Годовой отчет 1997 год

Annual report 1997

Jahresbericht 1997

Rapport annuel 1997

Europäische Bank für Wiederaufbau und Entwicklung

Banque européenne pour la reconstruction et le développement

Европейский банк реконструкции и развития

European Bank for Reconstruction and Development

European Bank
for Reconstruction and Development

Countries of operations
at 31 December 1997

- Albania
- Armenia
- Azerbaijan
- Belarus
- Bosnia and Herzegovina
- Bulgaria
- Croatia
- Czech Republic
- Estonia
- Former Yugoslav Republic of Macedonia
- Georgia
- Hungary
- Kazakhstan
- Kyrgyzstan
- Latvia
- Lithuania
- Moldova
- Poland
- Romania
- Russian Federation
- Slovak Republic
- Slovenia
- Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan

EBRD local offices (see page 107 for addresses)

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

The EBRD seeks to help its 26 countries of operations to implement structural and sectoral economic reforms, promoting competition, privatisation and entrepreneurship, taking into account the particular needs of countries at different stages of transition. Through its investments it promotes 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 and national organisations. In all of its activities, the Bank promotes environmentally sound and sustainable development.

Contents

Principaux repères 1997

Eckdaten für 1997

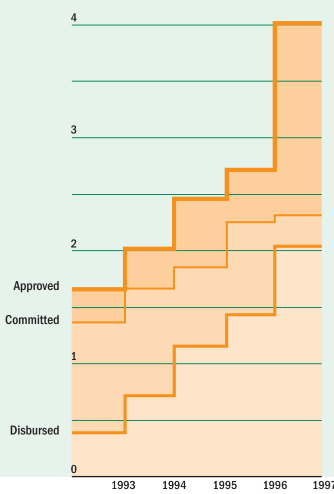
1997 highlights

Некоторые основные данные за 1997 год

- The doubling of the EBRD's capital base to ECU 20 billion became effective in April, demonstrating the shareholders' commitment to the EBRD's continuing contribution to the transition.
- At ECU 193.8 million, the EBRD's operating profit was almost double that for 1996, largely due to equity sales and above-benchmark Treasury performance.
- The EBRD exceeded its ECU 2.2 billion target for commitments, signing 108 projects with a total value of ECU 2.3 billion.
- Private sector commitments in 1997 were 76 per cent by volume and 86 per cent by number. This increased the private sector share of the committed portfolio to 67 per cent, well above the 60 per cent minimum requirement.
- Gross project disbursements were ECU 2.0 billion, 50 per cent higher than in 1996. Net disbursements, however, rose by only 8 per cent, due to a high volume of prepayments, particularly in the first three quarters of the year.
- The Bank's general administrative expenses were well within budget and slightly below the 1996 level, excluding the effects of a small accounting change in 1997 to accrue bonuses.
- As part of the Bank's conservative provisioning policy, total provisions were increased by ECU 177.7 million, bringing total provisions and reserves to ECU 508.0 million, or 11 per cent of disbursed outstanding loans and equity investments.
- First disbursements were made to projects in Bosnia and Herzegovina and Tajikistan, so that disbursements in all countries of operations took place during the year.
- The Bank expanded its nuclear safety role by functioning as administrator of the ECU 700 million Chernobyl Shelter Fund, which became operational in December 1997.
- New local offices were opened in Skopje (FYR Macedonia), Tbilisi (Georgia), and Yekaterinburg (Russia), providing the Bank with a local presence in all bar one of its 26 countries of operations.

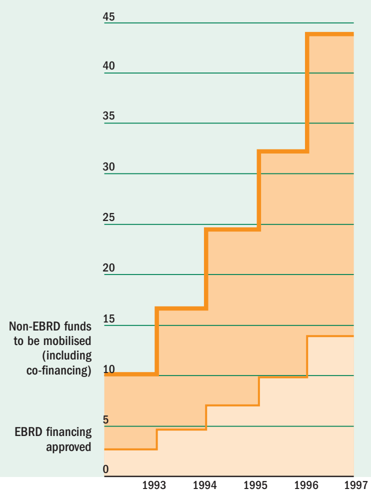
Annual approvals, commitments and disbursements

at 31 December 1997 (ECU billion)



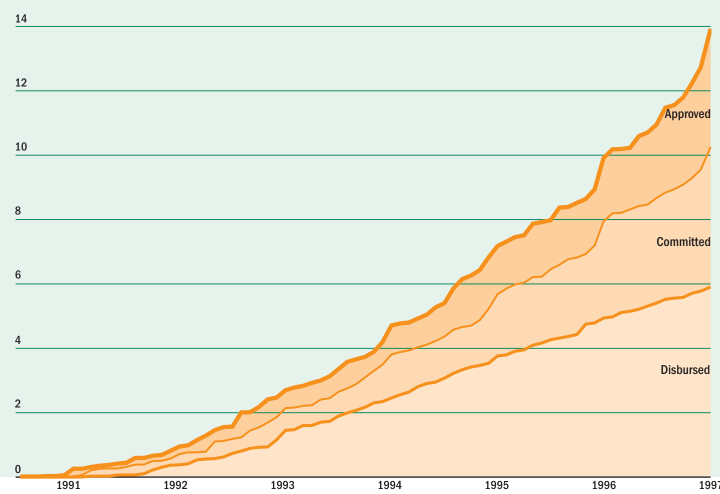
Cumulative funds to be mobilised

at 31 December 1997 (ECU billion)



Cumulative approvals, commitments and disbursements

at 31 December 1997 (ECU billion)



Financial results

ECU million	1997	1996	1995	1994	1993
Operating income	346.0	243.7	241.2	170.7	191.3
Expenses and depreciation	152.1	146.4	158.3	145.8	147.5
Operating profit before provisions	193.8	97.3	82.9	24.9	43.8
Provisions for losses	177.7	92.4	75.4	23.9	39.7
Profit for the period	16.1	4.9	7.5	1.0	4.1
Authorised capital	20,000	10,000	10,000	10,000	10,000
Paid-in capital	4,877	2,965	2,965	2,965	2,965
Capital instalments received (cumulative)	2,949	2,916	2,842	2,273	1,728
Total provisions and reserves	508	263	165	81	54
Total assets	13,495	10,964	8,728	7,528	7,036

Operational results

Reported figures[1]

Number	1997	1996	1995	1994	1993
New projects approved	143	119	134	109	91
New projects committed	108	95	110	91	73

EBRD financing for year

ECU million	1997	1996	1995	1994	1993
Approvals	4,014	2,827	2,855	2,409	2,276
Commitments	2,315	2,188	2,000	1,878	1,794
Net disbursements	1,250	1,162	988	591	435

Resource mobilisation

ECU million	1997	1996	1995	1994	1993
For approvals	7,535	4,673	6,084	4,501	5,439
For commitments	4,210	3,819	4,972	3,317	3,379

1 Figures for 1993-96 are as reported for those years. They do not reflect subsequent changes due, for example, to exchange rates, cancellations, syndications or restructuring.

Cumulative approvals ECU 13.93 billion

Financing that has been approved by the EBRD's Board of Directors, reported net of cancellations. Approval does not always lead to signing.

Cumulative commitments ECU 8.90 billion (net)

ECU 10.26 billion (gross)

Financing that has been signed following approval and for which a commitment is recognised. Net figures exclude cancellations and repayments.

Cumulative disbursements ECU 4.58 billion (net)

ECU 5.91 billion (gross)

Financing that has been disbursed following the signing of a project. Net figures are for all disbursements to date less repayments.

Begleitschreiben

London, 10. März 1998

Lettre de transmission

Londres, le 10 mars 1998

Препроводительное письмо

Лондон, 10 марта 1998 года

Letter of transmittal

London, 10 March 1998

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 1997 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 (Acting)

Charles Frank

Directors	**Alternate Directors**
Byongwon Bahk	Jim Short
Jan Bielecki	Bojidar Kabaktchiev
Staffan Crona	Baldur Erlingsson
Sylvain de Forges	Lucien Bernadine
Torsten Gersfelt	Tony Brown
Wilhelm Jaggi	Mehmet Kaytaz
Mikhail Jernov	Michail Tatianchenko
Roger Lavelle	Walter Cernoia
Heiner Luschin	Amos Rubin
Michael McCulloch	Alex Gibbs
Patrice Muller	Tom MacDonald
Kari Nars	Rolf Næss
Philippe Petit-Laurent	Vassili Lelakis
Yuri Poluneev	Maria Sultanoiu
Enzo Quattrociocche	Pasquale Terracciano
Karen Shepherd	Vacant
Bernard Snoy	Georges Heinen
Kazuhito Tatebe	Takashi Kurai
Miguel Valle	Carlos Escribano
Pim van Ballekom	Kees Spaans
Stefanos Vavalidis	Vacant
Günter Winkelmann	Jörg Ranau
Vacant	Károly Soós

In September 1997 Jacques de Larosière completed his official term of office as President of the EBRD and was re-elected by the Board of Governors until 31 January 1998. For over four years President de Larosière made an enormous contribution to the EBRD and was instrumental in restoring confidence in the institution. As well as improving the Bank's operational effectiveness, Mr de Larosière played a vital part in ensuring a doubling of the Bank's capital base.

Since February 1998 Charles Frank has been Acting President of the EBRD. He was appointed as First Vice President of the Bank in September 1997.

Обзор событий за год Das Jahr im Rückblick L'année en bref

Review of the year

In 1997 the EBRD consolidated its financial position and exceeded its operational objectives. As a result of these achievements, the Bank made further progress in assisting its countries of operations in their transition to a market economy. In all of its activities the Bank applied sound banking and investment principles and promoted environmentally sound projects. Operations were carried out in line with the EBRD's manageable growth strategy and maintained the Bank's commitment to financial self-sustainability.

Financial results

The financial results were above expectations, largely due to higher income than expected, particularly from the EBRD's equity portfolio and above-benchmark Treasury performance. The Bank almost doubled its operating profit to ECU 193.8 million. Banking operations generated 50 per cent of the Bank's gross income, up from 48 per cent in 1996.

There was strong growth in commitments and in the project pipeline. The value of commitments rose by 6 per cent over 1996, while approvals rose by 42 per cent, reflecting the increased demand for the EBRD's services towards the end of 1997. The Bank remains committed to its manageable growth strategy. The quality of the portfolio remained stable despite turbulent global markets, testifying to the EBRD's adherence to sound banking principles.

The achievements of 1997 were accompanied by continuing strict budgetary discipline and cost containment. For the fourth year running there was no real increase in the administrative budget, which was underspent, and no appreciable increase in administrative expenses. The Bank made significant efforts during the year to increase productivity in order to support the growing demands of monitoring its portfolio.

The EBRD almost doubled its provisioning charge for the year to ECU 177.7 million. This took into account the Bank's evolving risk profile, the growth in its portfolio and uncertainties in the operational environment. A large part of the increase stemmed from a one-off provision applied to the existing portfolio, to include sovereign as well as private sector operations.

Profit after provisions for the year was ECU 16.1 million, compared with ECU 4.9 million in 1996. Total reserves (including provisions) were further strengthened and as of the end of 1997 stood at ECU 508.0 million, compared with ECU 263.3 million in 1996.

Doubling of the EBRD's capital base became effective

In April 1997 the doubling of the EBRD's capital base to ECU 20 billion became effective, demonstrating the shareholders' commitment to the EBRD's continuing contribution to the transition. The Bank is now in a position to maintain its manageable growth strategy and its commitment to financial self-sustainability.

Operational achievements

In 1997 the EBRD significantly increased its approvals, commitments and disbursements in its countries of operations, exceeding its operational objectives for the year.

The Bank's Board of Directors approved 143 projects amounting to over ECU 4.0 billion. Many of these were approved in the fourth quarter, and a substantial number are expected to be signed in the first quarter of 1998. The total approved is 23 per cent higher than the total number for 1996 and exceeds the value of approvals in 1996 by almost ECU 1.2 billion. By the end of 1997 cumulative Board approvals totalled ECU 13.9 billion.

The value of projects signed during the year totalled over ECU 2.3 billion, exceeding the target of ECU 2.2 billion. This increase, the sixth in successive years, is in line with the Bank's strategy of manageable growth. The 108 projects signed brought the cumulative total of signed operations to ECU 8.9 billion, net of repayments and cancellations.

ECU 2.0 billion disbursed in 1997

Gross project disbursements in 1997 were ECU 2.0 billion, 50 per cent higher than in 1996. ECU 379.1 million was disbursed for share investments, almost 82 per cent higher than in 1996. The outstanding portfolio at the end of the year comprised ECU 3.6 billion of loans, ECU 946.4 million of equity investments and ECU 32.5 million of project-related debt securities, for a total of ECU 4.6 billion.

Operational priorities

The EBRD's operational achievements in 1997 were guided by its operational priorities:

- ***a concentration on private sector development***
  The EBRD's focus on the private sector is a characteristic it shares only with the International Finance Corporation among the other international financial institutions. In 1997 the private sector share of the EBRD's cumulative commitments increased to 67 per cent, thus more than complying with the Bank's mandate that not more than 40 per cent of its commitments shall be provided to the state sector. In 1997, 80 per cent of Board approvals and 76 per cent of new signings were in the private sector.

- ***the need to be active in all of its countries of operations***
  As part of its mandate, the EBRD is committed to operating in all 26 of its countries of operations. The Bank increased its share of new commitments in the countries at the early/intermediate stages of transition, increasing the total from 32 per cent in 1996 to 44 per cent in 1997. Russia attracted 32 per cent of the Bank's commitments, while the share for countries at the advanced stages of transition was 24 per cent.

- ***the need to reach local private sector enterprises***
  At the end of 1997 the EBRD had signed commitments exceeding ECU 2.3 billion in wholesale operations, including credit lines, private equity funds and trade facilitation programmes. Through these operations, the EBRD is able to mobilise funding for projects that are too small to be efficiently handled directly by the Bank.

- ***the importance of financial intermediaries***
  In 1997, 52 financial sector operations were signed for a total of ECU 477 million. With these new commitments, the EBRD has signed a total of ECU 2.9 billion in the financial sector, making it the single largest sector of EBRD financing with 29 per cent of the total value of operations at the end of 1997.

- ***a more active approach towards equity investment***
  In response to the growing demand for equity investments by companies operating in the region, the equity share of the Bank's commitments increased from 15 per cent in 1996 to 19 per cent in 1997.

The following projects signed in 1997 had a particularly significant impact on the transition process. They all related only to local companies, and involved categories of risk that the EBRD is mandated to address.

Bosnian banks (Hrvatska Banka, Market Banka, Micro-Enterprise Bank, page 22)

Hortex (Poland, agribusiness, pages 29, 41)

Ispat-Karmet (Kazakhstan, steel restructuring, page 41)

Korado (Czech Republic, manufacturing, page 30)

MobiFon (Romania, telecommunications, pages 25, 32)

Sodi (Bulgaria, chemicals, page 41)

St Petersburg water and environmental sector (Russia, page 28)

Environment and nuclear safety

A distinctive feature of the EBRD's operations is the need to promote environmentally sound and sustainable development.

- Specific emphasis was given to encouraging energy efficiency and to investing in municipal and environmental infrastructure. In 1997 the EBRD made considerable progress in implementing these priorities and in focusing on infrastructure critical to private sector development and the environment. Staff resources in these sectors were increased, and there was a significant increase in the private sector share of infrastructure activities.

- In 1997, six environmental projects were signed, with a total EBRD commitment of more than ECU 180 million. Environmental components of other projects included investment in emission reduction technology, waste-water treatment and expenditure to meet environmental commitments made in Environmental Action Plans. In 1997, EBRD investment projects included just over ECU 200 million of such expenditure. In total, the Bank's environmental investments in 1997 amounted to about 17 per cent of total financial commitments.

Another unique aspect of the Bank's activities is its nuclear safety role. As administrator of the Nuclear Safety Account and the Chernobyl Shelter Fund, which became operational in 1997, the EBRD receives funding from donor governments to be used for improving safety in the region's nuclear power plants. As well as providing technical and other services, the EBRD prepares projects, which are submitted for approval to a decision-making body representing the donor countries.

Key operating principles

In 1997 the EBRD increased its efforts to assess the impact of its projects on the transition process. By developing indicators to assess how a project is expected to promote the transition, the Bank can make more informed investment decisions. These "transition indicators" identify specific project characteristics that help to advance the transition, such as increasing competition, building market-oriented financial skills and risk management practices in local banks, setting improved standards of corporate governance, enhancing environmental standards, and strengthening regulatory regimes.

The EBRD operates according to sound banking principles, subjecting each project to a rigorous credit and pricing evaluation to ensure compliance with these principles. The Bank must take risks in order to fulfil its transition mandate. Sound banking requires that those risks be properly evaluated and managed through risk diversification and balancing of risk and return.

The EBRD's operations are spread across all 26 of its countries of operations. Only Russia has more than 20 per cent of commitments in terms of value, while Hungary, Poland and Romania each have approximately 10 per cent. The remaining countries have 5 per cent or less each. The portfolio is distributed across a wide range of industries. Only the financial services sector has a concentration of more than 20 per cent, with all the other industry categories having 20 per cent or less each.

Another of the EBRD's key operating principles is "additionality", supplementing rather than competing with other sources of finance. As the largest single provider of external financing in the region, the EBRD plays a prominent role in promoting further investment by encouraging the involvement of co-financiers. In 1997, for every ECU invested by the EBRD, its partners provided an additional ECU 1.8.

Developments in the region

Across the region as a whole, real economic growth was experienced in 1997, and domestic investment increased, albeit unevenly. In particular, Russia registered its first year of positive growth. Inflation performance continued to improve, with nine countries in the region recording annual inflation at less than 10 per cent and 19 countries at less than 20 per cent. Foreign direct investment continued to be channelled steadily into the area, reaching an estimated US$ 17.6 billion in 1997, as the business climate improved and investor confidence grew. However, certain countries suffered setbacks, experiencing difficulties such as the emergence of trade imbalances and renewed price pressures.

The private sector share of economic activity continued to grow rapidly in 1997, reaching or exceeding the 50 per cent mark in 19 of the EBRD's countries of operations. The largest rises were recorded by those countries that were particularly successful in introducing reforms over the past year, such as Azerbaijan and Kazakhstan. The privatisation of large-scale enterprises continued to be pursued throughout most of the region, but delays were experienced in some countries of Central Asia, for example. Budgetary subsidies have been significantly reduced throughout the CIS, although tax arrears have increased in a number of countries. Following a series of banking crises in several transition economies, nearly every country in the region has planned or begun a programme of bank restructuring, and significant progress has been made in improving the supervisory capacities of central banks.

The EBRD's response

Strategies for each country

Given that the transition process is not moving uniformly in its countries of operations, the EBRD has designed and implemented strategies to meet the specific needs of each country. The Bank continues to respond to changes in the market and focuses its activities in areas where it can be additional and advance the transition process. While reacting flexibly to steady advances in transition, the EBRD also took account of certain back-tracking in market reforms, either by supporting the renewal of reform efforts or by scaling down the level of its activity in certain areas. The medium-term strategy projections suggest that countries at the early or intermediate stages of transition might receive about 40 per cent of the Bank's annual commitments, while countries at the advanced stages of transition and the Russian Federation can each expect around 30 per cent of the total.

EBRD projects help to support enlargement of the EU

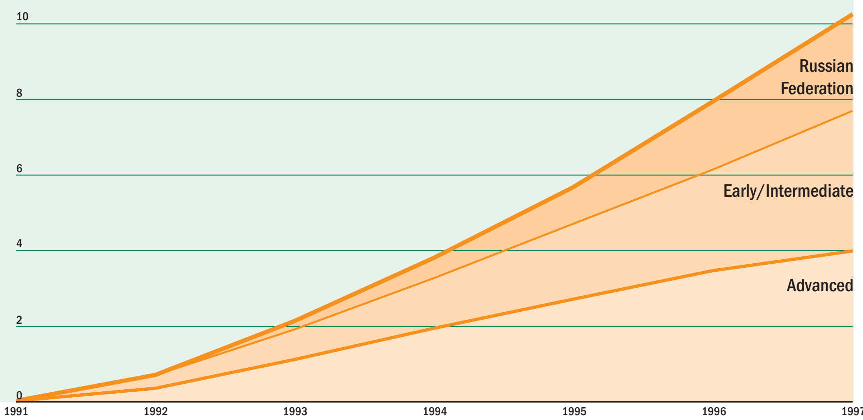
Accession to the European Union is a natural complement to the transition process for all applicant countries, whatever their stage of transition. The EBRD's medium-term strategy 1998-2001, approved by the Bank's Board of Directors in September 1997, recognised this complementarity and confirmed that in promoting transition the Bank will help these countries meet the criteria for accession. Preparations for the enlargement of the EU, particularly significant for the region and for the existing members of the EU, were discussed in 1997 by the EBRD and the European Commission.

By helping to strengthen markets and institutions, particularly through the work of its Financial Institutions team, the EBRD can help to encourage investors and to provide a stable investment climate. The Bank has taken the lead in working with medium-sized local companies, which are crucial for the region's future success, where risks are higher but the potential for returns is correspondingly greater. Participation in the restructuring of large industries is also becoming an increasingly important area of activity for the Bank. In the advanced countries the value of signed EBRD projects increased from ECU 3.5 billion in 1996 to ECU 4.0 billion at the end of 1997.

In the countries at the early or intermediate stages of transition the EBRD was able to work most effectively with those countries that are most actively engaged in reform efforts and most deeply committed to reform. The value of signed EBRD projects in those

Cumulative commitments by transition stage

at 31 December 1997 (ECU billion)



Early/Intermediate: Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Regional.
Advanced: Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.

countries increased from ECU 2.6 billion in 1996 to ECU 3.7 billion at the end of 1997.

In the Russian Federation, the demand for EBRD services remained high in 1997 and the Bank expanded its range of projects. Particular attention was paid to corporate governance, the regulatory environment and the banking sector. The value of signed EBRD projects in Russia totalled ECU 2.6 billion at the end of 1997, compared with ECU 1.7 billion a year earlier.

Institution-building

EBRD promotes sound business standards

To promote sound business standards in the region, the EBRD published a set of guidelines in 1997 to help companies have a better understanding of the broad concerns of potential lenders and investors. *Sound business standards and corporate practices* emphasises the need for basic principles of corporate governance, including the existence of a transparent shareholding structure, respect for the rights of minority shareholders and a well-functioning board of directors.

The EBRD promotes clear and consistent accounting and auditing, sound purchasing and procurement practices, and the prevention of fraud and corruption. More specifically, all loans and credit lines extended to banks and financial institutions throughout the region have been made subject to specific requirements aimed at combating money laundering. The EBRD also monitors international developments in the prevention of corruption and money laundering, and regularly participates in the work of the Council of Europe on dealing with corrupt practices.

The EBRD helps its countries of operations to develop a legal environment which supports the promotion of private sector activities and transition towards market-oriented economics. By providing legislative advice and assistance, the EBRD allows investments to proceed that otherwise may have foundered as a result of legal impediments. This improves the quality of the legal environment for the benefit of the Bank's own investment operations as well as other transactions.

By supporting private sector development, the EBRD is not only helping to generate economic growth but also to promote an improvement in the general standard of living. Structural reforms supported by the Bank have provided the foundations for sustained increases in government revenues and savings, and thus for investments in health, education, environmental protection and other social needs. In addition, EBRD investments in municipal and environmental infrastructure have contributed to improvements in the quality of goods and services which have a direct impact on everyday life.

Institutional developments

Capital increase

In April 1997 the doubling of the EBRD's capital base to ECU 20 billion became effective following unanimous approval by Governors a year earlier. By the end of the year the overwhelming majority of the membership (48 out of 60 members, representing 85 per cent of the Bank's capital) had deposited their instruments of subscription to the capital increase, thereby endorsing the Bank's manageable growth strategy and demonstrating their commitment to the EBRD's contribution to the transition process. The increased capital base will allow the Bank to continue to implement its mandate and to manage the evolving risks in its portfolio and in the region.

By pursuing its manageable growth strategy, the Bank will ensure that the enlarged capital is used effectively and efficiently to provide the basis for future financial self-sustainability. Guided by statutory and financial policy parameters, the Bank continues to refine its processes for assessing capital usage and adequacy, and further work in this area will result in an EBRD risk-based capital adequacy framework (see Policy developments on page 9).

Membership

The EBRD considered expressions of interest in membership from a number of countries in 1997. Guidelines and procedures for taking these requests forward in 1998 were considered by the Board of Directors.

Under a special capital increase, the Republic of Korea raised its subscription to the capital stock of the Bank by 7,000 shares in 1997. This increase consisted of 3,500 shares under the initial capitalisation and 3,500 shares under the general capital increase.

Monitoring of Article 1

As part of its periodic review of the EBRD in its countries of operations, the Board of Directors reviewed in 1997 each country's commitment to **Article 1 of the Agreement Establishing the Bank**. In particular, the Board focused on the countries' commitment to the principles of multiparty democracy and pluralism. When the Board felt that progress required new momentum, the President of the Bank was asked to convey the concerns of the Board of Directors to the relevant authorities. It was noted that a strengthening of democracy had occurred in many countries as the second or third round of elections were completed, not only at the national level, but also at the local level, and that a number of changes of government had taken place without significant negative repercussions. A notable example of progress was seen in Bosnia and Herzegovina, where, following a relative return to normality, the EBRD was able to increase its operational activities significantly, thus contributing to the peace implementation process.

The EBRD's country strategy papers also provide the Board of Directors with an assessment of a country's commitment to Article 1, including the economic aspects of the Article, which are fundamental to the Bank's operational practices. The Bank discussed questions arising from the monitoring process with governments and other institutions, including the European Union, the Organisation for Security and Cooperation in Europe, the Council of Europe, and government officials from its member states.

Policy developments

In 1997 the EBRD published a new Transport Operations Policy, following a review undertaken with the Board of Directors. A number of other operational sectors were reviewed, including telecommunications, agribusiness, and property and tourism.

The EBRD's financial policies were reviewed during the year as part of the continuing effort to strengthen financial management and to enhance the utilisation of the Bank's capital. In this context, exploratory work was carried out on developing a risk-based capital adequacy framework, which would enable the Bank to maximise the use of its resources while better managing the risks in its operations. Further work will generally reflect other efforts being made to ensure financial self sustainability, such as monitoring portfolio turnover. The Bank also revised its Principles of Budgeting to reflect emerging best practice.

Changes in senior management

At the beginning of 1997 Joachim Jahnke was appointed by the Board of Directors as Vice President responsible for Project Evaluation, Operations Support and Nuclear Safety.

In June Ron Freeman resigned as First Vice President, after six years of distinguished work at the EBRD. The Bank paid tribute to Mr Freeman, whose leadership of the Banking Department was instrumental in making the EBRD the largest single private sector lender and investor in the region. He was succeeded by Charles Frank, who joined the Bank in September following his appointment by the Board of Directors.

At the end of December Bart le Blanc, Vice President, Finance, and former Secretary General, resigned from the Bank after six years in office. Under his guidance the financial policies and the budgeting process had been refined, and the Bank acknowledged his significant contribution to restoring the Bank's credibility. He was succeeded by Steven Kaempfer, who joined the Bank in January 1998 following his appointment by the Board of Directors.

Following the end of the official term of office of President Jacques de Larosière, the Board of Governors re-elected him from 27 September until 31 January 1998. The Board of Governors paid tribute to President de Larosière's enormous contribution to the EBRD, underlining the major part he had played in restoring confidence in the institution and in enhancing its operational effectiveness. His singular contribution to the success of the capital increase was particularly noted.

The purpose of the EBRD, as outlined in **Article 1 of the Agreement Establishing the Bank**, is to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in its countries of operations committed to and applying the principles of multiparty democracy, pluralism and market economics.

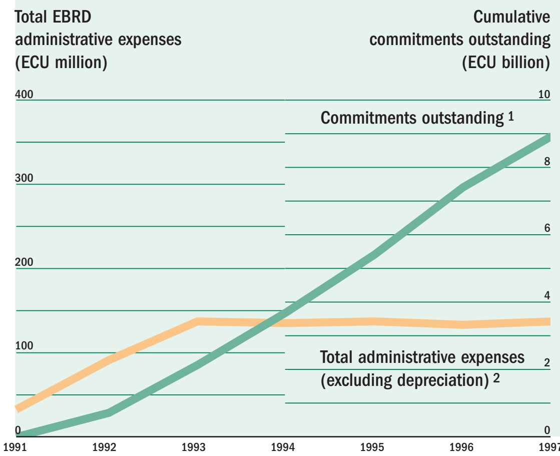
President de Larosière leaves the Bank

Management of resources

Administrative expenses remain static while commitments rise

For the fourth successive year there was no real increase in the EBRD's general administrative expenses, excluding depreciation, which were maintained at ECU 137.1 million. Apart from the impact of an accounting change regarding prudential accrual of bonuses, general administrative expenses were around ECU 1.0 million lower than in 1996. At the same time, operational activities, including project monitoring, were increased. The Bank successfully monitored a portfolio that was 27 per cent larger in terms of number of operations and 29 per cent larger by value compared with its projects in 1996. With a total of 469 projects comprising ECU 10.3 billion in EBRD financing and ECU 34.2 billion in total project value under implementation, the Bank recognises that the quality of monitoring is of the highest importance.

Commitments outstanding and administrative expenses



1 Commitments net of cancellations and repayments.
2 As reported in the financial statements.

Review of the EBRD's working procedures

In 1997 the EBRD undertook a comprehensive Zero-Based Budgeting (ZBB) initiative, which reviewed the Bank's work processes and procedures to identify ways of increasing productivity and enhancing revenue. The review made a number of recommendations, including extending the responsibility and accountability of line managers and streamlining the procedures for the approval of operations. These recommendations are expected to lead to more efficient working processes throughout the Bank and should allow more resources to be devoted to project monitoring. The ZBB initiative is a continuing exercise designed to enhance productivity and contain the growth in expenses.

Local offices and decentralisation

To improve communications between the local offices and headquarters, a project for the installation of a satellite-based network was initiated in 1997, and a service provider was selected by the end of the year. These communications facilities will be launched in 1998, resulting in on-line access for local offices to headquarters systems. Video-conferencing facilities have been installed in selected offices.

Substantial progress was made in 1997 in fully integrating the Resident Offices in the EBRD's operations. In particular, local offices were utilised increasingly in project supervision and monitoring as well as origination. This greater focus on local activity allows the Bank to respond effectively to changing market conditions.

The broad objective agreed by the Bank's Board of Directors in 1997 is to accelerate this process of increased efficiency and productivity by continuing the decentralisation of the Bank's activities and the streamlining of criteria for decision making. The local offices are already playing an increasingly important role in each country in supporting the implementation of the EBRD's environmental and disclosure of information policies.

In 1997 the EBRD established new Resident Offices in Tbilisi (Georgia) and Skopje (FYR Macedonia) and a Regional Office in Yekaterinburg (Russia). The Bank now has a local presence in all bar one of its 26 countries of operations, comprising 28 Resident and Regional Offices. These range from offices actively involved in operations and headed by experienced professional bankers to small recently established units staffed by a mission adviser.

Staffing

Staff members at 31 December 1997 were: 804 regular employees, 122 contract employees, 190 locally hired staff in Resident Offices, and 73 Board of Directors' personnel. Of these, 35 positions were externally funded. The Bank strengthened its personnel management with significant developments in training and in the performance appraisal system.

As part of its commitment to equal opportunities, the EBRD has decided to join the Opportunity 2000 programme, which aims to increase employment opportunities for women. A Bank task force was established in 1997 to make progress on this initiative.

Future orientation

The EBRD's future work will continue to be guided by the operational priorities, which have provided the Bank with a clear strategic vision while allowing it to respond flexibly to the ever-changing demands of the transition process. At the same time the Bank will seek to fulfil its mandate by developing activities in line with the manageable growth strategy and the commitment to financial self-sustainability.

The turbulence which characterised the global capital markets in the latter part of 1997 highlighted the important role the EBRD has to play as a stable, long-term strategic investor. But the markets also served as a reminder that the EBRD operates in a challenging and uncertain environment, and underlined the importance of sound banking principles.

The first phase of the transition saw the accomplishment of tasks that could be carried out quickly, such as privatisation and liberalisation. The basic foundations of the market economy have been established. The challenges of the next phase will be to reinforce and build on these foundations and to ensure that the market economy is sustained and functions effectively. The EBRD will have a major role to play in encouraging competition and in influencing and supporting good corporate governance. Given its private sector and project orientation, the Bank's main contribution will be to address structural problems in enterprises and markets. The EBRD will seek opportunities to make equity investments in carefully chosen companies with strong prospects for profitability. It will also look carefully at opportunities to restructure companies through injections of capital, technology and specialised skills.

By helping to set standards and choosing the right partners, in both the private and public sectors, the EBRD will continue to emphasise the importance of promoting sound business practices and controlling crime and corruption.

The development of capital markets will have a fundamental role in the future phases of the transition by contributing to improved ownership and governance, by promoting savings and by helping the region to cope with volatile capital flows. The EBRD will continue its work with the financial sector, through investments in local banks, intermediated lending to local enterprises and the encouragement of sound regulatory frameworks.

The EBRD examines closely changes in social aspects of the transition and reports on them in its *Transition Report.* Although many social sector activities are not within the Bank's mandate, there are areas where it has had and will continue to have a positive local impact, such as supporting environmental infrastructure (for example, to provide clean water and sewerage facilities to the population), pensions and insurances, and housing finance. The Bank also has a key role in encouraging small and medium-sized enterprises, which are a main contributor to economic growth.

Guided by its manageable growth strategy, the EBRD will seek to broaden its activities in all countries of operations. The 1998 Annual Meeting in Kiev can be expected to boost interest from potential investors in Ukraine, and across the region more generally. The Meeting also provides a means of promoting the exchange of information between the international banking and business community and EBRD staff.

The operational and financial management objectives of the EBRD require very careful use of its scarce capital resources. To ensure that it can continue to meet demand for its services, the Bank will further examine ways of maximising the use of its resources, through methods such as increased co-financing, sale or securitisation of loan assets, and equity sales. Underpinning all this will be a continued and strong commitment to sustained profitability and tight control of administrative expenses.

The EBRD's medium-term strategy for 1998-2001 was endorsed by the Board of Directors in September 1997. It envisages significant new annual commitments, in line with the manageable growth strategy, with projects in all of the Bank's countries of operations. About 40 per cent of the Bank's annual commitments are expected to focus on countries at early or intermediate stages of transition, while the Russian Federation and countries at advanced stages of transition are expected to both receive about 30 per cent of the total.

New commitments are expected to rise at a rate of approximately 5 per cent a year, from over ECU 2.3 billion in 1997 to more than ECU 2.7 billion in 2001. This is expected to bring the total portfolio from ECU 8.9 billion (net of repayments) in 1997 to ECU 14-15 billion in 2001. The medium-term strategy consolidates the Bank's operational priorities.

Umfeld für die Geschäftstätigkeit
L'environnement opérationnel

Operational environment

Условия деятельности

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* 1997

The EBRD operates in an environment that is increasingly diverse. Whereas the initial challenges confronting governments throughout the region – essentially liberalisation, privatisation and macro-economic stabilisation – were comparable, the methods chosen and the pace of reforms differed across countries and over time. The result has been differences in the distribution of property and income, in the residual role of the state, in the institutional environment and in economic performance.

While, broadly speaking, the foundations of a market economy have been laid in most countries of the region, it is the current, second phase of the transition which will determine how well these markets function. In this phase, the public and private institutions that support markets will need to be formed and deepened, market-based practices shaped and firmly rooted, and the role of the state in the social and other areas will have to be clearly defined. Collectively, the way countries go about these tasks will determine the quality of governance in the economy and society, the investment climate and the scope for sustained long-term growth. There will be an even wider range of choices and outcomes than in the first phase of the transition, increasing the challenge for the EBRD to adapt its strategies flexibly to a variety of operational environments.

Trends in the transition process

Transition indicators

One broad (albeit crude) measure of overall progress over the past four years is the average of the transition indicators for the region as a whole. The EBRD's transition indicators (see table), taken on average for the region, have shown steady progress in each year, though at a slowing pace.

In 1997, 15 countries made significant steps forward in market-oriented reform, four registered movements away from market principles as captured in these

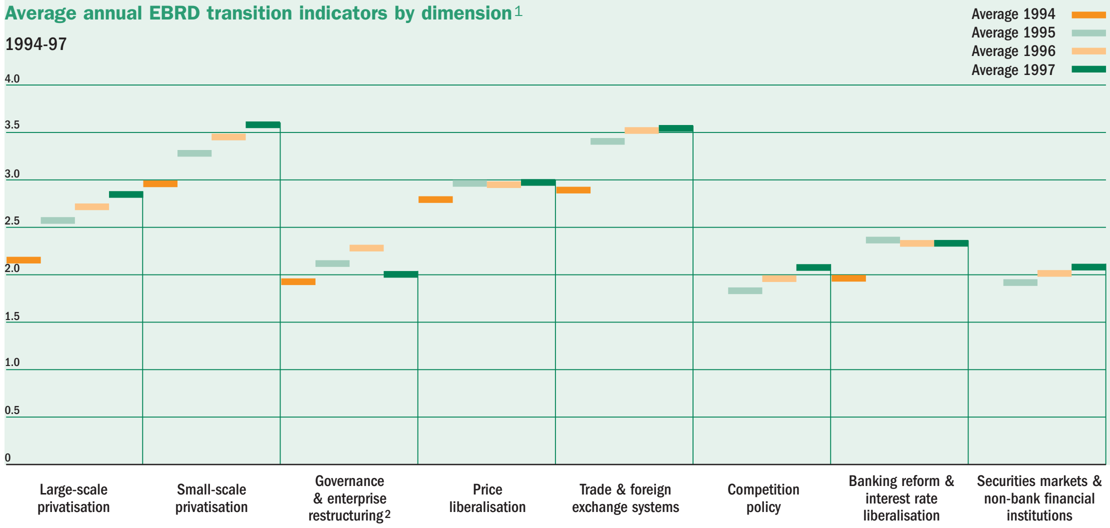
Transition in the EBRD's countries of operations, 1997[1]

		Enterprises			Markets and trade			Financial institutions		Legal reform
Countries	Private sector share of GDP in %, mid-1997 (rough EBRD estimate)	Large-scale privatisation	Small-scale privatisation	Governance & 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	75	2	4	2	3	4	2	2	2–	2
Armenia	55	3	3	2	3	4	2	2+	1	3
Azerbaijan	40	2	3	2	3	2+	1	2	1	1
Belarus	20	1	2	1	3	1	2	1	2	2
Bulgaria	50	3	3	2+	3	4	2	3–	2	3
Croatia	55	3	4+	3–	3	4	2	3–	2+	4
Czech Republic	75	4	4+	3	3	4+	3	3	3	4
Estonia	70	4	4+	3	3	4	3–	3+	3	4
FYR Macedonia	50	3	4	2	3	4	1	3	1	2
Georgia	55	3+	4	2	3	4	2	2+	1	2
Hungary	75	4	4+	3	3+	4+	3	4	3+	4
Kazakhstan	55	3	3+	2	3	4	2	2+	2	2
Kyrgyzstan	60	3	4	2	3	4	2	3–	2	2
Latvia	60	3	4	3–	3	4	3–	3	2+	3
Lithuania	70	3	4	3–	3	4	2+	3	2+	3
Moldova	45	3	3	2	3	4	2	2	2	2
Poland	65	3+	4+	3	3	4+	3	3	3+	4
Romania	60	3–	3	2	3	4	2	3–	2	3
Russian Federation	70	3+	4	2	3	4	2+	2+	3	3
Slovak Republic	75	4	4+	3–	3	4	3	3–	2+	3
Slovenia	50	3+	4+	3–	3	4+	2	3	3	3
Tajikistan	20	2	2	1	3–	2	1	1	1	na
Turkmenistan	25	2	2	2–	2	1	1	1	1	na
Ukraine	50	2+	3+	2	3	3	2	2	2	2
Uzbekistan	45	3–	3	2	3–	2–	2	2–	2	2

1 For a full explanation of the classification system see the EBRD's *Transition Report* 1997. The ratings should be read as qualitative indicators rather than as quantitively precise estimates. 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.

Average annual EBRD transition indicators by dimension[1]

1994-97



1 The larger number of declines than in previous years reflects the new grading system, which adds pluses and minuses to the 1-4 scale. For aggregation purposes these are calculated as +/- 0.33. In some cases, declines in the average score will reflect an actual regression in policies, as in Belarus, the Slovak Republic, Tajikistan and Uzbekistan. In other cases, they reflect the recognition that some countries have been on the borderline of certain classifications, though the finer distinctions were not used in the initial categorisations.

2 The decline in this dimension from 1996 to 1997 reflects the finer distinctions associated with the introduction of pluses and minuses rather than a reversal of previous progress made in this dimension.

indicators, and in six there was only limited change. Progress over the year was particularly notable in Bulgaria, where reform had previously stalled, and, from low overall levels, in Azerbaijan and Turkmenistan. Hungary, which is already well advanced in establishing a market economy, has also seen further notable progress across several transition dimensions, as have Georgia and Romania, which are less advanced overall. In Belarus the EBRD's classification system registered setbacks in market reforms in the areas of corporate governance and restructuring and in the trade and foreign exchange system. Setbacks were registered in the areas of foreign trade and banking reform in Uzbekistan, in corporate governance in the Slovak Republic, and in price liberalisation in Tajikistan.

The change in the average scores for each component of the transition – depicted in the chart on average annual EBRD transition indicators by dimension – shows that during 1997 the strongest progress has been made in large- and small-scale privatisation and banking reform. There are some interesting trends over the course of the transition.

Areas in which the transition has involved primarily liberalisation – such as the elimination of government-imposed restrictions on prices, foreign trade, and the market for foreign exchange – saw rapid progress early in the transition before reaching a plateau more recently. Areas in which the transition has entailed primarily redistribution of assets – for example, large- and small-scale privatisation – have sustained the strongest momentum over the period measured by the transition indicators.

Banking reform moves forward

Areas in which the transition has required deep structural reform – such as the restructuring of enterprises, the overhaul of the banking system, the break-up of monopolies, and the establishment of securities markets and non-bank financial institutions – have made slower but not insubstantial progress. The overall achievements in banking reform are particularly notable. However, the average score for enterprise restructuring shows a slight decrease in 1997 caused by recent backtracking in this area in Belarus and Uzbekistan.

