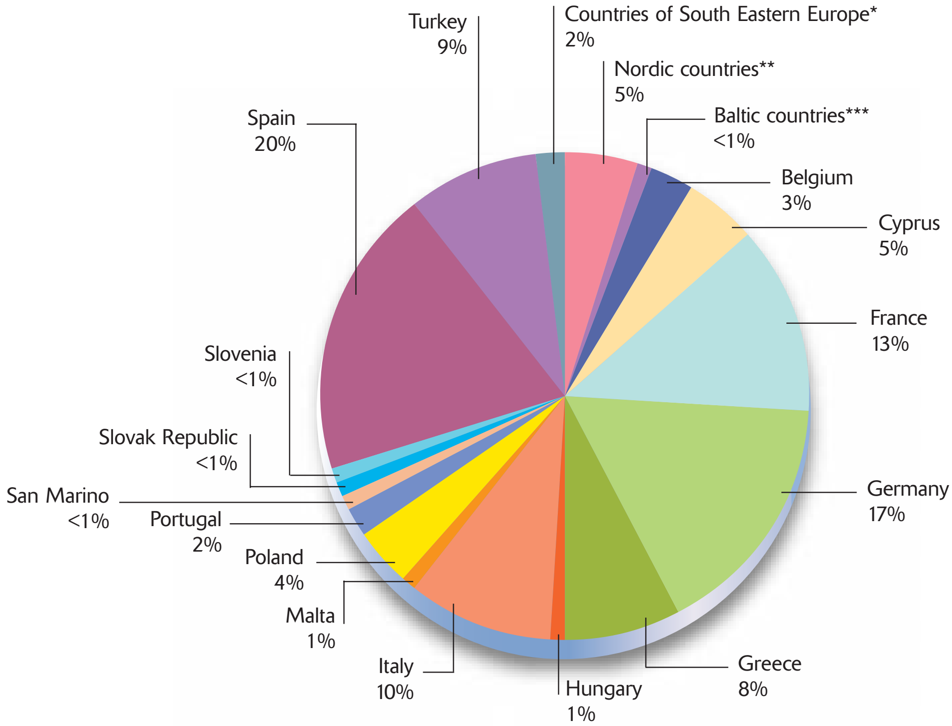
The CEB's initiatives in matters of environmental protection now represent a wide geographical breakdown. Three new operations have been approved for a total of € 208 million, which represents 13% of all projects approved in 2002: one is situated in **Cyprus,** another is part of the *Dexia* programme for the **transition countries** (€ 60 million) and the third is in **Spain,** within the framework of a programme implemented with *Caixa Cataluña* in favour of small and medium-sized municipalities.

In terms of disbursements for 2002, a total of 18 projects situated in ten countries of operation received an overall amount of € 138 million.

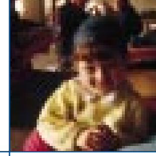
In **Cyprus,** € 25.4 million were disbursed on a project totalling € 101 million, also approved in 2002, in favour of the Greater Nicosia region. This project is targeted to developing and modernising the wastewater collector networks and the existing water treatment plants in order to protect the environment and public health,

LOANS OUTSTANDING AS AT 31 DECEMBER 2002

1 - Breakdown by country



** Countries of South Eastern Europe: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Romania, "The former Yugoslav Republic of Macedonia",*
*** Nordic countries: Finland, Iceland, Norway, Sweden*
**** Baltic countries: Estonia, Latvia, Lithuania*

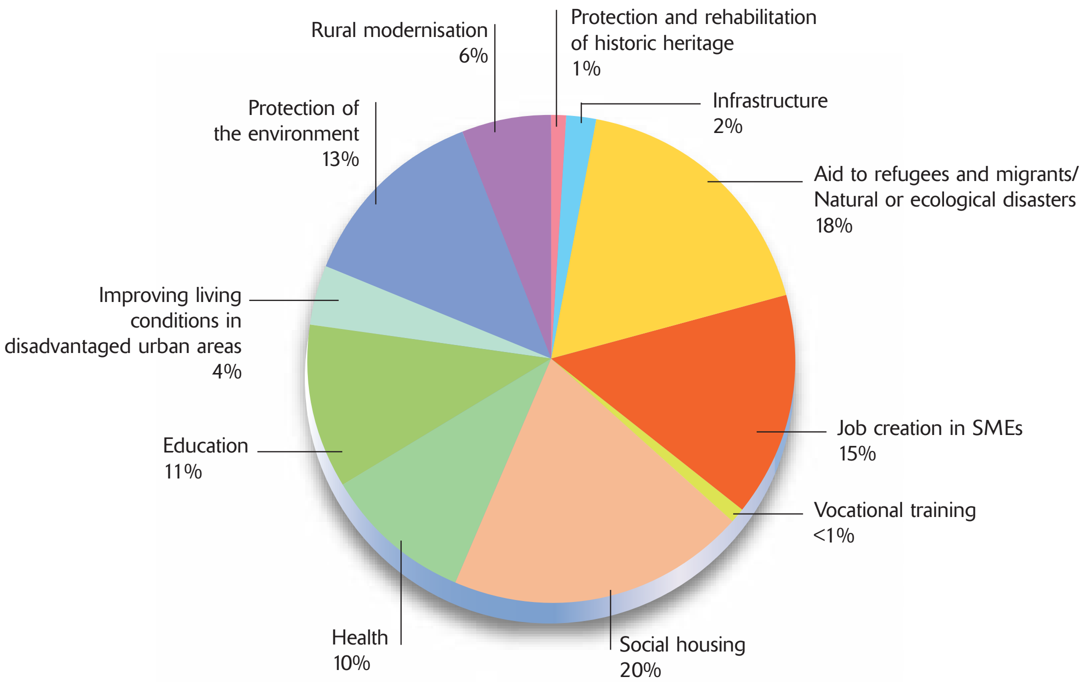


particularly at risk in this area. The CEB has already financed several similar projects, carried out by the sewerage departments in several Cypriot towns (Larnaca, Limassol, Paralimni, Aghia Napa and Paphos). In 2002, it disbursed over € 23 million in favour of these projects.

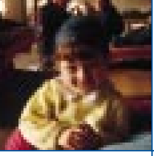
The other loans targeted to this sector in 2002 were spread over a large number of programmes or individual projects in **Belgium, Cyprus, France, Germany, Portugal, Poland, Romania, San Marino, Spain** and **Sweden.** Noteworthy among these projects are, in **Germany,** the completion of a vast programme operated through *Deutsche Kreditbank AG (DKB)* and concerned with decontamination and improving living conditions in the new Länder, in **Romania,** 50% financing for a project involving the rehabilitation of the urban heating system in Bucharest, co-financed with the EIB, and in **Poland,** completion of a project for the construction of the sewerage system for small and medium-sized municipalities through *the Bank for Socio-Economic Initiatives (BISE Bank).*

SAN MARINO | Waste water treatment

2 - Breakdown by field of action



NB: Breakdown of the loans outstanding is given in the Financial Statements, pages 59 and 60



2. Rural modernisation

The **rural modernisation** sector has grown considerably in the last five years. In 2002, two individual projects were approved, representing a total of € 187 million and accounting for 11.6% of all approvals. Loans disbursed in this sector in 2002 totalled € 149 million.

In **Cyprus,** in a project to which the CEB contributed a total of € 74 million, the development of communication routes between Limassol and Paphos has now been completed. This project should contribute to the economic development of the south-western part of Cyprus. Also in Cyprus, € 79 million disbursed in 2002 will enable work to continue on improving the transport and electricity supply networks.

In **Spain,** an individual project, approved for a total of € 11.4 million through *La Caixa Barcelona,* will provide for renovation and modernisation of the network of canals and irrigation channels, now badly deteriorated, on the left bank of the river Genil, in order to optimise the water resources and guarantee all-year-round water supply, filtering and pressure. This project comes within the Spanish Government's National Strategy for Water Resources. These investments will enable the whole production system in the region to be reconverted and will contribute to the creation of stable jobs in the region of Andalucia. A first tranche of € 2.9 million was disbursed in 2002.

In **Portugal,** within the framework of a programme finalised this year, the rural sector received a total of € 12.5 million for the construction and modernisation of municipal infrastructures.

In **Romania,** in cooperation with the *World Bank,* the CEB continued to finance a programme for the creation of social infrastructures for the benefit of rural communities and disadvantaged social groups. This programme was carried out by the

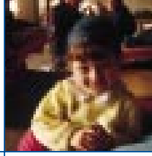
Contribution to the safeguard of Venice

In 2002, the CEB approved and disbursed a loan of € 300 million for the safeguard of the city of Venice. This project is financed through *Banca OPI* and its beneficiaries are the Veneto region and the municipality of Venice.

The programme, 20% of whose total cost is being financed by the CEB, is aimed at protecting the "islands" from medium-high tides, strengthening the lagoon's coastline and the access channels to the harbour entrances as well as at reversing the process of environmental deterioration of the lagoon. It will contribute to preserving the city from floods and to safeguarding its cultural heritage, its natural environment and its economy.

The social challenge of this programme is not only to safeguard Venice, which is a world heritage site, but also to improve the living conditions of the region's 830 000 inhabitants.

TURKEY | Irrigation for market gardens in Karamenderes



Romanian Social Development Fund. Disbursements reached a total of € 1 million this year.

In **Turkey,** the CEB's action will enable the Government to support incomes from smallholdings and from agricultural production in general, through eight irrigation projects throughout the country. A total of € 175.4 million has been allocated to these projects, of which € 37 million have already been disbursed.

HUNGARY | Converting an historical building into a thermal centre, near Budapest

3. Protection and rehabilitation of historic heritage

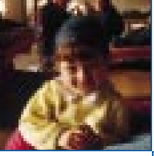
In 2002, the Bank's action in the field of protection of historic heritage led to the approval of two multi-sector programmes, for a total of € 15 million. Disbursements in favour of this sector amounted to € 16.2 million this year.

In **Croatia,** within the framework of the programme for the restoration of the architectural heritage of Dubrovnik, the restoration of the "Mala Braca" Franciscan monastery was 50% financed, representing a total of € 630 000.

In **Spain,** in a multi-sector programme completed with *Banco Santander Central Hispano* this year, rehabilitation of historic heritage, together with job creation in four Autonomous Communities, received a total of € 12 million, devoted in particular to reconstruction of the historic centre of the city of Valencia.

Portugal received € 8.7 million in favour of three programmes for the rehabilitation of historic buildings in several towns.

In the **Slovak Republic,** with the disbursement of a first loan tranche of € 813 000, the CEB has also lent its support to the creation of a cultural centre in the Bratislava University Library.



