1995

Annual report

European Bank
for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was established in 1991 to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics.

The EBRD seeks to help its countries of operations to implement structural and sectoral economic reforms, including demonopolisation, decentralisation and privatisation, taking into account the particular needs of countries at different stages of transition. Its activities include the promotion of private sector activity, the strengthening of financial institutions and legal systems, and the development of the infrastructure needed to support the private sector. The Bank applies sound banking and investment principles in all of its operations.

In fulfilling its role as a catalyst of change, the Bank encourages co-financing and foreign direct investment from the private and public sectors, helps to mobilise domestic capital, and provides technical cooperation in relevant areas. It works in close cooperation with international financial institutions and other international organisations. In all of its activities, the Bank promotes environmentally sound and sustainable development.

Abbreviations and acronyms

The Bank, EBRD The European Bank for Reconstruction and Development
BOT Build-operate-transfer
CEAL Central European Agency Line
CIS Commonwealth of Independent States
ECA Export credit agency
ECLAT Export Credit Loan Arrangement Technique
ECU European Currency Unit
EDC Export Development Corporation (of Canada)
EIB European Investment Bank
ESCO Energy service company
ESP Enterprise Support Project
EU European Union
FIDP Financial Institutions Development Programme
FRA Forward Rate Agreement
GDP Gross domestic product
IDA International Development Association
IFC International Finance Corporation
IFI International financial institution
IMF International Monetary Fund
JAIDO Japan International Development Organisation
JEXIM Export Import Bank of Japan
KfW Kreditanstalt für Wiederaufbau
Libor London Interbank Offered Rate
NEFCO Nordic Environment Finance Corporation
NSA Nuclear Safety Account
OECD Organisation for Economic Cooperation and Development
OECF Overseas Economic Cooperation Fund (Japan)
OPIC Overseas Private Investment Corporation
Phare Poland and Hungary: Aid for Economic Restructuring (EU)
PPF Post-Privatisation Fund
PTT Postal, telegraph and telephone organisation
RSBF Russia Small Business Fund
RVF Regional Venture Fund
SMEs Small and medium-sized enterprises
SRP Special Restructuring Programme
Tacis Technical Assistance for CIS countries (EU)
TAM TurnAround Management Programme
TCFP Technical Cooperation Funds Programme
USAID US Agency for International Development

Guide for readers

Operation counting
Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement. Totals in tables may not add up due to rounding.

Exchange rates
Non-ECU currencies have been converted, where appropriate, into ECU on the basis of the exchange rates current on 31 December 1995. (Approximate ECU exchange rates: DM 1.84, FFr 6.28, ¥132.15, £0.83, US$ 1.28.)

The region
References to "the region" include all the EBRD's countries of operations.

Contents

Highlights

Financial results

ECU million	1995	1994	1993	1992	1991[1]
Operating profit (loss) before provisions	82.9	24.9	43.8	3.8	(7.1)
Provisions for losses	75.4	23.9	39.7	9.9	–
Profit (loss) for the period	7.5	1.0	4.1	(6.1)	(7.1)
Paid-in capital	2,965	2,965	2,965	2,965	2,956
Capital instalments received (cumulative)	2,842	2,273	1,728	1,206	591
Total provisions and reserves	165	81	54	(8)	(7)
Total assets	8,728	7,528	7,036	4,929	3,494

Operational results

Revalued figures[2]

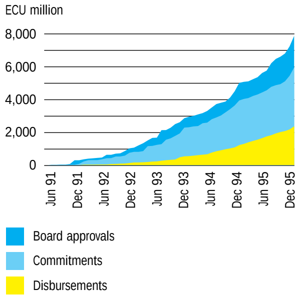
Number	1995	1994	1993	1992	1991[1]	Total
New projects approved	134	106	70	45	13	**368**
New projects committed	110	88	64	32	2	**296**
EBRD financing for year						
ECU million	**1995**	**1994**	**1993**	**1992**	**1991**[1]	**Total**
Approved	2,855	2,147	1,832	725	294	**7,853**
Committed	2,000	1,649	1,530	728	21	**5,928**
Signed RVFs[3]	164	56	0	0	0	**220**
Net disbursements	988	576	394	126	0	**2,084**
Resource mobilisation						
ECU million	**1995**	**1994**	**1993**	**1992**	**1991**[1]	**Total**
For approvals	6,084	4,369	3,691	2,020	766	**16,930**
For commitments	4,972	3,273	3,032	1,715	39	**13,031**

Reported figures[4]

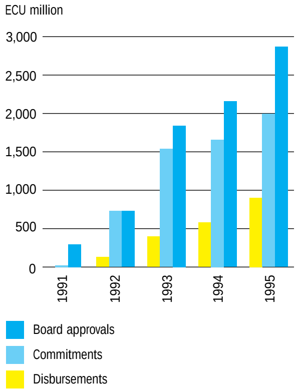
Number	1995	1994	1993	1992	1991[1]
New projects approved	134	109	91	54	14
New projects committed	110	91	73	36	3
EBRD financing for year					
ECU million	**1995**	**1994**	**1993**	**1992**	**1991**[1]
Approved	2,855	2,409	2,276	1,226	427
Committed	2,000	1,819	1,794	916	72
Signed RVFs[3]	164	59	0	0	0
Net disbursements	988	591	435	126	0
Resource mobilisation					
ECU million	**1995**	**1994**	**1993**	**1992**	**1991**[1]
For approvals	6,084	4,501	5,439	3,724	1,087
For commitments	4,972	3,317	3,379	1,959	81

1 9 months of operation.
2 Revalued figures for 1991-94 reflect subsequent changes due to exchange rates, cancellations, syndications or restructuring.
3 Regional Venture Fund framework agreements.
4 Individual figures for 1991-94 are as reported for those years. They do not reflect subsequent changes due, for example, to exchange rates, cancellations, syndications or restructuring.

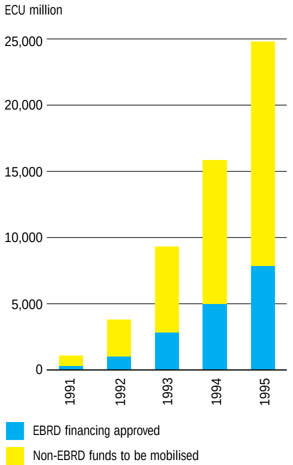
Cumulative Board approvals, commitments and disbursements
At 31 December 1995



Annual approvals, commitments and disbursements
At 31 December 1995



Cumulative funds to be mobilised
At 31 December 1995



Countries of operations
At 31 December 1995

Albania
Armenia
Azerbaijan
Belarus
Bulgaria
Croatia
Czech Republic
Estonia
Former Yugoslav Republic of Macedonia

Georgia
Hungary
Kazakstan
Kyrgyzstan
Latvia
Lithuania
Moldova
Poland
Romania
Russian Federation
Slovak Republic
Slovenia
Tajikistan
Turkmenistan
Ukraine
Uzbekistan

Letter of transmittal

London, 6 March 1996

To Governors

In accordance with Article 35 of the Agreement Establishing the Bank and Section 11 of its By-Laws, the enclosed Annual Report of the Bank for 1995 is submitted by the Board of Directors to the Board of Governors.

The Annual Report includes the approved and audited financial statements required to be submitted under Article 27 of the Agreement and Section 13 of the By-Laws. It also contains a separate statement on the Special Funds resources, in accordance with Article 10 of the Agreement Establishing the Bank, and covers the environmental impact of the Bank's operations, as required under Article 35 of the Agreement.

President

Jacques de Larosière

Directors	Alternate Directors
Péter Bod	Tomás Parízek
John Coleman	David Horley
Staffan Crona	Håkan Emsgård
Robert Graham-Harrison	David Roe
Johan Hilbers	Kees Spaans
Brian Hillery	Asger Lund-Sørensen
Plamen Iltchev	Jan Bielecki
Lee Jackson	–
Helge Kringstad	Rauli Suikkanen
Roger Lavelle	Terry Brown
Heiner Luschin	Amos Rubin
Patrick Mordacq	Didier Elbaum
Alan Morris	Huhn-Gunn Ro
Philippe Petit-Laurent	Peter Blackie
Oleg Preksin	Serguei Ovseitchik
Enzo Quattrociocche	Maurizio Serra
Jacques Reverdin	Selçuk Demìralp
Oleksander Savchenko	Stanel Ghencea
Bernard Snoy	Ernest Muhlen
Fernando Soares Carneiro	Stefanos Vavalidis
Kazumoto Suzuki	Takashi Osanai
Miguel Valle	Belen Cristino
Günter Winkelmann	Hans-Heinrich Wrede

Review of the year

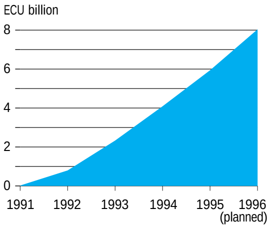
Operational targets met

1995 in the medium-term perspective

In 1995 the EBRD met, and even exceeded, its operational targets for the year. The Bank reinforced its role in supporting the countries of central and eastern Europe and the CIS in their transition to market economies and in promoting private and entrepreneurial initiative. It continued to develop its experience and in-depth knowledge of the region and extended the range of financing instruments at its disposal. The first five years of the EBRD's development show that it has enhanced its ability to adapt to the evolving transition: the portfolio is now more balanced in terms of product mix and risk, and geographical diversification is fully in train.

The year was a good one for the EBRD and for its countries of operations. The Bank built on its achievements in fostering the transition process. Helped by the EBRD, many countries of the region have made substantial progress, with more of them moving into and through the intermediate stages of transition. Nevertheless, the region still faces enormous challenges and demand for the Bank's services continues to grow.

Cumulative EBRD commitments
by volume



The EBRD maintained itself at the forefront of investment in the region, through its innovative financing methods and the demonstration effect of its projects. The ability to attract more than twice the volume of its own portfolio from external sources means that EBRD financing has a substantial impact on the transition process, mobilising some ECU 7 billion per year, a significant proportion of total investments expected in the region during the transition. The Bank's operational effectiveness and contribution to the transition process is underpinned by the high priority it gives to the quality of projects.

The cumulative commitment of nearly 60 per cent of its ECU 10 billion capital base in the first five years of its life is an indicator of the Bank's operational success; this achievement means that commitments will reach nearly ECU 10 billion in 1997. As a response to the accelerating demand for its services, the Bank has developed a manageable growth strategy which, even with an active policy of portfolio turnover, will exhaust the existing capital resources in the near future. In 1995, therefore, the Board of Directors continued to work on the capital resources review to enable the Board of Governors to consider the question of a capital increase.

In 1995 the EBRD maintained its policy of more effective and efficient resource management, comprising strict budgetary control and improved cost structure. The percentage of income from operations also continued to grow, contributing to satisfactory financial results and a strengthening of the Bank's total reserves.

The first five years

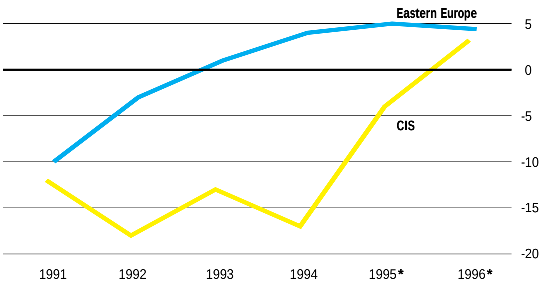
During the EBRD's first five years of operations, from 1991 to 1995, its operational activities were constrained mainly by the difficult environment in many countries of operations and the limits of the Bank's own institutional development. But as progress in reform in many countries has begun to accelerate, economic growth and the demand for EBRD services have strengthened. The Bank has been able to respond flexibly and effectively, with cumulative commitments to the end of 1995 standing at ECU 5.93 billion and projects approved by the Board of Directors at ECU 7.85 billion.

In order to achieve these operational results and to fulfil its role of promoting transition, the EBRD has had to adapt its operations and structures. The Bank has a precise set of operational priorities, endorsed by the Board of Governors in 1994. These operational priorities are:

– focus on private sector development
– be active in all countries of operations
– reach local private enterprises, especially SMEs
– enhance the use of financial intermediaries
– increase equity investment.

In recent years, including 1995, the EBRD has consistently met or exceeded the annual operational targets set by the Board of Directors, and the objectives of the overall operational strategy have been achieved. For example, EBRD financing of

Growth of east European and CIS economies
Percentage change in real GDP



* 1995/96 estimate and forecast from EBRD *Transition Report* 1995

ECU 5.93 billion has mobilised a total of ECU 18.96 billion, illustrating the Bank's ability to catalyse investment in the region (see Highlights on pages 2 and 3).

The earliest EBRD projects were predominantly in the state sector, as the private sector was almost non-existent in most countries. Three-quarters of the Bank's committed projects are now in the private sector. The cumulative share of signed private sector projects amounts to 62.2 per cent, meeting the requirement that not more than 40 per cent of the EBRD's total investments shall be provided to the state sector. The Bank continued to promote restructuring, privatisation and infrastructure development, which is critical for private sector development.

The share of Board-approved equity investments has increased, in response to demand for much-needed start-up capital resources and to meet the requirements of successful transition.

The EBRD is now active in all its countries of operations and the geographical balance of the portfolio has improved. In the past two years the Bank has focused on developing activities in the countries where it had been less active in the past, especially those in the early and intermediate stages of the transition process. Progress in meeting this priority is reflected in the increasing share of total commitments to countries at these stages: this rose from 49 per cent in 1994 to 55 per cent in 1995 (20 per cent in Russia and 35 per cent in other countries). By offering a flexible, demand-led range of products, the Bank is able to tailor its activities to the needs of countries at different stages of transition. (See also pages 15 to 17.)

Great attention has been paid to the need to increase productivity and to ensure that shareholders' money is being used to greatest effect. Part of this effort has been an increase in the amount of wholesale lending. A new important wholesale approach to be used across industry sectors is the multi-project facility, aimed at working with co-investors to finance a range of projects under standardised terms.

The principal focus of wholesale approaches is to work with selected financial intermediaries so that SMEs can be served more efficiently and effectively, as well as to support and develop local banks and capital markets. With these approaches, the Bank can benefit from repeat projects and experienced partners with knowledge of the local environment. Wholesale instruments include credit and co-financing lines, bank-to-bank loans, trade facilitation and equity funds.

Operational achievements over recent years have been supported by rigorous attention to internal cost control and increasing efficiency. Budgetary control has been tightened and more resources allocated to operational areas. This has kept administrative expenses essentially flat while the value of projects in implementation has increased sharply. Sound management has led to a significant increase in projects approved by the Board of Directors, commitments and disbursements, and a clear demonstration that the EBRD has deployed its capital resources in accordance with its overall mandate.

Future orientation

Strategic direction 1996-99

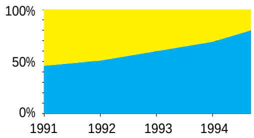
In 1995 the Bank outlined its strategic direction for the next four years, building on the operational priorities established in 1994 and further analysis of demand for EBRD financing in the countries of operations.

In response to an expected acceleration of demand for Bank financing, the EBRD has developed a manageable growth strategy to bridge the gap between the growing level of demand and its current levels of operations. This growth strategy envisages an increase in annual commitments to a level of approximately ECU 2.5 billion in 1999. At the same time the Bank will continue to attach a high priority to the quality of operations and cost effectiveness.

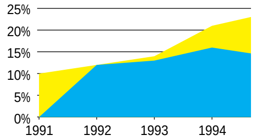
To achieve the productivity gains implied by these objectives, the Bank will further emphasise a wholesale approach with financial and industrial partners. This will enable it to address more efficiently the financing needs of the rapidly increasing number of local private enterprises, particularly SMEs.

The EBRD will continue to focus on the private sector, with an objective to maintain the proportion of financing to the private sector above the statutory minimum level of 60 per cent; this will include working with SMEs, as well as with companies restructuring or converting to private enterprises, and providing support for private infrastructure development. Equity, including early-stage equity, will remain a priority and will probably be expanded further to meet growing demand in the countries of operations. The Bank will continue to expand its local presence in the countries of operations, in part to assist in project generation, implementation and monitoring.

Growth of the EBRD's private sector ac



Increase in equity share of Board appro

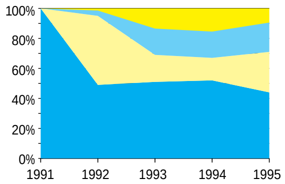


The EBRD reports framework agreements[1] as Board approvals. When the sub-projects are signed, they are reported as committed. For consistency with other wholesale operations and taking a more conservative approach, the Bank extended this convention in 199 include Regional Venture Funds, which are a form of risk equity.[2] Consequently the percentage of equity in Bank's total commitments of 1995 fell to 14%, while Board-approved equity was unaffected by this reporti change. The proportion of Board-approved equity con to expand from 11% in 1992 to 24% in 1995. In tim proportion of committed equity and Board-approved is expected to converge.

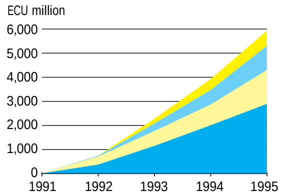
1 Multi-project finance, trade facilitation, co-financing agency lines, and some lines of credit such as the Small Business Fund.

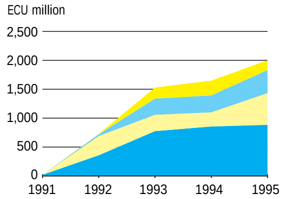
2 Regional Venture Funds (RVF) differ from Post-Privati Funds (PPF) and Special Restructuring Programmes in that the EBRD is the sole investor in RVFs, wherea may be one of many investors in PPFs and SRPs. RV committed at the sub-project level, whereas PPFs an SRPs are committed at the framework level.

Share in yearly commitments
by Transition group*



Cumulative and yearly commitments
by Transition group*





* Transition groups

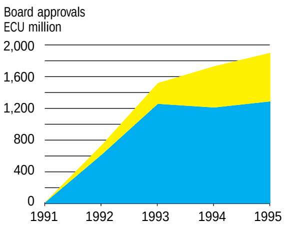
Early: Armenia, Azerbaijan, Belarus, Georgia, Kazakstan, Tajikistan, Turkmenistan, Ukraine.

Russia: Russian Federation.

Intermediate: Albania, Bulgaria, FYR Macedonia, Kyrgyzstan, Latvia, Moldova, Romania, Uzbekistan, Regional.

Advanced: Croatia, Czech Republic, Estonia, Hungary, Lithuania, Poland, Slovak Republic, Slovenia.

Increase in local financial intermediaries and early-stage equity instruments



Intermediaries

Direct operations

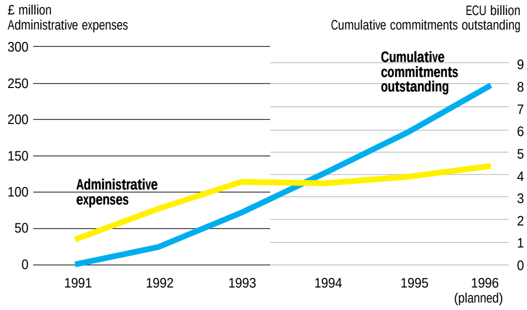
The financial implications of this medium-term strategy suggest that the EBRD will move further towards sustainable profitability. Projections of operational growth also imply that the Bank's lending and investment capacity, based on its existing capital stock, would be exceeded towards the end of 1997.

Capital resources review

At their 1994 Annual Meeting, the Governors concluded that, given the projected expansion of the EBRD's portfolio, the question of its capital base would have to be examined. The Governors requested the Board of Directors to examine the Bank's underlying operational and financial assumptions in order to report to them in 1995. This was in advance of the statutory requirement that the Board of Governors review the capital stock of the Bank at intervals of not more than five years, implying a first review by 1996.

In 1994 and early 1995, the EBRD undertook a technical analysis of its operational and resource needs and reported to the Board of Governors at the 1995 Annual Meeting. At that Annual Meeting, Governors formally requested the Board of Directors to undertake a study on the Bank's future resource requirements to finance its ordinary operations, and to report its recommendations to the Board of Governors for consideration and action at the Annual Meeting in April 1996. In response to this request, the Bank has undertaken a review of its capital resources. The review observed that, under the endorsed manageable growth strategy, the Bank would reach its statutory limit on the total amount of committed loans, equity investments and guarantees in 1997 and would thus require a decision on a capital increase as a complement to ongoing efforts to maximise the use of existing capital resources. The Board of Directors will report to the Board of Governors on its recommendation regarding the Bank's future resource requirements for consideration and action by Governors at the Annual Meeting in April 1996.

Number of projects in implementation and EBRD's gross costs



Policy developments in 1995

Monitoring of Article 1

Article 1 of the Agreement Establishing the EBRD is as follows: "In contributing to economic progress and reconstruction, the purpose of the Bank shall be to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the central and eastern European countries committed to and applying the principles of multiparty democracy, pluralism and market economics."

Directors continued to pay close attention to the political aspects of the Bank's mandate. The monitoring of adherence to the principles embodied in Article 1 of the Agreement Establishing the EBRD is integrated into the Bank's operations and reflected in its country strategy papers, which include an assessment of a country's commitment to Article 1. In 1995 the Board of Directors reviewed countries' commitment to Article 1 in the context of its periodic review of the Bank's operations and lending strategies. Although Directors found all countries to be making progress towards multiparty democracy and pluralism, in a few cases progress was felt to be inadequate and the President was asked to convey the concerns of the Board of Directors to the relevant authorities.

The Bank's operations are also guided by contacts with governments concerning questions arising from the monitoring process. In 1995 the EBRD worked in close cooperation with the European Union, the Organisation for Security and Cooperation in Europe, the Council of Europe and ministries of foreign affairs of member states.

Operational policies

The EBRD rigorously applies the three criteria of sound banking principles, additionality and transition impact in its project approval process. In particular, the Bank has set criteria to assess the transition impact of its projects.[1] These criteria focus primarily on the contribution of individual projects to the development of competitive markets, and on the extent to which projects facilitate the discovery of new market skills, production techniques and efficient organisation. The establishment of such criteria is necessitated by the mandate of the Bank, which emphasises the advancement of market-oriented transition in the countries of operations. In this regard, early results based on the post-evaluation of EBRD investment operations point to a strong compliance with the principles of sound banking and additionality.

In 1995 the EBRD worked to ensure that its impact on the transition process was maximised, continuing to base its activities on the operational priorities agreed in 1994. Notable was the development of multi-project facilities, in which the Bank will set up partnerships with industrial partners, both from Western countries and the countries of operations. During 1995 the Bank signed four of these facilities, in the food and beverage, water and waste management, insurance and banking sectors. It is expected that similar facilities in these and other sectors will be developed during 1996.

Multi-project facilities are forms of cooperation, whereby the Bank combines its financing and risk-sharing role with the experience, know-how and risk-taking ability of partner companies which have a strategic commitment to the region. These facilities are intended to use the Bank's capital more productively and to spread it more widely across the region.

The Bank also developed a number of trade facilitation products aimed at strengthening specific financial and institutional infrastructures necessary for trade. During the year the EBRD developed innovative approaches to financing municipal environment projects, and signed its first energy efficiency loan, for an energy service company (ESCO).

Trade facilitation products, intended to support local financial institutions lacking the resources or experience to provide trade products on their own, broadly fall into two categories: global and regional trade facilitation programmes, typically using guarantees; and trade facilitation loans to provide import and export finance to local banks, for subsequent on-lending to local companies.

[1] An overview of the transition impact of investment projects is provided in the EBRD's *Transition Report* 1995, Chapter 7.

Financial policies

Key elements of the Bank's financial policies were reviewed in 1995 on the basis of experience gained as well as market and industry developments. Significant progress was made to ensure that these policies remain at the level of industry best standards, with management committed to continuing a regular review of these financial policies.

The Bank's portfolio risk management and investment policies were updated, with particular emphasis on product guidelines to reflect recent wholesale initiatives. The credit process was also enhanced and additional attention was given to implementation and monitoring, especially regarding financial intermediaries.

The provisioning policy was refined by linking the Bank's risk assessment methodologies, on which portfolio credit risk ratings are based, to the calculation of general loss provisions. These provisions are now applied on a two-step basis with provisioning at the time of both commitment and disbursement.

The liquidity policy was also further refined in 1995. Recognising the need for strong levels of liquidity at this early stage of its operations, the Bank established a target zone above the minimum policy level. Further, a multi-year perspective was emphasised as a context within which to develop both the Bank's liquidity and its borrowing programmes.

The investment authority and guidelines for the management of the Bank's treasury activities were also extensively reviewed, reconfirming the strict guidelines for investment activities. Further improvements in the management of risk exposure, reflecting current industry best practice, are in the process of implementation.

During the year a programme to enhance risk management was instituted, including the creation of an independent risk control unit to ensure that all relevant risks are consistently measured and controlled and that an active policy aimed at risk reduction is implemented.

ECU 2 bn signed in 1995

Membership

The EBRD has continued to respond to the challenges of a wide and diverse membership. This was unchanged in 1995, standing at 59 members, with 25 countries of operations.

In June 1995 the Board of Governors decided on a reallocation of the shares of the former Yugoslavia on the basis of the percentage shares previously agreed at the IMF and the World Bank. Additional shares were accordingly allocated to Croatia, the Former Yugoslav Republic of Macedonia and Slovenia. Some shares, however, remain unallocated.

With respect to Bosnia and Herzegovina, the EBRD prepared jointly with the World Bank a draft reconstruction programme which was presented to the international community in October 1995. The Bank subsequently participated in the first joint mission by international financial institutions to Bosnia and Herzegovina and attended the London Peace Implementation Conference and the first Donors Meeting held in Brussels in December 1995. In the context of the signing of the Peace Agreement in Dayton and Paris, the Bank initiated the preparation of projects in the telecommunication, power and transport sectors, as well as projects to support SMEs through the establishment of a venture capital fund and the strengthening of Bosnian banks.

disbursements up by 72%

The EBRD began discussions on membership with the authorities of Bosnia and Herzegovina with a view to the country becoming a member of the Bank during 1996.[2]

In the context of the Capital Resources Review, the EBRD also took up for consideration requests for increases in capital subscriptions of existing members as well as new membership requests.

[2] At its meeting on 5 and 6 March 1996, the Board of Directors decided to transmit a recommendation to the Board of Governors that Bosnia and Herzegovina be admitted to membership in the Bank, with a request that Governors vote on the membership resolution within 30 days.

Performance in 1995

Operations

Within the framework of its 1995 operational policies, the EBRD's target for signed projects for the year was achieved: the target of ECU 1.9 billion was exceeded and commitments to the value of ECU 2.0 billion were signed. As a result the cumulative total committed during the Bank's first five years of operations (that is, to the end of 1995) reached ECU 5.9 billion. The Board of Directors approved projects with a value of ECU 2.9 billion in 1995, resulting in a cumulative Board-approved value of ECU 7.9 billion. This represents a total of 368 Board-approved projects since the creation of the Bank. The increase in approvals in 1995 compared with 1994 (23 per cent by number and 19 per cent by value) has important implications for the Bank's work on project monitoring and implementation. The project pipeline is strong and early indications suggest that the value of signed commitments will continue to grow steadily in 1996.

Net disbursements also progressed in 1995, reaching ECU 988 million. This represents an increase in cumulative net disbursements of 72 per cent over the year, as net disbursements had reached ECU 576 million in 1994.

Expansion in the EBRD's volume of operations was accompanied by innovative and flexible use of new instruments available to it. This served the parallel aims of enhancing productivity and at the same time enabling the increasing and diversifying demand for the Bank's services to be met throughout the region.

In order to address the rapidly increasing financial needs of local private enterprises, particularly SMEs, the EBRD further expanded its use of the wholesale approach with financial and industrial partners. Wholesale operations increased from 39 per cent of Board approvals in 1994 to 43 per cent in 1995.

The Bank also extended its range of wholesale instruments by adding the multi-project facility. This showed strong initial growth and contributed ECU 234 million to Board-approved operations, 8 per cent of the total.

Over the past year the Bank maintained its more active approach to the use of equity, thereby addressing the need for capital investment to underpin the transition process. In 1995, Board-approved equity investments in private enterprises grew from 21 to 24 per cent of EBRD operations. The Bank also increased its use of guarantees to meet investor demand.

The geographical diversification effort continued. It has focused on developing activities in countries where project creation has proved more difficult, in particular those in the early and intermediate stages of transition. This has intensified the Bank's impact on the transition process, but the degree of difficulty has placed greater demands on Bank resources and required higher provisioning for operations in these countries.

Financial results

The financial results for 1995 were both satisfactory and above expectations. The net profit after provisions was ECU 7.5 million, which was a good outcome given the significant increase in total reserves together with the other prudential measures taken.

The operating profit before provisions for the year was ECU 82.9 million, more than three times the result for 1994. This increase resulted primarily from higher income from Banking operations, which included for the first time significant income from the EBRD's equity portfolio arising from the ECU 37.9 million profit on sale of share investments and dividend income of ECU 5.8 million. This lifted the contribution to gross income from Banking operations during the year to over 35 per cent. At the same time the Bank's treasury operation continued to provide a reliable flow of above-benchmark income from investments.

Following continued budget discipline and additional focus on cost recovery and similar initiatives, the Bank's administrative expenses were below approved budget and almost at the same level as in 1994. The very slight increase over 1994 related to accruals for the cost of work on the Headquarters building in preparation for further subletting.

Depreciation has nearly doubled during the year to ECU 21.5 million, primarily relating to charges taken to achieve a more efficient and effective use of the Headquarters building in the future and also to fully depreciate assets considered to no longer have material economic value.

Provisions of ECU 75.4 million have been made during the year following a refinement of the Bank's provisioning policy. The significant growth over amounts provided in 1994 reflects the marked growth in commitments and disbursements and, in particular, in the early-stage equity programme.

Management of resources

The EBRD continued in 1995 to concentrate resources on operational activities, to exercise strict budgetary discipline and to improve the management of its resources. These efforts have consistently increased productivity, which rose by 14 per cent during 1995. Against the background of the expanded operational activity, these efforts have helped reduce further the ratio of administrative expenses to cumulative commitments.

In addition to maintaining control of expenditure and the efforts to reduce overheads, two significant initiatives to improve the Bank's cost structure were agreed in 1995. First, the Board of Directors decided on a reduction of its direct costs and a reduction of Directors' office space by more than a third. This allowed the second initiative – to sublet a further floor of the EBRD's Headquarters as from June 1996 – to be implemented, followed by rearrangements of the remaining floors to make better use of available space.

These actions have contributed to limiting budget growth in 1996, to only 2.6 per cent or almost zero in real terms (in sterling). At the same time additional budget resources will be created in 1996 through savings and increased cost recovery, which will be used to create 46 staff positions, reinforcing the Bank's operational activities.

Staff numbers at 31 December 1995 were: permanent staff of 698, contract staff of 145, locally hired staff in Resident Offices of 121, Board of Directors staff and special employees of 89.

net profit ECU 7.5 m

productivity increased by 14%

Operational environment

This section draws upon the EBRD's work in analysing the issues confronting the economies of the region, particularly information published in the Bank's *Transition Report* 1995.

Investors in central and eastern Europe and the CIS have seen a notable improvement in the business environment over the past 3-4 years. Market-oriented reform has been advancing rapidly. Inflation has come down sharply and positive economic growth is returning to parts of the region. Having gone through a demanding adjustment process, the countries that embarked on transitional adjustment the earliest are now beginning to see very visible benefits of reform. Meanwhile, those governments and central banks, notably in parts of the CIS, that initiated reform and stabilisation in earnest only 1-3 years ago still wait for positive growth to help generate across-the-board political support for market principles. In these countries, patience, perseverance along the road to financial stability and structural reform, and external support will all be required for the full potential of market reforms to be realised in the years ahead.

Market-oriented reform

Most countries in the region have implemented widespread liberalisation of prices, external trade and currency arrangements, and privatisation of small-scale units, all of which constitute necessary conditions for the development of private sector activity. These measures involve limited institutional development and could thus be adopted rapidly. The early lead of countries in central and eastern Europe has been narrowed by continued progress in this area in most of the CIS.

Progress in transition in central and eastern Europe and the CIS[1]

		Enterprises			Markets and trade			Financial institutions		Legal reform
Countries	Private sector share of GDP in %, mid-95 (rough EBRD estimate)	Large-scale privatisation	Small-scale privatisation	Enterprise restructuring	Price liberalisation	Trade & foreign exchange system	Competition policy	Banking reform & interest rate liberalisation	Securities markets & non-bank financial institutions	Extensiveness & effectiveness of legal rules on investment
Albania	60	2	4	2	3	4	1	2	1	2
Armenia	45	2	3	2	3	3	1	2	1	2
Azerbaijan	25	1	1	2	3	2	1	2	1	1
Belarus	15	2	2	2	3	2	2	2	2	2
Bulgaria	45	2	3	2	3	4	2	2	2	3
Croatia	45	3	4*	2	3	4	1	3	2	3
Czech Republic	70	4	4*	3	3	4*	3	3	3	4
Estonia	65	4	4	3	3	4	3	3	2	3
FYR Macedonia	40	2	4	2	3	4	1	3	1	2
Georgia	30	2	3	2	3	2	1	2	1	2
Hungary	60	4	4*	3	3	4*	3	3	3	4
Kazakstan	25	2	2	1	3	3	2	2	2	2
Kyrgyzstan	40	4	4	2	3	4	2	2	2	2
Latvia	60	2	4	2	3	4	2	3	2	2
Lithuania	55	3	4	2	3	4	2	3	2	2
Moldova	30	3	3	2	3	4	2	2	2	2
Poland	60	3	4*	3	3	4*	3	3	3	4
Romania	40	2	3	2	3	4*	1	3	2	2
Russian Federation	55	3	4	2	3	3	2	2	2	2
Slovak Republic	60	3	4*	3	3	4*	3	3	3	3
Slovenia	45	3	4*	3	3	4*	2	3	3	3
Tajikistan	15	2	2	1	3	2	1	1	1	1
Turkmenistan	15	1	1	1	2	1	1	1	1	1
Ukraine	35	2	2	2	3	3	2	2	2	2
Uzbekistan	30	3	3	2	3	2	2	2	2	2

[1] The classification system for transition indicators is complex; for a full explanation see the EBRD's *Transition Report* 1995. Category 1 generally indicates little progress. Most advanced industrial economies would qualify for the 4* rating for almost all the transition indicators. The table assesses the status rather than the pace of change. For instance, Slovenia's score of 4* on small-scale privatisation, despite the absence of a comprehensive privatisation programme, reflects the fact that small-scale activity in Slovenia was largely private before transition began.

However, despite substantial liberalisation in most countries, energy prices remain well below cost recovery levels in the region. Further liberalisation is necessary to improve price signals for investment and, indirectly, to reduce environmental pollution, but the short-run impact on enterprises and households may limit the politically feasible speed of adjustment.