Private sector share

The private sector share in economic activity has continued to grow rapidly. By the middle of 1997, the share of the private sector in GDP had reached or exceeded the 50 per cent mark in 19 of the EBRD's 26 countries of operations. Among the advanced countries, several have already met or exceeded the private sector share in some of the OECD countries. The Czech Republic, Private sector growth continues

Estonia, Hungary and the Slovak Republic are quickly reaching a ceiling of private sector growth through the continued privatisation of formerly state-owned property. As a result, any further expansion of their private sector shares will have to come from the formation of new firms or higher growth rates in private enterprises rather than in privatising remaining state sector entities.

The largest rises in private sector share were among those countries that showed particular resolve in reforms over the past year, including Azerbaijan (from 25 to 40 per cent) and Kazakhstan (from 40 to 55 per cent). This has been the result of initiatives in both large- and small-scale privatisation in both countries. Relatively large increases were also recorded in Armenia, Georgia, Kyrgyzstan and the Russian Federation, in each case linked to continued progress in large-scale privatisation. In Ukraine, the increase in the share of the private sector is the result of the near completion of small-scale privatisation and further progress in mass privatisation.

Privatisation

Further progress in mass privatisation

The broad-based privatisation of large-scale enterprises has continued to advance at a strong pace in most of the region. A wave of mass privatisation programmes – the largely cashless and simultaneous transfer of a substantial number of enterprises to new owners through the distribution of vouchers – has been completed in a number of countries, including: the Czech Republic, Georgia, Kazakhstan, Latvia, Lithuania, Moldova, the Russian Federation and the Slovak Republic. These countries are now focusing on the sale of remaining state enterprises or state shares in privatised enterprises through a variety of cash-based methods. Estonia and Hungary have continued to make progress in the direct sales of targeted enterprises, focusing increasingly on public utilities and infrastructure.

Mass privatisation was resumed in 1997 in a number of countries, including Bulgaria and Romania, which are also undertaking the direct sales of large enterprises. In Azerbaijan, Croatia and Poland, mass privatisation plans are finally being implemented following long periods of delay. Limited programmes have even been approved in countries at the earliest stages of transition – such as Tajikistan and Turkmenistan. Delays and setbacks of very different origins have slowed mass privatisation in Albania, Kyrgyzstan and Uzbekistan. Belarus continues to postpone any broad-based privatisation effort.

The wide-ranging programme of large-scale privatisation among the transition economies has produced an equally wide array of outcomes on almost all dimensions of the process, including: the share of state-owned enterprises subject to privatisation, the extent of residual stakeholding by the state, the concentration or dispersion of ownership in newly privatised firms, the pattern of distribution to insiders versus outsiders, the access to and participation of foreigners in the process, and the design of intermediary institutions. It is this variation that is likely to lead to future divergence in the institutional structure and development of transition economies, given the critical importance of the pattern of ownership in defining economic systems. Yet it is still too early in this process to specify systematically the implications of these differences across privatisation programmes for the course of transition.[1]

Governance and financial discipline

Over the past year, it has become apparent that the initial patterns of corporate governance will not necessarily remain stable over time. In Poland, the pursuit of multiple privatisation tracks has weakened the prevalence of insider ownership as stakes in key enterprises have been sold to strategic investors through direct sales and international tenders.

In Russia, large banks and financial and industrial groups (FIGs), in some cases backed by foreign investors, have become the major players in the cash sales of state shares in large enterprises and in the secondary market for equity stakes in the increasingly active securities markets. This has led to several high-profile efforts to weaken the control of insiders in these enterprises, through the defence of minority shareholder rights.

In the Czech Republic, the planned privatisation of state shares in the major banks and the conversion of investment funds into holding and mutual funds companies may have a substantial impact on the initial pattern of corporate governance that resulted from voucher privatisation. In addition, the perception among foreign investors of declining risk in this region opens up the possibility that foreign strategic investors may

1 See the *Transition Report* 1997, chapters 4 and 5, for a further discussion of this issue.

play a greater role in the new stages of privatisation in countries such as Bulgaria, Latvia, Lithuania, Moldova and Romania.

Budgetary subsidies – once the key source of "softness" in budget constraints – have been substantially reduced throughout the CIS, in some cases at an extraordinary pace. However, the reduction of budgetary subsidies has, in many cases, been accompanied by an increase in off-budget subsidies and other cushions weakening financial discipline.

Tax arrears have increased significantly in a number of countries. By the end of 1996, the stock of tax arrears had reached 10.2 per cent of GDP in Moldova and 13.4 per cent of GDP in Bulgaria. In the Russian Federation, high tax arrears have combined with an increasing reliance on barter. The stock of tax arrears (including those to off-budget funds) reached 10 per cent of GDP by the end of 1996.[2] Barter has climbed to alarming proportions in Russia; it is estimated that up to 70 per cent of total industrial sales were conducted through barter in the first quarter of 1997. Ukraine has a similar pattern of high tax arrears and barter. In several CIS countries, arrears on energy bills have also been a substantial problem.

Banking reform

The wave of high-profile banking crises in several transition economies over the past few years has had a powerful demonstration effect throughout the region. After an initial period of rapid and virtually unregulated expansion, a widespread recognition has emerged among countries at all stages of transition of the need to consolidate and strengthen the banking sector.

Virtually every country in the region has initiated, or has announced plans to begin, a programme of bank restructuring. In addition, impressive progress has been made in enhancing the supervisory capacities of central banks, tightening prudential regulations, and increasing capital requirements to prevent the re-emergence of systemic problems in this sector. However, improved supervision is, by its very nature, a long-term task in which the development of effective human skills is as important as enhanced regulatory structures.

Notwithstanding the recent progress, the banking system in most of the transition economies remains fundamentally underdeveloped. Most banks in the region are still weak and undercapitalised. If internationally accepted rules on loan loss provisions and write-offs were properly applied, it is estimated that none of the countries of the Baltics or the CIS – with the exception of Russia – would have an entire banking sector even approaching the size of a medium-scale Western bank.

The basic legal and institutional infrastructure in support of banking is seriously deficient. The development and enforcement of collateral and bankruptcy laws has been slow. Internationally accepted accounting standards and modern portfolio and management information systems have not been widely introduced. Most importantly, banks in much of the region have not yet developed the skills necessary for the provision of the basic functions of financial intermediation. The quality of banking continues to be an area in which the EBRD can make important contributions to the transition process and to strengthening the resilience of the transition economies to future financial crises.

Trends in macroeconomic developments

Economic growth and stabilisation

Economic growth resumes in the region as a whole

In 1997 economic growth resumed in the region as a whole after seven years of continuous decline. Compared with 1996, average growth slowed somewhat in eastern Europe but accelerated in the Baltics, while economic contraction finally came to an end in the CIS. This turnaround is largely due to the improving performance of Russia, which in 1997 registered its first year of positive growth. It is hoped that Ukraine will show positive growth in 1998.

Nine economies in the region, out of 26, are now growing at rates of 5 per cent or more, and 14 at rates exceeding 3 per cent. Growth in many of the advanced economies is currently driven by domestic demand and especially by private consumption, whereas exports were the driving force when growth first resumed. Strong investment is an important factor in the growth of demand in Poland, the Slovak Republic and Slovenia.

2 The stock of arrears continued to increase in the first quarter of 1997, but then decreased in the second quarter due to several one-time payments to clear outstanding arrears by a small number of the largest enterprises.

50 per cent increase in GDP since 1994

Nevertheless, the growth performance has been uneven across countries, with some experiencing serious setbacks. GDP growth in four CIS countries has so far failed to resume, and three countries of south-eastern Europe that had previously moved out of recession – Albania, Bulgaria and Romania – are now experiencing economic contraction. In the Czech Republic, fiscal and monetary austerity in response to growing external imbalances slowed growth considerably in 1997.

By 1997, GDP for the region was of the order of US$ 1,000 billion, reflecting around US$ 2,500 per capita for a population of 400 million people. This represents in dollar terms an increase of around 50 per cent since 1994, the majority of which was brought about by substantial real appreciation of the exchange rate. In terms of purchasing power parity (PPP), income per capita is likely to be well in excess of US$ 2,500 as, notwithstanding the real appreciation, exchange rates are still low relative to PPP and there is substantial unmeasured output. Nevertheless, there are still large fractions of the population living on per capita incomes of only a few dollars per day.

Inflation performance in the region as a whole has continued to improve. Nine countries in the region now have annual inflation at less than 10 per cent, and 19 countries at less than 20 per cent. However, as in the case of GDP growth, there have been setbacks in both eastern Europe and the CIS. In Albania and Bulgaria, a sharp increase in inflation has followed financial sector crises (though performance improved towards the end of 1997), while in Armenia, Romania and Tajikistan higher inflation has resulted from expansionary fiscal and monetary policies.

Further growth expected in 1998

Prospects for 1998 are for a reversal of the downward trend in the growth rate in eastern Europe and positive growth for the CIS as a whole, with the more solid return of growth in Russia. However, these forecasts are subject to some uncertainty because of the deterioration of external accounts, which has been one of the more striking macroeconomic developments over the past two years. Two-thirds of all transition economies recorded current account deficits in excess of 5 per cent of GDP in 1996, and in half the deficit exceeded 7 per cent. Preliminary information for 1997 suggests a slowdown in the deterioration but no significant reversal of that trend. These external imbalances make growth in some countries of the region vulnerable to developments and perceptions in the international capital markets.

Excluding financial channels of transmission, the impact of Asia's crises on growth in the Bank's countries of operations is generally expected to be limited. Direct trading relations with East Asia represent only a small share of the region's trade, less than 5 per cent. More important may be the impact of Asian currency devaluations on the competitiveness of exports from the Bank's countries of operations into third markets. This kind of competition between Asian and the region's products is significant in a few sectors, including steel, shipbuilding, textiles and electronic components. Finally, the Asian crisis is contributing to a downturn in commodities prices, including hydrocarbons and metals, which will worsen the terms of trade of some of the resource-rich economies of the region but benefit those of the others.

Capital inflows

Some transition economies have seen substantial capital inflows which have financed the rising current account deficits. Net medium- to long-term financial flows to transition economies more than doubled from US$ 16.8 billion in 1991 to US$ 38.9 billion in 1996, and are estimated to have surpassed US$ 50 billion in 1997 despite Asia's financial crisis. Moreover, private capital flows to transition economies have picked up sharply, from less than US$ 3 billion in 1991 to nearly US$ 26 billion in 1996. These inflows are a sign of growing confidence in the region but can bring their own problems. The real exchange rate appreciation that has accompanied them has started to squeeze profit margins in some countries.

The substantial inflows also bring dangers of asset price inflation and volatility, as the Czech Republic experienced in mid-1997 and as the pressure on Russian foreign exchange reserves showed later in the year. Particular caution regarding the sustainability of capital inflows is due in those economies where a rapid expansion of domestic consumption (both private and public) lies behind a growing external financing requirement.

While rising capital flows are in many cases a sign of confidence, they create obligations which will have to be serviced. On the whole, the transition countries have low indebtedness in relation to GNP. However, in some countries indebtedness is rising very rapidly. For those countries, including Armenia, Georgia, Kyrgyzstan, Moldova and Tajikistan, the growth of foreign indebtedness in relation to exports will have to be handled

Foreign direct investment

(net inflows recorded in the balance of payments)

	1995	1996 (revised)	1997 (estimate)	Cumulative FDI-inflows 1989-97	Cumulative FDI-inflows 1989-97 per capita	FDI-inflows per capita in 1997
	(in US$ millions)				(in US$)	
Albania	70	90	33	331	103	10
Bulgaria	82	100	430	885	103	52
Croatia	81	349	500	1,115	233	105
Czech Republic	2,720	1,264	1,000	8,120	789	97
Estonia	199	111	200	936	644	138
FYR Macedonia	13	12	16	65	31	8
Hungary	4,410	1,986	2,100	15,360	1,506	206
Latvia	165	230	400	1,044	418	160
Lithuania [1]	72	152	250	535	144	67
Poland	1,134	2,741	4,500	9,898	256	116
Romania	404	415	921	2,312	102	41
Slovak Republic	134	177	80	703	130	15
Slovenia	170	180	340	1,083	543	170
Eastern Europe and the Baltic states	*9,654*	*7,807*	*10,770*	*42,357*	*368*	*93*
Armenia	19	22	26	70	19	7
Azerbaijan	284	661	1,006	1,993	262	132
Belarus	7	75	125	292	29	12
Georgia	6	25	65	104	19	12
Kazakhstan	859	1,100	1,300	4,367	252	75
Kyrgyzstan	61	31	50	197	43	11
Moldova	73	56	71	232	54	17
Russia	2,021	2,040	3,600	9,443	64	24
Tajikistan	13	13	20	75	13	3
Turkmenistan	233	129	102	646	137	22
Ukraine	300	500	760	2,030	33	8
Uzbekistan	–24	50	60	216	9	3
The Commonwealth of Independent States	*3,852*	*4,702*	*6,825*	*19,305*	*68*	*24*
Total	**13,506**	**12,509**	**17,595**	**61,662**	**154**	**44**

1 Figures for Lithuania for 1995 and 1996 cover equity capital and reinvested earnings, but not inter-company debt transactions.

carefully if future problems of debt service are to be kept under manageable control.

Asia's financial crisis has had a significant impact on the availability and price of foreign capital throughout the emerging markets. There have been two main channels of transmission to eastern Europe and the CIS, a temporary reduction in the liquidity of international financial markets on the one hand and renewed awareness of risks in emerging markets on the other. Access to foreign debt funding, which was beginning to become available to sub-national and non-sovereign borrowers, has become far more restricted since October 1997. Spreads on traded debt securities issued by borrowers throughout the region increased markedly immediately after the crash of the Hong Kong stock market, as did the pricing of commercial bank lending.

Impact of Asia's financial crisis

Some of this reassessment in pricing was a necessary and healthy correction from the unsustainable low levels that prevailed in the summer of 1997. After the initial market correction, international funding sources have demonstrated that they are well able to differentiate between risks in individual countries, with bond spreads for most countries falling again, in some cases to levels close to the pre-crisis period.

Greater caution may depress the overall level of international funding for short-term money market and stock market investments in 1998. However, capital with a long-term commitment, such as foreign direct investment, equity funds and project finance, is unlikely to be severely affected by market sentiment following the Asian crisis. Despite delays in certain key privatisations in Russia that have been linked to tightness in international financial markets, 1997 was a record year for FDI in the region and by most accounts interest and commitment remain high (see table).

Nevertheless, capital flows and, in some cases, currencies remain vulnerable to the weakness of current accounts in some countries. The economies in transition will need to renew efforts to keep their external balances under control, particularly through prudent fiscal management, and learn the lessons on exchange rate and debt management that the Asian crisis provides. For the EBRD, the crisis highlights once more the importance of its role in building sound financial sectors – whose weakness lies at the heart of the problems in Asia – and in catalysing foreign direct investment into the region.

Accession to the European Union

The EU accession negotiations will start in March 1998 with a group of six countries: Cyprus, the Czech Republic, Estonia, Hungary, Poland and Slovenia. The other countries that have applied to join the EU are Bulgaria, Latvia, Lithuania, Romania and the Slovak Republic.

Accession to the European Union is a natural complement to the transition process for all applicant countries, whatever their stage of transition. The EBRD's medium-term strategy 1998-2001, approved by the Bank's Board of Directors in September 1997, recognised this complementarity and confirmed that in promoting transition the Bank's operations would support the enlargement process and help the applicant countries to prepare for accession.

Preparations for the enlargement of the EU will be particularly significant for the region, as a larger membership will increase trade and investment opportunities both for the Bank's countries of operations – particularly those applying for membership – and for the existing members of the EU. These issues were discussed in 1997 by the EBRD and the European Commission in relation to the Commission's pre-accession strategy (Agenda 2000).

An understanding has been reached on enhanced cooperation, including with other IFIs (EIB and the World Bank), to prepare the countries to face the challenge of EU accession, in particular in the areas where substantial investment is needed, such as environment, municipal infrastructure, agribusiness, transport and energy, as well as SME support. In this respect, substantive preparatory work was carried out in the second half of 1997 on the 1998 co-financing pipeline and on a special SME Facility, to be launched in 1998. In 1997, the joint EU/EBRD projects, including Phare and Tacis funding for technical cooperation, amounted to ECU 240 million.

Aperçu des opérations en 1997

Rückblick auf die Geschäftstätigkeit 1997

Review of 1997 operations

Обзор деятельности за 1997 год

Introduction

The EBRD's Board of Directors approved 143 projects in 1997, totalling ECU 4.0 billion. This exceeded the previous year's value by almost ECU 1.2 billion or 42 per cent, reflecting strongly increased demand for the EBRD's services. Many projects were approved in the fourth quarter, and a substantial number are expected to be signed in the first quarter of 1998.

Signed projects in 1997 totalled ECU 2.3 billion. This surpassed the EBRD's target for the year and marked an increase in the Bank's level of commitments in the region for the sixth consecutive year.

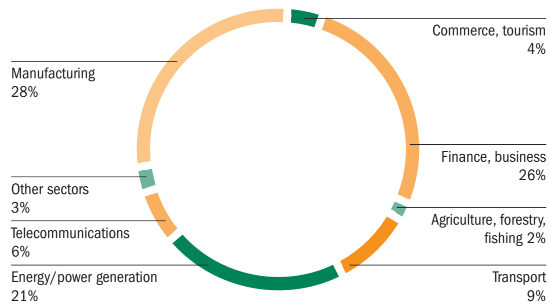
Disbursements of EBRD financing amounted to ECU 2.0 billion in 1997, 49 per cent higher than in 1996. This included a significant increase in disbursements for equity investments, which were almost 82 per cent higher than in the previous year, totalling ECU 379.1 million.

The EBRD increased the equity share of its commitments in 1997 to 19 per cent, from 15 per cent in 1996. This increase reflects the market's growing demand for equity and the need for the Bank to adapt its financing in countries where there is less requirement for its loans.

ECU 2.3 billion signed in 1997

EBRD financing committed by sector[1]

1997



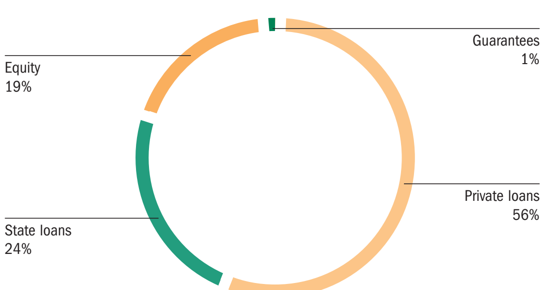
	1997			Cumulative to 31 December 1997		
	Number	ECU (million)	%	Number	ECU (million)	%
Finance, business	48	591	26	180	2,837	28
Transport	6	214	9	61	2,089	20
Manufacturing	21	640	28	82	1,596	16
Energy/power generation	13	497	21	41	1,394	14
Telecommunications	5	144	6	31	934	9
Extractive industries	1	27	1	14	537	5
Commerce, tourism	7	99	4	24	328	3
Agriculture, forestry, fishing	3	49	2	19	233	2
Community/social services	3	29	1	14	178	2
CEALs, co-financing lines and RVFs[2]	1	26	1	3	130	1
Total	**108**	**2,315**	**100**	**469**	**10,257**	**100**

1 These aggregated sector groups do not match the sectors discussed in the following pages. For example, the finance, business sector includes service industry and does not equate with the financial institutions sector.

2 Central European Agency Lines, Regional Venture Funds.

EBRD financing committed by type of facility

1997



	1997			Cumulative to 31 December 1997		
	Number	ECU (million)	%	Number	ECU (million)	%
Private loans	47	1,307	56	210	5,100	50
State loans	16	550	24	99	3,302	32
Equity	45	436	19	154	1,642	16
Guarantees, etc[1]	1	21	1	6	212	2
Total	**108**	**2,315**	**100**	**469**	**10,257**	**100**

1 Guarantees and other off-balance-sheet items.

To foster the transition process, the EBRD concentrated on specific sectors in 1997: financial institutions, transport infrastructure, energy efficiency, and municipal and environmental infrastructure. The Bank allocated additional staff resources to the teams active in these sectors, and strengthened the relevant country teams through the recruitment of local professional staff. In 1997 the Bank once again increased the value of its Board-approved investments in these sectors, with a particular focus on the countries at advanced stages of transition. It also significantly increased the private sector share of its infrastructure activities.

In promoting the transition, the EBRD also assisted the countries at the advanced stages of transition in meeting the criteria for accession to the European Union. In particular, the Bank concentrated on areas where substantial investment is needed, such as municipal infrastructure, the environment, transport, energy and agribusiness.

As planned, the Bank increased its share of new commitments in the countries at the early/intermediate stages of transition, increasing the total from 32 per cent in 1996 to 44 per cent in 1997. The share of commitments in countries at advanced stages of transition was 24 per cent, which represents a relative decline from the previous year because of increased availability of capital on very favourable terms.

76 per cent of new signings in the private sector

A total of 80 per cent of Board approvals and 76 per cent of new signings in 1997 were in the private sector. This is the highest percentage of new commitments in the private sector since the EBRD's establishment and raises the overall ratio of private sector commitments to 67 per cent – well above the Bank's mandated target of 60 per cent.

The Bank's commitments continued to mobilise financing from other sources. For every ECU invested by the EBRD during 1997, its partners invested an additional ECU 1.8.

Income from Banking operations increased by over 68 per cent in 1997, to ECU 357 million, representing about 50 per cent of the Bank's gross income. The key features of this increase were substantial growth in investment income from equity sales and dividends, and sustained growth in interest income from loans. At the same time, expenditure within the Banking Department in 1997 was kept below the 1996 level, leading to a significant increase in productivity. While commitments in 1997 increased by 5.8 per cent compared with 1996, net expenditure was reduced by 7.7 per cent.

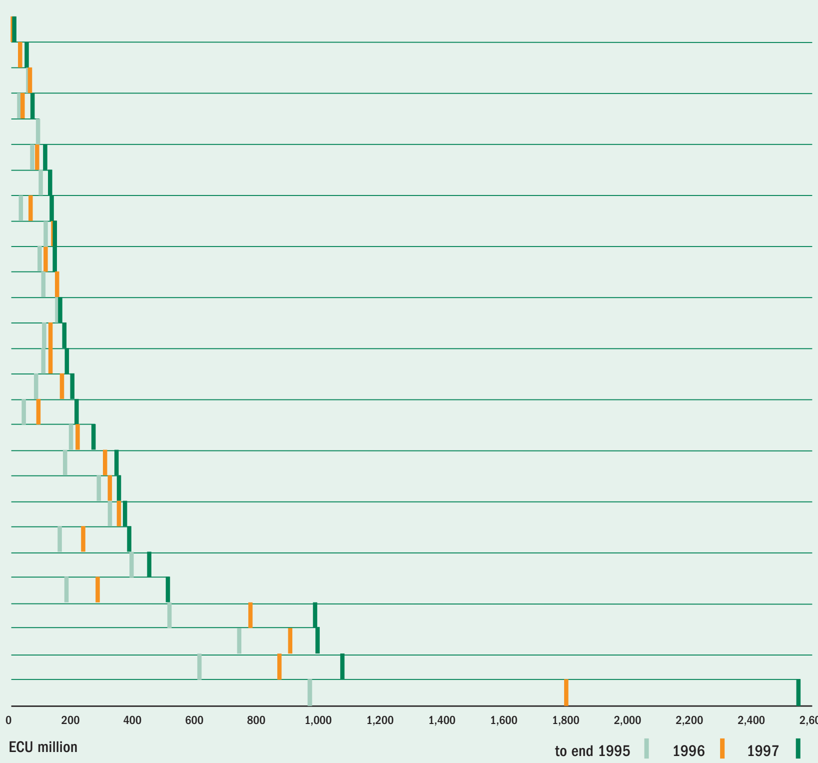
The Bank successfully monitors a portfolio that was 27 per cent larger in terms of number of operations and 29 per cent larger by value compared with its projects in 1996. With a total of 469 projects comprising ECU 10.3 billion in EBRD financing and ECU 34.2 billion in total project value under implementation, the Bank recognises that the quality of monitoring is of the highest importance. Based on an assessment by the EBRD's Risk Management department, 94 per cent of the Bank's projects achieved an average or high quality of monitoring.

EBRD financing committed by country

For a list of projects approved in 1997, see pages 96 to 103.

1997			Cumulative to 31 December 1997			
Number[1]	ECU (million)	%	Number[1]	ECU (million)	%	
1	2	<1	2	9	<1	Tajikistan
4	20	1	5	49	<1	Bosnia and Herzegovina
0	0	0	8	62	1	Albania
4	34	1	7	68	1	Georgia
0	0	0	3	86	1	Armenia
2	29	1	5	111	1	Azerbaijan
2	30	1	8	126	1	Kyrgyzstan
2	72	3	4	132	1	Turkmenistan
1	1	<1	10	135	1	Lithuania
2	28	1	9	138	1	Moldova
0	0	0	8	149	1	FYR Macedonia
1	8	<1	6	155	2	Belarus
9	49	2	22	175	2	Estonia
6	53	2	16	179	2	Regional
3	32	1	15	198	2	Latvia
1	124	5	3	212	2	Kazakhstan
5	52	2	18	268	3	Bulgaria
4	37	2	16	341	3	Croatia
3	30	1	19	350	3	Slovenia
1	18	1	16	368	4	Slovak Republic
3	150	6	11	382	4	Uzbekistan
4	57	2	23	447	4	Czech Republic
6	229	10	19	508	5	Ukraine
13	210	9	59	986	10	Poland
6	89	4	46	992	10	Hungary
6	206	9	35	1,074	10	Romania
21	756	33	78	2,556	25	Russian Federation
108	**2,315**	**100**	**469**	**10,257**	**100**	**Total**

Cumulative EBRD commitments by country by year at 31 December 1997



1 Operations may be counted as fractional numbers if multiple sub-loans are grouped under one framework agreement.

Financial institutions

The EBRD is committed to strengthening the financial sector in its countries of operations by investing directly in financial institutions and by providing funds to the enterprise sector via local intermediaries. The Bank's ability to generate such projects depends on each country's progress towards a market economy in areas of macroeconomic stabilisation, enterprise restructuring, and implementation of appropriate legal and institutional frameworks.

In 1997, 52 financial sector operations were signed for a total of ECU 477 million. With these new commitments, the EBRD has signed a total of ECU 2.9 billion in the financial sector, representing 29 per cent of the total value of the Bank's operations at the end of the year.

Direct operations

At the end of 1997 the EBRD had invested in the share capital of 38 banks, four insurance companies and two leasing companies. It had also provided seven subordinated loans (totalling ECU 86 million), used by the recipients to strengthen their capital bases and expand their operations. As part of these direct equity investments, the Bank will often appoint a member to the supervisory council of the investee company to promote transparent corporate governance, management accountability and the implementation of sound banking practices. The EBRD's direct involvement helps to raise the level of skills in the investee companies, demonstrate sound practices to other market participants and encourage competition in the financial sector.

Wholesale operations

At the end of 1997 the EBRD had invested over ECU 2.3 billion in wholesale operations, including credit lines, private equity funds and trade facilitation programmes. Through these operations, the Bank is able to mobilise funding for local projects that are too small for it to handle efficiently by itself. Providing access to investment finance for small and medium-sized enterprises (SMEs) is a crucial part of the Bank's efforts to strengthen private sector development and to stimulate competition in the enterprise sector. If the EBRD is a core investor in an equity fund, it seeks to strengthen corporate governance by ensuring that a representative of the equity fund manager is included on the board of the investee company.

EBRD signed operations to financial institutions

Cumulative as at 31 December 1997

	Number of projects	ECU (million)	%
Wholesale operations			
Credit lines	56	1,262	43
Private equity funds	35	379	13
Apex facilities	6	310	11
Trade facilitation programmes	5	119	4
Stand-by and guarantee facilities	2	109	4
Special restructuring programmes (SRPs)	3	81	3
Early-stage equity investments	4	50	2
Agency and co-financing lines	2	11	0
Multi-project facilities	3	7	0
Total	**116**	**2,328**	**80**
Direct operations			
Equity investments in banks	46	314	11
Equity investments in insurance companies	5	6	0
Other types of equity investments	5	7	0
Loans to banks	15	267	9
Other types of loan	1	11	0
Business services	1	3	0
Total	**73**	**608**	**20**
Total financial institutions operations	**189**	**2,936**	**100**

Wholesale projects are also intended to support the development of local financial intermediaries by improving, for example, a bank's ability to identify and appraise new projects. The EBRD asks local intermediaries to follow specific guidelines when approving sub-loans or equity investments. This helps to build a sound financial sector by ensuring that the intermediary strengthens its internal procedures and upgrades its operating standards as well as providing financing to local enterprises.

Countries at advanced stages of transition

EBRD supports bank privatisation

In countries that are at the advanced stages of transition, the EBRD has concentrated on promoting bank privatisation through direct equity investments and the development of innovative financial instruments, such as subordinated debt with convertibility options. Subordinated debt is increasingly used by the EBRD to support the recapitalisation of local financial institutions and has been arranged with banks that have an established track record or as pre-privatisation support to facilitate the privatisation process. Furthermore, the financial sector in these countries has been advanced through the development of mortgage lending for which the Bank has provided credit lines and through the establishment of mutual funds in which the Bank has invested. This has resulted in more competitive financial institutions, which are crucial for the process of accession to the EU.

In Hungary the EBRD concluded a project in 1997 with Kereskedelmi és Hitelbank (K&H) via an ECU 26.2 million subordinated debt facility with a convertibility option. This is the first transaction of this type concluded by the EBRD and demonstrates an effective way of supporting the privatisation of K&H and allowing the Bank to participate in K&H's equity effective with privatisation. Following the conversion of the debt into equity, the Bank owns about 64 per cent of the total share capital of K&H together with strategic partners – Irish Life and Krediet Bank of Belgium.

EBRD helps to develop the mortgage market

In Estonia subordinated debt facilities, some with convertibility options, were concluded in 1997 with Forekspank, Hansapank, Hoiupank and Tallinna Pank (also with a subsidiary of Hansapank in Latvia). The EBRD provided two mortgage financing credit lines in Estonia in 1997: to Hoiupank (ECU 7.6 million) and Uhispank (ECU 6.1 million). This programme is supporting banks and local borrowers to develop the mortgage market, with loans provided on terms of up to 15 years.

The EBRD has also increased its exposure to the Slovak Republic, with senior debt to Prva Komunalna Banka for ECU 10.1 million. This loan will help the Bank increase its lending to local SMEs and support their project financing needs. In addition, the EBRD invested in equity of Priemyselna Banka, for ECU 8.8 million, giving it a 20 per cent stake in the bank. This is the second Slovak bank in which the EBRD has participated without the presence of a strategic investor.

In the Czech Republic the EBRD signed its first investment in mutual funds in 1997 for ECU 9.1 million. The two funds, operated by Sporitelni Investicni Spolecnost, the asset management subsidiary of Ceska Sporitelna (the Czech Savings Bank), will offer retail customers in the Czech Republic the opportunity to buy locally managed investment products as an alternative to, or in combination with, bank deposits. Fund investors will have increased flexibility to manage their savings by linking investments in the funds to Giro bank accounts. The Bank also signed an investment for ECU 7.6 million in a private equity fund focusing on the Ostrava region, which will help local companies to replace obsolete machinery or equipment damaged by the 1997 floods.

In Poland the EBRD has maintained its 9.8 percentage of the total share capital of Kredyt Bank by participating in capital increases. The EBRD also concluded its first equity divestment in the country by selling to Allied Irish Bank its stake in Wielkopolski Bank Kredytowy.

In Croatia, the EBRD approved in 1997 its first investment, for ECU 4.5 million, in a private equity fund focusing on providing equity to local SMEs. In addition, it has completed its commitments under the Croatian Framework Agreement by extending credit lines to Bjelovarska Banka and Medimurska Banka.

Countries at early/intermediate stages of transition

In countries at the early or intermediate stages of transition the EBRD is focusing on the provision of investment finance to SMEs and the strengthening of local banks. The Bank has successfully implemented a number of SME credit lines, and has increased its efforts to provide financing through regional equity funds. It has also undertaken equity investments in a number of banks in the region, emphasising the importance of sound banking principles and international accounting standards to these nascent institutions. To support the integration of less advanced transition economies into world markets, the EBRD has also continued its trade facilitation programmes.

In 1997 the EBRD initiated financial sector activities in Bosnia and Herzegovina with three equity investments to strengthen the local banking sector and to support the development of local financial intermediaries. The investments in Market Banka and Hrvatska Banka in Mostar will support two important local institutions and have been accompanied by technical assistance support to strengthen the banks' operations, in particular their credit approval procedures. In addition, with the establishment of the Micro-Enterprise Bank, the EBRD intends to promote the growth of micro companies, which are considered vital for supporting the development of the local economy.

In Ukraine the EBRD completed transactions with two local banks in 1997 within the framework of the Trade Facilitation Programme, which supports the development and growth of trade relations with neighbouring and Western countries. In addition, with the release of the fourth tranche of the SME credit line, ECU 54 million, the Bank continues to support the development of the local private enterprise sector and facilitate new investment in machinery and long-term working capital needs.

In Bulgaria the EBRD made new equity investments in 1997 in United Bulgarian Bank and in First Investment Bank, totalling ECU 10.3 million and ECU 3.6 million respectively. It has also increased its total commitment to BNP-Dresdner Bank and Bulgarian Investment Bank to maintain its total share of the capital of these two institutions, making the EBRD the largest investor in the Bulgarian financial sector.

In Georgia the EBRD subscribed in 1997 to its first equity investment in the country, taking 17.8 per cent of the capital of United Georgian Bank (UGB) for a total of ECU 9.1 million. UGB will be the first bank in Georgia to apply international standards in its operations and will provide an improved level of client service, serving as an example to other local institutions. In addition, the EBRD has increased its commitments to other Georgian banks via the Framework Facility by approving credit exposures to Intellectbank and Tbiluniversalbank.

In 1997 the EBRD committed its first investment, totalling ECU 13.4 million, in a private equity fund focusing on investments in the Central Asian republics. The AIG Central Asian Fund will invest a total of ECU 13.6 million in companies operating in Azerbaijan, Kazakhstan, Kyrgyzstan and Turkmenistan. The Bank also committed ECU 10.8 million to its first fund focusing on telecommunications and media companies. The Baring Communications Fund has raised a total of ECU 11 million to be invested in central European companies working in this sector. The Fund will focus on privatising companies in need of equity to restructure the local telecommunications sector, which is essential for local businesses.

Russian Federation

In 1997 the EBRD continued to contribute to the Financial Institutions Development Project (FIDP), which provides the Bank with a framework for identifying and developing creditworthy banks in Russia. Under the FIDP, technical assistance and funding is extended to banks that have strong prospects for achieving full compliance with international banking standards in the near term. In 1997 the number of banks accredited to the FIDP rose to 39, 12 of which had received direct EBRD finance by the end of the year in the form of bank-to-bank loans, trade finance facilities or equity investments.

Other financing provided by the EBRD to Russian banks during 1997 continued at a relatively modest level, totalling ECU 167 million. This is due to the careful utilisation of credit lines by the major Russian banks and to the EBRD's prudent attitude towards risk-taking in this sector. The EBRD has continued to provide medium-term finance to Russian banks, and this form of financing is expected to remain significant throughout 1998. It will be consolidated by the greater utilisation of syndications and other methods of co-financing.

Equity investments in Russian banks given priority

Because of the relatively low level of capitalisation of the Russian banking sector, the EBRD's equity investments in Russian banks continue to receive a high priority. An equity investment and convertible loan facility of ECU 54 million were negotiated in 1997 with Inkombank in Moscow. The EBRD's role in assisting local banks to attract strategic investors has become increasingly important, and two further equity investments in other Russian banks incorporating the involvement of co-financing partners are under discussion.

Russia Small Business Fund

Over ECU 185 million disbursed by end of 1997

The EBRD's largest micro and small loans programme, the Russia Small Business Fund (RSBF), enjoyed another successful year in 1997, marked by consistent growth in the volume of loans and increased cooperation with partner banks in Russia. By the end of 1997 a total of ECU 185 million had been disbursed to over 15,000 sub-borrowers. Arrears levels remain low, at 1.8 per cent for micro loans and 2.8 per cent for small loans. Overall repayment levels are 99.8 per cent. This sustained level of performance has demonstrated to Russian banks that the risks of lending to micro and small enterprises (MSEs) can be mitigated, and that reasonable profits can be generated.

The programme now operates in 20 regions across Russia, and has proved especially suited to the needs of entrepreneurs in small towns and outlying regions, where often no other financing is available. This is particularly evident in the depressed coal mining areas of Siberia and in former military towns across the country. However, the programme has also been successful in serving the needs of borrowers in the more prosperous areas, such as Moscow and Omsk.

The RSBF was evaluated by the EBRD's Project Evaluation Department in 1997 (see page 36)

The success of the RSBF has led many of the country's strongest banks, particularly those with nationwide networks, to become active in micro and small credit, which will ultimately lead to MSE loans being made available to borrowers in every part of the country. The EBRD intends to capitalise on the demand for MSE lending by developing additional programmes in countries that are at the early stages of transition. The Kazakhstan Small Business Programme was approved by the Bank's Board of Directors in November 1997, and further initiatives are planned in 1998 for Albania, Romania, Ukraine and Uzbekistan.

Privatisation and restructuring

Early-stage equity

At the request of some fund providers, the EBRD's Project Evaluation Department undertook a review based on a sample of six RVFs (see page 36)

To support privatisation and restructuring of medium-sized enterprises, the EBRD uses a number of equity financing instruments known collectively as "early-stage equity" funds. Two such instruments developed by the EBRD are Special Restructuring Programmes (SRPs) and Post-Privatisation Funds (PPFs), which include the Regional Venture Funds (RVFs) in Russia. PPFs are designed to provide equity and management assistance, mainly to formerly state-owned firms that have been wholly or partially privatised by mass privatisation or individual auction schemes. These funds seek minority stakes in enterprises, with the fund manager taking a proactive role in developing the company through board representation and support for the enterprise's management. SRPs, in contrast, target enterprises requiring more comprehensive restructuring support before being viable for access to market-based financing on acceptable commercial terms.

The benefits provided by ESE funds include the introduction of modern management information systems and practices, the promotion of good corporate governance in investee companies, and a commitment to environmental protection and workers' safety

At the end of 1997 there were 22 early-stage equity (ESE) funds in operation with total capital of ECU 988 million. This comprises ECU 595 million of equity capital committed by the EBRD, ECU 83 million of co-investment from fund managers and other investors, ECU 27 million from donors as subordinated equity, and ECU 283 million of grant funding committed or expected to be committed by donor governments.

The donor grant funding provided by the European Community and other donors has continued to play a vital role in the success of ESE funds, allowing the EBRD to expand its investment frontiers and to be the first investor in higher-risk countries and enterprises. Technical cooperation funding provided by donors reduces the equity risk by financing pre-investment assessment and due diligence as well as post-investment management assistance for enterprises.

Regional Venture Funds

During 1997 the RVF programme moved from the "start-up" phase into the "investment phase". By the end of the year 11 RVFs in Russia (see table below) had been in operation for at least one year and had signed 37 investments totalling ECU 46.4 million. These were undertaken in a wide range of sectors, such as food, glass, clothing, forestry, construction materials and services.

Regional Venture Funds	Donor
Black Earth	European Community
Central Russia	Germany
Far East and Eastern Siberia	Japan
Lower Volga	United States of America
North West Russia	Finland, Norway, Sweden
St Petersburg	Germany
Smolensk	European Community
Southern Russia	France
Urals	European Community
West Russia	Italy
West Siberia	European Community

Post-Privatisation Funds and Special Restructuring Programmes

Using technical cooperation funding from the European Community, two new funds were signed in 1997: the Uzbekistan PPF, which is the second Central Asian ESE fund; and the Bulgarian PPF, which is the second Balkan fund. Together with the Czech Direct Equity Fund, these two funds will start operations in early 1998. While most of the SRPs and PPFs are in the "start-up" phase, several of the funds moved into the "investment phase" in 1997. As of the end of 1997, the PPF and SRP funds had signed 10 investments, totalling ECU 16.4 million.

Post-Privatisation Funds and Special Restructuring Programmes	Donor
Bulgarian PPF[1]	European Community
Czech Direct Equity Fund[2]	European Community
Hungarian SRP	European Community
Kazakhstan PPF	European Community
Latvian SRP	European Community/Nordic countries[3]
Lithuanian PPF	European Community/Nordic countries[3]
Polish SRP[1]	European Community
Romanian PPF	European Community
Slovak PPF	European Community
Slovene SRP	European Community
Uzbekistan PPF	European Community

1 These funds will start operations in 1998.
2 Signed January 1998.
3 Via the Baltic Technical Assistance Special Fund.

Infrastructure

Telecommunications

The EBRD has taken a lead role in support of the telecommunications and media sector. In 1997 the Bank signed five projects in the sector, representing an investment of ECU 144 million. This brought the EBRD's telecommunications commitments to ECU 934 million at the end of 1997 or 9 per cent of the Bank's portfolio.

In response to the critical shortage of basic telecommunications services in countries at early and intermediate stages of transition, the EBRD is actively involved in the upgrading and privatisation process of numerous national operators through direct support and the preparation of investment financing. The Bank is currently involved with the privatisation of national operators in Armenia and Moldova. Other governments interested in the privatisation of their national telecommunications operator receive support from the EBRD through technical cooperation programmes. These provide legal and financial advice on implementing regulatory frameworks, preparing public international competitive tenders and selecting strategic investors. In 1997, the EBRD also assisted in the area of telecommunications regulatory reform in some of its countries of operations (see page 35). Other EBRD activities include the financing of local telephone operators and mobile and satellite networks.

Two of the Bank's most significant telecommunications projects in 1997 involved private enterprises in Hungary and Romania.

In its first investment in a private commercial television station the EBRD arranged an ECU 24.8 million loan package to finance the start-up phase of TV2, one of Hungary's newly established terrestrial TV channels. The Bank is providing ECU 12.4 million and has syndicated ECU 12.4 million on a parallel basis to two local commercial banks, Országos Takarékpénztár és Kereskedelmi Bank Rt. and Kereskedelmi és Hitelbank Rt. This is the first time that the EBRD has syndicated a portion of its financing exclusively to Hungarian commercial banks.