PROJECTS APPROVED IN 2002, BY COUNTERPARTY

in million euros

COUNTRY	COUNTERPARTY	SECTOR	Amount
BULGARIA	Encouragement Bank A. D.	SME Programme	15
CYPRUS	Sewerage board of Nicosia	Environment	101
CROATIA	Government	Health	3
DENMARK	KommuneKredit, Copenhagen	Housing Programme	100
ESTONIA	AS Sampo Pank, Tallinn	SME Programme	1
FRANCE	Crédit du Nord	SME Programme	50
	Dexia Crédit Local*	Sector-based multi-project programme/Transition acountries	200
GERMANY	Kreditanstalt für Wiederaufbau (KfW)*	SME Programme/Transition countries	75
HUNGARY	Government	Housing Programme	143
	Government	Natural disasters	20
ICELAND	Municipality of Reykjavik	Education	27
ITALY	Banca OPI	Natural disasters Programme	300
LITHUANIA	Siauliu Bankas, Siauliai	SME Programme	0.5
	UAB Sampo Bankas, Vilnius	SME Programme	1
POLAND	Bank Gospodarstwa Krajowego	Housing Programme	195
PORTUGAL	Caixa Geral de Depósitos	Sector-based multi-project programme	100
ROMANIA	Government	Housing	41
SLOVAK REPUBLIC	Government	Education (Roms)	1.5
SPAIN	La Caixa, Barcelona	Rural modernisation	11
	Caixa Cataluña	Environment and urban infrastructures programme	45
TURKEY	Government	Rural modernisation	175
TOTAL			**1 605**

** Projects in favour of transition countries*

I - ECONOMIC ENVIRONMENT IN 2002

1. Slow and uneven global growth...

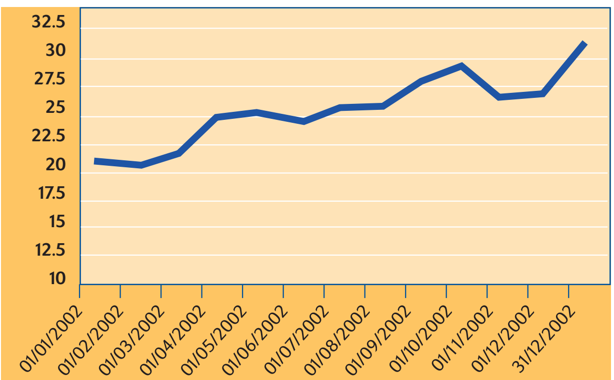
In 2002, the global economy was rather sluggish, characterised in particular by a crisis of confidence among investors with regard to compagnies following the Enron and WorldCom debacles. The slowdown is universal, affecting the United States, Europe and Japan.

Stock markets fell sharply. For example, in 2002, the Nasdaq index fell 31%, the Euro Stoxx 50 lost 37% and the Dow Jones declined by 17%. The stock market retreat heavily dented the value of the stock portfolios of the large bank players and insurance companies. Asset writedowns forced many institutions to set aside massive provisions, thereby fragilising their earnings.

To falling markets must be added the deterioration of the economic environment in some sectors. Technology and telecom stocks and the energy sector were especially affected.

Oil prices reached their highest level in two years. Persisting geopolitical risks could lead to a further rise in oil prices, boosted by continued expectations of war in Iraq.

Trend in oil prices



Very volatile, contrasting economic statistics were also a feature of 2002, especially at year end. The encouraging third-quarter US economic data were apparently not confirmed by the last quarter. These contrasting developments of course perplexed the various economic players.

2. ...which is fragilising the euro-zone economy

Following a shy start to recovery in the first quarter, growth ran out of steam in a context marked by falling stock markets, leading to a deterioration of business sentiment, and weak economic indicators in Europe.

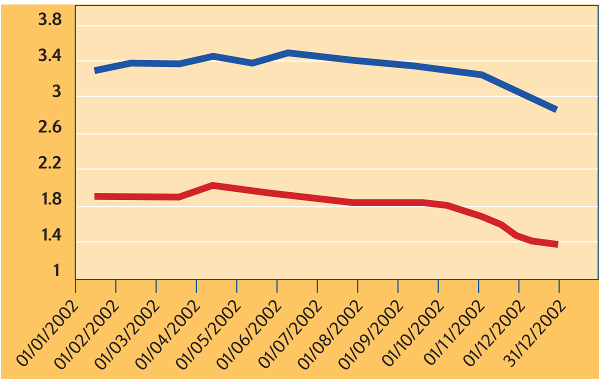
Germany, which accounts for 30% of euro-zone GDP, affected European growth as its economic situation grew worse. Faced with rising unemployment, the country also has to cope with the difficulties of its large banks and trim its budget deficit which is expected to exceed the 3% threshold set by the Stability and Growth Pact.

The same situation is found also in France, Italy and Portugal, countries in which the public finances are likewise worsening.

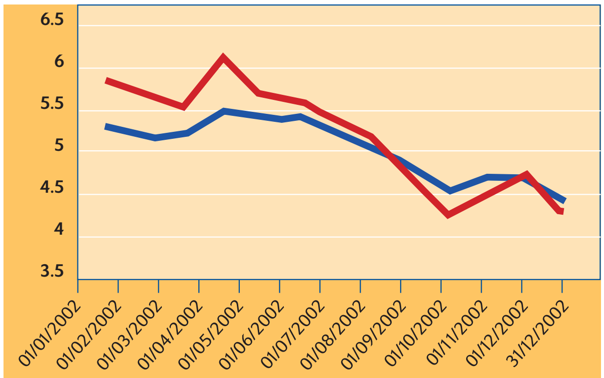
An inflation rate exceeding the 2% ceiling tolerated by the European Central Bank is also a major concern for Spain, Ireland, Greece and Portugal.

The European Central Bank, anxious to contain inflation and worried by the deterioration of the budget situation in several countries, left its key rate, fixed at 3.25% since November 2001,

3-month rates



10-year rates



EUR USD

unchanged for the first eleven months of the year. On 5 December 2002, encouraged by the euro's firming in the markets and anxious to support growth, it finally decided to lower its key rate by half a percentage point, from 3.25% to 2.75%.

Long-term interest rates, for their part, continued to fall, as investors, looking for risk-free investments, turned mainly to bonds. Yields being low, they tended to buy at the long end of the yield curve.

There are major uncertainties related to the external economic situation, domestic demand and the future trend of monetary and budget policies. There is no upturn in the labour market. Moreover, some states have little room for manoeuvre due to the commitments made under the latest stability programme.

3. A fragile US recovery

The US economy recovered rapidly from the shock of the terrorist attacks of September 2001, as massive inventory rundowns had ceased and manufacturing production accordingly picked up.

A more flexible monetary policy also contributed to this recovery. The federal funds rate has been cut sharply since last winter to its lowest level in 40 years, bringing real short-term interest rates down to a level close to zero. The latest cut, on 6 November 2002, brought the Federal Reserve's key rate down to 1.25%. An increase in public spending and budget incentives, especially tax reductions, designed to stimulate consumption and investment, also largely contributed to this recovery.

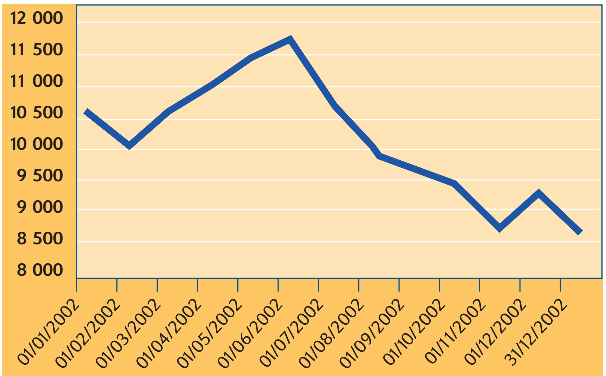
In 2002 there was some uptick in activity, although admittedly fragile, with expansion being driven by inventory rebuilding and not by a pickup in capital expenditure. Moreover, revelations of misappropriation of funds and accounting irregularities in large American groups, together with bankruptcies of several large companies, caused a general crisis of investor confidence.

4. A lacklustre Japanese economy against a deflationary background

Signs of weakness persist in the Japanese economy, with a record unemployment rate estimated at 5.5% and declining industrial production and consumption, while prices continue to fall.

With interest rates close to zero, the Bank of Japan has little room for manoeuvre on the interest-rate front to stimulate demand.
The problem of writing off bad bank debt persists, despite several plans for restructuring the banking sector.

Trend in the Nikkei 225 index



The Nikkei fell back to its lowest level in 19 years, at 8 579 points, fragilised by the global growth slowdown and the poor financial health of the banks.

II - SECURITIES PORTFOLIOS

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

The **investment portfolio** consists of euro-denominated plain vanilla fixed-rate bonds with a maximum maturity of 15 years. To be eligible for the investment portfolio, securities must have a rating of at least AA or Aa2. Securitised products and other special-purpose vehicles, however, must have an AAA/Aaa rating and not exceed a total limit of € 500 million. The size of the investment portfolio is limited to the amount of own funds available (paid-in capital, reserves, Fund for General Banking Risks) plus the provision for the staff pension fund.

The strategic objective is for these resources to be remunerated by a satisfactory long-term return. This portfolio is accounted for at historical cost. By nature, the securities contained in it can be neither exchanged not sold, except under exceptional circumstances.

In 2002, the CEB purchased € 195 million worth of investment securities with maturities ranging between 10 and 15 years, 85% of which were rated AAA.

In practice, the CEB implements an annual purchasing programme under which the cash from maturing bonds is reinvested with the current year's profit.

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

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

As at 31 December 2002, the held-for-sale portfolio stood at € 1 555 million, half of it long-term.

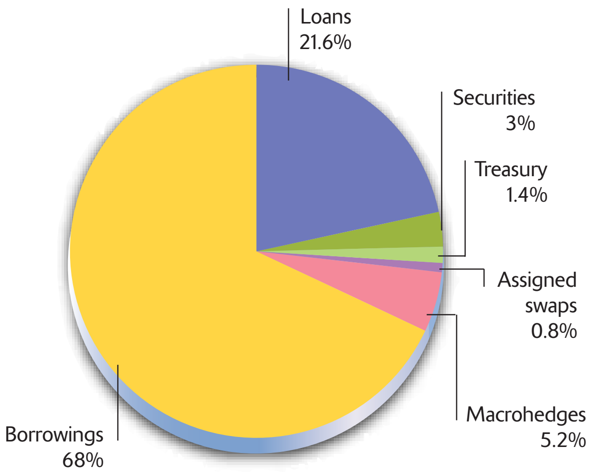
The securities in this portfolio are accounted for at historical cost. A provision is set aside for price depreciation.

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

III - DERIVATIVES

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

As at 31 December 2002, the breakdown of derivatives by type of hedge was as follows:



To guard against the risks inherent in the use of these financial instruments, the Bank has adopted a strict derivatives management policy, the principles of which are outlined in the section entitled "Integrated Risk Management Policy" (see page 43).

For example, this year again, to limit its credit risk, the Bank signed seven new collaterals contracts. The residual credit risk, calculated as the sum of the positive market values not covered by collaterals, remains very low. As at 31 December 2002, 89% of the CEB's swap contracts are collateralised, and the Bank continues to deploy an active policy to improve this ratio.

IV - FUNDING IN 2002

1. Borrowings

Within the framework of the annual borrowing authorization set by the Administrative Council, the CEB makes issues in the international capital markets. In 2002, the Bank borrowed a total amount of € 3.4 billion, breaking down into 27 funding operations, including six reopenings of existing issues with maturities of 1 year or more. This amount exceeded the funding volume in 2001 (€ 2.6 billion), to meet two main objectives:

- Cover lending needs, which were smaller this year. In fact, the relative decline in disbursements continued in 2002, in accordance with the shareholders' desire to moderate the CEB's growth rate.
- To meet the Bank's debt repayment instalments for the amount of € 2 351 million, whereas loan repayments amounted to only € 620 million.