Progress in large-scale privatisation and enterprise restructuring has been slower. These initiatives require more preparation, both to build the necessary political consensus and to create the implementation infrastructure. Many countries in central and eastern Europe have privatised a major share of their large-scale enterprises, most notably the Czech Republic, Estonia, Hungary and the Slovak Republic. Within the CIS, Kyrgyzstan, Russia and Uzbekistan have implemented fairly comprehensive large-scale privatisation programmes.

Land privatisation has been particularly slow in the CIS. The long history of collectivisation and the very large size of farms (with associated methods and equipment) generate severe problems in designing and organising privatisation. And there has been no political consensus on how to proceed. Significant progress has been made in enterprise restructuring, especially in central and eastern Europe. This primarily reflects progressively hardened budget constraints and enterprise autonomy associated with macroeconomic stabilisation (elimination of budgetary and off-budget subsidies), product market liberalisation and privatisation policies, rather than special government restructuring programmes.

Other types of institutional change – banking reform, private non-bank financial institutions, competition policy and investment-related legal reform – are still at a relatively early stage in most transition countries. Very few countries have successfully restructured the banking system, including recapitalisation and bank privatisation, and put in place an effective system of prudential regulation and supervision. Effective financial market regulation will be required to underpin the continued growth in finance to enterprises from “outsiders” (in the form of debt and equity, as opposed to retained earnings). Outside finance can not only support investment but also improve corporate governance and deepen capital markets.

Particularly rapid change is now taking place in the countries of the CIS, most of which are pursuing ambitious reform programmes. The Russian government has privatised the majority of the country’s large-scale industrial enterprises and has, since 1992, been putting in place an increasingly liberal price and trade regime. Ukraine embarked in the second half of 1994 on liberalisation of prices and foreign trade. Each of these two large countries is now moving through the intermediate stages of transition to the market economy. Assuming continued pursuit of market reforms and macroeconomic stabilisation in coming years, important investment opportunities will accompany these changes. The bulk of the smaller CIS countries have also taken action to broaden the role of markets and to intensify competition between enterprises.

The countries of central and eastern Europe, which implemented comprehensive market liberalisation and small-scale privatisation in 1990-92, have in recent years embarked, with varying degrees of intensity, on more challenging reform measures. These include large-scale privatisation, enterprise restructuring and financial sector reforms.

Growth prospects

All countries in central and eastern Europe have grown in 1994 and 1995 at annualised rates of 2-6 per cent, following a precipitous contraction over the preceding three years. Most of these countries are likely to see growth rates at the higher end of this range in 1996.

Output is still declining in most of the CIS countries but at a gradually slower pace. Many forecasters expect positive growth in Russia next year and in Ukraine in 1997. Some of the smaller CIS countries, including Armenia and Moldova, have already seen positive growth in 1995.

Central and eastern Europe and the CIS offer a particularly strong potential for high medium-term growth. The region is characterised by an educated labour force, openness to foreign trade, competitive wage levels and an increasing degree of macroeconomic stability. For the past 2-3 decades, these factors have underpinned high growth in East Asia. They can do the same in eastern Europe.

Gradually improving fiscal and monetary policy control, and advancement of market-oriented reform throughout the region, will help ensure that available savings are channelled into productive uses. The ratio of investment to GDP is about 20 per cent in much of central and eastern Europe and the CIS. This is close to typical levels in advanced industrialised economies but substantially below levels in East Asia.

But central and eastern Europe and the CIS may well be able to achieve relatively high output growth with relatively moderate investment rates. Production growth per unit invested is likely to be much greater in central and eastern Europe and the CIS than in East Asia. This is because the east European economies offer a vast supply of highly skilled labour and vacant "old" machines and buildings – factors of production which are currently under-utilised and can be employed with increasing efficiency in the years ahead, even in the absence of a major increase in the quantity of investment.

At the same time, there is a good chance that the ratio of investment to GDP will rise in the years ahead. Strong investment growth has been recorded in the past year, for example in Poland and the Czech Republic. It is worth remembering that investment in some of the most successful East Asian economies remained below or close to 20 per cent of GDP during the initial part of the high-growth era. The famous Asian investment ratios of 35-40 per cent were seen only many years later. A similar pattern may well emerge in eastern Europe.

Inflation has fallen sharply in the past few years in the vast majority of countries in central and eastern Europe and the CIS. Inflation is now below 10 per cent in six of the EBRD's countries of operations. An increase in the predictability of market and cost conditions will provide a welcome boost to investment.

Only two years ago, prices rose more than 10-fold in 10 of the 12 member states of the CIS. By October 1995, inflation exceeded 250 per cent only in Turkmenistan, while in two CIS countries, Kyrgyzstan and Moldova, inflation fell to a range between 15 and 25 per cent.

Foreign finance / domestic savings

Under the assumption of greater economic and regulatory stability, and further advancement of market reforms, investment opportunities will expand. Further macroeconomic stability, in particular, will help governments as well as private entities in the region to attract funding from abroad. While the experience from elsewhere in the world shows that the bulk of the region's investment needs will have to be financed from domestic savings both now and in the medium term, there is plenty of scope for foreign direct investment into the region to grow.

Foreign capital markets tend to remain cautious until policy changes have become firmly established. Once an inviting investment environment is regarded as lasting, however, the flow of funds can rise sharply.

The role of the EBRD

External contributions that are directly associated with quality investments and that involve commitments for the medium term can help boost the growth potential of the region in a number of ways. Foreign participation in the investment process will facilitate a skill transfer from other countries and will help accelerate the much-needed industrial restructuring during the period of market-oriented transition.

The role and responsibility of the EBRD is important in this regard. It is not only a provider of foreign savings and a facilitator of the skill transfer from the advanced economies. The Bank's participation also helps stimulate *domestic* savings in the region by raising the average returns to investment. Both industrial and infrastructure projects contribute to this process. The EBRD aims, through its financial sector projects, to improve the efficiency with which domestic savings are allocated to productive uses. Its scope to operate in accordance with these objectives is expanding as the authorities in most of its countries of operations increasingly advance the market-oriented transition. Meanwhile, the actions of the Bank will directly contribute to the transition both through financial transfers and by developing prototypes and frameworks that will influence the future transition of the region.

The EBRD has been actively involved – by arranging seminars and through an extensive network of direct contacts – in the exchange of views with parliamentarians from the countries of operations on the processes at work in market economies.

Institution building

EBRD operations have played a catalytic role in institution building and in fostering the process of transition through the promotion of competition, market efficiency, raising the standards of corporate governance and the development of skills. The Bank has directly helped improve the functioning of markets for goods and services through its participation in the creation of wholesale markets in a number of countries of operations. In preparing its investments, the Bank has increasingly emphasised the importance of compliance with applicable law, respect for the rights and interests of minority shareholders, and ethical conduct on the part of managers and directors. When specific concerns have arisen as to the governance of a particular Bank client, it has taken up these concerns directly with the managers of the enterprise. In 1995, the EBRD began to articulate coherent standards of corporate governance to serve as a model in the future: in the Russian Novoship transaction, the Bank required the enterprise to agree to abide by specific principles of corporate governance as a condition to its investment.

The Bank has also contributed substantially to the development of local financial markets. An example is the establishment in June 1995 of the Russian National Registry Company, providing independent registrar and transfer agent services for debt and equity securities issued by Russian enterprises that meet international standards. The project strengthens capital markets in Russia by offering otherwise non-existent, reliable evidence of equity and debt ownership. The project also resulted in a Presidential Decree being issued in July 1995 which shed some light on the question of the potential unlimited liability of a shareholder for transactions entered into by a joint-stock company and in bankruptcy proceedings.

Another instance is EBRD participation in the privatisation of local banks such as Wielkopolski Bank Kredytowy (WBK) in Poland and the Foreign Trade Bank in Hungary. In the case of WBK, for example, initial restructuring efforts helped improve the internal organisation of the bank and strengthen the ability of WBK's staff to evaluate credit applications. At last year's Annual Meeting, the Bank organised a round table discussion entitled "Regulation of Capital Markets and Collective Investment Vehicles in the Bank's Countries of Operations", which covered the aspects of international placements and offerings of shares and debt securities of central and east European issuers.

Legal transition

The EBRD's mandate to work with both the private and public sectors places it in a unique position to make a valuable contribution to law reform to facilitate transition in its client countries. At the micro level the Bank has provided legal advice and assistance in removing legal bottlenecks in the context of specific investments. At the macro level it is well placed to assist in identifying priorities in legal transition. Throughout the year the Bank has liaised more closely with other multilateral and bilateral entities engaged in law reform, particularly the World Bank. It has also entered into a dialogue with the European Union on closer collaboration in the field of law reform.

One example of the EBRD's contribution to improving the operational environment through its legal transition activities is the ongoing assistance it provides to several countries in the reform of their secured transactions laws. Using its Model Law on Secured Transactions, which was developed in 1993-94, the Bank has been assisting Azerbaijan, Bulgaria, Hungary, Kyrgyzstan, Moldova, the Russian Federation and the Slovak Republic on the development of secured transactions legislation. Key elements of the Model Law have also been drawn upon by other law reform providers in the reform of secured transactions laws in Armenia and Poland.

During the year, the Bank became an active participant in the Foreign Investment Advisory Council in Russia, which operates as an informal forum for voicing concerns and identifying legal obstacles relating to investments. In addition, in response to a request from the Russian Federal Bankruptcy Agency, the EBRD provided assistance in carrying out an independent review and commentary on a proposed draft of the new Russian law on Insolvency of Enterprises and other related laws and regulations. The Bank also provided legal advice to other countries of operations on a range of topics, including foreign investment legislation, mining law, concession law and shipping.

Investments with Bank participation in local networks of roads, telephone lines and electricity connections have made it possible for producers and consumers in industry, agriculture and the service sector to communicate and trade in ways and directions that used to be blocked. This stimulates competition and creates new markets. It also encourages the transfer of skills and innovation.
A precondition to making certain infrastructure investments, particularly those with private sector participation, has been the establishment of an appropriate legal and regulatory framework. The Bank has provided legal advice to governments on the legislation and institutions needed to prevent abuse of a monopoly position and to safeguard the public interest.

Review of 1995 operations

Introduction

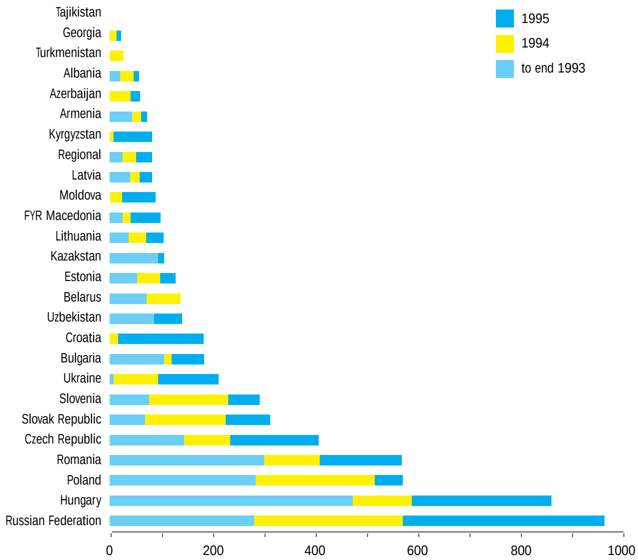
In 1995 the EBRD continued to respond to the changing demand for its services from its countries of operations. As in previous years, the portfolio is a result of the changes in countries' needs and their relative progress of transition.

The most salient changes in the portfolio over the past five years are highlighted in the Review of the year (pages 5 to 7). This section breaks down the portfolio in more detail according to three elements: country, sector and product mix.

Country analysis

The EBRD continued to focus on developing activities in the countries where it had been less active in previous years, especially countries in the early and intermediate stages of the transition process. Its progress is reflected in the increase in the share of total commitments of countries at these stages, particularly Russia, in 1995. By the end of the year, the EBRD had approved investment projects in all but one of its 25 countries of operations and had approved 17 regional projects. First disbursements took place on projects in Azerbaijan, Croatia, Georgia and Kyrgyzstan.

Cumulative commitments by country by year
ECU million



increasing the geographical spread

Strengthening the local presence

In line with the EBRD's policy of building a stronger local presence, 1995 witnessed a consolidation of its Resident Office network. The Bank opened a Resident Office in Ljubljana, Slovenia, and regional offices in St Petersburg and Vladivostok, Russia. At the end of the year it had 18 local offices covering 16 countries of operations (listed on page 87). The staffing of the Resident Office network has grown from less than 30 professional staff at the end of 1993 to 66 by the end of 1995. Half of the present professionals have been recruited locally, whereas in 1993 virtually all were expatriate staff. The Resident Offices also employ locally hired support staff.

The Resident Offices are moving from a representational role towards deeper involvement in operations, and this is being reflected in the staffing profile. As the EBRD's portfolio grows, crucial tasks such as project monitoring and supervision depend increasingly on local offices, and where a vibrant local private sector is emerging they are assisting in the preparation of new deals. Also most financial sector operations depend on close cooperation with local banks and financial institutions.

Plans are under way for offices in Azerbaijan, Croatia, FYR Macedonia and Moldova, and two additional sub-offices in Russia; these will bring the number of EBRD local offices to 24 in 1996, employing about 200 mostly local people.

EBRD financing approved by country

	1995		Cumulative to 31 December 1995	
	Number	ECU million	Number	ECU million
Russian Federation	27	811	64	1,717
Hungary	13	406	44	1,063
Poland	9	107	50	818
Romania	4	139	21	582
Czech Republic	5	100	21	452
Slovak Republic	5	71	14	361
Slovenia	3	61	15	332
Ukraine	12	148	17	303
Kazakstan	1	96	3	203
Bulgaria	4	66	15	192
Croatia	4	95	7	185
Uzbekistan	5	76	7	176
Belarus	1	21	6	162
Lithuania	6	58	10	138
Estonia	4	33	11	134
FYR Macedonia	3	45	8	120
Latvia	4	51	9	112
Moldova	6	80	7	105
Kyrgyzstan	3	68	5	83
Armenia	1	12	3	74
Azerbaijan	2	26	3	68
Albania	1	10	7	58
Turkmenistan	1	24	2	52
Georgia	1	9	2	23
Regional	9	244	17	341
Total	**134**	**2,855**	**368**	**7,853**

Sectoral analysis

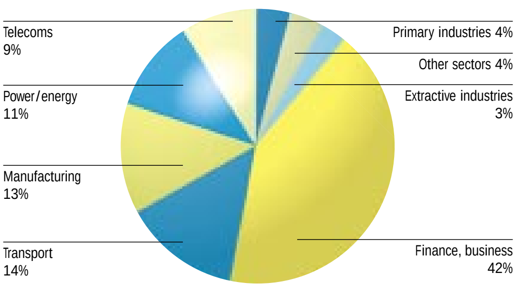
In 1995 the financial institutions sector again formed – by a large margin – the main element of the portfolio both by value and number of projects (see table and graph overleaf). Of all signed projects, 22 per cent were wholesale operations and a further 6 per cent were direct financial institutions sector operations, representing a total of 28 per cent committed to financial institutions. Manufacturing projects and those that helped to create the physical infrastructure needed for private sector growth also remained prominent, particularly transport, energy and telecommunications.

EBRD financing approved by sector

	1995		Cumulative to 31 December 1995	
	Number	ECU million	Number	ECU million
Finance, business[1]	63	1,185	147	2,666
Transport	13	395	44	1,362
Telecommunications	6	267	29	935
Manufacturing	22	349	61	911
Energy/ power generation	11	325	27	854
Extractive industries	4	97	12	503
Primary industries	3	105	16	216
CEALs, co-financing lines and RVFs[2]	1	36	7	176
Commerce, tourism	2	39	14	134
Community/social services	6	43	10	81
Construction	2	16	2	16
Total	**134**	**2,855**	**368**	**7,853**

[1] The finance, business sector does not equate with the financial institutions sector. See page 17 for information on the financial institutions sector.
[2] Central European Agency Lines, Regional Venture Funds.

EBRD financing approved by sector 1995



increasing wholesale operations

Product analysis

The EBRD tailors its activities to meet the changes in demand as countries progress in transition. It alters the financing mechanisms that it uses to match the needs of each country. An analysis of the relationship between the evolution of the EBRD's product mix and the countries' progress in transition shows that the Bank is not following a static supply-side driven pattern in its operations, but is operating at the forefront of transition.

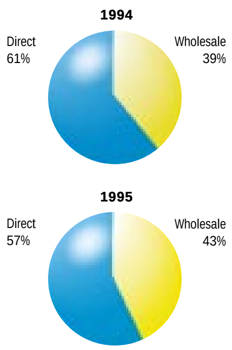
The share of equity funds in overall Bank activity tends to grow as countries move through the intermediate stages of transition. Responding to demand, the EBRD increased its Board-approved equity investments from 21 to 24 per cent during 1995, to ECU 695 million for the year. At year-end almost one in three of its projects involved equity.

The share of direct private lending rises as countries move into the intermediate stages of transition, and increases even more as they enter the advanced stages. Credit lines also grow at the intermediate stages but fall at the advanced stages, as countries get better access to other foreign finance and their own banking systems improve. Approved EBRD loans (including credit lines) increased during the year: up 15 per cent from 1994 to ECU 1,865 million in 1995.

A credit line is an EBRD loan to a local bank, to provide funding for small subloans extended by the local bank to local borrowers. A guarantee is a legal obligation to compensate a lender if the borrower fails to perform under conditions specified in the guarantee.

The Bank's use of guarantees and other off balance sheet items, which help encourage investors by isolating and transferring risks, particularly at the intermediate stages of transition, continued to grow dramatically. From ECU 136 million at the end of 1994, guarantees rose to ECU 410 million at the end of 1995, an increase of over 200 per cent.

Wholesale approvals

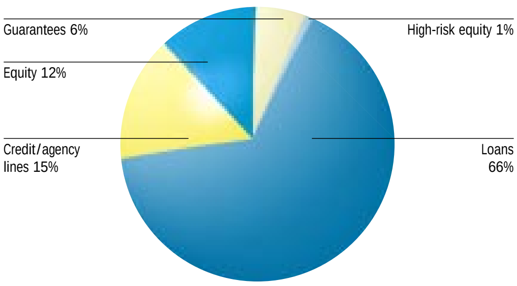


EBRD financing approved by type of facility

	1995			Cumulative to 31 December 1995		
	Number	ECU million	%	Number	ECU million	%
Loans	77	1,865	65	236	5,932	76
Equity	46	695	24	119	1,511	19
Guarantees[1]	11	295	10	13	410	5
Total	**134**	**2,855**	**100**	**368**	**7,853**	**100**

[1] Guarantees and other off balance sheet items

Product mix – 1995 commitments



meeting changing demand

Several innovations have been introduced to increase productivity. The central one is a wholesale approach with financial and industrial partners, which will enable the Bank to address more efficiently the financing needs of the rapidly increasing number of private enterprises, particularly SMEs, in its countries of operations. A related approach has been trade facilitation programmes, several of which were signed in 1995. (See also pages 6 and 8.)

Financial institutions

The Bank's operations in the financial sector continue to pursue the following important objectives:

- privatisation and restructuring of the financial sector
- channelling of loan and equity funds to the emerging private sector
- support of a variety of new financial sector institutions
- development of trade finance and trade-related services.

For this purpose the EBRD provides a full range of both wholesale and direct financial instruments and products.

The EBRD's continued emphasis on the support and strengthening of the financial sectors of its countries of operations has resulted in 43 signed agreements (totalling ECU 545.8 million). On a cumulative basis this means that the EBRD has signed ECU 1.65 billion for 114 projects in the financial sector as of the end of 1995, or 28 per cent of all cumulative operations.

EBRD signed operations to financial institutions
Cumulative as at 31 December 1995

	Number of projects	ECU million	%
Wholesale			
Credit lines	33	606	46
Apex facilities	6	326	25
Stand-by and guarantee facilities	2	55	4
Trade finance	5	86	7
Agency/co-financing lines	3	10	1
Equity funds – standard	21	200	15
Early-stage equity	3	2	0
Special Restructuring Programmes (SRPs)	1	30	2
Multi-project finance	2	6	1
Total	**76**	**1,322**	**100**
Direct to financial institutions			
Equity investments in banks	24	181	55
Equity investments in insurance companies	5	5	2
Equity investments – other	3	4	1
Loans to banks	4	101	30
Loans – other	1	29	9
Bonds – underwriting	1	8	3
Business services	1	2	1
Total	**38**	**330**	**100**
Total financial institutions operations	**114**	**1,652**	

Share of cumulative commitments	%
Wholesale	22
Direct	6
Financial institutions	28

As in previous years, the EBRD took the lead in a number of significant equity operations in the financial sector. It participated in Hungary's second bank privatisation, that of Budapest Bank. This transaction broke new ground as the government reduced its holding by 60 per cent to 22.5 per cent for an amount of US$ 87 million. The EBRD acquired 32.5 per cent, with GE-Capital as a strategic investor holding 27.5 per cent. Together with the strategic partner, it will bring to Budapest Bank a wide range of new products, particularly focused on the retail and the consumer finance market, which will stimulate development and competition in the financial services sector.

A new commercial bank in Ukraine, Kiev International Bank (KIB), capitalised at ECU 5 million, will be established with the EBRD's participation of ECU 1.8 million. KIB will provide a full range of commercial banking and corporate finance services, focusing on long-term funding for medium-sized private enterprises in Ukraine. The EBRD holds 35 per cent of the bank's capital; the Ukrainian Financial Group holds a further 35 per cent, and Kredyt Bank of Poland holds 13 per cent.

A significant equity investment that the EBRD made in 1995, its first capital market infrastructure operation, was an ECU 1.2 million investment in the establishment of a new company registry in the Russian Federation. This will help to end a critical bottleneck in the development of Russian equity markets by providing large enterprises with an independent share registration service to meet the requirements of both local and international investors. The new joint-venture company is 40 per cent owned by two Russian institutions (NIKoil and United Export Import Bank), which each invested ECU 1.6 million; the Bank of New York is the principal shareholder, with an ECU 2.3 million investment; and the IFC has invested ECU 1.2 million. The project is sponsored by the Russian Federal Commission for Securities and Capital Markets and USAID provided technical assistance support.

A framework agreement signed by the EBRD provides equity financing up to ECU 11.7 million for co-investment with the Commercial Bank of Greece to support its investment programme in Balkan and Black Sea countries. This ECU 35.5 million multi-project finance programme is designed to establish project banks in several countries, initially in Albania, Armenia, Georgia and Moldova. The operation will boost the transition process in these countries by providing financial services that are essential for modern business in markets where such services are often unavailable. The technical and managerial support provided by the Commercial Bank of Greece is expected to establish the project banks as benchmarks of good banking practice in their respective markets.

Simple on-lending operations were further expanded by the EBRD through an ECU 16.3 million credit line each to Tatra Banka and Istrobanka in the Slovak Republic for the dual purpose of financing small and medium-sized private enterprises and the facilitation of trade operations. It also participated in a capital increase of Slovenska Polnohospodarska Banka.

The EBRD's first loan to a Croatian financial institution and its first private sector loan to the country was a credit line in the amount of ECU 27.2 million to Zagrebacka Banka d.d., one of the strongest private sector financial institutions in Croatia. The 6-year loan facility furthers the development of the SME sector by providing funding for investment projects in both the corporate and retail sectors.

Two credit lines totalling ECU 18.7 million for on-lending through local commercial banks to private SMEs were signed in Moldova, one with Victoria Bank, the other with Moldagroindbank.

In the past year the EBRD has made good progress on the implementation of the Apex facilities it set up in Belarus, Kazakstan, Kyrgyzstan, Russia (ESP/FIDP), Ukraine and Uzbekistan. In both Kazakstan and Ukraine, the first tranches of their respective loans were fully committed. Significant progress was also made in Belarus with respect to committing the first tranche (ahead of schedule) of the loan. The only facility that is not yet effective (and is being redesigned) is that in Turkmenistan.

An Apex facility is a "two-step loan", where the EBRD lends to a member country which then on-lends these proceeds to a number of participating local banks (selected on the basis of specific criteria) for on-lending.

The full-scale ECU 234 million programme for the Russia Small Business Fund (RSBF) for micro and small enterprise development in Russia was approved in 1995 by the EBRD's Board of Directors. Half of this amount will be financed from the EBRD's ordinary resources, while the balance is to be financed by the G-7 countries and additional donors. The RSBF, through its first two pilot programmes, has disbursed close to 1,000 loans to small businesses through Russian banks and has also made many equity investments in various sectors of the Russian economy. The RSBF continues to be extended to new banks and regions, and at the end of 1995 the EBRD was working with 15 Russian banks. The RSBF thus complements the Financial Institutions Development Programme, where the EBRD works with 13 Russian banks.

In the Baltic states, the EBRD focused its efforts on the financial sector, recognising its importance as a vehicle for providing finance to enterprises which, reflecting the size of the countries themselves, would be too small to borrow directly from international sources. The Bank signed four new projects in Estonia, three in Latvia and three in Lithuania; they included equity investments, credit lines and trade finance facilitation. The strategy of supporting the financial sector will continue, with the Bank exploiting the high level of development within the sector to introduce new products and to encourage innovation. The strategy of creating a core group of banks in each of the Baltic states, to represent a demonstration effect for the banking system and at the same time to build solid defences against the turmoil of transition, has proved to be giving results. The first phase of the Baltic Investment Programme, funded by the Nordic countries and aimed at supporting SMEs, was successfully completed in mid-1995. An extension of this programme, covering the period 1996-99, was approved subsequently by the Nordic and Baltic states.

Trade facilitation

One of the key aims of transition is to integrate countries into the larger European and world economies. The EBRD offers trade facilitation products aimed at strengthening specific financial and institutional infrastructures necessary for trade and so contributes directly towards enhancing trade flows. Such products are intended to support local financial institutions that lack the resources or experience to provide trade products on their own.

integrating countries into world economies

Trade facilitation operations signed by the EBRD in 1995 included a loan of ECU 39 million to Investicni a Postovni Banka a.s., one of the oldest banks of the Czech Republic, which is currently the country's third-largest bank in terms of assets. The medium-term funding line is for export and pre-export financing of products and services of Czech industrial companies.

Under the ECU 78 million Russian Trade Facilitation Programme, the EBRD signed an ECU 15.6 million guarantee line with the Russian Stolichny Savings Bank, which will enhance its capacity to provide trade finance services to its clients and to develop its trade-related business with its foreign correspondent banks. Stolichny Bank is the first of a group of Russian banks to be signed up under the programme, which will run for two years. The programme will ultimately include as many as 10 Russian banks, agreements with three of which were signed in 1995.

A trade facilitation agreement was also concluded with the Hungarian Foreign Trade Bank (MKB), where the EBRD holds a 17 per cent equity stake. Through this agreement, the EBRD is for the first time directly promoting trade between its countries of operations. The agreement enables MKB and a group of selected banks from the EBRD's countries of operations to develop their trade-related services, which thereby become more accessible to their client companies; thus the project encourages trade between Hungary and other countries of the region. Under the terms of the agreement, both MKB and the EBRD will provide up to ECU 19.5 million to share country and credit risks in the financing of foreign trade transactions. The EBRD will extend its guarantee for the benefit of MKB, which will confirm letters of credit issued by qualifying banks in the region and issue trade-related guarantees upon instruction of such banks.

The EBRD also signed its first agreement with an Uzbek bank (the National Bank of Uzbekistan for Foreign Economic Activity) as part of the ECU 39 million trade facilitation programme set up in favour of a selected group of banks incorporated in Uzbekistan. The programme will improve the ability of these banks to finance trade flows between the country and its major commercial partners. The trade facilitation programme is for an initial 2-year term. Under the facility, the EBRD will guarantee the obligations of participating Uzbek banks, under trade-related financial instruments, to participating foreign correspondent banks. The EBRD will guarantee a high percentage of the amount outstanding and leave the banks and their correspondents to negotiate as to the necessity for security for the uncovered element.

Leasing and other non-bank financial intermediaries

The establishment of other forms of financing such as leasing will mean more choice for the growing private sector, which is looking for better terms and conditions for procuring equipment and services.

The EBRD participated in the establishment of the St Petersburg Investment Finance Company. This will provide term lending and related corporate finance advisory services to joint ventures and private SMEs in the St Petersburg and North-West Russian area; it will also provide support to encourage foreign direct investment into the region. Shareholders include the EBRD, Finnfund, Merita Bank, Bank St Petersburg and Baltiyskiy Bank.

The Bank also participated in the establishment of the first leasing company in Uzbekistan, Uzbek Leasing International AO. The EBRD's initial investment represents 15 per cent of Uzbek Leasings's share capital; sponsors are Malayan Banking Berhad (the largest bank in Malaysia) and the Uzbek National Bank for Foreign Economic Activity, and the IFC is participating on the same basis as the EBRD. The company will provide term financing of machinery, transportation vehicles and office equipment for joint-venture companies and SMEs.

Lastly, the EBRD participated in the establishment of Polski Fundusz Leasingowy S.A., which will finance investment in business assets by companies in Poland. It will be the country's first dedicated big-ticket asset finance company. The EBRD's investment of ECU 1.5 million formed part of the initial equity of the company; other investors include the Polish American Enterprise Fund and a subsidiary of Orix, the leading global asset finance company.

Insurance sector

The development of modern and efficient insurance markets in its countries of operations is an increasingly important component of the EBRD's activities. Modern insurance markets will contribute to an increased protection of assets, stimulate savings and play a major role in the establishment of capital markets in the region. The EBRD is planning to become a catalyst for the development of promising private sector insurance companies and will play a major role in the restructuring and privatisation of state-owned insurance institutions.

The EBRD continued in 1995 to promote the development of the insurance markets in its countries of operations. In Poland, the Bank invested in Bankowe Towarzystwo Ubezpieczen i Reasekuracji Heros S.A. (Heros) one of the country's largest and most promising private sector insurers, subscribing to 17.6 per cent of the company's shares.

The Bank's first investment in the Russian insurance sector was concluded with a participation in the establishment of a Russian life insurance company together with Russia Life Management Ltd (a consortium comprising, *inter alia*, Scottish Provident Institution and Employers Reassurance International), as well as the Framlington Russian Investment Fund and the Independent Trade Union of Servicemen of the Russian Federation.

In 1995, the EBRD and Winterthur, the leading Swiss international insurer, developed a multi-project facility whereby the EBRD will participate in the development of Winterthur's subsidiary companies in the Czech Republic, Hungary, Poland, the Slovak Republic and Slovenia over the next three years. This project will involve the establishment of new companies in the fields of non-life, life and private pensions, and should have an important demonstration effect in the local markets of these five countries.

Equity funds

Recognising the need for private equity to finance the growth of private sector companies and to help them to restructure and expand their operations, the EBRD continues to sponsor equity funds in all its countries of operations. These funds are managed by experienced professionals with a track record in emerging markets and all have local presences.

During 1995 the EBRD contributed ECU 63.2 million to eight new funds, mobilising a total of ECU 230.4 million (including EBRD contribution) in equity. These were usually targeted on medium-sized private sector companies in amounts between ECU 0.5 and 3 million. To date the EBRD has invested ECU 200 million in 21 funds, representing a total equity commitment from all sponsors of ECU 971 million. More than 150 individual investments have been made to date and over 52 per cent of funds are disbursed.

The EBRD subscribed to 20 per cent of the ECU 78 million East European Food Fund, the main objective of which will be to make equity and equity-related investments in food and beverage companies. The fund was the first joint activity between Jupiter Asset Management (JAM) and Commerzbank AG, since the latter acquired JAM's parent company in early 1995. Most of the fund's investments will be in unlisted companies issuing shares through private placements and in privatisations. The balance will be invested in listed securities.

The Bank also participated in the establishment of Sector Capital, a financial company integrating Russian stock portfolio management, financial advisory services and a direct investment fund. The EBRD's ECU 7.7 million investment gave it an initial 25 per cent of the company. The Sector Capital Fund (one of three entities to be set up under Sector Capital) will provide direct investment capital, particularly in the transportation and logistical sectors focusing on the Russian Far East. Major shareholders include the IFC, Sovcap, Inc. (a Russian advisory firm), and the European Privatisation and Investment Company, an Austrian-based financial advisory company.

The EBRD also entered into a co-financing agreement with the IØ Fund, a public institution operated on a private sector basis by the Danish government. Participation enabled the fund to mobilise more private equity transactions in the Bank's countries of operations.

Privatisation and restructuring

Early-stage equity instruments

supporting newly privatised enterprises

The process of transition to market economies in the EBRD's countries of operations creates a large population of SMEs in need of long-term capital, management assistance and effective governance. Equity and quasi-equity finance is appropriate during this delicate early stage, because it strengthens the balance sheets of the enterprises and does not make unsustainable demands on cash flow. However, equity is not usually available from the emerging local capital markets, nor from foreign investors because of the perceived higher risk.

The equity financing instruments used by the EBRD to support privatisation and restructuring of medium-sized enterprises are called collectively "early-stage equity". In mature market economies, this term is often applied to seed or start-up capital for new businesses. The term is chosen here because the equity capital provided will usually be the first the enterprises receive during or after privatisation. Post-Privatisation Funds (PPFs) and Special Restructuring Programmes (SRPs) are two early-stage equity instruments developed by the EBRD.

The first PPFs were established in Russia in 1994 as Regional Venture Funds (RVFs). The implementation of the RVF programme has continued in 1995, with six more RVFs approved during the year: the Lower Volga (co-financed with the USA), Southern Russia (co-financed with France), the North-West (co-financed with Norway, Sweden and Finland), Central Russia (co-financed with Germany), Western Russia (co-financed with Italy) and West Siberia (co-financed with the EU). One more RVF is planned for 1996, completing the programme. The four RVFs approved in 1994 have started to make investments in sectors such as food, glass, textiles, construction materials and services. This first experience confirms the impact on SME development of equity capital combined with technical cooperation. The latter is provided by donor countries to assist the transition to the market economy.

In central Europe, the first PPF was approved for the Slovak Republic. It similarly addresses the capital needs of small and medium-sized, newly privatised enterprises. It also inaugurates a new form of partnership with the EU's Phare programme, which has co-invested with the EBRD in addition to providing technical cooperation funds. A PPF with the same structure is being prepared for Romania.

SRPs have been designed for countries (such as Poland, Hungary and Slovenia) where restructuring is undertaken before or during privatisation. They associate closely the state agencies in charge of managing public assets, the local banks and the EBRD. The SRPs take majority ownership in state-owned or newly privatised enterprises, with the purpose of fostering their restructuring, and prepare them for further sale to private investors.

The first two SRPs were launched in Slovenia during 1995, in cooperation with the Development Fund of the Republic of Slovenia and Splosna Banca Koper, a Slovene commercial bank. They target 12-15 medium-sized Slovene enterprises that belong to the portfolios of these two institutions, making equity investments of up to ECU 30 million. Three more programmes have been developed for Poland, Hungary and the Baltic states; these are expected to be launched in 1996.