The project is expected to contribute to more widespread private ownership and increased competition in the Hungarian electronic media market. The main sponsor, Scandinavian Broadcasting System S.A., is an experienced commercial television and radio operator covering a multicultural market while the local sponsor, MTM Kommunikáció Rt., is the largest privately owned audio-visual group in Hungary.

MobiFon project supports expansion of telecommunications network in Romania

In Romania the EBRD arranged and partially financed an ECU 173 million loan facility in 1997 to finance the rapid expansion of Connex GSM, one of the country's two mobile telecommunications networks. The project will provide access to telecommunications in a country where the teledensity remains relatively low, introduce increased competition in the sector, and boost the local and national economies. The project financing package is the largest and longest carried out on a commercial basis in Romania without the support of government. The financing received by the network operator, MobiFon S.A., comprises a senior loan of ECU 123 million, of which the EBRD is providing ECU 59 million and syndicating ECU 64 million to seven commercial banks, a parallel loan of ECU 41 million and an EBRD subordinated loan of ECU 9.1 million (see page 32).

Transport

The EBRD made progress on a broad range of new transport projects in 1997, covering all of its areas of activity in the sector (aviation, ports, railways, roads and urban transport). New commitments focused on upgrading basic infrastructure in countries at the early stages of transition.

New Transport Policy approved

The EBRD's updated Transport Operations Policy was approved by the Board in February 1997 and published in April. This aims to identify areas where the Bank can best use its comparative advantage, reviews the transport portfolio in relation to the EBRD's mandate, explores commercial infrastructure financing and sets out future strategy.

In 1997 the EBRD signed three transport operations for a total of ECU 116 million. These brought the Bank's total commitments in the transport sector to ECU 1.6 billion, representing 16 per cent of the portfolio at the end of 1997.

The EBRD committed ECU 43.5 million to Tashkent International Airport Enterprise (Uzbekistan) in 1997 for urgent improvements to international and domestic terminals, taxiways and aprons, and for specialist equipment to improve safety and security. The project will foster the transition process by raising the level of skills, and implementing market-oriented management and operational practices.

Major investments in transport sector in Central Asia

In Turkmenistan the EBRD provided two loans totalling ECU 72.5 million to relieve critical road infrastructure bottlenecks. A loan of ECU 45.3 million will finance improvements to 350km of main road linking Ashghabat, the capital, with the major industrial centre of Mary, which lies on the country's main transit route to the east. The project will promote transition through the rationalisation of road sector funding and the restructuring of road construction and maintenance units, in preparation for eventual privatisation.

A loan of ECU 27.2 million to the Turkmen Sea Administration (TSA) will help Turkmenistan to improve and diversify its access to international markets. The project includes improvements to a general cargo and dry bulk terminal and a ferry terminal at Turkmenbashi Port on the Caspian Sea. As well as improving the administrative environment in which the port operates, the project will help TSA prepare its transformation into a commercially operated company.

Both projects in Turkmenistan will involve internationally tendered civil works, which will give the country its first experience in open tendering in the construction sector. This will provide a valuable demonstration of how tendering lowers costs and improves quality from contractors.

Power and energy utilities

Further progress in reform of energy sector

The process of reform in the energy sector and increasing private sector interest in this area continued in 1997. In particular, Kazakhstan made progress in the privatisation of generation and distribution assets. Countries that led the initial round of reforms in the region, such as Hungary, Poland and Ukraine, focused on consolidating their recent initiatives.

Reform of energy prices and improvements in the collection of bills continued to be problematic, and barter payments persisted in some countries. There were, however, some improvements, especially in Kazakhstan, where the average effective tariff increased by around 50 per cent. This improvement was partly due to the introduction of private commercial management to some of the power supply centres.

The EBRD's projects continued to support reform efforts, with the signature in 1997 of five energy projects focusing on renewable energy and energy efficiency.

In the far eastern Russian region of Kamchatka, the Bank provided a sovereign loan of ECU 90.5 million for the development of a geothermal power plant located in Mutnovsky. This plant will reduce the region's dependence on expensive imported oil and thus improve the reliability of power supply. It will also lead to the decommissioning of an environmentally harmful old fossil-fuelled power plant. The project is structured as an independent power project, one of the first in the region.

In Azerbaijan the EBRD made a loan of ECU 19.6 million in 1997 to the local electricity utility for the replacement of the four existing generators at the Mingechaur Hydropower Plant and the reconstruction and installation of transmission facilities from the plant to consumption centres. The increased availability of power from Mingechaur will make it possible to reduce electricity generation at fossil-fuelled power stations in Azerbaijan, thus reducing the emission of air pollutants. The reduction in losses of energy in the transmission network will improve energy efficiency.

The Bank's loan of ECU 13.9 million to the State of Bosnia and Herzegovina will be on-lent to the three Bosnian electricity utilities for emergency reconstruction of war-damaged hydro-power, transmission and distribution facilities. The supply of electricity made possible by the project is essential for the revitalisation of the economy and will contribute to the country's transition process. The project is also benefiting from substantial co-financing in the form of grants from a number of donors.

In Kyrgyzstan the Bank provided a loan of ECU 22.4 million to improve the transmission and distribution network in the Talas region, thereby reducing energy losses in the network and improving the reliability of electricity supply. The loan will also contribute to the introduction in the short term of the private management of electricity distribution to improve the collection of bills and to reduce commercial losses.

Elsewhere in Central Asia the EBRD provided a loan of ECU 25.2 million to the Republic of Uzbekistan. The operation will allow the Ministry of Power, Industry and Electrification to improve the efficiency of power generation and to meet international environmental standards at Syrdarinskaya Power Station. The operation will also move the electricity sector towards commercialisation and support the implementation of an institutional reform programme.

Energy efficiency

In 1997 the EBRD committed ECU 88 million in the energy efficiency sector in support of projects with a total investment of approximately ECU 295 million. Key projects signed during the year include the first sovereign-guaranteed project to improve district heating in Romania and support for energy service companies (ESCOs) in Hungary and Poland.

In Romania the EBRD provided an ECU 40.8 million sovereign-guaranteed loan for a thermal energy conservation project. The financing will be on-lent to the cities of Buzau, Fagaras, Oltenita, Pascani and Ploiesti to improve their district heating systems. The main objective of this programme is to reduce significantly the energy losses in the district heating networks, thereby increasing their overall efficiency. The programme also aims to support the introduction of a market-oriented regulatory framework in the Romanian heating sector, to generate environmental benefits and to improve the basic living conditions of about 1 million Romanian citizens.

Financing for two ESCOs in Hungary and Poland was provided by the EBRD in 1997 under a multi-project facility (MPF)[1] with Compagnie Générale de Chauffe (CGC). ESCOs were pioneered by the EBRD and Western sponsors to identify savings opportunities in municipal, commercial or industrial facilities, to implement energy conservation measures at no initial cost to the customer, and to guarantee energy savings, which are used by the customer to pay back the initial investment. ECU 16 million of debt and equity was provided to the Hungarian ESCO, Prometheus, which the Bank initially financed with a loan of ECU 3.8 million in 1995. This second financing package was in response to the 250 per cent increase in demand for Prometheus's services since the Bank's first loan. The other ESCO to benefit from EBRD financing under the MPF was CGC Termika, a new ESCO based in Krakow, Poland, which received an ECU 10.5 million package of debt and equity from the EBRD to support its business.

In another transaction in Poland, the EBRD signed agreements to provide ECU 12.1 million of loans and equity to establish ESCO International, which will implement energy-saving projects in Poland and other central and east European countries, using total financing of approximately ECU 50 million. The company's core business will be to design, install and finance small and medium-sized combined heat and power units on behalf of its municipal and industrial clients. ESCO International is majority owned and operated by Difko Energy A/S (a subsidiary of Difko A/S, the Danish financial investment group), together with its sister company LR Energi. It will also benefit from support provided by Eksportkreditfonden, the Danish export credit agency.

Increase in support for energy-saving projects

Other projects under development during 1997 included a proposed ESCO in Ukraine, UkrEsco, in respect of which the EBRD Board approved an ECU 27.2 million sovereign loan in November. UkrEsco is now in the process of being established and arrangements are due to be finalised in early 1998. Together with grant funding and technical assistance from EC Tacis, UkrEsco will invest approximately ECU 30 million in energy-saving projects throughout Ukraine. It will be the first ESCO to be established in one of the CIS countries and will provide an important demonstration of the commercial and energy-saving potential of ESCOs in these markets.

Municipal and environmental infrastructure

Investment in municipal services almost doubled

The EBRD responded to growing demand in 1997 for investments in essential municipal services, such as water supply, sewerage, waste-water treatment, district heating, and waste collection and disposal. During the course of the year the Bank almost doubled its financing in this sector, bringing the EBRD's total investment at the end of 1997 to ECU 405 million in support of projects involving an overall investment of over ECU 1.1 billion.

To achieve basic levels of services in the region, it is estimated that the municipal and environmental infrastructure requires investment of over ECU 150 billion. This is needed to overcome the often sub-standard quality of municipal services, previous under-investment in maintenance and damage to the region's environment. For those countries seeking to join the EU, additional investment is needed to help the governments meet membership requirements.

In 1997 the EBRD concentrated increasingly on private and non-sovereign municipal investments. These accounted for over 40 per cent of total new commitments in terms of volume during the year, compared with 4 per cent in 1996. This trend is even more evident in the Bank's project pipeline, approximately 70 per

1 Multi-project facilities (MPFs) are framework agreements with industrial partners. They enable a large number of sub-projects to be financed in accordance with principles jointly agreed at the outset.

cent of which concerns private and non-sovereign municipal operations. This shift is in response to strong demand for non-sovereign municipal financing and builds on the Bank's additionality in this sector as the only international financial institution capable of covering the full private–public spectrum of operations and lending to municipal entities on a non-sovereign basis. The change in focus has been accompanied by a concentration of activities in countries seeking to join the EU.

St Petersburg project improves water and sewerage services

One of the most significant projects in 1997 was the signing of an agreement with the water and sewerage company of St Petersburg. A loan of ECU 64.2 million will be used to improve the quality of water supply and reduce pollution of the Gulf of Finland from waste-water discharges. A unique feature is that the loan is guaranteed only by the City of St Petersburg. The project's support for the commercialisation of water and sewerage services is expected to encourage similar projects elsewhere in Russia.

Other operations designed to have an important effect on the transition process include the Environmental Investment Fund. This is the first dedicated "green" equity fund in the region and supports the emergence of an environmental equipment and services industry. The EBRD also launched in 1997 an important initiative to promote private sector involvement in the financing and provision of municipal infrastructure. Through the Municipal Public-Private Partnership Programme, the EBRD provides information and advice to municipalities on private infrastructure financing and assists them in the development and financial structuring of suitable investment projects.

First development of new oil region in the Pacific

In the water services sector the Bank provided an ECU 67.9 million loan, under the second Municipal Utilities Development Programme, to assist 10 municipalities in Romania and to promote the institutionalisation of municipal credit. The Bank also established the Chisinau Water Services Rehabilitation Programme in Moldova, introducing a performance-based corporate partnership agreement with a Western private operator.

Implementation of two of the EBRD's earliest loans in this sector, the Tallinn Water and Environment Project in Estonia and the first Municipal Utilities Development Programme in Romania, has led to such an improvement in performance that three of the six water companies involved are about to start privatisation.

The EBRD continued its close cooperation with bilateral and multilateral donors in 1997 through the Project Preparation Committee (PPC). Funded by external donors, PPC officers work closely with the Bank to identify and develop environmental infrastructure projects and to mobilise co-financing from donor organisations participating in the PPC (see page 42).

Other key sectors

Natural resources

Three significant projects in the natural resources sector were signed by the Bank in 1997, totalling ECU 235 million of EBRD investment and total project costs of about ECU 1.0 billion. As well as underlining the EBRD's role in the implementation of large-scale projects, the investments confirmed the Bank's ability to generate substantial co-financing from other commercial and public financial institutions. The recipients of the financing ranged from local companies, including a private corporation, to a wholly foreign consortium operating in Russia.

The most significant investment was the signing of the Sakhalin II project in Russia. An EBRD loan of ECU 105.1 million contributed to a financing package of ECU 319 million provided jointly with the US Government's Overseas Private Investment Corporation and the Export-Import Bank of Japan to develop the Astokh oil-bearing structure off Sakhalin Island in the Pacific Ocean. A number of major Western oil and trading companies are the sponsors of this ECU 779 million project, which is the first to come under the Production Sharing Agreement system. It is also the first of a series of ventures involving Russian and foreign companies in the development of a new oil region in the northern Pacific. In line with the Bank's policies on environment and disclosure of information, a public consultation programme was undertaken on the island by the project sponsor. Stringent environmental conditions were applied to the financing.

In Uzbekistan an ECU 81.5 million EBRD loan is being used to purchase and install a new desulphurisation unit at the Fergana refinery and to undertake safety and environmental improvements (see page 40).

Agribusiness

In 1997 the EBRD continued to concentrate its agribusiness activities in the countries where agriculture represents a key sector of the economy and where its operations are expected to have a significant impact on the transition process. The Bank expanded its agribusiness portfolio considerably, signing 23 new operations for a total investment of ECU 361.8 million. This brings the EBRD's total commitment in this sector to ECU 774 million invested in 67 projects, representing 8 per cent of the portfolio.

Of the countries at advanced stages of transition, the EBRD's activities in 1997 were concentrated in Poland, while in the countries at the early and intermediate stages agribusiness operations focused on Romania, Ukraine and Central Asia.

Financing for primary agriculture and related processing, particularly in the edible oil sector, was a major area of activity for the EBRD in 1997. The Bank increased its existing financing to the Dnipropetrovsk Oil Extraction Plant in Ukraine by providing an ECU 18.1 million loan to expand the production and sale of refined bottled edible oil. In Poland the EBRD made an ECU 16.8 million equity investment alongside Eridania Beghin–Say to finance the privatisation of the largest producer of edible oil in the country. The Bank also provided equity capital of ECU 22.6 million to finance the establishment and operation of an edible oil and branded food production company in Russia.

In the beverage sector the EBRD arranged in 1997 a syndicated loan of ECU 30 million and an equity investment of ECU 7 million to help Turkey's Efes Beverage Group establish a new brewery – Knyaz Rurik – in central Moscow. The Bank also financed its first private sector industrial project in Georgia, with an ECU 9.1 million loan to a mineral water company, Borjomi, a joint venture between Georgian and Western investors. The financing will be used to modernise Georgia's mineral water and glass bottle industry. The Bank extended and syndicated a loan of ECU 27 million and an ECU 9 million three-year revolving credit facility to Obolon, Ukraine's leading private brewer. The financing will enable the company to increase its beer production capacity, expand its market share and develop its export markets.

Hortex project supports modernisation of leading agriculture company in Poland

The EBRD is increasingly working with major local food processing companies to implement restructuring programmes and to promote private ownership. For example, the EBRD and the Bank of America took a combined 41 per cent stake in Hortex, the leading Polish manufacturer of branded fruit juices and a major producer of frozen fruit and vegetables. The financing will support the modernisation and restructuring of one of Poland's largest companies. Other equity transactions in Poland included an ECU 9.1 million investment in Danuta, the leading pasta manufacturer.

In its first direct equity investment in a wholly owned Ukrainian company, the Bank invested ECU 9.1 million in Svitoch, the country's largest and oldest producer of chocolate, biscuits and confectionery, to enable the company to maintain its leading position in the market.

During 1997 the EBRD extended its multi-project facilities (MPFs) with major international agribusiness companies, such as Parmalat SpA and Carlsberg A/S. Total equity and quasi-equity financing made available to clients in the agribusiness sector through these MPFs now amounts to ECU 211 million.

To finance agribusiness SMEs, the EBRD continued to provide credit lines and co-financing lines in 1997 through local agricultural banks. Current partners include Polnobanka in the Slovak Republic, Banca Agricola in Romania, OTP Bank in Hungary, and Dalmatinska Banka and AOB in Croatia. To date, the credit lines have assisted more than 1,000 agribusiness companies throughout the region. The EBRD is also the joint promoter of the leading private sector equity fund operating in the region, the East Europe Food Fund, which has made equity investments totalling over ECU 45 million.

Wholesale markets programme expanded

Through its wholesale markets programme, the EBRD has invested in the infrastructure for the distribution and marketing of fresh food. Two new projects in Georgia and Croatia were signed in 1997, for total EBRD financing of ECU 26 million. The latter project will provide funds to construct or refurbish existing municipal-owned wholesale markets in six Croatian cities.

To increase the effectiveness of project preparation, the EBRD signed a Framework Agreement in 1997 with the Food and Agricultural Organisation (FAO) of the

United Nations. This gives the EBRD access to FAO's considerable expertise in this area, and the Agreement has already been used to assess the feasibility of potential EBRD investments.

Property and tourism

The EBRD has had a significant impact in the property and tourism sectors through its support for the development of modern business premises and hotels. In 1997 the Bank completed three new operations and increased its financing for one other project, making a total commitment of ECU 33 million. With these new commitments, the EBRD has signed a total of ECU 272 million in the sectors.

In addition to direct financing, the EBRD provides funding via credit lines and, for the first time in 1997, via a private equity fund. These wholesale operations are particularly important in the tourism sector, which is dominated by SMEs and where individual projects are generally small. The Bank's involvement in equity funds can also catalyse financing by local institutional investors which require long-term assets to match their long-term liabilities.

Financing for new logistics centre in Moscow

In 1997 the EBRD extended financing of ECU 15.2 million to Faure & Machet S.A. to fund the construction and operation of a 65,000m² state-of-the-art logistics centre near Sheremetievo International Airport in Moscow. The total cost is expected to be ECU 43.5 million, of which the Bank is providing equity finance of ECU 4.4 million and a long-term loan of ECU 11.0 million. The Bank has also syndicated an ECU 15.3 million loan to three international commercial banks. The centre will provide a full range of transport, warehousing, distribution and logistics services to both international and domestic companies, removing bottlenecks in Moscow's distribution system.

In Poland the EBRD committed ECU 9.1 million in 1997 to the Pioneer Polish Real Estate Fund S.A., which is managed by the Pioneer group (an international fund management company based in the United States). With a targeted closing capital of ECU 56 million, the Fund will invest in commercial property throughout Poland and will be the country's first property-specific equity investment vehicle to be majority owned by domestic investors. In response to the ever-increasing demand for modern commercial property, the Fund will provide a critical inflow of investment capital for new construction – in particular, financing for smaller projects in Poland's secondary cities. Its investment activities will also accelerate the development of capital markets for existing property in Poland, where lack of liquidity in the property markets remains a significant obstacle to investment.

In the tourism sector the EBRD provided an ECU 7.2 million loan in 1997 for the conversion of the former Hotel Kyrgyzstan into an international standard hotel. The project's sponsors were C.A.V. Ital, a consortium of Italian manufacturing and construction companies, and Hyatt International. The future Hyatt Regency Bishkek is expected to help attract business travellers and tourists to Kyrgyzstan. This project represents the first limited-recourse financing of a hotel development in Central Asia without the benefit of sovereign or export credit guarantees. By providing a private sector model for financing hotel development in the region, the project will help to encourage similar operations and demonstrate that government-guaranteed hotels are an inappropriate use of developing countries' limited guarantee capacity. This is the seventh EBRD project in the hotel sector, comprising a total investment of ECU 58.9 million.

The Bank's largest direct financing in the sector to date is the refurbishment of the Athénée Palace Hotel in Bucharest, Romania, which was reopened as the Hilton Athénée Palace in October 1997.

Manufacturing and distribution

One of the EBRD's most significant operations in the manufacturing and distribution sector in 1997 was an ECU 29.9 million equity investment in Korado, a Czech-owned and managed radiator manufacturer, to partially finance the construction of a new plant in the Czech Republic. The environmental analysis and audit identified issues associated with water pollution, air emissions, hazardous material management, and occupational health and safety. The implementation of the agreed Environmental Action Plan (EAP) will address these issues. The new facility will use state-of-the-art painting and welding techniques, thereby substantially reducing solvent emissions and welding gas fumes.

In Russia, the Bank made an ECU 79 million loan to Oskol Electrometallurgical Plant, the country's most modern steelworks, producing high-quality rolled steel products. This is for the modernisation of an existing rolling mill and construction and installation of a building and related infrastructure for a new mill. Total project costs are estimated at ECU 537.4 million. The project will provide support to the Russian manufacturing company in the process of restructuring, strengthen the international and domestic competitiveness of the Russian producer, introduce improvements in corporate governance and encourage the introduction of Western marketing and management skills.

In its first financing of a private sector industrial project in Georgia, the EBRD provided an ECU 9.1 million loan for the restructuring and revitalisation of the country's dormant mineral water industry and glass bottle production industry. The project will introduce modern packaging equipment to Georgia and allow Borjomi to compete effectively in the international mineral water market.

To assist the privatisation and modernisation of one of the largest white goods companies in Romania, Arctic S.A., the Bank provided equity and long-term loan financing of ECU 12.5 million. Arctic was one of the first companies in the region to introduce CFC-free refrigerators in their product range, and has a significant share in the domestic market and substantial exports to the EU. The project aims for the full privatisation of a high-profile publicly quoted company in Romania.

In Slovenia, the EBRD made an equity investment of ECU 12 million in Merkur, the largest such financing for a Slovene-owned non-financial business. The wholesaler and retailer of technical products, construction material, ferrous products and electrical goods is the country's largest trading company in this sector. The financing will be used for the construction of four new stores and to provide a permanent working capital facility. The project is expected to enhance competition and aid development of the distribution and merchandising infrastructure in Slovenia.

Co-financing

In accordance with its founding Agreement, the EBRD places great emphasis on encouraging the involvement of other sources of financing in its operations, thereby increasing the total resources available to its countries of operations. The main co-financing partners for the Bank are:

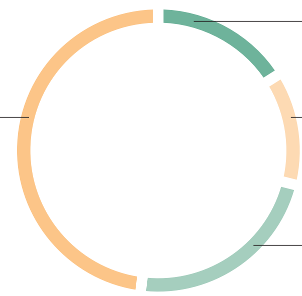
- commercial banks: through EBRD loan participations, assignments, bonds, parallel loans and credit lines;
- official co-financing institutions, such as government agencies and bilateral financial institutions;
- export credit agencies (ECAs): through direct financing, and export credit and investment insurance guarantees;
- international financial institutions: private sector lending for economic and financial infrastructure, and sovereign lending for larger projects or in countries where private sources remain unavailable or limited.

Ten additional commercial banks became EBRD loan participants in 1997, bringing the overall number to 115. Commercial bank co-financing for the year amounted to ECU 937.3 million. Despite the financial crises in certain developing economies, there was a greater willingness on the part of commercial banks to make long-term loans in countries at the early or intermediate stages of transition.

Official co-financing institutions were involved in 30 operations in 1997, contributing a total of ECU 445.5 million, the highest annual volume co-financed with bilateral institutions since the start of EBRD operations. ECA co-financing, either direct or guaranteed, amounted to ECU 260.9 million. Co-financing through other international financial institutions covered eight operations totalling ECU 324.0 million.

Sources of co-financing funds by value

1997



Types of co-financing funds by value

1997	ECU million
A/B loans/participations [1]	391.5
Parallel loans	670.7
ECA direct/guaranteed	260.9
Loans from international financial institutions	324.0
Equity	161.5
Grants	159.1
Total	**1,967.8**

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

Increases were recorded in all areas of co-financing in 1997 other than the volume of funds mobilised. This was a result of a move towards smaller co-financed operations in less advanced countries, with a subsequent increase in the number of syndicated projects. The decrease in volume also reflects increasing readiness in the market to conduct medium-term lending in some of the countries at advanced stages of transition without IFI or ECA support, while the Bank is increasing its activities in countries at the early or intermediate stages and in Russia. Therefore, in the more advanced countries the Bank is arranging fewer co-financed loans. The EBRD continues to develop co-financings in the countries at less advanced stages of transition, but operations will mostly remain small, particularly in the private sector, as long as the risks in these countries are perceived by the market to be relatively high.

The countries that received the highest level of official co-financing in 1997 were Romania (ECU 240.9 million) and Russia (ECU 169.9 million), while Bosnia and Herzegovina, Kazakhstan and Uzbekistan were also significant beneficiaries.

Co-financing support for private and state sector operations

1997

	Number	Total project cost ECU million	EBRD finance ECU million	Co-financing ECU million	Co-financing %
Private sector	73	2,492.9	650.8	1,236.9	63
State sector	12	1,574.1	350.8	730.9	37
Total	**85**	**4,066.9**	**1,001.6**	**1,967.8**	**100**

Commercial banks

ECLAT offers the client a mixture of EBRD financing and ECA/commercial bank funding for contracts awarded after international competitive bidding. It differs from direct ECA lending by allowing open procurement opportunities and streamlining administration.

The EBRD's largest co-financing with commercial banks in Russia was an ECU 204.5 million loan to RAO Gazprom to finance priority reconstruction investments in Gazprom's unified gas supply and pipeline system. Eighteen leading international banks from 11 countries are participating in the three-year commercial bank tranche. The syndication was the culmination of three years' work with Gazprom, and is the first time that commercial banks have taken long-term risk in the company without recourse to Western gas purchase contracts. The original loan has been increased to ECU 272.7 million, comprising an ECU 90.9 million tranche for EBRD and an ECU 181.8 million tranche for commercial banks.

Another major co-financing project in Russia in 1997 was an ECU 28.5 million loan to ZAO Knyaz Rurik – Efes Brewery to finance the construction of a greenfield brewery. ECU 9.1 million of the loan was provided by the Dutch commercial bank Rabobank Nederland.

In the textile sector a loan of ECU 5.1 million extended to a Slovene company, Yulon d.d., was syndicated by the EBRD to two international commercial banks. The company will use the financing to purchase new equipment to increase competitiveness, following an earlier EBRD loan of ECU 12.1 million to restructure the company.

The EBRD's ECU 86.1 million multi-sourced loan facility to MobiFon to finance the expansion of its mobile telecommunications network in Romania is the first major syndicated long-term loan for a private sector Romanian company (see page 25). The facility comprises a senior loan of ECU 123 million, of which the EBRD is providing an ECU 59 million nine-year tranche and seven commercial banks are providing an ECU 64 million eight-year tranche. Two parallel loans totalling ECU 41 million from the Canadian Export Development Corporation and the Nordic Investment Bank are provided on the same terms and conditions as the EBRD loan. The EBRD is also providing an ECU 9.1 million subordinated loan to the company. This multi-sourcing facility established an important benchmark for future deals in Romania.

Export credit agencies

Considerable progress was made in 1997 in advancing the pipeline of ECA co-financing. The EBRD closed its first Export Credit Loan Arrangement Technique (ECLAT) co-financing in support of the Daugava hydropower project in Latvia. In this project, an ECLAT-financed contract for the repair of two turbines was awarded to GEC-Alsthom Neyrpic. This contract, which will be 30 per cent financed by the EBRD, is being co-financed by Société Générale with the support of COFACE, the official export credit agency of the French government.

Four ECLAT-financed contracts were successfully tendered in the Bulgarian railway rehabilitation project.

Tender evaluation is currently being carried out on two contracts which are to be co-financed using ECLAT in the Starobeshevo power project in Ukraine. Under the Romanian railway rehabilitation project, pre-qualified tenderers have submitted their bids on the ECLAT-financed contract to refurbish passenger coaches and the EBRD is currently assisting the Romanian Railway Company in its evaluation of the financing costs. ECA-sourced ECLAT co-financing under these three projects could total up to ECU 63.6 million.

The Bank maintained a close working relationship with the Berne Union in 1997, holding bilateral meetings and participating in all of the meetings of the Investment Insurance Committee and the Export Credit Insurance Committee. The EBRD also continued to participate in meetings of the OECD's Export Credit Group (ECG), which is reviewing the issue of project financing by ECAs and how to achieve greater flexibility in the type of financing that can be provided by ECAs. The EBRD also continued to meet a large number of ECAs on a bilateral basis.

In particular, the Export-Import Bank of Japan (JEXIM) was a very active co-financing partner in 1997 (ECU 219.5 million for four operations). For the first time JEXIM co-financed an EBRD operation in Central Asia, to upgrade the Fergana Refinery in Uzbekistan. JEXIM's loan of about ECU 80.9 million, together with the EBRD's loan of ECU 81.5 million, will allow Uzbekneftegas to process domestic crude oil with a high sulphur content as well as improve the refinery's safety system and reduce environmental pollution. A significant breakthrough in 1997 was the EBRD's first private sector co-financing operation with JEXIM, for the Sakhalin II oil project in Russia (see page 28). In one of the EBRD's largest ECA co-financings, JEXIM and the Overseas Private Investment Corporation (OPIC), a US government agency, together provided ECU 210.9 million of co-financing on commercial terms for the offshore production project. JEXIM also co-financed the

Co-financing partners in 1997

Commercial banks	
ABN AMRO Bank	Netherlands
Banca Commerciale Italiana	Italy
Bank Austria	Austria
Bank Handlowy w Warszawie	Poland
Bank of America	USA
Banque Commerciale pour L'Europe du Nord	France
Bayerische Vereinsbank	Germany
Bikuben Girobank	Denmark
Canadian Imperial Bank of Commerce	Canada
The Chase Manhattan Bank	USA
Christiania Bank og Kreditkasse	Norway
Citibank	USA
Crédit Lyonnais	France
Creditanstalt-Bankverein	Austria
The Dai-Ichi Kangyo Bank	Japan
De Nationale Investerings Bank	Netherlands
Den Danske Bank	Denmark
Den Norske Bank	Norway
Dresdner Bank	Germany
Estonian Investment Bank	Estonia
Generale Bank	Belgium
Hansapank	Estonia
The Industrial Bank of Japan	Japan
Kereskedelmi és Hitelbank	Hungary
MeesPierson	Netherlands
Morgan Guaranty Trust Company of New York	USA
Moscow Narodny Bank	UK
Natexis Banque	France
National Westminster Bank	UK
NBD Bank	Russia
Országos Takarékpénztár és Kereskedelmi Bank	Hungary
Rabobank Nederland	Netherlands
Raiffeisen Zentralbank Österreich	Austria
Salomon Brothers	USA
Société Générale	France
Slovenská Pol'nohospodárska banka	Slovak Republic
The Sumitomo Bank	Japan
Swiss Bank Corporation	Switzerland
Union Bank of Switzerland	Switzerland
Zivnostenská banka	Czech Republic

Official co-financing institutions	
Baltic Investment Special Fund	Nordic countries
Bundeskanzleramt	Austria
Bundesministerium für wirtschaftliche Zusammenarbeit (BMZ)	Germany
Caisse des Dépôts et Consignations (CDC)	France
Canadian Export Development Corporation	Canada
Central European Initiative Fund (CEI)	Italy
Danish Environmental Protection Agency (EPA)	Denmark
Department for International Development (DFID)[1]	UK
Deutsche Investitions- und Entwicklungsgesellschaft (DEG)	Germany
European Commission (EC Phare and Tacis)	Europe
Export-Import Bank of Japan (JEXIM)	Japan
Federal Office for Foreign Economic Affairs	Switzerland
Investment Fund for Central and Eastern Europe (IØ Fund)	Denmark
Government of Belgium	Belgium
Government of Canada	Canada
Government of France	France
Government of Japan	Japan
Ministry of Economic Affairs	Netherlands
Ministry of Environment	Denmark
Ministry of Environment	Finland
Ministry of Foreign Affairs	Norway
Ministry of the Treasury	Italy
Moldova Micro Business Investment Special Fund	Switzerland
Netherlands Development Finance Company (FMO)	Netherlands
Overseas Private Investment Corporation (OPIC)	USA
Russia Small Business Investment Special Fund	G-7 and Switzerland
Swedfund	Sweden
Swedish International Development Corporate Agency	Sweden
Umweltbundesamt	Germany
United States Agency for International Development (USAID)	USA
International financial institutions	
European Investment Bank (EIB)	Europe
International Development Association (IDA)	Multilateral
International Finance Corporation (IFC)	Multilateral
Nordic Environment Finance Corporation (NEFCO)	Nordic countries
Nordic Investment Bank (NIB)	Nordic countries
World Bank	Multilateral
World Bank – Trust Fund for Bosnia and Herzegovina	Multilateral

1 Formerly Overseas Development Association (ODA).

Seven projects co-financed with the EC

Kazakhstan Ispat-Karmet Steel Works project (ECU 31.8 million) and the Lithuania Via Baltica Road project (ECU 10.1 million).

Official co-financing institutions and IFIs

The European Community co-financed seven operations, amounting to ECU 83.3 million, through its Phare and Tacis programmes in 1997. EC Phare participated in two projects in Romania: Municipal Utilities Development Programme II (ECU 35.4 million) and the Energy Conservation SME Credit Line (ECU 2.4 million). In Bulgaria EC Phare also co-financed two projects: Maritsa East 2 Power project (ECU 7.5 million) and the Post Privatisation Fund (ECU 15 million). In Bosnia and Herzegovina the European Community participated in the Emergency Power Reconstruction Project (ECU 15 million) and the Micro-Enterprise Bank (ECU 6 million). The first co-financing operation with EC Tacis was in Turkmenistan for the Turkmenbashi Port Development (ECU 2 million) in the framework of the EC-TRACECA Programme.

A significant volume of joint operations has been maintained with the European Investment Bank, including a major rail project in Hungary and projects in Estonia, Poland and Romania.

The EBRD also cooperated extensively with the IFC in 1997, and at the end of the year was working on the potential joint syndication of loans for five operations.

Technical assistance

TAM Programme and the Baltic States BAS Programme

The objective of the TurnAround Management (TAM) Programme is to provide industrial management know-how and to develop new business skills for the chief executives and senior management of industrial enterprises in the EBRD's countries of operations, so that these companies can be competitive in market-driven economies.

The grant funding provided by the European Commission, the Russian Privatisation Center, the Nordic Council of Ministers and other bilateral donors has enabled the TAM Programme to undertake 340 projects in 15 countries since its launch in July 1993. To date, these donors have committed more than ECU 31 million to the Programme, which will fund more than 600 projects in total.

TAM projects have been completed in 190 enterprises, helping them to reach combined sales of US$ 4.2 billion in 1997, 14 per cent higher than sales at the start of the Programme for each enterprise. This has been achieved without a significant loss of jobs, reducing the total workforce by less than 14 per cent, from 241,000 to 208,000. In addition, external finance totalling over US$ 330 million has been raised by 49 of these enterprises.

A formal assessment of the TAM Programme, undertaken by the European Commission in April 1997, rated the implementation of TAM as "Highly Satisfactory". In the light of this, the Commission has provided through EC Phare a further ECU 10 million to support 167 new TAM projects in central Europe. In the countries that are next in line for accession to the EU (the Czech Republic, Estonia, Hungary, Poland and Slovenia) TAM teams are focusing on improving production, safety, health and environmental standards to help these countries meet the requirements for EU accession. The TAM programme has also been evaluated by the EBRD's independent Project Evaluation Department.

The Baltic States Business Advisory Services (BAS) Programme is complementary to the TAM Programme in that it addresses the transition of the smaller enterprises. Supervised by the Bank's TAM Group, it provides assistance specifically aimed at marketing, financial management and ISO quality standards for small businesses in the Baltic states. By the end of 1997, BAS had been involved with more than 425 enterprises employing over 55,000 with total sales of US$ 1.6 billion. A number of these enterprises are clients of local financial intermediaries financed by the EBRD and have raised US$ 11 million in external finance. Since its inception in 1994, the BAS Programme has been funded entirely by the Nordic countries, which have to date committed ECU 4.3 million. To enable the BAS Programme to continue its work in 1998, the European Commission has agreed to provide ECU 2 million.

An operational evaluation of BAS, carried out by the Bank's Project Evaluation Department in July 1997, provided the basis for the continuation of the BAS Programme in the Baltic states and its expansion into other EBRD countries of operations.

Legal transition

The EBRD helps its countries of operations to develop a legal environment which supports promotion of private sector activities and transition towards market-oriented economics. By providing legislative advice and assistance, the EBRD allows investments to proceed that otherwise may have foundered as a result of legal impediments. The quality of the legal environment is thus improved for the benefit of the Bank's own investment operations as well as transactions in general.

In 1997, the EBRD concentrated on legal transition initiatives in five key sectors.

Using the Bank's Model Law on Secured Transactions as a benchmark, specific assistance was rendered to Georgia, Hungary, Latvia, Romania and Tajikistan. The EBRD also provided assistance in the development of institutions necessary for the effective implementation of recently reformed secured transactions laws. For example, with the assistance of the EBRD, Hungary became the first of the Bank's countries of operations to introduce a centralised and computerised registry for charges, thereby ensuring greater effectiveness of its recently amended secured transactions law. Together with the German Agency for Technical Assistance (GTZ), the EBRD is developing a project to assist Moldova with the introduction in 1998 of a computerised registry for charges.

Specific assistance on telecommunications law was extended to Bosnia and Herzegovina (as part of the EBRD's efforts to assist in the reconstruction of the country's telecommunications infrastructure), Estonia, Lithuania and Poland. In 1998 the EBRD expects to provide assistance to Albania and other early-stage transition countries on the reform of telecommunications laws.

The EBRD continued to provide assistance to its countries of operations on the development of concession laws to facilitate the issuance to private sector operators of concessions over public services or assets. In particular, the EBRD assisted the Foreign Investment Commission of Ukraine in the preparation of a production sharing agreements law.

Having received legal technical assistance from the EBRD, Azerbaijan introduced a new Bankruptcy Law in 1997, which provides for streamlined procedures for ownership transfer of insolvent enterprises, and for the restructuring of insolvent enterprises that are capable of recovery. The Bank also provided assistance to Romania for the amendment of its bankruptcy laws and extended advice to a number of other countries.

The EBRD has increased its activity in the area of laws regulating the capital markets. A legal technical assistance project is being developed by the Bank to assist in the establishment of a securities commission in the Czech Republic. The Bank is also developing a legal technical assistance project to assist the Russian Federation with the development of laws relating to the operation of the capital markets, such as securities transactions settlement, investment trusts and corporate combinations, and clearing laws.

Education and training

The EBRD's education and training programme helps institutions to deliver training and other services locally in support of the transition process and the Bank's activities. In 1997 over 20,000 company managers and bankers were assisted by bank training schools and business training and advisory centres.

In addition, as a partner in the Joint Vienna Institute (JVI), the Bank delivered seminars on practical enterprise management to senior managers from EBRD client companies. The JVI is an international training institution founded by the EBRD, the Bank for International Settlements, the International Bank for Reconstruction and Development (World Bank), the International Monetary Fund and the Organisation for Economic Cooperation and Development. It is sponsored by the European Community and various bilateral donors.

For example, the Morozov Project, managed under the auspices of the Academy of Management and Market in Moscow, consists of 41 business training centres and 24 business support centres located across Russia. The trainers and consultants from these centres have received materials and skill development programmes on a centralised basis and dissemination of this knowledge, particularly in partnership with SMEs and business support organisations, has taken place actively at the local level.

Retainer contract between the EC and the EBRD

The EBRD has continued to provide technical services, on a cost-recovery basis, to the EC's Phare programme and to its beneficiary countries. In response to Phare's requests, EBRD bankers and lawyers have used their privatisation, restructuring and banking experience to advise on the design and/or monitoring of Phare operations. Assignments completed in 1997 included the mass privatisation programme in Bulgaria, the strengthening of the financial sector in Bulgaria, FYR Macedonia, Hungary and Poland, and support for regional investment companies in the Czech Republic and Poland. During 1997 Phare asked the EBRD to design and monitor new assignments in a wide range of areas. These included assessment of investment needs to meet EU standards, development of a model for co-financing a Municipal Utilities Development Programme in Romania, assistance in the establishment of a Securities Commission in the Czech Republic, and support for the Agency for Industrial Development and Revitalisation in the Slovak Republic. As of the end of 1997, there were 20 ongoing projects under the Retainer contract. By helping to advance the transition process and the preparation for EU membership, these advisory activities complement the operational activities of the EBRD and enhance the success of the projects of both Phare and the Bank.

From 1998 onwards these types of activities are planned to continue with the focus mainly on helping the countries prepare for accession to the European Union.

Project evaluation is the assessment of the performance of completed projects and programmes through systematic analysis of their outputs or outcomes against expected or planned results. It also involves the evaluation of categories of operations and patterns of experience.

The EBRD's project evaluation function seeks to measure how closely the Bank's operations meet a broad range of qualitative and quantitative objectives. It looks for significant lessons to be learned from the EBRD's completed operations, and those of other international financial institutions, to help in shaping future operations. To learn from experience earlier during the project cycle, it also tries to gain evaluation experience with ongoing projects and existing programmes.

The independence in which project evaluation activities are carried out secures objectivity and transparency.

Project evaluation

Assessing performance

The EBRD's Project Evaluation Department (PED) concentrates on evaluating operations one to two years after full disbursement has taken place. From the Bank's inauguration in 1991 until the end of 1997, PED prepared 57 Operation Performance Evaluation Review (OPER) reports on private and public sector investment operations, comprising 58 per cent of those operations ready for post-evaluation. It should be noted that the Bank has so far committed funds to 470 projects. Including evaluations on large technical cooperation (TC) operations, TC-related special studies and mid-term evaluations of Bank operations, PED has produced 88 evaluation reports in total. During 1997 the Board of Directors approved an update of the Bank's policy on project evaluation, taking into account the experience gained during the past four years and the Bank's learning experience through cooperation with other international financial institutions. PED is to conduct more thematic and impact studies, expand TC evaluation, and assess more self-evaluation reports. PED is also to evaluate country strategies.

The outcomes of the 1993-96 Annual Evaluation Overview Reports (AEORs), as well as the performance of investment operations evaluated or assessed during 1997, show that the portfolio comprising those operations maintains an acceptable quality. The table below incorporating the 1997 evaluation outcomes shows that the percentage of projects classified by PED as "Unsuccessful" has remained at 11 per cent for 1993-97 compared with 1993-96.[1] The slight move in the number of projects with an overall "Successful" or higher rating to a "Partly Successful" rating can be explained primarily by a decrease in the number of projects with a "Satisfactory" or better company/project performance rating and a modest decrease in the rating on transition impact.