The volume of resources raised in 2002 also enabled the Bank to maintain a liquidity level in conformance with the rules set by the Administrative Council. It is the Bank's policy to allow for its stock of projects in projecting cash requirements. In accordance with prudential liquidity policy, the CEB liquidity ratio requires that the pool of liquid assets be sufficient to cover at least 50% of projected cash requirements three years out, including funding of approved projects.

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

2002 BORROWINGS

Date of payment	Currency	Maturity	Amount	Lead Manager/Arranger
23/01/2002	USD	10 years	500 000 000	Royal Bank of Canada Europe Ltd.
23/01/2002	USD	5 years	750 000 000	BNP Paribas, Paris/Dresdner Kleinwort Wasserstein
25/01/2002	USD	15 years	20 000 000	Salomon Brothers International Ltd.
07/02/2002	USD	9 years**	100 000 000	Credit Suisse First Boston Europe Ltd.
08/02/2002	USD	20 years*	20 000 000	Tokyo-Mitsubishi International plc
15/02/2002	USD	20 years*	20 000 000	Morgan Stanley and Co. International Ltd.
20/02/2002	USD	8 years 11 months**	100 000 000	Credit Suisse First Boston Europe Ltd.
27/02/2002	USD	20 years*	20 000 000	ABN Amro Bank, N.V.
27/02/2002	CAD	10 years	100 000 000	Toronto-Dominion Bank
08/04/2002	JPY	20 years*	500 000 000	Mizuho International plc
22/04/2002	JPY	25 years*	500 000 000	Norinchukin International plc
02/05/2002	USD	9 years 8 months**	100 000 000	Credit Suisse First Boston Europe Ltd.
16/05/2002	USD	9 years 8 months**	100 000 000	J.P. Morgan Securities Ltd.
23/05/2002	JPY	19 years 10 months*	500 000 000	Daiwa Securities SMBC Europe Ltd.
28/05/2002	USD	7 years	500 000 000	BNP Paribas/Dresdner Kleinwort Wasserstein
13/06/2002	JPY	20 years	1 000 000 000	Mizuho International plc
13/06/2002	USD	5 years*	10 000 000	Tokyo-Mitsubishi International plc
17/06/2002	JPY	25 years*	1 600 000 000	Kokusai Europe Ltd.
20/06/2002	JPY	20 years*	500 000 000	Mizuho International plc
17/07/2002	AUD	3 years	70 000 000	Tokyo-Mitsubishi International plc
24/07/2002	AUD	9 years 6 months**	50 000 000	Royal Bank of Canada Europe Ltd.
17/09/2002	JPY	15 years*	500 000 000	Tokyo-Mitsubishi International plc
26/09/2002	CAD	9 years 5 months**	50 000 000	Royal Bank of Canada Europe Ltd.
10/10/2002	JPY	15 years*	500 000 000	Daiwa Securities SMBC Europe Ltd.
16/10/2002	USD	5 years 2 months	500 000 000	ABN Amro Bank N.V./UBS
30/10/2002	AUD	5 years	100 000 000	Deutsche Bank AG
15/11/2002	EUR	5 years	85 000 000	Morgan Stanley and Co. International Ltd.

** with early repayment option*

*** re-opening of existing issues*

89% of the funds raised by the Bank in 2002 were denominated in US dollars, versus 78% in 2001. The other currencies of issue for the CEB account for smaller percentages: the Australian dollar (3.5%), the euro, on an equal footing with the Canadian dollar (3%), and the Japanese yen (1.5%). The preponderant role of the American dollar, swapped for floating euros, can be explained by the market opportunities available in this currency.

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

The average maturity of the issues launched in 2002 was 7 years and 5 months, slightly shorter than in 2001 (8 years and 4 months). The table on page 39 gives details of the funds raised in their original currencies.

One-third of the issues launched under the programme were of maturity ten years or more. These operations enabled refinancing of loans granted at these maturity dates, thus avoiding liquidity gaps over the coming financial years. The other two-thirds of the programme were issued with medium-term maturities, between five and seven years, due to the good opportunities available on this part of the curve.

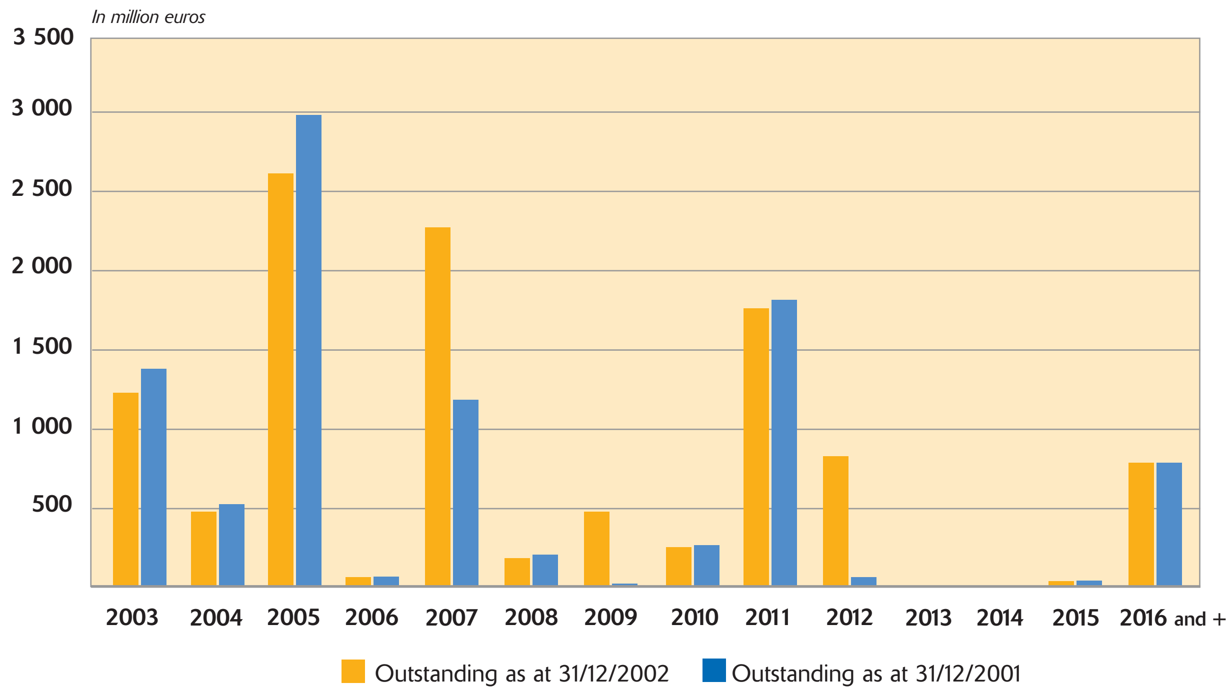
The multi-currency MTN programme is regularly updated in order to standardise the issues and meet investor demand. The Bank makes priority use of this programme whenever possible.

2. Trend in debt position

As at 31 December 2002, the total outstanding debt materialised by securities, excluding interest payable, stood at € 11 044 million, down slightly from the previous year. This drop is due, in particular, to the volume of CEB debt maturing in 2002, to the slower rate of loan disbursements and to continuing management of existing debt.

For example, the Bank bought back a total € 90 million worth of its own debt and made early prepayments of € 277 million. Taking into account these operations and the issues launched, the breakdown of debt by maturity is as follows:

Breakdown of the debt by maturity at year-end 2002 and 2001



V - PROFIT AND RATIOS

1. Trend in balance sheet

As at 31 December 2002, total assets stood at € 14.2 billion, up 2.1% from 31 December 2001.

- **On the asset side,** loans outstanding increased sharply (up 8.2%), reaching an historically record level of € 9.3 billion, in line with the objective stated in the 2000-2004 Development Plan. This trend reflects, in particular, the very strong increase in outstanding loans to transition economies, up 60% at € 739 million as at 31 December 2002, versus € 462 million as at 31 December 2001.

- **On the liability side,** cash resources and debt, which finance the loan portfolio and the liquidity reserves, decreased by 5.8% overall. Given the sharp increase in the profit for financial year 2002 (up 7.8%), own funds, before allocation of profits, increased by 7.1%.

2. Trend in profits

Net profit for 2002 was € 95.2 million, versus € 88.3 million the previous year. This significant increase (7.8%) can be explained by:

- An increase in net banking income (operating profit before provisions) by € 6.6 million, i.e. 6.3% growth. Before extraordinary items (debt redemption, early loan redemption), net banking income was 9.2% higher than in 2001.

- A very strong increase in loan provision reversals: € 1.9 million, following the initial repayments made by the Federal Republic of Yugoslavia (now Serbia-Montenegro) in 2002, to which can be added the recurring repayments made by Bosnia and Herzegovina.

- An 8.3% increase in general operating expenses (including depreciation for the financial year),

In million euros

CONDENSED BALANCE SHEET

	2002	2001	Change Amount	%
ASSETS				
Employment of cash*	2 583	2 758	(175)	(6.3)
Loans outstanding	9 349	8 630	719	8.3
Investment securities	1 439	1 375	64	4.7
Other assets**	846	1 163	(317)	(27.3)
TOTAL ASSETS	**14 217**	**13 926**	**(291)**	**2.1**
LIABILITIES				
Cash resources	86	489	(403)	(82.4)
Borrowing and debts materialised by bonds	11 091	11 374	(283)	(2.5)
Other liabilities**	1 650	765	885	115.7
Own funds and FGBR***	1 390	1 298	92	7.1
TOTAL LIABILITIES	**14 217**	**13 926**	**(291)**	**2.1**

** Including held-for-sale securities*
*** These items include in particular all related receivables and debt*
**** Including profit for the financial year before allocation*

In million euros

TREND IN PROFIT

	2002	2001	Change Amount	%
NET BANKING INCOME	**112.0**	**105.4**	**6.6**	**6.3**
General operating expenses	(20.8)	(19.2)	(1.6)	8.3
Net release of provisions on loans	4.0	2.1	1.9	90.5
NET PROFIT	**95.2**	**88.3**	**6.9**	**7.8**
Return on equity (ROE)*	7.4%	7.3%		

** Before allocating profits*

under the combined effect of increased staff numbers and statutory salary increases. However, it should be noted that the cost-to-income ratio (general operating expenses/net banking income) remains relatively stable, at 18.6% for 2002, versus 18.2% for 2001.

3. Financial ratios

The limits of the control ratios set by the Administrative Council were complied with throughout financial year 2002:

- **Gearing ratio:** This ratio sets total loans and guarantees outstanding against total own funds in the broadest sense (subscribed capital, reserves, FGBR and profit). As at 31 December 2002, the ratio stood at 2.21 compared with a limit of 2.5.

- **Indebtedness ratio:** This ratio sets total debt outstanding against total own funds in the broadest sense. As at 31 December 2002, the ratio stood at 2.81 compared with a maximum limit of 4.