Complementary initiatives

The other EBRD privatisation and restructuring initiatives are focused on the concrete implementation of programmes or pilot transactions. The key criteria for the EBRD's participation are the demonstration effects and the possibility of extending finance to sustainable projects.

The EBRD is supporting the Polish Mass Privatisation Programme (MPP) by extending loans to National Investment Funds to which the government has transferred shares in 522 companies. The proceeds of the loans will cover the early operating costs before these can be met by cash flow generated by the Funds from their companies' operations. In addition, the Bank intends to support companies participating in the MPP, either directly or through finance provided to the National Investment Funds.

In Romania, the Investment-Led Privatisation Programme supervised by the EBRD and funded by EU-Phare has assisted the State Ownership Fund to close three large privatisation transactions. The programme has been extended to provide advice in the context of Romania's current mass privatisation.

To complement the work of international agencies already advising the Ukrainian government on privatisation issues, the EBRD has been focusing on pilot privatisation transactions in that country. The largest example to date has involved Ukrrichflot, a river shipping company which the EBRD accompanied through the entire cycle, from the start of privatisation in 1993 to the provision of loan finance in 1995.

Investment can catalyse a stalled privatisation process and foster a company's strategic development, as shown in Hungary when the EBRD invested in the EGIS pharmaceuticals company in December 1993. This was the first step in the privatisation process and was followed by a successful flotation on Budapest Stock Exchange where it became one of the most actively traded stocks. The management of the company undertook a gradual restructuring and identified the need for a strategic partner. In the second half of 1995, a European pharmaceuticals company purchased the EBRD's shares along with those of another investor.

Capital recycling

In 1995 the EBRD sold its 12 per cent stake in Cokoladovny a.s., the Czech Republic's leading confectionery company and the Bank's first and most mature investment in the country. This marks a natural departure for the EBRD, as Cokoladovny is a transformed company able to compete and succeed in its markets: since 1992, it has restructured and rationalised its production operations, distribution and sales organisation, and it has a strong brand portfolio.

The sale illustrates a cycle which allows the EBRD's funds to be redeployed for fresh investment. The shares were sold to Nestlé S.A. of Switzerland and Groupe Danone (formerly BSN) of France, the company's industrial partners from its original privatisation.

In Russia, the ECU 78 million loan extended to the heavy trucks manufacturer KamAZ is the largest commitment made by the EBRD for corporate restructuring. It will be used primarily for financing working capital, paying suppliers and employees, and capital expenditures. The restructuring of the financial debt of KamAZ is a condition of the disbursement of the EBRD's loan.

The TurnAround Management (TAM) programme has continued to assist qualified enterprises to move to the market economy. To date, about 240 senior industrial advisers have been engaged by the EBRD to provide "hands-on" advice. Some 150 enterprises have now been involved with the TAM Programme in 12 countries. Operations have been extended to the Russian Federation with the commencement in the last quarter of 1995 of a 60-enterprise programme.

The EBRD's education and training programme builds the capabilities of in-country institutions to deliver training and other services locally in support of the transition process and the Bank's activities. In 1995 these bank training schools and business advisory centres reached over 15,000 company managers and bankers. The Bank also delivered five seminars at the Joint Vienna Institute on practical enterprise management skills to 125 senior managers nominated by EBRD Banking teams.

Retainer contract between the EU and the EBRD
The EBRD has continued to provide technical services, on a cost-recovery basis, to the EU's Phare programme and to its beneficiary countries. On the basis of accumulated privatisation, restructuring and banking experience, EBRD bankers have, in response to Phare's requests, advised on the design and/or monitoring of Phare operations. Target areas have included: removal of obstacles to investment in Albania; the mass privatisation programmes in Bulgaria and Romania; privatisation and restructuring in the Slovak Republic; strengthening of the financial sector and/or SME financing in Albania, Bulgaria, Hungary, Poland (including support to loan work-out departments of state banks), Romania and Slovenia; and regional investment companies in the Czech and Slovak Republics.
While achieving a direct policy and operational impact on transition, these advisory activities are complementary to the EBRD and enhance the success of the operations of both Phare and the Bank.

Infrastructure sectors

Telecommunications

The type of telecommunications projects in which the EBRD invested in 1995 shows a shift from the Bank's "first generation" of projects. Access to international communications, particularly in capital cities, is now much improved in almost all the region, both as a result of private sector investment and earlier EBRD-funded projects. An increasing proportion of investment in 1995 was directed towards the development of local networks, with the objective of broadening the access to telecommunications for small business and residential subscribers. The EBRD anticipates that the heaviest investment in the telecommunications sector over the next five years will be in the local network, for the delivery of telecommunications and cable television, and employing both traditional wire-line solutions and emerging wireless alternatives.

committed to infrastructure development

The EBRD's strong commitment to telecommunications infrastructure development continued during 1995, with six projects approved over the course of the year, representing a Bank investment of ECU 267 million. At the end of 1995, the EBRD's portfolio of approved telecommunications transactions stood at ECU 935 million, making it the largest financial investor in this sector in the region.

Several examples of EBRD projects aimed at local network development are to be found in Hungary. Over the course of 1995, the Bank approved four separate projects, representing a total Bank investment of ECU 142 million, for the start-up financing of recently created local telephone concessions in southern and central Hungary. These concessions were able to attract foreign investors largely due to the relative clarity of the Hungarian regulatory environment, which serves as something of a model for other countries in the region. Similar local concession investment activity is expected to occur in Poland and possibly the Czech Republic in 1996.

In 1995, the Bank also co-arranged an ECU 233.9 million loan for Matav, the privatised Hungarian national operator. By taking the longer maturities for its own account, the EBRD was able to arrange for the syndication of ECU 150 million to commercial investors, demonstrating the rapidly improving perceived creditworthiness of telecommunications investments, particularly in the countries more advanced in the transition.

The EBRD has taken the lead in assisting telecommunications regulatory reform. In countries such as Hungary, such reform has already paid dividends by allowing the country to attract significant private investment. Over the course of 1995, the Bank organised extensive technical cooperation efforts in a number of countries directed at producing appropriate telecommunications legislation and regulations, which will lay the foundation for large-scale mobilisation of private investment while striking a proper balance between public and private interests. To this end, in April the EBRD convened a regulatory round table and a major symposium on the theme "Accelerating telecommunications development in central and eastern Europe and the CIS". This was attended by over 250 delegates, including many ministers of communications and PTT directors from the region.

In the last quarter of 1995, the EBRD was requested to take the lead in assisting the reconstruction of Bosnia and Herzegovina's shattered telecommunications infrastructure. By the year's end, the Bank had begun detailed assessment and planning of both the physical reconstruction programme and the associated institutional development programme, both of which will be needed to revitalise a sector which will play a critical role within Bosnia and Herzegovina's overall reconstruction and economic development.

Transport

In the transport sector, the EBRD gives priority to matters of efficiency and corporatisation, leaving the issue of ownership to be determined by the individual countries. These, in turn, are expected to be guided by the experience gained from the more advanced efforts at privatising transport infrastructure in Western countries.

The EBRD's work in the transport sector continued its strong growth during 1995. Thirteen transport projects were approved, adding financing of ECU 395 million to the pipeline of projects already under implementation. At year-end, the Bank's investment in its 44 approved transport projects stood at about ECU 1.4 billion. Total disbursement for transport projects under implementation amounted to ECU 226 million in 1995.

As transport infrastructure investments naturally lie primarily within the state sector, some 50 per cent of the EBRD's transport project commitments are in the state sector compared with the average of 38 per cent for all its project commitments. This ratio is not expected to change significantly in the next few years because of demands from the Bank's countries of operations for an efficient transport system which can support the overall economy and stimulate the growth of the private sector.

Nevertheless, the EBRD is pursuing opportunities to get the private sector more involved in transport-related projects. This is particularly true for projects that support the road haulage, shipping and airline industries, which often involve joint ventures between a Western partner and an established local company. A typical example is the Ukrainian Iveco-Kraz truck manufacturing project, at ECU 14 million the EBRD's largest investment in the Ukrainian private sector. The joint venture links Iveco SpA, a leading Italian truck manufacturer, and the Kremenchug Automobile Plant, Ukraine's biggest commercial vehicle manufacturer.

However, even in the more traditional state sector, opportunities to involve the private sector have been found and are expected to take on added significance. Examples include toll road projects executed as build-operate-transfer (BOT) schemes, such as the M5 motorway in Hungary, which saw financial closing in December. Other examples are airport terminals and port superstructures where the airport and port authorities, acting as landlords, lease out space for private operators to build and operate specialised terminals for a predetermined concession period. In this category, an ECU 14.8 million project will enable Moldova to develop a riverport oil-importing facility on the River Danube, allowing the country to meet its energy requirements more cost-effectively and efficiently. The facility will be majority privately owned, the Moldovan shareholder being the largest.

In the railway subsector, the EBRD has focused on the much-needed restructuring of the railways as a prerequisite to attracting private sector interest. The Czech and Bulgarian railway projects signed in September and November respectively are examples of this policy. Future projects may include private sector involvement in rolling stock leasing, maintenance works and even specialised train operations. The first EBRD rail project in Bulgaria will help limit the need for public financing and set the stage for future private sector participation. The total project cost of ECU 229.9 million is co-financed by the World Bank, export credit agencies and EU-Phare. An ECU 35.1 million loan will help to upgrade 455km of the Czech Republic's key railway corridor, which interconnects Vienna, Prague and Berlin. Other project funding is being provided by the EIB, The Export-Import Bank of Japan, Kreditanstalt für Wiederaufbau (KfW) and EU-Phare.

The EBRD continued its active role in development of the Via Baltica road connection on a regional basis together with the Baltic states, Finland and Poland.


This announcement appears as a matter of record only

M5 TOLL MOTORWAY
Republic of Hungary

FRF 1,746,000,000
and
HUF 5,000,000,000

Limited recourse project financing

BORROWER
ALFÖLD KONCESSZIÓS AUTÓPÁLVA RT.

A CONCESSION COMPANY FOUNDED BY
Bau Holding Group | Bouygues Group

JOINT ARRANGERS
European Bank for Reconstruction and Development | Commerzbank Aktiengesellschaft

CO-ARRANGER
ING BANK

European Bank for Reconstruction and Development

December 1995


This announcement appears as a matter of record only

ČESKÉ DRÁHY
the national railways enterprise of the Czech Republic
Czech Railways

Corridor I Upgrading Project
in the Czech Republic running between Děčín-Prague-Česká Třebová-Břeclav
European Network Line interconnecting Vienna-Prague-Berlin

USD 53,600,000
20 year term loan guaranteed by the Czech Republic
to finance signalling equipment on sections of the project

PROVIDED BY
European Bank for Reconstruction and Development

OTHER PROJECT FUNDING PROVIDED BY
European Investment Bank | The Export-Import Bank of Japan
KfW Kreditanstalt für Wiederaufbau | EU PHARE

European Bank for Reconstruction and Development

October 1995


This announcement appears as a matter of record only

MOL
HUNGARIAN OIL and GAS
COMPANY Ltd.

MOL MAGYAR OLAJ-ÉS GÁZIPARI RT

USD 55,000,000

Senior term loan to finance the construction of the
Zsana Underground Gas Storage Facility

DEBT STRUCTURED, ARRANGED AND PROVIDED BY
European Bank
for Reconstruction and Development

AND THROUGH PARTICIPATION IN THE EBRD LOAN BY
BHF-BANK Creditanstalt-Bankverein
ING BANK The Sumitomo Bank, Limited WestLB Group

European Bank
for Reconstruction and Development

June 1995

Power and energy utilities

In 1995 the region saw more movement than before towards reform in the energy sector, which is expected to continue in 1996. Leading the way was the successful privatisation of most of the electric and gas utilities in Hungary. In many of the Bank's countries of operations tariffs increased in real terms. In some cases, however, this has led to a growing problem of accounts receivable and the Bank's attention is increasingly focused on promoting better collection practices and determining effective tariffs. A number of countries have already taken steps to address this issue.

As economies in the region are stabilising and beginning to recover, a clearer picture is emerging of their energy sector investment needs. In 1995 EBRD operations were directed towards increasing energy efficiency, supporting the integration of countries of operations with western Europe, promoting commercialisation of state-owned utilities, and mobilising co-financing and private funds to meet urgent investment requirements. All projects approved were high priorities at national level, as demonstrated by least-cost development plans for the sector, including explicit evaluation of demand-side and economic pricing policies on demand. The Bank provided its first public sector power loans in Croatia, Kyrgyzstan, Moldova and Romania for rehabilitation and energy efficiency investments. It also made a second loan to Albania and initiated new projects in several other countries.

In Croatia, the Bank signed a loan of ECU 34.3 million equivalent to a project to support the reconstruction of the distribution network in war-damaged areas. A programme of technical cooperation was launched in parallel to strengthen the financial management of the sector and promote institutional and regulatory reforms.

A loan of ECU 29.6 million went to Kyrgyzstan for the upgrading of the transmission system and reduction of transmission losses. This project was vital in ensuring a reliable power supply to a large private sector gold-mine development also financed by the Bank. These complementary loans demonstrate the unique mandate of the EBRD to work with both public and private sector clients to facilitate the transition process.

The first EBRD energy efficiency loan to Moldova, of ECU 18.6 million, is intended to reduce heating losses in the Chisinau district heating network and to support reforms for its commercialisation. Moldova is entirely dependent on energy imports, of which district heating accounts for 15 per cent. This project will help improve the country's energy efficiency, reduce fuel imports and contribute positively to the country's balance of payments and the government's stabilisation programme.

The Bank also made its largest-ever power sector loan of ECU 78.1 million to the Romanian power utility RENEL, to improve efficiency of the power supply system through rehabilitation of four thermal power plant units and upgrading of the transmission system. Rehabilitation of such essential infrastructure will increase operational efficiency and help Romania achieve the technical standards required for interconnection with the western European grid. The loan is also designed to encourage private sector investment and development of a competitive and efficient power industry. Co-financing for this project was mobilised from the EIB and EU-Phare.

In Albania, the Bank complemented its earlier loan towards rehabilitation of hydro power plants (the Drin River Project) with a project to improve the transmission and distribution of electricity. The ECU 10 million loan, financing metering and distribution equipment, is aimed primarily at reducing technical and non-technical losses in the network and supporting further sector restructuring and commercialisation. Other co-financiers of this project are the World Bank (IDA), the Japanese Overseas Economic Cooperation Fund, and the governments of Switzerland and Italy.

In addition to its continued public sector activities, the Bank was increasingly involved in private sector power projects. Progress with sector reforms and regulations has led to an increasing number of private sponsors developing bankable projects in the region. The Bank is currently active with private initiatives in several countries. It is highly likely that in 1996 it will sign its first private project in the power sector.

Energy efficiency

In all the EBRD's countries of operations, energy wastage is one of the major barriers that must be overcome in the transition to successful market economies. Energy usage remains 2-7 times higher, per unit of GDP, than the average in OECD countries; this unnecessary wastage is a serious obstacle to recovery.
Solutions in the power supply sector, to meet the need to replace old and unsafe plant, must be balanced with investment to reduce energy demand. This is all the more important because the average cost of saving one barrel of oil equivalent (by more efficient energy consumption) is 3-4 times less than the cost of producing the same amount of oil.
The EBRD's Energy Efficiency Team was set up to identify and develop energy-saving projects. It considers any project that would result in material energy savings by consumers and that would meet the Bank's usual credit requirements. Typical examples include district heating rehabilitation and end-user improvements, energy-saving investments in schools, hospitals or other public buildings, energy efficiency improvements in industrial processes, efficient lighting projects and renewable energy projects.
Many energy-saving investments are relatively small and fall below the EBRD's minimum lending requirements. Accordingly, effort is being focused on establishing financing mechanisms for these projects. These include credit lines with local banks and co-financing with bilateral sources such as the EU-Phare programme. Another important mechanism is the development of energy service companies (ESCOs) which make energy-saving investments in their clients' premises and are repaid from the realised energy savings.

In its first full year of operations the Energy Efficiency Team has established a strong pipeline of projects. In December the EBRD signed its first energy efficiency loan – to the Hungarian ESCO, Prometheus – of ECU 4 million. In the pipeline for 1996 are several multi-project facilities with Western clients to enable regional ventures to be established. The multi-project facilities cover both new ESCOs and the manufacture of energy metering equipment. Other activities include establishing dedicated energy efficiency credit lines with local banks and other bilateral funding sources. The EBRD is also developing a number of direct energy efficiency investments in larger private sector enterprises.

Municipal and environmental infrastructure

The adequate provision of environmental and municipal infrastructure and services is essential for the economic transition process in the region. Poor quality and undersupply of municipal services limit industrial productivity and hamper the emergence of viable SMEs. Deficient management of waste disposal and water resources are causing problems ranging from water shortages to the occurrence of cholera and diphtheria. Further, the countries that have signed Europe Agreements with the EU face the need for large capital investment to meet environmental accession standards. Few municipalities in these countries come close to meeting EU environmental standards in drinking water quality, waste-water treatment and solid-waste disposal.
To address these problems directly, in August the EBRD created the Municipal and Environmental Infrastructure Team. It supports investments mainly for municipalities, which are emerging as an important client group for the Bank. Most projects developed to date deal with water supply, sewerage and waste-water treatment, industrial waste management and district heating. The team also helps prepare projects with industrial clients in the areas of waste-water treatment, pollution control and hazardous waste management.
In the state sector, the team's approach is to develop the creditworthiness of municipal entities and thus reduce the need for sovereign guarantees. Through its projects it promotes decentralisation of service provision, involvement of the private sector in the provision of public services, corporatisation of municipal utilities, cost recovery through user charges, and economic efficiency in resource use and allocation.
Building on the EBRD's unique mandate, the team operates across the full spectrum of private/state sector financing. It uses an array of instruments including limited-recourse loans, municipal credit facilities, environmental funds and private multi-project financing. It has specialised expertise in structuring municipal projects, in dealing with public and private companies providing municipal services, in municipal and environmental finance, and in the assessment of municipal and regulatory risks.

The EBRD leads in developing innovative approaches to municipal and environmental financing in its countries of operations. In 1995, the EBRD signed four loan agreements totalling ECU 60 million for projects in Azerbaijan, Estonia, Lithuania and Romania to renovate and upgrade municipal water supplies and waste-water infrastructure. The loan signed for the project in Romania finances a programme of investments in five cities. It is the first

developing innovative financing approaches operation where the Bank has used the instrument of programme financing and has concluded project agreements directly with municipalities. A similar arrangement was adopted in the Estonia project, where 12 small rural municipalities have formed a consortium to build, own and operate waste-water treatment facilities. The project in Azerbaijan marks the first time that the EBRD and the International Development Association have co-financed an investment programme.

In addition, the Bank signed a framework agreement with a large international municipal utility operator, Lyonnaise des Eaux, for a municipal services multi-project facility. Under this agreement the EBRD will provide equity and loan financing for a programme of 10-15 small and medium-sized investments for the private provision of municipal services including water supply, waste-water treatment, district heating and solid-waste management. The Bank will finance an amount of up to ECU 70.2 million, supporting a total investment of ECU 233.9 million. This constitutes the first-ever financing by an international financial institution of private investments in municipal services and infrastructure in the region. It offers an innovative and effective vehicle to support private sector provision of these services which is expected to bring major benefits.

The EBRD has developed a strong pipeline of projects in the municipal and environmental sector: at the end of 1995, over 20 projects were being prepared, several of which are in an advanced stage of development.

Other key sectors

Natural resources

The geographical and industrial scope of EBRD projects in the natural resources sector increased during 1995. The portfolio contains many projects that are of major importance for certain countries: stimulation of oil and gas production, construction of a reliable hydrocarbon transportation system, development of a competitive gold-mining industry, modernisation of refineries and upgrading of chemical complexes. Most of the projects involve a strong Western sponsor contributing capital, Western technical expertise and management support.

The Bank has been active in financing upstream oil and gas projects: an ECU 62.2 million EBRD loan was signed for the KomiArcticOil Joint Venture between British Gas, Komineft and Ukhtaneftegas for the development of the Vozey Oil Fields in the Komi Republic of the Russian Federation (total investment ECU 251.8 million). The Bank also signed an upstream oil development project in Ukraine, sponsored by the British company JKX. Total project costs will be ECU 15.6 million, with an EBRD loan of ECU 6.6 million.

Natural gas distribution, an industry traditionally dominated by state-owned entities, is another area in which the EBRD has been active. It signed an ECU 8.1 million loan with Slovenski Plinovodi for the construction of natural gas distribution networks in six Slovene municipalities. Slovenski Plinovodi, a Slovene company majority owned by the Dondi group of Italy, will build, own and operate the distribution systems which will then be transferred to the municipalities after 30 years. By awarding concessions the municipalities have been able to free limited financial and managerial resources for other purposes.

A major study of the gas pipeline system in the Russian Federation was completed with Gazprom and several contractors, sponsored by Canada, France, the Netherlands, the United Kingdom, the United States and Nova Gas International of Calgary, Canada. This extensive study, which was carried out over a period of two years and had a budget of ECU 7 million, arrived at important conclusions regarding the rehabilitation and safety of the gas pipeline grid, and identified several projects. This can be seen as a major contribution to the improvement of the safety of Russia's huge gas pipeline network. Together with the World Bank, the EBRD also participated in the rehabilitation of the Kharyaga-Usinsk pipeline in the Komi Republic of the Russian Federation, where a large oil spill accident occurred in 1994. The two institutions provided loans totalling ECU 109.2 million for the containment and recovery of the spilt oil, and for the pipeline rehabilitation. With this initiative, the EBRD helped to prevent an environmental disaster and contributed to the successful emergency operations.

Several projects are under way in the refining sector with a view to upgrading certain refineries in the CIS countries.

The EBRD has been especially active in the gold-mining sector, where two projects were signed during 1995. The first was the Kumtor project in Kyrgyzstan, sponsored by Cameco of Canada and Kyrgyzaltyn (the state gold-mining company in Kyrgyzstan). The total development cost of the gold mine will be ECU 280.7 million, of which the EBRD financed ECU 31.2 million. It will be extremely important for Kyrgyzstan: it is the largest project in the country and will provide long-term hard currency income, employment for local staff, technical know-how transfer and Western management support. Once completed, it will be the seventh-largest gold mine in the world. The EBRD also completed the financing for the Kubaka gold project in the Magadan Oblast in the Russian Federation. The total project cost will be ECU 140 million. The Bank is lead arranger of an ECU 77.5 million debt financing package raised for the financing of this project, of which it contributes an ECU 37.0 million loan. Sponsors of this project are Cyprus Amax and Russian companies.

During 1995 the EBRD also fully disbursed the loan provided for the gold-mining project Zarafshan-Newmont in Uzbekistan, and increased its facility to that project by an additional ECU 23.4 million.

Agribusiness

The EBRD continued to consolidate its agribusiness operations during the year. Board-approved deals amounted to ECU 300 million while signings reached ECU 200 million. Its activities in this sector are structured around an inventory of products, each targeting specific food and drink subsectors and countries in various stages of transition.

Agribusiness is particularly suitable for multi-project facilities, owing to the relatively small size of deals and the increasing involvement of large local and foreign groups in the sector. The EBRD's first such facility, for up to US$ 100 million (ECU 77.8 million), was with Groupe Danone. The EBRD is now in discussion with other major agribusiness companies to establish additional facilities in the region. These facilities simplify the project approval process and standardise the security package and distribution.

Another innovative product, developed specifically for the agribusiness sector, is management and investment companies. The concept has now been converted into a transaction in the Czech Republic, where the EBRD and other financial investors are setting up a holding company to provide equity financing and management expertise to local food and drink companies. The EBRD has committed ECU 15.6 million to this vehicle which will participate in the food industry post-privatisation. The concept is relevant in countries where the privatisation process is just starting (such as Romania) and where it is entering a second phase (such as the Czech Republic). In all instances, this product is an alternative for local companies not associated with large foreign strategic investors and faced with difficulties in securing capital injections on reasonable terms. The EBRD hopes to replicate this type of operation in other countries in the region.

The Kyrgyz Agribusiness Company project represents another ground-breaking concept. This involves setting up specialised service companies to import and distribute essential inputs to farmers (agrochemical products, fertilisers, seeds, fuel, equipment and agronomic services) and helping to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KIEV ATLANTIC UKRAINE
Joint Stock Agribusiness Company

USD 20,750,000

Project financing to construct the Integrated Agricultural Services and Processing Complex

STRUCTURED AND ARRANGED BY
European Bank for Reconstruction and Development

DEBT PROVIDED BY
European Bank for Reconstruction and Development
MeesPierson N.V.
Nielsen-THOR GmbH
GUARANTEED BY
Nederlandsche Credietverzekering Maatschappij N.V.

EQUITY PROVIDED BY
European Bank for Reconstruction and Development
Kiev Atlantic US Ltd
Nielsen-THOR GmbH
Bouznitsky Association

European Bank for Reconstruction and Development

May 1995


This announcement appears as a matter of record only

ATRIUM
BUSINESS CENTRE
WARSAW POLAND

USD 24,000,000

Limited Recourse Project Financing

ARRANGER

European Bank
for Reconstruction and Development

SENIOR LOAN PROVIDED BY

European Bank
for Reconstruction and Development
Polish Development Bank S.A.
Swedish Export Credit Corporation
American Bank in Poland S.A.
Bank Gdanski
Citibank, N.A.
MeesPierson N.V.

SUBORDINATED LOAN PROVIDED BY

European Bank
for Reconstruction and Development
Skanska International Building AB

European Bank
for Reconstruction and Development

December 1995

market the final products (either in raw or processed forms in the local or export markets). The operation is vital for Kyrgyzstan, as it focuses on the key grain industry and targets at least 50 farms totalling some 50,000 hectares. With a total investment of ECU 17.7 million, of which the EBRD has contributed ECU 7 million, the company will be able to increase grain production to replace current imports running at around US$ 40 million a year. Co-investors are a Canadian farm management company and three large multinationals, besides four local investors. The EBRD is working to replicate the agribusiness service company concept in countries such as Bulgaria, Kazakstan, Russia, Turkmenistan, Ukraine and Uzbekistan.

The establishment of fruit and vegetable wholesale markets to cater for the needs of farmers, traders and consumers continued in 1995. The EBRD already has under implementation markets in Belarus, Hungary, Romania and Ukraine. In 1995, it added projects in Armenia and Bulgaria. Work is also advanced in Azerbaijan, Croatia, Georgia and Poland.

Credit lines are used by the EBRD to reach smaller projects requiring debt finance. During 1995, the EBRD prepared targeted agribusiness credit lines with two banks in Croatia and a private bank in Ukraine. It also extended the credit lines with Banca Agricola in Romania and with Budapest Bank in Hungary. The co-financing line in the Slovak Republic generated its first projects. Targeted lines provide debt finance for small projects.

The EBRD developed an investment fund for the food sector with Jupiter Tyndall and Commerzbank. This fund, which has attracted some ECU 78 million from institutional investors, will enable the group to finance smaller projects requiring capital rather than just debt finance. It will also stimulate joint ventures and other investment by Western agribusiness companies, as well as by financial investors.

A number of innovative stand-alone projects were also financed over the year. These include the first edible-oil industry transaction in the Ukraine, the first brewery project by the EBRD in Russia and a new yeast plant in Romania with one of the world's largest manufacturers. The stand-alone agribusiness project pipeline has grown rapidly over the year, creating a sound base for a significant expansion during 1996. The industry coverage is broad, encompassing brewing, confectionery, bakery, packaging, marketing and distribution.

Property and tourism

The EBRD's countries of operations continue to suffer from a widespread shortage of modern commercial property and hotel facilities. Despite clear demand in many markets, developers' attempts to build modern facilities have been hampered by the underdeveloped legal framework in the region, insecure land ownership rights, political uncertainties, hostile tax policies and bureaucracy. In this environment, securing long-term debt financing remains particularly problematic.

In the office sector, the EBRD continues to prioritise debt financing in markets where there is a significant imbalance of supply and demand, and where other financing is not available on reasonable terms. In Warsaw, the EBRD arranged an ECU 17.1 million loan for the construction of the Sienna Centre, a 26,000 square metre facility. This project was sponsored by two of Belgium's leading property companies, The Buelens Group and Compagnie Immobilière de Belgique, with co-financing provided by Generale Bank, Belgium's largest commercial bank.

Growth in manufacturing and trade in the region is creating demand for modern warehousing and distribution facilities, particularly in the countries most advanced in the transition. Responding to this demand, the EBRD entered the industrial property sector in 1995 by supporting the development of two light industrial projects in Poland. The Warsaw Distribution Center, signed in April, is the first Western-style industrial park to be developed in Poland. Parc Logistique, the EBRD's second industrial project, is the first large-scale distribution logistics facility anywhere in the Bank's countries of operations.

Activity in the hotel sector slowed in 1995, reflecting a more prudent estimate of future hotel performance by investors and lenders. Though the EBRD did not commit to any new hotel financings during the year, several new projects were initiated, particularly in the three- and four-star categories. The year saw the opening of three EBRD-financed hotel projects: the Tirana International and the Hotel Europapark in Tirana, Albania, and the Radisson/SAS Hotel in Riga, Latvia.

The EBRD considered opportunities in two other property-related areas in 1995: the retail sector and off-street car parking. Retail trade is the third-largest employer in the OECD region, but this sector remains underdeveloped throughout the Bank's countries of operations. As the final link in the distribution chain for consumer products, modern retailing facilities promote efficiencies in retail trade and contribute to expanded consumer choice.

The need for off-street car parking is growing in major cities throughout the region, as car ownership becomes more widespread and city centre traffic increases commensurately. The EBRD is exploring opportunities in several cities to attract private financing to address this important infrastructure issue.

In the tourism sector, the EBRD has undertaken several technical cooperation projects, including studies in Albania, Hungary, Kyrgyzstan and Ukraine. While the Bank's early work in the sector was aimed at developing the legislative framework, evaluating physical infrastructure needs and recommending other governmental initiatives to stimulate tourism investment, its current efforts are being directed to project preparation and project financing. During 1996 the Bank expects to deepen its involvement in Albania, and initiate activities in Croatia.

Other direct loans and investments

Encouraging direct investment into the region remains a crucial objective for the EBRD, and work with industrial partners has continued across the region. The Bank encourages the formation of joint ventures with partners from both inside and outside its countries of operations.

working with partners

In Hungary, the Bank financed a management buy-out of a successfully privatised and restructured company. Its ECU 2.4 million equity investment in Graboplast Rt., the country's leading artificial leather, floor covering and wallpaper manufacturer, will enable the company to expand production and restructure a recently acquired carpet-making subsidiary – assisting one Hungarian company to restructure another which is emerging from liquidation. As Graboplast is publicly traded on the Budapest Stock Exchange, it also demonstrates the EBRD's confidence in the company and the Hungarian capital market. The company's privatisation was lead managed by Creditanstalt Securities, Budapest.

The EBRD's first involvement in the restructuring of one of the largest Czech conglomerates also demonstrates that Western involvement is not a precondition to EBRD financing. An ECU 17.9 million loan will help finance a new investment programme for the Czech company Skoda Kovarny, Plzen s.r.o., a manufacturer of forgings and a wholly owned subsidiary of Skoda a.s. of Plzen. The investment programme will upgrade Skoda's capital asset base by offering integrated machining capability for heavy free-forged products and will help the company to buy equipment to produce finish machined free forgings mainly for export markets. Komercni Banka is providing the remainder of the financing under a parallel loan structure.

The first direct corporate investment by the EBRD in Croatia (of ECU 48.3 million) is to be made in Pliva d.d., a well established and diverse pharmaceuticals company in the process of being privatised. Pliva plans to construct a new plant which will produce Azithromycin (an advanced macrolide antibiotic) and other antibiotics. Azithromycin is the product of Pliva's own research and is a drug for which it holds the world-wide patent. Zagrebacka Banka and Union Bank of Switzerland are to coordinate a domestic and international public offering of shares.

at the forefront of investment

In Turkmenistan the EBRD helped Gap-Turkmen, a joint-stock company part-owned by a Turkish textiles group, to create the first vertically integrated textile production company in the country. Its ECU 10.8 million equity investment and ECU 13.6 million loan will enable the company to expand an existing denim weaving plant by building a spinning plant and a ready-made jeans manufacturing plant. The project marks a significant step in attracting foreign currency earnings and foreign private investment to Turkmenistan.

Encouraging co-financing

The EBRD gives high priority to encouraging the involvement of co-financiers in its operations: by its mandate it is a co-financing institution. Success in attracting external finance for EBRD-sponsored projects increases the total resources available for the pursuit of its mandate and operational objectives. By catalysing funds from external sources, the Bank can support a wider range of projects. Co-financing is an important aspect of EBRD philosophy for the following policy and operational reasons:

- for the countries of operations it furthers access to international capital markets and other sources of funding;
- it promotes and facilitates foreign direct investment;
- it establishes risk-sharing with the appropriate risk-takers;
- for the EBRD it can be a portfolio management tool.

complementing other lenders

The co-financing instruments available to the EBRD are manifold. The choice made for a given project depends greatly on the specific needs of the client, the stage of transition of their country and whether the project involves state or private sector support. External finance originates from both commercial and official sources, and sometimes from a combination of the two. The main co-financing partners for the EBRD are:

- commercial banks: through lender of record arrangements (B loans and participations), assignments, bonds, parallel loans and credit lines
- Export Credit Agencies (ECAs): through direct financing, and export credit and investment insurance guarantees
- international financial institutions: sovereign lending for economic and financial infrastructure, and private sector lending for larger projects
- bilateral financial institutions and government agencies: private sector loans, sovereign (including concessional) loans, and grants for economic and financial infrastructure.

In 1995, 41 operations were arranged with co-financing, of which 28 were in the private sector and 13 were in the state sector. These arrangements together mobilised co-financing totalling ECU 1.86 billion, of which ECU 934 million was for private sector projects and ECU 931 million was for projects in the state sector.

During the year the Bank increased the number of its co-financing partners and, for approved and signed projects, it was working with 283 companies or partners, from 47 countries, in 416 investments.

Commercial co-financing

Significant volumes of commercial co-financing were achieved in 1995, chiefly through the closing of several large projects such as the M5 Toll Motorway, Novorossiysk Shipping and Matav/Investel. It is notable that the 1995 large-scale successes are in Hungary and Russia, offsetting the decline in lending opportunities in Poland, which accounted for a large percentage of the volumes in 1994. In addition to volume achievements, the Bank can report a number of innovative accomplishments. First-time commercial co-financings were signed in Kazakstan, Kyrgyzstan, Moldova and the Slovak Republic; the first B loan was signed in respect of a Ukrainian borrower and the first participation signed in respect of a Romanian borrower; the Bank signed its first ECLAT financing for a rail project in Bulgaria; the Bank used its authority to issue guarantees for a major infrastructure financing in Hungary.

The Export Credit Loan Arrangement Technique (ECLAT) offers the client a mixture of EBRD financing and ECA/commercial bank funding for contracts awarded after international competitive bidding.