Evaluation performance ratings of investment operations 1993-97

	1993-96		1993-97		1997	
Performance rating	No.	%	No.	%	No.	%
Successful or higher	40	65	58	59	18	50
Partly successful	15	24	29	30	14	39
Unsuccessful	7	11	11	11	4	11
Total	**62**	**100**	**98**	**100**	**36**	**100**

The performance classification of the evaluated operations is based on five strategic performance criteria: the EBRD's additionality (the Bank may invest only if other financing is not available on reasonable terms); the operation's impact on the transition process, including environmental considerations; fulfilment of objectives; the company/project business performance; and the project's investment performance for the Bank. The *transition impact* of Bank investments is an important element in determining the overall performance rating of each operation. In the analysis, PED uses a standard set of transition indicators developed by the EBRD's Office of the Chief Economist in cooperation with PED. The evaluation findings so far reflect the positive way in which the Bank has fulfilled its mandate since its inception.

Apart from ensuring that PED identifies whether the Bank has functioned according to its mandate *(accountability)*, it is essential that the project evaluation process also generates important lessons to be learned from past operations: through Bank-wide dissemination of these lessons, bankers are able to improve future operations *(quality management)*. In addition, PED meets regularly with Risk Management to ensure that lessons determined which are specifically related to risk issues are appropriately shared and can be integrated into the design and structure of new projects. A substantial amount of PED staff time is allocated to disseminating evaluation findings to Bank staff as early as project appraisal, and through "lessons learned" workshops.

Evaluation of funds

The Russia Small Business Fund, in its full-scale operation, was evaluated by the PED in 1997, at the request of the assembly of contributors of the RSBF and Bank management. The report presented an evaluation of the transition impact as well as the operational performance of the RSBF and made several recommendations regarding the use of technical cooperation facilities and operational improvements to the programme.

The PED undertook a mid-term review of Regional Venture Funds based on a sample of six RVFs. It concluded that the programme is additional, generates substantial transition impact (although at substantial cost), applied sound banking principles in relation to individual RVF investments and adequately covers environmental concerns (although some inspections gave rise to concern regarding the implementation of

1 Six out of 11 operations rated Unsuccessful, which are still active, are dealt with or supervised thoroughly by the Bank's Credit Special Asset unit in the Risk Management department.

some environmental stipulations and health and safety aspects at working stations). Areas to be addressed as a result of the review include: the uncertainty of continuous funding by a major funding source; the continuous availability of sufficient and adequate venture capital expertise with each RVF; the adequacy of communication among RVFs and with other donors' related programmes; and the appropriateness of the RVF investment policy.

Thematic lessons from investment operations

The lessons presented below are presented in the context of the Bank's disclosure policy on evaluation findings and are drawn from both positive and negative information gathered during recent years. They are intended to help increase the overall quality of the EBRD's future portfolio by enabling staff at all levels to learn from both successful and unsuccessful operations.

Transition impact

The EBRD's involvement in the privatisation process. The Bank can have a substantial impact and catalytic role in privatisations. This is best achieved in projects that: (i) have a restructuring element designed to increase their attractiveness to a strategic buyer, and (ii) where the privatisation's overall objectives are clearly defined.

Role of the strategic partner. High transition impact in privatisations can be reached with strong industrial partners, who are willing to sustain the independent operations of a privatised company as opposed to taking it under strict subsidiary type of control.

Excessive taxation on the country's key sectors. An adverse tax environment for the country's key industries – in the form of excessive taxation – may introduce constraints for the Bank's participation in the light of sound banking principles, and may slow down the prospective transition impact of further operations in the sector.

Environment

Environmental performance parameters. The Bank should satisfy itself, with the support of industrial and environmental expertise, that environmental performance parameters are defined in relation to the client and between the client and suppliers of plant, machinery and technology.

Funding of environmental project components. Environmental action plans and agreements for environmental project components should have adequate incentives and realistic, agreed funding over time. Private sector operations with significant environmental implications should be closely examined by the Bank to decide whether grant finance should be sought for environmental components as part of the total package with the application of adequate structuring to avoid any market distortion.

Importance of early public consultation. Early public consultation on the key environmental issues raised by complex projects can help sharpen an operation's environmental focus and should be allocated adequate time and resources. EBRD access to first-class industry and environmental expertise helps the dialogue on merits of the project and risk mitigation. Environmental audits and remediation programming should be allocated adequate time and resources to be carried out.

Corporate governance

Structuring for enterprise reform and the essence of corporate governance. Large industrial complexes in their early stages of privatisation will often have retained their past management and corporate culture – a major constraint for strategic reform. Operations that seek to support their privatisation plans and post-privatisation reform should, therefore, aim for the early separation of stand-alone candidate operations. Early buy-outs from such complexes will facilitate management renewal and endorse more positive demonstration effects generated by the project company.

Structuring of partner alliances. Proposed partner alliances in EBRD projects need early analysis and balancing of potentially conflicting interests over time. Careful early analysis and structuring can identify the risks and introduce balances in shareholder agreements, technical collaboration contracts and staged approaches to issues such as minority rights. Representation of the Bank at Board level by strong industry expertise may provide mediation between a local and a foreign partner in technically complex operations.

Importance of ethics in corporate governance. It is important that ethical aspects are considered in the analysis of ownership and deal structuring in privatisation or early post-privatisation stages. The Bank, as partner and financier to enterprises in early privatisation or post-privatisation stages, seeks to ensure that management and partners act ethically and do not abuse other parties' rights.

Thematic lessons on technical cooperation operations

During the evaluation of technical cooperation operations and TC-related special studies, important lessons were identified that can guide bankers in improving the quality of the preparation and monitoring of their TC operations.

Industry expertise. More frequent consultation of specific industry expertise at the early stage of project preparation (eventually even at terms of reference formulation stage) would help to reduce the risk of design deficiencies at project start-up.

TC monitoring. There is an urgent need for the Bank to address the weaknesses and deficiencies of the TC monitoring process, in general.

Improving the monitoring process. The often crucial importance of TC in the process of preparing and implementing investment operations, the relative labour intensity of the monitoring, and the Bank's responsibility toward the TC fund providers requires adequate attention in the transaction process.

Importance of enhancing the procurement process of TC operations. During PED's evaluation of TC operations, the following key lessons on procurement were recorded: (i) assessment of TC achievements requires that the objectives are clearly stated in the approved terms of reference; (ii) minutes of bid selection and all other relevant records must be contained in operation files; (iii) TC filing quality is often poor and should be enhanced. When there is a change in staff responsibility, special attention should be paid to the continuity of the monitoring tasks; and, (iv) TC procurement is sometimes fund-driven, which might impede the "value for money" aspect of TC operations.

Procurement and contracting

The EBRD's procurement policies and rules are based on the fundamental principles of non-discrimination, fairness and transparency. They are designed to promote efficiency and effectiveness and to minimise credit risk in the implementation of the Bank's lending and investment operations. As well as securing the efficiency of the Bank's own projects, the implementation of projects based on the EBRD's procurement policy promotes:

- the development on a national level of public procurement systems based on principles and procedures of the highest international standard;
- increased participation by foreign enterprises in EBRD-financed projects and greater involvement by the international business community in the Bank's countries of operations;
- the introduction of innovative contracting models and solutions based on a strong private sector involvement in the provision of public services.

A clear distinction exists between procurement in public and private sector projects in terms of procedures. Procurement for a private sector project is undertaken in accordance with established commercial and industry best practices without the enforcement of any prescribed rules and procedures. Through its due diligence process, the EBRD ensures that procurement and contracting is carried out with no conflict of interest and that sound purchasing methods have been applied in the best interest of the Bank's clients.

Procurement in the Bank's public sector operations is governed by the EBRD's Procurement Policies and Rules, which stipulate that open tendering should normally be applied for a public sector project; only in exceptional circumstances are other procurement methods considered. Open tendering ensures equal opportunities for all interested tenderers, irrespective of country of origin, to participate in a tender financed by the EBRD. To help all parties involved in the tendering and contract process, the Bank has made available a range of material, such as standard tender documents and procurement guidelines. Invitations to tender, expressions of interest, contract award information and other essential information regarding EBRD-funded contracts is published monthly by the Bank in *Procurement Opportunities*, which is also available on the Bank's Web site. Procurement information is also provided in the *Official Journal of the European Communities* and *United Nations Development Weekly*.

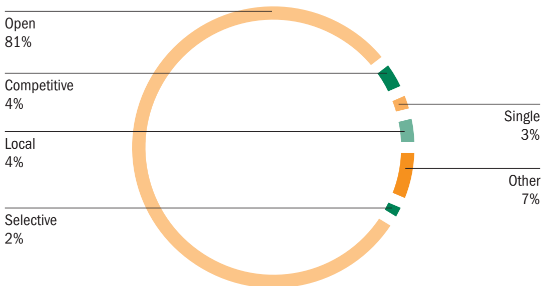
In 1997 the EBRD signed 16 public sector projects with a total project value of ECU 1.3 billion. A total of 250 public procurement contracts were funded by the Bank during the year to the value of ECU 546 million. Suppliers from 53 countries were awarded contracts, including 21 of the EBRD's countries of operations. Open tendering was used for 81 per cent by value of contracts.

Analysis of public sector contracts by country of contractor

Country	1997 ECU million	1991-97 ECU million
Armenia	1.61	1.86
Austria	58.70	98.55
Belarus	0.99	2.12
Belgium	7.82	14.99
Bermuda	–	1.74
Bosnia and Herzegovina	4.36	4.36
Bulgaria	0.28	20.88
Canada	2.89	5.85
Croatia	27.78	57.18
Cyprus	0.05	39.34
Czech Republic	10.56	56.67
Denmark	2.51	22.47
Estonia	14.49	22.39
Finland	5.33	63.93
France	17.06	140.34
FYR Macedonia	0.23	38.72
Germany	100.23	331.40
Greece	0.69	3.90
Hungary	0.34	117.45
India	2.56	2.56
Ireland	0.64	8.62
Israel	1.25	1.25
Italy	36.34	211.63
Japan	1.39	23.96
Korea, Republic of	–	23.58
Latvia	5.08	21.35
Lithuania	17.95	38.37
Netherlands	3.06	14.36
Norway	2.10	23.59
Poland	38.25	124.72
Romania	19.53	46.97
Russian Federation	17.85	83.43
Slovak Republic	–	47.36
Slovenia	11.50	95.69
South Africa	–	2.23
Spain	–	32.90
Sweden	7.12	58.12
Switzerland	21.10	35.79
Turkey	31.15	64.60
United Kingdom	68.28	187.98
United States	5.01	128.47
Others	0.18	4.18
Total	**546.3**	**2,327.9**

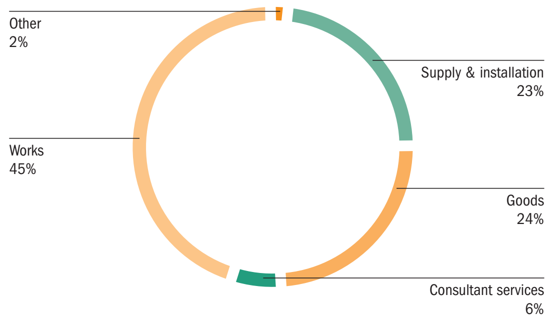
Method of procurement for contracts awarded in the public sector in 1997

(by volume)



Contracts awarded in the public sector by contract type in 1997

(by volume)



Definitions of procurement methods

Open tendering: procedures under which all interested suppliers or contractors are given adequate notice of purchase requirements and equal opportunity to submit a tender.

Local competitive tendering: tenders in accordance with national procedures acceptable to the EBRD in which foreign firms are allowed to participate.

Competitive selection: the process of selecting a consultant from proposals received from a short list of firms.

Single tendering: procedures applied in exceptional cases where a single firm is invited to submit its tender without prior public notification.

Selective tendering: procedures similar to those for open tenders except that the client preselects qualified firms which will be invited to submit tenders.

Definitions of contract types

Works: contracts for civil construction works to an agreed design, e.g. roads and buildings, including specified plant, equipment fixtures and fittings to be incorporated in the structure.

Supply of goods: contract for the provision of plant and equipment where installation and commissioning represents a small proportion of the contract value.

Supply and installation: contract for the provision of plant and equipment where installation represents a substantial proportion of the value of the contract.

Consultant services: hiring of consultants to provide professional advice and perform specific tasks.

In 1997 the procurement and technical support function of the Bank was comprehensively reorganised, with a stronger focus on its advisory and service functions. Building on its aim of providing quality services and professional advice for both internal and external clients, the Procurement Department formulated a new strategy and business plan in 1997 focusing on:

- a continuous development of procurement policies, rules and methods
- training of staff and clients
- creation of a procurement quality assurance system
- a wider use of information technology, including the Internet for dissemination of procurement opportunities and other useful information.

Окружающая среда
Umwelt
Environment
Environnement

The EBRD is directed by its mandate to promote, in all its activities, environmentally sound and sustainable development. It recognises that safeguarding the environment is an integral part of sound business practice. Furthermore, in the ongoing transitional process, the pursuit of economic growth and a healthy environment are inextricably linked.

The EBRD implements its environmental mandate through two principal activities. It undertakes environmental infrastructure and energy efficiency operations (see page 27) and also applies environmental due diligence to all of its investment and technical cooperation operations.

In 1997, six environmental projects were signed, with a total EBRD commitment of more than ECU 180 million. Environmental components of other investment projects included, for example, investment in emission reduction technology, waste-water treatment, and environmental expenditure to meet commitments made in Environmental Action Plans (EAPs). In 1997, EBRD investment projects included just over ECU 200 million of such environmental expenditure. In total, the Bank's environmental investments in 1997 amounted to about 17 per cent of total financial commitments.

During 1997 the EBRD acquired operational experience of working with the revised Environmental Policy and Procedures, approved by the Board in September 1996, and with the Disclosure of Information Policy, approved in April 1996. In particular, the additionality of EBRD operations has been enhanced by further promoting energy and resource efficiency, waste recovery and recycling, and clean technologies.

Environmental due diligence investigations are normally undertaken early in the operation cycle in order to allow time to identify environmental concerns and opportunities, to plan mitigation and enhancement measures, and to obtain agreement on actions to be taken before Board approval. Environmental conditions, relating to mitigation and enhancement measures and monitoring, are incorporated into loan agreements.

Sixty-six environmental analyses, including three environmental impact assessments, and 35 environmental audits were conducted on projects approved by the Board of Directors in 1997. In some cases analyses and audits were both required.

Natural resources

In 1997, the EBRD signed a loan to rehabilitate the Fergana oil refinery in Uzbekistan. The major project components include the provision of a desulphurisation unit, safety improvement investments for an emergency flare system, refurbishment of water mains for fire water, a hydrogen sulphide detection system, and waste management systems. Financing will assist the refinery in meeting international environmental and safety standards. An environmental analysis examined the impact of the Bank's investment, and an audit determined the extent of environmental and health and safety risks and potential liabilities associated with the existing refinery.

In addition, the Bank required an expert opinion and report on soil and groundwater contamination from hydrocarbon spills, an evaluation of the adequacy of current oil recovery and remediation activities, and an assessment of the potential environmental contamination and the impact on regional groundwater and, potentially, on surface water. A special public information component forms part of the remediation programme. In addition, the refinery provides routine information about health, safety and environment to the public.

In Russia, the EBRD signed a corporate loan to RAO Gazprom to finance the purchase of mobile compressor units, the replacement of leaking block valves, the overhaul and reconstruction of export metering stations and introduction of improved metering at trunklines and compressor stations, the implementation of a pipeline inspection programme, and assistance in implementation of an environmental management system and purchase of environmental equipment. The investment components will reduce methane leaks and emissions. Mobile compressor units to be used during the pipeline repair works will reduce the amount of gas vented to the air and thus reduce emissions of greenhouse gases significantly. Gazprom has developed management procedures based on ISO 14000, the international series of standards on environmental management systems.

Power and energy

The environmentally most significant power project signed in 1997 was the Mutnovsky geothermal project (see page 26). The EBRD has provided a loan to the Russian government, to be on-lent to Geoterm, a Russian company specialising in the design and operation of geothermal power production facilities. The loan will be used to build a 40MW geothermal power station on one of the world's largest geothermal fields, on Russia's Kamchatka peninsula. This facility will enable the regional power company to decommission an old and inefficient oil-fired power station, resulting in a significant reduction in local air pollution. An EAP will ensure that construction and operation of the facility will not harm the unique environment of Kamchatka.

Also in 1997, the EBRD provided a loan to Azerenerji, the state-owned power utility in Azerbaijan, to finance the replacement of four generators and a turbine at the Mingechaur hydropower station, together with the construction of a new sub-station and environmental mitigation measures. An environmental analysis and audit identified the need for improved "housekeeping", contingency planning and staff training. These and other issues have been addressed through measures included in an EAP, which also provides for the establishment of an environmental unit at Azerenerji. The operation will result in increased efficiency and generating capacity at the hydropower station and significant improvements in the environmental management capacities of the Bank's client.

As part of the EBRD's role to coordinate the international effort to reconstruct the power sector in Bosnia and Herzegovina, a loan was provided for the rehabilitation and improvement of the electricity generation, transmission and distribution system. This loan is part of an international effort to help the country overcome the damages incurred during the years of war. The EBRD signed other rehabilitation projects with environmentally positive components in Kyrgyzstan and Uzbekistan.

Industry

In Kazakhstan, the EBRD made a loan to Ispat-Karmet to provide long-term finance for the modernisation of one of the world's largest single-site integrated steel plants. Operations include dedicated power plants and coal mines. Environmental investments, including measures designed to improve workers' health and safety, form an integral part of the agreed investment programme, which will result in significantly more efficient steel production, both in terms of energy and resource use. Three environmental, health and safety audits and assessments were prepared for the iron and steel works, for the power plant and for the coal mines. Subsequently, three EAPs were developed and agreed with Ispat-Karmet; their implementation will ensure gradual compliance with Kazakh environmental standards and with World Bank environmental guidelines. A Public Information Plan was developed as part of the environmental due diligence process.

The EBRD made an equity investment in 1997, together with Solvay SA and Turkiye sise ve Cam Fabrikalari, in the privatisation of Sodi, the largest synthetic soda ash producer in the world, located in an industrial complex in Devnya in eastern Bulgaria. The Sodi facility has been associated with severe environmental problems since the site was developed in the l950s. An environmental analysis and an audit identified environmental issues including the disposal of contaminated waste-water and sludges, fugitive dust and atmospheric emissions, noise, and other occupational health and safety issues. On the basis of the environmental studies an EAP was agreed to address these issues. The investment in Sodi will result in significant improvement in the water quality of Beloslav and Varna Lakes and Varna Bay on the Black Sea.

Sodi project supports environmental improvements in Bulgaria

Agribusiness

In 1997, the EBRD made an equity investment in Hortex, a Polish fruit juice and frozen food manufacturer, to facilitate company recapitalisation (see page 29). An environmental analysis and audit confirmed the company's compliance with current Polish and EU environmental standards, and identified issues relating to air emissions, effluent discharges and noise at some company facilities. The costs of implementing an EAP was included in the project's capital expenditure programme. The Bank also required Hortex to implement a corporate Environmental Management System.

The EBRD financed several other projects in the agribusiness sector, including edible oil manufacturing, food and drink processing, and meat, confectionery and beverage production. These were subject to environmental due diligence with a focus on potential liabilities and environmental, health and safety, and hygiene/ product quality issues that are typically associated with the food processing sector. As part of routine requirements, clients report annually to the Bank on environment and health and safety, including regulatory status and the implementation of conditions imposed by the Bank. Facilities have been designed and constructed according to EU safety and environmental standards.

Transport

Bank focuses on improving urban transport

The EBRD's Board approved an updated Transport Operations Policy in 1997. This took account of the views of the Bank's Environmental Advisory Council (ENVAC), whose members were consulted on a draft document. ENVAC members pointed out that combating urban air pollution had been identified as the first environmental health priority in the Environmental Action Plan for Europe. The main source of air pollution in many cities in central and eastern Europe is changing from the burning of fuel by industry and by heating plants to automobile emissions. Consequently, improvements in urban transport systems have emerged as a priority action area to improve air quality. The need to invest in the urban transport sector is incorporated in the Bank's Transport Operations Policy.

Transport projects signed in 1997, including Tashkent Airport Rehabilitation, Turkmenistan Road Improvement and Turkmenbashi Port Development (see pages 25-26), were all subject to environmental analyses in conformity with the Bank's Environmental Procedures, resulting in the incorporation of environmental mitigation measures in project design.

Financial intermediaries

Two key issues came to the fore in 1997 related to environmental due diligence in this sector. First, financial intermediary (FI) operations have yielded an increasing number of sub-loans and investments, which has shifted the balance of the EBRD's environmental work in this area from operation appraisal towards operation monitoring. A significant amount of staff time was devoted to the provision of ongoing advice to the Bank's FI clients. Second, from an FI perspective, environmental issues have gained in significance and financial institutions have paid increasing attention to addressing them.

EBRD provides training on environmental due diligence

During the year the Bank continued to provide training to its financial intermediaries on environmental due diligence. It is placing increasing emphasis on identifying and financing environmental opportunities such as cleaner production and energy efficiency. Seventy of the Bank's financial intermediaries have received training in the past four years, principally financed through the EC's Phare and Tacis programmes. A two-day training workshop was conducted for representatives of banker training institutes in central and eastern Europe to introduce environmental training materials which could be adopted by such institutes either as a stand-alone course or as components of existing banking courses. A similar workshop will be held in the CIS region in early 1998.

Other initiatives

The EBRD continued its programme of environmental technical cooperation work, including the finalisation of investors' guidelines on environmental and health and safety requirements for all but one of its countries of operations and the publication of the guidelines for the Russian Federation. Environmental indicators were incorporated into the Bank's 1997 *Transition Report*. The evolution and status of environmental legislation and the adoption and use of environmental policy instruments were analysed for each of the EBRD's countries of operations. This approach to environmental indicators was particularly characterised by its focus on qualitative issues and was designed to gain a better understanding of the progress made to date in overcoming the environmental legacies of the past and addressing the new challenges arising in the transition process.

The Project Preparation Committee (PPC), whose Secretariat is located at the EBRD, has continued to help match donor co-financing for environmental projects with the market-based financing available from the EBRD and other international financial institutions. Among many other activities in 1997, the PPC organised a meeting for North-West Russia, and is helping to match donor financing and improve coordination for several projects in this region. The PPC has also assisted in matching donor financing for projects leading to a reduction in greenhouse gas emissions, notably on the Romanian Thermal Energy Conservation project.

Through its participation in the COP-3 climate change meeting in Kyoto in December 1997, the EBRD strongly supported the concept of "joint implementation", which would mobilise additional financial support for investment projects which would result in reductions in carbon dioxide emissions.

The EBRD's Environmental Advisory Council, 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 1997.

Two editions of the Bank's bulletin *Environments in transition* were published during 1997.

Nuclear safety

Sûreté nucléaire
Reaktorsicherheit
Ядерная безопасность

The EBRD functions as the administrator of the Nuclear Safety Account (NSA) and the Chernobyl Shelter Fund (CSF). It administers the two Funds in accordance with the respective Fund Rules and provides technical, project management, financial, legal and administrative services. It reports to Contributors through the Assembly of Contributors of the NSA and CSF respectively, which exercise overall supervision of the management of the respective Fund, approve six-month work programmes and the yearly financial statements, and decide on the financing of individual projects.

More specifically, the EBRD makes available Bank staff and other experts to the projects, prepares and administers grants, liaises with the Contributors, Donors, governments of the recipient countries, concerned authorities and utilities, and other public and private entities, prepares annual financial statements of each Fund, and prepares the meetings of each Assembly.

The EBRD receives compensation from the Funds for all costs it incurs, and for the fees and expenses of consultants it engages in connection with the administration of the Funds.

The Nuclear Safety Account

At their Munich Summit in 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 (NPPs). 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.

In February 1993 the G-7 officially proposed that the EBRD 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.

As of 31 December 1997, pledges to the NSA totalling ECU 260.6 million had been made by the European Community and 14 countries: Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom and the United States of America.

The Chernobyl Shelter Fund

At the G-7 Denver Summit of 1997, the G-7, the European Community and Ukraine endorsed the setting up of a supplemental multilateral funding mechanism to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system, with measures as described in the "Chernobyl Unit 4 Shelter Implementation Plan" dated 31 May 1997 (SIP). The G-7 and the European Community pledged US$ 300 million and called upon concerned governments and other donors to join the initiative to ensure full implementation of the SIP.

The SIP was developed in the spring of 1997 under the joint sponsorship of the EC's Tacis programme and the US Department of Energy. To achieve its aim the SIP addresses five major goals in parallel: (i) reduce the potential for collapse of the Chernobyl 4 Shelter; (ii) reduce the consequences of a Shelter collapse, should one occur; (iii) improve nuclear safety of the Shelter; (iv) improve worker industrial safety and environmental protection at the Shelter; and (v) develop long-term strategy and study for conversion to an environmentally safe site. It is likely that the SIP will take about 8-9 years to complete at a cost in the region of US$ 760 million.

The EBRD's Board approved the participation of the Bank in September 1997 and the Rules of the Chernobyl Shelter Fund in November 1997. The Pledging Conference in New York in November 1997, co-chaired by President Kutchma of Ukraine and US Vice President Gore, attracted 13 new donor countries to join the G-7 and the European Community in making pledges in favour of the CSF. The CSF became operational in December 1997 when the required eight contributors had entered into contribution agreements with the EBRD.

As of 31 December 1997, the Bank had concluded contribution agreements totalling ECU 262.7 million with the European Community and 15 countries: Austria, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Netherlands, Norway, Sweden, the United Kingdom and the United States of America. Subsequently, contribution agreements with Kuwait and Switzerland were also concluded. In addition, the Bank had been in discussion for the conclusion of contribution agreements with the countries that made pledges at the Pledging Conference in New York (Ukraine, Israel, Luxembourg and Spain) and a number of other countries that expressed their intention in New York to support this important project.

Nuclear Safety Account activities

Priority is given to those reactors presenting a high level of risk that can be significantly reduced by short-term safety improvements, and that 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 transition towards new regulatory regimes based on in-depth safety assessments, development of the power sectors and the early shutdown of high-risk reactors on safety and economical grounds.

Ongoing projects

As of 31 December 1997, projects in Bulgaria, Lithuania, Russia and Ukraine had been approved by the Assembly of Contributors, and grant agreements had been signed by the relevant governments, the utilities and the EBRD.

Bulgaria

An ECU 24 million project for Units 1-4 (VVER 440/230s) at Kozloduy NPP in Bulgaria was signed in June 1993. The project is currently being implemented, with completion expected by summer 1998. According to the Grant Agreement, the Bulgarian government is committed to shutting down Units 1-2 and subsequently

Units 3-4 when a set of investments in the power sub-sector has been completed. These investments are delayed, however, and are not expected to be completed before 2003 at the earliest.

Lithuania

Safety assessment of Ignalina NPP completed

An ECU 34.8 million project of 20 short-term safety upgrades for Ignalina NPP (two RBMK 1500 reactors) in Lithuania was signed in February 1994. This is currently being implemented and completion is expected in 1998.

The NSA has also provided funds for the in-depth safety assessment of the plant. The Safety Analysis Report and its independent review were completed in February 1997. A panel of international safety experts issued a report of recommendations on the results of the in-depth safety assessment, which was endorsed by the Government of Lithuania, the regulatory authority and the plant. A comprehensive action plan is being implemented by the utility, which will seek a new operating licence for Unit 1 by spring 1999.

The Lithuanian government has agreed that operation of the two units at the plant will not be prolonged beyond the time when the reactor channels will have to be changed (around the year 2000 for Unit 1). Moreover, Unit 1 will be closed unless a new licence can be granted by the Safety Authority, taking into account the findings of the international safety experts, and the level of electricity demand justifies additional safety upgrades on a least-cost basis.

A draft least-cost development plan of the Lithuanian power sector has recently been completed. It identifies a set of investments in existing thermal plants which needs to be implemented in order to ensure normal functioning of the sector without Ignalina NPP.

Russian Federation

Agreements were signed in June 1995 by the EBRD and the government of the Russian Federation, Leningrad NPP, Rosenergoatom (jointly with the Novovoronezh and Kola NPPs) and the Nuclear Safety Authority (RF Gosatomnadsor). A Joint Committee was set up to monitor the progress of implementation of the Agreements.

Of the total grant, Leningrad NPP (four RBMK 1000 reactors) will receive ECU 30.4 million, and Rosenergoatom with Novovoronezh and Kola NPPs (four VVER 440/230 reactors) will be granted ECU 45.1 million. These projects include 41 short-term safety upgrades. As of end of 1997, 14 out of 15 supply contracts had been signed at Leningrad NPP. At Kola and Novovoronezh NPPs, 2 out of 26 contracts had been awarded. Completion of all the projects is expected by the end of 1998.

Specific support is being provided to the RF Gosatomnadsor, in the form of a grant worth ECU 0.9 million, to facilitate the licensing process of the short-term safety upgrades with support of technical safety organisations (TSOs).

The NSA Agreements provide also for transition towards new regulatory regimes of 10 designated units with RBMK and VVER 400/230 reactors based on in-depth safety assessments. According to provisions of the Agreement, longer-term operating licences will only be issued if the plant operators can demonstrate that the safety levels of the plant comply with internationally recognised safety principles, internationally formulated safety guidelines and established practices. In any case, licences will not be valid beyond the original design lifetime of the reactors.

In addition, preparation of a least-cost investment plan for the development of relevant parts of the Russian power sector has been launched in the framework of the NSA Agreements. This is intended to identify alternative projects which would enable early closure of high-risk reactors.

Ukraine

An ECU 118.1 million project for Chernobyl NPP was signed in November 1996 and is currently being implemented. This project is part of the comprehensive programme to support Ukraine's decision to close Chernobyl NPP by 2000. This is in accordance with the Memorandum of Understanding between Ukraine and the G-7/European Community. The NSA project will address preparation for closure of Units 1, 2 and 3 through two decommissioning facilities (liquid radioactive waste treatment and interim spent fuel storage) as well as immediate safety measures at Unit 3 prior to closure.

Chernobyl Shelter Fund activities

The Chernobyl Shelter Fund has been formally operational only since 12 December 1997, the date of the first meeting of the Assembly of Contributors. However, the project preparations were advanced in parallel with the negotiations of the Rules of the Fund and the Framework Agreement, which was signed between the EBRD and the government of Ukraine in November 1997.

The requests for proposals for the project management unit consultant and all four early technical projects were released to short-listed companies in mid-December. Subject to the ratification of the Framework Agreement by Ukraine's parliament and timely conclusion of the specific grant agreements, the first contract awards are planned for March 1998.

Implementation of the Shelter Implementation Plan (SIP) requires a very high level of technical leadership and project management experience, which will be exercised through a project management unit staffed by members of Chernobyl NPP and a Western consultancy. An international advisory group of experts from a variety of fields of expertise will provide a forum for consultation on key technical issues. There would also be an EBRD-appointed in-country project monitor to assist the Bank's operations leader and a licensing consultant assisting the regulatory inspection and approval process. The joint Ukraine-EBRD committee will oversee the project.

Additionally, CSF activities are currently also focusing on completing administrative arrangements for the management of the Fund, including the conclusion of contribution agreements and assistance to the continuing effort to mobilise additional resources to cover anticipated total project costs of about US$ 760 million over an 8-9 year period.

Fonds de coopération technique
Фонды технического сотрудничества

Technical cooperation funds

Fonds für Technische Zusammenarbeit

Technical cooperation funds have an important role to play in supporting the EBRD's operational objectives of sound banking, additionality and transition impact through:

- developing and maintaining a productive investment pipeline of high quality
- assisting an efficient and effective project implementation
- supporting the development of institutional infrastructure directly relevant to the Bank's operations
- maintaining a balanced support for both the private and public sectors.

Cumulative commitments for consultancy assignments funded under the Bank's Technical Cooperation Funds Programme (TCFP) reached ECU 0.5 billion in 1997. Commitments during the year amounted to ECU 103.0 million, the highest amount ever committed in a single year. Disbursements increased to ECU 71.9 million, up from ECU 58.0 million in the previous year. This brought cumulative disbursements to ECU 282.6 million by the end of 1997.

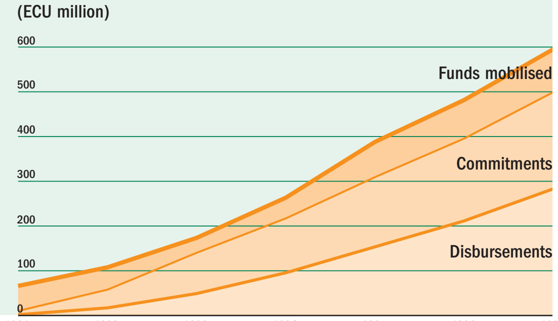
In 1997 the EBRD financed 348 consultancy assignments through the TCFP, bringing the total number of assignments to 1,808. The transition impact of these assignments is high since most of them are directly related to specific Bank projects. The TCFP has thus supported the generation of 190 signed EBRD projects, for which the Bank has committed financing of ECU 4.5 billion. In particular, the funding provided by the European Community, through the Bangkok Facility (ECU 40 million in 1997), financed 48 technical cooperation projects linked to the preparation or implementation of the EBRD's investment projects.

The focus on EBRD projects is also reflected by the fact that 75 per cent of all commitments are related to either project preparation (39 per cent) or project implementation (36 per cent). A maturing project portfolio and large-scale support to the implementation of Regional Venture Funds, Post-Privatisation Funds and credit lines have, during the past few years, resulted in increased commitments for project implementation. Remaining funds have been committed to advisory services (20 per cent), sector studies (1 per cent) and training (4 per cent).

Many TC assignments help the transition process directly through their institution-building component (e.g. support to the development of financial institutions and strengthening of the legal framework). The TCFP is also promoting the development of a local consultancy industry through increased use of local consultants.

Cumulative technical cooperation funds mobilised, committed and disbursed 1991-97

(ECU million)



Technical cooperation commitments by recipient country

	1997			Cumulative 1991-97		
	Number	ECU (million)	%	Number	ECU (million)	%
Russian Federation	46	30.3	29	334	196.0	39
Romania	10	2.0	2	73	27.0	5
Ukraine	38	13.8	13	119	26.7	5
Kazakhstan	8	1.5	1	41	15.8	3
Slovak Republic	1	0.5	<1	46	11.4	2
Bosnia and Herzegovina	16	7.1	7	33	11.1	2
Belarus	15	0.4	<1	60	11.0	2
Slovenia	11	1.6	2	71	10.5	2
Hungary	7	1.0	1	59	10.3	2
Latvia	15	1.5	1	85	9.8	2
Lithuania	23	1.2	1	91	9.7	2
Estonia	17	0.8	1	87	9.3	2
Uzbekistan	6	3.5	3	28	9.2	2
Poland	9	2.5	2	64	8.8	2
Moldova	9	1.9	2	33	7.5	2
Kyrgyzstan	11	1.6	2	45	7.1	1
Bulgaria	3	1.6	2	25	6.8	1
Albania	1	<0.1	<1	57	6.7	1
Tajikistan	2	0.7	1	17	5.4	1
Azerbaijan	7	1.8	2	25	5.3	1
Turkmenistan	6	1.6	2	19	4.9	1
FYR Macedonia	1	<0.1	<1	29	3.8	1
Croatia	11	0.9	1	31	3.5	1
Czech Republic	0	0.0	0	25	3.5	1
Georgia	11	1.2	1	25	3.3	1
Armenia	6	0.5	<1	20	2.5	1
Regional:						
Baltic states	10	3.4	3	45	8.8	2
Regional	48	19.8	19	221	65.6	13
Total	**348**	**103.0**	**100**	**1,808**	**501.3**	**100**

Technical cooperation commitments by sector

	1997			Cumulative 1991-97		
	Number	ECU (million)	%	Number	ECU (million)	%
SMEs	75	38.6	37	258	169.4	34
Privatisation	40	2.8	3	207	64.5	13
Energy	47	10.8	11	244	55.0	11
Finance	36	13.0	13	237	54.0	11
Transport	29	7.4	7	162	43.9	9
Environment	25	6.6	6	150	32.1	6
Restructuring	18	15.1	15	123	27.7	6
Agribusiness	9	0.6	1	94	16.5	3
Telecommunications	6	1.5	1	99	16.0	3
Legal	11	1.8	2	80	9.3	2
Miscellaneous	25	2.8	3	64	5.8	1
Industry	27	2.1	2	81	5.4	1
Tourism	0	0.0	0	9	1.5	<1
Total	**348**	**103.0**	**100**	**1,808**	**501.3**	**100**

Funding for technical cooperation is provided by the EBRD's members through regular Technical Cooperation Fund contributions, project-specific technical cooperation agreements and Special Fund contributions. All contributions by donors are made on a voluntary basis.

In 1997 the EBRD signed five new Technical Cooperation Fund Agreements, bringing the total to 53. In addition, 13 existing Technical Cooperation Funds were replenished and one project-specific technical cooperation agreement was signed. Total grant resources for technical cooperation increased during 1997 by ECU 114.0 million to ECU 595.5 million – the highest increase for any single year. During 1997 the EBRD signed one new contribution agreement for the Technical Cooperation Special Fund (TCSF), with Sweden. The TCSF is an untied facility funded through reimbursed technical cooperation funds previously allocated to private sector operations and/or through direct donor contributions. By the end of 1997 the TCSF amounted to ECU 0.7 million, of which ECU 0.3 million had been committed.

Technical Cooperation Fund Agreements

At 31 December 1997

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
Austria	31 Dec 91	USD	5.00	4.53
Belgium	27 Sept 94	BEF	30.00	0.74
Canada	24 Jan 92	CAD	7.66	4.84
Denmark	1 July 92	ECU	3.12	3.12
Denmark, Finland, Iceland, Norway, Sweden (TAM Nordic Council)	22 Sept 95	DKK	7.00	0.93
European Community (Bangkok Facility)[1]	15 Oct 91	ECU	190.47	190.47
European Community (Polish SRP)	12 Dec 96	ECU	2.00	2.00
European Community (Romanian PPF)	10 Oct 96	ECU	10.00	10.00
European Community (Slovak PPF)	3 Apr 96	ECU	8.00	8.00
European Community (TAM Phare Regional)	26 June 95	ECU	5.90	5.90
European Community (Uzbekistan PPF)	17 Nov 97	ECU	1.30	1.30
Finland	13 Jan 92	FIM	18.52	3.09
Finland, Norway, Sweden (RVF for North West Russia)[2]	5 July 94	USD	20.00	18.11
Flanders	9 Nov 94	ECU	0.40	0.40
France (Foreign Affairs)	1 Aug 91	FRF	19.51	2.95
France (RVF for Southern Russia)[2]	28 Feb 95	FRF	120.00	18.15
France (Treasury)	26 Mar 92	FRF	30.46	4.61
FYR Macedonia (Financial Sector)[3]	14 Feb 96	DEM	0.53	0.27
Georgia (Financial Sector)[3]	12 Dec 96	USD	–	–
Germany	11 Dec 92	DEM	10.00	5.06
Germany KfW	27 Sept 95	DEM	12.51	6.33
Greece	4 Apr 95	GRD	179.00	0.57
Iceland	3 Dec 92	ECU	0.20	0.20
Ireland	17 Sept 93	ECU	0.93	0.93
Israel	14 Apr 92	ILS	1.04	0.27
Italy	14 Apr 92	ITL	9,000.00	4.63
Italy (Central European Initiative)	14 Apr 92	ITL	21,000.00	10.82
Italy (RVF for Western Russia)[2]	6 June 95	USD	20.00	18.12
Japan	5 July 91	JPY	9,597.73	66.72
Korea, Republic of	25 Apr 93	USD	0.60	0.54
Luxembourg	26 Nov 91	ECU	0.70	0.70
Netherlands	20 Nov 91	NLG	23.88	10.72
Netherlands (Dutch Environment)	22 June 95	NLG	0.90	0.40
Netherlands (Eastern Ukraine PPF)	30 Jan 97	NLG	8.60	3.86
Netherlands (Transition)	3 Nov 97	NLG	3.00	1.35
New Zealand	10 July 92	NZD	0.33	0.17
Norway (Environment and energy)	16 Apr 91	NOK	27.60	3.40
Norway (General)	27 Apr 93	ECU	1.50	1.50
Portugal	20 Oct 92	PTE	80.00	0.40
Spain	21 July 92	ESP	534.55	3.19
Spain (Southern Ukraine PPF)	17 Jan 97	ECU	20.00	20.00
Sweden	13 Aug 91	SEK	55.00	6.30
Switzerland	31 Mar 92	CHF	10.50	6.54
Taipei China	16 Sept 91	USD	20.00	18.12
Turkey	17 June 92	TRL	10,000.00	0.04
United Kingdom[4]	25 Nov 91	GBP	4.82	7.23
United Kingdom-B[5]	14 Mar 94	GBP	3.81	5.70
United Kingdom-C[6]	25 Mar 94	GBP	3.31	4.96
USA	30 July 91	USD	1.15	0.91
USA (Evergreen)	3 June 94	USD	4.15	3.75
USA (RVF for Lower Volga Region)[2]	29 Sept 94	USD	20.00	18.11
USA (US Advisors)	10 Nov 97	USD	0.52	0.47
Wallonia	16 Mar 95	BEF	15.00	0.37
Total of Technical Cooperation Funds				**511.79**

1 The Agreement amount has been amended by the EBRD to reflect the annual revision of the facility by the EC (Bangkok Facility). Included in the Agreement is ECU 1.8 million representing funds assigned to implementation projects.

2 The table 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.

3 Contributions to these funds consist of technical assistance fees payable by the borrowers under the terms of loan agreements between the EBRD and certain financial intermediaries. The fees are payable on the interest payment dates defined in the loan agreements and are recorded as agreement and contribution amounts on the date of receipt.

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

5 The activities of the UK-B Fund are in the countries of the former Soviet Union, excluding the Russian Federation.

6 The activities of the UK-C Fund are in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, FYR Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

Technical Cooperation Funds replenished since the initial Agreement.

Technical Cooperation Fund Agreements

At 31 December 1997

Special Funds	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
Baltic Technical Assistance Special Fund	14 Apr 92	ECU	11.33	11.33
Russia Small Business Technical Cooperation Special Fund	18 Oct 93	ECU	45.92	45.92
EBRD Technical Cooperation Special Fund[7]	12 Sept 95	ECU	0.70	0.70
Total of Special Funds				**57.95**
Project-specific Funds				**25.74**
Total of Technical Cooperation Funds				511.79
Total of Special Funds				57.95
Total of Project-specific Funds				25.74
Total of all technical cooperation agreements				**595.48**

7 Agreement and contribution amounts include repayments made by various beneficiaries and direct contributions from donors. These amounts are recorded as agreements and contributions on the date of receipt.