- **Portfolio ratio:** This ratio sets the total value of the securities portfolio plus cash transactions not materialised by securities (bank deposits, repos) against own funds in the broadest sense. As at 31 December 2002, the ratio stood at 0.95 compared with a maximum limit of 1.5.

- **Liquidity ratio:** This ratio sets the total value of cash transactions and held-for-sale and trading securities with a residual maturity of less than 18 months against the amount of net cash requirements over three years, including the stock of projects awaiting financing. As at 31 December 2002, the ratio stood at 95% compared with a minimum requirement of 50%.

INTEGRATED RISK MANAGEMENT POLICY

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

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

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

I - CREDIT RISKS

1. General principles

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

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

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

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

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

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

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

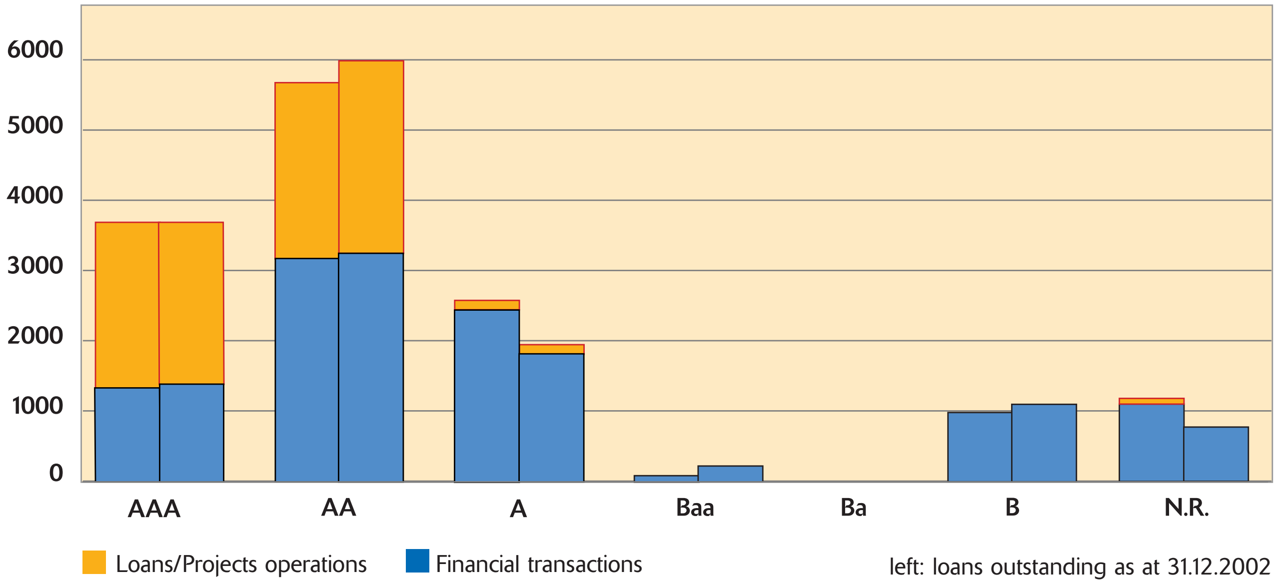
Analysis of large exposure: in application of the Basle Committee recommendations and European Union Directives, the CEB carries out daily monitoring in order to ensure compliance with the limit of 25% of the Bank's own assets for each counterparty or group of counterparties and of 800% for all large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

2. Loans portfolio

As at 31 December 2002, loans outstanding totalled € 9.3 billion, spread among 27 countries, against 8.6 billion at year-end 2001. The breakdown of this outstanding by counterparty rating (see chart page 44) shows a significant increase in category A (+39%). Counterparties rated A or higher accounted for 76.5% of total outstandings as at 31 December 2002, against 75.5% in 2001. The strong growth in activities in favour of the transition countries has not resulted

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

In million euros



(1) Outstanding balance at risk (for swaps, net present value)
(2) Moody's rating (or Standard & Poor's rating when no Moody's rating was available)

in any deterioration in the risk profile for the loans portfolio.

Breakdown by category of borrower has remained stable: as at 31 December 2002, governments and central or local public authorities accounted for 37% of loans outstanding, against 36% in 2001, and banks and specialist financial institutions 63% against 64% in 2001.

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

As at 31 December 2002, the provision in respect of loans concerned only two non-member countries and amounted to € 36.5 million, representing a decrease in relation to 2001 (€ 40.5 million). This decrease is the result of payments of amounts owed by Bosnia and Herzegovina and the Federal Republic of Yugoslavia (now Serbia-Montenegro). As regards the latter, an agreement on repayment of arrears was ratified on 31 July 2002 and the first two payment dates (August and December 2002) have been complied with.

3. Bond portfolios

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

4. Derivatives

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

Derivative transactions in any case necessitate credit clearance of the counterparty concerned by the Risk Committee and prior signing of a framework agreement (for example, the ISDA Master Agreement). In addition, for transactions with a maturity of over five years, the counterparty must have a minimum AA rating or have signed a CSA (Credit Support Annex) collateralisation agreement with the Bank.

The Bank has pursued and extended its active collateralisation agreement management policy in order to reduce the credit risk linked to the use of derivatives. To date, 89% of the outstanding on derivatives are collateralised, against 67% at end 2001.

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

Throughout 2002, all swap operations were valued at their net present value and daily monitoring of the positions by counterparty was carried out in order to be able to make a request for additional coverage if needed.

II - MARKET RISKS

1. Interest-rate and currency risks

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

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

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

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

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

2. Liquidity risks

Liquidity policy is determined by the Funding

In million euros

MATURITIES OF OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

Maturity	less than 1 year	1 to 5 years	5 to 10 years	10 years or more	Total 2002
Interest-rate instruments	1 325	4 121	1 200	872	7 518
Currency instruments	504	4 500	3 622	279	8 905
Total (a)	1 829	8 621	4 822	1 151	16 423
including: collateralised (b)	944	7 936	4 800	931	14 611
(b)/(a)	**52%**	**92%**	**99.6%**	**81%**	**89%**

Committee, made up of members of the General Management, which meets on a quarterly basis. A weekly report on the liquidity situation is submitted to the Treasury Committee. The Bank complies with a liquidity ratio requirement whereby liquid assets must at all times represent at least 50% of projected net financing needs for the next three years. As at 31 December 2002, the ratio stood at 95%.

III - OPERATIONAL RISKS

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

In compliance with the recommendations of the Basle Committee, the Bank, which carries out a regular review of its control systems and procedures, has pursued its process of reflection with a view to adopting a more quantitative approach to these risks.

Organisation

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

Risk prevention

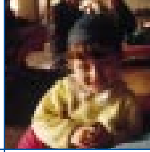
Special mention can be made of the following:

- Use of the Swift system to guarantee against settlement risk and of Clearstream for the safe custody of securities.

- The existence of an external back-up site, allowing for the resumption of strategic operations within 24 hours in the event of a major problem. At least once a year, the Bank organises a full emergency exercise in order to test the reliability of the system.

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

- The Security Committee, composed of representatives of each Directorate, is responsible for implementing and supervising procedures and systems aimed at covering all the main operational risks.



HUMAN RESOURCES MANAGEMENT

Since 1994, the Bank has implemented a human resources management policy reflecting both the geographical and sectorial trends in its activity in order to conform to the best practices observed in comparable supranational institutions.

1. Recruitment and diversification of nationalities

This requirement has prompted the Bank to increase its staff numbers quite significantly: the number of permanent staff members has thus increased by 14% in the last two years and by 92% since 1994. At end December, the total number of permanent staff members and Appointed Officials was 136.

There have been two major principles underpinning this proactive recruitment policy: on the one hand, strengthening the range of skills among the Bank's work teams and, on the other hand, increasing the range of nationalities represented among the staff.

Since 1994, the number of nationalities represented has thus increased by 50% to reach 18 at end December 2002. The increase has been most significant among management staff where the number has almost trebled, increasing from 7 to 18.

2. Career and skills management

The Bank has also taken advantage of this recruitment policy to develop an active careers management policy. By recruiting for half of the 16 vacancies from within the Bank, it has made a point of offering staff members tangible prospects in terms of internal mobility.

The skills improvement policy has also been pursued, in particular through in-house training programmes tailored to staff requirements. In all, almost 2% of the 2002 wage bill was given over to the provision of language coaching, specialised courses and computer training.

Furthermore, the performance appraisal system has been remodelled in order to standardise the skills criteria associated with the Bank’s various different functions. This system naturally links in with the variable bonus system implemented by the CEB for several years now.

Finally, in close collaboration with representatives of the Bank's staff, work was continued this year on the process of formalising the human resources procedures which, at end 2001, had already led to the drawing up of a code of conduct.

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BALANCE SHEET AS AT 31 DECEMBER 2002

ASSETS

In thousand euros

	Notes	2002	2001
Cash in hand, balances with central banks		107	32
Loans and advances to credit institutions			
(a) advances repayable on demand		3 960	3 301
(b) loans and advances:			
- advances	*3*	1 026 333	1 336 513
- loans (a)		6 098 483	5 555 525
Loans to customers			
- loans (b)		3 331 447	3 156 504
Total loans (a + b)	*3*	**9 429 930**	**8 712 029**
Treasury bills and similar securities		439 129	459 052
Debt securities and other fixed-income securities		2 629 216	2 411 928
Shares and other variable-yield securities		766	716
Total portfolio	*4*	**3 069 111**	**2 871 696**
Intangible fixed assets	*5*	1 170	1 001
Tangible fixed assets	*5*	12 897	10 734
Capital subscribed, called-up, unpaid and reserves receivable	*12*	456	1 137
Other assets	*6*	4 898	5 036
Prepayments and accrued income	*6*	668 569	984 345
TOTAL ASSETS		**14 217 431**	**13 925 824**

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

LIABILITIES

In thousand euros

	Notes	2002	2001
Amounts owed to credit institutions			
(a) repayable on demand		161	-
(b) with agreed maturity dates or periods of notice	*7*	-	20 437
Amounts owed to customers			
with agreed maturity dates or periods of notice	*7*	56 594	60 117
Debt securities	*8*	11 505 868	12 023 316
Other liabilities	*9*	27 604	103 154
Accruals and deferred income	*9*	1 146 347	325 678
Selective Trust Account (STA)	*10*	53 120	52 228
Provision for financial risks	*11*	38 081	43 141
Fund for General Banking Risks (FGBR)	*2*	144 000	144 000
Capital	*12*		
a) Subscribed (paid-in 361 488)		3 231 388	3 003 828
b) Uncalled		(2 869 604)	(2 667 167)
		361 784	**336 661**
General reserve		788 670	728 793
Profit for the financial year		95 202	88 299
TOTAL LIABILITIES		**14 217 431**	**13 925 824**
OFF-BALANCE SHEET ITEMS			
Commitments given			
Awaiting financing on approved projects	*3*	1 906 488	2 547 814
Guarantees			
a) Guarantees for loans granted by third parties		4 907	6 113
b) Guarantees on assigned interest rate swaps		133 499	323 904
Off-balance sheet financial instruments	*16*	16 423 106	15 444 023

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

PROFIT AND LOSS ACCOUNT

In thousand euros

For the year ended 31 December	Notes	2002	2001
Interest receivable and similar income		1 419 028	1 604 289
Interest payable and similar expenses		(1 306 413)	(1 499 616)
Net interest and similar income	*13*	**112 615**	**104 673**
Income from shares and other variable-yield securities		55	56
Commissions received		7	18
Commissions paid		(128)	(128)
Net gain (loss) on financial transactions		(275)	675
Other operating income		169	633
Other operating expenses		(493)	(524)
Total operating income		**111 950**	**105 403**
General administrative expenses		*(20 818)*	*(19 198)*
Staff costs	*14*	(12 680)	(11 561)
Other administrative expenses		(6 270)	(5 750)
Depreciation of fixed assets	*5*	(1 868)	(1 887)
Operating profit before provisions		91 132	86 205
Net provisions for losses	*15*	4 070	(13 906)
Profit before FGBR		95 202	72 299
Value adjustments in respect of FGBR	*15*	-	16 000
PROFIT FOR THE FINANCIAL YEAR		**95 202**	**88 299**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

The following table presents the developments in the CEB's equity during the financial year 2002.