As part of the EBRD's mandate to mobilise external capital, it is important for it to maintain a diverse base of co-financiers and to keep that base growing, to the extent possible in the prevailing market conditions. This entails a constant task of broadening the pool of investment funds, thus enabling the EBRD's countries of operations to develop broad sources of co-financing. In 1995, the EBRD was able to mobilise commercial co-financing for Bank-funded project financings for the first time from commercial banks from Canada, Greece, Hungary, Japan, Korea, Luxembourg, the Slovak Republic, Spain and Turkey.

	1994	1995	Cumulative
Number of co-financing banks	44	61	95
Nationalities of co-financing banks	14	21	25

Of the many co-financing projects signed in 1995, several were distinguished. For Investel/Matav in Hungary, a US$ 300 million financing was jointly arranged by the EBRD, the IFC and Deutsche Bank. This loan package was for a time the largest non-sovereign borrowing in Hungary. The deal was innovative in that the financing was a US$ 100 million 10-year A loan (shared between the EBRD and the IFC), a US$ 100 million 8-year B loan (with the EBRD and the IFC as lenders of record) and a US$ 100 million 5-year C loan (without IFIs as lenders of record). The B and C loans were fully underwritten by five commercial banks. The B and C loans were further distributed in a general syndication. Thirty-five banks participated in the financing, demonstrating the success of the structure and the attractiveness of the borrower when accompanied by IFIs in its fundraising in maturities beyond five years.

An A/B structured loan is where the EBRD finances a portion of the loan (the A part) from its own funds and syndicates the remainder (the B portion) to a commercial lender.

Also in Hungary, an ECU 364.7 million financing for the M5 Toll Motorway, to run from Budapest to the country's southern border, was jointly arranged by the EBRD, Commerzbank and ING Bank with the EBRD acting as lender of record. An ECU 179.4 million B loan was successfully syndicated to 16 international banks. The project overtook Investel/Matav to become the largest loan syndicated for a private sector Hungarian borrower. The project was innovative chiefly for the Optional Refinancing Guarantee provided to the banks by the EBRD, whereby the EBRD guarantees repayment of principal of the B loan in year 13, thus allowing the project to be amortised over an 18-year period.

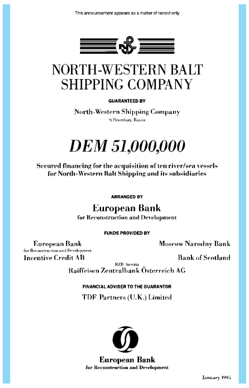
North-Western Shipping, Russia, entailed an ECU 15.8 million 10-year loan for the financing of river-sea vessels. The EBRD acted as lender of record and an ECU 12.0 million B loan was successfully syndicated to four banks, demonstrating a successful continuation of the dual registry structure for east European shipping deals. In this case, banks were prepared to accept Russian inland waterway risk without political risk insurance.

Also in Russia, Novorossiysk Shipping was the beneficiary of an ECU 175.4 million loan to finance 11 product tankers, jointly arranged and underwritten by the EBRD, ABN AMRO Bank and MeesPierson. This underwriting represents a considerable achievement by the client and the arrangers. The B loan was more widely syndicated in January 1996.

In Ukraine, an ECU 25.1 million 10-year loan was made to Ukrrichflot for the financing of five river-sea vessels. Although this is a relatively small loan, it is significant as it is the first term loan for a Ukrainian borrower under the EBRD's lender of record structure with a commercial bank B lender. Bank of Scotland is participating for ECU 6.5 million.

The EBRD actively seeks co-financing opportunities with export credit agencies and other international financial insitutions as a means of leveraging the funds available to finance projects in its countries of operations.

The EBRD, along with the IFC, Canada's Export Development Corporation (EDC) and a syndicate of commercial banks, financed the Kumtor Gold Company – a Kyrgyz joint-stock company owned jointly by Kyrgyzaltyn, a Kyrgyz state concern, and Cameco Corporation, a large Canadian uranium mining company. The EBRD provided a US$ 30.0 million senior loan and a US$ 10.0 million subordinated loan to the project company. Co-financing on a parallel basis were the IFC (US$ 30.0 million senior debt and US$ 10.0 million subordinated debt) and EDC (US$ 50.0 million senior debt). In addition, EDC and the Multilateral Investment Guarantee Agency (MIGA) together provided US$ 150.0 million in political risk insurance to Cameco Corporation, and the US OPIC provided political risk coverage to the commercial banks participating in the US$ 140.0 million syndicate led by Chase Manhattan Bank.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NORTH-WESTERN BALT SHIPPING COMPANY

GUARANTEED BY

North-Western Shipping Company
St Petersburg, Russia

DEM 51,000,000

Secured financing for the acquisition of ten river/sea vessels for North-Western Balt Shipping and its subsidiaries

ARRANGED BY

European Bank
for Reconstruction and Development

FUNDS PROVIDED BY

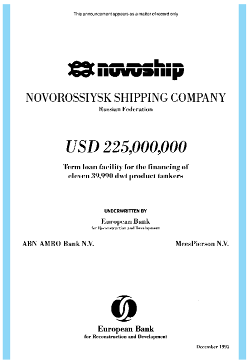
European Bank for Reconstruction and Development
Moscow Narodny Bank
Incentive Credit AB
Bank of Scotland
RZB Austria
Raiffeisen Zentralbank Österreich AG

FINANCIAL ADVISER TO THE GUARANTOR

TDF Partners (U.K.) Limited

European Bank
for Reconstruction and Development

January 1995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novoship

NOVOROSSIYSK SHIPPING COMPANY
Russian Federation

USD 225,000,000

Term loan facility for the financing of eleven 39,990 dwt product tankers

UNDERWRITTEN BY

European Bank
for Reconstruction and Development

ABN AMRO Bank N.V.
MeesPierson N.V.

European Bank
for Reconstruction and Development

December 1995

critical infrastructure support

The EBRD, along with Spain's Banco Bilbao Vizcaya and Instituto de Crédito Oficial, provided parallel loans of US$ 7.3 million, US$ 3.4 million and US$ 3.4 million, respectively, to Ascom-Kelme Joint-stock Company, a Moldovan joint venture between Ascom, a Moldovan trading company, and Kelme S.A., a Spanish manufacturer of sports and leisure shoes. Spain's export credit agency Compañia Española de Seguros de Crédito a la Exportación (CESCE) provided support to the two Spanish institutions financing the project.


This announcement appears as a matter of record only

UKRRICHFLOT, Ukraine
Joint Stock Shipping Company

USD 16,500,000

Secured financing for five new river/sea vessels for wholly-owned subsidiaries of Ukrrichflot

GUARANTEED BY
UKRRICHFLOT

ARRANGED BY
European Bank for Reconstruction and Development

DEBT PROVIDED BY
European Bank for Reconstruction and Development
Bank of Scotland

European Bank for Reconstruction and Development

September 1995


This announcement appears as a matter of record only

ASCOM-KELME S.A.

a joint venture established in Orhei, Republic of Moldova

between

Kelme International S.A.
a company of the Kelme Group
Elche (Alicante) Spain

Ascom Group S.A.
Chisinau
Republic of Moldova

for the production of sports and leisure shoes

USD 14,472,000

MEDIUM TERM LOAN

ARRANGED BY
European Bank for Reconstruction and Development

FUNDS PROVIDED BY
European Bank for Reconstruction and Development
Banco Bilbao Vizcaya
Instituto de Crédito Oficial

GUARANTEED BY
Compañia Española de Seguros de Crédito a la Exportación

ADVISORS TO KELME AND ASCOM-KELME
Inservex S.A. (BBV Group)

European Bank for Reconstruction and Development

October 1995

Official co-financing

Official co-financing plays a crucial role in supporting EBRD investments in physical and financial infrastructure in its countries of operations. Also, because of its often concessionary terms, it can be particularly beneficial to the lower-income countries.

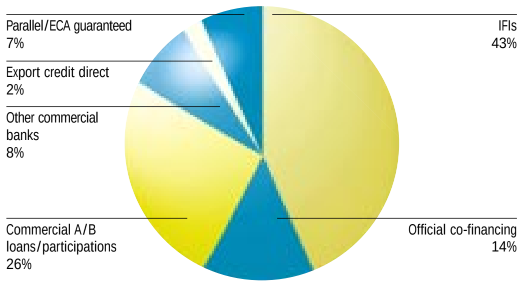
Of the other international financial institutions, the European Investment Bank, the International Finance Corporation and the World Bank have been particularly important co-financing partners in EBRD projects. These institutions co-financed 11 operations for an amount of ECU 814.7 million, 44 per cent of all co-financing mobilised in 1995. Their co-financing support was prominent, particularly in areas such as railways modernisation, highway reconstruction, regional telecommunications links, mining, power and energy.

Important official co-financing partners were the European Union (Phare) and bilateral institutions or government agencies from Austria, France, Germany (KfW), Japan (JEXIM and OECF), Italy, Netherlands, the Nordic countries (Baltic Investment Special Fund, Finnfund, NEFCO), Switzerland and the USA. These institutions and agencies co-financed 104 operations to an amount of ECU 255 million. Official co-financing featured some striking innovations in 1995 such as the JEXIM Baltic Credit Line for Latvia and Lithuania, investment support for Regional Venture Funds and municipal environmental infrastructure operations. In addition, it is notable that in 1995 many official co-financing partners/donors contributed to the EBRD's Technical Cooperation Funds Programme an amount of ECU 124.6 million. The largest share of these funds was committed in support of investment preparation and implementation (see Technical cooperation, page 42).

Sources of co-financing funds 1995 by value

	ECU million
International financial institutions	815
Official co-financing	256
Commercial: A/B loans/participations	481
Other commercial banks	144
Export credit direct	41
Parallel/ECA guaranteed	129
Total	**1,865**

Sources of co-financing funds 1995 by value



Co-financing support for private and state sector operations 1995

	Number	Total project cost ECU million	EBRD finance ECU million	Co-financing ECU million	Co-financing %
Private sector	28	2,644	532	934	50
Public sector	13	2,238	363	931	50
Total	**41**	**4,882**	**895**	**1,865**	**100**

Project evaluation

Project evaluation is the process of assessing the performance of completed projects and programmes through systematic analysis of their outputs or outcomes against expected or planned results, and the evaluation of categories of operations and patterns of experience. The project evaluation function serves as an essential mechanism to identify the relative success or failure of the EBRD's operations in achieving its objectives.

There are two basic objectives in project evaluation: to ascertain the results of the EBRD's portfolio of projects and programmes, both intended and otherwise; and to determine whether there were significant lessons to be learned from experience in order to ensure more successful future operations. A well-designed system for project evaluation also generates increased confidence that the Bank has the means to learn from the strengths and weaknesses of its completed operations, and of those of other international financial institutions.

The independence in which project evaluation activities are carried out, which secures the necessary objectivity and transparency, is a vital element of the evaluation process. For this reason, it is conducted by a separate Project Evaluation Department (PED) which is headed by a Vice President who reports directly to the President.

From the EBRD's inauguration in 1991 until the end of 1995, PED has produced 44 reports. These comprise 27 Operation Performance Evaluation Review (OPER) reports on private sector investment operations, comprising 100 per cent of operations ready for post-evaluation; 11 evaluations on large technical cooperation operations; three special studies related to technical cooperation; and three mid-term evaluations of EBRD operations. A substantial amount of PED's staff time is allocated to dissemination of evaluation findings through "lessons learned" workshops for Bank staff.

The outcomes of the 1993 and 1994 Annual Evaluation Overview Reports (AEORs), as well as the performance of investment operations evaluated during 1995, point towards the portfolio's increasing quality. Although the findings show a clear improvement, they are not yet representative for the Bank's portfolio as a whole, since the sample of evaluated operations (past disbursement stage) is still small compared with the total portfolio size, which recently has expanded rapidly.

It is important to note that the performance classifications of the evaluated operations are based on four strategic criteria: the EBRD's additionality (other financing for the operation is not available on reasonable terms); the operation's transition impact, including environmental considerations; the company/project performance; and the Bank's investment performance. The results therefore reflect the positive way in which the Bank has fulfilled its mandate during the early years of its existence.

Apart from ensuring that PED identifies whether the EBRD has functioned according to its mandate *(accountability)*, it is essential that the project evaluation process also generates important lessons from past operations and ascertains that, through Bank-wide dissemination of lessons learned, bankers gain experience from completed operations and make future operations better *(quality management)*.

The AEORs mentioned above identified a number of important thematic lessons which are at the core of the lessons learned dissemination process. The *quality of the operations at entry* was identified as one of the important ingredients for a project's success. Once disbursements are under way on a fatally flawed operation little can be done to improve the success prospects. It is evident that the Bank's appraisal and investment review effectiveness, especially in the early review stage where the basic decision is made, is critical for the portfolio's performance prospects in all core dimensions.

improving portfolio quality

A large cluster of lessons learned centres around issues relating to the *quality of project sponsors and company management*. It is therefore essential to carry out systematic due diligence to establish sponsor and project company management suitability at the earliest stage of project screening, before an operation is approved. Another thematic lesson is the importance of avoiding *appraisal optimism*. Of the 15 operations evaluated during 1993-94, close to half fell substantially short of reaching appraisal projections. Experience shows that the most critical example of appraisal optimism is an overestimation of projected revenues. An important way to avoid operational losses from the start of a Bank investment is to maintain *sound monitoring practices*. It is essential that the Bank staff is transparent and effective in signalling trends and the need for intervention, and therefore monitoring must be based upon early tracking of variances of key performance indicators from the expectations established at appraisal. A sound monitoring practice provides the early warning signals needed for timely intervention and independent verification.

Project Evaluation made careful assessments of the *transition impact* of Bank investments in its OPER reports and used the findings in the overall performance rating of each operation. In the 1994 AEOR a methodology of immediate and long-term transition impact scoring was applied to all until-then evaluated investment operations, using a standard set of transition impact indicators developed by the Office of the Chief Economist. The outcome of the analysis shows that there is a positive correlation between company performance/project success and transition impact. In this respect PED concluded that selecting strong sponsored projects that are also economically viable – taking into account sound banking principles – is the best way to achieve high transition impact. The analysis further revealed that those companies with sound and committed entrepreneurial sponsors, having experience in similar country operating environments, are likely to adjust quickly to market signals and pursue both local downstream market development linkages and upstream input scoring linkages for cost advantages.

Environment

The EBRD is required to promote, in all its activities, environmentally sound and sustainable development. In 1995 it implemented this mandate by developing municipal and environmental infrastructure and energy efficiency investment operations – described in more detail on pages 26 and 27 – by applying environmental due diligence to all its investment pipeline and technical cooperation operations, and by continuing to promote a range of training, standards and other environment-related technical cooperation initiatives.

One of the Bank's principal environmental contributions is investment in operations that are more energy and resource efficient, less polluting and which generate less waste than the facilities they replace. Environmental concerns are addressed at all stages of the Bank's project preparation and approval process. Environmental due diligence requirements vary, depending on the nature of the project, the potential environmental liabilities or risks associated with past, current or future operations, worker health and safety considerations, and other related issues. Investigations are undertaken early to allow time to identify environmental concerns, to plan mitigation measures and to estimate costs before Board approval. Environmental investigations often highlight problems and environmental opportunities that require Environmental Action Plans to be drawn up and agreed. Appropriate environmental conditions and covenants, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements.

assessing environmen impact

Energy production, transport and utilisation have, historically, created a considerable threat to the environment of the region, resulting in impacts from waste disposal and atmospheric and waste-water discharges at the local, regional and global levels. Investment in modern, efficient energy production and transmission is central to the EBRD's energy policy, often in association with the closure of old, grossly polluting installations. Significant efficiency and environmental components were incorporated in each of the Board-approved energy operations in 1995. These included the Power Sector Operational Efficiency Improvement Project in Romania, the Moldova Energy Efficiency Project, the Transmission Network Improvement Project in Kyrgyzstan, and the Power Transmission and Distribution Project in Albania. For example, on the Romanian operation the Bank financed the development of an Environmental Action Plan with the objectives of health protection and compliance with environmental standards. To help the Romanian power plant operators and local environmental authorities to monitor and control harmful emissions and to implement the Environmental Action Plan, environmental monitoring equipment was financed within the operation. As part of the same operation, training of plant operators in health and safety and in environmental management will be provided to the Romanian energy utility.

The industrial, manufacturing and natural resources sectors present some of the most complex operations requiring environmental appraisal. Environmental audits and/or assessments are undertaken on such operations to establish the current environmental status of the facilities and to predict the environmental impacts of the Bank's potential funding. Issues that, typically, have to be addressed include compliance with environmental, health and safety regulations, historical contamination and environmental liabilities, and implementation and monitoring. In 1995 increasing emphasis was placed on the proactive aspects of environmental appraisal, notably the identification of cleaner technology, energy efficiency, resource recovery and waste reduction opportunities. Environmental Action Plans are increasingly required of clients by the Bank to address these issues.

In 1995, a loan was approved to upgrade Skoda Kovarny, the forge plant subsidiary of Skoda Koncern in the Czech Republic. The key environmental issue identified during the environmental audit was air emissions from furnaces which use generator gases. A programme has been agreed with the management to convert the forge from using generator gases to natural gas. An Environmental Action Plan has been implemented to foster cleaner technology principles and to improve maintenance and worker health and safety conditions.

Although the Bank's funds are typically used at an individual plant, the company requiring finance may have more than one facility, and environmental due diligence is usually extended to cover all the assets which secure the funding. In a loan to the Pliva pharmaceutical company in Croatia, the Bank's funds will be used to relocate pharmaceutical production from a metropolitan area to an existing operational site in a less populated area, reducing atmospheric emissions in the city and relieving traffic congestion associated with the current plant. In addition to the two sites involved in the operation, environmental due diligence was undertaken and action plans were agreed for the other seven Pliva facilities throughout the country.

A number of operations involved existing plants in traditionally highly polluting sectors. The Sepap Steti operation will finance a programme of investments at an existing pulp and paper mill in the Czech Republic. A chlorine bleaching process will be converted to a chlorine-free process. Special attention has been paid to adapting the company's environmental management plan to address issues that will arise in the medium term, when the Czech Republic will need to harmonise with EU standards. The Bank has also been working with the company to develop an energy efficiency programme. The company's community interaction programme was expanded to inform the local public of the modernisation programme and agreed environmental protection measures.

A unique operation for the EBRD in 1995 was the co-financing with the World Bank of the containment and clean-up of a major oil spill in the Komi Republic in Russia. Gross contamination of the Kolva and Pechora Rivers during the spring floods was prevented. The EBRD was instrumental in ensuring new pipeline construction, and requiring an international pipeline inspection component and the completion of two new oil-water separation facilities be added to the original clean-up operation. Contained and recovered oil is now being re-injected into the new pipeline.

Two gold-mining operations were approved in 1995, the Kubaka operation in a remote area of the Siberian Far East, and the Kumtor operation, high in the Tien Shen mountain range in Kyrgyzstan. The Bank involved international wildlife experts from an environmental non-governmental organisation in the Kumtor operation to provide an opinion on the adequacy of the studies and the mitigation measures proposed, and to assist in designing future studies and a monitoring programme.

In the transport sector, environmental appraisal was carried out on a variety of highway, rail, air, ports and shipping projects. The environmental assessment carried out on the Bulgarian Railway Modernisation operation resulted in the inclusion in the investment of a component for the completion of a waste-water treatment plant and the construction of a sediment treatment facility in a diesel locomotive workshop.

As a result of the environmental assessment conducted on the Giurgulesti Oil Imports Terminal in Moldova, mitigation measures related to both the construction and operation of the port have been included in the loan agreement to reduce potential environmental impacts. These include oil-water separators and a waste-water treatment plant to meet the effluent quality requirements of Moldova, which exceed those of most west European countries.

The Tbilisi Airport Rehabilitation operation involved a loan for the refurbishment of the international passenger terminal. The environmental assessment identified the benefits which could be obtained by using new energy efficient technologies for lighting, heating and air conditioning, as well as the use of geothermal energy for airport heating. These components will be incorporated in the project.

In 1995 nearly 40 per cent of the EBRD's financing was intermediated through various financial institutions. Such financial intermediaries are required to adopt and implement environmental procedures similar to those used by the EBRD. The Bank attaches considerable importance to assisting its financial intermediaries to comply with the environmental requirements it places upon them. A major technical cooperation initiative, funded by EU-Phare and Tacis, continued to help individual financial intermediaries adopt and implement environmental procedures. Under another technical cooperation programme, a bankers' environmental handbook has been developed, together with materials for the environmental training of bankers. Local consultants and other specialists have been trained in a number of CIS countries so that they can better support financial intermediaries in identifying and addressing environmental issues.

Throughout the year the Bank's environmental specialists developed, together with banking teams, innovative approaches to environmental due diligence, including the implementation of environmental procedures related to multi-project facilities, mass privatisation and restructuring, equity funding and corporate lending.

The EBRD continued its programme of environmental technical cooperation work, including preparing investors' guidelines on environmental, health and safety requirements in the CIS countries and in some of the countries of central and eastern Europe, and the development of an environmental standards database throughout the EBRD's region of operations. To improve professional expertise in the sector, environmental training was conducted by Bank specialists and consultants for those working in financial institutions, for local consultants and other specialists in environmental management, and for government officials in environmental impact assessment, including the Ministries of Transport in Belarus, Kazakstan, Russia and Ukraine.

Increasing attention has been paid to securing grant and "soft" financing to help achieve the EBRD's environmental objectives. The work of the Project Preparation Committee (PPC), established in 1993 to help match donor co-financing for environmental projects with the market based financing available from international financial institutions, was endorsed at the meeting of European environment ministers in Sofia in October 1995. The secretariat of the PPC is located at the EBRD. At the Sofia Conference, President de Larosière gave the keynote speech in which he summarised the findings of an international working group on environmental financing which was chaired by the EBRD.

The EBRD's Environmental Advisory Council (ENVAC), a forum of environmental experts from the Bank's countries of operations and OECD countries, continued to advise the President and staff on policy and strategy issues related to the Bank's environmental mandate; two formal meetings of ENVAC were held in 1995. Two editions of the Bank's bulletin *Environments in transition* were published during the year.

Nuclear Safety Account

The Nuclear Safety Account (NSA): a multilateral mechanism
At their Munich Summit (6-8 July 1992), the G-7 heads of state and government offered the countries of the region a multilateral programme of action to improve safety in their nuclear power plants. This was to comprise immediate measures in: operational safety improvements; near-term technical safety improvements to plants, based on safety assessments; and enhancement of regulatory regimes. It was also to create the basis for longer-term safety improvements by considering the scope for replacing less safe plants by the development of alternative energy sources and the more efficient use of energy; and by examining the potential for upgrading plants of more recent design.
The G-7 advocated setting up a supplementary multilateral mechanism to address immediate operational and technical safety improvement measures not covered by bilateral programmes, and invited the international community to contribute to the funding. The G-7 also stated that such a mechanism should take account of bilateral funding, be administered by a steering body of donors on the basis of consensus, and be coordinated with and assisted by the G-24 and the EBRD.
In February 1993, the G-7 officially proposed that the Bank set up a Nuclear Safety Account, to receive contributions by donor countries to be used for grants for safety projects in the region. The EBRD's Board approved this proposal and the Rules of the NSA in March 1993. Under these rules, the Bank prepares projects and submits them for approval to the Assembly of Contributors.
More generally, the Bank functions as the administrator of the NSA, provides technical and other services, and regularly liaises with the European Commission in its capacity as the G-24 secretariat. As of 31 December 1995, 14 countries and the European Commission have made pledges to the NSA in the amount of ECU 193 million: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, Sweden, Switzerland, United Kingdom and United States of America. Additional contributions to the NSA of ECU 52 million are under negotiation.

Nuclear Safety Account activities

Priority is given to those reactors presenting a high level of risk that can be significantly reduced by short-term and cost-effective safety improvements, and which are necessary to ensure the continuing national electricity supply in the region. This means that emphasis is put on existing RBMK and VVER 440/230 reactors and on the purchase of equipment, as opposed to studies, which a number of donors already fund. Agreements are sought with the countries concerned on conditions for the shutdown of the less safe reactors.

Nuclear reactors operating in the region suffer a wide range of safety deficiencies. In general, priority should be given to the promotion of a "safety culture" and to all possible improvements to design and construction. Various types of Soviet-designed reactors have different safety features:
VVER Reactors: Pressurised water reactors. The oldest type, VVER 440/230MW, should not be kept in operation in the long term; the more modern types VVER 440/213MW and VVER 1000MW may be upgraded for long-term operation.
RBMK Reactors: "Channel-type" reactors whose technology and safety features are much less well understood by Western experts than those of VVER reactors. There are different types, one of which caused the 1986 Chornobyl accident. Most nuclear experts think that they cannot be improved to standards acceptable for long-term operation.

Ongoing projects

As of 31 December 1995, projects in Bulgaria, Lithuania and Russia have been approved by the Assembly of Contributors and grant agreements have been signed by the interested governments, the utilities and the EBRD:

– an ECU 24 million project for Units 1-4 (VVER 440/230s) at Kozloduy Nuclear Power Plant in Bulgaria, approved and signed in June 1993, which is currently being implemented. It includes in particular: measures for fire protection, in-service inspection of critical components, control room aids for operators, and an emergency feedwater system. Completion of the project is expected by December 1996. The Bulgarian government is committed to shutting down Units 1-2 and subsequently Units 3-4 when a set of investments in the power subsector has been completed.

– an ECU 33 million project for Ignalina Nuclear Power Plant (two RBMK reactors) in Lithuania, approved by the Assembly of Contributors in December 1993 and signed in February 1994. This project includes the most urgent and feasible upgrades, whereas a few important safety concerns may justify a second-phase project after safety and engineering issues have been further investigated. The scope of the project includes, *inter alia*, new reactor trip signals, fire protection devices, a training simulator and environmental monitoring equipment. Completion is expected by end-1997. Ignalina NPP generates about 90 per cent of the country's electricity production.
  The Lithuanian government has agreed that the operation of neither of the units at the plant will be prolonged beyond the time when the reactor channels will have to be changed (i.e. after 15-20 years of operation). In addition, it has agreed to submit the plant to an in-depth safety analysis under the supervision of a panel of international experts. Unit 1 will be shut down by mid-1998 unless it is relicensed by the Lithuanian Safety Authority (VATESI) on the basis of this analysis. The analysis is financed by the NSA in the amount of ECU 7.3 million.

– Agreements were signed in June 1995 between the EBRD and the Government of the Russian Federation, Leningrad NPP, Rosenergoatom (jointly with the Novovoronezh and Kola NPPs) and the Nuclear Safety Authority (Gosatomnadsor). The Russian government also agreed on a unilateral statement to ensure indemnification of suppliers. Of the total grant, Leningrad NPP (four RBMK reactors) will receive ECU 30 million, and the joint project at Novovoronezh and Kola NPPs ECU 45 million. These projects are currently being implemented and include, in particular: in-service inspection equipment, measures for fire protection, environmental monitoring equipment and emergency feedwater systems.
  A joint committee was set up to monitor the progress of the implementation of these agreements and completion of both projects is expected by end-1997. They will assist Russia in implementing its safety upgrading programmes in the short term; specific support will be given to the Nuclear Safety Authority in the form of a grant. A further area of cooperation is the preparation of a power sector strategy. The situation of all VVER 230 and the oldest RBMK nuclear units will be systematically re-examined by the Russian authorities to assess their safety and the economic need for their continued operation at improved levels of safety. Western and Russian experts will cooperate on these issues.

Future projects

A project for Chornobyl NPP is being prepared as part of the action plan proposed to the Ukrainian authorities by the G-7 Summit in Naples (8-9 July 1994). A related memorandum of understanding was signed in December 1995 between both parties which includes a comprehensive programme of cooperation in order to support the closure of the Chornobyl NPP by the year 2000.

The NSA agreement will address preparation for a decommissioning project as well as immediate short-term safety upgrades at Unit 3 pending closure.

Technical cooperation

supporting operational priorities

The EBRD's Technical Cooperation Funds Programme (TCFP) is guided by the operational principles laid down in the Bank's Technical Cooperation Policy. This policy was reviewed during 1995 in view of the increasing demand for limited technical cooperation resources. The key message of the policy review is that the EBRD needs to sharpen the focus of its technical cooperation programme onto those core activities that directly support its operational priorities. The Bank's technical cooperation activities will thus be guided by four policy considerations:

- to develop and maintain a productive investment pipeline
- to support project implementation
- to build institutional infrastructure directly relevant to the Bank's operations
- to support a balanced portfolio distribution between the private and public sectors.

In 1995 the EBRD committed ECU 99.3 million related to 322 technical cooperation operations, compared with ECU 87.6 million in 1994. Disbursements amounted to ECU 57.9 million, compared with ECU 46.4 million in 1994.

By type of activity in 1995 the TCFP supported project preparation (54 per cent), project implementation (25 per cent), advisory services (18 per cent), training (2 per cent) and sector studies (1 per cent).

During the year the EBRD signed 39 loans and investments totalling ECU 705 million that were supported by technical cooperation operations. This represents 35 per cent of the value of all loans and investments signed during the year.

For the period 1991-95, commitments were ECU 312.4 million for 1,177 technical cooperation operations. Cumulative disbursements amounted to ECU 152.7 million. During this period, the TCFP contributed ECU 84 million to the generation of 115 signed projects for which EBRD financing of ECU 3 billion was approved. The TCFP has established itself as a critical element in furthering EBRD investment and lending operations, thereby enhancing the Bank's transition impact.

The analysis that follows relates to firm commitments of financing by the TCFP.

Technical cooperation commitments by sector[1]

	1995			Cumulative 1991-95		
	Number	ECU million	%	Number	ECU million	%
SMEs[2]	55	48.5	49	128	88.5	28
Energy	32	6.0	6	176	41.6	13
Privatisation	20	10.9	11	94	38.3	12
Finance	38	5.0	5	172	34.9	11
Transport	30	9.4	9	114	31.0	10
Environment	21	5.1	5	104	21.4	7
Restructuring	47	7.1	7	110	16.4	5
Agribusiness	10	1.8	2	81	16.4	5
Telecommunications	17	1.7	2	78	13.1	4
Legal	18	1.4	1	51	5.4	2
Industry	18	1.1	1	34	2.9	1
Tourism	1	<0.1	<1	7	0.9	<1
Miscellaneous	15	1.2	1	28	1.7	1
Total	**322**	**99.3**	**100**	**1,177**	**312.4**	**100**

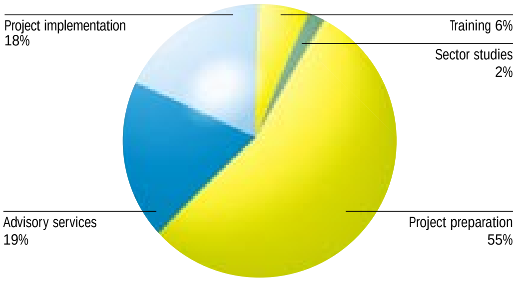
[1] Figures include 7 implementation projects, with a value of ECU 3.1 million, for which payments are managed directly by the European Commission.
[2] Some operations earlier classified as Finance have been reclassified as SMEs.

Technical cooperation commitments by recipient country[1]

	1995			Cumulative 1991-95		
	Number	ECU million	%	Number	ECU million	%
Russian Federation	56	48.8	49	241	126.8	41
Kazakstan	9	9.3	9	28	14.0	4
Romania	6	3.5	3	45	12.7	4
Ukraine	26	3.0	3	61	10.8	3
Hungary	10	3.9	4	49	9.3	3
Belarus	2	0.3	<1	37	9.0	3
Slovenia	16	0.9	1	56	8.8	3
Lithuania	19	1.9	2	48	7.3	2
Estonia	25	1.9	2	51	6.9	2
Poland	15	0.7	1	48	6.9	2
Latvia	19	1.5	2	48	6.8	2
Bulgaria	4	0.4	<1	20	5.8	2
Albania	7	0.4	<1	50	5.7	2
Kyrgyzstan	9	2.2	2	31	5.4	2
Slovak Republic	8	0.4	<1	36	4.5	1
Czech Republic	4	0.4	<1	22	4.2	1
Tajikistan	6	3.8	4	7	4.0	1
Uzbekistan	6	1.2	1	19	3.9	1
Moldova	10	2.1	2	20	3.8	1
FYR Macedonia	11	1.1	1	25	3.2	1
Turkmenistan	2	1.3	1	11	2.7	1
Croatia	10	1.6	2	14	1.8	1
Georgia	6	1.1	1	9	1.7	1
Azerbaijan	6	0.7	1	11	1.7	1
Armenia	1	<0.1	<1	10	1.2	<1
Regional						
Baltic states	6	2.9	3	36	5.6	2
Other regional	23	4.1	4	144	38.0	12
Total	**322**	**99.3**	**100**	**1,177**	**312.4**	**100**

[1] Figures include 7 implementation projects, with a value of ECU 3.1 million, for which payments are managed directly by the European Commission.

Technical cooperation commitments 1991-95
by type of activity



Technical cooperation funds

The EBRD's resource base for technical cooperation comprises regular Technical Cooperation Fund contributions, project-specific technical cooperation agreements and Special Fund contributions. All contributions by donors are made on a voluntary basis.

An important element of the 1995 technical cooperation policy review was the decision by the Board of Directors to establish an EBRD Technical Cooperation Special Fund (TCSF). The TCSF would be an untied facility funded through reimbursed technical cooperation funds previously allocated to private sector operations and/or through direct donor contributions. In this way the Bank will build a new resource flow for technical cooperation funding that would complement its present resources and increase operational efficiency.

In 1995, the EBRD signed eight new Technical Cooperation Fund Agreements with bilateral donors, bringing the total to 43. In addition 14 existing Technical Cooperation Funds were replenished and 6 project-specific technical cooperation agreements were signed in 1995. Total grant resources for technical cooperation increased during 1995 by ECU 124.6 million to ECU 387.9 million. This represents an increase of 47.3 per cent compared with 1994.