Technical Cooperation Funds replenished since the initial Agreement.

Investment Cooperation Funds

At 31 December 1997

Donor	Date of initial Agreement	Currency	Amount including replenishments (million)	ECU equivalent (million)
Austria – Bosnia and Herzegovina	5 Dec 96	ATS	54.00	3.88
European Community – Romania Energy Conservation	26 June 97	ECU	2.35	2.35
Italy – Bosnia and Herzegovina	12 Sept 96	USD	7.50	6.79
Japan Fund for Post-Conflict Support	11 July 97	JPY	1,000.00	6.95
Norway – Bosnia and Herzegovina	24 Apr 97	NOK	47.70	5.88
Norway – Eastern Slavonija	12 Dec 97	NOK	15.00	1.85
Total of Investment Cooperation Funds				**27.20**

Investment Cooperation Funds replenished since the initial Agreement.

The Technical Cooperation category includes all the Technical Cooperation, Project-specific and Special Funds. The purpose of these funds is to provide technical assistance in project preparation, project implementation, advisory services and training.

The primary focus of the Investment Cooperation Funds is project implementation, including provision of goods and works.

Résultats financiers et comptes annuels

Finanzergebnisse und Jahresabschluß

Financial results and Financial statements

Результаты финансовой деятельности и финансовый отчет

Contents

Résultats financiers
Результаты финансовой деятельности
Finanzergebnisse

Financial results

Introduction

In 1997 the EBRD achieved a higher income than expected, particularly from its equity portfolio and a strong Treasury performance. Due to the Bank's evolving risk profile and uncertainties in the operational environment, the Bank continued to take appropriate prudential measures. Taking into account these developments and the growth in the portfolio, the provisioning charge was twice as high as in the previous year. Profit after provisions for the year was ECU 16.1 million, compared with ECU 4.9 million in 1996. Total reserves (including provisions) were further strengthened and as of the end of 1997 stood at ECU 508.0 million, compared with ECU 263.3 million in 1996. This amounts to 11 per cent of disbursed outstanding loans and equity investments.

Banking operations continued to generate almost half of the EBRD's gross income, primarily due to a year-on-year increase in the net profit from the sale of share investments from ECU 8.7 million in 1996 to ECU 76.1 million in 1997.

The EBRD's general administrative expenses were well within budget and only slightly higher than those for 1996. Allowing for additional prudential measures, administrative expenses were below the 1996 level, reflecting continued budgetary discipline and effective cost controls.

In 1997 depreciation of ECU 15.1 million was slightly higher than in 1996, following the adoption of a 12-month depreciation cycle for IT systems and office furniture.

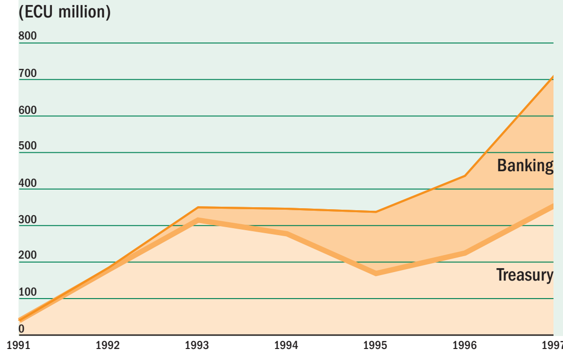
Additional provisions of ECU 177.7 million were made during 1997. This was in line with the upward growth in the portfolio of loan and equity investments and the EBRD's committed approach to providing for existing and anticipated risks at an early stage of its growing portfolio. As a result of the provisioning review undertaken during the second quarter, a new general provision on sovereign risk exposures was applied.

Banking operations

Portfolio

The Board approved 143 projects in 1997 totalling ECU 4.0 billion, a substantial portion of which was approved in the fourth quarter, compared with 116 projects amounting to ECU 2.8 billion in 1996. Cumulative approvals at the end of 1997 amounted to ECU 13.9 billion, net of cancellations.

Gross income structure



During the year 108 projects with a value of ECU 2.3 billion were signed, compared with 95 projects totalling ECU 2.2 billion in 1996. This achievement is in line with the Bank's strategy of manageable growth. Commitments at the end of 1997, net of repayments and cancellations, stood at ECU 8.9 billion.

Project disbursements in 1997 were ECU 2.0 billion, 50 per cent higher than in 1996. ECU 332.8 million was disbursed for share investments, which is 70 per cent higher than in 1996. The outstanding portfolio at the end of the year comprised ECU 3.6 billion of loans, ECU 946.4 million of equity investments and ECU 32.5 million of project-related debt securities. The private sector accounts for approximately 73 per cent of the outstanding portfolio.

During the year, ECU 796.1 million was received from loan repayments and share investments, almost four times higher than 1996 repayments. Included in this figure was ECU 196 million of loan pre-payments, which are repayments ahead of schedule.

Risks

The EBRD's loan and share investments are reviewed on an ongoing basis by the Bank's independent Risk Management department, and credit risk ratings are assigned to individual operations, ranging from 1 (low risk) to 10 (expected loss). This rating is a determinant of a project specific credit rating and a country risk rating. In view of the markets in which it operates and its transition mandate, the Bank expects its operations to range from risk categories 4 to 6 in normal circumstances. The average overall risk rating of new projects signed in 1997 was between 5 and 6, reflecting the risk profile associated with the growing share of operations in countries at the early and intermediate stages of transition and the mix in products – for example, the higher proportion of early-stage equity. At the end of the year 24 per cent of the Bank's disbursed loans by value (45 per cent by number) had entered their repayment stage.

By the end of 1997 the majority of signed projects (more than 85 per cent) were in risk categories 4 to 6, with some projects moving to the better-rated categories (1 to 3) and other projects being downgraded to classification 7 (special attention) or worse. With the portfolio beginning to mature, it is anticipated that further credit problems may emerge, at which point the risk rating associated with projects will be changed accordingly. As the EBRD's provisioning policy is risk-based, the provisioning reflects the development of the risk profile. The graph below shows a wider distribution of projects over the risk categories in 1997, compared with that recorded in 1996, with the weighted average risk rating of the signed portfolio moving slightly to the higher end of the range during the year.

Performance

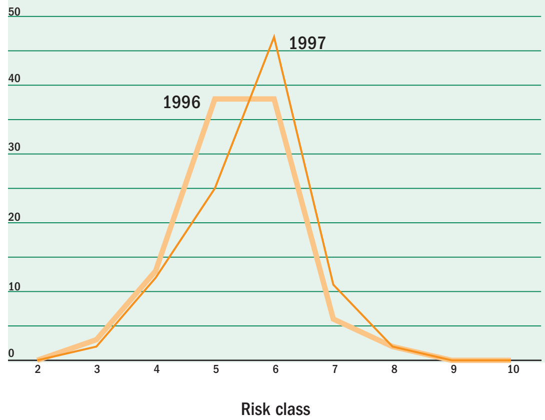
Gross income from core Banking business amounted to approximately 50 per cent of the Bank's overall income in 1997. In value terms Banking gross income increased by over 68 per cent compared with 1996. Interest earned on loans increased by almost 50 per cent to ECU 220.4 million, accounting for 62 per cent of Banking operations gross income. Fee and commission income was ECU 2 million lower than in 1996, at ECU 44.1 million.

Profits of ECU 76.1 million from the sale of share investments were considerably higher than the ECU 8.7 million reported in 1996. This was due to the variability in the timing of exits and their generated profit, leading to substantial changes in the pattern of the Bank's income. In particular, the timing of equity exits is primarily linked to the date that projects have come to completion. The future number of exits is expected to increase as the growing equity portfolio continues to mature. However, it is difficult to predict the potential income from these sales.

The equity portfolio in 1997 generated ECU 16.2 million from dividend income compared with ECU 7.7 million in 1996, reflecting the growing maturity of equity investments and the increasing profitability of these operations.

Portfolio risk distribution

(in per cent)



Treasury operations

Portfolio

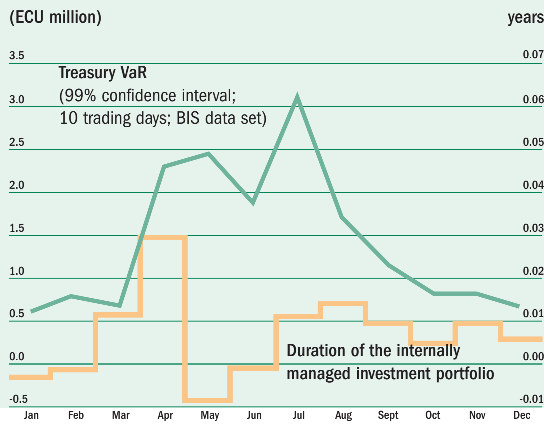
The value of assets under Treasury management decreased during 1997 by ECU 660.8 million, to ECU 6.5 billion at 31 December 1997. This reflects a combination of ongoing disbursements for Banking operations together with a lower level of short-term debt maintained during the year. Assets comprised ECU 5.3 billion of debt securities and ECU 1.2 billion of placements with credit institutions. In addition to these liquid assets, derivatives were carefully used as part of the Bank's strategic investment programme (see below).

At the end of 1997 ECU 997.4 million or 15.1 per cent of the total investment portfolio was managed by 14 external asset managers. The externally managed portfolios comprised ECU 489.3 million of an ECU-denominated interest rate trading programme and ECU 508.1 million of a US dollar-denominated asset-backed securities programme. The funds are placed with independent managers in order to obtain specialised services and investment techniques and to establish third-party performance benchmarks. These independent managers are required to comply with the same investment guidelines that the Bank applies to its internally managed funds.

Risks

The aggregate market exposure of the EBRD remained relatively modest throughout most of 1997, and well within the Bank's overall risk appetite. Outright interest rate positions were selectively taken from time to time; most strategies, however, were with a view to the

Evolution of risk profiles in 1997



changing shape of individual yield curves in the major currencies or to the convergence/divergence of European interest rates across markets. Direct exposure to interest rate volatility was rare and quite small, with a limited use of options on interest rates. Exposure to foreign exchange risk was minimal.

At 31 December 1997 the Value at Risk (VaR) of the EBRD's internally managed portfolios, calculated with reference to a 99 per cent confidence level over a 10-day period, was ECU 0.7 million.[1] Over the year the Treasury VaR moved within a range of ECU 0.5 million to ECU 3.2 million, as seen in the accompanying graph.

Overall, the figures for 1997 were very much in line with those of 1996. VaR numbers – even at the high end of the curve – should be interpreted against the background of the total portfolio of ECU 7.5 billion on average during the year and a conservative basis for the calculation. The market risk of externally managed funds was also modest during the year and did not contribute significantly to the overall risk profile of the total portfolio.

The overall credit quality of the Treasury portfolio remained high in 1997, with 89.1 per cent of the portfolio with AA- or better counterparties or issuers. The portfolio is spread across 26 countries, including some which were affected by the financial crisis in South East Asia which were principally sovereign-related debt issues from Korea. Countries with more than 7.0 per cent of the total exposure were the United States of America at 35.3 per cent and Japan at 19.6 per cent.

Performance

Investments managed by the Bank's Treasury generated gross income for the year of ECU 354.2 million, an increase of ECU 129.6 million compared with 1996. This was a result of managing higher volumes and a performance which exceeded expectations.

At the end of the year Treasury's total return was 67 basis points over their Libor benchmark. The investment return was 34 basis points over the benchmark, and the benefit of sub-Libor funding was 40 basis points.

Funding

Capital

Initial capital

At the end of 1997 paid-in capital received in cash and promissory notes totalled ECU 2.9 billion. During the year an amount of ECU 18.2 million relating to previously overdue subscriptions was received and ECU 10.5 million was paid in by Korea, relating to a special increase in that country's share allocation. In addition, encashments of promissory notes amounting to ECU 81.7 million were received. At the end of the year outstanding overdue amounts of ECU 13.2 million from 12 members represented less than 1 per cent of initial paid-in subscribed capital.

Capital increase

On 3 April 1997 the doubling of the EBRD's authorised capital base to ECU 20 billion became effective, allowing the Bank to continue its strategy of manageable growth.

As of 31 December 1997, a total of 48 members had deposited their instruments of subscription for an aggregate of 845,035 shares, representing about 85 per cent of the general capital increase. Some of the remaining 12 members are in the process of completing the necessary internal procedures for subscribing to the general capital increase. It is therefore anticipated that a further increase in the Bank's subscribed capital will follow in the near future.

Capital adequacy

The increase in the EBRD's authorised capital to ECU 20 billion, approved in April 1996, was intended to allow the Bank to continue to implement its manageable growth strategy on a sustainable basis without further recourse to capital replenishments. In light of its

1 This number, which is based on the relatively conservative parameters recommended by the Basle Committee for Banking Supervision, is equivalent to saying that the Bank had a 1 per cent chance of experiencing a loss of at least ECU 0.7 million over a period of ten trading days, due to adverse movements in interest rates and foreign exchange rates.

commitment to be self sustaining, the Bank has been proactive in pursuing efforts to ensure effective and efficient use of capital.

In implementing its operational strategy, the EBRD's capital usage is guided by the Bank's statutory and financial policy parameters. In this regard, the Bank continues to refine its processes for assessing capital usage and capital adequacy by supplementing quantitative measures of headroom with risk assessment.[2] Further work in this area will continue as part of regular financial policy and capital reviews.

Capital hedging

The EBRD put in place hedges for the ECU equivalent amounts of anticipated capital payments in US dollars and Japanese yen in 1997 in accordance with the policy established in 1993. Differences between the ECU amounts actually received and the amounts determined by the fixed exchange rates were taken to the conversion reserve. During the year this generated a net gain in the conversion reserve of ECU 50.7 million.

Borrowings

The EBRD's borrowing policy is governed by two key principles. First, it seeks to match the maturity profile of its assets and liabilities to minimise refinancing risk. Second, it seeks to ensure the provision of long-term funds at optimum cost effectiveness for the Bank.

Total borrowings at 31 December 1997 stood at ECU 7.4 billion, an increase of ECU 0.4 billion compared with 1996. This figure reflects the net impact of new issues, maturities and buy-backs. There were 27 new issues under the Bank's medium to long-term borrowing programme at an average after-swap cost of Libor minus 47 basis points. The average remaining life of medium to long-term debt outstanding at the end of the year was 5.5 years. Notable issues included the Bank's first public bond issues in sterling, Korean won and New Taiwan dollar, as well as a first Euro issue under the Bank's Euro Medium Term Note programme.

Short-term issues categorised as debts evidenced by certificates saw 20 transactions achieved at an average after-swap cost of Libor minus 45 basis points.

Expenses

Total expenses including depreciation for the year were ECU 152.1 million, which was ECU 5.7 million higher than in 1996. The EBRD's administrative costs for the year were ECU 3.9 million higher than in 1996, primarily due to a prudential accrual made at the end of the year for the 1997 employee bonus (8.0 per cent of total salaries) which is due to be paid in March 1998. This was undertaken to comply with a recently approved international accounting standard on employee benefits and follows the Bank's policy of adopting material aspects of new standards as soon as possible. After the impact of this bonus accrual was taken into account, general administrative expenses were around ECU 1.0 million lower than in the previous year.

Administrative expenses were well within the 1997 budget, reflecting the Bank's continuing commitment to budget discipline, effective cost controls and a proactive cost-recovery programme.

The Bank's policy of entering into exchange rate contracts to ensure that the largely sterling-denominated expenses, when translated into ECU for reporting purposes, are not adversely affected by movements in the ECU/sterling exchange rates positively affected the expense level by ECU 25.4 million. Sterling expenses were converted into ECU at an average rate during the year of 1.453 sterling to the ECU. As a result of the exchange rate contracts, an average sterling to ECU exchange rate of 1.2295 was achieved. The Bank also entered into a series of option contracts to hedge the cost of sterling required for future general administrative expenses. At 31 December 1997 the market value of these options showed a gain of ECU 39.8 million, which in accordance with the Bank's accounting policy was deferred and will be recognised in the appropriate future year.

Depreciation at ECU 15.1 million was ECU 1.9 million higher than in 1996 due to the accelerated depreciation to 12 months of all the Bank's fixed assets (except for improvements to leaseholds) following a useful economic life review. This accelerates the write-off of older assets and moves current and future expenditure to a 12-month depreciation cycle.

Provisions

The EBRD's provisioning policy ensures that the level of general provisions is determined by the credit-risk rating of individual loans and equity investments, as determined by the Bank's independent Risk Management department. In addition, the Bank makes a provision against general unforeseen risks to the total portfolio of 0.75 per cent of signed commitments outstanding, in view of the Bank's regional concentration and the presence of a small number of large

[2] Headroom is the amount of funds the Bank has available to commit to new loans, equity investments and guarantees before it reaches its 1:1 gearing ratio limit. The 1:1 gearing ratio stipulates that the total amount of outstanding loans, equity investments and guarantees made by the Bank in its ordinary operations cannot exceed the total amount of its unimpaired subscribed capital, reserves and surpluses.

exposures in the classified portfolio. As a result of the provisioning review undertaken during the second quarter, an additional general provision of 3 per cent on outstanding disbursed sovereign risk exposures is now applied.

In addition, the Bank continues with its policy of making specific provisions as required on a case-by-case basis.

The combination of the different elements of the provisioning policy resulted in a charge for the year of ECU 177.7 million, which is an increase of more than 90 per cent compared with the total in 1996. The increase in total provisions reflects the continuing growth in the portfolio of operations and the related prudent increase in general portfolio risk provisions. Included in the charge for 1997 are new specific provisions of ECU 57.8 million, reflecting the maturing portfolio, with the total of such specific provisions reaching ECU 81.0 million by the end of the year. The impact on the 1997 charge of the introduction of provisions on sovereign risk exposure relating to the existing portfolio was ECU 33.3 million.

As a result of this charge for 1997, total provisions reached ECU 409.4 million, which together with reserves amounted to 11 per cent of the outstanding disbursed portfolio of loans and equity investments.

Outlook for 1998

The EBRD is projected to continue on its path of sustainable profitability in 1998. The financial position will, however, remain vulnerable to the potential for adverse developments in the portfolio and to uncertainties in the operational environment in which the Bank is working.

The Bank's priority is to continue to build reserves and to take all necessary prudential measures, with a view to consolidating its financial viability.

Additional reporting and disclosures

Through its reports and disclosures, the EBRD follows the reporting conventions of private sector financial institutions, in line with its policy to reflect best industry practice.

Principles of financial management and risk management
The financial policies of the EBRD follow the guiding principles of sound financial management, building on the Agreement Establishing the Bank and providing the financial framework within which the Bank pursues its mandate.

The EBRD's financial management aims to:

- pursue financial viability
- build up reserves and ensure sustainable profitability
- follow market and performance orientation in all its activities
- work within a comprehensive risk management framework
- ensure transparency and accountability at all levels and support effective corporate governance.

The EBRD is exposed to credit risk in both its ordinary operations and its Treasury activities. Credit risk arises since borrowers and Treasury counterparties could default on their contractual obligations or the value of the Bank's investments could be impaired. The vast majority of credit risk is in the Banking portfolio. The Bank's independent Risk Management unit seeks to ensure that any risks are correctly identified and appropriately managed and mitigated through a comprehensive and rigorous credit process. This is reviewed annually to determine its effectiveness and efficiency and fine tuned, taking into account experience gained. All ordinary operations are reviewed on a regular basis to identify promptly any changes required in the assigned risk ratings.

The EBRD's main market risk exposure is that movements of interest rates and foreign exchange rates may adversely affect positions taken by the Bank, particularly in its Treasury portfolio. The Bank aims to limit and manage market risks to the extent possible in its portfolio of Treasury assets through active asset and liability management and management of foreign exchange exposures. Foreign exchange transactions are entered into only for the purposes of hedging and no active positions are taken. Interest rate risks are managed through a combination of matching the interest rate profile of assets and liabilities and the use of derivative financial instruments. Through a combination of limit reporting and VaR reporting, exposures to foreign currency and interest rate risks are measured independently of the Treasury function to ensure compliance with authorised guidelines.

Early in 1997 the EBRD enhanced its risk measurement framework by implementing a proprietary stress-testing package as a complement to its VaR analytics. VaR analytics illustrates the possible impact of changes in market rates on the net present value of the Bank's assets and liabilities, given a certain set of assumptions and based on recent historical financial data. Stress-testing addresses large but low-probability moves and is less constrained by the restrictive assumptions that go into VaR. Stress-testing as an addition to VaR samples market behaviour over the longer run and thus permits a further check on the reliability of some of the assumptions behind VaR.

In a manner consistent with the EBRD's foremost objective of capital preservation, both VaR and stress-testing figures are computed in terms of risk over and above the Bank's Libor-based benchmark for investments.[3] The Bank pays particular attention to the fact that the market risk incurred should remain well within the boundaries of its appetite for risk; thus VaR trends and stress-tests are closely monitored.

Operational risk is determined by examining all aspects of risk-related exposure other than those falling within the scope of credit and market risk. In broad terms, operational risk is the risk of loss that may occur through errors or omissions in the processing and settlement of transactions or in the reporting of financial results. This includes all instances of fraud or failures in controls. At a broader level, it includes a consideration of the whole control environment, including the business ethics and leadership of the Bank.

While the effects of market risk and credit risk may be actively sought as a source of profitability, the emphasis is to ensure that such risks remain within the risk appetite of the Bank. Measurement and, where necessary, mitigation of such risks, rather than total elimination, is therefore the key consideration. Operational risk conversely is never actively sought as there is typically only downside risk; identification and prevention is thus the emphasis in this field.

Within the EBRD there are policies and procedures in place covering all significant aspects of operational risk, including:

- the Bank's code of conduct
- disaster recovery/contingency planning
- policy on public access and disclosure of information
- procedures regarding corrupt practices and money laundering
- procedures to be followed in the event of fraud or suspected fraud
- information management policy
- guidelines for management of operational risk in Treasury
- procurement policies.

These are in addition to the EBRD's high standards of business ethics and its established system of internal controls, checks and balances and segregation of duties, which protect the Bank from any initial exposure to operational risk.

Use of derivatives

Derivative instruments are contracts whose value is derived from one or more underlying financial instruments or indices. Derivatives used by the EBRD include interest rate and currency swaps, forward exchange contracts, futures, options and combinations of these products.

The EBRD's use of derivatives is primarily focused on hedging interest rate and foreign exchange risks arising within both its Banking and Treasury activities. In addition, investments are made in derivative transactions, as part of the overall investment activities of Treasury, subject to prudential limits. The Bank also uses credit derivatives as an alternative to investments in specific securities. The table below gives information on the credit risk associated with the Bank's use of derivatives.

In the area of Treasury risk management, the EBRD has adopted the G-30 recommendations on the use of derivatives and is committed to following best industry practice. The Bank complies fully with all aspects relevant to end-users as defined by the G-30.

[3] A VaR of zero, for instance, would indicate the absence of any foreign exchange risk and that the interest rate exposure on the Bank's assets matched perfectly that of its benchmark.

(ECU million)	31 December 1997	31 December 1996
Credit derivatives[1]	**1,936**	1,400
Swaps and over-the-counter option agreements:[2]		
Mark to market exposure, pre-netting / collateral agreements	**617**	652
Mark to market exposure, post-netting / collateral agreements	**353**	460

[1] These amounts represent the maximum possible loss to the Bank in the event that its credit derivative agreements become actionable by its counterparties and no recovery is achievable on the specified assets.

[2] These amounts represent the replacement cost to the Bank in the event of non-performance by the counterparties to those swap and over-the-counter option agreements that have a positive value to the Bank.

It also has elected to comply with recommendations relating to market makers as it uses derivatives for strategic positioning within clearly defined limits, as do market makers.

The interest rate risks arising from derivative instruments are combined with those deriving from all other instruments dependent on interest rates. Special care is devoted to those risks that are specific to the use of derivatives, through, for example, the monitoring of volatility risk for options, spread risk for swaps and basis risk for futures.

The EBRD has strict criteria for controlling the credit risk of counterparties in over-the-counter derivative transactions. Such transactions can only be entered into with AAA rated corporates, or AA- or better rated banks and sovereign counterparties.

The EBRD seeks to mitigate credit risks further through systematic recourse to a variety of credit enhancement techniques. Over-the-counter derivatives transactions are systematically documented with Master Agreements, providing for close-out netting, and the Bank has sought to expand the scope for applicability of this provision through documenting the widest possible range of instruments transacted with a given counterparty under a single ISDA-based Master Agreement.

Furthermore, the EBRD has expanded substantially its use of collateral agreements, with negotiations either finalised or under way with the vast majority of its derivatives counterparties.

Corporate governance

The EBRD is committed to effective corporate governance, with responsibilities and related controls throughout the Bank properly defined and delineated. Transparency and accountability are integral elements of its corporate governance framework. This structure is further supported by a system of reporting, with information appropriately tailored for and disseminated to each level of responsibility within the EBRD, to enable the system of checks and balances on the Bank's activities to function effectively.

The EBRD's governing constitution is the Agreement Establishing the Bank, which provides that the institution will have a Board of Governors, a Board of Directors, a President, Vice Presidents, Officers and staff.

All the powers of the EBRD are vested in the Board of Governors representing the Bank's 60 shareholders. With the exception of certain reserved powers, the Board of Governors has delegated the exercise of its powers to the Board of Directors while retaining overall authority.

Board of Directors and Board Committees

Subject to the Board of Governors' overall authority, the Board of Directors is responsible for the direction of the Bank's general operations and exercises the powers expressly assigned to it by the Agreement and those powers delegated to it by the Board of Governors.

The Board of Directors has established three Board Committees to assist the work of the Board of Directors:

- the Audit Committee
- the Budget and Administrative Affairs Committee
- the Financial and Operations Policies Committee

The composition of these committees during 1997 is detailed on page 105 of this report.

The President and the Executive Committee

The President is elected by the Board of Governors. The President is the legal representative of the EBRD and, under the direction of the Board of Directors, the President conducts the current business of the Bank.

The Executive Committee is chaired by the President and is composed of members of the Bank's senior management.

Reporting

The EBRD's corporate governance structure is supported by appropriate financial and management reporting. In its financial reporting the Bank aims to provide appropriate information on the risks and performance of its activities, and to observe best practice in the content of its public financial reports. In addition, the Bank has a comprehensive system of reporting to the Board of Directors and its committees. Detailed information is available to enable management to monitor the implementation of business plans and the execution of budgets.

Compensation policy

The Bank has designed a market-oriented staff compensation policy, within the constraints of the EBRD's status as a multilateral institution, to meet the following objectives:

- to be competitive in order to attract and retain high-calibre employees;
- to take account of differing levels of responsibility;
- to be sufficiently flexible to respond rapidly to the market;
- to motivate and encourage excellent performance.

To help meet these objectives, the EBRD's shareholders have agreed that the Bank use market comparators for its staff compensation and that pay be driven by performance.

The bonus programme allocations are structured to recognise individual and team contributions to the Bank's overall performance. Bonus payments, although an important element of the total staff compensation package, are limited as a percentage of base salaries. In general, bonus payments do not exceed 30 per cent of base salaries.

The EBRD's Board of Directors, the President and Vice Presidents are not eligible to participate in the bonus programme. The Board of Governors establishes the remuneration of the Board of Directors and the President, whereas the Vice Presidents' remuneration is established by the Board of Directors.

Year 2000

The EBRD's approach to the "millennium bug" or Year 2000 issue, which threatens many computer systems, is guided by a senior management Steering Committee. Adequate financial provision has been made in the 1998 IT budget allocation to ensure that meaningful progress towards safeguarding the Bank's systems can be made within the required timetable.

The Bank is relatively well-positioned to respond positively to the challenge of the date change, due to its youth and the modernity of most of its information systems and hardware.

A number of the EBRD's existing systems, including packages and bespoke applications, have already been audited and necessary corrective actions identified to ensure a smooth transition. The remaining systems and hardware will be assessed during 1998. Necessary changes or replacements to ensure full compliance are due to have been made and fully tested by mid-1999.

A parallel effort is under way to ensure that other internal operations within the Bank will be unaffected by the date change.

Euro

The EBRD's reporting currency is the ECU, and consequently the Bank has always had a full dual currency accounting and reporting system in place. As a multi-currency borrower and lender, and as a non-retail bank the introduction of the Euro should have considerably less impact on the EBRD than on many other financial institutions.

Legal issues relating to the continuity of the EBRD's assets, liabilities and derivatives contracts have been addressed and a senior coordinator has been appointed to ensure that all operational, payment and documentation aspects of the transition are fully addressed by the Bank in a timely fashion. The implementation plan will incorporate adequate provision for the EBRD to participate in all applicable conversion programmes of all relevant central banks.

Status of the EBRD's activities

Profit and loss account

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Year to 31 December 1996 ECU 000
Interest and similar income			
From loans		**220,410**	149,446
From fixed-income debt securities		**287,639**	160,329
Other interest		**54,732**	60,615
Interest expenses and similar charges		**(365,536)**	(192,371)
Net interest income		**197,245**	178,019
Dividend income from share investments		**16,236**	7,726
Net fee and commission income	3	**44,059**	46,049
Financial operations	4		
Net profit on sale of share investments		**76,074**	8,715
Net profit on dealing activities		**15,768**	3,963
Foreign exchange		**(3,418)**	(730)
Operating income		**345,964**	243,742
General administrative expenses	5	**(137,061)**	(133,187)
Depreciation		**(15,075)**	(13,213)
Operating profit before provisions		**193,828**	97,342
Provisions for losses	6	**(177,678)**	(92,454)
Profit for the year		**16,150**	4,888

Balance sheet

At 31 December 1997

	Note	**ECU 000**	**31 December 1997 ECU 000**	ECU 000	31 December 1996 ECU 000
Assets					
Placements and debt securities					
Placements with and advances to credit institutions		**1,211,801**		1,757,849	
Debt securities	7	**5,335,798**		5,450,558	
			6,547,599		7,208,407
Other assets	8		**655,750**		487,522
Loans and share investments					
Loans	9	**3,462,098**		2,460,740	
Share investments	9	**842,450**		619,737	
			4,304,548		3,080,477
Property, technology and office equipment	11		**46,816**		51,994
Paid-in capital					
Members' promissory notes received	15		**12,315**		86,745
Payments due but not yet received	14		**10,218**		27,447
Payments committed but not yet due	14		**1,917,892**		21,622
Total assets			**13,495,138**		10,964,214
Liabilities					
Borrowings					
Amounts owed to credit institutions		**511,536**		1,404,504	
Debts evidenced by certificates	12	**6,874,147**		5,572,257	
			7,385,683		6,976,761
Other liabilities	13		**982,687**		872,484
Provisions for general portfolio risks	6		**151,204**		121,909
Subscribed capital	14	**18,369,100**		9,883,750	
Callable capital		**(13,492,115)**		(6,918,625)	
Paid-in capital			**4,876,985**		2,965,125
Reserves			**82,429**		23,047
Profit for the year			**16,150**		4,888
Members' equity			**4,975,564**		2,993,060
Total liabilities and members' equity			**13,495,138**		10,964,214
Memorandum items					
Commitments	10		**4,345,399**		4,056,451

Statement of changes in members' equity

For the year ended 31 December 1997

	Subscribed capital ECU 000	Callable capital ECU 000	Conversion reserve ECU 000	General reserve ECU 000	Special reserve ECU 000	Accumulated loss reserve ECU 000	Subtotal reserves ECU 000	Profit for the year ECU 000	Total ECU 000
At 31 December 1995	9,883,750	(6,918,625)	7,397	12,705	31,641	(39,653)	12,090	7,507	2,984,722
Exchange rate differences on conversion of share capital receipts	–	–	(128)	–	–	–	(128)	–	(128)
Internal tax for the year	–	–	–	3,578	–	–	3,578	–	3,578
Qualifying fees from the prior year	–	–	–	–	19,670	(19,670)	–	–	–
Profit set aside from the prior year	–	–	–	–	–	7,507	7,507	(7,507)	–
Profit for the year	–	–	–	–	–	–	–	4,888	4,888
At 31 December 1996	9,883,750	(6,918,625)	7,269	16,283	51,311	(51,816)	23,047	4,888	2,993,060
Exchange rate differences on conversion of share capital receipts	–	–	50,703	–	–	–	50,703	–	50,703
Internal tax for the year	–	–	–	3,791	–	–	3,791	–	3,791
Qualifying fees from the prior year	–	–	–	–	22,701	(22,701)	–	–	–
Profit set aside from the prior year	–	–	–	–	–	4,888	4,888	(4,888)	–
Capital increase	8,450,350	(6,583,990)	–	–	–	–	–	–	1,866,360
Additional shares allocated – initial capital	35,000	10,500	–	–	–	–	–	–	45,500
Profit for the year	–	–	–	–	–	–	–	16,150	16,150
At 31 December 1997	**18,369,100**	**(13,492,115)**	**57,972**	**20,074**	**74,012**	**(69,629)**	**82,429**	**16,150**	**4,975,564**

In accordance with the Agreement it is intended that an amount of ECU 22.4 million, being qualifying fees and commissions earned in the year to 31 December 1997, will be appropriated in 1998 from the profit for the year to 31 December 1997 and set aside to the special reserve.

The conversion reserve represents exchange rate differences arising on the conversion of share capital receipts in currencies other than ECU. It is Bank policy to enter into forward foreign exchange rate contracts to fix the known 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 exchange rates are 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. The movement of ECU 50.7 million in the conversion reserve balance in 1997 principally reflects the unrealised gains on the forward hedges of the second capital increase relative to their fixed conversion rates. Accordingly, since this relates to capital receipts, the gain has been taken directly to reserves and not taken to the profit and loss account.

The general reserve consists of internal tax paid in accordance with Article 53 of the Agreement which requires that 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.

The special reserve is maintained, in accordance with the Agreement, 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 such time as the Board of Directors determines that the size of the special reserve is adequate.

The loss brought forward from prior years represents the accumulated losses after appropriations of qualifying fee and commission income to the special reserve.

Statement of cash flows

For the year ended 31 December 1997

	ECU 000	**Year to 31 December 1997 ECU 000**	ECU 000	Year to 31 December 1996 ECU 000
Cash flows from operating activities				
Operating profit for the year	**16,150**		4,888	
Adjustments for:				
Provision for losses	**177,678**		92,454	
Depreciation	**15,075**		13,213	
Realised gains on share investments	**(76,074)**		(8,715)	
Internal taxation	**3,791**		3,578	
Unrealised loss on marked to market portfolio	**1,303**		18,680	
Realised gains on investment portfolio	**(4,063)**		(1,501)	
Foreign exchange movements on provisions	**5,583**		–	
Operating profit before changes in operating assets	**139,443**		122,597	
(Increase) / decrease in operating assets:				
Interest receivable and prepaid expenses	**(54,290)**		(31,393)	
Net decrease in positions held in marked to market portfolio	**69,844**		1,705,620	
Increase in operating liabilities:				
Interest payable and accrued expenses	**41,670**		65,902	
Net cash used in operating activities		**196,667**		1,862,726
Cash flows from investing activities				
Proceeds from repayment of loans	**769,923**		198,168	
Proceeds from sale of share investments	**102,151**		18,510	
Proceeds from redemptions / sale of investment securities	**10,562,122**		2,670,090	
Purchases of investment securities	**(10,566,324)**		(5,331,291)	
Funds advanced for loans and share investments	**(2,173,518)**		(1,328,638)	
Purchase of property, technology and office equipment	**(9,897)**		(7,275)	
Net cash used in investing activities		**(1,315,543)**		(3,780,436)
Cash flows from financing activities				
Capital subscriptions			228,214	
Paid-in capital received	**32,819**			
Promissory notes encashed by members	**74,430**			
Conversion reserve	**50,703**			
Issue of debts evidenced by certificates	**2,361,674**		2,004,534	
Redemption of debts evidenced by certificates	**(1,053,830)**		(750,300)	
Net cash provided by financing activities		**1,465,796**		1,482,448
Net increase / (decrease) in cash and cash equivalents		**346,920**		(435,262)
Cash and cash equivalents at beginning of year		**353,345**		788,607
Cash and cash equivalents at end of year [1]		**700,265**		353,345

[1] *Cash and cash equivalents comprise the following balance sheet amounts:*	**1997 ECU 000**	1996 ECU 000
Placements with and advances to credit institutions	**1,211,801**	1,757,849
Amounts owed to credit institutions	**(511,536)**	(1,404,504)
Cash and cash equivalents 31 December	**700,265**	353,345

Notes to the consolidated 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 1997 the Bank's shareholders comprised 58 countries, together with the European Community and the European Investment 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 in accordance with the Bank's Accounting Policies, which comply with International Accounting Standards (IAS) and the principles of the European Community's Council Directive on the annual accounts and consolidated accounts of banks and other financial institutions. The following revised standards have been adopted in advance of their effective date: IAS 1 (revised 1997), Presentation of Financial Statements, and IAS 17 (revised 1997), Leases.

The Bank's balance sheet is stated in accordance with the historical cost convention with the exception of debt securities and related derivatives held for dealing purposes, which are held at market prices, and freehold property, which is held at fair market value. Financial assets and liabilities are included on the balance sheet when associated risks and rewards have been assumed.

ii Foreign currencies
In accordance with Article 35 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 spot rates as at 31 December 1997. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into ECU at the month-end rate in which they occurred, except for sterling expenses which are hedged and converted at the weighted average hedge rate.

Exchange gains or losses arising from the translation of assets, liabilities and transactions during the period are taken to the profit and loss account. Where foreign currency assets or liabilities have been hedged, the difference between the closing spot exchange rate and the hedged rate is included in "other assets" or "other liabilities".

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 exchange rates as defined in Article 6.3 of the Agreement.

Outstanding promissory notes held in United States dollars and Japanese yen at the balance sheet date are translated into ECU at market rates as at 31 December 1997 in accordance with the Bank's policy detailed in (ii) above. The differences between these ECU values and those determined by the fixed exchange rates are included in "other assets" or "other liabilities".

iv Debt securities
Debt securities intended to be held for the long term or to maturity are carried on an amortised cost basis less any permanent diminution in value. The amortised premium or discount on acquisition is recognised in interest income. Securities held for dealing purposes are marked to market and the resultant gain or loss is immediately taken to the profit and loss account and included, together with the interest income arising from and the interest expense of funding these securities, within "net profit on dealing activities".

v Share investments
Share investments are carried at cost less provisions for any permanent diminution in value.

Share investments in respect of which the Bank has entered into both put and call options with creditworthy counterparties and which provide a guaranteed minimum return, have the risk characteristics associated with debt instruments and, accordingly, are classified and accounted for as loans. Share investments for which the Bank has been granted an option to redeem its investment for an interest-based return are also recognised as loans.

The Bank has considered the definition of associates in both IAS 28 and the European Community's 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 also carried at cost less provisions. Details of the Bank's share investments that exceed 20 per cent of the investee share capital and where the historical cost exceeds ECU 10.0 million are provided in note 9.

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 provisions in respect of possible losses on non-sovereign risk assets that are not specifically identified at year end are applied in two stages: at commitment and at disbursement. General provisions in respect of sovereign risk assets have been made for the first time in the current year. Such provisions are established at the time of disbursement. For Regional Venture Funds and Post-Privatisation Funds the first stage provision is itself applied in two stages: at the signing of the framework agreement and then at the commitment of the individual sub-investment. Additional portfolio risks provisions are made in respect of losses which, although not specifically identified, are inherent in the portfolio of contractual commitments (including guarantees), loans and share investments. This provision is also made when the framework agreement is signed for Regional Venture Funds and Post-Privatisation Funds. Provisions made, less any amounts released during the period, are charged to the profit and loss account. The Bank's provisions are detailed in note 6.

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

Freehold property:	Nil
Improvements on leases of less than 50 years unexpired:	Unexpired periods
Technology and office equipment:	1 year

Freehold property is carried at fair market value, which currently approximates to the carrying value of the property. Valuation of the property will be conducted at regular intervals in the future, and if necessary the carrying value in the financial statements will be adjusted. Currently freehold property is included at cost since it was purchased in December 1997.

viii Interest, fees and commissions and dividends
Interest is recorded as income on an accruals basis. For loans on which the Bank has allowed interest and fee payments to be deferred or capitalised, income may however be recognised when received based on the underlying performance of the project. 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.

Front end fees are recorded as income when the agreement is signed or the loan becomes effective, whichever is the later date. Commitment fees and fees received in respect of services provided over a period of time are recorded as income over the period during which the commitment exists or the services are provided. Other fees and commissions are taken to income on a cash basis. Issuance fees and redemption premiums or discounts are amortised over the period to maturity of the related borrowings.

Dividends are recognised when received.

ix Staff retirement plan
The Bank has a defined contribution scheme and a defined benefit scheme to provide retirement benefits to substantially all of its staff. Under the defined contribution scheme, the Bank and staff contribute equally to provide a lump sum benefit upon retirement. The defined benefit scheme is funded entirely by the Bank and benefits are based on years of service and a percentage of final gross base salary as defined in the scheme. All contributions to the schemes and all other assets and income held for the purposes of the schemes are kept by the Bank separately from all of its other assets and can be used only for providing the benefits under the schemes. Actual contributions made to the defined contribution and defined benefit schemes are charged to the profit and loss account and transferred to the schemes' independent custodians. Contributions made to the defined benefit scheme equate to the current service costs as advised by qualified external actuaries. Actuarial surpluses are amortised over the expected remaining working lives of the employees.

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 parts of taxes or duties that represent charges for public utility services.

xi Government grants
Government grants relating to fixed asset expenditure considered as part of the initial establishment of the Bank are recognised in the profit and loss account on a straight line basis over the same period as that applied for depreciation purposes. Other grants 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 Derivative financial instruments
In the normal course of business the Bank is a party to contracts for derivative financial instruments including currency and interest rate swap agreements, futures, options and forward exchange rate contracts. These instruments are used to hedge interest rate risk and currency exposures associated with its assets and liabilities and anticipated future cash flows in foreign currencies and to recognise market views in Treasury's investment activities. The Bank also acts as an intermediate provider of these instruments to its clients, hedging itself against any related exposures by offsetting transactions with third parties. Derivative transactions which are treated in the accounts as hedges must eliminate or substantially reduce the risk of loss from the position being hedged, be designated as a hedge at inception and continue to be effective throughout the hedge period. Profits and losses arising from hedging instruments are recognised on the same basis as those arising on the items being hedged. Derivatives associated with the Bank's treasury dealing activities are marked to market with the associated gains and losses being immediately taken to the profit and loss account under "financial operations". The Bank sets aside a provision on its swap and over-the-counter options portfolio allowing for credit risks, close-out costs and ongoing administration costs.

xiii Subsidiary company
The consolidated annual financial statements include the Bank's investment in The Minotaur Fund Limited, a mutual fund company incorporated with limited liability in Bermuda, in which the Bank owns 100 per cent of the shares. This company is dormant.