In thousand euros

For the year ended 31 December	2002	2001
Capital		
Subscribed capital	3 231 388	3 003 828
Callable capital	(2 869 604)	(2 667 167)
Called capital	**361 784**	**336 661**
Capital to be paid	(296)	(739)
Paid-in capital	**361 488**	**335 922**
General reserve		
Balance at the beginning of the year	728 395	829 386
Profit appropriation	85 000	75 037
Movements during the year	(24 885)	(176 028)
Balance at the end of the year	**788 510**	**728 395**
Profit for the year	**95 202**	**88 299**
Total shareholders' equity	**1 245 200**	**1 152 616**
Fund for General Banking Risks		
Balance at the beginning of the year	144 000	150 000
Movements during the year	-	(6 000)
Balance at the end of the year	**144 000**	**144 000**
Total shareholders' equity	**1 389 200**	**1 296 616**

The net profit of the financial year 2001 was allocated up to a level of 85 million euros to the general reserve and 3.3 million euros to the Selective Trust Account.

In 2001 movements of the FGBR represent a deduction of 16 million euros to cover operational risks related to a dispute between the Bank and one of its paying agents and a profit allocation of 10 million euros.

CASH FLOW STATEMENT

In thousand euros

For the year ended 31 December	2002	2001
Cash flows from operating activities		
Profit for the financial year	95 202	88 299
Adjustments:		
- Value adjustments	3 033	12 803
- Increase in accrued interest and commissions receivable	(131 808)	37 722
- Increase in accrued interest and commissions payable	142 138	(13 321)
- Premium on investment securities	2 175	3 058
Loan disbursements	(1 536 661)	(1 748 762)
Loan repayments	619 480	1 584 558
Net cash flows from operating activities	**(806 441)**	**(35 643)**
Cash flows from investing activities		
Net change in the securities portfolio	(284 084)	1 260 644
Purchase of tangible and intangible fixed assets	(3 745)	(1 116)
Other increases/(decreases) in assets	133	(541)
Net cash flows from investing activities	**(287 696)**	**1 258 987**
Cash flows from financing activities		
Issue of capital and reserves	682	2 820
Issue of borrowings	2 951 973	2 630 824
Redemption of borrowings	(2 088 130)	(3 005 661)
Decrease in short-term borrowings	(262 485)	(356 130)
Net change in foreign currency / transactions payable and receivable	335 414	14 559
Other increases/(decreases) in liabilities	(74 143)	(72 681)
Net cash flows from financing activities	**863 311**	**(786 269)**
Net cash flows	(230 826)	437 075
Effects of exchange rate changes on cash and cash equivalents	(56 563)	15 855
Cash and cash equivalents at the beginning of the year	1 316 774	863 844
Cash and cash equivalents as at 31 December	**1 029 385**	**1 316 774**

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

	2002	2001
Cash in hand, balances with central banks	107	32
Advances to credit institutions	1 029 278	1 337 166
Amounts owed to credit institutions	-	(20 424)
Cash and cash equivalents as at 31 December	**1 029 385**	**1 316 774**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 1 – THE BANK'S PURPOSE

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

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

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

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

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

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

NOTE 2 – ACCOUNTING POLICIES

2.1 - Standards and general principles

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

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

2.2 - Foreign currencies

The Bank uses the euro as the reporting currency for the presentation of its financial statements, in accordance with Article IV (section 1) of its Articles of Agreement.

Monetary assets and liabilities denominated in foreign currencies are translated in euro at the exchange rates as at 31 December 2002. Revenues and expenses items are translated into euro at the month-end rate at which they occurred. Exchange profits or losses resulting from assets and liabilities conversions are entered in the profit and loss account.

The accounts have been drawn up in euros, on the basis of the following exchange rates as at 31 December 2002:

ISO	Currency	EUR exchange rate	ISO	Currency	EUR exchange rate
AUD	Australian Dollar	1.8556	LTL	Lithuanian Litas	3.4528
CAD	Canadian Dollar	1.655	MTL	Maltese Lira	0.4182
CHF	Swiss Franc	1.4524	NOK	Norwegian Krone	7.2756
CYP	Cyprus Pound	0.57316	NZD	New Zealand Dollar	1.9975
CZK	Czech Koruna	31.577	PLN	Polish Zloty	4.021
DKK	Danish Krone	7.4288	SEK	Swedish Krona	9.1528
EEK	Estonian Kroon	15.6466	SKK	Slovak Koruna	41.503
GBP	Pound Sterling	0.6505	SGD	Singapore Dollar	1.8199
HKD	Hong Kong Dollar	8.1781	TWD	Taiwan Dollar	36.418
HRK	Croatian Kuna	7.475	USD	United States Dollar	1.0487
ISK	Icelandic Krona	84.74	ZAR	South African Rand	9.0094
JPY	Japanese Yen	124.39			

2.3 - Securities portfolio

Securities are classified as follows:

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

Trading securities

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

Investment securities

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

Held-for-sale securities

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

2.4 - Loans

The accounting basis for the loans and the advances issued by the Bank is the historical cost. After a detailed analysis, for the loans which present the risk of non recovery for a part or for the whole amount, appropriated provisions are set up.

2.5 - Tangible and intangible fixed assets

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

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

2.6 - Debt evidenced by certificates

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

2.7 - Fund for General Banking Risks

The Fund for General Banking Risks includes those amounts intended to cover general potential risks not yet identified, associated with future losses and unexpected other risks. The Fund for General Banking Risks covers all non specific risks on transactions related to loans, portfolio activities and financial instruments, but also of an operational nature (damages, litigations…). According to the European Directive, it is registered separately on the liabilities side of the Bank's balance sheet and the variations are recorded in the profit and loss account.

2.8 - Provision for financial risks - Pension Scheme

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

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

In reference to International Accounting Standard norm IAS 19, commitments for retirement benefits are valued once a year using the projected unit credit method. This valuation is carried out by an independent actuary in order to ensure that the provision entered in the accounts is adequate.

2.9 - Financial instruments

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

Hedging activities

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

Trading activities

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

2.10 - Selective Trust Account

The Selective Trust Account (STA) is the Bank's favoured tool in order to amplify the effects of its action in social priority sectors (natural disasters, acts of war, migrations), its main features being defined in Resolution CA 1380 (1995) and revised by Resolution CA 1437 (1999).

The purpose of this account is to provide interest-rate subsidies for loans granted by the Bank on projects of high social value, concerning low-income countries, in particular those from central and eastern Europe. The STA can also be used for the granting of donations in aid of the victims of wars, refugees, displaced persons and those most vulnerable. The accounting of the STA is held separately (see note 10).

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.

NOTE 3 – LOANS AND ADVANCES TO CREDIT INSTITUTIONS AND TO CUSTOMERS

As at 31 December 2002, the outstanding amount of loans granted to credit institutions and to customers comprises ordinary loans, social loans and loans subsidised through the Selective Trust Account, for a total amount of 9 350 million euros (2001: 8 630 million euros).

Loans are guaranteed up to 1 008 218 thousand euros (2001: 288 345 thousand euros) with collaterals.

In thousand euros as at 31 December

BREAKDOWN BY CATEGORY OF BORROWER	2002	2001
TERM DEPOSITS		
Term deposits	1 025 479	1 333 865
Interest receivable	854	2 648
TOTAL TERM DEPOSITS	**1 026 333**	**1 336 513**
LOANS TO CREDIT INSTITUTIONS		
Loans	6 052 156	5 510 562
Interest receivable	46 327	44 963
Sub-total	**6 098 483**	**5 555 525**
LOANS TO CUSTOMERS		
Member states	2 611 057	2 600 979
Non-member states	4 704	5 599
Public institutions of member states	681 589	513 135
Interest receivable	34 253	36 879
Unpaid receivables	36 388	40 458
Provisions	(36 544)	(40 546)
Sub-total	**3 331 447**	**3 156 504**
TOTAL LOANS	**9 429 930**	**8 712 029**

Outstanding amounts benefiting from the Selective Trust Account interest subsidies are included for an amount of 7 373 thousand euros in the credit insitutions loans and for an amount of 296 631 thousand euros in the customers loans (4 383 thousand euros and respectively 293 094 thousand euros in 2001).

Outstanding social loans (granted at 1% interest rate) amount to 5 040 thousand euros in 2002 (2001: 5 975 thousand euros).

The provisions account includes the unpaid receivables and the related interest receivables for an amount of 156 thousand euros (2001: 88 thousand euros).

The loan disbursements and reimbursements during the year are indicated below:

In thousand euros as at 31 December

Movement in loans	2002	2001
Outstanding as at 1 January	8 630 274	8 442 108
Disbursements	1 536 661	1 748 760
Reimbursements	(615 409)	(1 582 481)
Foreign exchange movements	(202 020)	21 887
Outstanding as at 31 December	**9 349 506**	**8 630 274**
Interest receivable	80 424	81 755
TOTAL	**9 429 930**	**8 712 029**

Breakdown of outstanding loans and commitments by borrower country as at 31 December 2002:

In thousand euros as at 31 December

	Outstanding				Financing commitments	
Breakdown by country	2002	%	2001	%	2002	2001
Spain	1 858 710	19.88	1 828 448	21.19	110 455	312 186
Germany	1 562 000	16.70	1 695 611	19.64	101 917	104 847
France	1 239 338	13.25	1 026 703	11.90	50 000	200 000
Italy	920 801	9.85	672 842	7.80	80 323	212 823
Turkey	883 030	9.44	1 060 832	12.29	246 229	264 432
Greece	725 364	7.76	778 368	9.02	214 895	244 628
Cyprus	445 269	4.76	376 346	4.36	220 844	263 178
Poland	351 022	3.75	199 872	2.32	121 363	71 485
Finland	327 770	3.51	325 541	3.77	172 500	182 500
Belgium	234 933	2.51	201 053	2.33	80 000	30 000
Portugal	188 639	2.02	86 727	1.00	75 000	78 855
Romania	109 181	1.17	50 067	0.58	50 462	86 915
Hungary	101 300	1.08	83 500	0.97	108 700	106 500
Malta	83 954	0.90	63 547	0.74	8 520	35 462
Norway	67 888	0.73	-	-	67 025	125 762
Croatia	61 867	0.66	40 793	0.47	52 306	72 749
Sweden	40 035	0.43	27 000	0.31	14 613	27 210
Slovenia	38 634	0.41	38 692	0.45	22 050	13 776
Iceland	29 569	0.32	23 375	0.27	36 697	16 386
Slovak Republic	23 997	0.26	16 184	0.19	17 483	21 811
Bulgaria	13 992	0.15	11 233	0.13	19 758	25 052
"The former Yugoslav Republic of Macedonia"	13 913	0.15	6 424	0.07	6 200	14 756
Lithuania	9 922	0.11	7 406	0.09	8 833	9 693
Estonia	5 560	0.06	1 917	0.02	4 027	7 670
Latvia	5 274	0.06	-	-	10 891	17 976
Bosnia and Herzegovina	4 704	0.05	5 598	0.06	-	-
San Marino	2 840	0.03	2 195	0.03	-	1 162
Albania	-	-	-	-	5 397	-
TOTAL	**9 349 506**	**100.00**	**8 630 274**	**100.00**	**1 906 488**	**2 547 814**