Technical Cooperation Fund Agreements
At 31 December 1995

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
1991				
Norway (Environment and Energy)	16 Apr	NOK	27.60	3.41
Japan	5 July	JPY	6,518.00	49.33
USA	30 July	USD	1.15	0.89
France (Foreign Affairs)	1 Aug	FRF	17.50	2.79
Sweden	13 Aug	SEK	40.00	4.69
Taipei China	16 Sept	USD	15.00	11.69
European Union[1]	15 Oct	ECU	130.07	130.07
Netherlands	20 Nov	NLG	16.68	8.11
United Kingdom[2]	25 Nov	GBP	3.75	4.53
Luxembourg	26 Nov	ECU	0.70	0.70
Austria	31 Dec	USD	5.00	3.90
1992				
Finland	13 Jan	FIM	15.50	2.78
Canada	24 Jan	CAD	7.70	4.40
France (Treasury)	26 Mar	FRF	20.46	3.26
Switzerland	31 Mar	CHF	7.50	5.09
Israel	14 Apr	ILS	1.04	0.26
Italy	14 Apr	ITL	9,000.00	4.43
Italy (Central European Initiative)	14 Apr	ITL	16,000.00	7.88
Turkey	17 June	TRL	10,000.00	0.13
Denmark	1 July	ECU	3.10	3.10
New Zealand	10 July	NZD	0.33	0.17
Spain	21 July	ESP	201.35	1.29
Portugal	20 Oct	PTE	80.00	0.42
Iceland	3 Dec	ECU	0.20	0.20
Germany	11 Dec	DEM	10.00	5.45
1993				
Republic of Korea	25 Apr	USD	0.60	0.47
Norway (General)	27 Apr	ECU	1.00	1.00
Ireland	17 Sept	ECU	0.33	0.33
1994				
United Kingdom-B[3]	14 Mar	GBP	1.25	1.51
United Kingdom-C[4]	25 Mar	GBP	1.60	1.94
USA (Evergreen)	3 June	USD	2.92	2.28
Finland, Norway, Sweden (RVF for North West Russia)	5 July	USD	20.00	15.59
Belgium	27 Sept	BEF	30.00	0.80
USA (RVF for Lower Volga Region)	29 Sept	USD	20.00	15.59
Flanders	9 Nov	ECU	0.40	0.40
1995				
France (RVF for Southern Russia)	28 Feb	FRF	120.00	19.11
Wallonia	16 Mar	BEF	15.00	0.40
Greece	4 Apr	GRD	59.00	0.19
Italy (RVF for Western Russia)	6 June	USD	20.00	15.59
Netherlands (Dutch Environment)	22 June	NLG	0.40	0.19
European Union (TAM Phare Regional)	26 June	ECU	5.90	5.90
Denmark, Finland, Iceland, Norway, Sweden (TAM Nordic Council)	22 Sept	DKK	4.00	0.56
Germany (KfW)	27 Sept	DEM	13.00	7.08
Total of Technical Cooperation Funds				**347.90**

Technical Cooperation Funds replenished since the initial Agreement.

1 The Agreement amount has been amended by the EBRD to reflect the annual revision of the facility by the EU. Included in the Agreement is ECU 3.1 million representing funds assigned to implementation projects.

2 The activities of the UK Fund are in the Russian Federation.

3 The activities of the UK-B Fund are in the countries of the CIS, excluding the Russian Federation.

4 The activities of the UK-C Fund are in Albania, Bulgaria, Czech Republic, FYR Macedonia, Hungary, Poland, Romania, Slovak Republic and Slovenia.

Regional Venture Funds

The table opposite lists all technical cooperation agreements that the EBRD manages directly and for which it has received contributions. Additional Regional Venture Funds are not administered by the EBRD: these are recorded as official co-financing (see pages 21 and 33).

	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
Special Funds				
Baltic Technical Assistance Special Fund[1]	14 Apr 1992	ECU	8.49	8.49
Russia Small Business Technical Cooperation Special Fund	18 Oct 1993	ECU	9.23	9.23
Project-specific funds			22.28	22.28
Total of Technical Cooperation Funds				347.90
Total of Special Funds				17.72
Total of project-specific funds				22.28
Total of all technical cooperation agreements				**387.90**

[1] At the option of EBRD, income of ECU 3.49 million derived from the investment of the resources of the Baltic Investment Special Fund was transferred in June 1995 to the Baltic Technical Assistance Special Fund to supplement the resources of the Fund.

Financial results

Introduction

The EBRD's portfolio of committed loans and equity investments increased by ECU 2.0 billion in 1995. The financial results for the year were higher than projected at ECU 82.9 million before provisions and ECU 7.5 million after provisions. This is a very satisfactory outcome, particularly in view of the marked increase in total reserves and the provisions established for costs related to work on the Headquarters building in preparation for further subletting.

The results include the first significant contributions from the Bank's equity portfolio, with ECU 5.8 million of dividend income and ECU 37.9 million profit arising from the sale of share investments. With gross income from Banking operations, which includes loan interest and fee income, again more than doubling over the previous year, the contribution of Banking operations to the EBRD's total income has now reached over 35 per cent.

The remaining income is derived from treasury investment activities which, in uncertain market conditions during most of the year, generated a reliable flow of income and exceeded performance benchmarks.

As a result of continued tight budget discipline, cost saving initiatives and successful efforts to increase cost recovery, administrative expenses at ECU 136.8 million were well below approved budget and less than 2 per cent higher than in 1994. This small increase over 1994 is primarily due to accruals relating to work on the Headquarters building prior to further subletting.

Depreciation in 1995 was, however, at ECU 21.5 million, more than double the 1994 charge. This increase was primarily due to a one-off charge relating to making more efficient use of the Headquarters building, together with bringing all depreciation periods onto a consistent, more conservative basis.

Provisions of ECU 75.4 million, which reflect a refinement during the year of the Bank's provisioning policy, have been made against general portfolio risks and include, where required, specific loss provisions. The increase over 1994 has two causes: the acceleration in the underlying operations portfolio of both commitments and disbursements, and the need to recognise prudently the still immature nature of the loan and equity portfolios and the high-risk nature of many of the Bank's operations.

Banking operations

During the year 110 commitments for a value of ECU 2.0 billion were signed, compared with 88 in 1994 for a value of ECU 1.6 billion at 1995 year-end exchange rates. This brought cumulative commitments at year-end 1995, net of repayments, to ECU 5.7 billion. Of these cumulative commitments the equity portfolio accounted for over 13 per cent. Seven Regional Venture Fund framework agreements were signed during the year for a total value of ECU 163.7 million as part of the early stage equity programme.

Project disbursements during the year were 72 per cent greater than in 1994, with the total of outstanding disbursements at year-end reaching almost ECU 2.1 billion compared with ECU 1.1 billion at the end of 1994. The disbursed and outstanding portfolio comprises ECU 490.8 million of equity investments, ECU 1.6 billion of loans and ECU 8.2 million of project-related debt securities.

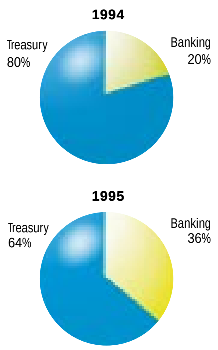
During the year ECU 157 million was received from loan repayments and equity disposals, indicating a successful start to the Bank's policy of revolving its portfolio.

Gross income from Banking operations again more than doubled during the year to reach a total of ECU 168.5 million. Of this, ECU 43.7 million was generated from the Bank's equity portfolio through dividends of ECU 5.8 million and profit on the sale of shares of ECU 37.9 million. The strong growth in the underlying operations portfolio is reflected in the increases in fee and commission income and the more than doubling of loan interest, as shown in the following table. The yield on the average loan outstandings (excluding fee and commission income which relates primarily to signing of projects) was 8.4 per cent and the return on average equity outstandings was 9.9 per cent.

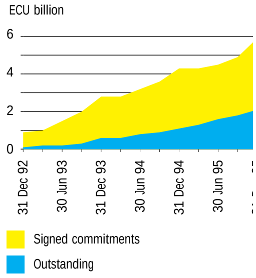
Income from banking operations

	1995 ECU 000	1994 ECU 000
Interest from loans	90,898	42,043
Dividend income from shares	5,773	1,486
Fee and commission income	33,938	26,137
Profit on sale of share investments	37,895	339
	168,504	**70,005**
Average loans outstanding (ECU billion)	1.1	0.5
Average equity outstandings (ECU billion)	0.4	0.3

Analysis of gross income 1994-95



Portfolio development



Treasury investments

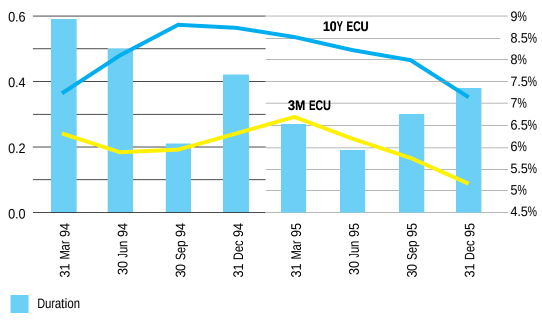
The EBRD's treasury investments increased during the year by ECU 0.8 billion, or 19 per cent, to ECU 5.3 billion. This was due to use of capital receipts and retained liquidity generated from borrowings, prior to project disbursements. See also Treasury activity disclosures on page 47.

The investment strategy is to focus on protection of the Bank's investments while taking advantage of market opportunities. Performance has been influenced by the fact that duration has been kept short because of continuing market uncertainties. There was, however, some lengthening of duration during the second half of the year in view of declining interest rates (see graph). The overall portfolio returns continue to exceed benchmarks.

At year-end, 11 per cent or ECU 580 million of the EBRD's total treasury investments were managed by external asset managers. These funds are placed with independent managers who are required to comply with the same Investment Guidelines as the Bank applies to its internally managed funds. The externally managed funds comprise portfolios of ECU 358 million of ECU-denominated securities; ECU 214 million of US dollar short duration mortgage-backed securities and ECU 8 million in a US dollar fixed-income arbitrage fund.

The total investments managed by the Bank's treasury generated over ECU 300 million of income, representing an increase of more than 8 per cent over 1994. The accounting presentation of the Bank's treasury results, as summarised in the table below, differentiates between interest income and realised/unrealised gains and losses arising from debt securities. The full year income of over ECU 300 million is therefore stated after taking account of a downward adjustment in the value of debt securities of ECU 10.6 million.

Portfolio duration and interest rates



Income from treasury investments

	1995 ECU 000	1994 ECU 000
Interest earned from debt securities and short-term money market instruments	310,632	289,797
Realised/unrealised losses arising from debt securities	(10,546)	(12,947)
	300,086	**276,850**
Average assets outstanding (ECU billion)	5.305	4.559

Funding

Capital

Following the receipt during the year of ECU 569 million, which included the fifth and final instalment of the initial capital contribution, the total capital received at year-end in cash and promissory notes reached ECU 2.8 billion.

The amount of capital payments and promissory note encashments overdue at year-end from a total of 12 members was ECU 100.7 million, which represented less than 4 per cent of the paid-in capital. Subsequent to the year-end the United States of America has appropriated funds to reduce its overdue payments by ECU 60 million in two stages in 1996 and 1997.

Borrowings

The EBRD borrows funds to provide a strong level of liquidity which allows flexibility in deciding the most appropriate time to access the capital markets. To ensure it has adequate funds available the Bank develops borrowing capacity and market access in advance of actual funding needs. Through extensive use of swaps the Bank transforms floating rate liabilities into the required currencies and maturities. This integrated approach then allows the Bank maximum flexibility and cost effectiveness in its funding programmes.

Under its approved borrowing programme for 1995 the Bank raised ECU 1.2 billion through 30 funding transactions in seven currencies. These had an average maturity of 9.1 years at an average cost of Libor less 34.3 basis points. This activity represents a substantial increase over 1994 in the number of transactions in new markets and the overall maturity, which more than doubled that achieved in 1994.

As part of its borrowing programme the EBRD continues to pursue a programme of repurchase and early redemption where this will lower the overall cost of funds. In 1995 this amounted to ECU 178 million (1994: ECU 144 million) generating a net gain of ECU 1.7 million.

At year-end the Bank's outstanding medium- and long-term debt amounted to ECU 3.8 billion equivalent in 17 currencies, with an average life to maturity of 5.7 years and an average after-swap cost of Libor less 36 basis points.

Expenses

The EBRD's administrative costs for the year were comfortably below the approved budget and, after providing for costs related to the Headquarters building, were only marginally above those of 1994.

The major cost-saving initiatives started in 1994 continued in 1995 with further positive results from cost-recovery programmes and the subletting of parts of the Headquarters building. The Bank continues to demonstrate the benefits of applying tight budget discipline and efficient cost controls.

The depreciation charge for the year increased in 1995 to ECU 21.5 million, compared with ECU 11 million in 1994. This increase resulted from one-off prudential measures to recognise the costs related to the reconfiguration of the Headquarters building which will provide for more effective and efficient use of the space. This includes the accelerated depreciation of assets no longer having any material economic value. Consistent with this the depreciation periods for all assets other than leasehold improvements have been standardised at two and four years as applicable.

Provisions

During the year the EBRD conducted a comprehensive review of its provisioning policy. As a result the basis of calculating general provisions was refined. They are now calculated on a risk-based approach for non-sovereign risk assets. An independent credit-risk rating system is in operation, designed to recognise the relative risk inherent in individual operations and, at the time of approving the operation, to assign a risk rating class to each of them on the basis of a composite country and risk rating. The ongoing portfolio review process requires that a formal monitoring report is prepared for each individual operation at least twice a year, during which, if appropriate, adjustments to the credit rating are made.

Provisioning is now applied in two steps: an initial amount of 50 per cent of the total provision is made at the time of commitment and the remaining 50 per cent at disbursement. The previous version of the policy was based on provisions being made at disbursement only and hence the refined policy represents a more prudent approach. In addition, the policy now requires that a provision against general portfolio risks is also made against the total portfolio of gross commitments, net of repayments.

The credit-risk ratings assigned to individual operations use a 10-point scale and can range from low risk (1) to high risk (10). It is expected that Bank operations will normally be rated between 4 and 7.

The weighted average overall risk rating of the Bank's portfolio at year-end 1995, at 5.32, had not moved significantly from the 1994 year-end average of 5.31. The apparent stability of credit-risk rating of the portfolio does not necessarily reflect unchanged conditions as this indicator is the composite result of several underlying trends. These include some increase in the rating due to the growing share of operations in countries in the early and intermediate stages of transition, a rising share of operations with local partners, and more equity investments, in line with the Bank's operational priorities. This increase was to a large extent offset by improvements in the existing portfolio of operations.

The Bank's policy of making specific provisions on a case-by-case basis continues. When applied to share investments these provisions represent an estimate of the permanent diminution in the value of the investment. At year-end there were 10 specific provisions for a total of ECU 14.2 million, representing a net increase of ECU 4.9 million during the year.

The application of the refined policy produced a provisioning charge for the year of ECU 71.4 million to which an additional ECU 4 million was added as a prudential measure, giving a total charge for the year of ECU 75.4 million. This was done in view of the lack of experience with the portfolio and the consequent lack of a fully developed portfolio performance track record. The increase in the charge from ECU 23.9 million in 1994 represents the underlying growth in the operations portfolio (including in particular early-stage equity projects) and the significant build-up in the general portfolio risk provisions.

The charge for the year resulted in total cumulative provisions doubling from ECU 72.6 million to ECU 145.4 million. In the balance sheet presentation the total provisions comprise ECU 62 million as a deduction from operational assets and ECU 83.4 million as General Portfolio Risks included in liabilities.

Outlook for 1996

The EBRD remains committed to implementing its operational priorities and achieving its productivity objectives, particularly in the short and medium term. In 1996 a gradual shift of the Bank's strategy towards the implementation of wholesale operations is expected.

The Bank's commitment to pursuing a manageable growth strategy to meet increasing demand in its countries of operations will result in a further significant increase in its portfolio. The need to provide prudentially for unforeseen risks in the operations portfolio and to build the Bank's reserves takes priority over the reporting of net profits. A profit after provisions is therefore currently not projected.

Treasury activity disclosures

Introduction

In its financial reporting policy the EBRD aims to reflect best industry practice. In this context it is particularly committed to continuing enhanced disclosure and transparency of its treasury activities with specific reference to its use of derivatives.

Principles of investment management

The EBRD's Financial Policies define and govern its overall treasury investment management approach, which is further clarified in the Treasury Investment Authority and the Treasury Investment Guidelines. A comprehensive review of the Investment Authority and Guidelines during the year confirmed a number of fundamental investment and control principles:

- It is recognised that in current financial markets the amount of risk involved in any investment is not necessarily proportional to the amount of cash invested. The Bank's control mechanisms are therefore designed to measure against defined limits the total risk of each individual transaction.
- Where possible the Bank's investment and funding activities are carried out in order to achieve, to the greatest extent possible, adequate liquidity, as measured by portfolio maturity profiles and a minimisation of currency risks. The general policy is also to minimise interest rate risks although limits exist for the purpose of taking strategic investment positions.
- The Bank's current method of measuring interest rate risk is based on duration and the present value of a basis point shift in rates. As this does not adequately capture all aspects of portfolio interest rate risk - especially curve, spread and volatility - a "Value at Risk" methodology is to be progressively implemented.
- There will be complete internal and external transparency of policies and their implementation, together with full disclosure of details of all transactions. Further control is provided by the daily independent reporting of risk exposure and financial results of investment activity.
- An independent risk management and control function, reporting to the Vice President, Finance, is a fundamental part of the control framework together with a regular annual review of the risk management programme by the Audit Committee of the Board of Directors.

The eligibility of all investments, including derivatives, is determined on the basis of underlying risk rather than the structure or legal form of a transaction. Limits established by the Guidelines only allow investment in AAA-rated instruments issued by corporates, AA-rated for sovereign risks and A-rated for banks up to a maturity of three months. The counterparty risk will only be accepted on the basis of independent credit analysis. The principal amount of any financing repurchase activity must be adequately collateralised and protected against currency and interest rate risks.

Use of derivatives

In the normal course of business, funds are invested so that risks and exposures are limited wherever possible. Derivatives are used extensively to manage the Bank's exposure to interest and exchange rate risks in conjunction with its asset and liability management activities. In addition, derivatives are carefully used as part of the Bank's investment management for the purpose of strategic investment position taking.

The objective of this disclosure is to provide information on two important categories of risk involved in the use of derivatives: counterparty risk and market risk.

Derivative instruments are considered to include contracts or agreements whose value is derived from one or more underlying financial instruments or indices. They include swaps, forward rate agreements, futures, options and combinations thereof; and affect the Bank's interest income, fee and commission income, results from financial operations, and other assets and liabilities. Derivatives contracts are expressed in terms of notional principal although the real risk is only a small percentage of this amount. This percentage depends mainly on the relationship between the exchange or interest rate agreed with the counterparty when the transaction was entered into and the current market rate.

The use of these instruments allows timely adjustments to be made to the portfolio to anticipate and react to market conditions, together with the management and hedging of interest and currency exposures. Care is taken to ensure that hedging structures allow flexibility to react to changes in market conditions.

The nominal principal amounts of off balance sheet transactions outstanding at year-end totalled ECU 17.7 billion (1994: ECU 15.4 billion). In the unlikely event of non-performance by its counterparties, the Bank had, in respect of these transactions, a risk-adjusted exposure at year-end of ECU 558 million. This amount represents the cost of replacing, at market rates, all outstanding agreements and contracts. However, the Bank's stringent independent control system and credit policies minimise the risk of such non-performance by counterparties, almost all of which have a minimum AA credit rating.

Of the total outstandings, 92 per cent or ECU 16.3 billion (1994: ECU 13.2 billion) were in place for hedging purposes. The remaining 8 per cent, which comprised interest rate contracts (primarily futures), represented strategic investment positions that are subject to market risk. This is fully accounted for in the marked to market valuation.

Full details, expressed as notional principal amounts, are set out in the following table:

Off balance sheet financial instruments

ECU million	Hedging	Strategic investment positions	Total
Exchange rate contracts			
Swaps	3,879	–	3,879
Forwards	924	–	924
Options	713	–	713
	5,516	**–**	**5,516**
Interest rate contracts			
Swaps	5,729	–	5,729
Options	1,370	34	1,404
Futures	3,728	1,276	5,004
	10,827	**1,310**	**12,137**
Total	**16,343**	**1,310**	**17,653**

Risk management

In the area of treasury controls and risk management the EBRD observes the G-30 recommendations as a measure of industry best practice. The Bank complies fully with all recommendations relevant to end-users. Although the Bank is an end-user, albeit a sophisticated one, it has a continuing commitment to comply with recommendations relating to securities houses and market makers.

The organisation of the Bank's treasury risk management is based on the principle of segregation of responsibilities in accordance with industry best practice, with separate units having responsibility for dealing, revaluation, settlement and monitoring/reporting.

In addition to these line management controls an Asset and Liability Management Committee acts as the Bank's risk committee, considering broader policy issues and specific transactions which constitute precedents in the interpretation and application of the Authority and Guidelines. Regular reporting to the Board of Directors of all aspects of treasury activities is achieved through the Audit Committee and the Financial and Operations Policy Committee. Both of these are formal committees of the Board and consider treasury performance on a quarterly basis.

During the year an independent Risk Control Unit was established reporting directly to the Vice President, Finance with responsibility to ensure that all relevant risks are subject to limits and controls, to ensure compliance with those limits and to prepare risk reports for management.

Regional Venture Funds

The table opposite lists all technical cooperation agreements that the EBRD manages directly and for which it has received contributions. Additional Regional Venture Funds are not administered by the EBRD: these are recorded as official co-financing (see pages 21 and 33).

	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
Special Funds				
Baltic Technical Assistance Special Fund[1]	14 Apr 1992	ECU	8.49	8.49
Russia Small Business Technical Cooperation Special Fund	18 Oct 1993	ECU	9.23	9.23
Project-specific funds			22.28	22.28
Total of Technical Cooperation Funds				347.90
Total of Special Funds				17.72
Total of project-specific funds				22.28
Total of all technical cooperation agreements				**387.90**

1 At the option of EBRD, income of ECU 3.49 million derived from the investment of the resources of the Baltic Investment Special Fund was transferred in June 1995 to the Baltic Technical Assistance Special Fund to supplement the resources of the Fund.

Financial results

Introduction

The EBRD's portfolio of committed loans and equity investments increased by ECU 2.0 billion in 1995. The financial results for the year were higher than projected at ECU 82.9 million before provisions and ECU 7.5 million after provisions. This is a very satisfactory outcome, particularly in view of the marked increase in total reserves and the provisions established for costs related to work on the Headquarters building in preparation for further subletting.

The results include the first significant contributions from the Bank's equity portfolio, with ECU 5.8 million of dividend income and ECU 37.9 million profit arising from the sale of share investments. With gross income from Banking operations, which includes loan interest and fee income, again more than doubling over the previous year, the contribution of Banking operations to the EBRD's total income has now reached over 35 per cent.

The remaining income is derived from treasury investment activities which, in uncertain market conditions during most of the year, generated a reliable flow of income and exceeded performance benchmarks.

As a result of continued tight budget discipline, cost saving initiatives and successful efforts to increase cost recovery, administrative expenses at ECU 136.8 million were well below approved budget and less than 2 per cent higher than in 1994. This small increase over 1994 is primarily due to accruals relating to work on the Headquarters building prior to further subletting.

Depreciation in 1995 was, however, at ECU 21.5 million, more than double the 1994 charge. This increase was primarily due to a one-off charge relating to making more efficient use of the Headquarters building, together with bringing all depreciation periods onto a consistent, more conservative basis.

Provisions of ECU 75.4 million, which reflect a refinement during the year of the Bank's provisioning policy, have been made against general portfolio risks and include, where required, specific loss provisions. The increase over 1994 has two causes: the acceleration in the underlying operations portfolio of both commitments and disbursements, and the need to recognise prudently the still immature nature of the loan and equity portfolios and the high-risk nature of many of the Bank's operations.

Banking operations

During the year 110 commitments for a value of ECU 2.0 billion were signed, compared with 88 in 1994 for a value of ECU 1.6 billion at 1995 year-end exchange rates. This brought cumulative commitments at year-end 1995, net of repayments, to ECU 5.7 billion. Of these cumulative commitments the equity portfolio accounted for over 13 per cent. Seven Regional Venture Fund framework agreements were signed during the year for a total value of ECU 163.7 million as part of the early stage equity programme.

Project disbursements during the year were 72 per cent greater than in 1994, with the total of outstanding disbursements at year-end reaching almost ECU 2.1 billion compared with ECU 1.1 billion at the end of 1994. The disbursed and outstanding portfolio comprises ECU 490.8 million of equity investments, ECU 1.6 billion of loans and ECU 8.2 million of project-related debt securities.

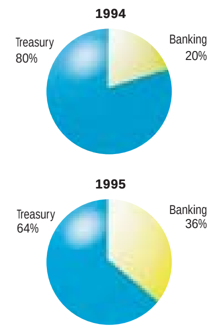
During the year ECU 157 million was received from loan repayments and equity disposals, indicating a successful start to the Bank's policy of revolving its portfolio.

Gross income from Banking operations again more than doubled during the year to reach a total of ECU 168.5 million. Of this, ECU 43.7 million was generated from the Bank's equity portfolio through dividends of ECU 5.8 million and profit on the sale of shares of ECU 37.9 million. The strong growth in the underlying operations portfolio is reflected in the increases in fee and commission income and the more than doubling of loan interest, as shown in the following table. The yield on the average loan outstandings (excluding fee and commission income which relates primarily to signing of projects) was 8.4 per cent and the return on average equity outstandings was 9.9 per cent.

Income from banking operations

	1995 ECU 000	1994 ECU 000
Interest from loans	90,898	42,043
Dividend income from shares	5,773	1,486
Fee and commission income	33,938	26,137
Profit on sale of share investments	37,895	339
	168,504	**70,005**
Average loans outstanding (ECU billion)	1.1	0.5
Average equity outstandings (ECU billion)	0.4	0.3

Analysis of gross income 1994-95



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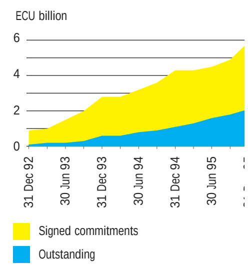

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At year-end, 11 per cent or ECU 580 million of the EBRD's total treasury investments were managed by external asset managers. These funds are placed with independent managers who are required to comply with the same Investment Guidelines as the Bank applies to its internally managed funds. The externally managed funds comprise portfolios of ECU 358 million of ECU-denominated securities; ECU 214 million of US dollar short duration mortgage-backed securities and ECU 8 million in a US dollar fixed-income arbitrage fund.

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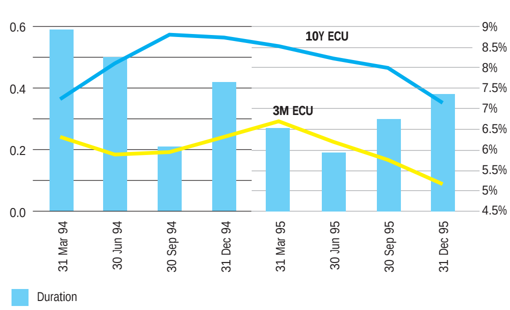
Portfolio duration and interest rates



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Following the receipt during the year of ECU 569 million, which included the fifth and final instalment of the initial capital contribution, the total capital received at year-end in cash and promissory notes reached ECU 2.8 billion.

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The major cost-saving initiatives started in 1994 continued in 1995 with further positive results from cost-recovery programmes and the subletting of parts of the Headquarters building. The Bank continues to demonstrate the benefits of applying tight budget discipline and efficient cost controls.

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The use of these instruments allows timely adjustments to be made to the portfolio to anticipate and react to market conditions, together with the management and hedging of interest and currency exposures. Care is taken to ensure that hedging structures allow flexibility to react to changes in market conditions.

The nominal principal amounts of off balance sheet transactions outstanding at year-end totalled ECU 17.7 billion (1994: ECU 15.4 billion). In the unlikely event of non-performance by its counterparties, the Bank had, in respect of these transactions, a risk-adjusted exposure at year-end of ECU 558 million. This amount represents the cost of replacing, at market rates, all outstanding agreements and contracts. However, the Bank's stringent independent control system and credit policies minimise the risk of such non-performance by counterparties, almost all of which have a minimum AA credit rating.

Of the total outstandings, 92 per cent or ECU 16.3 billion (1994: ECU 13.2 billion) were in place for hedging purposes. The remaining 8 per cent, which comprised interest rate contracts (primarily futures), represented strategic investment positions that are subject to market risk. This is fully accounted for in the marked to market valuation.

Full details, expressed as notional principal amounts, are set out in the following table:

Off balance sheet financial instruments

ECU million	Hedging	Strategic investment positions	Total
Exchange rate contracts			
Swaps	3,879	–	3,879
Forwards	924	–	924
Options	713	–	713
	5,516	**–**	**5,516**
Interest rate contracts			
Swaps	5,729	–	5,729
Options	1,370	34	1,404
Futures	3,728	1,276	5,004
	10,827	**1,310**	**12,137**
Total	**16,343**	**1,310**	**17,653**

Risk management

In the area of treasury controls and risk management the EBRD observes the G-30 recommendations as a measure of industry best practice. The Bank complies fully with all recommendations relevant to end-users. Although the Bank is an end-user, albeit a sophisticated one, it has a continuing commitment to comply with recommendations relating to securities houses and market makers.

The organisation of the Bank's treasury risk management is based on the principle of segregation of responsibilities in accordance with industry best practice, with separate units having responsibility for dealing, revaluation, settlement and monitoring/reporting.

In addition to these line management controls an Asset and Liability Management Committee acts as the Bank's risk committee, considering broader policy issues and specific transactions which constitute precedents in the interpretation and application of the Authority and Guidelines. Regular reporting to the Board of Directors of all aspects of treasury activities is achieved through the Audit Committee and the Financial and Operations Policy Committee. Both of these are formal committees of the Board and consider treasury performance on a quarterly basis.

During the year an independent Risk Control Unit was established reporting directly to the Vice President, Finance with responsibility to ensure that all relevant risks are subject to limits and controls, to ensure compliance with those limits and to prepare risk reports for management.

Financial statements

Status of the EBRD's activities

Profit and loss account

For the year ended 31 December 1995

	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Interest and similar income			
From loans		**90,898**	42,043
From fixed-income debt securities		**252,863**	243,908
Other interest		**57,769**	45,889
Interest expense and similar charges		**(229,358)**	(175,353)
Net interest income		**172,172**	156,487
Dividend income from share investments		**5,773**	1,486
Net fee and commission income		**33,938**	26,137
Financial operations	3		
Net profit on sale of share investments		**37,895**	339
Debt securities		**(10,546)**	(12,947)
Foreign exchange		**1,937**	(806)
Operating income		**241,169**	170,696
General administrative expenses	4	**(136,815)**	(134,779)
Depreciation		**(21,463)**	(10,982)
Operating profit before provisions		**82,891**	24,935
Provisions for losses	5	**(75,384)**	(23,922)
Profit for the year		**7,507**	1,013

Statement of appropriation of profit

For the year ended 31 December 1995

	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Balance brought forward 1 January		**(26,109)**	(17,144)
Profit for the previous year		**1,013**	4,120
Set aside to the special reserve from previous year	16	**(14,557)**	(13,085)
Balance carried forward 31 December		**(39,653)**	(26,109)

In accordance with the Agreement, it is intended that an amount of ECU 19.67 million being the qualifying fees and commissions earned in the year to 31 December 1995 will be appropriated in 1996 from the profit for the year to 31 December 1995 and set aside to the special reserve.

Balance sheet

At 31 December 1995

	Note	**ECU 000**	**31 December 1995 ECU 000**	ECU 000	31 December 1994 ECU 000
Assets					
Placements and debt securities					
Placements with and advances to credit institutions		**1,043,645**		328,652	
Other money market placements and advances		**70,934**		431,072	
Debt securities	6	**4,443,536**		3,476,120	
			5,558,115		4,235,844
Loans and share investments					
Loans	7	**1,584,895**		753,063	
Share investments	7	**490,808**		365,605	
Less: Provisions for losses	5	**(61,931)**		(64,066)	
			2,013,772		1,054,602
Other assets	9		**733,739**		1,217,362
Property, plant and equipment	10		**57,932**		71,698
Promissory notes issued by members	14		**241,338**		256,793
Subscribed capital	13				
Due but not yet received			**94,700**		74,520
Called but not yet due			**28,118**		617,325
Total assets			**8,727,714**		7,528,144
Liabilities					
Borrowings					
Amounts owed to credit institutions		**325,972**		142,579	
Debts evidenced by certificates	11	**4,315,328**		3,467,808	
			4,641,300		3,610,387
Other liabilities	12		**1,018,267**		935,369
Provisions for general portfolio risks	5		**83,425**		8,575
Subscribed capital	13	**9,883,750**		9,883,750	
Callable capital		**(6,918,625)**		(6,918,625)	
Paid-in capital			**2,965,125**		2,965,125
Reserves					
Conversion reserve	15	**7,397**		7,382	
Special reserve	16	**31,641**		17,084	
General reserve	17	**12,705**		9,318	
			51,743		33,784
Loss brought forward			**(39,653)**		(26,109)
Profit for the year			**7,507**		1,013
Members' equity			**2,984,722**		2,973,813
Total liabilities and members' equity			**8,727,714**		7,528,144
Memorandum items					
Commitments	8		**3,562,016**		3,183,594

Statement of cash flows

For the year ended 31 December 1995

	ECU 000	Year to 31 December 1995 ECU 000	ECU 000	Year to 31 December 1994 ECU 000
Cash flows from operating activities				
Operating profit for the year	7,507		1,013	
Adjustments for:				
Provisions for losses	75,384		23,922	
Depreciation	21,463		10,982	
Internal taxation	3,387		3,384	
Unrealised losses/(gains) on marked to market portfolio	4,590		(16,730)	
Realised gains on investment portfolio	(1,033)		(1,407)	
Realised gains on share investments	(37,895)		(339)	
Net amortised premiums and discounts	3,086		3,567	
Operating profit before changes in operating assets	76,489		24,392	
Increase/(decrease) in operating assets:				
Interest receivable and prepaid expenses	12,516		(30,635)	
Net decrease/(increase) in marked to market portfolio	468,516		(229,638)	
Increase in operating liabilities:				
Interest payable and accrued expenses	13,562		21,950	
Net cash provided/(used) in operating activities		571,083		(213,931)
Cash flows from investing activities				
Proceeds from repayment of loans	94,595		68,578	
Proceeds from sale of share investments	101,781		7,683	
Proceeds from sale of investment securities	2,060,481		1,303,401	
Purchases of investment securities	(2,959,612)		(1,276,619)	
Funds advanced for loans and share investments	(1,118,100)		(648,884)	
Purchase of property, plant and equipment	(7,697)		(8,591)	
Net cash used in investing activities		(1,828,552)		(554,432)
Cash flows from financing activities				
Capital subscriptions*	584,497		562,133	
Issue of debts evidenced by certificates	1,136,717		1,054,382	
Redemption of debts evidenced by certificates	(292,283)		(211,340)	
Net cash provided by financing activities		1,428,931		1,405,175
Net increase in cash and cash equivalents		171,462		636,812
Cash and cash equivalents 1 January		617,145		(19,667)
Cash and cash equivalents 31 December**		788,607		617,145

** Capital subscriptions comprise:*	1995 ECU 000	1994 ECU 000
Paid-in capital received	569,027	545,005
Promissory notes issued by members	15,455	16,988
Conversion reserve	15	140
Capital subscriptions	584,497	562,133

*** Cash and cash equivalents comprise the following balance sheet amounts:*	1995 ECU 000	1994 ECU 000
Placements with and advances to credit institutions	1,043,645	328,652
Other money market placements and advances	70,934	431,072
Amounts owed to credit institutions	(325,972)	(142,579)
Cash and cash equivalents	788,607	617,145

Notes to the financial statements

1 Establishment of the Bank

i Agreement Establishing the Bank
The European Bank for Reconstruction and Development ("the Bank"), whose principal office is located in London, is an international organisation formed under the Agreement Establishing the Bank dated 29 May 1990 ("the Agreement"). As at 31 December 1995 the Bank's shareholders comprised 57 countries, together with the European Community and the European Investment Bank. The liability of the members on shares shall be limited to the unpaid portion of their issue price. No member shall be liable, by reason of its membership, for obligations of the Bank.

ii Headquarters Agreement
The status, privileges and immunities of the Bank and persons connected therewith in the United Kingdom are defined in the Headquarters Agreement between the Government of the United Kingdom of Great Britain and Northern Ireland and the Bank ("Headquarters Agreement"). The Headquarters Agreement was signed in London upon the commencement of the Bank's operations on 15 April 1991.