3 Net fee and commission income

The main components of net fee and commission income are as follows:	**1997 ECU 000**	1996 ECU 000
Front end fees	**21,193**	21,311
Commitment fees	**16,295**	16,176
Management fees	**1,929**	2,120
Other	**4,642**	6,442
Net fee and commission income	**44,059**	46,049

4 Financial operations

	1997 ECU 000	1996 ECU 000
Net profit on sale of share investments	**76,074**	8,715

The net profit on the sale of share investments in 1997 reflects the disposal of investments in the Czech Republic, Estonia, Latvia and Poland and the partial disposal of investments in the Baltic States, Hungary, Poland, Ukraine and Regional funds.

The profit in 1996 reflects the disposal of investments in Estonia and Hungary and the partial disposal of investments in the Czech Republic, Hungary, Latvia and Poland.

Net profit on dealing activities	**1997 ECU 000**	1996 ECU 000
Investment portfolio	**4,063**	1,501
Marked to market portfolio	**11,705**	2,462
Net profit on dealing activities	**15,768**	3,963

Net profit on dealing activities represents, in the case of the Bank's investment portfolio, the realised gains arising on disposal of debt securities in that portfolio.

In the case of the marked to market portfolio, net profit includes both realised and unrealised gains or losses together with associated interest income and expense.

5 General administrative expenses

	1997 ECU 000	1996 ECU 000
Personnel costs (i) (ii)	**84,868**	81,787
Overhead expenses net of government grants (iii)	**52,193**	51,400
General administrative expenses	**137,061**	133,187

(i) The average numbers of staff included in personnel costs during the year were: regular staff of 786 (1996: 756), contract staff of 128 (comprising special contract staff of 100 and interns/short-term staff of 28), locally hired staff in Resident Offices of 153, and Board of Directors personnel of 76. Of these, 37 staff were externally funded.

Staff numbers at 31 December 1997 were: regular staff of 804 (1996: 766), contract staff of 122 (comprising special contract staff of 96 and interns/short-term staff of 26), locally hired staff in Resident Offices of 190, and Board of Directors personnel of 73. Of these, 35 staff were externally funded.

(ii) Personnel costs for the year include pension costs of ECU 12.6 million (1996: ECU 10.7 million). See note 22 for more details relating to the staff retirement schemes.

(iii) During the year, government grants of ECU 2.1 million were taken to the profit and loss account (1996: ECU 2.1 million).

The Bank has a policy of entering into exchange rate contracts to ensure that the largely sterling denominated expenses, when translated into ECU for reporting purposes, are not adversely affected by any strengthening of sterling against the ECU. The application of this policy has the impact of reducing general administrative expenses by ECU 25.4 million in 1997 (1996: ECU 4.1 million). Also the Bank has entered into a series of option contracts to hedge the cost of sterling required for future general administrative expenses. Hedges are in place for approximately 75 per cent of the approved budget for 1998, 50 per cent of the estimated expenditure for 1999 and 25 per cent of that for 2000 and 2001. At 31 December 1997 the market value of these options shows a gain of ECU 39.8 million, which, in accordance with the Bank's accounting policy, has been deferred and will be recognised in the respective years.

6 Provisions for losses and general portfolio risks

Profit and loss charges	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total loans and equity ECU 000	Guarantees and other ECU 000	**1997 Total ECU 000**	1996 Total ECU 000
Provision charge this year:							
General Provisions on							
Outstanding disbursements	24,229	12,439	6,088	42,756	509	**43,265**	34,559
Outstanding commitments	11,440	1,994	4,255	17,689	–	**17,689**	24,270
Guarantees	–	–	–	–	(982)	**(982)**	698
General sovereign risk provisions	47,360	–	–	47,360	–	**47,360**	–
Specific provisions	32,835	24,922	–	57,757	–	**57,757**	20,022
Portfolio risk	10,634	1,711	124	12,469	120	**12,589**	12,905
For the year ended 31 December 1997	**126,498**	**41,066**	**10,467**	**178,031**	**(353)**	**177,678**	
For the year ended 31 December 1996	52,427	30,060	8,897	91,384	1,070		92,454

Movement in provisions	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total loans and equity ECU 000	Guarantees and other ECU 000	**Total ECU 000**
At 1 January 1997	126,992	77,633	27,792	232,417	2,948	**235,365**
Provision charges	126,498	41,066	10,467	178,031	(353)	**177,678**
Foreign exchange adjustments	4,407	1,166	–	5,573	10	**5,583**
Release against loans written off	(9,213)	–	–	(9,213)	–	**(9,213)**
At 31 December 1997	**248,684**	**119,865**	**38,259**	**406,808**	**2,605**	**409,413**
Analysed between:						
General provisions on outstanding disbursements	67,243	54,218	7,783	129,244	597	**129,841**
General sovereign risk provisions	47,360	–	–	47,360	–	**47,360**
Specific provisions	39,018	41,990	–	81,008	–	**81,008**
Provisions for losses deducted from assets	153,621	96,208	7,783	257,612	597	**258,209**
General provisions on outstanding commitments	36,055	13,412	27,813	77,280	–	**77,280**
General provision on guarantees	–	–	–	–	327	**327**
Portfolio risk	59,008	10,245	2,663	71,916	1,681	**73,597**
Provisions for general portfolio risks	95,063	23,657	30,476	149,196	2,008	**151,204**
At 31 December 1997	**248,684**	**119,865**	**38,259**	**406,808**	**2,605**	**409,413**

Early stage equity refers to operations that facilitate the restructuring and subsequent privatisation of state-owned enterprises or the restructuring of recently privatised enterprises.

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. For all sovereign risk assets a 3 per cent provision is made on outstanding disbursements. Of the charge in 1997 of ECU 47.4 million, ECU 33.3 million relates to sovereign risk exposures at 31 December 1996. In the case of Regional Venture Funds and Post-Privatisation 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 is again taken on disbursement. The provision based on commitments is included, together with a portfolio risk provision applied at a rate of 0.75 per cent against all commitments net of repayments, in “provisions for general portfolio risks”. General provisions made at disbursement together with specific provisions are shown as a deduction from the loans and share investments asset categories.

7 Debt securities

Analysis by issuer	**1997 Book value ECU 000**	1996 Book value ECU 000
Governments	**603,690**	1,601,600
Public bodies	**915,310**	439,423
Other borrowers	**3,816,798**	3,409,535
	5,335,798	5,450,558

Analysis by portfolio	**1997 Book value ECU 000**	1996 Book value ECU 000
Investment portfolio	**4,331,820**	4,482,129
Marked to market portfolio		
Internally managed funds	**18,020**	125,054
Externally managed funds	**985,958**	843,375
	1,003,978	968,429
At 31 December	**5,335,798**	5,450,558

8 Other assets

	1997 ECU 000	1996 ECU 000
Interest receivable	**185,930**	154,732
Treasury-related	**413,016**	308,945
Other	**56,804**	23,845
At 31 December	**655,750**	487,522

9 Loans and share investments

Outstanding disbursements:	Loans ECU 000	Ordinary equity ECU 000	Early stage equity ECU 000	Total share investments ECU 000
At 1 January 1997	2,554,149	632,633	7,073	639,706
Disbursements	1,714,188	306,215	26,597	332,812
Repayments, prepayments and disposals at cost	(769,923)	(26,040)	(37)	(26,077)
Foreign exchange adjustments	126,518	–	–	–
Written off	(9,213)	–	–	–
At 31 December 1997	**3,615,719**	**912,808**	**33,633**	**946,441**
Provisions at 31 December 1997	(153,621)	(96,208)	(7,783)	(103,991)
Total net of provisions at 31 December 1997	**3,462,098**	**816,600**	**25,850**	**842,450**
Total net of provisions at 31 December 1996	2,460,740	614,359	5,378	619,737
Committed but not yet disbursed:				
At 31 December 1997	**3,674,710**	**355,487**	**103,403**	**458,890**
At 31 December 1996	3,474,616	316,462	59,419	375,881

At 31 December 1997 the Bank had eight loans amounting to ECU 117.6 million (1996: ECU 10.2 million) in non-accrual status due to overdue interest and principal repayments. Specific provisions amounting to ECU 7.5 million (1996: ECU 6.4 million) have been made against these loans.

Early stage equity includes Regional Venture Funds and Post-Privatisation Funds where commitments are only recognised when individual sub-project agreements are signed. Regional Venture Fund framework agreements net of signed sub-projects at 31 December 1997 amount to ECU 351.1 million (1996: ECU 338.5 million).

In addition to the loans and share investments above, the Bank has ECU 195.1 million guarantees committed but not disbursed (1996: 206.0 million).

Listed below are all share investments where the Bank owned more than 20 per cent of the investee share capital at 31 December 1997 and where the Bank's total investment exceeded ECU 10.0 million. Significant shareholdings are normally only taken in anticipation of, wherever possible, subsequent external participation.

	% Ownership
Barum	24.4
Budapest Bank	32.4
Framlington Russian Investment Fund	24.9
Korado	44.3
Lafarge	31.0
Polish Private Equity Fund	33.3
Schooner Capital	34.9
Sodi	24.3
United Bulgarian Bank	35.0

10 Analysis of operational activity

Analysis by country	**Outstanding disbursements 1997 ECU 000**	Outstanding disbursements 1996 ECU 000	**Committed but not yet disbursed 1997 ECU 000**	Committed but not yet disbursed 1996 ECU 000
Albania	**33,789**	34,528	**24,250**	24,571
Armenia	**53,689**	35,425	**28,610**	40,964
Azerbaijan	**30,246**	8,045	**80,421**	64,388
Belarus	**92,327**	48,926	**51,263**	88,122
Bosnia and Herzegovina	**6,171**	–	**42,968**	26,343
Bulgaria	**164,014**	79,108	**93,717**	123,953
Croatia	**196,813**	117,939	**133,145**	194,207
Czech Republic	**115,090**	158,477	**135,443**	85,706
Estonia	**108,383**	66,362	**30,903**	55,211
Former Yugoslav Republic of Macedonia	**79,207**	55,552	**61,364**	86,259
Georgia	**28,701**	9,660	**39,651**	20,850
Hungary	**562,532**	507,804	**221,825**	336,288
Kazakhstan	**38,293**	29,455	**162,786**	112,420
Kyrgyzstan	**84,093**	63,202	**39,825**	22,917
Latvia	**73,289**	59,654	**89,936**	101,211
Lithuania	**90,772**	58,739	**32,081**	74,815
Moldova	**50,791**	30,978	**85,444**	77,378
Poland	**485,568**	341,547	**351,816**	353,798
Romania	**384,513**	232,516	**566,374**	519,765
Russian Federation	**1,128,126**	634,028	**1,097,512**	995,021
Slovak Republic	**244,792**	241,155	**34,396**	34,791
Slovenia	**173,303**	149,566	**137,784**	166,031
Tajikistan	**1,540**	–	**7,518**	6,684
Turkmenistan	**30,152**	4,335	**101,808**	49,096
Ukraine	**149,301**	84,457	**349,443**	214,945
Uzbekistan	**117,896**	91,132	**242,733**	128,741
Regional	**71,270**	59,038	**102,383**	51,976
At 31 December	**4,594,661**	3,201,628	**4,345,399**	4,056,451

Analysis by sector				
Commerce and tourism	**154,302**	53,438	**168,050**	146,983
Community and social services	**42,471**	20,523	**127,787**	127,370
Energy/power generation	**312,453**	246,123	**985,959**	660,441
Extractive industries	**315,101**	301,671	**97,262**	118,781
Finance/business	**1,534,469**	940,532	**1,083,875**	1,332,987
Manufacturing	**718,269**	463,766	**652,924**	344,592
Primary industries	**82,577**	137,493	**37,819**	18,797
Telecommunications	**513,369**	356,168	**218,313**	317,127
Transport	**921,650**	681,914	**973,410**	989,373
At 31 December	**4,594,661**	3,201,628	**4,345,399**	4,056,451

11 Property, technology and office equipment

	Property ECU 000	Technology and office equipment ECU 000	Total ECU 000
Cost			
At 1 January 1997	62,391	42,474	104,865
Additions	3,045	6,852	9,897
Disposals	–	(2,187)	(2,187)
At 31 December 1997	**65,436**	**47,139**	**112,575**
Depreciation			
At 1 January 1997	17,290	35,581	52,871
Charge	5,089	9,986	15,075
Disposals	–	(2,187)	(2,187)
At 31 December 1997	**22,379**	**43,380**	**65,759**
Net book value			
At 31 December 1997	**43,057**	**3,759**	**46,816**
At 31 December 1996	45,101	6,893	51,994

Future commitments relating to the purchase of freehold property total ECU 0.3 million.

12 Debts evidenced by certificates

The Bank's outstanding debts evidenced by certificates and related swaps at 31 December 1997 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	**1997 Net currency obligations ECU 000**	1996 Net currency obligations ECU 000
Australian dollars	226,393	–	226,393	(226,393)	**–**	–
Belgian francs	98,105	–	98,105	(98,105)	**–**	–
Canadian dollars	208,250	19	208,269	(208,269)	**–**	–
Czech koruna	26,279	(18)	26,261	–	**26,261**	29,409
Deutsche marks	194,746	(759)	193,987	–	**193,987**	697,159
Dutch guilders	145,930	(15,668)	130,262	(130,262)	**–**	–
European currency units	735,000	–	735,000	(72,390)	**662,610**	791,474
French francs	128,564	(38,190)	90,374	–	**90,374**	88,034
Gold bullion	672,081	–	672,081	(672,081)	**–**	–
Greek drachmas	145,871	–	145,871	(145,871)	**–**	–
Hong Kong dollars	185,852	666	186,518	(186,518)	**–**	–
Hungarian forints	13,327	–	13,327	–	**13,327**	14,946
Italian lire	258,041	–	258,041	(157,091)	**100,950**	119,538
Japanese yen	1,202,580	–	1,202,580	(662,470)	**540,110**	571,176
New Taiwan dollars	249,558	–	249,558	(249,558)	**–**	–
New Zealand dollars	23,500	–	23,500	(23,500)	**–**	–
Philippino peso	66,687	–	66,687	(66,687)	**–**	–
South African rands	5,408,273	(5,088,546)	319,727	(319,727)	**–**	–
South Korean won	50,663	–	50,663	(50,663)	**–**	–
Spanish pesetas	428,270	–	428,270	(428,270)	**–**	–
Sterling	466,015	406	466,421	(282,283)	**184,138**	39,847
Swedish kronor	28,649	–	28,649	(28,649)	**–**	–
Swiss francs	36,511	93	36,604	(36,604)	**–**	–
United States dollars	1,011,169	5,830	1,016,999	4,045,391	**5,062,390**	3,220,674
At 31 December	**12,010,314**	**(5,136,167)**	**6,874,147**	**–**	**6,874,147**	**5,572,257**

In addition to public and private placements, included in the above table are 73 borrowings totalling ECU 2.6 billion arranged under the Bank's Euro Medium Term Note Programme and 45 borrowings totalling ECU 939.1 million arranged under the Bank's Commercial Paper Programme. During the year the Bank redeemed prior to maturity ECU 847.0 million of bonds and medium-term notes generating a net gain of ECU 6.3 million.

13 Other liabilities

	1997 ECU 000	1996 ECU 000
Interest payable	**153,741**	141,227
Treasury-related	**730,840**	671,680
Other	**98,106**	59,577
At 31 December	**982,687**	872,484

14 Subscribed capital

	1997 Number of shares	**1997 Total ECU 000**	1996 Number of shares	1996 Total ECU 000
Authorised share capital	**2,000,000**	**20,000,000**	2,000,000	20,000,000
of which				
Subscriptions by members – initial capital	**991,875**	**9,918,750**	988,375	9,883,750
Subscriptions by members – capital increase	**845,035**	**8,450,350**	–	–
Subtotal – subscribed capital	**1,836,910**	**18,369,100**	988,375	9,883,750
Not yet subscribed	**142,165**	**1,421,650**	1,000,000	10,000,000
Shares to be allocated [1]	**4,675**	**46,750**	–	–
Unallocated shares	**16,250**	**162,500**	11,625	116,250
At 31 December	**2,000,000**	**20,000,000**	2,000,000	20,000,000

[1] Shares potentially available to the countries previously forming part of Yugoslavia.

The Bank's capital stock is divided into paid-in shares and callable shares. Each share has a par value of ECU 10,000. Payment for the paid-in shares subscribed to by members is made over a period of years determined in advance. Article 6.4 of the Agreement provides that payment of the amount subscribed to the callable capital shall be subject to call, taking account of Articles 17 and 42 of the Agreement, only as and when required by the Bank to meet its liabilities. Article 42.1 provides that in the event of termination of the operations of the Bank, the liability of all members for all uncalled subscriptions to the capital stock shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

By Resolution No. 59, adopted on 15 April 1996, the Board of Governors approved a doubling of the Bank's authorised capital stock from ECU 10 billion to ECU 20 billion, subject to the terms and conditions of that Resolution. Of the increase in authorised capital stock of ECU 10 billion, 22.5 per cent is in the form of paid-in shares, to be paid for in eight equal annual instalments, and the balance (77.5 per cent) is in the form of callable shares. Under the Resolution, 31 December 1997 was established as the final date for members to subscribe to the capital increase. Any further extension of time, if required, would need to be authorised by the Board of Governors.

In accordance with the terms of the Resolution, the capital increase became effective on 3 April 1997, when the subscriptions received by the Bank surpassed the level specified in the Resolution. At 31 December 1997, 48 members had deposited instruments of subscription with the Bank for an aggregate of 845,035 shares as detailed in the following statement of capital subscriptions.

The number of unallocated 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 unallocated 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. The remaining unallocated shares (11,625) were doubled in number as a result of the capital increase. By Resolution No. 63 of the Board of Governors, adopted on 9 May 1997, 3,500 additional shares from the initial capital stock were allocated to the Republic of Korea. Upon the effectiveness of this special increase in subscription, the Republic of Korea became entitled to and took up a further 3,500 additional shares under the capital increase. As a result, the total number of shares remaining unallocated at the year end was 16,250.

By Resolutions Nos. 21, 27 and 37 of the Board of Governors, the 60,000 shares that had been subscribed to by the former USSR were allocated to countries (other than the Baltic States) which previously formed part of the USSR. By Resolutions Nos. 30, 31, 34, 35, 53 and 56 of the Board of Governors, 8,125 of the 12,800 shares subscribed to by the former Yugoslavia were allocated to Croatia (3,646 shares), Slovenia (2,098 shares), the Former Yugoslav Republic of Macedonia (691 shares) and Bosnia and Herzegovina (1,690 shares). The remaining 4,675 shares await allocation to countries of former Yugoslavia in due course.

A statement of capital subscriptions showing the amount of paid-in and callable shares subscribed to by each member, together with the amount of unallocated shares, overdue subscriptions and restrictions of voting rights, is set out in the following table. This also shows which members have subscribed to the capital increase. 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 15.

Subscribed capital (continued)

Statement of capital subscriptions
At 31 December 1997

Members	Capital increase shares subscribed (number)	Total shares (number)	Voting rights restricted votes [1]	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	45,600	–	45,600	456,000	336,300	51,300	–	68,400
Belgium	22,800	45,600	–	45,600	456,000	336,300	51,300	–	68,400
Denmark	12,000	24,000	–	24,000	240,000	177,000	27,000	–	36,000
Finland	12,500	25,000	–	25,000	250,000	184,370	28,130	–	37,500
France	85,175	170,350	–	170,350	1,703,500	1,256,335	191,640	–	255,525
Germany	85,175	170,350	–	170,350	1,703,500	1,256,335	191,640	–	255,525
Greece	6,500	13,000	–	13,000	130,000	95,870	14,630	–	19,500
Ireland	3,000	6,000	–	6,000	60,000	44,250	6,750	–	9,000
Italy	–	85,175	–	85,175	851,750	596,225	–	–	255,525
Luxembourg	2,000	4,000	–	4,000	40,000	29,500	4,500	–	6,000
Netherlands	24,800	49,600	–	49,600	496,000	365,800	55,800	–	74,400
Portugal	4,200	8,400	–	8,400	84,000	61,950	9,450	–	12,600
Spain	–	34,000	10	33,990	340,000	238,000	–	–	102,000
Sweden	22,800	45,600	–	45,600	456,000	336,300	51,300	–	68,400
United Kingdom	85,175	170,350	–	170,350	1,703,500	1,256,335	191,640	–	255,525
European Community	30,000	60,000	–	60,000	600,000	442,500	67,500	–	90,000
European Investment Bank	30,000	60,000	–	60,000	600,000	442,500	67,500	–	90,000
Other European countries									
Cyprus	1,000	2,000	–	2,000	20,000	14,750	2,250	–	3,000
Iceland	1,000	2,000	–	2,000	20,000	14,750	2,250	–	3,000
Israel	6,500	13,000	–	13,000	130,000	95,870	14,630	–	19,500
Liechtenstein	200	400	–	400	4,000	2,950	450	–	600
Malta	100	200	–	200	2,000	1,470	230	–	300
Norway	12,500	25,000	–	25,000	250,000	184,370	28,130	–	37,500
Switzerland	22,800	45,600	–	45,600	456,000	336,300	51,300	–	68,400
Turkey	11,500	23,000	–	23,000	230,000	169,620	25,880	–	34,500
Countries of operations									
Albania	1,000	2,000	733	1,267	20,000	14,750	2,250	2,200	800
Armenia	500	1,000	–	1,000	10,000	7,370	1,130	–	1,500
Azerbaijan	–	1,000	700	300	10,000	7,000	–	1,500	1,500
Belarus	2,000	4,000	–	4,000	40,000	29,500	4,500	–	6,000
Bosnia and Herzegovina	–	1,690	451	1,239	16,900	11,830	2,028	1,014	2,028
Bulgaria	7,900	15,800	–	15,800	158,000	116,520	17,780	–	23,700
Croatia	3,646	7,292	–	7,292	72,920	53,780	10,328	–	8,812
Czech Republic	8,533	17,066	–	17,066	170,660	125,861	19,200	–	25,599
Estonia	1,000	2,000	–	2,000	20,000	14,750	1,856	–	3,394
Former Yugoslav Republic of Macedonia	691	1,382	62	1,320	13,820	10,200	1,904	–	1,716
Georgia	1,000	2,000	667	1,333	20,000	14,750	2,250	900	2,100
Hungary	7,900	15,800	–	15,800	158,000	116,520	17,780	–	23,700
Kazakhstan	–	2,300	–	2,300	23,000	16,100	–	–	6,900
Kyrgyzstan	–	1,000	367	633	10,000	7,000	–	1,100	1,900
Latvia	1,000	2,000	–	2,000	20,000	14,750	2,250	–	3,000
Lithuania	1,000	2,000	–	2,000	20,000	14,750	2,250	–	3,000
Moldova	1,000	2,000	67	1,933	20,000	14,750	2,250	–	3,000
Poland	12,800	25,600	–	25,600	256,000	188,800	28,800	–	38,400
Romania	4,800	9,600	–	9,600	96,000	70,800	10,800	–	14,400
Russian Federation	40,000	80,000	–	80,000	800,000	590,000	90,000	–	120,000
Slovak Republic	4,267	8,534	–	8,534	85,340	62,939	9,600	–	12,801
Slovenia	2,098	4,196	–	4,196	41,960	30,940	5,920	–	5,100
Tajikistan	–	1,000	800	200	10,000	7,000	–	1,800	1,200
Turkmenistan	100	200	3	197	2,000	1,470	230	–	300
Ukraine	8,000	16,000	–	16,000	160,000	118,000	18,000	–	24,000
Uzbekistan	2,100	4,200	–	4,200	42,000	30,970	4,730	–	6,300
Unallocated shares reserved for countries previously forming part of Yugoslavia	–	4,675 [2]	–	–	46,750	32,730	11,216	–	2,804
Non-European countries									
Australia	–	10,000	–	10,000	100,000	70,000	–	–	30,000
Canada	34,000	68,000	–	68,000	680,000	501,500	76,500	–	102,000
Egypt	–	1,000	–	1,000	10,000	7,000	–	–	3,000
Japan	85,175	170,350	–	170,350	1,703,500	1,256,335	191,640	–	255,525
Korea, Republic of	10,000	20,000	–	20,000	200,000	147,500	22,500	–	30,000
Mexico	–	3,000	–	3,000	30,000	21,000	–	–	9,000
Morocco	–	1,000	33	967	10,000	7,000	–	–	3,000
New Zealand	–	1,000	–	1,000	10,000	7,000	–	–	3,000
United States of America	100,000	200,000	568	199,432	2,000,000	1,475,000	225,000	1,704 [3]	298,296
Capital subscribed by members	**845,035**	**1,836,910**	**4,461**	**1,827,774**	**18,369,100**	**13,492,115**	**1,917,892**	**10,218**	**2,948,875**
Unallocated shares		20,925			209,250				
Authorised and issued share capital		**1,857,835**			**18,578,350**				

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

2 The voting rights attached to these shares have been suspended pending their reallocation. Total votes before restrictions amount to 1,832,235.

3 Scheduled payment dates for the full amount of these outstandings have been confirmed by the United States of America with final remittance due in October 1998.

15 Promissory notes issued by member countries

Currency of issue	Total received ECU 000	Exchange gain/(loss) ECU 000	Amount drawn down ECU 000	**1997 Amount outstanding ECU 000**	1996 Amount outstanding ECU 000
European currency units	657,830	–	(653,930)	**3,900**	54,424
Japanese yen	127,762	4,684	(132,446)	**–**	10,245
United States dollars	363,760	(7,360)	(347,985)	**8,415**	22,076
At 31 December	**1,149,352**	**(2,676)**	**(1,134,361)**	**12,315**	86,745

Under the Agreement, payment for the paid-in shares of the original capital stock subscribed to by members was to be made in five equal annual instalments. Of each instalment, up to 50 per cent was payable in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the subscribing member and payable to the Bank at par value upon demand. Under Resolution No. 59, payment for the paid-in shares subscribed to by members under the capital increase is to be made in eight equal annual instalments, and a member may pay up to 60 per cent of each instalment in non-negotiable, non-interest-bearing promissory notes or other obligations issued by the 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. In accordance with a policy adopted by the Board of Directors for the drawdown of promissory notes or other obligations deposited by members in connection with their initial subscriptions, each such promissory note or other obligation deposited in 1992 or later has been drawn down in three equal annual instalments. The policy adopted in connection with subscriptions to the capital increase calls for the drawdown of promissory notes or other obligations in five 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 1997.

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

Member	1991 Note ECU 000	1992 Note ECU 000	1993 Note ECU 000	1994 Note ECU 000	1995 Note ECU 000	Additional capital [1] ECU 000	**1997 Total ECU 000**
Azerbaijan	106	211	317	–	–	–	**634**
Bosnia and Herzegovina	–	–	–	–	–	169	**169**
Former Yugoslav Republic of Macedonia	–	–	–	–	10	177	**187**
Georgia	–	211	317	317	318	–	**1,163**
Moldova	–	–	–	–	211	–	**211**
Morocco	–	–	–	–	100	–	**100**
Spain	–	–	–	–	32	–	**32**
Tajikistan	–	317	211	106	–	–	**634**
Turkmenistan	–	–	–	–	11	–	**11**
At 31 December	106	739	845	423	682	346	**3,141**

[1] Relates to shares allocated to countries forming part of the former Yugoslavia.

In addition there is an outstanding encashment of ECU 1.40 million relating to shares previously held by the former Yugoslavia but not yet allocated.

The outstanding promissory note encashments detailed above are additional to the ECU 10.2 million capital due, but not yet received, detailed in the table to note 14. This includes non-receipt of promissory notes of value ECU 1.7 million.

16 Net currency position

	ECU ECU 000	United States dollars ECU 000	Japanese yen ECU 000	Deutsche marks ECU 000	Other currencies ECU 000	**Total ECU 000**
Assets						
Placements with and advances to credit institutions	126,212	898,913	117,695	665	68,316	**1,211,801**
Debt securities	526,235	2,726,789	1,348,437	43,023	691,314	**5,335,798**
Other assets	88,098	325,118	32,866	20,090	189,578	**655,750**
Loans	244,615	2,386,990	2,086	678,852	149,555	**3,462,098**
Share investments	(62,001)	52,225	–	2,737	849,489	**842,450**
Property, technology and office equipment	46,816	–	–	–	–	**46,816**
Promissory notes issued by members	3,899	8,416	–	–	–	**12,315**
Subscribed capital	1,027,556	671,784	228,770	–	–	**1,928,110**
Total assets	2,001,430	7,070,235	1,729,854	745,367	1,948,252	**13,495,138**
Liabilities						
Amounts owed to credit institutions	(112,933)	(172,846)	(196,724)	(3,208)	(25,825)	**(511,536)**
Debts evidenced by certificates	(735,000)	(1,016,999)	(1,202,580)	(193,987)	(3,725,581)	**(6,874,147)**
Other liabilities	(394,801)	(334,316)	(59,241)	(12,718)	(181,611)	**(982,687)**
Provisions for general portfolio risks	(151,204)	–	–	–	–	**(151,204)**
Total liabilities	(1,393,938)	(1,524,161)	(1,458,545)	(209,913)	(3,933,017)	**(8,519,574)**
Net assets / (liabilities)	**607,492**	**5,546,074**	**271,309**	**535,454**	**(1,984,765)**	4,975,564
Derivative financial instruments						
Currency swaps	1,506,829	(4,095,953)	122,689	50,456	2,415,979	**–**
Forward exchange contracts	2,031,492	(1,472,407)	(395,320)	(583,084)	419,319	**–**
Currency position at 31 December 1997	**4,145,813**	**(22,286)**	**(1,322)**	**2,826**	**850,533**	**4,975,564**
Currency position at 31 December 1996	2,432,860	(32,378)	(888)	(6,267)	599,733	2,993,060

Currency exposures are individually disclosed for those currencies in which the Bank has the largest gross balance sheet. Exposures in all other currencies are aggregated under “other”.

Positions arising in “other currencies” are primarily the result of local currency risk undertaken through share investments in countries of operations where currency hedges were not readily available.

17 Liquidity risk

Liquidity risk is a measure of the extent to which the Bank may be required to raise funds to meet its commitments associated with financial instruments. The Bank’s commitment to maintaining a strong liquidity position is embodied in policies which require a minimum target liquidity ratio, based on a multi-year context, of 45 per cent of its next three years’ net cash requirements, with full coverage of all committed but undisbursed project financing together with a requirement that 40 per cent of its net Treasury investments mature within one year. This policy is implemented by maintaining liquidity in a target zone, above the required minimum level, of 90 per cent of the next three years’ net cash requirements.

The table below provides an analysis of assets, liabilities and members’ equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

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

	Up to and including 1 month ECU 000	Over 1 month and up to and including 3 months ECU 000	Over 3 months and up to and including 1 year ECU 000	Over 1 year and up to and including 5 years ECU 000	Over 5 years ECU 000	Maturity undefined ECU 000	**Total ECU 000**
Assets							
Placements with and advances to credit institutions	534,265	677,536	–	–	–	–	**1,211,801**
Debt securities	368,801	157,669	478,260	1,895,372	2,435,696	–	**5,335,798**
Other assets	460,138	28,691	134,264	11,296	21,361	–	**655,750**
Loans	78,837	211,803	383,755	1,627,022	1,275,284	(114,603)	**3,462,098**
Share investments	–	–	–	–	–	842,450	**842,450**
Property, technology and office equipment	–	–	–	–	–	46,816	**46,816**
Promissory notes issued by members	–	–	3,459	2,463	1,850	4,543	**12,315**
Subscribed capital:							
Due but not yet received	–	–	1,703	–	–	8,515	**10,218**
Called but not yet due	16,902	11,268	238,564	937,497	702,446	11,215	**1,917,892**
Total assets	1,458,943	1,086,967	1,240,005	4,473,650	4,436,637	798,936	**13,495,138**
Liabilities							
Amounts owed to credit institutions	(309,471)	(83,895)	–	–	(118,170)	–	**(511,536)**
Debts evidenced by certificates	(637,321)	(608,601)	(478,208)	(3,544,569)	(1,605,448)	–	**(6,874,147)**
Other liabilities	(411,086)	(29,254)	(27,615)	(114,291)	(117,072)	(283,369)	**(982,687)**
Provisions for general portfolio risks	–	–	–	–	–	(151,204)	**(151,204)**
Members’ equity	–	–	–	–	–	(4,975,564)	**(4,975,564)**
Total liabilities and members’ equity	(1,357,878)	(721,750)	(505,823)	(3,658,860)	(1,840,690)	(5,410,137)	**(13,495,138)**
Liquidity risk at 31 December 1997	**101,065**	**365,217**	**734,182**	**814,790**	**2,595,947**	**(4,611,201)**	**–**
Cumulative liquidity risk at 31 December 1997	**101,065**	**466,282**	**1,200,464**	**2,015,254**	**4,611,201**	**–**	**–**
Cumulative liquidity risk at 31 December 1996	666,410	942,684	1,618,247	1,942,016	2,385,427	–	–

18 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 indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Bank's interest rate exposure based either on 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	Up to and including 1 month ECU 000	Over 1 month and up to and including 3 months ECU 000	Over 3 months and up to and including 1 year ECU 000	Over 1 year and up to and including 5 years ECU 000	Over 5 years ECU 000	Non-interest-bearing funds ECU 000	**Total ECU 000**
Assets							
Placements with and advances to credit institutions	534,265	677,536	–	–	–	–	**1,211,801**
Debt securities	2,321,229	813,739	448,917	1,010,158	741,755	–	**5,335,798**
Other assets	452,496	–	184,252	–	–	19,002	**655,750**
Loans	535,416	1,017,635	1,575,396	155,342	292,912	(114,603)	**3,462,098**
Non-interest-earning assets including subscribed capital called, not yet due	–	–	–	–	–	2,829,691	**2,829,691**
Total assets	3,843,406	2,508,910	2,208,565	1,165,500	1,034,667	2,734,090	**13,495,138**
Liabilities							
Amounts owed to credit institutions	(309,471)	(83,895)	–	–	(118,170)	–	**(511,536)**
Debts evidenced by certificates	(900,141)	(516,772)	(735,061)	(3,125,610)	(1,596,563)	–	**(6,874,147)**
Other liabilities	(401,163)	–	(153,741)	–	–	(427,783)	**(982,687)**
Provisions for general portfolio risks	–	–	–	–	–	(151,204)	**(151,204)**
Members' equity	–	–	–	–	–	(4,975,564)	**(4,975,564)**
Total liabilities and members' equity	(1,610,775)	(600,667)	(888,802)	(3,125,610)	(1,714,733)	(5,554,551)	**(13,495,138)**
Net assets	2,232,631	1,908,243	1,319,763	(1,960,110)	(680,066)	(2,820,461)	**–**
Derivative financial instruments	(688,566)	15,470	(1,967,080)	1,960,110	680,066	–	**–**
Interest rate risk at 31 December 1997	**1,544,065**	**1,923,713**	**(647,317)**	**–**	**–**	**(2,820,461)**	**–**
Cumulative interest rate risk at 31 December 1997	**1,544,065**	**3,467,778**	**2,820,461**	**2,820,461**	**2,820,461**	**–**	**–**
Cumulative interest rate risk at 31 December 1996	2,224,761	2,395,917	2,271,715	2,292,573	2,292,573	–	–

The Bank's interest rate risk measurement is complemented by accepted market techniques including Value-at-Risk, spread risk and volatility risk on which frequent management reporting takes place. Treasury assets and liabilities are actively managed and invested within authorised duration guidelines. At 31 December 1997 the overall duration was 0.01 years (1996: 0.01 years) with an average during the year of 0.01 years (1996: 0.05 years). Interest rate risks arising on the Bank's assets and liabilities are monitored on a daily basis by measuring the change in their value for a one basis point change in interest rates.

At 31 December 1997 the effect of a one basis point rise across interest rates in all currencies in which the Bank's Treasury held positions would result in a loss of ECU 13,200 (1996: loss of ECU 7,000).

19 Credit related information on Treasury derivative financial instruments

	31 December 1997 ECU 000	31 December 1996 ECU 000
Credit derivatives [1]	**1,935,932**	1,400,396
Swaps and over-the-counter option agreements: [2]		
Pre netting / collateral agreements	**616,931**	652,040
Post netting / collateral agreements	**352,799**	460,470

[1] These amounts represent the maximum possible loss to the Bank in the event that its credit derivative agreements become actionable by its counterparties and no recovery is achievable on the specified assets.

[2] These amounts represent the replacement cost to the Bank in the event of non-performance by the counterparties to those swap and over-the-counter option agreements that have a positive value to the Bank.

The Bank is highly selective in its choice of counterparties and considers that non-performance does not represent a significant risk. Derivatives transactions are allowed with counterparties rated A- or better for transactions with a maturity of less than three months and AA- or better for transactions with a maturity of more than three months or with whom a collateralised security agreement has been signed.

20 Estimated realisable value information

Presented below is information on the estimated realisable values of the Bank's financial assets and liabilities. This represents the estimated approximate amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Where an active market exists for a particular instrument, quoted prices have been used. Where an active market does not exist, estimated values have been derived from internal pricing models based on discounted cash flow techniques, except in the case of share investments (see (d) below).

The following should be noted in the presentation of estimated realisable values set out below:

(a) the value of short-term financial instruments, i.e. those maturing within one year, approximates to the value stated in the Bank's balance sheet.

(b) the value in respect of debt securities and debts evidenced by certificates incorporates the estimated realisable value of associated derivative instruments. For the Bank's issues of debts evidenced by certificates which are private placements, information is available only for those issues in which the Bank has subsequently repurchased part of the issue.

(c) the balance sheet value of loans is stated net of provisions, which approximates to their estimated realisable value. Due to the fact that the Bank manages its interest rate risk on a portfolio basis, it is not possible to identify the specific derivative instruments which hedge the interest rate risk on the Bank's loan portfolio. Consequently, the stated amount of the loan portfolio does not allow for the estimated value of any associated hedging derivative instrument.

(d) the value of share investments that are traded on a recognised stock exchange is determined using quoted stock exchange prices. The Bank's quoted share investments are generally in markets which are relatively illiquid and volatile and the value presented below makes no additional allowance for this. In all other cases value is assumed to correspond with the Bank's historical cost, net of provisions.

	Balance sheet value 1997 ECU 000	Estimated realisable value adjustment 1997 ECU 000	**Estimated realisable value 1997 ECU 000**	Estimated realisable value 1996 ECU 000
Assets				
Placements with and advances to credit institutions	1,211,801	–	**1,211,801**	1,757,849
Debt securities	5,335,798	(87,708)	**5,248,090**	5,452,219
	6,547,599	(87,708)	**6,459,891**	7,210,068
Loans	3,462,098	–	**3,462,098**	2,460,740
Share investments	842,450	298,206	**1,140,656**	743,500
Other non-financial assets	2,642,991	–	**2,642,991**	675,330
Total assets	13,495,138	210,498	**13,705,636**	11,089,638
Liabilities				
Amounts owed to credit institutions	(511,536)	–	**(511,536)**	(1,404,504)
Debts evidenced by certificates	(6,874,147)	11,819	**(6,862,328)**	(5,562,181)
	(7,385,683)	11,819	**(7,373,864)**	(6,966,685)
Other non-financial liabilities	(1,133,891)	–	**(1,133,891)**	(994,393)
Members' equity	(4,975,564)	–	**(4,975,564)**	(2,993,060)
Total liabilities and members' equity	(13,495,138)	11,819	**(13,483,319)**	(10,954,138)
Net estimated realisable value at 31 December			**222,317**	135,500

Debt securities held in the Bank's investment portfolio are intended to be held to maturity and are consequently stated in the balance sheet at amortised cost. The estimated realisable value adjustment as at 31 December 1997 is primarily due to a substantial widening of spreads, as a result of the crisis in South East Asia where the Bank's exposure is principally in sovereign related debt issues from Korea.

21 Operating lease commitments

The Bank leases its headquarters building in London and buildings for certain of its Resident Offices in countries of operations. These are standard operating leases and include renewal options, periodic escalation clauses and are non-cancellable in the normal course of business without the Bank incurring substantial penalties. The most significant lease is that for the headquarters building. Rent payable under the terms of this lease is reviewed every five years and is based on market rates. After such a review rent may stay the same or be increased. The Bank has a break clause effective in the year 2006 which allows the Bank to terminate the lease. The headquarters lease requires the Bank to restore the premises to their original condition. A reserve, to cover the estimated full cost of this reinstatement, is built up monthly, based on an estimate by the Bank's quantity surveyors. The costs associated with restoring the Resident Offices are not considered material and therefore no equivalent provision is made.

The Bank has entered into sublease arrangements for two floors of its headquarters building. The terms of the subleases mirror the terms of the Bank's head lease. The total minimum future lease payments expected to be received under these assignments is ECU 19.6 million as at 31 December 1997. Sublease payments recognised in income for the year amount to ECU 1.6 million.

Minimum future lease payments under long-term non-cancellable operating leases are shown below.

Payable:	**1997 ECU 000**	1996 ECU 000
not later than one year	**23,510**	21,661
later than one year and not later than five years	**88,505**	81,836
later than five years	**81,033**	93,771
At 31 December	**193,048**	197,268

22 Staff retirement scheme

An actuarial valuation of the defined benefit scheme is performed every three years by a qualified actuary using the projected unit method. The most recent valuation was at 31 August 1997. The key assumptions used were a real rate of investment return of 4 per cent and a real increase in salaries of 3 per cent.

The most recent actuarial valuation showed that the market value of the scheme assets was ECU 39.5 million and the present value of the projected retirement benefits was ECU 36.0 million.

The pension charge recognised for the year was ECU 12.6 million (1996: ECU 10.7 million) and is included in general administrative expenses in the profit and loss account (note 5). This included a credit of ECU 0.3 million in respect of the amortisation of the actuarial surplus which is being recognised over 13.5 years, the expected remaining working lives of the relevant employees. The pension charge recognised under the defined contribution scheme was ECU 4.1 million (1996: ECU 2.8 million) and in the defined benefit scheme was ECU 8.5 million for the year ended 31 December 1997 (1996: ECU 7.9 million) and is included in general administrative expenses.