In thousand euros as at 31 December

	Outstanding				Financing commitments	
Breakdown by sector	**2002**	**%**	**2001**	**%**	**2002**	**2001**
Statutory priorities						
Aid to refugees and migrants	153 298		227 419		24 880	41 262
Natural or ecological disasters	1 570 685		1 320 492		201 739	286 828
Sub-total	**1 723 983**	**18.44**	**1 547 911**	**17.94**	**226 619**	**328 090**
New priorities						
Job creation and preservation in SMEs	1 396 152		1 472 035		223 110	269 722
Vocational training	24 827		27 076		-	-
Social housing	1 880 180		1 582 933		367 786	477 885
Health	891 234		752 042		242 613	361 530
Education	1 043 716		998 199		376 128	413 974
Improvement of living conditions in disavantaged urban areas	355 224		149 708		36 028	159 022
Sub-total	**5 591 333**	**59.80**	**4 981 993**	**57.73**	**1 245 665**	**1 682 133**
Other fields of action						
Protection of the environment	1 214 411		1 173 782		166 764	156 357
Rural modernisation	554 860		522 170		240 133	281 257
Protection and rehabilitation of the historic heritage	62 340		45 674		27 306	46 004
Infrastructure facilities	202 579		358 744		-	53 973
Sub-total	**2 034 190**	**21.76**	**2 100 370**	**24.34**	**434 203**	**537 591**
TOTAL LOANS AND FINANCING COMMITMENTS BY SECTOR	**9 349 506**	**100.00**	**8 630 274**	**100.00**	**1 906 487**	**2 547 814**

Financing commitments

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

In thousand euros as at 31 December

Breakdown by year of approval	**2000 and before**	**2001**	**2002**	**Total**
Projects				
With framework loan agreements signed	349 918	331 515	588 448	1 269 881
With at least one financing	478 212	121 698	36 697	636 607
TOTAL	**828 130**	**453 213**	**625 145**	**1 906 488**

NOTE 4 – SECURITIES PORTFOLIO

In thousand euros as at 31 December

BREAKDOWN BY ISSUER	2002	2001
TREASURY BILLS AND SIMILAR SECURITIES		
Book value	420 057	438 490
Interest receivable	19 072	20 562
Net amount	**439 129**	**459 052**
DEBT SECURITIES AND OTHER FIXED-INCOME SECURITIES		
Book value	2 572 161	2 357 140
Provisions	(443)	(552)
Interest receivable	57 498	55 340
Net amount	**2 629 216**	**2 411 928**
SHARES		
Book value	1 366	1 366
Provisions	(614)	(664)
Interest receivable	14	14
Net amount	**766**	**716**
TOTAL PORTFOLIO	**3 069 111**	**2 871 696**

In thousand euros as at 31 December

BREAKDOWN BY PORTFOLIO	2002		2001	
	Book value	Market value	Book value	Market value
PORTFOLIO				
Investment	1 438 556	1 549 196	1 375 081	1 423 475
Held-for-sale	1 553 971	1 578 484	1 420 699	1 445 605
Sub-total	**2 992 527**	**3 127 680**	**2 795 780**	**2 869 080**
Interest receivable	76 584		75 916	
AS AT 31 DECEMBER	**3 069 111**		**2 871 696**	

Investment portfolio comprises bonds and securities issued by countries or similar institutions rated at least AA. During the two last financial years, no securities were removed from the investment portfolio and no securities have involved investment portfolio transfers during the same period.

As at 31 December 2002, the securities portfolio is made up of quoted securities for an amount of 2 736 264 thousand euros (2001: 2 354 043 thousand euros), and non quoted securities for an amount of 332 847 thousand euros (2001: 442 954 thousand euros).

NOTE 5 – FIXED ASSETS

In thousand euros as at 31 December

	Buildings	Fixtures and equipment	Other tangible fixed assets	Total tangible fixed assets	Intangible assets	Grand total
Gross book value at 31 December 2001	10 673	6 443	3 694	20 810	2 690	23 500
Additions	2 083	1 174	495	3 753	1 018	4 771
Disposals			(80)	(80)	(493)	(573)
Other movements	-	-	(453)	(453)	-	(453)
Gross book value at 31 December 2002	**12 756**	**7 617**	**3 657**	**24 030**	**3 215**	**27 245**
Accumulated depreciation at 31 December 2001	(4 235)	(3 208)	(2 633)	(10 076)	(1 689)	(11 765)
Charge for the year	(479)	(505)	(528)	(1 512)	(356)	(1 868)
Disposals	-	-	455	455	-	455
Accumulated depreciation at 31 December 2002	**(4 714)**	**(3 713)**	**(2 706)**	**(11 133)**	**(2 045)**	**(13 178)**
Net book value at 31 December 2002	**8 042**	**3 905**	**951**	**12 897**	**1 170**	**14 067**
Net book value at 31 December 2001	6 438	3 235	1 061	10 734	1 001	11 735

NOTE 6 – OTHER ASSETS, PREPAYMENTS AND ACCRUED INCOME

In thousand euros as at 31 December

	2002	2001
OTHER ASSETS		
Sundry debtors	4 506	4 442
Conditional instruments purchased	392	594
TOTAL	**4 898**	**5 036**
PREPAYMENTS AND ACCRUED INCOME		
Accrued interest receivable	516 720	438 246
Foreign currencies adjustment account	-	457 862
Other expenses to be amortised	92 227	85 991
Prepaid expenses	59 622	1 062
Other accrued income and sundry debtors	-	1 184
TOTAL	**668 569**	**984 345**

NOTE 7 – AMOUNTS OWED TO CREDIT INSTITUTIONS AND TO CUSTOMERS

In thousand euros as at 31 December

	2002	2001
AMOUNTS OWED TO CREDIT INSTITUTIONS		
Repayable on demand	161	-
With agreed maturity dates or periods of notice	-	20 425
Interest payable	-	12
TOTAL	**161**	**20 437**
AMOUNTS OWED TO CUSTOMERS		
Interest bearing accounts	7 650	7 320
With agreed maturity dates or periods of notice	48 235	52 025
Interest payable	709	772
TOTAL	**56 594**	**60 117**

The Bank has opened interest-bearing accounts:

- In December 2000, an account to receive the European Community contributions (“Contribution Arrangement in respect of a SME Finance Facility Phase 2 Special Fund”) for partial financing of productive investment projects aimed at the maintenance or creation of jobs in SMEs located in transition countries in central and eastern Europe.

- In June 2001, an account to receive the Finnish government’s contributions in order to provide financing for technical assistance activities in Estonia, Latvia and Lithuania.

NOTE 8 – DEBT SECURITIES

Detailed outstanding amount of debts materialized by securities issued on markets is presented below:

In thousand euros as at 31 December

BREAKDOWN BY TYPE OF DEBT	2002	2001
Bonds	10 903 437	11 184 445
Euro Commercial Paper	-	307 632
Perpetual debt	140 144	137 261
Interest payable	462 287	393 978
TOTAL	**11 505 868**	**12 023 316**

In thousand euros as at 31 December

Breakdown by currency	Outstanding	Currency swap	Net Value 2002	Net Value 2001
Euro	2 998 154	7 161 824	10 159 978	9 194 449
US Dollar	6 637 271	(4 974 771)	1 662 500	1 960 078
Swiss Franc	396 590	(141 853)	254 737	287 382
Japanese Yen	404 668	(404 668)	-	-
Taiwan Dollar	336 874	(336 874)	-	-
Pound sterling	234 063	(234 063)	-	-
Hong Kong Dollar	135 227	(135 227)	-	-
South African Rand	74 203	(74 203)	-	-
Australian Dollar	177 553	(177 553)	-	-
Czech Koruna	17 534	(17 534)	-	-
Canadian Dollar	93 731	(93 731)	-	-
TOTAL	**11 505 868**	**571 347**	**12 077 215**	**11 441 909**

NOTE 9 – OTHER LIABILITIES, ACCRUALS AND DEFERRED INCOME

In thousand euros as at 31 December

	2002	2001
Other liabilities		
Sundry creditors	2 183	1 288
Deposits of guarantees received	25 421	101 866
TOTAL	**27 604**	**103 154**
Accruals and deferred income		
Deferred income	147 446	81 453
Accrued expenses	250 554	242 215
Foreign currencies adjustment account	746 632	-
Other accruals and sundry creditors	1 715	2 010
TOTAL	**1 146 347**	**325 678**

The deposits of guarantees received represent transactions known as collaterals.

NOTE 10 – SELECTIVE TRUST ACCOUNT

Selective Trust Account (STA) purpose

Within the framework of financing high social value projects, the Selective Trust Account covers the interest rate differential between the rate usually applied by the Bank and the rate repaid by the borrower. Any proposal for an interest rate subsidy is set out in the loan application submitted by the Governor to the Administrative Council for approval. The STA can be used to grant donations.

Funding of the account

The Selective Trust Account is supplied with contributions from the CEB's annual profits, with voluntary contributions from the members or non member states of the Council of Europe or of the Bank. This account can also be supplied with contributions from international institutions following the agreement of the CEB's Governing Board and Administrative Council. The Bank remunerates these funds in accordance with the Resolution 1380 (1995).

Selective Trust Account financial statements

Balance sheet

In thousand euros as at 31 December

ASSETS	2002	2001	LIABILITIES	2002	2001
Deposit to the CEB	**53 120**	**52 228**	Contribution received from the CEB	58 319	55 127
Securities portfolio	3 436	3 828	Other contributions received	106	-
			Accruals and deferred income	3 823	4 753
			Results brought forward	(3 825)	(841)
			Result for the financial year	(1 867)	(2 983)
TOTAL	**56 556**	**56 056**		**56 556**	**56 056**

Profit and loss account

In thousand euros

FOR THE YEAR ENDED 31 DECEMBER	2002	2001
Payment from the CEB	1 677	2 118
Income from securities portfolio	244	309
Income	**1 921**	**2 427**
Interest subsidies paid directly from the Selective Trust Account to the CEB	(2 017)	(1 490)
Donations	(1 529)	(610)
Provisions	(242)	(3 310)
Expenses	**(3 788)**	**(5 410)**
RESULT FOR THE FINANCIAL YEAR	**(1 867)**	**(2 983)**

Donations paid

Since its creation, this account has paid out a total amount of 7 155 thousand euros in donations, especially to Albania, Kosovo, "The former Yugoslav Republic of Macedonia" and Romania. The donations of the last two financial years are detailed below:

In thousand euros as at 31 December

PAYMENTS	2002	2001
Aid to Kosovo refugees	-	610
Subsidy to the Council of Europe	261	-
Reconstruction of the Mostar bridge in Bosnia and Herzegovina	1 158	-
Repairing of infrastructures in "The former Yugoslav Republic of Macedonia"	110	-
TOTAL	**1 529**	**610**

The subsidy to the Council of Europe is allocated to finance studies for projects linked to the reinforcement of social cohesion. The donation to "The former Yugoslav Republic of Macedonia" allows financing for the reconstruction of infrastructures linked to water distribution systems and wasted water collection.