2 Significant accounting policies

i Accounting convention
The financial statements have been prepared under the historical cost convention modified by the inclusion of the revaluation of certain financial instruments and debt securities, in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS) and the overall principles of the European Communities Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

ii Foreign currencies
In accordance with Article 4 of the Agreement, the Bank uses the European Currency Unit (ECU) as the unit of measure for the presentation of its financial statements.

Monetary assets and liabilities denominated in foreign currencies are translated into ECU at market rates ruling at 31 December 1995. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction. Where assets and liabilities in currencies other than ECU are hedged, gains or losses on the hedge are matched against those of the hedged item and the difference in translation between the year-end rates and the hedged rates is shown in other assets or other liabilities.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the profit and loss account.

Where applicable, the following 31 December 1995 ECU exchange rates were used in the preparation of the financial statements:

Albanian lek	120.3720	Latvian lats	0.6889
Australian dollars	1.7226	Lithuanian litas	5.1304
Austrian schillings	12.9124	Moldovan lei	5.7653
Belgian francs	37.7282	Norwegian kroner	8.1045
Bulgarian leva	90.8914	Polish zlotys	3.1631
Canadian dollars	1.7489	Portuguese escudos	191.7423
Czech crowns	34.2044	Romanian lei	3,373.2830
Danish kroner	7.1021	Russian roubles	5,996.1550
Deutsche marks	1.8358	Slovak crowns	38.0009
Dutch guilders	2.0555	Slovenian tolars	165.5172
Estonian kroons	14.6877	South African rands	4.6756
French francs	6.2781	Spanish pesetas	155.6968
Greek drachmas	304.2327	Sterling	0.8270
Hong Kong dollars	9.9179	Swedish kronor	8.5373
Hungarian forints	175.2416	Swiss francs	1.4744
Irish punts	0.8002	Ukrainian karbovanets	231,481.4815
Italian lire	2,031.1632		
Japanese yen	132.1462	United States dollars	1.2826

iii Capital subscriptions
Under the Agreement, capital subscriptions by members shall be settled either in ECU, United States dollars or Japanese yen.

Capital subscriptions in United States dollars or Japanese yen are settled at fixed rates of exchange as defined in Article 6.3 of the Agreement. The defined fixed rates of exchange to the ECU are 1.16701 United States dollars and 169.95 Japanese yen.

Until January 1993, capital subscribed in United States dollars and Japanese yen was converted into ECU as it was received in cash form or, if formerly held as a promissory note, when encashed. Differences between the ECU amounts actually received and the amounts determined by the fixed rates of exchange were taken to the conversion reserve. In January 1993 the Bank entered into a series of forward foreign exchange contracts to fix the ECU value of future capital subscriptions denominated in United States dollars and Japanese yen. The differences arising on the ECU amounts obtained through these contracts and the ECU amounts determined by the fixed rates of exchange were taken to the conversion reserve. Replacement foreign exchange contracts are entered into where scheduled receipts or encashment dates have not been met which may also require adjustments to the conversion reserve.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into ECU at market rates ruling at 31 December in accordance with the Bank's policy detailed in ii above. The differences between these ECU values and those determined by the fixed rates of exchange are taken to other assets or other liabilities.

iv Debt securities
Bonds, notes and other dated marketable securities held for investment are stated at cost, adjusted for the amortisation on a straight line basis of the premium or discount on acquisition over the period to maturity. All other securities are stated at market value. Realised and unrealised gains and losses are taken to the profit and loss account in the period in which they arise.

v Share investments
Share investments are carried at cost less provisions for any permanent diminution in value. Dividends are credited to income when received.

The Bank has considered the definition of associates in both IAS 28 and the European Communities Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions, in relation to its share investments. The Bank considers that, in general, even where 20 per cent or more of the equity is held, these share investments do not come within the definition of associates, since the Bank does not normally exert significant influence over the operations of the investee companies. Accordingly, such investments are accounted for in accordance with the policy described above. Details of the Bank's share investments that amount to or exceed 20 per cent of the investee share capital and where the historical cost exceeds ECU 10.00 million are provided in note 7.

vi Provisions for losses and general portfolio risks
Specific provisions are made against identified loans and advances representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General portfolio risk provisions are made against losses which, although not specifically identified, are inherent in the portfolio of contractual commitments (including guarantees), loans, share investments and Regional Venture Fund framework agreements. General provisions against possible losses on non-sovereign risk assets are applied in two stages at commitment and disbursement. For Regional Venture Funds the first stage provision is applied in two stages at the signing of the framework agreement and at commitment of the individual sub-investment. Provisions made, less any amounts released during the year, are charged to the profit and loss account. Details of the Bank's provisions are detailed in note 5.

vii Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation of property, plant and equipment is provided on a straight line basis over their estimated useful lives generally as follows:

Improvements on leases of less than 50 years unexpired:	Unexpired periods
Plant and equipment:	2 to 4 years

viii Interest, fees and commissions
Interest and commitment fees are generally recorded as income on an accruals basis. Deferred or capitalised interest and fee income on non-sovereign risk loans is recognised on a cash basis if the period of deferral or capitalisation exceeds three years. If the period is less than three years the risk rating of the investment is also considered in order to assess the extent to which income should be accrued on the investment. The Bank does not recognise income on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received. Loan origination fees are taken to income in the first year of the loan disbursement. Other fees and commissions are taken to income over the period during which the commitment exists or services are provided. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

ix Staff retirement plan
The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits for its staff. Actual contributions made to the defined contribution and the defined benefit schemes are charged to the profit and loss account. Contributions made to the defined benefit scheme are based upon advice from qualified external actuaries.

x Taxation
In accordance with Article 53 of the Agreement, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported, except for those taxes or duties that represent charges for public utility services.

xi Government grants
Government grants relating to fixed asset expenditure are recognised in the profit and loss account on a straight line basis over the same period as that applied for depreciation purposes. Grants in respect of contributions towards profit and loss account expenditure items are matched against the qualifying expenditure in the period in which it is incurred.

The balance of grants received or receivable that have not been taken to the profit and loss account is carried in the balance sheet as deferred income.

xii Off balance sheet financial instruments
In the normal course of business the Bank is a party to off balance sheet financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to manage the Bank's interest rate and currency exposures on assets and liabilities and to take strategic investment positions (see note 21). Profits and losses arising from financial instruments entered into for hedging purposes are matched against those arising on the items being hedged. Financial instruments held for other purposes are stated at market value with provisions being made for future administrative expenses and credit risk. Realised and unrealised gains and losses are taken to the profit and loss account in the period in which they arise.

3 Financial operations

Net profit on sale of share investments	1995 ECU 000	1994 ECU 000
Net profit on sale of share investments	**37,895**	339

The net profit on sale of share investments in 1995 principally reflects the disposal of two of the Bank's investments in the Czech Republic and one in Hungary. The disposal in 1994 relates to one investment in Poland.

Debt securities	1995 ECU 000	1994 ECU 000
Investment portfolio	**1,033**	1,407
Marked to market portfolio	**(11,579)**	(14,354)
Realised and unrealised losses	**(10,546)**	(12,947)

The realised and unrealised losses are due to movements in the price of quoted debt securities. The net loss does not include the interest earned from these securities of ECU 252.86 million which, when added to this amount, gives total gross earnings from the debt securities portfolios of ECU 242.31 million.

At 31 December 1995 the unrealised net loss resulting from the valuation of the marked to market portfolio was ECU 4.59 million. This has been fully accounted for in the reported net loss arising from debt securities in the year of ECU 10.55 million.

4 General administrative expenses

	1995 ECU 000	1994 ECU 000
Personnel costs (i) (ii)	**78,081**	73,454
Overhead expenses net of government grants (iii)	**58,734**	61,325
General administrative expenses	**136,815**	134,779

(i) The average numbers of staff included in personnel costs during the year were: permanent staff of 687 (1994: 656), contract staff of 151 (comprising special contract staff of 134 and interns/short-term staff of 17), locally hired staff in Resident Offices of 100, Board of Directors staff and special employees of 92.

Staff numbers at 31 December 1995 were: permanent staff of 698 (1994: 669), contract staff of 145 (comprising special contract staff of 127 and interns/short–term staff of 18), locally hired staff in Resident Offices of 121, Board of Directors staff and special employees of 89.

(ii) Personnel costs include pension costs of ECU 9.65 million (1994: ECU 8.97 million).

(iii) During the year government grants of ECU 2.15 million (1994: ECU 2.17 million) were taken to the profit and loss account.

5 Provisions for losses and general portfolio risks

Profit and loss charges	1995 ECU 000	1994 ECU 000
Debt securities	**85**	–
Loans	**(6,205)**	13,259
Share investments		
Ordinary equity	**6,457**	7,604
Early stage equity	**197**	–
General portfolio risks	**74,850**	3,059
	75,384	23,922

Movement in provisions	31 December 1994 ECU 000	Provision charges ECU 000	Amounts written off ECU 000	Exchange adjustments ECU 000	**31 December 1995 ECU 000**
Loans	32,441	(6,205)	–	(767)	**25,469**
Share investments					
Ordinary equity	31,625	6,457	(1,761)	(56)	**36,265**
Early stage equity	–	197	–	–	**197**
Total loans and share investments	64,066	449	(1,761)	(823)	**61,931**
Debt securities	–	85	–	(3)	**82**
General portfolio risks	8,575	74,850	–	–	**83,425**
	72,641	75,384	(1,761)	(826)	**145,438**

General provisions are based on a risk-rated approach for non-sovereign risk assets applied in two steps. An initial amount of 50 per cent of the provision is made at the time of commitment and the remaining 50 per cent at disbursement. In the case of Regional Venture Funds, which form part of Early Stage Equity, the first 25 per cent is taken when the framework agreement is signed. The second 25 per cent is taken when the individual sub-investment is signed and the remaining 50 per cent of the provision again on disbursement. The first 50 per cent of the provision based on commitments and the Regional Venture Fund framework agreements is included, together with a general portfolio risk provision, as a liability: "Provision for General Portfolio Risks". The general portfolio risk provision is based on gross commitments (and signed Regional Venture Fund framework agreements) net of repayments. General provisions made at disbursement are shown as a deduction from the loans, share investments and debt securities asset categories.

6 Debt securities

Analysis by issuer	**1995 Book value ECU 000**	**1995 Market value ECU 000**	1994 Book value ECU 000	1994 Market value ECU 000
Governments	**2,657,719**	**2,812,326**	2,482,543	2,489,826
Public bodies	**684,244**	**688,345**	681,402	682,335
Other borrowers	**1,101,573**	**1,120,641**	312,175	316,236
At 31 December	**4,443,536**	**4,621,312**	3,476,120	3,488,397

Analysis by portfolio				
Investment portfolio	**2,285,454**	**2,463,230**	1,457,368	1,469,645
Marked to market portfolio				
Internally managed funds	**1,538,075**	**1,538,075**	1,688,038	1,688,038
Externally managed funds	**620,007**	**620,007**	330,714	330,714
	2,158,082	**2,158,082**	2,018,752	2,018,752
At 31 December	**4,443,536**	**4,621,312**	3,476,120	3,488,397

An analysis of the Bank's net currency position is set out in note 18, and of the maturity of the Bank's assets and liabilities in note 19.

7 Loans and share investments

	ECU 000	**1995 ECU 000**	ECU 000	1994 ECU 000
Loans	**1,584,895**		753,063	
Provisions for losses	**(25,469)**		(32,441)	
		1,559,426		720,622
Share investments	**490,808**		365,605	
Provisions for losses	**(36,462)**		(31,625)	
		454,346		333,980
At 31 December		**2,013,772**		1,054,602

At 31 December 1995 the Bank had ECU 11.05 million (1994: ECU 7.46 million) loans in non-accrual status due to overdue interest and principal repayments. Specific provisions of ECU 6.11 million (1994: ECU 6.56 million) have been made against these loans.

Listed below are all share investments where the Bank owned 20 per cent or more of the investee share capital at 31 December 1995 and where the Bank's total investment exceeded ECU 10.00 million. Significant shareholdings are normally only held on a temporary basis due to the Bank's policy of encouraging further external participation wherever possible.

	% Ownership
Budapest Bank	32.50
Framlington Russian Investment Fund	24.92
Polish Private Equity Funds	33.33
Schooner Capital	34.90
Wielkopolski Bank Kredytowy	23.88

8 Analysis of operational activity

Analysis by instrument	**Outstanding disbursements 1995 ECU 000**	Outstanding disbursements 1994 ECU 000	**Committed but not yet disbursed 1995 ECU 000**	Committed but not yet disbursed 1994 ECU 000
Debt securities	**8,171**	7,939	**–**	–
Loans	**1,584,895**	753,063	**3,197,674**	2,814,653
Share investments				
Ordinary equity	**489,989**	365,605	**181,067**	191,690
Early stage equity	**819**	–	**31,360**	58,708
Guarantees	**–**	–	**151,915**	118,543
At 31 December	**2,083,874**	1,126,607	**3,562,016**	3,183,594

Early stage equity refers to operations that facilitate the restructuring and subsequent privatisation of state-owned enterprises or the restructuring of recently privatised enterprises. In 1994 all of the early stage equity commitments of ECU 58.71 million were signed Regional Venture Fund framework agreements.

Commitments are now recognised on Regional Venture Funds when individual sub-project agreements are signed. Regional Venture Fund framework agreements net of signed sub-projects at 31 December 1995 amounted to ECU 217.68 million.

Analysis of operational activity (continued)

Analysis by country	**Outstanding disbursements 1995 ECU 000**	Outstanding disbursements 1994 ECU 000	**Committed but not yet disbursed 1995 ECU 000**	Committed but not yet disbursed 1994 ECU 000
Albania	**28,314**	10,395	**29,026**	37,565
Armenia	**29,937**	11,752	**44,287**	53,643
Azerbaijan	**823**	–	**58,618**	43,412
Belarus	**25,581**	8,120	**113,115**	135,717
Bulgaria	**55,625**	24,003	**130,871**	103,051
Croatia	**13,895**	–	**171,319**	17,939
Czech Republic	**157,062**	116,273	**218,634**	178,567
Estonia	**44,748**	12,144	**64,049**	71,736
Former Yugoslav Republic of Macedonia	**10,389**	246	**89,789**	43,975
Georgia	**3,021**	–	**19,811**	14,759
Hungary	**365,479**	266,031	**393,486**	348,419
Kazakstan	**17,914**	1,000	**89,107**	99,000
Kyrgyzstan	**21,559**	–	**61,830**	7,665
Latvia	**38,900**	20,869	**42,514**	37,815
Lithuania	**26,038**	7,946	**80,219**	65,871
Moldova	**8,215**	750	**81,836**	24,521
Poland	**293,231**	175,388	**261,720**	414,013
Romania	**175,886**	129,619	**385,392**	293,029
Russian Federation	**283,495**	146,168	**661,509**	596,468
Slovak Republic	**217,175**	81,600	**67,902**	122,564
Slovenia	**119,543**	42,033	**174,785**	192,461
Turkmenistan	**–**	–	**27,288**	28,539
Ukraine	**38,582**	4,449	**176,587**	96,188
Uzbekistan	**69,853**	46,307	**72,904**	45,425
Regional	**38,609**	21,514	**45,418**	111,252
At 31 December	**2,083,874**	1,126,607	**3,562,016**	3,183,594

Analysis by sector	**Outstanding disbursements 1995 ECU 000**	Outstanding disbursements 1994 ECU 000	**Committed but not yet disbursed 1995 ECU 000**	Committed but not yet disbursed 1994 ECU 000
Commerce and tourism	**46,279**	3,922	**86,434**	67,420
Community and social services	**16,455**	30,212	**40,878**	98,182
Construction	**–**	–	**7,854**	–
Energy/power generation	**146,125**	51,517	**608,729**	381,916
Extractive industries	**207,204**	147,558	**226,158**	233,706
Finance/business	**545,896**	243,225	**1,081,636**	1,130,126
Manufacturing	**329,368**	141,166	**222,227**	216,390
Primary industries	**103,440**	118,727	**53,358**	72,479
Telecommunications	**293,348**	199,593	**391,391**	375,756
Transport	**395,759**	190,687	**843,351**	607,619
At 31 December	**2,083,874**	1,126,607	**3,562,016**	3,183,594

9 Other assets

	1995 ECU 000	1994 ECU 000
Interest receivable	**143,210**	156,776
Treasury-related	**573,074**	1,038,531
Other	**17,455**	22,055
At 31 December	**733,739**	1,217,362

10 Property, plant and equipment	Property ECU 000	Plant and equipment ECU 000	Total ECU 000
Cost			
At 1 January 1995	64,709	33,012	97,721
Additions	1,732	6,224	7,956
Disposals	(240)	(808)	(1,048)
At 31 December 1995	**66,201**	**38,428**	**104,629**
Depreciation			
At 1 January 1995	8,417	17,606	26,023
Charge for the year	8,418	13,045	21,463
Disposals	(175)	(614)	(789)
At 31 December 1995	**16,660**	**30,037**	**46,697**
Net book value			
At 31 December 1995	**49,541**	**8,391**	**57,932**
At 31 December 1994	56,292	15,406	71,698

Included in depreciation for the year is a charge of ECU 6.85 million. This includes an amount of ECU 4.41 million relating to measures taken in preparation for subletting part of the Bank's headquarters building and ECU 1.78 million for furniture and fittings and security equipment for which the estimate of the useful life was reduced from five years to four years.

11 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 1995 are summarised below:

	Principal at nominal value ECU 000	Unamortised premium/ (discount) ECU 000	Adjusted principal value ECU 000	Currency swaps payable/ (receivable) ECU 000	**1995 Net currency obligations ECU 000**	1994 Net currency obligations ECU 000
Australian dollars	203,181	510	203,691	(203,691)	–	–
Belgian francs	53,011	1,167	54,178	(54,178)	–	–
Canadian dollars	278,345	(12,344)	266,001	(266,001)	–	–
Czech crowns	43,854	–	43,854	(43,854)	–	–
Deutsche marks	6,101	170	6,271	357,508	**363,779**	770,019
Dutch guilders	85,137	(24,112)	61,025	(61,025)	–	–
European currency units	1,122,119	(30,997)	1,091,122	(716,054)	**375,068**	881,181
French francs	135,391	(48,044)	87,347	–	**87,347**	79,883
Greek drachmas	41,087	125	41,212	(41,212)	–	–
Hong Kong dollars	120,993	105	121,098	(121,098)	–	–
Hungarian forints	5,706	–	5,706	–	**5,706**	7,204
Italian lire	497,744	(21,837)	475,907	(368,651)	**107,256**	114,599
Japanese yen	987,434	2,789	990,223	(335,095)	**655,128**	171,107
Portuguese escudos	26,077	–	26,077	(26,077)	–	–
South African rands	53,470	535	54,005	(54,005)	–	–
Sterling	24,909	–	24,909	–	**24,909**	3,820
Swedish kronor	64,423	123	64,546	(64,546)	–	–
Swiss francs	199,089	–	199,089	(199,089)	–	–
United States dollars	500,705	(1,638)	499,067	2,197,068	**2,696,135**	1,439,995
At 31 December	**4,448,776**	**(133,448)**	**4,315,328**	**–**	**4,315,328**	3,467,808

In addition to public and private placements, included in the above table are 43 borrowings totalling ECU 1.460 billion equivalent arranged under the Bank's Euro Medium Term Note Programme and 22 borrowings totalling ECU 511.36 million equivalent arranged under the Bank's Commercial Paper Programme.

During the year the Bank redeemed prior to maturity ECU 292.28 million equivalent of bonds and medium term notes generating a net gain of ECU 1.70 million.

12 **Other liabilities**	**1995 ECU 000**	1994 ECU 000
Interest payable	**94,569**	88,742
Treasury-related	**858,846**	784,692
Other	**64,852**	61,935
At 31 December	**1,018,267**	935,369

13 **Subscribed capital**	**1995 Number of shares**	**1995 Total ECU 000**
Authorised share capital	**1,000,000**	**10,000,000**
Of which:		
Subscriptions by members	**988,375**	**9,883,750**
Non-allocated shares	**11,625**	**116,250**
	1,000,000	**10,000,000**

The Bank's authorised share capital is ECU 10,000 million divided into 1 million shares, having a par value of ECU 10,000 each. The authorised share capital is divided into paid-in shares and callable shares. The initial aggregate par value of paid-in shares is ECU 3,000 million, equal to 30 per cent of the original authorised share capital of ECU 10,000 million and is payable in five equal annual instalments. Under the Agreement, callable shares can be called only as and when required by the Bank to meet its liabilities.

The number of non-allocated shares originally provided for in the Agreement was 125 shares. By Resolution No. 15 of the Board of Governors, shares totalling 15,500, which were originally allocated for subscription by the former German Democratic Republic, were added to non-allocated shares. Of these, 1,000 shares were allocated to Albania in the final quarter of 1991 and 1,000 shares each were allocated to Estonia, Latvia and Lithuania in the first quarter of 1992.

By Resolutions No. 21, 27 and 37 of the Board of Governors, the 60,000 shares subscribed to by the former USSR were allocated to countries (other than the Baltic States) which previously formed part of the USSR.

At its meeting on 7 and 8 September 1992 the Board of Directors concluded that the Socialist Federal Republic of Yugoslavia had been dissolved and therefore had ceased to be a member of the Bank. The Board recommended that, pending a definitive reallocation of the former Yugoslavia's shareholding in the Bank (12,800 shares), each country previously forming part of the former Yugoslavia, upon admission to membership, be given an initial allocation of 100 shares out of the former Yugoslavia's shareholding (this being the minimum number of shares required for membership). This was on the condition that each such country would subscribe at a future time to an appropriate number of shares to be determined by the Board of Governors. On 9 October 1992 the Board of Governors adopted Resolution No. 30 approving the above conclusions and recommendations. By Resolutions No. 31, 34 and 35, the Board of Governors approved the admission to membership in the Bank of Slovenia, Croatia and the Former Yugoslav Republic of Macedonia. Each of these three countries was allocated 100 shares.

At its meeting on 20 and 21 September 1994, the Board of Directors agreed that discussions be opened with Slovenia, Croatia and the Former Yugoslav Republic of Macedonia in order to achieve an expeditious solution regarding the reallocation of the remaining 12,500 shares of the former Yugoslavia. Upon conclusion of these discussions, the Board of Governors, on 31 May 1995, acting on the recommendation of the Board of Directors, adopted Resolution No. 53 whereby it approved the allocation of additional shares to Croatia, Slovenia and the Former Yugoslav Republic of Macedonia. Of the 12,500 shares referred to above, 3,546 shares were allocated to Croatia, 1,998 shares to Slovenia and 591 shares to the former Yugoslav Republic of Macedonia, all during the third quarter of 1995.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of non-allocated shares, overdue subscriptions and restrictions of voting rights, is set out in the table on page 60. Under Article 29 of the Agreement, the voting rights of members which have failed to pay any part of the amounts due in respect of their capital subscription obligations are proportionately reduced for so long as the obligation remains outstanding. Overdue encashments of promissory notes deposited by members are detailed in note 14.

Subscribed capital (continued)

Statement of capital subscriptions **At 31 December 1995** Members	Shares (number)	Voting rights restricted votes*	Voting rights resulting votes	Total capital ECU 000	Callable capital ECU 000	Paid-in subscribed capital amounts not yet due ECU 000	Paid-in subscribed capital amounts due but not yet received ECU 000	Paid-in subscribed capital amounts received ECU 000
Members of the European Union								
Austria	22,800	–	22,800	228,000	159,600	–	–	68,400
Belgium	22,800	–	22,800	228,000	159,600	–	–	68,400
Denmark	12,000	–	12,000	120,000	84,000	–	–	36,000
Finland	12,500	–	12,500	125,000	87,500	–	–	37,500
France	85,175	–	85,175	851,750	596,225	–	–	255,525
Germany	85,175	–	85,175	851,750	596,225	–	–	255,525
Greece	6,500	–	6,500	65,000	45,500	–	–	19,500
Ireland	3,000	–	3,000	30,000	21,000	–	–	9,000
Italy	85,175	–	85,175	851,750	596,225	–	–	255,525
Luxembourg	2,000	–	2,000	20,000	14,000	–	–	6,000
Netherlands	24,800	–	24,800	248,000	173,600	–	–	74,400
Portugal	4,200	–	4,200	42,000	29,400	–	–	12,600
Spain	34,000	–	34,000	340,000	238,000	–	–	102,000
Sweden	22,800	–	22,800	228,000	159,600	–	–	68,400
United Kingdom	85,175	–	85,175	851,750	596,225	–	–	255,525
European Community	30,000	–	30,000	300,000	210,000	–	–	90,000
European Investment Bank	30,000	–	30,000	300,000	210,000	–	–	90,000
Other European countries								
Cyprus	1,000	–	1,000	10,000	7,000	–	–	3,000
Iceland	1,000	–	1,000	10,000	7,000	–	–	3,000
Israel	6,500	–	6,500	65,000	45,500	–	–	19,500
Liechtenstein	200	–	200	2,000	1,400	–	–	600
Malta	100	–	100	1,000	700	–	–	300
Norway	12,500	–	12,500	125,000	87,500	–	–	37,500
Switzerland	22,800	–	22,800	228,000	159,600	–	–	68,400
Turkey	11,500	–	11,500	115,000	80,500	–	–	34,500
Countries of operations								
Albania	1,000	733	267	10,000	7,000	–	2,200	800
Armenia	500	133	367	5,000	3,500	–	300	1,200
Azerbaijan	1,000	700	300	10,000	7,000	–	1,500	1,500
Belarus	2,000	–	2,000	20,000	14,000	–	–	6,000
Bulgaria	7,900	2,107	5,793	79,000	55,300	–	4,740	18,960
Croatia	3,646	–	3,646	36,460	25,520	6,384	–	4,556
Czech Republic	8,533	–	8,533	85,330	59,731	–	–	25,599
Estonia	1,000	100	900	10,000	7,000	600	–	2,400
Former Yugoslav Republic of Macedonia	691	–	691	6,910	4,840	1,062	–	1,008
Georgia	1,000	633	367	10,000	7,000	–	1,200	1,800
Hungary	7,900	–	7,900	79,000	55,300	–	–	23,700
Kazakstan	2,300	460	1,840	23,000	16,100	–	1,380	5,520
Kyrgyzstan	1,000	500	500	10,000	7,000	–	1,500	1,500
Latvia	1,000	–	1,000	10,000	7,000	600	–	2,400
Lithuania	1,000	–	1,000	10,000	7,000	600	–	2,400
Moldova	1,000	50	950	10,000	7,000	–	–	3,000
Poland	12,800	–	12,800	128,000	89,600	–	–	38,400
Romania	4,800	–	4,800	48,000	33,600	–	–	14,400
Russian Federation	40,000	–	40,000	400,000	280,000	–	–	120,000
Slovak Republic	4,267	–	4,267	42,670	29,869	–	–	12,801
Slovenia	2,098	–	2,098	20,980	14,680	3,600	–	2,700
Tajikistan	1,000	800	200	10,000	7,000	–	1,800	1,200
Turkmenistan	100	–	100	1,000	700	–	–	300
Ukraine	8,000	800	7,200	80,000	56,000	–	–	24,000
Uzbekistan	2,100	–	2,100	21,000	14,700	–	–	6,300
Unallocated shares reserved for countries previously forming part of Yugoslavia	6,365**	–	–	63,650	44,560	15,272	–	3,818
Non-European countries								
Australia	10,000	–	10,000	100,000	70,000	–	–	30,000
Canada	34,000	–	34,000	340,000	238,000	–	–	102,000
Egypt	1,000	–	1,000	10,000	7,000	–	–	3,000
Japan	85,175	–	85,175	851,750	596,225	–	–	255,525
Korea, Republic of	6,500	–	6,500	65,000	45,500	–	–	19,500
Mexico	3,000	–	3,000	30,000	21,000	–	–	9,000
Morocco	1,000	–	1,000	10,000	7,000	–	–	3,000
New Zealand	1,000	–	1,000	10,000	7,000	–	–	3,000
United States of America	100,000	26,690	73,310	1,000,000	700,000	–	80,080	219,920
Capital subscribed by members	**988,375**	**33,706**	**948,304**	**9,883,750**	**6,918,625**	**28,118**	**94,700**	**2,842,307**
Non-allocated shares	11,625			116,250				
Authorised share capital	**1,000,000**			**10,000,000**				

* Voting rights not exercisable due to non-payment of amounts due in respect of the member's obligations in relation to paid-in shares.

** The voting rights attached to these shares have been suspended pending their reallocation. Total votes before restrictions amount to 982,010.

14 Promissory notes issued by member countries

	Total received ECU 000	Exchange gain/(loss) ECU 000	Amount drawn down ECU 000	**1995 Amount outstanding ECU 000**	1994 Amount outstanding ECU 000
Currency of issue					
European currency units	653,342	–	(503,408)	**149,934**	152,218
Japanese yen	127,762	11,993	(106,893)	**32,862**	35,505
United States dollars	357,461	(13,612)	(285,307)	**58,542**	69,070
At 31 December	**1,138,565**	**(1,619)**	**(895,608)**	**241,338**	256,793

Under the Agreement, payment for the paid-in shares of the authorised share capital is to be made in five equal annual instalments. The Agreement permits a member to pay up to 50 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by such member and payable to the Bank at par value upon demand.

The promissory notes or other obligations are denominated in ECU, United States dollars or Japanese yen. The Board of Directors adopted a policy which provides for a fixed schedule of draw down of the promissory notes or other obligations issued in 1992 and later years. In accordance with this policy, each promissory note or other obligation is now drawn down in three equal annual instalments.

Promissory notes or other obligations denominated in United States dollars or Japanese yen have been translated into ECU either at the rates of exchange ruling at the dates of draw down, or, if outstanding at the year end, at market rates ruling at 31 December 1995. Realised and unrealised exchange gains or losses, which have arisen between these rates of exchange and the fixed rate of exchange as defined in the Agreement, have been taken directly to the conversion reserve (note 15). Future instalments of paid-in capital due in Japanese yen and United States dollars in both cash and promissory notes or other obligations have been hedged in order to protect the amount of ECU capital receivable from unfavourable exchange rate movements.

Eight members are overdue in the encashment of their deposited promissory notes as follows:

	1991 Note ECU 000	1992 Note ECU 000	1993 Note ECU 000	1994 Note ECU 000	1995 Note ECU 000	**Total ECU 000**
Armenia	–	–	45	46	–	**91**
Azerbaijan	91	181	274	–	–	**546**
Bulgaria	–	–	790	790	–	**1,580**
Estonia	–	100	100	100	–	**300**
Georgia	–	181	274	181	–	**636**
Moldova	–	–	–	45	91	**136**
Tajikistan	–	274	181	91	–	**546**
Ukraine	–	1,456	–	728	–	**2,184**
Total	91	2,192	1,664	1,981	91	**6,019**

In addition there is an outstanding encashment of ECU 1.91 million from the unallocated shares previously held by the former Yugoslavia.

The outstanding promissory note encashments detailed above are additional to the ECU 94.70 million capital due, but not yet received, detailed in the table to note 13. This includes non-receipt of promissory notes of value ECU 37.50 million.

15 Conversion reserve

	1995 ECU 000	1994 ECU 000
Balance brought forward 1 January	**7,382**	7,242
Movement during year	**15**	140
Balance carried forward 31 December	**7,397**	7,382

The conversion reserve represents the difference between the value of capital contributions in currencies other than ECU recorded at the fixed rates of exchange as defined in the Agreement and the value of such capital when actually received and converted into ECU or the hedged value of such capital not yet received.

16 Special reserve

	1995 ECU 000	1994 ECU 000
Balance brought forward 1 January	**17,084**	3,999
Set aside from profit and loss account brought forward	**14,557**	13,085
Balance carried forward 31 December	**31,641**	17,084

In accordance with the Agreement, a special reserve is maintained for meeting certain defined losses of the Bank. The special reserve has been established, in accordance with the Bank's financial policies, by setting aside 100 per cent of qualifying fees and commissions received by the Bank associated with loans, guarantees and underwriting the sale of securities, until the Board of Directors determines that the size of the special reserve is adequate.

17 General reserve

	1995 ECU 000	1994 ECU 000
Balance brought forward 1 January	**9,318**	5,934
Internal taxation for the year	**3,387**	3,384
Balance carried forward 31 December	**12,705**	9,318

In accordance with Article 53 of the Agreement, all Directors, Alternate Directors, officers and employees of the Bank are subject to an internal tax imposed by the Bank on salaries and emoluments paid by the Bank. Under the Agreement, the Bank retains the internal tax deducted for its benefit. Under Article 53 of the Agreement and Article 16 of the Headquarters Agreement, salaries and emoluments paid by the Bank are exempt from United Kingdom income tax.