23 Other fund agreements

In addition to the Bank's operations and the Special Funds programme, the Bank administers numerous bilateral and multilateral grant agreements to provide technical assistance and investment support in the countries of operations. These agreements focus primarily on project preparation, project implementation (including goods and works), advisory services and training. The resources provided by these fund agreements are held separately from the ordinary capital resources of the Bank and are subject to external audit.

At 31 December 1997 the Bank administered 53 cooperation fund agreements (1996: 47) for an aggregate of ECU 511.8 million (1996: ECU 423.8 million) which includes ECU 190.5 million for the Tacis and Phare programmes of the European Commission under the Bangkok Facility. Of this committed amount, funds received at 31 December 1997 totalled ECU 330.9 million. The total uncommitted balance of the funds at 31 December 1997 was ECU 88.7 million.

In addition, the Bank administered 52 project-specific cooperation agreements for an aggregate amount of ECU 25.7 million and six investment cooperation fund agreements for an aggregate amount of ECU 27.7 million. Also, the Bank administers the EBRD – Japan Special Earmarked Fund which was established in 1994 as a mechanism to channel the Japanese contributions to the Russia Small Business Programme.

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 funding immediate safety improvement measures. At 31 December 1997, 15 contributors had made pledges up to a total amount of ECU 260.6 million, using the fixed exchange rates defined in the Rules of the NSA.

At their Denver Summit in June 1997, the G-7 and the European Union endorsed the setting up of the Chernobyl Shelter Fund ("the CSF"). The CSF was established on 7 November 1997, when the Rules of the CSF were approved by the Board, and became operational on 8 December 1997, when the required eight contributors had entered into contribution agreements with the Bank. The objective of the CSF is to assist Ukraine in transforming the existing Chernobyl sarcophagus into a safe and environmentally stable system. At 31 December 1997, 16 contributors had made pledges up to a total amount of ECU 262.7 million using the fixed exchange rates defined in the Rules of the CSF.

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 1997, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 57 to 72. 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 1997, 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 Community's Council Directive on the Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Arthur Andersen

Arthur Andersen
London
10 March 1998

The Baltic Investment Special Fund

Profit and loss account

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Year to 31 December 1996 ECU 000
Interest and similar income			
From loans		**774**	865
Other interest		**735**	650
Net fee and commission income		**41**	35
Net profit on sale of share investments	3	**3,009**	–
Foreign exchange		**74**	(189)
Other operating expenses	4	**(23)**	(103)
Transfer of interest income to The Baltic Technical Assistance Special Fund	5	**(1,090)**	–
Operating profit before provisions		**3,520**	1,258
Provisions for losses	6	**(338)**	(191)
Profit for the year		**3,182**	1,067

Balance sheet

At 31 December 1997

	Note	**ECU 000**	**31 December 1997 ECU 000**	ECU 000	31 December 1996 ECU 000
Assets					
Placements with credit institutions			**19,149**		18,221
Other assets	7		**5,763**		537
Loans and share investments					
Loans	8	**11,475**		11,472	
Share investments	8	**2,868**		4,822	
			14,343		16,294
Contributions due but not yet received	10		**3,322**		30
Contributions pledged but not yet due	10		**3,500**		7,500
Total assets			**46,077**		42,582
Liabilities					
Other liabilities			**23**		39
Provisions for general portfolio risks	6		**567**		238
Contributions	10		**41,500**		41,500
Reserves	11		**805**		(262)
Profit for the year			**3,182**		1,067
Contributors' resources			**45,487**		42,305
Total liabilities and contributors' resources			**46,077**		42,582
Memorandum items					
Commitments	9		**7,076**		2,829

Statement of changes in contributors' resources

For the year ended 31 December 1997

	Contributions ECU 000	**Special reserve ECU 000**	**Accumulated profit/(loss) ECU 000**	**Profit for the year ECU 000**	**Total ECU 000**
At 31 December 1995	30,000	–	1,870	–	**31,870**
Contributions replenishment	11,500	–	–	–	**11,500**
Qualifying fees from the prior year	–	146	(146)	–	**–**
Loss set aside from the prior year	–	–	(2,132)	–	**(2,132)**
Profit for the year	–	–	–	1,067	**1,067**
At 31 December 1996	41,500	146	(408)	1,067	**42,305**
Profit set aside from the prior year	–	–	1,067	(1,067)	**–**
Profit for the year	–	–	–	3,182	**3,182**
At 31 December 1997	**41,500**	**146**	**659**	**3,182**	**45,487**

In accordance with the Agreement, it is intended that an amount of ECU 31,000, being qualifying fees and commissions earned in the year to 31 December 1997, will be appropriated in 1998 from the profit for the year to 31 December 1997 and set aside to the special reserve.

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

The profit brought forward from prior years represents the accumulated profits after appropriations of qualifying fee and commission income to the special reserve.

Statement of cash flows
For the year ended 31 December 1997

	ECU 000	Year to 31 December 1997 ECU 000	ECU 000	Year to 31 December 1996 ECU 000
Cash flows from operating activities				
Operating profit for the year	**3,182**		1,067	
Adjustments for:				
Provisions for losses	**338**		191	
Realised gains on share investments	**(3,009)**		–	
Operating profit before changes in operating assets	**511**		1,258	
Increase in operating assets:				
Interest receivable	**(84)**		(92)	
Other assets	**(5,142)**		–	
Decrease in other liabilities	**(16)**		(66)	
Net cash (used)/provided by operating activities		**(4,731)**		1,100
Cash flows from investing activities				
Proceeds from repayment of loans	**3,714**		2,073	
Proceeds from sale of share investments	**6,031**		–	
Funds for loans and share investments	**(4,794)**		(3,542)	
Net cash provided/(used) by investing activities		**4,951**		(1,469)
Cash flows from financing activities				
Contributions	**708**		3,970	
Net cash provided by financing activities		**708**		3,970
Net increase in cash and cash equivalents		**928**		3,601
Cash and cash equivalents 1 January		**18,221**		14,620
Cash and cash equivalents 31 December		**19,149**		18,221

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 currencies other than ECU are translated into ECU at spot rates as at 31 December 1997. 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.

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 and general portfolio risks
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 in respect of losses on non-sovereign risk assets that are not specifically identified at year end are applied in two stages: at commitment and at disbursement. Portfolio risks provisions are made in respect of losses which, although not specifically identified, are inherent in the portfolio of contractual commitments (including guarantees), loans and share investments. Provisions made, less any amounts released during the year, are charged to the profit and loss account. The Fund's provisions are detailed in note 4.

v Interest, fees and commissions
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. Front end fees are recorded as income when the agreement is signed or the loan becomes effective, whichever is the later date. Commitment fees received in respect of services provided over a period of time are recorded as income over the period during which the commitment exists or the services are provided.

vi Derivative financial instruments
In the normal course of business the Fund is a party to contracts for derivative 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 Net profit on sale of share investments

	1997 ECU 000	1996 ECU 000
Net profit on sale of share investments	**3,009**	–

The net profit on sale of share investments in 1997 reflects the disposal of investments in Estonia and Latvia and the partial disposal of a Regional investment.

4 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.

5 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 1.1 million, representing income derived from investment of the resources of the Fund, was transferred to The Baltic Technical Assistance Special Fund to supplement its resources.

6 Provisions for losses and general portfolio risks

Profit and loss charges	Loans ECU 000	Share investments ECU 000	**1997 Total ECU 000**	1996 Total ECU 000
Provision charge this year:				
General provisions on				
Outstanding disbursements	125	249	**374**	268
Outstanding commitments	1	288	**289**	(384)
Specific provisions	–	(350)	**(350)**	350
Portfolio risks	(6)	31	**25**	(43)
For the year ended 31 December 1997	**120**	**218**	**338**	
For the year ended 31 December 1996	(101)	292		191

Movement in provisions	Loans ECU 000	Share investments ECU 000	**Total ECU 000**
At 1 January 1997	316	812	**1,128**
Provision charges	120	218	**338**
Foreign exchange adjustments	14	9	**23**
At 31 December 1997	**450**	**1,039**	**1,489**
Analysed between:			
General provisions on outstanding disbursements	313	609	**922**
Provisions for losses deducted from assets	313	609	**922**
General provisions on outstanding commitments	98	71	**169**
Portfolio risks	39	359	**398**
Provisions for general portfolio risks	137	430	**567**
At 31 December 1997	**450**	**1,039**	**1,489**

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 provision based on commitments is included, together with a general portfolio risk provision applied at a rate of 0.75 per cent against all commitments net of repayments, in "provisions for general portfolio risks". General provisions made at disbursement together with specific provisions are shown as a deduction from the loans and share investments asset categories.

7 Other assets

	1997 ECU 000	1996 ECU 000
Interest receivable	**472**	388
Proceeds from sale of share investments	**5,245**	–
Other	**46**	149
At 31 December	**5,763**	537

Proceeds from the sale of share investments in December 1997 were received by the Fund in January 1998.

8 Loans and share investments

Outstanding disbursements:	Loans ECU 000	Share investments ECU 000	Total ECU 000
At 1 January 1997	11,651	5,533	17,184
Disbursements made	3,653	966	4,619
Repayments/disposals at cost	(3,714)	(3,022)	(6,736)
Foreign exchange adjustments	198	–	198
At 31 December 1997	**11,788**	**3,477**	**15,265**
Provisions as at 31 December 1997	(313)	(609)	(922)
Total net of provisions at 31 December 1997	**11,475**	**2,868**	**14,343**
Total net of provisions at 31 December 1996	11,472	4,822	16,294
Committed but not yet disbursed:			
At 31 December 1997	**1,081**	**5,995**	**7,076**
At 31 December 1996	1,772	1,057	2,829

No specific provisions have been made in 1997 against these loans and share disbursements (1996: ECU 350,000).

9 Analysis of operational activity

Analysis by country	**Outstanding disbursements 1997 ECU 000**	Outstanding disbursements 1996 ECU 000	**Committed but not yet disbursed 1997 ECU 000**	Committed but not yet disbursed 1996 ECU 000
Estonia	**6,273**	11,062	**42**	42
Latvia	**2,392**	3,491	**120**	730
Lithuania	**4,723**	1,600	**919**	1,000
Regional	**1,877**	1,031	**5,995**	1,057
At 31 December	**15,265**	17,184	**7,076**	2,829

10 Contributions

Contributions pledged by the Nordic countries are set out below:	**1997 ECU 000**	1996 ECU 000
Cumulative contributions received		
Denmark	**7,140**	7,140
Finland	**8,048**	7,384
Iceland	**388**	344
Norway	**6,240**	6,240
Sweden	**12,862**	12,862
	34,678	33,970
Contributions due but not yet received		
Denmark	**960**	–
Norway	**810**	30
Sweden	**1,552**	–
	3,322	30
Contributions pledged but not yet due		
Denmark	**840**	1,800
Finland	**581**	1,245
Iceland	**39**	83
Norway	**682**	1,462
Sweden	**1,358**	2,910
	3,500	7,500
At 31 December	**41,500**	41,500

Total contributions	**ECU 000**	**%**
Denmark	**8,940**	**21.6**
Finland	**8,629**	**20.8**
Iceland	**427**	**1.0**
Norway	**7,732**	**18.6**
Sweden	**15,772**	**38.0**
At 31 December	**41,500**	**100.0**

11 Net currency position

	ECU ECU 000	Deutsche marks ECU 000	United States dollars ECU 000	Lithuanian litas ECU 000	Other currencies ECU 000	**Total ECU 000**
Assets						
Placements with credit institutions	19,109	–	40	–	–	**19,149**
Other assets	3,437	2,136	190	–	–	**5,763**
Loans	(313)	6,273	5,515	–	–	**11,475**
Share investments	(609)	–	–	1,600	1,877	**2,868**
Contributions due but not yet received	3,322	–	–	–	–	**3,322**
Contributions pledged but not yet due	3,500	–	–	–	–	**3,500**
Total assets	28,446	8,409	5,745	1,600	1,877	**46,077**
Liabilities						
Other liabilities	(21)	–	(2)	–	–	**(23)**
Provisions for general portfolio risks	(567)	–	–	–	–	**(567)**
Total liabilities	(588)	–	(2)	–	–	**(590)**
Net assets	27,858	8,409	5,743	1,600	1,877	**45,487**
Derivative financial instruments						
Cross currency swaps	3,708	(2,751)	(957)	–	–	**–**
Currency position at 31 December 1997	**31,566**	**5,658**	**4,786**	**1,600**	**1,877**	**45,487**
Currency position at 31 December 1996	31,884	4,231	1,007	1,600	3,583	42,305

12 Liquidity risk	Up to & including 1 month ECU 000	Over 1 month and up to & including 3 months ECU 000	Over 3 months and up to & including 1 year ECU 000	Over 1 year and up to & including 5 years ECU 000	Over 5 years ECU 000	Maturity undefined ECU 000	**Total ECU 000**
Assets							
Placements with credit institutions	19,149	–	–	–	–	–	**19,149**
Other assets	5,372	303	44	–	–	44	**5,763**
Loans	–	–	–	11,229	559	(313)	**11,475**
Share investments	–	–	–	–	–	2,868	**2,868**
Contributions due but not yet received	–	–	–	–	–	3,322	**3,322**
Contributions pledged but not yet due	–	–	3,500	–	–	–	**3,500**
Total assets	24,521	303	3,544	11,229	559	5,921	**46,077**
Liabilities							
Other liabilities	–	(23)	–	–	–	–	**(23)**
Provisions for general portfolio risks	–	–	–	–	–	(567)	**(567)**
Contributors' resources	–	–	–	–	–	(45,487)	**(45,487)**
Total liabilities and contributors' resources	–	(23)	–	–	–	(46,054)	**(46,077)**
Liquidity risk at 31 December 1997	**24,521**	**280**	**3,544**	**11,229**	**559**	**(40,133)**	**–**
Cumulative liquidity risk at 31 December 1997	**24,521**	**24,801**	**28,345**	**39,574**	**40,133**	**–**	**–**
Cumulative liquidity risk at 31 December 1996	18,331	18,539	22,575	35,833	37,726	–	–

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 1997, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 73 to 77. 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 1997, 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
10 March 1998

The Baltic Technical Assistance Special Fund

Statement of movements in fund balance

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Year to 31 December 1996 ECU 000
Balance brought forward		**3,470**	5,143
Contributions received	3	**833**	330
Interest and similar income		**111**	167
Transfer of interest income from The Baltic Investment Special Fund	4	**1,090**	–
		5,504	5,640
Disbursements	5	**(2,805)**	(2,150)
Other operating expenses	6	**(50)**	(20)
Balance of fund available		**2,649**	3,470

Balance sheet

At 31 December 1997

	Note	**31 December 1997 ECU 000**	31 December 1996 ECU 000
Assets			
Placements with credit institutions	7	**2,564**	2,806
Other assets		**96**	673
Total assets		**2,660**	3,479
Liabilities			
Unallocated fund balance	8	**(164)**	897
Allocated fund balance	5	**2,813**	2,573
		2,649	3,470
Other liabilities		**11**	9
Total liabilities		**2,660**	3,479

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. 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 exchange rates ruling at the time of the transaction.

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

Contributions pledged by the Nordic countries are set out below:	**1997 ECU 000**	1996 ECU 000
Contributions received during the year		
Denmark	**248**	79
Finland	**172**	55
Iceland	**11**	4
Norway	**–**	64
Sweden	**402**	128
At 31 December	**833**	330
Contributions due but not yet received		
Norway	**202**	–
At 31 December	**202**	–
Contributions pledged but not yet due		
Denmark	**93**	101
Finland	**64**	70
Iceland	**4**	4
Norway	**75**	82
Sweden	**149**	163
At 31 December	**385**	420

4 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 1.1 million, representing income derived from investment of the resources of the BISF, was transferred to the Fund to supplement its resources.

5 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 1997	5,625	3,052	2,573
Movement in the year	2,041	1,801	240
At 31 December 1997	**7,666**	**4,853**	**2,813**
Completed projects			
At 1 January 1997	2,902	2,902	–
Movement in the year	1,004	1,004	–
At 31 December 1997	**3,906**	**3,906**	**–**
Total projects			
At 1 January 1997	8,527	5,954	2,573
Movement in the year	3,045	2,805	240
At 31 December 1997	**11,572**	**8,759**	**2,813**

6 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 5 per cent of each contribution instalment received.

7 Placements with credit institutions

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

8 Unallocated fund balance

The unallocated fund balance will be funded from contributions pledged but not yet received, the net income retained in the Fund and transfers of net income from The Baltic Investment Special Fund.

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 1997, and the related movements in the fund balance for the year then ended, on pages 78 and 79. 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 1997, and the movements in the Fund balance for the year then ended, on the basis set out in note 2.

Arthur Andersen
London
10 March 1998

The Russia Small Business Investment Special Fund

Profit and loss account

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Year to 31 December 1996 ECU 000
Interest and similar income			
From loans		**2,062**	888
Other interest		**1,235**	795
Interest expenses and similar charges		**(282)**	(151)
Foreign exchange		**4,213**	289
Other operating expenses	3	**(147)**	(726)
Operating profit before provisions		**7,081**	1,095
Provisions for losses	4	**(7,910)**	(4,768)
Loss for the year		**(829)**	(3,673)

Balance sheet

At 31 December 1997

	Note	**ECU 000**	**31 December 1997 ECU 000**	ECU 000	31 December 1996 ECU 000
Assets					
Placements with credit institutions			**20,866**		26,096
Other assets			**841**		370
Loans and share investments					
Loans	5	**15,072**		6,872	
Share investments	5	**880**		290	
			15,952		7,162
Contributions pledged but not yet due	6		**1,196**		5,976
Total assets			**38,855**		39,604
Liabilities					
Other liabilities			**699**		630
Contributions	6		**45,699**		45,688
Reserves			**(6,714)**		(3,041)
Loss for the year			**(829)**		(3,673)
Contributors' resources			**38,156**		38,974
Total liabilities and contributors' resources			**38,855**		39,604
Memorandum items					
Commitments	7		**65,486**		42,544

Statement of changes in contributors' resources

For the year ended 31 December 1997

	Contributions ECU 000	**Accumulated loss ECU 000**	**Loss for the year ECU 000**	**Total ECU 000**
At 31 December 1995	19,020	(1,339)	–	**17,681**
Exchange rate difference on conversion of contributions pledged but not yet received	42	–	–	**42**
Contributions replenishment	26,626	–	–	**26,626**
Loss set aside from the prior year	–	(1,702)	–	**(1,702)**
Loss for the year	–	–	(3,673)	**(3,673)**
At 31 December 1996	45,688	(3,041)	(3,673)	**38,974**
Exchange rate difference on conversion of contributions pledged but not yet received	11	–	–	**11**
Loss set aside from the prior year	–	(3,673)	3,673	**–**
Loss for the year	–	–	(829)	**(829)**
At 31 December 1997	**45,699**	**(6,714)**	**(829)**	**38,156**

Statement of cash flows

For the year ended 31 December 1997

	ECU 000	Year to 31 December 1997 ECU 000	ECU 000	Year to 31 December 1996 ECU 000
Cash flows from operating activities				
Operating loss for the year	**(829)**		(3,673)	
Adjustments for:				
Provisions for losses	**7,910**		4,768	
Operating profit before changes in operating assets	**7,081**		1,095	
Increase in operating assets:				
Interest receivable	**(471)**		(222)	
Increase in other liabilities	**69**		339	
Net cash provided by operating activities		**6,679**		1,212
Cash flows from investing activities				
Proceeds from repayment of loans	**1,370**		1,467	
Funds for loans and share investments	**(18,070)**		(10,437)	
Net cash used by investing activities		**(16,700)**		(8,970)
Cash flows from financing activities				
Contributions	**4,791**		24,122	
Net cash provided by financing activities		**4,791**		24,122
Net (decrease)/increase in cash and cash equivalents		**(5,230)**		16,364
Cash and cash equivalents 1 January		**26,096**		9,732
Cash and cash equivalents 31 December		**20,866**		26,096

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 ("the Board") of the European Bank for Reconstruction and Development ("the Bank") 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 US$ 3.0 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, was approved by the Board on 1 April 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 currencies other than ECU are translated into ECU at spot rates as at 31 December 1997. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Contributions received are translated into ECU at the exchange rates ruling at the time of the transaction. Outstanding contributions are translated into ECU at spot rates as at 31 December 1997.

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

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. Additional general provisions are made in respect of 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. The Fund's provisions are detailed in note 4.

v Interest
Interest is 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.

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	Loans ECU 000	Share investments ECU 000	Total loans and shares ECU 000	Guarantees ECU 000	**1997 Total ECU 000**	1996 Total ECU 000
Provision charge this year:						
General provisions on						
outstanding disbursements	7,320	590	7,910	–	**7,910**	4,237
Specific provisions	–	–	–	–	**–**	531
For the year ended 31 December 1997	**7,320**	**590**	**7,910**	**–**	**7,910**	
For the year ended 31 December 1996	4,382	234	4,616	152		4,768

Movement in provisions	Loans ECU 000	Share investments ECU 000	**Total ECU 000**
At 1 January 1997	6,871	290	**7,161**
Provision charges	7,320	590	**7,910**
Foreign exchange adjustments	882	–	**882**
At 31 December 1997	15,073	880	**15,953**

In accordance with Section 5.04 (i) of the Rules and Regulations of the Fund, the Fund will bear losses arising on investments financed by the Fund and parallel investments by the Bank up to a maximum aggregate amount of US$ 75.0 million. Thereafter losses will be borne equally by the Fund and the Bank. Consequently, a general provision of 50 per cent is made for both loans and share investments at disbursement.

5 Loans and share investments

Outstanding disbursements:	Loans ECU 000	Share investments ECU 000	**Total ECU 000**
At 1 January 1997	13,743	580	**14,323**
Disbursements	16,011	1,180	**17,191**
Repayments	(1,370)	–	**(1,370)**
Foreign exchange adjustments	1,761	–	**1,761**
At 31 December 1997	**30,145**	**1,760**	**31,905**
Provisions at 31 December 1997	(15,073)	(880)	**(15,953)**
Total net of provisions at 31 December 1997	**15,072**	**880**	**15,952**
Total net of provisions at 31 December 1996	6,872	290	7,162
Committed but not yet disbursed:			
At 31 December 1997	**10,562**	**3,802**	**14,364**
At 31 December 1996	19,248	4,434	23,682

All loans and share investments are for projects in Russia.

6 Contributions

Contributions pledged from the donor countries are set out below:	**1997 ECU 000**	1996 ECU 000
Cumulative contributions received		
Canada	**761**	761
France	**5,323**	3,116
Germany	**5,698**	2,739
Italy	**6,719**	6,719
Japan	**21,162**	21,162
Switzerland	**2,360**	2,360
United States of America	**2,480**	2,855
At 31 December	**44,503**	39,712
Contributions pledged but not yet due		
France	**–**	2,255
Germany	**1,196**	3,721
	1,196	5,976
At 31 December	**45,699**	45,688

Total contributions	**ECU 000**	**%**
Canada	**761**	**1.7**
France	**5,323**	**11.6**
Germany	**6,894**	**15.1**
Italy	**6,719**	**14.7**
Japan	**21,162**	**46.3**
Switzerland	**2,360**	**5.2**
United States of America	**2,480**	**5.4**
At 31 December	**45,699**	**100.0**

7 Commitments

At 31 December 1997, commitments included guarantees of ECU 51.1 million (1996: ECU 18.8 million) and loan and share investment commitments not yet disbursed of ECU 14.4 million (1996: ECU 23.7 million). The amount for guarantees represents the Fund's possible exposure in the event of losses arising on guaranteed parallel investments financed by the Bank as detailed in note 4 above.

8 Net currency position

	ECU ECU 000	United States dollars ECU 000	Russian roubles ECU 000	**Total ECU 000**
Assets				
Placements with credit institutions	9	20,857	–	**20,866**
Other assets	–	841	–	**841**
Loans	(15,073)	30,145	–	**15,072**
Share investments	(880)	–	1,760	**880**
Contributions pledged but not yet due	–	1,196	–	**1,196**
Total assets	(15,944)	53,039	1,760	**38,855**
Liabilities				
Other liabilities	(111)	(588)	–	**(699)**
Total liabilities	(111)	(588)	–	**(699)**
Currency position at 31 December 1997	**(16,055)**	**52,451**	**1,760**	**38,156**
Currency position at 31 December 1996	(7,363)	45,757	580	38,974

The Fund uses the ECU as the unit of measure for the presentation of its financial statements but the activities of the Fund are denominated in United States dollars.

9 Liquidity risk	Up to and including 1 month ECU 000	Over 1 month and up to and including 3 months ECU 000	Over 3 months and up to and including 1 year ECU 000	Over 1 year and up to and including 5 years ECU 000	Maturity undefined ECU 000	**Total ECU 000**
Assets						
Placements with credit institutions	20,866	–	–	–	–	**20,866**
Other assets	290	360	191	–	–	**841**
Loans	–	–	8,144	21,529	(14,601)	**15,072**
Shares	–	–	–	–	880	**880**
Contributions pledged but not yet due	–	–	1,196	–	–	**1,196**
Total assets	21,156	360	9,531	21,529	(13,721)	**38,855**
Liabilities						
Other liabilities	–	(111)	–	–	(588)	**(699)**
Contributors' resources	–	–	–	–	(38,156)	**(38,156)**
Total liabilities and contributors' resources	–	(111)	–	–	(38,744)	**(38,855)**
Liquidity risk at 31 December 1997	**21,156**	**249**	**9,531**	**21,529**	**(52,465)**	**–**
Cumulative liquidity risk at 31 December 1997	**21,156**	**21,405**	**30,936**	**52,465**	**–**	**–**
Cumulative liquidity risk at 31 December 1996	26,186	27,616	31,908	45,545	–	–

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 1997, and the related profit and loss account, and statement of cash flows for the year then ended, on pages 80 to 84. 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 1997, 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
10 March 1998

The Russia Small Business Technical Cooperation Special Fund

Statement of movements in fund balance

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Year to 31 December 1996 ECU 000
Balance brought forward		**7,439**	2,089
Contributions received	3	**23,545**	10,840
Interest and similar income		**996**	195
Foreign exchange		**2,329**	205
Transfer of contributions from The Russia Small Business Investment Special Fund	4	**375**	2,176
		34,684	15,505
Disbursements	5	**(12,138)**	(7,671)
Other operating expenses	6	**(721)**	(395)
Balance of fund available		**21,825**	7,439

Balance sheet

At 31 December 1997

	Note	**31 December 1997 ECU 000**	31 December 1996 ECU 000
Assets			
Placements with credit institutions	7	**21,750**	7,532
Other assets		**97**	22
Total assets		**21,847**	7,554
Liabilities			
Unallocated fund balance		**9,191**	1,424
Allocated fund balance	5	**12,634**	6,015
		21,825	7,439
Other liabilities		**22**	115
Total liabilities		**21,847**	7,554

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 ("the Board") of the European Bank for Reconstruction and Development ("the Bank") 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 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, was approved by the Board on 1 April 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
Monetary assets and liabilities in currencies other than ECU are translated into ECU at spot rates as at 31 December 1997. Transactions in currencies other than ECU, including disbursements, are translated into ECU at month-end exchange rates. Commitments are translated into ECU at spot rates as at 31 December 1997.

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.

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 pledged by the donors are set out below:	**1997 ECU 000**	1996 ECU 000
Contributions received during the year		
Canada	**2,849**	1,157
France	**1,261**	948
Germany	**–**	1,329
Italy	**–**	1,208
Japan	**–**	2,588
United Kingdom	**889**	3,216
United States of America	**18,546**	394
At 31 December	**23,545**	10,840

3 Contributions received (continued)

	1997 ECU 000	1996 ECU 000
Contributions pledged but not yet due		
France	**–**	1,288
Germany	**299**	266
United Kingdom	**–**	821
At 31 December	**299**	2,375

4 Transfer of contributions from The Russia Small Business Investment Special Fund

In accordance with the contribution agreement dated 29 September 1994 between the United States Agency for International Development (USAID) and the Bank, contributions of ECU 0.4 million (1996: ECU 2.2 million) were transferred to the Fund from The Russia Small Business Investment Special Fund.

5 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 1997	17,597	11,582	6,015
Movement in the year	10,453	3,834	6,619
At 31 December 1997	**28,050**	**15,416**	**12,634**
Completed projects			
At 1 January 1997	2,466	2,466	–
Movement in the year	8,304	8,304	–
At 31 December 1997	**10,770**	**10,770**	**–**
Total projects			
At 1 January 1997	20,063	14,048	6,015
Movement in the year	18,757	12,138	6,619
At 31 December 1997	**38,820**	**26,186**	**12,634**

6 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.

7 Placements with credit institutions

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

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 1997, and the related movements in the fund balance for the year then ended, on pages 85 and 86. 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 1997, 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
10 March 1998

The Moldova Micro Business Investment Special Fund

Profit and loss account
For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Period to 31 December 1996 ECU 000
Interest and similar income			
From loans		**26**	–
Other interest		**63**	5
Net fee and commission income		**6**	–
Foreign exchange		**159**	28
Other operating expenses	3	**(39)**	(1)
Operating profit before provisions		**215**	32
Provisions for losses	4	**(303)**	(13)
(Loss)/profit for the period		**(88)**	19

Balance sheet
At 31 December 1997

	Note	**31 December 1997 ECU 000**	31 December 1996 ECU 000
Assets			
Placements with credit institutions		**892**	1,263
Other assets		**20**	5
Loans	5	**319**	13
Total assets		**1,231**	1,281
Liabilities			
Other liabilities		**39**	1
Contributions	6	**1,261**	1,261
Reserves		**19**	–
(Loss)/profit for the period		**(88)**	19
Contributor's resources		**1,192**	1,280
Total liabilities and contributor's resources		**1,231**	1,281
Memorandum items			
Commitments	7	**1,287**	1,060

Statement of changes in contributor's resources
For the year ended 31 December 1997

	Contributions ECU 000	**Accumulated profit ECU 000**	**(Loss)/profit for the period ECU 000**	**Total ECU 000**
Contribution agreement	1,261	–	–	**1,261**
Profit for the period	–	–	19	**19**
At 31 December 1996	1,261	–	19	**1,280**
Profit set aside for the previous period	–	19	(19)	**–**
Loss for the year	–	–	(88)	**(88)**
At 31 December 1997	**1,261**	**19**	**(88)**	**1,192**

Statement of cash flows
For the year ended 31 December 1997

	ECU 000	Year to 31 December 1997 ECU 000	ECU 000	Period to 31 December 1996 ECU 000
Cash flows from operating activities				
Operating (loss)/profit for the period	**(88)**		19	
Adjustments for:				
Provisions for losses	**303**		13	
Operating profit before changes in operating assets	**215**		32	
Increase in operating assets:				
Interest receivable	**(15)**		(5)	
Increase in other liabilities	**38**		1	
Net cash provided by operating activities		**238**		28
Cash flows from investing activities				
Funds for loans	**(609)**		(26)	
Net cash used by investing activities		**(609)**		(26)
Cash flows from financing activities				
Contributions	**–**		1,261	
Net cash provided by financing activities		**–**		1,261
Net (decrease)/increase in cash and cash equivalents		**(371)**		1,263
Cash and cash equivalents 1 January		**1,263**		–
Cash and cash equivalents 31 December		**892**		1,263

Notes to the financial statements

1 Creation of the Special Fund

The Moldova Micro Business Investment Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 3 September 1996 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Government of Switzerland (the "Government" or the "Swiss Government") .

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 micro businesses through support for small and medium-sized enterprises in the Republic of Moldova.

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 currencies other than ECU are translated into ECU at spot rates as at 31 December 1997. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Contributions received are translated into ECU at the exchange rates ruling at the time of the transaction. Outstanding contributions are translated into ECU at spot rates as at 31 December 1997.

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

iii 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. General provisions are made in respect of 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 period, are charged to the profit and loss account. The Fund's provisions are detailed in note 4.

iv Interest, fees and commissions
Interest is 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. Commitment fees are recorded as income over the period during which the commitment exists.

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 received.

4 Provisions for losses

Profit and loss charges	Loans ECU 000
Provision charge this year:	
General provisions on	
outstanding disbursements	**303**
For the year ended 31 December 1997	**303**
For the period ended 31 December 1996	13

Movement in provisions	
At 1 January 1997	**13**
Provision charges	**303**
Foreign exchange adjustments	**3**
At 31 December 1997	**319**

In accordance with Section 5.04 of the Rules and Regulations of the Fund, the Fund will bear losses arising on investments financed by the Fund and parallel investments by the Bank up to a maximum of 75 per cent of the Fund value. Thereafter losses will be borne equally by the Fund and the Bank. Consequently, a general provision of 50 per cent is made for loans at disbursement.

5 Loans

Outstanding disbursements:	Loans ECU 000
At 1 January 1997	**26**
Disbursements	**609**
Foreign exchange adjustments	**3**
At 31 December 1997	**638**
Provisions at 31 December 1997	**(319)**
Total net of provisions at 31 December 1997	**319**
Total net of provisions at 31 December 1996	13
Committed but not yet disbursed:	
At 31 December 1997	**87**
At 31 December 1996	1,005

All loans are for projects in Moldova.

6 Contributions

Contributions payable per the Fund Agreement were received in full from the Swiss Government in 1996.

7 Commitments

At 31 December 1997, commitments included guarantees of ECU 1.2 million (1996: ECU 55,000) and loan commitments not yet disbursed of ECU 87,000 (1996: ECU 1.0 million). The amount for guarantees represents the Fund's possible exposure in the event of losses arising on guaranteed parallel investments financed by the Bank as detailed in note 4 above.

8 Net currency position

	ECU ECU 000	United States dollars ECU 000	Total ECU 000
Assets			
Placements with credit institutions	–	892	**892**
Other assets	–	20	**20**
Loans	(319)	638	**319**
Total assets	(319)	1,550	**1,231**
Liabilities			
Other liabilities	(39)	–	**(39)**
Total liabilities	(39)	–	**(39)**
Currency position at 31 December 1997	**(358)**	**1,550**	**1,192**
Currency position at 31 December 1996	(14)	1,294	**1,280**

The Fund uses the ECU as the unit of measure for the presentation of its financial statements but the activities of the Fund are denominated in United States dollars.

9 **Liquidity risk**	Up to and including 1 month ECU 000	Over 1 month and up to and including 3 months ECU 000	Over 1 year and up to and including 5 years ECU 000	Maturity undefined ECU 000	**Total ECU 000**
Assets					
Placements with credit institutions	892	–	–	–	**892**
Other assets	4	16	–	–	**20**
Loans	–	–	638	(319)	**319**
Total assets	896	16	638	(319)	**1,231**
Liabilities					
Other liabilities	–	(39)	–	–	**(39)**
Contributor's resources	–	–	–	(1,192)	**(1,192)**
Total liabilities and contributor's resources	–	(39)	–	(1,192)	**(1,231)**
Liquidity risk at 31 December 1997	**896**	**(23)**	**638**	**(1,511)**	**–**
Cumulative liquidity risk at 31 December 1997	**896**	**873**	**1,511**	**–**	**–**
Cumulative liquidity risk at 31 December 1996	1,268	1,267	1,280	–	–

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of The Moldova Micro Business Investment Special Fund as of 31 December 1997, and the related profit and loss account, and statement of cash flows for the period then ended, on pages 87 to 90. 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 1997, and of the results of its operations and its cash flows for the period then ended, in accordance with International Accounting Standards.

Arthur Andersen

Arthur Andersen
London
10 March 1998

The EBRD Technical Cooperation Special Fund

Statement of movements in fund balance

For the year ended 31 December 1997

	Note	**Year to 31 December 1997 ECU 000**	Period to 31 December 1996 ECU 000
Balance brought forward		**247**	–
Contributions received	3	**452**	247
Interest and similar income		**12**	4
		711	251
Disbursements	4	**(84)**	–
Other operating expenses	5	**(12)**	(4)
Balance of fund available		**615**	247

Balance sheet

At 31 December 1997

	Note	**31 December 1997 ECU 000**	31 December 1996 ECU 000
Assets			
Placements with credit institutions	6	**618**	249
Other assets		**2**	–
Total assets		**620**	249
Liabilities			
Unallocated fund balance		**447**	247
Allocated fund balance	4	**168**	–
		615	247
Other liabilities		**5**	2
Total liabilities		**620**	249

Notes to the financial statements

1 Creation of the Special Fund

The creation of The EBRD Technical Cooperation Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 12/13 September 1995 and is administered under the terms of Rules and Regulations of such Special Fund approved also by the Board on that date. The Fund became active in June 1996, following the receipt of the first contribution.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to serve as a facility for financing technical cooperation projects in the Bank's countries of operations.

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 exchange rates ruling at the time of the transaction. Commitments net of disbursements made, in currencies other than ECU, are translated at spot rates as at 31 December 1997.

3 Contributions received

Contributions received during the year include repayments made by various private sector beneficiaries. In accordance with the Rules and Regulations of the Fund, contributions may only be received from Donors which have signed a Contribution Agreement with the Bank. As at 31 December 1997, eight Donors have signed such an agreement as follows:

Finland
Ireland
Israel
Norway
Portugal
Sweden
Switzerland
United Kingdom

In 1997 no direct contributions were received (1996 : ECU 247,000 from the United Kingdom).

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 1997	–	–	–
Movement in the year	252	(84)	168
At 31 December 1997	**252**	**(84)**	**168**

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. The fee is set at a level such that it should not exceed interest income net of direct costs.

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 EBRD Technical Cooperation Special Fund as of 31 December 1997, and the related movements in the fund balance for the period then ended, on pages 91 and 92. 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 1997, and the movements in the Fund balance for the period then ended, on the basis set out in note 2.

Arthur Andersen

Arthur Andersen
London
10 March 1998

The Financial Intermediary Investment Special Fund

Profit and loss account

For the period 16 December 1996 to 31 December 1997

	Note	**Period to 31 December 1997 ECU 000**
Interest and similar income		
Other interest		**29**
Foreign exchange		**68**
Other operating expenses	3	**(14)**
Operating profit before provisions		**83**
Provisions for losses	4	**(62)**
Profit for the period		**21**

Balance sheet

At 31 December 1997

	Note	**31 December 1997 ECU 000**
Assets		
Placements with credit institutions		**1,063**
Other assets		**2**
Share investments	5	**1,470**
Total assets		**2,535**
Liabilities		
Other liabilities		**760**
Provisions for general portfolio risks	4	**17**
Contributions	6	**1,737**
Profit for the period		**21**
Contributor's resources		**1,758**
Total liabilities and contributor's resources		**2,535**
Memorandum items		
Commitments	5	**240**

Statement of changes in contributor's resources

For the period 16 December 1996 to 31 December 1997

	Contributions ECU 000	**Profit for the period ECU 000**	**Total ECU 000**
Contribution agreements	1,737	–	**1,737**
Profit for the period	–	21	**21**
At 31 December 1997	**1,737**	**21**	**1,758**

Statement of cash flows

For the period 16 December 1996 to 31 December 1997

	ECU 000	**Period to 31 December 1997 ECU 000**
Cash flows from operating activities		
Operating profit for the period	**21**	
Adjustments for:		
Provisions for losses	**62**	
Operating profit before changes in operating assets	**83**	
Increase in operating assets:		
Increase in interest receivable	**(2)**	
Increase in other liabilities	**10**	
Net cash provided by operating activities		**91**
Cash flows from investing activities		
Funds for share investments	**(765)**	
Net cash used by investing activities		**(765)**
Cash flows from financing activities		
Contributions	**1,737**	
Net cash provided by financing activities		**1,737**
Cash and cash equivalents 31 December		**1,063**

Notes to the financial statements

1 Creation of the Special Fund

The creation of The Financial Intermediary Investment Special Fund ("the Fund") was approved by the Board of Directors ("the Board") of the European Bank for Reconstruction and Development ("the Bank") at its meeting of 16 December 1996 and is administered, *inter alia*, under the terms of Rules and Regulations of such Special Fund approved by the Board on that date. The Fund became operational on 22 May 1997 following the receipt of the first contributions.

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to support financial intermediaries in the Bank's countries of operations by investing in their capital.

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 currencies other than ECU are translated into ECU at spot rates as at 31 December 1997. Non-monetary items are expressed in ECU at the exchange rates ruling at the time of the transaction.

Contributions received are translated into ECU at the exchange rates ruling at the time of the transaction. Outstanding contributions are translated into ECU at spot rates as at 31 December 1997.

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

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 and general portfolio risks
For share investments, specific provisions are made as an estimate of any permanent diminution in value. General provisions in respect of losses on non-sovereign risk assets that are not specifically identified at period end are applied in two stages: at commitment and at disbursement. Portfolio risks provisions are made in respect of losses which, although not specifically identified, are inherent in the portfolio of contractual commitments. Provisions made, less any amounts released during the period, are charged to the profit and loss account. The Fund's provisions are detailed in note 4.

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 1 per cent per annum of contributions received.

4 Provisions for losses and general portfolio risks

Profit and loss charges	**Share investments ECU 000**
Provision charge this period:	
General provisions on	
Outstanding disbursements	**45**
Outstanding commitments	**4**
Portfolio risks	**13**
For the period ended 31 December 1997	**62**
Movement in provisions	
Provision charges	**62**
At 31 December 1997	**62**
Analysed between:	
General provisions on outstanding disbursements	**45**
Provisions for losses deducted from assets	**45**
General provisions on outstanding commitments	**4**
Portfolio risks	**13**
Provisions for general portfolio risks	**17**
At 31 December 1997	**62**

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 provision based on commitments is included, together with a general portfolio risk provision applied at a rate of 0.75 per cent against all commitments net of repayments, in "provisions for general portfolio risks". General provisions made at disbursement together with specific provisions are shown as a deduction from the share investments asset category.

5 Share investments

Outstanding disbursements:	**Share investments ECU 000**
Disbursements	**1,515**
Provisions at 31 December 1997	**(45)**
Total net of provisions at 31 December 1997	**1,470**
Committed but not yet disbursed:	
At 31 December 1997	**240**

All share investments are for projects in Slovenia.

6 Contributions

Contributions payable per the Contribution Agreements were received in full from the United States of America on 22 May 1997.