Breakdown by borrower country of funding commitments and outstanding loans

In thousand euros as at 31 December

	Outstanding		Financing commitments	
BREAKDOWN BY COUNTRY	2002	2001	2002	2001
Poland	96 977	90 913	-	5 955
Hungary	78 300	60 500	91 700	89 500
Croatia	59 237	40 793	42 683	63 344
Romania	28 000	22 000	2 000	8 000
Slovak Republic	21 184	14 184	8 816	15 816
Bosnia and Herzegovina	4 704	5 598	-	-
Lithuania	4 725	5 106	8 833	9 084
Slovenia	6 734	3 744	-	2 940
Germany	639	639	1 917	3 717
Bulgaria	3 503	-	19 758	23 804
TOTAL	**304 003**	**243 477**	**175 707**	**222 160**

NOTE 11 – PROVISION FOR FINANCIAL RISKS

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

In thousand euros as at 31 December

	2002	2001
Provision for pension commitments	30 632	27 898
Provisions for risks and litigations	7 449	15 243
TOTAL	**38 081**	**43 141**

Provision for pension commitments

In reference to the International Accounting Standard 19, an actuarial valuation of the staff pension scheme has been carried out by an independent actuary as at 31 December 2002. Commitments for retirement benefits are valued using the "projected unit credit method".

The main assumptions used for this valuation are:

a) Economic assumptions
- An interest rate of 5.5%,
- A rate of inflation of 1.5%,
- A revalorisation rate of the pension of 1.5%,
- An increasing salary rate of 5%.

b) Demographic assumptions
- A mobility rate of 0.44% after 40 years,
- An average retirement age of 62,
- The use of mortality tables INSEE 1998 and disability tables EVK 90.

The movement in provision for pension scheme is presented below:

In thousand euros as at 31 December

	2002	2001
Provision as at 1 January	**27 898**	**25 384**
Employer's contribution	1 137	1 160
Staff contribution	552	548
Interest income from CEB	1 675	1 539
Income	**3 364**	**3 247**
Pensions paid	(454)	(471)
Departure grants	(158)	(239)
Others	(18)	(23)
Expenses	**(630)**	**(733)**
Net profit for the year	**2 734**	**2 514**
PROVISION AS AT 31 DECEMBER	**30 632**	**27 898**

Provisions for litigation

A provision of 16 million euros was settled by direct deduction from the FGBR in order to cover the operational risks related to a litigation between the Bank and one of its paying agents, in accordance with Resolution 1461 (2001) of the CEB's Administrative Council. A legal proceedings is in process.

In thousand euros as at 31 December

	2002	2001
Provision as at 1 January	**15 243**	**-**
Provision charges	-	16 000
Provision release	(7 794)	(757)
Net mouvements for the year	**(7 794)**	**15 243**
PROVISION AS AT 31 DECEMBER	**7 449**	**15 243**

NOTE 12 – SUBSCRIBED CAPITAL

The capital is composed of participating certificates of 1 000 euros each. Each participating certificate respresents one vote.

All member Governments of the Council of Europe and other Governments upon authorization of the Governing Board of the Bank may subscribe to the capital. This subscription is effective upon acceptation of the Articles of Agreement.

In thousand euros as at 31 December

MEMBERS	Subscribed capital	Callable capital	Paid-in capital
Germany	549 692	489 000	60 692
France	549 692	489 000	60 692
Italy	549 692	489 000	60 692
Spain	358 504	318 922	39 582
Turkey	233 077	207 344	25 733
Netherlands	119 338	106 161	13 177
Belgium	98 634	87 746	10 888
Greece	98 634	87 745	10 889
Portugal	83 538	74 315	9 223
Sweden	83 538	74 315	9 223
Poland	76 988	68 488	8 500
Denmark	53 823	47 879	5 944
Switzerland	53 824	43 229	10 595
Finland	41 889	37 264	4 625
Norway	41 889	37 264	4 625
Bulgaria	37 491	33 352	4 139
Romania	35 963	31 993	3 970
Hungary	26 884	23 916	2 968
Czech Republic	25 833	22 981	2 852
Croatia	12 831	11 414	1 417
Cyprus	11 934	10 617	1 317
Slovak Republic	11 379	10 123	1 256
Luxembourg	8 993	8 000	993
Albania	8 034	7 147	887
Latvia	7 688	6 840	848
Estonia	7 637	6 794	843
"The former Yugoslav Republic of Macedonia"	7 637	6 794	843
Lithuania	7 556	6 722	834
Slovenia	7 380	6 565	815
Iceland	6 089	5 417	672
Malta	6 089	5 417	672
Moldova	3 294	2 930	364
San Marino	2 921	2 478	443
Liechtenstein	2 921	2 374	547
Holy See	82	58	24
TOTAL 2002	**3 231 388**	**2 869 604**	**361 784**
TOTAL 2001	**3 003 828**	**2 667 167**	**336 661**

As at 31 December 2002, an amount to be paid of 456 thousand euros is pending for Moldova composed of 296 thousand euros for the called capital and 160 thousand euros for the reserves.

NOTE 13 – NET INTEREST INCOME

In thousand euros as at 31 December

BREAKDOWN BY NATURE	2002	2001
INTEREST AND SIMILAR INCOME		
Interest on loans	399 534	476 634
Debt securities and other fixed-income securities	175 757	227 243
Interest on financial instruments hedging assets	681 859	686 512
Other similar income	161 878	213 900
Total interest income	**1 419 028**	**1 604 289**
INTEREST AND SIMILAR EXPENSES		
Operations with credit institutions	(51 979)	(44 562)
Operations with customers	(133 508)	(114 544)
Debt evidenced by certificates	(1 056 842)	(1 252 055)
Other interest and similar expenses	(64 084)	(88 455)
Total interest expenses	**(1 306 413)**	**(1 499 616)**
NET INTEREST INCOME AS AT 31 DECEMBER	**112 615**	**104 673**

The net interest income resulting after the allocation of the interest from hedging derivatives by underlying items is presented as follows:

In thousand euros as at 31 December

BREAKDOWN BY ACTIVITY	2002	2001
INTEREST AND SIMILAR INCOME		
Loans	328 081	446 178
Debt securities		
investment	80 597	76 283
held-for-sale	62 970	111 936
Treasury assets	40 457	76 779
Net interest on assets	**512 105**	**711 176**
Net interest on liabilities	**(399 490)**	**(606 503)**
NET INTEREST INCOME AS AT 31 DECEMBER	**112 615**	**104 673**

Interest income from loans is distributed by borrower country as follows:

In thousand euros as at 31 December

BREAKDOWN BY COUNTRY	2002	2001
Germany	76 453	79 454
Spain	67 814	85 263
Turkey	66 695	116 554
Greece	42 002	53 312
France	40 723	39 747
Italy	31 408	33 944
Cyprus	15 897	24 239
Poland	14 937	5 799
Finland	12 778	8 455
Belgium	6 606	8 983
Hungary	5 039	3 926
Portugal	3 719	3 972
Croatia	3 047	1 863
Malta	2 961	3 268
Romania	2 263	1 482
Slovenia	1 652	2 082
Norway	973	-
Sweden	900	945
Iceland	804	772
Slovak Republic	655	476
Lithuania	545	412
"The former Yugoslav Republic of Macedonia"	433	271
Bosnia and Herzegovina	360	675
Bulgaria	329	506
Estonia	274	57
San Marino	186	177
Latvia	81	-
TOTAL	**399 534**	**476 634**

NOTE 14 – STAFF COSTS

At 31 December 2002, the Bank has a permanent staff of 131 agents (124 as at 31 December 2001), divided into three categories: 4 appointed officials (Governor and Vice-Governors), 66 executive staff (2001: 63) and 61 non-executive staff (2001: 57).

In thousand euros as at 31 December

	2002	2001
Wages and salaries	10 755	9 694
Social security	685	716
Pension costs	1 240	1 151
TOTAL	**12 680**	**11 561**

NOTE 15 – PROVISION ANALYSIS

In thousand euros as at 31 December

Provision charges and releases	2002	2001
Provision charge for risks on loans	-	(293)
Provision release for risks on loans	4 070	2 387
Provision charge for litigation	-	(16 000)
Sub-total provision charges and releases	**4 070**	**(13 906)**
FGBR release	-	16 000
TOTAL NET PROVISION CHARGES AND RELEASES	**4 070**	**2 094**

In 2002, the release of provision for risks on loans concerns the loans repayment from Bosnia and Herzegovina and from Serbia-Montenegro.

NOTE 16 – OFF-BALANCE-SHEET FINANCIAL INSTRUMENTS

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

In thousand euros as at 31 December

	2002	2001
Over-the-counter transactions		
Interest rate swaps	7 480 290	7 191 008
Foreign currency swaps	8 667 145	7 749 234
Other	237 559	465 669
Conditional transactions		
Interest rate options	38 112	38 112
TOTAL	**16 423 106**	**15 444 023**

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

In thousand euros as at 31 December

S&P RATING OR EQUIVALENT	Notional amount	Net present value	Collateral received
AAA	2 130 820	(30 488)	-
AA	10 410 254	119 476	221 945
A	3 739 729	8 502	9 240
Non-rated	142 303	670	-
TOTAL	**16 423 106**	**98 160**	**231 185**

NOTE 17 – NET POSITION IN CURRENCY TRANSACTIONS

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

In thousand euros as at 31 December

	Assets	Liabilities	Derivative instruments	Net position 2002	Net position 2001
Euro	11 532 687	5 493 015	(6 812 565)	(772 893)	460 706
US Dollar	1 819 870	6 783 934	4 968 230	4 166	334
Japanese Yen	419 543	455 955	37 788	1 376	566
Swiss Franc	296 718	397 776	122 356	21 298	(1 523)
Pound Sterling	7 182	237 660	230 592	114	203
Other currencies	141 431	849 091	707 729	69	65
TOTAL	**14 217 431**	**14 217 431**	**(745 870)**	**(745 870)**	**460 351**

NOTE 18 – LIQUIDITY POSITION

The liquidity risk is a measure of the extent of the projected situation of the Bank treasury.