18 Net currency position

ECU 000	United States dollars	Sterling	Deutsche marks	French francs	Other currencies	ECU	Total
Assets							
Placements with and advances to credit institutions	199,715	53,216	1,474	24,150	540,695	224,395	1,043,645
Other money market placements and advances	70,934	–	–	–	–	–	70,934
Debt securities	1,054,360	45,364	163,175	31,155	1,522,475	1,627,007	4,443,536
Loans	967,803	–	398,054	7,371	18,626	167,572	1,559,426
Share investments	36,684	–	–	–	447,902	(30,240)	454,346
Other assets	143,393	12,814	39,937	48,053	78,553	410,989	733,739
Property, plant and equipment	–	–	–	–	–	57,932	57,932
Promissory notes issued by members	58,542	–	–	–	32,862	149,934	241,338
Subscribed capital	91,160	–	–	–	–	31,658	122,818
Total assets	2,622,591	111,394	602,640	110,729	2,641,113	2,639,247	8,727,714
Liabilities							
Amounts owed to credit institutions	(36,940)	(3,989)	(1,864)	(2,307)	(174,392)	(106,480)	(325,972)
Debts evidenced by certificates	(499,067)	(24,909)	(6,271)	(87,347)	(2,606,612)	(1,091,122)	(4,315,328)
Other liabilities	(261,909)	(38,827)	(145,452)	(37,009)	(119,689)	(415,381)	(1,018,267)
Provision for general portfolio risks	–	–	–	–	–	(83,425)	(83,425)
Total liabilities	(797,916)	(67,725)	(153,587)	(126,663)	(2,900,693)	(1,696,408)	(5,742,992)
Net assets	1,824,675	43,669	449,053	(15,934)	(259,580)	942,839	2,984,722
Off balance sheet instruments							
Cross currency swaps	(1,377,399)	–	(406,525)	–	777,288	1,006,636	–
Forward exchange contracts	(488,912)	(39,134)	(55,345)	14,563	(128,510)	697,338	–
Currency position at 31 December 1995	**(41,636)**	**4,535**	**(12,817)**	**(1,371)**	**389,198**	**2,646,813**	**2,984,722**
Currency position at 31 December 1994	14,105	69,507	(21,266)	(31,131)	225,110	2,717,488	2,973,813

Currency positions arise primarily as a result of the following:

– The currency risks associated with the Bank's share investments are generally those of the countries in which the investee is located, i.e. non-convertible currencies. As the Bank's policy is to carry this currency risk, such investments are funded from paid-in ECU capital. Funding in the currencies of the Bank's borrowings may also occur where the Bank holds options entitling it to recover its investments, within certain timeframes and at defined rates of return in those currencies.

– The Bank's treasury management of currency positions is based on economic and not accounting exposures. Economic exposures are evaluated on a net present value basis and are used to ensure that currency positions, as so measured, are kept within conservative limits authorised by senior management. The accompanying table states the Bank's currency positions when measured in accordance with the Bank's accounting policies and is not indicative of any economic based currency risk.

In addition there are residual currency positions arising from earnings, receivables and payables which are not significant enough to warrant Treasury cover.

19 Liquidity risk

The table below provides an analysis of assets and liabilities into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date.

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

ECU 000	Up to and including 1 month	Over 1 month and up to and including 3 months	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years	Maturity undefined	Total
Assets							
Placements with and advances to credit institutions	635,246	408,399	–	–	–	–	1,043,645
Other money market placements and advances	70,934	–	–	–	–	–	70,934
Debt securities	146,023	361,591	826,684	1,604,388	1,504,850	–	4,443,536
Loans	37,065	164,968	221,324	310,086	843,105	(17,122)	1,559,426
Share investments	–	–	–	–	–	454,346	454,346
Other assets	660,973	27,970	25,600	–	19,196	–	733,739
Property, plant and equipment	–	–	–	–	–	57,932	57,932
Promissory notes issued by members	6,019	–	154,760	78,650	–	1,909	241,338
Subscribed capital:							
Due but not yet received	–	–	–	–	–	94,700	94,700
Called but not yet due	–	1,800	3,682	7,364	–	15,272	28,118
Total assets	1,556,260	964,728	1,232,050	2,000,488	2,367,151	607,037	8,727,714
Liabilities							
Amounts owed to credit institutions	(154,237)	(43,166)	(15,058)	(113,511)	–	–	(325,972)
Debts evidenced by certificates	(353,473)	(187,643)	(756,121)	(1,830,182)	(1,187,909)	–	(4,315,328)
Other liabilities	(880,619)	(34,942)	(59,826)	(7,680)	(35,200)	–	(1,018,267)
Provisions for general portfolio risks	–	–	–	–	–	(83,425)	(83,425)
Members' equity	–	–	–	–	–	(2,984,722)	(2,984,722)
Total liabilities and members' equity	(1,388,329)	(265,751)	(831,005)	(1,951,373)	(1,223,109)	(3,068,147)	(8,727,714)
Liquidity risk at 31 December 1995	**167,931**	**698,977**	**401,045**	**49,115**	**1,144,042**	**(2,461,110)**	**–**
Cumulative liquidity risk at 31 December 1995	**167,931**	**866,908**	**1,267,953**	**1,317,068**	**2,461,110**	**–**	**–**
Cumulative liquidity risk at 31 December 1994	994,788	1,163,883	1,968,668	2,309,144	2,607,380	–	–

20 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the degree to which the Bank is exposed to interest rate risk by stating either the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Securities that comprise the Bank's marked to market portfolio are assumed to reprice within the "up to and including 1 month" category.

Repricing interval ECU 000	Up to and including 1 month	Over 1 month and up to and including 3 months	Over 3 months and up to and including 1 year	Over 1 year and up to and including 5 years	Over 5 years	Non-interest-bearing funds	Total
Assets							
Placement with and advances to credit institutions	635,246	408,399	–	–	–	–	1,043,645
Other money market placements and advances	70,934	–	–	–	–	–	70,934
Debt securities	2,422,682	243,522	790,775	355,301	631,256	–	4,443,536
Loans	278,460	510,517	519,820	26,655	249,443	–	1,584,895
Other assets	660,973	27,970	25,600	–	1,741	17,455	733,739
Non-interest-earning assets including subscribed capital called, not yet due	–	–	–	–	–	850,965	850,965
Total assets	4,068,295	1,190,408	1,336,195	381,956	882,440	868,420	8,727,714
Liabilities							
Amounts owed to credit institutions	(154,237)	(43,166)	(15,058)	(113,511)	–	–	(325,972)
Debts evidenced by certificates	(514,526)	(210,751)	(930,902)	(1,550,112)	(1,109,037)	–	(4,315,328)
Other liabilities	(838,400)	(34,622)	(80,393)	–	–	(64,852)	(1,018,267)
Provisions for general portfolio risks	–	–	–	–	–	(83,425)	(83,425)
Members' equity	–	–	–	–	–	(2,984,722)	(2,984,722)
Total liabilities and members' equity	(1,507,163)	(288,539)	(1,026,353)	(1,663,623)	(1,109,037)	(3,132,999)	(8,727,714)
Net assets	2,561,132	901,869	309,842	(1,281,667)	(226,597)	(2,264,579)	–
Off balance sheet instruments	(589,160)	(328,384)	(593,579)	1,282,785	228,338	–	–
Interest rate risk at 31 December 1995	**1,971,972**	**573,485**	**(283,737)**	**1,118**	**1,741**	**(2,264,579)**	**–**
Cumulative interest rate risk at 31 December 1995	**1,971,972**	**2,545,457**	**2,261,720**	**2,262,838**	**2,264,579**	**–**	**–**
Cumulative interest rate risk at 31 December 1994	1,077,967	1,237,946	1,509,514	1,499,902	1,499,902	–	–

The Bank's treasury assets and liabilities are actively managed and invested within authorised duration guidelines. At 31 December 1995 the overall duration was 0.38 years with an average during the year of 0.24 years. Interest rate risks arising on the Bank's remaining assets and liabilities are monitored and hedged on a daily basis by measuring the change in their value for a one basis point change in interest rates.

21 Off balance sheet financial instruments

The table below gives the nominal principal amounts of off balance sheet transactions outstanding at the balance sheet date. Such amounts are not indicative of the related market exposure.

Exchange rate and interest rate contracts	**1995 Hedging ECU 000**	**1995 Strategic investment positions ECU 000**	**1995 Total ECU 000**	1994 Hedging ECU 000	1994 Strategic investment positions ECU 000	1994 Total ECU 000
Exchange rate contracts						
Swaps	**3,878,668**	**–**	**3,878,668**	3,212,078	–	3,212,078
Forwards	**923,987**	**–**	**923,987**	1,110,190	–	1,110,190
Options	**712,980**	**–**	**712,980**	285,845	–	285,845
	5,515,635	**–**	**5,515,635**	4,608,113	–	4,608,113
Interest rate contracts						
Swaps	**5,729,390**	**–**	**5,729,390**	4,026,376	697,557	4,723,933
Options	**1,369,833**	**34,251**	**1,404,084**	610,678	20,440	631,118
Futures	**3,727,643**	**1,276,588**	**5,004,231**	3,971,529	1,354,102	5,325,631
FRAs	**–**	**–**	**–**	–	94,721	94,721
	10,826,866	**1,310,839**	**12,137,705**	8,608,583	2,166,820	10,775,403
At 31 December	**16,342,501**	**1,310,839**	**17,653,340**	13,216,696	2,166,820	15,383,516

The Bank has a possible exposure of ECU 557.87 million (1994: ECU 282.26 million) in the event of non-performance by its counterparties. These amounts represent the replacement cost at market rates as at 31 December 1995 of all outstanding agreements in the event of all counterparties defaulting. However, the Bank is highly selective in its choice of counterparties, which are within the approved Investment Authority and Guidelines, and considers that non-performance does not represent a significant risk.

22 Other fund agreements

In addition to the Bank's operations and the Special Funds programme, the Bank administers several bilateral and multilateral grant agreements to provide technical assistance in the countries of operations. These agreements focus primarily on project preparation, project implementation, advisory services and training.

At 31 December 1995 the Bank administered 43 cooperation fund agreements (1994: 35) for an aggregate committed amount from third parties of ECU 347.91 million (1994: ECU 232.84 million). This amount includes ECU 130.01 million for the Tacis and Phare Programmes which is subject to individual contract approval from the European Commission. Of this committed amount, funds received at 31 December 1995 totalled ECU 206.30 million. The total uncommitted balance of the Funds at 31 December 1995 was ECU 77.72 million.

In addition, the Bank administered 45 project-specific cooperation agreements for an aggregate committed amount of ECU 22.28 million.

The Ministry of Finance of Japan has deposited the Japanese yen equivalent of USD 28.60 million with the Bank through a separate fund known as the EBRD-Japan Special Earmarked Fund. Such amount may, at the discretion of the Ministry of Finance of Japan, be used from time to time to make contributions to the Special Funds created under the Russia Small Business Programme. As at 31 December 1995 USD 5.05 million had been contributed from the EBRD-Japan Special Earmarked Fund to the Russia Small Business Investment Special Fund.

Following a proposal by the G-7 countries for a multilateral programme of action to improve safety in nuclear power plants in the countries of operations, the Nuclear Safety Account ("the NSA") was established by the Bank in March 1993. The NSA funds are in the form of grants and are used for immediate safety improvement measures. As at 31 December 1995, 15 contributors had made pledges up to a total amount of ECU 192.65 million using the fixed exchange rates defined in the Rules of the NSA.

The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the European Bank for Reconstruction and Development as of 31 December 1995, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 50 to 65. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Bank as of 31 December 1995, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards and the overall principles of the European Communities Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Arthur Andersen

Arthur Andersen
London
6 March 1996

Status of the Baltic Special Funds' activities

The Baltic Investment Special Fund

Profit and loss account **For the year ended 31 December 1995**	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Interest and similar income			
From loans		**544**	16
Other interest		**1,157**	1,370
Net fee and commission income		**209**	15
Foreign exchange		**26**	10
Other operating expenses	3	**(3)**	(250)
Transfer of interest income to the Baltic Technical Assistance Special Fund	4	**(3,494)**	–
Operating (loss)/profit before provisions		**(1,561)**	1,161
Provisions for losses	5	**(571)**	(242)
(Loss)/profit for the year		**(2,132)**	919

Statement of appropriation of profit **For the year ended 31 December 1995**	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Balance brought forward 1 January	**951**	101
Profit for the previous year	**919**	850
Balance carried forward 31 December	**1,870**	951

In accordance with the Agreement, it is intended that an amount of ECU 0.15 million, being the qualifying fees and commissions earned in the year to 31 December 1995, will be appropriated in 1996 from the loss for the year to 31 December 1995 and set aside to the special reserve.

Balance sheet **At 31 December 1995**	Note	**ECU 000**	**31 December 1995 ECU 000**	ECU 000	31 December 1994 ECU 000
Assets					
Placements with credit institutions	6		**14,620**		27,015
Loans and share investments					
Loans	7	**11,403**		1,156	
Share investments	7	**4,310**		3,801	
Less: Provisions for losses	5	**(273)**		(362)	
			15,440		4,595
Other assets			**445**		260
Total assets			**30,505**		31,870
Liabilities					
Other liabilities			**105**		–
Provisions for general portfolio risks	5		**662**		–
Contributions	9		**30,000**		30,000
Profit brought forward			**1,870**		951
(Loss)/profit for the year			**(2,132)**		919
Total liabilities and contributions			**30,505**		31,870
Memorandum items					
Commitments	10		**8,946**		7,343

Statement of cash flows **For the year ended 31 December 1995**	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Cash flows from operating activities		
Operating (loss)/profit for the year	**(2,132)**	919
Adjustments to operating (loss)/profit to determine net cash (used)/provided by operating activities:		
Provisions for losses	**571**	242
Increase in interest receivable	**(185)**	(174)
Increase in other liabilities	**105**	–
Foreign exchange	**2**	–
Net cash (used)/provided by operating activities	**(1,639)**	987
Cash flows from investing activities		
Loans and share investments	**(10,756)**	(3,457)
Net cash used in investing activities	**(10,756)**	(3,457)
Cash flows from financing activities		
Contributions	**–**	10,000
Net cash provided by financing activities	**–**	10,000
Net (decrease)/increase in cash and cash equivalents	**(12,395)**	7,530
Cash and cash equivalents at 1 January	**27,015**	19,485
Cash and cash equivalents at 31 December	**14,620**	27,015

Notes to the financial statements

1 Creation of the Special Fund

The Baltic Investment Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries").

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania ("the Baltic States").

2 Significant accounting policies

i Accounting convention
The financial statements have been prepared under the historical cost convention and comply with International Accounting Standards.

ii Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into ECU at market rates ruling at 31 December 1995. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the profit and loss account.

Where applicable, the following 31 December 1995 ECU exchange rates were used in the preparation of the financial statements:

Deutsche marks	1.8358
United States dollars	1.2826

iii Share investments
Share investments are carried at cost less provisions for any permanent diminution in value. Dividends are credited to income when received.

iv Provisions for losses
Specific provisions are made against identified loans representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions are made relating to losses which, although not specifically identified, are inherent in any portfolio of contractual commitments, loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.

v Interest and commitment fees
Interest and commitment fees are recorded as income on an accruals basis. The Fund does not recognise income on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

vi Off balance sheet instruments
In the normal course of business the Fund is a party to off balance sheet financial instruments including currency swap agreements. These instruments are used to manage the Fund's currency exposure on assets.

Profits and losses arising from financial instruments entered into for hedging purposes are matched against those arising on items being hedged.

3 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund and include fees payable to the Bank for operating the Fund, calculated at 2.5 per cent of each contribution instalment received.

4 Transfer of interest income to the Baltic Technical Assistance Special Fund

In accordance with article 3.01(c) of the Rules and Regulations of the Fund, ECU 3.49 million, representing income derived from investments of the Fund's resources, was transferred to the Baltic Technical Assistance Special Fund to supplement its resources.

5 Provisions for losses

Profit and loss charges	**1995 ECU 000**	1994 ECU 000
Loans	**22**	58
Share investments	**(113)**	184
General portfolio risks	**662**	–
	571	242

Movement in provisions	31 December 1994 ECU 000	Provision charges ECU 000	Exchange adjustments ECU 000	**31 December 1995 ECU 000**
Loans	58	22	2	**82**
Share investments	304	(113)	–	**191**
Total loans and share investments	362	(91)	2	**273**
General portfolio risks	–	662	–	**662**

General provisions are based on a risk-rated approach for non-sovereign risk assets applied in two steps. An initial amount of 50 per cent of the provision is made at the time of commitment and the remaining 50 per cent at disbursement. The general portfolio risks provision includes provisions made against commitments net of repayments.

6 Placements with credit institutions

All placements with credit institutions are call deposits and are denominated in ECU.

7 Loans and share investments

	1995 ECU 000	**1995 ECU 000**	1994 ECU 000	1994 ECU 000
Loans	**11,403**		1,156	
Provisions for losses	**(82)**		(58)	
		11,321		1,098
Share investments	**4,310**		3,801	
Provisions for losses	**(191)**		(304)	
		4,119		3,497
At 31 December		**15,440**		4,595

8 Analysis of operational activity

Analysis by country

	1995 ECU 000	1994 ECU 000
Estonia	**11,265**	2,656
Latvia	**3,039**	1,401
Lithuania	**900**	900
Regional	**509**	–
	15,713	4,957

Analysis by currency

	1995 ECU 000	1994 ECU 000
Loans		
Deutsche marks	**9,266**	1,156
European currency units	**500**	–
United States dollars	**1,637**	–
	11,403	1,156
Share investments		
Deutsche marks	**1,401**	1,401
European currency units	**2,400**	2,400
United States dollars	**509**	–
	4,310	3,801

Maturity analysis of scheduled repayment of loans

	1995 ECU 000	1994 ECU 000
1999	**2,013**	352
2000	**4,630**	804
2001	**4,191**	–
2002	**569**	–
	11,403	1,156

9 Contributions

At 31 December 1995 contributions per the Fund Agreement from the Nordic countries were fully paid and are set out below:

	Total contributions ECU 000	%
Denmark	**6,180**	**20.6**
Finland	**6,720**	**22.4**
Iceland	**300**	**1.0**
Norway	**5,490**	**18.3**
Sweden	**11,310**	**37.7**
	30,000	**100.0**

10 Off balance sheet instruments

	1995 ECU 000	1994 ECU 000
Undrawn formal loan commitments	**7,408**	7,343
Commitments to purchase shares	**1,538**	–
Total commitments	**8,946**	7,343
Exchange rate swaps	**7,235**	1,146

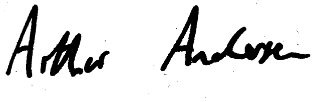
The nominal principal amounts of exchange rate swaps outstanding at the balance sheet date are not indicative of the related market exposure.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Baltic Investment Special Fund as of 31 December 1995, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 66 to 68. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Fund as of 31 December 1995, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.



Arthur Andersen
London
6 March 1996

The Baltic Technical Assistance Special Fund

Statement of movements in fund balance **For the year ended 31 December 1995**	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Balance brought forward		**3,670**	3,148
Contributions received		**–**	1,667
Interest and similar income		**228**	205
Transfer of interest income from the Baltic Investment Special Fund	3	**3,494**	–
		7,392	5,020
Disbursements	4	**(2,246)**	(1,267)
Other operating expenses	5	**(3)**	(83)
Balance of fund available 31 December		**5,143**	3,670

Balance sheet **At 31 December 1995**	Note	**31 December 1995 ECU 000**	31 December 1994 ECU 000
Assets			
Placements with credit institutions	6	**4,461**	3,631
Other assets		**685**	39
Total assets		**5,146**	3,670
Liabilities			
Unallocated fund balance		**1,147**	1,399
Allocated fund balance	4	**3,996**	2,271
		5,143	3,670
Other liabilities		**3**	–
Total liabilities		**5,146**	3,670

Notes to the financial statements

1 Creation of the Special Fund

The Baltic Technical Assistance Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries").

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote the development of a market economic system in Estonia, Latvia and Lithuania ("the Baltic States"). In this respect, the Fund focuses on the development of small and medium-sized enterprises in the private sector.

2 Significant accounting policies

i Accounting convention

The financial statements have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

ii Foreign currencies

Disbursements in currencies other than ECU are translated into ECU at market rates ruling at the time of the transaction. Commitments net of disbursements made, in currencies other than ECU, are translated at market rates ruling at 31 December 1995.

Where applicable, the following 31 December 1995 ECU exchange rate was used in the preparation of the financial statements:

United States dollars 1.2826

iii Completed projects

A project is defined as completed when all consultants involved have satisfied all contractual obligations and all invoices related to the project have been submitted for payment.

On completion of a project any committed amounts not disbursed are reassigned to the unallocated fund balance.

3 Transfer of interest income from the Baltic Investment Special Fund

In accordance with article 3.01(c) of the Rules and Regulations of the Baltic Investment Special Fund ("BISF"), ECU 3.49 million, representing income derived from investment of the resources of the BISF, was transferred to the Fund to supplement its resources.

4 Allocated fund balance and disbursements
The allocated fund balance represents all commitments approved by the Bank under the terms of the Fund Agreement net of cumulative disbursements.

	Commitments approved ECU 000	Disbursements ECU 000	Allocated fund balance ECU 000
Projects in operation			
At 1 January 1995	3,600	1,329	2,271
Movements in the year	3,034	1,309	1,725
At 31 December 1995	**6,634**	**2,638**	**3,996**
Completed projects			
At 1 January 1995	229	229	–
Movements in the year	937	937	–
At 31 December 1995	**1,166**	**1,166**	**–**
Total projects			
At 1 January 1995	3,829	1,558	2,271
Movements in the year	3,971	2,246	1,725
At 31 December 1995	**7,800**	**3,804**	**3,996**

5 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund and include fees payable to the Bank for operating the Fund, calculated at 5 per cent of each contribution instalment received.

6 Placements with credit institutions

Placements with credit institutions are call deposits and are denominated in ECU.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Baltic Technical Assistance Special Fund as of 31 December 1995, and the related movements in the fund balance for the year then ended, on pages 69 to 70. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Fund as of 31 December 1995, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

Arthur Andersen

Arthur Andersen
London
6 March 1996

Status of the Russia Small Business Special Funds' activities

The Russia Small Business Investment Special Fund

Profit and loss account **For the year ended 31 December 1995**	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Interest and similar income			
From loans		**276**	90
Other interest		**440**	76
Interest expenses and similar charges		**(116)**	–
Foreign exchange		**(290)**	(190)
Other operating expenses	3	**(170)**	(316)
Operating profit/(loss) before provisions		**140**	(340)
Provisions for losses	4	**(1,842)**	(1,001)
Loss for the year		**(1,702)**	(1,341)

Statement of appropriation of (loss)/profit **For the year ended 31 December 1995**	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Balance brought forward 1 January	**2**	–
(Loss)/profit for the previous year	**(1,341)**	2
Balance carried forward 31 December	**(1,339)**	2

Balance sheet **At 31 December 1995**	Note	**ECU 000**	**31 December 1995 ECU 000**	ECU 000	31 December 1994 ECU 000
Assets					
Placements with credit institutions	5		**9,732**		8,423
Loans and share investments					
Loans	6	**5,503**		1,977	
Share investments	6	**112**		–	
Less: Provisions for losses	4	**(2,807)**		(989)	
			2,808		988
Other assets			**148**		51
Contributions pledged but not yet called	7		**3,430**		6,526
Total assets			**16,118**		15,988
Liabilities					
Other liabilities			**139**		252
Contributions	7		**19,020**		17,075
(Loss)/profit brought forward			**(1,339)**		2
Loss for the year			**(1,702)**		(1,341)
Total liabilities and contributions			**16,118**		15,988
Memorandum items					
Commitments	6		**16,890**		12,700

Statement of cash flows **For the year ended 31 December 1995**	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Cash flows from operating activities		
Operating loss for the year	**(1,702)**	(1,341)
Adjustment to operating loss to determine net cash used in operating activities:		
Provisions for losses	**1,842**	1,001
Increase in interest receivable	**(97)**	(49)
(Decrease)/increase in other liabilities	**(113)**	252
Foreign exchange	**(24)**	(12)
Net cash used in operating activities	**(94)**	(149)
Cash flows from investing activities		
Loans and share investments	**(3,638)**	(1,977)
Net cash used in investing activities	**(3,638)**	(1,977)
Cash flows from financing activities		
Contributions	**5,041**	9,073
Net cash provided by financing activities	**5,041**	9,073
Net increase in cash and cash equivalents	**1,309**	6,947
Cash and cash equivalents at 1 January	**8,423**	1,476
Cash and cash equivalents at 31 December	**9,732**	8,423

Notes to the financial statements

1 Creation of the Special Fund

The creation of the Russia Small Business Investment Special Fund ("the Fund") was approved by the Board of Directors of the European Bank for Reconstruction and Development ("the Board") at its meeting of 18 October 1993 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. The Fund became operational in 1994 when commitments by donors totalled USD 3 million and the pilot phase of the programme was further extended during that year. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from ECU to United States dollars. The Full Scale phase of the Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the Full Scale phase, will be submitted for approval to the Board in 1996.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to assist the development of small businesses in the private sector in Russia.

2 Significant accounting policies

i Accounting convention
The financial statements have been prepared under the historical cost convention and comply with International Accounting Standards.

ii Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into ECU at market rates ruling at 31 December 1995. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of transaction.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the profit and loss account.

Where applicable, the following 31 December 1995 ECU exchange rate was used in the preparation of the financial statements:

United States dollars 1.2826

iii Share investments
Share investments are carried at cost less provisions for any permanent diminution in value. Dividends are credited to income when received.

iv Provisions for losses
Specific provisions are made against identified loans representing a prudent estimate of that part of the outstanding balance that might not be recovered. For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions are made relating to losses which, although not specifically identified, are inherent in any portfolio of contractual commitments, loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account.

v Interest
Interest is recorded as income on an accruals basis. No income is recognised on loans where collectability is in doubt or payments of interest or principal are overdue more than 180 days for a public sector loan and 60 days for a private sector loan. Interest on such non-accrual loans is thereafter only recognised as income when actual payment is received.

3 Other operating expenses

Other operating expenses comprise administrative expenses directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated at 3 per cent of each contribution instalment received.

4 Provisions for losses

Profit and loss charges	1995 ECU 000	1994 ECU 000
Loans	**1,786**	1,001
Share investments	**56**	–
	1,842	1,001

Movement in provisions	31 December 1994 ECU 000	Provision charges ECU 000	Exchange adjustments ECU 000	31 December 1995 ECU 000
Loans	989	1,786	(24)	**2,751**
Share investments	–	56	–	**56**
Total loans and share investments	989	1,842	(24)	**2,807**

5 Placements with credit institutions

All placements with credit institutions are call deposits and are denominated in United States dollars.

6 Loans and share investments

6 Loans and share investments	Disbursements 1995 ECU 000	Disbursements 1994 ECU 000	Committed but not yet disbursed 1995 ECU 000	Committed but not yet disbursed 1994 ECU 000
Loans	**5,503**	1,977	**15,058**	10,661
Provisions for losses	**(2,751)**	(989)	**–**	–
	2,752	988	**15,058**	10,661
Share investments	**112**	–	**1,832**	2,039
Provisions for losses	**(56)**	–	**–**	–
	56	–	**1,832**	2,039
	2,808	988	**16,890**	12,700

Maturity analysis of scheduled repayment of loans	1995 ECU 000	1994 ECU 000
1996	**2,230**	1,977
1997	**565**	–
1998	**2,708**	–
	5,503	1,977

A general provision of 50 per cent is made for both loans and share investments at disbursement. All loans and share investments are for projects in Russia and are committed and disbursed in United States dollars.

7 Contributions

Contributions pledged from the donor countries are set out below:

	1995 ECU 000	1994 ECU 000
Contributions received		
Canada	**761**	105
France	**820**	187
Germany	**2,739**	2,739
Italy	**1,930**	1,930
Japan	**4,703**	4,703
United States of America	**4,637**	885
	15,590	10,549
Contributions pledged but not yet called		
Canada	**–**	655
France	**701**	1,386
Switzerland	**2,339**	–
United States of America	**390**	4,485
	3,430	6,526
At 31 December	**19,020**	17,075

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Russia Small Business Investment Special Fund as of 31 December 1995, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 71 to 73. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Fund as of 31 December 1995, and of the results of its operations and its cash flows for the year then ended, in accordance with International Accounting Standards.

Arthur Andersen

Arthur Andersen
London
6 March 1996

The Russia Small Business Technical Cooperation Special Fund

Statement of movements in fund balance **For the year ended 31 December 1995**	Note	**Year to 31 December 1995 ECU 000**	Year to 31 December 1994 ECU 000
Balance brought forward		**3,886**	964
Contributions received	3	**2,962**	4,726
Interest and similar income		**175**	159
		7,023	5,849
Disbursements	4	**(4,605)**	(1,772)
Other operating expenses	5	**(93)**	(150)
Foreign exchange		**(236)**	(41)
Balance of fund available 31 December		**2,089**	3,886

Balance sheet **At 31 December 1995**	Note	**31 December 1995 ECU 000**	31 December 1994 ECU 000
Assets			
Placements with credit institutions	6	**2,086**	3,894
Other assets		**11**	10
Total assets		**2,097**	3,904
Liabilities			
Unallocated fund balance	7	**(505)**	(541)
Allocated fund balance	4	**2,594**	4,427
		2,089	3,886
Other liabilities		**8**	18
Total liabilities		**2,097**	3,904

Notes to the financial statements

1 Creation of the Special Fund

The creation of the Russia Small Business Technical Cooperation Special Fund ("the Fund") was approved by the Board of Directors of the European Bank for Reconstruction and Development ("the Board") at its meeting of 18 October 1993 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. An amendment to the Rules and Regulations was approved by the Board on 14 July 1994 to change the denomination of the Fund from ECU to United States dollars. The Full Scale phase of the Russia Small Business Fund Programme was approved by the Board at its meeting of 30 August 1995 and a revised version of the Rules and Regulations of the Fund, in connection with the Full Scale phase, will be submitted for approval to the Board in 1996.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to finance technical cooperation for the design and implementation of the Pilot, Extended Pilot and Full Scale phase operations of the Russia Small Business Investment Special Fund.

2 Significant accounting policies

i Accounting convention
The financial statements have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

ii Foreign currencies
Assets and liabilities in currencies other than ECU are translated into ECU at market rates ruling at 31 December 1995. Transactions in currencies other than ECU, including disbursements, are translated into ECU at month-end exchange rates. Commitments are translated at the rate of exchange ruling at 31 December 1995.

Exchange gains and losses arising from the translation of assets, liabilities and transactions during the year are taken to the statement of movements in fund balance.

Where applicable, the following 31 December 1995 ECU exchange rate was used in the preparation of the financial statements:

United States dollars 1.2826

iii Completed projects
A project is defined as completed when all consultants involved have satisfied all contractual obligations and all invoices related to the project have been submitted for payment.

On completion of a project any committed amounts not disbursed are reassigned to the unallocated fund balance.

3 Contributions received

Contributions received from the donors are set out below:

	1995 ECU 000	1994 ECU 000
Canada	**164**	140
France	**159**	249
Switzerland	**1,244**	–
United Kingdom	**645**	3,453
United States of America	**750**	884
	2,962	4,726

Contributions pledged but not yet called are as follows:

	1995 ECU 000	1994 ECU 000
Canada	**–**	165
France	**156**	326
Switzerland	**–**	1,264
United States of America	**390**	1,223
	546	2,978

4 Allocated fund balance and disbursements

The allocated fund balance represents all commitments approved by the Bank under the terms of the Fund net of cumulative disbursements.

	Commitments approved ECU 000	**Disbursements ECU 000**	**Allocated fund balance ECU 000**
Projects in operation			
At 1 January 1995	6,174	1,747	4,427
Movements in the year	468	2,301	(1,833)
At 31 December 1995	**6,642**	**4,048**	**2,594**
Completed projects			
At 1 January 1995	25	25	–
Movements in the year	2,304	2,304	–
At 31 December 1995	**2,329**	**2,329**	**–**
Total projects			
At 1 January 1995	6,199	1,772	4,427
Movements in the year	2,772	4,605	(1,833)
At 31 December 1995	**8,971**	**6,377**	**2,594**

5 Other operating expenses

Other operating expenses comprise administrative expenses directly related to the Fund and include fees payable to the Bank for operating the Fund, calculated at 3 per cent of each contribution instalment received.

6 Placements with credit institutions

All placements with credit institutions are call deposits and are denominated in United States dollars.

7 Unallocated fund balance

Commitments of ECU 8.97 million have been approved by the Bank under the terms of the Fund. This exceeds the cash contributions received but is within the total amount pledged by the donors.

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of the Russia Small Business Technical Cooperation Special Fund as of 31 December 1995, and the related movements in the fund balance for the year then ended, on pages 74 to 75. The preparation of these financial statements is the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Fund as of 31 December 1995, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

Arthur Andersen

Arthur Andersen
London
6 March 1996

List of 1995 projects

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Baltic Venture Fund To achieve long-term growth through equity investment in Estonia, Latvia and Lithuania	Regional	Holding/other investment	C/0	Shares	30 August (10 January)	5.9	23.4
MBA Loan Project To enable students from the region to attend leading Western business schools	Regional	Education services	C/0	Guarantee	6 March (10 January)	9.0	17.9
Skoda Kovarny s.r.o. Investment in metal forger to support machinery modernisation	Czech Republic	Metal products	B/1	Loan	15 March (10 January)	17.9	49.4
Slovenska Polnohospodarska Banka a.s. Co-financing Facility To provide funding via SPB to SMEs in the agribusiness sector – Framework	Slovak Republic	Food	C/0	Loan	(10 January)	14.4	28.9
SPB – Co-financing facility – Miva					13 November	0.6	1.5
Latvijas Zemes Banka Credit line to enable LZB to increase its medium-term lending to SMEs	Latvia	Banks	C/0	Loan	3 February (24 January)	5.1	7.8
Russia Life Investments/Principal AOOT Start-up equity participation in private sector life insurance	Russian Federation	Insurance	C/0	Shares	4 May (24 January)	0.3	3.5
Slovenski Plinovodi – Retail Gas Distribution To private sector company to build and operate retail gas distribution systems	Slovenia	Gas production	B/0	Loan	25 July (24 January)	8.2	30.0
AO Bashkortostan-Kelme Shoe Production Joint venture between Kelme and local partners for the production of sports shoes	Russian Federation	Rubber, plastics	B/1	Loan	31 October (21 February)	8.6	40.8
Ascom-Kelme Shoe Production Joint venture between Kelme and local partners for the production of sports shoes	Moldova	Rubber, plastics	B/1	Loan	31 October (21 February)	5.7	23.8
BTUiR Heros Investment in one of Poland's largest private sector insurers to finance expansion	Poland	Insurance	C/0	Shares	10 March (21 February)	1.4	3.0
Eurobank Co-financing Facility Co-financing agency line for medium-sized projects, mainly in the natural resources sector	Russian Federation	Non-classified	C/0	Loan	– (21 February)	15.6	44.3
Danone Multi-Project Facility Framework equity facility for projects in the food and beverage industry	Regional	Food	C/0	Shares	– (7 March)	78.0	389.8
Paroc Silikatas For purchase of equipment to upgrade production of mineral rockwool insulation material	Lithuania	Stone, clay	B/1	Loan	14 August (7 March)	5.7	15.7
Integrated Agricultural Services and Processing To Kiev-Atlantic Ukraine, part-finance for a purpose-built agri-service centre at Myronivka	Ukraine	Agriculture	B/0	Loan and shares	15 May (21 March)	5.3	16.2
Polsko-Amerykanski Bank Hipoteczny S.A. Guarantee facility to PABH to finance larger multi-unit residential developments	Poland	Building	C/0	Guarantee	7 April (21 March)	11.7	11.7
Warsaw Distribution Park Sp. z.o.o. To help develop the first international-standard industrial park in Poland	Poland	Real estate	B/0	Loan	9 April (21 March)	4.1	10.2

Loans are calculated at exchange rates current on 31 December 1995.
Shares are converted to ECU at exchange rates current at the date of disbursement.