7 Net currency position

	ECU ECU 000	United States dollars ECU 000	Netherlands guilders ECU 000	Slovenian tolars ECU 000	**Total** **ECU 000**
Assets					
Placements with credit institutions	–	202	861	–	**1,063**
Other assets	–	1	1	–	**2**
Share investments	(45)	–	–	1,515	**1,470**
Total assets	(45)	203	862	1,515	**2,535**
Liabilities					
Other liabilities	(1)	(9)	–	(750)	**(760)**
Provisions for general portfolio risks	(17)	–	–	–	**(17)**
Total liabilities	(18)	(9)	–	(750)	**(777)**
Currency position at 31 December 1997	**(63)**	**194**	**862**	**765**	**1,758**

8 Liquidity risk

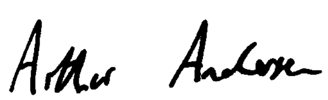
	Up to and including 1 month ECU 000	Over 1 month and up to and including 3 months ECU 000	Maturity undefined ECU 000	**Total** **ECU 000**
Assets				
Placements with credit institutions	1,063	–	–	**1,063**
Other assets	2	–	–	**2**
Share investments	–	–	1,470	**1,470**
Total assets	1,065	–	1,470	**2,535**
Liabilities				
Other liabilities	(750)	(10)	–	**(760)**
Provisions for general portfolio risks	–	–	(17)	**(17)**
Contributor's resources	–	–	(1,758)	**(1,758)**
Total liabilities and contributor's resources	**(750)**	**(10)**	**(1,775)**	**(2,535)**
Liquidity risk at 31 December 1997	**315**	**(10)**	**(305)**	**–**
Cumulative liquidity risk at 31 December 1997	**315**	**305**	**–**	**–**

Auditors' report to the European Bank for Reconstruction and Development

We have audited the balance sheet of The Financial Intermediary Investment Special Fund as of 31 December 1997, and the related profit and loss account, and statement of cash flows for the period then ended, on pages 93 to 95. 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 1997, and of the results of its operations and its cash flows for the period then ended, in accordance with International Accounting Standards.



Arthur Andersen
London
10 March 1998

Projects approved in 1997

At 31 December 1997

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Albania						
SME Recovery – Credit Line Credit line to Albanian banks to on-lend to SMEs	Banks	C/0	Loan	(16 December)	9.1	9.1
Azerbaijan						
Mingechaur Power Project To finance equipment to increase hydro-generated electricity	Energy generation	B/1	Loan	24 June (3 June)	19.6	40.4
Atoil Lube Oil Blending and Packaging To establish a high-quality lube oil blending and packaging complex to service local needs and re-establish local markets	Manufacturing industries	B/1	Loan and shares	(9 September)	8.3	23.8
Azerbaijan Multi Bank Framework Financing Facility To promote growth of private SMEs and support the development of the banking sector	Banks	C/0	Shares	(16 December)	17.2	17.2
Azerdemiryolbank			Loan	(16 December)	0.63	0.63
Belarus						
Elizovo Glass To establish a modern, efficient and environmentally sound manufacturing facility for glass containers	Glass products	B/1	Loan and shares	19 December (4 November)	7.9	20.8
Priorbank Equity investment to support the development of private sector banks	Banks	C/0	Shares	1 January 98 (16 December)	2.8	2.8
Bosnia and Herzegovina						
Micro-Enterprise Bank (MEB) To create a specialist bank for micro and small enterprises	Banks	C/0	Shares	30 September (7 May)	0.5	6.7
Equity Investment in Market Banka, Sarajevo Funding for private sector investments in local banks	Banks	C/0	Shares	4 November (15 July)	1.0	1.0
Horizonte Bosnia & Herzegovina Enterprise Fund The first facility in the country to offer equity financing, the fund will help maximise capital growth by making direct investments in companies	Holding/other investments	C/0	Shares	(9 September)	4.5	16.7
Emergency Power System Reconstruction Project Emergency reconstruction of war-damaged generation, transmission and distribution facilities	Power	B/1	Loan	27 November (22 September)	13.9	143.7
Sarajevska Pivara To fund the brewery's modernisation and expansion into soft drinks	Food and kindred products	B/1	Loan	27 November (18 November)	4.1	11.6
Bulgaria						
BNP-Dresdner (Bank) Bulgaria – Capital Increase Pro-rata participation in capital increase	Banks	C/0	Shares	12 March (11 March)	1.0	1.5
Capital Increase (3rd) Pro-rata participation in capital increase to meet new central bank minimum capital requirement	Banks	C/0	Shares	15 December (2 December)	0.8	4.0
Bulgarian Investment Bank – Capital Increase Pro-rata participation in capital increase	Banks	C/0	Shares	6 May (5 May)	0.3	0.7
Danone Multi-Project Facility (MPF) – Serdika Capital Increase Subscription to increase capital base	Food and kindred products	C/0	Shares	9 June (5 May)	1.5	4.1
First Investment Bank To increase FIB's capital base and help it become a universal bank	Banks	C/0	Shares	5 June (20 May)	3.6	3.6
First Investment Bank – Capital Increase	Banks	C/0	Shares	(28 November)	1.8	1.8

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Sodi Privatisation To facilitate the first cash privatisation of a major state-owned company in the country	Chemicals	B/1	Shares	27 June (3 June)	35.6	209.7
United Bulgarian Bank – Equity Investment To assist in the privatisation and recapitalisation of UBB	Banks	C/0	Shares	22 July (15 July)	10.3	43.5
Bulgarian Post-Privatisation Fund To identify and invest in medium-sized privatised enterprises	Holding/other investments	C/0	Shares	18 December (16 December)	30.0	45.0

Croatia

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Medimurska Banka d.d. Loan facility for financing SMEs in Croatia	Banks	C/0	Loan	17 October (7 October)	5.1	5.1
Croatia Capital Partnership Ltd To invest in existing private sector SMEs	Holding/other investments	C/0	Shares	25 November (4 November)	4.5	22.6
Bjelovarska Banka Loan facility for financing SMEs in Croatia	Banks	C/0	Loan	20 November (18 November)	7.6	7.6
Wholesale Markets Project To assist the development of a modern agricultural wholesale market infrastructure	Food and kindred products	B/1	Loan	8 December (2 December)	16.9	35.0

Czech Republic

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Czech Private Equity Fund Equity participation in the regional fund in Ostrava	Holding/other investments	C/0	Shares	12 November (15 July)	7.6	40.5
Korado a.s. Equity for new technology to produce radiators	Manufacturing industries	B/1	Shares	22 July (15 July)	29.9	86.8
SIS Mutual Funds To support the development of capital markets	Holding/other investments	C/0	Shares	9 December (21 October)	9.1	30.2
Agrobanka Praha a.s./GE Capital Bank Prague To form a new Czech joint-stock company	Banks	C/0	Shares	(16 December)	358.8	358.8

Estonia

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
AS Eesti Hoiupank – Housing Finance Facility Long-term housing finance facility to encourage home ownership	Banks	C/0	Loan	29 January (28 January)	7.6	7.6
AS Eesti Forekspank – Subordinated Loan To enhance capital base, enabling the bank to expand activities	Banks	C/0	Loan	13 March (11 March)	2.0	2.0
Tallinna Pank – Subordinated Loan To enhance capital base, enabling the bank to expand activities	Banks	C/0	Loan	15 April (8 April)	2.5	2.5
AS Eesti Maapank – Subordinated Loan To enhance capital base, enabling the bank to expand activities	Banks	C/0	Shares	30 April (22 April)	1.5	2.5
AS Hansapank Estonia – Subordinated Loan To increase capital base and support expansion	Banks	C/0	Loan	1 May (22 April)	7.6	7.6
Eesti Uhispank – Housing Finance Facility Long-term housing finance facility to encourage home ownership	Banks	C/0	Loan	25 July (1 July)	6.1	6.1
Estonia Railway Project Long-term finance for track renewal, rehabilitation and rationalisation of rail yards	Railways	B/0	Loan	(27 August)	23.2	70.3
AS Eesti Hoiupank – Subordinated Loan Increased capital to expand lending to private corporate sector	Banks	C/0	Loan	4 December (18 November)	12.6	12.6
Imavere Sawmill Expansion Project To expand production capacity and allow the company to process the full range of log sizes	Forestry	B/1	Loan	17 December (2 December)	7.0	17.5

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Tallinn Airport Passenger Terminal Reconstruction Project Rehabilitation and improvement of the passenger terminal	Transport	B/0	Loan	(16 December)	7.5	17.2

Georgia

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Georgia Wholesale Market Projects To provide facilities for fruit and vegetable wholesalers	Food and kindred products	B/1	Loan	26 June (3 June)	8.7	12.5
Borjomi To help modernise bottle-making and water bottling facilities	Manufacturing industries	B/1	Loan	25 June (17 June)	9.1	19.5
United Georgian Bank To strengthen capital base and provide stable term funding for on-lending	Banks	C/0	Loan and shares	20 November (4 November)	9.1	9.1

Hungary

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Kereskedelmi es Hitel Bank Rt To improve capitalisation, aid privatisation and allow expansion	Banks	C/0	Loan and shares	5 November (8 April)	26.2	27.2
Raba Rt Investment in Raba's privatisation	Transportation equipment	C/1	Shares	30 September (9 September)	9.6	75.5
Hungarian Foreign Trade Bank Ltd – Capital Increase Additional equity investment	Banks	C/0	Shares	5 November (4 November)	11.5	66.6
Hungarian Commercial Television Financing to help advance the privatisation of Hungary's electronic media sector	Communications	B/0	Loan	12 December (4 November)	12.4	54.2
MÁV – railcar modernisation and marketing project To improve services and financial performance of railway services in Hungary	Transport	B/0	Loan	(2 December)	40.0	220.0

Kazakhstan

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Ispat – Karmet Steel Works Modernisation of existing facilities, construction of new facilities, improving quality and increasing efficiency	Primary metal industry	A/1	Loan	5 December (7 October)	122.3	753.1
Kazakhstan Trade Facilitation Programme Guarantee for short-term trade-related obligations	Banks	C/0	Guarantee	(30 September)	36.2	36.2
Kazakhstan Small Business Programme Working with local banks to provide financing to micro and small enterprises	Banks	C/0	Loan	5 January 98 (18 November)	77.5	77.5

Kyrgyzstan

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Hotel Kyrgyzstan To help fund first privately financed, international standard hotel in Central Asia	Tourism	B/0	Loan	27 November (4 November)	7.2	17.2
Talas Transmission Network Improvement Project Funding to improve the quality of power supply to residential users and SMEs	Energy	B/0	Loan	18 December (2 December)	22.4	27.4
Enterprise Investment Demonstration Project Pilot scheme investment in three enterprises	Holding/other investments	B/1	Shares	(16 December)	7.0	7.0

Latvia

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Latvia GSM Mobile Communications Programme Finance of construction and operation of second national GSM900 cellular network	Communications	B/0	Loan and shares	18 June (20 May)	21.0	61.3
A/S Saules Banka – Credit Line Additional medium-term funding to meet needs of the growing number of creditworthy SMEs	Banks	C/0	Loan	15 October (7 October)	7.2	7.2
A/S Hansabank-Latvia – Subordinated Loan To improve capitalisation and expand business activities	Banks	C/0	Loan	1 December (4 November)	3.6	3.6
Rigas Kommercbanka – Stand By Revolving Loan To allow increased funding to Latvian enterprises	Banks	C/0	Loan	22 January 98 (2 December)	9.1	9.1

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Lithuania						
Infrastructure Co-financing Loan Hedging Facility To hedge exchange risk in three JEXIM co-financed EBRD projects	Governments	C/0	Guarantee	(16 December)	5.7	5.7
Moldova						
International Commercial Black Sea Bank To finance the creation of a new commercial bank	Banks	C/0	Shares	(14 January)	0.8	2.7
Chisinau Water Services Rehabilitation Project Funding to improve water services and reduce environmental pollution	Water supply	B/0	Loan	20 November (4 November)	27.2	54.4
Victoria Bank Credit Line – Capital Increase To support business objectives and institutional development requirements	Banks	C/0	Shares	11 December (2 December)	0.2	1.9
Poland						
Kredyt Bank PBI S.A. – Capital Increase Increase in capital investment	Banks	C/0	Shares	29 April (8 April)	1.8	1.8
Kredyt Bank PBI S.A. – Capital Increase Participation in an equity increase	Banks	C/0	Shares	17 December (7 October)	6.9	72.9
Bank Przemyslowo – Handlowy (BPH) Conv. Bond Due 2002 Purchase of 15% of the Eurobond issue	Banks	C/0	Loan	20 May (22 April)	13.6	13.6
Danuta S.A. Equity investment in a pasta factory	Food and kindred products	B/1	Shares	19 December (8 April)	9.1	53.4
Extension of Waresco sp Z.o.o. To finance extension of the Sienna Center office development	Real estate	B/0	Loan	9 June (20 May)	1.2	3.6
Hortex To assist in the modernisation and expansion of company operations	Food and kindred products	B/1	Shares	17 June (3 June)	24.0	99.2
Poland Emerging Growth Fund To invest in private equity companies in mass privatisation programme	Holding/other investments	C/0	Shares	(17 June)	9.1	90.6
Cementownia Chelm S.A. To finance completion of a cement company's modernisation programme	Building materials	B/1	Loan and shares	8 August (17 June)	28.3	53.1
Central Poland Fund To gain stake in private sector equity fund investing in Polish companies	Holding/other investments	C/0	Shares	5 November (17 June)	9.1	45.3
Krono-Wood Spolka Z.o.o. To develop and operate a new timber sheet board operating facility	Lumber & wood	B/0	Loan	2 October (9 September)	25.3	80.0
Kruszwica S.A. To assist with the upgrading of Poland's largest oilseed processor	Food and kindred products	B/1	Shares	1 December (7 October)	16.8	49.8
CGC ESCO Poland Polish Energy Service Company	Energy distribution	C/0	Loan and shares	18 December (18 November)	10.6	34.0
Pioneer Polish Real Estate Fund Funding to invest in the real estate markets	Holding/other investments	C/0	Shares	24 December (18 November)	9.1	45.3
Forte S.A. To support 20% acquisition of another Polish furniture company	Furniture and fixtures	B/1	Shares	(2 December)	6.2	6.2
Europort Gdansk Grain Terminal To finance the construction of a modern grain terminal	Transport	B/1	Loan	(2 December)	29.4	78.4
Wydawnictwo Naukowe (PWN) Private placement to support investment programme	Printing, publishing and allied industries	C/0	Shares	5 January 98 (16 December)	12.7	20.8
Honeywell ESCO Poland Debt and equity financing of Honeywell's first ESCO	Energy distribution	C/0	Loan and shares	(16 December)	10.0	27.5

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
ESCO International S.A. To support energy savings projects in the private and public sectors	Energy	C/0	Loan and shares	18 December (16 December)	12.1	50.5
Stalexport Private placement to partially finance investment programme	Primary metal industry	B/1	Shares	22 January 98 (16 December)	29.0	171.2

Romania

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Bank of Bucharest – Credit Loan Medium-term facility for financing small and medium-sized investment projects	Banks	C/0	Loan	(11 February)	7.2	7.2
Bank of Bucharest – Equity Investment For medium-term on-lending to private sector enterprises	Banks	C/0	Shares	17 December (11 February)	1.8	9.1
Thermal Energy Conservation Project To help reduce energy waste and air pollution	Energy distribution	B/0	Loan	13 April (8 April)	40.8	76.7
Virolite S.A. Extension Further commitment to provide working capital support	Chemicals	B/0	Loan	28 April (22 April)	1.8	1.8
Mobifon S.A. – Romania GSM First major syndicated long-term loan to finance expansion of one of the country's two mobile telecommunications networks	Communications	B/0	Loan	22 September (15 July)	86.1	335.1
Municipal Utilities Development Programme II Loan for water sector investments in 10 cities	Water supply	B/0	Loan	4 August (22 July)	67.9	170.0
Arctic S.A. Privatisation and Modernisation To implement comprehensive modernisation investments to upgrade manufacturing facilities	Miscellaneous	B/1	Shares	14 October (7 October)	12.5	29.4
EPH Grain Handling Project Funding to develop new grain-handling and storage facilities	Food and kindred products	B/1	Loan	8 January 98 (2 December)	7.2	38.9
Rom Telecom Transition Project To support the development of telephone services and the privatisation of Romania's telecommunications operator	Communications	B/0	Loan	6 January 98 (16 December)	101.5	639.2

Russian Federation

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Russia Life Investments – Capital Increase Capital increase for long-term development	Insurance	C/0	Shares	17 July (11 March)	1.9	5.6
NBD Bank – Equity Investment To finance institutional development and on-lending for private sector enterprises	Banks	C/0	Shares	(11 March)	5.0	5.0
Moscow Credit Line Framework						
Uneximbank – Subproject To promote medium-term lending to private sector construction and other investment projects	Banks	C/0	Loan	16 April (25 March)	18.1	18.1
Uneximbank – Subproject To provide lending for construction in Moscow	Banks	C/0	Loan	27 November (21 October)	90.6	90.6
Roseximbank – Subproject To fund sub-loans for investment projects to private businesses	Banks	C/0	Loan	5 January 98 (16 December)	13.6	13.6
Metallurgicheski Zavod Amatist (MZA) To finance construction of a plant to recycle electronic scrap and recover precious metal content	Metal products	B/1	Loan	(25 March)	9.6	30.0
Pepsi International Bottlers To establish an integrated soft drinks distribution system	Food and kindred products	B/0	Loan	18 July (8 April)	40.8	173.0
MMK Structured Pre-Export Financing Facility To help the company make cash payments to procure materials, energy and transport	Primary metal industry	C/1	Loan	30 October (8 April)	86.1	90.6
St Petersburg Municipal Support Project Restructuring to stabilise the city's finances and implement a medium-term investment programme	Municipal finance	C/0	Loan	13 June (7 May)	54.3	362.3
Knyaz Rurik – Efes Brewery JSC Construction of a "greenfield" brewery in Moscow	Food and kindred products	B/0	Loan	30 June (7 May)	28.5	98.4

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
PLM Beverage Can Manufacturing AOZT To help fund a state-of-the-art can manufacturing plant	Stone, clay, glass	B/0	Loan and shares	15 December (17 June)	27.6	148.0
St Petersburg Water & Environmental Sector To help the city invest in water services	Water supply	B/0	Loan	17 July (3 June)	64.2	152.9
Regional Venture Funds						
Lower Volga – FlexoPrint An equity investment to a label printing company	Holding/other investments	C/0	Shares	5 November (22 July)	0.5	0.5
Lower Volga – Natur Produkt Holdings Pharmaceuticals manufacturing and distribution	Holding/other investments	C/0	Shares	31 October (27 August)	2.0	2.3
St Petersburg – Natur Produkt Holdings Pharmaceuticals manufacturing and distribution	Holding/other investments	C/0	Shares	31 October (27 August)	2.2	2.3
Black Earth – Polipak Sub-investment in a packaging materials company	Holding/other investments	C/0	Shares	1 December (7 October)	2.7	3.0
Sakhalin II (Phase 1) Project Commercial development of an oil & gas field off Sakhalin Island	Oil and gas	A/0	Loan	(1 July)	105.1	709.2
Bor Glass Factory To fund modernisation to secure the company's position as a leading supplier of high-quality flat glass	Stone, clay, glass	B/1	Shares	1 December (22 July)	13.2	71.2
International Airport Terminal Pulkovo For a new international passenger terminal at St Petersburg	Air transport	A/0	Loan	(27 August)	48.9	188.9
Moscow Industrial Bank Bank-to-bank loan for on-lending to private sector enterprises	Banks	C/0	Loan	5 December (9 September)	27.2	27.2
Avtobank To help provide medium- and long-term funds for on-lending to private industrial enterprises	Banks	C/0	Shares	19 January 98 (21 October)	1.5	1.5
Mutnovsky Independent Power Plant Project Construction and installation of a 40MWe geothermal power plant	Energy generation	B/0	Loan	8 January 98 (21 October)	90.5	136.1
ZAO DIROL To help fund the construction of a new chewing gum factory	Food and kindred products	B/0	Loan	5 January 98 (21 October)	30.4	89.0
FM Russia Funds to FM Logistic (SEVO) ZAO to construct, equip and operate a warehouse, distribution and logistics centre	Property	B/0	Loan and shares	11 December (4 November)	15.2	43.5
Inkombank – Equity and Loan To help meet the demand for term-financing from SMEs	Banks	C/0	Loan and shares	19 December (4 November)	54.0	105.1
Oskol Electrometallurgical Plant Funding for continual modernisation and expansion programme	Primary metal industry	B/1	Loan	2 January 98 (4 November)	79.0	537.4
Roselau/Far East Shipping Company (FESCO) II To finance the acquisition of three container vessels	Water transportation	B/0	Loan	12 December (18 November)	28.2	84.7
Ideal Molinos Greenfield sunflower oil refining and bottling plant	Food and kindred products	B/0	Shares	(16 December)	22.6	64.3
A.O. Mosenergo To finance the completion of a strategic asset and for general corporate purposes	Electricity	B/1	Loan	(16 December)	90.6	167.6
Slovak Republic						
Prva Komunalna Banka – Credit Line For on-lending to private enterprises	Banks	C/0	Loan	27 November (15 July)	10.1	10.1
Priemyselna Banka – Equity Investment Funding to strengthen the capital base of the bank	Banks	C/0	Shares	29 January 98 (16 December)	8.8	8.8
Slovenia						
Aquasava 2 d.o.o. Financing for the modernisation of production facilities	Clothing	B/1	Loan and shares	20 October (30 September)	5.2	11.2

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Merkur Equity investment in the largest Slovenian hardware supplier for industry, craftsmen and consumers	Merchandise	B/0	Shares	20 October (30 September)	12.0	32.3
Sarrio Slovenia II Loan for further modernisation and production expansion	Pulp and paper	B/1	Loan	17 December (2 December)	17.7	27.3

Tajikistan

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Khujand Packaging To help improve the quality of packaging	Food and kindred products	B/0	Loan	28 July (22 July)	1.5	3.6

Turkmenistan

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Road Improvement Project To help improve the main road linking the capital to the industrial centre of Mary	Transport	B/0	Loan	18 December (4 November)	45.3	101.8
Turkmenbashi Port Development Project Finance to support improvements to the main port	Shipping	B/0	Loan	18 December (16 December)	27.2	38.9

Ukraine

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Gas Meter Financing To help finance the installation of gas meters	Gas production and distribution	B/0	Loan	31 December (1 July)	73.0	87.9
Multi-Bank Equity Financing Framework in Ukraine To strengthen the capital base of selected client banks	Banks	C/0	Loan and shares	30 November (9 September)	3.3	9.2
Va Bank				16 December (9 September)	8.6	8.6
West Ukrainian Commercial Bank				(9 September)	5.9	5.9
Dnipropetrovsk Oil Extraction Plant II Second financing to further expand production and sales of refined bottled oil	Food and kindred products	B/1	Loan	16 September (9 September)	18.1	25.5
Obolon Brewery To expand the current distribution network and increase production capacity	Food and kindred products	B/1	Loan	10 December (4 November)	36.2	36.2
Ukraine Energy Saving Company To establish the first energy service company (ESCO) in Ukraine	Energy efficiency	C/0	Loan	(18 November)	27.2	27.2
BNP Dresdner Ukraine To improve the level of financial services provided in Ukraine	Banks	C/0	Shares	(18 November)	2.0	10.0
Eastern Ukraine Post-Privatisation Fund Funding to invest primarily in medium-sized private and privatised enterprises	Finance	C/0	Shares	31 December (2 December)	24.0	24.0
AD-Zarya To commission a world-class glass container production plant	Glass	B/1	Shares	(2 December)	11.2	44.2
Air Navigation System Upgrading Procurement and installation of modern air traffic control equipment and associated services	Transport	C/0	Loan	(16 December)	23.0	39.1

Uzbekistan

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Fergana Refinery Rehabilitation To provide new equipment, improve safety and reduce environmental pollution	Petroleum	B/1	Loan	20 January (14 January)	81.5	177.1
ABN Amro Uzbekistan Equity Fund Framework Equity fund which will invest in Uzbek medium-sized privatised enterprises	Holding/other investments	C/0	Shares	8 April (28 January)	30.0	36.0
Syrdariya Power Plant Rehabilitation Project To improve the energy efficiency of power generation and support the commercialisation of the power sector	Energy generation	B/1	Loan	5 November (30 September)	25.2	40.9
Tashkent Airport Rehabilitation Project Rehabilitation of the passenger terminal and improvements to taxiways and apron	Airport and air navigation	B/0	Loan	18 December (2 December)	43.5	47.1

	Sector	ESC*	Type	Date signed (approved)	Bank funds approved ECU million	Total project investment ECU million
Regional						
Samsung MPF To support direct investment by a major industrial operator	Electronics	C/0	Loan and shares	2 April (14 January)	150.0	450.0
Caucasus Fund LLC To invest in joint-venture SMEs in Armenia, Azerbaijan and Georgia	Holding/other investments	C/0	Shares	(8 April)	4.1	11.3
CGE Municipal Services MPF To encourage private and municipal provision and financing of environmental services and infrastructure	Environment	C/0	Loan and shares	30 June (8 April)	89.5	288.8
Regional Waste Disposal Site Construction and operation of a waste disposal site in the Slovak Republic			Loan	30 June (8 April)	1.0	4.5
Royal & Sun Alliance Insurance Group plc MPF To support the growing demand for insurance services and pension products	Insurance carriers	C/0	Shares	30 July (22 April)	39.4	112.4
DBG Osteuropa Holding GMBH To invest in private equity fund to help SMEs	Holding/other investments	C/0	Shares	1 October (17 June)	10.1	50.6
Co-Financing Facility for Cofides To finance small to medium-sized private enterprises	Holding/other investments	C/0	Shares	(1 July)	10.0	10.0
Omnibus Trade Facilitation Programme To guarantee trade finance instruments	Banks	C/0	Guarantee	(1 July)	90.6	90.6
Baring Communications Equity (Emerging Europe) Ltd Private equity investment fund targeting the media and telecommunications sector	Telecommunications/ financial institutions	C/0	Shares	5 December (22 July)	11.0	67.6
Baltic Small Equity Fund To provide business assistance to small enterprises	Holding/other investments	C/0	Shares	15 December (27 August)	4.5	9.7
BARC Versicherungs-Holding AG Establishment/acquisition of non-life insurance companies	Insurance carriers	C/0	Shares	(30 September)	18.1	54.3
Lafarge MPF Framework	Building materials	C/0	Shares			
Poland: Malogoszcz and Wierzbica To finance the acquisition and upgrading of cement plants				1 October (30 September)	13.6	165.0
Romania: Romcim To finance the company's privatisation and modernisation programme				21 January 98 (16 December)	72.5	289.9
Parmalat MPF Framework To support Parmalat's investments within the dairy and food industry	Food and kindred products	C/0	Shares	(21 October)	45.3	181.2
Romania Equity investment in dairy factory				(21 October)	3.4	9.7
Black Sea Fund To provide equity capital in the Black Sea region to medium-sized local enterprises	Finance	C/0	Shares	(2 December)	18.1	72.5
Soufflet MPF Framework To finance the grain processing company's investment programme	Food and kindred products	C/0	Loan	(16 December)	45.3	139.8
Malting Soufflet St Petersburg First sub-project under Soufflet co-financing facility				(16 December)	14.0	41.4
Advent Central & Eastern Europe II – Regional Fund Equity investment to support SMEs	Banks	C/0	Shares	6 January 98 (16 December)	22.6	22.6
Total					**4,014**	**11,541**

Loans are calculated at exchange rates current on 31 December 1997.
Shares are converted to ECU at exchange rates current at the date of disbursement.

The totals may not add up to the sum of the component parts due to rounding.

* Environmental screening categories:
The project requires:
A – a full environmental impact assessment
B – an environmental analysis
C – no environmental impact assessment or environmental analysis
0 – no environmental audit
1 – an environmental audit

Governors

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.

Governors and Alternate Governors
31 December 1997

Member	Governor	Alternate Governor
Albania	Ermelinda Meksi	Elizabeth Gjoni
Armenia	Armen R Darbinian	Bagrat Asatrian
Australia	Peter Costello	Kathy Sullivan
Austria	Rudolf Edlinger	Hans Dietmar Schweisgut
Azerbaijan	Elman S Roustamov	Fuad Akhundov
Belarus	Valery I Kokorev	Nikolai P Zaichenko
Belgium	Philippe Maystadt	Grégoire Brouhns
Bosnia and Herzegovina	–	–
Bulgaria	Muravei Radev	Martin Zaimov
Canada	Paul Martin	Donald Campbell
Croatia	Borislav Skegro	Josip Kulisic
Cyprus	Christodoulos Christodoulou	Antonis Malaos
Czech Republic	Ivan Pilip	Josef Tosovský
Denmark	Marianne Jelved	Michael Dithmer
Egypt	Ahmad Ahmad Goueli	Youssef Boutros-Ghali
Estonia	Mart Opmann	Agu Lellep
Finland	Sauli Niinistö	Leif Fagernäs
FYR Macedonia	Taki Fiti	Zlatka Popovska
France	Dominique Strauss-Kahn	Jean Lemierre
Georgia	Teimuraz Mamatsashvili	Konstantin Zaldastanishvili
Germany	Theo Waigel	Jürgen Stark
Greece	Yannos Papantoniou	Nicolaos Zachariadis
Hungary	Péter Medgyessy	Zoltán Bodnár
Iceland	Finnur Ingólfsson	Halldór J Kristjánsson
Ireland	Charlie McCreevy	Paddy Mullarkey
Israel	Jacob A Frenkel	David Brodet
Italy	Carlo Azeglio Ciampi	Mario Draghi
Japan	Hiroshi Mitsuzuka	Yasuo Matsushita
Kazakhstan	Umirzak Shukeev	Anvar Saidenov
Republic of Korea	Chang-Yuel Lim	Kyung Shik Lee
Kyrgyzstan	Askar Sarygulov	Umar Toygonbaev
Latvia	Roberts Zile	Atis Sausnitis
Liechtenstein	Egmond Frommelt	Roland Marxer
Lithuania	Algirdas Semeta	Jonas Niaura
Luxembourg	Jean-Claude Juncker	Yves Mersch
Malta	Leo Brincat	Emanuel Ellul
Mexico	Guillermo Ortíz	Martin Werner
Moldova	Ion Gutu	Dumitru Ursu
Morocco	Driss Jettou	Abdelfettah Benmansour
Netherlands	Gerrit Zalm	Hans van Mierlo
New Zealand	Don McKinnon	Richard Grant
Norway	Gudmund Restad	Harriet E Berg
Poland	Hanna Gronkiewicz-Waltz	Pawel Samecki
Portugal	António de Sousa Franco	Fernando Teixeira dos Santos
Romania	Daniel Dăianu	Mugur Isarescu
Russian Federation	Sergey Dubinin	Alexei Leonidovich Kudrin
Slovak Republic	Sergej Kozlík	Vladimír Masár
Slovenia	Mitja Gaspari	Meta Bole
Spain	Rodrigo Rato	José Manuel Fernández Norniella
Sweden	Erik Åsbrink	Kari Lotsberg
Switzerland	Jean-Pascal Delamuraz	Rudolf Ramsauer
Tajikistan	Murotali M Alimardonov	Sharif M Rahimov
Turkey	Yener Dinçmen	Cüneyt Sel
Turkmenistan	Hudaiberdy A Orazov	Alexander Grishin
Ukraine	Igor Mitiukov	Victor A Yushchenko
United Kingdom	Gordon Brown	Clare Short
United States of America	Robert Rubin	–
Uzbekistan	Rustam S Azimov	Abdurafik A Akhadov
European Community	Yves-Thibault de Silguy	Giovanni Ravasio
European Investment Bank	Sir Brian Unwin	Wolfgang Roth

Chairman of the Board of Governors
Philippe Maystadt, Belgium

Vice Chairmen of the Board of Governors
Yener Dinçmen, Turkey
Rustam S Azimov, Uzbekistan

Directors

Directors and Alternate Directors
31 December 1997

Directors	Alternate Directors	Constituencies
Jan Bielecki	Bojidar Kabaktchiev	Poland/Bulgaria/Albania
Elisabeth Bukspan [1]	Lucien Bernadine	France
John Coleman [2]	Tom MacDonald	Canada/Morocco
Staffan Crona	Baldur Erlingsson	Sweden/Iceland/Estonia
Torsten Gersfelt	Tony Brown	Denmark/Ireland/Lithuania/ Former Yugoslav Republic of Macedonia
Wilhelm Jaggi	Mehmet Kaytaz	Switzerland/Turkey/Liechtenstein/ Uzbekistan/Kyrgyzstan/Azerbaijan/ Turkmenistan
Mikhail Jernov	Michail Tatianchenko	Russian Federation/Belarus/Tajikistan
Roger Lavelle	Walter Cernoia	European Investment Bank
Heiner Luschin	Amos Rubin	Austria/Israel/Cyprus/Malta/Kazakhstan
Michael McCulloch	Alex Gibbs	United Kingdom
Kari Nars	Rolf Næss	Finland/Norway/Latvia
Tomás Parízek [3]	Péter Bod	Czech Republic/Hungary/ Slovak Republic/Croatia
Philippe Petit-Laurent	Vassili Lelakis	European Community
Yuri Poluneev	Maria Sultanoiu	Ukraine/Romania/Moldova/Georgia/ Armenia
Enzo Quattrociocche	Pasquale Terracciano	Italy
Huhn-Gunn Ro	Jim Short	Korea/Australia/New Zealand/Egypt
Karen Shepherd	Vacant	United States of America
Bernard Snoy	Georges Heinen	Belgium/Luxembourg/Slovenia
Fernando Soares Carneiro	Stefanos Vavalidis	Portugal/Greece
Kazuhito Tatebe	Takashi Kurai	Japan
Miguel Valle	Carlos Escribano	Spain/Mexico
Pim van Ballekom	Kees Spaans	Netherlands
Günter Winkelmann	Jörg Ranau	Germany

Composition of Board of Directors' Committees
31 December 1997

Audit Committee

Kari Nars (Chairman)
Torsten Gersfelt (Vice Chairman)
Roger Lavelle
Heiner Luschin
Michael McCulloch
Enzo Quattrociocche
Huhn-Gunn Ro

Budget and Administrative Affairs Committee

Fernando Soares Carneiro (Chairman)
Kazuhito Tatebe (Vice Chairman)
Jan Bielecki
Staffan Crona
Mikhail Jernov
Karen Shepherd
Pim van Ballekom
Günter Winkelmann

Financial and Operations Policies Committee

Tomás Parízek (Chairman) [3]
Elisabeth Bukspan (Vice Chairman) [1]
Wilhelm Jaggi
Philippe Petit-Laurent
Yuri Poluneev
Bernard Snoy
Miguel Valle

Board Steering Group

Karen Shepherd (Chairman)
Philippe Petit-Laurent (Vice Chairman)
Kari Nars
Fernando Soares Carneiro
Tomás Parízek [3]
Torsten Gersfelt
Kazuhito Tatebe
Elisabeth Bukspan [1]
Antonio Maria Costa (Secretary General)

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 for meetings of the Board, Committees and workshops.

[1] Until November 1997.
[2] Until August 1997.
[3] Deceased November 1997.

Contacting the EBRD

10 March 1998

President (Acting)	Charles Frank

Banking

Front Office

First Vice President	Charles Frank
Deputy Vice Presidents	David Hexter
	Jean-François Maquet
Director, New Products, Policies & Issues	Gavin Anderson
Director, Resident Office Policy and Operations	Rolf Westling

Country Teams	**Team Director**
Bulgaria/Albania/FYR Macedonia/ Slovenia/Armenia/Georgia/Azerbaijan	Olivier Descamps
Hungary	Peter Reiniger
Kazakhstan/Uzbekistan/Kyrgyzstan/ Tajikistan/Turkmenistan	Kazuya Murakami
Poland/Czech Republic/Slovak Republic/Estonia/Latvia/Lithuania	Alain Pilloux
Romania/Moldova/Croatia/Ukraine/ Belarus/Bosnia and Herzegovina	Josué Tanaka
Russian Federation	Reinhard Schmoelz

Sector Teams	**Team Director**
Agribusiness	Hans Christian Jacobsen
Energy Efficiency Unit	Bernard Jamet
Financial Institutions and Equity Funds	Kurt Geiger
	Dragica Pilipovic-Chaffey
Municipal and Environmental Infrastructure	Johan Bastin
Natural Resources	Vittorio Jucker
Power/Energy	Ananda Covindassamy
Property/Tourism/Shipping	Marc Mogull
Telecommunications	Peter Reiniger
Transport	Roy Knighton

Operations Support Units	**Head of Unit**
Environmental Appraisal	Tim Murphy
Operation Administration	Lieve Reckers
TurnAround Management Programme	Michael McAlister
EC Advisory Unit	Antonio Mendes

Finance

Vice President	Steven Kaempfer
Deputy Vice President	Noreen Doyle

Planning and Control

Director, Accounting and Reporting	Nigel Kerby
Co-Head, Budget, Financial Policy and Strategic Planning	Claus Biering
	Evelyn Cox
Director, Corporate Planning	Magdi Bona

Operations and Information Technology

Head of Operations and Information Technology	Christopher Holyoak
Director of Operations	Peter Franklin
Head of IT Development	Tim Goldstone

Risk management

Director	Noreen Doyle
Risk Controller	Jean-André Sorasio
Head of Credit	Bob Harada
Head of Portfolio Review	Mike Williams
Head of Syndications	Lorenz Jorgensen
Head of Special Assets	Charles Wrangham

Treasury

Treasurer	Marcus Fedder
Deputy Treasurer	Andrew Donaldson
Head of Investments – Credits	Constantine Kazantzidis
Head of Investments – Interest Rates	Bart Mauldin
Head of Analytics/ External Asset Management	Jaakko Kärki
Head of Funding	Ayesha Shah
Head of Asset & Liability Management	Axel van Nederveen

Personnel and Administration

Vice President	Miklós Németh
Director of Personnel	Franco Furno
Director of Administration	John McNess

Project Evaluation, Operation Support and Nuclear Safety

Vice President	Joachim Jahnke

Project Evaluation

Director	Fredrik Korfker

Official Co-financing and Consultants

Director	Ullrich Kiermayr

Procurement and Technical Support

Director	Peder Blomberg

Nuclear Safety

Acting Team Leader	Lars Larsson

Office of the Secretary General

Secretary General	Antonio Maria Costa
Deputy Secretary General	Daud Ilyas
Deputy Secretary General	Nigel Carter
Assistant Secretary General (Annual Meeting)	Gilbert Sabathé
Head of Board Planning and Coordination	Alvin Jackson

Office of the General Counsel

General Counsel	John Taylor
Deputy General Counsel	Emmanuel Maurice
Assistant General Counsel	Norbert Seiler

Office of the Chief Economist

Chief Economist	Nicholas Stern
Deputy Chief Economist	Ricardo Lago
Director of Policy Studies	Mark Schankerman

Internal Audit

Head of Internal Audit	Tarek Rouchdy

Communications

Director	Barbara Clay

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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: *Alternative sources of finance for small and medium-sized projects*; *Environments in transition* (the EBRD's environmental programme, including project updates); *Law in transition* (legal cooperation and training activities in the region). All free items are listed in the *Guide to publications* and are available from the Publications Desk at the EBRD (Tel: +44 171 338 7553; Fax: +44 171 338 6102). Many are also posted on the EBRD's Web site: http://www.ebrd.com

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, £30); also the *Transition Report Update* (published April, £15). Available from The Stationery Office 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 1,500 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. March. £149.

EBRD business information review
A quarterly newsletter covering economic perspectives and critical reviews of new developments in the provision of business information on central and eastern Europe and the CIS. The Review complements The *EBRD Directory* and provides a range of features, including a review of online and CD-ROM databases covering the region, a compilation of major news stories from the previous quarter, and new Internet sources and new books and reports. It also contains details of forthcoming events relevant to those investing in the region, a regularly updated list of key contacts and occasional interviews with senior industry/government figures. Annual subscription £149.
The Directory and Review are available from Effective Technology Marketing Limited, PO Box 171, Grimsby DN35 0TP, UK (Tel/fax: +44 1472 816660; Email: sales@etmltd.demon.co.uk).

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For further information contact the BIC (Tel: +44 171 338 6361; Fax +44 171 338 6155; Email: kroonr@ebrd.com).

Annual Meeting

The EBRD's Annual Meeting includes a business programme which is open to potential investors in the region. For details contact the Annual Meetings Management Unit (Tel: +44 171 338 7319; Fax: +44 171 338 7320).
The 1999 Annual Meeting is to be held in April in London, and that for 2000 in Riga, Latvia.

Guide for readers

Exchange rates
Non-ECU currencies have been converted, where appropriate, into ECU on the basis of the exchange rates current on 31 December 1997. (Approximate ECU exchange rates: DM 1.98, FFr 6.61, ¥143.86, £0.67, US$ 1.10.)

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 due to rounding.

The region
References to "the region" include all the EBRD's 26 countries of operations (see inside front cover).

Transition stage
The EBRD classifies its countries of operations by their progress towards a market economy.
The Russian Federation is treated separately. 'Regional' projects are treated as intermediate.

- *Early/Intermediate:* Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, FYR Macedonia, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Romania, Tajikistan, Turkmenistan, Ukraine, Uzbekistan, Regional.
- *Advanced:* Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic, Slovenia.
- *Russian Federation.*

Abbreviations and acronyms

The Bank, EBRD The European Bank for Reconstruction and Development
CEAL Central European Agency Line
CIS Commonwealth of Independent States
CSF Chernobyl Shelter Fund
EAP Environmental Action Plan
EC European Community
ECA Export credit agency
ECLAT Export Credit Loan Arrangement Technique
ECU European Currency Unit
EIB European Investment Bank
ESCO Energy service company
ESE Early Stage Equity
EU European Union
FDI Foreign Direct Investment
FIDP Financial Institutions Development Programme
FYR Macedonia
Former Yugoslav Republic of Macedonia
G-7 Group of 7 (Canada, France, Germany, Italy, Japan, UK and USA)
GDP Gross Domestic Product
IFC International Finance Corporation
IFI International financial institution
IMF International Monetary Fund
ISDA International Swaps and Derivatives Association
JEXIM Export Import Bank of Japan
Libor London Interbank Offered Rate
MPF Multi-Project Facility
MSEs Micro and small enterprises
NSA Nuclear Safety Account
OECD Organisation for Economic Cooperation and Development
Phare Poland and Hungary: Aid for Economic Restructuring (EU)
PPF Post-Privatisation Fund
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
TC Technical cooperation
TCFP Technical Cooperation Fund Programme
USAID US Agency for International Development
VaR Value at Risk

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