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

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

In thousand euros as at 31 December

	up to 1 month	up to 3 months	more than 3 months up to 1 year	more than 1 year up to 5 years	more than 5 years	Maturity undefined	Total
ASSETS							
Cash in hand, balances with central banks	107	-	-	-	-	-	107
Loans and advances to credit institutions and customers							
- repayable on demand	3 960	-	-	-	-	-	3 960
- advances (deposits)	1 026 333	-	-	-	-	-	1 026 333
- loans	24 983	93 047	716 908	3 210 965	5 384 027	-	9 429 930
Securities portfolio	361 093	237 350	507 091	820 173	1 142 639	765	3 069 111
Other assets	-	-	-	-	-	687 990	687 990
Sub-total	**1 416 476**	**330 397**	**1 223 999**	**4 031 138**	**6 526 666**	**688 755**	**14 217 431**
LIABILITIES							
Amounts owed to credit institutions and customers	7 810	-	-	40 783	8 162	-	56 755
Debt securities							
- Bonds	863 921	123 492	302 436	5 629 049	4 441 345	-	11 360 243
- Perpetual debt	-	-	-	-	145 625	-	145 625
Capital, reserves and result	-	-	-	-	-	1 245 656	1 245 656
Other liabilities	-	-	-	-	-	1 409 152	1 409 152
Sub-total	**871 731**	**123 492**	**302 436**	**5 669 832**	**4 595 132**	**2 654 808**	**14 217 431**
Currency swaps and forward exchange rate contracts	(8 174)	(279)	31 832	(301 226)	(468 023)	-	(745 870)
Net liquidity position	**536 571**	**206 626**	**953 395**	**(1 939 920)**	**1 463 511**	**(1 966 053)**	**(745 870)**
Accrued liquidity position	**536 571**	**743 197**	**1 696 592**	**(243 328)**	**1 220 183**	**(745 870)**	
2001 accrued liquidity position	315 770	1 278 880	(4 111)	(1 402 296)	1 279 351	460 352	

NOTE 19 – ESTIMATED REALISABLE VALUE INFORMATION

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

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

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

As at 31 December 2002, the net realisable value shows an additional equity of 13 529 thousand euros (31 December 2001: 21 787 thousand euros).

In thousand euros as at 31 December

	Balance sheet value 2002	Value adjustment	Estimated value 2002	Estimated value 2001
ASSETS				
Loans and advances to credit institutions	7 128 883	51 587	7 180 470	6 909 163
Loans to customers	3 331 447	131 935	3 463 382	3 213 364
Securities portfolio	3 069 111	17 335	3 086 446	2 856 296
Other assets	687 990	-	687 990	1 532 331
Total assets	**14 217 431**	**200 857**	**14 418 288**	**14 511 154**
LIABILITIES				
Amounts owed to credit institutions	161	-	161	20 437
Amounts owed to customers	56 594	(8 108)	48 486	45 125
Debt materialized by securities	11 505 868	19 132	11 525 000	12 601 851
Other liabilities	1 265 152	176 304	1 441 456	524 201
Shareholders' equity	1 389 656	-	1 389 656	1 297 753
Total liabilities	**14 217 431**	**187 328**	**14 404 759**	**14 489 367**
NET ESTIMATED REALISABLE VALUE			**13 529**	**21 787**

EXTERNAL AUDITOR'S REPORT

Barbier Frinault
& Autres

■ S.A.S. à capital variable de 37.000 Euros
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■ 41, rue Ybry
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To the members of the Administrative Council and the members of the Governing Board

In accordance with the terms of our appointment by the Governing Board, we have audited the accompanying financial statements of the Council of Europe Development Bank -CEB- for the financial year ended 31 December 2002. 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 IFAC's international auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Governor, as well as evaluating the overall the financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of the Council of Europe Development Bank as of 31 December 2002, and the results of its operations and its cash flow for the year then ended, in accordance with the accounting standards set out by EC Directive (86/635 EEC).

Neuilly-sur-Seine, February 27, 2003

Barbier Frinault & Autres
Réseau Ernst & Young
Philippe Peuch-Lestrade

Membre de la Compagnie des Commissaires aux Comptes de Versailles
Réseau ERNST & YOUNG

AUDITING BOARD'S REPORT ON THE BALANCE SHEET AND THE PROFIT AND LOSS ACCOUNT AND THE NOTES TO THE FINANCIAL STATEMENTS FOR 2002

In pursuance of its terms of reference under Article XII of the Articles of Agreement of the Council of Europe Development Bank and Resolutions 334 (2001) and 335 (2001) adopted by the Governing Board having heard the Administrative Council, the Auditing Board met in Paris on 2 and 3 December 2002 for a preliminary meeting and from 24 to 28 February 2003 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 2002;

Based on Resolution 326 (2000) of the Governing Board and on the Auditing Board's previous years' findings, the External Auditor, Barbier Frinault & Autres (Ernst & Young, formerly Andersen) presented his statement and gave, when needed, evidence in detail of the performance of the audit.

The Auditing Board carried out the audit of the Bank for the year 2002 as follows:

- consulting the Governor, the Vice-Governors and the Directors of the Bank;
- examining the financial statements of the Bank for the year 2002, including the balance sheet at 31 December 2002, the profit and loss account and the Notes to the financial statements, which had been prepared by the accounting department of the Bank and signed by the Governor on 26 February 2003;
- consulting the Internal Audit Department;
- consulting the External Auditor of the Bank and examining his preliminary report, including the executive summary, and his long-form report, for the year 2002;
- obtaining the opinion signed by the External Auditor on 27 February 2003;
- obtaining all necessary documents, information and explanations which the Auditing Board deemed necessary. These had readily been given by the Governor, pertinent staff and the External Auditor.

The Auditing Board certifies, on the basis of the information, which was made available to it and to the best of its understanding, that the Bank's balance sheet and profit and loss account (including the Notes to the financial statements) are in agreement with the books and other records and give a true and fair picture, in all material respects, of the state of the Bank's affairs as at 31 December 2002 and the results of its operations and its cash flows for the year then ended, in accordance with the accounting standards set out by EC Directive (86/635/EEC).

Paris, 28 February 2003

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

BALANCE SHEET AS AT 31 DECEMBER 2002 AFTER ALLOCATION OF PROFIT

In thousand euros

ASSETS	Notes	2002	2001
Cash in hand, balances with central banks		107	32
Loans and advances to credit institutions			
(a) advances repayable on demand		3 960	3 301
(b) loans and advances:			
- advances	3	1 026 333	1 336 513
- loans (a)		6 098 483	5 555 525
Loans to customers			
- loans (b)		3 331 447	3 156 504
Total loans (a + b)	3	**9 429 930**	**8 712 029**
Treasury bills and similar securities		439 129	459 052
Debt securities and other fixed-income securities		2 629 216	2 411 928
Shares and other variable-yield securities		766	716
Total portfolio	4	**3 069 111**	**2 871 696**
Intangible fixed assets	5	1 170	1 001
Tangible fixed assets	5	12 897	10 734
Capital subscribed, called-up, unpaid and reserves receivable	12	456	1 137
Other assets	6	4 898	5 036
Prepayments and accrued income	6	668 569	984 345
TOTAL ASSETS		**14 217 431**	**13 925 824**

LIABILITIES	Notes	2002	2001
Amounts owed to credit institutions			
(a) repayable on demand		161	-
(b) with agreed maturity dates or periods of notice	7	-	20 437
Amounts owed to customers			
with agreed maturity dates or periods of notice	7	56 594	60 117
Debt securities	8	11 505 868	12 023 316
Other liabilities	9	27 604	103 154
Accruals and deferred income	9	1 146 347	325 678
Selective Trust Account (STA)	10	58 322	55 527
Provision for financial risks	11	38 081	43 141
Fund for General Banking Risks (FGBR)	2	144 000	144 000
Capital	12		
a) Subscribed (paid-in 361 488)		3 231 388	3 003 828
b) Uncalled		(2 869 604)	(2 667 167)
		361 784	**336 661**
General reserve		878 670	813 793
TOTAL LIABILITIES		**14 217 431**	**13 925 824**

OFF-BALANCE SHEET ITEMS	Notes	2002	2001
Commitments given			
Awaiting financing on approved projects	3	1 906 488	2 547 814
Guarantees			
a) Guarantees for loans granted by third parties		4 907	6 113
b) Guarantees on assigned interest rate swaps		133 499	323 904
Off-balance sheet financial instruments	16	16 423 106	15 444 023

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

EXTRACT FROM THE MINUTES OF THE 224TH MEETING OF THE ADMINISTRATIVE COUNCIL OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 1472 (2003) **CA/PV 224 (2003)**

Paris, 20 March 2003

The Administrative Council,

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

Having regard to the balance sheet, the profit and loss account and the notes to the financial statements as at 31 December 2002,

Having taken note of the external auditor's report dated 27 February 2003,

Having taken note of the Auditing Board's report dated 28 February 2003,

Having taken note of the Governor's Memorandum dated 4 March 2003,

1. recommends that the Governing Board approve the balance sheet, the profit and loss account and the notes to the financial statements as at 31 December 2002,

2. discharges the Governor from his responsibility for Financial management in respect of the financial year 2002,

3. resolves to allocate the net profit for 2002 (+ € 95 202 097) as follows:
   - € 90 000 000 to the general reserve
   - € 5 202 097 to the Selective Trust Account,

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

EXTRACT FROM THE MINUTES OF THE 172ND MEETING OF THE GOVERNING BOARD OF THE COUNCIL OF EUROPE DEVELOPMENT BANK

Resolution 345 (2003) **CD/PV 172 (2003)**

Paris, 28 March 2003

The Governing Board,

Having regard to Article IX, Section 3, paragraph 1, litt.e of the Articles of Agreement,

Having regard to the balance sheet, the profit and loss account and the notes to the financial statements as at 31 December 2002,

Having taken note of the certification by the external auditor, dated 27 February 2003,

Having regard to the reports of the Bank's statutory organs viz:
- the Report of the Governor for the financial year 2002,
- the Auditing Board's report dated 28 February 2003,

Having regard to Resolution 1472 (2003) of the Administrative Council,

Having heard the Auditing Board,

Decides:
- to approve the Bank's annual report, accounts and other financial statements for 2002,
- to discharge the Administrative Council from its responsibility for the financial year 2002,
- to endorse point 3 of Resolution 1472 (2003) of the Administrative Council of 20 March 2003, by which the Administrative Council agreed to allocate the net profit for 2002, amounting to € 95 202 097, as follows:
  - € 90 000 000 to the general reserve
  - € 5 202 097 to the Selective Trust Account.

NOTES FOR THE READER

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

2. **Member States:** As at 31 December 2002, the Bank had 35 member states: Albania, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Holy See, Hungary, Iceland, Italy, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Moldova, Netherlands, Norway, Poland, Portugal, Romania, San Marino, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, "The former Yugoslav Republic of Macedonia", Turkey. Former Yugoslavia was an associate member from 1986 to 1991.

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

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

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

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

7. **Projects:** The CEB distinguishes between two main types of instrument: individual projects, characterised by a single borrower and a single project manager and SMPs (see below).

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

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

10. **Selective Trust Account (STA):** A special account set up in 1995 to provide interest-rate subsidies for projects that comply with the Bank's priority objectives and concern the transition countries. The account is fed with allocations from the Bank's profits and voluntary contributions from member states.

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

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

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

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

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