*** Environmental screening categories:**
A, B and C refers to whether the project requires:
– a full environmental assessment (A)
– a partial environmental analysis (B)
– neither (C)
1 or 0 refers to whether the project:
– needs an environmental audit (1)
– does not need an environmental audit (0)

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Zarafshan-Newmont Cost Overrun Facility to complete development of the heap-leaching plant near Zarafshan	Uzbekistan	Metal mining	C/0	Loan	26 April (21 March)	23.4	62.4
Commercial Bank Ion Tiriac Stand–by Loan Three-year revolving loan to enable CBIT to increase medium-term lending to SMEs	Romania	Banks	C/0	Loan	27 July (4 April)	15.6	15.6
Kumtor Gold To develop a large gold deposit	Kyrgyzstan	Metal mining	A/1	Loan and shares	28 June (4 April)	31.2	280.7
Poltava Oil and Gas Project For part-finance of development of the Ignatovskoye oil and gas field	Ukraine	Oil and gas	B/1	Loan	26 April (4 April)	6.2	24.6
Russia Registry Company Provision of independent share registration services to large enterprises	Russian Federation	Securities	C/0	Shares	24 April (4 April)	1.2	7.8
Transmission Network Improvement Project To finance the first phase of electricity transmission network upgrade in Issyk Kul region	Kyrgyzstan	Energy transmission	B/0	Loan	22 May (4 April)	29.6	43.9
Zagrebacka Banka IT Loan To enable the bank to buy IT equipment	Croatia	Banks	C/0	Loan	7 April (4 April)	3.3	3.3
Zagrebacka Banka Loan Facility To enable the bank to on-lend to SMEs and individuals	Croatia	Banks	C/0	Loan	7 April (4 April)	27.2	27.2
AS Hansapank – Transitional Assistance Facility To enable the bank to remove cash collateral deposits from international correspondent banks	Estonia	Banks	C/0	Loan	19 May (19 April)	7.8	7.8
Advent International Additional financing for the existing Advent Fund	Slovak Republic	Holding/other investment	C/0	Shares	28 June (2 May)	7.8	7.8
Emergency Oil Spill Recovery and Mitigation Project For clean-up activities and rehabilitation of the oil pipeline in the Komi region	Russian Federation	Pipelines	A/1	Loan	5 May (2 May)	19.5	109.2
Energy Efficiency Project To S.A. Termocom, for improving the energy efficiency of Chisinau's heat supply system	Moldova	Energy distribution	B/1	Loan	19 May (2 May)	18.6	34.8
Kiev International Bank (KIB) Equity investment in creation of the first Western-style commercial bank in Ukraine	Ukraine	Banks	C/0	Shares	18 August (2 May)	1.8	5.0
Lower Volga Regional Venture Fund New capital and post-privatisation support for enterprises in Volgograd, Saratov and Samara	Russian Federation	Holding/other investment	A/0	Shares	12 May (2 May)	23.4	23.4
Agribusiness Credit Line – Agro-Obrtnicka Banka For SMEs working in the sector	Croatia	Banks	C/0	Loan	26 July (16 May)	5.4	5.4
Agribusiness Credit Line – Dalmatinska Banka For SMEs working in the sector	Croatia	Banks	C/0	Loan	20 July (16 May)	10.9	10.9
Magma Oil Project To continue development of the Yuzhnoye oilfield in Western Siberia	Russian Federation	Oil and gas	A/1	Loans	– (16 May)	35.9	106.8
Investel Syndicated Loan Facility For the expansion and modernisation of MATAV's telecommunications network	Hungary	Communi-cations	B/0	Loans	5 September (30 May)	54.6	795.3
Mass Privatisation Equity Facility Financing 4-6 companies in need of development capital	Poland	Holding/other investment	C/0	Shares	– (30 May)	39.0	39.0

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Railway Restructuring Project To Bulgarian State Railways (BDZ) for track repair, and safety/efficiency investments	Bulgaria	Railtrack	B/1	Loan	17 November (30 May)	35.1	229.9
Victoria Bank Credit Line For on-lending to commercially viable export-oriented enterprises	Moldova	Banks	C/0	Loan and shares	27 July (30 May)	3.3	3.3
AS Eesti Hoiupank (Equity) Equity participation to assist the privatisation of Hoiupank	Estonia	Banks	C/0	Shares	30 June (13 June)	1.9	2.3
AS Eesti Hoiupank (Loan) Credit line for financing SME projects	Estonia	Banks	C/0	Loan	30 June (13 June)	3.5	7.1
Dniepropetrovsk Oil Extraction Plant Expansion of an existing mill with a refinery and bottling line for vegetable oil production	Ukraine	Food	B/1	Shares	28 July (13 June)	6.6	15.6
East European Food Fund To establish regional fund focusing on investments in the food and beverage industry	Regional	Holding/other investment	C/0	Shares	18 July (13 June)	15.5	78.0
Savvinskaya Company To finance the development and operation of a modern business centre in Moscow	Russian Federation	Real estate	B/0	Loan	– (13 June)	4.8	25.9
Deutsch Lettische Bank Credit line for on-lending to SMEs, the core of DLB's client base	Latvia	Banks	C/0	Loan	21 July (27 June)	3.9	9.4
Graboplast Rt Equity investment in this home improvement company to develop production of floor coverings	Hungary	Rubber, plastics	B/1	Shares	27 June (27 June)	2.4	8.2
Magyar Kulkereskedelmi Bank (MKB) Trade Facilitation Agreement To strengthen and develop MBK's intraregional trade promotion services	Hungary	Banks	C/0	Guarantee	3 November (27 June)	19.5	39.0
Polski Fundusz Leasingowy Equity investment in company leasing industrial equipment to Polish-based companies	Poland	Credit institution	C/0	Shares	4 October (27 June)	1.5	1.5
Sector Capital Development Company Start-up capital for investment advisory company	Russian Federation	Banks	C/0	Shares	6 July (27 June)	0.7	0.7
Sector Capital Fund Start-up capital for investment advisory company	Russian Federation	Banks	C/0	Shares	6 July (27 June)	7.0	32.0
Sepap Steti a.s. For paper company to invest in plant to increase production and produce environmentally friendly pulp	Czech Republic	Paper	B/1	Loan	25 July (27 June)	60.5	168.8
Vilniaus Bankas Medium- to long-term credit line for on-lending to SMEs	Lithuania	Banks	C/0	Loan	29 August (27 June)	8.3	8.3
Small Municipalities Environment Project Short-term water services investments in municipalities other than Tallinn	Estonia	Water supply	B/0	Loan	18 December (27 June)	10.9	46.0
Baku Water Rehabilitation Project To upgrade water and waste-water services in Baku, increasing efficiency and accountability	Azerbaijan	Water supply	B/0	Loan	16 October (11 July)	17.9	74.0
Southern Russia Regional Venture Fund For investments in medium-sized companies in Rostov on Don, Stavropol and Krasnodar	Russian Federation	Holding/other investment	C/0	Shares	28 July (11 July)	23.4	23.4

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Tbilisi Airport Rehabilitation Project To improve air-passenger handling operations and upgrade facilities to international standards	Georgia	Airports	B/0	Loan	13 July (11 July)	8.6	10.1
Uzbek Leasing International AO For establishment of the first leasing company in Uzbekistan	Uzbekistan	Credit institution	C/0	Loan and shares	28 August (11 July)	4.4	18.7
Trade Facilitation Programme Facility to guarantee short-term trade-related obligations with designated Western banks	Belarus	Banks	C/0	Loan	– (11 July)	21.0	21.0
ARP – Budapest Bank – Extension Extension of credit line to the bank as part of existing Agricultural Restructuring Project	Hungary	Banks	C/0	Loan	12 October (14 July)	11.7	11.7
Eesti Uhispank Credit line for financing projects in the SME sector	Estonia	Banks	C/0	Loan	28 July (25 July)	9.3	9.3
EMITEL Rt Expansion and development of local telecommunication networks in three regions	Hungary	Communi-cations	B/0	Loan	21 December (25 July)	11.7	66.3
First Ukrainian International Bank Agribusiness Credit Facility Credit line to FUIB targeting the agribusiness and food sectors	Ukraine	Banks	C/0	Loan	11 August (25 July)	10.1	10.1
Kaunas Water and Environment Project To improve water and waste-water services in Kaunas, Lithuania's second-largest city	Lithuania	Water supply	B/0	Loan	7 September (25 July)	11.7	79.2
Lyonnaise des Eaux Municipal Services Multi-Project Facility For provision of water supply services and infrastructure under municipal concession agreements	Regional	Water supply	C/0	Loan	– (25 July)	70.2	233.9
M5 Toll Motorway For first phase of a motorway to be built and operated by a private, special-purpose company	Hungary	Roads	A/0	Loan and guarantee	11 December (25 July)	120.1	364.7
Moldagroindbank Credit Line Medium-term funding line for term financing of SME investment projects	Moldova	Banks	C/0	Loan	10 August (25 July)	15.5	15.7
North West Regional Venture Fund For modernisation, expansion and restructuring of SMEs in Murmansk, Arkangel'sk and Karelia	Russian Federation	Holding/other investment	C/0	Shares	14 August (25 July)	23.4	23.4
Pliva dd To build a plant to produce Azithromycin and similar antibiotic drugs	Croatia	Pharma-ceuticals	B/1	Loans	31 October (25 July)	48.3	93.6
Ukrrichflot To buy five new dry-cargo river-sea vessels, to be built in Romania, for freight transport	Ukraine	Water transport	B/0	Loan	29 September (25 July)	6.4	25.1
Winterthur Schweizerische Versicherungs Gesellschaft Multi-Project Facility For investment projects in the life insurance and pensions sectors in five countries	Regional	Insurance	C/0	Loan	18 December (25 July)	28.8	100.3
Bankas Hermis (Credit Line) To fund the bank's medium- to long-term investments in SMEs	Lithuania	Banks	C/0	Loan	3 October (29 August)	5.9	6.0
Bankas Hermis (Equity) Equity investment via new share subscription	Lithuania	Banks	C/0	Shares	15 December (29 August)	2.4	2.5

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Central Russia Regional Venture Fund For SME investment in Ivanovo, Kostroma, Yaroslavl and Vladimir	Russian Federation	Holding/other investment	C/0	Shares	28 November (29 August)	23.4	23.4
Daugava Hydro Schemes Upgrade Project To Latvenergo, to refurbish 3 hydropower stations, including safety and environmental measures	Latvia	Energy generation	B/0	Loan	– (29 August)	26.6	65.1
Faure & Machet Logistics Investment in warehousing and distribution at greenfield site near Warsaw	Poland	Real estate	B/0	Loan and shares	25 October (29 August)	7.9	22.7
IVECO/Kraz Joint Venture Creation of a joint venture to manufacture and distribute trucks	Ukraine	Transport	B/1	Shares	8 November (29 August)	14.0	79.1
KamAZ Stabilisation Financing To assist in restructuring and stabilisation, and to increase heavy truck production	Russian Federation	Transport	C/1	Loan	1 November (29 August)	78.0	224.5
Kyrgyz Agribusiness Company Establishment of company providing distribution and other services to grain-producing and other farms	Kyrgyzstan	Food	B/1	Loan	17 October (29 August)	7.0	17.7
Russia Small Business Fund: Full Scale Operations Revolving Facility Credit Line To RSBF for provision of equity and loans for the micro and SME sectors, through local banks	Russian Federation	Banks	C/0	Loan	15 January 96 (29 August)	90.0	98.8
St Petersburg Investment Finance Company Participation in a new company with a focus on St Petersburg and the North-West region	Russian Federation	Banks	C/0	Shares	21 September (29 August)	2.0	5.8
Slovenska Polnohospodarska Banka Part of a capital increase to maintain the EBRD's 20 per cent shareholding in SPB	Slovak Republic	Banks	C/0	Shares	25 September (29 August)	1.9	10.7
Banca Agricola Extension of Credit Line Extension of credit line for private sector agribusiness investments	Romania	Banks	B/0	Loan	6 December (12 September)	39.0	39.0
Déltáv Rt To part-finance the telecommunications company's capital expenditure programme	Hungary	Communi-cations	B/0	Loan and shares	21 December (12 September)	29.6	163.7
United Telecommunications Investment For expansion and development of local telephone networks in four regions of Hungary	Hungary	Communi-cations	B/0	Loan and shares	– (12 September)	45.9	233.7
VELT-Philips To modernise a factory producing TV glass and colour picture tubes	Russian Federation	Electronics	B/1	Shares	22 December (26 September)	3.6	7.9
Yulon d.d. Partial finance for company privatisation and restructuring and modernisation of nylon production	Slovenia	Textiles	B/1	Loan	16 November (26 September)	17.4	57.6
International Moscow Bank Credit Line To provide term financing for the development of private sector enterprises	Russian Federation	Banks	C/0	Loan	3 November (17 October)	31.2	31.2
Kondopoga Pulp and Paper Mill Investment in plant to increase production of newsprint for export	Russian Federation	Paper	B/1	Loan and shares	– (17 October)	39.0	155.9
Uzbekistan Trade Facilitation Programme To guarantee short-term trade-related obligations of local banks with Western banks	Uzbekistan	Banks	C/0	Guarantee	– (17 October)	7.8	7.8

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Uzbekistan Trade Facilitation Programme – National Bank of Uzbekistan Loan to NBU to improve the availability of financing, to encourage new trade	Uzbekistan	Banks	C/0	Loan	9 November (17 October)	31.2	31.2
Acetate JV To Kaunas Textiles (KATEKS) to set up a factory producing acetate yarns and fabrics for export	Lithuania	Textile mill	B/1	Loan	– (25 October)	5.6	25.6
Bank for Foreign Trade of the Russian Federation (Rosvneshtorgbank) Five-year facility to enable VTB to use its own customer resources to lend to the private sector	Russian Federation	Banks	C/0	Loan	10 January 96 (25 October)	78.0	78.0
International Black Sea Bank – Multi-Project Facility Framework agreement with the Commercial Bank of Greece to support banks in four countries	Regional	Banks	C/0	Loan	15 December (7 November)	11.7	35.5
FM Forte S.A. Equity investment in furniture manufacturing company	Poland	Furniture	B/1	Shares	– (7 November)	9.1	20.2
Power Sector Operational Efficiency Improvement Project Rehabilitation of four thermal power plant units and upgrading of the transmission system	Romania	Energy transmission	B/1	Loan	10 November (7 November)	78.1	184.6
Road Rehabilitation Project To finance rehabilitation of the country's road network	Moldova	Roads	B/0	Loan	24 November (7 November)	22.3	54.9
Skopje Airport Rehabilitation For rehabilitation of the runway and associated equipment improving airport safety	FYR Macedonia	Airports	B/0	Loan	20 December (7 November)	9.7	12.4
SME Credit Line – Framework Loan to participating banks to fund local SMEs	FYR Macedonia	Banks	C/0	Loan	15 December (7 November)	5.4	5.4
SME Credit Line – Stopanska Banka					15 December	5.4	5.4
SME Credit Line – Makedonska Banka					15 December	5.4	5.4
SME Credit Line – Export-Import Banka					15 December	2.2	2.2
SME Credit Line – Almako Banka					15 December	3.3	3.3
Waresco Sp. z.o.o. To fund construction and operation of the Sienna commercial office building in central Warsaw	Poland	Real estate	B/0	Loan	22 December (7 November)	8.4	26.6
AD Pivara Skopje For construction of a manufacturing and bottling plant for non-alcoholic beverages	FYR Macedonia	Food	B/1	Loan	– (21 November)	13.6	70.2
Akatsiya Textile Company To complete new production and office facilities and buy equipment to expand product lines	Ukraine	Textiles	B/1	Loan	– (21 November)	3.9	15.4
Bank Rozwoju Eksportu SA – Revolving Credit Facility To fund and co-finance BRE's credit activities supporting Polish exports	Poland	Banks	C/0	Loan	22 December (21 November)	23.4	23.4
BorsodChem Rt Privatisation Subscription to a capital increase, to finance a capital expenditure programme	Hungary	Chemicals	B/1	Shares	– (21 November)	23.4	78.0
Bulgaria Wholesale Markets Project To establish an integrated wholesale market system	Bulgaria	Wholesale	B/1	Loan	13 December (21 November)	27.3	65.5
GAZ Corporate Loan To truck manufacturer, for installation of new painting equipment	Russian Federation	Manufacturing	B/1	Loan	15 December (21 November)	15.6	29.6

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Istrobanka SA To finance medium- and long-term private sector investment projects	Slovak Republic	Banks	C/0	Loan	23 November (21 November)	16.3	16.3
Novorossiysk Shipping Co (Novoship) For acquisition of 11 modern double-hull tankers, to be built in Croatia	Russian Federation	Water transport	B/0	Loan	15 December (21 November)	46.8	285.2
Slovak Post-Privatisation Fund (SPPF) To provide capital and support medium-sized enterprises	Slovak Republic	Holding/other investment	C/0	Shares	– (21 November)	30.0	43.3
Trade Facilitation Programme Provides guarantees to certain Ukrainian banks active in foreign trade	Ukraine	Banks	C/0	Guarantee	(21 November)	35.9	39.0
UkrinBank					13 December	3.1	3.1
Ukraine Fund Capital Increase Capital increase for closed-end venture capital fund	Ukraine	Holding/other investment	C/0	Loan	13 December (21 November)	6.6	22.0
West Russia Regional Venture Fund Venture capital fund for SMEs in Novgorod, Tver, Pskov and Vologda	Russian Federation	Miscella-neous	C/0	Shares	6 December (21 November)	23.4	23.4
A/O Vena Phased modernisation and expansion of a brewery and soft drink business	Russian Federation	Food	B/1	Loan and shares	20 December (5 December)	21.9	65.6
A/S Latvijas Unibanka Credit line to finance projects in the SME sector, the backbone of the bank's client base	Latvia	Banks	C/0	Loan	7 December (5 December)	15.6	15.6
BNP-Dresdner Bulgaria Capital Increase Pro rata participation in capital increase to meet new minimum capital requirement	Bulgaria	Banks	C/0	Shares	22 December (5 December)	0.7	3.3
Budapest Bank Privatisation To assist the privatisation of a major state-owned bank	Hungary	Banks	C/0	Shares	15 December (5 December)	36.6	37.5
Food Industry Holding Company Vehicle to work with privatisation funds and acquire control of 10-15 food sector companies	Czech Republic	Food	C/0	Shares	– (5 December)	15.6	53.0
Gap-Turkmen Expansion of an existing denim-weaving plant to create a fully integrated production company	Turkmenistan	Textiles	B/1	Loan and shares	5 January 96 (5 December)	24.4	69.7
Giurgulesti Oil Imports Terminal Construction of port and storage facilities for imports of oil products	Moldova	Ports	A/0	Loan and shares	– (5 December)	14.8	29.6
Hungarian Bank for Investment and Development Eight-year funding line to MBFP for medium-sized investment projects	Hungary	Banks	C/0	Loan	29 January 96 (5 December)	15.6	15.6
Power Transmission and Distribution Project To improve power supply efficiency by reducing power losses	Albania	Energy transmission	B/0	Loan	12 December (5 December)	10.0	90.7
Prometheus ESCO Financing To enable the company to expand its activities in energy installation renovation to reduce fuel costs	Hungary	Energy distribution	C/0	Loan	15 December (5 December)	4.0	4.0
Sergily Building Materials To establish an industrial plant to produce building materials	Uzbekistan	Stone, clay	B/1	Shares	– (5 December)	9.4	27.3

	Country	Sector	ESC*	Type	Date signed (Board-approved)	Bank funds approved ECU million	Total project investment ECU million
Slovenia Telecoms Transition Loan Loan to finance part of the three-year investment plan of Slovinje Telecom	Slovenia	Communi-cations	B/0	Loan	– (5 December)	35.4	237.0
Trade Facilitation Programme To establish a facility with local and Western banks to guarantee trade-related obligations	Lithuania	Banks	C/0	Guarantee	– (5 December)	18.0	18.0
Wholesale Market Project To support a market-based food distribution system and promote SMEs in the sector	Armenia	Wholesale	C/0	Loan	14 December (5 December)	11.7	16.9
Power Market Development Project To provide assistance in setting up four thermal generating companies	Ukraine	Energy generation	B/0	Loan	13 December (11 December)	43.6	58.2
Yuzhni Fertiliser Terminal Equity investment to help complete and manage a fertiliser terminal at Yuzhni port	Ukraine	Miscella-neous	B/0	Shares	13 December (11 December)	4.0	24.9
AO Svyazinvest Purchase of common stock to support privatisation of a telecommunications company	Russian Federation	Communi-cations	C/1	Shares	21 December (19 December)	90.0	1203.1
ARP-Kereskedelmi (Bank Extension) Extension of credit line to finance investments in the agribusiness sector	Hungary	Banks	B/0	Loan	29 January 96 (19 December)	31.2	31.2
Bulgarian Investment Bank – Capital Increase Pro rata participation in capital increase in BIB to meet new minimum capital requirement	Bulgaria	Banks	C/0	Shares	20 December (19 December)	2.8	4.7
Co-financing Facility for the IØ Fund To co-finance SME projects created with a fund sponsored by the Danish Government	Regional	Holding/other investment	C/0	Shares and loan	20 December (19 December)	20.0	20.0
Framlington Central Asian Investment Fund To create an SME investment fund for Central Asian countries, managed by a UK-based group	Regional	Holding/other investment	C/0	Shares	– (19 December)	4.7	23.4
International Medical Centre For the establishment of the first private medical centre in Baku	Azerbaijan	Health service	B/1	Loan	– (19 December)	8.2	23.6
Rompak S.R.L. For a factory on a greenfield site to produce high-quality baker's yeast for the Romanian market	Romania	Food	A/0	Loan	17 January 96 (19 December)	5.8	15.5
Sberbank of Russia For on-lending to private sector SMEs	Russian Federation	Banks	C/0	Loan	26 February 96 (19 December)	78.0	78.0
SME Credit Line Remodelling Remodelling of an existing credit line to the National Bank of Kazakstan	Kazakstan	Banks	C/0	Loan	28 December (19 December)	95.6	95.6
West Siberia Regional Venture Fund To develop an RVF in the industrial region around Novosibirsk, Tomsk, Kemerovo and the Altai Krai	Russian Federation	Holding/other investment	C/0	Shares	31 December (19 December)	23.4	23.4
Total						**2,855.0**	**8,940.0**

Loans are calculated at exchange rates current on 31 December 1995.
Shares are converted to ECU at exchange rates current at the date of disbursement.

*** Environmental screening categories:**
A, B and C refers to whether the project requires:
– a full environmental assessment (A)
– a partial environmental analysis (B)
– neither (C)
1 or 0 refers to whether the project:
– needs an environmental audit (1)
– does not need an environmental audit (0)

Governors

Governors and Alternate Governors
31 December 1995

Member	Governor	Alternate Governor
Albania	Dylber Vrioni	Elizabeth Gjoni
Armenia	Levon Barkhudarian	Bagrat Asatryan
Australia	Ralph Willis	Michael Costello
Austria	Andreas Staribacher	Hans Dietmar Schweisgut
Azerbaijan	Elman Roustamov	Vagif Ahmedov
Belarus	Stanislav Bogdankevich[1]	–
Belgium	Philippe Maystadt	Grégoire Brouhns
Bulgaria	Dimitar Kostov	Mileti Mladenov
Canada	Paul Martin	Gordon Smith
Croatia	Bozo Prka	Josip Kulišič
Cyprus	Christodoulos Christodoulou	Antonis Malaos
Czech Republic	Ivan Kočárník	Josef Tošovský
Denmark	Marianne Jelved	Michael Dithmer
Egypt	Mahmoud Mohamed Mahmoud	Saad Alfarargi
Estonia	Mart Opmann	Enn Pant
Finland	Iiro Viinanen	Antti Hynninen
FYR Macedonia	Jane Miljovski	Bekir Zuta
France	Jean Arthuis	Jean Lemierre
Georgia	Tengiz Geleishvili	Nodar Javakhishvili
Germany	Theo Waigel	Jürgen Stark
Greece	Yannos Papantoniou	Nicolaos Zahariadis
Hungary	Lajos Bokros	György Surányi
Iceland	Finnur Ingólfsson	Halldór Kristjánsson
Ireland	Ruairi Quinn	Paddy Mullarkey
Israel	Jacob A Frenkel	Ehud Kaufman
Italy	Lamberto Dini	Mario Draghi
Japan	Masayoshi Takemura	Yasuo Matsushita
Kazakstan	–	Alexander Pavlov
Republic of Korea	Woong-Bae Rha	Kyung Shik Lee
Kyrgyzstan	Askar Sarygulov	Umar Toigonbaev
Latvia	Aivars Guntis Kreituss	Guntars Krasts
Liechtenstein	Egmond Frommelt	Roland Marxer
Lithuania	Reinoldijus Sarkinas	J Niaura
Luxembourg	Jean-Claude Juncker	Yves Mersch
Malta	John Dalli	Francis J Vassallo
Mexico	Guillermo Ortiz	José Sidaoui
Moldova	Valeriu Bobutac	Lilia Burunciuc
Morocco	Mohamed Kabbaj	Abdelfettah Belmansour
Netherlands	Gerrit Zalm	Hans van Mierlo
New Zealand	Don McKinnon	John Collinge
Norway	Sigbjørn Johnsen	Even Aas
Poland	Hanna Gronkiewicz-Waltz	Krzysztof Kalicki
Portugal	António de Sousa Franco	Fernando Teixeira dos Santos
Romania	Florin Georgescu	Mugur Isarescu
Russian Federation	Sergei Dubinin	Andrei Vavilov
Slovak Republic	Serguei Kozlík	Vladimír Masár
Slovenia	Mitja Gaspari	Meta Bole
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Sweden	Göran Persson	Svante Öberg
Switzerland	Jean-Pascal Delamuraz	Rudolf Ramsauer
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Ukraine	Petro Hermanchuk	Victor Yushchenko
United Kingdom	Kenneth Clarke	Baroness Chalker
United States	Robert Rubin	Joan Spero
Uzbekistan	Rustam S Azimov	Abdurafik Akhadov
European Community	Yves-Thibault de Silguy	Giovanni Ravasio
European Investment Bank	Sir Brian Unwin	Wolfgang Roth

All the powers of the EBRD are vested in the Board of Governors. The Board of Governors has delegated many of its powers to the Board of Directors, which is responsible for the direction of the general operations of the Bank and, among other activities, establishes policies and takes decisions concerning loans, equity investments and other operations in conformity with the general directions of the Board of Governors.

The President chairs the Board of Directors. Under the direction of the Board, the President conducts the current business of the Bank and, as chief of staff, is responsible for its organisation and for making staff appointments.

[1] Until September

Chairman of the Board of Governors
Lamberto Dini, Italy

Vice Chairmen of the Board of Governors
Paul Martin, Canada
Mart Opmann, Estonia

Directors

Directors and Alternate Directors
31 December 1995

Directors	Alternate Directors	Constituencies
Péter Bod[1]	Tomás Parízek	Hungary/Czech Republic/Slovak Republic/Croatia
John Coleman	David Horley	Canada/Morocco
Staffan Crona[2]	Håkan Emsgård	Sweden/Iceland/Estonia
Robert Graham-Harrison	David Roe[3]	United Kingdom
Johan Hilbers	Kees Spaans	Netherlands
Brian Hillery	Asger Lund-Sørensen	Ireland/Denmark/Lithuania/FYR Macedonia
Plamen Iltchev	Jan Bielecki	Bulgaria/Poland/Albania
Lee Jackson[4]	–	United States of America
Helge Kringstad	Rauli Suikkanen	Norway/Finland/Latvia
Roger Lavelle	Terry Brown	European Investment Bank
Heiner Luschin	Amos Rubin	Austria/Israel/Cyprus/Malta/Kazakstan
Giuseppe Maresca	Maurizio Serra	Italy
Patrick Mordacq	Didier Elbaum	France
Alan Morris	Huhn-Gunn Ro	Australia/Korea/New Zealand/Egypt
Philippe Petit-Laurent[5]	Peter Blackie	European Community
Oleg Preksin	Serguei Ovseitchik	Russian Federation/Belarus/Tajikistan
Jacques Reverdin	Selçuk Demìralp	Switzerland/Turkey/Liechtenstein/Uzbekistan/Kyrgyzstan/Azerbaijan/Turkmenistan
Oleksander Savchenko	Stanel Ghencea	Ukraine/Romania/Moldova/Georgia/Armenia
Bernard Snoy	Ernest Muhlen	Belgium/Luxembourg/Slovenia
Fernando Soares Carneiro[6]	Stefanos Vavalidis	Portugal/Greece
Kazumoto Suzuki	Takashi Osanai	Japan
Miguel Valle[7]	Belen Cristino	Spain/Mexico
Günter Winkelmann	Hans-Heinrich Wrede[8]	Germany

1 Péter Bod succeeded György Matolcsy in January
2 Staffan Crona succeeded Claes de Neergaard in September
3 David Roe succeeded Jon Cunliffe in February
4 Lee Jackson succeeded James Scheuer in August
5 Philippe Petit-Laurent succeeded Antoine Van Goethem in September
6 Fernando Soares Carneiro exchanged with Stefanos Vavalidis in June
7 Miguel Valle succeeded José Luis Ugarte in June
8 Hans-Heinrich Wrede succeeded Siegfried Borggrefe in July

Composition of Board of Directors' Committees
31 December 1995

Audit Committee	Budget and Administrative Affairs Committee	Financial and Operations Policies Committee
Plamen Iltchev (Chairman)	Brian Hillery (Chairman)	Alan Morris (Chairman)
Roger Lavelle (Vice Chairman)	Péter Bod (Vice Chairman)	Giuseppe Maresca (Vice Chairman)
John Coleman	Philippe Petit-Laurent	Staffan Crona
Helge Kringstad	Patrick Mordacq	Robert Graham-Harrison
Oleksander Savchenko	Jacques Reverdin	Johan Hilbers
Bernard Snoy	Fernando Soares Carneiro	Lee Jackson
Miguel Valle	Kazumoto Suzuki	Heiner Luschin
	Günter Winkelmann	Oleg Preksin

The Audit Committee considers the appointment and scope of work of the external auditors; and reviews financial statements and general accounting principles, policy and work of the Internal Auditor, expenditure authorisation, control systems, procurement policy and project evaluation.

The Budget and Administrative Affairs Committee considers general budgetary policy, proposals, procedures and reports. It also considers personnel, administrative and organisational matters, and administrative matters relating to Directors and their staff.

The Financial and Operations Policies Committee reviews financial policies including borrowing policy, general policies relating to operations, and procedures and reporting requirements.

The Board Steering Group was established in 1994 to improve coordination between the Board of Directors and management on arrangements and the setting of agendas for meetings of the Board, Committees and workshops. The Group is convened under the chairmanship in 1995/96 of Günter Winkelmann and Vice Chairman Helge Kringstad, and comprises the chairmen and vice chairmen of the three Board Committees, the Secretary General and the Deputy Secretaries General.

Contact information

6 March 1996

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Deputy Vice Presidents	Guy de Selliers
	David Hexter
	Joachim Jahnke
	Jean-François Maquet
Director, New Products, Policies & Issues	Gavin Anderson
Director, Front Office	Achim von Heynitz
Director, Resident Office Adviser	Rolf Westling
Country Teams	**Team Director**
Azerbaijan/Kyrgyzstan/ Tajikistan/Turkmenistan	Stijn Albregts
Baltics/Belarus	George Krivicky
Bulgaria/Albania/ FYR Macedonia/Slovenia	Olivier Descamps
Czech/Slovak Republics	Jiri Huebner
Hungary	Gyuri Karady, Peter Reiniger
Kazakstan/Uzbekistan	Junichi Maruyama
Poland	Alain Pilloux
Romania/Moldova/Croatia	Josué Tanaka
Russian Federation	Guy de Selliers
Ukraine/Armenia/Georgia	Mark Tomlinson
Sector Teams	**Team Director**
Agribusiness	Hans Christian Jacobsen, Juan Miranda
Early Stage Equity	Sven Hegstad
Education and Training	Ken Pasternak
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Financial Institutions	David Hexter, Kurt Geiger, Pierre Mellinger
Municipal and Environmental Infrastructure	Johan Bastin, Timo Makela
Natural Resources	Sergey Popov (Acting) Gunther Vowinckel (Acting)
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Further information

Publications

General publications
The EBRD provides a range of publications, policy papers, summaries of country strategies and information sheets. Periodicals include: *Environments in transition* (the EBRD's environmental programme, including project updates); *Finance bulletin* (occasional newsletter for the investment and financial community); *Law in transition* (legal cooperation and training activities in the region). These are all available from the Publications Desk at the EBRD (Tel: +44 171 338 7553; Fax: +44 171 338 6690).

Transition report
An annual publication examining the problems of transition, and the macroeconomic and legislative progress of the EBRD's countries of operations (published November 1995, £25); also the *Transition report update* (published April 1996, £15). Available from HMSO Publications Centre, PO Box 276, London SW8 5DT, UK (Tel: +44 171 873 8200).

Procurement opportunities
Available monthly by annual paid subscription (£85). Publishes the EBRD project pipeline, listing all public sector projects including status and associated procurement notices, and technical cooperation projects. Available from EBRD Procurement Opportunities, Subscription Department, 82-84 Peckham Rye, London SE15 4HB, UK.

EBRD directory of business information sources on central and eastern Europe and the CIS
Compiled by the Bank's Business Information Centre (BIC), the Directory lists over 1,000 books, periodicals, newspapers, online and CD-ROM databases and Internet resources. Entries include contact details and a short description. Main listing by region and country, with indexes to source type and sector/activity. Published March 1996; price £129. Available from Effective Technology Limited, PO Box 171, Grimsby DN35 0TP, UK (Tel and Fax: +44 1472 699027; E-mail: alan@etmltd.demon.co.uk).

Subscription-based business information retrieval service

The EBRD's Business Information Centre (BIC) offers a business information retrieval service covering central and eastern Europe and the CIS. The BIC's research staff will locate and retrieve publicly available data on topics such as demographic/economic trends, markets and industries, privatisations and companies, acquisition of documents, and identification of trading partners. The subscription also covers access to the BIC for private study by staff from subscriber organisations, with borrowing rights to books and reports. For further information contact Rosemarie Kroon of the BIC (Tel: +44 171 338 6361; Fax: +44 171 338 6155; E-mail: kroon@ebrd3.ebrd.com).

Annual Meeting

The EBRD's Annual Meeting, held in April, includes a business programme which is open to potential investors in the region. For details contact the EBRD's Annual Meetings Management Unit (Tel: +44 171 338 7319; Fax: +44 171 338 7320).

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